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An Islamic finance model for the small and medium-sized enterprises in France (Article)

Oseni, U.A.[a], Hassan, M.K.[b], Matri, D.[c]

[a] International Islamic University Malaysia, Kuala Lumpur, Malaysia

[b] Department of Economics and Finance, University of New Orleans, New Orleans, LA 70148, United States

[c] Sorbonne Law School, Université Paris Panthéon-1 Sorbonne, Paris, France

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Abstract

The dominant effect of the global financial shockwaves ravaging the whole of Europe is becoming proverbial in the history of world economic crises. This has been largely due to untoward economic policies that have negatively impacted most economies in Europe. The recent European sovereign debt crisis experienced more in Greece, Italy, Spain and Portugal, and the most recent downgrade of **France**'s credit rating by Standard and Poor's call for a rethinking of the existing economic policies. The need to foster innovation in **Small** and **Medium-sized Enterprises** (SMEs) and sustainably support the existing ones has remained a major challenge in **France**. With over 2.5 million SMEs in **France**, the recent report of the Institut Nationale de la Statistiqueet des Etudes Economiques [INSEE] reveals that one in every two new business fails in the long run. This paper examines the need to find credible alternatives for French SMEs to the collateral-based debt financing. Built on ethical business **models**, the **Islamic** SMEs and microfinance **models** are expected to foster innovation and sustainability to **smaller** economic players. Although, loans remain SMEs' main source of financing, banks require more collateral from entrepreneurs, and now provide lower financing compared to the period before the financial crisis. In this context of financial difficulties for SMEs, considering alternative **models** of financing such as **Islamic** financial products based on the profit and loss sharing has increased the interest of many European countries. While focusing on the econo-legal issues underlying any of such proposals, the paper considers the feasibility of **Islamic** venture capital as a credible alternative to bank's loans for SMEs within the existing French legal and regulatory framework.

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