

Knowledge, Work, and Social Welfare as Islamic Socio-Economic Development Goals

By

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Abstract

Appropriation of development goals is important for the effective socio-economic policy making. This paper presents a discursive and analytical account of the literature on maqasid al-Shari'ah and Islamic Moral Economy (IME) to draw conclusions on what goals should the policy makers prioritize for the socio-economic development. A comprehensive Islamic development Goals (IDG) framework is developed, which informs socio-economic policy making in the Muslim world. The IDG, based on the synthesis of maqasid al-Shari'ah and the IME, demonstrates to keep Knowledge, Work, and Social Welfare security as the prime goals of development for an effective socio-economic policy. Agreement and achievement of these goals can holistically create a binding fabric in coordinating various components of a socio-economic policy and can thus a useful congruence in goals and in turn actions can be achieved.

Connecting with Real Sector to Promote Profit-Loss Shared Financing: Mass Producing Appropriate Industrial Goods through a Zero-Interest Financial System

By

Shafi A. Khaled

Abstract:

Part of a trilogy, this paper deepens microeconomic understanding of profit-loss shared (PLS) financing and contextualizes it by connecting it to the reality of industrially aspiring economies or to Development Economics. Virtual Market Model is its analytic umbrella. While incorporating bureaucratic inefficiency, systemic corruption, human resource training cost, exchange rate, product quality, etc., it focuses on a critical element of a business plan - technology and scale (TS). Doing so simultaneously mitigates adverse selection and moral hazard. Left largely to investor's discretion, banks may be glossing over TS. Yet they matter in a project's feasibility and viability. Failing to address these elements builds uncertainty, which in totality has made PLS impractical. So, for lifting a barrier to PLS financing, bankers must attune to TS. Further, playing a prominent, motivational role for investors is PLS' advantage over MU in reducing break-even cost. Interestingly, this facilitates both viability and feasibility. Thus, adoption of "appropriate" or minimum cost technology becomes possible.

Moving Forward Islamic Finance: A Reflection on the Approach and Direction

By

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Abstract

The immense development of Islamic banking and finance in the last three decades has moved the industry into global integration in the international financial market. From a local system of finance with limited assets and market shares, Islamic banking and finance now emerges as a multinational industry. The people of the world do not only welcome Islamic banking and finance, but also put their hopes that it can provide alternatives to the mainstream financial practices and also provide solutions to the problems and crisis which regularly occur in that system. While the outlook seems to be very positive, some, however, question whether the development is moving on the right track to realise the hopes pinned on it at the time of its initial establishment. Whether Islamic finance really provides alternative to the conventional finance paradigm and whether the approach taken in developing Islamic finance is appropriate are the questions that emerge currently. There is a wide expectation that Islamic banking and finance is able to provide the guidelines for managing a good economy, stimulating growth and development, realising socio-economic justice and promoting employment and stability. Islamic banking and finance therefore should not limit itself to merely offering economic and financial practices that satisfy the minimum standard of legal requirements.

Efficiency of the Islamic Rural Bank in Six Zones of Indonesia

Using Non-Parametric and Parametric Method

By

Syafaat Muhari
Muhamad Nadrattuzaman Hosen

Abstract

Islamic Rural Bank (IRB) in Indonesia are placed in diverse geographical conditions. Indonesia is an archipelago with a centralized economy in the Java Island. Thus the performance of IRB between Java region and out of Java region has different characteristics. This study aims to measure the level of efficiency of the IRB region which is divided into six zones (Jakarta, West Java-Banten, Central Java-Yogyakarta, East Java, Sumatra and Eastern Indonesia) by using the method of Data Envelopment Analysis (DEA) as nonparametric method and Stochastic Frontier Approach (SFA) as parametric method. The division in six regional zones is vital given that IRB has different characteristics between regions that needs solutions that fits each character. This study shows that the IRB in Eastern Indonesia is more efficient than the five other regions in Indonesia either by using the approach of DEA and SFA. The results of this study are expected to be input for each stakeholder along with the publication of the Draft Regulation of the Financial Services Authority (RPOJK) on Rural Bank in Indonesia to, then be formulated into regulation. Moreover, it can be concluded that the DEA is more appropriate to measure the efficiency of IRB in Indonesia given the existence of some constraints in using the SFA approach, which is not normal distribution of the data as well as data that does not meet the assumption of homogeneity.

Reforming Finance and Economics in Light of the Abrahamic Principles

By

Camille Paldi

Abstract:

Riba (interest) was prohibited in both Judaism and Christianity long before Islam and the Qu'ran is just re-stating what the two previous Holy Books have already mentioned. However, the modern day economic system is built upon and operates around interest-based lending, which allows one class of people to grow rich at the expense of the majority of the population. Interest has been prohibited in all Abrahamic religions for essentially the same reasons, which includes the well-being of humanity, the avoidance of segregating society into the oppressor and oppressed, and encouraging productive trade, economic growth, and the egalitarian distribution and flow of money throughout all segments of society. When the economic structure is engineered in a manner, which allows people to make money from money in unproductive activities, this enables some people to exploit the majority for profit without doing any work. This paper explores what then will economics and finance look like if reformed in the light of Abrahamic principles? What if we molded an economic structure with Shariáh, Christian, and Jewish law, values, and principles and removed interest from the financial structures thereby transforming the entire economy from one based on a creditor/lender relationship and interest-based loans to one based on partnership and profit and loss sharing utilizing gold and silver currency issued by the government and people geared around productive trade? It is argued that the Abrahamic economic structure may create a stable economy based on real assets and productive interactions between finance houses and people in a partnership format where profit and loss are shared between the parties in a business venture. This structure allows the economy to grow and expand, stabilizes the value of currency and prices, and encourages the distribution of wealth across a broader cross-section of society.

Islamic Ethics and Economic Transactions; Attitude of Muslims and Non-Muslims of South Western Nigeria

By

Khalid Ishola Bello

Abstract

The six states of South Western Nigeria zone share the same cultural and ethnical background; socioeconomic and religious features. With the advent of Islam (and Christianity the people of the regions gradually gave up their traditional identities like naming, dressing etc for either of the two religions. This paper examines some economic transactions of people of the zone to determine the ratio of Muslim and non-Muslim who conform or otherwise to Islamic ethical values. The data collected via administration of questionnaire were analyzed using simple percentage and frequency count method. The study shows that the number of Muslims (30%) who agree that interested trader of any particular item has freedom of entry and exit in to marketplace without any hindrance from the existing traders is lower than non-Muslims (37%). Many of the Muslim (28%) and non-Muslims (27%) agree to display their goods without separating between standard and substandard. Most of Muslims (37%) and non-Muslim (36%) see nothing bad selling goods under negotiation by one customer to another who promises to buy the good with higher price. Obviously, many practices in our study areas have conformity to Islamic rules without significant difference between the two groups.

Islamic Banking and Finance: Concept and Reality

By

Ruslan Sabirzyanov and MohamadHaidirHashim

Abstract

The aim and focus of the foundations and principles of the modern Islamic finance is to revive the justice and equity in the society, and that formulates the core objective of the Islamic system. However, in the current situation, Islamic banking and finance (IBF) is apparently mixing up the concept of social welfare and the conventional ideology of wealth maximisation altogether due to the unavoidable need to compete with the conventional financial system and the force of convergence between those two. There are many Islamic finance scholars who now argue that 'banks are not for poor', which clearly shows that the need for the new institution is necessary. Therefore, establishment of new institutions and reformation and improvement of present ones will bring complete and solid Islamic financial system, which then will contribute to enhancement of the distributive and social justice in the society, which will be one step closer to the completion of the true Islamic economic system. This paper studies the emergence of IBF, its relationship with maqasid al-Shari'ah, meaning, proper comprehension and appropriate application of Shari'ah objectives, as well as challenges facing in realising these divine objectives. The paper analyses current practices of IBF showing examples of social failure and deviations of IBF from the concept of maqasid al-Shari'ah and provides some practical solutions, implementation of which should bring IBF back on its course to achieve maqasid al-Shari'ah.