

# Intellectual Discourse

Volume 26

Special Issue

2018

Special Issue

## **Rethinking Islamic Economics and Finance: Paving the Way Forward for Inclusive and Sustainable Development**



International Islamic University Malaysia  
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# *Intellectual Discourse*

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Volume 26

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## Guest Editors' Note

# Rethinking Islamic Economics and Finance: Taking Stock and Moving Forward

**Mohamed Aslam Haneef\* and Sayyid Tahir\*\***

The Islamic economics and finance project was launched in 1976 with global gathering of Muslim economists, Islamic jurists and prominent Islamic scholars in Makkah under the auspices of the King Abdul Aziz University Jeddah. The event is commonly regarded as “The 1<sup>st</sup> International Conference on Islamic Economics.” Subsequently, with significant advances in the field of Islamic finance in the late 1980s, the series of such conferences is known as “International Conference on Islamic Economics and Finance” (ICIEF). Notwithstanding countless international and national conferences, seminars, training programs and workshops all over the world, the ICIEF remains the premier forum for the advancement of Islamic economics and finance. These conferences, organized by the Islamic Research and Training Institute (IRTI) part of the Islamic Development Bank Group, the International Association of Islamic Economics (IAIE) and prominent Islamic and other universities, also had valuable support from the Islamic Development Bank, Jeddah, and the governments of Bahrain, Indonesia, Kingdom of Saudi Arabia, Malaysia, Pakistan, Qatar and Turkey. Important data on these conferences are provided in Tables 1 and 2 in order to give the

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readers an idea about how Islamic economics and finance progressed and where the things stand now. For further information on the history of the ICIEF, readers may refer to [www.iium.edu.my/centre/cie](http://www.iium.edu.my/centre/cie)

*Table 1: International Conferences on Islamic Economics and Finance and Their Themes\**

ICIE/ICIEF	Themes
1 <sup>st</sup> ICIE, King Abdul Aziz University, Jeddah, 1976	General – Rationale for Islamic Economics and Islamic economics positions on microeconomics, macroeconomics, development and riba
2 <sup>nd</sup> ICIE, International Islamic University, Islamabad, 1983	Development, Finance and Distribution in Islamic Perspectives
3 <sup>rd</sup> ICIEF, International Islamic University Malaysia, Kuala Lumpur, 1992	Financing Development from Islamic Perspective
4 <sup>th</sup> ICIEF, Loughborough University, UK, 2000	Islamic Finance: Challenges and Opportunities in the 21 <sup>st</sup> Century
5 <sup>th</sup> ICIEF, University of Bahrain and the Central Bank of Bahrain, 2003	Sustainable Development and Islamic Finance in Muslim Countries
6 <sup>th</sup> ICIEF, Indonesian Ministry of Finance and the Bank of Indonesia, Jakarta, 2005	Islamic Economics and Banking in the 21 <sup>st</sup> Century
7 <sup>th</sup> ICIEF, King Abdul Aziz University, Jeddah, 2008	Thirty Years of Research in Islamic Economics: Solutions & Applications of Contemporary Economic Issues
8 <sup>th</sup> ICIEF, Hammad bin Khalifa University, Doha, 2011	Sustainable Growth and Inclusive Economic Development from an Islamic Perspective: Linking Research With Policy
9 <sup>th</sup> ICIEF, Statistical, Economic and Social Research and Training Centre for Muslim Countries (SESRTC), Istanbul, 2013	Growth, Equity and Stability: An Islamic Perspective

10 <sup>th</sup> ICIEF, Hammad bin Khalifa University, Doha, 2015	Institutional Aspects of Economic, Monetary And Financial Reforms
11 <sup>th</sup> ICIEF, International Islamic University Malaysia, Kuala Lumpur, 2016	Rethinking Islamic Economics and Finance: Paving The Way Forward For Inclusive and Sustainable Development

*\*The change from IE (Islamic Economics) to IEF (Islamic Economics and Finance) took place from the fourth conference.*

*Table 2: The Numbers of Contributions in the Various Areas<sup>1</sup>*

Classification	Areas	The Nos. in 1 <sup>st</sup> – 6 <sup>th</sup> ICIEF	The Nos. in 7 <sup>th</sup> – 11 <sup>th</sup> ICIEF
000	Philosophy and History of Islamic Economics Thought	6	81
100	Critique of Contemporary Economic Thought and Institutions	0	8
200	Economic Theory from an Islamic Perspective	15	17
300	Analysis of Classical Economic Institutions of Islamic Economic System	12	36
400	Contemporary Financial Instruments and Institutions	46	223
500	Monetary and Fiscal Issues	13	26
600	Trade, Aid, Sustainable Development and Globalization	22	91
700	Basic Needs, Poverty Alleviation and Income Distribution	21	42
800	Fiqh and Shari'ah Issues	6	40
900	Miscellaneous	4	22
	Total	145	576

<sup>1</sup> *The breakdown of the number of contributions for 1st – 6th ICIEF is taken from Munawar Iqbal (2008), and that for 7th – 11th ICIEF is compiled by the editors*

The 11<sup>th</sup> International Conference on Islamic Economics and Finance (11<sup>th</sup> ICIEF) was successfully held in Kuala Lumpur from 11<sup>th</sup> to 13<sup>th</sup> October 2016 under the auspices of the International Islamic University Malaysia (IIUM), co organized with the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank Group,

the International Association for Islamic Economics (IAIE) as well as the Ministry of Finance, Malaysia as strategic partner.

Coming at the 40<sup>th</sup> anniversary of the historical 1st Conference held in 1976, the theme for the 11<sup>th</sup> ICIEF, *Rethinking Islamic Economics and Finance: Paving the Way Forward for Inclusive and Sustainable Development*, was set in order to address the need for reevaluating the discipline and guiding the next generation of scholars in the field of Islamic economics, banking and finance.

The Conference received 370 manuscripts from 36 countries, out of which 110 papers were selected for presentation after passing through an internal vetting stage, a rigorous double-blind review as well as the Turnitin process in order to ensure that papers were based on original research and of high quality. The 110 papers selected for presentation at the Conference fall under the following eight themes:

1. The Shari'ah and Economics and Finance: Fiqh Issues, Shari'ah Governance, and The Shari'ah in Practice (13 papers)
2. History, Philosophy, Institutional Aspects and Critique of Economics, Islamic Economics and Finance: History, Philosophy and Institutional Aspects, The Way Forward (10 papers)
3. Theory, Practice and Policies of Islamic Economics and Muslim Countries: Theory of Islamic Economics, The Practice and Policies of Islamic Economics and Muslim Countries (10 papers)
4. Basic Needs, Poverty, Socially Responsible Investments and Socioeconomic Justice and Development (8 papers)
5. Zakah, Waqf and Islamic Microfinance and Their Socioeconomic Role in Development: Zakah, Waqf, and Islamic Microfinance (18 papers)
6. Islamic Corporate Finance and Economic Analysis of Islamic Banking and Capital Markets: Corporate Finance, Islamic Banking - General, Islamic Banking in Selected Muslim Countries, and Islamic Capital Markets (25 papers)
7. Risk Management, CSR and Regulatory Framework for Islamic Financial Institutions and Markets: Risk Management, Takaful and Insurance, CSR, and Regulatory Framework for Islamic Financial Institutions and Markets (19 papers)

8. Business Ethics, Management, Marketing and Accounting from Islamic Perspective (7 papers)

The 5<sup>th</sup> International Symposium on Islamic Economics and Finance Education that was held on Day 3 of the 11<sup>th</sup> ICIEF saw discussions related to developing a common framework for curriculum in Islamic Economics and Islamic Finance. It was agreed that greater collaboration and effort to develop quality standards and benchmarks in IEF education was very crucial since the demand for IEF education is growing rapidly globally.

The conference organizing committee finally selected 30 papers and 3 keynote addresses for publication. Out of these, six papers and one keynote address have been published in Vol. 30 Special Issue (April 2017) of *JKAU: Islamic Econ.*, six papers in Vol. 25 (Special Issue) (April 2017) of *Islamic Economic Studies*, and ten papers along with one keynote address in Vol. 25(2) (2017): Special Issue of *International Journal of Economics, Management and Accounting*.

The said issue of *JKAU: Islamic Econ.* contains four articles related to Islamic banking and finance, the two other articles and the keynote address to Islamic economics. The keynote address is on understanding and implementation of Islamic economic system. The two Islamic economics articles inquire into principles and behavioral framework in Islamic economics and institutional values needed for transformative socioeconomic development in Muslim countries. The four Islamic banking and finance articles are mostly empirical papers; they address the issues of financial inclusion, investment in Islamic stocks, risks management and relation between bank deposits and profit rates offered by Islamic banks.

The six articles published in the special issue of *Islamic Economic Studies* include five articles related to Islamic banking and finance and one on a model of stakeholder trust in waqf institutions. The banking and finance articles address the existing practices in Islamic banking and finance.

The special issue of *International Journal of Economics, Management and Accounting* consists of a keynote address on global financial reform, seven articles on Islamic economics covering Islamic economics as an alternative for modern economics, reviving the promise

of Islamic economics, rethinking the structure of Islamic economics, the market institution and state, the informal economy in Islamic economics and aid effectiveness in OIC-Member countries, two articles on Islamic banks covering their efficiency and survival aspects, and one article on takaful.

### **Special Issue of Intellectual Discourse, Vol. 26, 2018**

This special issue of *Intellectual Discourse* includes eight of the selected papers and a keynote address in addition to the editors' notes. This volume is significant for the following reasons. Five papers relate to Islamic economics, and the remaining four to Islamic banking and finance. The papers on Islamic economics include the keynote address on the strengths of a risk sharing-based economy as against a debt-based economy (by *Abbas Mirakhor*), a strong case for building Islamic economics (by *Muhammed Wasim Naser*), defense of Islam against claims of it being a hurdle in the path for economic development (by *AbdelRahman Yousri*), moral firms in an Islamic framework (by *Toseef Azid* and *Osamah H. Rawashdeh*) and a bibliographic work on Islamic economics (by *Zeyneb Hafsa Orhan*). The three articles on Islamic banking trace the roots of Islamic banking and finance (by *Abdul Islam Islahi*), challenges facing Islamic finance (by *Ma'bid Ali Jarhi*), a critical review of contemporary Islamic finance (by *Muhammad Ayub*) and a novel instrument for developing Islamic home financing (by *Imene Tabet* and *Monzer Kahf*)

Mirakhor's article, adapted from his keynote address, on 'Risk Sharing and the Fragilities of the Debt-Economy' argues that the current risk transfer debt economy as an inherently fragile and unstable system. He provides evidence from written as well as empirical literature, analyzing the frequent financial crises that occurred over the last 40 years, and concludes that the risk transfer/shifting system of a debt-based economy is not only a contributing factor to these crises, but also one that penalizes the lower and middle classes.

Muhammed Wasim Naser's article 'Theology and Ethics in Adam Smith: A Case for Islamic Economics' analyses the theological and ethical dimensions in the writings of Adam Smith. It deals with aspects of philosophy and intellectual history. It shows how religious discourses were instrumental in shaping the thoughts and ideas of Enlightenment in general, and economics in particular and compares it to some ideas



in Islamic economic philosophy. Central to Naser's work is the idea that critical interaction with modern thought is needed in our attempt to develop contemporary Islamic economics.

As far as general economics and development are concerned, AbdelRahman Yousri in his paper 'Islam and the Challenge of Economic Development in the Muslim World: Review and Evaluation of Secular Arguments' analyses two sets of writings that look at the issue of economic growth and development in Muslim countries. The first group does not seem to make a distinction between Islam and its teachings and the practices and conditions of Muslims in Muslim countries. To this group it is quite easy to point out that there is no real evidence from the various empirical studies done to show that Islam is the cause of the underdeveloped conditions of Muslim countries. The second group however have expressly stated that certain Islamic institutions- its prohibition of interest, its inheritance laws, the absence of a law that helped develop the corporation as an entity in commerce as well as institutions such as waqf- have all been inimical to growth and development. Yousri argues that scholars who have argued against Islamic institutions have been biased in their evaluation of Islamic teachings, wrongly representing Islam and failing to see the many other examples where the Islamic world were leaders.

Toseef Azid and Osamah H. Rawashdeh in their paper 'The Notion of Moral Firm and Distributive Justice in an Islamic Framework' present the normative case of the firm where the profit motive is 'balanced' by stakeholder wellbeing. Thus it is the duty of the firm to serve the community and look after its shareholders, employees, consumers and the community as a whole. This paper also presents a 'cooperative-competitive' environment, where firms have the same responsibilities as other members of the society. Hence, it is the duty of the firm to maintain distributive justice among its stakeholders. In addition, the authors also specify what social and moral responsibilities come with claims of being shari'ah compliant.

Zeyneb Hafsa Orhan, in her article 'Content analysis on the origins of Islamic Economics: Contextualized interpretation of two bibliographies in the 20<sup>th</sup> Century', reports on two major bibliographies of contemporary Islamic economics in the 20<sup>th</sup> century. Siddiqi's 1975 bibliography on the literature in English contains 428 works out of

700 odd items. The 1980 Turkish work of Zaim looks at 151 works out of 245. Orhan illustrates the areas of research and publication in contemporary Islamic economics via generating 'heat maps' covering 19 and 17 areas of the two works respectively. The author produces what she terms as 'contextualized interpretations' where 1960s seem to be a watershed in the number of works.

Abdul Azim Islahi's 'History of Islamic Banking and Finance' tries to dispel the misrepresentation of Islamic banking as a purely commercial entity. This is done by looking at the 'basic function/activities' of banking and finance, i.e. of provision of financing and tries to connect the practices of the bayt al-Mal in history as precursors to 'banking', i.e. financing. He also shows that in modern times both the rural development Mit Ghamr experiment in Egypt as well as the saving for haj institution of Tabung Haji in Malaysia, showed clearly that Islamic banking need not be straight jacketed into a commercial bank model.

Ma'bid Ali Al-Jarhi in his article 'Islamic Finance at the Crossroads' also attempts a critical evaluation of current modes of Islamic banking and finance. He takes to task the Islamic finance industry 'riddled with products that have a camouflage of Islamic form, but lacks shari'ah validity of purpose'. Replication of conventional products without understanding macroeconomic implications have created great cynicism. He then tries to propose a 'plan of action' that involves policy makers, academics and dialogue with all stakeholders on how to transform the existing system.

Muhammad Ayub in his paper 'Islamic Finance at 40: Way Forward for Maqasid Realization' also argues that Islamic banking and finance in its current mode does not really achieve the higher objectives of shari'ah. In order to correct the situation, Ayub proposes that social inclusion become a central feature of Islamic banking and finance. Hence the argument put forward again is that there is a need to develop alternative models and frameworks of Islamic banks and financial institutions.

Finally, Imene Tabet and Monzer Kahf in their paper entitled 'Design of Islamic financial certificates for housing development in Algeria' try to apply Islamic finance to resolve a basic socio-economic problem in Algeria, i.e. the lack of sufficient quantity and quality of affordable housing for its people. According to the authors, Algeria

is the only country in the world where housing is almost exclusively built by the public sector. Bureaucracy and inefficiency has led to major delays in house provision. The authors try to propose how an Istisna' certificate would enable the private sector to come in to the market and at the same time be a winning solution for all. The authors also conduct a SWOT analysis that weighs all aspects of their proposal and consider their model to be a positive example of how Islamic finance could be used to provide an important component of development (housing) that enables the community to have access to decent housing.

### **What next?**

Islamic economics and finance scholarship has certainly flourished over the last four decades and there is no doubt that the ICIEF series can be seen as one of the factors contributing to the development of the discipline. From a handful of pioneers giving lectures on aspects of the discipline in the 1960s and 1970s, Course and dedicated degree programs in Islamic economics and finance are now offered in many universities globally, including some in the west. Over the decades, the discipline has naturally moved to 'applied' areas with more empirical studies coming up. However, it is very important that these applied studies be done with the Islamic worldview and vision always in focus. In addition, critical interaction with modern knowledge is needed in order to learn from 'best practices' albeit, subject to the filtering of an Islamic worldview that is founded upon the Shari'ah.

Islamic economic theory received good attention, though it was agreed that much more needs to be done. Developing contemporary Islamic economic theory had to not only find the relevant concept/idea-empirical mix, it also had to integrate between contemporary knowledge and the Islamic heritage/legacy. Applied areas of Islamic economics had to be based on the foundations of Islamic economics. In this context, the dire need for developing a coherent economic theory of Islamic finance was highlighted repeatedly. This is because Islamic finance must be rooted and have its foundations in Islamic economics.

Hence, Islamic finance must also be serving the economic and social objectives of the society so that it is seen to be serving the genuine needs of the ummah. However, one cannot think that having Islamic banking and finance institutions per se will automatically lead to inclusiveness and sustainability. It will require other policy measures that are not

only pro-growth but that will ensure the attainment of equity and the socio-economic progress of all segments in society. All economic agents, including governments, need to focus on poverty reduction and security improvement, prerequisites of comprehensive human and social development. Development must be 'holistic' and must also be measured using appropriate methodology to measure this progress. Policies to achieve progress must also reflect the noble values that are set out in the shari'ah.

The Islamic economy is a three sector economy with private, public and voluntary/not for profit sectors, all having their own roles and contribution. In the private sector, a genuine risk sharing system which is rooted in Islamic economic philosophy must be developed to replace the existing risk transfer/risk shifting system that has caused much concern and destruction in many communities. Markets, while very important for achieving growth, must be 'well-functioning' markets. Proper regulation (not over regulation or no regulation) are needed, hence the role of the state/government. However, one cannot rely on the state to regulate markets as well as to be providing all basic needs and social goods that are needed. Here is where the third or voluntary sector comes in. In this context, there is a very important role for the institution of waqf or charitable endowments to play in future development of the economy and society.

### **Post Conference Agenda**

For further consolidation, coordination and streamlining efforts in teaching and research in Islamic economics and finance, the 11<sup>th</sup> ICIEF participants approved a proposal for establishing an International Federation of Islamic economics and Finance Educators (I-FIEFE) under the stewardship of the Centre for Islamic Economics (CIE) of the International Islamic University Malaysia (IIUM) with a global secretariat at the IIUM. Among the activities proposed for I-FIEFE include (1) development of databases of experts in Islamic economics, Islamic banking, Islamic finance and Islamic jurisprudence for economics, banking and finance, (2) development of academic programs and curriculum, (3) talent development in Islamic economics and finance education, (4) promotion of quality theoretical and policy research in the fields of Islamic economics and finance and, last but not least, (5) publication of relevant reports and position papers.



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