In Search of a Sustainable Economy; Will Islamic Banking Help Nepal and Nepali Muslims?

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Abstract

This article attempts to shed light on the issue of "why Nepal should adopt Islamic banking." The research presented in this conceptual and theoretical work is based on a thorough review of the literature. This paper will begin with a discussion of why the current banking system needs to be updated or changed, followed by an examination of its characteristics and how it might benefit Nepal's economy. The possibility of Islamic finance functioning as a microfinance tool by involving those who do not engage in economic activity will also be explored in this study. This article also argues for the need to set aside theological differences in order to embrace Islamic financing for the upliftment of underprivileged Muslim and non-Muslim minorities. Islamic finance has several advantages that cannot be dismissed based solely on the name or the notion that it is only for Muslims. To assist underprivileged populations in escaping poverty, Nepal's economy requires a banking system that would operate for welfare rather than profit. The only means of helping those who are below the poverty line to increase their wage rate are interest-free loans and microfinance tools.

Keywords: Nepal, Islamic banking, Islamic finance, Microfinance, Religion, Sustainable economy.

Introduction

Islamic banking has gained widespread acceptance worldwide, both among Islamic and non-Muslim nations. Islamic banking products and services are becoming more popular in both Muslim-majority and non-Muslim nations, such as the UK, Russia, USA, Argentina, Australia, India, Philippines, Thailand, Denmark, Guinea, Niger, and Nigeria, etc., as well as in Muslim-majority countries (Abdullah, 2012).

States that have implemented Islamic banking have benefited from features like interest-free loans, equal sharing of losses, and capital formation, as stated by Al Nasser, Datin, and Muhammed, (2013).

It's undeniable that the majority of banks function and generate extra revenue by imposing interest rates on loans, and customers who utilize their facilities are required to pay interest. Islamic Bank, on the other hand, operates entirely differently. Islamic banking, as a whole, derives from Islam and is based on moral and ethical ideals taken from Islamic, Qur'anic, and Shariah principles. In other words, Islamic banking is not only described as a form of banking that forbids interest (known as Riba), but also as

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a paradigm that combines ethics and economics to lead and serve the nation and society for the greater good. "Islamic finance has the potential to accommodate more people's banking and investment needs, magnify its reach, and add to greater financial inclusion and stability in the developing world," said Mahmoud Mohieldin, then-Managing Director of the World Bank, in 2012 (Mohieldin, 2012).

According to the Global Islamic Financial Report 2011, the Islamic financial industry had a 2011 end value of US $1.14 trillion and was expanding at a 10% annual pace. Contributions are estimated to grow to achieve a market share of 17.96% of total insurance premiums by 2019, or US$5.51 billion by 2019. Islamic banking is expected to expand to US$296.29 billion by 2019. The Islamic financial sector has experienced rapid expansion over the past ten years, averaging between 15 and 20 percent annually, making it one of the fastest-growing segments of the entire global banking system (Smolo, 2010).

Islamic finance is not only concerned with making a profit but also with the welfare of society and humanity (Baber, 2017). Money itself can be viewed as a resource that should be used wisely, and investments in cash should be crucial to the growth of the country's financial system. The time value of money, which refers to putting one's current cash on hand in a bank account in exchange for better returns in the future, plays a crucial part in this situation. This is the customary method of generating income from sources that are absolutely prohibited by Sharia law. Additionally, it is prohibited and can be referred to as "haram" to invest in businesses that appear to be unlawful or wrong. A non-figurative concept is religion.

One of the most significant success elements that contributed to the growth of Islamic banking was the fact that financial companies followed Shari'ah laws in all of their dealings, where Shari'ah regulations are the basic pillar with which Islamic banks engage with their clients. This study aims to highlight the benefits of Islamic banking in sustaining the economy of a developing nation such as Nepal.

Up to now, in Nepal, neither an Islamic banking idea nor any framework has been built. Therefore, it is an entirely new idea for Nepal. Muslims themselves and a few unofficial publications claim that 8–10% of Nepal's population is Muslim, despite the government data claiming that Muslims make up only 4.2% of the country's total population. Since we have been hearing of Islamic banking's success in the UK, Sri Lanka, Singapore, and other nations, why not assume its potential and future in Nepal, for the sake of the upliftment of its Muslim minority population, which directly or indirectly leads to the nation's development.

Since the focus of this brief article is on the function of Islamic banks in non-Muslim nations, it will not cover how Muslims might raise their spiritual and educational standing, which is unquestionably essential for enhancing their socio-political and economic standing. This remark will instead be primarily focused on the issue of improving Muslims' economic well-being.

Literature Review

Banking and Economic Growth

The most important component of the financial system is the banking sector (Mittal, 2021). At the firm, industry, and macroeconomic levels, it is essential to economic growth. In addition to a nation's legislative framework, banking and financial institutions are also linked to economic growth, albeit in a variety of possibly incompatible ways. Three suggested links between financial advancement and economic expansion are the following: 1) financial development influences economic growth, 2) financial development occurs after economic expansion, and 3) there is a causal relationship between money and development (Furqani, 2009). Even while it is challenging to separate banking as an exogenous component, efforts to do so have produced findings that indicate banking's role as a transmitter of monetary legal responsibilities does, in fact, have an impact on growth.

According to some, banks that excel at spotting creditworthy businesses, mobilizing deposits, supplying liquidity, facilitating transactions, and pooling risk boost economic growth (Bagehot, 1873). In addition, banks modify how savings are distributed to different businesses through loans (Beck, 2000), and they have an impact on evolution by increasing national savings rates and luring foreign capital. The difference in the amount of banking sector development is tested by Beck et al. as a part of the vague concept of "total factor productivity," and they discover that financial development has a considerable favorable impact on both real per capita growth and productivity per capita growth. Their investigation leads them to the conclusion that financial development promotes economic growth.

The evolution of banking's function in the process of economic development is also supported by empirical data. As financial institutions develop, they become more market-based, with securities markets outpacing the banking sector in terms of development. The relationship between economic activity and bank development weakens as economies grow, whereas the relationship between economic activity and securities markets gets stronger as economies expand (Demirguc, 2012).

As was already said, research shows that strong, flexible legal foundations and bank profitability support economic progress. Based on a long-ago legal framework, Islamic banking is quickly becoming a viable option for financial firms. Therefore, based on the existing empirical investigations of Islamic banking and the literature's results on legal origins and financial institutions, speculative hypotheses about the contribution of Islamic banking to economic growth may be developed.

Islamic finance is the term used to describe investments that are permitted under Sharia, the Islamic code of law. According to Sharia law, money serves as a gauge of value rather than an actual "asset." It prohibits receiving and disbursing riba (interest), gharar (extreme ambiguity), maysir (gambling), and financing of activities that it deems damaging to society. So, it is illegal to receive interest as a kind of income from the money. For instance, banks cannot earn money from interest on loans they have made; rather, their income must come from the success or failure of the businesses they guarantee. Thus, Sharia-compliant finance is frequently seen as a distinct type of socially conscious investing. Islamic finance exists to advance Islam's socioeconomic objectives. Furthermore, Microfinance and Islamic financing come together to form Islamic microfinance. Because both microfinance and Islamic finance are geared toward benefiting the disadvantaged, they are seen as being complementary by their very nature. Islamic microfinance is regarded as a powerful tool for reducing poverty in nations. It combines aspects of both conventional microfinance and Islamic finance. It is claimed to have the power to reduce poverty and promote social advancement not only in nations with majorities of Muslims but also in non-Muslim nations (Technavio, 2014). Even for individuals who do not demand that the microfinance products they use adhere to Sharia law, Islamic microfinance is appealing due to its benefits. Those who cannot afford the fixed-interest products of traditional microfinance can benefit from the profit- and loss-sharing solutions offered by Islamic microfinance.

Islamic finance is thus becoming more and more popular in non-Muslim countries as well. Despite not having a majority of Muslims, Australia is rapidly expanding its Islamic microfinance business. The Australian Islamic MFIs provide their consumers with Murabaha, Ijarah, and Musharaka goods for the purchase of automobiles, houses, consumer goods, and investments in small enterprises.

Islamic microfinance has grown significantly during the past ten years thanks to the strong backing of numerous governments. As mentioned before, the key features of Islamic microfinance, as opposed to traditional systems that heavily rely on interest levied on credit or loans, are the lack of riba (or usury), gharar (risk or ambiguity in transactions), and the use of various financial contracts. Governments in many countries with a majority of Muslims are giving Islamic microfinance priority with the aid of the central banks. For instance, the government of Indonesia has a long-term plan in place for the growth of Islamic banking in Indonesia, whereas the government of Sudan has established a dedicated unit for Islamic microfinance. The UK government has put in place the fiscal and regulatory frameworks that support Islamic finance, as does the Arab world. Such efforts by governments around the globe are promoting the expansion of Islamic microfinance.

Banking in Nepal and its challenges

All the banking systems in the nation are interest-based banking. Many researchers have investigated the difficulties with the conventional banking system in various ways. For example, Honohan (1997) stated that one of the problems with the economy of developing and transitional nations is the breakdown of the banking sector. He also connected the macro and microeconomics components of these difficulties. Conversely, Mrak (2000) has described issues in general terms that suggest a combination of transition and globalization processes negatively impacts the entire growth of transition economies, necessitating reforms and adjustment. However, he omitted to mention a particular industrial sector and geographic area (Allen, 2011). Nevertheless, if the banking system's problems were not resolved, China's banking system would be at threat and stable economic development would be negatively impacted (Peng, 2006).

Since the banking industry is a significant financial entity, it must work to overcome obstacles to fulfill its financial duty. Therefore, banks play a significant role in the economy as a financial intermediary in society for speeding the investment cycle and encouraging customers to deposit and contribute to economic development (Nyantakyi, 2015). The banking sector is reportedly dealing with a lack of client loyalty and mistrust, as well as challenges with offering more cutting-edge technology services, assuring profitability, and managing risk during the economic cycle in Nepal (Singh, 2021). Additionally, Sapkota claims and highlighted the issues that specifically affect the banking industry: the difficulties associated with payments, markets, and regulation. Nevertheless, there are still many areas of the banking sector that need reform, especially under pressure, as authorities continue to lack faith in the sector (Ashurov Sharofiddin, 2018). As a result, there are additional obstacles to banking operations, including information security, an uphill battle to rebuild economic strength and consumer trust, service effectiveness, and offering free-market conditions that foster competition in the banking industry.

Therefore, it is crucial for the banking industry to win over the public's trust to go forward with greater ease when it comes to overcoming obstacles and meeting the needs of customers. Devan (2013) asserts that the financial system operates more efficiently because it is founded on trust. Because of this, it is crucial for big financial institutions to maintain their good name to win the public's confidence in holding and managing their financial assets. Recently, since the financial crisis, when several sizable, well-known financial organizations became the focus of well-publicized investigations into allegations of fraud, financial mismanagement, and misleading practices, banks have been more cautious and confront obstacles. As a result, banks have taken a variety of actions to safeguard their reputation and avoid public disputes (Kidder, 2012).

Due to a number of factors, including lax regulation and supervision by the monetary authority and flagrant compromises in corporate governance practices by banks and financial institutions themselves in their operation and business, Nepal's banking sector is not only walking a precariously risky road due to a seasonal and frequently recurrent shortage of loanable funds but also faces significant risks. Nepal's financial industry has grown significantly over time. According to the most recent Nepal Rastra Bank data, the central bank oversees 67 microfinance financial institutions, 27 commercial banks, 17 development banks, 17 financing firms, and one infrastructure development bank in Nepal. This does not include the more than 50% of all bank branches of microfinance organizations. For an under-automated supervisor like Nepal Rastra Bank, with just 50% officer-level staff among its 1,000+ employees, timely and efficient supervision of them all, particularly on-site, is a Herculean task (Wagle, 2022).

The Nepali financial system is steadily degenerating into a mere usury cartel, affecting almost all corporate governance standards despite the industry participants' proud claims that it is the "most transparent" business in Nepal. This is largely because they are required to publish quarterly provisional balance sheets and trading on stocks reports (a Resilient, 2020). Excessive insider borrowing, complete disregard for obvious conflicts of interest, "doctoring" books of accounts, and widespread dishonest lending practices, even in private enterprise institutions, are just a few of the perversions that have put the entire financial system at serious risk of failing, says Sapkota (Sapkota, 2011).

Just to give an intense illustration, the current issue of loanable funds has been brought on by imprudent lending by the banks as well as the government's far lower-than-anticipated level of capital expenditure, just 15% of the allocation so far. The amazing level of profits made by using all available loan options beyond self-manageable liquidity hazards is evidence of their gluttony. Even to the regulator, the exact degree of their overexposure to risky industries like real estate largely goes unreported. The long-term result of all these will inevitably be fatal for the entire industry. The free-market economy suffers from defamation when private enterprises, in particular, use unethical tactics as such. This happens without any fault of the free-market economy. Both the regulator and the industry must draw at least some decisions from the economic disaster the Nepali economy has previously experienced (Ergasheva, 2010).

In conclusion, it appears from the earlier research indicated above that Nepal's banking practices face a number of difficulties and are unable to offer sufficient financial resources for additional investment and business prospects. One of the main issues is that the majority of people are reluctant to deal with the current banking practices because of a variety of factors, including mistrust, poverty, complex rules and regulations, high-interest rates, and a riba-based system. Also, Nepal is a Muslim minority nation and Hindu country, and solutions to these problems are being searched in other ways but never via an Islamic perspective. Surprisingly, there is no single research based on the Islamic perspective. Therefore, this was the first empirical study aiming to fill this gap and bring on a new point of view aiming to trigger the Nepali citizens to think from a new perspective.

Islamic Banking Principles and Concept

No doubt that Islamic banking is seen as distinct from current banking. As mentioned before, Islamic banking is a type of banking based on Islamic Law, which forbids interest-based transactions and only authorizes profit-sharing transactions. The idea is based on a scripture from the Holy Quran that reads, "Allah has forbidden interest and has permitted only lawful trade." It is against interest because it is thought that interest generates exploitation and unproductive income.

The basic principles of Islamic banking talk about Sharing of profit and loss, the Prohibition of investing in unlawful business, and the prohibition of Riba. With the money borrowed from the lender, the borrower and the lender split any gains or losses from the business venture. The fundamental belief is that these efforts should benefit the entire community. Islamic law forbids the operation of any illegal businesses, including those engaged in the sale of pork or alcohol, the production of media like gossip magazines or pornography, or the gambling industry. These prohibitions lead every individual to seek proper employment and the proper use of money, which will definitely affect economic development.

Islamic banking is conceptualized by five components: Mudarabah, also called Sharing of profit, provides savings and time deposits in the form of investment accounts where depositors share in the profits and losses of the institutions. No-interest checking accounts are not charged fees because they use depositors' money. Murabaha transactions involve purchasing goods on behalf of clients and then reselling them for a profit. Musharakah is a joint venture-based form of equity financing where the bank contributes funds and manages the enterprise. Ijarah, also called Leasing, includes two distinct sorts of leases: lease/purchase agreements and leases where the lessor retains ownership according to the lease arrangement.

Research Method

In-depth interviews with experts, comprising seven respondents, were conducted as part of the study project, which aimed to examine the difficulties facing Nepal's conventional banking sector. The identities of the respondents were kept private in accordance with ethical norms and considerations. Furthermore, it was an open-ended question interview. Three out of five respondents for this qualitative research were specialists in the field of conventional banking, with no prior knowledge of Islamic banking, which made the interviews lengthy. I had to explain to them the basic fundamentals of Islamic banking and inquire whether it could contribute to the economic growth of the nation. The other two respondents were postgraduate students in the field of banking and management who had some knowledge of Islamic finance from their education abroad. The respondents are denoted as Respondent 1, Respondent 2, and so on, while the other two students are denoted as Student 1 and Student 2 for the sake of confidentiality in line with ethical norms and considerations.

The interview method was used to gather information in the form of qualitative data from the respondents. Responses to questions during the semi-structured interview were recorded and documented for analysis. Interview candidates were selected based on factors such as their willingness to participate in the study, the availability of resources, and their openness to sharing their opinions.

Finding and Discussion

Since the concept of Islamic banking is entirely unknown in this region, it was not easy to have a thorough discussion with the respondents. However, I am grateful for their time, patience, and the views they shared. I approached them with questions that aligned with their existing knowledge and then proceeded to provide them with information about Islamic finance. I also asked for their opinions on whether the adoption of Islamic finance would contribute to the economic growth of the nation.

They mentioned that they had heard about Islamic banking but were unfamiliar with its fundamentals and concepts. They expressed a keen interest in learning more, and the interview concluded with them being curious to explore further information about the Islamic banking system. I believe this marks one of the initial achievements of my research.

What are the challenges of the current banking system in Nepal?

"*The excessive interest rate, which makes it difficult to draw in consumers, is one of the fundamental problems with Nepal's banking system. People here don't prefer engaging with banks in order to use services like borrowing because the interest rate in the nation is very high*."

This was the ultimate reply from Respondent 1. Additionally, he stated:

"O*n the other hand, People here do not have confidence in the country's existing banking practices since they are unpredictable and anything might happen at any time, especially given the current state nation's financial turmoil. As a result, they like saving their money at home instead of depositing it in banks. Challenges of the current banking practice in Nepal also include extensive rules and regulations, requirements and documents, a delayed and drawn-out processing process, and digitalization that people are not adjusted with.*"

However, Respondent 2 provided a response that did not differ significantly from the previous one. He mentioned:

"*As can be seen, the banking industry in Nepal has not developed as a result of the numerous difficulties it faces. The population's mistrust of banking practices, whether in terms of management or procedures, is the country's main banking worry. Another significant issue that has led consumers to avoid dealing with the banking industry to borrow money is the extremely high-interest rate. Additionally, the banking industry lacks innovation compared to that of other nations, which has impeded its development*."

In contrast, Respondent 3 stated:

"I believe that the majority of the people living below the poverty line,14% of the population working abroad, and the consumption of remittance transfers are the key problems of conventional banking practice. Also, the majority of the populace has suspicion or distrust in existing banking methods. Besides, Post Pandemic Nepal doesn't offer loans due to lack of liquidity that prevents banks from having enough money to make loans. Most of the nation's commercial banks have recently stopped accepting loan applications due to the ongoing liquidity crisis."

As for my final respondent, who is a student specializing in Economics and Business in a foreign country, they shared:

"The majority of people's resistance to dealing with banks is, in my opinion, a result of negative experiences with banks, especially post covid-19 which has heightened public mistrust of banks. The country's only ongoing banking activity is the transmission of remittances from abroad, as other banking services and products are unable to draw in consumers."

According to the responses to the first question, every respondent agreed that current banking procedures in Nepal face difficulties, such as the widespread mistrust of these practices among the populace. An additional issue raised by the respondents is that most people are living below the poverty level. Most importantly, the riba system presents another challenge for the existing banking system. Student 2 also mentioned an additional challenge, which is the presence of an underqualified workforce in the sector.

Why do the vast majority avoid using the present banking system?

As for this question, I will not go into detail and quote extensively, as the answers were similar, and the respondents often repeated similar reasons. These included mistrust, high-interest rates, a high level of poverty, the riba-based system, and others. Respondent 3 mentioned that the slow implementation of an insurance system to safeguard the populace's money and encourage them to do business with banks could be a reason why the majority of people avoid working with the banking industry.

What impact do you think the interest-based banking system has on the economic growth of the nation?

The responses of the respondents to this question were quite interesting. Student 1 says,

"*Theoretically speaking, the current conventional economic structure leads to unfairness. since investors with capital undoubtedly gain profits without taking the borrower's business performance into account. If despite not making a profit or going out of business, the borrower nevertheless repays the money. Added interest in these circumstances, the borrower has filed for bankruptcy as though he had been struck by a bus. Climbing once more, not infrequently using interest to the creditor's detriment. business, in fact, makes his difficulties worse.*"

However, he claims that he is not unaware of the exact situation in Nepal.

Student 2 stated:

"*In my opinion, the interest-based banking system has a negative impact on the economic growth of the nation, as this system will discourage investment since people are less likely to do so when interest rates are high. Due to the higher earnings from the high-interest rates, people are more likely to save their money in banks.*"

Both of them pointed out that an interest-based system leads to a negative impact on economic development. Well, the responses from respondents 1 and 3 weren't different either; they said:

"*Honestly speaking, the mismatch between investors and borrowers is mostly a result of the conventional financial construction. Large industrial groups, which serve as the majority of borrowers, are only needed to repay capital loans plus interest in a very tiny portion of the earnings they generate. While middle income to lower-class individuals who save money in commercial banks do not receive a balanced return on their investments. And we can see examples in the Case of Nepal*" says respondent 1,

On the other hand, Respondent 3 asserts:

"*Academically, Interest is regarded as an extra manufacturing expense. The charge for items will rise as a result of high manufacturing expenses. and so due to the public's limited purchasing power, rising prices will in turn encourage inflation. Also, the debt financing that underpins contemporary banking operations in Nepal leads to numerous investors losing money as well as stolen property.*"

Hence, these responses demonstrate that, although they are aware of the interest-free Islamic banking system, they still agree that the conventional system is not good enough for economic development. Leveraging this response, I proceeded to ask them the next question below:

Do you believe that if Islamic banking is introduced in Nepal, it will be beneficial?

The question was followed by a brief introduction about Islamic banking and how it works. A comprehensive Islamic banking policy strategy was explained to them. According to theory, Islamic banking is based on three goals: the abolition of interest (Riba) and all other non-compliant Sharia transactions, the adoption of Islamic profit/loss sharing modes of finance, and the application of Islamic investment criteria to allocate financial activities specifically to promote economic development in society. These goals ensure adherence to Sharia and its precepts, ultimately resulting in macroeconomic monetary stability in the short term and promoting economic growth in the long term. Islamic banking can be broadly understood as a financial and investment services company that operates in accordance with Sharia and its precepts. Its goals include providing full employment opportunities, optimal rates of economic development, socio-economic justice, just distribution of capital and profits, currency exchange rate stability, mobilization of investment and savings for economic development, and offering efficient banking services.

Investment shareholders will allocate their funds to projects that yield the highest actual return. Therefore, the predicted profit rate would decline as demand for real estate investment or the need for a stock of funds for investments rises. The demand for money will be more steady because the real return level does not fluctuate in magnitude as interest rates do. As the Quran and hadith explicitly indicate that interest is forbidden, Islamic banking regards interest-based transactions as invalid. The impact of interest on the economy can result in various negative effects, including unequal income distribution, economic stagnation, wealth disparity, and even financial catastrophe.

This brief discussion piqued their interest in the subject. However, after gaining a basic understanding, they replied accordingly. Respondent 1 said:

"*This system sounds interesting. I have heard slightly about it as India is willing to adopt such a system. This system will draw more clients and depositors, and the problems that prevent the bulk of the population from dealing with regular banking will be resolved. The Islamic banking system's profit and loss sharing concept has the potential to draw in a sizable clientele as well we can hope for a stable economy. If the system you are talking about follows its rules, there are chances that it will create a lot of jobs, strengthens the social network, and works in accordance with* *strict Shariah principles like profit and loss sharing, then establishing an Islamic bank will undoubtedly grow the nation's economy, strengthen the social network, and help reduce the rate of poverty."*

Respondent 3 says, "*If that is the case, the government should facilitate and encourage the understanding of Islamic banking and raise public awareness of the services and operations provided by Islamic banks. It is a clean and transparent system that will indeed help in economic growth*."

Whereas, Student 1 and Student 2 gave more firm answers as they had proper knowledge about Islamic banking. Student 1 said:

"*I am convinced that the development of the Islamic banking industry will result into economic development due increase in customers and clients for the following reasons: first, the minority population of Muslims will prefer Islamic banking rather than conventional ones. Second, the promoted goods and activities adhere to Shariah and are appropriate for clients and customers of all income levels. besides, greater involvement in the banking system would raise the savings rate and access to liquidity, both of which are known development-related characteristics."*

Student 2 says:

"Absolutely*, there is a need for an alternative banking system, which is Islamic banking because the nation's current l banking system cannot serve the needs of the clients. As a result, Islamic banks in Nepal if implemented will undoubtedly cause a rise in the number of consumers they serve. Additionally, the Islamic bank can draw in more clients if it addresses the difficulties associated with the current banking system which directly or indirectly helps to establish the economy of the nation. The effectiveness of the Islamic banking system has been demonstrated all over the world, not only in Muslim nations but also in non-Muslim nations that have advanced economic development in society. Therefore, I firmly believe that an Islamic bank will aid in the development of Nepal if it is founded there and properly introduced to the populace."*

In response to the remarks regarding question three, all respondents concurred on a few points. They agreed that the establishment of Islamic banks would attract more clients, leading to increased deposits and avoiding issues like low saving rates or limited funds for investment. They all believed that the introduction of Islamic banking in Nepal would promote social welfare and economic growth. The most compelling evidence of how Islamic banks contribute to social and economic development can be seen in the historical success of Islamic banks in other countries. With their operations based on profit and loss sharing and the potential for increased investment, the establishment of an Islamic bank would result in the creation of more jobs, which would undoubtedly impact the economic growth of the nation.

Why should Nepal adopt Islamic banking?

The findings of the interview and deep discussions indicate that respondents were curious about Islamic banking principles, and they believe that it will help sustain the nation's economy. They are not wrong to say so; however, receiving such positive responses from those who have been working in banking for the past few decades in the nation was impressive. Not limited to this, analyzing the success of Islamic banking in many other non-Muslim countries demonstrates that both Muslim and non-Muslim clients express satisfaction and allegiance to Islamic banks. The objective of Islamic banking takes into account enhancing national stability and economic progress.

An enormous portion of the population refrains from engaging in economic activity because they do not want to deposit their money in banks that pay interest. Bangladesh's microfinance industry is a prime illustration of how money for the poor, regardless of faith, can assist them in escaping poverty (Chakrabarti, 2016). Microfinance must be viewed as going beyond microcredit because the poor require a variety of financial services, including credit, savings, insurance, money transfers, and annuities.

If Islamic banking is implemented in Nepal, it will offer many essential services to both Muslims and non-Muslims, farmers, and small-business owners who favor the ideology of interest-free banking and financing. In Islamic banking, banks typically encourage their clients to form business partnerships (bank and borrower) with thorough contracts because this is one of the crucial components that require careful attention and allows them to avoid becoming creditors or depositors with the banks. In other words, rather than being used to pay interest, the funds are used to fund a genuine project run by the bank, and clients and the bank will each receive a portion of the project's profits. This will help reduce poverty, decrease income inequality, increase saving habits and borrowing, improve employee performance, boost rural populations' confidence, decrease family violence, increase the capability to deal with social ills and everyday problems, and help in empowering both economically and socially.

Because banks share their net profits with their depositors, equity, assets, and commodities are also key components of Islamic banking. Not to mention the fact that every transaction should be asset-based, which implies that earning from that money is completely forbidden and regulated. Islamic banks are essential merchants, agents, or partners, as we've already mentioned, but they are not lending institutions. All of their earnings are taken into account as business motivation. In terms of employment, starting a business, avoiding unorganized lending with high-interest rates, and living in healthy conditions, enabling Islamic microcredit has proven beneficial in reducing poverty and enhancing the quality of life for the poor.

Islamic Banking and Muslim Minorities

Considering the above findings, Islamic banking can be a good way for economic development in the nation. Nevertheless, it can be a big rescue for the Muslim minority as well. The majority of non-Muslim nations do not have very favorable conditions for Muslims. They struggle to take on a strong leading position in their civilizations because they are financially and intellectually disadvantaged. While some of this may be attributable to discrimination against them, some of it may also be due to a lack of organization on their side to improve their situation. Therefore, to enable Muslims to better their religious, academic, and financial environment as well as to play a more effective leadership role in their nations, patient, peaceful, and ongoing efforts are required. In this case, the adoption of Islamic banks can play a vital role in raising the economic well-being of minority Muslims.

Even though they have professional and vocational qualifications, Muslims in non-Muslim nations frequently struggle to find rewarding employment. Deep-rooted historical, cultural, and economic prejudice still exists today and is likely to persist, making it challenging for Muslims to increase their proportion of the labor force. Thus, the only option available to Muslims for improving their financial situation is self-employment. Without financial assistance being made available to those who possess the required professional skills, entrepreneurial aptitude, and ethical business practices, considerable progress in this area cannot be made. The role of Islamic banks in the supply of such finance is significant.

Muslims undoubtedly contribute significantly to the stock of deposits in current interest-based banks. Lester Thurow claims that such banks lend mostly to people and businesses that have the required collateral to offer and "huge internal savings, regardless of whether they are producing above-average rates of return on their capital investment" (Thurow, 1980). Due to this, society fails to fully tap into its pool of entrepreneurial opportunities, which results in the hiring of founders who are mostly wealthy. Middle-class Muslim minorities are much less likely to obtain finance for self-employment, even if they possess the essential knowledge and entrepreneurial skills, if the eligible impoverished entrepreneurs of even the dominant majority fail to obtain financing from the current ongoing banks.

If Islamic banks are adopted, they will mobilize Muslim deposits, rather than just enriching the powerful and wealthy members of the majority society, and use them to tap into the reservoir of entrepreneurial talent among the Muslim poor. This will facilitate the significant contribution that these businesspeople may make to the economic advancement of Muslim civic.

Looking at the first step Islamic banking has, we come across SMEs. SMEs could be capable of increasing the profitability of Islamic banks by generating more significant earnings for them. In industrialized nations that support small business owners, SMEs have a history of outperforming them in terms of increases in real per capita profits. Even in emerging nations, where the business environment is highly challenging for SMEs, they routinely outperform their large-scale competitors in terms of production per unit of capital and efficiency (Representatives, 1986).

The question may arise: Will SMEs honor their payback timeline even if their revenue is higher? The International Fund for Agricultural Development (IFAD) has found that lending money to the most resourceful members of the underclass results in prompt repayment from their greater incomes. Additionally, the "micro-enterprise projects have registered high and excellent loan repayment rates" (Representatives, 1986). According to evidence from the Grameen Bank in Bangladesh, the repayment percentage has consistently been 99 percent since the bank's establishment (Yunus, 1984). Similar outcomes have been obtained from other SME loan programs. Therefore, there is no need to be overly concerned about loan losses resulting from such funding.

However, offering funding to encourage self-employment is not a decision that the Muslim community can make or not. It really is necessary. In a nation where Muslims are discriminated against in the profitable business job market, and traditional interest-based banks do not provide adequate financing to SMEs of even the majority community, let alone the Muslims, it will not be possible to improve the economic well-being of its members without this. So, believing that Islamic banking is only for Muslims is not wise. Islamic banking is for the welfare of all.

Conclusion

In conclusion, Nepal is a small developing nation with an unstable economy. The current banking system of the nation is entirely interest-based. Considering the difficulties with the nation's current banking policies and the continuous negative consequences on the banking industry, the nation's wasteful banking and financial system need to be addressed. As a result, the goal of this research is to examine the drawbacks of current banking practices and consider the possibilities of introducing a new Islamic banking system that might restore public confidence in the banking industry and serve as a catalyst for deposits and investments that will strengthen the economy, promote transmission, and spur evolution in the nation. The survey results revealed a number of issues with Nepal's current banking procedures that make the establishment of an Islamic bank there necessary. This is due to the listed difficulties by the interviewee destroying the financial system as a whole. The mistrust of traditional banking, an interest-based (Ribâ) system, lengthy procedures, and complex systems are only a few of the difficulties mentioned by interviewees. Following these findings, the broad consensus was that establishing Islamic banks in the nation would promote social prosperity and economic progress. Keep in mind that an Islamic bank has connections with everyone and not just Muslims. It has nothing to do with any specific sect or religion, but it can assist us in running and growing the network and uplifting the economy of the nation. The focus of it is on societal wealth creation and social well-being.

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