



Reforming Islamic Finance: A Framework for a Proposed Non-Banking Institution to Facilitate Participative Financing

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Abstract

This article addresses a key issue in Islamic banking, namely, the limited use of participative financing and the overwhelming reliance on debt-based instruments. Islamic banks avoid participative financing due to adverse selection and moral hazard risks. While the literature emphasizes greater use of PLS-based participative financing, it does not offer practical solutions for the challenges that Islamic banks encounter in its implementation. This study employs a conceptual and analytical methodology, drawing on theoretical reasoning and professional insights to examine Islamic banking practices. It reviews Islamic finance literature and industry practices to identify the challenges banks face in implementing participative financing. The study highlights that Islamic banks are not structured to manage issues of adverse selection and moral hazard. This study presents, as its main outcome, a framework for a new non-banking institution specifically designed for participative financing. The pre-investment and post-investment services offered by the proposed institution are designed to mitigate the risks of adverse selection and moral hazard. The article concludes with an emphasis on the need to initiate the development of such institutions, even on a small scale. It argues that with persistent improvements, these institutions can evolve into sustainable entities that will significantly contribute to the implementation of Islamic finance, both in its form and substance. Due to its conceptual nature, the study does not provide empirical validation of the proposed framework. Future research may assess the practical viability of the proposed institution and its effectiveness in mitigating the related risks.

Kata Kunci:

Keuangan Islam; Pembiayaan Partisipatif; Lembaga Pembiayaan Non-Banking; Reformasi Keuangan Islam

Abstrak

Artikel ini membahas isu kunci dalam perbankan syariah, yaitu terbatasnya penggunaan pembiayaan partisipatif dan ketergantungan yang sangat besar pada instrumen berbasis utang. Bank syariah menghindari pembiayaan partisipatif karena risiko *adverse selection* (seleksi yang merugikan) dan *moral hazard*. Meskipun literatur menekankan pentingnya peningkatan penggunaan pembiayaan partisipatif berbasis PLS (*profit-loss sharing*), literatur tersebut tidak menawarkan solusi praktis untuk tantangan yang dihadapi bank syariah dalam implementasinya. Penelitian menggunakan metodologi konseptual dan analitis, dengan mengandalkan penalaran teoretis dan wawasan profesional untuk mengkaji praktik perbankan syariah. Penelitian meninjau literatur keuangan syariah dan praktik industri untuk mengidentifikasi tantangan yang dihadapi bank dalam mengimplementasikan pembiayaan partisipatif. Studi menyoroti bahwa bank syariah tidak dirancang untuk mengelola masalah *adverse selection* dan *moral hazard*. Sebagai hasil utama, penelitian menyajikan kerangka kerja untuk sebuah lembaga non-perbankan baru yang secara khusus dirancang untuk pembiayaan partisipatif. Layanan pra-investasi dan pasca-investasi yang ditawarkan oleh lembaga yang diusulkan tersebut dirancang untuk memitigasi risiko *adverse selection* dan *moral hazard*. Artikel diakhiri dengan penekanan pada perlunya memulai pengembangan lembaga semacam itu, bahkan dalam skala kecil. Artikel berargumen bahwa dengan perbaikan yang berkelanjutan, lembaga-lembaga tersebut dapat berkembang menjadi entitas yang berkelanjutan yang akan memberikan kontribusi signifikan terhadap implementasi keuangan syariah, baik dalam bentuk maupun substansinya. Karena sifatnya yang konseptual, penelitian tidak memberikan validasi empiris terhadap kerangka kerja yang diusulkan. Penelitian di masa depan dapat menilai kelayakan praktis dari lembaga yang diusulkan serta efektivitasnya dalam memitigasi risiko-risiko terkait.

INTRODUCTION

The origin of Islamic finance practices can be traced back to two pioneering initiatives in 1963. The first was the establishment of Mitt Ghamar Saving Bank in Egypt, which operated successfully until 1967, after which it could not sustain its operations due to political changes in Egypt.¹ The second initiative was launched in Malaysia in 1963 with the creation of a fund known in the Malay language as *Lembaga Tabung Haji* (TH). It provides interest-free savings facilities, enabling Muslims to save funds for the Hajj pilgrimage. TH has been operating successfully since its inception, and as of the end of 2024, it recorded approximately 9.55 million depositors, with total deposits amounting to around RM 91.7 billion.²

Since its humble beginning in 1963, Islamic finance has developed into one of the mainstream financing modes in most of the Muslim majority countries, as well as in certain Muslim minority countries. The global Islamic finance industry was estimated at US\$5.985 trillion at the end of 2024 and is projected to grow to US\$9.719 trillion by the end of 2029. The Islamic banks' assets at the end of 2024 were estimated at US\$4.3 trillion, about 72% of the global Islamic finance industry.³

The steady growth in the Islamic banking sector over the past 30-40 years is attributed to the hard work of academics and Shariah experts. During this period, the prime focus of Shariah experts has been to help Islamic banks compete with their conventional counterparts by making conventional banking products Shariah-compliant. This has led to frequent criticism by many academics and religious circles, saying that Islamic banks have failed to implement the true spirit of an interest-free economy.

A unique feature of Islamic financing is its profit and loss sharing (PLS) paradigm; however, in practice, only a negligible portion of Islamic financing is strictly PLS based.⁴ Empirical evidence and comparative analyses of the operational practices of Islamic banks indicate that financing contracts based on Mudarabah, Murabaha, Ijarah, and Tawarruq replicate the functional features and economic outcomes of conventional banking instruments.⁵ Islamic banks in these contracts are not actually interested in a real sale, as the contract would require, rather intend to find ways and means to charge for the time value of money, which leads to incoherence between the form and substance of the Islamic financing contracts. Shariah compliance in Islamic finance goes beyond merely meeting the minimum legal requirements of Islamic jurisprudence, and it involves structuring Islamic finance in alignment with Islamic values and ideals.⁶ This difference in the form of the financing contract and substance highlights the need for Islamic banks to move beyond symbolic

¹ Abdelkader Chachi, "Origin and Development of Commercial and Islamic Banking Operations," *J.KAU: Islamic Econ.* 18, no. 2 (2005): 3–25.

² "Tabung Haji," n.d., accessed February 5, 2025, <https://www.tabunghaji.gov.my/en/savings/general-info/data-statistics>.

³ *ICD – LSEG Islamic Finance Development Report 2025* (n.d.), https://www.lseg.com/content/dam/data-analytics/en_us/documents/reports/lseg-islamic-finance-development-indicator-2025.pdf.

⁴ Beng Soon Chong and Ming-Hua Liu, "Islamic Banking: Interest-Free or Interest-Based?," *Pacific-Basin Finance Journal* 17, no. 1 (2009): 125–44, <https://doi.org/10.1016/j.pacfin.2007.12.003>.

⁵ Mansoor Khan, "Islamic Banking: Formally Shariah-Compliant, Functionally Conventional," *Corporate Ownership and Control* 22, no. 4 (2025): 78–88, <https://doi.org/10.22495/cocv22i4art7>.

⁶ Mohamad Akram Laldin and Hafas Furqani, "Innovation versus Replication: Some Notes on the Approaches in Defining Shariah Compliance in Islamic Finance," *Al-Jami'ah: Journal of Islamic Studies* 54, no. 2 (2016): 249–72, <https://doi.org/10.14421/ajis.2016.54.249-272>.

Shariah compliance and adopt genuinely asset-based intermediation, meaningful risk-sharing arrangements, and investment-linked return structures.⁷ The widespread use of *Murabaha*, which closely resembles the standard debt contract in conventional banking systems, contradicts the idea that Islamic finance would provide an alternative to interest based conventional financial system.⁸ Given the extensive critique of the debt-based financing used by Islamic banks, one would expect that equity participation or direct investing would dominate Islamic financial transactions; however, this is not the case.⁹

PLS-based participative financing has become less preferable for Islamic banks due to asymmetric information, which creates problems of adverse selection and moral hazard.¹⁰ Islamic banks avoid participative financing because they are primarily structured for financial intermediation rather than for managing businesses as partners. Due to their limited capacity to manage participative financing, it is economically rational for Islamic banks to use predominantly debt-like instruments and avoid the PLS based risk-sharing mode.¹¹ Moreover, since the existing products and services of Islamic banks are duly authenticated by their Shariah boards, participative financing is not considered a moral or religious obligation by Islamic banks. This demonstrates that there is neither a commercial incentive nor any Shariah obligation for Islamic banks to engage in the risky mode of participative financing.

Since the conventional banking system is tightly regulated to maintain depositors' confidence in the financial system, it is equally rational to regulate Islamic banks to avoid engaging in high-risk financial activities and the inherent uncertainties associated with participatory financing. Proposing that Islamic banks take on more risk through participatory finance contradicts the regulatory framework of the banking industry.¹² Over fifty years of experience in Islamic banking shows that it is unrealistic to expect Islamic banks to genuinely engage in risk-sharing financing; instead, such risk sharing should be conducted by non-bank financial institutions specifically designed for this purpose.¹³

Considering such structural constraints, this study suggests that Islamic finance experts should consider developing new types of institutions outside the traditional banking framework. Venture capital (VC) firms are one such option that has the potential to include Shariah-compliant investment, as their operation appears close to the *Musharakah* model.¹⁴ It offers much-needed equity-based products to the Islamic finance industry. Although some

⁷ Khan, "Islamic Banking."

⁸ Necmeddin Guney, "Murābahah Financing Revisited: The Contemporary Debate on Its Use in Islamic Banks," *Intellectual Discourse* 23, no. Special Issue (2015): 495–506.

⁹ Feisal Khan, "How 'Islamic' Is Islamic Banking?," *Journal of Economic Behavior & Organization* 76, no. 3 (2010): 805–20, <https://doi.org/10.1016/j.jebo.2010.09.015>.

¹⁰ Noraina Mazuin Sapuan, "An Evolution of Mudarabah Contract: A Viewpoint From Classical and Contemporary Islamic Scholars," *Procedia Economics and Finance* 35 (2016): 349–58, [https://doi.org/10.1016/S2212-5671\(16\)00043-5](https://doi.org/10.1016/S2212-5671(16)00043-5).

¹¹ Mohammad Omar Farooq, "Partnership, Equity-Financing and Islamic Finance: Whither Profit-Loss Sharing?," *Review of Islamic Economics* 11, no. Special Issue (2007): 67–88.

¹² Mohammad Dulal Miah and Yasushi Suzuki, "Murabaha Syndrome of Islamic Banks: A Paradox or Product of the System?," *Journal of Islamic Accounting and Business Research* 11, no. 7 (2020): 1363–78, <https://doi.org/https://doi.org/10.1108/JIABR-05-2018-0067>.

¹³ Murat Çizakça, "Risk Sharing and Risk Shifting: An Historical Perspective," *Borsa Istanbul Review* 14, no. 4 (2014): 191–95, <https://doi.org/10.1016/j.bir.2014.06.001>.

¹⁴ Sami Al-Suwailem, "Venture Capital: A Potential Model of *Musharakah*," *JKAU: Islamic Econ.* 10 (1998): 3–20.

initial steps have been taken, this industry still suffers from a lack of broader recognition.¹⁵ Several other financing arrangements, like angel investments, profit or revenue-sharing loans, and private equity firms also offer participative financing. These financing modes can also be adapted to develop new Shariah-compliant financing mechanisms.¹⁶

Although a substantial body of Islamic finance literature advocates greater adoption of PLS-based participative financing by Islamic banks, it offers no practical solution for addressing the issues of adverse selection and moral hazard that Islamic banks face in implementing such arrangements in real-world settings.

This study addresses the above-mentioned research gap by presenting a structured solution in the form of an operational framework for a new non-banking institution. The proposed institution seeks to mitigate the risks of adverse selection and moral hazard and meet the participative financing needs of small and medium enterprises (SMEs) at the local level.

The primary objective of this study is to address the issue of the non-availability of participative financing through Islamic banks. It does so by presenting the conceptual and operational framework of a proposed non-banking institution, specifically designed to cater for participative financing. Secondary, but equally important, objectives include making the proposed institution's operational framework publicly available so others can refine, adapt, and implement it to support small and medium enterprises, based on participative financing, in their local contexts. Another objective is to initiate meaningful dialogue among finance and Shariah experts, investors, and entrepreneurs for developing innovative financing mechanisms and institutions beyond the traditional framework of Islamic banks.

RESEARCH METHODS

This study employs a qualitative, conceptual, and analytical approach and analyzes the existing Islamic finance literature and Islamic banking practices, utilizing theoretical reasoning and professional insight. The study does not involve empirical hypothesis testing; rather, it is directed towards the development of an institutional framework to address the structural constraints in Islamic banking that hinder participative financing.

It focuses on the limited use of participative financing by Islamic banks and analyzes the Islamic finance literature and industry practices to identify the challenges that constrain participative financing. Based on this analysis, the study suggests that it is impractical for Islamic banks to engage in participative financing as they lack the required infrastructure to mitigate the related risks. The study proposes an operational framework for a new non-banking financial institution, developed based on Islamic finance principles and risk management concepts, to facilitate participative financing by mitigating the associated risks of adverse selection and moral hazard.

¹⁵ Zaheer Anwer et al., "Islamic Venture Capital – Issues in Practice," *ISRA International Journal of Islamic Finance* 11, no. 1 (2019): 147–58, <https://doi.org/10.1108/IJIF-06-2018-0063>.

¹⁶ Khalid Rashid, "Shariah Compliance of Conventional Participative Financing: A Proposed Way Forward," *JKAU: Islamic Econ.* 33, no. 2 (2020): 47–64.

The study draws on the author's extensive experience of over 35 years in designing and developing systems and processes for various organizations, both in the public and private sectors. Detailed discussions were also held with finance experts, entrepreneurs, and investors to evaluate the organizational and operational aspects of the proposed institution. Moreover, the operations and business models of various online investment and financing platforms were analyzed to draw any lessons for designing the proposed institution. This included:

1. Islamic investment network (<http://www.islamicinvestmentnetwork.com/index.php>)
2. Ethis (Ethical + Islamic) (<https://ethis.co/>) - A crowdfunding platform offering Shariah-based peer-to-peer crowdfunding, equity crowdfunding, and charity crowdfunding. The platform is licensed for Equity Crowdfunding by the Securities Commission Malaysia and for both equity crowdfunding and P2P financing by the Capital Market Authority of the Sultanate of Oman.
3. Techstars (<https://www.techstars.com/>) - It links investors with startups through accelerator programs and helps entrepreneurs with access to capital, mentoring, finding customers, hiring talent, etc.
4. Lighter Capital (<https://www.lightercapital.com/>) - Operates only in the US, Canada, and Australia and provides revenue-based financing as loans, whereby monthly repayment is set as a percentage of the borrower's revenue. Repayments are made until a cap, generally 1.5x - 2.5x of the financing amount, has been paid back.
5. Falcon Network (<https://falconnetwork.org/site/op/alpha/>) – A network of angel investors that connects its investor members to startups by partnering with incubators or through direct registration of entrepreneurs.

Owing to its conceptual nature, the study does not provide empirical validation of the proposed operational framework. While the framework is developed through rigorous analysis and professional insight, its practical performance needs to be empirically tested. Future research may therefore focus on empirical examination of the effectiveness and risk-mitigating capacity of the proposed institutional model, using case studies and pilot implementations.

RESULTS AND DISCUSSION

Lack of PLS Financing

Over the past 50-60 years, the Islamic finance industry has grown from a negligible presence to global recognition, valued at nearly US\$6 trillion as of the end of 2024.¹⁷ During this period, Islamic banks have developed a wide range of Shariah-compliant products and services. However, many researchers argue that while these products and services meet Shariah requirements, they fail to provide a true alternative to conventional banks and lack the true spirit of interest-free financing. A key criticism relates to the limited use of profit-and-loss sharing (PLS) instruments, which theoretically represent the core principle of Islamic

¹⁷ ICD – LSEG Islamic Finance Development Report 2025.

financial intermediation.

Most theoretical models of Islamic financing are based on Mudarabah, Musharakah, or both. However, the actual practices of Islamic banks deviate significantly from these models. In reality, nearly all Islamic banks provide trade and project financing through deferred payment sales and charge a markup on prices.¹⁸ Mufti Taqi Usmani, one of the most respected scholars on Islamic finance in Pakistan, identified as early as 1998 in his book that, according to Shariah, Musharakah is the ideal instrument of financing, which Islamic banks have completely ignored. He clarifies that the Shariah scholars have allowed the use of Murabaha and Ijarah only with certain conditions, and it should not be taken as a permanent rule for the entire operations of Islamic banks.¹⁹

There is a clear divergence between the theory and practice of Islamic finance. The lack of risk-sharing modes of financing, the focus on form rather than substance, and the authenticity of various sales-based products are some of the critical issues that need to be addressed.²⁰ The divergence between the theoretical perspective of Islamic financing and its practical implementation is steadily widening. This divergence is due to the lack of proper infrastructure within the Islamic financial institutions (IFIs), which leads to their reluctance to implement PLS instruments.²¹

Islamic finance promotes risk sharing and requires financial products to distribute risk among participants, instead of concentrating it on borrowers, as is currently practiced by Islamic banks.²² The shareholders' expectations, regulatory requirements, and institutional constraints prevent Islamic banks from engaging in high-risk participatory financing.²³ Although PLS financing involves higher levels of risk, it is fundamentally consistent with the ethical and equitable principles of Islamic finance. It is essential to balance these principles with the associated risks through effective screening of financing proposals and rigorous financial analysis.²⁴ Rather than addressing the risks involved in PLS financing, the Islamic banks have followed the easy route by resorting to debt-like products.²⁵

Issue of Form and Substance

Shariah requires that every financial contract must comply with its legal form as well as its substance, i.e., its nature and implications. However, most Islamic financial products are developed by using a series of contracts that primarily focus on the legal form of the contract

¹⁸ Humayon A. Dar and John R. Presley, "Lack of Profit Loss Sharing in Islamic Banking: Management and Control Imbalances," *International Journal of Islamic Financial Services* 2, no. 2 (2000).

¹⁹ Mufti Muhammad Taqi Usmani, *An Introduction to Islamic Finance* (muftitaqiusmani.com, n.d.), accessed February 5, 2025, <https://mcca.com.au/wp-content/uploads/2021/09/an-introduction-to-islamic-finance.pdf>.

²⁰ Rusni Hassan, "Reforming Islamic Finance: Why and How?," *JKAU: Islamic Econ.* 33, no. 2 (2020): 67–80.

²¹ Rasem N. Kayed, "The Entrepreneurial Role of Profit-and-loss Sharing Modes of Finance: Theory and Practice," *International Journal of Islamic and Middle Eastern Finance and Management* 5, no. 3 (2012): 203–28, <https://doi.org/10.1108/17538391211255205>.

²² Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, 2nd. (John Wiley & Sons (Asia) Pte. Ltd., 2011).

²³ Volker Nienhaus, "Islamic Finance Reform: A Few Points to Ponder," *JKAU: Islamic Econ.* 33, no. 2 (2020): 109–21.

²⁴ Mohammad Hatta Fahamsyah et al., "Profit-Loss Sharing in Islamic Banking: Global Insights from a Systematic Review," *Economica: Jurnal Ekonomi Islam* 14, no. 2 (2023): 175–203, <https://doi.org/10.21580/economica.2023.14.2.26021>.

²⁵ Jamshed Uppal and Inayat Mangla, "Islamic Banking and Finance Revisited after Forty Years: Some Global Challenges," *Journal of Finance Issues* 13, no. 1 (2014): 16–27, <https://doi.org/10.58886/jfi.v13i1.2495>.

only.²⁶ Islamic financial products employ artificial sale contracts to provide Shariah validity, and little is done to ensure compliance with Shariah objectives.²⁷ The deferred sale contracts employed by Islamic banks have converged Islamic financing toward conventional financing. There is a need to roll back the convergence between the two financing systems.²⁸ The competition with conventional banks should not dictate the development of Islamic finance products; instead, Islamic banks should guide the market in the most desirable direction.²⁹

The restricted view of Shariah compliance, which focuses primarily on the legal form of contracts, should be reevaluated, and the substance of financial transactions must be given equal weight as well.³⁰ The Islamic finance products must also comply with the spirit and objectives of Islamic law, and financing products should be developed based on this extended requirement of Shariah compliance.³¹ Islamic banks should adopt a broader perspective of their operations and aim at achieving the Maqasid Al-Shariah, and participatory contracts should be designed to achieve these objectives. Islamic banks need to develop a Maqasid measurement index to evaluate their financial products against the objectives of Maqasid Al-Sharia.³² The Islamic finance industry should realign its form and substance and its theory and practice, and think of a different nature of institutions that meet the substance and form of the Shariah requirements.³³

Structural Limitations of Islamic Banks and Need for an Alternative Institution

This study reaffirms previous findings that, while the literature on Islamic finance emphasizes the greater use of profit and loss sharing (PLS) participative financing, Islamic banks primarily utilize debt-based instruments such as Murabaha and Ijarah. The participative modes like Musharakah and Mudarabah account for only a small fraction of their financing portfolios.³⁴

Our analysis suggests that this divergence between theory and practice is primarily attributed to the structural and operational constraints inherent in the current Islamic banking model. PLS financing requires technical and financial evaluation of projects along with continuous monitoring and supervision, for which Islamic banks are not well structured.³⁵ Such structural shortcomings increase their exposure to adverse selection and moral hazard, which limit their ability to effectively manage the risks associated with

²⁶ Mohamed Hamour et al., "Contemporary Issues of Form and Substance: An Islamic Law Perspective," *ISRA International Journal of Islamic Finance* 11, no. 1 (2019): 124–36, <https://doi.org/10.1108/IJIF-01-2018-0006>.

²⁷ Mabid Al-Jarhi, "Islamic Finance at Crossroads," *INTELLECTUAL DISCOURSE* 26, no. 2 (2018): 431–62.

²⁸ Mabid Ali Al-Jarhi, "Reforming Islamic Finance," *JKAU: Islamic Econ.* 33, no. 2 (2020): 101–7.

²⁹ Ascarya Ascarya, "The Lack of Profit-and-Loss Sharing Financing in Indonesia's Islamic Banks: Revisited," paper presented at 10th Annual International Symposium on the Analytic Hierarchy Process, August 29, 2009.

³⁰ Asyraf Wajdi Dusuki and Abdulazeem Abozaid, "A Critical Appraisal on the Challenges of Realizing Maqasid Al-Shariah in Islamic Banking and Finance," *IJUM Journal of Economics and Management* 15, no. 2 (2007): 143–65.

³¹ Laldin and Furqani, "Innovation versus Replication."

³² Djumadi et al., "Critical Review of Murabahah Financing in Contemporary Islamic Banking: A Maqasid al-Shariah Perspective," *MILRev: Metro Islamic Law Review* 4, no. 2 (2025): 1152–88, <https://doi.org/10.32332/milrev.v4i2.11087>.

³³ Ahmed Belouafi, "Reforming Islamic Finance Industry: Where from? .. Where To?," *JKAU: Islamic Econ* 33, no. 2 (2020): 121–36.

³⁴ M. Umer Chapra, "Innovation and Authenticity in Islamic Finance," paper presented at Eighth Harvard University Forum on Islamic Finance: Innovation and Authenticity, April 19, 2008.

³⁵ Munawar Iqbal et al., *Challenges Facing Islamic Banking*, First Edition (Islamic Research and Training Institute, Islamic Development Bank, 1998).

participative financing.³⁶

There is a need to restructure the financial intermediation system such that, apart from Shariah compliance, it also conforms to the spirit of the Shariah objectives.³⁷ For a successful implementation of PLS financing, Islamic banks must become true entrepreneurial institutions that understand the businesses they finance.³⁸ There is also a need to develop an advanced Islamic risk management system capable of mitigating potential risks while adhering to Shariah principles.³⁹ Our analysis aligns with earlier findings that, rather than imposing Musharakah and Mudarabah within existing banks, new institutions must be developed outside the banking framework.⁴⁰ Such institutions would require distinct governance structures, risk management frameworks, and operational capacities that differ from those of traditional Islamic banks.

Based on the above analysis, this study developed a macro-level design of a non-banking institution to facilitate participative financing, which is presented here as the main outcome of the study. The proposed institution is designed to mitigate the risks associated with adverse selection and moral hazard more effectively than Islamic banks. The following paragraphs elaborate on the conceptual and operational framework of the proposed institution.

Strategic Roadmap of the Proposed Non-Banking Institution

Table 1 outlines the strategic roadmap of the proposed institution, which serves as the foundation for developing its operations.

Table 1. Strategic Roadmap of The Proposed Institution

Vision	Shariah-compliant, interest-free financing becomes the most workable and attractive financing mechanism for everyone, <i>regardless of one's religion</i> .
Mission	A simple and workable institutional mechanism is put in place to facilitate investors and entrepreneurs in their joint projects, thereby strengthening and promoting Shariah-compliant participative financing.
Goals	Facilitate and promote Shariah-compliant participative financing by minimizing the risks of adverse selection and moral hazard. Additionally, it aims to develop a community of like-minded investors and entrepreneurs who collaborate on various commercial projects to promote interest-free financing based on the directives of the Quran and Sunnah.

Source: Processed by the author (2026)

³⁶ Sabrina Sabrina and M. Shabri Abd Majid, "The Reluctance Phenomenon of Islamic Banks to Offer Profit-Loss Sharing Financing," *JEJAK Journal of Economics and Policy* 13, no. 2 (2020): 242–64, <https://doi.org/10.15294/jejak.v13i2.23891>.

³⁷ Muhammed Shahid Ebrahim and Mustapha Sheikh, "Debt Instruments in Islamic Finance: A Critique," *Arab Law Quarterly* 30 (2016): 185–98, <https://doi.org/10.1163/15730255-12341317>.

³⁸ Aisyah Abdul-Rahman and Shifa Mohd Nor, "Challenges of Profit-and-Loss Sharing Financing in Malaysian Islamic Banking," pt. 39-46, *Malaysian Journal of Society and Space* 12, no. 2 (2016).

³⁹ Aulia Fitria Yustiardi et al., "Issues and Challenges of the Application of Mudarabah and Musharakah in Islamic Bank Financing Products," *Journal of Islamic Finance* 9, no. 2 (2020): 26–41, <https://doi.org/10.31436/jif.v9i2.482>.

⁴⁰ Khalid Rashid, "Institutional Development to Facilitate Musharakah and Mudarabah Mode of Financing," *International Journal of Economics, Management and Accounting* 26, no. 1 (2018): 91–108.

Conceptual Overview of the Proposed Institution

The primary objective of the institution proposed under this study is to develop, institutionalize, and strengthen participative financing as a workable alternative to the prevailing interest-based financing.

The proposed institution will operate through an online portal, where entrepreneurs and investors will submit their profiles for registration. The registration request will be processed based on a robust screening mechanism comprising strict registration criteria and a strong referral system to onboard new entrepreneurs and investors. The registered entrepreneurs will submit their projects to acquire financing, and the registered investors will invest in these projects with the help of services provided by the proposed institution. Figure 1 gives a conceptual overview of the proposed institution.



Figure 1. Conceptual Overview of The Proposed Institution

Source: Processed by the author (2026)

The proposed institution will assist entrepreneurs in submitting their projects for financing, help investors appraise the projects, conduct due diligence on entrepreneurs, and facilitate the negotiation of financing agreements. All financing agreements between the parties will be vetted by the Shariah scholars selected jointly by the investor and the entrepreneur. Once the financing agreement is finalized between the parties, the investment funds will flow directly from the investor to the entrepreneur, and the proposed institution will only get its fee for the services provided.

The key success factor for this undertaking is to start with a pool of like-minded investors and entrepreneurs who share a common vision and are committed to the strategic direction outlined in Table 1 and want to contribute to the success of this cause. In the initial years, registration will be limited only to people referred by the family and friends of the proposed institution’s sponsors. Later, it will be expanded to entrepreneurs and investors referred by those already registered with the proposed institution.

Overview of the Operational Framework of the Proposed Institution

Table 2 presents a brief overview of the modus operandi of the proposed institution.

Table 2. Overview of The Operational Framework of The Proposed Institution

No.	Stage	Role of the proposed institution
1	<i>Registration</i> Investors and entrepreneurs submit their profiles for	This involves conducting due diligence of both entrepreneurs and investors to ensure credibility and competence. Reference checks are carried out and one-to-one meetings are held with

No.	Stage	Role of the proposed institution
	registration.	entrepreneurs and investors to understand their objectives, capabilities, and investment interests. The final decision to approve or reject the registration is made based on the established registration criteria.
2	<i>Project Submission</i> Entrepreneurs submit their projects for financing on the proposed institution's online portal.	Provide guidelines to entrepreneurs for preparing project proposals. Conduct a preliminary analysis of the project and present it to investors.
3	<i>Project Appraisal</i> Investors evaluate the project proposal.	Provide pre-investment services to investors for a detailed project appraisal.
4	<i>Negotiations</i> Investors negotiate financing terms with entrepreneurs.	Provide services to investors for negotiating financing terms.
5	<i>Post-investment Services</i> Both the investor and the entrepreneur agree to hire project supervision services.	Provide post-investment services for project supervision as discussed in the ensuing paragraphs.

Source: Processed by the author (2026)

The services outlined in Table 2 can be categorized into the following three groups: (a) core services, (b) pre-investment services, and (c) post-investment services, as summarized in **Figure 2**, which gives an overview of the operational framework of the proposed institution.

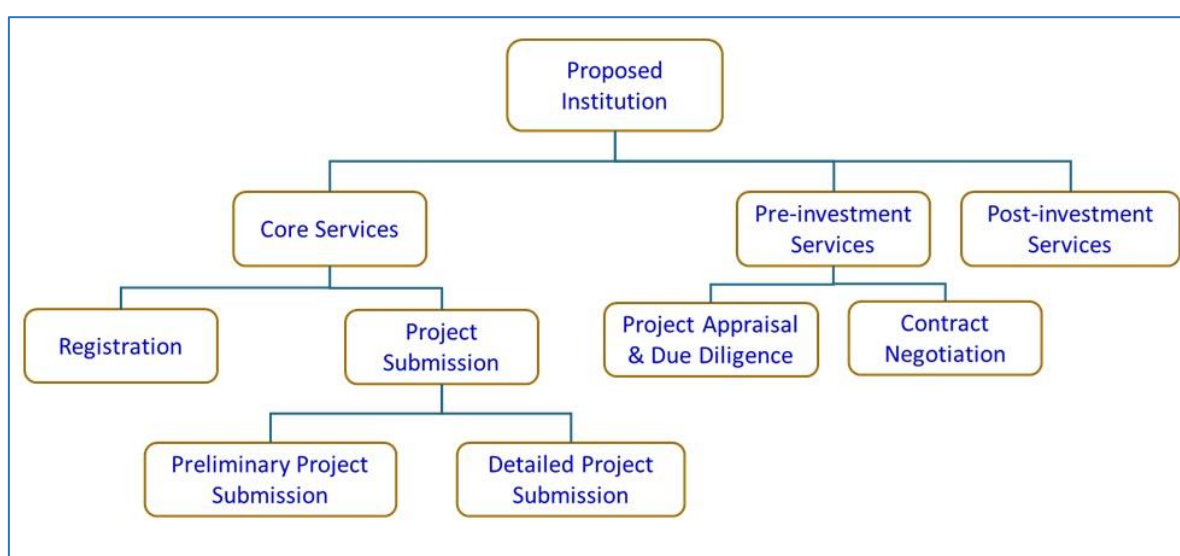


Figure 2. Operational Overview of The Proposed Institution

Source: Processed by the author (2026)

Core Services - Overview

The core services of the proposed institution will encompass a range of functions aimed at facilitating effective engagement between entrepreneurs and investors. These services comprise the registration of both entrepreneurs and investors, ensuring that each party is properly vetted based on the prescribed registration criteria. The registered entrepreneurs will be facilitated in submitting their project proposals to obtain the necessary financing for their ventures. The projects submitted by entrepreneurs will undergo an initial screening to ensure that only viable and relevant proposals are presented to potential investors. The proposed institution will then match projects with investors' stated preferences, thereby increasing the likelihood of successful investment opportunities. In addition, a preliminary analysis of project proposals will be provided to investors to offer an initial overview of the potential investments. If an investor expresses interest in a particular project, the proposed institution will facilitate the entrepreneur in preparing and submitting a comprehensive and detailed financing proposal. Additionally, it will facilitate communication and interaction between the investor and the entrepreneur to support further discussion and potential investment. Figure 3 gives an overview of the core services of the proposed institution.

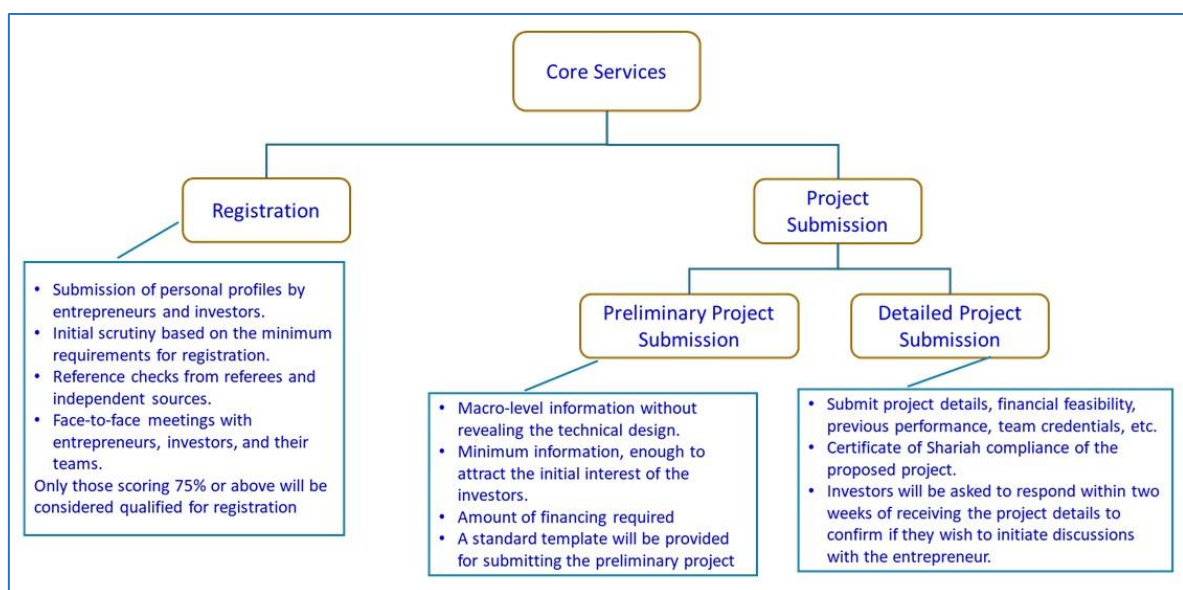


Figure 3. Overview of Core Services

Source: Processed by the author (2026)

Core Services – Registration

It is crucial for the success of the proposed institution that concerted efforts are made to reach out to those investors and entrepreneurs who possess high moral values and are willing to put extra effort into developing and strengthening Shariah-based participative financing. This requires filtering registration applications based on strict selection criteria and thorough due diligence.

The registration process for investors and entrepreneurs will involve several structured steps. First, entrepreneurs and investors will submit their profiles for registration through the

proposed institution's online portal. These submissions will then undergo an initial scrutiny to ensure compliance with the minimum eligibility requirements and to check against a predefined negative list, which includes criteria that disqualify applicants from registration. If an entrepreneur or investor fails to meet the minimum selection criteria or appears on the negative list, the application will not proceed further. Both the minimum selection criteria and the negative list will be displayed on the registration portal. Applicants who pass the initial screening will then be subject to reference checks from referees nominated by the entrepreneurs or investors themselves. In addition, independent reference checks will be conducted through sources such as employees, business associates, customers, and suppliers to verify credibility and professional reputation. Finally, shortlisted entrepreneurs and investors, along with their teams, will participate in face-to-face meetings as part of the final stage of the registration and evaluation process.

Specific checklists and scorecards will be developed to evaluate various due diligence parameters, including referees' feedback, site visits, and face-to-face meetings with entrepreneurs and investors. Only those scoring 75% or above will be considered qualified for registration. If an investor or entrepreneur scores between 60% and 75%, then more evaluation will be done by other means to see if the score can be improved.

Core Services - Project Submission

Registered entrepreneurs will submit their projects for financing on the proposed institution's portal. Project submission will be carried out in two distinct phases: (a) preliminary project submission and (b) detailed project submission, as described below.

Preliminary Submission

The preliminary project proposal will present macro-level information about the project and the required financing. The information provided under the preliminary proposal will be sufficient to attract the initial interest of the investors, without disclosing confidential aspects, such as technical designs and operational specifics.

A standard template will be provided on the portal for submitting the preliminary project proposal. The preliminary project proposal will appear on the dashboard of each registered investor as an active project available for investment and will also be emailed to all registered investors. If an investor is interested in pursuing the project for investment, they will tag the project accordingly on the portal, and the system will send an email to the entrepreneur asking to submit the project's detailed proposal. Any preliminary project proposal not taken up by any investor will be tagged as 'inactive' after four weeks of submission unless the entrepreneur still wishes to keep the project active for another four weeks.

Detailed Project Submission

When an investor shows interest in the preliminary proposal of any project, the entrepreneur will be asked to provide the project's technical and operational details, which will be shared with only those investors who have shown interest in investing in the project. A standard template will be provided for submitting the detailed project proposal. The entrepreneur will submit the required information on the portal and upload the relevant

supporting documents. The entrepreneur will also submit a certificate of Shariah compliance of the proposed project. In case the proposed project is an extension of an existing business, the Shariah compliance certificate must cover both the existing business and the proposed extension project. After the entrepreneur submits the detailed project proposal, it will be emailed to those investors who requested it and will also be displayed on their dashboard.

The investors will be asked to respond within two weeks of receiving the project details to confirm if they wish to initiate discussions with the entrepreneur for investment in the project. If no response is received from investors within two weeks of receiving the project's detailed proposal, the entrepreneur will be informed accordingly, and the project will be tagged as dormant.

Pre-Investment Services – Project Appraisal

Most solo investors who are willing to invest their life savings or surplus income often lack the expertise required to critically evaluate investment proposals. To address this gap, the proposed institution will offer its pre-investment services to assist such investors by conducting thorough analysis and validation of proposed projects. Project appraisal and analysis involve multiple dimensions, and the proposed institution will provide specialized services to examine several key aspects. These include analyzing the market potential of the proposed venture, evaluating the entrepreneur's past performance, and analyzing the financial projections along with the underlying assumptions under different operational scenarios. In addition, the institution will evaluate the strength and capability of the entrepreneur's team to manage the proposed project and assess the entrepreneur's readiness for growth and expansion. The appraisal process may also include the examination of any other aspects deemed necessary by the investor to make an informed investment decision.

Pre-Investment Services – Contract Negotiation

The project appraisal phase, outlined above, will also identify various terms and conditions to be incorporated into the financing contract. The proposed institution will offer contract negotiation services to facilitate the development of comprehensive financing agreements between investors and entrepreneurs. These services will address several key components that are essential to the financing contract, including determining the pre-money valuation of the venture, defining the level of post-investment engagement of the investor, the phased disbursement of investment funds, and establishing financial controls aimed at minimizing moral hazard. It will also develop a robust post-investment monitoring and evaluation framework. These services will also formulate a clear exit mechanism for investors and will cover any additional matters to ensure effective management of the investment relationship. The financing agreement between the parties will vary from project to project and will be vetted by legal and Shariah experts to be engaged by both parties.

Post-Investment Services

Participative financing exposes both investors and entrepreneurs to various risks. Entrepreneurs perceive investors as undue interference in their work and management style and are concerned that investors might take over control of the business. Conversely, investors are concerned that entrepreneurs may not commit the necessary effort to the business, might not report profits honestly, and could manipulate expenses to extract funds improperly. To make participative financing successful, there is a need to put a mechanism in place that introduces transparency in the operations and management of the business and addresses the above concerns of entrepreneurs and investors. The proposed institution's post-investment services seek to address the above concerns of entrepreneurs and investors by enhancing transparency in the operations of the invested business and providing essential support to improve the business's operational and financial performance.

As part of its post-investment services, the proposed institution will work with the investor and the entrepreneur to develop and agree upon the annual targets related to operational, financial, and administrative matters. The proposed institution will develop a comprehensive action plan to achieve the established annual targets. This plan will outline the specific actions to be undertaken throughout the year, which will be further divided into quarterly action plans to ensure effective implementation and monitoring. In addition, the plan will identify key performance metrics to be measured every quarter and explain how each metric is linked to the corresponding targets. To ensure accurate evaluation, the proposed institution will also specify the data required to compute each metric, establish appropriate data collection mechanisms, and determine the frequency at which the data will be gathered and reviewed.

At the end of each quarter, the proposed institution will collect the required data and prepare a quarterly performance report for the stakeholders, comparing performance against the agreed metrics. The report will also identify corrective measures to improve performance if metrics are below the target levels. The proposed institution will participate in quarterly review meetings and oversee the implementation of the corrective measures.

Comparison with Other Participative Modes of Financing

Crowdfunding platforms

Crowdfunding is a method of raising capital for projects, businesses, or social initiatives by collecting small contributions from a large number of people, typically via online platforms. It has emerged as an alternative to traditional bank financing and other conventional lending mechanisms. Over the past decade or so, various Shairah compliant crowd funding platforms have emerged in the market.⁴¹ Table 3 presents a comparison between the operational model of the proposed institution and that of existing crowdfunding platforms.

⁴¹ "Blossom Finance Halal Investments in Micro-Businesses," accessed March 22, 2026, <https://www.blossomfinance.com/>; "Ethis: Ethical Crowdfunding | Let's Change the World Together | Make a Profit, Make a Difference," Ethis, accessed March 22, 2026, <https://ethis.co/>; "Kapital Boost | Halal Investment & Islamic SME Financing Platform," accessed March 22, 2026, <https://stageinv.kapitalboost.com>.

Table 3. Comparison With Crowdfunding Platforms

No.	Crowdfunding	Proposed Institution
1.	The entrepreneur gets small amounts of financing from a large number of investors.	The entrepreneur gets the full amount of financing from one or two investors.
2.	Crowdfunding investments are acquired through online platforms that act as intermediaries to collect money from small investors and invest it on their behalf in the entrepreneur's business.	The investor invests directly in the entrepreneur's business. The proposed institution facilitates the transaction through its pre-investment and post-investment services.
3.	There is no one-to-one interaction between the entrepreneur and the investors.	Investors interact directly with entrepreneurs and agree on the investment terms; the proposed institution acts only as a transaction facilitator.
4.	The investors are spread across different geographical territories.	The entrepreneur and the investor are in the same geographical location and easily reachable.
5.	The crowdfunding platform acts as an intermediary through a Wakalah agreement with investors.	There is no financial intermediary role for the proposed institution.
6.	The investor cannot challenge or negotiate the pre-money value of the entrepreneur's share.	The investor can negotiate the pre-money value of the entrepreneur's share.
7.	The investor has no role in managing the invested business.	The investor can play a role in managing the business to the extent agreed in the investment agreement.
8.	The investors' profit share is transferred to the crowdfunding platform, which deducts the fee for its services and disburses the remaining funds to the investors.	The profits from the business are passed on directly to the investor. The proposed institution does not get any share in the profit; rather, it gets a fee for its services.

Source: Processed by the author (2026)

Private Equity (PE) Firms

A private equity (PE) firm is an institution that pools funds from various investors to buy shares in private companies. They typically take controlling stakes, enhance operational efficiency, and sell the companies for a profit within 4–7 years. Table 4 presents a comparison between the operational model of the proposed institution and that of private equity firms.

Table 4. Comparison With Private Equity (PE) Firms

No.	PE Firms	Proposed Institution
1.	PE firms pool funds from selected high-net-worth investors.	The proposed institution does not pool funds from investors. The investors make their own investment decisions and disburse funds directly into the project.

No.	PE Firms	Proposed Institution
2.	PE firms invest their funds in acquiring major shares or complete buyouts of low-performing companies.	The proposed institution does not invest on behalf of the investors; rather, each investor registered with the institution makes his/her own investment decisions. The proposed institution, however, provides its services, which facilitate investors in making these decisions.
3.	PE firms play an active role in managing the invested company to grow it into a better-performing company.	The proposed institution does not play any such role. The investor, if he wishes, may acquire the proposed institution's post-investment services for management support.
4.	PE firms charge their management fee as a percentage of the invested funds and get a share of the profit.	The proposed institution charges its fee based on the services provided, which is not linked to the amount invested. Moreover, the proposed institution does not get a share of the profits.

Source: Processed by the author (2026)

Risk Assessment

Table 5 outlines some of the key risks associated with the establishment and operation of the proposed institution. Identifying these risks and developing mitigation strategies will be an ongoing process, as new risks are likely to arise at each stage of the project.

Table 5. Risk Assessment

No.	Risks	Mitigation
1	Entrepreneurs do not have the skills to prepare proper investment proposals.	The proposed institution will provide various templates and guidelines on its portal for submitting investment proposals.
2	Most investors lack the knowledge to analyze an investment proposal before making an investment decision.	The proposed institution will support the investors by offering its pre-investment services as above.
3	Most investors lack skills in business management, performance monitoring, internal controls, KPIs, etc.	The proposed institution will support the investors by offering its post-investment services as outlined above.
4	Cost preference – financing through banks may be cheaper and has tax benefits, thus more attractive for entrepreneurs.	Our target entrepreneurs are those who consider bank financing an impermissible option.
5	Entrepreneurs tend to operate in opacity and like to avoid too much reporting.	This will be addressed as part of the financing agreement. Both parties will agree on various financial controls and performance reports to be produced monthly, quarterly, and annually.
6	Entrepreneurs might take out money by claiming unjustified expenses.	Agree on a quarterly budget, and any expenditure over the budget will need prior approval; otherwise, it will be borne by the entrepreneur.

No.	Risks	Mitigation
7	Most entrepreneurs do not maintain proper books of accounts	Make it a financing condition for the entrepreneur to maintain proper books of accounts and get these audited annually.
8	Most entrepreneurs do not have proper IT systems.	Make it a financing condition to implement an IT system in critical areas like sales, accounts, etc.
9	Entrepreneurs are concerned about investors taking over the business.	Entrepreneurs will mitigate this risk through various protection clauses in the financing agreement.
10	Higher appraisal and monitoring costs.	Develop a business model that provides these services at an affordable cost and is competitive with the prevailing market prices.
11	Entrepreneurs perceive monitoring by investors as an external interference.	Limit monitoring only to the extent agreed in the financing agreement.
12	In case of any dispute, both the investors and entrepreneurs are subject to slow-moving civil courts.	Make it a condition of the investment agreement that all disputes will be resolved through arbitration. The arbitration panel's fee will be borne equally by the two parties.

Source: Processed by the author (2026)

Cost Assessment and Recovery

Capital Expenditure

The proposed institution does not involve heavy capital investment. The primary capital expenditure will include (a) the development of a web portal for registering investors and entrepreneurs, as well as for project submissions, and (b) the backend system needed to manage the institution's operations. Moreover, a modest investment will also be needed for furniture and fixtures to establish a small office. Additional investment will be required for the first 3–4 years to finance the deficit in day-to-day operating costs. Financial projections regarding capital costs, daily operations costs, and revenues will differ from country to country and depend on local economic conditions and business opportunities at the time of establishing such institutions.

Operating Cost

The proposed institution will recover the operating cost of its core services through various revenue streams. A small fee will be charged for the registration of both entrepreneurs and investors. While the submission of preliminary project proposals will be free of charge, a fee will be charged for detailed submissions, both to entrepreneurs and to investors. Additionally, entrepreneurs will pay a fee for raising investment, calculated as a percentage of the total investment amount raised through the portal.

It is anticipated that during the initial years, the volume of investment transactions will be relatively low, which will limit the institution's ability to achieve full cost recovery in the initial years. In the first year, it is estimated that approximately 50% of operating costs will be recovered, increasing to around 70% in the second year and approaching full cost recovery

by the third or fourth year. Any deficit in operating cost recovery during this period will be covered by the project sponsors, who will provide additional investments in small tranches every six months over the first three to four years.

The fee for various pre-investment and post-investment services to investors and entrepreneurs will be agreed upon on a case-by-case basis, ensuring full cost recovery while keeping it affordable and competitive with the prevailing market prices. Most of the work for pre-investment and post-investment services will be initially outsourced until enough transaction volume is generated to sustain full-time staff.

Prospects of Success

All modern established financial institutions, such as commercial banks, venture capital firms, and private equity firms, have evolved through a lengthy process of continuous improvement over the years rather than achieving success right from the start.⁴² Over time, repeated successes, failures, regulatory responses, and market pressures forced these institutions to refine their business models, risk management practices, and incentive structures.

The proposed institution will, likewise, face initial challenges and follow a similar pathway of collecting feedback, evaluating, improving, and scaling. The pre-investment and post-investment services of the proposed institution have several functional overlaps with those of venture capital and private equity firms, and a lot can be learnt from their business models, which will aid in achieving financial stability in a relatively shorter timeframe. With sustained institutional commitment, supported by continuous improvement, capacity building, and tweaking of systems for accountability and transparency, the proposed institution will evolve into a viable entity that fully reflects the principles of Islamic finance, both in form and substance. It is important to initiate the development of such or similar institutions, even at a modest scale, and start the process of evolving them into operationally and financially sustainable entities.

Contributions to Islamic Finance

By separating participative financing from traditional banking functions, the proposed framework makes a significant contribution to Islamic finance as it presents a practical solution to the key factors that have historically limited the use of participative financing. The proposed institutional framework has significant practical implications for policymakers who aim to promote genuine risk-sharing finance. Instead of reforming and restructuring Islamic banks, a broader ecosystem approach is presented, which involves establishing complementary institutions that support participative financing, while banks can continue to focus on low-risk intermediation. Such an arrangement will gradually strengthen the role of equity-based finance without subjecting the banking sector to excessive restructuring.

⁴² Richard Hildreth, *The History of Banks* (Batoche Books Limited, 2001).; Ivelina Niftyhontas, "Journey Through Time: A Comprehensive History of Venture Capital," accessed March 15, 2026, <https://www.goingvc.com/post/journey-through-time-a-comprehensive-history-of-venture-capital>.

The operational framework of the proposed institution, developed under this study, is a significant contribution to Islamic finance literature. It redefines the issue of limited participative financing as an institutional design challenge rather than a contractual one. It offers a structured approach to reviving authentic interest-free financing, which is Shariah-compliant, both in its form and substance.

Implications for Shariah Governance of Islamic Finance

From the perspective of Shariah governance, the protection of wealth and property (*hifz ul maal*) is a key aspect of the *Maqasid al-Shariah*, which relates to financing transactions. Additionally, justice is a key objective of Shariah, which prohibits the exploitation of weaker parties and mandates that risks should be shared rather than placed entirely on one party.

The non-banking institution proposed in this study holds significant implications for Shariah governance, as it addresses long-standing concerns regarding the Shariah compliance of existing banking products. The financing transactions conducted through the proposed institution are free from *riba*, both in form and substance. This makes it more consistent with the *Maqasid al-Shariah* compared to conventional Islamic banking models.

Pre-investment services, like project appraisal and entrepreneurs' due diligence, help reduce information asymmetry and strengthen the ethical foundations of financing relationships. From a Shariah governance perspective, systematic due diligence supports the *Maqasid al-Shariah* principle of preserving property (*hifz ul maal*). Additionally, financing transactions conducted under this framework are fair and just as risks are shared by both parties, and there is no exploitation of any party.

The institution's post-investment monitoring and supervision mechanism enhances accountability and transparency, which are key principles of Islamic governance. The post-investment services help reduce moral hazard and align with the *Maqasid al-Shariah* principle of preserving property (*hifz ul maal*). Additionally, it reinforces shared responsibility between investors and entrepreneurs, in alignment with Shariah principles.

By facilitating participative financing for small and medium enterprises at the local level, the proposed institution supports the social objectives of Islamic finance. It adopts a more inclusive approach that focuses on local welfare and engages all stakeholders, i.e., investors, entrepreneurs, and thus moves away from shareholder-centric governance. This approach addresses the persistent criticisms that Islamic finance has become overly profit-centric and detached from its ethical foundations.

CONCLUSION

The Islamic finance literature, as cited in this article, emphasizes that Islamic banks should increase the share of participative financing in their operations. However, the literature does not discuss how to overcome the practical issues that hinder the effective implementation of participative financing by Islamic banks. Furthermore, since the existing products and services of Islamic banks have been authenticated by their Shariah boards, Islamic banks have neither any commercial incentive nor any moral or religious obligation to provide PLS

based financing.

The article suggests that asking Islamic banks to engage in participative financing is unrealistic, as these are not structured to handle issues like adverse selection and moral hazard, inherent to participative financing. Participative financing is unlikely to be achieved through incremental modifications to Islamic banks; rather, it requires complementary institutional innovations specifically designed to manage participative financing. In response, this study presents a conceptual and operational framework of a non-banking institution dedicated to fostering participative financing, particularly for small and medium enterprises at the local level. The proposed institution is designed to offer a wide range of pre-investment and post-investment services to minimize the risks of adverse selection and moral hazard inherent in participative financing.

Like all new initiatives, the proposed institution will encounter operational challenges during its early years. However, with consistent efforts and continual improvement of its processes, it will gradually transform into a sustainable entity. Establishing these institutions and gradually refining their processes is an incremental yet essential step toward creating commercially sustainable entities that embody the foundational principles of Islamic finance. The first step for moving forward in developing one such institution is to conduct a pilot project aimed at gathering insights that will help refine the processes and controls of the proposed institution to achieve operational stability and financial sustainability. The pilot should be launched by forming a pool of investors and entrepreneurs referred by friends and families of the sponsors, who are willing to put extra effort into making interest-free financing a success. The pilot should be launched with adequate committed funds to invest in six to eight projects each year. Formal feedback must be solicited continually by arranging regular discussions with the investors and entrepreneurs engaged in the project, as well as with other experts in this field. Based on the feedback from different stakeholders and the practical difficulties faced in managing the project evaluation and monitoring phases, the processes and controls must be improved or redesigned continually to evolve the proposed institution into an operationally stable and financially sustainable entity. The author would like to close this article by emphasizing the need to initiate the development of such or similar institutions and start the process of evolving them into operationally and financially sustainable entities.

CONFLICT OF INTEREST

The authors declare no conflict of interest.

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