

The Islamic Economics and Finance Revivalism in Modern Era: A Civilization Dialogue on Ethical Economics and Finance¹

By Andri Soemitra²

Abstract

Islamic economics and finance are the responses of Muslim society towards the practice of secular modern economics and finance. The interest on Islamic economic and finance throughout the world recently has raised the debates among the experts. However, apart from the debates raised by experts, this paper argued that Islamic ethical teaching on economics and finance will positively contribute towards all mankind economic and financial development and will bring a more ethical economic and finance in human life.

Introduction

The emergence of Islamic economics and financial institutions in modern times related to the revival of Islam³ and desire of Muslims to live all aspect of their lives in accordance with shari'ah.⁴ Renewed interest in Islam in general and shari'ah in particular during the last three decades of the last century further accelerated the demand for establishing Islamic banks and other financial institutions, which would be free from interest.⁵

After three decades of experimentation, it is clear that the attempts to transplant Western models and styles and to superimpose them on indigenous culture in the interests of development have not succeeded. In view of the obvious failure of past development strategies to address the totality of the socio-economic problems confronting developing countries, there is an evolving counter-movement towards the promotion of indigenous

¹This paper is presented on International Seminar on Language, Culture and Civilization in State Institute for Islamic Studies (IAIN) North Sumatra, 4th-5th December, 2012.

²The Writer is a lecturer on State Institute for Islamic Studies (IAIN North Sumatra).

³ Yousuf Talal DeLorenzo, "The Religious Foundations of Islamic Finance.," dalam *Islamic Finance: Innovation and Growth*, Simon Archer & Riffat Ahmed Abdel Karim eds., (2002), 9-10. Mohammed A. Moqtedar Khan, "The Philosophical Foundations of Islamic Political Economics." *The American Journal of Islamic Social Sciences*, Vol 13. No. 3, 1996: 389-390.

⁴ The term of Shari'ah in its literal sense conveys the meaning of a rule of Islamic law. A comprehensive definition of the word Shari'ah is the sum total of Islamic teaching and and system, which was revealed to Prophet Muhammad S.a.w. recorded in the Qur'an as well as deducible from the Prophet's divinely guided lifestyle called the Sunnah. Shari'ah is also defined as a locution or communication from the Lawgiver concerning the conduct of the Mukallaf (person in full possession of his faculties) which consist of a demand, an option or an enactment. Sometimes the terms of Shari'ah and fiqh are often used interchangeably. However, the terms of Shari'ah has a wider meaning than fiqh. The terms of Shari'ah includes both law and the tenets of faith, that is the aqa'id. Fiqh is a knowledge of Shari'ah itself, its jurisprudence. Imran Ahsan Khan Nyzee, *Islamic Jurisprudence*, (Islamabad: The International Institute of Islamic Thought) 2000, 45. Mohammad Hashim Kamali, *Principle of Islamic Jurisprudence* (Cambridge: The Islamic Texts Society, 1997), 321. Man in his social life needs an ideology – in the Language of al-Qur'an- a revealed law (Shari'ah). It addressed to the people at large, not to special group or class to institute social justice. Murthada Mutahhari, *Understanding Islamic Science: philosophy, Theology, Mysticism, Morality, Jurisprudence*, (London: ICAS) 2002, 228. The Shari'ah for Islam is the means of integrating human society. Seyyed Hossein Nasr, *Ideals and Realities of Islam*, (Cambridge: Islamic Texts Societies) updated 1994, 89.

⁵ Prohibition of *riba* is central to Islamic financial ethics and law. The interest-based financial system which the Muslim countries have taken over from the capitalist countries is also one of the primary sources of concentration of wealth and power. M. Umer Chapra, *Towards a Just Monetary System* (Leicester, UK.: The Islamic Foundation, 1985), 110 and 140. Interest/riba is prohibited for causing unjust pricing, unjust property rights, inequity in ownership and power, disempowerment, imequality, injustice poverty. Masudul Alam Choudury, *The Universal Paradigm and The Islamic World System: Economy, Society, Ethics and Science* (Singapore: World Scientific Publishing Co. Pte. Ltd, 2007), 132.

development in the Muslim World. This indigenous movement questions the validity of separating the socio-economic and the cultural sphere where religious thought must be included among the components of development.

Many opinions on the revivalism of Islamic economics and finance in modern era. Some of the experts thought that Islamic economics and finance revivalism in modern era were driven by ideological imperative as the alternative on the secular interest based economic and financial system which operate throughout the Muslim world. Other experts thought that they were driven by political, economical, or any other reasons proposed by the experts. These various opinions on the the motives behind the Islamic economics and finance revivalism in modern era can be considered as a dialogue between Islam and other different civilizations. This dialogue will bring more opportunities for Islam to introduce more ethical economics and finance based on Islamic teaching.

B. The Reasons Behind the Islamic Economics and Finance Revivalism in Modern Era

There are some important reasons that drove the Islamic economics and finance revivalism in modern era. According to Mannan there are seven reasons behind the revivalism of Islamic Economics and Finance in modern era, i.e. ideological imperatives, economical imperatives, social imperatives, ethical imperatives, political imperatives, historical imperatives, and international imperatives.⁶ Ideological imperatives mean that Islam provides a fundamental insight into the working of the Islamic society deduced implicitly or explicitly from the Quran and the Sunnah. Economical imperatives mean that muslim economists need to find out Islamic solutions to the modern problems of development economics and finance as the practical necessity of resolving the crisis and conflict development and modernization process in the muslim world. Social imperative mean that Islam emphasis on social concern in economic development and planning for elimination of human poverty. Moral and ethical imperatives mean that Islamic economic and finance is integrated study of moral and ethical issues involved in economic problems. The political imperatives mean that Islamic economics and finance are needed to understand the full implication of international diplomacy from muslim viewpoint. The historical imperatives mean that Islamic economics and finance provide an evolutionary process for muslim. The international imperatives mean that Islamic economic and finance would enable Islamic economists to identify the common areas of economic co-operation among muslim countries to find their socio-economic solutions.

Although the main reason for the practice of Islamic finance is undeniably religious, the role of government policy also plays important roles in determining how it manifests itself in the Islamic world. Government stances can be divided into several categories. *Firstly*, those that have transformed their entire internal financial systems to an Islamic form (Iran, Pakistan and Sudan). *Secondly*, those that embrace Islamic banking as a national policy while supporting dual banking tracks (Bahrain, Brunei, Kuwait, Malaysia, Turkey, United Arab Emirates, and Indonesia). *Thirdly*, those that neither support nor oppose Islamic banking within their jurisdictions (Egypt, Yemen, Singapore). *Fourth*, those that actively discourage a separate Islamic banking presence (Saudi Arabia and Oman).⁷

C. Tracing the Islamic Economics and Finance Revivalism in Modern Era

⁶ M.A. Mannan, *The Making of an Islamic Economic Society* (Cairo: International Association of Islamic Banks Egypt and International Institute for Islamic Banking and Economics Turkish-cyprus, 1984), 3-21. M.A. Mannan, *The Frontiers of Islamic Economics*, (Delhi: Idarah-i Adabiyat-i Delli, 1984), 55-72.

⁷ Frank E. Vogel and Samuel L. Hayes III, *Islamic Law and Finance: Religion, Risk and Return*, (The Hague, The Netherlands: Kluwer Law International), 1998, pp. 11.

Throughout the Muslim World, efforts to discover and apply Islam solutions to contemporary problems have been intensified and the good and bad in the Western civilization is being weighed either to be *cast aside* or *reconciled* with the Islamic code. This present-day trend in the Muslim world is termed "Islamization".⁸

The earliest experiments in introducing the principles of modern Islamic banking⁹ were made in countries like Pakistan, Egypt and Malaysia. An experiment was made in Pakistan in the 1950s, which however did not last long as the deposits without interest were provided by some generous landowners and were not sufficient to meet the demand of the borrowers. In 1963 a savings bank was established in the small town of Mit Ghamr¹⁰ in Egypt on non-interest and profit-sharing basis. The experiment lasted until 1967 where there were nine such banks in the country. These banks, neither charged nor paid interest, invested deposits in trade and industry, and shared the profits with their depositors. Thus, they were saving investment institutions and not commercial banks. In 1971, the Nasir Social Bank was established in Egypt, which functioned as an interest-free commercial bank. The accelerated growth of banks took place after the rise of oil price in 1973 and 1974. The oil bomb created a large segment of Arab Muslims looking for ways to invest their huge savings in accordance with Shari'ah.

Since the 1970s, Islamic banking with its criterion on free-interest aspect appeared to

⁸ The term 'Islamization' in the context of a modern nation state can be understood as a process of certain measures and campaigns, regardless of the identity of the advocates and the motives behind the actions, that call for the establishment of what are regarded as Islamic doctrines in Muslim legal, political, and social systems. It is manifested by the rise of various Islamic movements as a proactive force for political change and social development. The aim of Islamization at this stage is no longer merely to convert people from their previous beliefs to Islam, but to replace a secular based government with a government grounded in the doctrines of religion and to bring out a new society wholeheartedly committed to the teaching of Islamic shari'ah in their totality, and striving to abide by those teachings in all aspects of life. Arskal Salim, *Challenge The Secular State: The Islamization of Law in Modern Indonesia* (Hawai: University of Hawa'i Press, 2008), 45. See also Muhammad Anwar, *Modelling Interest Free Economy: A Study in Macro-economics and Development* (St. Herndon: The International Institute of Islamic Thought, 1987), 5-6. Yvonne Yazbeck Haddad and Barbara Freyer Stowasser, eds. *Islamic Law and the Challenges of Modernity* (Walnut Creek, CA: ALTAMIRA PRESS, 2004), 3. Clark B. Lombardi, *State Law as Islamic Law in Modern Egypt: The Incorporation of the Shari'ah into Egyptian Constitutional Law* (Leiden: Koninklijke Brill NV, 2006), 1.

⁹ Economic thought in Islam is naturally inspired by the teachings of Qur'an and Sunnah, especially those having a bearing on man's economic life. M.N. Siddiqi divided history of Islamic economic thought into four phases. The first phase was up to 450H/1058 AD. The first appear on the intellectual scene of Islam were the Fuqaha (jurists) followed by the sufis and then by the philosophers. They were Zaid bin 'Ali (d. 738 AD), Imam Ja'far (d. 765), Imam Abu Hanifa (d. 767 AD), Imam Malik (d. 795 AD), Abu Yusuf (d. 798 AD), Muhammad Bin Al-Hasan (d. 804 AD), Imam Shafi'i (d. 820 AD), Abu 'Ubaid (d. 838 AD), Imam Hanbal (d. 855 AD), Harith Bin Asad Al-Muhasibi (d. 859 AD), Junaid Baghdadi (d. 910 AD), Mawardi (d. 1058 AD), Ibn Miskawaih (d. 1030 AD). The second phase was 450-850 H/1058-1446 AD. The second phase started with a rich intellectual heritage upon which scholars of this period were able to draw, besides being inspired directly from Qur'an and Sunnah. Some of the giant scholars were Al-Ghazali (d. 1111 AD), Ibn Taimiyyah (d. 1328 AD), Ibn Khaldun (d. 1404 AD), Al-Maqrizi (d. 1441 AD). The third phase was 850-1350 H/1446-1932 AD. It was the decline in independent thinking and had already yielded to stagnation. But there was a fresh stirring during the last two hundred years in which a number of thinkers and reformers called for a return to the Qur'an and Sunnah for inspiration and guidance. They were Shah Wali Allah (d. 1762 AD), Muhammad Iqbal (d. 1938 AD). The fourth phase was the phase of Islamic resurgence in economics and other social disciplines. Some of the intellectuals at the current phase are Muhammad Baqir Al-Sadr, M. Umer Chapra, M. N. Siddiqi, K. Ahmed. See M.N. Siddiqi, "History of Islamic Economic Thought" *Lectures on Islamic Economics*, (Jeddah: Islamic Research and Training Institute Islamic Development Bank, 1992), 70-81. Arif Hoetoro, *Ekonomi Islam: Pengantar Analisis Kesenjangan dan Metodologi* (Malang: Badan Penerbit Fakultas Ekonomi Universitas Brawijaya, 2007), 56-91.

¹⁰ Mohd. Ma'shum Billah, "Islamic Banking and Growth of Takaful", in *Handbook of Islamic Banking*, M. Kabir Hasan and Mervyn K. Lewis eds. (London: Edward Elgar Publishing Limited, 2007), 401.

be a revolution in the western concept of the operation of banks. The establishment of Islamic Development Bank in Jeddah, Saudi Arabia in 1974 is an important milestone in the gradual evolution of Islamic banks around the world.¹¹ The establishment of the Dubai Islamic Bank in 1975 is an important landmark in the development of Islamic commercial banking. In the following years, a number of Islamic banks were established mainly in Middle East, such as the Faysal Islamic Bank of Egypt (1977), the Faysal Islamic Bank in Sudan (1977), the Islamic Bank of Faysal in Jordan (1978), the Jordan Islamic Bank for Finance and Investment (1978), Bahrain Islamic Bank (1979), and the Islamic Investment Company Ltd in the UEA (1979).

From a situation nearly 30 years ago when it was virtually unknown, Islamic financial institutions¹² has expanded to become a distinctive and fast growing segment of the international banking and capital markets. There are well over 200 Islamic banks operating in over 70 countries comprising most of the Muslim world and many Western countries. Not included in these figures are the 50 Islamic insurance (*takaful*) companies operating in 22 countries, Islamic investment houses, mutual funds, leasing companies and commodity trading companies. Also excluded the very largest Islamic banks engaged at a multilateral level. These numbers must be added the many hundreds of small Islamic financial institutions such as rural and urban cooperative credit societies, Islamic welfare societies and financial associations operating at a local level and dealing with rural entities, small business firms and individual households.¹³

A recent report by the Standard & Poor's Ratings Services found that the growth rate of Islamic banking outpaced that of conventional banking during the past decade, making it one of the most dynamic areas in international finance. The current growth has been estimated to be 23.5 percents. The Islamic financial institutions consist of 8 largest multinational banks, commercial banks, investment banks, mutual funds, home financing companies and Islamic insurance companies. There are over 200 Islamic bank and financial institutions with a spread of 25,000 branches worldwide. The majority of the Islamic financial institutions and their assets are in the Middle East and Malaysia. The standing and international acceptability of Islamic banking has reached a stage when major international banks like Citibank, HSBC, Standard Chartered Bank, BNP Paribas, Union Bank of Switzerland (UBS) and Deutsche Bank have started offering Islamic banking and financial products and services.¹⁴

¹¹ Islamic Development Bank (also known as IsDB), is a multilateral development financing institution located in Jeddah, Saudi Arabia. It was founded by the first conference of Finance Ministers of the Organization of the Islamic Conference (OIC), convened 18 December 1973. The bank officially began its activities on 15 Shawwal 1395H (20 October 1975). There are 54 shareholding member states.

¹² A financial system seeks to (i) mobilize funds from Spending Surplus Units (SSUs) and (ii) channel the same into Spending Deficit Units (SDUs). The latter are supposed to use these funds efficiently in productive projects and add to the wealth of the economy. The process involves use of financial products and services. These financial products and services are created and provided by financial institutions. An Islamic financial system, by definition, provides a linkage between SSUs and SDUs through an array of financial products and services that do not violate the above norms of Islamic ethics. And Islamic scholars have not only established the basic principles and norms, but also identified the contractual mechanisms that conform to these norms and do not violate them in any manner. Mohammad Obaidullah, *Islamic Financial Services* (Jeddah: Islamic Economics Research Centre, 2005), 10-15. Saiful Azhar Rosly, *Critical Issues on Islamic Banking and Financial Markets* (Kuala Lumpur: Dinamas Publishing, 2005), 26-28.

¹³ M. Kabir Hassan and Mervyn K. Lewis, *Handbook of Islamic Banking* (UK: Edward Elgar Publishing Limited, 2007), 1.

¹⁴ Salahuddin Ahmed, *Islamic Banking, Finance and Insurance: A Global Overview* (Kuala Lumpur: A.S. Noordeen, 2006), 45-46. See also Sutan Remy Syahdeini, "Perbankan Shari'ah suatu Alternative Kebutuhan Pembiayaan Masyarakat," *Journal of Hukum Bisnis*, (2008): 8.

In Indonesia, in view of providing a wider financial services alternative to Indonesian economy, the development of Islamic financial institutions in Indonesia is implemented under dual financial system.¹⁵ Islamic financial institutions and conventional financial institutions jointly and synergically support a wider public fund mobilization in the framework of fostering financing capability of national economic sectors.

Islamic financial institutions in Indonesia have been provided by Islamic Banks,¹⁶ Islamic Insurance,¹⁷ Islamic Pension Funds,¹⁸ Islamic Bonds (*sukuks*),¹⁹ Islamic Mutual Funds²⁰, Islamic Pawnshop,²¹ Islamic Micro-finance (BMT),²² Islamic Public Finance such as Alms (Zakat) Management Institutions²³ and Waqf Management Institutions.²⁴

Banks and Non-bank financial institutions are both key elements of a healthy and stable financial system that complement each other and offer synergies. Non-bank financial institutions have a key role to play in Indonesia's future development. Well functioning Non-

¹⁵ Indonesian financial system is created and provided by Bank dan Non-Bank Financial Institutions (NBFIs). Currently the term *bank* is generally understood an institution that holds a banking license. Banking licenses are granted by financial supervision authorities (Central Bank of Republic of Indonesia) and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans. NBFIs are financial institutions that provide certain banking services without meeting the legal definition of a bank. However, they are typically not allowed to take deposits from the general public and have to find other means of funding their operations such as issuing debt instruments. Non-bank institutions frequently act as suppliers of loans and credit facilities, supporting investments in property, trade money market instruments, fund private education, provide wealth management such as managing portfolios of stocks and shares, underwrite stock and shares, provide retirement planning, advise companies in merger and acquisition, prepare feasibility, market or industry studies for companies, provide discounting services e.g., discounting of instruments.

¹⁶ The enactment of Act no. 21 of 2008 about Islamic Banking issued on 16 July 2008 has provided a more adequate legal base to the development of Islamic banking in Indonesia, and consequently will accelerate the growth of the industry. With an impressive development progress reaching an annual average asset growth of more than 65% in the last five years, it is expected that Islamic banking industry will have a more significant role in supporting national economy. Until July 2010, there are 10 Islamic Commercial Banks, 23 Islamic Business Unit (IBUs), and 146 Shariah People's Credit Bank as Islamic Rural Banks. See http://www.bi.go.id/web/id/Statistik/Statistik+Perbankan/Statistik+Perbankan+Indonesia/SPI_072010.htm.

¹⁷ In Indonesian Insurance Directory 2009, there are 2 Islamic Life Insurance, 1 Islamic General Insurance, 13 Life Insurance with IBUs, 19 General Insurance with IBUs, 3 Re-Insurance. See www.bapepam.go.id/bapepamk/.../Direktori_Perasuransian_Indonesia_2009.pdf.

¹⁸ There are some Islamic Pension Funds in Indonesia until December 2009 operated by some Islamic banks and Islamic Insurance Companies such as DPLK Bank Muamalat, DPLK BNI, and DPLK Manulife Indonesia. PT Asuransi Allianz Life Indonesia (Allianz), DPLK PT. ATK.

¹⁹ Until August 2010 there are 46 sukuks (Islamic Bonds). See http://www.bapepam.go.id/pasar_modal/publikasi_pm/siaran_pers_pm/2010/pdf/Siaran_Pers_HUT_PM_33_Tahun.pdf.

²⁰ There are 40 Islamic Mutual Funds until August 2010.

²¹ There are 13 Regional Offices consist of 92 Islamic Office in Pawnshop Service (Perum Pegadaian), and 167 Islamic Business Units. See <http://www.kompas.com>, Irianto (Communication Manager of Pawnshop Service Head Office), Islamic pawnshop finance was more than Rp 550 billions, Friday, 29 May 2009. See http://republika.co.id:8080/koran/17/118449/Potensi_Besar_Gadai_Syariah.

²² There are 3.800 *Baitul Mal wat Tamwil* (BMT) in Indonesia. See Sugeng Setyawan, *Perkembangan Industri Perbankan dan Keuangan Syariah*, <http://www.Indonesiaontime.com>, Rabu, 25 25 June 2008.

²³ Zakat management in Indonesia is performed by BAZ (Badan Amil Zakat) and LAZ (Lembaga Amil Zakat). There are 429 BAZ in district/regency area, 33 BAZ in province area, 4771 BAZ in subdistrict area and 18 LAZ (Lembaga Amil Zakat). Didin Hafidhuddin, Zakat Management Seminar was held in the building of DPR RI (the People's Representative Council), 4 March 2010. See <http://ekonomi.kompasiana.com/group/marketing/2010/08/03/mengurai-strategi-pemasaran-organisasi-pengelola-zakat/>

²⁴ Indonesian Waqf Board (Badan Wakaf Indonesia-BWI) was established after the enactment of Law No. 41 year 2004 about Wakaf and Government Regulation No. 42 year 2006 in Jakarta, 13 July 2007 in an attempt to increase the practice of waqf, a form of charitable endowment in Islam, among Indonesian Muslims. See http://bwi.or.id/index.php?option=com_jdownloads&task=viewcategory&catid=2&Itemid=128&lang=en

bank financial institutions - alongside a sound banking system - can help achieve the Indonesian government's objectives of increasing access to financial services, reducing the cost of financial services, and improving the stability of the financial system. A strong well diversified financial sector provides a solid foundation to support economic growth. That growth is good for poverty reduction has by now been well established with evidence from across the world.

D. The Debates on How the Islamic Economic and Finance Revivalism Took Place

The existence of Islamic modern banks and other financial institutions in Muslim countries increases a debate among the Islamic economists. A review of newly introduced western institutions was followed by attempts to devise alternatives free from interest and other features repugnant to Shari'a. The main juristic issues debated were the introduction of paper currency as substitute for the familiar gold and silver coins, banking and monetary policy.

The institution of credit and bank money has been another object of scrutiny by Islamic economists. Early writers saw something morally wrong in it. Some doubted its need and ascribed its proliferation to the vested interests of the bank. More recently it has been realised that interest is the villain of the piece. Abolition of interest will, to a large extent, curtail the harmful features of the creation of credit by banks. However, strong arguments have been advanced against allowing private commercial banks to create in an interest free banking system.

Tarik el-Diwani²⁵ and Umar Vadillo²⁶ opposed the idea of islamisation of banking. According to them Islamic commercial banking is not Islamic, and this is because commercial banking is a combination of usury and misrepresentation. The practice of usury is obvious and involves the advancing of money now in return for more money later, while the misrepresentation is less obvious and involves the creation of money out of nothing. Most of the time, the money that commercial banks lend is money that they themselves have created. Since neither usury nor misrepresentation can be Islamised, and since the business model of commercial banking requires both, there cannot be such a thing as Islamic commercial banking. For the same reason, there cannot be such a thing as an Islamic central bank. Historically, the Muslim world has had neither commercial banks nor central banks, though of course it did have institutions that fulfilled permissible functions such as payment transfer. In our rush to create an Islamic banking and finance industry, we have forgotten to ensure that the money we are using is itself Islamic. Islamic finance cannot be practiced with money that is un-Islamic. Islamic banking and finance industry therefore need a very fundamental reform of the institutional framework in Islamic banking and finance.

Furthermore, according to Tarik el-Diwani²⁷ *murabahah* in currently practiced in Islamic commercial banks is nothing other than a trick to circumvent *riba*, a modern day Islamic *contractum trinius*. The *contractum trinius* was a legal trick used by European merchants in the Middle Ages to allow borrowing at usury, something that the Church fiercely opposed. It was a combination of three separate contracts, each of which was deemed permissible by the Church, but which together yielded a fixed rate of return from the outset.

Timur Kuran²⁸ also offers a critique of the modern doctrine of "Islamic economics" and evaluates its practical achievements. Its most visible practical achievement has been the

²⁵ Tarik el-Diwani, *Islamic Banking Isn't Islamic*, http://www.islamicfinance.com/item100_fhtm.

²⁶ Umar Vadillo, *The End of Capitalism*, (Granada: Madinah Press), 1991, p. 33.

²⁷ Tarik el-Diwani, *Islamic Banking Isn't Islamic...*

²⁸ Timur Kuran, *Islam and Mammon: The Economic Predicaments of Islamism* (Princeton University Press). 2004.

establishment of Islamic banks meant to avoid interest. Islamic economics has also promoted Islamic norms of economic behavior and founded redistribution systems modeled after early Islamic fiscal practices. He argues that the doctrine of Islamic economics is simplistic, incoherent and largely irrelevant to present economic challenges. Its practical applications have had no discernible effects on efficiency, growth or poverty reduction. Timur Kuran also argues that the real purpose of Islamic economics has not been economic improvement but cultivation of a distinct Islamic identity to resist cultural globalization.

On the contrary, Fahim Khan²⁹ and Muhammad Anwar³⁰ argued that the interest-free banks have successfully devised banking practices which are in conformity with shari'ah. Where the normal banking practices do not clash with the Islamic principles, the Islamic banks have adopted the current banking tools and procedures. Where any clash arises, the Islamic banks have devised their own tools and procedures to accomplish their banking activities. Keeping in view the Islamic injunctions against the taking and giving interest, the Islamic banks and financial institutions have organized their operations on the basis of profit and loss sharing which is permitted in Islam. Interest free-institutions offer a wide range of services, including *mudaraba*, *musharaka*, *murabaha*, *bai muajjal*, *bai salam*, *ijara*, *ijara wa iqtina*, and *qard hasanah*.

M. Umer Chapra,³¹ and other Islamic economists³² support the Islamisation of banks and other financial institutions. They believed that change-over to interest free system will not only foster growth but would also lead to greater equity. They suggest that the principle of profit sharing offers the best alternative to interest in an Islamic system. They convinced that Islamic banks and other financial institutions are obviously means for the realisation of the Islamic goals of eradication of poverty, justice, stability and growth.

E. Ethical Economics and Finance based on Islamic Teachings

The Islamic system places equal emphasis on the ethical, moral, social, and religious dimensions, to enhance equality and fairness for the good of society as a whole. The system can be fully appreciated only in the context of Islam's teachings on the work ethic, wealth distribution, social and economic justice, and the role of the state.³³

An Islamic banking and financial system exists to provide a variety of religiously acceptable financial services to the Muslim communities. In addition to this special function, the banking and financial institutions, like all other aspects of Islamic society, are expected to contribute richly to the achievement to the major of socio-economic goals of Islam.³⁴ The most important of these are economic well being with full employment and a high rate of economic growth, socioeconomic justice, and equitable distribution of income and wealth, stability in the value of money, and the mobilization and investment of savings for economic development in such a way that a just (profit-sharing) return is ensured to all parties

²⁹ Fahim Khan, *Islamic Bankin as Practiced Now in the World in Money and Banking in Islam*, (Islamabad, Pakistan: Insitute of Policy Studies Islamabad), 1993, p.p. 259-260,

³⁰ Muhammad Anwar, *Modelling Interest-Free Economy...* p. 8.

³¹ M. Umer Chapra, *Monetary Policy in an Islamic Economy in Money and Banking in Islam*, (Islamabad, Pakistan: Insitute of Policy Studies Islamabad), 1993, p. 33.

³² At the International Seminar on Monetary and Fiscal Economics of Islam held in Islamabad Pakistan in January 1998, the members of the discussion are Mohammed Ariff, Munawar Iqbal, Ziauddin Ahmed, M. Akram Khan, Agha M. Ghouse, Monzer Kahf, Nevzat Yalcintas, Sultan Abu Ali, Syed Aftab Ali, Anas Zarqa, Omar Zubair, M.M. Metwally, M.A. Mannan, Syed Nawab Haider Naqvi, Sharafat Ali Hashmi, A.R. Kemal, Mahfooz Ali, Masudul Alam Choudury, A.A. Rushdi, N. Vagar.

³³ Zamir Iqbal "Islamic Financial Systems." *Journal of Islamic Economic, Banking and Finance*, Volume 1, No. 1, January-June, (2005): 34.

³⁴ Umer Chapra, 1985, n.p. 34.

involved. Perhaps the religious dimension should be presented as a further explicit goal, in the sense that the opportunity to conduct religiously legitimate financial operations has a value far beyond that of the mode of the financial operation itself.³⁵

In order to conform to Islamic rules and norms, Islamic financial institutions must follow certain investment behaviour:

- a. *Riba* is prohibited in all transactions;³⁶
- b. Business and investment are undertaken on the basis of halal (legal/permitted) activities;
- c. *Maysir* (gambling) is prohibited and transactions should be free from *gharar* (speculation or unreasonable uncertainty);
- d. *Zakat* is to be paid by the banks and non-bank financial institutions to benefit society;
- e. All activities should be in line with Islamic principles, with a special shari'a board to supervise and advise the banks and non-bank financial institutions.³⁷

Thus, Islamic financial institutions are committed to contributing to economic and social development and obtaining a reasonable economic return, while acting in compliance with Shariah. Islamic financial system is concerned to help the members of the society who are need of finance free of interest and thereby uplifting social justice and distribution of income more equitably. Islamic finance is based on the principle that the provider of capital and the user of capital should equally share the risk of business ventures. It encourages sanctity of contracts, but prohibits any engagement in business activities involving speculative trading and any form of gambling.

E. Closing

The expansions of Islamic economics and finance ideas in the world wide civilization provide an opportunity to explore on how the justices ideas related to economics and finance. This in turn will help to make the world economic and finance to be more ethical.³⁸ The revivalism of Islamic economic and finance in modern era can be considered as a dialogue between Islam and other civilizations in terms of economics and finance. The revivalism of Islamic economics and finance will become a medium for Muslim to introduce its Islamic ethical teaching on economics and finance to the world global economic and finance which is seeking the alternative for their fragile system.

³⁵ M. Kabir Hasan dan Mervyn k. Lewis, *Islamic Banking: an Introduction and Overview* in *Handbook of Islamic Bank*, n.p. 2.

³⁶ Prohibition of *riba* is central to Islamic financial ethics and law. The interest-based financial system which the Muslim countries have taken over from the capitalist countries is also one of the primary sources of concentration of wealth and power. Monzer Kahf, *Towards a Just Monetary System*, (Leicester, UK.: The Islamic Foundation, 1985), n.p. 110 and 140.

³⁷ Latifa M. Algoud and Mervyn K. Lewis, *Islamic Critique of Conventional Financing* in *Handbook of Islamic Bank*, n.p. 38. See also Mohammad Obaidullah, *Islamic Financial Services*, p.p. 10-14.

³⁸ Bjorn Sorenson, "Ethical Money: Financial Growth in the Muslim World." 659. Catherine Cowley, "Money, Finance and Morality in a Global Economy." *Working Paper*, Heythrop Institute for Religion Ethics and Public Life, No. 2, (2005):13. A. Dimiyati, "Ekonomi Etis: Paradigma Baru Ekonomi Islam." *LaRiba Jurnal Ekonomi Islam*, Vol. 1, No. 2, Desember (2007): 153-165.