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Book Reviews

Shafiq, A. (Eds.), *Institutional Islamic Economics and Finance*, London: Routledge, 2022, 196 pages

Reviewer: Salman Ahmed Shaikh

This book is a scholarly outcome of the research papers presented at the 8th Islamic Economics Workshop organized by the Research Center for Islamic Economics (IKAM), Turkey in 2020. The conference is now probably the most prestigious regular academic conference in the field of Islamic economics and finance.

Eleven peer-reviewed scholarly papers are included in this book. Some chapters focus on the theoretical perspective of institutional economics in the Islamic economics framework and some look at the practical institutions developed as organizations in Islamic finance in Muslim majority countries.

The foreword is written by Prof. Abbas Mirakhor. The noted author thinks that compliance with rules prescribed by Allah SWT in the Qur'an reduces uncertainty in the society, anchors expectations, reduces transaction costs, enhances social solidarity and cohesion, and makes cooperation, coordination, and positive collective action possible within the Islamic society. He is convinced that all in all, compliance with rules prescribed by Allah SWT can produce an efficient economy without neglecting the spiritual aspect of individual and societal life. Prof. Abbas draws attention to the need for factual studies which determine the gap between practice and prescribed rules. This can help in documenting the gap and then reducing it through effective policy intervention.

Going by the list of contents and the general theme of the book which starts with the foundational issues first, the first chapter titled "Institutional Structure

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of the Islamic Economic System" is contributed by Prof. Monzer Kahf. Prof. Kahf dismisses the idea that Islamic principles do not have room for private property. He classifies property in the Islamic social and economic framework into four categories, i.e. private property, public property, social property, and Waqf property.

Islam allows exchange and contracts as well as economic freedom as long as the boundary conditions and moral filter are not compromised. There is strong ethical monitoring in the Islamic framework through an explicit institution like Hisbah and spiritual impetus in the two-worldly Islamic worldview which promises deterministic justice in the life hereafter. The author highlights the fact that Islamic principles promote justice, excellence, mercy, caring, and cooperation. The market is allowed to function within the boundary conditions and ethical monitoring provided by the rules in Islamic jurisprudence.

The second chapter titled "Islamic Economics and Institutional Economics: A Methodological Discussion" is contributed by Dr. Adem Levent. The noted author discusses Islamic economics and finance in the institutional paradigm. Institutions are regarded as rules and Islamic finance has distinct rules, such as the prohibition of interest. Institutions are also regarded as organizations and Islamic finance also has distinct institutions as organizations that operate in compliance with rules of Islamic jurisprudence, such as the prohibition of interest. Thus, Islamic economics and finance, and institutional economics have some common ground for scholarly dialogue. However, the author cautions that Islamic economics and finance takes inspiration from distinct worldview. Conversely, institutional economics is a small sub-discipline that does not challenge or oppose the institutions in Capitalism in a critical way. Therefore, economists working in Islamic economics must bear in mind that they should not compromise on the higher ideals, distinct worldview, and distinct rules in Islamic economics and finance in search of common ground with institutional economics.

The third chapter titled "General Principles of Business Contracts in Islamic Law" is penned by Dr. Muhammad Tahir Mansoori. After the foundational discussion on the philosophical distinction of Islamic economics from an institutional perspective, this chapter unfolds the rules which govern Islamic economics and finance in a clear and precise way with authentic and original references from the Islamic sources of knowledge. The author mentions that contracts in Islamic commercial jurisprudence shall observe free consent, and transparency and avoid interest, uncertainty, gambling, and cheating. Islamic rules of sale and contract are flexible in the sense that everything is permitted until it is prohibited explicitly or goes against the objective of Shari'ah.

The next four chapters look at the application of Islamic social finance in developing institutions as organizations for the effective delivery of social financial services beyond the constrained structure of commercial banking. On this theme, the fourth chapter titled “Repositioning Waqfs in the New Economic Order” is written by Dr. Hamdi Çilingir.

The author emphasizes that there is a need to revisit the institution of Waqf in the light of ground realities and contemporary legal framework. The new economic and social order is markedly different from the past. Therefore, repositioning is required to ensure the vitality of the institution of Waqf. Where needed, regulations must be revisited to allow Waqf institution in the legal framework. Creating awareness is also necessary since many philanthropists are neither aware of the spiritual virtues of Waqf nor of how to establish Waqf in the light of Islamic jurisprudence and also in consistency with the contemporary legal framework. The structure of the trust is followed more prominently than Waqf even though Waqf can be promoted through repositioning.

The author also mentions that contributing to common property resources does not decrease the private enterprise. One has to have private wealth first in order to spend it on oneself or society. In fact, Waqf is a useful vehicle for transferring resources from the haves to the have-nots and ensuring that such resources are kept intact with careful conservation.

To allow maximum benefits in terms of socio-economic mobility, the author notes that Waqf shall be seen as an institution providing social and financial intermediation. Effective screening, targeting, and monitoring are necessary. Rather than spending on the poor, they shall be provided with capacity-building skills to improve their productivity. Where possible, the assistance can be provided in terms of interest-free loans rather than unconditional cash transfers in order to ensure responsibility and productive use of funds. The author concludes that Waqf is based on the philosophy of mutual assistance and cooperation. This impulse is vital in society for equitable distribution of resources beyond the market-based exchange.

The fifth chapter titled “Conceptualising the Islamic Social Finance into a Three-sector Economic Model” is contributed by Dr. Mohd Nahar Mohd Arshad. The author shows concern that the current dominant corporate structure of Islamic finance could not contribute to building a more inclusive and equitable system. However, the author is optimistic that Islamic social finance institutions which are not overwhelmed by competitive market forces can deliver on the social objectives and ideals more flexibly. The author thinks that the integration of Islamic social finance is critical in delivering on the social promise of Islamic economics. The author presents various possibilities for introducing Islamic social finance in the public sector, private sector, and formal and informal sectors. Depending on the level of sophistication of the financial system, legal framework, the density of population, and the extent of underdevelopment, one of these institutional structures can be used.

The sixth chapter titled "Islamic Social Bank: A Sustainable Banking Approach" is penned by Dr. Shifa Mohd Nor. The author shares disappointment in the social performance and delivery of Islamic commercial finance. However, realizing the regulatory and commercial pressures on Islamic banks, the author thinks that Islamic social banks can be developed as alternate institutions taking inspiration from the ESG and SDG focus on corporate governance globally.

The triple bottom line is emphasized in social banking, i.e. taking care of people, profit, and the planet. However, this CSR oriented focus still puts social goals in the back seat. For the sustainable welfare of every stakeholder, more strategic level initiatives are needed, which may require an alternate institutional structure. A distinct structure would allow the use of equity-based modes of financing, cost-free modes of financing in the form of interest-free loans, and building the skills and capacity of the clients through leveraging philanthropic donations and impact investments.

The seventh chapter titled "Can Microfinance Be a Solution for the Social Failure of Islamic Banks? A Linkage Model Proposal" is written by Dr. Mücahit Özdemir. The author suggests that the social failure of Islamic banks can be overcome by Islamic microfinance that integrates financial and non-financial support. Poor need finance where creditworthiness, asset ownership, collateral, and size of business shall not be the sole reasons for access to credit. Conventional microfinance institutions had also failed in facilitating socio-economic mobility. They had also either served the non-poor at a higher cost of finance due to lower creditworthiness or have trapped the poor people in a debt cycle from which they do not achieve poverty exit even after several rounds of micro-credit provision.

Islamic microfinance needs to learn from these failures and shortcomings. The author discusses how Islamic banks and microfinance could be integrated to make them more socially responsible. The author thinks that the program has several benefits for society and Islamic banks. More people can be reached sustainably, and the outreach component of microfinance can be achieved. However, engaging Islamic banks in social finance has some risks. Islamic banks operate under the tight surveillance of central banks and Basel committee rules. They also operate in an industry where major market shares and economies of scale are with conventional banks.

The example of Akhuwat in Pakistan shows that Islamic microfinance can deliver on a large scale even without engaging Islamic banks in a direct way. However, financial, informational, and operational synergies can be combined to ensure better outreach and efficiency while not compromising on the social objectives of Islamic microfinance. The author provides cautionary advice that the models in microfinance should especially consider the relevant countries' legal environment, institutional diversity, and microfinance demand.

The next two chapters take the discussion forward by presenting some out of the box solutions in the institutional structure of Islamic finance by challenging the premise that joint stock companies are the only possible ways of pooling funds. Provided that problems of moral hazard and agency conflict is resolved, there can be other structures to source funds in peer-to-peer networks through embracing and leveraging technology.

On this theme, the eighth chapter titled "The Justification Process of the Joint-Stock Company as a New Partnership Model in the Islamic World" is written by Dr. Omer Faruk Tekdogan and Dr. Abdurrahman Yazici. In this chapter, the noted authors take a critical look at the corporate form of business organization. In the capitalistic framework, some economists like Milton Friedman maintain that the only business of a corporation is maximizing the shareholder's wealth. Other stakeholders are only given little importance in terms of not harming their interests.

Given the political developments, Muslim majority regions found themselves in political and economic decay when the corporate form of business organization flourished in the West. Therefore, haphazardly, Muslim regions as laggards have adopted the corporate form of business organization as a way of establishing large-scale businesses.

The authors think that corporate governance can be revisited in the light of Islamic principles. Some features of the corporate form of business organization would be consistent with Islamic principles. However, the concept of limited liability and separate juristic personality of a corporation is something that needs careful treatment. The authors think that there is no scholarly juristic analysis of these two principles. Nonetheless, in Pakistan, Shaikh Taqi Usmani had written scholarly research papers on both aspects in Arabic and Urdu language.

According to his research, there can be possible compatibility of the corporate form of business organization with Islamic juristic principles. As a matter of fact, Islamic banks, Islamic asset management companies, Islamic insurance companies, and Modarba companies are set up as corporations. What is important is to have a distinction in the way they are governed. A corporation in the Islamic framework shall avoid interest, gambling, uncertainty, deceit, and fraud and ensure transparency and ethical compliance in its operations as per the law of land and especially Islamic jurisprudence.

The ninth chapter titled "Conscious Technology and Technological Change: Artificial Intelligence, Fintech, and Others" is penned by Prof. Masudul Alam Choudhury. In his usual profound way of writing, Prof. Choudhury presents a salient introduction to the theory of appropriate technology that endogenously combines the moral and material properties to serve the objective of wellbeing. Technology is blind to ethics and well-being. The purpose, direction, and ethical compliance need to be built into the system. Technology should be leveraged to achieve well-being. But, what is ethical and what serves the well-being of humans, society and the ecosystem needs to be answered through the unity of knowledge.

The last two chapters in the book present case studies on how the application of Islamic social finance with alternate institutional structures as rules and organizational structure still delivers the essential objectives of financial intermediation in a responsible, ethical, and sustainable way.

The tenth chapter titled "Islamic Multi-finance Companies: Disbursement towards Sustainable Financial System for Low-Income Groups in Indonesia" is contributed by Dr. Laily Dwi Arsyianti and Dr. Resfa Fitri. The authors study the operations of multi-finance companies in Indonesia. The authors think that such organizations can serve a broader variety of financial needs and are more suitable in comparison to banks. Banks operate on the principle of profit maximization. They are governed by strict regulations. Multi-finance companies provide a flexible structure through which outreach can be enhanced to non-banking clients as well.

Through analysis of primary data, the authors conclude that risk management is the most vital aspect in governing operations of an Islamic multi-finance company. Islamic multi-finance companies should evaluate future customers with caution. Adverse selection may occur due to information asymmetries. Irregularity in documentation and reporting should be treated as early warning signs. Furthermore, Islamic multi-finance companies are not like banks and have to be regulated distinctly as well. The presence of irresponsible cartels may compromise the aim of well-being.

Last but not the least, the eleventh chapter titled “A New Industry–Academic Partnership Model for Community Entrepreneurship Development: The Case of i-Taajir” is contributed by Prof. Norma Md Saad, Prof. Mohammad Aslam M. Haneef, Dr. Mustafa Omar Mohammad, and Dr. Qurroh Ayuniyyah. This chapter presents a very promising model of entrepreneurship through academia-industry linkage. For a successful business, both the idea and finance are important. Some of the bright business ideas are generated in the minds of budding entrepreneurs in business schools. Financial institutions can provide finance provided they ascertain the sustainability and potential of the business ideas. That is where industry-academia linkage is vital.

Tijari Entrepreneurship Development Program (i-Taajir), a collaboration of entrepreneurship and Islamic microfinance project between CIE–IIUM and CIMBi has been conducted in three cycles with 57 successful participants and RM 300,000 of funds disbursed. Overall, this project aims at providing entrepreneurship education and Islamic microfinance facility to the lower-income group in Malaysia. The project has also shown progress from one cycle to another in terms of the number of participants, total financing, and repayment commitment. The study found that more than half of the participants in the first two cycles are running their businesses well and can improve their average monthly income ranging from RM 100 to RM 2,500. The paper includes a careful analysis of data and several useful recommendations to improve the governance, coverage, and outreach of the program.

Overall, the book is an excellent food for thought in the Islamic institutional economics literature. It provides scholarly insights on the foundational aspects as well as an evaluation of Islamic finance from an institutional perspective. It also recommends several innovative institutional structures which can help in achieving the social and higher ideals of Islamic jurisprudence. Lastly, it also presents case examples of how some institutional models as organizations in the Islamic finance practice show promise in overcoming the gap in social finance.