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**The 15th International Conference on
Islamic Economics and Finance (ICIEF 2024):
Driving the Agenda
for a Sustainable Humane Economy**



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Volume 34

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Transliteration Table: Consonants

Arabic	Roman		Arabic	Roman
ب	b		ط	ṭ
ت	t		ظ	ẓ
ث	th		ع	‘
ج	j		غ	gh
ح	ḥ		ف	f
خ	kh		ق	q
د	d		ك	k
ذ	dh		ل	l
ر	r		م	m
ز	z		ن	n
س	s		ه	h
ش	sh		و	w
ص	ṣ		ء	’
ض	ḍ		ي	y

Transliteration Table: Vowels and Diphthongs

Arabic	Roman		Arabic	Roman
اَ	a		اَ، اِيَّ	an
اُ	u		اُو	un
اِ	i		اِي	in
اَ، اِ، اِيَّ	ā		اَو	aw
اُو	ū		اَي	ay
اِي	ī		اُو	uww, ū (in final position)
			اَي	iyy, ī (in final position)

Source: ROTAS Transliteration Kit: <http://rotas.iium.edu.my>

Note from the Guest Editors

The 15th International Conference on Islamic Economics and Finance (ICIEF 2024) serves as a crucial platform for exchanging ideas, insights, and advancements in Islamic economics and finance—fields that are pivotal in shaping a more inclusive and ethical global economic system. As we celebrate the 40th anniversary of both the International Islamic University Malaysia (IIUM) and our Kulliyah, the Kulliyah of Economics and Management Sciences (KENMS) is immensely proud to have been entrusted with organising the ICIEF conference series for the third time. We have the distinct honour of organising and hosting the 15th ICIEF, following our previous stewardship of the 3rd Conference in 1992 and the 11th Conference in 2016. The International Conference on Islamic Economics (later expanded to Islamic Economics and Finance) holds a special place in the intellectual agenda of Islamic economists worldwide. This distinguished series, which commenced with the first conference in Makkah al-Mukarramah in 1976, is widely regarded as the watershed moment for the birth of contemporary Islamic economics.

As one of the pioneer institutions in teaching and researching Islamic economics and finance, IIUM—particularly KENMS—takes great pride in its substantial contributions to developing both the discipline and practice of Islamic economics and finance. Since its inception in 1983, the Kulliyah has provided excellent education to students from around the world. Comprising the Department of Economics as the pioneer department, along with the Department of Business Administration, the Department of Accounting, and the Department of Finance, our Kulliyah has consistently maintained its commitment to academic excellence. The establishment of the Centre of Islamic Economics (CIE) in 2007 marked a significant milestone in our journey. The Centre has set the pace for research not only in Islamic economics and finance but also in Islamic accounting and management. It plays a crucial role in

positioning KENMS staff and students to integrate Islamic perspectives in providing policy suggestions for the nation, the ummah, and the world.

In the context of ongoing economic challenges exacerbated by the global pandemic, the relevance of ethical and sustainable economic and financial practices has never been more apparent. Islamic economics and finance offer a guiding light in navigating these challenges, providing a framework that harmoniously aligns economic prosperity with social justice and ethical conduct. The conference theme, “Driving the Agenda for a Sustainable Humane Economy,” underscores the commitment of all participants to contribute to developing economic and financial systems that prioritise inclusivity, sustainability, and ethical considerations. It is essential to reflect on the profound impact of Islamic economics and finance on the contemporary economic and financial landscape. In an era marked by unprecedented economic challenges and rapid technological advancements, the principles of Islamic economics offer a unique and resilient framework that emphasises equity, justice, and ethical conduct—values that are more relevant today than ever before.

We take this opportunity to express our sincere gratitude to all organising committee members, our thanks also extend to our co-organisers—the Ministry of Finance Malaysia and the International Association of Islamic Economics—as well as all sponsors for their invaluable partnership and support. Special appreciation is due to our esteemed keynote speakers for honouring us with their presence, and to the many distinguished representatives from various organisations, academics, and researchers who will lead the plenary sessions and present their work, thereby enhancing further the research and applications of Islamic economics and finance. We are confident that this special issue will contribute significantly to advancing the frontiers of Islamic economics and finance, and ultimately to building a more just, sustainable, and humane global economy.

Gairuzazmi Mat Ghani
Zera Zuryana Idris
Hassanudin Mohd Thas Thaker
Guest Editors

Enhancing Indonesia’s Islamic Economy Ecosystem: Innovative Legal and Institutional Strategic Approach

Sutan Emir Hidayat*

Dece Kurniadi**

M. Adam Hervanda***

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Abstract: The National Committee for Islamic Economy and Finance (KNEKS), Republic of Indonesia, is the Indonesian government’s innovative and strategic breakthrough in legal and institutional policy. Indonesia

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is officially a non-theocratic state and adopts the civil law system. The government embraces Islamic economy as a new source of Indonesian economic growth and resilience, and its establishment of KNEKS is a catalyst of the development of Indonesian Islamic economy and finance. KNEKS is led directly by the president and vice president. It is designed with an innovative legal structure, the first of its kind, to address the bureaucratic barriers among stakeholders. Prior to the establishment of KNEKS, the government established the National Committee for Islamic Finance (KNKS), which focused only on the Islamic finance sector. KNKS began in 2019 and was transformed to KNEKS in 2020 by the Presidential Regulation Number 28 of 2020. Since the establishment of KNEKS, Indonesia has recorded tremendous progress and is currently considered one of the Global Top Three leading countries in Islamic economy and finance. This study aims to trace the progress of the Indonesian Islamic economy's performance after KNEKS's establishment and scrutinise the regulatory challenges to enhance its role and contribution. This study is expected to be a reference in understanding the legal ecosystem of the Islamic economy in Indonesia, as well as in formulating appropriate policies to enhance the ecosystem.

Keywords: Islamic economy and finance, Government Policy, Legal system, Rules and Regulatory Framework.

Abstrak: Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS) Republik Indonesia adalah satu pencapaian strategik dan inovatif Kerajaan Indonesia dari segi dasar, berasaskan aspek undang-undang dan perlembagaan. Indonesia adalah sebuah negara bukan teokrasi yang mengamalkan undang-undang sivil. Pemerintah telah menerimapakai Ekonomi Islam sebagai sumber pertumbuhan dan ketahanan ekonomi Indonesia, justeru menubuhkan KNEKS sebagai pemangkin pembangunan ekonomi dan kewangan Islam. KNEKS diketuai secara langsung oleh Presiden dan Wakil Presiden Republik Indonesia. Ia direka dengan struktur undang-undang yang inovatif untuk menangani halangan birokrasi dalam kalangan pemegang taruh. Sebelum KNEKS, kerajaan menubuhkan Komite Nasional Keuangan Syariah (KNKS) yang hanya memfokuskan pada sektor kewangan Islam. KNKS mula beroperasi pada 2019 dan ditukar nama kepada KNEKS pada 2020 melalui Peraturan Presiden Nombor 28 Tahun 2020. Sejak penubuhan KNEKS, Indonesia mencatatkan kemajuan yang memberangsangkan dan kini dianggap sebagai salah sebuah daripada **tiga** negara terunggul di peringkat global dalam bidang ekonomi dan kewangan Islam. Kajian ini bertujuan menjejaki prestasi ekonomi Islam Indonesia selepas penubuhan KNEKS dan meneliti cabaran pengawalseliaan untuk mempertingkatkan peranan dan sumbangannya. Kajian ini diharapkan menjadi rujukan dalam memahami ekosistem undang-undang ekonomi Islam

di Indonesia, serta merumuskan dasar yang sesuai untuk memperkuat ekosistem tersebut.

Kata kunci: Ekonomi dan keuangan Islam, Dasar pemerintah, system undang-undang, Kerangka peraturan dan kawal selia.

Introduction

Indonesia is a non-theocratic country, where its Islamic economic development was driven mainly by the community. The Indonesian government considers Islamic Economy as a new source of economic growth and progressively enhances its development with institutional and regulatory support. In accordance with Posner's (1974) theory, the economy requires regulatory intervention. Despite the complexity of Indonesia's civil law system, the Indonesian government manages to organise various innovative and strategic breakthroughs in legal and institutional government policy, including the establishment of the National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia.

The National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia is one of the government's strategic policies to accelerate and mainstream the Islamic economy to support the Indonesian economic growth and resilience. KNEKS is designed with an innovative legal structure, the first of its kind, to address bureaucratic barrier among stakeholders. It involves the public representatives, along with ministries and related government agencies as committee members; is supported by a legal *think-tank* unit, namely the Executive Management, which consists of professional representatives; and is led directly by the republic's president and vice-president.

KNEKS was formerly established by Presidential Regulation Number 91 of 2016 as the National Committee for Islamic Finance (KNKS) of the Republic of Indonesia. The KNKS focused solely on the Islamic finance sector and actively operated in 2019. On 10 February 2020, through Presidential Regulation Number 28 of 2020, the KNKS's scope and function were enlarged to boost not only the Islamic finance sector but also the integrated ecosystem of Islamic economy and finance.

With that, the National Committee for Islamic Finance (KNKS) of the Republic of Indonesia has been officially transformed into the National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia.

Within five years since the operation of KNKS/KNEKS, with an integrated Islamic economy ecosystem approach and collaboration among related stakeholders led by KNEKS, Indonesia has achieved tremendous progress as recorded by various international rating agencies. Indonesia has become one of the top three leading countries globally in Islamic economy and finance.

Several studies have been conducted to analyse the regulatory framework of the Islamic economy in Indonesia (Umam, 2020; Yuspin et al., 2020). In general, previous studies have focused on various aspects of Islamic economics and have discussed topics and issues in the Islamic economic legal system. Accordingly, this study tries to fill the specific gaps of the previous studies by applying a juridical conceptual analysis of the institutional and legal framework and identifying the related issues and challenges. This article also proposes a practicable way forward and strategies to address these issues by suggesting robust policy recommendations.

This article attempts to promote the Indonesian regulatory framework, the Indonesian government strategic policies, and legal innovations, i.e., the establishment of KNEKS, to accelerate the development of the Indonesia's Islamic economy. Since the KNEKS itself is considered a unique and first-of-its-kind organisational model, this article is deemed as the first study that discusses its institutional aspects. The library research and literature review are limited to Indonesian constitutional rules and regulations as the primary data for juridical analysis. The analysis was then discussed and disseminated in several focus group discussions, held since 2022, with experts and regulator representatives. It is expected that future research will enrich this study from a legal aspect and an Islamic economic and finance point of view.

The article begins with an introduction, followed by a literature review. The expert and regulator perspectives are discussed in the result section. The discussion section focuses on research recommendations

based on the literature review and the legal opinions of the experts and regulators, before ending with the conclusion.

Literature Review

This section presents the juridical analysis of Indonesian rules and regulations related to the roles and functions of KNEKS, the achievements of Indonesia after the establishment of KNEKS, and the urgency to strengthen the legal aspect of KNEKS as a catalyst for Islamic economy development in Indonesia.

Role And Functions of National Committee for Islamic Economy and Finance (KNEKS) Republic of Indonesia

The National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia was formerly established as the National Committee for Islamic Finance (KNKS) of the Republic of Indonesia. KNKS was established by Presidential Regulation Number 91 of 2016. KNKS was one of the recommendations of the Indonesia Islamic Financial Architecture Masterplan (MAKSI), in which the functions of KNKS were limited to accelerating the development of Islamic financial sector (Bappenas, 2016).

KNKS actively operated in 2019. In that year, KNKS and the Ministry of National Development Planning (Bappenas) of the Republic of Indonesia developed the Masterplan for Indonesian Islamic Economy and Finance (MEKSI) 2019-2024. MEKSI 2019-2024 was launched by the republic's president and vice-president on 14 May 2019 (Qurratu'ain & Hidayat, 2019).

The respective Masterplan consists of a vision and policy direction of Indonesia's Islamic economy and finance, including the recommendation to strengthen KNKS and expand its role in developing an integrated ecosystem of the Indonesian Islamic economy and finance (Bappenas, 2019). Pursuant to this recommendation, the President of Republic Indonesia issued Presidential Regulation No. 28 of 2020 to expand and transmute KNKS into KNEKS.

The MEKSI 2019-2024 identifies that the key challenges in accelerating the development of the Indonesian Islamic economy are the bureaucratic barriers among the stakeholders and the limited adaptability of Indonesia's legal system in responding to the rapidly

evolving economic dynamics. The Republic of Indonesia adopts the civil law tradition that is more rigid and complex compared to the common law system. Further, Indonesia is constitutionally a non-theocratic country, even though its population is Muslim majority. These challenges compelled the government to establish a special-purpose government institution to act as a catalyst and overcome those issues (Bappenas, 2019).

Accordingly, the institutional structure of KNEKS was designed to address those challenges. In the Indonesian case, KNKS-KNEKS is considered as an institutional and legal innovation and breakthrough, the first and still the only one with a distinct structure. KNEKS is directly led by the republic's president as the chairman, and the vice-president as the vice-chairman, who concurrently serve as the operational chiefs of KNEKS. Under the direction of the chairman and vice-chairman, KNEKS consists of three structural elements: a) committee members (members of KNEKS); b) the executive management; and c) the secretariat of KNEKS (Government of Republic of Indonesia, 2020).

The committee members (member of KNEKS) consist of 16 ministers and chairmen of government and non-government agencies. The members are the Coordinating Minister for Economic Affairs, Coordinating Minister for Human Development and Culture, Coordinating Minister for Maritime Affairs and Investment, Minister of Religious Affairs, Minister of Industry, Minister of Trade, Minister of National Development Planning/Head of Bappenas, Minister of State-Owned Enterprises, Minister of Cooperatives and Small and Medium Enterprises, Minister of Tourism and Creative Economy, Chairman of the Board of Commissioners of the Financial Services Authority (OJK), Governor of Central Bank of Indonesia, Chairman of the Board of Commissioners of the Deposit Insurance Corporation (LPS), Chairman of the Indonesian Ulema Council (MUI), Chairman of the Indonesian Chamber of Commerce (KADIN), and Minister of Finance, who concurrently serves as the Secretary of KNEKS.

The Executive Management of KNEKS undertakes the function as the *think-tank* unit and runs the daily operations of KNEKS. The Secretariat of the KNEKS supports the administrative and operational budget of the committee. This unit reports to the Secretary of the

Committee and is placed under the supervision of the Ministry of Finance of the Republic of Indonesia.

According to Article 4 of the Presidential Regulation No. 28 of 2020, KNEKS is tasked with accelerating, expanding, and advancing the Islamic economic and financial development to strengthen the national economic resilience. Furthermore, based on Article 2, the scope of Islamic economics and finance includes:

1. the development of the halal product industry,
2. the development of the Islamic financial industry,
3. the development of Islamic social funds, and
4. the development and expansion of Islamic business activities.

Pursuant to Article 5 of Presidential Regulation No. 28 of 2020, KNEKS is responsible for undertaking the following functions: 1. providing recommendations for policy directions and strategic programmes to develop the Indonesia's Islamic economy and financial sectors; 2. coordinating and fostering synergy in the preparation and implementation of the policy directions and strategic programmes; 3. formulating and presenting recommendations to resolve issues and challenges in the development of Islamic economy and finance; and 4. monitoring and evaluating the implementation of strategic directions and programmes in Islamic economy and financial sector.

The Development of Indonesia's Islamic Economy and Finance

The development of the Islamic economy in Indonesia continues to show an increasing trend from year to year. Significant achievements have been realised since the operation of KNKS-KNEKS in 2019. Based on the State of the Global Islamic Economy (SGIE) Report 2024/2025, Indonesia has succeeded in becoming one of the world's leading countries in the field of Islamic economy by occupying the third position after Malaysia and Saudi Arabia. Indonesia was ranked 11th in 2017, and 10th in 2018. After the establishment of KNKS in 2019, Indonesia's position jumped to fifth rank, raised to fourth rank in 2020-2023, and achieved third rank in 2024-2025 (SGIE Report 2024/2025).

The SGIE Report categorises the Islamic economy and finance sector into six sectors, namely: Islamic finance, halal food, halal pharmaceuticals and cosmetics, modest fashion, Muslim-friendly travel, and Islamic-themed media and recreation.

In the halal food sector, Indonesia has improved its position from sixth place in 2020 to fourth place in 2024/2025. For other sectors, the Islamic finance sector has remained at sixth rank since 2020 to 2024/2025, while modest fashion obtained the first place. Furthermore, the halal pharmaceuticals and cosmetics sector improved to second place globally, Muslim-friendly travel achieved second place, and media and recreation ranked seventh globally (SGIE Report 2018 - 2024/2025).

The Indonesian Muslim-friendly tourism sector has achieved the top five globally according to the Global Muslim Travel Index (GMTI). Muslim-friendly tourism is standardised by GMTI based on four aspects, namely access, communication, environment, and services (GMTI Report 2021-2025).

In the Islamic financial sector, the Cambridge Global Islamic Finance Report (GIFR) placed Indonesia in third place, improved from sixth place in 2018 (GIFR Report 2018-2023). In the digital sector, the GIFR Report 2025 placed Indonesia at third place, improved from fourth place in 2021.

In 2024, the Islamic Development Bank (IsDB) awarded Indonesia as the First Impactful Achievement in Islamic Economics for its innovation in blended Islamic commercial and social finance. During the same period, Indonesia further consolidated its position by increasing its shareholding in IsDB, thereby placing the country as the top three shareholders in the institution.

KNEKS's achievements have attracted global attention since 2021. The Global Islamic Finance Award (GIFA) 2021 awarded Indonesia in two categories, namely: the 2021 GIFA Laureates Award for Head of State for the Vice President as Deputy Chairman and Deputy Chief of KNEKS, and the GIFA Islamic Finance Leadership Award in the institutional category as a recognition for KNEKS as an institution that seeks to develop Indonesia's Islamic economic and financial ecosystem and make Indonesia the world's halal centre.

In accordance with the above data, Indonesia has great potential to realise its vision as mandated in the Masterplan of Islamic Economy and Finance (MEKSI) for the periods of 2019-2024 and 2025-2029, to become a global hub for Islamic economy and finance.

The Urgency to Strengthen the Legal Aspect of KNEKS as the Catalyst of Islamic Economy's Development of Indonesia

Along with the progressive development of Indonesian Islamic economy, the legal basis of KNEKS needs to adjust to particular conditions to maximise its function as a catalyst for the Indonesian Islamic economy and finance. The Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia conducted a study concerning the institutional aspect of the Indonesian Islamic economy and finance (Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia, 2020). The study identified 31 Indonesian government agencies that are related to implement the Islamic economy and finance programmes, whereas the government agencies appointed as members of KNEKS consist of only 16 institutions. Accordingly, it was suggested to increase the number of committee members of KNEKS through amendment to the Presidential Regulation No. 28 of 2020.

The vice-president as the vice-chairman of KNEKS endorsed 17 Strategic and Priority Programmes of KNEKS in first plenary meeting of KNEKS on November 30, 2021. One of those priority programmes are the establishment of the Provincial Committee for Islamic Economy and Finance (*Komite Daerah Ekonomi dan Keuangan Syariah-KDEKS*) (Putra, 2021). KDEKS' institutional structure mirrors the structure of KNEKS. KDEKS is directly led by the governor and deputy governor as KDEKS's chairman and vice-chairman. The establishment of KDEKS is based on the Governor's Decree. Accordingly, the relationship between KNEKS and KDEKS is not an instructional one, but coordinative in nature. Considering this type of relationship between KNEKS and KDEKS, and to strengthen the role of KDEKS, it was suggested to incorporate rules concerning KDEKS in an amendment to Presidential Regulation No. 28 of 2020 concerning KNEKS.

Pursuant to Article 19 of Presidential Regulation No. 28 of 2020 concerning the Executive Director of KNEKS, it is stated that the appointment of the executive director is based on the decision in an open selection mechanism. It is suggested that the Presidential Regulation No. 28 of 2020 be amended to accommodate a direct appointment mechanism for the executive director in certain circumstances, including resignation before the end of the term.

The case that raised the awareness to amend this article arose when the former Executive Director of KNEKS resigned in April 2023 from the position before the term ended. The open selection process took several months, and in some circumstances could take more than a year, from the start of the selection process until the issuance of the Presidential Decree for the new executive director. As for temporary solution, one of the directors was appointed as acting executive director. However, according to the Indonesian regulation regarding the state apparatus, an acting official has limited authority compared to the definitive official. Hence, to address time constraint that might challenge the acceleration target for Islamic economic development which requires authority to be vested exclusively in the executive director, it is crucial to provide a direct appointment mechanism in addition to open selection.

Based on the literature review, it is found that Indonesia has significant potentials in Islamic economy and finance, alongside several legal and regulatory challenges that need to be addressed.

Methodology

The study adopts a qualitative approach, utilising the juridical conceptual analysis of regulations, library research, and legal opinions from experts and regulator representatives. The primary data used are rules, regulatory frameworks, and legal opinions from experts and related regulators (ministries and government agencies). The secondary data consists of pertinent literature. Qualitative method is employed to identify the development of Indonesian Islamic economy and finance, the issues and challenges of existing regulations and legal frameworks governing the National Committee for Islamic Economy and Finance of the Republic of Indonesia (KNEKS), and to discuss expert and regulator perspectives in order to provide accurate problem identification.

The article is structured based on the logical flow of input, process, and output. The input presents the development of Indonesian Islamic economy and financial landscape and the theoretical framework. The process section provides discussion, review and evaluation of the performance of KNEKS in accordance with Presidential Regulation No. 28 of 2020 based on perspectives from experts and representatives of the related ministries and government agencies. Lastly, as the output, the study proposes a way forward to boost the development of Indonesia's

Islamic economy by strengthening the legal and institutional foundation of KNEKS.

Results

To strengthen the role of KNEKS as catalyst of Indonesia's Islamic Economy and Finance, a series of Focus Group Discussions (FGD) were conducted to discuss recommendation for the Presidential Regulation No. 28 of 2020 amendment:

1. Focus Group Discussions on 3 and 23 August 2022, attended by 14 academics, experts, and practitioners in the field of Islamic economics and finance to provide views on the development of Islamic economy and finance, including strengthening the role of KNEKS.
2. Focus Group Discussions on 4 and 24 August 2022 attended by representatives of the Ministry of State Secretariat, Secretariat of the Vice-President, Ministry of State Apparatus Empowerment and Bureaucratic Reform, and Ministry of Law and Human Rights, to provide views on strengthening institutions, sharpening functions, and improving KNEKS governance.
3. Focus Group Discussion on 14 October 2022, attended by resource persons from the Secretariat of the Vice-President and the Ministry of State Apparatus Empowerment and Bureaucratic Reform, to discuss draft changes to Presidential Regulation No. 28 of 2020 and academic studies.
4. Focus Group Discussion on 17 November 2022, attended by representatives from the Secretariat of the Vice-President and the Ministry of Law and Human Rights, to further discuss the draft amendments to Presidential Regulation No. 28 of 2020 and academic studies.

Several important points conveyed by the experts and regulator representatives in the FGDs included the following:

1. The urgency to strengthen the institutional aspect of KNEKS.

This point can be done by inviting more ministers and heads of government agencies as members of KNEKS and providing a legal basis for the establishment of the Provincial Committee for Islamic Economy and Finance (KDEKS).

a. Expanding the Membership of KNEKS

There are several ministries and heads of government agencies that have crucial roles in the development of Islamic economics and finance but are not yet included as members of KNEKS. There is a view that if KNEKS membership is limited to 16 ministries, government bodies and institutions as in Article 9 paragraph (1) of Presidential Regulation No. 28 of 2020, it would narrow KNEKS's role in developing the Islamic economic and financial sector. The current membership is also considered limited for public participation in the fields of Islamic economics and finance. KNEKS membership is expected to have an impact on the commitment of related ministries and government agencies in preparing programmes and resources to strengthen Islamic economics and finance. The collaboration and synergy between ministries and government agencies are needed to successfully implement KNEKS's programmes.

b. The legal basis for establishing Provincial Committee for Islamic Economy and Finance (KDEKS).

To strengthen the relationship between KNEKS, ministries and government agencies, and provincial governments in implementing Indonesia's Islamic economy and finance strategic programmes, it is necessary to strengthen the legal basis for establishing the Provincial Committee for Islamic Economy and Finance (KDEKS) and also guidelines for establishing KDEKS to support its governance.

2. Strengthening the Functional Aspects of KNEKS: KNEKS as Data Centre for Indonesia's Islamic Economy and Finance.

This recommendation is related to managing and processing data regarding Islamic economics and finance in Indonesia. It is necessary to enhance the function of KNEKS to become the national Islamic economic and financial data centre. Data construction must be carried out to strengthen the Islamic economic and finance ecosystem. KNEKS is expected to be an institution that can build on the management of data from stakeholders, both in the central government and the local governments through the control, management, and processing of data and information on development in the Islamic economy and finance sectors from all ministries and related stakeholders, as well as the digital ecosystem that produces the data on the Islamic economy and finance.

3. Strengthening the Governance Aspects of KNEKS.

The Executive Director of KNEKS carries an important role in implementing the duties and functions of executive management of KNEKS. Pursuant to the Article 19 of Presidential Regulation No. 28 of 2020 concerning the Executive Director of KNEKS, it is stated that the appointment the Executive Director is based on the decision made through an open selection mechanism. In April 2023, the former Executive Director of KNEKS resigned from the position before the end of the term. Meanwhile, there was a need to immediately fill the vacancy in the position of Executive Director of KNEKS to keep the programmes running smoothly.

Accordingly, the vice-president, as vice-chairman and executive chief of KNEKS, gave the direction to accommodate the mechanism for selecting the Executive Director of KNEKS Executive Management by direct appointment, in addition to open selection. It was suggested that Presidential Regulation No. 28 of 2020 be amended to accommodate the direct appointment mechanism for the executive director in certain circumstances, including in the case of resignation before term's end.

In addition, based on the presented background, there are several issues and challenges in the legal and regulatory framework of KNEKS, and also the need for amendment of Presidential Regulation No. 28 of 2020. Among the issues are:

1. the need to strengthen the KNEKS institution through the expansion of KNEKS institutional membership,
2. the necessity to reinforce the functions of KNEKS to strengthen the Islamic economic and financial ecosystem,
3. the need for a legal basis for the formation of KDEKS in the provinces/regions, and
4. the need to fill the position of Executive Director of KNEKS through direct appointment as an alternative to open selection.

Discussion

The Indonesian Islamic Economy and Finance Masterplan (MEKSI) 2019-2024 stated that Indonesia's vision is to become the world's leading Islamic economic centre. MEKSI consists of a roadmap and main strategies to accelerate the development of Indonesia's Islamic

economy and finance. The masterplan also covers the development of the legal system and regulatory framework.

The study identifies at least three areas of improvement for KNEKS in order to respond to the dynamic progress and challenges of Indonesia's Islamic economy and finance. Firstly, strengthening the institutional aspect of KNEKS to expand and strengthen the collaboration among the stakeholders in national and provincial levels, i.e., by providing legal basis for KDEKS. Secondly, enhancing the role and function of KNEKS in the area of policy recommendations by providing a legal basis for Indonesia's Masterplan of Islamic economy and finance and a legal basis for KNEKS to become the data centre for Indonesia's Islamic economy and finance. Thirdly, strengthening KNEKS's internal governance by providing a comprehensive legal framework for the appointment mechanism of the executive director of KNEKS Executive Management.

Strengthening Institutional Aspect of KNEKS

In order to optimise the role of KNEKS in accelerating, expanding, and advancing Indonesia's Islamic economic and financial development to strengthen national economic resilience, it is necessary to strengthen the KNEKS institution through the inclusion of additional related ministries and government agencies and the provision of a legal basis for establishing the Provincial Committee for Islamic Economy and Finance (KDEKS).

1. Expanding the KNEKS's Institutional Members

Based on Presidential Regulation 28 of 2020, KNEKS members consist of 16 ministries, head of government agencies and head of related non-government agencies as the public representative in the Committee. Furthermore, to optimise the coordination of the implementation of tasks, functions and programmes at KNEKS, it is deemed necessary to invite and include other related ministers and heads of government agencies as KNEKS members, namely:

- a. The Ministry of Education, Culture, Research and Technology and the Head of the National Research and Innovation Agency (BRIN).

The Ministry of Education, Culture, Research and Technology is regulated based on Presidential Regulation of the Republic of Indonesia

Number 62 of 2021 concerning the Ministry of Education, Culture, Research and Technology. Article 5, paragraph (1) and (9), states that this ministry performs the function of formulating and determining policies regarding education personnel, early childhood education, basic education, secondary education, vocational education, higher education, and culture.

The National Research and Innovation Agency (BRIN) is regulated by Presidential Regulation Number 78 of 2021 concerning the National Research and Innovation Agency (BRIN). Article 4, paragraphs (2) and (7), states that BRIN carries out the function of formulating and establishing policies in the field of research and innovation, which includes a masterplan for the advancement of science and technology, and a roadmap for research, development, and implementation, and also community service coordination based on assessment, application, as well as inventions and innovations.

In accordance with those roles and functions, the Minister of Education, Culture, Research, and Technology and the Head of the National Research and Innovation Agency (BRIN) were added as KNEKS members to support the development of halal research and innovation in Indonesia and to achieve the Indonesia vision as World's Islamic Economy and Finance Centre.

The key considerations are: (1) BRIN, as an integrated government research institution, has adequate infrastructure and resources to carry out research and development, especially in the field of research and innovation in the halal industry; (2) BRIN has officially launched a food research facility as a halal research reference laboratory on 22 April 2022 to support advanced research and innovation in the halal industrial sector; (3) as a follow-up to the laboratory facility, BRIN will then focus on running a halal product research and innovation programme which includes rapid testing equipment for halal products, development of halal products based on local natural resources, and development of non-halal substitute materials; (4) to overcome bottleneck problems and harmonise regulations and standards between ministries/institutions, BRIN could lead a consortium to propose appropriate solutions and policies for halal innovation and technology research; (6) the Ministry of Education, Culture, Research and Technology can synergise with BRIN in utilising the facilities at the two Ministries/Institutions as places for

research and community service related to halal product research and innovation activities, and together with other ministries/institutions to build and develop an ecosystem and consortium to support research programmes and halal innovation.

- b. The Minister of Home Affairs and the Minister of Law and Human Rights were added as KNEKS member to support the formation of KDEKS in the provinces. The Ministry of Law and Human Rights and the Ministry of Home Affairs have an important role in facilitating the formation of KDEKS, particularly in the preparation of governor's regulations, which requires facilitation from the Ministry of Home Affairs and harmonisation from the Ministry of Law and Human Rights. The inclusion of these two ministries as KNEKS members would enhance common understanding, reduce bureaucratic barriers, and strengthen collaboration among the respective institutions to support the formation of KDEKS.
- c. The Minister of Communication and Information. The consideration to involve the respective Ministry in accordance with its function in the management of processing and visualisation of data and information originating from all ministries and government agencies. This data includes the digital Islamic economic and financial ecosystem data.
- d. The Minister of Manpower. The Indonesian Islamic Economic Masterplan (MEKSI) 2019-2024 mandates the urgency of the availability of Islamic-based social security products. The Minister of Manpower was added as a member of KNEKS, in relation to the functions of the Ministry of Manpower in the formulation, determination, and implementation of policies to increase the workforce competitiveness and productivity; increasing workforce placement and expanding employment opportunities; and increasing the role of industrial relations and social security for workers
- e. The Minister of Health. The Minister of Health was added as a KNEKS member, based on several considerations:
 - i. Halal pharmaceuticals are one of the crucial sectors in the Islamic economy. Demand for the availability of halal pharmaceuticals has also increased in Indonesia since the Covid-19 pandemic, especially the demand for the availability of halal vaccines.

The increase in demand for halal pharmaceuticals and halal vaccines is not only exclusive to Indonesia, but also worldwide. Accordingly, there is a need for a collaboration to develop a roadmap for halal vaccine development to strengthen the health system and the control of drugs and food in Indonesia.

- ii. Law Number 33 of 2014 concerning Halal Product Assurance (Law No. 33 of 2014) stipulates that products entering, circulating and being traded in Indonesian territory must be halal certified. The law states the deadline period to proceed with the halal certification for pharmaceutical products, namely: traditional medicines, quasi-medicines, and health supplements must be halal certified by 17 October 2026, over-the-counter drugs and limited over-the-counter drugs by 17 October 2029, and hard drugs excluding psychotropics by 17 October 2034.

f. The Minister of Agriculture.

The respective minister is added as a member of KNEKS in relation to accelerating the development of slaughterhouses as the main upstream sector in the halal industry value chain. Currently, there is still a low number of halal-certified slaughterhouses in Indonesia. In accordance with Law Number 33 of 2014, the phasing in of halal certification for food products, beverages, slaughtered products and slaughtering services starts from 17 October 2019 to 17 October 2024. Additionally, slaughterhouse business permits are regulated in Minister of Agriculture Regulation Number 13 of 2010, which stipulates that permits to establish slaughterhouses are granted by the regent/mayor with several requirements, including employing at least one halal slaughterer.

g. The Minister of Foreign Affairs.

The Minister of Foreign Affairs needs to be included as a member of KNEKS to support the export acceleration programme of Small and Medium Enterprises (SMEs) halal products. The Ministry of Foreign Affairs plays a crucial role in Mutual Recognition Arrangement (MRA), Trade Agreements, and the issuance of diplomatic notes. The Ministry of Foreign Affairs is one of the members of Halal Export Incorporated Working Group in this programme and is expected to enhance its role in accelerating the Indonesian halal product exports as a member of KNEKS.

h. The Head of the Central Statistics Agency (BPS).

The Head of the Central Statistics Agency (BPS) is recommended to be included as a member of KNEKS to expand the function of KNEKS in developing Islamic economy and financial data. BPS is the supervisor of statistical data in the corridor of One Data Indonesia (*Satu Data Indonesia*). BPS developed statistical indicators of Islamic business achievements, including Gross Domestic Product (GDP). The development of data on the Islamic economy and finance is essential to support the Islamic economy and finance ecosystem. In this case, KNEKS is expected to become an institution that provides guidance regarding data management from stakeholders, both in the central government and provincial governments, through the management and processing of data and information from ministries/government agencies and the digital ecosystem that produces Islamic economy and finance data.

- i. The Chairman of the National Amil Zakat Agency (BAZNAS) and the Chairman of the Indonesian Waqf Board (BWI). These chairmen are recommended to be added as KNEKS members to strengthen the synergy in developing the Islamic social finance. BAZNAS and BWI are the main government institutions in the field of zakat management (in accordance with Law Number 23 of 2011 concerning Zakat Management) and waqf management (in accordance with Law Number 41 of 2004 concerning Waqf) in Indonesia.

The establishment of Provincial Committee for Islamic Economy and Finance (KDEKS)

The establishment of the Provincial Committee for Islamic Economy and Finance (KDEKS) is one of the 13 KNEKS Priority Programmes that were determined by the vice-president as deputy chairman and executive chief of KNEKS at the First KNEKS Plenary Meeting on 30 November 2021. At the Second Plenary Meeting of KNEKS on 30 May 2022, the vice-president gave directions to establish KDEKS in all provinces. This regulation aims to ensure that regional governments have a clear and specific legal basis for disbursing the provincial government budget to facilitate KDEKS's operational activities. This recommendation is expected to be a regulatory delegation for provincial governments to establish KDEKS. Apart from that, this recommendation also provides

a higher and more concrete legal umbrella for provincial governments that have established KDEKS in their respective regions.

In December 2025, KDEKS had been established in 31 provinces out of a total of 38 provinces throughout Indonesia. KDEKS have been established in all provinces in Sumatera, Java, Borneo (Kalimantan), Sulawesi Island, West Nusa Tenggara, Maluku, North Maluku, and Southwest Papua Province.

Based on the conceptual analysis of rules and regulatory frameworks related to Indonesian provincial governance and the legal opinions of experts and related regulators in several Focus Group Discussions from January 2022 to June 2023, it is noted that the provincial governor is allowed to establish a non-permanent local institution (*ad hoc*) for a particular purpose, including the establishment of KDEKS.

The institutional framework of KDEKS mirrors that of KNEKS. KNEKS is led directly by the president and vice-president, while KDEKS could be led directly by the governor and vice-governor. It can be understood that KDEKS is not an existing structure that stands permanently. The technical scheme for establishing KDEKS does not form a separate institution as a regional apparatus but rather carries out an *ex-officio* committee function. Thus, the governor could establish KDEKS by enacting a governor's decree or governor's regulation which existence is recognised and has binding legal force as long as it is ordered by higher statutory regulations or is formed based on authority.

KDEKS focuses on providing recommendations and coordinating, synchronising, and synergising the implementation of regional government programmes in the fields of Islamic economy and finance implemented by relevant Provincial Apparatus Organisations (OPD) in accordance with cross-sectoral regional authority. In this case, KDEKS is tasked with accelerating, expanding, and advancing Islamic economy and finance development to strengthen regional economic resilience.

However, under existing rules and regulatory frameworks, the relationship of KNEKS to KDEKS is a line of coordination, not an instructional one. KDEKS and KNEKS do not have an instructional structure; rather, their relationship is limited to a consultative-informative and coordinative relationship related to the synchronisation of central and provincial work programmes. Accordingly, it is crucial to

insert the rules pertaining to KDEKS in the amendment of the KNEKS legal basis i.e., Presidential Regulation Number 28 of 2020.

Refining the Function of KNEKS

In implementing the KNEKS programme, it is necessary to expand the functions of KNEKS and strengthen the function of the Executive Management of KNEKS. The additional function of KNEKS is related to the development of national Islamic economy and finance data, i.e., KENKS as the Indonesia's Data Centre for Islamic economy and finance.

Considering developments in digitalisation and data related to Islamic economic and financial development, data development must be carried out to strengthen the Islamic economy and finance ecosystem. KNEKS is expected to become an institution that provides guidance related to data management from stakeholders, both in the central government and regional governments, through the management and processing of data and information regarding development in the national Islamic economy and finance sector originating from all ministries or government agencies, as well as the digital ecosystem that produces Islamic economy and finance data.

To support the implementation of KNEKS's functions related to Islamic economy and finance data, it is necessary to strengthen the Executive Management's role in the aspects of governance, management, and data related to Islamic economy and finance sector.

Strengthening KNEKS's Internal Governance

In order to maintain the continuity of the Executive Management of KNEKS duties and functions, it is necessary to ensure the fulfilment of the position of Executive Director of KNEKS. The position of Executive Director must be ensured to be filled in the event that the Executive Director resigns before the end of the term. Reasons for such vacancies include: a) death, b) resignation, c) being sentenced to prison or imprisonment based on a court decision that has permanent legal force, d) committing integrity violations; e) not achieving performance targets, f) nominating or being nominated as president and vice-president, chair, deputy chair, or member of the House of Representatives, g) nominating or being nominated as chair, deputy chair, and member of the Regional Representative Council, h) nominating or being nominated as governor

and deputy governor; regent/mayor, and deputy regent/deputy mayor, and/or i) becoming physically and/or spiritually incompetent.

Based on the conditions above, it is necessary to regulate the mechanism for filling the position of Executive Director of KNEKS through direct appointment. The designated director would continue the remaining term of the former Executive Director. Meanwhile, filling the position to replace the Executive Director whose term of office has ended will still use an open selection mechanism in accordance with Article 19 of Presidential Regulation No. 28 of 2020.

Rules Governing Masterplan of Indonesia's Islamic Economy and Finance (MEKSI)

The Masterplan of Indonesia's Islamic Economy and Finance (MEKSI) is developed as the policy direction in developing the National Islamic Economy and Finance. It is crucial to incorporate a legal foundation into the amendment of Presidential Regulation No. 28 of 2020 for the Masterplan of Indonesia's Islamic Economy and Finance (MEKSI). This legal foundation would subsequently authorise the Masterplan to be referred to in the implementation of strategic programmes in Indonesia's economic and financial sector, as well as its derivatives and related regulations regarding Islamic economy and finance. This legal basis would also be the basis for allocating required resources, such as budget and human resources.

Conclusion

The study is prepared as a policy recommendation to strengthen the role of KNEKS as a catalyst for Islamic economic and financial development. The study recommends the amendment of Presidential Regulation Number 28 of 2020, which aims to: a) strengthen KNEKS's institutions by including additional members from ministries and government institutions as committee members and inserting the regulation related to establishment of the Provincial Committee for Islamic Economy and Finance (KDEKS), b) refine KNEKS institutional functions as the Data Centre for Indonesia's Islamic economy and finance, c) strengthen KNEKS's internal governance, and d) accommodate the rules to authorise the Masterplan of Indonesia's Islamic Economy and Finance (MEKSI). Considering the importance of changes to Presidential Regulation 28 of 2020 to support Indonesia's economic resilience, the

amendment process of Presidential Regulation 28/2020 needs to be carried out as soon as possible.

This study discusses the development of the Islamic Economy and Finance, as well as the legal, institutional, and regulatory frameworks of the Republic of Indonesia related to KNEKS. This article is considered as the first to focus on the institutional aspect of KNEKS. The library research and literature review are limited to Indonesian constitutional rules and regulations as the primary data, which were then validated and confirmed by the legal opinions of experts and regulator representatives in several focus group discussions that have been held since 2022. Hence, it is expected that future research will enrich this study from a legal aspect and an Islamic economy and finance point of view.

Despite the limitations, this study is expected to be a reference in understanding the legal ecosystem of Islamic economy in Indonesia, and as one of the references for regulators and government entities from other countries to manage strategic policy directions in developing the Islamic economy and finance.

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Assessing The Performance of Unit Trust Waqf Funds in Malaysia

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Abstract: The Securities Commission Islamic Fund and Wealth Management Blueprint 2017 was the precursor for the establishment of *waqf-featured* funds in Malaysia. This is in line with the intention of Bank Negara Malaysia to employ social finance for the delivery of social goods and services. To date, there are five unit trust funds and one wholesale fund that are linked with *waqf*. The former are the Makmur myWakaf Fund, PMB-An-Nur Waqf Income Fund, Kenanga Waqf Al-Ihsan Fund, Maybank Mixed Assets-I Waqf Fund, and BSN Dana Wakaf Al-Ikhlas. Yet to the knowledge of the researchers, there is a dearth of studies that examine the performance of these funds. This could be attributed to the fact that the first unit trust *waqf-featured* fund, the Makmur myWakaf Fund, was only launched in 2021. Therefore, this study aims to compare the performance of unit trust *waqf* funds and identify the top consistent fund. By employing the modified Sharpe ratio method, we found that the top consistent fund is PMB An-Nur Waqf fund while the Makmur myWakaf fund should be considered for further analysis. This study is significant to aid investors in making sound decision in regards to unit trust *waqf* investments and may help the finance regulatory institution to further develop the social finance landscape in Malaysia.

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Keywords: *Waqf*, unit trust *waqf-featured* funds, unit trust *waqf*, cash *waqf*, Sharpe ratio, Treynor ratio

Abstrak: Rangka Kerja Pelan Induk Dana dan Pengurusan Kekayaan Islam oleh Suruhanjaya Sekuriti 2017 merupakan perintis kepada penubuhan dana berteraskan wakaf di Malaysia. Langkah ini selaras dengan hasrat Bank Negara Malaysia untuk menggunakan kewangan sosial dalam menyampaikan barangan dan perkhidmatan sosial. Setakat ini, terdapat lima dana unit amanah dan satu dana borong yang dikaitkan dengan wakaf. Dana-dana unit amanah tersebut ialah Dana Wakaf myWakaf Makmur, Dana Pendapatan Wakaf PMB-An-Nur, Dana Wakaf Al-Ihsan Kenanga, Dana Aset Campuran-I Wakaf Maybank, dan Dana Wakaf Al-Ikhlas BSN. Namun, setakat pengetahuan kami, hanya terdapat sedikit kajian yang meneliti prestasi dana-dana ini. Keadaan ini mungkin disebabkan oleh fakta bahawa dana unit amanah wakaf yang pertama, iaitu Dana Wakaf myWakaf Makmur, hanya dilancarkan pada tahun 2021. Oleh itu, kajian ini bertujuan untuk membandingkan prestasi dana unit amanah wakaf dan mengenal pasti dana yang paling konsisten terbaik. Dengan menggunakan kaedah nisbah Sharpe yang diubahsuai, kami mendapati bahawa dana paling konsisten terbaik ialah Dana Wakaf PMB An-Nur, manakala Dana myWakaf Makmur perlu dipertimbangkan untuk analisis lanjut. Kajian ini signifikan untuk membantu pelabur membuat keputusan yang wajar berkenaan pelaburan unit amanah wakaf dan boleh membantu institusi pengawal selia kewangan untuk membangunkan lagi landskap kewangan sosial di Malaysia.

Kata kunci: Wakaf, dana Amanah saham berciri wakaf, wakaf Amanah saham, wakaf tunai, nisbah Sharpe, nisbah Treynor.

Introduction

The launch of the Makmur myWakaf Fund by BIMB Investment Management on 3 March 2021 marked a significant milestone in the Islamic capital markets industry in Malaysia. As the first unit trust *waqf-featured* fund, this fund stands out for its adherence to *Shari'ah*-based principles in mobilising funds for the betterment of society. With its focus on healthcare, education, community empowerment, and social finance, the Makmur myWakaf Fund combines investment returns with societal needs, offering a unique investment opportunity (Bank Islam Malaysia Berhad Investment, 2021).

Other fund houses in Malaysia, the likes of PMB Investment Berhad, Kenanga Investors Berhad, Maybank Asset Management

Sdn Bhd, and Permodalan BSN Berhad, have also introduced *waqf* funds. These initiatives align with the Securities Commission Islamic Fund and Wealth Management Blueprint 2017, which emphasise the development of *waqf* funds. To date, there are five-unit trust *waqf* funds available in Malaysia, catering to both retail and corporate investors. These funds include the Makmur myWakaf Fund, PMB-An-Nur Waqf Income Fund, Kenanga Waqf Al-Ihsan Fund, Maybank Mixed Assets-I Waqf Fund, and BSN Dana Wakaf Al-Ikhlas (Securities Commission Malaysia, 2022).

Moreover, these launch of unit trust *waqf* fund is a notable contribution in the realm of cash *waqf*. The primary objective of the fund is to generate investment returns while directing a portion of those returns towards charitable causes, such as healthcare, education, and community empowerment. By investing in this fund, individuals not only have the potential for financial growth but also the chance to contribute to societal betterment. This innovative approach combines the principles of Islamic finance with the noble concept of giving back to the community. Through cash *waqf*, the fund enables individuals to fulfil their religious and social responsibilities by supporting initiatives that have a positive impact on society.

However, the introduction of Unit Trust *Waqf-featured* Funds in Malaysia has not received substantial participation compared to other retail funds, resulting in relatively low Asset Under Management (AUM). According to the Lipper database and Securities Commission Malaysia (2022), the AUM for Unit Trust *Waqf* Funds stands at only RM46.63 million as of end 2022, representing a mere 0.02% of the Total *Shari'ah* AUM of RM205.9 billion. Given the importance of supporting cash *waqf* through fund management institutions, it is crucial to evaluate the performance and sustainability of Unit Trust *Waqf-featured* Funds. This evaluation aims to gain insights into the funds' ability to generate consistent returns, providing valuable information for potential investors.

Therefore, it is crucial to analyse the performance of Unit Trust *Waqf-featured* Funds and identify funds that demonstrate consistent returns over a specified period. By identifying funds with sustained and reliable performance, investors can make well-informed investment decisions based on the funds' track record. Precisely, this article aims

to: (1) compare the performance of Unit Trust *Waqf-featured* Funds in Malaysia, and (2) identify the top consistent unit trust *waqf* fund based on its performance. This analysis aims to address inquiries surrounding the performance and sustainability of Unit Trust *Waqf-featured* Funds, ultimately contributing to the growth and participation in cash *waqf* through commercial funds.

Cash *Waqf*: A Brief Sketch

Cash *waqf* can be defined as the confinement of cash or share certificates for the use of stipulated philanthropic causes (Ambrose & Asuhaimi, 2021). It was first practiced during *Dawlah Uthmaniyyah* where cash *waqf* was certified permissible by the Hanafi madhhab on the grounds of *istihsān bi al 'urf* (juristic preference based on custom) (Mauluddin & Rahman, 2018). Although the Maliki madhhab and the prevalent opinion in the Shafi'e madhhab disallows cash *waqf* (Ambrose & Asuhaimi, 2021), other authoritative legal institution allows the use of cash *waqf*. For example, Section 20 of the Wakaf (State of Selangor) Enactment 2015 recognises movable property, such as cash, as one of the types of *mawquf* (corpus of *waqf*). In the year 2007, the National Fatwa Council Islamic Affairs of Malaysia has also ruled that cash *waqf* is permissible (Ambrose, Aslam, & Hanafi, 2018). In fact, Resolution No.140 (16/6) of the International Council of Fiqh Academy deems that cash is an acceptable *mawquf* since the principal of cash can remain while benefits are being derived (Mohsin, 2014). The benefits of cash can be derived via investment or *qard hasan* (benevolent loan).

Depending on the multifaceted scholarly opinions of *waqf*, cash *waqf* can be endowed either permanently or temporarily (Ambrose & Peredaryenko, 2022). The Shafi'e and Hanbali madhhabs, as well as Abu Yusuf and Imam Muhammad bin Hasan of the Hanafi madhhab, opine that *waqf* can only be given infinitely. Meanwhile, Imam Abu Hanifah, the father of the Hanafi madhhab views *waqf* as *'ariyah* (transfer of usufruct instead of property) and therefore assumes that *waqf* can be given finitely. As a matter of fact, the Proceedings of the National Council for Islamic Religious Affairs of Malaysia (Muzakarah Majlis Kebangsaan Bagi Hal Ehwal Agama Islam Malaysia) has ruled temporary *waqf* as permissible (Jabatan Kemajuan Islam Malaysia, 2026).

Just like any other types of *waqf*, cash *waqf* is regulated by the three key restrictions of *waqf* (irrevocability, inalienability, and perpetuity) even though the *waqf* is temporary (Ambrose & Asuhaimi, 2021). Although cash may be given as *waqf* temporarily, the *waqf* must not be revoked within a stipulated period that must be agreed early on. As such, the cash cannot be sold, inherited, or gifted to others during the said stipulated period. “Along the same line of reasoning, the perpetuity restriction is applied within the *waqf* endowment period, infinite or finite” (Ambrose & Asuhaimi, 2021, p.3).

The Concept of *Waqf-featured* Funds

Waqf-featured funds “facilitates the offering of Islamic unit trusts and Islamic wholesale funds with a specific aim to channel a whole or a portion of income generated for *waqf* purposes” (Securities Commission Malaysia, 2023). Note that this paper only concentrates on Islamic unit trust and not Islamic wholesale funds.

The fact that the benefits of cash can be derived from investment and can be given as *waqf* either temporarily or permanently, brings about the concept of *waqf-featured* funds. The permissibility for temporary *waqf* coincides nicely with the option for investors to liquidate the *waqf-featured* funds whenever without needing to continuously provide benefits to the *mawquf* ‘*alayh* (*waqf* recipients or beneficiaries).

Yet not many academic studies have been conducted along the lines of *waqf-featured* funds until circa 2018. Before then, most studies had concentrated on i-REITS linked *waqf* such as Ramlee, Embi and Sultan (2015), Abdullah and Saiti (2016), Hasan and Sulaiman (2016), as well as Senawi (2018). One reason may be the exemplars of internal REITs in the *waqf* asset migration exercise practiced in Singapore (Karim, 2010) and Al-Aqar KPJ Healthcare REITS that is linked with *waqf* efforts (Hasan & Sulaiman, 2016). Another reason could be the nature of cash that is viewed as temporary (due to the time value of money). The notion of a temporary *mawquf* was still out of favour as opposed to permanent *mawquf* the likes of real estates. This may be due to the fact that the Shafi’*e madhhab* do not recognise temporary *waqf* (Ambrose and Peredaryenko, 2022) and Muslim Malaysians are adherers to said *madhhab*.

This is not to claim that there was no such implementation of unit trust *waqf*. Dompot Dhuafa (DD) for instance, although not in a strict unit trust *waqf* sense, is one of the pioneering *waqf* institution in Southeast Asia that invests cash *waqf*. Since 2005, Tabung Wakaf Indonesia has acted as the fund manager of the cash *waqf* received by DD to which the pool of cash is invested in *mudarabah* savings account and small and medium sized industries, as well as equity participation with Baitul Maal wat Tamwil (an Islamic microfinance institution) (Candra & Rahman, 2010). However, cash *waqf* investment brings a pivotal issue concerning the key restriction of perpetuity; by investing, it is difficult to guarantee in absolute that the *mawquf* will remain intact.

The nudge by Securities Commission Malaysia is the quintessential motivation. Securities Commission Malaysia (2014) suggested that cash *waqf* be invested in products from the Islamic capital market the likes of Islamic unit trust, Islamic real estate investment trust (i-REITS), and others. This nudge may be the precursor to realise the intention of Bank Negara Malaysia in employing social finance for the mobilisation of social goods and services (Bank Negara Malaysia, 2023). Due to this, conceptual studies in cash *waqf* unit trust gradually picked. Examples of studies include Sulaiman and Hasan (2017), Ambrose, Aslam and Hanafi (2018), Khaliq, Hussin and Mohammad (2019), and Sulaiman and Hasan (2020).

Waqf-featured Funds in Malaysia

At present, there are five unit trust funds that operate as a *waqf-featured* fund. The first such fund is Makmur MyWakaf Fund that was launched in early March 2021 (The Star Online, 2021). Throughout the same year, PMB-An-Nur Waqf Income Fund was launched in late March (Idris, 2021), Kenanga Waqf Al-Ihsan Fund in April (Kenanga Investment Bank, 2021), and Maybank Mixed Assets-I Waqf Fund in May (The Edge Markets, 2021). On the other hand, BSN Dana Wakaf Al-Ikhlas was launched in 2022 (Arifin, 2022).

Makmur MyWakaf Fund

Makmur MyWakaf Fund is a Qualified Sustainable and Responsible Investment (SRI) Fund, operating in accordance with the Guidelines on Sustainable and Responsible Investment Funds. The fund falls under the category of Islamic-ESG Malaysia Equity. CIMB Islamic Trustee Berhad

acts as the Trustee, while BIMB Investment Management Berhad serves as the Manager. For asset allocation, the fund may invest between 10% to 90% of its Net Asset Value (NAV) into Shariah-compliant equities and Shariah-compliant equity-related securities. Additionally, between 10% to 90% of the NAV may be allocated to Islamic fixed income instruments, Islamic money market instruments, and Islamic deposits. The performance benchmark for the fund is a combination of 50% 12-month Term Deposit-i Tawarruq of Bank Islam Malaysia Berhad and 50% FTSE Emas Shariah Index (BIMB Investment Management, 2022). As of 31 March 2023, the Makmur MyWakaf Fund had an AUM of RM8.04 million. However, there was a decrease in AUM, and as of 30 April 2023, the AUM dropped to RM7.84 million (sourced from the Lipper database)

PMB-An-Nur Waqf Income Fund

PMB-An-Nur Waqf Income Fund is managed by PMB Investment Berhad, with CIMB Islamic Trustee Berhad acting as the Trustee. Amanie Advisors Sdn Bhd serves as the Shariah Adviser, and Waqaf An-Nur Corporation Berhad is the associated Waqf Institution. The performance benchmark for the fund is a combination of 50% FTSE Bursa Malaysia EMAS Shariah Index (FBMSHA) and 50% Maybank 12-months Islamic Fixed Deposit. In terms of asset allocation, the fund may allocate up to 60% of its Net Asset Value (NAV) to Shariah-compliant equities and Shariah-compliant equity-related securities. Additionally, the fund may invest up to 100% of its NAV in a combination of sukuk, Islamic money market instruments, Islamic deposit placements, and other Shariah-compliant permitted investments (PMB Investment, 2022).

Kenanga Waqf Al-Ihsan Fund

Kenanga Waqf Al-Ihsan Fund is managed by Kenanga Investors Berhad, with RHB Trustees Berhad serving as the Trustee and IBFIM acting as the Shariah Adviser. Yayasan Waqaf Malaysia (YWM) has been appointed as the recipient of the Waqf Asset. It utilises a performance benchmark composed of 60% FTSE-Bursa Malaysia Emas Shariah Index and 40% Maybank 12-month Islamic Fixed Deposit-i rate. In terms of asset allocation, the fund may invest up to 60% of its Net Asset Value (NAV) in Shariah-compliant equities and Shariah-compliant equity-related securities. Additionally, up to 40% of the NAV may be allocated to sukuk (including up to 5% in unrated sukuk), while the

remaining portion of the NAV will be invested in Islamic money market instruments and placed in Islamic deposits (Kenanga Investors Berhad, 2022). As of 30 April 2023, the fund had an AUM of RM5.04 million, which decreased to RM4.95 million as of 31 May 2023 (sourced from the Lipper database).

Maybank Mixed Assets-I Waqf Fund

Maybank Mixed Assets-I Waqf Fund, managed by Maybank Asset Management Sdn Bhd, was launched on 3 May 2021. Amanie Advisors Sdn Bhd acts as the Shariah Adviser, while RHB Trustees Berhad serves as the Trustee for the fund. The associated Waqf Institution is Yayasan Waqaf Malaysia. The fund's performance benchmark is set as the Maybank 12-month Islamic deposit rate plus 2.00%. In terms of asset allocation, the fund may allocate between 30% to 70% of its Net Asset Value (NAV) to sukuk, and another 30% to 70% to Shariah-compliant equities and Shariah-compliant equity-related securities. Additionally, the fund has the flexibility to invest up to 20% of its NAV in Islamic collective investment schemes and up to 20% in Islamic liquid assets (Maybank Asset Management, 2022). As of 31 May 2023, the Maybank Mixed Assets-I Waqf Fund had an AUM of RM0.58 million, representing a slight decrease from the previous month's AUM of RM0.59 million (sourced from the Lipper database).

BSN Dana Wakaf Al-Ikhlas

BSN Dana Wakaf Al-Ikhlas is a Mixed Asset Shariah Fund managed by Permodalan BSN Berhad. AmanahRaya Trustees Berhad serves as the Trustee, while Tawafuq Consultancy Sdn Bhd acts as the Shariah Adviser. The Waqaf Administrator for the fund is Yayasan Waqaf Malaysia. Besides, the performance benchmark for the fund is a combination of 50% FBMSHA Index (FTSE Bursa Malaysia EMAS Shariah Index) and 50% Maybank 1-Month GIA Islamic Fixed Deposit (Tier 1). In terms of asset allocation, the fund may invest between 20% to 80% of its Net Asset Value (NAV) in securities exposures, including Shariah-compliant equities, Islamic Collective Investment Schemes (CIS), and Shariah-compliant linked instruments such as rights and warrants. Additionally, between 20% to 80% of the NAV may be allocated to sukuk, Islamic money market instruments, and Islamic deposits (Permodalan BSN, 2022). As of 30 April 2023, the BSN Dana Wakaf Al-Ikhlas had an AUM of RM24.19 million. However, there was

a decrease in AUM and as of 31 May 2023, the AUM stood at RM23.79 million (sourced from the Lipper database).

Among the other unit trust *waqf-featured* funds, the PMB-An-Nur Waqf Income Fund stands out as the only fund that exhibited an increase in AUM in May 2023. While other funds experienced fluctuations or declines in their AUM, the PMB-An-Nur Waqf Income Fund saw its AUM grow from RM7.66 million as of 30 April 2023 to RM7.81 million as of 31 May 2023. This increase highlights the fund's ability to attract additional investments and manage its assets effectively (sourced from the Lipper database). Table 1 summarises other details of the unit trust *waqf-featured* funds.

Table 1: Details of Unit Trust Waqf-featured Funds in Malaysia

Fund Name	Makmur myWakaf Fund	PMB-An-Nur Waqf Income Fund	Kenanga Waqf Al-Ihsan Fund	Maybank Mixed Assets-I Waqf Fund	BSN Dana Wakaf Al-Ikhlas
Fund Manager	BIMB Investment Management Berhad	PMB Investment Berhad	Kenanga Investors Berhad	Maybank Asset Management Sdn Bhd.	Permodalan BSN Berhad
Shariah Adviser	BIMB Securities Sdn Bhd	Amanie Advisors Sdn Bhd	IBFIM	Amanie Advisors Sdn Bhd	Tawafuq Consultancy Sdn Bhd
Fund Category (Mainly which Assets)	Mixed Assets (Shariah)	Mixed Assets (Shariah)	Mixed Assets (Shariah)	Mixed Assets (Shariah)	Mixed Assets (Shariah)
Local or International Fund (Based on currency and benchmark)	Local	Local	Local	Local	Local
Fund Type (Portfolio Emphasis - (Growth vs value))	Income	Income and growth	Income and growth	Income and growth	Income and growth

Data and Methodology

Data for this study is collected from the Refinitiv database. We compiled monthly data of the five unit trust *waqf* funds (UTWF) from April 2021 until June 2023. For comparative purpose, we choose FTSE Bursa Malaysia EMAS Shariah Index, an index with the biggest number of shariah constituent as it would make a more fitting comparison given the nature of the shariah market participants in Malaysia. It also allows us to compare the performance of the UTWF with the stock market index.

This study is built to answer two objectives, namely, to compare the performance of UTWF in Malaysia and to identify the top consistent UTWF based on its performance. Fund performance measurement is an ongoing study in finance, and its method has gone through a long history of evolutions. The Sharpe ratio was first established as an extension to the Markowitz portfolio theory. It builds upon the notion that investors are rational asset pickers, and the return of the funds will lie within the normal distribution. By calculating for the risk-adjusted return, Sharpe ratio enables investors to rank and select funds based on a very clear criterion.

Although it started as an ex-ante study, many found it equally useful as ex post especially to rank the performance of fund or its manager. This study falls into the latter category. The equation to capture the Sharpe ratio ex post then should be:

$$S_r = \frac{R_p - R_f}{\sigma_p} \quad (1)$$

where S_r is the Sharpe ratio of the fund i , R_p is the average return of the fund, R_f as the proxy of risk-free return and σ_p is the standard deviation of the portfolio excess return. The higher Sharpe Ratio would indicate a better performing fund.

However, things might be a little bit complicated when the fund recorded a negative or marginal excess return. Academicians (refer to Hodoshima, 2019; Nagi and Benedek, 2021 and Xu et al., 2022 among others) suggest several adjustments to the basic equation to optimise the findings. Echoing that spirit, we prepared a modified Sharpe ratio via maximum likelihood of outperforming the risk-free return. A similar approach was initially credited to McLeod and van Vuuren (2004) and

most recently used by Xu et al. (2022). The modified Sharpe ratio now would reveal the probabilistic equivalent:

$$\text{Max Sharpe Ratio} = Pr\left(z \geq \frac{R_f - R_p}{\sigma_p}\right) \text{ where } z \sim N(0,1) \quad (2)$$

By adopting this approach, the selection process is now focusing on the fund with the highest maximum probability of outperforming the risk-free return.

Finally, to check for robustness, we conducted the test of Treynor Ratio on the UTWF which allows us to measure the importance of the systematic risk towards decision making. Similar to the original Sharpe Ratio, Treynor Ratio postulates the rational pricing model and provides suggestion on the best fund based on the highest risk-return trade-off criterion. Its computation resembles Sharpe but for the usage of beta (β) as the denominator replacing the standard deviation.

$$T_r = \frac{R_p - R_f}{\beta_p} \quad (3)$$

Data Analysis and Result

We begin our analysis by calculating the result of all three ratios by implementing a segmentation on the time. We run the test first by using the whole data period. Next, we re-run the test based on yearly data to control for any one-off perennial effect, especially given the effect of the pandemics are still looming. Note that the study in 2021 consists of period between April and December due to the data limitation. Below are the tables to illustrate our findings using all three methods together with the ranking for the data sample.

Table 2: The Whole Data

Fund Name	Sharpe Ratio	Rank	Modified Sharpe Ratio	Rank	Treynor Ratio	Rank
BSN Dana Wakaf Al-Ikhlas	-1.8774	5	0.0302	5	-4.1426	5
Kenanga Waqf Al-Ihsan	-1.4844	4	0.0688	4	-2.7988	4
Maybank Mixed Assets-I Waqf	-2.1089	6	0.0175	6	-4.3180	6

Makmur myWakaf MYR	-1.1352	3	0.1282	3	-2.2748	3
PMB-An-Nur Waqf	-0.3358	1	0.3688	1	-1.1279	2
*KLCI Emas Shariah index	-0.8033	2	0.2109	2	-0.0269	1

Table 3: April 2021 to December 2021

Fund Name	Sharpe Ratio	Rank	Modified Sharpe Ratio	Rank	Treynor Ratio	Rank
BSN Dana Wakaf Al-Ikhlas						
Kenanga Waqf Al-Ihsan	-1.1015	2	0.1353	2	-1.7228	4
Maybank Mixed Assets-I Waqf	-2.5507	4	0.0054	4	-3.9139	5
Makmur myWakaf	-1.2641	3	0.1031	3	-1.7063	3
PMB-An-Nur Waqf	-0.5317	1	0.2975	1	-0.9689	2
*KLCI Emas Shariah index	-2.7114	5	0.0034	5	-0.0282	1

Note: The data for BSN Dana Wakaf Al-Ikhlas is not available during this sample period.

Table 4: January 2022 to December 2022

Fund Name	Sharpe Ratio	Rank	Modified Sharpe Ratio	Rank	Treynor Ratio	Rank
BSN Dana Wakaf Al-Ikhlas	-1.9269	6	0.0270	6	-4.1059	6
Kenanga Waqf Al-Ihsan	-1.3760	4	0.0844	4	-2.9752	3
Maybank Mixed Assets-I Waqf	-1.6460	5	0.0499	5	-4.0267	5
Makmur myWakaf	-0.9392	2	0.1738	2	-2.0506	2
PMB-An-Nur Waqf	-1.0213	3	0.1536	3	-3.1843	4
*KLCI Emas Shariah index	-0.6726	1	0.2506	1	-0.0277	1

Table 5: January 2023 to June 2023

Fund Name	Sharpe Ratio	Rank	Modified Sharpe Ratio	Rank	Treynor Ratio	Rank
BSN Dana Wakaf Al-Ikhlas	-2.2954	5	0.0109	5	-4.7403	5
Kenanga Waqf Al-Ihsan	-0.1599	2	0.4365	2	-0.2958	3
Maybank Mixed Assets-I Waqf	-3.6815	6	0.0001	6	-7.1869	6
Makmur myWakaf	-1.7171	4	0.0430	4	-4.5741	4
PMB-An-Nur Waqf	0.1500	1	0.4401	1	0.4456	1
*KLCI Emas Shariah index	-0.6208	3	0.2674	3	-0.0223	2

Some interesting findings can be seen from the above tables. PMB outperform other funds including the KLCI Emas Index as the shariah stock proxy. Indirectly, it implies the potential of UTWF to serve as an alternate investment which provide a more stable risk and compensate a stronger return than the market. This is found to be true regardless of the technique used in the study. PMB is also found to be the most desirable stocks except for the year of 2022 as it was outperformed by Makmur myWakaf and were unable to beat the market. Hence, an in-depth investigation on the matters surrounding its performance in 2022 would be appreciated. However, there is no significant difference between Sharpe Ratio and Modified Sharpe Ratio as per the ranking. Treynor ranking however seems to be different which suggest the nature of systematic risk.

Conclusion

For a rational profit seeking investor, the PMB An-Nur Waqf fund or the Makmur myWakaf fund should be the choice for investment. Although the Makmur myWakaf outperform all other UTWF in year 2022 only, it will be wise to conduct further analysis to determine its performance in the future. This study is limited in the frequency of data and its simplicity. As such, later studies should consider daily frequency and other sophisticated methods of analysis. Sophisticated method of analysis may provide further insight on the performance of the UTWF.

This study has also limited its scope on financial return; it will be monumental to study the social return (or the extent of social impact) of these UTWF. This way, socially responsible investors can deliberate between financial return and social return in making sound investment decision.

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Islamic Economics and Finance for a Sustainable Humane Economy: Whither *Homo Islamicus*?

Mohd Mahyudi*

Abstract: Proponents of Islamic economics and finance are motivated by their strong belief that the disciplines have a lot to offer. However, the academia, industry and policymakers have yet to show wide acceptance to the disciplines' core ideals. This is surprising since among the heterodox schools of economic thought, Islamic economics does show the character of a valid integrated social science. This unfulfilled potential scenario requires the address of critical issues. Recently, a lively debate has appeared on the topic of economic agent. The focus is on the relevance of *homo Islamicus* in sustaining the body of knowledge itself. Thus, this article argues for the rightful place and emphasis for *homo Islamicus* within the overall framework of Islamic economics. The discipline's foundation and doctrinal aspects must uphold the *homo Islamicus* concept. In policy design formulations, the Islamic economists are then inspired by *homo Islamicus* since they would be assisting towards the gradual evolution of its behavioural norms. Interestingly, this task-driven placement for *homo Islamicus*' conceptual types fits well with the list of tasks for the Islamic economists. So, harmony among the discipline's proponents would be promoted when the relevance of *homo Islamicus* is not questioned anymore. This methodological stance could attain wide applicability as it does not negate the usability of other economic agent concepts for modelling exercise on economic realities under study by the Islamic economists. Therefore, Islamic economics and finance disciplines could be the backbone for a sustainable humane economy.

Keywords: Islamic economics, *Homo Islamicus*, Sustainability, Humane economy, Integrated science

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Abstrak: Pendokong ekonomi dan kewangan Islam didorong oleh kepercayaan kuat bahawa disiplin ini mempunyai banyak sumbangan. Namun begitu, para pemuka akademik, industri dan penggubal dasar masih belum menunjukkan penerimaan yang meluas terhadap citra terasnya. Keadaan ini mengejutkan memandangkan dalam kalangan mazhab pemikiran ekonomi heterodoks, ekonomi Islam sememangnya menunjukkan ciri-ciri sains sosial bersepadu yang sah. Senario potensi yang tidak tercapai ini memerlukan penanganan isu-isu kritikal. Kebelakangan ini, satu perdebatan yang rancak timbul mengenai topik agen ekonomi. Fokus perbincangan tersebut adalah tentang relevansi *homo Islamicus* dalam mengekalkan jasad ilmu itu sendiri. Justeru, makalah ini bertujuan untuk membahaskan kedudukan dan penekanan yang sewajarnya bagi *homo Islamicus* dalam kerangka keseluruhan ekonomi Islam. Asas dan aspek doktrin disiplin ini mesti menegakkan konsep *homo Islamicus*. Dalam formulasi reka bentuk polisi, para ahli ekonomi Islam patut juga mengambil kira aspek *homo Islamicus* memandangkan mereka akan membantu ke arah evolusi norma tingkah lakunya. Menariknya, penetapan jenis konsep *homo Islamicus* yang berpandukan tugas ini adalah berpadanan dengan senarai tugas untuk para ahli ekonomi Islam. Maka, harmoni dalam kalangan pendokong disiplin ini akan dipupuk apabila relevansi *homo Islamicus* tidak lagi dipersoalkan. Pendirian metodologi ini boleh mencapai kebolegunaan yang meluas kerana ia tidak menafikan kebolegunaan konsep agen ekonomi lain untuk latihan pemodelan terhadap realiti ekonomi yang dikaji oleh para ahli ekonomi Islam. Oleh itu, disiplin ekonomi dan kewangan Islam berpotensi menjadi tulang belakang kepada ekonomi berperikemanusiaan yang mapan.

Kata kunci: Ekonomi Islam, *Homo Islamicus*, Kemapanan, Ekonomi manusiawi, Sains bersepadu

Introduction

The evolution of contemporary thought on Islamic economics and finance has been influenced by its historical development within Muslim communities, especially among prominent Muslim thinkers and activists. On its state-of-the-art, Mahomedy (2013) identifies two tracks of discourse: Islamic economics as socio-political doctrine, and Islamic economics as a science. Despite these observed different tracks, both tracks have made progress because of one undeniable fact; that is, proponents of Islamic economics are motivated by their strong belief that the discipline has a lot to offer to the whole of mankind. The source of this self-confidence is none other than the teaching of Islam itself that

demands Muslims to practice established axioms and principles in their daily activities that go beyond ritual acts of worship.

After decades of showing presence at the international stage, primarily via the rapid growth of Islamic finance industry, it is now commonly perceived that Islamic economics and finance do indeed have the potential to make significant contributions to business affairs in not only Muslim-majority countries, but also the rest of the world. Undoubtedly this is hugely owing to its identity as a form of integrated knowledge that is underpinned by a strong moral ethic on economic behaviours and practices (Mahomedy, 2013). Nevertheless, the academia, industry and policymakers still have not shown wide acceptance to Islamic economics and finance core ideals, such as equity-financing and social finance mechanisms (Asutay, 2017; Nienhaus, 2013; Khan, 2014; and Mahyudi, 2020). This is rather surprising since among heterodox schools of economic thought, Islamic economics does show the character of a valid integrated social science that carries both normative and positive dispositions (Mannan, 1983; and Mahyudi, 2020). This unfulfilled potential scenario requires Islamic economists to enhance this discipline's credibility within the academic, marketplace and policy-making arenas.

To fulfil Islamic economics and finance potentials, its champions and advocates should promptly address critical issues within its scientific structure (Mahyudi and Abdul Aziz, 2017). One of those issues that has received a considerable amount of attention in scholarly literature is the micro-foundation topic of economic agents and related controversies on *homo Islamicus* (henceforth, HI) (Mahyudi, 2015; Mahyudi, 2016; and Furqani & Echchabi, 2022).

Recently, Sholihin et al. (2023) present the first systematic review on HI. Using prespecified eligibility criteria, 53 articles and four books were selected for this timely and beneficial exercise. Based on their findings, the HI concept could be classified into these four types:

Firstly, *homo Islamicus* as the kind of economic agent that is required to achieve Islamic economic objectives. Secondly, *homo Islamicus* as a defining factor that makes the difference between Islamic and conventional economics. Thirdly, *homo Islamicus* as an economic agent whose characteristics are something Islamic economics aims to realize. Lastly, *homo*

Islamicus as an economic agent representing the fundamental assumption in Islamic economics” (p.1).

They also criticise HI to be, among others, disconnected and confusing. Therefore, they aver, “To sum up, the description of *homo Islamicus* is impractical” (p.17).

That important systematic review’s suggestive conclusions have raised several pertinent queries for this article to go deeper into this issue. So, whither HI? Is HI concept not useful in classes and research on Islamic economics since it is impractical? This article aims to argue for the rightful place and relative emphasis for HI within the overall framework of Islamic economics education and research. To proceed with this line of inquiry, this article displays original and fresh justifications around these guiding questions: (1) Is HI still relevant for Islamic economics? (2) How should Islamic economists treat HI in their activities?

To achieve its stated aims, this article’s responses to the above set of questions are elaborated using two main arguments: transformational object in section two and task-driven in section three. In section two, the institutional school of economic thought’s position on the economy concept is briefly clarified first. Next, the model of man debate serves as the pillar for this article’s analysis and recommendations. Both key arguments seek to address the questions posed in the previous paragraph. Finally, section four concludes this article with some expected implications.

***Homo Islamicus* as a Transformational Object**

The Economy

Since Islamic economics proponents are very keen on developing an Islamic economic system, this article tries to offer some perspectives based on the institutional economics school of thought. In their discussion on crucial points to establish an economics of well-being, McGregor & Pouw (2016) remind us on fundamental ideas about an economy and the influence of institutions. Basically, ‘the economy’ is to be understood as “an instituted process of resource allocation” (p.1). In other words, institutions lie at the heart of a functioning economic system so much so that we must get the right and proper conceptual notions on them.

On the concept of institutions, the 1993 Noble Memorial Prize in Economics Science recipient for his contribution on economic change and the role of institutions, Douglass C. North (1998) defines institutions as the rules of the game, in both aspects: formal rules and informal constraints (conventions, norms of behaviour, and self-imposed codes of conduct). This includes the enforcement characteristics that accompany those rules. A complementary concept is ‘organisations’ whereby it refers to players in the game. Therefore, active, and congenial interactions between institutions and organisations are factors for any economy’s vibrancy and dynamism.

Among studies on the pivotal role of institutions in driving economic change, Khalid (2015) makes a unique contribution by comparing the thoughts of Ibn Khaldun (d. 1406), a great Ash’arite scholar who was also dubbed as the ‘Father of social sciences’ by renowned historians, and Douglass C. North, the New Institutional Economics figure mentioned earlier. Fascinatingly, she asserts that there are at least two similar scientific conclusions in connection to institutional analysis on the growth of the economy: “(i) change is incremental as it is a result in small cumulative changes in the cost-benefit outcomes of the market agents over time, and therefore (ii) economic performance inevitably depends on the existence and effectiveness of formal institutions that alter those outcomes” (p.177). In short, there is a general agreement between both eminent scholars. Hence, the market agents’ incremental welfare decisions are indeed a factor to gradual changes. In effect, the transactional dynamism of a society is clearly influenced by the evolution and quality of formal institutions in distinct communities, including Islamic societies.

The Islamic Moral Economy And Sustainable Humane Economy

Scholarly works on Islamic moral economy concept refers to economy-wide discourse that focuses on human-centred, spiritual, moral, and social developments given that its ultimate worldly end is comprehensive well-being of man: spiritual, emotional, intellectual/psychological, and physical. Since the concern about future generations is part of that humane economy, sustainability agenda is naturally presumed to be a part of the Islamic moral economy’s goals. In their proposal for a model of Islamic financial ecosystem that supports United Nation’s SDGs, Hidayat et al. (2021) see the necessity of the Islamic moral economy

because it sets the operational framework for that financial ecosystem to cover three facets or scopes: social inclusion, economic growth, and environmental protection. So theoretically speaking, the Islamic moral economy embeds the characters of a sustainable humane economy.

From another perspective, the idea of an Islamic moral economy could never be detached from the Islamic society. According to Karim (2010, 1), “The Islamic moral economy is an economic, social and political model predicated upon the theological doctrines and values promoted by the Qur’an and Sunnah.” Axioms that lay the foundation for such sustainable humane economy are *tawhīd* (complementarity and unitary), *‘adālah* (social justice), *ihsān* (beneficence), *khalīfah* (vicegerency) and *maqāṣid al-sharī‘ah* (objectives of Islamic law) (Asutay 2012). Meanwhile on the nature of the Islamic society, Mohammed (2018, 305) states, “The ideal Islamic society is an organism that brings together individuals who are equal in their spiritual essence, each of whom is driven by the spiritual ends”. Applying the famous Weberian thesis, the existence of such a society would be synonymous to the workings of the Islamic moral economy because “economies exhibit implicitly or explicitly underlying cultural or religious values” (Tayob 2022, 13). The practical implication of the above propositions is that, at the heart of the Islamic society and moral economy, there lies the central role of HI as a transformational object in both macro and micro policies.

When HI is deemed as the transformational object, Islamic economists are supposed to prescribe policies to normalise some *maqāṣid al-sharī‘ah*-aligned behaviours among the members of society. These policies can be discussed under macro and micro aspects. On the macro-policy instrument, this article brings into attention a proposal by Mahyudi (2015) who seeks to revive the Islamic economic system discourse via the introduction of a *sharī‘ah*-based public policy. To argue his case, the conditional nature of HI in establishing the Islamic moral economy becomes the premise of discussion (Azid 2010, Mahomedy 2013 and Furqani 2015).

Because of HI’s conditional nature, Mahyudi (2015) emphasises on the formulation of a broad-based public policy, which serves as the overarching strategy that promotes the evolution of HI. Admittedly, this is a slight departure from common treatment on HI whereby HI is

presumed to be representing the behavioural framework of the economic agents in any country of concern. The intended result of the proposed ‘values infusion public policy’ is that there will be more and more people whose behaviours fit into the HI attributes. This increasing presence of HI would naturally push for some necessary institutional reforms that would then provide operational vitality of formal institutions. Over the long-run, these organic and bottom-up changes within the society would ensure science-led sustainability in the economic practices of the said agents.

Moving on to the micro-policy instrument, one may refer to Mahyudi (2021). In that journal article, he connects the economic man model (i.e., ‘universal man’), as introduced by Mahyudi and Abdul Aziz (2017), to the idea of the Islamic moral economy. The policy strategy and design for private and public sectors are separately explained. For the private sector, firms can design their sales and marketing strategy by identifying their goods and services. This identification is based on the dominant welfare or well-being type, say emotional welfare for a kindergarten service, that their customers instinctively associate with their commercial products and services. Note that, this identification exercise is dictated by the customers’ individual experience. Thence, those products are packaged and marketed by anchoring along the identified dominant welfare type. So, promotional efforts require the firms to design incentive mechanisms that enhance the attainment of that welfare, as desired by the customers themselves. Framed in this manner, the customers are enticed to act accordingly.

Similarly, for the public sector, the government of the day could come up with micro-policies that prioritise policy target audience’s (i.e., ‘universal man’s) welfare. Ideally, a combination of incentives and/or punishment that serves all spiritual, emotional, intellect/psychological, and physical welfare could be one potent policy design. This design essentially depends on the target audience’s own ranking on the relative importance of the desired well-being. The formulated incentives and/or punishment package is supposed to simply reflect that ordinal ranking of well-being categories. Thus, the micro-policy is more probable to increase its success rate since the incentives and/or punishment are synchronised with the overall interests of the policy target audience. Most importantly, the introduced micro-policy must also be aligned

to *maqāṣid al-sharī'ah*. Designed in this way, HI is promoted via the implementation of these measures.

Notice that in all circumstances explored in this section, the approaches and policy designs are meant to assist with the evolution of HI within the different contexts and societies. Eventually, the cumulative effects of those micro and macro policies would take the shape of the Islamic moral economy and Islamic society as each prescribed policy measures continuously incentivise sharī'ah-based behaviours among the economic agents in the country. This is what is intended from identifying HI as a transformational object.

Task-Driven Considerations for *Homo Islamicus*

For a comprehensive outlook on this topic of economic agent in Islamic economics and finance, Sholihin et al. (2023) is referred to. They enlist many academic materials and observe two patterns of discourse on the model of man or economic agent concept among participants of the debate. To stay focus on the aims of this article, only one aspect of the second pattern is touched upon here. That is, writings that offer a new approach since they are collective offshoots of the deep concern on the ability of HI to sustain the body of knowledge itself. An example is the work by Mahyudi and Abdul Aziz (2017), which analyses the structure of Islamic economics science by underlining the huge importance of this micro-foundation topic.

In their attempt to express Islamic economics as an integrated human-acquired knowledge that applies the Islamic epistemology, Mahyudi and Abdul Aziz (2017) introduce the universal man concept by adopting Imam al-Ghazali's model of human elements. Imam al-Ghazali (d. 1111), an earlier Ash'arite theologian who had influenced Ibn Khaldun, describe man as comprised of *rūh* (spirit), *qalb* (heart), *'aql* (intellect) and *nafs* (appetent self) elements. Every element comes with its corresponding human well-being: spiritual, emotional, intellectual/psychological, and physical. Notice that these well-being or welfare types are the same comprehensive well-being alluded to in the previous section.

As shown in the table below, the neologism 'universal man' has a unique and original set of behavioural framework. The ends, means and cardinal virtue components are compared against the alternative sets of

homo economicus and HI. In other words, this comparative exercise is undertaken by acknowledging three choices on model of man. Once the existence of the distinct models of man is acknowledged, the ensuing debate is which model or models are useful for Islamic economics to increase its validity and reliability as an integrated social science? Notice that given the weight of reference to HI in Islamic economics literature, it will always be a reference model against which new models such as the universal man are evaluated on. With the support from history of academic output on Islamic economics, there is no escaping the fact that HI is a point that must be discussed. Hence, HI’s relevance to Islamic economics and finance is not to be questioned anymore.

Table 1: Comparison of Economic Agent Concepts

	<i>HOMO ECONOMICUS</i>	UNIVERSAL MAN	<i>HOMO ISLAMICUS</i>
ENDS	Utility maximisation	Incremental welfare	<i>Maşlahah</i> maximisation
MEANS	Self-interest	Dominant Activated Human Element	<i>Huqūq</i>
CARDINAL VIRTUE	Rationality	Justice	<i>Taqwā</i>

Source: Mahyudi and Abdul Aziz (2017)

***Homo Islamicus* in Islamic Economics Courses**

To recap, the model of man topic opens the door for alternative models to be considered in economics classes including Islamic economics ones. The controversies in the economics discipline are spurred on by the need to embrace pluralistic economic thoughts, which consequently inspire economists to move away from the dominant secular, western-centric and value-free stance in doing economics. This recent development finds the sole coverage on *homo economicus* to be utterly fallacious or at bare minimum, insufficient. Before this development, economics instructors and course coordinators are very much confined to explain about *homo economicus* only. In line with this fresh readiness to pave the way for integrated knowledge, Islamic economics should also provide ample spaces for critical deliberations to go beyond *homo economicus* and HI in academic programmes, and research and analysis activities.

Related to academic programmes, Islamic economics may from now on consider giving varied and wider exposures on the topic of the models of man. One recommended way to do this is by taking into account the different levels of study. For undergraduate programmes, *homo economicus* and HI are presented as given in existing curriculums and modules. It is deemed necessary to maintain this orientation since at this level of study, the fundamental concepts must be properly grasped. The primary course objective here is to ensure that the discipline's foundation and doctrinal aspects are well understood by the students of economics.

On the aspect of discussion space, the course content can display the behavioural norms of economic agent based on worldview frames. So, when economics science adopts the secular worldview, utility/profit maximiser is conceptualised for the economic agent; hence, *homo economicus*. On the other hand, when economics with the Islamic worldview is discussed, God-conscious and socio-tropic economic agent is conceptualised; hence, HI (Asutay 2007). For the past four decades in the Department of Economics, International Islamic University Malaysia, those course objectives, and discussion spaces have been integral components in Principles of Microeconomics and Foundation of Islamic Economics courses. Notably, in reference to the classification of HI in Sholihin et al. (2023), existing elaborations on types 1, 2 and 4 are a must have in those courses. Therefore, at this level of study, to maintain the status quo is a good enough strategy.

However, the same strategy is not that suitable at higher-level studies. This article vehemently asserts that some changes could be brought into the postgraduate programmes. With the fundamental contents already covered at the undergraduate level, the postgraduate students are more than prepared to be exposed to the controversies surrounding the economic man or agent and its influence on economics science. Taking on the controversies directly allows the course instructors to introduce the alternative models of man and critically evaluate them in a rigorous manner. How this debate would enhance reliability, validity and soundness of Islamic theory of economics, defines and constructs the necessary discussion space. Theory-building scientific process is one subtopic to be touched upon so that the relevance and applicability of the different models of man in addressing methodological issues are sufficiently discussed by the postgraduate students.

The effect of the above course delivery strategy is that the students could see how *homo economicus* is suitable for economics as a value-free science. They would also be able to appreciate HI and other models' usefulness for Islamic economics as a value-based social science or integrated knowledge. For instance, at the International Islamic University Malaysia, the Islamic Economic Thought course (taught in Master programme) and Islamic Economics course (taught in PhD programme) could be the academic courses where the proposed changes on the teaching objectives and discussion spaces could happen. Hence, types 1 and 3 classification of HI as identified by Sholihin et al. (2023); and other models such as universal man, *homo moralis*, and *homo sociologicus* are pertinent in taking up this suggested move. Having said this, HI will still be part of the Islamic economics and finance curriculum.

Homo Islamicus in Islamic Economists' Tasks

To adequately cover the scope of Islamic economics research and analysis tasks, we refer to Susanto (2020). Susanto critically surveys the extant literature in his attempt to proffer a new framework of Islamic economic analysis. Four distinct fields of task for the Islamic economists are identified:

First of these is proposing the ideal economic behaviour of individuals, firms, markets, and governments, and its possible impacts on economy and society. Second is evaluating the actual behaviour and impacts of these economic actors. Third is comparing the ideal and actual behaviours of these economic actors, and explaining any discrepancy. Fourth is formulating strategies that could bring actual economic behaviour as close as possible to the ideal. In addition, this article has proposed that the methods used in Islamic economics vary depending on the end sought within each field of work (p.118).

Based on the four enlisted tasks above, this article reasonably argues that the relative presence of HI and other models of man would then depend on the end sought within separate tasks. As deliberated at length in the earlier subsection on "The Islamic Moral Economy and Sustainable Humane Economy," Islamic economists are very much conditioned by HI in formulating policies, more than other models of man, such that the Islamic economists themselves would be supportive

towards gradual adoption of behavioural norms associated with HI. This kind of discussion is in sync with the fourth listed task in the framework presented by Susanto (2020). This huge presence of HI can be contrasted with that in the second task. In the second task, the Islamic economists is free to choose the most appropriate model of man that closely represent the society under study. This methodological stance could attain wide applicability as it does not even negate the usability of other economic agent concepts for modelling exercise on the economic realities which are being investigated. This way, the Islamic economists would be in the best position to analyse the economic phenomena of interest. This is because in this second task, economic realism should prevail over idealism; unlike in the first task. In short, this task-driven placement for *homo Islamicus*' conceptual types fits well with the list of tasks for the Islamic economists since they could accommodate the distinct models of man to suit the specific task that they are currently working on.

Conclusion

This article is eager to participate in endeavours that support the position that the Islamic economics and finance discipline and practices could serve as the basis for a sustainable and humane economy. Understandably, this article tries to legitimately claim that HI is practical, provided that the Islamic economists know how and when to use it. On the question whether HI is still relevant for Islamic economics, this article fervently believe that a fair response is yes. Despite the ongoing controversies on HI, this article seems to have found amicable solutions by recommending for HI's role as a transformational object. Thus, HI has been and will continue to be an integral component in Islamic economics and finance due to the discipline's integrated social science nature and moral economy aspirations. Several examples of macro and micro approaches are cited as possible policy instruments for proper development of informal and formal institutions to take place through the positive cumulative effects from the continuous and gradual evolution of HI.

Then, how should Islamic economists treat HI in their activities? These activities imply the teaching duties and research works on Islamic economics and finance. For the teaching part, Islamic economics academics are advised to bring up HI and its alternatives for critical

evaluations in postgraduate classes. At the same time, HI could be a sufficient scope of discussion in courses at the undergraduate and lower levels of study. On the research part, the Islamic economics analysts are suggested to treat HI with different levels of emphasis as dictated by the economists' specific task. As a general guide, the more idealistic, normative and pietistical the orientation of analysis, the more likely HI is invoked in the discussion. This task-driven approach could enable the Islamic economists to improve their results of study and ensuing policy recommendations.

With those set of justifications, we may expect some implications. For one, the above positions are pluralistic enough for the economists to appreciate the relevance and usefulness of many models of man; without the need to deny HI. This article's inclusive standpoint would also promote harmony among Islamic economics and finance experts since differences of opinions on the classification types and roles of HI could easily be accommodated since now there is greater clarity on the more suitable shades of HI's appearance in the framework of Islamic economics and finance research and analysis. Finally, when the economists, industry players and policymakers become more aware about the qualitative significance of models of man, Islamic economics and finance discipline could enhance its ability to be the backbone for a sustainable humane economy.

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The Real Challenge for Islamic Economics and Finance: *Homo Economislamicus*

Ali Polat*

Abstract: The rapid change in Information Technology, Blockchain, Industry 4.0, and Artificial Intelligence have not only changed the way business is done but also brought its own paradigm. The moving point for this research is the revisit of the human factor in Islamic Economics and Finance (IEF). For a perfect application of IEF—together with the availability of *shari‘ah*-compliant financial instruments, financial institutions and financial markets—the IEF literature requires the availability of *homo Islamicus* who will be on the demand or supply side of the financial activities. This “ethical” *homo Islamicus* needs to strictly follow Islamic ethics at the personal and professional corporate levels. Although we need such a perfect human being, economic activities are carried out by people having a perspective of *homo economicus* to some extent. *Homo economicus* is a concept that cannot be translated in real life. This research claims that modern human being is a combination of *homo economicus* and *homo Islamicus*, which can be branded as *homo economislamicus*. This perspective provides an improvement point that maximises the *homo Islamicus* perceptible in each piece of knowledge production and application in the market that will help a better practice of IEF. In order to increase the “Islamic” component of the applied finance, there should be greater awareness on the availability of *homo economislamicus* and consistency among knowledge-intention-application.

Keywords: Moral, Ethics, Homo Islamicus, Homo Economicus, Islamic Economics

Abstrak: Perubahan pesat dalam Teknologi Maklumat, Rangkaian Blok (Blockchain), Industri 4.0, dan Kecerdasan Buatan bukan sahaja telah

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mengubah cara perniagaan dijalankan, malah membawa paradigmanya yang tersendiri. Titik tolak bagi kajian ini adalah untuk meneliti semula faktor insani dalam Ekonomi dan Kewangan Islam (EKI). EKI yang sempurna mencakupi ketersediaan instrumen kewangan patuh syariah, institusi kewangan, dan pasaran kewangan. Literatur EKI memerlukan kewujudan *homo Islamicus* dalam aspek permintaan atau penawaran aktiviti kewangan. *Homo Islamicus* yang “beretika” ini perlu mematuhi etika Islam di peringkat individu dan juga tingkah laku korporat profesionalnya. Walaupun kita memerlukan manusia sempurna sedemikian, aktiviti ekonomi dari setiap perspektif dilaksanakan oleh individu yang mempunyai perspektif *homo economicus*. *Homo economicus* juga tidak wujud dalam model sempurnanya. Kajian ini mencadangkan bahawa manusia moden adalah gabungan *homo economicus* dan *homo Islamicus* yang boleh digelar sebagai *homo economislamicus*. Pendekatan dari perspektif ini memberikan satu titik penambahbaikan di mana ia memaksimumkan persepsi *homo Islamicus* dalam setiap penghasilan ilmu dan aplikasinya di pasaran. Bagi meningkatkan bahagian “KeIslaman” dalam kewangan gunaan, kesedaran tentang kewujudan *homo economislamicus* dan konsistensi antara ilmu-niat-aplikasi perlu wujud.

Kata kunci: Moral, Etika, *Homo Islamicus*, *Homo Economicus*, Ekonomi Islam

Introduction

Over the last 50 years, Islamic Economics and Finance (IEF) had tremendous developments globally. While developing the theory and application of IEF, both classical Islamic sources (Qur'an and Sunnah) and conventional perspectives (financial theories, conventional institutional and governance structures) were employed. In order to benefit global financial and economic environment, Muslims started first to set the halal boundaries that necessitated two important aspects to be understood. One important aspect of the IEF was to understand how IEF is different than conventional perspectives in terms of entities (government, private, non-governmental). Another aspect is how a IEF person, *homo Islamicus* (HI), is different than the conventional counterpart, *homo Economicus* (HE).

This article claims that fundamental problems and discussions of IEF literature are related with both human types that are purely almost non-existent. Rather, people in their decision-making process are – or supposed to be – actively in the category of being an HI or HE. Another

very important issue is that HI or HE in decision making process is not consistently having the same behavioural pattern of the mould, i.e., HI or HE. For instance, today for a specific topic, a Muslim person can have a decision on a specific financial issue which can be compatible with the perception of *homo Islamicus* or vice versa. IEF literature has developed by sticking with this distinction as its theoretical foundation. The theoretical human models of HE and HI are not realistic due to reasons beyond the aim of this study. This study claims that there are transitivity and obscurity between these two human definitions. Being aware of such requires us to unlearn economics and finance as Zaman (2022) emphasises.

This article defines a new realistic category to highlight the importance of changing human beings for the better. This change should be both in quality and quantity for a better IEF system and to minimise the problems or conflicts mentioned by Asutay (2007) which correlated with what Haniffa and Hudaib (2010) discuss, where the sacred intentions to fulfil religious obligations through IEF have been distorted by secular goals due to the interventions of political, economic and social institutions, together with dynamic interactions with the conventional sector/system. As mentioned in the Holy Qur'an, "Verily never Will Allah change the condition of a people until they change it themselves (with their own souls)" (Al-Ra'd 13: 11), which means that it is the duty of human beings to change for the better. This change, in this context, is the change of premises, beliefs, teachings, practices, and understandings of HE within each person to a better scale to make it closer to HI. This article proposes the synthesis between HE and HI, *homo economislamicus* (HEI).

Literature Review

There is a vast amount of discussion regarding HE, while the discussion on HI is comparatively limited. The Latin term of economic man, *homo economicus*, can be defined as "the self-interested economic agent. In classical and neoclassical economics, the utility-maximising objectives of individual economic agents were taken to be the basis of economic activity." (Rutherford, 2003). This narrowly self-interested actor who make decisions based on the pursuit of his own personal utility maximisation as a rational agent is at the centre of the theories of consumer choice, the firm, industrial organisations, and welfare.

The concept has roots in classical economics, and while it is associated with several economists, it is challenging to pinpoint a single individual who used the term *homo economicus* first. Urbina & Ruiz-Villaverde (2019) cite that the first use of the term in Latin is in Pareto's *Manual of Political Economy* in 1906. However, John Stuart Mill is often credited with formalising the concept in his work, even if he did not use the exact term. In his book *Principles of Political Economy* (1848), Mill described a type of economic actor who acts rationally and in their own self-interest.

Pareto (2015) refers to HE in a different context but tries to explain that it is a matter of abstraction. While he accepts that real man performs economic, moral, religious, aesthetic, and other actions, he considers *homo economicus* as one who performs only economic actions. The same man who is considered HE for an economic study may be considered as a *homo ethicus* for a moral study, and as a *homo religious* for a religious study. Such abstraction to understand the economic behaviour of man caused misunderstandings and exaggerations throughout the last few centuries.

Regarding HE, there is a vast accumulation of knowledge and research from many perspectives. A search of the term *homo economicus* in Google Scholar returns 88,700 results while *homo Islamicus* returns only 2,420. As this article concentrates not on the review of the whole literature of HE and HI nor does it aim at a bibliometric analysis of the terms, only criticisms from within the proponents of HE and criticisms of HE of Muslim scholars will be provided. Urbina & Ruiz-Villaverde (2019) concludes that HE is clearly inadequate and deficient after delimiting the notion of HE according to five characteristics or dimensions and after critical review of the term.

IEF scholars analyse HE and its deficient features to clarify the notion of HI. For instance, Furqani & Echchabi (2022) provides Qur'anic perspectives in the theorisation of HI as the representative agent of Islamic Economics (IE). Based on the Holy Qur'an, human perspective is described in five categories which are as follows:

- i) process and elements of His creation (Qur'an, 6:2, 15:26, 17:61, 23:12, 55:14, 76:2)

- ii) the reason of His creation, with duties and responsibilities to achieve success (Qur'an, 23:155, 51:56)
- iii) Human being and relations with Allah and other beings (Qur'an, 2:30, 61:10-14)
- iv) The nature, characteristics, tendencies and potential of man (Qur'an, 3:152, 7:176, 17:19, 78:39)
- v) The values and qualities needed to achieve to attain higher self-realisation. (Qur'an, 5:15- 16).

The perspectives are fundamental in understanding human capacity. Different from all other beings, human beings are two-dimensional, consisting of body and soul. This requires fulfilling the balanced needs of physical, psychological, moral and spiritual dimensions. If these have conflicts or missing to some extent, humans will lower themselves to the level of other beings. Furthermore, consumerism and hedonism lead to more selfishness, corruption and injustice. However, if the heavenly pole becomes stronger, human beings prefer justice, sympathy, love, sacrifice and altruism. This shift is the result of free will to choose between good or evil (Qur'an, 3:152, 7:179, 17:19, 78:39).

Human beings have the capacity of moving to the lowest level of wickedness or highest level of virtue. Therefore, we can see the duality in every value and potential to increase for ourselves as follows (Furqani & Echchabi, 2022):

- good (*ṣāliḥat*) and bad (*sayyi'at*) (Qur'an, 45:21)
- right (*khayr*) and wrong (*sharr*) (Qur'an, 99:7,8)
- righteousness (*birr*) and sin (*ithm*) (Qur'an, 5:3)
- good deed (*ḥasanah*) and evil deed (*sayyi'at*) (Qur'an, 27:89–90)
- righteous (*ma'rūf*) and evil (*munkar*) (Qur'an, 3:104)
- lawful (*ḥalāl*) and unlawful (*ḥaram*) (Qur'an, 10: 59)
- wholesome (*ṭayyib*) and malicious (*khabiṭh*) (Qur'an, 2:172).

Looking from the Qur'anic perspective of human beings, it is expected from HI to behave or have the qualities of good, right, righteousness, good deed, righteous, lawful and wholesome. For HE, it does not matter to be good or bad, lawful or unlawful, as long as HE increases his utility.

Furqani, Adnan & Mulyany (2020) discuss ethics in Islamic economics as it is the endogenous behaviour framework for HI. Sholihin, Sugiyanto & Susanto (2023) review and classify HI research and provides four notions of HI: i) an economic agent required to achieve IE objectives, ii) a defining factor who makes the difference between Islamic and conventional economics, iii) an economic agent whose characteristics are something IE aims to realise, and iv) an economic agent representing the fundamental assumption in IE. Furqani & Echchabi (2022) explain the nature of economic agent in Islam – HI – by exploring Qur’an as the primary epistemological source.

Another strand of literature is the criticisms of both terms and advocacy for more realistic and sound definitions and alterations of the terms and theories. The descriptions of HI in the literature are impractical. A Muslim scholar shows the side of rationality in economic activities meaning that he/she is not pure HI (Sholihin et al., 2023). Furthermore, Sholihin et al. (2023) concludes, after a detailed systematic review of HI literature, that HI has been described in different ways by scholars and these contain disconnected, incoherent, disordered and confusing ideas. Moreover, setting up the concept of HI as a reactive response to HE caused the concept of HI to be disconnected from the classical Islamic tradition. Such formulation of HI was trapped by the efforts of distinguishing between the Islamic economic agent and the conventional counterpart, the HE.

Azizy (2019) offers incremental welfare value as the goal of economics rather than utility maximisation and *Maṣlahah* maximisation for HE and HI, respectively. While the first one is not realistic, the second one is almost a model of “too good to be true.” HE is represented only in the textbooks and the canonical assumption that individuals are entirely self-interested needs revision as the investigations uncovered large, consistent deviations from the prediction of the textbook representation of HE (Henrich et al., 2001). Mahyudi (2016) argues that the Qur’an distinctly presents both the innate frailties of humans in their individual existence (*al-insān*) and the unawareness and lethargy of the collective, referring to humans in their collective state (*al-nās*). Such correction is a rectification of epistemological mistake, and it will improve the validity of IEF.

Table 1: Comparison of Features/Aspects of Homo Economicus vs Homo Islamicus

Feature/ Aspect	Homo Economicus	Homo Islamicus
Definition	A rational and self-interested individual who seeks to maximise personal utility.	An individual who seeks to live according to Islamic principles, prioritising moral and ethical considerations.
Primary Motivation	Self-interest and utility maximisation.	Fulfilment of religious duties and attainment of moral and ethical excellence.
Decision-making	Based on rational calculations to maximise personal gain.	Based on the teachings of the Quran and Hadith, considering both worldly and hereafter consequences.
Economic Behaviour	Seeks to maximise profits and minimise losses.	Engages in economic activities that are <i>halāl</i> (permissible) and avoids those that are <i>harām</i> (forbidden). Prioritises fairness, justice, and charity.
Social Behaviour	Interactions are often based on personal gain.	Interactions are guided by Islamic teachings, emphasising community, brotherhood, and helping the needy.
View on Wealth	Wealth is a primary goal, and its accumulation is a sign of success.	Wealth is a means to an end, and its ethical use is more important than its accumulation. Zakat (almsgiving) is obligatory.
Critics Say	Overly simplistic and does not capture the full range of human motivations.	Might be idealistic and not representative of the behaviour of all Muslims.
Supporters Argue	Useful for building economic models and understanding market behaviour.	Provides a comprehensive framework for understanding human behaviour from an Islamic perspective.

Source: Collection of Author

Addas (2006) discusses the worldview differences and sources of knowledge and values for secular and Islamic methodology of economics. Table 1 is a combination of different elements created by the worldview difference between secular and Islamic methods of economics. If there is a worldview, it is expected to have some practical consequences from its theoretical components as theory guides. As it can be seen from Table 1, both HE and HI are based on values, and the notion of “value-free” economics is not available as accepting “not to have any value” is also a value. If HE and HI are value-loaded, imaginary, theoretical beings resembling their underlying ideologies, then who is HEI?

Before answering this question, what is human in the context of the Qur’an? In the context of the Qur’an, humans are complex beings created by Allah with innate dignity and potential for both great virtue and significant vice. They are distinguished from other creatures by their intellectual faculty, free will, and spiritual nature, which collectively confer upon them a unique status and a profound set of responsibilities.

Humans are *Ashraf al-Makhlūqāt* (the best of creation), imbued with *Fitrah* (an innate disposition towards virtue and monotheism) and *‘Aql* (intellect/reason), which empower them to function as *Khalīfah* (stewards) on Earth. They are capable of incredible compassion, justice, and innovation, reflecting their potential for righteousness and good deeds. Their existence is a journey filled with opportunities for *‘Ibādah* (worship) and acts of kindness, emphasising their role as servants of Allah and caretakers of their communities.

However, humans are also beings of contradiction, susceptible to negative traits such as *Kufr* (disbelief), *Shirk* (associating partners with God), *Nifāq* (hypocrisy), and *Ghaflah* (heedlessness). They can fall into *Zulm* (oppression), *Hasad* (envy), *Takabbur* (arrogance), and *Bukhl* (stinginess), driven by their desires and egos. These weaknesses highlight their need for divine guidance and their dependence on Allah’s mercy and forgiveness.

This dual nature makes the human experience one of constant struggle between the higher and lower self, between the spiritual and material, and between ephemeral desires and eternal truths. Life, therefore, is a test, an opportunity for humans to choose their paths,

learn from their mistakes, seek forgiveness, and continuously strive for moral and spiritual growth.

In summary, humans, from the Qur'anic perspective, are beings of significant potential, entrusted with great responsibilities but also prone to grave errors. Their ultimate success lies in recognising their purpose, embracing their strengths, acknowledging and overcoming their weaknesses, and striving in the path of righteousness and divine pleasure.

Homo Economislamicus

Literature reveals that the expected and desired HI is the pre-requisite of IEF system. It is also the role model to reach IEF system. On the other hand, HE is pure logical, materialistic, sardonic and selfish being. It would not be wrong to say that $HEI = HI + HE$. The new acronym of *homo economislamicus* tries to bring the very nature of human on the table to discuss that the available HEI needs to be more ethical, value-based in his intentions, deeds and practices in his daily life.

Considering the negative and positive attributes for human beings in the Qur'an, we can reemphasise that HEI represents a synthesis of the rational, utility-maximising characteristics of HE and the spiritually grounded, moral-guided attributes of HI, considering the overlapping and contradicting attributes of both theoretical models. HEI is a multi-dimensional individual who, while rooted in the rational and utility-maximising principles of economic behaviour, is also deeply anchored in the spiritual and ethical teachings of Islam. This individual seeks to harmonise the pursuit of worldly benefits with the moral and spiritual imperatives of Islamic teachings.

Characterised by a dual nature, HEI acknowledges the inherent human struggle between higher spiritual aspirations and worldly desires. While driven by rational self-interest and cost-benefit analysis in economic decisions, HEI also places significant importance on ethical considerations, community well-being, and divine accountability. In economic pursuits, HEI aims for both personal gains and the broader benefits of society, ensuring that individualistic endeavours do not compromise communal harmony or ethical standards. This balance is achieved by integrating the principles of Islamic morality, such as justice, fairness, and altruism, into economic decision-making processes.

Furthermore, HEI recognises the interconnectedness of all beings and the environment, emphasising sustainable and equitable resource utilisation. While valuing material prosperity, HEI also seeks spiritual fulfilment and higher self-realisation, ensuring that economic activities align with the broader purpose of serving and worshiping Allah. In essence, HEI represents a holistic human model that strives to achieve a harmonious balance between the material and spiritual realms, ensuring that economic pursuits are guided by ethical principles and are in alignment with the higher purpose of life as defined by Islamic teachings.

Mahyudi (2015, 2016) offers the term “true man” or “universal man” (Mohd & Aziz, 2017) as there is no HI or HE in its pure theoretical properties. True man covers the truth and reality of undesirable human behaviours just as the HI model does. Struggling today’s problems with a positive trait of man ignores the dark side of man. Laziness, selfishness, greed, corruption and extravagance are part of a “true man.” Mahyudi’s general approach is consistent with the idea in this article, where there are two contributions of this research to the literature. First is that true man or universal man still needs to be defined in more detail. While defining a parallel term like HEI, it may help understanding of true man or universal man as the combination of these two models. Second, without a due analysis of HEI as a consumer, producer, worker, capital owner, stakeholder, regulator etc, and without developing a perspective on the sources of the micro-foundations of the human (=HEI) identity crisis that Mahomedy (2013) discusses, one cannot really understand the nature of man. Farooq (2013) also highlights that the *Tawhidic* paradigm of Choudhury has not been taken serious enough by Islamic economists.

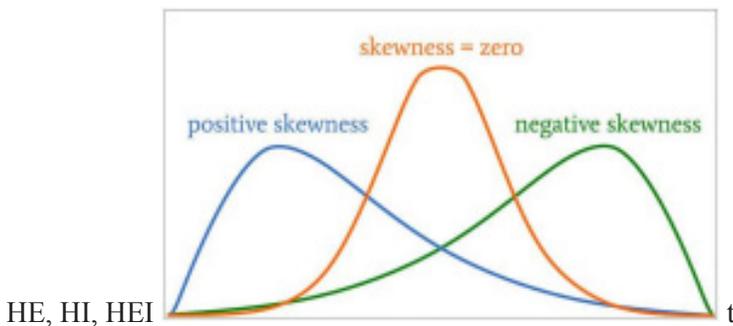


Figure 1: Normal Distribution and Skewness

If we have only HEI on earth and we need an IEF framework as it has been developed until now, the people who study, invest, use or develop IEF are also homo EI. Normal distribution chart and skewness can help us understand the conditions in Figure 1. The normal distribution, also known as the Gaussian distribution or bell curve, is a symmetric distribution where the mean, median, and mode of the distribution are all the same and located at the centre of the curve. Skewness refers to the degree of asymmetry in the distribution.

Now let us imagine that for time t and for an individual i , standard human in any country, c , is a standard *homo economislamicus* without any skewness. Such a person will act partially consistent with HI and partially consistent with HE. Individual i in time $(t+1)$ and country (space) $c1$ can be skewed to the positive side (closer to HI) or negative side (HE). Same individual i in time $(t+2)$ and not necessarily in the same country (space) $c1$ or another space $c2$ can have skewness towards HE. We can develop this model for each type of behaviour and for each person on the earth.

Human behaviour, at any point in time and space, can be represented on a spectrum with *homo economicus* (HE) on one end and *homo islamicus* (HI) on the other. This spectrum captures the continuum of human behaviour, from purely rational self-interest to deeply spiritual and moral. We should not attach any misbehaviour from HI as the theory does not mention such attachments. HEI, on the other hand is an average person on earth. "Average" is also subject to change depending on the social, cultural and other variables specific to a region or experience and personality of the involved individual.

Zero skewness in Figure 1 represents a balanced individual exhibiting attributes of both HE and HI. Such a person, termed as a standard *homo economislamicus*, acts partially consistent with HI and HE principles, embodying a mix of both good and bad manners. Positive skewness indicates a shift closer in time and space towards HI in a person, where spiritual and moral values become predominant. In the same manner, negative skewness denotes a move towards HE, where rational and self-interested behaviours dominate.

Increasing positive skewness in human behaviour persistently and continuously will transform overall micro and macro level behaviours if it is beyond a specific threshold. This problem is significant to solve as

it is very complex and dynamic. An individual's behaviour is not static. Over time and across different spaces (countries or societies), there can be shifts in this distribution, leading to changes in skewness towards HI (positive skewness) or HE (negative skewness). This situation can be analysed through various sociological and psychological theories. Social Conformity Theory suggests that individuals tend to conform to the norms and behaviours of the group to which they belong (Heinzen & Goodfriend, 2019). In the context of the scenario, a good person might start adopting bad behaviours to conform to the prevalent norms in the society.: As suggested by Social Conformity Theory, individuals tend to adopt behaviours that align with the dominant norms of their group. Thus, even if an individual originally exhibited zero skewness, they might shift towards the prevailing skewness of their society over time. Therefore, behavioural contagion is possible in time and space for HEI.

There are other theories like Broken Windows Theory which posits that visible signs of disorder and misbehaviour encourage further disorder and misbehaviour (Maskaly and Boggess, 2014). Again, in the scenario provided, the persistent bad behaviour of others might encourage even the good individuals to indulge in bad behaviour.¹ Drawing from the Broken Windows Theory, minor deviations in behaviour can snowball into larger societal shifts. For instance, if bad behaviours become slightly more common and aren't checked, they can become normalised, leading to an even more significant shift towards negative skewness. Such phenomena create feedback loops and amplification of behaviours.

¹ There are other theories too about behaviour, crime and human psychology. Moral Disengagement is a psychological theory which explains how individuals can commit harmful acts without feeling distress. Good individuals might morally disengage to adapt to the environment, which allows them to participate in bad behaviours without experiencing self-condemnation. Survival of the Fittest (Social Darwinism) theory, borrowed from biological evolution, can be applied to social contexts to explain how individuals might adopt behaviours that are necessary for survival in a particular environment, even if those behaviours are morally reprehensible; and last but not least, Game Theory. In game theory, individuals might choose strategies (like adopting bad behaviours) that maximise their own benefits, even if it leads to a suboptimal outcome for the group as a whole.

When a significant proportion of individuals in a society exhibit a consistent skewness in behaviour, it could influence the overall societal norms and values. For instance, a society with a persistent positive skewness might develop policies and systems that prioritise community welfare and ethical considerations. Therefore, collective skewness of HEIs towards HE will create societal impact.

Understanding the current skewness of an individual or a group can allow policymakers and influencers to introduce targeted interventions. For instance, in a negatively skewed society, introducing positive role models or community-building initiatives can help nudge behaviours towards a more balanced or positively skewed state. By monitoring the skewness trends, it might be possible to predict future shifts in societal behaviours and pre-emptively introduce measures to ensure a balanced societal behaviour spectrum. Promoting understanding and awareness about the importance of a balanced behaviour spectrum can empower individuals to self-regulate and seek balance in their actions.

HEI, as an individual, can be on the supply side or demand side of the IEF activities. Any government regulation or educational activities can be considered the supply side as they help the development of the IEF. The current perspective is that Islamic economists or decision makers currently are trained by mainstream economic perspectives and after such brainwashing, it is not easy to step outside the shadow of mainstream economics in behaviours. For instance, Farooq (2013) concludes that there is a “genuine need to transform the economies embracing the economic principles of Islam that are almost universal” by also emphasising that the “field is dominated by those who were trained in the Western, conventional tradition.” So, this is an interesting paradox that needs to be solved. Those people who study and improve IEF theory are HEI to some extent. How are we going to make sure that their behaviours/choices are really coming from their *homo Islamicus* part?

For instance, secular paradigm under capitalism aims happiness through increased material consumption (HE) while IEF paradigm promotes happiness through material consumption and spirituality (HI). Muslims do consume too but it is expected that they consume ethically. This approach, *Wasatiyyah-consumerism*, can be attached to HI. Moderate, balanced consumption, prioritising fairness and benevolence

in consumption (Hanapi, 2018) are components of HI in Islamic Economics. However, other activities – such as creating consumer and marketing activities, product development, sales and growth targets – are all based on conventional utility perspective. A *wasat* consumer working in a marketing department of a company can prepare a good marketing strategy consistent with conventional theories to increase the sales and maximise the corporate values. He/she can be *wasat* person even though that does not mean that the principle of *wasatiyyah* cannot be ignored in his/her personal choices. Therefore, in time and space, our choices are scattered in behaviours as the behaviours of HI and HE.

For instance, as a consumer, should I delay my payments under inflationary environments even if I have money? Financial literacy perspective may approve the delay, but this is a problem of Islamic Banks. There are fatwas that debt payment delaying-capable-clients are obliged to compensate material loss as “overdue fine” (Maftukhatusolikhah, 2003). There are even enough grounds to establish that debt is not encouraged in Islam, that it should not be delayed, and to be paid the earliest (Yunus & Muslimin, 2020). A new generation of Islamic economists voice the need of a fresh and somewhat novel or radical approach to reinvigorate the IEF (Mahomedy, 2015).

Next Step Forward

Before moving to the next step, this article does not ignore the historical, cultural or political factors inherently embedded in IEF on the way forward. However, in each step forward and in every decision, one should ask the questions: a) is the knowledge produced is consistent with HI, HE or HEI? b) Is the required application/regulation/code is consistent with HI, HE or HEI? Being aware of the mistake or the problem will at least help to solve it. It is also possible that during this very complicated journey, there may be some misunderstandings or different interpretation (*ijtihad*), and these can be updated.

For instance, if the degrowth approach had been chosen for IEF, perhaps there would not have been such a need for corporatisation and growth. Maybe if a Western growth model (which has a serious history of exploitation) is not desired, different models would be developed. However, in any case, it is not possible to progress without understanding and accepting the human being as it is, and without the desire and need to change it, in other words, without a transformative

perspective, other factors will continue to bother the IEF perspective. With an approach like “kissing the hand you cannot beat,” one would take IEF to be integrated into capitalism and making it “more moral.” If there is an exchange in this transaction, in a way, this approach brought forth less ethicality in IEF, and this circle supported the second-best theory by feeding itself.

Abdul-Baki & Uthman (2017) argue that the current IEF is unworkable for the socioeconomic ideals of Islam and it pursues profit maximisation rather than *falāh*. However, this should also not be expected due to the current operational environment. Even in an environment favouring IEF, human transformation is also needed.

Al-Jarhi (2013) provides ten gaps in the theory and practice of IE and provides the solutions to fill these gaps. If IEF “properly perceived and correctly applied,” then it will produce a new economic order that benefits humanity. However, the gaps he mentions are either the misunderstanding or misapplication of HEI and it must be stopped at some point before going into more mingling.

The aim of this article is to introduce HEI and to continue IEF with this awareness. Such awareness might require us to address the following issues:

- a. **Developing a Realistic Model:** Create a more realistic and comprehensive model that encapsulates the characteristics of HEI, considering the dynamic and complex nature of human behaviour.
- b. **In-depth Analysis of HEI:** Conduct a detailed analysis of HEI in various roles such as consumer, producer, and regulator to understand the micro-foundations of the identity crisis discussed in the article.
- c. **Educational Reforms:** Introduce educational reforms to nurture individuals who can critically evaluate and possibly transcend the influences of mainstream economic perspectives.
- d. **Regulatory Measures:** Implement regulatory measures that promote ethical behaviour and discourage materialistic tendencies fostered by the conventional economic system.

- e. Further Research: Encourage research that explores the nuances of HEI, fostering a deeper understanding and facilitating the development of IEF theory.
- f. Collaborative Efforts: Promote collaborative efforts between scholars, practitioners, and policymakers to foster a holistic approach to the development of IEF.
- g. Encouraging Ethical Consumption: Promote the principles of *Wasatiyyah*-Consumerism, encouraging individuals to adopt moderate and balanced consumption habits.
- h. Development of Ethical Marketing Strategies: Encourage the development of marketing strategies that align with the principles of ethical consumption, fostering a balance between material consumption and spirituality.
- i. Adaptive Strategies: Develop strategies that are adaptive, allowing for the integration of new insights and understandings as the field evolves.
- j. Transformative Perspective: Foster a transformative perspective that encourages individuals to undergo a change in their beliefs, practices, and understandings, aligning closer to the principles of HI.
- k. Identifying and Addressing Gaps: Work towards identifying and addressing the gaps in the theory and practice of IEF as highlighted by various scholars, aiming to create a new economic order that benefits humanity.
- l. Continuous Evaluation and Adjustment: Establish mechanisms for continuous evaluation and adjustment of strategies and approaches, allowing for the correction of misunderstandings or misapplications in the field.

By adopting these steps, it is envisaged that the field of IEF can move forward, fostering a system that is more aligned with the socio-economic ideals of Islam, promoting the well-being and prosperity of the society at large. It is imperative to approach this transformation with a realistic and grounded perspective, acknowledging the complexities of human behaviour and the influences of various external factors.

Through collaborative efforts and a commitment to change, it is hoped that a more ethical and beneficial economic system can be realised.

Conclusion

Over the past half-century, IEF has undergone significant developments, garnering interest globally from both Muslim and non-Muslim communities. The development process of IEF has been influenced by both classical Islamic sources and conventional financial theories and structures. However, the existing literature and discussions in IEF have been centred around the theoretical foundations of two human models: *homo Islamicus* (HI) and *homo Economicus* (HE), which are found to be somewhat unrealistic in representing the actual behavioural patterns of individuals in society.

While the Qur'an has many positive attributes attached to humans, there are also many negative attributes attached to them. It is both historically and logically true that never on earth has there been a time in which there is no *homo economicus* but only *homo Islamicus*. Even during the time of the Prophet (PBUH), there were *mushriks* and non-Muslims (Christians and Jews) and many others. Defining the features of HI is required but still inadequate as not all people including Muslims are HI.

The article introduces a new category, *homo economislamicus*, which seeks to bridge the gap between the idealised representations of HI and HE, acknowledging the complex and dynamic nature of human behaviour which does not strictly adhere to either category. This new category emphasises the necessity for individuals to undergo a transformative change, aligning closer to the principles of HI, while recognising the inherent challenges and barriers that prevent a complete transformation, including historical, cultural, and political influences.

It can be concluded that any problem that IEF is struggling is also a by-product of HE perspective. The deeply rooted perspective of HE in modern economic systems has inadvertently fostered a myriad of micro and macroeconomic issues. This viewpoint, which depicts individuals as solely rational and self-interested entities, often neglects the nuanced and complex nature of human behaviour, thereby spawning systemic issues such as income inequality, environmental degradation, and financial instability. At the micro level, it encourages materialistic

consumption patterns and cultivates a competitive environment that often undermines community welfare and ethical considerations. On a macro scale, it can lead to policy formulations that prioritise economic growth and profit maximisation at the expense of social equity and environmental sustainability. Recognising the limitations and potential adverse consequences of the HE perspective is vital. It calls for a paradigm shift towards a more holistic and realistic understanding of human behaviour, one that incorporates the moral and cooperative dimensions of HI, fostering a balanced and equitable economic system that aligns with the broader objectives of societal well-being and harmony.

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Islamic Economic Systems and Sustainable Development: Islamic Capitalism versus *Insanism* (Islamic Humanism)

Habib Ahmed*

Abstract: This article examines different economic systems and assesses their implications for promoting sustainable development. In a capitalist system, capital is managed by *homo economicus* who focuses on maximising profits and capital accumulation without ethical considerations. This has led to the continuous exploitation of natural resources, resulting in destructive impacts on the environment. Recognising that capital has the power to affect production and value creation, this article asserts that ethics is needed to tame capital and its production processes to achieve sustainable development. The configuration of an Islamic economic system will depend on the meanings of *Sharī'ah* and how it is interpreted. A narrow legalistic perspective would focus on legal compliance and would produce an Islamic capitalist system that would have similar adverse impacts on the environment as its capitalist counterpart. Alternatively, expanding the meaning of *Sharī'ah* to include legal-ethical principles and values would frame the economic system as *insanism* (Islamic humanism) that embeds human welfare-related ethics of *maqāṣid al-Sharī'ah* and legal maxims. In this system, moral *homo Islamicus* (*homo islami-ethicus*) imbued with the ethical characteristics of *khalīfah*, will act as a steward to guide capital and production processes, preserve the environment and contribute to sustainable development.

Keywords: Economic systems, *homo economicus*, sustainable development, *homo Islamicus*, insanism

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Abstrak: Makalah ini menganalisis pelbagai sistem ekonomi dan menilai implikasinya dalam mempromosikan pembangunan mapan. Dalam sistem kapitalis, modal dikendalikan oleh *homo economicus* yang menumpukan kepada pemaksimuman keuntungan dan akumulasi modal tanpa pertimbangan etika. Hal ini telah menyebabkan eksploitasi berterusan terhadap sumber alam, seterusnya mengakibatkan kesan buruk terhadap alam sekitar. Dengan mengenalpasti bahawa modal mempunyai kuasa untuk mempengaruhi pengeluaran dan penciptaan nilai, makalah ini menegaskan bahawa etika diperlukan untuk mengawal selia modal serta proses pengeluarannya bagi mencapai pembangunan lestari. Konfigurasi sistem ekonomi Islam bergantung kepada kefahaman terhadap makna Syariah dan interpretasinya. Perspektif legalistik yang sempit hanya akan menumpukan kepada pematuhan undang-undang dan menghasilkan sistem kapitalis Islam yang mungkin mempunyai kesan buruk terhadap alam sekitar yang serupa dengan sistem kapitalis biasa. Sebaliknya, sekiranya makna Syariah diperluaskan untuk merangkumi prinsip dan nilai perundangan-etika, sistem ekonomi akan terbentuk sebagai *insaniyah* (humanisme Islam) yang menerapkan etika berkaitan kebajikan manusia berdasarkan *maqāṣid al-Sharī'ah* dan maksud perundangan. Dalam sistem ini, *homo islamicus* (*homo islami-ethicus*) yang bermoral serta diresapi ciri-ciri etika sebagai *khalifah*, akan bertindak sebagai steward untuk membimbing proses modal dan pengeluaran, memulihara alam sekitar, dan menyumbang kepada pembangunan lestari.

Kata kunci: Sistem ekonomi, *homo economicus*, pembangunan mapan, *homo Islamicus*, *insaniyah*

Introduction

Climate change and environmental degradation pose an existential threat to humanity, as they can lead to food insecurity and societal collapse (Richards et al., 2021). Recognising the dire environmental issues facing humanity, the member states of the United Nations signed the Paris Agreement (COP21) in 2015 to limit the global average rise in temperature to below 2°C (ideally below 1.5°C) above pre-industrial levels by 2030 (Mckinsey, 2023; <https://unfccc.int/process-and-meetings/the-paris-agreement>). In the same year, the United Nations launched the Sustainable Development Goals (SDGs) in 2015 as an agenda of action for people, planet and prosperity. While the people aspect of SDGs calls for an equitable development that can tackle poverty and inequalities, the planet component relates to sustainability, which would necessitate changing to environmentally friendly

production processes and consumption patterns.¹ Since human welfare is closely linked to natural systems, achieving the goals of ‘planet’ is closely linked to the goals of ‘people.’

Climate change and its impending impact on livelihoods and human and nonhuman lives necessitate a new vision for development that balances between enhancing human welfare while protecting the environment. There are, however, contentions that market-based capitalism is part of the problem as it has unleashed destructive forces that have contributed to the problem of climate change and environmental degradation (Jones, 2022). There is a realisation that there is a need to rethink how the economic system needs to evolve to meet the needs of climate resilient sustainable development. Different solutions and alternative models are suggested to mitigate the destructive forces of capitalism, which include market-based solutions, circular economy, de-growth models, radical alternatives that change the ownership structure of capital and the stakeholders’ model that suggests, among others, introducing ethics in economic activities (see Ahmed, 2024).

Given the above, this conceptual article examines the Islamic economic framework that can help contribute to sustainable development. A key difference between the Islamic perspective and the other paradigms is that the former introduces Islamic principles and ethics into the discourse. It is argued that the values and principles entailed in Islamic ethical teachings related to economics and finance would promote sustainable development. While recognising that capital plays a powerful role in value-creating production processes in contemporary economic systems, this article asserts that in an Islamic economy, ethics should be integral to the production process to tame capital to preserve the environment and contribute to sustainable development.

This article highlights a few interrelated issues related to contemporary conceptual discourses on issues related to achieving *maqāṣid al-Sharī‘ah* (objectives of *Sharī‘ah*), which represent the goals of human welfare in an Islamic economic system. First, following

¹ While several SDGs (such as SDG 7 Affordable and Clean Energy, SDG 11 Sustainable Cities and Communities, SDG 12 Responsible Consumption and Production, SDG 14 Life below Water and SDG 15 Life on Land relate to protecting the environment, SDG 13 (Climate Action) specifically calls for urgent action to combat climate change and its impacts.

al-Qaradawi (2022), this article maintains that the preservation of the environment is closely linked to human welfare envisaged in the *maqāṣid al-Sharī'ah* (hereafter *maqāṣid*) and would be an integral part of sustainable development. Second, this article emphasises that interpreting *Sharī'ah* as formal legal compliance and ignoring the ethical values would produce an Islamic capitalist system that will produce similar outcomes as a capitalist system. Finally, implementing the *maqāṣid* perspective would require conceiving *Insanism* (Islamic humanism) that produces an *maqāṣid* economic system (*al-iqtisād al-insāniyyah*).² In *Insanism*, moral *homo islamicus* (*homo islami-ethicus*) acts as a *khalīfah* and applies the ethical guidelines entailed in both *maqāṣid* and legal maxims (*qawā'id al-fiqhiyyah*) in using capital to produce wholesome goods and services and contribute to sustainable development.

A few caveats related to the scope of this article need to be acknowledged. First, it should be noted that climate change and environmental degradation are complex phenomena with multiple economic, social, cultural and political facets and dimensions. This article recognises that the complex problem of climate change and sustainable development cannot be resolved by reconfiguring capital and production processes only and would require other interventions at different levels. These other factors are beyond the scope of this article, and this research focuses on capital and production processes that play an important role in contemporary economic systems. Second, within an economy, environmental degradation is determined by both supply and demand side factors. The demand side issues related to utility maximisation, consumption patterns and consumerism are important factors that affect climate change and the environment and deserve attention. However, to keep the discussions manageable, the focus of this article is on the supply-side issues related to capital and production processes. Finally, a key issue debated in the capitalist system relates to its distributional aspects and the income and wealth inequalities it

² The English translation for the *al-iqtisād al-insāniyyah* would be 'humanistic economics.' However, since there is already a body of conventional literature on humanistic economics (e.g., see Komlos, 2021; 2024) and humanism (ABA, undated; Mele and Schlag, 2015), the term *insanism* and *insāniyyah* economy are used to highlight its Islamic foundations and the differences from the concept used in conventional economics.

creates. Again, to keep the discussions manageable and focused, the distributional issues are not covered in this article.

This article is organised as follows. After presenting a brief overview of capitalism and implications for sustainable development in the next section, Section three presents the legal and ethical principles guiding an Islamic economic system and the specific legal and ethical values governing environmental preservation. Section four develops a framework to assess the implications of different economic systems on sustainable development and uses this framework to assess capitalist and Islamic economic systems. Section five provides a critical assessment of the results and Section six concludes this article.

Capitalism: Features and Implications for Sustainable Development

Capitalism as a system is linked ideologically to neoliberalism that postulates that “human well-being can be best advanced by maximisation of entrepreneurial freedoms within an institutional framework characterised by private property rights, individual liberty, unencumbered markets, and free trade” (Harvey, 2007, p.22). While the origin of capitalism is linked to industrialisation (industrial capitalism) that relates to utilisation of physical capital, it evolved into financial capitalism, corporate capitalism and more recently into informational capitalism (see Dean and Kretschmer (2007)). Whatever the form, a fundamental element of capitalism is the notion of capital. Capital has the power to drive production of goods and services and determine the distribution of value created in the process. The capital owners in a capitalist economy are considered to be rational *homo economicus* who maximise profit and accumulate capital by producing goods and services in an uncertain environment.

Though capitalism is usually considered to be a socio-economic system, it is essentially a ‘legal ordering’ structured through laws (Grewal, 2014, p. 652). At its basic form, property and contract laws form the foundations of a market economy as property rights are determined and protected by the former, and exchange takes place in markets by using the latter. Given that the aim of most states is to promote economic growth, a key role of governments is to provide the legal framework under which markets can thrive and the economy can

grow. Other than the legal institutions of markets, the state also provides the legal structures for capital and corporations.

The legal perspective asserts that capital is legally constructed, whereby laws are used to code capital, which are backed and enforced by the state (Pistor, 2019, p. 15). Law defines, recognises and supports certain private property as capital (Kapczynski, 2020; Pistor, 2019). Levy (2017, p. 487) identifies capital to be ‘legal property assigned a pecuniary value in expectation of a likely future pecuniary income.’ In other words, capital can be viewed as legal rights of control and claims on its future income. An asset is converted into capital by using legal codes by using different laws such as property rights law, contract law, collateral law, bankruptcy law, trust law and corporate law (Pistor, 2019, p. 3). These laws are used to confer some important attributes to assets that convert them to capital.

A corporation is a legal entity created by using corporate law, which gives it the status of a legal person with limited liability. Unlike a natural person, a corporation, as a legal person, has no moral conscience created with the sole purpose of maximising shareholders’ value (Visser 2010). Company law creates a pattern of shareholders’ and creditors’ rights that limits liability to the organisation itself, thereby encouraging investments (Hansmann and Kraakman, 2000). Thus, shareholders are not liable for any transgressions committed by a corporation, which can include corporate violence.

Capitalism is often blamed for the climate crisis and the destruction of the environment (Jones, 2022). The destructive features of capitalism are inherent in its construction and constituents. In its extreme forms, capitalist ideology is viewed as ‘market as god’ (Skeggs, 2014, p. 4). The focus of this system is on ‘value’ determined in market exchanges that is devoid of (ethical) ‘values.’ Beyond labour and capital, capitalism depends on extensive use of energy and exploitation of natural resources to fuel production and continuously expand profits. The extensive use of energy and natural resources not only depletes natural capital but also produces externalities that adversely affect the environment and devastate lives and livelihoods.

Since corporations constitute key production units of capitalism, the destructive forces are discussed in the literature as ‘corporate violence.’ Corporate violence is the ‘violence motivated or caused by

material interest, profit seeking and economic expansion’ and is a result of corporate policies and actions that ‘expose living beings to harmful conditions, products, or substances’ (Chertkovskaya and Paulsson, 2021, p. 407). Wright and Nyberg (2015) warn that the long-term impact of the destructive forces of values-free production by profit-seeking corporations will transform capitalist economies from Schumpeter’s ‘creative destruction’ to ‘creative self-destruction.’

Legal and Ethical Foundations of Islamic Economic Systems

Contrary to the capitalist system that has origins in the Enlightenment and is independent of normative or religious orientations, the Islamic economic system is based on the Quranic worldview and embeds Sharī‘ah values and principles related to economics (Haneef and Furqani, 2009). The overall aim of Sharī‘ah is to promote the welfare or benefit (*maṣlahah*, pl. *maṣālih*) of mankind and prevent harm (*mafsadah*) (Dien, 2004, p. 3; Kamali, 2008, pp. 32, 35). Sharī‘ah provides the legal rules and ethical values to achieve the *maṣlahah*. These Islamic teachings govern human behaviour and economic activities, which lay the foundations of a just and sustainable economic system. A brief overview of the legal principles and ethical values related to economics and finance is presented.

Legal Framework of Islamic Economies

The legal framework of commercial and economic activities is governed by the ‘principle of permissibility’ (*ibāḥah*), which asserts that all acts are permissible unless they are prohibited by Sharī‘ah texts (Kamali, 2000, p. 66).³ Other than forbidding some goods and activities such as wine, pork and gambling, two broad categories of prohibitions in economic transactions are *ribā* and *gharar*. *Ribā* (literally meaning increase or growth) is prohibited by *Sharī‘ah*. Although it is common to associate *ribā* with interest, it has much wider implications that can take different forms. The common premise is that *ribā* arises from unequal trade of values in exchange (Siddiqi, 2004). While *gharar* is usually referred to mean excessive uncertainty, it also signifies deception, ignorance, gambling and fraud (Al-Zuhayli, 2003, p. 82; ElGamal, 2001,

³ The principle of permissibility is derived from maxims such as ‘permissibility is the original rule of things’ or ‘the norm in transactions is that of permissibility’ (Laldin et al., 2013, p.10).

p. 32). *Gharar* relates to an asymmetric information problem arising in the object or terms of the contract. Whereas *gharar* in the object of sale exists when it is not clearly identified, does not exist or is not deliverable, *gharar* in the terms of the contract relates to the ambiguity in the stipulations and conditions that can lead to disputes.

Since interest-based loans are deemed to be *ribā* and prohibited, different types of permissible contracts are used to structure Islamic financial products. Islamic modes of financing can be broadly classified into debt, equity, and asset-based instruments (see Ayub (2007) and Usmani (1999)). Debt instruments arise from sale transactions in which one of the counter-values of the transaction is postponed to a future date. These fixed income financing instruments include cost-plus, or mark-up sale (*murābahah*), credit sale (*bay' mu'ajjal*) and object deferred sale or pre-paid sale (*istisnā' / salām*). Equity instruments are partnership contracts (*muḍārabah* and *mushārahah*) in which parties contribute capital and labour in a venture. In these contracts, while the profit is shared according to an agreed-upon ratio, loss is distributed according to the ratio of capital contribution on a pro-rata basis. Asset-based instruments include leasing (*ijārah*) contracts in which a durable asset is leased out for a period of time in return for rental payments.

Islamic Ethics: Framework and Values

Ethics in Islamic economics and finance is discussed from different perspectives and comes from different sources. The key sources of Islamic ethics are the Quran and Sunnah. There are many Quranic verses and Prophetic sayings (*ḥadīth*) that provide ethical and moral teachings related to various issues. Beyond the Sharī'ah texts, ethical values and principles also exist in *maqāṣid al-Sharī'ah* (hereafter *maqāṣid*; sing. *maqṣad*) and legal maxims (*qawā'id al-fiqhiyyah*). As indicated, a broad ethical principle guiding Sharī'ah is to maximise welfare (*maṣlahah*) and minimise harm (*mafsadah*). Both *maqāṣid* and maxims provide ethical guidance that promotes *maṣlahah*. Given the above, Islamic ethics related to economics can be presented in the following three perspectives.

1. *Human Behavioural Ethics*: The ethical axioms provide the ontological foundations and derive the moral values that guide human behaviour and actions in an Islamic economy (Iqbal and Mirakhor, 2020). The righteous behaviour conceptualised in *adab*

or *akhlāq* relates to moral integrity that guides humans in economic transactions (Al-Daghistani, 2022). The Islamic worldview and ethics change the nature of human behaviour from *homo economicus* to *homo islamicus* (Asutay, 2007; Haneef and Furqani, 2009). Instead of maximising utility, the objective of Muslims is to achieve *falāḥ*, which is success in this world and the hereafter. Accordingly, *homo islamicus* will be imbued with behavioural ethics such as respect for property rights, trust, honesty, transparency, cooperation, compassion, benevolence, etc., prescribed by Shari‘ah (Ahmad, 1992; Asutay, 2007; Aydin, 2020). A Muslim with means will engage in charitable acts such as *ṣadaqah* and create a *waqf* beyond paying the obligatory *zakāt*.

2. *Teleological Ethics (Maṣlahah and Maqāṣid)*: *Maqāṣid al-Shari‘ah* signifies the essential elements of *maṣlahah* that can achieve the best interests of humans and promote a good life (Ibn Ashur, 2006; Laldin, 2020). *Maqāṣid* provides the ‘ethical aspects of legal norms’ (Al-Daghistani, 2022, p. 63) and reflects the underlying normative wisdom of Islamic law and represent the permanent and universal goals of Shari‘ah (Kamali, 2006; 2011). *Maqāṣid* is related to the consequences of acts and neglecting them can lead to rules that deviate from Shari‘ah’s intent of enjoining good. Scholars identify the specific *maqāṣid* as the protection and enhancement of faith, self, intellect, posterity, and wealth (Hallaq, 2004; Kamali, 2003). Thus, *maqāṣid* implies guaranteeing a good quality of life by securing the religion, intellect and dignity of individuals and ensuring a minimum level of income or wealth for all in the society and protecting the interests of future generations. While these general *maqāṣid* relate to human welfare, there are specific *maqāṣid* identified by scholars that relate to economic transactions (Ibn Ashur, 2006). A key economic *maqṣad* is to ensure justice in transactions.
3. *Legal Maxims and Ethics*: Legal maxims (*qawā‘id al-fiqhiyyah*) form another important genre of Islamic methodological tools. The maxims are based on and derived from Shari‘ah texts reflecting the spirit or essence of Islamic law (Dien, 2004; Kamali, 2006). The *qawā‘id al-fiqhiyyah* (hereafter *qawā‘id*) can be used as a guide in law-making as they embody universal rules that can be applied to particular cases (Rabb, 2010; Musa, 2014). While some legal maxims have legal connotations, others have ethical overtones. For

example, the maxims of ‘if permissibility and prohibition coincide, prohibition prevails’ and ‘what is prohibited to take is also prohibited to give’ (Laldin et al., 2013, pp. 188, 194) fall under the legal category. Maxims with ethical undertones include ‘the fundamental requirement in every contact is justice’ (Laldin et al., 2013, p. 22). It should be noted that many principles governing *maṣlahah/maqāṣid* are reflected in the legal maxims such as ‘averting harm takes precedence over achieving benefit’ and ‘harm is to be eliminated’ (Laldin et al., 2013, pp. 110, 117).

Islamic Perspectives on Environment: Legal and Ethical Perspectives

Given the principle of permissibility, the legal requirements for the Islamic economy would be to avoid the prohibited sectors, such as alcohol and gambling and keep away from *ribā* and *gharar* in transactions. The latter would imply using Sharī‘ah-compliant contracts in transactions. However, there is nothing explicit that relates to the environment and sustainable development from the legal perspective. The ethical values provide guidelines that have implications for sustainability.

A fundamental element of Islamic teachings on the environment is that the universe is created by Allah and belongs to Him. Al-Qaradawi (2022, p. 45) asserts that a healthy and robust environment is necessary for achieving *maqāṣid al-Sharī‘ah* for all humans. He argues that the environment affects all the *maqāṣid* (religion, life, progeny, intellect and wealth) and hence should be preserved. He argues that a key religious belief of Islam is that humans are sent to earth as *khalīfah*, which entails the duty of stewardship. Humans are given the right to use the resources given by the ultimate Creator and Owner. However, as vicegerent, they have to abide by the universal natural laws that govern the environment and the Sharī‘ah rules and values related to their use as stewards (Al-Qaradawi, 2022, p. 47).

This role of *khalīfah* as environmental steward demands ethical values of trust (*amānah*), responsibility, accountability, modesty, moderation, conversation, avoiding greed, extravagance and overconsumption, waste and abuse, and dealing with Allah’s creation justly (Abdelzaher et al., 2019; Gada, 2014; Rizk, 2014). As God’s *khalīfah*, it is the responsibility of humans to ‘preserve this natural order or balance

between all creations’ (Abdelzaher et al., 2019, p. 631) and any action, such as pollution, overconsumption and wastefulness, that distorts this balance is considered corruption (Kula, 2001; Roughton, 2007). Acting as a steward also requires acknowledging the interdependence of humans, nonhumans and nature and treating all of Allah’s creations with respect (Abdelzaher et al., 2019, p. 635). A *khalifah* would not only consider the permissibility of goods and services, but also whether they are wholesome (*tayyib*).

Some legal maxims also provide principles that imply environmental preservation. The maxim ‘Harm is to be eliminated’ requires that harm caused to humans by humans or other causes needs to be removed (Majallah, 2001, p. 6; Laldin et al., 2013, p. 110). The maxim implies that any activity that adversely impacts the protection of the *maqṣad* of life needs to be avoided. A related maxim states that ‘Averting harms takes precedence over achieving benefit’, which means that when harm and benefits of an act are of similar magnitude, preventing harm should be given precedence and the act should be undertaken (Laldin et al., 2013, p. 117). The maxim implies that an act should be undertaken only when the benefits exceed the harms.

Economic Systems and Sustainable Development: An Evaluative Framework and Assessment

In this section, an evaluative framework is presented to understand the implications of the economic systems on sustainable development. The framework in which the impact of economic systems on the environment and sustainable development can be examined includes the following factors: objectives of capital owners or investors, capital, the production process, goods and services produced in the economy, and the social impact in terms of externalities, as shown in Figure 1. The features of these factors in different economic systems and implications for sustainable development are presented below.



Figure 1: Economic System Factors affecting Sustainable Development

Islam recognises private property and economic activities that can general prosperity for individuals and society at large. Thus,

investments in productive activities that generate returns are permitted and encouraged. However, the Islamic economic system can be discussed from two conceptual standpoints depending on the perceived meanings of Sharī'ah. First, a narrow legalistic viewpoint applies the principle of permissibility and accordingly avoids the prohibited sectors, *ribā* and *gharar* in transactions and obligates the payment of *zakāt*. Second, the broader legal-ethical perspective would integrate ethical values and principles of *maqāṣid* and *qawā'id*, along with legal compliance in decision-making. The features of the factors identified in the framework in Figure 1 for a capitalist and Islamic economic systems based on two interpretations of Sharī'ah, and implications for sustainable development, are discussed below.

Capital Owners and Objectives

The capital owners in a capitalist economy are considered to be rational *homo economicus* whose main objective is to maximise profit by producing goods and services in an uncertain environment. In corporate capitalism, the capital owners hide behind the veil of a corporation that is created with the sole objective of increasing shareholders' value.

Although capital owners or investors in an Islamic economy are assumed to be *homo islamicus*, this needs qualification due to two conceptual framings of meanings and interpretations of Sharī'ah. Accordingly, we can distinguish *homo islami-legalus* and *homo islami-ethicus*, representing in a narrow legalistic and broader legal-ethical interpretations, respectively. Muslim capital owners who operate as *homo islami-legalus* concentrate on compliance with legal Sharī'ah rules, which mainly relate to avoiding a few prohibitions. Since Islam encourages business and trade, the objective of capital owners to engage in the production processes to maximise profits is legitimate. Without considering the ethics, however, the focus of *homo islami-legalus* will be on a single bottom line of profit.

Homo islami-ethicus investors would incorporate ethics in decision-making by considering the values of *maqāṣid* and *maqāṣid*. They take on the role of *khalīfah* to act as stewards to preserve the environment and also consider the interests of other stakeholders, including the impact on non-humans and the environment. As a *khalīfah*, they must ensure that their business does not create ecological imbalances in the pursuit of

profit. Thus, the business objectives of *homo islami-ethicus* would be balancing the interests of profit, people and planet.

Capital

Capital plays a fundamental role in capitalist economies as it enables production and value creation. In the capitalist system, capital is legally constructed without any consideration of ethical values. As indicated, capital is legally constructed, whereby laws are used to code capital, which are backed and enforced by the state (Pistor, 2019, p. 15). Thus, the laws determine which types of assets can be transformed into capital. While capital can be broadly classified as equity or debt, other forms of capital can also be structured. For example, the laws of many countries recognise derivatives and, more recently, cryptocurrencies as valid forms of investable assets.

The nature of capital from an Islamic perspective can be viewed in two ways: narrowly as legal compliance or broadly as legal-ethical compliance. The former constitutes Sharī'ah-compliant capital, which focuses on the means and relates to fulfilling the legal requirements and satisfying the contractual stipulations as required by Islamic law. This would mean using one of the Islamic contractual forms indicated above, such as *murābahah* or *muḍārabah*, to provide capital. However, Sharī'ah-compliant capital will focus on the legitimacy of the contracts and not be concerned with the impact of the transaction on the environment.

The implication of a legalistic approach to defining capital for capital markets would be to carry out Sharī'ah screening of stocks at two levels. First, certain sectors producing prohibited goods and services, such as alcohol, pork, casinos, etc., are excluded. Second, financial screenings are applied to identify Sharī'ah-compliant stocks (BinMahfouz and Ahmed, 2014; Rizaldy and Ahmed, 2019). Since the narrow legalistic Sharī'ah screening ignores the ethical principles of *maqāṣid* and *qawā'id* related to the environment, it does not consider the environmental, social and governance (ESG) statuses of companies. The implication is that under the narrow interpretation, an Islamic investor will be open to invest in a company that meets the legal screening criteria but is polluting the environment or not respecting the rights of workers.

The legal-ethical capital would be Sharī'ah-based as it considers the *maqāṣid* or outcomes of transactions (Ahmed, 2011a; 2011b). Sharī'ah-based capital satisfies the contractual principles of Islamic law and also realises the goals recommended in the *maqāṣid*, which include preserving the environment. Investors in capital markets with the broader legal-ethical interpretations of Sharī'ah would carry out both Sharī'ah screening and ESG screening of stocks that assess the impact of the companies on the environment.

Production processes

Key issues related to the production processes in a capitalist system are to increase efficiency and enhance productivity, which can enhance profits. As indicated, the capitalist production system uses capital, labour, energy and natural resources to fuel production and continuously expand profits. However, the focus on efficiency and the rampant profit-seeking goal by corporations without ethics can result in over-exploitation of natural resources that can adversely affect the environment.

In an Islamic economy with a narrow legalistic perspective, efficiency would be encouraged in the production process, as this would maximise profits. Since the legal perspective does not consider the *maqāṣid* and *qawā'id*, the adverse impact on the environment will not be considered in the decision-making of the production process.

Though efficiency can appear to be Sharī'ah-neutral, it has ethical connotations from an Islamic viewpoint. The ethics of Islamic teachings discourage waste and overburdening people with hardships. Citing the maxim of 'the removal of hardship,' Fadel (2017) claims that the goal of an Islamic economic system to enhance overall welfare (*maṣlahah*) can be achieved by attaining efficiency. Beyond efficiency, the ethics of *homo islami-ethicus* in their role of *khalīfah* also imply that the production processes must be sustainable. In particular, the ethics relevant to environmental preservation would influence the use of natural resources in the production processes. As a *khalīfah*, the capital owner must ensure that the production process does not destroy nature and the environment. Thus, sustainable production would mean not only reducing wastage through efficiency but also minimising the adverse impacts on the environment. To do this, the appropriate ideas and methods discussed in some contemporary approaches, such as green technologies and promoting the circular economy, can be utilised.

Goods and services

Goods and services produced in a capitalist system must be lawful. However, the legality of a good or service is defined by the law. Thus, the law can change the legality of a commodity from illegal to lawful and vice versa. For example, while the use of cryptocurrency is permitted in many countries, some countries, such as China, prohibit it. Similarly, whereas many countries prohibit drugs, it has been decriminalised in many other countries, such as Belgium, Chile, Germany, etc. (Eastwood et al., 2016). Beyond legality, some countries would also have regulatory oversight of some products that can potentially harm people.

From a narrow Islamic legal perspective, goods and services can be broadly classified as permissible (*ḥalāl*) and prohibited (*ḥarām*). The list of prohibited goods and activities is identified in the Shari'ah texts and includes pork, wine, gambling, etc. Beyond the prohibited goods and services, the legal perspective would not consider any other issues.

Under the broader legal-ethical perspective, some of the permissible goods can be further differentiated qualitatively as being *tayyib* or wholesome. *Tayyib* has been referred to in the Quran (2:168, 172; 23:51) and can mean pure, beneficial and not causing pain or harm to consumers (Arif and Sidek, 2015; Yunus et al., 2010). For example, while chicken is *ḥalāl* or permissible, it may not be *tayyib* if its production process and supply chain are not ethical in terms of mistreating the animals or feeding them with chemicalised feeds that fattens them artificially, or if they are processed or cooked in unhealthy ways. Though *tayyib* is usually used in reference to food items, it can also apply to other goods and services. For example, cosmetics containing harmful chemicals and ingredients that can cause damage to the skin would not be considered *tayyib* (Elasrag, 2016).

Externalities

The negative externalities arising from production processes can have social costs and adversely affect societal welfare. In a capitalist system, however, the notion of private property precludes viewing production processes from a societal perspective and ignores social costs (Winters, 1994). Corporate violence often takes place within the legal parameters, as the neoliberal state tolerates the unhinged operations of the corporate sector since it contributes to economic growth. One way to deal with

negative externalities in this case will be to introduce exogenous public policies and regulations that can mitigate the social harms.

In an Islamic economy framed in a legalistic perspective, the focus is on maximising profits using Sharī‘ah-compliant capital and producing ḥalāl goods and services. This approach precludes the impact of the production processes created by externalities. As in the case of the capitalist system, negative externalities can be mitigated exogenously by using public policies and regulations.

The operations of a firm based on legal-ethical values and principles will be guided by the *maqāṣid* and the relevant maxims related to minimising harm, such as ‘harm should neither be inflicted nor reciprocated’ and ‘averting harm takes precedence over achieving benefit’. Other than protecting the environment to achieve the *maqāṣid*, applying the maxims related to avoiding causing harm provides appropriate ethical guidelines to avoid or mitigate environmental harm. This can be done by internalising the social costs of production by using appropriate sustainable technologies and processes.

Economic Systems and Sustainable Development: A Critical Comparative Analysis

Table 1 summarises the features of different factors of capitalist and Islamic economic systems that are relevant for sustainable development. The results from the table highlight a few key issues related to the nature of an Islamic economic system in terms of promoting sustainable development. First, the interpretations and meanings of Sharī‘ah are a key determinant of how an Islamic economic system will be framed. The results indicate that applying the narrow legal perspective of Sharī‘ah will produce an economy that will be similar to a legally constructed capitalist system, except for the prohibitions (*ḥalāl* products/services and Sharī‘ah-compliant transactions). The similarities of the capitalist and an Islamic economy based on legalistic interpretations are highlighted in bold in Table 1. A broader interpretation of Sharī‘ah that includes ethical values significantly alters the factors affecting sustainable development and substantially changes the nature of the economy. The results imply that to have a positive impact on sustainable development would require applying the broader meanings of Sharī‘ah that include both legal and ethical aspects of Islamic teachings.

Table 1: Economic Systems and Factors Affecting Sustainable Development

Factors	Capitalism	Islamic (Legal)	Islamic (Legal & Ethical)
Investors/ Capital owners	Homo economicus	Homo islami-legalus	Homo islami-ethicus (Khalifah)
Capital	Legal compliance	Sharī'ah compliance	Sharī'ah based
Business objectives	Shareholders interest	Shareholders interest	Stakeholders interest
Production processes	Efficient	Efficient	Efficient and sustainable
Goods and services	Legitimate	Legitimate (Halal)	Wholesome (Halal & tayyib)
Dealing with Externalities	Exogenous (Policies/regulations)	Exogenous (Policies/regulations)	Endogenous (Mitigate & internalise social costs)

The second issue relates to the investors or capital owners. The main factor that will determine the sustainability outcomes in an Islamic economic system will depend on whether the investors are *homo islami-legalus* and *homo islami-ethicus*. The table shows that activities of *homo islami-legalus* following the narrow legalistic interpretations of Sharī'ah are similar to capitalist investors, with the difference that the former would avoid the few prohibitions identified by Sharī'ah. Specifically, *homo islami-legalus* will do business by producing *halāl* products, using Sharī'ah-compliant contracts in transactions and ensuring efficiency to enhance profits. They will not be concerned if the business operations harm the environment, as these are beyond the ambit of legal issues. *Homo islami-legalus* will also not be interested in ethical issues, such as whether products are *tayyib* and ignore matters such as considering fair and clean supply chains. Ignoring the *tayyib* impact of production on stakeholders and the environment is likely to have similar destructive impacts as capitalist producers.

Homo islami-ethicus will not only fulfil the legal requirements but will also be guided by ethical values of *maqāṣid* and *qawā'id*, and act

as *khalifah*. Specifically, *homo islami-ethicus* will be concerned about other stakeholders, use Sharī‘ah-based capital, consider sustainability issues along with efficiency in production processes and produce *tayyib* goods and services. This approach will preserve the environment and promote sustainable development.

The final issue points out a key difference in the focus of the analysis in the discourses of the capitalist economic system and different Islamic economic models. The capitalist economies postulate the primacy of capital in having the power to determine the production process and value creation. The objective of the profit-maximising *homo economicus* is realised by investing in capital (shares) of a corporation, which then uses its production processes to maximise the shareholders’ value. As indicated, the results in Table 1 indicate that an Islamic economic system applying a legalistic framework has the same outcomes as the capitalist system. The focus of *homo Islami-legalus* is to use Sharī‘ah-compliant capital to serve their interests of maximising profits by employing an efficient production process to produce *halāl* products. The issues related to the impact on the environment and sustainable development are not considered, as these are not legally required. Given the similarities of outcomes with the capitalist system, the legalistic Islamic economic system can be identified as an *Islamic capitalist system*.

The Islamic economic system, considering both legal and ethical values and principles, emphasises the agency of *homo Islami-ethicus* to make decisions about the utilisation of Sharī‘ah-based capital to produce *tayyib* products by using efficient and sustainable production processes to generate profit. As both Sharī‘ah-based capital and *tayyib* products are embedded with the ethical values of *maqāṣid* and relevant *qawā‘id*, this system will minimise the harm to the environment and contribute to sustainable development. Since the focus of the system is on the agency of *homo Islami-ethicus* as a *khalifah*, and the production process attempts to fulfil the *maqāṣid* of all humans, which can be achieved through sustainable development, this system can be called *insanism* (Islamic humanism) that will produce an *insāniyyah economy* (*al-iqtisād al-insāniyyah*).

A crucial difference in Islamic capitalism and *insanism* is that while in the former the key input is capital and the outcome is measured by the profit generated to further accumulate capital, in the latter the main input

is human agency (*homo Islami-eticus*) and the outcomes are measured by both profit and the impact on *maqāṣid* linked human-welfare that includes preservation of the environment.

Conclusion

This article examines the issues related to sustainable development from an economic systems perspective by focusing on the roles of capital and human agency in production processes and the impact this has on the environment. The capitalist system is based on the premise of primacy of capital in the production process, which requires increasing profits and continuous economic growth by employing capital, labour, natural resources and energy. Capitalist production can become destructive to the environment in the hands of corporations with the rationality of *homo economicus* focused on maximising profits and capital accumulation. There is a realisation that to reduce their adverse impacts on climate change and environmental degradation, the production processes need to change.

Given the above backdrop, this article examined the role that an Islamic economic system can play in promoting sustainable development. It showed that the type of Islamic economic system will depend on the meaning of Sharī'ah and how it is interpreted. A narrow legalistic interpretation of Sharī'ah would produce an Islamic capitalist system in which *homo islami-legalus* would use Sharī'ah-compliant capital and efficient production processes to produce *halal* products to maximise profits. Since ethical values of *maqāṣid* and *qawā'id* are not incorporated in decision-making, the economy will have similar outcomes to a capitalist economy and not be able to contribute to sustainable development. A broader meaning of Sharī'ah that includes legal and ethical values and principles reflected in *maqāṣid* and *qawā'id* would result in *insanism*. This economic system will entail *homo islami-eticus* who would use Sharī'ah-based capital and efficient and sustainable production processes to produce *tayyib* products to earn profit. *Insanism* will consider impacts on the environment and contribute positively to sustainable development.

This article highlights a few conceptual notions related to developing a *maqāṣid*-based *insanism* that can promote sustainable development. First, this article shows that 'meanings' are fundamental to the framing of economic systems. For Islamic economics, meanings

are classified broadly as narrow legalistic interpretations or broader legal-ethical perspectives. Second, applying legalistic interpretations would result in an Islamic capitalist system that would have similar outcomes as the conventional capitalist system in terms of sustainable development. Finally, applying the legal-ethical meanings of Shari‘ah significantly changes the framing of economic systems from capitalism/ Islamic capitalism to *insanism*. In the latter, the power of controlling production processes moves from capital to the owners of capital. Ethical capital owners in the form of *homo islami-eticus* would act as *khalīfah* and guide production processes to achieve the *maqāsid*, which will promote sustainable development. The central message of this article is that the Islamic economic system that can achieve sustainable development would not be legalistic Islamic capitalism, but *insanism* that is embedded with ethics.

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Social Welfare Provision within an Integrated Three-Sector Economic Framework

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Abstract: Despite its apparent contributions to social welfare, the third sector is still not properly recognised and integrated into mainstream macroeconomic models and statistics. With the aim of enhancing social welfare in Muslim economies, this article firstly seeks to conceptualise an integrated framework of social welfare provision within a three-sector economy. This article uses an integrative review and synthesis of Western and Islamic literatures on the concept and experience of the third sector and social welfare provision and subsequently presents a modified circular flow model that represents a comprehensive social welfare provision framework that actively involves all economic sectors, including the third sector which is largely neglected in traditional macroeconomic framework. Secondly, this article proposes the establishment of an Islamic Third Sector Commission (ITSC) as a tool to enhance efficiency of resource allocation and social welfare provision. It represents a systematic approach to identify priority areas, assess their needs, and allocate resources accordingly, promoting greater efficiency, transparency, and effectiveness in social welfare provision. In sum, this article offers conceptual framework and practical tools that have the potential to enhance the well-being of individuals and communities, while also promoting collaboration and synergy among economic sectors. This integrated approach accentuates the fundamental values of cooperation, solidarity, and justice which are at the core of Islamic economic principles.

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Keywords: Social welfare provision, Traditional macroeconomic framework, Integrated three-sector economic framework, third sector, Islamic economics.

Abstrak: Walaupun sumbangannya terhadap kebajikan sosial ketara, sektor ketiga masih belum diiktiraf dan disepadukan dengan sewajarnya dalam model dan statistik makroekonomi arus perdana. Dengan tujuan untuk meningkatkan kebajikan sosial dalam ekonomi Muslim, makalah ini pertamanya berhasrat untuk membina satu kerangka kerja bersepadu bagi peruntukan kebajikan sosial dalam ekonomi tiga sektor. Makalah ini menggunakan kaedah kajian integratif dan sintesis terhadap literatur Barat dan Islam berkenaan konsep dan pengalaman sektor ketiga serta peruntukan kebajikan sosial, seterusnya membentangkan model aliran pusingan yang diubahsuai yang mewakili kerangka peruntukan kebajikan sosial yang komprehensif dengan penglibatan aktif semua sektor ekonomi, termasuk sektor ketiga yang sering diabaikan dalam kerangka makroekonomi tradisional. Kedua, kertas ini mencadangkan penubuhan Suruhanjaya Sektor Ketiga Islam (SSTI) sebagai satu alat untuk meningkatkan kecekapan agihan sumber dan peruntukan kebajikan sosial. Ia mewakili satu pendekatan sistematik untuk mengenal pasti bidang keutamaan, menilai keperluannya, dan mengagihkan sumber secara sewajarnya, seterusnya mempromosikan tahap kecekapan, ketelusan dan keberkesanan yang lebih tinggi dalam peruntukan kebajikan sosial. Kesimpulannya, makalah ini menawarkan kerangka konsep dan wahana praktikal yang berpotensi untuk meningkatkan kesejahteraan individu dan komuniti, di samping menggalakkan kolaborasi dan sinergi dalam kalangan sektor ekonomi. Pendekatan bersepadu ini menekankan nilai asas kerjasama, solidariti dan keadilan yang merupakan teras prinsip ekonomi Islam.

Keywords : peruntukan kebajikan sosial, Kerangka ekonomi makro tradisional, Kerangka ekonomi sektor ketiga bersepadu, Sektor ketiga, Ekonomi Islam.

Introduction

In contemporary economics, the public and private sectors command the spotlight, while the third sector often remains in the shadows. Typically, we view the public and private sectors as responsible for producing, consuming, and distributing resources in an economy. The two-sector economic framework, however, has its flaws, leading to challenges in achieving socio-economic goals and sustaining development, both in developed (Kendall & Knapp, 2000; Steinberg, 2006; Weisbrod, 1988) and developing economies (Arshad & Haneef 2016; Molla & Alam,

2013). The public sector is often seen as inefficient, while the private sector can contribute to income inequality and leave certain social needs unmet due to their lack of profitability. Moreover, there's a notable absence of ethical or value considerations in this two-sector economic framework (Arshad & Haneef, 2016; High, 1985; Westall, 2009).

On the other hand, the third sector remains somewhat overlooked. This lack of attention may stem from limited information about its scope and contributions, making it 'invisible' in comparison to the other sectors. The term 'third sector' is often used interchangeably with phrases like 'voluntary sector,' 'non-profit sector,' 'charitable sector,' the 'community sector,' the 'philanthropic sector,' the 'intermediary sector,' the 'citizen sector,' the 'civil society,' the 'social economy,' or even simply the 'third way.' It includes a wide array of institutions like NGOs, charities, cooperatives, and social enterprises, among others. In the Islamic context, it also encompasses practices like *zakāt*, *ṣadaqah*, and *waqf*.

Despite its importance in social welfare provision, the third sector is often seen in isolation, and its potential is not fully realised. One reason is the misconception that it competes with the public sector (Evans & Shields, 2000). Furthermore, it has been largely viewed as a traditional charity sector, rather than an active participant in the economy. Legal and organisational challenges further complicate its integration into modern economic frameworks (Salamon, 2010). For instance, depending on the nature of third sector organisations (TSOs) and their sources of support, TSOs are often categorised in national statistics and accounts under the private or public sectors or even the household sector (Salamon, 2010), especially since there are many complex hybrid organisations that overlap between economic sectors. Non-profits, for instance, are categorised under the private sector, acting as social welfare organisations correcting market imperfections, while the public sector regulates and balances income flows in the economy in the form of redistributive measures and social protection. Consequently, the third sector is not recognised as a distinct sector, and its balance of flows and interaction with other sectors are not depicted in mainstream macroeconomic model. Recognising and including the third sector within income flow models has become increasingly important due to the significant flow of income and non-monetary social welfare resources flowing through the third sector to benefit society.

From an Islamic viewpoint, the third sector naturally aligns with Islamic principles, values, and objectives (Alterman & Hunter, 2006; Salih, 2002; Zaenal & Ismail, 2014). It has a rich history of social and economic contributions. Resources from the third sector play a significant role in promoting social welfare in various sectors such as supporting the poor, education, health care, water, and other public amenities (Hamdani et al., 2004). However, it has waned over time as the state and the private sector took precedence (Bremer, 2004; Bikmen, 2008). In recent times, it is making a comeback, but its role and scope vary across regions. Unfortunately, despite the strong emphasis on the social welfare concept within Islam, the social welfare systems in Muslim societies lag behind their Western counterparts. Instead, they often exhibit characteristics inconsistent with Islamic precepts such as ‘adversary’ relationships and weak partnerships between the third and other sectors of the economy (OIC Outlook Series, 2014). Considering the historical significance, the status given by Islam, and the inherent role of third-sector activities in Islamic economic systems, questions about its role, status, and relevance in contemporary Islamic economies arise.

It is apparent that the third sector, both in Western and Islamic contexts, play an essential role in social welfare provision. This raises questions about how the third sector fits into the economy alongside the public and private sectors, especially considering the considerable resources it handles. Why is it not represented as a distinct sector in the mainstream macroeconomic framework such as the circular income flow model? How do welfare resources, in the form of income, goods and services, circulate through the economy? This article aims to delve into these questions and explore the intricate interactions between sectors in the context of social welfare provision, shedding light on the often overlooked but crucial role of the third sector.

Numerous studies have emphasised the limitations of the traditional two-sector economic model, highlighting its inability to sustain socio-economic development without the integration of a well-established third sector (Weisbrod, 1988; Dollery & Wallis, 2002; Molla & Alam, 2013; Arshad & Haneef, 2016). The third sector is seen as a crucial player capable of complementing the public and private sectors and addressing the shortcomings of the standard two-sector economy. Since the sector has so far been regarded as a side player without proper

institutionalisation, studies like Kolin (2009) call for the need for an integrative system with all three sectors of the economy participating under the welfare system. The concern of inadequate resource distribution and mobilisation through the third sector has also been observed as one of the major drawbacks of contemporary third-sector practices, both in the Western sphere in relation to third-sector failures (Salamon, 1987) and in Muslim societies who face ineffective allocation of philanthropy among welfare sectors (GIFR, 2012; Ismail & Shaikh, 2017). This acts as a hindrance to enhancing the sector's potential and sustaining better social welfare provision in an economy. Hence, a three-sector economy including the third sector offers the potential for a more efficient allocation of resources (Ahmed et al., 1983). Formalising the third sector can also open opportunities for greater sustainability and fundamental economic objectives, addressing the ethical and value components often overlooked in the current two-sector economic framework.

This article, therefore, addresses a critical gap, aiming to understand how the third sector can be effectively integrated with other sectors to enhance overall social welfare provision. It explores the interaction of the third sector with the public and private sectors in social welfare provision particularly in an Islamic economic context, proposing an integrated framework of social welfare provision within a three-sector economy. This integrated three-sector economic framework essentialises the emphasis of Islam on the concept of cooperation, shared responsibility, and solidarity in pursuing the Islamic economic objectives of establishing socioeconomic justice and overall human well-being.

To achieve this objective, sections two and three survey the concept and experience of social welfare provision from the Western and Islamic perspectives respectively. Subsequently, section four presents a framework that describes the interactions among different economic sectors to facilitate social welfare provision. This framework introduces a modified circular flow of income, explaining and illustrating the movement of social welfare income transfers and the exchange of goods and services within an integrated three-sector setting. Furthermore, it offers a comprehensive insight into the intricate relationships between these economic sectors. It also proposes the establishment of an Islamic Third Sector Commission (ITSC) for the efficient allocation of third-

sector resources and overall social welfare provision in an Islamic economy. The final section, section five, concludes the article and discusses some implications of the study.

The Western Social Welfare Concept and Experience

In Western literature, the concept of social welfare stands as a fundamental pillar of a just and united society. Social welfare, in its broadest sense, encompasses the well-being and interests of individuals within a society. It extends beyond merely meeting individual wants, as it considers socially defined needs and common interests, which may sometimes conflict or require individuals to bear costs for the benefit of others (Spicker, 2013). It therefore encompasses a systematic framework of policies, programmes, and institutions designed to assist individuals and groups in achieving satisfactory standards of life and health. Essentially, it aims to tackle the multitude of problems in society and provide support to disadvantaged segments of the population who face various barriers, including physical, mental, economic, and social challenges, preventing them from accessing societal services (Bharadwaj, 2015).

Social welfare thus encompasses a broad spectrum of services aimed at diverse groups, including children, youth, women, the elderly, scheduled castes, scheduled tribes, other backward classes, minorities, disabled individuals, drug addicts, and the economically underprivileged, including destitute and unemployed individuals. Effective social welfare programmes require competent administration to enhance well-being and achieve societal objectives. These objectives include addressing individual needs, promoting personal development, and providing a safety net against uncertainties such as old age, disability, or poverty (Bharadwaj, 2015; Spicker, 2013).

Welfare provision across different economic sectors has evolved over time. Historically, the non-state sectors—market, voluntary, and informal sectors—played the main role in social well-being. However, in the post-World War period, welfare states emerged, and the public sector took on a more prominent role, such as in countries like the UK and Australia (Wright, Marston & McDonald, 2011). For instance, Australia today employs a mixed welfare economy with the third sector as the primary welfare source, supported by various entities including the state, local governments, private market organisations, and informal

groups. The share in welfare contributions varies among different states, with some led by the public sector and others by private and voluntary sectors. This reflects a mixed welfare economy approach, recognising that no single sector can solely address social welfare challenges, prompting consideration of a three-sector solution. (Butcher, 2017; Ghilchrist & Butcher, 2016).

Similarly, Europe exhibits a mixed welfare economic system, where the state, third-sector organisations (TSOs), local municipalities, private volunteer work, and community philanthropy contribute to social well-being (Evers and Laville, 2004). This has given rise to a welfare-mixed economy, recognising the plurality of resources contributing to social welfare (Evers and Laville, 2004).

As sectors intertwine and decentralise services, hybrid organisations have emerged, bridging sectoral boundaries (Evers, 2004). Defourney & Pestoff (2014) emphasise the third sector's complementary role in basic welfare provision, highlighting hybrid organisations that overlap sectors. These hybrids, including mutual aid organisations, informal self-help groups, cooperatives, quasi-public organisations, and third sector-government partnerships, play pivotal roles in social welfare.

Salamon (1987) accentuates that the increased partnerships between the third and public sectors in welfare service provision are one of the driving influences of the evolution of the modern welfare state. Collaboration between the public and third sectors is essential, and it benefits both. Governments provide resources more consistently and ensure they are more equitably distributed, while the third sector specialises in providing welfare services tailored to the needs of society (Salamon, 1987). The third sector also contains a rich resource of volunteers and financial donations which can be maximised through the support of the public sector (Feiock & Andrew, 2006). The collaborative model between the public and third sector can be found worldwide, including the US (third-party government), the UK (third-sector compact with the government), Germany and Scandinavian countries (third-sector subsidiary relationship with the government) (Young, 2000; Gilchrist & Butcher, 2010). According to Anheier (2002), the most advanced third sectors today can be found in these very countries whose third sectors formed a complementary relationship with their governments.

In fact, there has been a shift from public sector dominance to a closer partnership with the third sector, responsible for a significant portion of welfare services (Third Sector, 2005). Such partnerships have proven beneficial, resulting in cost-efficiency, trusted services, flexibility, sustainability, skill development, and improved societal welfare (Butcher, 2017; Productivity Commission, 2010).

According to Bridge et al. (2009), there are four primary sources of funding for the third or welfare sector; commercial sources (including equity finance, bank loans, venture capital, and stocks), private sources (involving TSO founders, individuals, and corporations), earned income (from goods and services, fees, and dues), and special sources (such as personal fundraisings, donations, grants, and endowments). The public sector plays a predominant role in social welfare services in most European countries, particularly in the Western region such as Netherlands, Ireland, and Belgium which boasts some of the world's largest third sectors (Salamon et al., 1999). In Canada as well, public sector transfers are the primary income source for the charitable sector, followed by earned income, with households and businesses providing a smaller share (Emmett and Emmett, 2015).

Conversely, the US primarily depends on commercial sources and private philanthropy contributions (donations and earned income (fees and dues)), with additional support from government funding, grants, and contracts (Bridge et al., 2009). Earned income is also a dominant source of social welfare provision in other parts of the world like Australia, Japan, Latin America, and Central and Eastern Europe (Salamon et al., 1999). In the UK, welfare services rely predominantly on individual private contributions, followed by government welfare funds (NCVO, 2015).

Regarding specific welfare sectors in the US, education, healthcare, and human services rely heavily on earned income (fees), while arts, culture, and environmental welfare depend on private donations (Sherlock and Gravelle, 2009). Government support, though varying in extent, is particularly concentrated in fields like health, education, and social services. Private philanthropy, from both corporations and households, is important but seldom the primary source of welfare funding in most regions. Exceptions include international aid welfare

and religious congregations, where significant private donations are prevalent (Salamon et al., 1999).

Reflecting on the experience of social welfare practices highlighted above reveals the apparent variations in welfare systems according to the way the three different sectors interact and which sector has a prevalence in the provision of social welfare. Regardless of these potential variations, it is clearly seen that a closer partnership between the public and the private sector with the third sector can only lead to better provision of social welfare for the population.

Social Welfare in an Islamic Economy

Social Welfare is undoubtedly a fundamental part of an Islamic economy, starting with the individual, family, society, and then the Ummah as a whole. From the Islamic stance, ideally all the main economic sectors—the state, market, household, and third sector—converge to create what can be termed “an economy devoted to welfare.” This socio-economic order aims to foster a welfare-oriented society where these sectors harmoniously complement one another, thereby enhancing the performance of welfare provision across all sectors.

While the Western social welfare remains morally neutral, rooted in capitalist or socialist ideologies, and founded on principles of social solidarity, the concept of social welfare in Islamic economics is firmly grounded in an Islamic moral philosophy that integrates spiritual and material well-being. Recognising the central roles played by all economic sectors in social welfare provision, this section provides a concise overview of the Islamic perspective on social welfare, outlining how each sector shares that responsibility as well as the experiences of social welfare in practice.

Akhtar (1995) posits that the government plays a key role in providing social welfare in collaboration with the market and non-market sectors while voluntary organisations remain the most significant source of public welfare goods and services. Siddiqi (1991) emphasises the voluntary sector’s role in facilitating income transfers to impoverished households, as well as directly delivering private welfare goods and services to those in need. The family and community sectors, often considered part of the voluntary sector, actively engage in various informal activities and income transfers. Wealth transfers,

both obligatory and voluntary, within immediate and extended family structures, are considered a crucial part of social welfare systems and are identified as being much more extensive in Muslim societies than experienced in their Western counterparts (Mannan, n.d.).

Scholars like Faridi (1983), Ariff (1991), and Siddiqi (1991) highlight the critical roles of all sectors in an economy, particularly in allocation, distribution, and stabilisation – crucial aspects of effective social welfare provision. In terms of allocation, an Islamic economy adheres to a mix of resource allocation among the public, private, and voluntary (including the informal sector) sectors based on social norms and Islamic values. The public sector plays the role of rectifying resource allocation problems by educating and informing society of the needs of its disadvantaged or poor people, expanding its resources as needed, and determining the distribution of *zakāt*, *ṣadaqah* and other wealth transfers. It effectively redistributes income with the help of the voluntary sector. It also provides direct social welfare services and supports other welfare programmes in the economy. At the same time, it regulates and mitigates conflicts between sectors for the social well-being of society. The voluntary sector supplements social welfare resources and services as per the needs of the community with the informal household sector being significantly involved in contributions to the third sector and its welfare services. The distribution function entails the transfer of resources and wealth from higher-income groups to lower-income segments of society.

Current resources of social welfare provision are shared among economic sectors in various ways. For instance, *zakaat* collection and distribution may primarily fall under the purview of the public sector, as seen in Pakistan, Sudan, and Malaysia, or under the community or voluntary sector, as observed in Morocco, Jordan, and Oman (Hasan, 2007). *Zakāt*-based transfers are considered foundational for social welfare, serving as the primary redistribution tool, whether administered by the government or the private voluntary sector. Dogarawa (2008) emphasises the role of *zakāt* within the family system as a sustainable and enduring mechanism for wealth transfer, forming the bedrock of social welfare accomplishments. Chapra (1979) highlights *zakāt* as a primary income source in an Islamic welfare state. Additionally, the sectors collectively perform a stabilising function, eliminating destabilising elements in the economy, with *zakāt* itself acting as a natural fiscal

stabiliser. This function strives to remove any impediments to social welfare and ensure overall societal well-being.

After the decline of the third sector during the Ottoman era, the public sector assumed much of the social welfare provision, with limited roles played by the private and voluntary sectors. However, in recent decades, the transition from authoritarian regimes to more democratic governance in Muslim nations, influenced by a blend of historical, modern, and international practices, has led to a shift in welfare provision from the public to the private sector (Bremer, 2004). Presently, it is common to find a mix of democratic and autocratic governance influencing welfare provision, with countries like Turkey, Indonesia, Bangladesh, Malaysia, Jordan, and Morocco embracing increasingly democratic regimes.

Nevertheless, in many Muslim countries, there remains a noticeable gap compared to developed Western nations in terms of robust collaboration between the third sector and the public sector. While the harmonious relationship observed between these sectors in various Western regions aligns with the Islamic concept of a social welfare system, it is not as widely applied or embraced in Muslim societies. On the contrary, several OIC (Organisation of Islamic Cooperation) countries exhibit an “adversary” relationship between these sectors, sometimes even rivalling each other (OIC Outlook, 2014). The OIC report on civil society concludes that instead of fostering the growth and institutionalisation of the third sector by creating a conducive environment, some governments hinder their third sectors due to concerns about loss of power, political corruption, policy abuse, and limited tolerance for civil society authorities. The extent of conflict between sectors in social welfare provision varies among different OIC countries, with marked disparities between nations. Those regions with smaller third sectors, resulting from poor intersectoral interactions, have much to learn from other Muslim countries with more robust third sectors established through collaborative relationships, as well as from exemplary Western societies that have excelled in social welfare provision.

Interaction of Sectors in Social Welfare Provision

This section explains the intricate interactions inherent to an Islamic economy, where a distinct third sector plays an important role in the provision of social welfare. Given the substantial magnitude of welfare

resources—comprising funds, goods, and services—that flow to the third sector and around the economy through all economic sectors, this study presents a model depicting the flow of income and the exchange of goods and services, for the purpose of societal well-being. It identifies the sources of welfare and the intersectoral interactions that facilitate the realisation of social welfare. It finally presents a holistic framework wherein all economic sectors seamlessly interact within the context of a three-sector economy.

A Modified Model of the Circular Flow of Income in an Economy

This section proposes a basic model that illustrates the interplay of the third sector with other sectors within an economy, facilitating the movement of welfare goods and services. The model depicts the balance of welfare income transfers and welfare goods as the major exchanges and flows in an economy. It is relevant because firstly, it adequately depicts the flow of welfare provision within an economy. Secondly, it recognises the interdependent relationship between the sectors and between economic exchanges as there can be no social welfare goods and services without sources of social welfare provision. Lastly, like the conventional circular flow of income model, it portrays the perpetual nature of the social welfare system through the continual flow of wealth and goods in an economy from a social welfare economic context.

Figure 1 offers a modified depiction of the circular flow of income model, showcasing the sources of social welfare and their movement within an economy featuring a distinct third sector. In a typical economy, formal sectors include the public, private, and third sectors, while the informal sector comprises households. The most significant source of welfare emanates from factor income payments—wages, rents, and profits—that the private sector disburses to households in exchange for factor inputs, including land, labour, capital, and entrepreneurship. For the majority of society, the primary source of social welfare is derived from income earnings and subsequent consumption in resource and product markets, either directly as earners or indirectly through family members' earnings. Consequently, the private (market) sector serves as the largest source of welfare provision within an economy.

Within the household sector, income earnings serve diverse welfare purposes. The higher-income group (rich) extends welfare support (depicted by the red downward arrow) to the lower-income group

(poor) through direct wealth transfers (donations, gifts, *sadaqah*) or informal charitable services and volunteer work. Social welfare within this sector may also encompass community-wide initiatives, societal groups, or informal activities conducted within family structures, such as free tuition classes and community security efforts. The household sector also constitutes the primary source of welfare provision for the third sector within an economy. It provides wealth transfers, donations, goods, and services, as well as non-monetary contributions in the form of time and effort, to pure TSOs such as traditional charitable organisations, orphanages, elderly care homes, and refugee organisations. In the Islamic context, pure TSOs also include *zakāt* or *waqf* institutions.

The private sector (firms) indirectly contributes to the third sector by providing factor income payments to the household sector, which then channels wealth transfers and welfare services to the third sector, as previously described. Furthermore, the private sector directly offers private income transfers such as sponsorships and welfare services in the form of free goods and services or Corporate Social Responsibility (CSR) initiatives for pure TSOs. At the same time, the private sector directly extends private income transfers and welfare goods and services to the household sector, which may manifest as CSR activities benefiting entire communities or voluntary aid targeting specific societal groups. Private contributions also include the time and effort dedicated to social welfare purposes. Lastly, the private sector pays taxes to the public sector, which are crucial for financing public goods, welfare services, and public transfers and grants to the household and third sector organisations.

The public sector (government) serves as another key source of welfare provision for both the household and third sectors. It directly channels welfare goods and services to the informal household sector, either catering to entire communities (e.g., healthcare, education, defence) or specifically focusing on lower-income groups. Moreover, the public sector provides direct transfer payments (e.g., social security, and social welfare programs) to lower-income or disadvantaged groups (e.g., impoverished individuals, single mothers, widows) within the household sector. The public sector is also responsible for extending income transfers and social welfare goods and services directly to pure TSOs in the third sector. Public welfare provision is facilitated through

the collection of resources from taxes and charitable contributions sourced from the household and private sectors.

Finally, the third sector, at the centre of the diagram, is a significant source of welfare provision and well-being, both for pure TSOs within it and for the household sector. Pure TSOs directly transfer income to the lower-income group (poor) in the household sector (as indicated by the red arrow in Figure 1). They also provide goods and services to the entire household sector or specific target groups. Pure TSOs within the third sector receive transfer funds and welfare services from all sectors of the economy—public, private, and household.

Additionally, each sector in the economy—private, public, and household—comprises hybrid TSOs that are major sources of social welfare provision. These organisations overlap with the third sector due to their shared social welfare objectives, thus making them part of the third sector of the economy. For example, social enterprises, cooperatives, and community or ethical-based financial institutions straddle the line between the private and third sectors. Similarly, various other organisations may find themselves at the intersection of the public and third sector or between the informal household and third sector. Irrespective of their placement, all these organisations, directly or indirectly, contribute to social welfare within this integrated three-sector economy, either by extending income transfers and welfare goods to the third sector or directly to underprivileged individuals in the household sector.

Among the myriad sectors of social welfare in society, key areas that receive income transfers and welfare goods from all sectors include education, health, food/clothing, shelter/housing, disaster relief, social care, childcare/orphanages, elderly care, counselling and domestic support, religious organisations, and environment/animal protection. Often, the public sector directs the bulk of welfare support toward fulfilling basic needs (education, health, food, shelter, human services) and increasingly collaborates with the third sector in delivering social welfare services. Meanwhile, private philanthropy from the third and household sectors usually contributes more to social care, disaster relief, counselling, environmental conservation, and religious organisations. International aid (not included in the model) also plays an important role in welfare support in some countries, particularly for disaster aid, social care, and basic human services.

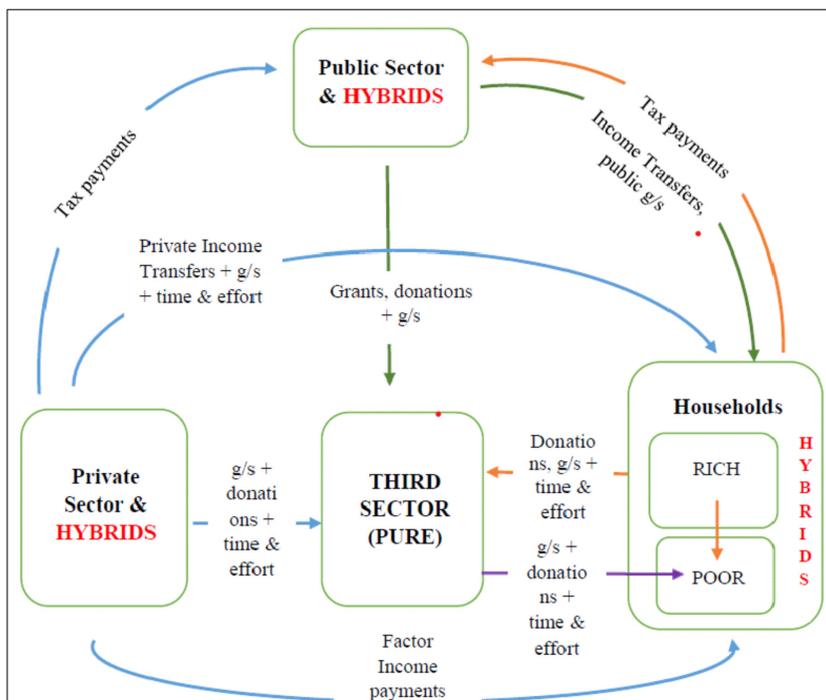


Figure 1 provides an illustration of the circular flow of social welfare resources within an economy. These resources encompass various forms, such as factor income payments, income transfers, grants, donations, welfare goods and services, tax payments, and the valuable time and effort dedicated to societal well-being. In the diagram, you can observe a dynamic exchange of welfare resources represented by different coloured arrows:

The **EXH** arrows symbolize the flow of welfare resources originating from the private sector and moving towards the third sector, household sector, and public sector.

The **JHQ** arrows signify the transfer of welfare resources from the public sector to both the third sector and the household sector.

The **orange** arrows represent the movement of welfare resources within the household sector, as well as towards the public and third sectors.

The **purple** arrow illustrates the flow of welfare resources from the third sector back to the household sector.

The hybrid TSOs (indicated in **red** within each economic sector) are also important sources of social welfare.

Please note: "g/s" stands for goods and services.

Source: Created by Authors

Figure 1: A Circular Flow of Income Transfers and Social Welfare Provision

The diagram does not show all the flows as typically found in traditional circular flow of income models. For example, it excludes household sector expenditures on goods and services from the private sector (domestic and abroad), factor inputs from households to businesses, or public subsidies, goods and services received by the market from the government. The purpose is to simplify the diagram, as the objective is to solely focus on the movement of social welfare provision around the economy.

The Framework of Interaction in a Three-Sector Economy

Within a three-sector Islamic economic framework, all sectors collaborate towards the realisation of Islamic economic goals by fostering a conducive and sustainable environment rooted in principles of brotherhood, cooperation, and solidarity. These sectors operate within the rules of the game of Islam – the framework of Islamic principles drawn from the divine sources of the Qur'an and Sunnah. Acknowledging the substantial value and benefits offered by the third sector, both the public and private sectors demonstrate their support through resource contributions. This support can take the form of direct assistance, such as grants, sponsorships, and in-kind resources, or indirect support, like tax concessions and environmentally friendly practices. While each sector independently allocates resources, they also complement one another, with the third sector playing a central role in resource reallocation across the economy, primarily through its numerous social welfare organisations and activities, as depicted in Figure 2.

The household sector predominantly serves as the primary source of volunteers and philanthropists for the third sector. It further contributes by alleviating the third sector's burden through individual and collective social welfare activities and environmentally friendly behaviours. Given that the majority of resources in the economy stem from the household sector—serving as the primary source of labour, clients, and customers for the public and private sectors—these sectors may find themselves in competition for household resources. As the principal resource provider, the household sector significantly influences the overall economic landscape or the 'natural environment' and the function of the third sector particularly through its informal family and community institutions.

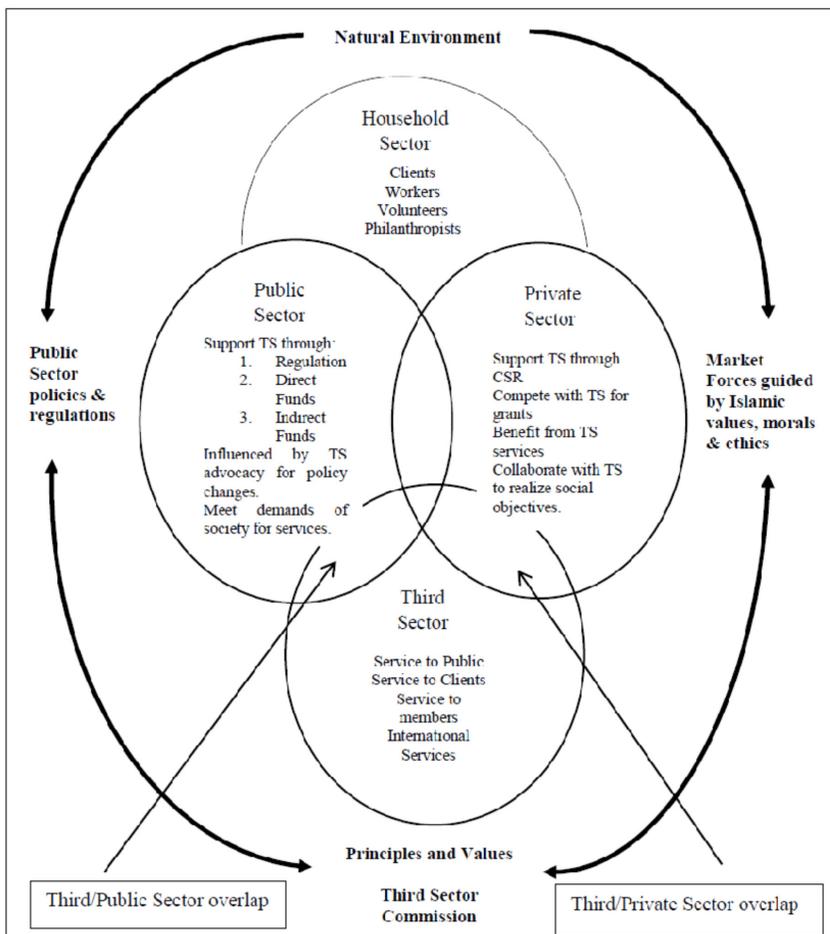


Figure 2, which has been adapted from the Productivity Commission Report (2010), illustrates the interplay among the public, private, household, and third sectors within a collaborative socio-economic framework. These sectors operate under the guidance of various principles: market dynamics, values, and practices rooted in Islamic ethics and morals; regulations from the public sector; policies defined by the state; the cultural values of the third sector and civil society; and the presence of a Third Sector Commission. This collaborative environment is a product of a complex blend of historical, cultural, religious, political, and economic factors, collectively referred to as the natural environment. These factors have the potential to undergo changes, thus influencing the overall socio-economic landscape.

Figure 2: Interactions between Third Public, Private and Household Sectors

The public sector, guided by state legislation and policies based on an Islamic legal and judicial system, assumes the role of overseeing and creating a well-regulated environment. It not only directly funds the third sector but also encourages other sectors to contribute to social welfare by offering tax incentives or concessions. The public sector also fulfils its customary governmental roles, including providing essential public facilities and welfare services, ensuring the satisfaction of basic needs for all citizens, and redistributing funds, wealth, and resources throughout the economy. Overall, it monitors the welfare of all sectors, ensuring their security, stability, and cooperation, intervening when necessary, in cases of deficiencies, shortcomings, or violations of codes of conduct, and maintaining equilibrium between all sectors, individuals, and society.

The private sector, guided by market rules, values, and practices rooted in Islamic values, morals, and ethics, strives to minimise market imperfections and inefficiencies. In doing so, it lightens the burden on the third sector and advances social welfare by adhering to socially responsible behaviour. This includes avoiding practices like interest (*ribā*) and profiteering, supporting CSR initiatives, participating in fundraising projects, and providing low-cost services for the underprivileged. Furthermore, the private sector increasingly intersects with the third sector by establishing cooperatives, social enterprises, and other for-profit social organisations, thereby blurring the lines between these two sectors.

The third sector does not exist merely to fill the gaps left by the public and private sectors but operates in harmony with them while maintaining its autonomy. This reflects the concept of an “inherent social compact that exists in a country” (Productivity Commission, 2010, p.24). The size, scope, and role of the third sector are influenced by the socio-economic environment, as well as the level of cooperation, competition, and complementarity among economic sectors. It is also influenced by the societal demands for TSOs and activities that the third sector can efficiently provide while facing competition for obtaining resources and providing services. To regulate the third sector effectively, maintain codes of conduct among TSOs, and document the activities and institutions within the third sector in each country, the establishment of a ‘third sector commission’ is advisable.

Hybrid organisations within the third sector that overlap with other sectors constitute a crucial component of the third sector. These organisations operate under market rules and conditions or state regulations while aligning with some of the principles and objectives of a TSO. Organisations heavily funded by the government may fall into the ‘public-third sector overlap’ category, while those that operate similarly to private entities but with a clear social benefit focus fall under the ‘private-third sector overlap.’ Regardless of their characteristics, their ultimate aim is to enhance community well-being. These hybrid TSOs play an increasingly significant role in socio-economic development in the modern era. Depending on the collaborative socio-economic environment, some areas may have more of these ‘hybrid’ TSOs than others.

Proposition of an Islamic Third Sector Commission (ITSC)

The establishment of a national, independent third-sector governing body is imperative within the framework of a three-sector economy. This authoritative body would be responsible for overseeing and regulating standard operating procedures through the development of a comprehensive code of conduct and regulatory framework. Such an entity is essential to ensure transparency and optimise the performance of the third sector. Proposed as the Islamic Third Sector Commission (ITSC), this body would produce annual reports detailing the performance, impacts, objectives, and other critical information about the country’s third sector, making it accessible to the public. This transparency initiative is expected to raise awareness of the sector, encourage the establishment of more TSOs, foster enhanced collaboration among economic sectors in social welfare provision, promote community involvement, and stimulate increased volunteering and contributions to the sector. Moreover, it would serve as a valuable source of information for the government and policymakers.

The ITSC would undertake several key roles, including but not limited to:

1. **Registration:** The commission would facilitate the formal registration of all TSOs, capturing essential organisation features such as objectives, social welfare goals, funding sources, service allocation targets, and potential areas of contribution. This information would be recorded in a national registrar.

2. **Evaluation:** The ITSC would be responsible for assessing the contributions of TSOs in terms of resources, activities, direct welfare costs and benefits, and long-term implications. It would gauge the extent to which a country's socio-economic goals are being achieved. To conduct evaluations effectively, the commission would develop a standardised evaluation framework and collect relevant data from TSOs. Additionally, it may establish reward schemes to incentivise organisational growth and improve performance through both monetary (funds) and non-monetary (awards) support.
3. **Regulation:** In its regulatory capacity, the ITSC would ensure TSOs adhere to the code of conduct established for the third sector. It would monitor and prevent cases of over-funding, underfunding, or any form of discriminatory behaviour that favours or discriminates against certain segments of society. The commission would also verify the credibility of registered TSOs, ensuring they genuinely pursue social objectives rather than engaging in fraudulent activities to exploit tax exemptions, grants, or sponsorships. Overall, its role would be to safeguard the sector against corrupt practices and act against deviations from social objectives.
4. **Allocation:** The ITSC would play a critical role in optimising resource distribution. After identifying priority areas requiring third-sector resources, services, and social welfare transfers, the commission would inform TSOs and other economic sectors, guiding them in the allocation of their resources to targeted welfare sectors. This is expected to enhance efficiency, credibility, and transparency.
5. **Intermediation:** Serving as a bridge between the third sector and other sectors, particularly the government, the ITSC would play a crucial role. This role is especially significant in countries where the government provides substantial funding to the third sector and engages in partnerships with the public sector. The commission would collaborate with the government to direct welfare resources to critical areas of society and promote the establishment of additional TSOs.

6. Identification of Barriers: The ITSC may also be tasked with identifying barriers that hinder the effective operation of the third sector. These barriers could be legal, financial, cultural, or of other types. Once identified, the commission would work in collaboration with the government and other sectors to overcome these barriers. For example, in some countries, legal requirements for registering formal organisations may be challenging to meet, resources may be inequitably distributed among welfare sectors due to a lack of information on priority zones, or shortages of funds may impede organisational operations. Additionally, a lack of awareness or cultural norms may limit citizen involvement in volunteering and contributing to TSOs. The ITSC's role in identifying and addressing such unique barriers would be crucial in strengthening and expanding the third sector.

Conclusion and Implications

This article has highlighted the essential position of the third sector within an integrated three-sector economic framework of an Islamic economy, specifically focusing on social welfare provision. It presents a modified income flow model within an integrated three-sector economy that demonstrates social welfare provision in terms of the flows of income and goods and services. The article illustrates the complementary relationship of sectors in a collaborative socio-economic environment within the social welfare provision model that actively involves all sectors, including the third sector which is largely neglected in the traditional macroeconomic framework. The establishment of an Islamic Third Sector Commission (ITSC) is proposed as an important component of this framework. The ITSC serves as an authoritative body overseeing TSOs, ensuring compliance with codes of conduct, and fostering collaboration among sectors.

The article emphasises the interdependence of economic sectors, emphasising the need for enhanced coordination and collaboration among public, private, and third sectors to create a more effective social welfare system. This can inspire innovative approaches to social welfare programs and initiatives, identifying new ways to leverage the interactions between sectors. Increased public awareness of the complexity and significance of all sectors for social welfare provision

can lead to greater support and participation in welfare initiatives, expanding their reach and impact. By understanding how resources flow between sectors, policymakers can make more effective decisions to ensure resources are optimally distributed for maximum societal impact.

The article recognises the significant influence of the household sector in the economic landscape, informing policies to harness its potential for societal well-being. It underlines the role of the public sector in creating a well-regulated environment and encouraging resource contributions to social welfare, emphasising the importance of aligning policies with Islamic legal principles. It also highlights the private sector's responsibility to advance social welfare through ethical business practices, promoting ethical and sustainable economic operations. The article can thus serve to encourage Islamic banks and financial institutions to strengthen their social responsibility roles, optimise resource allocation, seek collaboration opportunities, and advocate for regulatory structures that support their involvement in social welfare provision within an integrated three-sector economy.

Most importantly, the article stresses the critical role of the third sector in resource reallocation and acknowledges the evolving nature of the third sector, with organisations overlapping multiple sectors, reflecting the changing socio-economic landscape. Policymakers and researchers might want to adapt to this shift and acknowledge these hybrid organisations' contributions. Additionally, the proposal for a 'third sector commission' offers a significant policy recommendation that can enhance the third sector's efficiency and accountability.

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Wealth for Welfare: The Role of Islamic Social Finance Institutions in Sustainable Human Economic Development

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Abstract: Development challenges have been pervasive and are hindering the well-being of humanity globally. Islamic social finance institutions can play a significant role to achieve Sustainable Human Economy (SHE). As demonstrated by the Ottomans, the institution of waqf has a long history of delivering the SHE. When communities fulfil its three pillars, *zakāt*, *waqf* and *infāq* (*ṣadaqah*, etc.) can support sustainable human economic development. The new global development strategy, which consists of 17 Sustainable Development Goals (SDGs) that must be accomplished by 2030, aims to build a sustainable society that meets the demands of the present generation while preserving the rights of future generations. This requires economic growth that tackles various developmental problems, including illiteracy, unemployment, hunger, malnutrition, and poverty, which are intricate and quickly spreading and pose risks to individual lives and society. Communities are increasingly prone to socioeconomic problems and struggle to handle them effectively. Since its inception in 2015, SDGs prompted nations worldwide to join forces with collective bodies or organisations to achieve socioeconomic sustainability and development by 2030. Islamic Social Finance has recently gained attention among scholars and specialists for its role in promoting financial inclusion and sustainable development. Therefore, this article investigates how Islamic Social Finance can contribute to achieving Sustainable Human Economic Development (SHED) and SDGs. It examines the main principal tools of Islamic Social Finance, namely *zakāt*, *awqāf*, and *infāq*, and their potential in the process. Moreover, this article proposes a new institution, namely Global Cash Waqf (GCF), for realising SHED and SDGs.

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Keywords: Development, Sustainable development goals, Islamic social finance, Sustainable human economic development, Global Cash Waqf

Abstrak: Cabaran pembangunan yang wujud secara meluas telah menghalang kesejahteraan manusia di peringkat global. Institusi kewangan sosial Islam boleh memainkan peranan yang signifikan dalam mencapai Ekonomi Manusia Mapan (EMM) di seluruh dunia. Seperti yang telah ditunjukkan oleh Kerajaan Uthmaniyyah, institusi wakaf mempunyai sejarah panjang dalam merealisasikan EMM. Apabila komuniti memenuhi tiga rukunnya, zakat, wakaf dan infaq (sadaqah, dll.) dapat menyokong pembangunan ekonomi manusia yang mapan. Strategi pembangunan global baharu, yang terdiri daripada 17 Matlamat Pembangunan Mapan (SDG) yang mesti dicapai menjelang 2030, bertujuan untuk membina sebuah masyarakat mapan yang memenuhi keperluan generasi semasa sambil memelihara hak generasi akan datang. Ini memerlukan pertumbuhan ekonomi yang menangani pelbagai masalah pembangunan, termasuk buta huruf, pengangguran, kelaparan, kekurangan zat makanan, dan kemiskinan, yang semuanya bersifat rumit, merebak dengan pantas, serta menimbulkan risiko kepada kehidupan individu dan masyarakat. Masyarakat semakin terdedah kepada masalah sosioekonomi dan menghadapi kesukaran untuk mengurusnya dengan berkesan. Sejak pelancarannya pada tahun 2015, SDG telah mendorong negara-negara di seluruh dunia untuk bergabung tenaga dengan badan-badan atau pertubuhan kolektif bagi mencapai kemapanan dan pembangunan sosioekonomi menjelang 2030. Kewangan Sosial Islam baru-baru ini mendapat perhatian dalam kalangan sarjana dan pakar atas peranannya dalam mempromosikan inklusi kewangan dan pembangunan mapan. Oleh itu, kertas kerja ini menyelidik bagaimana Kewangan Sosial Islam dapat menyumbang kepada pencapaian Pembangunan Ekonomi Manusia Mapan (PEMM) dan SDG. Ia meneliti alat-alat utama Kewangan Sosial Islam, iaitu zakat, awqaf, dan infaq, serta potensinya dalam proses tersebut. Makalah ini juga mencadangkan satu institusi baharu, iaitu *Global Cash Waqf* (GCF) bagi merealisasikan PEMM dan SDG.

Kata kunci: Pembangunan, Matlamat Pembangunan mapan, Kewangan sosial Islam, Pembangunan ekonomi manusia mapan, *Global Cash Waqf*

Indicators of Sustainable Human Economic Development

As far as Sustainable Human Economic Development (SHED) is concerned, there is an inclusive balance between the ecological, economic, and social systems within its framework. In other words, the indicators of SHED could only be observed through the status of

these three central systems. The ecological system comprises natural resources, and its main objective is preserving life's essential elements (Härkönen, 2007). The environmental or ecological system also strives to maintain the biodiversity of organisms and creatures on the earth (Härkönen, 2007). Furthermore, the context of the economic system is mainly directed toward achieving the needs and other materialistic aspects of human life through sophisticated networking geared toward producing and consuming goods and services (Barbiroli, 2009, 92). Likewise, the social system aims to maintain civilisation and cultural diversity, and achieve social justice through active participation in public life (McGuinn et al., 2020).

Based on the above clarification, SHED is in harmony with the three systems mentioned here. Therefore, it can be distinguished through four leading indicators (Spangenberg, 2002) as follows:

1. The first is that SHED overlaps and is more complex in theory and practice. This is even more obvious in natural resources and social dimensions of development.
2. The second one is that the orientation and quest of SHED are mainly to meet the requirements and needs of the poorest segments of society and reduce the exacerbation of poverty in the world.
3. The third one is that SHED has a qualitative dimension related to developing the spiritual and cultural aspects and maintaining the civilisational privacy of societies.
4. The last one reveals that it is impossible to separate its components or measure indicators due to the intensity of the overlapping qualitative and quantitative dimensions in SHED.

For established and developing economies, pursuing sustainable development, and sustaining a sustainable way of life have become urgent priorities. According to Sadiq and Mushtaq (2015), sustainable development comprises satisfying current needs without endangering the capacity of future generations to satisfy their own needs. Recent findings show, however, that nations are becoming more susceptible to a wide range of socioeconomic challenges brought about by the rapid emergence of social and environmental issues, which they are unable to prevent or mitigate their consequences (Jouti, 2019). To replace the

previous development goals, known as the Millennium Development Goals (MDGs), world leaders have suggested a new global development agenda since 2015 (Atah et al., 2018).

Impact of Islamic Social Finance on Humanitarian Crises

The recent decade has witnessed a significant rise in global humanitarian crises that triggered the unprecedented displacement of many people from their hometowns worldwide. However, Islamic social finance is a faith-based financial system that has shown its potential role in removing human suffering in the past and contemporary times. Every year, Muslims are generously involved in donating a portion of their wealth through mechanisms compatible with Islamic social finance methods in poverty alleviation. In this context, Madani (2016) states: “The culture and traditions of Islamic giving have been and continue to be a crucial element in dealing with global humanitarian needs. People in the Islamic world have been extremely generous despite the poor economic conditions in many countries in the Islamic world” (51-63).

Many researchers have proved that the highest number of people in financial need is in Muslim-majority countries. In that case, people’s awareness of the generosity of giving becomes one of the priorities in the Islamic world. In such a condition, the call for new opportunities and innovative approaches in Islamic social finance is indispensable for sustainable economic development. Thus, unlocking the potential of innovative investments in humanitarian actions such as *sukuk* (Islamic bonds) will lead to long-term social outcomes, resilience, and adaptive capacity-building for at-risk communities (Canyon and Burkle, 2016, p. 8).

Philosophically, Islamic social finance adheres to the instructions of the Islamic religion that look for solid and comprehensive approaches for visible economic development to reach social welfare, social justice, equity, and poverty alleviation (Islamic Social Finance Report, 2015). Moreover, the philosophy of Islamic social finance goes in the same direction as that of *maqāṣid al-sharī‘ah* (purposes of Islamic law), whereby the principal objective is to serve the public interest (Abdullahi and Sohail, 2021). In other words, Islamic social finance maximises benefits for humanity and removes hardship from them.

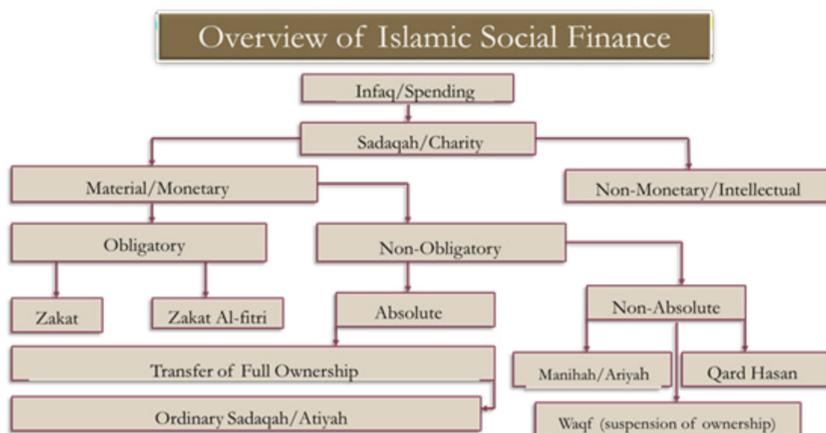


Figure 1: Overview of Islamic Social Finance

Furthermore, Islamic social finance is a financial system that operates ethically akin to socially responsible investments (Abdullah, 2021) 69-85. Similarly, Islamic social finance is attracting the attention of many Western countries worldwide. The notion of ‘*adl* (social justice) and *ihsān* (benevolence) is one of the critical characteristics of Islamic social finance, making its effectiveness and efficiency in alleviating poverty and achieving socio-economic justice among the significant objectives of SDGs (Abdullah, 2021). Thus, Islamic social finance plays a vital role in reducing humanitarian crises; it is becoming the only and last resort in countries with excessive poverty levels in the Islamic world. For instance, the needs of poor people and the removal of poverty are met through the comprehensive practice of Islamic philanthropy institutions, including *zakāt*, *ṣadaqah*, *waqf*, and others (Lawal and Ajayi, 2019) 545-558.

It follows that recently, Islamic social finance instruments such as *zakat*, *waqf*, *sadaqah*, and others have been widely used in the Islamic world to remove social and humanitarian crises. Among them are poverty, natural disasters, famine, health problems, and so on, in a multi-dimensional span (Razak and Dawami, 2020). Indonesia is the country with the highest Muslim population in the world. Due to that fact, the contribution of Islamic philanthropy institutions such as *zakat*, *waqf*, and *sadaqah* is quite significant to social and humanitarian actions. For instance, in 2012, the Indonesian governmental institution (BAZNAS) collected almost US\$231.6 million of *zakat* funds which were 32

times higher than in the previous decades (Razak & Dawami, 2020). Moreover, the funds were used to finance four strategic programmes: education programme, humanitarian aid, health programme, and economic programme (Razak & Dawami, 2020).

Besides Indonesia, the *zakat* mobilisation has dramatically increased in Malaysia in the last 20 years to reach around US\$547 million in 2011, which was 28 times higher than in the previous decades (IRTI, 2014) 1-104. The population's awareness of the potential contributions of Islamic social finance to the removal of social and humanitarian crises has permitted the mobilisation of adequate funds for poverty alleviation and sustainable energy generation for deserving communities in Malaysia. Pakistan is another country where *zakat* and *waqf* are highly operated voluntarily by the government, individuals, and private corporations (Ahmed, 2004). *Zakat* collection has increased by around 40 percent over the previous years in Pakistan to a record of US\$105 million since 2011 (Ahmed, 2004).

According to the data released by the Pakistan Ministry of Religious Affairs, the *zakat* funds are used to take care of shelters and safety-nets, social welfare, education and expertise improvement, health care, and administrative costs (World Bank, 2019). In addition to *zakat* funds, the institution of *waqf* contributes to removing social and humanitarian suffering in Pakistan. Its funds' support administration, religious affairs, social welfare, health care, and the national development budget (Ahmed, 2004). Recently, the *waqf* industry has been dramatically growing in an innovative way around the world. The *waqf* industry's growth results from the global Muslim wealth rise in every economic sector.

For instance, *waqf* has become the typical charity-giving structure in several Middle East countries, including Qatar, Kuwait, and Saudi Arabia. It is widely practiced and favoured as the preferred method for charitable practice in Türkiye, Egypt, and Lebanon (Kuran, 2016, 419-454). The considerable size of the global *waqf* asset is estimated between US\$ 105 billion to US\$ 1 trillion, and the increase in the asset size reveals the popularity of the *waqf* in the financial arena in the respective Muslim countries (Abdullah, 2018). More notably, the value of the *waqf* lands in Indonesia and Malaysia is estimated to be US\$ 60 billion and US\$ 384 million, respectively (Abdullah, 2018).

In short, the rapid increase in humanitarian crises has increased the importance of Islamic social finance within communities globally. Meanwhile, governments need to help finding a solution to human suffering effectively and efficiently. The traditional financing mode represented by Islamic social finance instruments has shown its potential in providing solution. Furthermore, the historical practice of ISFIs has demonstrated its effectiveness and efficiency in providing sustainable resolutions for social problems and ensuring community development.

Historical Roots of Sustainable Development

The first use of the concept of “Sustainable Development” can be traced back to the end of the 20th century. The idea of “Sustainable Development” has been one of the leading projects since its inception in the second half of the 20th century. It was in the context of increasing alertness to a future ecological crisis (Kuran, 2016). However, in its contemporary context, “Sustainable Development” is often used without reference to its real meaning and implications. Hence, this historical review of the concept would help us understand its real meaning, issues that can be addressed under it, and the reason for its emergence in history.

The year 1972 marked the starting point of the concept of sustainable development. That happened at the first conference on environment and sustainable development organised by the United Nations in Stockholm. Around 113 countries took part in this conference (Egelston, 2012). Moreover, the Announcement on Environment and Development made at the first Rio Earth Summit in 1992 built the foundation of sustainable development. The discussions and announcements at the previous conference explicitly highlighted a shared vision among all participants revealing the priority of environmental problems next to economic growth (Egelston, 2012).

As the 1992 Rio Earth Summit was an initiative in which the Brundtland report engendered the United Nations Conference on Environment and Development (UNCED), its recommendations paved the way for the primary debate on the subject matter (Jain and Islam, 2015). Following this conference, many essential conclusions for sustainable development were articulated in the conference outcome records, particularly in the 21 agenda (Worster, 1993). Since that time, the results of the previous conference recommended the designation and development of national and international strategies to address

the economic, social, and environmental characteristics of sustainable development (Allen et al., 2019, 421-438).

Ten years later, a World Summit on Sustainable Development (WSSD) was held in Johannesburg to develop an action plan based on previous conference outcomes in the 21 agenda and to promote several multi-stakeholder partnerships for sustainable development (Mitcham, 1995, 311-326). Furthermore, twenty years after the first Rio Earth Summit, the United Nations held another conference on sustainable development (UNCSD) in 2012, which attempted to address two themes – a green economy and an institutional framework – in the context of sustainable development (Allen et al. 2019) 421-438.

Hence, the outcomes of the last conference encompassed a procedure for developing new sustainable goals known as SDGs that triggered a focused action on sustainable development in all sectors of the global development plan since its inception in 2015 (Weitz et al., 2018, 531-548). To sum up, it is evident through this brief historical background that sustainability and sustainable development are conversant as often perceived by many people. Instead, it has evolved until it reached the present stage, known as SDGs. Moreover, the other agenda is the Sustainable Human Economic Development (SHED) today.

Ottoman Heritage

The Ottomans' extensive use of *waqf* significantly impacted their society, allowing them to alleviate poverty for centuries successfully. However, the *waqf* system's expansion in the Ottoman society resulted in its use for purposes beyond human welfare, such as aiding animals, injured birds, and sick animals (Bulut and Korkut, 2019). The Ottomans also introduced the first modern Islamic financial institutions based on the *waqf* which were the Cash *Waqfs* (Vakf-ı Nukud) (Bulut, et, al 2019). Those institutions played crucial role in the stability of the Ottoman world from the Balkans to the North Africa in the long run. Despite this, *waqf*'s historical track record in promoting socio-economic development and social welfare has made it an effective tool in achieving sustainable development, preceding the current global agenda of 2030.

Waqf is an essential institution that addresses diverse human needs and plays a vital role in socioeconomic development. According to Ziyaviddinovna and Sagdullaevich (2020), *waqf* is integral to economic

growth and social welfare, contributing to poverty alleviation, job creation, and sustainable development initiatives. The institution generates income through various means, including cash donations and crowdfunding, which are utilised to meet its Sustainable Development Goals (SDG) objectives. By supporting training programmes and financial assistance for small business owners, *waqf* aids in achieving broader societal goals while enhancing economic development and social welfare.

Role of Islamic Social Finance Tools in Achieving SHED and SDGs

Islamic social finance encompasses financial tools like *zakāt*, *awqāf*, and *infāq*, which are essential for achieving sustainable human economic development (SHED). *Zakāt*, a mandatory charitable donation based on income, promotes social equity. *Awqāf* involves establishing charitable trusts for social projects such as education and healthcare, while *infāq* represents voluntary giving for various causes. Together, these tools finance poverty alleviation and sustainable development initiatives aligned with the Sustainable Development Goals (SDGs). They harness principles of social justice and equity in Islam, making Islamic social finance crucial for fostering inclusive and sustainable development.

The Role of Zakāt

The first Sustainable Development Goal (SDG) is to reduce poverty by 2030, primarily concentrated in nations with a Muslim majority. Therefore, *zakāt*, a form of charitable giving mandated for Muslims, could potentially be effective in alleviating poverty if collected and managed appropriately. The *zakaat* system has two primary actors: the giver or *muzakkī*, who donates a portion of their wealth, and the receiver, who uses this gift to meet their basic needs. The difference between these two actors is that the giver or *muzakkī*, typically wealthy, possesses a surplus above their basic needs, known as *nisāb*. In contrast, the receiver, who is typically impoverished, lacks the minimum wealth limit necessary to meet their basic needs. Hence, the apparent distinction between these two groups makes it possible to distribute income to those less fortunate.

It is essential to note that the redistribution of wealth through *zakāt* is a unique aspect of Islamic social finance that has the potential to contribute significantly to the eradication of poverty, particularly

in Muslim-majority countries. By directing funds from the wealthy to the poor, *zakāt* can support sustainable development and promote social welfare, aligning with the goals of the SDGs. Therefore, the effective collection and management of *zakāt* are critical in realising the potential of Islamic social finance in achieving sustainable and inclusive development (Shaikh & Ismail, 2017; Atah et al., 2018).

Zakāt is an effective tool for wealth redistribution, utilising fewer volatile assets than income, which broadens its assessment base. Research by Shaikh and Ismail (2017) shows that wealth redistribution is vital for poverty alleviation, revealing that the wealth of eight individuals equals \$426.2 billion, contrasting starkly with the \$531.9 billion needed to close the annual poverty gap. This suggests that *zakāt* can significantly reduce poverty. It aligns with the UN's Sustainable Development Goals, particularly the aims of eradicating poverty and hunger by 2030. According to Atah et al. (2018), *zakāt* can enhance food security as it targets poverty alleviation, the root cause of hunger. Gundogdu (2019) supports this view, noting a causal link between poverty and hunger, further emphasising *zakāt's* role in addressing these issues. The third goal of the Sustainable Development Agenda is to attain good health and well-being. Access to food is essential for maintaining good health, and it is recommended that one's food intake should be equal to their minimum calorie requirement. Failure to do so may lead to energy and nutrient deficiencies due to an inadequate diet or other factors, according to Atah et al. (2018). As a result, insufficient food can make individuals in poverty susceptible to various health problems and more vulnerable to illnesses.

In addition, the payment of *zakāt* can enhance impoverished individuals' medical care and welfare. Hence, it is necessary to eradicate poverty and hunger in communities. Additionally, by receiving a portion of the *zakāt* funds, poor individuals could afford sufficient nourishment and necessary medical treatment, improving their economic well-being (Atah et al., 2018).

Following the fourth sustainable development goal, *zakāt* has the potential to improve education quality. Impoverished people often lack the necessary skills to enhance their human capital, and education costs have increased significantly. This situation has resulted in an increased vulnerability to poverty among them. However, if zakat is effectively

collected and distributed according to the Holy Quran, it can provide the necessary funds to receive education and enhance their economic well-being (Adedeji and Campbell, 2013). Education is crucial in developing human capital and acquiring the skills and qualifications required in the labour market.

Gender equality is the fifth sustainable development goal the *zakāt* system can help accomplish. Following Islamic law, *zakāt* is a gender-neutral institution that should be paid and received by both men and women regardless of their financial circumstances (Shaikh & Ismail, 2017). Moreover, *zakāt* can be given to women or organisations that work on initiatives for women's welfare, such as constructing maternity hospitals or girls' schools. Economic growth and suitable employment are the sixth sustainable development goal of the *zakāt* system. People require excellent employment to become self-sufficient and sustain themselves and their families.

In order to achieve sustainable poverty alleviation and ensure the growth of the socio-economic sector, it is essential to provide opportunities for decent work and economic advancement. *Zakāt* institutions can contribute to this goal by enhancing the skills and productivity of poor individuals through various programmes. *Zakāt* can also promote economic growth by raising the income and spending of the underprivileged. According to Shaikh & Ismail (2017), *zakāt* funds can be used for healthcare and education initiatives to enhance the human capital of the underprivileged. By doing so, poor people can become more productive and contribute significantly to the economy.

The seventh sustainable development goal that the *zakāt* institution aims to achieve is environmental sustainability. In many rural areas, firewood is the primary source of energy for cooking and other needs, but it leads to environmental degradation. For instance, only approximately 35% of homes in Kano state, Nigeria, can afford gas, a more environmentally friendly option; nearly 65% of houses there still use firewood for cooking (Atah et al., 2018). As a result, giving *zakāt* money to the underprivileged can enhance their purchasing power and enable them to switch from using firewood or charcoal to cleaner energy sources like gas. In turn, this can lessen the adverse effects of poverty on the ecosystem, improving its sustainability.

Zakāt and the SDGs have a strong correlation, with at least three *zakāt* recipients directly related to the SDGs. These recipients include *al-fuqarā'* (the poor who lack a means of living), *al-masākin* (the needy who cannot meet their basic needs), and *fī sabīli Llah* (those who spend in the path of Allah, which can relate to providing basic needs such as health, clean water, and sanitation programmes). *Zakāt* can be an essential tool to address extreme poverty and hunger in Muslim-majority countries, which is a direct aim of the SDGs. In Indonesia, a sizeable Muslim-majority country, the state *zakāt* authority (BAZNAS) collects and distributes *zakāt* funds, contributing up to \$32 billion annually, equivalent to 3.4 percent of the Indonesian GDP in 2016 (Noor & Pickup, 2017). BAZNAS in Indonesia is a formal institution managing *zakāt* programmes across social, educational, economic, health, and da'wah sectors. It significantly aids in poverty alleviation, economic empowerment, and supports the Sustainable Development Goals (SDGs), effectively addressing eleven of the seventeen goals. *Zakāt's* role is critical not only in Indonesia but also in other Muslim-majority nations for achieving SDGs.

The Role of Waqf

The idea of *waqf*, which refers to preventing poverty resulting from using a property by its owner, is crucial to the Islamic economic system (Abduh, 2019). It entails preventing a property from being used by the original owner and using its benefits to help the needy and underprivileged to preserve its capital in the same form (Yalawae et al., 2003). This procedure is a vital tool of Islamic social finance and is essential for accomplishing the Sustainable Development Goals (SDGs).

Waqf is a Sharī'ah-based organisation that upholds the *maqāṣid al-sharī'ah*, the highest goal of Islamic law, even though it is a nonprofit organisation (Abdullah, 2018). The similarity between *maqāṣid*-based development and SDGs suggests that *waqf* could simultaneously be an intermediation tool in objectifying the mutual goals of SDGs and *maqāṣid*-based development plans.

Therefore, *waqf* is an indispensable instrument in the agenda of SHED, particularly in Muslim-majority countries where the asset of the global *waqf* is estimated to be approximately \$1 trillion (Abdullah, 2018). This value indicates the potential for *waqf* to significantly impact

SHED achievement, making it a critical aspect of the Islamic economic system.

As demonstrated by various practices and evidence, the historical evolution of *waqf* reveals that its purpose has extended beyond poverty alleviation to include education, health care, and infrastructure development, among other things (Abdullah, 2018). The significance of *waqf* in improving the welfare of the Ummah has been well-established. Moreover, as evidenced by the well-known hadith of Umar Ibn Khattab, *waqf* has been a critical Islamic tool for socioeconomic growth since the time of Prophet Muhammad (PBUH). This hadith describes how Umar Ibn Khattab found land in Khaybar and asked the Prophet (PBUH) for guidance. The Prophet (PBUH) advised him to turn the property into a *waqf* and donate it as *sadaqah* (charity) for the needy, relatives, slaves, travellers, and guests, with the caveat that it should not be sold, purchased, given as a gift, or inherited. This incident exemplifies how *waqf* was utilised for the greater good of the Ummah historically, underscoring the significance of *waqf* as a charitable giving tool and its critical role in the early development of Islamic societies. Therefore, *waqf*'s development remains indispensable in contemporary times, particularly in attaining sustainable development objectives in Muslim-majority nations.

The hadith of Umar, along with other examples like the *waqf* of Uthman Ibn Affan (r.a), emphasises the crucial role of *waqf* in enhancing socioeconomic development and promoting the welfare of societies. *Waqf* has a long history of formally pursuing the objectives of Muslim societies, even prior to the introduction of the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs). According to Shatzmiller (2001), Ottoman practices provide a prime example of how the *waqf* system effectively reduced poverty for over six centuries, surpassing the efficacy of government budgets.

The Role of Infāq

A fundamental idea in Islam known as *infāq* is frequently referenced in the Holy Qur'an and Prophet Muhammad's (PBUH) tradition. The Qur'an uses it in close to sixty different places. The phrase was frequently used by the Prophet to describe spiritual expenditure in Allah's path (Aziz et al., 2008). According to the Sharī'ah's guidelines, the Islamic notion

of *infāq* exposes its crucial role in fostering fair economic allocation, addressing individual needs, and advancing social welfare.

Infāq can be separated into two groups: required and optional. The practices that include *waqf*, *waṣiyyah*, *ṣadaqah*, *qarḍ al-ḥaṣan*, *zakāt*, *khums*, *‘ushr*, *kharāj*, and *jizyah* are among the latter (Aziz et al., 2008). The primary distinction between these two types is that obligatory *infāq* is mandatory and regulated by Islamic law, whereas voluntary *infāq* is entirely at the discretion of the individual. The principles of *infāq* have played a significant role in shaping the socio-economic landscape of Muslim societies throughout history, with the equitable distribution of wealth and the promotion of social welfare being key objectives.

Obligatory *infāq* is compulsory and must be paid without the payer’s choice. In contrast, voluntary *infāq* is optional, and the payer can ignore it. *Infāq* has an economic connotation, meaning spending wealth beyond one’s needs. The Qur’an emphasises this concept by highlighting Allah’s command to spend from what He has bestowed upon us: “These people ask you, how much will we spend in the way of Allah? Said everything beyond your requirements” [2:219]. Therefore, the focus of this section is to examine how *infāq* contributes to the attainment of SDGs, as previously mentioned.

Although governments and public sectors may try, there will always be gaps in the financial abilities of community members. Therefore, the private sector is vital in providing essential services like education and healthcare to everyone in the community. These crucial issues must be addressed first to achieve the SDGs. By the system of *infāq*, the Holy Qur’an provides all-encompassing remedies to these issues. Islam recognises *infāq*, which goes beyond simple gifts and is a God-given right for wealthy people to donate to the less fortunate. As the Holy Qur’an states: “And from their properties was [given] the right of the [needy] petitioner and the deprived” [51:19].

According to Sohail et al. (1994), by helping the underprivileged and needy fulfil their fundamental requirements and become socially responsible citizens, *infāq* promotes economic harmony within the society in Islam. In the context of sustainable development, which acknowledges the need for inclusive and environmentally sustainable growth to decrease poverty and create shared prosperity for the present

and future generations, this Islamic idea of *infāq* is also reflected (World Bank Group, 2016).

Sustainable development encompasses three key dimensions: economic growth, environmental sustainability, and social inclusiveness. In this regard, providing basic facilities through *infāq* fosters sustainable human development in communities by enabling individuals to become more productive in their economic and social activities. As Cusack (2019) notes, sustainable human development is essential for achieving economic growth, promoting community equity, preserving the environment, and enhancing people's well-being.

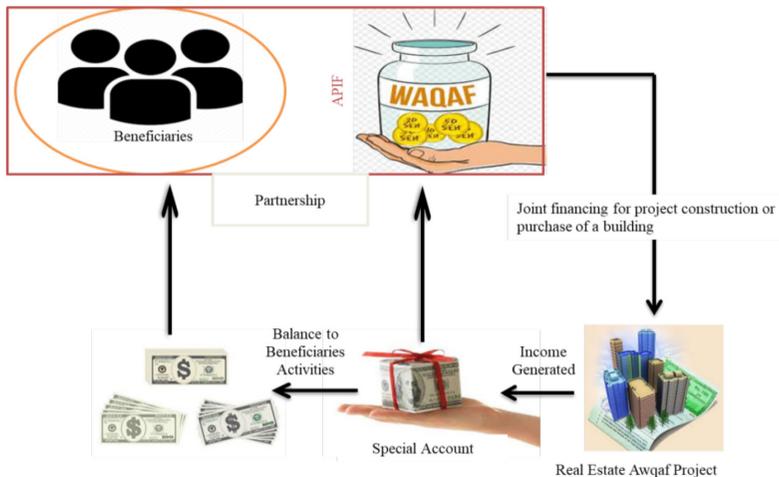
Empirical research like Sohail et al. (1994) discovered that places where *infāq* is practiced have lower poverty rates, showing that *infāq* can reduce poverty and help poor people become socially responsible. In addition to its role in poverty eradication, *infāq* is also effectively advancing the pillars of sustainable development (economic growth, environmental sustainability, and social inclusiveness) in various ways. Muslims have historically worked towards realising these pillars through *infāq*, as evidenced by satisfactory results obtained in the past (Sohail et al., 1994).

The concepts of brotherhood and *ihsān* in Islam inspire Muslims to feel responsible towards their society and fellow Muslims, motivating them to contribute to the best of their abilities through *infāq*. This increased sense of communal responsibility is likely to facilitate the achievement of the SDGs. If the institution of *infāq* is revived with its original spirit, it will be possible to restore the potential of the Muslim Ummah to bring about change, as it did during the reign of Caliph Umar bin Abdul Aziz when there were no needy people to give *zakāt* to. In conclusion, creating *infāq* institutions is essential for fostering sustainable economic development and balancing the economic imbalances among communities and other Islamic social finance institutions like *zakat* and *waqf*.

The Contemporary Developments

Following the historical role of the *waqf* institution in providing public services, IsDB attempts to operationalise *waqf* support within the IsDB member countries. To promote the *waqf* as a socially based financing vehicle for development consistent with the Islamic worldview, the

“Awqaf Properties Investment Fund” (APIF) was established. APIF’s goal is to support establishing or growing Islamic real estate endowments in IsDB member nations. Additionally, APIF is a cutting-edge financing tool emphasising long-term interregional financial sustainability. Therefore, the operationalisation of *awqāf* can effectively identify its development impact, as shown by APIF’s tool. APIF has targeted 55 projects in 27 IsDB member and non-member countries with a total capital of US\$1.22 billion to support the viewpoint (APIF, n.d.). The different components and the modus operandi of the IsDB model to operationalise *waqf* support in its member and non-member countries are as follows:



Source: <https://www.isdb.org/apif/about-apif>

Figure 2: APIF Operational Partnership Model

The Global Muslim Philanthropy Fund for Children

Islam calls for working together and collaborating to harmonise the available efforts for the satisfaction of humanity and empowerment of social and environmental life. Likewise, the Global Muslim Philanthropy Fund for Children (GMPFC) is a joint initiative created in 2019 by IsDB and UNICEF to support humanitarian aid and respond to children-related SDGs collectively in the 57 OIC member countries (Mohieldin et al. 2011). The main objective of this fund is to mobilise resources through Islamic charitable schemes (*zakat*, *infaq*, *sadaqah*,

and *waqf*) to implement developmental and humanitarian programmes that guarantee the safety of children in IsDB member countries.

The Proposed Global Cash-*Waqf*

This section explains the three main parts of the global cash-*waqf* fund in depth. These elements include the fund's source of funding, the investments made with contributed money, and the distribution of profits to meet the predetermined goal of programmes to reduce poverty. The section also describes the Global Cash-*Waqf* Model's interrelationships between these elements (GCWM). The discussion's conclusion covers the topic of the fund's governance, particularly the location of the GCWFI headquarters and the make-up of the board of trustees. The worldwide cash-*waqf* fund intends to support Muslim countries in need and encourage inter-Muslim cooperation to advance Muslim societies.

Source Of Income of the Global Cash-*Waqf* Institution

The definition of "source of income" and how the GCWFI obtains funding to carry out its intended programmes are explained in this section. The goals of this study underline that the GCWFI seeks to provide services and activities for the benefit of the Muslim world and that doing so necessitates widespread involvement, donations, and support from diverse charitable organisations. According to Saifuddin et al., because the monies raised are in cash, anyone can donate to the fund without paying a minimum sum (2014). Cash-*waqfs*' flexibility enables both wealthy and low-income people to make modest contributions. The GCWFI is therefore anticipated to attract funding from various sources, including individual monetary gifts and contributions from OIC governments, businesses, and religious organisations and associations.

Likewise, the Qur'an and the Prophet's (PBUH) tradition exhort the wealthy to give to help the less fortunate in economic circumstances. This is exemplified in the following verse: "O you who believe! Spend that with which we have provided for you before a Day comes when there will be no bargaining, friendship, or intercession. In addition, it is the disbelievers who are the *zālimūn* (wrongdoers)" [2: 254]. Furthermore, in a different verse in the same *sūrah*, it is stated "Those who spend their wealth in the Cause of Allah and do not follow up their gifts with reminders of their generosity or with injury, their reward is with their Lord. On them shall be no fear, nor shall they grieve" [2:

262]. The Prophet (PBUH) was also narrated to have said: “Whoever gives charity equal to date from good (halal) earnings – for Allah does not accept anything but that which is good – Allah will take it in His right hand and tend it for the one who gave it as any one of you tends his foal, until it becomes like a mountain” [Narrated by al-Bukhary, 1344; Muslim, 1014]. Abu Hurairah (may Allah be pleased with him) narrated that the Prophet (PBUH) said: “There is no day on which the people get up, but two angels come down, and one of them says, ‘O Allah, give in compensation to the one who spends (in charity),’ and the other says, ‘O Allah, destroy the one who withholds” [Narrated by al-Bukhary, 1374; Muslim, 1010].

Muslim individuals and corporations are motivated to donate to charitable causes due to the teachings of the Quran and Prophet Muhammad (PBUH). They believe their charitable acts will be rewarded in the afterlife, inspiring them to contribute to the GCWFI. Table 1 provides a concise overview of the various types of contributors to the GCWFI.

Table 1: Source of Income for the GCWFI

Contributors	Descriptive information
Cash donations from individuals	Apart from the mandatory religious donation called <i>zakāt</i> , Muslims are strongly encouraged to make generous contributions. Therefore, they have the option to donate cash to the GCWFI based on their capacity, with the promise of receiving significant rewards in the afterlife, as stated by the Prophet Muhammad (PBUH).
Contributions at the governmental level	As poverty is prevalent in Muslim nations, it is imperative for OIC countries to make joint and tangible efforts to enhance the living standards of impoverished Muslims globally. To achieve this objective, the OIC countries must contribute to the GCWFI, which aims to serve the welfare of all Muslims, regardless of their race, gender, citizenship, or political inclination, in line with the unifying principles of Islam.

Contributions from the corporations	Companies have a crucial role in society, as they are involved in various matters, including human rights. They can have a significant impact on reducing poverty by donating to the GCWFI. This can be achieved by setting aside a portion of their yearly earnings for cash donations.
Contributions from organisations and associations	Religious NGOs, also known as non-governmental organisations, have a significant role in promoting a fair society. They can support the Muslim Ummah by contributing to the GCWFI.

Investment of the Collected Funds

The GCWFI receives donations from various organisations, making it responsible for investing in productive projects that will alleviate poverty. Effective management and investment of the cash-*waqf* fund can facilitate this goal. The GCWFI must maintain the fund’s growth through effective investment plans as the fund’s trustees. According to Masyita and Febrian (2004), to keep the cash-*waqf* fund above its initial value, the *mutawalli* or *nāzir* must invest in areas like small and medium-sized schemes or any other options for legal investments. The fund may invest in various industries, including profitable businesses, Shari’ah-compliant companies, precious metals, Islamic banks, and bonds. Diversification is advised to lower risks. Table 2 briefly explains the investment process in certain areas and argues that accepting some risks is warranted, given the possible rewards. Natural hazards can be efficiently managed with proper asset allocation.

Table 2: The Investment Process of The Collected Fund

Sectors of Investment	Investment Projects
Islamic Banks	The teachings of Islam emphasise the importance of justice in financial transactions, which requires that all parties involved in contracts are treated fairly and not manipulated. Additionally, Islamic Banks are expected to avoid involvement in Riba transactions, a significant source of exploitation. Due to these factors and others, Islamic Banks are considered

more compliant with Sharī‘ah law. Based on this principle, the GCWFI can engage in a Mudarabah investment contract with Islamic Banks, with the banks acting as the *muḍārib* (manager) and the GCWFI serving as the *Rab al-māl* (capital provider), and profits shared accordingly. By depositing funds with Islamic Banks, the GCWFI can also benefit from some protection of its returns during economic downturns.

Sukūk	The GCWFI can invest the donated funds in <i>Sukūk</i> , which is considered a favourable instrument for collecting funds for various projects.
Islamic Stocks	Another potential investment option for the GCWFI is the Islamic Stock Market or Islamic Stock Exchange, where the fund can be invested in compliance with Sharī‘ah and fundamental Islamic investment principles.
Precious Commodities	Investment can also involve trading in precious metals such as Gold, Silver, and Platinum, which are highly valued and in low supply among people, making them highly demanded in societies.

Distribution of the Funds

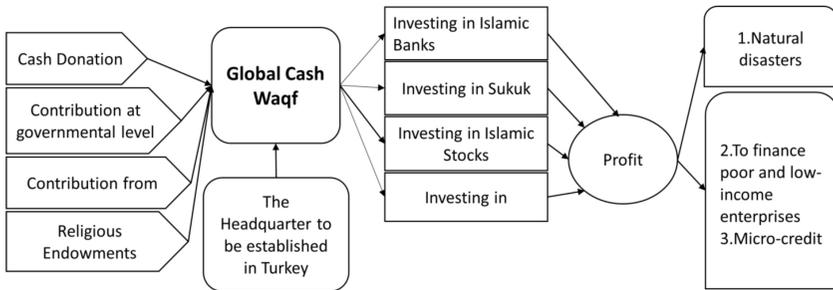
The institution of the Global Cash-*Waqf* is primarily established to reduce poverty in Muslim countries. However, it also serves as a financial instrument. The funds are sourced globally from donors or through distribution to beneficiaries. The GCWFI will invest donations it receives from various sources in the sectors listed in the previous subsection. The money made from these investment projects will aid in reducing poverty in the designated areas. Although the donors should distribute the first proceeds following their wishes, because they named the GCWFI as a trustee, the institution can divide the money into three parts. For instance, in Malaysia, it is advised that 75% of earnings go toward initiatives to alleviate poverty, 15% go toward administrative costs, and the remaining 10% be reinvested to preserve capital growth

and protect it from economic crises like inflation and other market catastrophes (Chowdhury et al., 2011). The Malaysian *Waqf* Institution defends this strategy in the Securities Commission’s rules for the cash-*waqf* programme (Che Azmi & Hanifa, 2015). They claim that *Waqf* Institution works with a Malaysian Islamic bank to administer funds for cash-*waqf* schemes. A Joint Management Committee (JMC) has been established to manage the funds.

In addition, the *waqf* council, which answers directly to the State Ruler, oversees the JMC. The JMC’s responsibility is to distribute the monetary donations received to the appropriate projects that further the goals of the cash-*waqf*. Also, an Islamic bank that oversees the cash-*waqf* funds invests the money. As a result, the distribution of investment returns is as follows: To pay administrative costs and safeguard the initial money, the cash-*waqf* organisation receives a 25% allocation of the returns. The cash-*waqf* goals are achieved with the remaining 75%. The cash-*waqf* fund’s revenue disbursement procedure is shown in Table 3.

Table 3: Distribution of the Funds

Total revenue: 100%	Allocation of the revenue
75	The objectives of the organisation are threefold. Firstly, it aims to assist during natural disasters. Secondly, it strives to provide opportunities for the empowerment of poor Muslim individuals, small businesses, and communities. Lastly, it seeks to provide interest-free loans and micro-credit facilities.
15	Utilised for covering the costs related to the administrative tasks performed by the GCWFI.
10	To be redirected towards further investments to ensure capital growth and safeguard against inflation and market fluctuations.



Source: Own Proposed Model

Figure 3: The Global Cash-waqf Model

A Proposal: The Headquarters of the Global Cash-Waqf Fund Institution

The main offices must be established to control and defend the global cash-waqf fund effectively. Achieving this goal will depend heavily on the headquarters' location and prior expertise. Since the Ottoman Empire's founding, the cash-waqf system has been widely used, and it is largely agreed that it has helped to reduce poverty. Turkish residents are still familiar with this system today (Ahmad, 2015). Given the historical context, this analysis argues that Türkiye would be a suitable location for the GCWFI's headquarters. In addition to using cash waqfs, a popular social funding method since the Ottoman era, Türkiye possesses a plethora of waqf knowledge. Özdemir (2017) asserts that the Ottoman Empire began using and approving the cash-waqf system in the early 15th century, and it was widely used throughout the empire. Waqf institutions have a long history in Türkiye and continue to be of interest to the Turkish people today, according to Çizakça (1998).

With the provision of *Qurbān* at the *ʿĪd al-Aḏḩā* ceremony, Türkiye has a long tradition of using the cash-waqf system to aid vulnerable and underprivileged people, such as refugees, poor students, and disadvantaged communities. The Turkish government annually awards 5,000 scholarships to students from 160 different nations. As a result, from 42,000 in 2012 to 120,000 in 2016, significantly more people were applying for scholarships.

Conclusion

Islamic finance is a fast-growing sector within the financial arena globally. It has been attracting the attention of the Muslim and Western World over the past few decades. The present study suggests that restructuring Islamic Social Finance Institutions such as *zakāt*, *waqf*, *infāq* (*ṣadaqah, etc.*) in a contemporary context can help achieve sustainable human economic development (SHED) and sustainable development goals (SDGs).

In addition to these traditional and historical institutions, this article is also suggesting a new institution which is the Global Cash Waqf (GCW), in realising SHED and SDGs. The institution of the GCW can also play a crucial role in reducing poverty in the world. SHED and SDGs have been the primary preoccupation of advanced and developing countries worldwide. However, these two concepts are directly related to each other. It reveals that future generations have the right to live in a world that the present generations have appreciated but not reduced.

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Islamic Worldview, Economics and Islamic Economics

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Abstract: This article explores the rationale for Islamic economics and some possibilities for developing it based on the Islamic worldview. For reasons recorded in the paper, the Qur'an is chosen as the basis for inquiry. The quest for an Islamic worldview is guided by four factors: Allah SWT's relationship to all the creation, the nature of worldly life for humans, the position of humankind vis-à-vis all other creation and the position of an individual versus other humans. The Islamic worldview is articulated in relation to the following key points: (i) Allah is the original, absolute and ultimate owner of everything in the heavens and the earth, (ii) the universe has internal consistency, (iii) a cause-and-effect mechanism is always at work, and (iv) life is a test for humans with Divine permission for personal ownership (the right to title as well as use) and freedom of choice (including obeying or disobeying Allah). Recognition of the Will of Allah as the primary guiding principle for the conduct of life, provides the foundational rationale for Islamic economics and shapes its intellectual discourse. Some conclusions are also drawn for developing Islamic economics as an academic discipline.

Keywords: Worldview, economics, Islamic economics, Will of Allah, Shari'ah

Abstrak: Makalah ini meneroka rasional bagi ekonomi Islam dan beberapa kemungkinan untuk membangunkannya berdasarkan tasawwur Islam. Atas sebab-sebab yang diterangkan dalam makalah ini, Al-Qur'an dipilih sebagai asas untuk kajian. Pencarian tasawwur Islam ini dipandu oleh empat faktor: hubungan Allah SWT dengan semua makhluk, hakikat kehidupan duniawi bagi manusia, kedudukan manusia berbanding semua makhluk lain dan kedudukan individu berbanding manusia lain. Tasawwur Islam ini adalah berpaksi kepada perkara-perkara utama berikut: (i) Allah adalah pemilik asal, mutlak dan

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hakiki bagi segala sesuatu di langit dan di bumi, (ii) alam semesta mempunyai konsistensi dalaman, (iii) mekanisme sebab-akibat sentiasa berfungsi, dan (iv) kehidupan adalah ujian bagi manusia dengan izin Ilahi untuk pemilikan peribadi (hak milik serta penggunaan) dan kebebasan memilih (termasuk mematuhi atau menderhaka kepada Allah SWT). Pengiktirafan Kehendak Allah sebagai prinsip panduan utama untuk menjalankan kehidupan, menyediakan rasional asas bagi ekonomi Islam dan membentuk wacana intelektualnya. Beberapa kesimpulan juga dibuat untuk membangunkan ekonomi Islam sebagai disiplin akademik.

Kata kunci: Tasawwur, ekonomi, Ekonomi Islam, Kehendak Allah, Shari'ah

Introduction

'Worldview' or '*Weltanschauung*' means a particular philosophy of life, a way of thinking about the world or a comprehensive view of the universe and the position of humankind in it. The American Heritage Dictionary of English Language brackets the notion of "worldview" as the overall perspective from which one sees and interprets the world (www.ahdictionary.com/word/search.html?q+world+view). There is no unanimity of views on *worldview*. It remains, in the end, an opinion, belief, idea or way of thinking about this world for those who espouse it, and a conjecture or hypothesis for others. Nevertheless, once enunciated, it provides its adherents with an axiomatic basis for inquiry.

Knowledge inevitably bears the imprint of the normative commitments and predispositions of its proponents. This is equally true of mainstream economics, commonly referred to as neoclassical economics. Its underlying worldview remains largely untold in the economics literature. On the religious side, apart from atheists and agnostics, there is belief in an Omnipresent God but with differences of opinion on His Attributes. This life is regarded as an end with no accountability in the afterlife, especially if an individual upholds some basic articles of faith. Humanity is considered the master of its own destiny. All worldly matters are judged against the touchstone of human "reason." "Experience" – empiricism, in technical jargon – also plays a significant role in refining reason-based conclusions.

In the presently dominant economics paradigm, individualism and freedom form the basis for discourse. Democratic conventions

in civilised societies help to smooth over gaps in divergent views on any matter. The judiciary also plays a vital role, in interpretation of the law, through its judgements. This leads to legalism: everything having democratic as well as judicial sanction, is legitimate but questionable otherwise. The result is: ‘right vs. wrong’ and ‘good vs. bad’ judgments become endogenous, i.e. above the need for exogenously determined considerations such as religious edicts.¹

Islamic worldview differs in a fundamental way from the above worldview behind mainstream economics. It has far-reaching implications for looking at the nature and scope (range and setting) of economic issues as well as the epistemology and the methodology for addressing them. This article restates the Islamic worldview (section 1), notes its implications from the perspective of (conventional) economics and Islamic economics (section 2), and suggests some clues for reconstruction of Islamic economics (section 3).

Islamic Worldview

Islamic scholarship discourse on ‘worldview’ has a relatively short history. According to Berghout (2007, pp. 27-8), “several worldview topics and issues were examined by Jamal al-Din al-Afghani (d. 1897), Muhammad Abduh (d. 1905), Rashid Rida (d. 1935), Wali Allah al-Dahlawi (d. 1176), Said Nursi (d. 1960) . . . Sayyid Qutb [d. 1966] was the first one to produce a quasi-systematic work on the Islamic worldview.” Among those who directly addressed matters related to the Islamic worldview as a separate field of study, as opposed to its inception and development as a concept, Berghout counts Abu’l A’la Mawdudi (d. 1979), Muhammad Iqbal (d. 1938), Malik Bennabi (d. 1973), Muhammad Baqir al-Sadr (d. 1980), Ismail Raji al-Faruqi (d. 1986), Seyyed Hossein Nasr, Muhammed Hamidullah (d. 2002), Fazlur Rahman (d. 1988), Syed Muhammed Naquib al-Attas and some others.

Abu’l A’la al-Mawdudi emphasised (i) Allah as the Sole Creator and *Rabb* (Master and Sustainer) of everything in the universe, (ii)

¹ Today’s ‘wrong’ may become ‘right,’ or vice versa, with shifts in the society’s mood. Unlike a century ago, slavery is now abhorred and illegal. Young children have legally enforceable rights, but aged parents have no reciprocal rights. Shifts in the notion of marriage. These are just a few examples.

Islam as a complete code of life for man and (iii) total submission to Allah SWT as the purpose of life for humankind. He also drew several conclusions about the cosmos as well as the conduct of individual and socioeconomic life.

Al-Faruqi (1982) questioned the view of Muslim philosophers, such as al-Kindi (801-873 CE), al-Farabi (870-950 CE) and Ibn Sina (980-1037 CE), who, inspired by orderliness in the universe, emphasised cause and effect as prime reality with the creation being a passage from chaos to cosmos. Al-Faruqi summed up the rebuttal of Muslim theologians, such as al-Ghazali (1058-1111 CE), in the following words: “Either He is He by Whom everything is, by whom everything happens, incapable of initiating it or there is some other God besides Him, who is the real cause and master of all.” Observing the logical contradiction, al-Faruqi noted: “The upshot of the matter was not establishment of causality, but of divine presence, and of accommodating causality to that presence.” This led him from neutral God to Omnipresent, Omnipotent and Caring God – Allah SWT. Al-Faruqi thus advocated *al-Tawhid* (Oneness of Allah SWT) as worldview (al-Faruqi, 1992, 1-16).

Ahmad (1980) rested his argument and conclusions about economic development in Islam on *Tawhīd* (Unity and Sovereignty of Allah SWT), *Rubūbiyyah* (Divine arrangements for nourishment and sustenance of all things and directing them towards their perfection), *Khilāfah* (man’s role as a vicegerent on earth) and *Tazkiyyah* (purification *plus* growth). Naqvi (1981) argued in favour of Unity, Equilibrium, Free Will and Responsibility as four axioms for ethical Islamic economic analysis. Chapra (1993) relies on *Tawhīd*, *Khilāfah* and ‘Adālah (justice) to draw conclusions in his book on development in Islam.

According to Haneef (1997), “since economics deals with man’s relationship to nature, other human beings, with valuation in its broadest sense, and in the spheres of production, consumption and distribution of goods and services, the understanding of the Islamic view of man and nature is fundamental” (p. 43) He describes Islamic worldview in terms of four elements. (1) *Tawhīd* – one God who created the universe in perfect order, who is the Cherisher, the Sustainer, the Gracious, the Merciful, the Omnipotent, Omniscient, the Owner of everything. (2) Man’s position as *Khalīfah* (Vicegerent on earth) as well as ‘*Abd* (servant) of God and trustee. (3) Nature/universe comprising of heavens

and the earth and everything in between, for use by man in accordance with the Will of God. (4) Islam being *Dīn*– the complete code of life, enunciated in the Qur’an and the Sunnah. In the end, man is free to choose his course of action, whether that conforms to the Qur’an and the Sunnah or not. This, in turns, leaves a critical question unanswered: why could Islamic worldview not lead to a sustainable organisation of life in Muslim societies?

For Furqani (2018), ‘worldview’ means “belief, doctrine, perspective in the sense that it supplies views, assumptions and images of how to perceive things. . . [and] provides framework of thought, and objectives as well as a set of axioms and principles on which that system of thought operates” (pp. 3-4). More specifically, according to him, the earth and its resources belong to God and are created solely for man in its capacity as *‘Abd* (servant) and *Khalīfah* (vicegerent, both individually and collectively) of God. In the said capacities, individuals engage in cooperation, mutual understanding, the sharing of the world and its bounties, and the pursuit of wellbeing in this life and the Hereafter. *Khilāfah* or vicegerency, according to him, also mean resources on the earth and wealth are *Amānah* (trust) from God in the hands of the respective persons. This, in turn, implies that the said resources be used to fulfil needs of the individuals as well as the society without any misuse, corruption, wastage or squandering, corrupting environment and causing harm to the society and future generations (Furqani, 2018, p. 15). In this perspective, he perceives “Islamic economics is a body of knowledge in understanding economic phenomenon shaped and founded on the Islamic worldview that supplies perspective, directions, guidelines and goals of how human beings should arrange their economic life” (p.13).

This selective survey of the literature encapsulates the general state of the thinking on Islamic worldview. Main conclusions are based mostly on the teachings of the Qur’an. The various positions can be helpful in setting some limits or boundaries for the argument of Islamic economics. They, however, stay short of providing convincing rationale, other than the religious grounds, for Islamic economics and its subject-matter, epistemology and methodology.

In what follows, the basis for the argument is first defined, and the argument is then developed systematically. The basis of Islamic

worldview is the Qur'an. The reasons for this choice are elucidated in the next sub-section. The argument itself is spelled out in the sub-section after it. Conclusions about Islamic worldview are formally drawn in the form of bullet points in the last sub-section.

The Basis for the Argument

Rationalism and empiricism are the foundations of secular discourse. Its worldview – based on the strength of imagination and observed realities – translates into the twin notions of “individualism” and “freedom” with humankind having all rights over everything in this world and beyond. This position is shared by both believers and others.

Besides rationalism and empiricism, there exists a third basis for inquiry, i.e., the realities that transcend rational scrutiny and are recognised in Islamic and other religious scriptures. These too fall into the domain of cardinal truths. The Crossing of the Red Sea by Prophet Moses and the Israelites but sinking of the Pharaoh and his forces in their pursuit, is one such example. Prophet Jesus speaking from the cradle is another. Such is the case with the Qur'an.

The Qur'an is the Spoken Word of Allah SWT. It was communicated to humankind through the Archangel Jibrael and the Prophet Muhammad (PBUH) who had no teachers or guides. The choice of the Qur'an is supported by the Qur'an itself that challenges humankind to find any contradiction/inconsistency in it (4. *an-Nisā'*: 82), come up with like of It (17. *al-Isra*: 88) or even one of its chapters (2. *al-Baqarah*: 23; 10. *Yunus*: 38; 11. *Hūd*: 13) – if there is any doubt about it. Today, the world has the same Qur'an recited by all and memorised by millions of individuals around the world as that originally revealed on the Prophet (PBUH) more than fourteen centuries ago. The Qur'an talks about the cosmos, humankind and its position in this world and the purpose of life for humans. Reliability of the Qur'an as the basis for serious argument is also supported by its content. Cross-consistency in the text of the Qur'an simply amazes the reader.² Rationality and respect for realities, therefore, support the Qur'an as the basis for further inquiry.

² The original Texts of the Qur'an, in Arabic, are not reproduced to save space. Instead, available English translations of the various Ayat are used with minimal editing for communicating the intent of the Qur'an. The site accessed (on 17 December 2020) in the case of this study is <https://www.altafsir.com>.

The Argument

The Islamic worldview is explored here by reflection on four matters. (1) The position of Allah SWT vis-à-vis all the creation. (2) The nature of this worldly life for human beings. (3) The position of humankind vis-à-vis all other creations. (4) The position of an individual in relation to other human beings. Their relevance and usefulness become clear as the argument proceeds.

The Position of Allah SWT vis-à-vis All the Creation

Allah is *al-Ḥayyu* (The Ever Living Who has nothing before or after Him).³ He is the Creator (*al-Khāliq*); everything else in the universe is His creation. He does not need a means for creating anything. When He desires something to happen, He just says “Be,” and it is (2. *al-Baqarah*: 117; 6. *al-An‘ām*: 73; 16. *al-Naḥl*: 40; 19. *Maryam*: 35; 36. *Yasīn*: 82; 40. *Ghāfir*: 68). Being the Creator, Allah is the Owner of everything in the heavens and the earth. He SWT is the Sovereign.

According to the Qur’an, Allah is the most Gracious, Benign, Caring, Kind, Merciful and Loving Lord (*Rabb*): the Owner (*al-Mālik*), the Guardian (*al-Qayyum*), the Protector (*al-Ḥāfiẓ*), the Sustainer (*al-Rāziq*) and the Sole Source from Which everything draws its legitimacy.

He is *al-Subḥān* (above any defect or shortcoming whatsoever). *Al-‘Ālim*, *al-Laṭīf* and *al-Khabīr* (always fully knowledgeable about everything big or small, open or hidden – even a secret in a heart – and in all circumstances). *Al-Qādir* – Who has total control over everything. *Al-Wakīl* – Who retains inalienable and incessant rights over all His creation. *Fa‘ālun limā yurīd* – Who exercises His discretion and is not answerable to anyone). And, last but not the least, *al-Wārith* – the Inheritor to Whom the ownership of everything ultimately returns to (as and when an existing owner in this life ceases to exist).

Limitless in His Glory is He Who created in pairs all the things that the earth produces as well as themselves (humans) and what they know not. (36) And a sign for them is the night: when We strip (the cover of) the day from it, they are suddenly in darkness. (37) And [there is also a sign in]

³ The author owes this interpretation of *al-Ḥayyu* (*the Living*) to Late Mawlana Muhammad Ishaq.

the sun that runs to a resting place set for it foreordained by the Almighty, the Knowing. (38) And for the moon We have ordained phases [which it must traverse] till it becomes like an old date-stalk, dried-up and curved. (39) Neither may the sun overtake the moon, nor can the night precede the day. They all float in their own orbit. (40) (36. Yāsīn: 36-40, various online available translations, particularly that of Muhammad Asad, edited)

And if all the trees on earth were pens, and the sea replenished with seven more seas, the Words of God would not be spent. Truly God is Mighty, Wise. (31. Luqmān: 27)

To sum up, Allah is the Original, the Absolute and the Ultimate Owner of everything in the heavens and the earth. ‘Sovereignty’ is His alone.

The Nature of This Worldly Life for Humans

Allah has created everything with a purpose. The purpose of humankind is frequently understood based on the proclamation: “We have created the jinns and the humans solely for worship” (51. *al-Dhāriyāt*: 56). However, without detracting from this, the following Revelation is the most pertinent in understanding the nature of this worldly life for humans.

Blessed is He in Whose hand is the Sovereignty and Who has [absolute] power over all things, (1) Who has created the life and the death so that He may try which of you [the humans] is good in conduct, and He is the Mighty, the Forgiving (2) (67. *al-Mulk*: 1-2)

Three other Revelations—6. *al-An‘ām*: 165, 11. *Hūd*: 7, and 18. *al-Kahf*: 7—also confirm that this life is a test for humans. In what respects? Worshiping Allah SWT: acknowledging that there is no God except Allah SWT and Muhammad is His Messenger, performing salah, giving zakah, fasting during the month of Ramadan and performing ḥajj. Furthermore, seeking His pleasure in all affairs of this life. The Qur’an articulates this latter point as follows:

Every soul is going to taste death, and We test you by evil and by good by way of trial. And, unto Us ye shall be returned. (21. *al-Anbiyā*: 35)

And We will certainly try you by means of fear, hunger and loss in wealth, lives and fruits (of labour), and give glad tidings to those who remain steadfast. (2. *al-Baqarah*: 155)

You shall indeed be tried in your wealth and yourselves. And you shall indeed hear many hurtful things from those who were given the Scripture before you and those who are idolaters, much hurt. But if you remain patient and God-fearing, surely that is true resolve. (3. *Āl'Imrān*: 186)

And know that your wealth and your children are a trial, and with Allah is a tremendous reward. (8. *al-Anfāl*: 28)

Then, on that Day [the Day of Judgment], you will assuredly be questioned about every blessing. (102. *al-Takāthur*: 8)

The test, in the end, is in terms of faith, acts of worship and conduct in relation to fellow human beings (in social and exchange matters) and the other creation of Allah. Allah communicated His Will through Prophets and Messengers sent to the various communities from time to time. The Qur'an is His last and the final communication for the mankind.

The following two *ayāt* implicitly state lower and upper bounds for the conduct in this life:

And [O Prophet!] question them about [people of] the township that was by the sea: how they would transgress in the Sabbath. How their fish would come to them on the day of their Sabbath floating at the surface, but on the day, they did not observe the Sabbath, they [that is, the fish] would not come to them. Thus, We were trying them for their wickedness. (7. *al-A'arāf*: 13 – emphasis added)

Said one who had knowledge of the Scripture: «I will bring it to thee [the throne of the Queen of Sheba] before your glance returns to you.» Then, when he [i.e. the Prophet-King Sulayman (Solomon)] saw it standing before him, he said, “This is of my Lord's bounty, that He may try me, whether I give thanks or am ungrateful. And whoever gives thanks, gives thanks only for his own sake, and whoever is ungrateful, [he should know] then my Lord is surely Independent [free of all needs], Generous.” (27. *al-Naml*: 40)

That is, staying clear of what Allah SWT stops from and gratefully doing what His Status calls for.

The Qur'an specifies the requirements for *ṣalāt*, *zakāt*, *ṣawm* and *ḥajj*in varying degrees of details. For example, the routines for *ṣalāt*, *ṣawm* and *ḥajj* are same for everyone. Their *aḥkām* in the Qur'an are quite detailed. People, however, differ in their economic status. The Qur'an only talks of giving *zakāt* and the beneficiaries of *zakāt*; all practical details are given through the Sunnah. The matter is complex in the case of practical affairs of life.

At four places in the Qur'an, namely 17. *al-Isra*: 89; 18. *al-Kahf*: 54; 30. *al-Rūm*: 58; 39. *al-Zumur*: 27, Allah has declared that it covers all conceivable matters, of course, in terms of all essential details. A closer look at the Qur'an reveals that the needful is done in the following way:

- (1) Primary addressee of the Qur'an is the individual. That is, the *aḥkām* have been given at the micro level.
- (2) The *aḥkām* in the Qur'an are about acts of personal worship mentioned above and basic matters related to an individual dealing with others.
- (3) The *aḥkām* in the Qur'an are in binary – do/do not – form. They are generalisable for derivation of rules and regulations for more complex cases.
- (4) Further necessary explanations of the *ayāt* of the Qur'an as well as matters on which the Text of the Qur'an is silent, are provided through the Sunnah of the Prophet preserved in the authentic *Aḥādith* – the narrations of the sayings, actions, deeds and tacit approvals of the Prophet SAAWS by his illustrious companions.
- (5) The Qur'an also declares the Prophet (PBUH) to be the legal authority for issuing directives for matters that Allah chose not to address through the Qur'an, for example, zakat rates.

The Qur'an sets aside any questions or qualms about the juridical status of the Prophet in the following way. Fifteen times in the Qur'an, the believers are directed as follows:

'Obey Allah and His Messenger' (3. *Āl 'Imran*: 32, 132; 8. *al-Anfāl*: 1, 20, 46; 33. *al-Aḥzāb*: 33; 49. *al-Ḥujurāt*: 14; 58. *al-Mujadilah*: 13),

‘Obey Allah and Obey the Messenger’ (4. *an-Nisā’*: 59; 5. *al-Mā’idah*: 92; 47. *Muhammad*: 33; 24. *al-Noor*: 54),

‘Obedience of the Messenger is Obedience of Allah’ (4. *an-Nisā’*: 80), and

‘*The Messenger can prescribe limits*’ besides those laid down by Allah SWT in the Qur’an (7. *Al-A’rāf*: 157; 9. *al-Tawbah*: 29).

The Ayāt 33. *al-Aḥzāb*: 36 and 59. *al-Ḥashar*: 7 also reaffirm the legislative status of the Prophet in Shari’ah matters. Finally, the believers are warned that contending with the Messenger can lead one to hell (4. *an-Nisā’*: 115).

Position of Humankind vis-à-vis All the Other Creation in Earth and Private Ownership

According to the Qur’an, Allah is the Creator and Master of everything in the heavens and the earth. His ownership is absolute. He chose the earth as the venue for the test of human beings in this life.

It is He Who created for you all that is in and on the earth. He then turned toward heaven and fashioned it as seven heavens. And He has knowledge of all things (29). And when your Lord said to the angels, “I am going to place a *Khalīfah* (vicegerent) on earth,” they said, ‘Wilt Thou appoint therein one who will do harm therein and shed blood, while we hymn Thy praise and extol Thy holiness?’ He said, ‘Surely I know what you don’t know.’ (2. *al-Baqarah*: 29-30 – edited, emphasis added)⁴

Āyat 29 clearly states that everything on and within the earth is meant for humankind. The process of testing in this life spans a considerable period for everyone. People need resources and tools for their survival and mutual interactions. The relevance of the permissibility of private ownership granted by Allah is evident here. But what does making humanity the *Khalīfah* or Vicegerent in the *Āyat* 30 signify?

One view is with absolute ownership belonging to Allah, private ownership falls short of full ownership. It is like that of a trustee. That

⁴ The Ayah 7. *al-Aa’rāf*: 24-25 also confirms the setting of earth as the venue for habitation by humankind for their test in this life.

is, it is to be exercised by people according to the terms of the trust set by Allah.⁵ This perception needs review, bearing in mind the following Revelations:

And certainly, We have placed you with authority on earth and provided in it the means of livelihood for you. [But] Little you thank. (7. *Al-A'raf*: 10)

Have they not seen how We have created for them of Our handiwork the cattle, so that they are their owners? (71) And, We have subdued them (the cattle) for them (the people) – some they ride and some they eat. (72) And there are, therein, other benefits for them and drinks. Will they not then give thanks? (73) (36. *Yasīn*: 71-73).

These Revelations, read together with the freedom of choice allowed to all humankind, support the position that private ownership is absolute and not merely a trust in a legalistic sense. In this perspective, the most likely interpretation of Allah SWT making a Khalifa on the earth, is a notification issued to all creations on earth to the following effect:

Whereas Allah SWT is the Original and Absolute Owner of everything on earth, humankind is authorized to exercise its discretion over them and avail of them—without prejudice to the True Ownership which always rests with Allah SWT.⁶

It fills a lacuna that could emerge if humans were to exercise their free will on the earth.

Private ownership comes with some strings attached to it by Allah SWT in exchange matters. Six of the most important ones are as follows:

- Everything not privately owned by someone, in principle, belongs to every human being. However, where Shari'ah-permitted boundaries have been established, this rule will apply separately to each geopolitical entity.

⁵ See, for example, Chapra (1979), pp. 23-4 and Haneef (1997), p. 45.

⁶ As what “the earth” means, is a matter of conjecture. The air, atmosphere, biosphere and the outer space are all part of the earth. The scope may extend to other planets in the solar system of which the earth is a constituent unit. Allah SWT knows the best.

- Free and willing consent of everyone involved in a matter (4. *an-Nisā'*: 29)
- No *gharar* – utmost transparency and absence of ambiguity in exchange matters (Al-Darmi, *Kitāb al-Buyū'*, 2596; Abu Daud, *Kitāb al-Buyū'*, 3376)
- No *maysir* or *qimār* – all economic exchanges must involve quid pro quo, i.e., not only take but also give back and vice versa (5. *al-Mā'idah*: 90)
- No *riba* – settling loans, debts and similar other exchanges without discrepancy in give-and-take back (2. *al-Baqarah*: 278-279; 3. *Āl Imrān*: 130)
- *Shūra* – having mutual consultation in joint/collective matters (42. *al-Shurā*: 38).

Of course, when someone dies, ownership of the things in her or his name returns to Allah SWT; the leftovers are to be reallocated among prospective claimants according to the Islamic Law of Inheritance (4. *an-Nisā'*: 7-14, 33, 176). Details of these and other important restrictions are beyond the scope of this paper. All these facilitate a meaningful test of humankind in all walks of life. Of course, in that regard man is allowed freedom to comply or not to comply with these conditions.

The Position of an Individual vis-à-vis Other Human Beings

Every individual comes to this world alone, goes back alone and is going to face accountability in the hereafter alone. Personal identity and concerns of every individual, therefore, always have paramount importance in all matters in this worldly life. Does this mean “individualism” in its extreme sense, as in secular liberal thought?

Allah has made all things in pairs (36. *Yāsīn*: 36). Human beings are no exception. Adam was the first representative of mankind, and he was soon accompanied by Eve (2. *al-Baqarah*: 30-37; 7. *al-A'rāf*: 12-19). They had different anatomies but complemented each other. All human beings are their progeny. Thus, without prejudice to their standing as individuals, Adam and Eve were spouses.

Primarily, an individual is a child of two other individuals – mother and father, also known as the parents. As a child, in the beginning the

individual totally depends on them. Bonds of love and care are built into the parents, in particular the mothers who bear the pain of bringing the child into this world.⁷ The parents provide emotional and material support, subject to their constraints, without any formal give-and-take accord with the child. The dependency order gradually reverses, especially when parents grow old. Allah SWT has commanded every individual not to say even “fie” to their parents when one or both become old (17. *al-Isrā’* 23-24). This Commandment is unconditional. Of course, the caveat “subject to the respective individual’s constraints” applies. Symmetry in the matter is significant. This life works on the principle of give and take.

In addition to one’s parents, an individual is related by blood to another individual as brother, sister, grandchild, grandparent, maternal and paternal uncles and aunts and their spouses. The Qur’an counts them among *dhū al-qurbā* (2. *al-Baqarah*: 177) – the kinsfolk – who merit one’s attention. Proximity gives next-door neighbours a similar, though not the same, status. Notwithstanding these relations, the bond of being ultimately from the same father and mother links every individual to all other individuals in the bond of humanity. The Qur’an explicitly talks of all these relations and an individual’s responsibilities in all these respects, with the primacy of blood relations.

Notwithstanding parental and primary blood relations, the marital relation is the most important. This is a voluntary relation. But once contracted, in the Qur’anic vocabulary the two individuals become ‘spouses’ for each other. Allah SWT describes the husband and wife as “dress” for each other (2. *al-Baqarah*: 187). It implies that while husband and wife retain their personal identities as individuals, in the marital bond they together are “one person.” The spouses may have unique roles in a marital relationship. Free willing consent of both the spouses remains critical in their mutual affairs. This relation, however, differs from other blood relations because the Sharī‘ah allows the spouses to terminate it.

⁷ Circumstances sometimes make the realities stark in some cases, especially in the cases of children of unmarried parents, divorcees, surrogate mothers and surrogate fathers.

Finally, in modern jargon, an individual's relation to other individuals also takes the form of tribes and communities/societies/nations at village, town, city, district/county, province/state and country/national levels. This is natural. The Qur'an pointedly states that Allah made and distinguished people in the form of tribes for the purpose of identification (49. *al-Hujurāt*: 13). People, in general, need each other for their needs as well as survival. Willingness to bear responsibilities for ensuing benefits help them gradually move from lower to higher tiers of social organisation. In the past, conflicts and conquests also played a role in this regard. The present-day geopolitical divides can be viewed from this perspective.

Allah has set, in broad terms, rules and regulations in the Qur'an and the Sunnah of the Prophet in all the above respects with, as also mentioned earlier, the individual as the primary addressee of all the Divine Commandments and Edicts. The foregoing paragraph completes this account of the four issues raised at the outset for defining the Islamic worldview.

The Islamic Worldview – A Consolidated Statement

The Islamic worldview is outlined hereunder in a point form to facilitate future discourse, especially in the economic domain of life.

1. Allah is the Original, the Absolute and the Ultimate Owner of everything in the heavens and the earth.
2. The universe has order. Everything in it fits together and serves some purpose set for it by Allah. There is no flaw or inconsistency in the Divine Order.
3. There may be several worlds in the cosmos with their respective inhabitants having their own charters set for them by Allah. The absence of a mention of them in the Qur'an does not rule out such possibilities. Likewise, there may be argument on whether "earth" means the planet earth or the planetary system of which this earth is a part. Lack of knowledge about other existing worlds and the earth is inconsequential for the purpose of life on earth for humans.
4. This is a cause-and-effect world, where everything changes according to natural and biological laws ordained by Allah.

5. The individual is the linchpin in the Divine scheme for life on the earth. Notwithstanding the time and place of an individual's entrance onto or departure from the world stage, all human beings are interconnected through various bonds.
6. Fundamentally, all individuals are equal regardless of differences in their gender, race, colour, economic position or social status. Notwithstanding this, physical and biological dissimilarities between them imply that individuals of both sexes also have some unique roles to play in the Divine Scheme set by Allah for this world.
7. Notwithstanding the time and place at which an individual enters or leaves the world, all individuals are interconnected through various bonds.
8. An individual is a part of society, not the other way around. That is, society is not merely a sum of autonomous individuals. Every society rest on some explicit or implicit social contract between its members. Lineage, ethnicity, language, shared beliefs, common way of life, customs, arts and culture and shared concerns play a defining role in shaping a society.
9. This life is a test for humankind according to the criteria enunciated in the Qur'an and the Sunnah since the time of the Prophet. Humankind is given a central position in the divine scheme for this purpose. The primary addressee of the Qur'an is the individual. Among other things, free will and private ownership are two essential requirements for life.
10. Human beings face a test – as per the Qur'an and the Sunnah – in the following respects:
 - At a personal level: true faith (in Allah, His Messengers and Prophets, His Angels, the Divine Guidance from Him and the Day of Judgment); performing *ṣalāt*; giving *zakāt*; fasting during the month of Ramaḍān (*ṣawm*) and undertaking *ḥajj* (pilgrimage to Makkah once in a lifetime).
 - At the social level: compliance with the Will of Allah in line with the Divinely ordained parameters for this worldly life.

- As for the other creations, compliance with the Will of Allah in matters related to them.

Other than the above, humans have full freedom in all their pursuits, even striving for the heavens.

11. Everyone is entitled to the exercise of their free will and freedom of choice—religious freedom, free speech, freedom of association, freedom of movement, freedom of occupation, the right to work and to enjoy the fruits of one’s effort, and the right to own property. The caveat “within the bounds set by Allah SWT in the Qur’an and through the Sunnah” qualifies it in several ways.
12. Private ownership is a logical necessity for the purpose of testing humans in this life. Allah SWT has permitted it and set rules for acquiring it through exchanges, voluntary transfers and inheritance. Other than private ownership, however, all economic resources fall under the common ownership within the respective jurisdiction, today known as nation-states. Faith considerations are inconsequential in this regard. This general principle applies to natural resources, unclaimed (public) lands, and everything—including the environment—on which private ownership claims may be established. Matters relating to such property, by virtue of its nature, are to be managed at the state level in the common interest of everyone.
13. Exchange among people is an absolute necessity for at least two reasons: (i) no one is born with all the resources required for life from birth to death, and (ii) every individual naturally desires things they do not possess. Freedom of exchange is, therefore, the right of every individual. All individuals can exercise their freedoms for exchange subject to the following conditions:
 - (1) Free and willing consent of all concerned parties,
 - (2) Utmost transparency and absence of ambiguity (no *gharār*),
 - (3) No economic transactions without quid pro quo (no *maysir*), and
 - (4) Any other relevant condition ordained by Allah and His Messenger.

These conditions serve the purpose of a test of individuals, on the one hand, and the provision of a level playing field for everyone, on the other. For example, the prohibition of betting serves the latter purpose by preventing exploitation of the emotions of innocent and simple people by the shrewd. On the other hand, the prohibition of *ribā* tests the will of the resourceful individuals by requiring them to forgo income-earning interests in matters of loans and debts.

14. Ultimately, all ownership is personal. ‘A legal person’ may emerge in exceptional cases, such as government or other instances in which pure personal ownership is obscured. Two examples of the latter are: (i) a person doing business under a trade name, and (ii) many people jointly conducting business. In these cases, the personal dimension recedes into the background, though it always remains relevant. The respective individuals decide, one way or another, what may be done and how it may be done. Ultimately, all gains accrue to them, and losses are borne by them. The *aḥkām* of the Shari‘ah, originally set at the personal level, automatically extend to all such cases. As for government, it is a legal person of the people and for the people. Those in government are either representatives—whether elected or imposed—of the people, or their employees. In the case of government, therefore, all the rules for private transactions apply equally to government transactions. Those in government—namely rulers and public employees—are bound by the rules of trusteeship, functioning for and on behalf of the people, not in their own personal capacity or personal interest.
15. When an individual passes away, the ownership of everything in his or her name (but not the obligations beyond what is left behind) reverts to Allah SWT. This requires reassignment of the said things to others within the existing system of property rights. The Will of Allah embodied in the Islamic Law of Inheritance as set forth in the Qur’an and the Sunnah, therefore, supersedes all personal claims in these matters.

The following section examines the implications for academic discourse from the perspectives of mainstream economics and Islamic economics.

Islamic Worldview, Mainstream Economics and Islamic Economics

Modern economics enjoys the status of the authoritative paradigm in academia. When examined in terms of its intellectual foundations, it is neoclassical economics, rooted in the Enlightenment in Europe during the seventeenth and eighteenth centuries, particularly the latter. It has its metaphysics. There was belief in Supreme God and religion was important. Religion is, however, regarded as a personal matter, but inconsequential otherwise. In this sense, “secularism” is its religion.

The worldview of mainstream economics crystallised over the past few centuries through the contributions of, among others, René Descartes (1596–1650), Baruch Spinoza (1632–1677), Voltaire (1694–1778), David Hume (1711–1776), Jean-Jacques Rousseau (1712–1778), Immanuel Kant (1724–1804), Adam Smith (1723–1790) and Friedrich Nietzsche (1844–1900). Over time, three intellectual currents—naturalism (the belief that only natural laws and forces govern the universe), rationalism (the primacy of reason), and empiricism (the defining role of experience and experimentation)—came to dominate this worldview.

Within this framework, humankind is not seen as part of a grand design with a predetermined purpose. Rather, humans are regarded as autonomous agents, masters of their own destiny, capable of determining what is good or bad, right or wrong, without reference to realities beyond this life. Gradually, emphasis shifted toward humanism, where all individuals are considered equal and free to pursue their choices, provided these do not materially or emotionally harm others.

The predominance of rationalist thought has also shaped ethics, influencing conceptions of virtue and vice, justice and crime, and the broader pursuit of a ‘good society.’ In this paradigm, personal liberty and the rule of law emerge as the central ethical pillars of social order. These ethical pillars found expression in modern political life, where ‘individualism’ and ‘freedom’ emerged as hallmarks of the dominant worldview. All individuals are regarded as equal and free to choose what they want. The dilemma of one person’s freedom conflicting with another’s is addressed through democratic arrangements based on the onepersononevote principle, which has shaped rules of the game and

institutions. Yet the issue of resourceful individuals influencing public opinion in the democratic process persists.

In the economic sphere, the freedoms to own property, to exercise individual choice, and to participate in competitive markets have structured a system that has proved resilient and effective. This framework has fostered growth in material wellbeing, enabled financial and informational revolutions and driven unprecedented scientific progress. Modern economics is termed “neoclassical” because it rests on the same intellectual foundations articulated by Adam Smith in the eighteenth century.

We argued in the preceding pages that the individual occupies a central place in the Divine scheme of life on earth. The individual’s role is inseparably connected with the society and the environment. Economic initiative and exchange are inevitable, arising from differences in personal needs and human dispositions. Everything on earth ultimately serves the higher purpose of humankind: seeking the Will of Allah. For this purpose, Allah has prescribed conditions in the Qur’an and explicated them through the Sunnah of the Prophet. The question thus arises: how does the Islamic worldview justify Islamic economics as a distinct field of inquiry, separate from contemporary economics? The answer may be approached through the following Revelation in the Qur’an:

Have you not seen that Allah knows everything that is in the heavens and the earth? No secret conversation of three takes place but He is their fourth, nor that of five but He is their sixth, nor of fewer than that (three) or more than that (five) but He is also with them [as a party] wherever they may be. Then, on the Day of Resurrection, He will inform them of what they did. Assuredly, Allah has knowledge of all things.
(58: *al-Mujādilah*: 7)

The scope of this Revelation is wide. It implies that whenever individuals engage in any matter, Allah SWT is also a party to it. Whether the number is three, five, fewer, or more, His presence and stake remain constant. This is because Allah SWT is the Original and Absolute Owner of everything in the heavens and the earth, around which human exchanges take place. Rationality therefore requires that, in addition to the consent of worldly stakeholders, allowance must be made for the

Will of Allah. This follows logically and leads to the question of how such divine involvement is expressed in economic life.

In the context of this life as a test, Allah SWT has prescribed limits and rules for human conduct. Prohibitions such as liquor, obligations such as *zakāt* and restrictions such as *ribā* (interest) are all measures that acknowledge His ownership and authority. Likewise, the emphasis on free and willing consent, protection of the less fortunate and bans on gambling establish parameters for exchange that create a level playing field. Distributive obligations further reduce gaps between the haves and have-nots. Together, these and several other measures not mentioned here form the agenda of Islamic economics.

Ultimately, besides the free-and-willing consent of individuals, allowance for the Will of Allah (embodied in the Sharī‘ah) is perfectly logical. This is the rationale for Islamic economics as a distinct academic discipline. Ethical and moral defences of Islamic economics and its efficacy in addressing complex economic challenges, are secondary considerations. For comparative purposes, it is noteworthy that neoclassical or secular economics is a systematic inquiry into the economic problem of man without reference to divine will or revelation.

At the practical level, Allah’s involvement in worldly affairs takes the form of setting the rules of the game – the *aḥkām* of the Sharī‘ah– which determine what may be done and how. These rules provide safeguards for the poor and the weak, while also creating avenues for economic pursuits in the larger interest of society. A formal demonstration of this point at both theoretical and practical levels requires separate study. A few clues are provided in what follows.

Conclusion: The Way Forward for Islamic Economics

Islamic economics, like conventional economics, is a systematic study of economic and distributive issues in an economy. It is grounded in the Sharī‘ah that introduces distinctive, ethical and moral constraints. Its core principles include private ownership, voluntary exchange and market-based distribution and redistribution, moderated by the Sharī‘ah. However, the inclusion of the Will of Allah through the Sharī‘ah significantly alters the economic framework, introducing unique ethical and moral guidelines.

In principle, all exchanges are voluntary, and markets are the natural institution. Prices are set by demand and supply, with government shaping the market environment rather than intervening directly. Financial gaps in the transaction process are addressed via third parties acting as traders or lessors or *via* profit-sharing partnerships. Individuals bear tax liabilities for the provision of pure and social public goods (like roads and other infrastructure).

A Sharī‘ah-based economy is a market economy with built-in distribution and redistribution. Government’s direct economic role is limited: it “runs” rather than “manages” the economy, and distributive aims are pursued through private initiative rather than tax-transfer programmes.

The economy would be monetised with money serving as the medium for exchange. Banks, insurance and financial markets would operate without interest or chance-based instruments. Likewise, joint stock companies, stocks, securities and their corresponding markets would exist, with new fresh financial engineering and institutional development.

Government is a legal person in two distinct capacities: (a) elected representative of the people for addressing their public concerns and (b) operational arm of the state for managing state assets and concerns. In its representative role, it would avoid acting as an economic agent to prevent competing with citizens.

Two notable departures from current practices will be prominent: (i) no interest-based financial intermediation, and (ii) no direct welfare role for government beyond administering *zakāt*. Prohibiting *ribā* would transform banks into economic agents, rather than pure financial institutions as at present. This would lead to (a) integration of real and financial sectors, (b) rationalisation of demand, (c) creating employment, (d) easing supply constraints and (d) lowering inflation. This would imply a distinct policy agenda. Furthermore, welfare shifts to private initiative will reduce redistribution costs and public debt.

Islamic economics addresses all real-life issues: resource allocation, production, poverty, inequality, unemployment, stability, development, and environmental degradation. As a discipline, it encompasses micro, macro, monetary/financial, public, development, agricultural, environmental economics, and more.

Islamic economics is not “economics of Muslims and for Muslims.” Its diagnosis and remedies are universal. Rather than accepting realities as they are and proceeding to description and prescription, Islamic economics interrogates foundations. For example, the split between money creation and productive deployment is a root cause of inflation; instead of merely controlling money supply, “no *ribā*” points to redesigning financial architecture to address structural causes.

Since 1976, much work has been done, though the rise of Islamic banking in the 1980s diverted attention from theory. Interest in Islamic economics is again growing. Solid development requires solutions aligned with Sharī‘ah edicts and reconstructing the discipline, rather than Islamising conventional economics to fit the *maqāsid* (purpose) of the Sharī‘ah.

Our discussion on the Islamic worldview and its implications for economics concludes with a reminder: Allah, being Loving and Caring, has ensured that all creation and every divine injunction serve a purpose. The same applies to the Sunnah of the Prophet. Yet purpose does not always directly disclose divine intent—just as “ $2 + 3 = 5$ ” does not mean that “ $2+3$ ” is the only cause of “ 5 .” Therefore, the sound approach is to address legitimate concerns through practicable means guided by the Qur’an and Sunnah, rather than conjecturing about the “intent of Allah SWT” or the *Maqāsid* (purpose) of the Sharī‘ah.

The Sharī‘ah defines boundaries for economic activity through six conditions: (1) free and willing consent of all parties, (2) transparency and avoidance of ambiguity (No *gharār*), (3) prohibition of one-way transfers outside charity (No *maysir*), (4) equal settlement of debts in nominal terms (No *ribā*), (5) trading only items under ownership (No *Ghāeb*), and (6) buyer’s rights of recourse (*khiyarāt*). It further restricts (1) mutually exclusive conditions in exchanges (No *Shartān*) and (2) combining two exclusive transactions in one (No *Bay‘atān fī Bay‘ah*). Within these limits, parameters are set for trading, leasing, partnerships, loans, safekeeping, agency, collateral, guarantees, and their combinations. Rules for *zakāt*, both obligatory and voluntary, are separately detailed in the Qur’an and Sunnah.

The above, properly understood and followed, have the potential of leading to new economic organisation. Freely working markets, government’s role limited to governance matters, integration of real and

financial sectors of economy and private initiative also taking care of distributional matters.

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Examination of Preservation of Wealth as a Prime Limb of *Maqāṣid Al-Sharī'ah* to Justify Bitcoin in Islamic Jurisprudence

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Abstract: This article adopts a *maqāṣid al-sharī'ah* approach to dealing with Bitcoin transactions. The Islamic law's position on Bitcoin transactions is not explicitly clear. Unsurprisingly, Islamic law provides no rulings specific to Bitcoin transactions, as Bitcoin never existed at the time of Prophet (PBUH). Such disparity has created controversy among contemporary Islamic jurists on the permissibility of such transactions. While many Islamic jurists argue for the impermissibility of Bitcoin and any associated transaction involving Bitcoin, few Islamic scholars counter-argue the permissibility of Bitcoin if it is so engineered to fully adhere to Islamic values and principles. The article adopts a legal research (doctrinal) methodology in conformity with its agenda which is to review the Islamic rulings on the impermissibility of bitcoin transactions. This article suggests that the existing disparity is eliminated with a *maqāṣid al-sharī'ah* approach that takes a broader view of the philosophy and values of Islam linking the explicit rulings of Islamic law and jurisprudence to their implicit objectives. The research findings suggest that bitcoin and any transactions involving bitcoin fail to comply not only the jurisprudential requirements of permissibility but also the implicit objectives of *sharī'ah*,

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notably the “preservation of wealth” (*ḥifẓ al-māl*). This study emphasises that the objectives of *sharī‘ah* must be followed in managing Bitcoin-related entities by formulating corporate objectives and Bitcoin policies complying with *maqāṣid al-sharī‘ah*. Furthermore, these formulated objectives must be incorporated to indicate whether the Bitcoin entity upholds Islamic principles.

Keywords: Bitcoin, Permissibility, Impermissibility, Economies, *maqāṣid al-sharī‘ah*

Abstrak: Makalah ini menggunakan pendekatan *maqāṣid al-sharī‘ah* dalam menangani transaksi Bitcoin. Posisi hukum Islam berkenaan transaksi Bitcoin tidak dinyatakan secara jelas dan tersurat. Ini tidaklah menghairankan kerana hukum Islam tidak memberikan sebarang keputusan khusus mengenai transaksi Bitcoin memandangkan Bitcoin tidak wujud pada zaman Nabi (SAW). Perbezaan ini telah menimbulkan kontroversi dalam kalangan fuqaha kontemporari mengenai keharusan transaksi sedemikian. Sementara banyak fuqaha Islam berhujah menyatakan ketidakharusan Bitcoin dan sebarang transaksi yang melibatkannya, segelintir sarjana Islam pula membantah dengan menyatakan keharusan Bitcoin *jika* ianya direkabentuk untuk mematuhi sepenuhnya nilai dan prinsip Islam. Makalah ini menggunakan metodologi penyelidikan undang-undang (doktrinal) selaras dengan agendanya, iaitu untuk mengkaji semula ketetapan Islam mengenai ketidakharusan transaksi Bitcoin. Makalah ini mencadangkan agar perbezaan pendapat sedia ada dihapuskan dengan menggunakan pendekatan *maqāṣid al-sharī‘ah* yang mengambil kira pandangan yang lebih luas tentang falsafah dan nilai-nilai Islam, dengan menghubungkan ketetapan eksplisit hukum dan fiqh Islam kepada matlamat implisitnya. Hasil penemuan penyelidikan mencadangkan bahawa Bitcoin dan sebarang transaksi yang melibatkannya gagal mematuhi bukan sahaja keperluan fiqh untuk kebolegunaan, malah turut melanggar matlamat tersirat *sharī‘ah*, terutamanya “pemeliharaan harta” (*ḥifẓ al-māl*). Kajian ini menekankan bahawa matlamat *sharī‘ah* wajib diikuti dalam pengurusan entiti berkaitan Bitcoin dengan merumuskan objektif dan polisi korporat Bitcoin yang mematuhi *maqāṣid al-sharī‘ah*. Tambahan pula, objektif yang dirumuskan ini perlu digabungkan untuk menunjukkan sama ada entiti Bitcoin tersebut menegakkan prinsip-prinsip Islam.

Keywords: Bitcoin, Keharusan, Ketidakharusan, Ekonomi, *maqāṣid al-sharī‘ah*

Introduction

The historical development of money has gone through various phases. Its chronological order begins in ancient times, primarily based on the barter system. Subsequently, it progressed through the commodity money system, metallic money system, and fiat money system and has now arrived at the modern-day crypto or digital currency system. Since ancient times, money has been used for various purposes as a medium of exchange, measuring values of other commodities, as a standard to compare values and goods, and as a store of value in general (Hasan, 2015). According to the historical record, money has been used in various forms ranging from metals to stones, furs, shells, tobacco, and animal skins (Sanusi, 2002). With the invention of the banking system, money evolved from the concept of paper money to contemporary electronic money. This evolution of money has allowed people to carry less paper money to carry out transactions. This concept of electronic money is aligned with advancements in technology. As a result, people mainly depend on ATMs, mobile banking, e-banking, e-wallets, and credit cards to process transactions.

That being said, the advent of cryptocurrencies has drastically impacted the overall architecture of economic relations and financial systems in the contemporary world. The future of money is believed to lie on cryptocurrencies. It may provide independent accessibility via the internet and give users personal freedom over how they execute their business since it is not supervised or authorised by a standard regulatory organisation. Arsov (2017) outlined four properties of Bitcoin; divisibility (it can be divided into equal pieces, which cannot be done with gold), malleability (it can be combined with other Bitcoins to fit in a wallet and be stored in an account), counterfeit-adversity (it can be seen who owns whose Bitcoins if someone lies by having a copy of the ledger), and fungibility (replaceable by another identical item). It is possible to observe that Bitcoin is distinguished by its characteristics from traditional currencies in the form of coins and paper.

From this point of view, a need for a statement of Islamic jurisprudential aspects about the circulation of Bitcoin arises as this is an emerging issue related to financial transactions. Several studies have been conducted by profound academic scholars proposing the pros and cons of using Bitcoin, their juristic opinions on the *ḥalāl* and

ḥarām aspects of Bitcoin, and their permissibility based on an Islamic perspective. However, there is a significant research gap in reviewing the permissibility of Bitcoins based on the prime element of the *maqāṣid al-sharī'ah* approach, i. e., “preservation of wealth” (*ḥifz al-māl*). Therefore, this research aims to study the concept of Bitcoin from a *maqāṣid al-sharī'ah* perspective, notably the “preservation of wealth” and clarify its legal position.

The question of permissibility of Bitcoin has three aspects. First, what is “Bitcoin” and how can it be differentiated from other cryptocurrencies? Second, what are the different views of modern Islamic scholars and why do they have divergent juristic opinions on the permissibility of using Bitcoin in business and financial transactions? Third, as the majority of scholars relying on traditional Islamic jurisprudence would resist against permissibility, would it be possible to employ a new jurisprudential methodological approach based on *maqāṣid al-sharī'ah* to argue for the permissibility of dealings with Bitcoin and to reconcile the issue? In order to provide answers to these questions, this research formulates three objectives. First, it seeks to explore and define the terms “Cryptocurrencies” and “Bitcoin” to understand Bitcoin and how it differs from other cryptocurrencies. Second, it aims to analyse different Islamic juristic opinions on Bitcoin as a form of cryptocurrency that can be used to facilitate exchanges of goods and services in modern business. Third, it intends to suggest a reconciliation approach based on the *maqāṣid al-sharī'ah* theoretical framework, so as to tackle the existing disparity over the concept and use of Bitcoin in Islamic businesses.

This article uses a qualitative methodology and a deductive approach to accomplish the research. A qualitative approach was selected for this study because this approach is beneficial for studies seeking the reflection of individual reality and enables a researcher to see how people interpret their experiences, construct the world and the associate meanings with it (Merriam, 2009). A qualitative approach also allows the generation of comprehensive insights, for the purpose of this study, of *sharī'ah* scholars’ perception and experiences on cryptocurrencies and notably Bitcoin. The paper also takes an inductive approach. As Islamic jurisprudence has not paid adequate attention to Bitcoin, this study attempts to gather data that are hoped to lead to new insights and establishment of new theories (induction), in lieu of using a theory to

explain findings (deduction). This study thus aims to explore and form a deeper understanding of Bitcoin through inductive research based on *maqāṣid al-sharī'ah*. The relevant data is collected from both primary and secondary sources. The primary sources are the Qur'an and Sunnah that can offer accurate information directly. The secondary sources, meanwhile, come from books or articles that might not be as accurate as the primary sources, yet can be relied on for their relevance and valid reasoning. Documentative data collection is the method used to gather information depending on the research problems. As a result, by gathering, analysing, and synthesising data, this study aims to provide a descriptive and analytical discussion to reexamine the problem methodically and objectively in order to present a valid tailored solution based on reliable reconstruction of facts and findings.

Towards its objectives, the rest of the article is divided into four sections. In the next section, this article discusses the concept and nature of cryptocurrencies including Bitcoin, their conceptual and technical differences and mechanisms. Then, the article addresses the controversial position of modern Islamic scholars in relation to the question of permissibility of cryptocurrencies including Bitcoin. Next, this article advocates for closing the gap in Islamic jurisprudence regarding the question of permissibility of Bitcoin based on the important pillar of *maqāṣid al-sharī'ah*, i. e. the protection of property, will be advocated. The final section of this article is the conclusion based on the discussion and arguments presented.

Bitcoin and Cryptocurrency

Definition

According to the Oxford Dictionary (2014), "Cryptocurrency is any system of electronic money used for buying and selling online and without the need of a Central Bank." The same dictionary defined Bitcoin as "a compound of the words bit and coin, and a type of digital currency in which a record of transactions is maintained, and the computational solution of mathematical problems generates new units of currency, and which operated independently of a central bank." As Bitcoin is also an instance of electronic money, it can be suggested that it is a type or an example of cryptocurrency created systematically based on mathematical calculations, where the transactions are recorded

and operated through a decentralised digital network without the need for intervention from any intermediary banks.

Cryptocurrencies are digital (virtual) currencies that do not possess any physical form akin to fiat money. In fact, cryptocurrencies are digital assets created to function as a means of trade. A familiar example of cryptocurrencies is Bitcoin which is a digital currency created by a person or group of persons under the pseudonym “Satoshi Nakamoto” in 2007 using the SHA-256 cryptographic function as made evident through an examination of blockchain technology (Billah, 2019). Bitcoin was introduced to the world in 2009. It is the most well-known cryptocurrency that utilises cryptography to control administration, creation, and safety. It is also the first digital currency in the world that uses the concept of cryptography (Wong, 2014). Cryptography is used to safeguard transactions and regulate the production of new currency units in cryptocurrencies. Cryptography, however, cannot fully guarantee the security feature of cryptocurrencies, so they are frequently exposed to the risk of counterfeit. As a decentralised digital currency, however, Bitcoin utilises encryption techniques to monitor the generation of units of currencies and authorises transactions that operate independently from the central banks (Nashirah, 2017).

Bitcoin is the first decentralised cryptocurrency. In pursuit of Bitcoin, a number of other cryptocurrencies including Ether, Litecoin, Bitcoin Cash, Bitcoin Gold, Ripple, EOS, Stellar, and NEO were introduced. EOS, Litecoin, Ripple, Ether, and Bitcoin Cash possess faster transaction speeds than Bitcoin. While NEO is integrated with the NEO network to comply with laws in many jurisdictions, Stellar integrated itself with banks to earn formal recognition to be used in transactions with multiple currencies (Coin Market Cap, 2022). Despite its limited uses compared with recent competitors and the dramatic volatility of value in recent years, Bitcoin is still the largest cryptocurrency by market capitalisation (Narayanan A et al., 2021). Today, the top ratings of cryptocurrencies based on their popularity are respectively Bitcoin, Litecoin, Ethereum, Zcash, Dash, Ripple, and Monero. Among these, Bitcoin represents as the prime example of cryptocurrency that is based on a collection of modern monetary concepts and technologies that form fundamentals of what is often referred to as the “Digital Money Eco-system (Antonopoulos, 2015).

Mechanism

The mechanism of Bitcoin can be analysed regarding its two main applications, i.e., the operations of Bitcoin, and the transactions that make use of Bitcoin.

Operational Mechanism

Gapur Oziev and Magomet Yandiyev (2018) state three consecutive levels in which Bitcoin operates “Ownership of Bitcoin,” “Emission of Bitcoin,” and “Solving mathematical algorithms.” In the “Ownership of Bitcoin,” the Bitcoin user needs to own Bitcoins and use them in transactions. Initially, the user needs to download a unique software programme on the computer, which is used as a wallet to store Bitcoin. Alternatively, the user can purchase Bitcoins from the market and store them in the wallet using fiat money. In the “Emission of Bitcoins,” the user uses a unique software programme on the computer to solve complicated mathematical equations generated by the Bitcoin system. The user who first solves the equation (also known as hash) is rewarded with a Bitcoin. This step is followed by “Solving mathematical algorithms,” in which the user who solves the equation faster gets the opportunity to execute transactions at that particular time.

The process of Bitcoin mining and implementing cryptographic hash functions in the transaction can be explained using the following example. User A wants to send 60 Bitcoins to user B. First, this message will be translated to code by Bitcoin software (cryptographic hash functions, Secure Hash Algorithm [SHA-256]). Then, the HA-256 algorithm generates a unique, fixed-size 256-bit hash (transaction code). The CPUs (Central Processing Units) in the blockchain will compete to solve the SHA-256 programming code. The best CPU solves the SHA-256 code and updates the transaction ledger. Further, the best CPU will compute and validate the chain transaction. By following all these processes, user B will receive the payment of 60 Bitcoins. By digitally signing a hash of the initial transaction and the subsequent owner’s public key and adding them to the end of the coin, each owner transfers ownership of the coin to the next. The payee can verify the chain of ownership by checking the signatures (Kroll et al., 2013). Therefore, the Bitcoin mining method involves the best CPU, which will receive Bitcoins in two ways: firstly, by solving the transaction code from the system and secondly from the user as minimal transaction cost.

Transactional Mechanism

A transaction is a transfer of value via the Bitcoin network that is compiled into blocks. A transaction typically dedicates all input Bitcoin values to new outputs and refers to prior transaction outputs as new transaction inputs (Miers et al., 2013). All network users have access to the ledger, a single public record of all transactions (Moore & Christin, 2013). Transactions are irreversible once they have received enough confirmation to cover them. The “ledger” used in the transaction of Bitcoins is the introductory book or computer file used to record total financial transactions measured in terms of a single unit of currency, with debits and credits shown in separate columns and beginning and ending balances for each account (Ron & Shamir, 2013). Moreover, a blockchain is an open, distributed ledger that may effectively and permanently record transactions between two parties (Reid & Harrigan, 2013).

As a peer-to-peer cryptocurrency platform, distributed open ledger networks are used. This platform serves as the hub, framework, and instrument for ongoing innovation. It is built for high-speed transactions and enables users to transact in assets safely, securely, and for meagre fees. The blockchain, which stores an online ledger of all transactions made with Bitcoins, is how Bitcoin operates. It offers a data structure for this ledger that is susceptible to a small number of hacker threats and can be copied across all computers running Bitcoin software. In a scenario of transferring 60 Bitcoins from user A to user B, the transaction process consists of 3 stages. The first stage includes the current condition, confirming that User A possesses 100 Bitcoins from previous transactions. The second stage involves the validation and evaluation process. Here, the transaction will be validated across all ledger networks that user A has 100 Bitcoins; the network will identify the transaction of 60 Bitcoins to user B. Then, the transaction can be added to the open ledger network if it is valid. Finally, the transaction will be included in the transaction chain. The third stage includes approval of the transaction chain, where User A transferred 60 Bitcoins to user B, and user A Bitcoins became 40.

Jurisprudential Controversy over Bitcoin

There are two approaches in Islamic jurisprudence regarding Bitcoin, impermissibility, and permissibility.

Impermissibility Approach

The impermissibility of Bitcoin can be analysed from different perspectives and opinions. Mufti Muhammad Abu Bakr (2018) proposes that many recognised Islamic scholars, institutions, and organisations oppose the permissibility of Bitcoin. These include the grand Mufti of Egypt, the government of Turkey, the Palestine Fatwa Centre, and Sheikh Haytham of the U.K., on the basis that Bitcoin is not a legal contract, unknown issuer, decentralised authority, and it can be seamlessly used for money laundering.

Initially, when considering the term “Bitcoin,” Dr. Ali al-Qurra Dagi, in an interview with Al-Jazeera in 2017, argues that Bitcoin does not hold the position of “currencies” because they do not possess two significant characteristics of money: as a medium of exchange and a “store of value.” Medium of exchange denotes that money can be exchanged for something else (i.e., goods and services). In contrast, “store of value” denotes that money can retain its value for a considerably long time. Dr. Ali asserted that Bitcoin does not possess these two significant characteristics due to a lack of centralised regulation. Further, he emphasised that if Bitcoin does not possess the traits of currencies, it cannot be qualified as an “asset” because he reiterates that due to the lack of a “regulatory body,” transaction through Bitcoin is impermissible.

Bitcoin may not be able to meet the unique traits of money because it contains elements that are incompatible with Islamic preaching. (Siswantoro, Handika and Mita, 2020). Using Bitcoin as a financial vehicle involves a lot of speculation, which leads to *al-gharār* and *maysir*, the elements forbidden by Islamic teachings. Furthermore, the government’s ambiguous legality surrounding the usage of Bitcoin has a more significant negative impact, such as misappropriation and use of funds for crimes like terrorism and money laundering. As a result, the prevention of harm takes precedence above its utility. (Abd. Majid et al., 2021). Dr. Abdus Sattar (2018) opposes the usage of Bitcoin due to three main reasons: prohibition of harm – both inflicting and reciprocating harm, excess risk-taking principles, and misuse of wealth. Further, he emphasises the fundamental principles of “*maṣlahah*,” where Islam encourages the wealth preservation of people and discourages reckless wasting of money. When considering the opinions of the classical legal

experts on their perspective of “currency,” jurists of the Ḥanafī school of thought (Efindī) propose that “*ta’āmūl*” (regular usage) establishes currency because currencies under a centralised network provide a point of reference and facilitate transactions in the market. Simultaneously, jurists of the Shāfi‘ī school of thought also give this opinion and state that the government should be responsible for issuing coins and currencies to prevent fraudulent activities and corruption (Nawawī & Ḥassūn, 2004). However, in recent times, “value” has been assigned to Bitcoin, which people use for transactions. However, based on the previous opinions of many jurists, it is impermissible because the “value” can be manipulated, exploited, and speculated. These features increase the potential of “wasting wealth.”

Another delineating feature of the impermissibility of Bitcoin is that it contains elements of *gharār* (uncertainty). Because *gharār* is among the prohibited elements in commercial transactions, *gharār* can be classified into three degrees: minor, medium, and excessive. Minor and medium *gharār* is permissible in transactions, but excessive *gharār* leads to speculation and gambling, which should be avoided entirely in transactions (Muhammad, Sairally & Habib, n.d. 2015). Usually, the monetary value of a currency is determined based on its economic factors. Currency value fluctuations are natural in the ordinary course of business. They are frequently supported by underlying economic factors such as the demand for currency and the country’s economic policies. Nevertheless, the value of Bitcoin is not often supported by underlying economic factors and is based on speculation. This feature supports the fact that Bitcoin is an uncertain cryptocurrency (Dagi, 2018).

Bitcoin is associated with excess-risk-taking principles (Sattar, 2018), which frequently results in massive injustices because anyone involved in this currency’s buying chain may suffer huge losses due to the high likelihood of the currency falling precipitously. Since cryptocurrencies do not possess the traits of being qualified as a medium of exchange (Dagi, 2018), the generation of cryptocurrencies results in a massive money-making process that does not result in economic activities. Cash flow in the commercial market can be disrupted when there is a surge in investment in cryptocurrencies in the market, with wealth being blocked without generating any economic activities. Hence, the accumulation of a large amount of money in the name of

investment can lead to massive economic turmoil and a major economic crisis.

Furthermore, Bitcoin transactions are not encrypted. Every transaction aggregated into a block may be browsed and viewed. This technology is subjected to hacking, which adds to the sense of unpredictability (*gharār*). This coin also has no physical form and exists as a network. It has no inherent worth because it cannot be exchanged for another commodity, such as gold (Abu Bakar, Rosbi & Uzaki, 2017). In summation, cryptocurrencies are deemed impermissible because they are not asset-backed and consist of anonymous users possessing speculative transactions with a high potential for fraudulent activities.

Permissibility Approach

The principle of permissibility in formulating contracts originates from an Islamic legal maxim, “permissibility is the original rule for contracts and conditions.” This principle implies that there is no prohibition of acts except by evidence from primary sources (al-Qur’ān & Sunnah). Hence, this fact paved the way for Muslim scholars who pioneered a particular field of study to administer firms and place procedural measures as long as they do not contradict *sharī’ah* principles. Therefore, without clear evidence that it is prohibited by law, Bitcoin can be considered a valid currency based on the principles of permissibility.

Muslim scholars put forward several proposed views on the usage of cryptocurrency based on Islamic principles. However, the increasing controversy concerning the usage of Bitcoins by Muslim scholars has created confusion among Muslim entrepreneurs about investing in cryptocurrency. Mufti (2018) proposes that cryptocurrency fulfils all the attributes to be featured as money based on the view of the South-African fatwa Centre, *Dār al-‘Ulūm Zakariyya*, and Daud Bakar (The chairman of the Shari’ah board of the central bank of Malaysia). Simultaneously, Monzer Kahf (2018) is also in the proposing view of Bitcoin, except that it could cause speculation and loss of confidence. Moreover, (Kāsānī, 1986) asserts that for something to be considered as *al-māl* (property), it should possess “desirability” and “storability.” Bitcoin consists of the features of desirability. For example, decentralisation and borderless payment. It also has the features of storability because block chain consists of encoded Bitcoin and is entered into a public ledger. These characteristics of Bitcoin qualify it to be *al-māl*.

Simultaneously, in a lecture by Mohd Daud Bakar (Pikri, 2018), he asserted that cryptocurrencies would happen in the future irrespective of our likes and dislikes. He mainly focuses on the blockchain network and highlights that blockchain facilitates remittances rather than only exchanges, which would decrease the cost and time for customers. Further, he ensured that the identity associated with money could be kept on record through the blockchain network because it stores Bitcoins and their transactions provide greater transparency to its users.

When considering the principles of prohibition of risk from the Islamic perspective, Ibn Taymiyyah (1981) asserts that there is no authentic evidence, analogy, or text in Sharī'ah that proves the prohibition of every form of risk; but illegitimately acquiring other's properties is prohibited. However, possessing a partnership in an investment with a potential of high risk and being Sharī'ah-compliant cannot be considered impermissible. Therefore, in this point of view, investments, trading, and gambling are considered speculative risks. Alternatively, F. Adam (2019) differentiates between trading and gambling (*Maysir* and *Qimār*). Trading is a mutual partnership where both parties mutually gain or lose in a business venture. Nevertheless, gambling involves one party's gain at the expense of another. When considering Bitcoin transactions, both parties expect to gain from their existing assets, but it is not guaranteed that one party will lose for sure. Therefore, Bitcoin transactions come under the form of "trading" because it lacks the feature of gambling.

Daud Bakar underpins a more significant advantage of this network because it can be used in paying *Zakāt*. This feature helps to maintain accountability, and the *Zakāt* payers will be able to trace the impact done to the *Zakāt* receivers through the blockchain network due to its transparency. The advantage of Bitcoin being permissible will provide pathways to perform transactions with greater efficiency because there is no central authority, and the transactions are validated and possess higher transparency, as stated by Amir Mohamed (2016).

Maqāṣid Al-Sharī'ah Analysis of Bitcoin

With classical Islamic jurisprudence strictly maintaining the traditional cautious position, the current jurisprudential controversy over Bitcoin will never seem to end. The focus of *ijtihad* to date has been on finding a full match between a proposed product and the classical *Fiqh al-*

Sharī'ah with Islamic jurist mimicking one another. Many Islamic jurists regard any innovation that has no roots in the traditional practice of the Muslim community as a form of *bid'ah* in Islam which is prohibited. However, *ijtihad* will not function properly if the jurists keep mimicking the past, stick firm to the explicit rules of the classical *Fiqh al-Sharī'ah* and ignore the implicit rationale behind it (Sencal and Asutay (2019). *Ijtihad* which is unanimously considered as the most important tool for the development of *Sharī'ah* law and responsible for responding the pressing needs of Muslims in this ever-changing world should therefore be linked with *maqāṣid al-sharī'ah*. Most of the modern Islamic jurists make a considered distinction between permissible and impermissible *bid'ah*. An innovation that concerns the worldly affairs is permissible whereas an innovation in matters of religion is impermissible and a great sin. As many contemporary scholars have suggested, a new form of *ijtihad* should be practiced; one that can evolve with new developments and can ensure that its application mirrors the present time (Kamali, 2008). Jurists must be prepared to go behind the explicit rulings of *Sharī'ah* to discover the true rationale of such rulings and to develop into competent *Sharī'ah* law interpreters who may then rightly engage in a re-examination of modern transactions in light of their true nature, function and purpose within the contemporary complex economic landscape (Kamali, 2002). The key proposition of this paper is therefore to resort to the *maqāṣid al-sharī'ah*, as an innovative tool to close this jurisprudential controversy. While providing a brief description of *maqāṣid al-sharī'ah*, this section applies a *maqāṣid al-sharī'ah* analysis based primarily on its prime limb of preservation of wealth to the existing jurisprudential controversy to settle the issue.

Maqāṣid Al-Sharī'ah

Maqāṣid means purpose, objective, intention, and aim. Therefore, *maqāṣid al-sharī'ah* can be translated as “the higher objectives of the *sharī'ah*,” which refers to the goals and objectives of Islam as a system of life that constitutes standards, criteria, values, and guidance based on divine revelation (*wahy*). This guidance can be applied in practical life to solve human problems and guide the direction of human life (Auda, 2010). Tāhir Ibn 'Āshūr. (n.d.) defined *maqāṣid* as “the deeper meanings and inner aspects of wisdom,” which is considered in most areas and circumstances of legislation.

Although the main elements of *maqāṣid* exist in the primary sources, the textualist tradition of the early three centuries did not take much interest in the *maqāṣid*-oriented approach. It was not until the time of Juwaynī, Ghazzālī, and then Shāṭibī, that incredible development took place in the formation of *maqāṣid* (Kamali, 1991). The idea or doctrine of *maqāṣid al-sharī'ah* has gradually captured the attention of increasing numbers of modern Muslim scholars for solving contemporary issues. The formative stage of the theory of *al-maqāṣid* was initiated by Juwaynī (1078 A.D.). His student, Al-Ghazzālī, later developed this theory, which paved the way for *maqāṣid* to evolve significantly as an essential discipline branch. *Maqāṣid-al-sharī'ah* is divided into three main categories (Ghazzālī,1970); *al-darūriyyat* (Necessities), *al-ḥājiyyat* (Need), and *al-Taḥsīniyyat* (Embellishments). The last two are respectively less essential and unessential for human life. For example, marriage, trade, and means of transportation are less essential as one's lack of any of these would not pose a threat to life. Likewise, luxurious things such as using perfume, stylish clothing, and beautiful homes carry the lowest priority in one's life. The first, on the other hand, is viewed as the wholesome essentials of humans' life which is divided it into a further six categories of preservation of one's religion (*dīn*), preservation of human self (*nafs*), preservation of intellect ('*aql*), preservation of posterity (*nasl*), preservation of wealth (*māl*) and preservation of honour ('*irḍ*). The six categories of *maqāṣid* serve as fundamental frameworks that direct human lives in this world to achieve ultimate happiness in the hereafter.

Preservation of Wealth and Bitcoin

As an innovative instance of *māl* in the contemporary world, Bitcoin has the capacity to be argued for permissibility based on the preservation of wealth as a prime limb of *maqāṣid al-sharī'ah*. Muslim jurists assert that the preservation of wealth has to be achieved through at least five dimensions as follows: preservation of wealth through the protection of ownership, preservation of wealth through acquisition and development, preservation of wealth from damage, preservation of wealth through its circulation, preservation of wealth through its value protection and preservation of wealth through the protection of ownership.

Preservation of wealth through the protection of ownership implies that by ownership of *māl*, Muslims should be able to use that *māl*

(*ʿAyn*). According to Ṭāhir ibn ʿĀshūr (n.d.), the following factors are identified as the only means to possess ownership (*tamalluk*): firstly, exclusive possession of something to which no one else has the right. Secondly, working with the proprietor (e.g., *mughārasah*), and thirdly, transferring an item from its owner to someone else through donation or inheritance and exchanging two counter-values in sales. Since ownership is recognised in Islam, emphasis on the “protection of ownership” is also made compulsory. Allah says, “Do not consume your property wrongfully” (*al-Qurʿān* 2:188). Therefore, to ensure the purpose of protecting ownership, various dealings have been imposed to monitor the transfer of economic rights (*ḥuqūq al-māliyyah*). These dealings should be binding, which indicate that mutual consent of both parties is taken.

Even though the “desirability” and the “storability” of Bitcoin consider it as “*māl*” (property), its protection of ownership is not defined. Moreover, Bitcoin is not a currency officially issued by a country’s Central Bank. It is a decentralised currency. In *Fiqhi* perspective, ‘Jahala’ and uncertainty invalidate transaction. The natural source of Bitcoin, the guarantee, and its management are constantly in question. Such a futile currency cannot be considered authoritative or subject of ownership in Islamic economic terms. The absence of a central monetary authority paves the way for issuing fake, abusive or unreliable currencies while the issuer may insist on higher standards of such currencies. The absence of regulated issuer leads to disputes and injustices among people. Therefore, all the above-stated features of Bitcoin hamper the preservation of wealth through the protection of ownership.

The second form of preservation of wealth is preserving wealth from damage. Sharīʿah emphasises the preservation of property from being damaged or exposed to any harm. The preservation of wealth from damage can be looked at through two dimensions: protecting wealth from risk and preventing wealth from damage. The concept of protection of wealth and property from risk is stated in the Qurʿān (2: 282), which directs Muslims to record debts and business dealings. This fact is further strengthened by another clear command in the Qurʿān “Do not contribute to your destruction with your own hands” (2:195). These verses emphasise the fact that humans should not put their wealth at risk of being destroyed. If such a crisis is not handled effectively,

it could result in devastating damages that would cripple a country's economy and affect the lives of the general populace. Therefore, to prevent harm and for the benefit of society, it is crucial to handle risks effectively. This statement is in accordance with the view of Dr. Abdus Sattar (2018), which states that Bitcoin has a definitive relationship with excessive risk-taking principles, which usually leads to grave injustices. Furthermore, due to the high likelihood that the currency would fluctuate sharply, anyone involved in the buying chain of this currency could sustain significant losses.

The third form of preservation of wealth is through its circulation (*ravāj*). Circulation here means the transfer of wealth in the community without causing any harm to the person who has obtained it legally. The Qur'ān has precisely indicated the need to prevent hoarding wealth within an individual or a specific group: This is so that they do not just circulate among those of you who are rich (59:7). Maqāṣid al-Sharī'ah establishes measures for preserving wealth that include two of the following factors: firstly, promoting investments and prohibiting hoarding of wealth, and secondly, through the prohibition of all types of manipulation and monopoly that designates wealth to a minority of wealthy people at the expense of the majority. However, the two measures mentioned above established by maqāṣid al-sharī'ah for the preservation of wealth are not followed by Bitcoin. Bitcoin promotes the hoarding of wealth. Adam (2019) explains that Bitcoins are created as a "store of value" to hoard wealth and not to use as a commodity. Furthermore, Bitcoin creates a monopoly among a limited group of wealthy people based on the limited access to Bitcoin, where only 21 million Bitcoins are available for access (Satoshi Nakamoto, 2008)

The fourth form of preservation of wealth is through its value protection. Maqāṣid al-Sharī'ah endorses severe concerns about the preservation of wealth by protecting its value and the natural movement of commodity prices. Allah asserts this in the Holy Qur'ān: "Do not undervalue people's goods" (7:85). This validates the fact that the Sharī'ah considers money as a medium of measurement rather than a commodity. However, these features do not align with the characteristics of Bitcoin. Since Bitcoins possess only a limited number of currencies, it is disqualified as a "medium of exchange." This disqualification does not provide a «store of value» for Bitcoin (Adam, 2019).

Moreover, it is noticeable that these currencies are traded based on speculation, which is equivalent to gambling. The Shari'ah principles highly prohibit this feature since it may result in the acquisition of others' properties unjustly. Additionally, in any financial transaction, economic justice is promised by the "stability" of the currency. However, in Bitcoin transactions, the highly fluctuating value of Bitcoin does not provide stability and leads to injustice due to price turmoil. Furthermore, it can be noticed that the limited availability of Bitcoins may directly cause high fluctuation because people tend to compete to gain Bitcoins before they get depleted.

Interpretations of certain features of *ḍarūriyyat*, *ḥājiyyat*, and *taḥsīniyyat* that do not comply with the characteristics of Bitcoin are discussed through a brief analysis of each significant category of maqāṣid al-sharī'ah. For example, *ḍarūriyyat* is defined as the interests of lives that people essentially need. These comprise the five objectives of Shari'ah: *Dīn* (religion), *naḥs* (life), *'aql* (intellect), *nasl* (posterity), and *al-māl* (wealth) (Juwaynī). If these factors are ignored, coherence and order will be diminished, leading to *fasād* (chaos and disorder) that will prevail in this world and result in an apparent loss in the hereafter. However, some jurists are in opposition to this view. They argued that necessities are not confined to these five maqāṣid. Therefore, they propose additional *ḍarūriyyat* such as equality, freedom, and the protection of the environment.

When considering Bitcoin from this viewpoint, the greater transparency associated with the blockchain network makes it more prone to errors and fraudulent activities. Furthermore, the increase in electronic piracy in the modern era possesses tremendous potential for stealing Bitcoins from the network and instability in the environment unique to Bitcoin users. This feature ultimately leads to chaos and disorder (*fasād*) and fails in protecting the environment. Furthermore, Bitcoins cannot be easily accessed because they are limited in amount and requires special training and machines to perform mining. This limitation creates inequality among the public and hampers the concept of "equality."

Hājiyyat consists of interests based on people's needs other than the five objectives of Shari'ah proposed by Al- Juwayni. Neglecting these interests would lead to hardship but not total disruption of the

regular order of life. These are needed to alleviate hardship or facilitate life so that life may be free from distress. In the case of Bitcoins, the cost involved in the process of mining Bitcoins cannot be borne by many people. These features neither alleviate hardship nor facilitate life and thus lead to hardship and instability, which is against Sharī'ah's principles. *Tahsīniyyat* refers to refinement and perfection in the conduct of people. For example, in day-to-day matters, Sharī'ah encourages fair dealing. However, Bitcoin maintains a highly fluctuating nature about its value without underlying economic factors insisting on the fluctuation (Dagi, 2017). These factors lead to injustices in trading since the value changes drastically.

Moreover, in Islamic jurisprudence, a substance is divided into two categories based on the order in which the transaction is prohibited i) *Tahrīm dhāt* or *tahrīm maqāṣid*, which implies that the subject in itself is forbidden. For example, alcohol and drugs. ii) *Tahrīm al-wasā'il* (Careem & Rifath, 2020) states that an entity is prohibited in a way that may lead to Haram or prohibition, depending on how it is handled. An example is lending with interest. Hence, under such legal classification, Bitcoin is not fundamentally prohibited as a form of currency. Instead, it is prohibited on the basis that its value is mainly driven by speculation, the uncertainty of its value, and the potential for economic injustices and fraud.

Conclusion

The use of currency has undergone various changes and developments throughout history. It is undeniable that the emergence of modern-day currencies has facilitated economic activity and increased security of transactions. That said, the cryptocurrencies are modern monetary invention, so there is no specific ruling over their permissibility in primary sources of Islamic law. The absence of such ruling necessitates a new *ijtihād*. Although Bitcoins may be argued to be permissible currency based on the permissibility principle of the law of *mu'āmalāt* in Islam, stronger reasons suggest otherwise. As explained earlier regarding *Tahrīm al-Wasā'il*, the uncertain methods of handling Bitcoin make it not asset-backed. As its process is speculative, Bitcoin transactions often involve a high potential for fraud. As proposed by Ali al Qurra Dagi (2017), Bitcoin can be acceptable and permissible if it becomes compliant with three requirements: (1) A country adopts

cryptocurrency as its primary and secondary currency. This adoption would bring Bitcoin under a regulatory framework because everything in Islam requires a regulatory body. (2) To issue cryptocurrencies through a network of banks. (3) To possess co-ownership of cryptocurrencies by the developer and investors in a joint-stock company.

An analysis of the different forms of preservation of wealth based on the theoretical framework of *maqāşid al-sharī'ah* concluded that Bitcoin does not comply with its objectives. Since Bitcoin does not define the protection of ownership because it is a decentralised currency, it does not achieve wealth protection due to its excess risk-taking principles. Furthermore, it does not preserve wealth through circulation because it creates a monopoly among the wealthy group of individuals and does not protect its value because Bitcoin is disqualified as a “medium of exchange” and is traded based on speculation.

As a concluding remark, implying the theoretical aspects of *maqāşid al-sharī'ah* on dealing with Bitcoin suggests that the objectives of *Sharī'ah* must be followed in managing Bitcoin-related entities by formulating corporate objectives and policies of Bitcoin complying with *maqāşid al-sharī'ah*. These formulated objectives must be incorporated to indicate whether the Bitcoin entity upholds Islamic principles. Fulfilling these two significant aspects of *maqāşid al-sharī'ah* by Bitcoin will make it adhere to the objectives of *Sharī'ah* and ultimately make it compliant with the principles of Islam.

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Zakāt, a ‘Use it or Distribute it Tax’ on Wealth

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Abstract: *Zakāt* has a worship dimension (a pillar of Islam) and a rights dimension (a right of the poor ordained by Allah). We focus on the economic dimension only by asking: how is *zakāt* different from both the capital income tax and the wealth tax? Economists discuss whether a capital income tax is optimal for welfare or a wealth tax is better. Traditional literature argued that the two are equivalent if the tax on wealth is set equal to the capitalised value of the tax on capital income. However, Guvenen et al. (2019, 2023) have forcefully shown that this equivalence holds only if the rate of return on capital is equal across individuals. When rates of return on investment are heterogeneous across individuals, the two tax systems have opposite implications for efficiency and inequality. A capital income tax burdens the more productive capital, whereas a wealth tax—by taxing all wealth holders—not only increases the tax base but reduces the wealth of low-productivity individuals. If the productivity differences are persistent, then the wealth of low-productivity individuals will be gradually pruned. In this sense, a wealth tax creates a use-it-or-leave-it effect. How is *zakāt* different from both taxes and what are its efficiency and distributional implications? We bring in some key macro-features of *zakāt* which is a tax on idle wealth, not on deployed (or employed) wealth. Aimed at promoting wealth circulation and helping the poor, *zakāt* helps address the wealth gap and income inequality in a different way than what is possible by either the capital income tax or the wealth tax. It has a much stronger “use-it-or-lose-it” effect than a wealth tax.

Keywords: *Zakāt*, capital income tax, wealth tax, productivity, wealth circulation.

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Abstrak: Zakāt mempunyai dimensi ibadah (salah satu rukun Islam) dan dimensi hak (hak orang miskin). Kami memfokuskan hanya pada dimensi ekonominya dengan persoalan: bagaimanakah zakāt berbeza dengan kedua-dua cukai pendapatan modal dan cukai kekayaan? Ahli ekonomi membahaskan sama ada cukai pendapatan modal atau cukai kekayaan adalah lebih baik. Literatur tradisional berhujah bahawa kedua-duanya adalah setara jika cukai ke atas kekayaan ditetapkan sama dengan nilai terkapital bagi cukai ke atas pendapatan modal. Namun, Guvenen et al. (2019, 2023) telah menunjukkan bahawa kesetaraan ini hanya wajar jika kadar pulangan modal adalah sama bagi semua individu. Apabila kadar pulangan pelaburan berbeza-beza dalam kalangan individu, kedua-dua sistem cukai ini mempunyai implikasi yang bertentangan dari segi kecekapan dan ketidaksamaan. Cukai pendapatan modal membebankan modal yang lebih produktif, manakala cukai kekayaan dengan mengenakan cukai ke atas semua pemegang kekayaan bukan sahaja meningkatkan asas cukai, malah mengurangkan kekayaan golongan yang berproduktiviti rendah. Jika perbezaan produktiviti ini berterusan, maka kekayaan golongan berproduktiviti rendah akan beransur-ansur terpancang. Dalam erti kata lain, cukai kekayaan mencipta kesan “guna-atau-tinggalkan.” Bagaimana zakāt berbeza dengan kedua-dua cukai ini dan apakah implikasi kecekapan dan agihannya? Kami menyelidik beberapa ciri makro utama zakāt, iaitu ia merupakan cukai ke atas harta yang statik, bukan ke atas harta yang digunakan (atau diambil faedah). Ini memberikan implikasi yang lebih kuat untuk penggunaan modal yang cekap serta pengurangan dalam ketidaksamaan pendapatan dan kekayaan. Zakāt bertujuan untuk menggalakkan pengaliran kekayaan dan membantu golongan miskin. Justeru, ia membantu menangani jurang kekayaan dan ketidaksamaan pendapatan dengan cara yang berbeza daripada yang mampu dilakukan sama ada oleh cukai pendapatan modal atau cukai kekayaan. Ia mempunyai kesan “guna-atau-hilangkan” yang jauh lebih kuat berbanding cukai kekayaan.

Kata kunci: Zakāt, cukai pendapatan modal, cukai kekayaan, produktiviti, pengaliran kekayaan.

Introduction

Zakāt has a worship dimension and a right of the poor dimension. Al-Qardawi (2002 writing on *zakāt* states that “it is not a mere charity left to the righteousness of individuals as part of their good deeds. ... *zakāt* is a right to the poor in the wealth of the rich, a right decided by the true Owner of wealth, God and imposed on those who have been given control of that wealth by Him” (p. 29) These aspects give a prominent role to *zakāt* for improved wealth and income redistribution, its enhanced utilisation and circulation, increased social cohesion, and social responsibility for a safety net.

However, the question remains on how *zakāt*, which is a kind of tax on wealth, can achieve this differently from the other taxes on wealth, and income from wealth. Specifically, how is *zakāt* different from wealth tax and capital income tax (i.e., tax on the income generated from wealth)? What are the efficiency and distributional differences of *zakāt* as a tax, aside from its different motivation drivers of religion, social cohesion, and an act of worship? We think these questions have not been adequately addressed in the literature so far.

There is indeed a large body of general literature on *zakāt*, written from a religious point of view showing its importance for it being the third and the middle pillar of Islam that comes after *shahādah* and *ṣalāt*, and before *ṣawm* and *hajj* and constitutes an act of obligatory worship and a method of cleansing the wealth. Similarly, there is also a large body of literature from the *fiqh* (legal) point of view, both in the past and in the present, discussing the principles of calculation and distribution of *zakāt*.¹ Compared to this, a smaller but growing body of literature exists on the economic perspective of *zakāt* addressing its implications on the distribution of income and wealth, social protection, macroeconomic stability, and motivation to work.

There exists yet a smaller body of research that compares *zakāt* and other taxes elaborating their differences (see, for example, Abu Bakar, 2015; Pahala, 2016). However, these works mostly highlight the religious aspect of *zakāt* that differentiates it from other taxes. They

¹ All classical *fiqh* books have dedicated chapters on *zakāt*. Al-Qardawi's book *fiqh al-zakah* is an example in modern *fiqh* literature discussing the issues of *zakāt* for the present period.

perform a comparison of *zakāt* with income tax while in essence *zakāt* is a wealth tax. In contrast, AlMatar, (2015) has evaluated whether *zakāt* or taxation is a proper tool for achieving social justice and redistribution of wealth and points out their limitations.

Norulazidah, P.H. Omar Ali & Gareth D. Myles (2010) focused on the capital accumulation role of *zakāt*. They showed in a dynamic model with many periods and overlapping generations that *zakāt*, even when it is voluntary, can have a positive impact on economic growth. This impact would be high when people derive happiness (warm glow) from the act of paying compared to when people pay in adherence to social custom to avoid the social stigma of non-payment. However, as one can see, they achieve this result by putting the act of *zakāt* in the utility function, not by the distribution of wealth that *zakāt* creates.

Zakāt's role in discouraging the hoarding of wealth and motivating rational investors to circulate their wealth by putting it to use is also well known (see for example, Mahomed, Z. (2017)² and many others). The principle that wealth should not remain concentrated among the rich only is explicitly mentioned in Quran, 59:7. We think this is the economic differentiating factor of *zakāt* from an ordinary wealth tax in its efficiency and wealth distribution, which this article will show in the following sections.

It would also be appropriate to see what conventional economists have shown regarding differences among various wealth-related taxes so that we can see the differentiating aspects of *zakāt*. Ari (2021) introduces the concept of “rate-equivalent” wealth or capital income tax and discusses the differences between capital income tax and wealth tax from their economic effects, administrability and avoidance opportunities, and constitutionality in the context of a tax reform proposals in the USA.

Adam & Miller (2021) build the economic arguments for and against wealth tax. They ask why the same wealth is to be taxed each year, when it is in effect penalising the savers. It would have been better to tax the

² See for example, Mahomed, Z. (2017, p.377) who writes “The nominal negative rate of return on idle wealth by *zakāt* is expected to motivate the rational investor to circulate his wealth in risk-sharing projects commensurate to his risk profile, goading further economic activity.”

'income from wealth.' However, they also point out that if holding on to wealth is creating externalities, then a wealth tax is justified. They then conclude that to the extent other taxes remain imperfect, it is beneficial to add a wealth tax for diversification and to avoid any one tax becoming very high.

Spencer & Waldenström (2023) describe several conceptual reasons for the existence of wealth tax. They argue that the main rationale for a wealth tax is to address the incompleteness of the tax code. As capital income tax is levied on the realised income, rich people often defer the income and keep it in unrealised capital gains that can increase and perpetuate enormous wealth inequality. However, there are also disadvantages to the imposition of wealth tax, firstly "a wealth tax fails to address inequality among taxpayers with the same wealth but different capital incomes." Secondly, a wealth tax can create liquidity constraints for the payer who has high wealth but low income and liquidity which is often the case for startups. Hence, it is not conducive to growth.

Guvenen et al. (2019, 2023) ask this question: how does wealth taxation differ from capital income taxation? They show that if rates of returns on capital are heterogeneous across individuals, then wealth taxation and capital income taxation have opposite implications both for efficiency and equality. A capital income tax burdens the more productive users of capital, whereas under a wealth tax, people with similar wealth pay the same tax which shifts the burden toward less productive users of wealth. If the productivity differences continue for long, then the wealth of low-productive users will gradually reduce. Thus, a wealth tax works to create a use-the-wealth or leave-it effect, increasing the aggregate productivity and output.

We build on this argument and show how *zakāt* is different from a simple wealth tax and how it enhances further the efficiency and distributional impact.

Zakāt Model

Let us use the same notations and explanations that are developed in Guvenen et al. (2019, 2023) to compare taxes and apply them to explain the nature and role of *zakāt*. Let denote wealth of individual i , and rate of return on wealth.

Capital Income Tax is defined as a tax on income earned on capital, wealth is not directly taxed. The after-tax wealth of an individual under this system is given as follows:

$$a_i^1 = a_i + (1 - \tau_k)ra_i \quad \text{eq-1}$$

Where, τ_k is the capital income tax rate.

Wealth Tax, on the other hand, is applied to total wealth as well as the income earned from wealth. The after-tax wealth of an individual i under a wealth tax system is given as follows:

$$a_i^1 = (1 - \tau_a)a_i + (1 - \tau_a)ra_i \quad \text{eq-2}$$

Where, τ_a is tax rate.

From a macroeconomic perspective, *zakāt* is a tax on idle wealth not simply on any wealth or income.³ After-*zakāt* wealth of an individual i is given as follows:

$$a_i^1 = (1 - \tau_z)a_i^{nd} + a_i^d + (1 - \tau_z)ra_i^d \quad \text{eq-3}$$

Where $a_i = a_i^d + a_i^{nd}$;

τ_z is *zakāt* rate, a_i is total wealth before *zakāt*, a_i^d is capital deployed for production, a_i^{nd} is non-deployed capital that is the idle wealth, and a_i^1 is after tax or after *zakāt* wealth.

A thing to note in eq-3 that differentiates it from wealth tax (eq-2) is that *zakāt* is not levied on the wealth deployed in productive economic activity. Once the *nisāb* (minimum wealth threshold) is reached and a year passes with an individual's wealth remaining above that minimum, then all his/her wealth having the potential to grow is subject to *zakāt* except that which is already been deployed for production or that are personal consumption assets. That is why τ_z is appearing in the first and third terms in equation 3.⁴ Here, the returns on assets are net returns

³ However, there are details to it at sectorial, and microeconomic levels in which we do not want to indulge and confine ourselves to macro level view.

⁴ There can be further details on how to assess *zakāt* on the returns from assets (the third term in equation 3). Here, the returns on assets are net returns after deducting all costs, capital consumption allowance, etc. Hence the net earnings

after deducting all costs, capital consumption allowance, etc. Hence the net earnings become part of the yet undeployed wealth.

Thus, *zakāt* combines the features of capital income tax and wealth tax. Similar to a capital income tax, *zakāt* applies on capital income, but in contrast, it does not exclude all wealth from tax. Similar to a wealth tax it taxes wealth, but only the idle wealth, excluding the wealth that is productively deployed.

Features of Zakāt and its Comparison with Other Forms of Taxes

Table 1 below shows the implications of *zakāt* in various scenarios. We explain this with static examples. Suppose there are two individuals Ms. F and Mr. M in the economy. Both with a wealth of \$1000 each. The government is not attempting to collect a targeted amount of revenue, but the policy is to use a uniform tax rate, enforce compliance and use the collected revenue for transfer to the poor. We will apply *zakāt*, a capital income tax, and a wealth tax all at the rate of 2.5% to see the effects on tax revenue, efficiency, income, and wealth inequality.⁵

A target revenue goal vs the 'right of the poor' thesis

Before proceeding to the analysis, an important thing to note is that *zakāt* is not a tax to raise some required amount of revenue to meet some general expenditures of the government. A revenue target results in a change in tax rates when the tax base changes. For example, if the target is to raise \$50 in tax, then the application of capital income tax will result in Mr. M being taxed \$50 out of his capital return of \$200 (a tax rate of $50/200 = 25\%$) and no tax on Ms. F because she does not have any income from capital. The same target revenue of \$50, if generated by levying a wealth tax, will result in a uniform tax rate of $50/2200 = 2.27\%$ on both M and F as the total wealth base is \$2200. In contrast, *zakāt* is the poor's right in the wealth of the rich as a defined proportion. The *zakāt* rate is well-defined, and the scope of the levy is largely known. Hence, we can discuss the implications of *zakāt*, when its rate is fixed at 2.5%, rather than what should be its optimal rate in any given circumstance.

become part of the yet undeployed wealth which is zakātable.

⁵ The rate of 2.5% is chosen for analysis because this is the religiously prescribed rate of *zakāt* on most wealth forms.

Analysis and comparison of zakāt vs other

Zakāt, Example 1: Suppose both F and M face the same rate of return (20%) if they invest their wealth. However, M deploys his entire wealth in production, but F simply holds on to her wealth idle. The implications of this for F and M under a *zakāt* at 2.5% are shown in the first two columns of Table 1. It shows the impact on their pre-tax income, tax liability, wealth, and wealth inequality. Ms. F earns zero as capital income while Mr. M earns \$200. *Zakāt* liability of F is \$25 (\$1000 x 0.025) but *zakāt* liability of M is \$5 (\$200 x 0.025), total *zakāt* collection is \$30. Ms. F ends up paying \$25 on wealth while her income is zero, thus earning a -2.5% return due to undeployed capital. The After-tax (or after-*zakāt*) rate of return for Mr. M is 19.5%. The wealth of F is now (\$1000-\$25) = \$975 and that of M is (\$1000 + 195) = \$1195. The wealth ratio $\frac{W_M}{W_F} = \frac{1195}{975} = 1.23$. Thus, wealth distribution has become unequal from the initial equality. It is a change for the betterment that idle wealth holder's wealth has decreased by *zakāt* while the wealth of its active user/deployer has increased.

Zakāt, Example 2: Now to see the impact of a change in deployment, keep the initial wealth of each individual (\$1000) and their available rates of return (20%) the same as in the earlier example. The only difference is that both Ms. F and Mr. M deploy half of their capital and keep the other half idle. (Columns 3 and 4 of table 1 show this case). As a result, pre-tax earnings of both M and F become \$100 each, tax liability is \$15 each, total *zakāt* collection is \$30, and after-tax rate of return becomes $((100-15)/1000) \times 100 = 8.5\%$ each. The wealth of each becomes (\$1000 + \$85) = \$1085. The wealth ratio $\frac{W_M}{W_F} = \frac{1085}{1085}$ remains unchanged from its initial ratio of 1.

Zakāt, Example 3: We want to see the impact of differential rates of return faced by the two individuals. All being the same, suppose that rate of return on assets faced by Ms. F is 1% and that faced by Mr. M is 20%. This is shown in columns 5 and 6 of Table 1. Now the pre-tax income of F is \$5 and that of M is \$100. Using equation 3 again, the tax (*zakāt*) liability of F is \$12.62 and that of M is \$15, making total *zakāt* collection reduced to \$27.62 from the previous \$30. The after-tax rate of return becomes -0.76% for F, and 8.5% for M. After-tax wealth ratio

is now 1.09, showing a very slight increase in wealth inequality owing to the rate of return differential.

Table 1

	Zakāt, Example 1		Zakāt, Example 2		Zakāt, Example 3	
	Zakāt		Zakāt		Zakāt	
	Ms. F	Mr. M	Ms. F	Mr. M	Ms. F	Mr. M
Wealth	\$1000	\$1000	\$1000	\$1000	\$1000	\$1000
Allocation of wealth	$a_i^d = 0$ $a_i^{nd} = 1000$	$a_i^d = 1000$ $a_i^{nd} = 0$	$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$
Return on capital	$r_M = 20\%$	$r_F = 20\%$	$r_F = 20\%$	$r_M = 20\%$	$r_F = 1\%$	$r_M = 20\%$
Pre-tax income ra_i^d	\$0	\$200	\$100	\$100	\$5	\$100
Tax rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Tax liability (use eq 3)	\$25	\$5	\$15	\$15	\$12.62	\$15
After-tax rate of return	$\frac{(0 - 25)}{1000} = -2.5\%$	$\frac{(200 - 5)}{1000} = 19.5\%$	$\frac{(100 - 15)}{1000} = 8.5\%$	$\frac{(100 - 15)}{1000} = 8.5\%$	$\frac{(5 - 12.62)}{1000} = -0.76\%$	$\frac{(100 - 15)}{1000} = 8.5\%$
New Wealth	\$975	\$1195	\$1085	\$1085	\$992.38	\$1085
After-tax wealth ratio	$\frac{W_M}{W_F} = \frac{1195}{975} = 1.23$		$\frac{W_M}{W_F} = \frac{1085}{1085} = 1$		$\frac{W_M}{W_F} = \frac{1085}{992.38} = 1.09$	
Zakāt revenue	\$30		\$30		\$27.62	

Now, compare the same with a capital income tax, and a wealth tax (shown in Table 2). In both these taxes, the allocation of wealth in productive and idle state does not matter. In case of capital income tax, it is only the rate of return differential across individuals that can generate different tax liabilities. In the case of wealth tax, all kinds of wealth are taxed without differentiating actively deployed or idle wealth.

Comparing capital income tax with wealth tax, one can note that the wealth tax broadens the tax base in two ways, and hence, it is able to collect more revenue. First, wealth tax inducts more people into the tax net. Second, it covers the entire wealth stock, thus able to generate more revenue.

Under our construction of a uniform 2.5% capital income tax, the after-tax rate of return of capital is 0% for Ms. F and 19.5% for Mr. M (i.e., $(\$200 - \$5)/\$1000 = 0.195$ or 19.5%). While the application of

Table 2

	Capital Income Tax		Wealth Tax		Zakāt	
Return on capital	$r_F = 0\%$	$r_M = 20\%$	$r_F = 0\%$	$r_M = 20\%$	$r_F = 0\%$	$r_M = 20\%$
Wealth	\$1000	\$1000	\$1000	\$1000	\$1000	\$1000
Allocation of wealth					$a_i^d = 500$ $a_i^{nd} = 500$	$a_i^d = 500$ $a_i^{nd} = 500$
Pre-tax income	\$0	\$200	\$0	\$200	\$0	\$100
Tax rate	2.5%	2.5%	2.5%	2.5%		
Tax liability	\$0	\$5	\$25	\$30	\$12.5	\$15
After-tax rate of return	0%	$\frac{(200 - 5)}{1000} = 19.5\%$	$\frac{(0 - 25)}{1000} = -2.5\%$	$\frac{(200 - 30)}{1000} = 17\%$	$\frac{(0 - 12.5)}{1000} = -1.25\%$	$\frac{(100 - 15)}{1000} = 8.5\%$
New Wealth	\$1000	\$1195	\$975	\$1170	\$987.5	\$1085
After-tax wealth ratio	$\frac{W_M}{W_F} = \frac{1195}{1000} = 1.195$		$\frac{W_M}{W_F} = \frac{1170}{975} = 1.2$		$\frac{W_M}{W_F} = \frac{1085}{987.5} = 1.099$	
Tax Collection	\$5		\$55		\$27.5	

wealth tax with same rate will make return on capital -2.5% for Ms. F, and 17% for Mr. M. Now, Ms. F has to pay \$25 in taxes due to her wealth but her income is \$0 making $(\$0 - \$25)/\$1000$ a net reduction in her wealth by 2.5%. Also, note that the dispersion of after-tax returns between Ms. F and Mr. M remains the same under the two tax systems. This is in contrast to *zakat*, where the dispersion in after-tax returns also depends on the portion of deployed wealth. This is also in contrast to the case when a targeted amount of tax is to be raised, and a change in tax base changes the taxation rate.

Wealth inequality increases as evident by after-tax wealth ratio $\frac{W_M}{W_F}$ that increases from 1.195 to 1.2 when we shift from capital income tax to wealth tax.

Coming back to comparing wealth tax with *zakāt*. If every individual's wealth is fully deployed, then each one's taxing method becomes exactly as capital income tax under *zakāt*. Hence, after-tax wealth ratio is $\frac{W_M}{W_F} = 1.195$. If everyone's wealth remains idle and completely undepleted, then opportunity of earning a rate of return is forgone. Wealth is reduced by the rate of *zakāt*, and after-tax wealth ratio becomes 1. In an intermediate case where half of the wealth – 500

out of \$1000 – is deployed and the other half remains idle, the after-tax wealth ratio becomes 1.09.

Tax Equivalences

One can also find a wealth tax rate at which wealth tax and *zakāt* yield same final wealth, but this equivalence is possible only when all individuals are facing the same rate of returns on their wealth. The tax equivalence rate can be found by equating in eq 2 with wealth in eq 3.

Equivalence of *zakāt* and wealth tax in their effect on wealth is achieved when

$$\tau_a = \frac{(\tau_z + r)a_i^{nd}}{(1 + r)(a_i^d + a_i^{nd})}$$

Since $\tau_z = 0.025$, therefore equivalent τ_a (i.e., wealth tax equivalent of *zakāt* for similar effect on after tax wealth) is:

$$\tau_a = \frac{(0.025 + r)a_i^{nd}}{(1 + r)(a_i^d + a_i^{nd})}$$

Conclusion and Further Discussion

In Guvenen et al. (2019), it is shown that capital income tax and wealth tax are not equivalent if the rates of returns on capital across individuals are not same. The capital income tax is shown to be inefficient in the sense that it ends up taxing productive assets at a higher rate compared to lesser productive assets,⁶ while efficiency demands the reverse to encourage productive use of assets. It is shown that a wealth tax fares better.

We show that while wealth tax is good to tackle inequality, *zakāt* is even better in discouraging inefficiency by taxing idle wealth (surplus wealth) and taxing uniformly the returns from capital (capital income). This effectively discourages unproductive use of wealth and improves wealth distribution by bringing it into the active use.

⁶ For example, if the target is set to raise \$50 in taxes, then under capital income tax Ms. F is exempted because she does not have any income from capital. The burden of the targeted tax revenue of \$50 falls entirely on Mr. M.

The above were only static examples. In a dynamic setting with time and several periods, the impact of *zakāt* can be more significant. If the rates of return on assets remain persistently different across individuals or if the allocation of wealth between idle and active use remains persistently constant, then *zakāt* can have a very big effect on moderating the wealth and income inequalities. By repeated and gradual moving of the idle wealth in each period to its active use, either by inducing the original owner of wealth to productively invest it or by transferring wealth to the poor for consumption, *zakāt* makes the wealth to come into economic circulation. Here, the wealth not only becomes subjected to economic and production risk factors to earn a return but also contributes to increasing aggregate demand; thus creating opportunities, livelihood and earnings for larger set of population. This has much larger welfare implications and corrections for large inequalities of income and wealth.

Drastic redistributions of wealth are not generally accepted in society. Wealth tax imposes tax on all wealth which may be difficult to impose. Moreover, a slight change in the wealth tax rate can considerably change the tax burden. Alternative approach of *zakāt* is more practical. It imposes tax only on idle wealth at a very small but consistent rate that is not changeable, thus creating an acceptability as well as avoiding rent seeking negotiations with people and power groups.

Therefore, *zakāt* has strong use-it-or-leave-it effect on wealth, have welfare improving properties, and is implementable.

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Appendix

The implication of change in the proportion of deployed to idle wealth on the future wealth can be seen in a simulation by clicking the following link.

<https://www.desmos.com/calculator/53x0fwnddx>

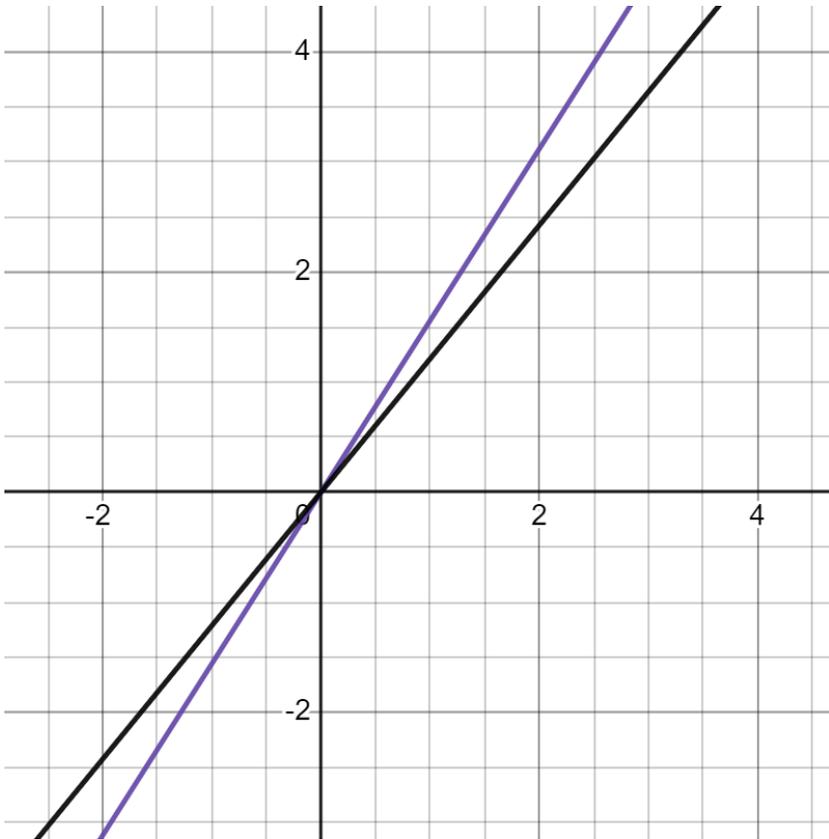
Here the model is expressed in an alternative form where total wealth is specified in terms of a fraction of deployed wealth.

$$a_i = \beta a_i + (1 - \beta)a_i$$

Where β is the proportion of deployed in productive activities. So, $\beta = \frac{a_i^d}{a_i}$, and $a_i^{nd} = (1 - \beta)a_i$.

Wealth after *zakāt* is expressed as

$$a_i^1 = (1 - \tau_z (1 - \beta)) a_i + (1 - \tau_z) r\beta a_i \quad \text{eq-4}$$



GUIDELINES FOR AUTHORS

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Book

In-text citations:

Al-Faruqi & al-Faruqi (1986)

Reference:

Al-Faruqi, I. R., & al-Faruqi, L. L. (1986). *The cultural atlas of Islam*. New York: Macmillan Publishing Company.

Chapter in a Book

In-text:

Alias (2009)

Reference:

Alias, A. (2009). Human nature. In N. M. Noor (Ed.), *Human nature from an Islamic perspective: A guide to teaching and learning* (pp.79-117). Kuala Lumpur: IIUM Press.

Journal Article

In-text:

Chapra (2002)

Reference:

Chapra, M. U. (2002). Islam and the international debt problem. *Journal of Islamic Studies*, 10, 214-232.

The Qur'ān

In-text:

(i) direct quotation, write as 30:36

(ii) indirect quotation, write as Qur'ān, 30:36

Reference:

The glorious Qur'ān. Translation and commentary by A. Yusuf Ali (1977). US: American Trust Publications.

Ḥadīth

In-text:

(i) Al-Bukhārī, 88:204 (where 88 is the book number, 204 is the ḥadīth number)

(ii) Ibn Hanbal, vol. 1, p. 1

Reference:

(i) Al-Bukhārī, M. (1981). *Ṣaḥīḥ al-Bukhārī*. Beirut: Dār al-Fikr.

(ii) Ibn Ḥanbal, A. (1982). *Musnad Aḥmad Ibn Ḥanbal*. Istanbul: Cagri Yayinlari.

The Bible

In-text:

Matthew 12:31-32

Reference:

The new Oxford annotated Bible. (2007). Oxford: Oxford University Press.

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