INVESTMENT IN ISLAMIC BANKS AND ITS IMPACT ON AGGREGATE INVESTMENT IN JORDAN

Ali Abdel Fattah Hamdan Zyadat, Al Balqa Applied University
Salah Turki Ateiwi Alrawashdeh, Al Balqa Applied University

ABSTRACT

The present study aimed to investigate the situation of Islamic banks regarding its impact on aggregate investment in Jordan. The researchers adopted a descriptive analytical approach. The sample consists of 100 employee's works in the Islamic banks in Jordan. The study's questionnaire was developed based on three variables which are: Investment in Islamic banks, formulas of Islamic finance and turnout savings in Islamic banks. The study found that the effect of investment in Islamic banks on aggregate investment in Jordan is moderate. The study reported moderate effect of Investment in Islamic banks, formulas of Islamic finance and turnout savings in Islamic banks on aggregate investment in Jordan. The study recommends to encouraging Islamic banks to increase investment in multiple industrial and commercial sectors to increase returns and profits.

Keywords: Islamic Banks, Investment.

INTRODUCTION

Banks are considered one of the most important financing institutions at the national economy level, among them Islamic banks, which constitute an important part of banks in Islamic and Arab countries, including Jordan, as there is a high demand by individuals and companies for Islamic financing formulas, which means its contribution to the wheel of economic growth.

The instigation of Islamic finance in the late nineteenth century opened a new paradigm in the financial world (Saleem et al., 2021). The Islamic banking industry has witnessed a remarkable development in recent times. This led to an increase in financial transactions within Islamic financing formulas, whether for investment in projects and borrowing from individuals, or in terms of saving in Islamic banks.

Its noted that Islamic banks meet with others in providing medium-term investment services in particular. Therefore, Islamic banks can encourage members of society to save, but rather work to increase savings in order to be recycled in various investment channels (Gabriel, 2002).

According to the Islamic perspective, the legitimate formula for profit is through the sharing of capital with human effort and other economic resources, which results in goods and services, so that profit is based on risk.

The methods of Islamic financing are subject to Sharia controls. The Islamic financing local projects and development has witnessed rapid growth in the past three decades and extends at the present time to more than 75 countries, and of these projects there are 292 banks, whether fully Islamic or institutions that have branches for Islamic transactions (Hassan, 2020). The Islamic financing methods are based on feasibility studies from the economic point of view, and

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

on the basis of halal in terms of Sharia. These methods do not transfer between financing institutions and taking adequate guarantees that secure their funds (Al-Assarj, 2012).

The first attempt to implement the provisions of Islamic law in banking institutions began about forty years ago, when savings banks were established in Egypt in 1963 and similar attempts followed that in Pakistan, until Dubai Islamic Bank was established in 1975 CE as the first Islamic bank to provide the usual banking services that It is carried out by commercial banks, but without taking or giving interest, in addition to practicing investment activity, then the establishment of Islamic banks followed, so the Faisal Islamic Bank of Egypt, Kuwait Finance House and the Faisal Islamic Bank of Sudan were established in 1977. Then the Jordan Islamic Bank for Finance and Investment in 1988 was established, and the Luxembourg International Bank for Investment and Development in Egypt in 1980. The number of Islamic banks until 1980 reached 25, and their number doubled to 52 in 1985 (Union of Arab Banks, 2021).

Obada and Melhem (2019) indicate that Islamic banks, along with other financing institutions, provide this type of financing through various financing contracts, and banks have succeeded in the aspect of receiving funds through a speculative contract, and subsequently employ various forms.

The establishment of specialized lending institutions such as Islamic banks in most countries of the world came as a response to avoiding some categories of dealing with traditional commercial banks, in an attempt to contribute to the economic development process, while focusing their credit activity in the field of short-term loans, to obtain a quick profit (Al Mahrouq & Mkabalh, 2006).

Islamic financial products growing range during the recent period and the increase in demand, whether banking or current tools services in the Islamic financial market due to its financing efficiency of investment projects and their ability to respond to crises, as well as social development then, which is the basis of economic development, both in advanced economies or developing both Islamic finance and operate according to the principles and foundations of Islamic law for the regulation of economic activity (Sharrett & Zaghlami, 2016).

Shawarby (2002) argue that there is a large number of methods that can be banks and Islamic financing institutions used in financing operations, which are the two main types: financing methods based on participation in the return on investment, and financing methods based on indebtedness. In the existing financing methods to participate in the return on investment, there is speculation that t count of common practical methods of financing in Islamic banks.

The Islamic banking promotes savings behavior and combats hoarding, and banks mobilize savings that are supposed to be re-invested in various investment activities. On the rise, the volume of voluntary reserves withheld from Islamic banks operating in Jordan is on the increase (Obada & Melhem, 2019).

Gabriel (2002) reported that the role of the Islamic bank in investing is evident in three cases: managing the bank as a direct investor, or a participant in feasible projects, or as an intermediary between money owners and investors, that is, depositors and speculators. The functions of Islamic banks are complete in a comprehensive development approach that takes into account the objectives of Islamic law in setting priorities of the necessities, needs and luxuries, in order to preserve the wealth of society and its solidarity to reach the optimum level.

Accordingly Islamic banks rely in their work on the provisions of Islamic Sharia and the foundations of the Islamic economy, which forbids dealing with interest accordingly. Investment opportunities are limited to actual production, which directs resources to real investment, and

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

here the Islamic economy demonstrates that capital does not deserve a return if it does not participate in the productive process. In contrast to what traditional banks deal with, which give him interest return.

Islamic banks play an important role in economic development through invest the existence of millions of financial savings in addition to financing projects and individuals by providing credit facilities to them and thus enhancing economic development (Ismail Muhammad, 2011).

Statement of the Problem

Islamic banks are considered one of the main financial institutions in Arab and Islamic countries in mobilizing savings. At the same time, there is a desire by citizens in Islamic countries, to a large extent, to deposit their money and borrow within the Islamic financial transactions provided by Islamic banks. This has increased the investment of Islamic banks in multiple sectors. Therefore; the problem of this study is: What is the reality of investment in Islamic banks and its impact on aggregate investment in Jordan?

The Study's Objectives and Questions

This study aimed to investigate the situation of Islamic banks regarding its impact on aggregate investment in Jordan. The study also aimed to review the literature related to the study topic in order to diagnose the relationship of investment in Islamic banks with aggregate investment. The study questions are the following:

Q.1: What is the effect of investment in Islamic banks on aggregate investment in Jordan?
Q.2: What is the effect of formulas of Islamic finance in Islamic banks on aggregate investment in Jordan?
Q.3: What is the effect of turnout savings in Islamic banks on aggregate investment in Jordan?

The Study's Significance

The importance of the study derives from the fact that saving in countries is an important means of increasing investment. As the increase in people's desire to deposit money with banks, including Islamic banks, leads to an increase in the supply of cash and liquidity available to banks to re-lend them to customers. Here is an additional importance to present the viewpoint of Islamic banks on investment (Al-Shawarby, 2002).

Definition of Terms

The study's terms are defined below:

Islamic Banks: The financial institutions that carry out Islamic financing formulas.

Investment: The way in which Islamic banks employ funds through their exploitation and investment in various economic sectors.

Aggregate Investment: The total amount of investment in the aggregate economy in the country, which includes all types of domestic and foreign investment.

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

The Study's Limitations

The present study was conducted in Islamic banks and results are determined by the viewpoint of the study participants who are working in Islamic banks.

LITERATURE REVIEW

Saleem et al. (2021) examine the dynamic interaction of Islamic financial depth (IFD), Islamic financial intermediation (IFI), and asset quality with economic growth in a dual banking system. The paper employs autoregressive distributive lag regression (ARDL), error correction model (ECM) and Granger causality to examine the long and short run linkage by using the quarterly data of Pakistan from 2005 to 2019. The study reported a strong financial intermediation plays an imperative role in driving economic growth by both financial sectors. The results show that asset quality possibly plays an important intervening role in the overall finance-growth nexus (Al-Mahrouq & Muqabila, 2006).

Obada and Melhem (2019) researched the economic importance of Islamic banking finance in Jordan, by measuring its impact on savings and investment, unemployment, inflation and GDP, during the period 2001-2016, and regression analysis was relied upon to measure this effect, and among the most important findings of its findings The study showed that there was no statistically significant impact of financing in the Arab Islamic Bank on both inflation, GDP and unemployment, while there is a statistically significant effect of Jordan Islamic Bank financing for the general trade, construction and housing sectors on inflation, and there is no statistically significant effect of financing in The Jordanian Islamic Bank is concerned with unemployment and the gross domestic product.

Zaman and Chowdhury (2019) investigate how non performing investment effect performance of Islamic banks in Bangladesh for five year period from 2012 to 2016. The study used statistical tests to find out the effect non performing investment have on the overall performance of Islamic banks. The study reported a negative association of non performing investment with bank performance, bank size and capital adequacy ratio. The regression analysis did not found any significant effect of non performing investment with bank performance.

Duhaila et al. (2018) discussed the role of Islamic banks in investing endowment funds for the benefit of Islamic banks and the authority on which they were arrested from various land authorities. Islamic law; Investment deposits, or Islamic sukuk; And through spreading awareness and endowment culture among community members about the level of spread of Islamic banks.

Sharrett and Zaghlami (2016) shows the importance of the Islamic Banking Financing, its evolution, its role in financing different economic sectors, and its contribution to the development in Malaysia. Furthermore, it indicates the financing mechanisms and the investment tools constituting the Islamic Banking Financing. Finally, it concludes that the effect of the Islamic Banking Financing on the Malaysian GDP is positive and statistically significant, and that the Islamic Banking Financing is important in interpreting the Gross Domestic Product in the Malaysian economy.

Al-Fawwaz et al. (2015) tested the effect of Islamic finance in the Jordanian Islamic bank on some macroeconomic variables during the period from 2001 to 2011, and the regression method was used to test hypotheses, and the study concluded that there is a positive statistically significant relationship of Islamic banking finance on the output The study found that there is a negative statistically significant relationship between Islamic finance and the rate of inflation,

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

which means that Islamic finance enhances the production of goods and services in the economic field, which leads to a decrease in the general price level.

Tabash and Dhankar (2014) examines the relationship between the development of Islamic finance system and economic growth in the Kingdom of Saudi Arabia. Based on the availability of data, time series data from 1990 to 2010 is used to examine the relationship between Islamic banks' financing and GDP, FDI, and GFCF. The results from causality tests reported that causality relation exist from the Islamic banks' financing in Kingdom of Saudi Arabia to investment and Foreign Direct Investment.

Desirable (2011) identify the work of Islamic Bank in Palestine in terms of the nature of their activities and kinds of finance as well as to recognize the base of investment In Palestine. The study used the descriptive an analytical method by analyzing the budgets of Islamic Bank "Palestine Islamic Bank, Islamic Arab Bank and AL-Aqsa Islamic Bank" during the study period from (1996 to 2008). The study found that although the development of most investment Indicators of Islamic Bank never the less they represent a small percentage in comparison with their similes in Palestine Banking system. The study reported that all Islamic Bank depends on short terms investment In general and financing in particular, but, alas they did not successes to gain profits during most of years of 1996 to 2008 (Mushtaa, 2011).

Al-Berishi (2011) discusses Islamic banks, and the most important roles they play in the field of development, in both its social and economic aspects, and tries to develop a brief evaluation of the banking performance of these banks through the goals they have set, as well as highlight some of the obstacles that hinder their growth and progress, and prevent improving their administrative work And Al-Midani, the study concluded, that the message of the Islamic bank is to find an alternative to usurious banks, as they have an important role in social and economic development, with their financing capabilities and what they attract from the mass base of customers.

Miqdad and Helles (2005) research on the role of Islamic banks in financing economic development processes in Palestine. The two researchers were not satisfied with the data published on Islamic banks, but rather sought to rely also on primary data, as data were collected from Islamic banks and their branches directly through a questionnaire designed for this purpose and distributed to managers of Islamic banks operating in the Gaza Strip only, and thus the study did not include all of Palestine. The results showed that there is a role for Islamic banks in financing development in theory. However, the field results of the impact of Islamic banks in Palestine confirmed the inability of Islamic banks in Palestine to play this role. Although the results indicate the success of Islamic banks in accumulating savings in Palestine, they confirmed the utter failure to provide facilities, especially in Palestine, which includes the weakness of their role in achieving economic development.

Ahmed (2003) clarifies the actual and influential role of Islamic banks in generating wealth and reducing poverty through their financing for small projects. The study also aimed to demonstrate the social role of the decades-long nature in Islamic banks, through which Islamic banks can be the best in financing institutions and apply The study on the Bangladesh Islamic Bank Limited and the Islamic Development Bank, the study found that there are a number of interest-based banks that began to follow the form of Islamic finance in their financing for small projects. The study also concluded that the Islamic bank can finance small enterprises at a lower cost than the interest banks, and thus institutions can smaller companies achieve higher profits by financing them from Islamic banks.

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

Gabriel (2002) researched the effect of Islamic banking finance on some macroeconomic variables and development in the Republic of Yemen. The study showed that the study showed that Islamic banking finance could emerge from the increase in the contribution of these banks to financing projects and work to support the owners of projects by providing economic feasibility studies that ensure the success of these projects. The study confirms that Islamic banks are playing a prominent role in the economy and development, especially what these banks contribute to in the economic sectors such as agriculture, industry, trade, services and others.

The review of the theoretical literature showed that Islamic banks contribute significantly to economic development by managing savings in investments managed by Islamic banks or through money that you loan to clients. These studies confirmed the existence of a relationship between financing Islamic banks and domestic investment as a whole.

METHODOLOGY

The researchers adopted a descriptive analytical approach in order to achieve study objectives. The population of the study consists from all employees of Islamic banks in Jordan.

Sample: The sample consists of 100 employee's works in the Islamic banks in Jordan (Jordan Islamic Ban and Safwa Islamic Bank). Where a copy of the questionnaire was sent to them via e-mail, which is the main study tool, and it includes a number of questions related to study variables.

The Study's Instrument

The study's questionnaire was developed based on three variables which are:

1. Investment in Islamic banks.
2. Formulas of Islamic finance.
3. Turnout savings in Islamic banks.

The statements set to measure the investment in Islamic banks and its impact on aggregate investment in Jordan. The rating categories in the latter questionnaire are: never, sometimes, neutral, often and always. The score of these categories are: 1, 2, 3, 4 and 5 respectively.

Validity of the Scale

The researcher passing the questionnaire to several experts in order to evaluate and all remarks was taken into consideration.

Reliability of the Scale

The reliability of the questionnaire was measured through calculating the Cronbach alpha coefficient value. The value of Cronbach alpha was 0.88 which is accepted.

The Study's Variables

The study's variables are listed below:

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

The independent variables: Investment in Islamic banks, formulas of Islamic finance, and turnout savings in Islamic banks.

The dependent variable: Aggregate investment.

Methods & Statistical Analysis

The SPSS program was used for analyzing the collected data. Several methods were used to analyze data statistically such as frequencies, percentages, mean and standard deviation.

The following criteria were used to classify means:

1–2.33: low
2.34–3.67: moderate
3.68–5: High

RESULTS AND DISCUSSION

First Question

Q.1: What is the effect of investment in Islamic banks on aggregate investment in Jordan?

Table 1 shows the means and standard deviations of sample answer about the effect of investment in Islamic banks on aggregate investment in Jordan.

Table 1
MEANS AND STANDARD DEVIATIONS OF INVESTMENT IN ISLAMIC BANKS

No	Statements	M	S.D	Rank	Degree
1	Islamic banks have guaranteed profits in investments	3.44	0.987	1	Moderate
2	Islamic banks invest the money in a prudent manner	3.41	0.817	2	Moderate
3	The ruling Islamic banks follow the leader in investment	3.39	0.870	3	Moderate
4	For cases of investment are limited in Islamic banks	3.25	0.951	4	Moderate
5	There is a high demand from investors to deal with Islamic banks	3.23	0.880	5	Moderate
6	Islamic banks invest in most economic sectors	3.22	0.871	6	Moderate
Total		3.31	0.865		Moderate

Based on Table 1, the effect of investment in Islamic banks on aggregate investment in Jordan is moderate. That is because the overall mean is 3.31 with moderate degree from study sample viewpoint. The overall standard deviation is 0.865.

These results indicate that there is an important relationship between investment in Islamic banks and aggregate investment. Investing in Islamic banks is a fundamental pillar of the economy and development, which is reflected in the overall investment, as the method of managing investments and the method of financing in Islamic banks differs from traditional banks, which contributes to the success of most Investments, especially with the prudent study, have found their true and expected returns before investment.

Second Question

Q.2: What is the effect of formulas of Islamic finance in Islamic banks on aggregate investment in Jordan?

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

Table 2 shows the means and standard deviations of sample answer about the effect of formulas of Islamic finance in Islamic banks on aggregate investment in Jordan.

Based on Table 2, the effect of formulas of Islamic finance in Islamic banks on aggregate investment in Jordan is moderate. That is because the overall mean is 3.27 with moderate degree from study sample viewpoint. The overall standard deviation is 0.905. These results indicate the importance of multiple Islamic financing formats that it provides to clients as Islamic finance is not limited to murabahah, which is the most popular form, but rather Islamic banks offer a wide variety of financing modes such as leasing, financing ending in ownership, mudarabah, and others. This provides wide options for investors.

Table 2
MEANS AND STANDARD DEVIATIONS OF FORMULAS OF ISLAMIC FINANCE

No	Statements	M	S.D	Rank	Degree
1	Islamic financing formulas encourage investment	3.33	0.876	1	Moderate
2	Islamic financing formulas reduce risk opportunities for investment	3.32	0.844	2	Moderate
3	There is demand for Islamic finance at the macro level	3.30	0.808	3	Moderate
4	The Islamic finance formulas are varied and numerous	3.28	0.911	4	Moderate
5	The diversity of Islamic financing formats helps diversify investment	3.22	0.899	5	Moderate
6	The importance of Islamic finance, as there is no compound interest	3.19	0.971	6	Moderate
Total		3.27	0.905		Moderate

Third Question

Q.3: What is the effect of turnout savings in Islamic banks on aggregate investment in Jordan?

Table 3 shows the means and standard deviations of sample answer about the effect of turnout savings in Islamic banks on aggregate investment in Jordan.

Table 3
MEANS AND STANDARD DEVIATIONS OF TURNOUT SAVINGS IN ISLAMIC BANKS

No	Statements	M	S.D	Rank	Degree
1	There is a demand for deposits in Islamic banks	3.40	0.977	1	Moderate
2	The fixed profit rate stimulates deposits in Islamic banks	3.39	0.907	2	Moderate
3	The method of managing investments and profits stimulates saving in Islamic banks	3.37	0.970	3	Moderate
4	Saving in Islamic banks is safe from the vagaries of the economy	3.34	0.981	4	Moderate
5	Saving in Islamic banks helps increase overall investment in the economy	3.33	0.992	5	Moderate
6	The increase in Islamic banks was due to the increase in demand for Islamic finance	3.31	0.906	6	Moderate
Total		3.36	1.012		Moderate

Based on Table 3, the effect of turnout savings in Islamic banks on aggregate investment in Jordan is moderate. That is because the overall mean is 3.36 with moderate degree from study sample viewpoint. The overall standard deviation is 1.012.

The results show that there is a good trend by the citizens to save and deposit money in Islamic banks. Increasing the value of savings and assets of Islamic banks helps to increase the funds allocated for investment in various economic sectors.

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.

RECOMMENDATIONS

The researchers recommend the following:

1. Encouraging Islamic banks to increase investment in multiple industrial and commercial sectors to increase returns and profits.
2. Conducting more studies to measure the impact of Islamic banks on aggregate investment in the economy.

REFERENCES

Ahmed, H. (2003). The role of Islamic financial institutions in financing microenterprises: Theory and practice. *In Forum on Islamic Economics and Finance held in Amman Jordan during September*, 27-29.

Al-Assarj, H. (2012). The role of islamic finance in the development of small and medium enterprises, Seminar: Islamic Banks and their Role in Economic and Social Development. Beni Mellal University, Morocco.

Ismail Muhammad, A. (2011). Islamic banks and their role in social and economic development, mu'tah research and studies series. *Human and Social Sciences Series, 2*(7).

Al-Fawwaz, Torki M., Alawneh، Ateyah M., & Shawaqfeh George, N. (2015). The impact of islamic finance on some macro economic variables. *A case study of Jordan Islamic Bank, Interdisciplinary Journal of Contemporary Research in Business, 7*(1).

Al-Mahrouq, M.H., & Muqabila, I. (2006). Small and medium enterprises their importance and constraints. Small and Medium Enterprises Center, Amman, Jordan.

Al-Shawarby, A. (2002). Credit risk management from the banking and legal viewpoints. Al Maarif Establishment, Alexandria.

Duhaila, N., Melhem, M., & Obada, I. (2018) The contribution of Islamic banks to investing endowment funds. *The Jordanian Journal of Islamic Studies, 14*(4).

Gabriel, A.A. (2002). The role of Islamic banks in financing small industries, applying to the Faisal Islamic Bank of Sudan. Conference on the Role of Islamic Banking Institutions in Investment and Development, University of Sharjah, United Arab Emirates.

Hassan, H. (2020). Formulas of Islamic finance for small enterprises. Arab Democratic Center, posted on 7/4/2020, https://democraticac.de/?p=67613

Miqdad, M., & Helles, S. (2005). The role of islamic banks in financing economic development in palestine. *Journal of the Islamic University (Humanities Series), 13*(1), 239-261.

Mushtaa, B.E. (2011). The role of islamic banks in advancing local investments. Master's thesis, Islamic University, Gaza.

Obada, I., & Melhem, M. (2019). The economic importance of islamic banking finance in Jordan: Case Study of Jordan Islamic Bank and International Islamic Arab Bank. *Journal of Studies, Sharia and Law Sciences, 46*(3).

Saleem, A., Judit Sági, and Budi Setiawan (2021) Islamic Financial Depth, Financial Intermediation, and Sustainable Economic Growth: ARDL Approach. Economies 9: 49.

Sharrett, K., Zaghlami, M. (2016) The islamic banking financing and its effect on the Malaysian GDP Gross Domestic Product During 2000-2016 -An Analytical and Econometric Study. *The Economic Researcher Journal, 6*(1), 112-133.

Tabash, M., & Dhankar, R. (2014). Islamic finance and economic growth in the kingdom of Saudi Arabia (Ksa) An Empirical Evidence. *Journal Of General Management Research, 1*(1), 37-50.

Union of Arab Banks, (2021). https://uabonline.org/ar

Zaman, S., & Chowdhury, M. (2019). Effect of non-performing investment on Islamic Banks Performance: An empirical study on Islamic Banks in Bangladesh. *International Journal of Islamic Business and Economics (IJIBEC), 3*(1), 1-8.

Citation Information: Hamdan Zyadat, A.A.F., & Alrawashdeh, S.T.A. (2021). Investment in islamic banks and its impact on aggregate investment in Jordan. *Academy of Entrepreneurship Journal, 27*(5), 1-9.