

Financial dualism between Islamic and conventional finance: complementarity and contribution sustainable and inclusive financing

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Abstract:

This article examines the financial dualism between Islamic finance and conventional finance, highlighting their potential complementarity. It highlights how the two systems can work together to promote sustainable financing, foster financial inclusion and manage inflation. By integrating practices that are out of the formal landscape such as Zakat and Wakf, informal funds can be channelled into productive and sustainable investments. This synergy could also help reduce economic inequality. Therefore, it becomes possible to create a more inclusive financial framework that is able to respond to contemporary challenges such as climate change and economic crises. In this way, it could not only strengthen economic stability but also promote equitable and sustainable social development.

Keywords: Islamic finance, financial dualism, sustainable finance, financial inclusion, informal economy.

Jel classification codes: E26, E51, G21, G23, G29

Introduction:

Islamic finance as an alternative financial system has gradually gained importance as a model of sustainable finance, especially in Muslim countries. It is based on ethical and social principles inspired by Sharia law, which differentiate it from conventional finance, including the prohibition of *riba* interest (usury) and the promotion of social justice. According to Asraoui, Hamich and Lahiala, Islamic finance is based on religious and social values that influence its contemporary methods and products, and is designed to meet the specific needs of Muslim communities while contributing to sustainable development **goals²**.

Islamic finance, which emerged in the 1960s and has developed in Algeria since the 1990s, has proven its capacity to innovate while coexisting with conventional finance, especially in the Gulf countries and South-East Asia. Financial analysts

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² Asraoui, & al, e. (2021). (E. j. research, ed.) *Islamic Bank; Specific nature and evolution*, 5i2.

note that this dualism is characterized by fundamental differences in risk management and investment strategies. Unlike conventional finance, Islamic finance favours crowdfunding and profit-sharing contracts, opening up unique opportunities to fund priority sectors³.

Conventional finance, on the other hand, is based on divergent principles, including:

1. The central role of interest (interest rate): Conventional finance considers interest rates as essential to assess the cost of capital and regulate the economy, while Islamic finance forbids Riba. Thus, a fundamental divergence between the two systems is highlighted⁴. However, these interest-based credit mechanisms can create inequalities and systemic risks.

2. Speculation and derivatives: Conventional finance allows the use of complex products such as options, futures, and other derivatives, often criticized for encouraging excessive risk-taking. Islamic finance prohibits these practices because of the Gharar (excessive uncertainty)⁵.

3. The goal of profit maximization:⁶ Conventional finance emphasizes efficiency in markets and maximizing profits for shareholders, while Islamic finance advocates a balance between profitability and social responsibility.

These fundamental differences, although they sometimes create tensions, also offer opportunities for complementarity. For example, where conventional finance excels in the rapid mobilization of large-scale capital, Islamic finance can bring an ethical and social perspective, thus meeting growing expectations of sustainability and inclusion.

In this context, **a key question arises: how can these two models coexist as a means of financing to meet the requirements of the financial market for sustainable financing and financial inclusion, while controlling inflation and optimizing the use of informal funds, especially Islamic funds that flow largely outside the formal economic framework?**

The study of the complementarity between Islamic and conventional finance is crucial in a context where global economic challenges require innovative and inclusive solutions. Following this main question, **the assumptions we have made are as follows:**

- *The coexistence of two financial systems would combine the strengths of conventional finance in terms of rapid capital mobilization with the ethical approach of Islamic finance, thus creating a more inclusive and sustainable financial framework.*
- *The integration of informal Islamic funds into the formal economic system could improve access to finance for marginalized communities, while maintaining economic stability.*

The methodology and plan recommended in our research is structured as follows:

³ Asraoui, & al, e. (2021). (E. j. research, ed.) *Islamic Bank; Specific nature and evolution*, 5i2.

⁴ El-Gamal, M. A. (2006). *Islamic Finance: Law, Economics, and Practice*. (C. U. Press, Éd.)

Iqbal, Z., & Mirakhor, A. (2011). *An introduction to Islamic Finance*. Wiley .

⁵ Asraoui, & al, e. (2021). (E. j. research, ed.) *Islamic Bank; Specific nature and evolution*, 5i2.

⁶ Visser, H. (2019). *Islamic Finance: Prinples and Practice*. (E. E. Publishing, Éd.)

- Presentation of the importance of Islamic finance and more particularly the integration of financial inclusion and sustainable financing, **synthetic theoretical approach in the objective of differentiation between conventional finance and Islamic finance.**

- Exploring opportunities for the integration of informal funds through the use of Islamic financial instruments

- Examine the points of convergence between Islamic finance and sustainable finance.

-Identify the major challenges to be overcome in order to achieve full convergence between these two approaches.

1. Theoretical foundations of Islamic finance:

Islamic finance is based on theoretical foundations that are part of a rich intellectual tradition, incorporating reflections by Aristotle, Ibn Khaldoun, Keynes and Marx. Each of these figures has helped shape the understanding of the functions and implications of money in the economy, while also highlighting **the ethical and moral values** that should guide economic transactions.

In his **book entitled “Islam and the business world”, L. SIAGH evokes the multitude of reflections emphasizing the** known, recognized and denounced fact on the wrong side of money, addressed by several thinkers including Ibn KHALDOUN (1332-1406), Karl MARX (1818-1883), John Maynard Keynes (1883-1946), Aristotle (384-332 BC. J-C) as well, took a particular attention of the author who believes that the foundations of the Aristotelian heritage are the subject of deep parallels between Aristotle and Muslim thought . **Each of these thinkers has highlighted the dangers and the deviations associated with the use of money in economic systems.**⁷

1.1. Aristotle and the criticism of interest

Aristotle was one of the first thinkers to criticize the idea of **interest, considering that money should only be used to facilitate trade and not to generate profits by itself. He said that** “money was invented for exchange purposes, while interest multiplies the quantity of money itself”. This vision is in line with the Islamic principles that prohibit riba (interest), because it is perceived as a form of exploitation that diverts currency from its primary function: to create real value.⁸

1.2. Ibn Khaldoun and the economic cycles

Ibn Khaldoun also made a significant contribution to economic thought by analysing social and economic dynamics. He highlighted the role of social justice in economic development, stressing that a society’s prosperity depended on its ability to balance individual interests and the common good. Indeed, the very foundations of Muslim society are based **on solidarity and the need to belong to a group.** In addition, his

⁷ SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha

⁸ Aristotle.(1995) politics. (Translated pat Jules Tricot) .VRIN. Library of philosophical texts.
Brack, E. (2010). Islamic Banking and finance in France. (MPRA.UB, Éd.)

reflection on the adverse effects of inflation or deflation on the economy is relevant to understanding contemporary issues facing Islamic finance⁹.

1.3. Keynes and the function of money

John Maynard Keynes introduced a different perspective on the function of money, highlighting its crucial role in managing economic crises. Although his ideas are often associated with capitalism, some of his reflections can be adapted to an Islamic framework. For example, Keynes recognized that money should not only be a means of accumulation but also serve to stimulate the economy through productive investment. This resonates with Islamic principles that encourage the financing of value-creating activities¹⁰.

1.4. Marx and the critique of capitalism

Karl Marx, for his part, criticized the capitalist system for its inherent exploitation and tendency to create inequalities. His surplus theory highlights how capitalism can lead to abuses similar to those denounced by Aristotle and Islamic lawyers regarding interest.¹¹ Islamic finance, by promoting ethical and responsible financial practices, seeks to address the concerns raised by Marx about exploitation and alienation in economic relations¹².

The theoretical foundations of Islamic finance are based on a rich intellectual tradition that criticizes **the abuses of the conventional financial system while proposing an ethical alternative. By integrating the reflections of Aristotle on interest, Ibn Khaldoun on social justice, Keynes on the active role of money and Marx on the inequalities of capitalism, Islamic finance is positioned as a model that seeks to balance individual interests with collective welfare.**

These perspectives show that, far from being isolated, Islamic finance is part of an ongoing dialogue with fundamental economic ideas that question our **relationship to money and social values.**

Economic theories, such as **the theory of diffusion of innovations**, can explain how Islamic finance products can be adopted by economic agents. In addition, **the theory of planned behaviour** can shed light on the attitudes of SMEs towards these products¹³.

The relevant financial theories for Islamic finance also include **organizational theory and contingency theory**. Organizational theory can inform the structures and practices of Islamic financial institutions, highlighting the organisational challenges they face in a competitive environment¹⁴. As for the contingency theory,

⁹ Al Mamun, A., & al, e. (2022). Ibn Khaldun's Economic Theories Revisited. *Journal of Islamic Economics* (2).

¹⁰ SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha

¹¹ G, S. (2012). *Understanding the fundamentals of capital, the crisis and the alternatives: marx's legacy beyond revolutionary marxism*. 15(1), . (T. B. Relations, Éd.) Récupéré sur <https://doi.org/10.1111/j.1467-856x.20>

¹² Billaudot, B. (2021). *Society, economy and civilization*. (E. d. associés, ed.) La Plaine Saint-Denis: OpenEdition Books.

¹³ Ouazzani, H. & Rouggani, K. (2018). The attitude of SMEs towards Islamic banking products: a modelling sketch. **International Journal of Management and Economics*

¹⁴ Akhsas. (2018). The problems of the Agency in financing the Islamic Bank: An exploratory study for the case of Morocco. (F. a. international, Ed.) (10) , pp. 1-17.

which postulates that organizational practices must adapt to specific circumstances, is particularly relevant

for Islamic finance, as it must navigate in diverse cultural and economic contexts while respecting its fundamental principles.¹⁵

Islamic finance is based on religious and social foundations **that distinguish it from conventional finance, which may influence its acceptance** and its incorporation into existing financial systems¹⁶.

2. The rise of Islamic financial institutions:

Since 1963, several Islamic banks and financial institutions have emerged in different countries. The Mit Ghamr Bank (Egypt, 1963), the first modern Islamic bank, paved the way, followed by Tabung Haji (Malaysia, 1969), who helps Muslims save for pilgrimage. In 1975, the Islamic Development Bank (Saudi Arabia) and the Dubai Islamic Bank (Emirates) were established, followed by the Kuwait Finance House (Kuwait, 1977). Iran adapted its banking sector to Islamic principles in 1980. Other institutions have emerged, such as Bank Islam Malaysia Berhad (1983), Lariba in the USA (1987) and Al Baraka (Algeria, 1991). Faysal Bank (Pakistan, 1994), the Islamic Bank of Britain (2004), and Zitouna Bank (Tunisia, 2009) also marked important milestones. These institutions have played a key role in the expansion of Islamic finance, responding to the growing demand for Sharia-compliant banking services around the world, particularly in North Africa, Asia and Europe.

Between the 1990s and 2000, the Islamic financial system enters a period of normalization. This is the context in which **the Islamic Financial Institutions Accounting and Audit Organization (AAOIFI) was founded in Bahrain**, responsible for harmonizing accounting standards for Islamic financial transactions. For a decade, the Islamic financial industry has been growing steadily. Global Islam Finance Report (GIFR) *data shows that* the sector's assets were valued at \$2,293 billion at the end of 2016, compared to \$2,143 billion at the end of 2015. With an annual growth rate of over 7%, this industry was projected to double in size by 2020¹⁷.

The rise of Islamic finance can be attributed to several key factors¹⁸:

- **Growing demand:** There is a strong demand among Muslims, both immigrants and non-immigrants, for financial benefits in accordance with the Shari'a, which stimulates the creation and expansion of Islamic financial institutions.
- **Oil wealth:** The increase in oil revenues has led to an explosion of demand for investment consistent with Islamic principles, particularly in the Gulf region.
- **Attractiveness of financial products:** **Many Islamic financial products are competitive with their conventional counterparts, attracting investors from all faiths.**

¹⁵ Treiblmaier. (2018). optimal levels of centralization for resilient supply chains.

¹⁶ Asraoui, & al, e. (2021). (E. j. research, ed.) *Islamic Bank; Specific nature and evolution*, 5i2.

¹⁷ INNAL, F., & Adli, Z. (2018). Islamic finance: a modern emerging industry? *Journal of Human Research and Studies* (16), pp. 613-638.

¹⁸ BESSEDIK, A. (2013). Financing and investment transactions in Muslim law. Thesis for the doctorate in law at the University of Paris-Est Créteil.

- **Alternative role in times of financial repression:** In some contexts where the conventional banking sector is subject to policies of financial repression (such as moderate interest rates and a credit quota.), Islamic finance can offer viable alternatives.

3. The principles of Islamic finance:

To better explain our approach to the originality of the principles on which Islamic finance is based, we present below some theoretical reminders:

Fundamentally, the principles of Islamic finance are succinctly based on ethical and legal foundations in accordance with Shari'a.

3.1. Ban of the Riba (interest):

Islamic finance prohibits any form of interest or usury, considered as exploitative. This principle is fundamental in the Islamic financial practice¹⁹.

3.2. Gharar and Maysir prohibition (uncertainty and speculation):

Transactions involving excessive uncertainty or speculation are prohibited, as they can lead to injustices²⁰.

3.3. Prohibition of illicit sectors (Haram):

Investing in sectors deemed illegal, such as alcohol, tobacco and gambling, is prohibited²¹.

3.4. Profit and loss sharing:

Financial transactions must involve a fair sharing of profits and losses between stakeholders, thus strengthening social justice²².

3.5. Backing on a tangible asset:

All financial transactions should be backed by real assets, thus avoiding speculation on non-existent assets²³.

These principles are the foundation of Islamic finance and guide the development of financial products and services that respect Islamic values. They also incorporate **the principle of social justice**, thus ensuring that no financial transaction should result in the exploitation of any of the parties involved.

¹⁹ GUERMAS, L., & SAYEGH, L. (2011). *Religion in business: Islamic finance* (Fondapol, ed.).

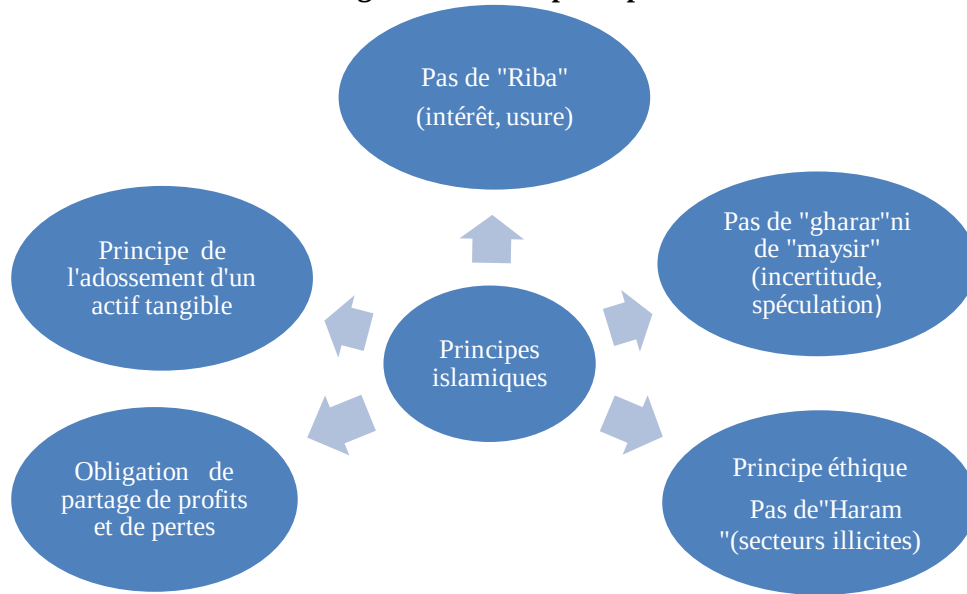
²⁰ Wadi, M. (2012). *Islamic finance: fundamental principles and potential contributions to financing growth and development*. (E. A. Actors, Ed.)

²¹ GUERMAS, L., & SAYEGH, L. (2011). *Religion in business: Islamic finance* (Fondapol, ed.).

²² Hans, V. (2019). *Islamic Finance: Principles and Practice* (ed. 2nd edition). (E. Elgar, ed.)

²³ Hans, V. (2019). *Islamic Finance: Principles and Practice* (ed. 2nd edition). (E. Elgar, Ed.)

Figure 1: Islamic principles



Source: Established by the author

4. Islamic financial products:

Islamic finance is based on principles appropriate to the Shari'a, which distinguishes it from conventional financial systems. This section presents the most common funding methods used by Islamic banks and other financial institutions, as well as their essential characteristics

SIAGH classified these banking products and the ways of operating into three categories, namely²⁴:

4.1. Le financement des transactions commerciales (debt-like instruments, fixed claims)

4.1.1. Mourabaha: Used to finance the purchase of goods, this contract involves the bank buying a good for resale to a customer at a high price, including a profit margin. Terms of sale must be clear and in accordance with the Shari'a. The Mourabaha is a low-risk, short-term financing operation that offers an attractive option for businesses. By integrating the cost of financing into the selling price, it allows them to better assess the cost of their products, especially in an inflation context. This helps businesses maintain profitability while adapting to economic fluctuations²⁵.

4.1.2. Ijara wa iqtina (full pay-out lease): Similar to the financial leasing and very common as well as the Mourabaha, this contract allows a financial institution to buy an asset and rent it to a client. At the end of the contract, the client

²⁴ SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha.

²⁵ SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha.

may have an option to purchase the asset. This funding is common among airlines such as Kuwait Airways and Jordanian Airlines Emirates.

4.1.3. The Mukarada: More commonly known as «sukuk», is a key financial instrument in Islamic finance. These Shari'a obligations have evolved significantly since their emergence, reflecting the adaptation of Islamic principles to contemporary needs in financial markets.

4.1.4. Istisna: This type of contract concerns the manufacture and allows a party to order goods to be manufactured, with payment being made in stages or on delivery.

4.1.5. Bai' muajjal (spot sale): This contract allows for deferred payments for the purchase of products, thus offering flexibility to consumers while respecting Islamic principles.

4.1.6. Salam or Bai' salaf (forward contracts): A contract of advance sale where payment is made in advance for goods to be delivered at a later date. This mechanism is often used in agriculture to secure financing for producers.

4.1.7. Jo'adah (service fee) Constitutes the commission payable by the purchaser of a service to the provider ²⁶

4.2. Equity-like instruments, residual claims (CPO)

4.2.1. Moudaraba: it is a partnership contract where an investor (Rab el Mal) provides the capital, while an entrepreneur (Moudarib) manages the project. Profits are shared in an agreed ratio, while losses are borne entirely by the investor unless the contractor is negligent²⁷.

4.2.2. Moucharaka: This type of contract involves an active partnership between two or more parties who contribute to the capital and share profits and losses according to their respective contribution. Unlike the Moudaraba, in this case all partners have a right of vision on the management of the project²⁸.

4.2.3. Musaqat: This is a special contract of Mucharaka concerning the orchards in the agricultural sector where the partners participating in the capital share the harvest ²⁹

4.2.4. Muzarah; considered a form of Mudaraba, it is based on the principle of farm operation, the financial institution receives a share of the harvest in return for providing the land or the necessary funds.

4.2.5. Direct investment: Funds are invested in traditional investment activities while respecting the Shari'a. Direct investment in Islamic finance is distinguished by its collaborative and ethical approach, aimed at promoting sustainable economic development while respecting Islamic values

4.3. Operations of a concessionary nature

4.3.1. Quard Hassan (benevolent loan): A system of interest-free loans, designed to help those who need it in particular circumstances, without seeking profit.

²⁶ SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha.

²⁷ GUERMAS, L., & SAYEGH, L. (2011). *Religion in business: Islamic finance*. (Fondapol, ed.)

²⁸ GUERMAS, L., & SAYEGH, L. (2011). *Religion in business: Islamic finance*. (Fondapol, ed.)

²⁹ SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha

5. Financial dualism: Concepts and perspectives

The global financial system is characterized by a diversity of structures and practices. Among these, financial dualism manifests itself in different forms.

The concept of dualism corresponds to an obvious reality in poor countries of the Third World, in Africa, in Asia and in the Andean countries: it is the coexistence of a traditional society, especially rural, and a modern society (industries, banks, plantations, etc.) which can be reduced to an enclave held by a foreigner. These two sectors have little connection, and we can speak of inarticulation of society. Between these two sectors, intermediate activities are developing, especially in urban areas forming what is called the informal or unstructured sector. These are small trades, which provide income to their holders and allow survival in the city³⁰.

In this context, the coexistence between Islamic and conventional finance can be interpreted as a form of financial dualism, particularly relevant in the context of formal and informal systems, as well as in conventional and Islamic finance, reflecting the simultaneous existence of two distinct systems within a single economy or market. These systems have different philosophical, legal and operational bases.

The informal market in developing countries, which involves large amounts of money outside formal financial circuits, poses a major challenge to economies, particularly in the Islamic mode. Funds such as Zakat (compulsory alms) and charitable donations circulate freely without control or strategic purpose, having no significant impact on sustainable development and formal financial inclusion. The integration of these funds into formal Islamic finance structures could allow to channel these resources towards social and economic development projects.

6. Integration of informal finance by Islamic finance: Towards inclusive, ethical finance

The integration of informal finance into formalized systems is a major challenge, especially in emerging economies where large parts of the population access financial services through unregulated means. Islamic finance, through its ethical and inclusive principles, offers a promising framework to meet the needs of informal actors while respecting their social, cultural and economic constraints.

6.1. Principles of Islamic Finance:

Islamic finance attracts populations engaged in informal through key values: the **prohibition of interest (riba) which reduces the cost of financing, sharing of risks and profits (mudaraba, musharaka)** promoting confidence, and **an ethical approach that promotes justice and social inclusion, particularly adapted to rural and conservative areas.**

6.2. Islamic finance tools adapted to the informal sector

6.2.1. Islamic microfinance Islamic microfinance institutions

(IFIs) offer small interest-free loans or financial products suitable for informal micro-entrepreneurs.

³⁰ Bialès, C., Bialès, M., Leurion, R., & Rivaud, J.-L. (1999). *Dictionary of economics and contemporary economic and social facts.*(FOUCHER, Ed.)

6.2.2. Murabaha: Sale with a fixed profit margin, allowing entrepreneurs to acquire interest-free goods.

6.2.3. Qard al-hasan: Interest free loans, designed to meet urgent needs or finance low-yield projects

6.2.4. Takaful (Islamic insurance) Takaful can replace informal community-based support mechanisms by offering Sharia-compliant insurance solutions, particularly to protect micro-entrepreneurs from risk.

6.2.5. Community Sukuk (Islamic bonds) The sukuk (Islamic bonds) can finance collective projects in areas where the informal economy dominates, such as market infrastructures or training centres.

6.2.6. Waqf (endowment fund) Waqf can be mobilized to provide social services, support financial education initiatives and provide seed capital for informal businesses.

6.2.7. Managing a zakat fund:

Considered one of the five pillars of Islam, the Zakat is a compulsory levy on the wealth to help those in need, namely: 2.5% of liquid assets, 10% of the value of irrigated agricultural land, 5% of the value of non-irrigated land.³¹

However, the mobilization of its funds and their channeling to others is a major challenge to be met since it is distributed randomly or even promotes circulation outside the formal sector, given the difficulty of creating a Zakat fund or³² Bait Al Mal (Muslim treasure) who collects funds from the profits of the Islamic bank, inheritances without heirs, donations and the Zakat... etc. to be subsequently allocated to collective socio-economic investments: education, health etc.”

6.3. Integration strategies

6.3.1. Financial education and awareness

Many actors in the informal economy are unaware of the existence or benefits of Islamic finance. Awareness-raising programmes, adapted to local languages and cultural contexts, can facilitate their adoption.

6.3.2. Digitization of financial services

Technology can reduce barriers to accessing Islamic financial services by enabling simple transactions via digital platforms (mobile banking, Islamic fintech).

6.3.3. Public-private partnerships

Governments and Islamic financial institutions can work together to provide incentives (grants, tax exemptions) for institutions integrating informal actors.

6.3.4. Adoption of hybrid structures

Islamic finance can formalize some informal practices by adapting its products to local realities. For example:

- Integrate the tontines in a framework compatible with sharia.
- Create Islamic cooperatives to pool resources.

6.4. Benefits of such integration

³¹ SHILER, R. J. (2014). *The new financial order: Modern finance at the service of new economic risks*. de boeck S.

³² SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha

6.4.1. Financial inclusion: Populations excluded from the formal system access ethical and appropriate financial services.

6.4.2. Progressive formalization: Informal mechanisms are becoming progressively more regulated and secure.

6.4.3. Economic stimulation: Informal micro-enterprises are provided with appropriate funding, stimulating local economic growth.

6.4.4. Strengthening social values: Islamic finance strengthens community ties through cooperative and ethical practices.

6.5. Challenges to be met

- **Regulatory complexity:** The formalization of informal activities requires a flexible and adapted legal framework.

- **Risk of cultural disconnection:** Financial products must be aligned with local practices and expectations to avoid rejection.

- **Limited access to capital: Islamic microfinance institutions sometimes have difficulties in raising sufficient funds.**

The integration of informal finance through Islamic finance offers a unique opportunity to unite inclusion, ethics and development. By relying on mechanisms such as Islamic microfinance, waqf or takaful, policy makers can build bridges between these two worlds while strengthening the resilience and social justice of marginalized communities.

To succeed, this requires strong political will, inclusive partnerships and adaptation to local cultural and economic realities. Thus, good financial inclusion as a key lever to reduce poverty, improve living conditions and stimulate economic growth will ensure that all individuals and businesses have access to affordable, responsive and safe financial services.

Although considerable progress has been made in recent years, there are still significant challenges to integrating marginalized populations, particularly in developing countries.

7. Islamic Finance and Sustainable Finance: A Natural Convergence

Islamic finance and sustainable finance share fundamental goals and principles that place them at the heart of discussions on responsible economic development.

While sustainable finance focuses on integrating environmental, social and governance (ESG) criteria, Islamic finance is focused on ethical principles that are consistent with the Shari'a. These principles are aligned with the objectives of sustainable finance, including promoting equity, transparency and social responsibility.

7.1. Islamic finance as sustainable finance: Islamic finance is considered sustainable when it respects the three pillars of sustainability defined by ESG finance:

7.1.1. Environmental criteria: Islamic finance encourages environmentally friendly investments:

- **Green sukuk**, or Islamic green bonds, finance sustainable projects such as renewable energy and resilient infrastructure.

- Initiatives such as the Islamic Development Bank (IDB) support climate projects in Muslim countries . ³³

7.1.2. Social criteria *The social principles of Islamic finance, such as zakatou leqard al-hasan (interest free loan), emphasize financial inclusion and community development. Islamic microfinance, for example, targets marginalized populations while respecting their cultural values.*

7.1.3. Governance criteria *Islamic finance requires strict transparency and Sharia compliance advice. This governance limits abusive practices and strengthens investor confidence.*

7.2. Similarities between Islamic and sustainable finance

7.2.1. Ethical and social finality

The two systems reject the idea of maximizing profits at any cost and allow a responsible and fair approach.

7.2.2. Aversion to excessive speculation

The Islamic finance, like sustainable finance, favours real and speculative investments over speculation.

7.2.3. Financing of positive impact projects

Islamic financial instruments, such as sukuk, are often used to finance sustainable infrastructure or social projects.

7.2.4. Financial inclusion *The two models seek to include*

marginalized populations by providing services tailored to their needs.

7.3. When does Islamic finance become sustainable?

Islamic finance is considered sustainable when it meets the ESG criteria³⁴ :

- **Green projects** : Instruments such as green sukuk must be aligned with clearly defined environmental objectives.
- **Measurable impact**: Funding must include indicators measuring their social and environmental impact.
- **International compliance**: Projects must meet sustainability standards, such as those defined by the United Nations or the Global Reporting Initiative (GRI).

³³ Islamic Development Bank. (2022). *A high-level panel meets on Sukuk for the transition to a green economy*. Retrieved from <https://www.isdb.org>

³⁴ Nor, S. M. (2022). Islamic Finance qnd Environnement Sustainability . *Journal of Islamic Finance Studies* .

Success stories: **(Islamic Development Bank 2022)**³⁵

- Green Sukuk of the IsDB: **These bonds have financed renewable energy projects in several developing countries.**
- **Social Sukuk in Indonesia:** These bonds have helped finance educational and health infrastructure.

7.4. Challenges for full convergence

7.4.1. Universal standards:

Islamic finance and sustainable finance sometimes use different frameworks. Harmonizing ESG criteria and sharia principles remains a challenge, hence the need for Islamic finance standardization

7.4.2. Lack of awareness: Many investors are unaware of the opportunities offered by Islamic finance in the field of sustainability due to its low international visibility.

7.4.3. Limited market access:

Green and social sukuk are still underused in many regions due to their complexity and high cost of issuance.

7.4.4. Dual governance, a specific challenge:

The manager of an Islamic bank is subject to a dual authority: that of the board of directors, which looks after the interests of shareholders by seeking to maximize the return on investment, and that of the council of sharia, which focuses on the protection of ethical and religious principles, while focusing on the expectations of the community and clients. While the former focuses on financial requirements of the “bottom line”, the latter places emphasis on compliance with Shariah and ethical performance. This duality requires a judicious arbitrage to reconcile financial objectives and moral values³⁶.

Conclusion:

In conclusion, the complementarity between Islamic and conventional finance represents a strategic opportunity in a changing global economic context. By allowing the dualism of these two models, it is possible to take advantage of each one's strengths: conventional finance, with its ability to mobilize capital quickly, and Islamic finance, which brings an essential ethical and social dimension. Building such a comprehensive framework reflects both cultural diversity and a harmonious model. This synergy could not only improve access to finance for marginalized communities, but also promote more effective use of informal funds, including those that flow outside the formal economic framework. Thus, this approach could contribute to a more resilient and equitable financial environment. that can support inclusive and sustainable economic development that responds to global challenges while respecting the values and inspirations of differences.

³⁵ Islamic Development Bank. (2022). *A high-level panel meets on Sukuk for the transition to a green economy*. Retrieved from <https://www.isdb.org>

³⁶SIAGH, L. (2007). *Islam and the business world*. Alger: Editions Alpha.

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