EKOSISTEM: Journal of Economics, Business, and Contemporary Tourism
Vol. 1, No. 3, July 2026, 336-349
https://journal.bacaanmedia.id/index.php/ekosistem
Creative Commons Attribution-ShareAlike 4.0 International License.
Publsihed by Bacaan Media

Interest-Free Financial Intermediation and Economic Systems: A Critical Review of Stability, Efficiency, and Distribution

Hilman Dwi Saputro
Universitas Islam Negeri (UIN) Sunan Gunung Djati, Bandung, Indonesia
Email: [1]hilmandwii08@gmail.com

Submitted	: 12-06-2025	Accepted	: 05-07-2026
Revision	: 27-06-2026	Published	: 19-07-2026

ABSTRAK:
Intermediasi keuangan bebas bunga sering dipandang sebagai alternatif terhadap pembiayaan konvensional berbasis utang, meskipun manfaat sistemiknya masih menjadi perdebatan dan bergantung pada struktur akad serta kondisi kelembagaan. Artikel ini mengkaji secara kritis implikasi intermediasi keuangan syariah terhadap stabilitas keuangan, efisiensi alokasi sumber daya, distribusi pendapatan, dan tata kelola ekonomi. Penelitian menggunakan pendekatan kualitatif melalui kajian literatur kritis dan analisis komparatif-konseptual terhadap karya teoretis, penelitian empiris perbankan, serta laporan kelembagaan. Analisis membedakan pembiayaan berbasis kemitraan dan bagi hasil dari transaksi jual beli serta sewa yang juga digunakan dalam keuangan syariah. Sintesis menunjukkan bahwa mekanisme berbagi risiko berpotensi menyelaraskan imbal hasil dengan kinerja usaha dan mengurangi kekakuan kewajiban pembayaran ketika terjadi tekanan ekonomi. Namun, risiko likuiditas, asimetri informasi, dan dominasi pembiayaan dengan kewajiban pembayaran tetap dapat membatasi manfaat tersebut. Bukti mengenai ketahanan dan efisiensi perbankan masih beragam, sedangkan perbaikan distribusi pendapatan tidak dapat dikaitkan semata-mata dengan penghapusan bunga. Kapasitas regulasi, komposisi akad, kualitas tata kelola, dan akses layanan keuangan menjadi kondisi penting dalam menentukan hasilnya. Penelitian ini menawarkan kerangka analisis kondisional untuk mengevaluasi intermediasi bebas bunga tanpa mengasumsikan keunggulannya secara otomatis atas sistem konvensional.
***Kata Kunci**: Intermediasi Bebas Bunga; Keuangan Syariah; Stabilitas Keuangan; Efisiensi Alokasi; Distribusi Pendapatan*

ABSTRACT
Interest-free financial intermediation is often presented as an alternative to conventional debt-based finance, yet its systemic benefits remain contested and depend on contractual design and institutional conditions. This article critically examines how Islamic financial intermediation may shape financial stability, resource allocation, income distribution, and economic governance. A qualitative critical literature review and comparative conceptual analysis were conducted using theoretical contributions, empirical banking studies, and institutional reports. Rather than treating Islamic finance as a uniform profit-and-loss-sharing system, the analysis distinguishes equity-based partnerships from sale- and lease-based financing arrangements. The synthesis identifies the potential of risk-sharing contracts to align financial returns with business performance and reduce rigid repayment obligations during economic downturns. However, liquidity risk, information asymmetry, and the prevalence of fixed-obligation financing may constrain these benefits. Empirical findings concerning banking resilience and efficiency remain mixed, while improvements in income distribution cannot be attributed to the prohibition of interest alone. Regulatory capacity, contractual composition, governance quality, and access to financial services emerge as important conditions. This study develops a conditional analytical framework for evaluating interest-free intermediation without assuming its automatic superiority over conventional finance.
Keyword: Interest-Free Intermediation; Islamic Finance; Financial Stability; Allocative Efficiency; Income Distribution

INTRODUCTION

Financial intermediation plays a central role in modern economies by mobilizing savings, facilitating payments, managing liquidity, and allocating financing to households and businesses. Its economic contribution extends beyond transferring funds between savers and borrowers, since financial institutions also assess information, transform maturities, and manage risks associated with economic transactions. Diamond and Dybvig (1983) demonstrate how liquidity transformation can improve economic welfare while simultaneously exposing banking institutions to withdrawal pressures. From a different perspective, Stiglitz and Weiss (1981) show that information asymmetry may prevent credit markets from allocating resources efficiently, even when interest rates adjust to prevailing market conditions. These contributions suggest that the effectiveness of financial intermediation depends not only on the price of financing but also on contractual arrangements, information quality, and institutional design.

Debates surrounding financial instability have renewed interest in alternative forms of intermediation. Periods of financial expansion often coincide with rising leverage, greater risk-taking, and increasing dependence on future cash flows. Minsky (1986) provides an influential explanation of how financial structures can become fragile as economic conditions improve and market participants progressively accept greater financial commitments. Borio (2014) further highlights the importance of financial cycles in understanding macroeconomic fluctuations. Nevertheless, these arguments do not establish that interest payments alone cause financial crises. Instability may also arise from maturity mismatches, inadequate supervision, asset-price movements, and excessive exposure to financial risks. The relevant question is therefore whether alternative contractual structures can improve the allocation and management of such risks.

Interest-free financial intermediation, commonly associated with Islamic finance, offers a distinctive framework for addressing this question. Its governing principles prohibit *riba*, restrict excessive contractual uncertainty and speculative activities, and require financing transactions to comply with recognized Shariah principles. However, interest-free finance should not be equated exclusively with equity financing or profit-and-loss sharing. Islamic financial institutions employ multiple contractual structures, including *mudharabah* and *musyarakah* for partnership-based financing, *murabahah* for cost-plus sales, and *ijarah* for leasing arrangements. These contracts differ in ownership, repayment obligations, and the allocation of commercial risks (El-Gamal, 2006; Iqbal & Mirakhor, 2011). Consequently, eliminating contractual interest does not necessarily eliminate debt-like obligations or financial vulnerability.

The growing importance of Islamic financial institutions makes these distinctions relevant to contemporary economic policy. According to the Islamic Financial Services Board (2023), the global Islamic financial services industry reached approximately USD 3.25 trillion in 2022. Its development reflects increasing demand for Shariah-compliant financial services and the expansion of supporting financial institutions and capital markets. Nevertheless, industry growth alone does not demonstrate that Islamic finance consistently produces superior economic outcomes. The performance of financial institutions must be evaluated against their actual financing structures, risk exposures, operational efficiency, and contributions to economic activity.

Existing research provides valuable but sometimes contrasting perspectives. Hasan and Dridi (2010) examine the performance of Islamic and conventional banks during the global financial

crisis, illustrating the importance of institutional and contractual differences in financial resilience. Rosman et al. (2014) investigate the efficiency of Islamic banks during financial crises and identify scale-related operational limitations. Gheeraert (2014) examines the contribution of Islamic banking to banking-sector development, while Zins and Weill (2017) demonstrate that regulatory arrangements influence differences in banking risk. These studies address related aspects of financial intermediation but do not establish a single, universally applicable conclusion regarding its systemic superiority.

A further distinction concerns economic efficiency and distributive justice. Partnership-based financing may encourage financial institutions to assess the economic prospects of funded projects rather than relying exclusively on collateral and fixed repayment commitments. However, sharing business outcomes also creates monitoring requirements and potential agency problems. Likewise, the distributive objectives associated with Islamic economics do not automatically follow from the prohibition of interest. Access to financing, ownership structures, institutional incentives, and redistributive instruments are likely to influence whether financial development benefits economically disadvantaged groups. Chapra (1992) emphasizes the ethical and socioeconomic objectives of Islamic economics, whereas Piketty (2014) highlights the broader institutional processes through which wealth concentration develops.

Despite these contributions, the relationship between interest-free intermediation and economic outcomes requires a more integrated analytical treatment. Discussions frequently emphasize the theoretical advantages of risk sharing without sufficiently distinguishing them from the characteristics of financial contracts currently used in Islamic banking. Financial stability, allocation efficiency, and income distribution are also often discussed separately, although the mechanisms connecting them are closely related. This creates a need to examine not only the potential benefits of interest-free financing but also the institutional conditions under which those benefits may or may not emerge.

Accordingly, this article critically examines the implications of interest-free financial intermediation across five interrelated dimensions: contractual and institutional structure, financial stability, resource allocation efficiency, income distribution, and regulatory governance. Its contribution lies in developing a conditional framework that connects financial contracts with risk allocation, institutional incentives, and economic outcomes. Rather than presuming that one financial system is inherently superior, the analysis distinguishes theoretical possibilities from empirical evidence and identifies the conditions necessary for interest-free financial intermediation to contribute meaningfully to economic development.

RESEARCH METHODS

This study adopts a qualitative critical literature review supported by comparative conceptual analysis. The approach is appropriate for examining theoretical mechanisms, evaluating differences across empirical findings, and identifying institutional conditions associated with interest-free financial intermediation. Unlike a systematic review designed to provide exhaustive and reproducible evidence identification, the present analysis prioritizes critical interpretation and

integration of relevant theoretical, empirical, and policy literature. It does not claim comprehensive database coverage or a quantitatively verified screening process.

The review draws on three categories of secondary sources. The first comprises foundational theoretical literature concerning financial intermediation, credit rationing, financial instability, and income distribution. The second includes empirical studies of Islamic and conventional banking, particularly those addressing financial stability, efficiency, financial-sector development, and regulatory effects. The third consists of institutional publications concerning Islamic financial services, financial regulation, and industry development. Sources are considered for their relevance to the research questions, conceptual contribution, and capacity to inform a comparative assessment. Foundational studies are retained irrespective of publication year because their theoretical relevance is not determined solely by recency.

The analytical process is organized around five dimensions derived from the research objectives: (1) contractual structure and risk allocation; (2) financial stability and macroeconomic transmission; (3) allocative and operational efficiency; (4) income distribution and financial inclusion; and (5) institutional and regulatory governance. Within each dimension, the literature is examined to distinguish theoretical propositions, observed empirical relationships, and unresolved limitations. Particular attention is given to whether the conclusions of individual studies correspond to their actual research focus and level of analysis.

A comparative synthesis is subsequently developed by examining how different financing contracts allocate business, credit, liquidity, and operational risks. The analysis also considers whether the economic outcomes attributed to interest-free finance depend on the composition of financial products, institutional maturity, financial regulation, or broader economic conditions. This procedure supports a conceptual assessment of potential mechanisms without treating associations reported in individual studies as evidence of universal causal effects.

The resulting framework is interpretative rather than predictive. No original econometric estimation, meta-analysis, or formal effect-size aggregation is performed. Consequently, the findings are presented as a critical synthesis of existing arguments and evidence, with explicit recognition of the limitations of cross-study comparisons.

RESULTS AND DISCUSSION

Contractual Structure and the Allocation of Financial Risk

The first finding concerns the distinction between the prohibition of interest and the actual distribution of financial risks. Interest-free financing is commonly described as a transition from creditor–debtor relationships toward partnerships in which financial returns depend on economic performance. This description is particularly applicable to *mudharabah* and *musyarakah*, but it does not represent the entire structure of Islamic financial intermediation.

Under *mudharabah*, one party provides capital while another manages the financed business. Profits are distributed according to an agreed ratio, while ordinary financial losses are generally borne by the capital provider unless the manager is responsible for negligence, misconduct, or breach of contractual obligations. Under *musyarakah*, the contracting parties contribute capital and participate in an investment arrangement, with losses allocated according to their respective capital

contributions. These mechanisms connect financial returns more directly to business performance than conventional fixed-interest lending (Greuning & Iqbal, 2008; Iqbal & Mirakhor, 2011).

The implications differ for sale-based and lease-based contracts. In *murabahah*, the financier acquires an asset and subsequently sells it to the customer at an agreed price that includes a disclosed profit margin. Although the transaction does not use contractual interest, deferred payment arrangements generally establish obligations that are fixed once the sale agreement has been concluded. Similarly, *ijarah* creates rental obligations associated with the use of an asset. These structures may involve genuine asset ownership and specific commercial risks, but they do not necessarily transfer business losses in the same manner as equity partnerships.

This distinction is central to evaluating the systemic implications of Islamic finance. Financial institutions that rely primarily on fixed-obligation instruments may retain significant credit and liquidity exposures even when their contracts are Shariah-compliant. As El-Gamal (2006) argues, the legal structure of financial transactions must be distinguished from their economic substance. The prohibition of interest therefore changes the permitted forms of financial contracting, but its broader effects depend on how those contracts operate in practice.

Risk-sharing partnerships may strengthen incentives to assess the productive viability of projects because financiers participate in their financial outcomes. However, this arrangement can also intensify information asymmetry. Business managers typically possess more detailed knowledge about their activities than capital providers, creating opportunities for inaccurate reporting, limited transparency, or differences in risk preferences. Effective partnership financing consequently requires reliable accounting, monitoring, governance, and contractual enforcement.

The literature therefore supports a more precise conclusion: interest-free intermediation provides contractual alternatives that may redistribute financial risks, but it does not eliminate risk or guarantee a transition toward equity-based financing. The systemic consequences depend on the relative importance of partnership, sale-based, and leasing contracts within financial institutions.

Financial Stability and Macroeconomic Resilience

The potential contribution of interest-free intermediation to financial stability is closely associated with its capacity to modify repayment commitments and distribute economic losses. In conventional lending, contractual repayment obligations generally remain in force even when the financed business experiences declining revenue. A sudden deterioration in cash flows can therefore increase financial distress, particularly among highly leveraged borrowers.

Partnership-based financing introduces a different adjustment mechanism. When business profits decline, returns distributed under genuine profit-sharing arrangements may also decrease. Under specified contractual conditions, the allocation of investment losses can reduce the concentration of business risk on the entrepreneur. Such arrangements may offer greater flexibility during economic downturns and potentially limit the accumulation of unsustainable repayment

obligations.

Nevertheless, this mechanism should not be interpreted as evidence that interest-free financial institutions are inherently countercyclical. Their financial resilience also depends on deposit structures, liquidity requirements, asset quality, financing concentration, and the ability to absorb unexpected losses. Moreover, banks cannot assume that investment risks can be transferred without consequences for depositors, financial confidence, or funding stability. The relationship between contractual risk sharing and macroeconomic stability is therefore conditional rather than automatic.

The empirical literature illustrates this complexity. Hasan and Dridi (2010) identify differences in the performance of Islamic and conventional banks during the global financial crisis, while also noting vulnerabilities associated with institutional practices and risk management. Rosman et al. (2014) provide further evidence that Islamic banks maintained operations during crisis conditions but experienced significant limitations related to scale efficiency. These findings indicate that resilience in certain periods does not imply the absence of operational or financial vulnerabilities.

Banking regulation introduces another important dimension. Zins and Weill (2017) examine the effect of Basel II implementation on differences in risk between Islamic and conventional banks. Their analysis demonstrates that prudential regulation can alter the relative risk position of financial institutions. This finding is relevant because the performance of Islamic banking cannot be evaluated independently of the regulatory environment in which it operates.

Financial stability also requires attention to liquidity transformation. Diamond and Dybvig (1983) explain why financial intermediaries providing liquid liabilities against less liquid assets may be vulnerable to withdrawal pressures. This problem is not automatically eliminated through Shariah-compliant financing. Islamic banks may face similar challenges when funding structures and financing maturities are mismatched. The availability of suitable liquidity instruments, effective supervision, and credible financial safety arrangements therefore remains essential.

From a macroeconomic perspective, the absence of contractual interest also does not imply that monetary conditions become irrelevant. Central banks must continue managing liquidity, inflation expectations, and financial stability. In economies with dual banking systems, Islamic financial institutions operate alongside conventional financial markets and remain exposed to broader economic conditions. Appropriate monetary and prudential instruments are therefore necessary to support effective intermediation.

The synthesis suggests that the stability benefits of interest-free finance are most plausible when risk-sharing principles are supported by sound governance, diversified financing portfolios, appropriate liquidity arrangements, and effective regulation. Without these conditions, changing the contractual form of financing may have limited effects on systemic vulnerability.

Resource Allocation and Operational Efficiency

Financial intermediation contributes to economic development when funds are directed

toward economically productive activities at reasonable transaction and monitoring costs. Evaluating efficiency requires a distinction between allocative efficiency, which concerns whether resources reach productive uses, and operational efficiency, which concerns the cost of delivering financial services.

Conventional credit markets rely on interest rates, collateral requirements, and borrower assessments to allocate financing. However, these mechanisms do not necessarily generate efficient outcomes under imperfect information. Stiglitz and Weiss (1981) demonstrate that increasing interest rates can alter the composition of borrowers and potentially worsen adverse-selection problems. As a result, financial institutions may ration credit rather than supply financing solely through adjustments in lending rates.

Partnership-based Islamic financing offers a potentially different screening mechanism. Because returns are connected to business outcomes, financiers may have stronger incentives to evaluate expected profitability, managerial competence, and project viability. This arrangement could improve access to financing for some enterprises with promising economic prospects but limited collateral. However, such outcomes cannot be assumed without considering the costs of monitoring investments and enforcing contractual obligations.

In practice, profit-sharing arrangements may require more intensive monitoring than standardized lending contracts. Verifying business revenues, operating expenses, managerial effort, and profit distributions can impose substantial administrative burdens. These requirements may be particularly challenging for small enterprises without reliable financial records. Information asymmetry therefore remains a significant constraint even when the financing contract avoids interest.

Empirical evidence on the efficiency of Islamic banks does not support a uniform advantage. Rosman et al. (2014) identify scale inefficiency as an important limitation among Islamic banks during the financial crisis. Their findings indicate that profitability and capitalization are relevant to institutional efficiency, while performance varies across banking environments. Such evidence suggests that operational outcomes depend on management quality, institutional scale, and market conditions, rather than solely on contractual principles.

The broader development of Islamic banking also deserves consideration. Gheeraert (2014) finds evidence that Islamic banking development can complement conventional banking and contribute to banking-sector development in relevant markets. This contribution is distinct from a claim that Islamic finance always achieves higher technical efficiency. Expanding the financial sector may improve financial access and resource mobilization, while efficiency outcomes remain dependent on institutional arrangements and competitive conditions.

An important implication is that allocative efficiency and operational efficiency may involve different trade-offs. Greater reliance on partnership financing can improve the alignment of financial

returns with productive outcomes, but it may also increase monitoring and administrative costs. Conversely, standardized sale-based financing may reduce contractual complexity while retaining repayment risks similar to those associated with conventional credit.

Accordingly, the potential efficiency gains of interest-free intermediation should be evaluated in relation to information quality, contract suitability, financial infrastructure, and institutional maturity. The appropriate question is not whether equity-based financing is universally more efficient, but under what conditions its allocation benefits outweigh the additional costs of managing business risk.

Income Distribution, Financial Inclusion, and Social Finance

The relationship between interest-free financial intermediation and income distribution represents an important dimension of Islamic economic thought. The prohibition of *riba*, the emphasis on fairness in commercial transactions, and the encouragement of productive economic activity are commonly associated with broader objectives of economic justice. Nevertheless, these principles must be distinguished from empirical evidence that particular financial instruments reduce inequality.

Income distribution depends on multiple factors, including asset ownership, labor income, access to education, public institutions, taxation, and the distribution of investment opportunities. Piketty (2014) analyzes long-term patterns of capital accumulation and wealth concentration, but his work should not be interpreted as direct empirical proof that the prohibition of interest reduces inequality. Similarly, Chapra (1992) provides a normative economic framework emphasizing justice and socioeconomic welfare, rather than a statistical estimate of the distributional effects of interest-free banking.

Partnership-based financing may affect distribution through its allocation of financial returns and risks. When entrepreneurs can obtain capital through arrangements that share business outcomes, they may face fewer rigid repayment obligations than under conventional fixed-debt financing. Such arrangements could support the participation of capable entrepreneurs who lack substantial assets or collateral. However, their distributive effects depend on who receives financing, how profits are divided, and whether contracts are accessible to economically disadvantaged groups.

Financial inclusion provides another potential channel. Islamic financial institutions may expand formal financial participation among individuals or enterprises seeking Shariah-compliant services. Gheeraert (2014) offers evidence relevant to banking-sector development, but this should not be equated with direct proof of lower household income inequality. A larger financial sector can coexist with persistent inequality when financial access remains concentrated among relatively established businesses or wealthier households.

Social finance instruments introduce a separate but related mechanism. Zakat is designed to transfer resources to eligible beneficiaries under specific religious and institutional requirements,

while waqf can support social and economic activities through endowed assets. These arrangements may complement commercial financial intermediation by addressing needs that market-based financing does not adequately serve.

Nevertheless, zakat and waqf should not be treated as direct consequences of replacing interest-bearing contracts. They constitute distinct institutional mechanisms with their own governance structures, beneficiaries, and implementation challenges. Their potential contribution to distribution depends on collection, administration, targeting, transparency, and the productive use of resources.

The analysis therefore indicates that distributive benefits require more than contractual compliance. Interest-free financial institutions may support broader participation in economic activity, but achieving measurable improvements in income distribution depends on access conditions, financing practices, institutional governance, and effective coordination with social finance instruments. Stronger empirical research is needed to establish the extent to which these mechanisms influence inequality.

Institutional Governance and Policy Challenges

The effectiveness of interest-free financial intermediation depends on the institutional environment in which financial contracts are developed and implemented. Even well-designed financing arrangements may perform poorly when legal enforcement is weak, financial reporting is inadequate, or regulatory standards are inconsistently applied.

A central challenge concerns Shariah governance and contractual standardization. Islamic financial institutions operate under frameworks that may differ across jurisdictions in their interpretation and approval of financial products. Such differences can increase compliance costs, limit product interoperability, and complicate cross-border transactions. Standard-setting institutions, including the Islamic Financial Services Board, play an important role in promoting prudential consistency while recognizing differences in national financial systems.

Liquidity management represents a second challenge. Financial institutions require mechanisms for managing temporary funding shortages and maintaining confidence during periods of stress. Interest-free banks cannot simply replicate conventional interest-bearing instruments, but they still require effective liquidity facilities. Shariah-compliant money market instruments, eligible collateral arrangements, and appropriate central bank facilities are therefore essential components of a resilient financial architecture.

A third challenge relates to the relationship between contractual principles and actual banking practices. The economic implications of Islamic finance cannot be inferred from institutional labels alone. An Islamic bank whose financing portfolio is dominated by fixed-payment sale contracts may exhibit a different risk profile from one with substantial partnership-based financing. Consequently, evaluating Islamic financial development requires information about the

composition, maturity, risk exposure, and performance of financial contracts.

Operational capacity also influences outcomes. Partnership financing requires expertise in project evaluation, financial reporting, sectoral analysis, and monitoring. The development of these capabilities may involve substantial costs, particularly in institutions operating at a limited scale. Digital financial systems and improved information infrastructure may help reduce some transaction costs, but technological adoption does not remove the need for effective governance and accountability. Regulatory arrangements must also reflect the existence of hybrid financial systems. In many economies, Islamic and conventional financial institutions operate within the same monetary, legal, and commercial environment. Policies that strengthen Shariah-compliant intermediation should therefore consider competition, financial integration, depositor protection, and systemic risk rather than assuming that the two sectors operate independently.

These considerations support a gradual and institutionally grounded approach to financial reform. The development of interest-free intermediation is more likely to produce sustainable economic benefits when contractual innovation is accompanied by stronger supervision, reliable financial information, appropriate liquidity mechanisms, and financial services that respond to real economic needs.

An Integrated Framework for Evaluating Economic Implications

The preceding analysis suggests that the economic consequences of interest-free intermediation emerge through an interaction between contractual design and institutional conditions. The prohibition of interest establishes boundaries for permitted financial transactions, but the transmission of these principles into economic outcomes depends on the instruments used and the risks they allocate.

Table 1. Integrated Synthesis of Interest-Free Financial Intermediation

Dimension	Potential Economic Mechanism	Main Constraint	Implication
Contractual structure	Linking returns to business performance through partnership financing	Dominance of fixed-obligation contracts and information asymmetry	Evaluate actual contract composition rather than institutional labels
Financial stability	Sharing business outcomes and reducing rigid repayment burdens	Liquidity risk, funding mismatches, and inadequate supervision	Combine risk-sharing arrangements with effective prudential regulation
Resource allocation	Project-based assessment and potential financing of productive enterprises	Monitoring costs, adverse selection, and limited financial information	Strengthen project evaluation and financial reporting
Income distribution	Broader access to financing and complementary social finance	Unequal access, concentrated ownership, and weak redistribution mechanisms	Assess distributional outcomes using household and enterprise-level evidence

Institutional governance	Standardization, liquidity infrastructure, and financial integration	Regulatory fragmentation and operational limitations	Develop coherent Shariah governance and financial safety frameworks

Source: Authors' conceptual synthesis of the reviewed literature

This framework identifies three interconnected stages through which interest-free intermediation may influence the economy. The first concerns contractual design, which determines the initial distribution of financial obligations and risks. The second concerns institutional implementation, including monitoring, liquidity management, Shariah governance, and regulation. The third concerns observable economic outcomes, such as financial resilience, allocation efficiency, and the distribution of financial opportunities.

The relationships between these stages are not necessarily linear. A contract that improves risk sharing may simultaneously increase monitoring costs. A financial institution that expands financing access may also accumulate concentrated credit exposures. Similarly, an increase in Shariah-compliant financial assets does not necessarily imply improved income distribution. These trade-offs require evaluations that consider both institutional performance and broader economic outcomes.

The principal contribution of the framework is therefore its emphasis on conditional effectiveness. Interest-free intermediation should not be assessed solely through the prohibition of interest or the theoretical merits of particular contracts. Its economic relevance depends on whether financial arrangements are implemented in ways that improve risk allocation, support productive activity, maintain institutional resilience, and broaden access to economic opportunities.

CONCLUSION

Interest-free financial intermediation offers an alternative contractual framework for mobilizing funds and allocating financial risks, but its economic implications cannot be determined solely by the prohibition of interest. The literature indicates that partnership-based financing may strengthen the relationship between financial returns and business performance, potentially supporting more flexible risk allocation during economic downturns. Nevertheless, Islamic financial institutions also employ sale- and lease-based contracts that generate fixed payment obligations. Consequently, the economic characteristics of interest-free intermediation depend on the composition and implementation of financial contracts rather than their formal classification alone.

The synthesis further shows that the potential benefits for financial stability, resource allocation, and income distribution are conditional on institutional quality. Risk-sharing arrangements may improve financing incentives but introduce information and monitoring challenges. Financial resilience depends on liquidity management and prudential supervision, while distributive outcomes require broader financial access and effective complementary social finance

institutions. Existing empirical findings remain context-dependent and do not establish the automatic superiority of interest-free finance over conventional financial intermediation.

The main contribution of this article is a comparative framework linking contractual design, institutional governance, and economic outcomes. For policymakers, the findings emphasize the importance of strengthening Shariah governance, developing appropriate liquidity instruments, improving financial information, and assessing the actual performance of financing contracts. As a critical literature review, the study does not provide causal estimates or an exhaustive systematic synthesis. Future research should employ transparent systematic review protocols and comparative empirical designs to examine how financing composition, regulation, and institutional maturity shape the economic effects of interest-free intermediation.

DAFTAR PUSTAKA

Bank Indonesia. (2023). *Kajian Ekonomi dan Keuangan Syariah 2022*. https://www.bi.go.id/id/publikasi/laporan/default.aspx?kategori=laporan+ekonomi+dan+keuangan+syariah

Beck, T., Demirgüç-Kunt, A., & Merrouche, O. (2013). Islamic vs. Conventional Banking: Business Model, Efficiency and Stability. *Journal of Banking & Finance, 37*(2), 433–447. https://doi.org/10.1016/j.jbankfin.2012.09.016

Borio, C. (2014). Financial Cycles and Macroeconomics: What Have We Learned? *Journal of Banking & Finance, 45*, 182–198. https://doi.org/10.1016/j.jbankfin.2013.09.011

Chapra, M. U. (1992). *Islam and the Economic Challenge*. Islamic Foundation and International Institute of Islamic Thought.

Čihák, M., & Hesse, H. (2010). Islamic Banks and Financial Stability: An Empirical Analysis. *Journal of Financial Services Research, 38*(2–3), 95–113. https://doi.org/10.1007/s10693-010-0089-0

El-Gamal, M. A. (2006). *Islamic Finance: Law, Economics, and Practice*. Cambridge University Press. https://doi.org/10.1017/CBO9780511753756

Gheeraert, L. (2014). Does Islamic Finance Spur the Development of the Banking Sector? *Journal of Economic Behavior & Organization, 103*(Supplement), S4–S20. https://doi.org/10.1016/j.jebo.2014.02.013

Hasan, M., & Dridi, J. (2010). *The Effects of the Global Crisis on Islamic and Conventional Banks: A Comparative Study* (IMF Working Paper No. WP/10/201). International Monetary Fund. https://www.imf.org/external/pubs/ft/wp/2010/wp10201.pdf

Hidayat, S. E., & Abduh, M. (2012). Does Financial Crisis Give Impacts on Bahrain Islamic Banking Performance? A Panel Regression Analysis. *International Journal of Economics and Finance, 4*(7), 79–87. https://doi.org/10.5539/ijef.v4n7p79

Iqbal, Z., & Mirakhor, A. (2011). *An Introduction to Islamic Finance: Theory and Practice* (2nd ed.). Wiley.

https://doi.org/10.1002/9781118390825

Islamic Financial Services Board. (2023). *Islamic Financial Services Industry Stability Report 2023*. https://www.ifsb.org/download.php?id=6921&lang=English&pg=/index.php

Kahf, M., & Khan, T. (1993). *Principles of Islamic Financing: A Survey*. Islamic Research and Training Institute, Islamic Development Bank.

Khan, T. (2019). Reforming Islamic Finance for Achieving Sustainable Development Goals. *Journal of King Abdulaziz University: Islamic Economics, 32*(1), 3–21. https://doi.org/10.4197/Islec.32-1.1

Mirakhor, A., & Zaidi, I. (2007). Profit and Loss Sharing Contracts in Islamic Finance. In *Handbook of Islamic Banking* (pp. 49–63). Edward Elgar Publishing. https://doi.org/10.4337/9781847205414.00010

Mobarek, A., & Kalonov, A. (2014). Comparative Performance Analysis between Conventional and Islamic Banks: Empirical Evidence from OIC Countries. *Applied Economics, 46*(3), 253–270. https://doi.org/10.1080/00036846.2013.839863

Nienhaus, V. (2021). Islamic Financial Ethics and Sharia Law after a Crisis. *Thunderbird International Business Review, 63*(1), 73–84.

Otoritas Jasa Keuangan. (2023). *Laporan Perkembangan Keuangan Syariah Indonesia 2022*. https://www.ojk.go.id/id/berita-dan-kegiatan/info-terkini/Pages/OJK-Luncurkan-Buku-Laporan-Perkembangan-Keuangan-Syariah-Indonesia-%28LPKSI%29-2022.aspx

Piketty, T. (2014). *Capital in the Twenty-First Century*. Harvard University Press. https://doi.org/10.4159/9780674369542

Reinhart, C. M., & Rogoff, K. S. (2009). *This Time Is Different: Eight Centuries of Financial Folly*. Princeton University Press. https://doi.org/10.2307/j.ctvcm4gqx

Roodman, D., & Morduch, J. (2014). The Impact of Microcredit on the Poor in Bangladesh: Revisiting the Evidence. *The Journal of Development Studies, 50*(4), 583–604. https://doi.org/10.1080/00220388.2013.858122

Rosman, R., Wahab, N. A., & Zainol, Z. (2014). Islamic Bank Efficiency during Financial Crises: An Analysis of Middle Eastern and Asian Countries. *Pacific-Basin Finance Journal, 28*, 76–90. https://doi.org/10.1016/j.pacfin.2013.11.001

Smaoui, H., & Salah, I. B. (2020). *Islamic Bank Profitability and Stock Market Development*.

Stiglitz, J. E., & Weiss, A. (1981). Credit Rationing in Markets with Imperfect Information. *American Economic Review, 71*(3), 393–410. https://www.jstor.org/stable/1802787

Tabash, M. I. (2022). *Islamic Banking and Economic Growth: New Evidence from the Panel's Estimates*.

Turk Ariss, R. (2010). On the Implications of Market Power in Banking: Evidence from Developing

Countries. *Journal of Banking & Finance, 34*(4), 765–775. https://doi.org/10.1016/j.jbankfin.2009.09.004

van Greuning, H., & Iqbal, Z. (2008). *Risk Analysis for Islamic Banks*. World Bank. https://doi.org/10.1596/978-0-8213-7141-1

Werner, R. A. (2016). A Lost Century in Economics: Three Theories of Banking and the Conclusive Evidence. *International Review of Financial Analysis, 46*, 361–379. https://doi.org/10.1016/j.irfa.2015.08.014

Zins, A., & Weill, L. (2017). Islamic Banking and Risk: The Impact of Basel II. *Economic Modelling, 64*, 626–637. https://doi.org/10.1016/j.econmod.2017.05.001

Askari, H., Iqbal, Z., Krichene, N., & Mirakhor, A. (2010). *The Stability of Islamic Finance: Creating a Resilient Financial Environment for a Secure Future*. Wiley. https://doi.org/10.1002/9781118390450