

## Chapter 5 – Islamic Finance and Inclusive Growth

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### Abstract

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The emergence of Islamic finance into the global financial scene has captivated much interest, especially since the 2007/2008 Global financial crisis. Noting that Islamic finance has weathered financial storms well, some view the Islamic financial system as an alternative to the ailing interest-based conventional financial system. This view finds strong support in the expanding list of empirical studies that document the stability of Islamic finance relative to conventional banks. The sustainability agenda of the United Nation's Sustainable Development Goals (SDGs), which are generally aligned with the Shari'ah principles, further emphasize the contributive role of Islamic finance in sustainable the development. This chapter overviews the Islamic financial system and how its principles relate to sustainable development, with particular emphasis on inclusive growth. This refers to the process of economic development that integrates profit (material well-being), people (social well-being) and planet (material well-being). The chapter also reviews theoretical foundations and empirical evidence that links Islamic finance to inclusive growth and presents stylized facts from selected countries that have systematically important Islamic finance and reviews.

The chapter is structured as follows:

1. Introduction
2. Islamic Finance and Its Principles: An Overview
3. Islamic Finance and Inclusive Growth
4. Empirical Evidence: A Review
5. Inclusive Growth in Selected Countries
6. Conclusion