

ISLAMIC FINANCE AND *TAKĀFUL* IN CONTEMPORARY SOCIAL AND ECONOMIC DEVELOPMENT*

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Abstrak: *Keuangan Islam dan Takāful dalam Pembangunan Sosial dan Ekonomi Kontemporer.* Artikel ini menegaskan bahwa meskipun keuangan Syariah memiliki kekurangan, namun telah berhasil dalam pembangunan sosial dan ekonomi dibandingkan dengan instrumen tradisi yang lain, seperti wakaf dan zakat. Dengan perubahan situasi ekonomi dan hubungan sosial, keuangan Syariah, dan *takāful* diharapkan akan menjadi instrumen pelengkap yang penting dalam pembangunan sosial dan ekonomi masyarakat Islam. Untuk mendukung kesimpulan tersebut artikel ini akan menyajikan argumen-argumen dan kritik-kritik terhadap perbankan Syariah modern pada aspek di atas di samping memberikan justifikasi dan penjelasan sebagai jawaban atas kritikan tersebut.

Kata Kunci: keuangan Islam, *takāful*, pembangunan Islam, ekonomi Islam, perbankan Islam, muamalah Islam

Abstract: *Islamic Finance and Takāful in Contemporary Social and Economic Development.* This article argues that Islamic finance although with its limitations has relatively been successful in the contemporary social and contemporary development compared to other traditional instruments such as *waqf* and *zakāh*. With the changing economic climate and social relations, Islamic finance and *takāful* is expected to be an important complementary instruments of Islamic social and economic development. To support such a conclusion the article revisits some of the arguments and critics on modern Islamic finance in respect of the above issues and offers justification and explanation as a response to those critics.

Keywords: Islamic finance, *takāful*, Islamic development, Islamic economics, Islamic banking, Islamic mu'āmalah

Introduction

Although most of world resources are located in the Muslim lands, poverty, hunger, illness, illiteracy, unemployment, and social insecurity etc. are the main issues and concerns among the Muslim nations and society. According to the World Bank database as reported in 2010 only 23 percent (or 13 from 57 countries) of the OIC member countries is above world GDP (PPP) per capita, whereas half of the 20 most

poorest countries (9 in Africa and one in Asia) in the world is Muslim. Poverty also means malnutrition, health issues, illiteracy, and other social ills. While according to Ernst & Young's inaugural World Islamic Banking Competitiveness Report 2011, Islamic banking assets with commercial banks globally will reach \$1.1 trillion in 2012, a significant jump of 33% from their 2010 level of \$826bn, little impact is seen to the improvement of Muslim livelihood throughout the globe. In some countries where Islamic finance is fast growing, especially where Muslims are minority, the concern is chiefly if not entirely to solicit funds from the Middle East by offering financial products which are compatible with the religious convictions of those investors. Interviews with some Muslim respondents conducted in one of these countries revealed that they received little or no benefits from the staggering amounts of Islamic investment in the country. In term of economic domination, there is no doubt the world wealth is controlled by super rich non-Muslim

Received: 27th August 2012, revised: 15th October 2012, accepted: 24th October 2012.

* Part of this article was originally a paper presented at 3rd International Convention on Takaful and Retakaful, 30 August 2007, Nikko Hotel, Kuala Lumpur, under the title "Role of Takaful in Social and Economic Development". Some additions to the above were made during my presentation at the International Seminar on Sharia Economics, STAIN Ponorogo, Indonesia, 4th July 2012 under the title The Role of Sharia Economy in the Contemporary World: Challenges and Possibilities For the Reshaping of World Economy Order". I have made some changes and updating to the current title to include perspectives in Islamic finance. I wish to record my gratitude to the participants both of the convention and seminar for their valuable comments and suggestions.

countries such as USA, European Unions and Japan. These countries and others represent the so-called the richest 20 percent accounts for three-quarters of world income whereas the poorest 40 percent of the world's population accounts only for 5 percent of global income. This is indeed a huge imbalance. But for the sake of this short article I will take the liberty to explain briefly what it means by social and economic development in Islamic context and then I shall elaborate on how Islamic finance including *takāful* could play its role in the above aspects.

Development in Islam

In Arabic, the term development can be translated as *tanmiyyah*, *imārah* or *ma'mūr*, all of which are indication of growth, dwellings or prosperity.¹ As such the term development has a close relation with economic and uplifting of one's living standard. It is therefore commendable and encouraged in Islam (Q.s. Hūd [11]: 61 and al-Mulk [67]: 10). Development therefore can be technically explained as series of economic activities causing an increase in the productivity of the economy as a whole and the average worker and also an increase in the ratio of earners to total population. In Islam the aim of development is to achieve what is known as *al-falāḥ* (success) which is prosperity in this world and the hereafter. Since prosperity include both temporal and spiritual, the foundation of development in Islam is based on the concepts of *tawḥīd*, *fiṭrah*, *amānah*, and *tazkiyyah*. In Islam, temporal or worldly comfort is allowed and in some cases encouraged in order to attain the eternal success or *al-falāḥ* in the hereafter. For this reason Islamic scholars view food, clothing, housing, medical facility, and transport as the basic material needs for the sustenance of a decent livelihood of a person and his family.² They also view education and jobs as basic needs since both will enable a person in the long run to acquire the above material needs.

History shows us that the human struggle and conflicts or wars, past and present, have been largely related to the control of economic resources. This is not surprising since, it is human nature to love wealth as explained in the Quran (Q.s. Āli 'Imrān [3]: 14). Because there is a constant competition or battle among

human to control economic resources, not every person would be able to possess what he or she needs. Some theorists would argue that this happens because the supply of the resources is limited and yet the need of human being is not. In Islam, this argument would not be entirely accepted since needs of a Muslim is guided by Allah's will as prescribed in the Quran and Hadith. Islam as a practical religion recognizes inequality of distribution of wealth among the people and formulates mechanisms or ways to resolve this inequality either through compulsory payment of *zakāh* or voluntary contribution of *ṣadaqah*.³ Through these measures social development is achieved and the society is protected from being neglected and left to poverty, hunger etc.

The above would be an idea situation of a Muslim society and state. Nevertheless in practice, especially in present day of Muslim society and state, this situation is akin to utopia. Needless to say, social protection and security are among the chief aims of a state in modern times especially when the political system is based on democracy. Many would want to believe and even argue that the invention of modern insurance, for example was for this reason. Without denying the benefits of modern insurance to society it is interesting to note here modern finance in form of banking and insurance was first introduced principally for commercial purpose that was to provide capital for corporations and to protect goods carried by ships plying Mediterranean seas in the 15th and 16th centuries. The practice of insurance was further developed during the industrial revolution in the 18th centuries to cover wider aspect of business and this later on expended to personal protection. Insurance ever since has become a big and lucrative business. The idea that insurance serve as a mechanism to protect personal and business from the hazard of risk and misfortune is therefore best suited to idea of capitalism; that is to say profit and social protection are achieved at the same time. Similarly with the rise of consumerism and commercialization in the early twentieth century induced demands for needs of banking and financing.

Social Aids in Islam

Traditionally, members of Muslim community who are in distress either due to illness or accident or any other misfortune can refer to his/her family support of extended family or to the established institutions of *zakāh* or *waqf* and in certain instances to public treasury or *bayt al-māl*. Although assistance in these forms is

¹ See partly Munir Baalbaki and Rohi Baalbaki, *al-Mawrid al-Waseet Concise Dictionary English-Arabic, Arabic-English*, (Lebanon: Dār al-'Ilm li al-Malāyīn), Fourteenth Reprint, first published in 1996, 2007, p.173.

² Umar Chapra, "The Islamic Welfare State and Its Role in the Economy", in Khurshid Ahmad, *Studies in Islamic Economics*, (Jeddah and UK: King Abdul Aziz University and The Islamic Foundation, 1981), first published in the UK in 1980, pp.148.

³ S.H. Hasanuz Zaman, *Economic Functions of an Islamic State*, (Leicester: The Islamic Foundation (1991- revised edition, first published in 1981 by International Islamic Publishers, Karachi), pp. 332-3.

still forthcoming, but it has become harder in current times especially support from the family. Influenced by the changing lifestyles in occupation and social needs, modern banking and finance such as insurance, overdraft facility etc. provides an appropriate alternative to the above forms of assistance. For this reason some Muslim scholars like 'Abduh, Zarqā', Sanhuri, and 'Alī Khafif view that insurance or what is termed in Arabic as *tāmīn* as permissible. The latter after listing five important benefits of insurance contract maintains that, "There is no contradiction between the reasons for having insurance and objectives of the Islamic Sharia" (*wa min hādihā yurā an lays bayn al-sabab al-dāfi' ilayh (al-tāmīn) wa maqāsid al-sharī'ah al-Islāmiyyah ta'ārud*). He further argues insurance contract contains two important aspects which are investment of property and mutual cooperation to assist other in needs. All these two aspects are encouraged and enjoined in Islam.⁴ It is also worthy to note here that in Islam assistance must not necessary in form of hand out or outright gift to the needy. The Hadith is reported to say that the reward for providing a loan to a fellow Muslim or person is twofold from a mere charity or alms giving (H.r. Ibn Mājah and Ibn Ḥibbān).⁵ What more beneficial than a loan given to an industrialist or entrepreneur to enable him or her to start a business enterprise or services which will eventually helping to develop the economy of a particular society and state by creating jobs and improvement of source of income.

The statement exposition is self-evident to show-case that Islamic law has its own dimensions and ways for both social and economic development at least from a theoretical purview. However, the view on the permissibility of *tāmīn* or insurance is a minority. For example the decision or fatwa by Islamic Fiqh Academy of the Islamic World League in its 20th sitting in the Holy City of Mecca, Saudi Arabia in 1977 declared by majority that insurance is prohibited.⁶ Nevertheless the fatwa by International Islamic Fiqh Academy of the OIC in its 2nd sitting in Jeddah in 1985 declared commercial insurance to be non-permissible (no. 9(9/2)). The majority's critics on permissibility of insurance are the question of contract in future or risk which termed as *'uqūd al-riḥān* (aleatory) and the use of interest or *fā'idah*

in the investment of capital. I would not try to discuss the details of this debate, since it is already a matter of academic with the creation and acceptance of *takāful* by Muslim majority as alternative to conventional insurance. Some writer following 'Alī Khafif's work, listed the benefits of *takāful* namely: (1) protection against risk, (2) mobilization of savings according to Islamic Sharia, (3) investment opportunity according to Islamically accepted products or instruments, (4) collective participation in economic and investment activities, and (5) opportunity to perform good deeds and charitable works.⁷ This list is of course not exhaustive and many more benefits of *takāful* can be added from social and economic development perspectives.

Participation of Modern Islamic Finance in Social Development

Islamic banking on the other hand was introduced in the sixties largely to provide alternative to modern interest-based banking system. Interest taking activities by this modern bank is considered widely as similar to the prohibition of *ribā* and therefore forbidden. There are indeed some arguments against this popular conclusion as being too legalistic and have taken literalist approach to the subject.⁸ Although this view, on the permissibility of bank's interest, was tolerated from time to time by Islamic scholars, the latest and famous being that of Grant Syekh of al-Azhar, Sayyid Ṭanṭawī, it was held by consensus at the International Islamic Fiqh Academy in its Resolution No.10(10/2) in 2000 that bank interest is equivalent to *ribā* and therefore prohibited. Nevertheless, in contrast to the some fundamentalists belief that anything from the west is regarded a kind of unlawful innovation or *bid'ah*, function of modern banking as financial intermediaries is acceptable. Thus, using the formulation that interest is prohibited, Islamic banking therefore from functional and operational point of view is similar to modern banking that is to provide financing and banking services with customers with the aim of making profits. Some, even gone to provide some evidence from the Islamic past, especially the principles *muḍārabah* to support the functionality of intermediaries in Islamic law,⁹ although this proposition apparently ignores

⁴ 'Alī Khafif, "al-Tāmīn", *Majallat al-Azhar*, vol. 37, (1965-66), pp. 86-87. For a more conservative view on modern insurance see 'Abd al-Samī' al-Miṣrī, *al-Tāmīn al-Islāmi Bayn al-Nazariyyah wa al-Taṭbiq*, (al-Qāhirah: Maktabah Wahbah (1987) and Ahmad Ibrahim, "The Philosophy of Islamic Insurance—Shariah Concepts and Principles", *Jurnal Undang-undang IKIM*, volume 2, no. 1 (1998), pp. 1-18.

⁵ Quoted from al-Sayyid Sābiq, *Fiqh al-Sunnah*, volume III, (al-Qāhirah: Dār al-Hadīth and Dār al-Kitāb al-Islāmi (n.d.), p. 183.

⁶ At p. 35ff.

⁷ Norhashimah Mohd Yasin, "Socio Benefits of Takaful/Islamic Insurance", *Al-Nahdah, Kulliyah of Laws*, International Islamic University Malaysia, vol. 19, No. 2 (December 1995), pp. 43-44.

⁸ Abdullah Saeed, *Islamic Banking and Interest: A Study of the Prohibition of Riba and Its Contemporary Interpretation*, (Leiden: Brill, 1996), p. 49.

⁹ Munawar Iqbal (ed.), *Islamic Banking and Finance: Current Developments in Theory and Practice*, (Leicester, UK: Islamic Foundation, 2001), p. 2.

certain distinguishing facts that lead to the emergence of modern finance such as large scale trading and industries based on legal entity and consumerism which are not existed during the formation of Islamic legal principles. Be as it may, Islamic finance in this respect, only seems to overcome the issue of non-permissibility of modern finance, but not that of social and economic development of the Muslims. Interestingly to note that the early experiment of Islamic banking as in Egypt in 1963 was to assist rural Muslim populations. Some have even claimed that Islamic finance as it progresses through the decades has succumbed and diluted under the pressure and demand of market economy and therefore the difference between the two systems is sometimes becoming blurred and failed to serve the objectives of the Sharia law.¹⁰

Practice of Modern Islamic Finance and Social Development

Having said this as above, perhaps it is proper for us to observe the practice of Islamic finance among Muslims in some parts of the world. Islamic finance is a broad term to describe Islamic banking, insurance (*takāful*) and capital market which is largely associated with the term *sukūk* (or Islamic bonds or investment securities). Studies by some scholars and statistics produced by authoritative bodies reveal that participation in the Islamic finance in particular that of *takāful* industries is still low compared to insurance. In Malaysia for example Bank Negara Report on GNP for *takāful* asset is about 4.8 percent in 2006 and total *takāful* and insurance assets are about 5.9 percent in 2006. Nevertheless Standard and Poor's report in April 2007 suggests *takāful* is expected to contribute 20 percent to the overall market in the medium term in Malaysia. A similar figure can be said about Islamic banking where in Malaysia the total asset in Malaysia is not more than 20 percent and less than 5 percent in Indonesia.

The slow progress in the use Islamic financing which includes *takāful* or insurance as social securities in Muslim countries in the early 2000s is attributed mainly to lack of awareness among the Muslims on the need to insurance coverage and attitude against risk.¹¹ Current challenge to *takāful* in particular that hinders its positive development is lack of credible market information for various of reasons mainly because it is still less

understood as a business in many of Muslim countries.¹² Writings in the past suggested that mitigation of risk through insurance or *takāful* is considered inconsistency with the concept of predestination in Islamic theology.¹³ Availability of *zakāh* and *ṣadaqah* to assist the needy and person in distress is also partly responsible. Another main contributing factor is the affordability to buy *takāful* premium and in some minority cases people are not convinced or interested in buying *takāful* products. Nevertheless with globalization and urbanization and changing in occupation and economic resources of the Muslim family, it is predicted that the need for the *takāful* will increase as social protection tool in Muslim society. Standard and Poor's report released in April 2007 as above suggests that *takāful* has the potential to grow to a \$4 billion market in the Gulf Cooperation Council (GCC) countries. Two factors are cited for such a growth namely: economic growth in the region and a sizable underinsured population. However the report doubts on the ability of *takāful* in the region to demonstrate the need for and benefits of insurance as well as to successfully meet customer demands.

In recent past, this doubt was and has been attributed to some key issues that are yet to be resolved especially standardization of *takāful* terms and product at international level, acceptable form of family *takāful* product especially for countries in the Arab region and acceptable system to determine profits (or surplus) distributable to participant and shareholders.¹⁴ At present, some more challenging issues arise especially on the question of re-*takāful* in regards to conventional insurance approaching *takāful* companies for reinsurance, cooperation from conventional insurance in promoting *takāful* business and sharing business experience and method of payment re-*takāful* fees. There has been some doubt also on the ability of the *takāful* companies to pay benefits because of the small number of participants and players in the market. Although most of these issues are too technical for a normal people to understand, they somehow affect the confidence of the Muslim public to participate in *takāful* products. Some of these issues have been overcome. For example, in term of standardization IFSB, an international body for Islamic finance established in 2002, released two guidelines pertaining to *takāful* both

¹⁰ Mahmoud A. El-Gama, *Islamic Finance: Law, Economics and Practice*, (Cambridge: Cambridge University Press, 2007), p. vii.

¹¹ Mohammad Ajmal Bhatti, "Takaful Industry: Global Profile and Trends", *New Horizon* (The Institute of Islamic Banking and Insurance), no. 108 (April 2001), pp. 10-11.

¹² Mohammad Ajmal Bhatti, "The Growing Importance of Takaful Insurance", paper presented in *Asia Regional Seminar* organized by OECD and Bank Negara Malaysia, Kuala Lumpur (23-24 September 2010), p. 6.

¹³ Klingmuller, "The Concept and Development of Insurance in Islamic Countries", *Islamic Cultures*, volume 43, no.1 (1969), pp. 27-37.

¹⁴ Mohammad Ajmal Bhatti, April (2001).

in 2009 and 2010 respectively (IFSB No.8 Guiding Principles on Governance for Takāful Undertakings and IFSB No.11 Standard on Solvency Requirements for Takāful Undertakings). On the same note AAOIFI, a voluntary international body, issued several standards pertaining to *takāful*, specifically on the practice of *re-takāful* (Standards no.26, 461-494).

In respect of Islamic banking critical issues in respect of social development is the overemphasis of the bank on debt financing technique such as *murābahah* and *ijārah* and less reliance on profit-sharing principle. For example in Malaysia 95 percent of total financing of Islamic banks comes from debt financing. This is indeed socially unfriendly since noble principles of Islamic *muāmalah* such as non-excessive indebtedness, risk sharing, tying financing to real economy, no speculation and financing based on good business plan rather than taking guarantee on collateral etc. cannot be vigorously employed.

The relevance of Islamic banking to ethical banking generally is that it offers a number of alternative approaches to the banker-customer relationship. It helps to stimulate new ideas for alternative banking in the context of seeking ethical solutions to emerging problems such as coping with the problem of how to help the society by financing small businesses based on networks or communes. If a small business applied to an Islamic bank for finance, the bank would, in principle, decide whether or not to support the project on the basis of a cost-benefit analysis of the scheme, not on the basis of the collateral or debenture.¹⁵

The above quotation is indeed a debate as a result from what some has described as Islamic financial institutions failure to uphold the original critics of Islam against western or modern economic system whether capitalism or socialism in the early sixties. Instead of distinguishing itself to be an alternative to the modern economic and financial system, Islamic finance seems to embrace the same orientation and function of conventional finance. One of the critical point raised is the use of interest rate as bench mark, such as LIBOR to measure profits in the Islamically accepted financial products. Other point is the prioritization on the business aspect by focusing heavily on efficiency and equity. This is evidenced through the active issuance of *sukūk* to finance some of mega commercial projects that undermines equal opportunity and general welfare of the Muslim society. One example normally quoted is the construction of Zamzam Towers in the Mecca near to Ka'bah using the instrument of modern Islamic finance is actually to provide up-market luxurious accommodation for high-

net-worth pilgrimages which can be seen to undermine the real spirit of Islamic economy. Thus it seems what that has happened is the islamization of capitalism through a method that emphasizing on the legalistic-rational approach which largely ignores the substance and spirit.¹⁶

Another aspect that Islamic finance and banking has overlooked is micro financing. Because of the very nature of Islamic finance is to promote equitable distribution of income and to provide fair and affordable financing to all, micro financing seems to fit in neatly into this persuasion. And in addition to this is the success story of micro financing in helping the poor in underdeveloped countries such as Bangladesh (such as the experience of Grameen Bank) that questions were quickly raised by critics why Islamic financial institutions have not taken any steps to emulate. Some of the reasons given on the difficulty of establishing micro financing are issues on regulations whether lack of it or over regulated and some different characteristic between micro finance and conventional financial institutions.¹⁷ Realizing the effective impact of micro financing several Islamic banks and financial institutions in recent years has taken step to introduce a similar type of micro financing to their customers as will be shown below.

Islamic Finance Institutions Response

Because of these tremendous critics by scholars, politicians and others alike on the social responsibility of the Islamic financial institutions, in recent years Islamic banks have taken several steps to make their social activities known to wider public. The most common methods are through payment of *zakāh* and donation to charities. The responsibility to pay *zakāh* for example is the result of in statement quoted here as:

The new alliance (between ulama and new Muslim Bourgeois as represented by the Islamic banks) contributes to increasing social and economic coherence in the Muslim societies, through schemes that end with the finance users becoming owners of their productive assets, including housing, as well as through micro-financing programmes which are always encouraged and supported by the ulama. In Sudan, for instance, the Islamic Bank of Sudan-West established a successful programme for small farmers and craftsmen. A Similar programme to finance micro-industries by the Sudanese Faisal Islamic Bank followed. The Jordan Islamic Bank was involved in a successful scheme to help taxi drivers

¹⁵ Fuad al-Omar and Mohamed Abdel-Haq, *Islamic Banking: Theory, Practice and Challenges*, (London: Zed Books, 1996), p. 26.

¹⁶ Mehmet Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance", *Asian and African Area Studies*, volume 11, no.2 (2012), pp. 100-105.

¹⁷ Euis Amalia, *Keadilan Distributif dalam Ekonomi Islam: Penguatan Peran LKM dan UKM di Indonesia*, (Jakarta: PT. RajaGrafindo Persada, 2009), pp. 14-15.

become owner on a declining *mushārah* mode of finance.¹⁸

In some jurisdiction such as Malaysia, the law provides that an Islamic bank before can declare dividends shall transfer certain amounts of net profit to the reserve fund after due provision has been made for *zakāh* or taxation.¹⁹ But this as some writers have observed is fallen short of the level required and very much depended on the profitability of the banks. Some writers argue that *zakāh* and other religious charities alike are not enough to constitute what that is termed as corporate social responsibility of a company.²⁰

Using the preposition that Islamic banks are parts of the larger components of Islamic economy, the responsibility to achieve what is known as Islamic moral economy or ethical profit is therefore an obligation shared with other Islamic institutions.

Certainly, it is not the role of Islamic banks to solve poverty. They will make charitable donations, and they will contribute to the IDB, but their objective, quite rightly, is to offer Shariah-compliant products and services at a profit. Banks are only part of the solution. Political stability, good governance, rule of law, technology, free enterprise, education, health services and equal representation are also intrinsic. What cannot be argued is that the eradication of poverty cannot happen quickly enough.²¹

While the Islamic banking and financial system is growing as Ernst and 2011 Financial Reports shows above, it is still a huge task to influence world economy which is based mostly on interest based banking/ financial system. The growth of Islamic finance is largely fueled by oil money of the Gulf States or GCC and this still in competition with conventional banking and finance which use Islamic clothing such as Citibank and HSBC attracting funds from this oil money. Islamic banking and finance in addition to this is also susceptible to global economy crisis. Some of the major problems identified and discussed by scholars are “the limitations in the enabling legislative, regulatory, tax and legal environment in most OIC markets, which add to the cost and complexity of Islamic banking operations. Where there are guidelines and standards issued by industry infrastructure institutions, their

reach and enforceability remains a concern”.²² Because of this problem Islamic finance and banks have not been able to attract funds outside the traditional GCC states such as from the States, Europe or even new emerging economies such as China and India. Besides economic and financial issues, there are also other concerns that need to be addressed such as corruption and political stability. Some of the Muslim nation may have large natural resources but nevertheless have been hindered by political instability and most of the times by lack of confidence in the guarantee of property rights and transparent legal and financial processes.

Although from theoretical perspective, principles of Islamic *mu‘āmalah* appears to have the ability to provide solutions, some writer argue that it has been inhibited by the restrictive interpretation of the scholars, especially on the meaning of *ribā* and conservatism of the Islamic banking industries.²³ Multitude of opinions among the scholar also sometimes lead into issues of standardization, uniformity and harmonization of practices that are crucial for global economy. Until present date OIC markets cannot agree on the use of any Islamic currencies for payment of import/exports of goods among member states. United States Dollar for that matter is still and will continue to be the main currency of trades. There has been some proposal to introduce the use of gold dinar or at least barter trade to replace the Dollar. But this idea seems not to be in favour at least received lukewarm response. The best that can be achieved is through barter trade between countries.

There has been some suggestion that the 2007 sub-prime financial crisis in the US that affected world economy is the time for Islamic banking and finance to assert itself as an alternative to world economy. “The global economic crisis sparked by the US subprime mortgage meltdown would not have occurred if Islamic principles were applied in international financial markets”.²⁴ While it is probably true that by very nature of asset based financing of Islamic bank would prevent such an occurrence, the diversity, robustness and rapid development of global financing and banking against the much more conservatism of Islamic banking has made such an opportunity lost. This is in addition to some of the pessimistic and skeptic view of the Muslim

¹⁸ Monzer Khaf, “Islamic Banks: The Rise of New Power Alliance of Wealth and Shari’a Scholarship”, in Clement M. Henry and Rodney Wilson (eds), *The Politics of Islamic Finance*, Edinburgh University Press, (2004), p.28.

¹⁹ Section 15, Islamic Banking Act 1983. This provision nevertheless is not retained in the new Islamic Financial Act 2013.

²⁰ Mehmet Asutay, op.cit, p.104.

²¹ <http://islamicbankingandfinance.wordpress.com/2010/04/07/how-can-islamic-finance-help-to-alleviate-poverty/> (as at 2nd July 2012).

²² www.ameinfo.com (as at 2nd July 2012).

²³ Muhammad Saleem, *Islamic Banking A\$300 Billion Deception: Observations and Arguments on Riba (Interest or Usury), Islamic Banking Practices, Venture Capital and Enlightenment*, (USA: Xlibris Corporation, 2005), pp. 56-57.

²⁴ <http://www.arabianbusiness.com/islamic-finance-could-have-prevented-subprime-crisis-186415.html> (as at 2n July 2012).

writers themselves on the ability of Islamic banking and finance to prevent such a crisis.

Some analysts attribute the success of western economics to the boldness of some of their capital providers and society to invest in promising ventures and new technologies through venture capital financing.²⁵ It is claimed that successful mega industries of the world such as Microsoft, Apple, Google and so on are financed through venture capital. Thus it has been suggested that Islamic banks or capital providers should also take the same bold steps to finance new technologies such as communications, pharmaceutical, automotive etc. Similarly it has also been argued the success of western economics is because the charitable contribution of the industries and other individual philanthropists especially in the USA to educational institutions and research institutes to promote research and developments in new technologies and inventions. For example in the year 2004 Americans gave USD250 billion to charity half of which received by institutes of higher learning. Islamic economics and community according to this view should and must emulate this example especially through the institutions of *waqf* and *ṣadaqah*. The fact is that most of OIC countries spent less than 2% of their annual budget for research and development which is the main factors for economic and technological success of the west.

Closing Remarks

To say Islamic finance has no any effect to the social and economic development as some critics might suggest, as partly indicated above, in my view is a probably an overstatement. As a young financial system in modern times, Islamic finance needs to overcome some pertinent hurdles and challenges that overtime may be seen as deflecting from its original purposes to stimulate the general well-being of the society and to distribute wealth with fairness and equilibrium through economic activities. Taking the point as stated above that Islamic finance is not the sole savior to the current social and economic problems of the state and society, it can be said that while Islamic finance offers banking and financing services based on ethical standard of Islamic law, it can only serve as complimentary to other means of social and economic development especially in respect of assisting the poor and needy. This idea of complimentary role of Islamic finance was echoed since the first criticism against it had been made at least in

Malaysian experience by categorizing role of Islamic economic s and wealth distribution into three: (1) the state or *siyāsī* represented by the *bayt al-māl*, (2) the society or *ijtimā'ī* represented by *zakāh* and charity and (3) the trading or *tijārī* represented by commercial entities where in this case are the banks and other financial institutions.²⁶ Although the above proposition has no credible Islamic jurisprudential reference, it was an attempt to justify the emphasis taken by the Islamic finance to ensure profitability of its operations and businesses.

Because of its very nature, Islamic finance received much of the attention and expectation to improve the economic situation and livelihood of the Muslims. This is also an indication that other traditional instruments of development such as *waqf* and *zakāh* have had little impact. Not because that *waqf* and *zakāh* in itself is unworkable or failed, but it is for the reasons in the weakness and lack of creativeness in the management of the above resources or income. Although there have been many suggestions and proposals in many meetings and conferences to establish a global or international *waqf* and *zakāh* institutions, it is still a long way to go to see such an establishment. Whereas in form of financial institutions we have seen the setting up of Islamic Development Bank in 1973 and the internationalization of Islamic finance and banking starting from new millennium. The most successful aspect of internationalization of Islamic finance is the issuance of *sukūk* or Islamic bonds, which has thus far been an important vehicle of financing and investment for many commercial and industrial projects not only in the Muslim world but also elsewhere.

Since the critics see the limitations and conservatism of the modern Islamic banking and finance, they argue or propose for the alternative institutional setup similar to the original society based finance such as Mit Ghamr of Egypt and Tabong Haji of Malaysia which they view as truly representing the substance and spirit of a moral economy propagating an ethical oriented developmentalism. Thus, looking at this perspective, Islamic finance is therefore more effective and result orientation than these traditional instruments in creating cooperation among the Muslim countries. At the same time Islamic finance has portrayed a positive aspect of Islam which in other dimensions has been seen with negative perceptions and sometime prejudice. []

²⁵ Muhammad Saleem, *Islamic Banking A\$300 Billion Deception*, pp. 60-65.

²⁶ Abdul Halim Ismail, "Bank Islam Malaysia Berhad: Principles and Operations", in Sheikh Ghazali Sheikh Abod et.al. (eds.), *An Introduction to Islamic Finance*, (Kuala Lumpur: Quill Publishers, 1992), p. 251-3.

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