

1. Introduction

1.1 INTRODUCTION

Muslim nations around the globe have tried to devise development strategies framed within either capitalist or socialist system understanding, which are neither the product of their own authentic cultural and religious tradition nor their socio-political and economic norms. Those development projects failed in most of the developing and Muslim countries to produce the same socio-economic and political modernization as occurred in the Western world. In addition, various indices measuring multiple dimensions of development clearly show a lack of economic development and prosperity in the Muslim world. With the emergence of the Islamic economics movement in the post-colonial period, such failures have been attributed to the drifting away of Muslim countries both at macro and micro levels from Islamic ideals in general and an Islamic development process in particular. Consequently, Ahmad (2000), one of the founding fathers of the Islamic economics movement, has argued that Muslim countries are in a state where the goals of Islam or *maqasid al-Shari'ah* (the higher objective of *Shari'ah* namely human well-being) can barely be fulfilled, as apparent by general socio-economic inequalities, corruption and injustices. However, Chapra (1993, 2000), another founding father, argues through a historical reading that it was the Islamic norms and values that helped Muslim societies to create a very successful civilization with demonstrated achievement in resource mobilization and opportunity creation, and which helped them to achieve great economic progress until the nineteenth century.

Islamic norms and values in relation to development and economy, as part of a human-centric paradigm, are further linked to spiritual development (Pramanik, 2002). Economic development in Islam aims to promote human well-being through emancipating and empowering individuals and society through improvement of living conditions, a just distribution of wealth and income, and the establishment of justice and equity in every walk of life as well as the spiritual development of individuals in an embedded development process. In addition, the Islamic development paradigm, socially, individually and politically, aims to 'change' individuals with

the *falah* (salvation) based individual objective through the achievement of *ihsani* (beneficence) to achieve social transformation (Asutay, 2007a). This is the philosophy of the emancipatory and empowerment process of Islamic development, an outlook which is in contrast to neo-classical economic theories, where efficiency is preferred over justice; and where individuals and values are treated as exogenous variables. Experience shows that the implementation of Western development theories in the Muslim nations without understanding Islamic realities and values has resulted in unequal economic growth, consequently denying the possibility of real development such as education, sanitation, health and overall well-being for the mass of society. To overcome this situation of 'dis-embeddedness', the development policy and strategy for Muslim nations should be the product of the value system of the society. In this way embeddedness can be achieved, with development policy, institutions and strategies being integrated with the reality of individuals rather than being grafted on to societies through the experiments and experiences of other 'ontologies'.

In the post-colonial era, in search of Islamic identity, intellectuals in the Islamic world registered their discontent with Western institutions and their world-view of organizing economic affairs, and insisted on the need to formulate an authentic system which prioritizes the well-being of individuals and society and the management of human development as propagated by *maqasid al-Shari'ah*. Thus, the Islamic economics movement emerged as a counter hegemony and as a double movement, in Polanyi's (1944) term, to rescue 'human, land, labour and capital' in an Islamically authentic knowledge and process for the newly formed Muslim states in the post-colonial period, which as a result of Eurocentric economic policies and colonial legacies were faced with socio-economic problems such as unemployment, lack of education, injustice, and lack of infrastructure and capital, to name just a few consequences. In this identity and value-based Islamic paradigm of economics (Asutay, 2007a), the new intellectuals engaged in historical research to re-establish a lost Muslim identity based on Islamic principles as formulated by *Shari'ah*. The ground realities led to a call for the revival of Islamic economics, what we term Islamic Moral Economy (IME), which aims to construct a unique Islamic system of economy linking Islamic religious values, rules and institutions with a political-oriented approach as projected by the epistemological and ontological sources of Islam to submerge or embed the economy in the value system of Islam (Asutay, 2007a, 2007b). It aims at developing authentic institutions and instruments to run and finance the economy with the objective of pursuing a human-centred development paradigm through a sharing and collaborative economy with no fictitious commodities and no commodification (Asutay, 2017). Thus, Islamic finance,

in this world-view, is perceived as ‘financing the economy’ in the sense of financing the embedded economy (Asutay, 2007a, 2007b).

As part of post-colonial development in the Muslim world, the emergence of oil exploitation since the 1960s created a substantial amount of wealth in reserves in Middle East countries. This further stirred and perhaps pushed the demand for distinct *Shari’ah* compliant financing products through the *halalization* process which led to the creation of Islamic Banking and Finance (IBF), an operational institution of IME. The creation of Dubai Islamic Bank in 1975 as the first commercial Islamic bank with the objective of achieving profit maximization on a commercial basis in compliance with *Shari’ah* paved the way for the emergence of IBF through institutional grafting based on mimicry (Asutay, 2017) rather than essentializing the aspirational framework of IME. While IME’s reference in developing a financing system is an Islamic paradigm of developmentalism, as exemplified in Mit Ghamr Saving Bank in the early 1960s in Egypt, the creation of commercial Islamic banks meant a deviation from the promised search for authentic institutions. Although IBF is considered one of the fastest growing sectors in the international financial system with double-digit annual growth rates, Muslim countries are still striving to achieve economic development to escape the poverty trap, whereas IME imagined that IBF would lead to the development of Muslim societies. While the relatively small asset domain of IBF institutions should also be considered as a factor in not being able to mobilize resources, the commercial nature of IBF has led to further financialization of Muslim economies rather than being an instrument of Islamic development. In other words, IBF has been successful in transactional accumulation, but it has not developed any strategy for IME’s transformational objectives.

Since the beginning of the Enlightenment period, economics has been split into normative and positive economics, where the emergence of scientific knowledge based on observation and logical deductions led to logical positivism, hence rejecting values, ethics and moral judgement as non-scientific, meaningless and mere expressions of emotional attachment (see Mehmet, 2002). On the other hand, normative economics is subjective, focused on moral and ethical evaluation by essentializing ‘what ought to be’. Western mainstream economics rests on logical positivism in a utopian manner and therefore has ignored the potential role of culture and cross-cultural values in economic outcomes. According to Mehmet (2002), Western mainstream economic development theories identify the rationality of human behaviour with the maximization of self-interest ruling out ethics, altruism or reciprocity as a determinant of human behaviour. Such Western rationality, which is based on the relationships between ‘things’ within a disembedded reality, contradicts values such as

justice, ethics, cooperation, convention and reciprocity essentialized by the moral economies of the developing world, where 'ethics, history and economics are interwoven into more distinct, yet holistic, conceptions of individual, state and nature' (Mehmet, 2002: 154). Mehmet (2002) argues that mainstream development economics failed in the developing world because economics is not a neutral and objective science as claimed by positivism but is based on and propagated through a Eurocentric value system; its overly rationalist outlook dismisses all alternative reasoning and understanding as mistakes or as irrational, and consequently created a third world of prolonged poverty and underdevelopment. The imposition of such Eurocentric theories promoted under the umbrella of Enlightenment philosophy on societies with completely different ontological and epistemological groundings has therefore failed to produce the same results as in Western nations. Therefore, the emergence of Islamic economics represents a counter hegemony which essentializes human well-being in terms of rescuing people from the captivation of the hegemony of capital (Asutay, 2017).

Another issue with conventional economics relates to the distribution of economic benefits in the society. In Western society, the notion of justice with respect to distribution is formulated according to how equality is defined and how and what is recompensed, which in turn is based on mathematical calculation that relegates human beings to the status of 'things'. Since economic policies in mainstream economics are claimed as value free and self-interest based, justice itself is seen only as an ideal, rarely understood as reality. According to Smirnov (1996) just societies in such an arrangement do not exist, and only progression towards them as an ideal is possible for Western societies. On the other hand, justice in Muslim society is considered to be a matter of preserving and maintaining the society through an emancipatory process. This kind of justice flows from the 'Divine Authority' revealed either through a sage or a chosen prophet's commands and thus has lasting impact on social order through an embedded social formation. In such a divinely derived arrangement, justice is applicable to all human beings and times, contrary to positive justice which is most prevalent in the Western discourse. Hence, justice is an integrated component of Islamic development in which the rights of all the stakeholders in the society can be essentialized as opposed to capital's domination of the market economy.

The experience so far in the 40 years of Islamic banking shows that IBF has failed to contribute to socio-economic development, as it remains very much a 'financial option' as opposed to 'financing' opportunities in expanding empowerment. This is particularly evident in the products and instruments choice of IBF institutions; the popular and controversial debt-

like instruments such as commodity *murabahah*, organized *tawarruq* and *bai innah* clearly prove that the juristic or *fiqhi* discourse of IBF is limited to the contractual aspects or the formal nature of these instruments, while their substance is not endogenized in terms of developmentalist consequences (Asutay, 2007a, 2007b). In other words, the inclination towards economic incentives in practice over religious behaviour norms has led IBF to grow as part of the international financial system or 'casino capitalism'. Therefore, IBF so far has failed to generate the economic development proposed by IME as the socio-economic aspects of IBF are confined only to practices such as compulsory *zakah* and other charitable activities having no long-term impact on sustainable development and equity in society (Asutay, 2007a, 2007b).

It is a fact, however, that most of the Muslim countries, including the petro-dollar rich countries, are still faced with development issues. The concept of Islamic development is comprehensive, holistic and integrative and not limited to the narrow dimension of economic growth. It includes besides material growth, spiritual growth and development by essentializing the development of all stakeholders and realizing the principles of justice as understood by Islam. Therefore, there is a need for a new approach to development, which establishes principles of development based upon the value-laden and ontologically governed epistemology of Islam. It is anticipated that such an approach to development must go beyond the current *only* materialistic development theories, which tried and failed so many times in the Muslim world, by substituting the ends of its process with transcendental values, focusing on human well-being as a core of all policy decisions and not on mere statistics.

The observed social and developmentalist failure of IBF and the observed developmentalist need of the Muslim societies, hence, require further exploration. We need to examine the concept of developmentalism within the Islamic paradigm and to return it to the IBF domain, which is the aim of the research presented in this book.

1.2 THE NATURE AND SCOPE

The research presented in this book aims to investigate and evaluate IME as an alternative system to build a comprehensive Islamic development model by linking worldly development enshrined in the Islamic perspective with the spiritual uplift based on a Ghazalian framework within IME. In doing so, this book also aims to evaluate the progress of IBF and highlight its social failure. To demonstrate the need for an Islamic development model the book uncovers the inconsistency between the aspirations of

IME and the realities of IBF, as the latter has been functioning within neo-classical economic principles. In addition, the developmentalist failures in the Muslim world are explored to rationalize the search for an alternative model.

The following chapters, hence, aim to (i) assess and critically reflect on the current situation of development in the Muslim world using different indicators of development to identify the developmentalist failure and the need for a new developmentalist paradigm; (ii) explore different discourses on the role of Islam and development and how it is approached in the Qur'an; (iii) analyse and explore IME as an alternative system to propose development from an Islamic perspective and suggest core goals of development which are integrated with the Islamic development process; (iv) present the concept of justice from both ontological and epistemological sources in Islam to essentialize Islamic development; (v) critically examine and evaluate the progress and practice of IBF institutions from the moral and social aspects as proposed by IME to identify its social failure; (vi) to propose an integrated Islamic development model as contemplated by IME by utilizing the ethical framework of Al-Ghazali and developmentalist-oriented approaches; (vii) provide practical applications of this model for development purposes by reconsidering the Islamic (finance) instruments and institutions.

This book thus attempts to present a comprehensive conceptual model of development, integrating the worldly goals of development, the axioms of IME and *maqasid al-Shari'ah*, and the concept of *falah* in *akhirah* while adopting the Ghazalian framework. It is hoped that this proposed model could lead to further research in the field to develop a new discourse.

1.3 THEORETICAL AND EPISTEMOLOGICAL FRAMEWORK

The central argument of this book is that 'justice' should be essentialized in the development process as an inevitable and essential part of Islamic teaching and IME. While Islamic teaching provides the foundation to develop this central argument in this research, Ibn Khaldun's definition of development and also Ibn Qayyim's broader definition of *maqasid al-Shari'ah* provide the implicit framework for this study.

Ibn Khaldun's socio-economic system framework offers a summary of the interdisciplinary dynamic Islamic development model (Chapra, 2000: 147–9):

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.

In substantiating Ibn Khaldun's definition and description of development, Ayatullah Mahmud Taleqani's conception of justice as the core element of development is utilized in developing the aims of 'development' as '*falah*' and '*ihsani* social capital' as the essentials of emancipation and empowerment-based Islamic development. According to Taleqani et al. (1986: 50), the equal opportunities and access to the resources created by Allah (*swt*) is the core of betterment, or developing a society when he defines as '*fi sabil al-Allah*' – 'in the way of Allah':

The way to Allah is the path of the well being and betterment of the whole society. It is the way of justice, truth, and human liberty. (It is the building of a world in which) a specific group or class does not dominate over the destiny of people, in order to stop human intellectual movement or to stop people from utilizing the natural resources that Allah Almighty has created for the common use of humanity. As Allah has given natural powers and intellectual capabilities to man, as Allah has created this atmosphere, light and land for everybody, *sabil* Allah refers to the world in which all people can develop their human capacities in order to obtain freedom.

Ibn Khaldun's and Taleqani's discourses constitute the main framework around which the substance of this book is developed. While these two frameworks are useful in essentializing and endogenizing 'justice' as an inevitable component of 'Islamic development', they are further substantiated with Al-Ghazali's micro-dynamic-oriented development framework centred around 'development of human beings' which essentializes spiritual development as part of 'development' alongside the development theory of IME.

In organizing and modelling the Islamic development process around these frameworks, the axiomatic approach of IME theory developed mainly in the 1970s and 1980s by the modern founding fathers of Islamic economics is utilized, as this provides the theoretical and operational tools for articulating the development process. For this purpose, mainly the axiomatic discourses developed by Naqvi (1981, 1994), Ahmad (1979, 1994), Chapra (1992, 1993, 2000), and Asutay (2017) are utilized.

In operationalizing and providing a methodological framework for this research, the *maqasid al-Shari'ah* framework is utilized, which is defined as

'human well-being' implying that all the activities, including economic and financial activities in everyday life, should be centred around 'human well-being' (Asutay, 2017). It should be noted that in utilizing *maqasid al-Shari'ah* as a methodological framework, rather than the Ghazalian limited definition of *maqasid* in five essential areas, this research opts for Ibn Qayyim's broader *maqasid al-Shari'ah* framework, which is considered a more useful tool in developing policy outcomes. As Siddiqi (2004) argues, Ibn Qayyim's position relates to 'goals of Islam as a way of life' while the Ghazalian definition merely refers to the articulations of the 'goals of Islamic law'.

Each of these theoretical, operational and methodological frameworks and tools used in this study are explored and discussed in various chapters that follow. It is important to note that in evaluating the performance of Islamic banks in relation to social and economic development and the development trajectories of the Muslim societies, these frameworks provide the main benchmarks.

1.4 THE RATIONALE AND MOTIVATION FOR THE BOOK

Muslim states globally have failed to attain the same level of development as encountered in Western countries. Many structural adjustment programmes have been executed in the Muslim world with the help of the International Monetary Fund (IMF) and World Bank; however, some of the Muslim nations despite having abundant natural resources, still fail on all basic indicators of development as compared to the industrialized democracies. This has led in Eurocentric discourse to criticism of Islam for underdevelopment in the Muslim populated countries without understanding the fundamental Islamic principles and approach to development. In contrast to such claims, Islam promotes the ethics of hard work and identifies idleness or wasting of time in quest of unproductive work as an indicator of lack of faith; it also emphasizes growth through purification (*tazkiyah*) and *imar* or development for sustaining the individual and society. The Qur'anic verses, for example, 'Disperse through the land and seek of the bounty of Allah' (Qur'an, 62:10), and 'Allah has permitted trade and forbidden usury' (Qur'an, 2:275), instruct human beings to persistently work for betterment of this life and the life hereafter.

IBF in response to accommodating the different cultural and religious needs of Muslims and helping to promote much-needed societal development by devising a social and economic theory of Islam, in reality has converged towards conventional finance in the first 40 years of experience so far. Hence, it has failed to deliver the institutional as well as policy

goals of IME. This provides the rationale to search for alternative ways of formulating development through Islamic ontological and epistemological sources, and motivated the research presented in this book so that a fresh understanding and formulation of Islamic development can be articulated in response to the social failure of IBF.

IME emerged as a response to development failures in the Muslim world with a promise to provide much-needed societal development. However, the exponential growth of IBF and the developmental failures still faced by the majority of Muslim countries around the globe indicate that the IBF industry does not essentially share the objectives of IME. The argument developed in this book proposes IME as an authentic response to the failure of economic developmentalism in the Muslim world in conceptualizing a human-centred developmental model in contrast to the financialization of the economy. Thus, as part of constructivist philosophy, this study proposes a comprehensive Islamic development model by integrating the worldly aspects of development with the attainment of *falah* or salvation in *akhirah* (the hereafter) through utilizing the Ghazalian ethical framework of development process. Alternative policies are suggested to reflect upon how such developmental goals can be realized in Islamic society with the aim of attaining *falah* in *akhirah*. Considering that there has not been any significant research attempt in the field in the last decade beyond the contributions of founding fathers in the 1970s and 1980s, and the work by Mirakhor and Askari (2010), this study should be considered as an important contribution to the existing body of knowledge in essentializing the aspirations of IME.

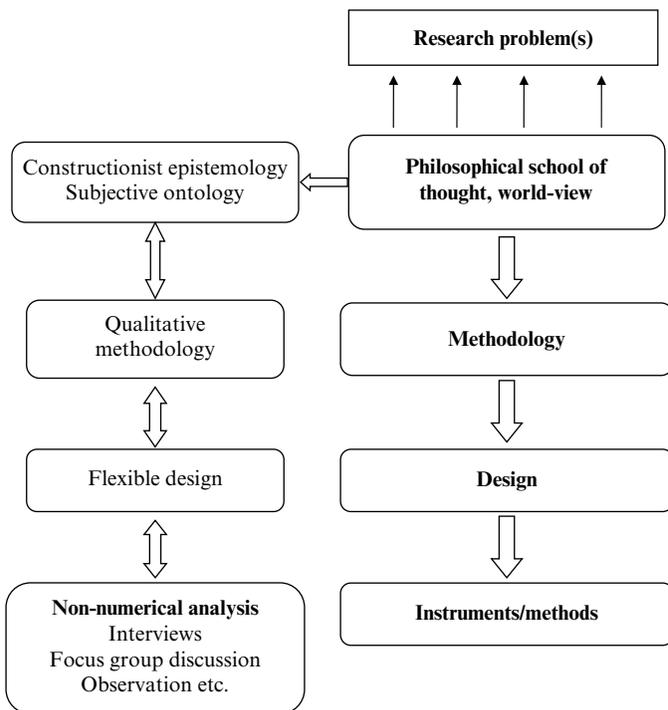
1.5 METHODOLOGICAL PHILOSOPHY

Since the research presented in this book aims to propose an Islamic development paradigm, aspects of the philosophical inquiry regarding the question of beliefs about the nature of reality or the sources of knowing (ontology), the theory of knowledge that enlightens the research or the nature of knowing (epistemology) and how that knowledge may be extracted (methodology) constitute important parts of discourse development (Tuli, 2010). These attributes give form and meaning to the inquiry presented (Popkewitz, Tabachnick, and Zeichner, 1979).

An interpretivist-constructivist approach, as an epistemological position in social science, views the world as socially constructed, understood, and experienced by people through interactions with each other and with wider social systems (Bogdan and Biklen, 2007; Lincoln and Guba, 2007; Maxwell, 2012; Merriam, 2001). Taking this view and considering the nature of inquiry, the research in this book is built upon the interpretive approach

with the purpose to understand a particular phenomenon within the existing body of knowledge and also within the aspirational world of IME.

Following the interpretivist approach, ontological subjectivism in the realm of social science research considers reality as the product of social processes (Neuman, 2012), which do not view reality as independent of people, but rather consider that reality is a human construct (Mutch, 2005). Thus, interpretive research helps to examine, understand and explain social realities (Bassey, 1995; Cohen, Manion, and Morrison, 2003) and present them descriptively in language. Thus, in this book, while ontologically ‘the truth’ is revealed through the Qur’an in a *tawhidi* framework, it is the human understanding of the social construct which gives meaning to the ‘revealed knowledge’. This implies that in the research presented in this book a perspective of ‘the truth’ as an authentication of the Qur’an is reached and articulated in line with social constructivism as part of discourse making and grounded theory constructing (see Figure 1.1).



Source: Tuli (2010).

Figure 1.1 Foundation of research

This book is an effort to comprehend and construct an Islamic development model through a ‘meaning-making’ process. In this process of ‘meaning-making’ based on an ontological source, the epistemological nature of Islamic-religious understanding and knowledge helps the researcher to re-interpret the intended meaning revealed in the Qur’an in developing the Islamic economic development paradigm as a discourse and theory. Discursive analysis is used as a main method of analysis, since the research is mainly theoretical in nature, which is supported by textual analysis in critically analysing the text as part of the deconstruction of discourses articulated in the larger field.

The research also benefits from the quantitative method in the form of statistical data in discussing the social failure of IBF. For this, data related to various financial activities and instruments were assembled from the annual reports of ten randomly selected Islamic banks. Descriptive statistical methods were used to present the financing trend and the share of each financial instrument in the total financing extended by Islamic banks. This descriptive statistical analysis substantiates the ‘meaning-making’ effort in this research by providing the evidence to the main argument.

1.6 AN OVERVIEW OF THE BOOK

Following this brief introductory chapter, the book is divided into six further chapters to achieve the aims and objectives of the study. A short overview is as follows:

Chapter 2 – ‘Critical reflections on development in the Muslim world’ – presents the state of development/underdevelopment in the Muslim countries using different indices of development. It shows how Muslim countries around the globe are struggling to provide basic necessities to their population, as well as associated with high levels of corruption, political turmoil, economic underdevelopment, and gender inequalities to name just a few problems. In addition, this chapter discusses how essentialist and Eurocentric scholarship links such failures with Islam, as a religion, without understanding the Islamic perspective on development.

Chapter 3 – ‘Islamic Moral Economy and development’ – presents IME as an Islamic paradigm of a system of economy beyond capitalism and socialism, incorporating the unique value system of Islam with its axioms, distinct norms, comprehensive methodology and institutional structure. This is followed by a brief introduction to IBF, an operational and institutional part of IME. In addition to the discussion of IME, the concept of development in Islam is introduced to formulate goals of development through *maqasid al-Shari’ah*.

Chapter 4 – ‘Justice and development within the Islamic paradigm’ – explores the concept of justice using the epistemological and ontological sources of Islam. The aim of this chapter is to provide a framework for a development model from the Islamic perspective, as explained in Chapter 3. Thus, Chapter 4 and Chapter 5 constitute the foundational construct of the development model proposed later in Chapter 6.

Chapter 5 – ‘A critical evaluation of the social and economic development performance of Islamic banks’ – presents different principles of Islamic banks and evaluates their social and development-oriented role using recent data of the financing activities of ten randomly selected Islamic banks around the Muslim world. The chapter offers a descriptive quantitative analysis of financing activities on the asset side of the balance sheet and sectorial distribution of financing activities utilizing data for global, regional and selected countries to assess their impact on society as compared to the promises of IME. In addition, this chapter discusses how customers of Islamic banks perceive *riba* (expansion or growth) and how their investment decisions are affected by fluctuation in rate of return on their investments in deposit accounts.

Chapter 6 – ‘Conceptualizing the Islamic development process’ – proposes a development paradigm based on Islamic epistemology with the articulation of justice, which is the main contribution of this study. In this chapter, the goals of worldly development in Islam proposed in Chapter 3 are integrated with the spiritual development process utilizing the Ghazalian framework to present a comprehensive approach to development, where success in this world according to the teaching of Islam is followed by *falah* in the hereafter. An attempt is also made to envision how such a process can be actualized in everyday life with the contribution of Islamic financial instruments and institutions.

Chapter 7 – ‘Conclusion’ – presents further reflections on the research presented in this book.