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the ethics of islamic finance

**Introduction**

The advocates of Islamic finance argue that what sets Islamic finance apart is that it is based on Islamic ethics, which is seen as quasi-perfect because it is derived from divine revelation. Conventional finance by contrast is painted as lacking any ethical foundation. Islamic finance thus differs fundamentally from conventional finance in capitalist economies. These are far-reaching claims which call for a critical examination. In order to do so, the paper starts with a brief survey of the Islamic revival that led to the foundation of specifically Islamic financial institutions. This is followed by a sketch of the worldview behind Islamic finance and a discussion of the alleged ethical inferiority of (non-Islamic) capitalist systems, including conventional finance. Next, the standard ingredients of Islamic finance ethics are critically assessed. Then I point to some neglected issues and the paper wraps up with a few final comments. In an appendix I add some tentative thoughts on doctrinal issues. So we have:

1. Islamic revival and Islamic finance

2.World view behind Islamic finance

3. Islam and capitalism

4.The standard ingredients of Islamic finance ethics

(i) the ban on riba

(ii) the ban on gharar and maysir

(iii) the ban on haram goods and services

5. Some neglected issues

(i) income distribution

(ii) corporate governance

6. Final comments

7. Appendix: some doctrinal issues.

The aim of the paper is to understand how Islamic finance works and what are the ideas underlying it, putting Islamic finance within its wider social setting. Though the tone may be quite critical at times no polemics are intended and it should be borne in mind that quite a number of Muslim observers of the financial landscape share the criticisms fully or partially.

**1. Islamic revival and Islamic finance**

Islamic finance is a child of the Islamic reform movement that emerged in the second half of the 19th century in the Middle East and British India. Islam was in a sorry state and Western and westernized elites looked upon it as backward. In the view of the economic historian Jared Rubin, the political powers of the Ottoman empire, that is, the sultan, leaned upon the religious establishment for a religious legitimacy of their rule (Rubin 2017).The religious establishment had not forgotten how the printing press had helped Martin Luther’s protests against the practices of the Roman Catholic Church go viral and was determined not to have their own authority undermined in a similar way. Consequently, printing in Arabic was forbidden in the Ottoman empire until 1727 (Rubin 2017 p. 100) and then only printing non-religious literature was allowed. As literacy rates were no higher than two or three per cent even in the early 19th century, there was hardly a market for printed works anyway and it was only later in the 19th century that printing really took off. By contrast, in England and the Netherlands literacy rates were already over 50 per cent by 1700 (Rubin 2017 p. 198). When printing spread during the 19th century and education was given more attention, not only in the Ottoman empire but thanks to the British also in India, Muslim intellectuals got an opportunity to develop and exchange ideas on how to reform Islam and make it relevant for the modern world. The reformists of this Islamic revival, such as Jamal-al-Dìn al-Afghani (1839–1897), Muhammad Abduh (1849-1905) and Muhammad Rashid Rida (1865–1935), diagnosed the dire state of the Muslim world as the result of Muslims neglecting the commandments of their faith and saw the solution in a return to pure forms of Islam and the Islamization of society (El-Ashker and Wilson 2006, ch. 8). Later on the Muslim Brotherhood, founded in 1928 by Hassan al-Banna (1906–49), carried the torch. More specific ideas on an Islamic economic system were developed in the 1940s by the founder of the Islamist Jamaat e-Islami party, Mawlana Sayyid Abu’l-A’la Maududi (1903–79), in British India and later Pakistan and by Sayyid Qutb (1906–66), a prominent exponent of one of the more radical wings of the Muslim Brotherhood.

Their ideas paved the way for the establishment of Islamic financial institutions, which after some earlier small-scale experiments took off in the 1970s (Nasser Social Bank of Egypt 1972, Islamic Development Bank 1974, Dubai Islamic Bank 1975, Faisal Islamic Bank in Egypt and Sudan 1977), when the oil states were awash with liquidity thanks to the oil crises.

**2.World view behind Islamic finance**

Now what are the distinguishing features of an Islamic economy? In the view of the likes of Mawdudi and Qutb and also more recent advocates of a specifically Islamic organization of the economy, Islam is fundamentally different from capitalism and communism. The latter two lack, in their view, a moral code. Capitalism lets individuals pursue their selfish ends without regard for the needs of others while communism imposes unacceptable restrictions to individual liberties and opportunities for self-fulfilment. Proponents of Islamic finance make much of the Islamic moral code, as it is derived from divine law. This is a central notion of Islam: God’ law, *sharia*, should rule all human activities. The word ‘sharia’ literally means ‘path’ or ‘way’, and can have the connotation of ‘the path to the spring’, a path that man has to follow for her own good. Islamic finance follows this path, its advocates claim.

It goes without saying that, if this moral code is so important, an Islamic economy cannot remain restricted to the financial sector. Unlike financial issues, Islamic prescriptions on food have always been central to the Muslim lifestyle and halal food on the supermarket shelves is no new phenomenon, but what we see in the second half of the 2010s is a rapidly increasing internationalization of the industry, which manifests itself, among other things, in initiatives to develop international standards. Next to finance and food, there is a surge in the development of international halal travel, halal ‘modest fashion’ for women, halal media and recreation and halal pharmaceuticals and cosmetics (Thomson Reuters 2017). Islamic finance may steal the limelight, but it should not be forgotten that it forms part of a wider islamization drive of the economy.

As communism is no serious player at the moment, we will focus on the alleged superiority of Islamic economics, and in particular Islamic finance, over capitalism. First, I would take issue with the presumed contrast between Islam and capitalism. Capitalism is often equated with Anglo-American free-market neo-liberalism where huge firms have free play. However, insofar this really exists (the US is far from a free market) it is only one historical form of capitalism among many. I would prefer to denote capitalism as a way of organizing production. Capitalism is a system characterized by private ownership of the means of production (note that other definitions of capitalism are possible, see for a dazzling multitude of possible connotations Rodinson 2014 Chapitre I). Capitalism in this definition is not synonymous with a free market economy. Capitalism can exist in highly regulated societies, such as Nazi Germany, and on the other hand non-capitalist organizational forms can thrive in more or less free market economies, think of cooperatives and the former Yugoslav communist market economy with workers’ self-management. Now I would venture that Islamic economies are, like most other economies, mixed economies with both private firms and government production of goods and services (such as education). The Islamic version distinguishes itself by an explicit moral code, derived from divine law. Let me quote Dr Asad Zaman, the Vice-Chancellor of the Pakistan Institute of Development Studies. He maintains that

Since the spirit of Islam is in stark and violent conflict with the spirit of Capitalism, the form taken by institutions designed to express this spirit must also be different. Capitalist financial institutions are designed to support the process of accumulation of wealth, which is at the heart of capitalist societies. Central to Islam is the spirit of service, and spending on others, which is expressed by diverse, service-oriented institutions, radically different from those dominant in capitalist societies. (A. Zaman 2015 p. 13).

In the same vein, one of the most prominent scholars of Islamic finance, Professor M. Kabir Hassan of the University of New Orleans claims that:

Islamic finance is built on a foundation of socioeconomic justice for all and sustainable growth facilitated by prudent stewardship of natural resources so that future generations may also enjoy the fruits of economic development.

(Hassan 2017 p. 1)

These are far from modest claims, repeated in numerous publications, for instance in a book by the prominent Muslim Brother Yusuf al-Qaradawi (2010). In the Islamic finance literature frequent mention is made of the *maqasid al-shariah* or goals, higher objectives, of Islamic law, which embody the moral principles highlighted by Dr Zaman and Professor Hassan. There is a strong tendency among writers on Islamic finance and Islamic economics in general to follow medieval scholars, and in this case the great philosopher Al-Ghazali (c.1058-1111), who defined the maqasid al-sharia as: safeguarding

1. people’s religion, broadly defined as their way of life
2. their life or soul
3. their family or offspring
4. their property or wealth
5. their intellect or reason, also interpreted as their dignity.

All this serves to promote their welfare or *maslaha*, the goodness of this life and the hereafter

(Ghazanfar and Islahi 1990; 2011). For the field of economics, safeguarding property or wealth seems the relevant item in the list. That is mainly a question of government policy. It is often interpreted as a warning against inflation, which would eat away at the real value of financial assets with a fixed nominal value, though protection of ownership should also be included. But how do financial institutions put the high moral principles of Islam into practice? They do not refer directly to the maqasid al-sharia as defined by Al-Ghazali but tick off a checklist with three elements, the bans on *riba*, *gharar* and *maysir*, and *haram* goods such as pork, alcohol and adult entertainment. These bans will be discussed below, but at this point one might wonder whether the maqasid al-sharia and a couple of bans are really enough for a claim of moral superiority. One might well ask: why all the fuss? An answer can be found in another quote from M. Kabir Hassan (Hassan 2017 p. 2):

Islamic economics and finance is gaining traction because much of the Muslim world

wants to relive long-gone times when Islam was the dominant force driving world history.

Muslims believe they have a responsibility to extend the message of Allah’s final messenger to all humanity. (…)

Now that Muslim states are politically free from their colonizers, they are seeking to cultivate their own home-grown, Islam-based systems of knowledge. Islamic economics and finance is part of this.

Here we may have *Des Pudels Kern,* the gist of the matter: Islamic economics and finance serve to throw off the frustration that drove the Islamic reformers at the end of the 19th century. Imagine: Islam claims to be the final, perfect religion, after Jews and Christians corrupted God’s revelation. In an astonishingly short time the armies of Islam conquered the Middle East, North Africa and most of the Iberian peninsula and in 732 or 733, only one century after the death of the Prophet, they had progressed as far as the region between Tours and Poitiers, where their push was halted by Frankish and Burgundian forces under Charles Martel. Baghdad became a centre of intellectual life and scholarship without equal in the whole of Europe. If it is so superior, how then is it possible that in the 19th century the Islamic world had become a mere shadow of its former self? That of course was hard to swallow.

**3. Islam and capitalism**

Let us now get back to the claim that capitalism lacks an ethics. It is a sentiment shared by many non-Muslims. Capitalism is held responsible for encouraging greed, selfishness and corruption by communists, socialists, activists of all stripes and church leaders, think of the encyclical *Rerum Novarum* issued by pope Leo XIII in 1891, the encyclical *Quadragesimo anno* issued in 1931 by pope Pius XI and the quasi-ritual condemnation of capitalism by the World Council of Churches. Now it may be true that capitalism has an orientation to the accumulation of wealth and too often gives free play to unsavoury characters and reprehensible practices, but first you have to wear blinkers not to see the same in the economies of Muslim-majority countries, and second, the greed for gain and disdain of legal and moral rules is not the exclusive province of capitalists. Political power corrupts at least to the same degree, if not more. Both the power of capitalists and the power of political elites need to be held in check by countervailing power (Galbraith 1963). A very important and effective form of countervailing power is civil society when it invests in fact-finding by NGOs and the media and this flourishes best in mixed-economy parliamentary democracies (though even there NGOs and the media face harassment).

Capitalism is just a structure for organizing the economy. If it is embedded in a market economy it is based on the notion that decentralized ownership and decision-making makes the best use of human creative powers and helps to prevent centralizing too much power in the hands of the government. Over and above this basic foundation, capitalist market economies can harbour various ethical rules, including the Islamic ones. These need not necessarily come from religion, however, even if religions of course are extremely influential producers of ethical rules, that is one of their main functions. Ethical rules can also be produced by political movements, such as nationalism. communism or fascism (ethical rules or systems are not by definition always pleasant). A very important source of ethical rules is action by NGOs. Changing views on racism, homosexuality, corporate social responsibility, accountability of government, conservation of nature and animal rights have to a large extent been initiated by NGOs and not by organized religion. Ethical rules can furthermore result out of confrontations between interest groups, for instance employers and employees, leading to changing views on labour rights and stakeholdership. Capitalism thus need not necessarily have the maximization of shareholder value as its overriding objective. There is for instance a rapidly spreading movement among business firms, including large ones such as Danone, to get certification as a ‘B Corporation’, which obliges a firm to meet ethical, social and environmental standards (*The Economist* 2018). Shareholders in such firms cannot force management to maximize profits without regard for the social and environmental objectives. Indeed, large shareholders such as pension funds often prod managers to obtain B Corporation certification. And whatever the defects of capitalism, it is the only system that fully makes use of the entrepreneurial qualities and the innovate power of the people. Karl Marx and Friedrich Engels, who expected capitalism to collapse under its own contradictions, still talked about bourgeois capitalism as a system that had conjured up impressive means of production and transport (“… die modern bürgerliche Gesellschaft, die so gewaltige Produktions- und Verkehrsmittel hervorgezaubert hat”, Marx and Engels 1890).

My claim is that capitalism leaves room for various ethical systems, including Islamic ethics, and that these systems are not mutually exclusive. Even Muslims have to admit that in practice Islamic businesses can learn a thing or two on ethics from capitalist ones. A case in point is Triodos Bank. Triodos Bank is a Dutch ethical bank that specializes in financing sustainable business. Khan and Mohomed (2017) confront Triodos Bank with Islami Bank Bangladesh Limited (IBBL), which they consider an ideal Islamic bank as it probably far exceeds other Islamic banks, in their words, ‘in terms of financial inclusion, microfinance, gender balance, SME financing and green banking while still being financially stable and profitable’ (Khan and Mohomed 2017 p. 111). After a careful analysis of the banks’ business practices they conclude that Triodos Bank ‘has some significant lead over IBBL regarding ethical practices’, and if Triodos Bank exceeds IBBL with regard to ethical practices ‘then it is far ahead of other Islamic banks in such comparison’. As for sustainability, it has been found that a couple of Islamic banks in Malaysia pay attention to the environmental impact of their offices, but generally do not consider environmental and social risks when approving financing, and that subsidiaries of foreign banks usually are more environmentally conscious, thanks to their international shareholders (Kunhibava, Ling and Ruslan 2018 pp. 145-146).

There is little reason for a holier-than-thou sentiment for the Islamic financial sector. Islamic finance is not of a completely different moral character than conventional finance. Indeed, it is a common complaint among Islamic observers that Islamic finance in practice comes down to mimicking the operations and products of conventional banking while nominally observing Islamic rules (e.g., Asutay 2012; El-Gamal 2006 pp. 65, 138, 163). Islamic financial products and services mimic conventional ones to a great degree. No wonder then that a recent survey among 1,000 Moroccans found that only 18 per cent thought that the Islamic finance products were sharia compliant while roughly four out of ten believe they are not (IFN 2018 p. 7).

Let us now zoom in on the standard ingredients of Islamic finance ethics:

(i) the ban on riba

(ii) the ban on gharar and maysir,

(iii) the ban on haram goods and services

**4.The standard ingredients of Islamic finance ethics**

Islamic finance strives to obey the injunctions of Islamic religious law. But while orthodox Jews would be content to follow God’s commandments and not necessarily understand what they are good for, the proponents of Islamic finance have far-reaching claims as to the beneficial effects for mankind of following the Islamic rules (Alwani 2016). Let us now look how the three standard ingredients of Islamic finance ethics score in this respect.

(i) the ban on riba

A central plank in Islamic finance’s platform is the ban on *riba*, which usually is equated with interest. It is a moot point whether riba can really be equated with interest, but dissenters are few and far between (Suharto 2018). One form of riba concerned a pre-Islamic Arabic custom. If a debt was not paid on maturity (after one year), the principal was doubled, according to most commentators (for instance, Rahman 1964, Qureshi 1991 p. 54). Quran 3:130, which admonishes the believers not to devour ‘usury, doubled and multiplied’, most probably refers to this custom. The ban on riba was aimed, in the view of some commentators, at preventing the debtor getting enslaved. That would make the ban on riba irrelevant for present-day banking and finance, as it would only bear on *riba al-jahiliyya*, the riba practised by the Arabs in the pre-Muslim ‘time of ignorance’ (Kuran 1995 pp. 156–157, Rahman 1964, R. Zaman 2011). Nevertheless, *fuqaha* (fiqh scholars, specialists in Islamic jurisprudence) are adamant that riba includes all forms of interest. Looking also for secular arguments supporting the ban on riba, they argue that money in itself is not productive, it is only a medium of exchange. This view is based on Aristotle (*Politika* book I, ch. 10; Aristotle 1992, pp. 85–7), who rejected interest on money loans as unnatural. Aristotle neglected the fact that money can only function as a medium of exchange if it retains purchasing power between payments. It is an asset among other assets and it has value, otherwise there would not be any demand for it. Aristotle’s reasoning why lending out this asset should be free while one may charge a fee for lending out other assets is only convincing for those who are against the interest phenomenon in the first place and are looking for an argument.

If one believes that God has forbidden interest on money loans, secular arguments are not decisive of course. Still, it is believed that the ban on riba is there for the wellbeing of man; the deleterious effects of interest are extensively discussed in the Islamic literature. Interest makes the wealthy even more wealthy while they put no effort in it and it leads to exploitation of the weak, the borrower, by the strong, the lender. It is also averred that interest contributes to gambling with other people’s money (see Hassan 2017). These arguments are far from convincing. First, it is not al all true that the lender is always the strong party and the borrower the weak one. If you hold a time or savings deposit in a bank, the only power you have is to switch to another bank, but higher interest rates often mean a higher risk of insolvency. Depositors have at best very weak power to dictate rates. Second, and more important, a very large part of savings is in the form of collective savings. Fixed-income securities are predominantly owned by pension funds and insurance companies, and if they have market power over interest rates it is the pensioners and future pensioners who profit (though private borrowers who take out a mortgage with an insurance company may suffer, if these companies have the clout to manipulate interest rates).

It is probably no exaggeration to say that you must be myopic to point the finger to interest as the, or a, main cause of income and wealth disparities. What is much more important is successful business ventures (for instance in service markets with strong network effects, that easily feature a winner-takes-all character), grossly unequal pay, unequal access to education, political clout of the rich (which translates into low effective tax rates for the rich), tax evasion, cronyism, bribery (to which the construction industry and weapon sales are especially prone), restrictions of market access in order to create rents (think of the vast business empires of the Egyptian army and the Iranian revolutionary guard) and other shady dealings, including outright stealing by politicians. What remains true is that borrowing against interest may result in gambling, or in very risky balance sheet ratios. Credit, including borrowing money (as distinct from buying aginst deferred payment), is an excellent means to help a business and individuals increase their opportunities, but it may easily get out of hand. The solution, however, is not to condemn debt per se, but to make borrowing not too attractive, which it often is because of tax deductibility of interest. Better to go to the root of the problem and reduce or phase out tax deductibility of interest or offer tax exemptions for own capital as well. Limits to loan-to-value ratios in mortgage finance are another potentially effective instrument. The point is that interest-bearing debt is a useful tool in the financial instrument box, but that it should not be used excessively, in common with so much of humanity’s activities. The fiqh scholars with their abhorrence of interest have a blind spot for profits (Farooq 2012) and other causes of inequality. Their fixation on the authority of medieval scholars is no help in this respect.

The Islamic condemnation of interest is in my view questionable. Another question is whether the Islamic alternatives are fundamentally different. Interest on money loans is forbidden in Islamic finance (buying goods on credit is allowed, even if profit-and-loss sharing remains the ideal). However, money loans fulfil a very useful role and the business community cannot easily do without. Islamic business firms, including financial institutions, cannot do without either. The Islamic financial sector therefore takes recourse to *hiyal*, that is, legal fictions, tricks.A very popular Islamic financial instrument for instance is *tawarruq* (literally, ‘monetization’, that is, monetization of the traded commodity). In a tawarruq construction someone buys a good on credit, often from a bank, and sells it to a third party against cash. Normally, the good traded is a commodity such as palm oil or aluminium, for which organized commodity exchanges such as the London Metal Exchange and Bursa Malaysia provide liquid markets with low transaction costs. Each separate contract in a tawarruq finance is halal, and the contracts are not formally dependent on each other (which would imply gharar or ambiguity, see below, and is not allowed in Islamic contract law), so tawarruq cannot be labelled haram. Still, it obviously aims at getting a money loan or investing money against a predetermined fixed payment (Ayub and Paldi 2015). Fiqh scholars from standard-setting bodies such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions, based in Bahrain) and the Fiqh Academy of the Organization of the Islamic Conference (in Jeddah) would love to reduce its use, but the need for it is overwhelming, most of all among the banks, who use it for cash management purposes (it can also be used for short-term investments). In the United Arab Emirates, the central bank offers the commercial banks facilities for tawarruq-based short-term borrowing and investments (CBUAE 2010). With tawarruq it can truly be said that Islamic finance is conventional finance made more complicated. Tawarruq is extremely popular. According to Sohaib Umar of the Central Bank of Bahrain it is the most widely-used Islamic finance product in Malaysia and Saudi Arabia. Out of a global total of US$1.7 trillion of outstanding Islamic financing (in the mid-2010s) some US$750 to 800 billion was estimated to consist of tawarruq assets (Umar 2015).

(ii) The ban on gharar and maysir

This sounds very innocuous and even sympathetic: the ban on *maysir* means that one should not speculate and the ban on *gharar* means that there should not be any ambiguity in contracts. In other words, the rights and duties of contract parties and the qualities, volumes, prices and delivery dates of the traded goods should be exactly stipulated. But the world is too complex for such strict rules. First, speculation is a slippery concept. Speculation means: trying to profit from intertemporal price differences, but in this wide definition a choice between renting and buying a home is also a question of speculation. Most people will probably agree that crass forms, such as cornering the market and then charge extortionate prices, are despicable. Note that the Old Testament/Tenach also condemns it. Proverbs 11:26 says:

He that withholdeth corn, the people shall curse him: but blessing shall be upon the head of him that selleth it.

Or, in a modern translation rather than the King James version:

Him who monopolizes grain, the people curse - but blessings upon the head of him who distributes it!

(*New American Bible*, United States Conference of Catholic Bishops, http://www.nccbuscc.org/nab/bible/proverbs/proverb11.htm)

Apparently there are forms of speculation that seriously harm other people, but other activities that meet the definition of speculation are hardly harmful. Speculation may even be necessary to stabilize markets. If speculators do not buy a currency in a free fall, in the expectation that the currency in question will recover at some future point, the free fall may continue, leaving massive insolvencies and other disasters in its wake. Second, gharar may be more clearly defined, it is a great impediment in the economic life of individuals and especially of business firms. Fuqaha interpret gharar in such a way that conventional insurance is deemed haram. It is, they say, tainted by gharar and also by maysir. Gharar is involved because there is ambiguity in the contract: policy holders do not exactly know what they will receive in return for their premiums: it may be nothing, it may be a multiple of the premiums paid. For the same reason, it is also seen as gambling or speculation, maysir (Maududi 1999 p. 288). The conventional idea that you buy security is rejected. However, if you pay premiums to Islamic *takaful* or mutual insurance companies, you buy security in the same way as with a conventional insurance policy, only it is labelled as a contribution to a fund to assist brothers and sisters in need.

Another problem is that, as noted above, fiqh scholars consider contracts that are dependent on each other as tainted by gharar, because the fulfilment of one contract is a condition for the validity of the other. Thus you have, for instance, first to make sure finance is available before you buy a house, you cannot make a purchase conditional on finding finance, as that would create ambiguity. Furthermore, it is very difficult to hedge risks, such as foreign exchange risks, first because conventional hedging products are interest-related, but second because Islamic variants have to circumvent the non-dependency rule. Recently developed Islamic hedging instruments make use of one-sided promises, *wa’ds*, but these do not provide the same level of certainty as a conventional derivative (Clifford Chance 2016).

(iii) the ban on haram goods and services

Here we have the same phenomenon as noted above on interest: it is better to avoid excesses than to completely forbid it. But Muslims have little choice if they take the bans in the Quran and the Hadith (Tradition, or acts and utterings of the Prophet) seriously, though it is not immediately obvious to non-Muslims that the Islamic ethics system is superior to other systems in this respect. This will be clear for instance if we look at the ban on many forms of entertainment. On this category the two primary *usul al-fiqh* or sources of Islamic law, the Quran and the Hadith are less clear than on other categories. Fiqh scholars restrict the choices people can make in varying degrees. Arguably people should be not be forced to live in a very narrowly restricted way, just to please a number of strict *ulema* (Islamic law scholars) and fuqaha such as Mawdudi and al-Qaradawi who detest all worldly diversion. Moreover, vibrant city life with an innovation-oriented population is not possible if there is no room for experiments in all sectors of life, including entertainment. It is telling that when the strict Almoravids and after them Almohads took over Cordoba, intellectual life was stifled. The Almoravids burned al-Ghazali’s manuscripts more than once and the Almohads expelled Ibn Rushd, or Averroes (Garnier 2018 p. 102). The Almohads also persecuted Jews and Christians and the great Jewish philosopher Moses ben Maimon, or Maimonides, had to go into exile. Puritanical masters kill freedom, fun and creativity.

**5. Some neglected issues**

The great authority assigned to medieval scholars by fuqaha and ulema has led to the neglect of some pressing issues of the present times (El-Gamal 2007a). In non-Islamic capitalist societies where NGOs are free to play on the public opinion, business practices and political decision making tend to pay far more attention to such issues as universal education, income distribution, environmental issues, human and animal rights, accountability of government and corporate governance. True, there are a few voices calling for including some of these items among the maqasid al-sharia, but so far they are a small minority (Khan 2016, Opwis 2017).

It is telling that the Islamic finance industry makes much of its contribution to responsible finance, but tends to neglect the UN Global Compact, even if the Islamic Development Bank actively supports the Sustainable Development Goals of the United Nations. Participants in the UN Global Compact pledge to align their activities with a set of principles on human rights, labour, the environment and anti-corruption and to take action to advance broader societal goals such as the UN Social Development Goals. As per 1 September 2016 885 financial institutions participated, but very few were Islamic, and those that did were predominantly domiciled in non-Islamic-majority jurisdictions (UK, Japan) and belonged to groups that were not exclusively Islamic (IFN Alerts 2016). It seems that the only fully-fledged Islamic institutions that had signed the UN Global Compact were Noor Takaful, an insurance firm from the Emirates, and the Al Baraka Banking Group from Bahrain. Noor Takaful was also the only fully-fledged Islamic financial institution among nine financial firms that signed the Dubai Declaration of Financial Institutions in the UAE on Sustainable Finance, supporting the UAE government’s commitment to the Paris Climate Agreement and the UN Sustainable Development Goals (IFN Alerts 2017). So there are some green twigs, but against this Islamic banks have no compunction financing construction projects where labour conditions are reported to be dismal (Leins 2010, Amnesty International 2013). Dr Zaman’s spirit of service is often far to seek in practice.

We now zoom in on two of the issues where Islamic economics still has a lot of catching up to do:

(i) income distribution,

(ii) corporate governance.

(i). Income distribution

With the topic of income distribution we widen the scope of inquiry from finance to the economy in general. It is an important subject on which Islamic scholars have some definite ideas, based on ethical notions. Moreover, Islamic measures with regard to income distribution involve flows of money and specific financial institutions, so the subject still has connections with finance.

There is a strong emphasis in the fiqh, the Islamic jurisprudence, on the need to provide the poor with sufficient income to survive in a relatively decent manner and preferably to supply them with the means to earn an income that enables them to meet their basic needs, but rising above that minimum is their own responsibility. This is implicit in Islamic views on income and wealth (Allheedan 2016). There is an emphasis on the responsibility of family members (including the extended family) to support each other, and not of the wider community, which only comes into view if dire poverty has to be averted (Alwani 2016).

Muslim authors make much of *zakat*, in particular *zakat mal*, the obligatory wealth tax of Islam, as a means to combat poverty. An influential advocate of Islamic finance, Muhammad Nejatullah Siddiqi, calls zakat one of the two main pillars of Islam’s economic system, the other one being the abolition of riba (Siddiqi 1983 p. 36). Yusuf al-Qaradawi calls it a unique institution and a measure of far-reaching economic consequences:

‛On the one hand it is a means of spiritual purification and on the other a way to regain balance and equilibrium in social and economic life.’

(al-Qaradawi 2000, Vol. I p. i).

Others praise it as ‘a system through which a Muslim society can eradicate poverty and inequalities’, while admitting that its potential is not fully exploited (Bashir, Sarbini and Abdullah 2012; Bashir 2018). Available evidence, however, suggests that zakat is not a very effective tax, nor a very fair one, for that matter. It is not fair because the rich often don’t pay much, partly because of evasion and partly because the assets they own are underrepresented among the zakatable items (cf. Sadeq 2002). It is not very effective because the sums involved are not impressive (even if in many countries zakat paid is deductible from taxable income).The *Islamic Social Finance Report 2014* states that zakat collected in Malaysia reached 0.24 per cent of GDP in 2011, 0.025 per cent of GDP in Indonesia in 2012 and 0.06 per cent of GDP in Pakistan in 2010-2011 (*Islamic Social Finance Report 2014* p. 42), down from 0.35 per cent of GDP in 1987-1988 (Kuran 2006 p. 21). In Sudan the equivalent of US$220 million was collected in 2013 (*Islamic Social Finance Report 2015* p. 40), while GDP amounted to US$72 billion, according to the World Bank. Sudan thus, at a 0.3 per cent level, marginally bettered Malaysia. In Brunei Darussalam zakat collection fluctuated between 0.05 per cent and 0.12 per cent of GDP between 2001 and 2017 (Bashir, Sarbini and Abdullah 2012).

Even these low figures give an exaggerated idea of the help the poor and other people suffering from misfortune receive from zakat, because zakat can also be used for *dawah* or spreading the message of Islam, for the propagation of an Islamic way of life and for the people administering the zakat funds:

In fact the sadaqat [zakat] collection is for the poor, the helpless, those employed to administer the funds, those whose hearts need to be won over [to the truth], ransoming the captives, helping the destitute, in the Way of Allah and for the wayfarer. That is a duty enjoined by Allah; and Allah is All-Knowledgeable, Wise.

(Quran 9:60)

The distribution of the funds over the categories varies widely, not only between countries but also between regions within a country (*Islamic Social Finance Report 2014* p. 47, *Islamic Social Finance Report 2015* p. 47). The glorification of zakat by fiqh scholars is another sign of their focus on the past. The sums needed in present-day societies for social purposes can only be brought in by taxes and social-security premiums. One can only agree with Dr Muhammad Umer Chapra when he sees zakat not as a replacement for tax- and premium-funded social insurance but as a social self-help measure of the Muslim society to support the poor and destitute who for some reason fall through the social safety net (Chapra 1992 p. 274). It is to be noted that compliance with the obligation to pay zakat mal is low. It has been argued that much higher zakat collection levels should be possible, figures as high as 7.25% of GDP have been quoted in the case of Pakistan (Shaikh 2017). If this is correct, zakat could make a difference, even if it would still be insufficient to meet social expenditure on the scale required nowadays.

In Islam there seems to be no urgent feeling that providing a minimum is perhaps not enough and that inequality in itself should not be exorbitant, though all Muslims and in particular the rich are encouraged to give generously above the obligatory zakat al-mal. One occasion is the annual eid al-fitr at the end of Ramadan, when Muslims are asked to give zakat al-fitr for the benefit of the poor, or directly to the poor. Additional charity (sadaqah) is applauded; al-Qaradawi (2010 p. 102) quotes a saying of the Prophet:

I shall give alms to the poor again and again till each of them comes to possess at least one hundred camels.

(al-Qaradawi 2010 p. 102)

Still, it is only the genuinely poor whose poverty is not the result of their own negligence or unwillingness to look for work outside their own region who should be eligible for help, and even then it is first of all the duty of their relatives to provide assistance (al-Qaradawi 2010 pp. 46ff). For all the quotes from the Hadith that fill the pages of publications by the likes of al-Qaradawi, the Islamic world, and especially the Middle East, cuts a poor figure when it comes to income distribution. The dreams of the Prophet about 100 camels for each of the poor are conveniently forgotten. Farooq (2008) argues that Muslims delude themselves when repeating regularly that Islam is against injustice, deprivation and so on and that historically Muslims have effectively dealt with poverty, whereas in reality it has rarely been actively fought. In all fairness, income distribution developments in many industrialized and post-industrialized non-Muslim countries provide little reason for complacency either.

A study on incomes and income distribution in the Middle East shows that the region does worse than other regions in the world (Alvaredo, Assouad and Piketty 2017). The comparison is mainly with Western Europe, the USA and Brazil, and where possible also India and China.

Top 1% income share six regions, 2015, in per cent

Brazil 28

Middle East 26

India (2014) 22

USA 20

China 14

Western Europe 12\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Note: distribution of pretax national income (before taxes and transfers, except pensions and unemployment insurance) among equal-split adults (income of households divided equally among adult members) (source: Alvaredo et al. 2017).

The bottom 50 per cent receive less than 10% in the Middle East, again worse than Western Europe at 18 % and the USA at 13%.Within individual countries the bottom 50% ratios vary between 10 % and 18%, for the region as a whole the ratio is just below 10% as a result of the very uneven income distribution between countries. The low ratios reflect at least partly the very low payment of the numerous foreign workers in a number of Middle Eastern countries.

(ii). corporate governance

There are various definitions of corporate governance. Let me quote the one given by the European Corporate Governance Institute (ECGI):

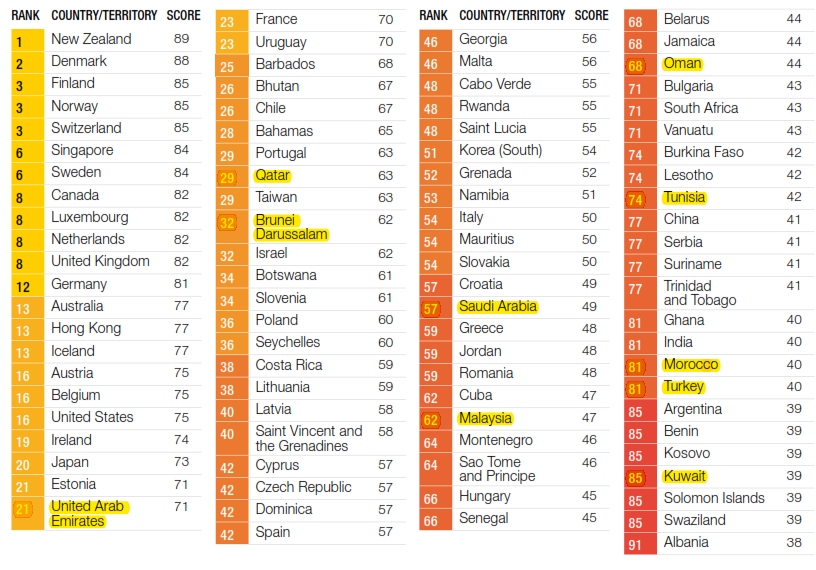
Corporate governance refers to the way in which private and public companies, enterprises, entrepreneurship and financial institutions are governed and run in relation to their purpose, values, ownership, representation, accountability, financing, investment, performance, leadership, direction, management, employment, law, regulation and taxation. (<http://www.ecgi.global/content/about-ecgi>, accessed 30.06.2018)

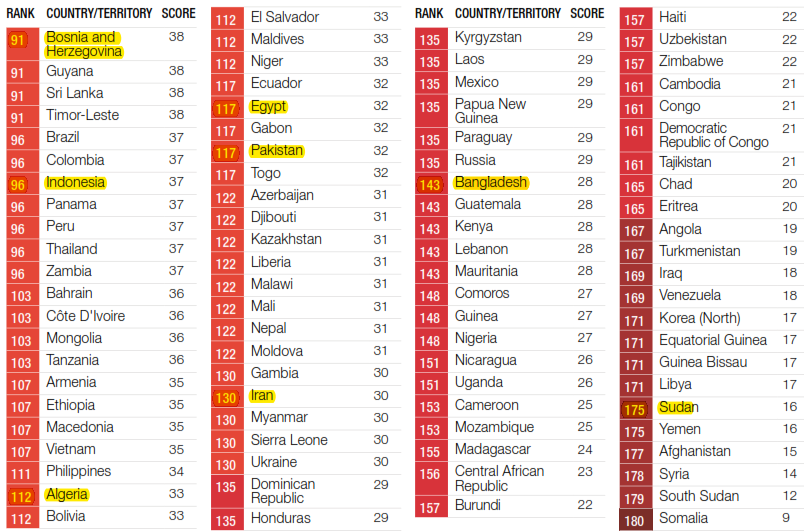
It is a very wide concept encompassing a wide range of issues, and it boils down to the question whether an organization is run decently. For Islamic financial institutions, there is a lot do before they meet present-day standards of corporate governance. Sairally (2013) notes that corporate social responsibility, the dedication to decent corporate governance, is in practice mostly limited to making sure formal legal and sharia norms are observed and economic responsibilities are met. In other words, the institutions were oriented to profit maximization and compliance with the letter of sharia requirements. The economic responsibilities are often neglected as well. Ayaz and Mansoori (2017) point to incompetent board members, below-par risk management and moral hazard (that is behaviour by managers, employees or shareholders not in the interest of the firm or other stakeholders, such as minority shareholders). Moreover, sharia compliance may also be sloppy. These are but two from the numeral voices in the Islamic world calling for taking corporate social responsibility more serious.

**6. Final comments**

It is one thing to extol the ethics of Islam, but it is unfair to compare the Islamic ideals with the practice of other thought systems or world views, as the encomiums for Islamic finance do. Ideals of the one should be compared with ideals of the others and practices of the one with the practices of the others, and above all every society should compare its own ideals with its own practices. There are few societies where the results will not be sobering. As for Islam, remember the conviction of Dr Asad Zamad that ‘Central to Islam is the spirit of service, and spending on others’. Even if Islamic ethics were superior, Islamic behaviour is not. The Islamic world is not a shining example for others on labour standards, sustainability, income distribution and corporate governance, and their behaviour does not set Muslims markedly apart from others. Quite a number of Muslim-majority countries score for instance very poorly on the 2017 Corruption Perception Index of Transparency International. It is a mixed picture, and it is only fair to leave war-stricken countries out of account. Some countries do quite well: the United Arab Emirates scores rank 21, just above France, Qatar shares rank 29 with Portugal and Taiwan, Brunei Darussalam shares rank 32 with Israel and all these countries score better than Spain and Italy. However, Malaysia, not exactly an underdeveloped failed state, scores a lowly rank 62, Tunisia 74, Morocco and Turkey 81, Kuwait 85, Indonesia 96, Egypt and Pakistan both 117, and the self-styled Islamic Republic of Iran 130 (Transparency International 2018). We can only conclude that Muslims are not strikingly different from the rest of humanity in this respect.

Rankings *Corruption Perception Index 2017*





Source: Transparency International (2018), *Corruption Perception Index 2017*, [www.tranparency.org](http://www.tranparency.org),

If Muslims are not strikingly different from the rest of humanity, there are bound to be some positive developments on the neglected issues, and fortunately there are. Environmental problems are slowly but surely receiving more attention, just as in the rest of the world not so much out of conviction but because they can no longer be neglected. Water management and renewable energy are getting more prominence, with the United Arab Emirates in the vanguard. Just as in Christianity, in Islam man is seen as God’s steward or vice-regent, and Muslims can see it as a task assigned by God to take care of the earth (Quran 2:30, 35:39). In both religions the scriptural sources are at hand to support environmental efforts, but were not sufficient in themselves to spur the believers into action. Followers of other creeds and non-believers will often harbour similar views. It must be concluded that the claim of many Muslims that Islamic ethics, including economic ethics, is fundamentally different and superior is unconvincing both as regards the ideas and the practices. One can only concur with

Professor Mahmoud El-Gamal when he notes that

The modus operandi of Islamic finance is worrisome for two reasons: it glorifies irrational adherence to outdated medieval jurisprudence, and supports the development of a separatist and boastful Islamic identity.

(El-Gamal 2007a)

Note that in order not to deviate too much from the subject of finance and economics I refrain from commenting on such subjects as human rights (where even the United Arab Emirates with their modern, open façade score very poorly, Fanack 2018), treatment of minorities, blasphemy laws, freedom of the press and independence of the judiciary in Muslim-majority countries, apart from noting that there is little that would justify Islamic self-glorification.

**7. Appendix: Some doctrinal issues**

Allow me some thoughts that run the risk of hurting the feelings of Muslims, which is not my intention. These thoughts are of a very tentative nature, because as an economist who has not mastered the Arab language I do not feel really qualified in this field and they have the character of questions for discussion rather than firm convictions: perhaps it is not only the authority attributed to medieval fiqh scholars that is at the root of the disconnect between the pretentions of Islamic finance and economics and the actual practice. Behind this may lie the more fundamental problem that plagues all religions that rely on holy scriptures: how to square divine revelation from the distant past with the demands and norms of modern life? Do all injunctions from the scriptures still apply? Discussion of the nature of divine revelation and its application today can easily become dangerous in the Islamic world, as the philologist Nasr Hamid Abu Zayd (1943-2010), who was declared an apostate and saw himself forced to move from Egypt to The Netherlands, discovered (for his views on divine revelation, see Abu Zayd 2000). In Christianity by contrast, 16th century Protestant reformers in Switzerland, in particular John Calvin (1509–64), held that part of the divine revelation in the Old Testament/Tenach applied specifically to the Jewish people living at that time and is not binding on later generations (Biéler 2005, pp. 400–422). Such ideas are now widely accepted. An additional problem in Islam is the fact that the Hadith is assigned equal status with the Quran, while it is not obvious (to an outsider at least) that the Prophet’s utterings on issues that were important in his time should be given equal status with God’s presumably immutable commands for later generations. Nonetheless, quotations from the Hadith very frequently are used to clinch an argument while economic analysis often is skimpy or completely absent. Liberal reformers such as Fazlur Rahman (1919-1988), who had to flee Pakistan for the United States, found out the hard way that the more strict factions within Islam are strong enough to have such deviations from orthodoxy declared anathema (see on Fazlur Rahman Birt 1996).

Raising such questions is tricky for many Muslims, as rational analysis and research in matters of religion is easily seen as tainted by *waswas*, flusterings of Shaytain, or Satan, meant to throw doubt in the minds of the believers about the truth of the Quran and the Hadith. Better to accept what the Prophet said unquestiongly. But it is this attitude that possibly leads conservative ulema and fiqh scholars to defend and even advocate such abominations as child brides and stonings. It may also have been an important factor in the late abolition of slavery in Islamic countries. It has been estimated that in the slave trade across the Sahara some 6-7 million black slaves were transported to the Islamic world over a period of 1,250 years, against 15 to 17,5 million across the Atlantic to the Americas and the Caribbean in roughly four centuries. The average annual numbers may have been lower for the cross-Sahara trade, the total is still impressive, and it must not be forgotten sub-Saharan Africa was only one of the sources that supplied the Islamic Middle East with slaves (though admittedly slaves from Euope and nearby Asia often rose high in the administrative hierarchy of the Ottoman empire and enjoyed an infinitely better life than the victims of the Atlantic slave trade, see Howard 2017). Slavery was officially ended in the Ottoman empire in 1889, after endless pressure from the British (Ahmed 2009). Iraq abolished slavery in 1924 and Iran in 1928, after the Second World War Kuwait followed in 1949, Qatar in 1952 and Oman in 1970. In Mauritania slavery was officially abolished for a third time in 1980 and it still seems to be endemic. Niger waited till 2003 before formally abolishing slavery. Both the Bible (Leviticus 25:39-46, St. Paul) and the Quran accept slavery as a normal phenomenon, which it was at the time, but both religions also gave a theological justification for it, even if there was no obligation to enslave people; the Prophet instead advocating manumission (Cronin 2016). Still, it took quite long for the Islamic Middle East to say farewell to it. At present Islamic societies are strangely divided on slavery and in particular on the trans-Sahara slave trade. Jihadist groups such as Islamic State and Boko Haram revel in enslaving people, invoking the Hadith and the Quran. Non-belligerent Islam by contrast appears to prefer collective amnesia, with the honourable exception of Qatar, where the Bin Jelmood House museum documents human exploitation, including the role of the Islamic Middle East in slavery (https://www.msheireb.com/msheireb-downtown-doha/msheireb-museums/about-msheireb-museums/bin-jelmood-house/).

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