An Introduction
to
Islamic Moral Economy (IME)

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WHY A DISTINCT ECONOMIC AND FINANCIAL SYSTEM?

It is a fact that no human endeavor is value-free, which implies that reality including economic reality is socially constructed.

J. S. Mill (1836)
Political economy, therefore, reasons from assumed premises which might be totally without foundation in fact, and which are not pretended to be universally in accordance with it.

J. S. Mill (1836)
Now in whatever science there are systematic differences of opinion … the cause will be found to be, a difference in their conceptions of the philosophic method of the science, the parties who differ are guided, knowingly or unconsciously, by different views concerning the nature of the evidence appropriate to the subject. They differ not solely in what they believe themselves to see, but in the quarter whence they obtained the light by which they think they see it.

Schumpeter (1954):
“Analytic effort is of necessity preceded by a pre-analytic cognitive act … called Vision.”
Thus: economics and finance are value-loaded, as at the most abstract level, our values are derived from our worldview.

Hence, this provides rationale for a distinct economic system. Since factors affecting worldviews differ, different worldviews exist leading to different ‘systems’ for different peoples:

- Foundations, operational principles, goals;
- Theories also differ;
- Islamic world view based on the Qur’an;
DEFINING ISLAMIC MORAL ECONOMICS

- part of *din* (religion), Islam;
- deals with production, consumption and distribution activities of human beings according to Islamic worldview;
- making economic and financial choices according to Islam;
- describes, analyses, prescribes;

Islamic moral economy, thus, is an “approach to, and process of, interpreting and solving the economic problems of human beings based on the values, norms, laws and institutions found in, and derived from the sources of Islam”.

*Islamic finance* is the institutional aspect of Islamic economics, as to finance the economic activity in an Islamic framework, there is a need to have institutions using instruments according to rules and regulations, which are all bound by the Shari’ah.
LOCATING ISLAMIC MORAL ECONOMY AND FINANCE

LOCATING ECONOMICS AND FINANCE WITHIN ISLAM

- **ISLAM**
  - **AQIDAH** (Faith and Belief)
  - **SHARI'AH** (Practices and Activities)
  - **AKHLAQ** (Moralities and Ethics)
    - **IBADAT** (Human Worshipping to Almighty GOD)
    - **MUAMALAT** (Human-to-Human Activities)
      - **POLITICAL ACTIVITIES**
      - **ECONOMIC ACTIVITIES**
        - **OTHER ECONOMICS ACTIVITIES**
        - **BANKING AND FINANCIAL ACTIVITIES**
      - **SOCIAL ACTIVITIES**
ISLAMIC MORAL ECONOMY HAS AN EXPLICIT VALUE FRAMEWORK

- Based on justice, equity, human dignity, freedom of enterprise and moderation

- Based on developing and harnessing economic resources to satisfy spiritual, material and social needs of all members of the community;
- Based on a moral obligation to serve poor and destitute from share of wealth;
- Islamic finance, hence, is based on socially responsible investing.
FOUNDATIONAL PRINCIPLES/ASSUMPTIONS OF ISLAMIC MORAL ECONOMY

An axiomatic approach to develop conceptual foundations of Islamic economics by treating Islamic ethos as an ideal through which economic and social policies dealing with every aspect of human life, including economic life, are assessed.

In this approach Islam is seen as a system of ethics. The philosophical and conceptual foundations of this system are as follows:
(i) **God’s unity and sovereignty (Tawhid)**

The Islamic worldview is based on *tawhid* (the Oneness of God), *risalah* (God’s prophets as the source of Divine Guidance), *akhirah* (life-after death, that is the continuity of life beyond death and a system of accountability based on Divine Law).

This axiom indicates the vertical dimension of the ethical system. It provides for freedom of action whereby each individual is viewed as an integral part of the whole.

(ii) **Equilibrium-Socio-Economic Justice (‘Al-‘adl wa‘l-ihsan)**

Individuals are expected to establish justice (‘*adl*) and promote beneficence (*ihsan*), resulting in attaining high levels of good life (*hayat al-tayyebah*), both individual and collective.

This axiom provides for the horizontal dimension of equity and aims to strike an appropriate balance between the needs of present and future generations (need fulfilment; respectable source of living; equitable distribution of income and wealth; growth and stability).
(iii) Free-will (‘Al-‘adl wa’l-ihsan)

Although individual freedom is guided by broad guidelines, and individuals may travel their own paths, careful intellection is required “to interpret-reinterpret that freedom within specific societal contexts, and to suit the needs of changing times”.

(iv) Responsibility (Fard)

This axiom states that although ‘responsibility’ is voluntary, individuals and society need to conserve for the public good. Hence, there is a social aspect of every asset owned or managed by private or public entities.

(v) Divine arrangements for nourishment, sustenance and directing things towards their perfection (Rububiyyah)

This is the fundamental law of the universe, which throws lights on the divine model for the useful development of resources and their mutual support and sharing. It is in the context of these divine arrangements that human efforts take place.

(vi) Purification plus growth (Tazkiyah)

The mission of all the prophets of God was to perform the tazkiyah of individual in all his/her relationships with God, with other fellow individuals, with the natural environment and with society and the state. Hence, growing in harmony.
(vii) Individual’s role as God’s vicegerent on earth and human accountability before God

This defines human being’s status and role, specifying the responsibilities of individual as such, of a Muslim and of the Muslim *Ummah* as the repository of this *khilafah* or *vicegerency*. From this follows the unique Islamic concept of individual’s trusteeship, moral, political and economic, and the principles of social organisation. Thus, the implications of khilafah are: Universal solidarity; Resources are trust from God; Humble life-style; Human freedom.

(viii) Objectives of the Shari’ah (*Maqasid-al Shariah*)

The objective of the *Shar’iah* (the Islamic way and code of conduct) are in the words of al-Ghazali (d. 505 AD) are:

“The obligation of the *Shar’iah* is to provide the well-being of all humankind, which lies in safeguarding their faith, their human self (*nafs*), their intellect (*’aql*), their progeny (*nasl*) and their wealth (*mal*).
IMPLICATIONS OF THE FOUNDATIONAL ASSUMPTIONS
(UI Haq, 1995: 84-85)

- Human beings can only claim partial credit for what he/she produces… The needy and society have a right too; zakah, etc.;
- Responsible use of rightful earnings by keeping the moral purposes of human beings in view;
- Individuals must not prevent others in society and nature from meeting their basic biological needs;
- All people should have equal opportunities, without discrimination, to benefit from environmental and public resources.
- The creation of wealth, work, earning and production is necessary and good. However, its single-minded pursuit; its misuse, abuse, conspicuous consumption, wastage or israf; and squandering or tabdhir; its exclusiveness to oneself and denial of the share of the society (zakah and other forms of sharing); and the use of socially and ethically wrong or unjust means to produce it – the immoral, prohibited modes, oppressive exploitation of human beings and creation of ecological imbalance or environmental disruption;
Thus,

Ibn Khaldun’s (15th century)’s framework provides a summary of the interdisciplinary dynamic model for Islamic moral economy system:

“The strength of the sovereign (al-mulk) does not become consumed except by implementation of the Shari’ah;
The Shari’ah cannot be implemented except by a sovereign (al-mulk);
The sovereign cannot gain strength except through the people (al-rijal);
The people cannot be sustained except by wealth (al-mal);
Wealth cannot be acquired except through development (al-‘imarah);
Development cannot be attained except through justice (al-‘adl);
Justice is the criterion (al-mizan) by which God will evaluate mankind; and
The sovereign is charged with the responsibility of actualising justice” (Chapra, 2000: 147-8).
THE OPERATIONAL AND INSTITUTIONAL FEATURES OF ISLAMIC MORAL ECONOMY

(i) The Islamic scheme for social change and regeneration of human societies is unique as it is based on methodology that is different from conventional economic and political ideologies;

(ii) Self-interest is a natural motivating force in all human life. But self-interest has to be linked to the overall concept of good and justice;

(iii) Private property and private enterprise are affirmed as inalienable rights and a natural mode for economic activity.

But property in its all forms is a trust (amanah), and as such, property rights are subject to moral limits and used as a means of fulfilling ethical objectives – the Maqaasid al-Shari’ah (the objective of the Islamic way).
(iv) Economic efforts take place through the process of cooperation and competition. The market mechanism is the natural corollary of private property, freedom of enterprise and motivation for profit and reward. Effort, innovation, creativity, division of labour, technology and skills development have been emphasised by all major Muslim thinkers along with cooperation, compassion, justice, charity and solidarity.

(v) The market mechanism is a fundamental pillar of the Islamic economic scheme. But Islam demands actions by extra-market institutions to ensure that the market does not degenerate into wild capitalism, and that self-interest and the profit-motive do not create a situation that is socially disruptive and in violation of norms of justice and fair play.

(vi) The prohibition of certain sources of income is a particularly distinctive plank of the Islamic economic system. The most important prohibition is that of riba (usury/interest). Others relate to gambling, speculation, fraud, exploitation and extortion. Islam lays down an elaborate code of business ethics to ensure honesty, transparency and equity in business and financial dealings.
Consequently:

• Islamic economic and financial system, on the one hand, aims to guarantee individual liberty, freedom of choice, private property and enterprise, the profit motive and possibilities of unlimited effort and reward.

• On the other hand, it seeks to provide effective moral filters at different levels of life and activity and established institutions in the voluntary sector, as well as through state apparatus to ensure economic development and social justice in the society.

• Islam does not prescribe a particular economic system but provides the core elements and principals, which form the basic philosophy of a system or an economy.

• Islam provides primarily normative principles for economics and finance. However, it is not devoid of positive economic statements or hypotheses. Several areas of economics are truly positive and cannot be different in an Islamic or in any other framework.
METHODOLOGY OF ISLAMIC MORAL ECONOMY

The methodological framework of neo-classical/conventional economic system can be summarised as follow:

(i) The point of departure is *methodological individualism*;

(ii) Behavioural postulate: *self-interest oriented individuals* who (a) seek their own interests, (b) in a rational way, and (c) try to maximise his/her own utility;

(iii) *Market exchange*.

Hence, conventional economic system is based on *one dimensional utility function, which leads to homoeconomicus* – the economic individual in a market system.
The methodological postulates of Islamic moral economy, on the other hand, can be summarised as follows:

(i) *Sociotropic individual*, not only individualism but social concern is a prerequisite;

(ii) Behavioural postulates: socially concerned God-conscious individuals who (a) in seeking their interests concern with the social good, (b) conducting economic activity in a rational way in accordance with the Islamic constraints regarding social environment and hereafter; and (c) in trying to maximise his/her utility seek to maximise social welfare as well by taking into account the hereafter as well.

(iii) *Market exchange* is the main feature of economic operation of the Islamic system; however, this system is filtered through an Islamic process to produce a socially concerned environmentally friendly system. In this process, socialist and welfare state oriented frameworks are avoided not to curb incentives in the economy.

Hence, *two dimensional utility function* (present and the hereafter), which leads to *homolIslamicus*, or as Arif (1989: 92-94) names ‘*Tab’ay*’ (obedient) human-being.
MECHANISMS/INSTITUTIONS/AND INSTRUMENTS OF THE
ISLAMIC MORAL ECONOMY SYSTEM

Islamic moral economy and financial activities are shaped by these kinds of measures:

- Positive measures (*zakah*; *hisbah*)
- Voluntary measures (*sadaqah*, *waqf*)
- Prohibitive (*riba’*)
ISLAMIC INSTITUTIONS AND INSTRUMENTS

i. Elimination of *riba*;

ii. Islamic financial system;

iii. *Zakah*;

iv. *Takaful*;

v. *Awqaf* system;

vi. Islamic commercial law and application.
CORE BASIC TENETS OF ISLAMIC FINANCE

- If something is immoral, one cannot profit from it;
- To share reward, one must also share risk;
- One cannot sell what one does not own;
- In any transaction, one must clearly specify what he or she is buying or selling and what price is being paid;

Thus:
*Islamic finance aims at removing speculation and ensuring value-enhancing activity*
Durham Islamic Finance Autumn School, 2011 in Istanbul

ISLAMIC FINANCE IS THE OUTCOME OF RELIGION IN FINANCE

<table>
<thead>
<tr>
<th>Shariah Sources:</th>
<th>Banking and Finance Needs</th>
<th>Fiqh Al-Muamalat Contracts</th>
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</thead>
<tbody>
<tr>
<td>Qur'an</td>
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<td>Musharak (Partnership)</td>
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<td>Sunnah</td>
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<td>Mudharabah (Partnership)</td>
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<td>Ijma (Jurists’ Concensus)</td>
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<td>Murabaha (Purchase-sale)</td>
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<td>Qiyas (analogy)</td>
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<td>Ijara (Lease)</td>
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<td>Ijtiham (reasoning)</td>
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<td>Istisna (Manufacturing Contracts)</td>
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<td></td>
<td>Sharia filter</td>
<td>Salam (Forward Sale)</td>
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Islamic Banking and Finance Solution

<table>
<thead>
<tr>
<th>Prohibition on:</th>
<th>Prohibition of certain investments:</th>
<th>Asset-backed transactions with investments in real, durable assets</th>
<th>Credit and debt products are not encouraged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>Sectors (e.g.: alcohol, armaments, financial services, gambling, pork, pornography, tobacco)</td>
<td></td>
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<tr>
<td>Speculation</td>
<td>Instruments (e.g. no forward transactions, limited option use, no derivatives, short-selling)</td>
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<td>Gambling</td>
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**ISLAMIC FINANCE AS A HOLISTIC ETHICAL SOLUTION**

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<tr>
<th>Tenet bound:</th>
<th>Principles based:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fundamental tenants are derived from Shariah</td>
<td>• Concept is grounded in ethics and values</td>
</tr>
<tr>
<td>o Absence of interest-based transactions</td>
<td>o Principles akin to ethical investing</td>
</tr>
<tr>
<td>o Avoidance of economic activity involving speculation</td>
<td>o Emphasis on risk-sharing and partnership contracts</td>
</tr>
<tr>
<td>o Prohibition on production of goods and services which contradict the values of Islam</td>
<td>o Credit and debt products are not encouraged</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Real economy linked:</th>
<th>Society Service</th>
</tr>
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<tbody>
<tr>
<td>• Islamic finance offers an alternative financing paradigm</td>
<td>• Islamic banking is community banking</td>
</tr>
<tr>
<td>o Asset-backed transactions with investments in real, durable assets</td>
<td>o Serving communities, not markets</td>
</tr>
<tr>
<td>o Stability from linking financial services to the productive, real economy</td>
<td>o Open to all-faith clients</td>
</tr>
<tr>
<td>o Restrains consumer indebtedness as credit is linked to real assets</td>
<td>o Instruments of poverty-reduction are inherent part of Islamic finance (zakat &amp; qard hasan)</td>
</tr>
</tbody>
</table>

**Thus, Islamic finance** in essence a value and moral proposition and more than financial contracts.
ESSENTIAL FEATURES OF ISLAMIC BANKING AND FINANCE

When mentioning IBF, the first reference is normally made to the prohibition of interest in Islam, which, as a normative proposition, is shared with other revealed religions in their most historical forms. While IBF benefits from the above-mentioned value system, there are certain features, which define IBF operations. These are:

(i) Prohibition of interest or riba, which is explicitly revealed in the Qur’an. While the main reason for this is mostly mentioned as ‘social justice’, Chapra (1992 and 2000) makes reference to the social but also economic consequentialist reasons and rationale for this prohibition. In other words, he, among others, articulates that in addition to economic and financial priorities, social priorities in the society should be prioritized in the search for efficiency and optimality; and hence prohibition of interest provides a stable and socially efficient economic environment.
(ii) An important consequence of the prohibition of interest is the *prohibition of fixed return* as provided by interest;

(iii) The IME position related to money provides another rationale for the prohibition of interest, which states that *money does not have any inherent value in itself*, and therefore money cannot be created through the credit system;

(iv) By prohibiting interest, IME does not undermine the position of capital, but rather changes the nature of the relationship between capital and work. Therefore, the principle of *profit and loss sharing* (PLS) is the essential axis around which economic and business activity takes places. This prevents capital owner from shifting the entire risk onto the borrower, and hence it aims at establishing justice between work effort and return, and between work effort and capital. This implies that *risk sharing* is another important feature of IBF;
(v) An important feature as the consequence of profit-and-loss sharing principle is the participatory nature of economic and business activity through participatory financing. The shuratic (consultative) method of governing business is, thus, a natural outcome of this process, which is expected to lead democratic processes in political governance as well.

(vi) By essentialising productive economic and business activity, in addition to prohibiting interest, uncertainty (gharar), speculation and gambling is also prohibited with the same rationale of emphasising asset-based productive economic activity (Iqbal and Mirakhor, 2006). However, new legal (fiqhi) scholarship is in favour of acceptable levels of uncertainty to facilitate modern financial instruments.
Aims of Islamic Finance

Islamic banking and finance aims at:

- Community banking: Serving communities, not markets;
- Responsible Finance, as it builds systematic checks on financial providers; and restrains consumer indebtedness; ethical investment, and CSR Initiatives;
- Alternative Paradigm in terms of stability from linking financial services to the productive, real economy; and also it provides moral compass for capitalism;
- Fulfils Aspirations in the sense it widens ownership base of society, and offers ‘success with authenticity’.
ISLAMIC BANKING AND FINANCE AIMS AT POSITIVE IMPACT THROUGH:

- Promoting the investment mindset as opposed to the banking mindset:
  - Investing in real assets rather than promoting speculation and leverage;

- Making meaningful real economy impact:
  - Investing in asset-backed instruments and real economy ventures;

- Engagement of an under-served and previously un-banked market:
  - Providing an ethical banking solution to local communities to deepen the banking market;

- Attracting foreign investment and cross-border partnership from Islamic financial institutions:
  - Attractive source of cross-market ventures and cross-border lines from Muslim countries
ISLAMIC FINANCE IS AN ALTERNATIVE BANKING PARADIGM

Accountability
to
God

Corporate Governance

Corporate Social Responsibility

“More-than-profit” mentality

Ethical profits
(rather than “profits-at-any-costs”)

Business Ethics

Shari’a
“Code of Ethics”
ISLAMIC BANKING AND FINANCE: REALITIES vs. ASPIRATIONS

• In this alternative system understanding Islamic finance and banking, was assigned an important role: economic development with the objective of human well-being and social justice.

• The initial experience of Islamic finance and banking in 1960s in Egypt and Malaysia had such objectives, as they were socially oriented institutions.

• In particular since the 1990s, while the operations of Islamic finance and the nature of Islamic modes of financing have expanded, the lives of individuals have not been touched upon by this enormous growth.

• Thus, SOCIAL FAILURE of Islamic banking and finance is now recognised…
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

In addition to the value system and principles foundations of Islamic moral economy, the following points can be used to test the SOCIAL performance of Islamic finance against the articulated value system of Islamic moral economy. These are:

- Community banking: Serving communities, not markets;
- Responsible Finance, as it builds systematic checks on financial providers; and restrains consumer indebtedness; ethical investment, and CSR Initiatives;
- Alternative Paradigm in terms of stability from linking financial services to the productive, real economy; and also it provides moral compass for capitalism;
- Fulfils Aspirations in the sense it widens ownership base of society, and offers ‘success with authenticity’.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

• Regarding the first objective of community banking, the real life experience shows that Islamic finance has not done much to contribute to capacity building in the communities.

• On the contrary, Islamic banking and finance has aimed at becoming part of the international markets, despite the imposed social identity “Islamic banks are quick to point out that they are not charitable organizations, and that they must turn a profit”.

Regarding Islamic finance being responsible finance:

- There is not a universally accepted regulatory body, which can systematically check on financial providers. The initiatives by AAOIFI and IFSB remain weak and are not generally accepted.

- A study investigating Shari’ah governance of IBFs in relation to IFSB rules shows that there is no best practice in IBF.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

• As part of restraining indebtedness, the data indicates that IBF institutions prefer transactions, which are debt financing oriented, as they are more profitable. Thus, this claim in not fulfilled either.

• IBFs prefer murabahah as against musharakah or mudarabah.

• Propensity towards debt-based financing is evidenced further with the new financing methods such as tawarruq; even criticism raised against sukuk…

• Indeed, it can be seen that Islamic banks and financial institutions have opted profitable Islamic financing such as *murabahah* instead of *musharakah* and *mudaraha* (PLS and participatory) for instance. This is important as this indicates that difference in the orientation of Islamic finance.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

• In the developments and trends in the operations of IBF, it is now clear that debt-based financing has become the major source of financing in the IBF industry as in the conventional banking (Asutay, 2007).

• On average, from 1984 to 2006, murabahah instrument financing (mark-up priced financing products, which are debt-based) constituted 88.1% of the mode of financing for the Bank Islam Malaysia Berhad, and 67.3% for the Dubai Islamic Bank for the period of 1988 to 2006.

• For the same period, however, mudarabah and musharakah instruments of financing (both joint venture capital products and hence asset-based) remained on the average about 1.7% for the Bank Islam Malaysia Berhad, and 9.3% for the Dubai Islamic Bank (Nagaoka, 2007).

• Hence, considering that in IME equity or profit-and-loss sharing financing is considered superior to debt-like financial instruments, having IBF institutions involving more debt-like financing is an indication that IBF has deviated from the aspirational stand and has converged towards more conventional banking and finance.
Testing the Assigned Values of Islamic Finance

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>Musawama and wakalah</th>
<th>Bithaman Ajil</th>
<th>Ijarah</th>
<th>Muntahia bittamleek</th>
<th>Musharakah housing and</th>
<th>Musharakah</th>
<th>Mudarabah</th>
<th>I'tisna</th>
<th>trade financing</th>
<th>Qard Hasan</th>
<th>Salam</th>
<th>Mutajara</th>
<th>Tawarruq</th>
<th>Bait' Inah</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Meezan Bank</td>
<td>41.88%</td>
<td>13.19%</td>
<td>27.18%</td>
<td>0.12%</td>
<td>11.31%</td>
<td>2.53%</td>
<td>0.01%</td>
<td>1.28%</td>
<td>2.49%</td>
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<tr>
<td>Kuwait Finance House</td>
<td>82.82%</td>
<td>15.13%</td>
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<td>2.06%</td>
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<td>ABC Bank</td>
<td>49.63%</td>
<td>14.52%</td>
<td>35.66%</td>
<td>0.10%</td>
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<td>Al-Rajhi Bank (installmen)</td>
<td>10.57%</td>
<td>63.30%</td>
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<td>0.39%</td>
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<td>25.19%</td>
<td>0.56%</td>
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<td>Bahrain Islamic Bank</td>
<td>49.49%</td>
<td>14.55%</td>
<td>11.68%</td>
<td>6.17%</td>
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<td>0.001%</td>
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<td>18.11%</td>
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<tr>
<td>bank Islam</td>
<td>9.12%</td>
<td>50.55%</td>
<td>2.72%</td>
<td>0.09%</td>
<td>0.05%</td>
<td>2.87%</td>
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<td>20.95%</td>
<td>13.64%</td>
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<tr>
<td>Gulf Finance House</td>
<td>100.00%</td>
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<tr>
<td>Bank Muaamalat</td>
<td>40.90%</td>
<td>0.02%</td>
<td>4.39%</td>
<td>38.11%</td>
<td>8.82%</td>
<td>0.30%</td>
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<td>7.47%</td>
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<tr>
<td>Dubai Bank</td>
<td>30.52%</td>
<td>34.51%</td>
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<td>15.07%</td>
<td>5.75%</td>
<td>11.30%</td>
<td>0.01%</td>
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<td>2.17%</td>
<td>0.67%</td>
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<td>Qatar Islamic bank</td>
<td>69.75%</td>
<td>17.49%</td>
<td></td>
<td>0.17%</td>
<td>2.91%</td>
<td>9.49%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.20%</td>
</tr>
</tbody>
</table>
## TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

<table>
<thead>
<tr>
<th>Industry sector</th>
<th>ABCIslamicBa</th>
<th>AlRajhiBank</th>
<th>BahrainIslamic</th>
<th>BankIslamiMal</th>
<th>BankMuamlatli</th>
<th>DubaIsat</th>
<th>GFH</th>
<th>KFH</th>
<th>AlMeezanBank</th>
<th>QatarIslamicBa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>36.4%</td>
<td>6.4%</td>
<td>6.4%</td>
<td>2.1%</td>
<td>15.6%</td>
<td></td>
<td>19.9%</td>
<td></td>
<td>3.7%</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>2.0%</td>
<td>9.9%</td>
<td>4.1%</td>
<td>7.9%</td>
<td>27.65%</td>
<td></td>
<td>1.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>2.4%</td>
<td>5.4%</td>
<td>4.7%</td>
<td>5.7%</td>
<td>100%</td>
<td>30.6%</td>
<td></td>
<td></td>
<td>26.8%</td>
<td></td>
</tr>
<tr>
<td>Banks and financial institutions</td>
<td>33.6%</td>
<td>49.3%</td>
<td>1.4%</td>
<td>5.7%</td>
<td>100%</td>
<td>30.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government/public personal</td>
<td>3.2%</td>
<td>0.4%</td>
<td>3.5%</td>
<td>8.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11.2%</td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>1.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>19.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation/store</td>
<td>1.5%</td>
<td></td>
<td>3.3%</td>
<td>8.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.40%</td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td></td>
<td>19.6%</td>
<td>26.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>7.9%</td>
<td>40.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.21%</td>
<td></td>
</tr>
<tr>
<td>Agriculture and fishing</td>
<td>1.4%</td>
<td>1.5%</td>
<td>0.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.04%</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>1.5%</td>
<td>29.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>0.01%</td>
<td>4.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>1.2%</td>
<td>6.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.62%</td>
<td></td>
</tr>
<tr>
<td>Wholesale &amp; retail trade, and hotels &amp; restaurants</td>
<td>3.9%</td>
<td>5.85%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education, health and others</td>
<td>0.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household sector</td>
<td>75.8%</td>
<td>36.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>49.6%</td>
<td></td>
</tr>
<tr>
<td>Textile electronics and electrical appliances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>32.60%</td>
<td></td>
</tr>
<tr>
<td>Exports/imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.92%</td>
<td></td>
</tr>
<tr>
<td>Automobile and transportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.26%</td>
<td></td>
</tr>
<tr>
<td>Chemicals and Pharmaceuticals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.73%</td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.96%</td>
<td></td>
</tr>
<tr>
<td>Footwear &amp; Leather garments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.64%</td>
<td></td>
</tr>
<tr>
<td>cements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.92%</td>
<td></td>
</tr>
<tr>
<td>Contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.67%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0.1%</td>
<td>1.2%</td>
<td>24.0%</td>
<td>0.2%</td>
<td>20.4%</td>
<td></td>
<td>21.8%</td>
<td></td>
<td>14.33%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

• In relation to ethical investment, restraining the investment areas of Islamic finance does not necessarily makes Islamic finance ethical, but only implies that Islamic finance fulfils the legal expectations as the screening of Islamic investment is part of the Shari’ah, which makes Islamic finance only ‘active’ in the CSR framework.

• However, considering that ethicality refers to be ‘pro-active’ in the case of IBFs, there is no much indication that IBFs are ethical as such. This again refers to CSR initiatives, as recent studies on CSR of IBF demonstrate that they have not pro-actively developed such an understanding and their perceptions of CSR remains within the framework of zakah distribution and other non systemic charitable activities (Sarially, 2005).
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

• Also poor CSR scores, as there is no proactive dynamic understanding of social responsibility is the prevailing attitudes amongst the IBFI.

• The close scrutiny of Islamic financing indicates that the social dimension is limited with their zakah and other charitable activities, which does not imply any systematic economic development and social justice programme aiming at capacity building.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

• As an alternative paradigm, Islamic finance is no longer part of the Islamic Moral Economy system understanding, and therefore does not have macroeconomic consequences.

• In addition, claiming that it links financial services to the productive side of the economy is not convincing either taking into account that the most preferred financing is debt financing as opposed to the original expectations that it would be equity financing undermines this claim too.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

• Furthermore, becoming part of the international financial system through hybridisation, it is difficult to state that Islamic finance plays the role of a moral compass for capitalism. On the contrary, it seems that Islamic finance has much to learn from conventional finance in terms of ethical and CSR financing issues.

• As regards to fulfilling aspirations, Islamic finance has not affected the social capacity building, and therefore has not been involved in widening ownership, which could have been possible through venture capital or profit-loss sharing type of investments.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

Supply Side:

• Islamic finance professionals and Shariah scholars provides a rationalistic reading of the Qur’an; and hence claims that homoslmamicus is equal to homoeconomics; while Islamic moral economist in their reading of the same Qur’an conceptualised homoeconomicus as a distinct identity; and hence:

• homoslmamicus = homoeconomicus + social justice an social efficiency

• Thus, the founding fathers conceptualised a moral economy, not a commercial Islamic banking;

• And hence, the meaning of Islamic in the name.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

The Demand Side:

• The social failure of Islamic finance can also be explained by the pragmatist and legalistic attitude of individuals.

• The main strain in IBF is an attitude which can be described as “socially and politically conservative, seeking individual piety and social mores built around traditionalist compliance with fiqh, and looks to social and political improvements mainly as a result of that” (Vogel and Hayes, 1998: 27, footnote).

• Thus, Islamic norms have not been instrumental in shaping individual choices and preferences, which evidences again the failure of homosIslamicus.

• Mass consumption and reckless financing and economic demands from the individuals have not helped the industry driven Islamic finance to be more morally responsible.
The Demand Side:

See the perceptions of the Islamic bank customers on some crucial issues:

**Summary of Respondents opinion towards acceptability of characteristics of Profit-sharing in Deposits account**

<table>
<thead>
<tr>
<th>Concern about deposit return?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>73.2%</td>
<td>26.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agree Extra Profit Generated transferred to PER?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54.5%</td>
<td>45.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agree PER being used for future return stability?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>64.4%</td>
<td>35.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prefer your deposits to be guaranteed by the Government?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>67.9%</td>
<td>32.1%</td>
</tr>
</tbody>
</table>
An Example in the SOCIAL Failure of Islamic Financing

Zamzam Towers right before Kabah in Makkah financed through Islamic Finance. Even the advertisement indicates that the project is not socially and religiously right; as it undermines equal opportunity in this most holy place; undermines the spirituality of the place; undermines the historicity and environment.
TESTING THE ASSIGNED VALUES OF ISLAMIC FINANCE

Consequently:

While referring to the Qur’an and locating the principles governing Islamic finance in Qur’an refers to authenticity, consequences of Islamic finance do not show success in the intended meaning of this authenticity or Shari’ah as located in the aspirational notions of Islamic Moral Economy.
CONCLUSION

- The two big contributions which the Islamic finance industry will make are;
  - One, to build economies with heart:

  "If there is to be a human future, we must bring ourselves into balanced relationship with one another and the earth. This requires building economies with heart."

  (David Korten, Author of “When Corporations Rule the World”)
And secondly, to create the demonstration effect which can be best summed up in the words of Martin Luther King, Jr.:

"Through our scientific genius we have made the world a neighbourhood. Now, through our moral genius we must make it a brotherhood."

(Martin Luther King)
For socially and environmentally responsible value oriented ‘just’ economic and financial system, which can enable individuals to function and which can aim at well-beings of individuals...

Utopias should exist so that realities can be constructed and engineered...

Thank you.