



BOOK REVIEW

ISLAMIC ECONOMIC INSTITUTIONS AND THE ELIMINATION OF POVERTY

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This book is a compilation of six papers which constitute a theme on an Islamic Approach towards Poverty Alleviation, presented at the Islamic Finance Conference, held at Loughborough University in August 2000. Each paper is exclusively assigned to its own chapter and some selected chapters are accompanied by comments of distinguished scholars in the respective fields. This review evaluates each chapter of the book and as a conclusion some general comments are made.

The introductory chapter serves as prelude to the dynamic problem of poverty from the conventional perspective and the author agrees that the United Nation's multidimensional definition is consistent with the Islamic perspective. The development experience of the last 50 years suggests that economic growth should not be the sole focus of any country's development strategy but it should include socio-political values, institutions and public policies which are also essential to guarantee that the poverty rate is persistently reduced. According to the author, these factors are interrelated through four elements: growth, endowments, opportunity and distribution. In this chapter, he defines and elaborates these concepts from the Islamic perspective.

The author accepts the fact that the current global poverty alleviation strategies are well recognized in Islam since those policies – promoting opportunities, empowerment and enhancing security are not against the religion but Islam has something else to offer in terms of the elements above. The Islamic teachings provide guidelines for the peaceful existence of the rich and the poor. At the same time, there should be a balance between the roles of the public and private sectors, through the 'institutional approach' to achieve its distributive objectives. The salient features of the Islamic approach are also discussed. The balanced

role of the market and other institutions which include *zakāh*, *awqāf*, *taḳfīl*, elimination of interest, and *irfāq* form the most important ingredients for the poverty reduction strategy.

Essentially, the subsequent chapters are concerned with these issues and institutions. Towards the end of this chapter, the author discussed some statistics to comprehend the severity of the poverty problem in the Muslim World. Despite some progress in alleviating poverty, a significant percentage of the global people are those in East Asia, South Asia and Sub-Saharan Africa regions where Muslims are a part of the communities.

The challenges and Islamic strategies in the process of poverty elimination is the topic of Chapter 2. The author treats the Islamic system as an axiomatic system of ethics as developed by Naqvi, (1994) which consists of four basic axioms: unity, equilibrium, free-will and responsibility. This system serves as an ethical 'filter' to assess some current poverty strategies. In order to do that, he spends a significant part of the article to review the multidimensional concept of poverty as defined by the United Nations and the World Bank which was already mentioned in the introductory chapter. Thus, any poverty reduction policy package should be a part of the overall development strategies which should focus on socio-economic factors. Consequently, poverty strategies should be based on policies related to growth, distribution, development of socio-political institutions, and arrangements dealing with the poor. There is an interesting proposition presented here; the majority of the Muslim countries are in the final phase of the demographic transition in which the labor supply is expected to double in the coming decades. This phase of demographic transition has a potential for sustained growth that could lead to a sustained reduction of poverty rate if the right policy environment prevails, which is critical to the Muslim countries. The essence of an Islamic strategy is concerned with economic growth, productive investment, equitable and quality investment in education and health, and moral guidance including transparent governance. The approach was discussed at length by the author.

At the same time, the Islamic system embodies one essential institution, the *zakaṭ* institution which institutionalizes the principle of care on the individual and community level. He argues that the policies to reduce poverty should be consistent and guided by the Islamic ethical

axioms in order to be effective, and the failure of current policies is mainly due to this reason.

However, he missed out one of the objectives of the article which was to assess current poverty policies by the ‘filter’ and it is quite surprising that the discussion ends rather abruptly with the conclusion that Islamic ethics support a poverty–alleviation strategy that is based on the principle of promoting economic growth with productive equity without concrete supporting arguments.

The effect of *zakāh* and Islamization on the economy examined by the use of an economic model is the core of chapter 3. This model uses data from Pakistan, which is justified due to the ongoing Islamization process in the country. The model used in this analysis is the computable general equilibrium (CGE) model. The equations for various sectors of the economy are derived and the model is run using the data for 1989-90 as the “base” year. To evaluate the effect of *zakāh* and Islamization, the authors make projections of the model under different scenarios for 10 years from the base year. Comparisons are made for the basic (status quo) model, *zakāh* only, equity only, and full scale Islamic system (*zakāh* and equity combined together). The basic model is the interest-based system. For comparison, the households are categorized into four groups, low, lower-middle, middle, and high income groups. This is followed by a number of tables reporting the findings of the results of the various simulations. A major finding is that full Islamization improves the performance of the economy relative to the three scenarios. It increases the income level, the expenditure level and utilities of all income groups. For the economy as a whole, the full Islamization model shows higher values in all macroeconomic variables relative to the other three scenarios.

In developing the basic model, the derivation of the equations are shown in the paper, but the technical details on how *zakāh* and equity are incorporated into the model are not given. The *zakāh* rate and the *zakāh* base are given but these are not sufficient for the reader to evaluate the full model since the main objective of the chapter is the elimination of poverty from an Islamic perspective. Another point is that, even though Islamization does increase the welfare of the households, the results show that there is a widening gap between the income of the rich and the poor, which the authors fail to explain. This is quite contradictory to the position in the literature of Islamic economics which says otherwise.

Another issue is on the role and effect of micro-financing programs in poverty reduction which is discussed in chapter four. It is basically a survey of the micro-credit program in Bangladesh which was successfully initiated by the Grameen Bank, and currently, there is an active role played by the Non-Governmental Organizations (NGOs), secular and Islamic, in promoting the program as well. The chapter provides quite a comprehensive review of the literature on the evaluation of the program, effects on the target groups, sizes and methods of disbursement of loans, sustainability and effectiveness of those programs in increasing income, and their socio-economic status, the problems encountered, and other related issues by referring to a number of empirical studies that have been conducted in Bangladesh.

The authors noted that Islamic NGOs are relatively new players in the field but their services provide alternative financing methods with Islamic mechanisms, i.e., non-interest loans. The authors also give a comparative analysis of the differences and similarities between the Islamic NGOs programs and their secular counterparts, and found that there is no difference in the interest rates charged by the two types of organizations.

As a conclusion, the success of the effort to eliminate poverty in Bangladesh by the micro-credit program has been at best, very marginal. The program has been extended to other areas as well, like education, health services, and sanitation. A few solutions from the Islamic perspective are suggested, and the focus is on the complementary roles of the state and society.

Chapter 5 presents an argument that poverty will be alleviated by successful *ribā* elimination through its redistribution effect. One of the mechanisms in the Islamic distributional strategies is the *irfāq* sector, which consists of *waqf* and other modes of voluntary giving. The author developed his argument as follows: *Ribā* is an economic evil which leads to severe income inequality and must be eliminated. By referring to a Qur'ānic verse (2:276), he concludes that there is a direct link between *ribā* elimination and the promotion of the *irfāq* sector. Hence, by elimination of *ribā*, resources from the *ribā* sector will be transferred to the financing of the *irfāq* sector.

Going back to the main issue, given the Islamic distributional strategy, *ribā* elimination makes sense as a means to release resources to finance the *irfāq* sector. The author presents a very simple argument that by eliminating *ribā*, the resources will be transferred to the *irfāq*

sector. There might have been a misunderstanding on their meaning by considering a direct and simple relationship between the two separate variables. There are other factors that affect the poverty rate in a country, which the author fails to mention and relate. His understanding of the verse is that there is a direct trade-off between *riba* and development of the *irfaq* sector, which may be incorrect. The verse was only comparing the two activities; one is *haram* and harmful and the other is desirable. That does not imply that the elimination of one will increase the activities of the other. The author mentions an example of the size of the charity sector in the US economy; its value has grown by more than 1,100 percent over the last two decades. Here, one should not forget that we are talking about a *riba*-based economy. Therefore, the two sectors can co-exist, and this negates his argument.

The author also criticized the current practice in Islamic schemes whereby Islamic banks charged an excessively high 'profit rate' on loans which is higher than the interest rate. Therefore, according to him, we still lack the true strategy of a successful *riba* elimination strategy with a redistribution effect in favor of the poor segment of the population.

The author should have given more discussions on the alternative Islamic methods to effectively eliminate *riba* and how to replace the current practice by the existing Islamic financial institutions that he disagrees with.

Chapter 6 discusses the concept and practice of *takaful* from the judiciary perspective. *Takaful* is meant to provide mutual help and assistance and under the Islamic point of view, permits insurance against certain risks and prohibit certain types of life insurance. The discussion is focused on conceptual differences between *takaful* and conventional insurance in terms of risks and insurable interest. Since this is purely a jurisprudential analysis, no linkage has been made to the problem of poverty alleviation.

For some selected chapters, there are good and comprehensive comments given, which I think highlight the weaknesses of arguments, misconceptions, and offer alternative explanations to certain issues discussed in the respective chapters especially chapters 3, 4, and 5. Perhaps, it may be a good idea to invite these authors to review the relevant chapters and make the necessary corrections or reply to those comments. As a final comment, the book contains some good ideas and concepts that can be developed as policies within the scope of

poverty elimination apart from the fact there are some valuable data and information on the status of poverty reduction progress in the Muslim world.

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