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A Critique of Islamic Finance in Conceptualising a
Development Model of Islam: An Attempt in
Islamic Moral Economy

by

Shafiullah Jan

A Doctoral Thesis

Submitted in partial fulfilment of the requirements for the award of
The Degree of Doctor of Philosophy at the School of Government and
International Affairs

Durham University

2013

DEDICATION

I humbly dedicate this work to my affectionate parents, without their continued love, support, and encouragement I could not have completed this process, my dearest sister and her family for their moral support, and last but not least I am grateful to my soul mate and beloved wife for her sacrifices, tolerance and never-ending support in the entire research process and my precious two daughters, Shadab and Maab and two dearest sons, Ameer and Kamal for enduring and sharing all the sweet, pain and bitter experience throughout the period of my studies.

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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institutions of learning.

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ABSTRACT

As part of Islamic identity development, in the postcolonial era Islamic economists, while dissatisfied with the western approach toward economic and institutional development, initiated a project of developing an economic system. Since, Muslim countries were faced with socio-political problems such as inequality, lack of political rights as well developmental failures, such cruel realities on the ground led to call for the revival of Islamic Moral Economy (IME). This socio-religiously constructed economic system understanding places the wellbeing of society at the centre and achieve human development through fair distribution and establishment of social justice and equity as proposed by *maqasid al-Shari'ah* or the objective of *Shari'ah*. While the IME project was being conceptualised, the emergence of OPEC in 1960's and increases in wealth in the Middle East countries due to petrol price shocks added to such demand for Islamically permissible financial products and eventually led to the creation of Islamic Banking and Finance (IBF) resulting in a paradigm shift from 'searching an authentic development strategy' to 'financialisation of economy'.

IBF was hailed as first step toward a unique and comprehensive IME, growing with more than 15% annually, which would allow Muslims to create a society based on justice and equity. However, development of debt like instruments and utilizing of such controversial instruments in majority for financing on the balance sheets of IBF clearly shows that IME discourse is only limited to the contractual aspects of these instruments. Such preference of economic incentives over religion has shifted IBF to become an integral part of international financial system. Thus, IBF, an operational tool of IME, failed to produce the economic development based on justice and equity in Muslim world as envisaged by IME, as majority of Muslim countries are still faced with basic issues such as health, education and overall wellbeing and are lagging behind on various development indices.

The aim of this study, hence, is to explore IME within alternative system approach in an attempt to propose an Islamic development model, while integrating both worldly developments from Islamic perspective with the spiritual development representing a search for an Islamic authenticity in economic development. In an attempt for doing so, this research located the economic development issues in the Muslim world through an extensive analysis and also extensively analysed the aspects of Islamic banks to identify the 'social failures of IBF' with the objective of developing ground for the development of an authentic model.

The theoretical model proposed in this study is, by definition, value laden in the sense of being determined by Islamic ontology and epistemology, integrating both qualitative and quantitative aspect of human life proposed by *maqasid al-Shari'ah* that not only helps to formulate policies related to economic aspect of human life but also broad enough to cover all aspects of human life in order to achieve *falab* in *akhirah*. In the model, axioms of IME and *maqasid al-Shari'ah*, serve as higher-order generalisations from which specific statements of lower order generality are deduced about the moral imperative which motivates individuals to work for social good. Furthermore, theoretical model of Islamic development is compared with the Sen's capability Approach to establish parallelism in terms of processes and outcomes with the objective of identifying articulation and also the essentialisation of justice as the main crux of IME in the development process within the *tawhidi* knowledge universe.

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Chapter 1

INTRODUCTION

1.1 INTRODUCTION

Muslim countries around the globe have tried to pursue development strategies formulated 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. The value free approach of these development projects failed in most of the developing and Muslim countries to produce the same socio-economic and political modernization for the Muslim world as the one experienced by the Western world. The reality of Muslim world is far removed from economic development and prosperity as clearly identified by various indices measuring multiple dimensions of development. At both macro and micro level, these countries have moved away from Islamic ideals in general and developmentalism in particular, and are in situation where cherished goals of Islam or the objectives of *Shari'ah* can be hardly realised (Ahmad, 2000), as evident by widespread socioeconomic inequalities, corruption and injustices. However, it was the Islamic norms, which helped them to create a very efficient and successful civilisation which prevailed at the top of developmentalism until the 19th century.

Islamic norms in relation to development and economy are focused on human and spiritual development (Pramanik, 2002). Hence, development in economic sphere aims to achieve economic well being and betterment of people through fair distribution of wealth and income and establishment of justice and equity. In addition, Islamic development paradigm, socially, individually and politically, aims to 'change' individual through *ibsan* (beneficence) process to achieve social transformation (Asutay, 2007a). This is different from the neo-classical economic theories, where efficiency is preferred over justice; where individuals and values are treated as exogenous variables. The experience, hence, shows that the implementation of Western development theories in the Muslim countries have resulted in uneven pattern of economic growth, hence keeping majority of population in those countries deprived of real development such health, education, and over all well being.

In the post colonial era, in search of Islamic identity, Muslim intellectuals expressed their dissatisfaction with Western methods of organizing economic affairs and Western institutions, felt a need to develop a system which places the well being of individual and society at the centre

and guide human development as proposed by *maqasid al-Shari'ah*. The newly formed Muslim nation states, marked by social problems such as unemployment, inequality, gender discriminations, lack of infrastructure and capital, lack of political rights to name few, consequences of Western economic policies, were keen to restore their lost identity based on Islam as formulated by *Shari'ah*. Such realities led to a call for the revival of Islamic Moral Economy (IME), which aims to create a distinct system of economic with Islamic religious values, norms, rules and institutions with a political oriented understanding as proposed by Islamic epistemological and ontological sources (Asutay, 2007a; 2007b). It aims at developing authentic institutions and instruments to run the economy and the financing of the economy with the objective of developing a human centred development paradigm. Thus, Islamic finance, in this worldview, is perceived as 'financing the economy' in the sense of financing the embedded economy.

The emergence of oil exploitation in particular in 1960's left Middle East countries with substantial amount of wealth in reserves, which further ignited and perhaps rushed the demand for Islamically permissible financial products through the *halalisation* process. This led to the creation of Islamic Banking and Finance (IBF), an operational institution of IME, marked by the establishment of Dubai Islamic Bank in 1975 as a first private commercial Islamic bank designed to achieve profit maximization on commercial basis within *Shari'ah* defined parameters. While IME's reference in developing a banking system refer to an Islamic paradigm of developmentalism, as exemplified in Mit Ghamr Saving Bank in early 1960s in Egypt, the creation of conventional Islamic banks meant the deviation from the promised search for authentic institutions. Therefore, even though, IBF is among the fastest growing financial sector in the international financial system with an estimated annual growth rate of average 15-20%, Muslim countries around the globe have still failed to achieve the economic development, trapped in poverty with no access to basic needs of livelihood, while IME imagined that IBF would lead to development of Muslim societies. Indeed, relatively small asset domain of Islamic IBFs should also be considered as not being able to mobilise resources.

The experience so far in forty years of Islamic banking shows that IBF failed to contribute the socio-economic development, as it remains very much a 'financial option' as opposed to 'financing' economic need. This is particularly evident in the product and instrument choice of IBFs, since popularity of debt-like instruments such as *murabahah*, *tawarruq* and *innah* clearly show that juristic discourse of IBF is only concerned with the contractual aspects or the form nature of these instruments, while substance is not endogenised in having a developmentalist

consequence. In other words, the preference of economic incentives over religious behaviour norms has shifted the IBF to become part of international financial system or “casino capitalism”. Hence IBF failed to produce the economic development promised by IME as socio-economic aspects of IBF is only limited to *zakah* and other charitable activities with no real impact on sustainable development and social justice in society.

It is, however, a fact that majority of Muslim countries around the globe are struggling to provide the basic livelihood to their population, consequently majority of them are living below poverty line. However, the concept of development in Islam has a more comprehensive character than the narrow dimension of economic growth. It includes moral, spiritual and material growth and development. Therefore, a new approach to development is essential to be formulated to crystallize Islamic principles of development within the scale of value laden and ontologically determined epistemology. It is expected that this new approach to development must transcend the current *only* materialistic development theories, which were tried again and again in Muslim world resulting in failure by replacing the ends of its process with transcendental values and by making humans as the centre of all policy decision and not a mere statistics.

The observed social and developmentalist failure of IBF and the observed developmentalist need of the Muslim societies, hence, require further exploring the developmentalism within the Islamic paradigm to essentialise and bring back developmentalism into the IBF domain, which is the aim of this research.

1.2 AIMS AND OBJECTIVES

This research, hence, aims to explore and analyse the IME as an alternative system to propose comprehensive Islamic development model by integrating the worldly development from Islamic perspective with the spiritual development based on Ghazalian framework as aspired by IME. In doing so, this research also aims to evaluate the progress of IBF with an attempt to highlight the social failure of IBF in order to essentialise the need to formulate an Islamic development model. In addition, the developmentalist failures in the Muslim world are also explored to justify the search for an alternative model.

In order to fulfil these aims, the following research objectives were formulated:

- i. to discuss the concept of development from conventional economics perspective;

- ii. to develop an understanding of the Western concept of justice and different theories regarding just distribution of resources in the society in justifying development in conventional economics;
- iii. to assess and critically reflect on the development of Muslim world using different indicators of development to identify the developmentalist failure and the need for a new developmentalist paradigm;
- iv. to explore different discourses on the role of Islam and development and how it is being approached in Qur'an;
- v. to analyse and explore IME as an alternative system to suggest development from Islamic perspective and identify core goals of development which are integrated with the Islamic development process;
- vi. to present the concept of justice from ontological and epistemological sources in Islam to essentialise Islamic development;
- vii. to critically examine and evaluate the progress and practice of IBF institutions from the moral and social aspects as proposed by IME to identify the social failure;
- viii. to propose an integrated Islamic development model as contemplated by IME by utilising ethical framework of Al Ghazali and developmentalist oriented approaches;
- ix. to identify the divergences and convergences of this paradigm with Sen's capabilities approach
- x. to provide practical aspects of this model for development purpose by reconsidering the Islamic (finance) instruments and institutions;

1.3. THEORETICAL AND EPISTEMOLOGICAL FRAMEWORKS

It should be emphasised that the central argument of this research is to articulate the essentialisation of 'justice' 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 Khaldunian definition of development and also Ibn Qayyim's broader definition of *maqasid al-Shari'ah* provides the implicit framework for this research.

Ibn Khaldun's socio-economic system related framework provides a summary of the interdisciplinary dynamic model for Islamic development:

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-mizān*) by which God will evaluate mankind; and
- The sovereign is charged with the responsibility of actualising justice. (Chapra, 2000: 147-48).

In substantiating Ibn Khaldunian definition and description of development, Ayatullah Mahmud Taleqani's substantiation and justification of justice as the core element of development is utilised in developing the aims of 'development' as '*jalab*' and '*ihسانی* social capital'. According to Taleqani (1986: 50), the equal opportunities and access to the resources created by Allah (*smt*) is the core of betterment, or developing a society when he defines '*fi sabil al-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 humans 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 referred to the world in which all people can develop their human capacities in order to obtain freedom.

Ibn Khaldunian and Taleqani's discourses constitute the main framework around which the substance of this research is developed. It should be noted that while these two frameworks are useful in essentialising and endogenising '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 essentialises spiritual development as part of 'development'.

In organising and modelling Islamic development process around these frameworks, axiomatic approach developed mainly in 1970s and 1980s by the modern founding fathers of Islamic economics are utilised, as these provided the operational theoretical tools in articulating the

development process. For these, mainly the axiomatic discourses developed by Naqvi (1981, 1994), Ahmad (1979, 1994), Chapra (1992, 1993, 2000)) are utilised.

In operationalising and providing a methodological framework for this research, *maqasid al-Shari'ah* framework is utilised, 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'. It should be noted that in utilising *maqasid al-Shari'ah* as a methodological framework, rather than utilising 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 more useful tool in developing policy outcomes. As Siddiqi (2004) argues, Ibn Qayyimian position relates to 'goals of Islam as a way of life', and Ghazalian definition only makes 'reference to the goals of Islamic Law'..

It should be emphasised that 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 also important to note that in evaluating the performance of Islamic banks in relation to social and economic development as well as the development trajectories of the Muslim societies, these frameworks provided the main benchmarks.

1.4 RESEARCH RATIONALE AND MOTIVATION

Muslim countries around the globe have failed to achieve the same patterns of development as experienced by the Western countries. Many programs of structural adjustment through IMF and World Bank have been implemented in the Muslim world with no success. Muslim world is still lagging behind on all basic indicators of development as compared to the industrialised democracies despite having abundant natural resources. This has led in Eurocentric discourse to blame Islam for underdevelopment in the Muslim world without understanding the underlying Islamic principles to development. However, in contrast to such claims, Islam promotes the ethics of hard work and considers idleness or squandering of time in pursuit of unproductive work as the manifestation of lack of faith, but also essentialises growth through purification (*tazkiyyah*) 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), instructs human beings to persistently work for the betterment of this life and the life after.

IBF in response to accommodating different cultural and religious needs of Muslims and helping to promote much needed societal development by implementing Islamic social and economic theory, in reality has converged towards conventional finance in the first forty years of experience so far. Hence, it has failed to fulfil the institutional and policy aspirations of IME. This provides the rationale to search for alternative ways of formulating development through Islamic ontological sources and episteme, which also motivated to undertake this research project so that a fresh understanding and formulation of Islamic development can be attempted in response to the social failure of IBF.

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

1.5 SIGNIFICANCE OF THE RESEARCH

IME emerged as a response to development failures in the Muslim world with a promise to provide much needed societal development in the Muslim world. However, the exponential growth of IBF and developmental failures still faced by majority of Muslim countries around the globe indicate that the IBF industry does not necessarily share the aspirations of IME. The social failure of IBF, shows that the focus of developmentalism is mere the development of IBF as alternative to conventional banking and finance, to maximise profit rather than ethical profit. This thesis aims to propose IME as authentic response to the failure of economic developmentalism in the Muslim world in constructing human centred developmental model as opposed to the financialisation of the economy. Thus as part of constructivist attempt, this study conceptualises a comprehensive Islamic development model by integrating the worldly aspects of development with attainment of *falah* in *akbarah* through utilising the Ghazalian's ethical framework of development process. Further, alternative policies are suggested to reflection upon how such developmental goals can be realised in Islamic society with the aim of attainment *falah* in *akbarah*. Considering that there has not been any significant research attempt in the field in the last decade beyond the contributions of founding fathers in 1970s and 1980s, this study should be considered as an important yet humble contribution to the existing body of knowledge in essentialising the aspirations of IME.

1.6 METHODOLOGY

The criteria behind the selection of research methodology that guides the research activity depends on philosophical issues related to question of beliefs about the nature of reality and humanity or the sources of knowing (ontology), the theory of knowledge that informs the research or the nature of knowing (epistemology) and how that knowledge may be acquired (methodology) (Tuli, 2010). A consideration for appropriate epistemology, ontology, and methodology must be the vital element of any discourse about the nature of social science research as these aspects give shape and definition to an inquiry performed (Popkewitz *et al.*, 1979).

The aim of research is to focus up on understanding the meaning that the events have for individual being studied (Tuli, 2010), whereas, methodology is a research strategy that transform ontological and epistemological standards into guidelines that show how research is to be conducted (Sarantakos, 2005), and principles, procedures, and practices that govern research (Marczyk *et al.*, 2005). Interpretive constructivist epistemology and subjectivist ontology contained in the qualitative methodology assumes that meanings are embedded in people's experiences which is mediated through the researcher's own perceptions (Merriam, 2001).

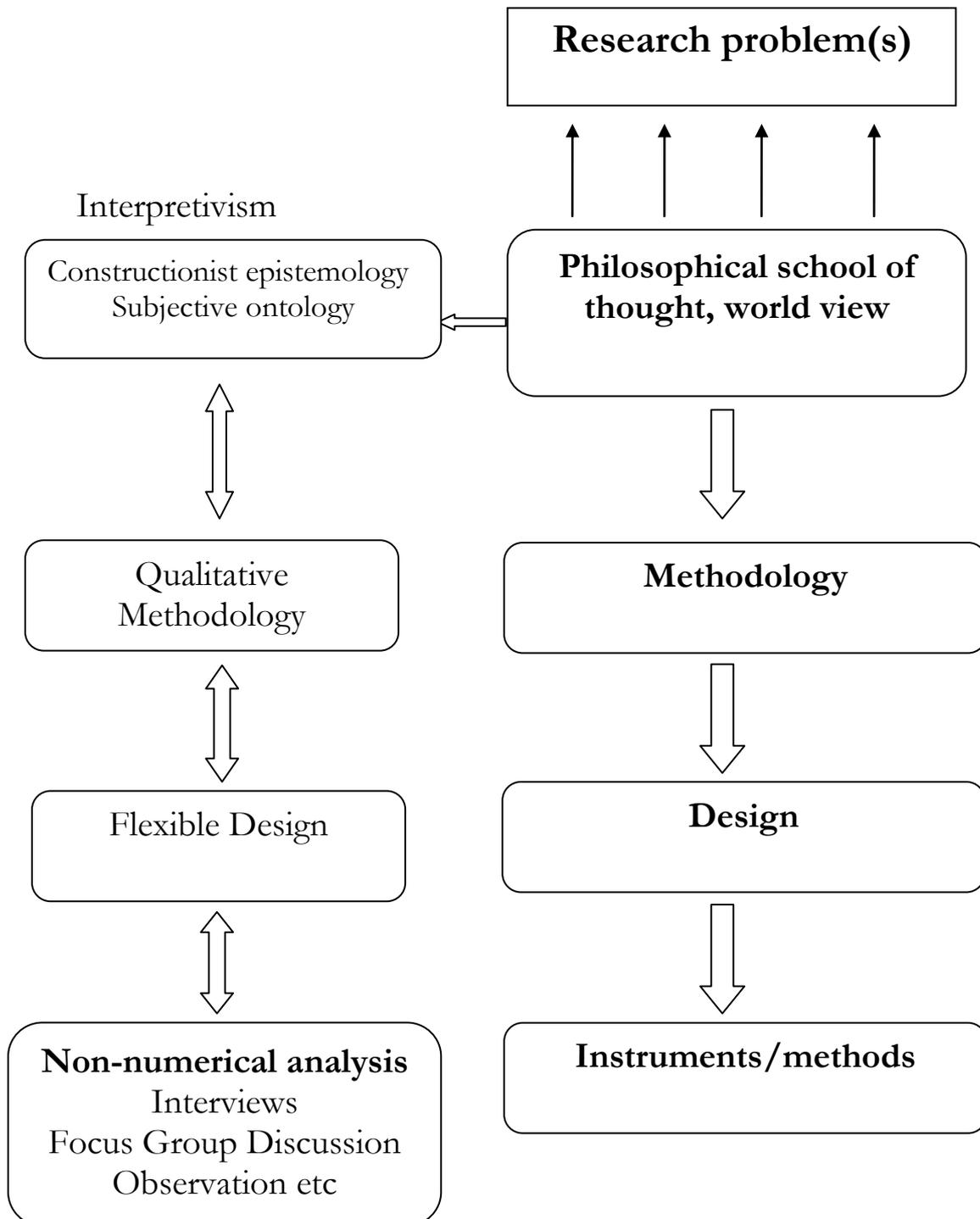
An interpretivist - constructivist approach relates to epistemological position in social science, which views the world as constructed, interpreted, and experienced by people in their interactions with each other and with wider social systems (Bogdan *et al.*, 2007; Lincoln *et al.*, 2007; Maxwell, 2012; Merriam, 2001). Following this and considering the nature of inquiry this research attempts, this study is based on interpretive approach with the purpose of understanding a particular phenomenon within the existing body of knowledge and also within the aspirational world of IME.

Following interpretivist approach, ontological subjectivism in social science research assumes that reality is the product of social processes (Neuman, 2012), which does not regard reality as being out there in the world irrespective of people; rather view reality as human construct (Mutch, 2005). Thus, interpretive research using qualitative research methodologies investigate, interpret, and describe social realities (Bassey, 1995; Cohen *et al.*, 2003) and report them descriptively in words.

Thus, in relation to this research, while ontologically 'the truth' is revealed through Qur'an in a *tawhidi* framework, however, it is the human understanding through his/her own social construct which makes meaning out of the 'revealed knowledge', and therefore in the research an aspect of

‘the truth’ is reached, which is expected to be the articulation of the ‘the truth’ according to the social construct of the researcher.

Figure 1.1: Foundation of Research



Source: Tuli, Fekedi (2010)

This research, hence, is an attempt to understand and therefore construct an Islamic development model process through ‘meaning-making’. In this effort of ‘meaning-making’ out

of ontological source, the epistemological nature of the Islamic-religious experience and knowledge informs the researcher, again, through his social construct as to how to relate to the reality.

This research mainly has two methodological approaches: a discursive approach, and a descriptive and analytical approach with empiricism. It should, therefore, be framed within qualitatively interpretative methodology, which mainly is based on epistemologically constructivist and ontologically subjectivist philosophical positioning.

The discursive analysis is used in this research as a main method of analysis, since the research is mainly theoretical and critical discourse analysis in nature. It is used as part of qualitative research methodology to identify specific characteristics in textual messages. Furthermore, textual analysis is used to critically analyse 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, financial data related to various financing activities and also financial instruments were assembled from the annual reports of the ten randomly selected Islamic banks. Descriptive statistical methods used to present the financing trend and the share of the each financing instruments in the total financing. This descriptive statistical analysis substantiates the ‘meaning-making’ effort in this research by providing the evidence to the main argument.

It can, therefore, be claimed that the research presented in this study benefits from triangulation by combining qualitative and quantitative methods of data collection and data analysis.

1.7 STRUCTURE OF THE RESEARCH

After this brief introduction chapter, the thesis is divided into eight chapters to fulfil the aims and objectives of the study, which are closely related. There are some unavoidable overlapping of discussion and cross referencing. A short overview of chapter 2 to chapter 9 is as follows:

Chapter 2 – ‘Development Theories: A Survey’ - reviews existing literature of different economic theories and approaches to development since the publication of the ‘Wealth of Nations’ by Adam Smith up to the human development theory approach to development, followed by a brief discussion about methodological controversies in economics. The purpose of this chapter is to articulate how different theories have approached the concept of development, only

incorporating the material aspect of life without understanding of spiritual aspect of development as perceived in Islam.

Chapter 3 – Justice and Development: A Critical Survey - discusses the concept of justice by providing a comprehensive overview of different theories of justice, especially focusing on three dominant competing conception of justice, namely utilitarianism, libertarianism and egalitarianism, deeply rooted in the period of Enlightenment, to show their distributive nature in a society in comprehending developmentalist efforts in Western paradigm.

Chapter 4 – Critical Reflection on the 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 level of corruption, political turmoil, economic underdevelopment, and gender inequalities to name few. In addition, this chapter also presents a discourse on how essentialist and Eurocentric scholarship links such failures with Islam, as a religion, without understanding Islamic perspective of development. After presenting Islamic discourse on development, this chapter concludes with presenting development from the pattern of revelation in Qur'an during *makki* and *madani* period of Prophet Muhammad (PBUH).

Chapter 5 – Islamic Moral Economy and Development - presents IME as an alternative to capitalism and socialism, incorporating unique value system of Islam with its axioms, distinct norms, comprehensive methodology and institutional structure, followed by a brief introduction of IBF, an operational and institutional part of IME. In addition to present IME, the concept of development in Islam is introduced to formulate goals of development through *maqasid al-Shari'ah*, using the fundamental axioms of IME, *maqasid al-Shari'ah*.

Chapter 6 – Justice and Development within Islamic Paradigm - attempts to explore the concept of justice using the epistemological and ontological sources of Islam. The aim of this chapter is to complement earlier chapter on justice with western perspective to provide a framework for a development model from Islamic perspective, as explained in chapter 4. Thus, chapter 5 and chapter 6 constitute the foundational construct of development model proposed in chapter 8.

Chapter 7 – Evaluating the Social and Development Oriented Performance of Islamic Banks and Financial Institutions - presents different principles of Islamic banks followed by evaluating the social and development oriented role of Islamic banks using recent data of financing activities of ten randomly selected Islamic banks around the Muslim world. In other words, this chapter offers a

descriptive quantitative analysis of financing activities on the asset side of balance sheet and sectoral distribution of financing activities of these banks and their impact on society as compared to the promises of IME. Furthermore, sectoral distribution of all Islamic banks in selected countries is analysed to see the overall impact. In addition, this chapter also discusses, through the existing body of knowledge, how customers of Islamic banks perceive *riba* while dealing with Islamic banks and how their investment decision are effected due to fluctuation in rate of return on their investments in deposit accounts.

Chapter 8 – ‘Conceptualising Islamic Development Process: a Discursive Attempt’ – aims to propose a humble development process from Islamic epistemology with the articulation of justice, which is the main contribution of this study. In this chapter, goals of worldly development in Islam formulated in chapter 5 are integrated with the spiritual development process utilising 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 find how such a process can be actualised in everyday life with the contribution of Islamic financial instruments and institutions. In the end, Sen’s capabilities approach is integrated in this proposed model and compare with the Islamic development process to suggest that how different functionings from Islamic development process can benefit from the methodology of Sen’s capabilities approach.

Chapter 9 – ‘Conclusion’ presents a summary, conclusion and recommendation.

Chapter 2

DEVELOPMENT THEORIES: A SURVEY

2.1 INTRODUCTION

Development may be defined as improving life for everyone regardless of citizenship, race, or religious orientation. Sen(1999) places the well being of human at central stage, seen as both the goal and the means of development, not just merely a spurious side effect. Sen's approaches is exclusively focused on human potential and how it can be liberated both as a mean for improved economic performance and as the very purpose of economic and social activities. According to Sen, achievement of development requires the removal of poverty, tyranny, lack of economic opportunities, social deprivation and neglect of public services and the machinery of repression.

Economic progress is an essential but not the only component of development. In an ultimate sense, development must encompass more than the material and financial side of people's lives to expand human freedom. According to Herrick and Kindleberger (1988: 48), theory of economic development could not be compared to a theory of economic growth, as the latter is simple, elegant and easy to explain while in contrast, theories of economic development are general, vague and chaotic. Piasecki and Wolnicki (2004) while calling the legacy of the last 50 years of development as uninspiring argues that twentieth century development theories focused on the choice between the market and the state as well as individualism versus collectivism, but did not take into account the socio-cultural complexities of the world they were trying to model. Hence, modern development economics must do better in understanding the different objectives and paths of growth. In this chapter, different economic theories and approaches to development since the publication of the wealth of Nations are discussed in details to show one-dimensional nature of these theories. Such theories of development are in contrast to Muslim understanding of development, which is multidimensional in nature. Development in Islam aims at the attainment of *falah* in *akhirah* as an ultimate goals, however, the path to this ultimate goal is through the material world. Thus attainment of wealth and other material aspects are promoted as long as they help one to achieve *falah*. The purpose of the survey of economic and development theories is not to reject these theories but to show their limited approaches toward development, and which have failed to show any understanding of different aspects of development from Islamic perspective. Hence, to provide a rationale for developing a system,

that not only incorporates the materialistic aspects of life, but also takes into account the spiritual aspect of development in the Muslim world.

2.2 CLASSICAL ECONOMICS

‘Classical economics’ refers to a period of mainly British economic thought started from the publication of Adam Smith’s book *The Wealth of Nations* (1776), to the publication of John Stuart Mill’s *Principles of Political Economy* (1848), a year marked by liberal revolutions throughout Western Europe, a period in which the framework and bedrock ideas of economics as a separate field of enquiry were provided. Classical economics was part of a larger intellectual system of political economy contained within the even broader liberal philosophy of the British and European Enlightenments. Classical economics originated modern theories of growth and development. The classical economists equated economic development with growth (Eltis, 1987; Meade, 1961), however in post 1945 literature, these two terms became increasingly separated and even conflicting (Herrick & Kindleberger, 1988). The classical model of economic development is not the work of just one person, rather it is the collective contribution of many western economic thinkers, most notable Adam Smith (1776), David Ricardo (1817), Robert Malthus (1798) and John Stuart Mill (1848).

Adam Smith (1723-1790), Scottish moral philosopher, in *The Wealth of Nations* (1776), claims that all human share certain characteristics, whether innate or resulting from the faculties of reason and speech, which he describes as “propensity in human nature . . . to truck, barter and exchange one thing for another” (Smith, 1776: 12 ,Book I, Chapter 2). Individuals, according to Smith, are inherently “self-interested”, focused on making money. Smith asserts that “it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from regard to their own interest” (Smith, 1776: 13 ,Book I, Chapter 2). So the modern economy works best through interaction of inherently self-interested individuals. Smith argues that “self love”, to get the others to do what he or she requires, should be self regulated by the disciplined, rational modern individual, and should that prove insufficient, then selfishness, in the form of greed, should be limited by laws made by the state. In this way, he says, justice rather than pure selfishness should be the basis of society—with “justice” basically meaning regulated, principled self-interestedness (Fitzgibbons, 1995; Smith, 1776).

Smith (1776: 15, Book I, Chapter 2) while explaining the economic growth, argues that due to “division of labour”, markets and trade, some countries achieved high growth and became

wealthy. Smith further proposes that relatively free trade organized through networks of market, would lead to an efficient allocation of productive resources. According to Smith, a society activated by self-interest needs to be regulated but these regulations are not to be provided by the state rather come from competition among free individuals acting as buyers and sellers in the market place. Smith used the concept of invisible hand to explain the force of supply and demand working in competitive economy to attain equilibrium. In such competitive economy, Smith argues, individuals desire for consumption of goods and services combined with self-interest drives of the producers of these good and services to maximize profit will tend to determine the levels of output and prices.

David Ricardo's (1772-1823), a radical philosopher, main contributions to the classical economics is a theory of free trade based on the principle of comparative advantage and diminishing returns, published in *Principles of Political Economy and Taxation* (1817). His theory has the merit of demonstrating clearly the classical view of trade as the engine of growth as opposed to early closed "stagnated" economy. Ricardo (1817: 81), while expanding on Smith's insight, declares:

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilised world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

According to Ricardo, producing in accordance with comparative advantage and trading freely across borders generates economic growth. Ricardo argues that trade and progressive extension of labour market would increase the profit in the country, eventually leading to more efficient international division of labour as suggested by Adam Smith.

Paul Samuelson and William Samuelson (1980: 630), accepting Ricardo theory, conclude that the principle of comparative advantage makes real incomes higher in all places, while ill-designed tariffs or quotas reduce efficiency and incomes. Paul Samuelson (2001) calls this principle the "unshakable basis for international trade". In brief, the Ricardian trade is capitalist growth, good for profit.

Thomas Robert Malthus (1766-1834), in his *Essay on the Principle of Population* (1798), advances a deterministic theory of economic development. According to Malthus (1798, Book I, Chapter 6), population-food dynamics are determined by three 'propositions' governing human progress:

1. Increase of population is necessarily limited by the means of subsistence.
2. Population invariably increases where the means of subsistence increase, unless prevented by some very powerful and obvious checks.
3. These checks, and the checks which repress the superior, power of population, and keep its effects on a level with the means of subsistence, are all resolvable into moral restraint, vice and misery.

Malthus in his theory of population argues that poor are responsible for own misery and even government cannot do anything about this state of affairs. Malthus suggested preventive or voluntary checks and positive checks, by controlling the population growth, to reduce the difference between limited food production and rapidly growing population (Malthus, 1798, Chapter 4 - 5). Malthus was strongly against monetary transfer from rich to poor individuals. According to Malthus, such transfers will increase the welfare of poor, eventually leading to make them think that they can support a bigger family, which would in turn worsen their living conditions and depress the preventive check, thus will generate higher population growth (Abramitzky *et al.*, 2003).

John Stuart Mill (1806-1873), in *Principle of Political Economy* (1848), argues that the economic law of diminishing returns is restricting productivity and growth in the agricultural sector in which additions to the labour working agricultural land are not met by equal additions to product, as opposed to the manufacturing sector in which productivity can be increased almost without limit by increasing labour input. Hence, economic growth is naturally led by industry rather than agriculture. Nevertheless, Mill's most significant contribution to classical political economy and economic growth theory lays in his ideas about values (Peet *et al.*, 2009: 40). Mill differentiated science from values, arguing, while the "scientific laws" of economics applied to production, the distribution of wealth is a different matter entirely, being more a question of values, laws and customs (Peden, 2008). According to Mill, societies based on their value systems, could decide to redistribute wealth through state intervention (Schafer, 2008: 48).

Classical Economics for the first half of the nineteenth century, combines the Smithian concepts of self interested, rational and competitive behaviours of capitalists in the economy with different apparatus of specialization based on the Ricardian's comparative advantage, linking

markets, expanding trade with innovation specifically in industry (Peet & Hartwick, 2009). It is assumed in classical economics that man is naturally self interested and competitive, however, this makes other economic practices such as cooperation, the desire to work for common good and organize production to meet the needs of others ‘unnatural’. In fact human being as Mill characterizes, capable of living and performing in accordance with finer ideal.

Furthermore, classical economics assumes that profits, rent seeking and wages are all legitimate shares of national incomes, however, profits and rents are much higher than the reward for labour in the form of wages. Therefore, these assumptions are not class neutral rather class committed. Similarly, Ricardian’s notion of comparative advantage assume production as continuous and absolute while in real life events such as natural disastrous are outside the control of human, which can disrupt the production. Furthermore, Ricardo’s theory of comparative advantage and free trade is based on homogeneity of labour and labour theory of value, whose validity has been questions. The assumption of homogeneity of labour or ‘approximation of labour’ is unrealistic since labour varies in skills and productivity. With high degree of specialization and non mobility of labour across different occupation, wages differentials are quite likely in short term, which in return would affect both domestic and external rate of exchange of commodities. Furthermore, labour is not the only factor of production as goods are produced by a combination of several factors of production across different industries; therefore, the labour theory of comparative advantage would not apply (Dwivedi, 2008). According to Mehmet (2002: 38), Richardian theory of comparative advantage in global context is Eurocentric, even the theory appears objective and universalistic at first sight. It rationalised exchange of British industrial goods for cheap agriculture products and de-industrialised British Indian and other colonies in the process (Stavrianos, 1981). One of the crucial flaws with Richardian theory of comparative advantage according to Mehmet is that the analysis in comparative advantage is strictly ‘static’ based on constant costs and no productivity gains due to technical progress or learning by doing.

Malthus theory of population, according to Mehmet (2002: 40), was anti-labour and pro-capital as he claimed that working classes merely consumed what they earned and moreover, unless their ‘vices’ are checked, they would over-populate and over-consume, becoming drag on economic growth.

Karl Heinrich Marx (1818-1883), unlike Smith, Malthus, and Ricardo and most other classical economists, does not assume capitalism to be immutable or to be natural order of society. According to Cypher and Dietz (2002), Marx considers capitalism one stage of a society’s

historical development, began with primitive communism and then evolved toward slavery, feudalism, and eventually to capitalism, however, this historical progression did not take place in all countries simultaneously or at the same speed. Marx (1848) argues that the uneven distribution of the ownership of means of production in society is due to the consequence of a historic process in which former peasants lost access to land. Hence they were forced into cities to become workers because of the ‘Enclosure Movement’ in England and similar processes at work around the globe. Thus he argues that the ultimate distribution of income in capitalist society is unfair and a reflection of historical power relationships and therefore it has nothing to do with productivity (Cypher & Dietz, 2002). Marx believes that, over time, workers would seize political and economic power from the minority class of owners as they come to grasp the nature of their exploitation by capitalists (Girling, 2010: 29). Like other classical economists, Marx believes that the dynamics of capitalist economies are rested on physical capital accumulation which encourages greater productivity, all in pursue of more profit (Cypher & Dietz, 2002: 127).

2.3 NEOCLASSICAL THEORIES

End of World War I, also marked the end of old colonial trading system, however, it did not end flawed economic development theorizing from the west. Economists started shifting the emphasis of economics from the broader macroeconomics of growth and development to a much narrower concern with the allocation of fixed quantity of scarce resources to their best use with given institutions. Economics became a specialized scientific discipline fascinated by calculus, algebra, and plane geometry. This turns to efficiency as a focus from the growth of national wealth led to a more static and marginalist perspective for economics. The marginalist movement in economics began in earnest when three theorists—W. S. Jevons (1888), Carl Menger (1871), and Léon Walras (1874) independently and almost simultaneously developed the idea of “marginal utility”. It was the theories of these marginalist trios that focused on microeconomic foundations of economic theory, with discussion centred on the positive and normative nature of economic theory. Walras however, found no qualitative difference between the descriptive and prescriptive aspects of discipline (Keita, 1992). These three marginalists thinkers specially Walras’s conception of general economic equilibrium provided a consistent theory of value within the general utilitarian philosophical perspective, thus separating old-fashioned classical economics from modern, scientific neoclassical economics (Hunt, 1979).

In England, Alfred Marshall (1842-1924), proposes a model of efficient production through minimization of the cost of production in book *Principles of Economics*, first published in 1890.

Marshall, like Mills, is interested to know whether it is possible for all people in the world to start with a fair chance of leading a cultured life, free from the pains of poverty and the stagnating influences of excessive mechanical toil. According to Marshall (1890), a shortage of any good or service in the economy bring a rise in its price that in turn calls forth additional resources to produce it, creating a greater supply and a reduction in its price. Hence, economic changes occur through smooth and continuous adjustments.

The Australian school of economics, mostly contributed by Friedrich von Wieser (1927) and Eugen von Bohm-Bawerk (1890), is abstract and anti-historical in method. Wieser replaces the classical search for the original values of factors of production with notion of “opportunity costs” and sees value as a circular process in which various factors are employed so that their alternative uses produce the same earnings (Mitchell, 1917). While Bohm-Bawerk focuses on the roundabout (time-consuming) nature of modern production, that is, the large number of stages intermediate between original factors of production and final consumption that creates a demand for capital and justify the charging of interest on capital in any kind of economy, socialist or capitalist. The roundabout nature of modern production is the process where capital goods are produced first and then, with the help of the capital goods, the desired consumers’ goods are produced. As a general rule, there exist recipes for capital goods the physical productivity of which exceeds the sum of the physical productivities of the land and labour used in their construction. Vilfredo Pareto (1906; translated into english in 1971) further develops Walras’s general equilibrium in the achievement of an optimal economy, Pareto optimality, where supply meets demand in productive harmony organizes through markets (Jaffé *et al.*, 1972).

Neoclassical economics leads to the conclusion that markets are generally competitive, usually result in optimum levels of production and allocation. Within this paradigm, the role of government is limited to promote economic ends, providing adequate schooling and encouraging savings and investment. Thus, due to this romanticised view of government, neo-classical paradigm does not endogenise the government in the economic analysis.

While neo-classical school justified the rationale for government intervention through market failure, political economy as re-emerged in 1960s within neo-classical school articulated the idea that ‘government fails’ and therefore this romanticised view of government should be given up for the organic state understanding. By bringing the state into the economic analysis alongside institutions, a return to the old wisdom of classical school within the political economy paradigm set in.

Political economy, as a social science, defined by Tabb (1999: 15), as “the study of the mechanisms used or usable by society to operate social economy, understanding the social economy to be comprised of the tools, institutions and human energies that produce goods and services”, where according to Tabb (1999: 15),

Social choices in production and distribution are constrained by governance structures and a cultural economy of attitudes, norms, and values embedded in the historically specific institutions of a society.

While such an understanding of political economy prevailed until the latter half of the nineteenth century, the political economy later was split into economics, political science, sociology, social history, social psychology, and social philosophy (Clark, 1998), through the help of the marginalist movement. The dichotomy of separating economic as science from political economy as an art is based on the notion that a professional economist, like a professional engineer, is an objective scientific expert who cannot afford to consider the demand of political economy and ethics (Siddiqi, 2001). With such a specialised but also partial analysis, the political, social, cultural, historical, and psychological dimensions of human existence are relegated to other disciplines, while neoclassical economists have focused on the individual pursuit of material well-being in the market, while borrowing impressive theoretical and mathematical techniques largely from nineteenth century physics (Clark, 1998).

Neoclassical economics has downplayed the importance of cultural relativism to development, using simplifying assumption across different societies that human beings are rational, self interested utility maximizing individuals, *Homo-economicus*, while disciplines like sociology have tended to believe that cultural norms pervade economic life and that later cannot be understood from them (Granovetter, 1985). The aim of neoclassical economics is to present itself as an objective science of society, thus representing the economy in the abstract terms of a single equation. This is a product of modernity’s assumption that all the societies would convergence towards the Eurocentric reality of knowing by getting out of their own specific ontological and epistemological knowing of the social reality. In order to present this elegant mode, neoclassical economists over simplified the complex subjectivities into objective modes of behaviour and strips away the environments of economic action so that the economic world became a sterile plain populated by clockwork ‘people’ (Peet & Hartwick, 2009). However, as noted before, development is a multidimensional approach, therefore development theories need to be not only based Eurocentric knowing about facts and social reality in this case economic reality but also to employ cultural specific values, institutions and environment in the economic analysis by integrating input from cultural anthropology, sociology, politics, history and policy studies under

the umbrella of political economy. Thus, re-emergence of new political economy by endogenising state and also institutions in the economic analysis at the same time represents a multidimensional approach to economic and development issues, which is indeed a welcome development. While it expresses itself within neo-classical paradigm, it extends the analytical tools and subject areas of neo-classical school beyond their definition of economics as an objective reality. Considering the development needs of the third-world countries, a culture specific and multidimensional approach can help to understand and diagnose the problem in a much better way.

2.4 KEYNESIAN ECONOMICS

John Maynard Keynes (1883-1946), a Cambridge economist and the architect of the new macroeconomics, had little influence on early formation of the economic development (Toye, 2006), however, two parts of his work is traditionally said to have significance impact on development economics. The first is Keynes invention of macroeconomics of employment, provides the accounting structure for national development structure. The second is his contribution to the construction of the Bretton Woods international economic institution, including his proposal for commodity price stabilisation. Later his disciples like Joan Robinson and Austin Robinson contributed to the early construction of development economics (Harcourt, 1998: 367-77). In *General Theory of Employment, Interest and Money* (1936), Keynes favoured state intervention through deficit financing and the magic of multiplier to increase the aggregate demand and achieve full employment.

During the post-war period of Keynesian dominance, growth was seen as a source of progress. Economic mechanism by which more investment trigger economic growth was elaborated by Harrod-Domar Growth Model named after economists Roy Harrod (1939) and Evsey Domar (1946). According to their model, increasing economic growth is basically dependent on increasing the saving rates of a country, sometime through the state budget, using these saving funds to invest in the growth of economy. The state needs to encourage savings enabling different firms in the country to produce more output with less capital (Van den Berg *et al.*, 2007: 82-85).

Robert Solow (1956) proposes '*The Solow Neoclassical Growth Model*', further expands the Harrod Domar formulation by adding a second factor, labour, and introducing a third independent variable technology to the growth equation. Solow argues that a balance rate of investment keeps

the growth of the capital stock equal to the growth of the labour force. If actual investment exceeds balanced investment, the amount of capital per worker grows until it reaches a level consistent with full employment—the steady-state point. Hence, shows that the neoclassical growth model is stable. It has the self-adjusting mechanism that guarantees a return to equilibrium. Solow in another article, *Technical Change and the Aggregate Production Function* (1957), argues that increase in capital and labour cannot be the only factors that trigger economic growth as the case in USA. Solow claims that portion of economic growth is attributed to technological innovation. In Solow's model, growth in real incomes is exclusively determined by technological progress.

An interesting implication of the Solow Neo-classical model for economic development is that poorer nations, while assuming equal rates of saving and investment and growth rates of population, would be expected to grow faster than richer nations. In other words, ultimately two countries with same rate of savings and the same population growth will tend to have the same level of real income per capita (Mankiw *et al.*, 1992).

2.5 DEVELOPMENTALIST THEORIES OF ECONOMIC DEVELOPMENT

At the end of World War II, economists in the industrialized nations had no readily available conceptual apparatus with which they could analyse the process of economic growth and development in largely agrarian societies that were lacking modern economic structures. But the only recent experience economists had was Marshall Plan, under which massive amounts of U.S. financial and technical assistance enabled the war-torn countries of Europe to rebuild and modernize their economies in few years. Historical experience in transforming the economies of European countries from poor agricultural subsistence societies into modern industrial giant had important lessons for the underdeveloped economies in the rest of the world. The success of these two strands of thought- the massive financial injection of capital and the historical experience of the now developed countries- was too irresistible to be refuted by scholars, politicians and administrators in developed countries. Among these early pioneer thinkers of development, the most prominent are Finnish economist Ragnar Nurkse, the Austrian economist Paul Rosenstein-Rodan, the German-born economist Albert Hirschman, the West Indian and later Nobel Laureate economist Sir Arthur Lewis, and the American economic historian Walt Whitman Rostow. They formed a loose school of thought on the issue of economic development emphasizing a less theoretical and more historical and practical approach

to the question of how to develop underdeveloped nations— particularly in relation to those who stressed the applicability of neoclassical models, such as the Solow model discussed above.

The most influential advocate of the stages of growth model of development is the American economic historian Rostow, who claims that the transformation from the underdevelopment to development can be described in terms of a five stages of growth through which all countries must proceed. In his book, *The stages of Economic Growth*, Rostow (1990: 1) states that:

I have gradually come to the view that it is possible and, for certain limited purposes; it is useful to break down the story of each national economy – and sometimes the story of regions- according to this set of stages. They constitute, in the end, a theory of economic growth and a more general, if still highly partial, theory about modern history as a whole.

According to Rostow, the advanced countries have all passed the early stages of development and have now moved into self-sustaining growth. While under-developed countries according to Rostow, are still in either the traditional society setup or the ‘precondition’ stage. These under-developed countries have to follow certain set of rules of development to take off into self sustaining economic growth. According to Rostow, one of the principle strategies of development necessary for under-developed countries for any takeoff is the mobilization of domestic and foreign saving in order to generate sufficient investment to accelerate economic growth.

Many development economists however, who have reviewed the historical record have found that the Rostow’s stages of development does not accord with the history most of the countries who moved beyond the take off stage into self sustained growth. Albert Fishlow (1965) argues that in the now developed countries there is no major sudden jump in either investment or the rate of growth in most countries rather there was a gradual increase in the rate of investment and growth in most countries and sharp rise in investment and growth in only some. Simon Kuznets (1971a) similarly argues that a review of the economic history of the now-developed nations does not show sudden significant rise in the rate of savings during what might be considered their take-off stage. Kuznets (1971b) further points out that when the now-developed nations move into the take-off stage, they do so at per capita income levels much higher than those prevailing in the less-developed world currently. Nicholas Crafts while confirming the analysis of Fishlow and Kuznets, suggests that based on the recent work we “discard Rostow’s linear model”: According to Crafts(2001: 313):

Rostow’s notion of the takeoff seems to be completely discredited. GDP growth [in Britain 1780–1830] exhibited at steady acceleration over perhaps half a century ... and

there is no sign of the rapid doubling of the investment rate postulated by Rostow. The notion of leading sectors has also fared badly....

Paul Rosenstein-Rodan (1902-1985), an Austrian economist, in his article, *Problems of Industrialisation of Eastern and South-Eastern Europe* (1943) formulates a theory of the Big Push, about how a country may create the conditions for economic progress, where growth and development has not already arisen spontaneously. He devises this theory based on his research conducted during the Second World War. Rosenstein-Rodan, after analysing the economic structures of a number of poor Eastern and South-East European nations, draws a number of conclusions which have become the core of development economics emerging after the war. Rosenstein-Rodan's work centres on taking advantage of the increasing returns from large scale planned industry projects across several major sectors of the economy simultaneously in order to get out the economy out of its vicious cycle of poverty. Nurkse (1953: 15) while agreeing with Rosenstein-Rodan states that:

A wave of new investments in different branches of production can economically succeed, enlarge the total market and so break the bonds of the stationary equilibrium of underdevelopment.

This 'big push' of simultaneous industrial investments would launch a chain reaction in investments that could then ripple in many directions through the economic system. Rosenstein-Rodan argues that to start economic development in a less developed nation, it will require a substantial "push" from government to create, effectively, an entire industrial structure in one huge and interlocked undertaking. Rosenstein-Rodan (1984: 209) further argues that

The market mechanism alone will not lead to the creation of social overhead capital, which normally accounts for 30 to 35 percent of total investment. That must be sponsored, planned, or programmed (usually by public investment). To take advantage of external economies (due to indivisibilities) requires an "optimum size" of enterprise to be brought about by a simultaneous planning of several complementary industries.

Rosenstein-Rodan's (1984) thesis is seen as applicable to the problems faced by many Third World countries, however, his contribution is not only limited to creating 'big push' to trigger development process, Rosenstein-Rodan further claims four innovations. First he stresses that disguised unemployment, workers especially in agriculture, whose work effort results in relatively little increase in total output can be tapped to create the vast public works of social overhead capital or infrastructure which would be necessary for development without reducing economy output. Second, Rosenstein-Rodan shows that by emphasizing the complementarity, and the external economies of distinct investments, large scale investment can have greater impact on overall economic growth than might be expected based on calculation of individual

entrepreneurs alone. Rosenstein-Rodan third innovation highlights social overhead capital, which he claims, should lead the expansion of consumer-goods-manufacturing investment if the latter is to be successful. According to Rosenstein-Rodan his fourth innovation is that “big push” can result in technological external economies in the terms of workforce training. Rosenstein-Rodan maintains that appropriate labour training is of equal or perhaps even greater importance than capital accumulation in the process of industrialization and economic development. However, Big Push theory failed to repeat the European success story in the Third World countries. According to Ellis (1958) strong interventionist assumptions were the reasons of failure while Streeten (Streeten, 1963) noted that ‘investment is not the only component’ and cautioned further against careless use of western concepts. However, in recent years interest in Rosenstein-Rodan’s big-push theory has grown as his ideas are formalized by Kevin Murphy, Andrei Shleifer and Robert Vishney (1989) and his views are increasingly quoted by advocates of endogenous growth theory.

Ragnar Nurkse (1907-1959), like Rosenstein-Rodan, emphasizes on the simultaneous, coordinated expansion of several sectors. According to Nurkse (1953), individual business or single industry alone attempts to raise its output level by increasing its individual capital investment is deemed to run the risk of not finding a market for its product due to a low level of overall average income of individuals in under-developed countries. The only solution according to Nurkse is via balance growth. Nurkse states that large number of industrial sectors will result in large scale increase in the supply which would be met by a large scale of increase in demand at the same time created by the same expansion. Unlike Rosenstein-Rodan, Nurkse approach is not dependant on the dominance of the public sector; rather according to Nurkse vibrant fiscal policies can have a positive effect on the prospect for development without large scale government contribution in production decisions. Nurkse advocates that measurements like forced saving through an increase in taxes on higher income recipients can boost the overall savings, which can be then allocated to the most promising industrial sectors specially via government operated development banks. Nurkse argues that on the supply side, industries can be encouraged to increase their capital formation and raise their productivity by taking advantage of availability of loans from the development banks and protection provided by the government for infant industry against cheaply manufactured imports from technologically advanced countries. Similarly demand side can be equally balanced by creating markets for domestically produced goods especially via tariffs against potentially competing imports, a strategy which, later became known as Import Substitution Industrialization.

Albert O. Hirschman, an influential economist, during his four year tenure as adviser to the National Economic Planning Board in Columbia, developed the concept of ‘unbalanced growth’ in his major work, *The Strategy of Economic Development* (1958). Hirschman working experience in less developed country enabled him to express a set of ideas which possessed greater applicability and specificity to economic development that was lacking in the abstract and aggregative approaches employed by Rosenstein-Rodan, Nurkse and other developmentalists (Cypher & Dietz, 2002). In his book, *The Strategy of Economic Development*, Hirschman accepts “Industrialization First” strategy expressed by both Rosenstein-Rodan and Nurkse, and that the key to rapid industrialization is in large scale capital formation in several industries and sectors. According to Hirschman, less developed countries need a big push without which there would be either a slow rate of economic growth or no growth at all, however, a big push should be only for limited range of industries with the idea that by encouraging development in only few properly planed industries first, creating over capacity in these sectors, while at the same time supply bottlenecks would increase production elsewhere in the economic structure, which will create new investment opportunities to resolve the supply inadequacies. In Hirschman’s view, market disequilibrium can be utilized to stimulate economic progress. Hirschman presents the idea of industrial linkages to elaborate his imbalance growth strategy. According to Hirschman, when one industry is strategically expanded, it requires inputs from other industries in the economy to be able to produce according to the plan, which Hirschman term as backward linkages. On the other hand, forward linkages of the strategically chosen industry are created when an industry sells and transport its production to other firms and sectors in the economy. Thus the production of one firm in one industry has multiplicity of backward and forward linkages with other firms in different industries, creating a triggering effect on the whole economy. However, Hirschman was aware of resource scarcity in the form of investment and skilled labour in less developed countries. Hirschman warns that unbalancing development in one sector can leave another sector worse off leading antagonistic growth process. So, Hirschman (1992) argues, both efficient allocation and effective reallocation of resources must be considered at the same time to avoid such situations that lead to antagonistic growth process.

Sir Arthur W. Lewis (1915-1991), one of the only four development economists to have been awarded the Nobel Prize in Economic Science, in his classic work, *Economic Development with Unlimited Supplies of Labour* (1954) proposes one of the best known models in development economics. Like Rosenstein-Rodan, Nurkse and Hirschman, Lewis was quite optimistic that hidden potential of labour could be tapped in the less developed nations to promote rapid economic development. Lewis also shared their conviction that the way to escape poverty and

reach a higher level of economic and social progress was through industrialization. However, Lewis idea of supporting industrialization was quite distinct from others. Lewis in *Aspects of Tropical Trade, 1883-1965* (1969) argues that increase in incomes and level of production in developed countries will produce stronger demand for the traditional primary exports like tropical products and raw materials of less developed countries. Thus promoting such exports to developed countries promises higher levels of export income in future. Lewis further states that growing gap in wage level between less developed and developed nations is the result of differences in the productive structures. According to Lewis, already developed nations have large industrial and manufacturing sectors, employing majority of labour force, while agricultural sectors comprise relatively small proportion of labour force. This is in contrast to less developed nations, where most of the labour force is occupied in rural areas having agricultural production as their primary activity. Because productivity per worker is higher in both industrial and manufacturing sectors, therefore higher wages are paid to workers compare to agricultural sectors. Since wages are an important component of costs in labour intensive manufacturing processes, Lewis argues that less developed countries can easily achieve comparative advantage based on their relatively lower wage costs, if these countries restructure their economies toward manufacturing sector. Lewis claims that higher level of manufactured exports from less developed countries can be easily absorbed by the growing world market and does not need to spark a defensive reaction in the advanced nations in terms of new tariffs and other barriers. Lewis while utilizing the Keynesian concept of surplus labour proposes that taking agricultural workers out of this sector and employing them in industry would have no decline on the agricultural production at all. Lewis is unconcerned about the point when the unlimited supply of labourers finally depletes, arguing that at that point, the objective of transforming the economy would already be achieved. Furthermore, standard of living would improve with high wages, reducing the gap between poor and rich nations considerably. In such transformation, Lewis also views the role of government an important component of development, as achieving development is not possible without political will.

However, Lewis model ignores institutional factors such as government labour standards and unions, which influence the level of wage determination in the industrial sector. These factors result in moving up wages for permanent workers in the industrial sectors, thereby eroding the potential comparative advantage in wage cost and making the Lewis projection less effective for economic development.

A common characteristic of development theories was consistent with the prevailing economic notion of the post war era – the nation state was to be stronger and active in promoting economic growth. The theory of development focused on elaborating the benefits of state control over key sectors of national economy. However after failures of economic policies in Mexico, Brazil and Bolivia, it became obvious that massive borrowing alone would not solve their problems and new approach was required. Development economists became sceptical about the role of state and politicians (Naqvi, 2002). The politicians were criticised for being mostly concerned about their own political survival and representing only the interest of small but influential class (Balasubramanyam *et al.*, 1991). Thus the governments became a problem rather a solution to development.

Nevertheless, until the 1980s, against the anticipation of eminent economists with their non-market theories and concepts, third world countries failed to achieve development, with the exception of the Gulf nations. Even in countries like Qatar, Kuwait and Saudi Arabia employment gains were generally unsatisfactory. Inequality and poverty grew in the developing countries. Hirschman (1981) wrote that the hopes for economic growth in the third world by economists in the 1950s and 1960s had been lost. Such view was equally supported by Streeten (1984: 121) when he wrote: “at the end of the day we must admit that we do not know what causes underdevelopment, and, what is worse, we lack a clear plan and timetable for further scientific research”.

2.6 HETERODOX THEORIES OF ECONOMIC DEVELOPMENT

Heterodox economics refers to school of thoughts that are considered outside of the mainstream orthodox economics. Heterodox economists contrary to developmentalists do not believe that relatively minor changes in the existing economic condition can initiate economic progress in less development countries such as an increase in foreign aid or a sudden increase in investment will be sufficient enough to create the “big push” or the “take off” in to sustained economic growth. In deed many heterodox economist believe that such limited changes will instead result in a strengthening of backward socio-economic frameworks, consolidating adverse path dependence. Heterodox school of thoughts in economic development reached its maximum point of influence in the late 1960s and early 1970s. Among the prominent heterodox thinkers, the most influential are the Raúl Prebisch and Hans Singer representing Latin American Structuralists; Clarence Ayres and Gunnar Myrdal from the Institutionalists; Paul Baran and

Fernando Henrique Cardoso from the dependency school; and Bill Warren representing the classical Marxist approach in its more modern form.

2.6.1 The Latin American Structuralists

Latin American school of structuralist economics evolved with the creation of the Economic Commission for Latin American (ECLA) in 1948 by United Nation. Structuralists argue that some aspects of both orthodox economic theory and developmentalist theory are inapplicable to less-developed countries which are structurally and institutionally different than developed nations specially the Ricardan theory of comparative advantage and international free trade supposedly derive from specialization and trade. As structuralism is concerned with the totality of a social system and interaction of the different component elements within the system, Latin American Structuralists challenged the “harmony of interests” assumption in market transactions that have been propagated in economic thinking since Adam Smith. According to Gabriel Palma (2008: 136):

The principal characteristic of structuralism is that it takes as its object of investigation a “system”, that is, the reciprocal relations among parts of a whole, rather than the study of the different parts in isolation. In a more specific sense this concept is used by those theories that hold that there are a set of social and economic structures that are unobservable but which generate observable social and economic phenomena.

Raúl Prebisch (1901–1986), Latin American structuralist economist, is known for proposing that the world economic system consists of two connected systems – an industrialized centre and an underdeveloped periphery, wherein the latter is dominated by the former. During the Great depression, Prebisch noted that the export prices of agricultural and other primary products fell much further and faster than did the prices of manufactured or secondary products. Prebisch along with his colleagues at the Argentine central bank in 1937 started developing the theory that in manufacturing market, supply of output is relatively price elastic while on the other hand, in agricultural market, supply is relatively price inelastic. Prebisch viewed this due to more supply control of industrial products compare to agricultural goods, where producers were less organized. Prebisch in his study, *The Economic Development of Latin America and its Principal Problems* (1950), based on UN report entitled *Relative Prices of Exports and Imports of Underdeveloped Countries* (1949), argues that in the existing international division of labour, in which industrialized countries in the centre export manufactured goods to the periphery and the less-developed peripheral countries export primary products to the centre, all the benefits of trade go to the centre and none to the periphery. United Nations study in 1949 concludes that, based on data from late nineteenth century to the late 1930s, “On the average, a given quantity of primary

exports would pay, at the end of this period, for only 60 per cent of the quantity of manufactured goods which it could buy at the beginning of the period". Prebisch, while using the same set of data, reached the conclusion on the unfavourable effect of the existing trade patterns on the periphery. Prebisch study based on UN data soon came under attacked by those who rejected the flawed methodology of UN study to measure the prices of exports and import, therefore, his study was rejected. However, John Spraos (1983) and Prabijit Sarkar (1986) after adjusting the prices for both shipping costs and the changing quality of traded goods supported the basic hypothesis of Prebisch. The most recent confirmation of Prebisch's view is done by Alfred Maizels, *et.al.* (1998), who show a decline of the net barter terms of trade (NBTT) of roughly 4% per year from 1979 through 1993 between all developed and developing countries. The same conclusion about Prebisch hypothesis is also supported by IMF (1994: 350-2) based on Borensztein, *et al.* (1994)). Sapsford and John-ren Chen (1998) note in their study that since Prebisch's ECLA study *none of the ten major published empirical studies has refuted the Prebisch*. In addition, José Antonio Ocampo and María Angela Para (2007: 163-5) while examining twenty four studies published from 1985 to 2005 found only five studies with no significant trend however revealed long-term deterioration of the terms of trade and remaining nineteen showed a significant negative trend. According to Cypher and Dietz.(2002) if Prebisch is correct in his conclusion that terms of trade are against developing nations then it is necessary for successful program to either adopt programmes that highlight internal changes which would restructure economies in peripheral more toward the domestic market shifting away from the exports or develop a new manufacturing and secondary production export related strategy than the export of primary products. However Cypher and Dietz further argue that abandoning raw material export by developing countries is viewed a radical and theoretically groundless step by the more orthodox economic thinkers.

During work with ECLA, Prebisch advocated the strategy of Import Substitution Industrialization (ISI). According to this strategy, a country begins to manufacture the simple, consumer non-durable goods to replace goods that are being imported. The success of this strategy however requires the government through effective tariff barriers to restrict imports of goods that are now locally produced. ISI strategy also requires the government to allocate public expenditures to those sectors where return is higher. In Prebisch's words (1984: 180):

The structural changes inherent in industrialization require rationality and foresight in government policy and investment in infrastructure to accelerate growth, to obtain the proper relation of industry with agriculture and other activities, and to reduce the external vulnerability of the economy. These [are] strong reasons for planning. ... International

financial resources [are] to complement and enhance a country's capacity to save, while changes in the structure of trade [are] necessary to use these savings for capital goods imports. Planning should help obtain these resources and accomplish the latter objective. Planning [is] compatible with the market and private initiative. It [is] needed to establish certain basic conditions for the adequate functioning of the market in the context of a dynamic economy. But it [does] not necessarily require state investment, except in infrastructure and development promotion.

Nevertheless, Prebisch had few reservations regarding ISI strategy. Prebisch believed that initiating ISI will require importing considerable amount of technology such as machinery and equipment which will put enormous pressure on already depleting foreign exchange. In addition, since new technology will be more capital intensive than the previous production methods, it will create structural unemployment in the country. Finally, due to narrow domestic market, industrial output would fall short to achieve the most efficient level of production. As Prebisch moved on to head the UN Conference on Trade and Development (UNCTAD) in 1963, ISI failed to achieve its planned goals (Kay, 1989; Sunkel, 1990).

Hans Singer (1911-2006), a German born economist, in his famous paper, *The Distribution of Gains between Investing and Borrowing Countries* (Singer, 1950), provides the basis for Prebisch's theory of the declining terms of trade (Toye *et al.*, 2004: 113), which in development economics literature is known as the Prebisch-Singer (P-S) hypothesis.

In Prebisch and Singer analysis, free trade can actually be detrimental to the less developed countries of the periphery while more advanced countries in the centre tend to gains from the international trade and investment. This view is completely opposite to David Ricardo's theory of comparative advantage as explained above that pursuit in international trade will benefit all participating nations.

Prebisch-Singer hypothesis assumes that the existing economic, productive and labour market structures of the centres and periphery are considerably different to the degree that engaging in trade can be unfavourable to the periphery (Cypher & Dietz, 2002). According to Cypher and Dietz, the advanced countries are dominated by oligopolistic industries with significant control over prices of their final products in the market while in periphery, mostly primary goods that is, agricultural goods, face considerable domestic and international competition in trade, have no control over the prices of products supplied to the market. The institution mechanism present in the centre for raising wages of labour with productivity due to technology is lacking in periphery.

According to Prebisch-Singer hypothesis, due to new technology the nations in the centre gain in trade with periphery while as a result from the price movements on centre and periphery export

the periphery becomes worse off in their terms of trade. In order to avoid such declining terms in trade for its exports, the periphery should industrialize their economy to reduce dependency on importing manufacturing goods from industrialized nations. Singer believes that their hypothesis has helped alerting developing countries to respond correctly by either diversifying their exports or developing their own internal market via ISI policies. According to Singer (1984: 283), “we do not know what the data would have been without such action – the deterioration in terms of trade would presumably have been even sharper than it was”.

Singer also advocated the role of foreign aid to help poor nations to build their infrastructure. He states that aid to the less developed countries or periphery could take many forms, such as buffer stock purchasing programmes for primary products to temporarily compensate falling raw materials prices, and “soft loans” to the poorer nations to permit them to build up infrastructure or combine the above with other long-term social investments.

2.6.2 The Institutionalists

Institutional economics focuses on understanding the role of institutions in the economic analysis; that is the forms of productions, ownership, work processes, and ideologies, which create an economy and society in shaping economic behaviour. Institutionalists believe that institutions are subject to evolutionary change; therefore, the process of studying economics should be properly evolutionary. The most notable institutionalists who have contributed to development economics are the American economist Clarence Ayres and the Swedish Nobel prize winner in economics, Gunnar Myrdal.

Clarence Ayres (1891-1972), one of the leading institutional economists, developed an economic philosophy based on the works of Thorstein Bunde Veblen and John Dewey. Ayres’s theoretical critique of how to achieve economic development is based on two fundamental forces; technology and ceremonialism. Ayres considered technology an important factor for economic development. According to Ayres, technology is the combination of tools and human beings, latter as ‘tool users’. According to Ayres (1995: 90-1):

The technological process can be understood only by recognizing that human skills and the tools by which and on which they are exercised are logically inseparable. Skills always employ tools, and tools are such always by virtue of being employed in acts of skill by human beings. Once the dual character of the technological process is understood, the explanation of its dynamism is obvious. Technology advances by virtue of inventions and discoveries being made. ... But all inventions and discoveries result from the combining of hitherto separate tools, instruments, materials, and the like. These are capable of combination by virtue of their physical existence. ... no one ever made a combination

without there being something to combine. Furthermore, the more there is to combine in any given situation the more likely inventions and discoveries become.

Ayres argues that this “restlessness” which accelerates the technological progress can easily be restrained or limited by ceremonialism, any past-binding behaviour with tendency to prevent the progress that technology imparts. According to Ayres, there are five ways in which ceremonialism interrupts any society to limit human creativity: (1) the nature of social divisions or class structures in a society; (2) through social traditions or gatherings of what is acceptable behaviour; (3) ideology which rationalizes the existing social divisions and traditions in the society and which further attempt to elaborate the negative consequences of changing either the social division or the tradition in the society; (4) a social system of indoctrination which emotionally conditions individuals to accept the dominant ideology, traditions, and class and social divisions; and (5) social patterns of ceremonial behaviour designed to support the first four factors.

Any country’s pace and level of development depends on which factor between technology and ceremonialism becomes dominant at any point in the time. Ayres believes that ceremonialism and technological forces are present in all societies whether developed or less developed. Ayres insists that economic development is the consequence of the successful domination of technology over ceremonial behaviour. Successful development, thus in Ayres opinion, requires a revamping the ceremonial structures which assign privileges to some classes and behavioural patterns that accompany them, which are unfavourable to the creation of an indigenous technological capacity.

In Ayres’s opinion, the only way technology progress can dominate over the ceremonialism to successfully promote development is through expanding education, Ayres defined this as diffusion of knowledge and skills. Ayres believes that existing organized educational institutions may be hostile toward his concept of education in society specially more prominent in poor nations, where ceremonialism is more dominant over technological progress, hindering development, however Ayres still believes strongly that expanding educational opportunities for large number of people in society is the definite means for any society to promote economic and social progress effectively. According to Ayres (1995: 94):

The most important factor in the economic life of any people is the educational level ... of the community. A technically sophisticated community can and will equip itself with the instrumentalities of an industrial economy. There is no instance of any such community having failed to do so.

The successful development is the result of introducing technology into the domestic production process in any country. However, this cannot achieve the objectives without adapting foreign-produced technological knowledge to local conditions and later producing own technology through local research and designing its own experiments. In short, to achieve the economic development, less-developed nations must attain an independent technology learning capabilities, first step toward greater technological self sufficiency.

On the other hand, Parson (1976), an American sociologist, in the article on Ayres, mentions two objections against institutional economics. First, Parson objected the anti-theoretical nature of institutional economics, as Parson (1976: 178) argues, “in the name of generalized radical empiricism, it denied the legitimacy of the analytical abstraction”. Second Parson objected to its emphasis on technology while its “neglect of the cultural normative factors in the larger picture which transcended the economic perspective” (Parson, 1976: 179).

Gunnar Myrdal (1898-1987), a Swedish educated institutional economist, contributed significantly to the development of the welfare state in Sweden. In his book, *Economic Theory and Underdeveloped Regions* (1957), Myrdal proposes three propositions, which are the focus of his subsequent research.

1. Inequalities would tend to increase both internationally and within a country in the absence of counteracting policies (Myrdal, 1957, 1984).
2. International trade theory promoting laissez-faire economics and free trade is biased against poor nations, especially in the argument that commodity trading would eventually equalize factor prices of production, particularly wages.
3. Enhance economic growth would be only achieved through greater income equality rather than inequality (Cypher & Dietz, 2002).

Myrdal adopted the concept of ‘cumulative causation’ to explain “dualism” - the notable inequalities between the regions of poor nations. According to Myrdal, stimulus to growth received by less developed nations is also experienced in the more prosperous region of the economy, helping it to move even further ahead economically, leaving the more economically deprived region of the economy lagging behind further. There are many reasons, Myrdal argues, leading to a movement in society away from equalization among regions and sectors and towards rising inequalities. For example, better trained and more ambitious workers will migrate to the growing regions from the poorer regions for better future, leaving behind a population of young and the old in the poorer areas, a population mostly comprised of dependent and less productive.

Therefore, these movements in any one direction tend to be increasing, aggravating poverty and sustain low development in poorly developed regions and favouring and expanding upon economic development and progress in growing and already developed regions. The cumulative movements which tend to economically weaken a region are labelled backwash effects.

Myrdal in his analysis is cautious about what Nurkse termed “balance growth” or Hirschman’s “linkage” models of positive externalities of new growth stimulus. Myrdal’s view is that proper analysis demand an understanding of both the positive impact of positive externalities and the negative impact of backwash effects. Benjamin Higgins (1959: 351) argues while summarizing this aspect of Myrdal’s thinking:

The spread effects could outweigh the backwash effects only if income and employment in the leading sectors grew relative to that of the laggard sectors, as they did in the now advanced countries. In underdeveloped countries, however, the historical pattern of growth has been weak. The rural sector did not produce the raw materials for the expanding industrial sector, nor did the expanding industrial sector rely heavily on the rural sector for foodstuffs. Thus the growth of the industrial sector did not much expand the market for cash crops of the rural sector.

Myrdal views the production pattern of less developed countries a reflection of the legacy of colonialism and neo-colonialism. In advanced countries, new investments in the agricultural sector created new opportunities for manufacturing and processing, as well as for banking and shipping, however, Myrdal (1968) argues that in most Asian and African countries, colonial policy was mostly toward advancing those sectors which were owned or controlled by advanced nations.

According to Myrdal (1970), a crucial difference between developed and less developed nations is the type of state in them, with strong state to be found in the former and weak or soft state in the latter. Myrdal views strong state in advanced nations can develop a sound national policy in a manner in which the benefits of economic growth might spread across the whole economy. The strong state has the political power and will to influence and direct the growth process while on the other hand state in poor nations is too weak politically and lack policies to either guarantee that there is movement toward national economic integration or to address the impact of backwash effects in the country.

Myrdal notes that the major weakness of the state in poor nations beside others is that it is an institution controlled by the top social strata to promote the welfare of those belongs to that group. In such states, Myrdal believes, it is unlikely that redistribution of wealth and income could be achieved through wealth and any sort of income taxation. According to Myrdal, since

the rich rule the state, they would avoid paying taxes by effectively controlling the taxing authorities through their political power in the country. Only in Singapore, in Myrdal (1984: 158) opinion, economic development proceeded to a certain degree, because it is “one of the few States in the underdeveloped world which actively fought against corruption”.

Myrdal utilizing institutional approach believes it is neither possible to understand the basis of economic underdevelopment nor tackle the problems of underdevelopment as long as analysis is based on the orthodox economics such as Ricardian theory of comparative advantage in international trade. According to Myrdal (1984: 153):

The institutional approach meant enlarging the study to include what in a summary way I referred to as “attitudes and institutions”. They were found to be largely responsible for those countries’ underdevelopment and would have to be changed in order to speed up development.

One of the criticisms raised by the mainstream economics analysis is that institutionalism merely presents an opposing view to neoclassical economics and institutionalists failed to offer credible alternatives. However, Klein (1993) argues that institutionalism has moved beyond dissent and has accepted a challenge to provide credible alternative economic analysis. In fact, Klein (1993: 14) argues that “while the founders of institutionalism, Veblen, Mitchell and Commons were sceptical about the adequacy of neoclassical theory, their preoccupation was not to criticize only but they also tried to put forward alternative theoretical perspectives”.

2.6.3 Dependency Analysis

Dependency analysis evolved in the 1960s particularly in Latin America and later in Africa, building on the ideas of Structuralists, specifically on Prebisch’s brilliant distinction between the centre and the periphery, where the former was viewed as a cause and the latter as effect. According to the dependency theory thinkers, the role of the less developed nations has to be understood as a part of a global process as to merely provide the inputs to the advanced countries or to receive their cast-off, low-wage manufacturing processes under trading agreements which are supposed to worsen over time. Therefore, the dependency theory views the causes of lack of development to be external to the socio-economic formations of the less-developed nations. Dependency theory analysts either ignore internal backwardness, extreme concentration of wealth and corrupt institutions in less developed countries or see them as extensions of external dominations while the negative influence of trans-national corporations, World Bank (WB) and International Monetary Fund (IMF) are the highlights of dependency theory.

According to dependency theorists, European development is the consequence of external destruction rather than internal innovation – European countries have a history of brutal conquest, colonial control, and stripping non-western societies of their people, resources, and surpluses rather than single-mindedly undertaking the rational modernization of Europe (Galeano, 1973). In Brazilian geographer Teotonio Dos Santos (1970: 226) view:

[Dependency is] . . . an historical condition which shapes a certain structure of the world economy such that it favours some countries to the detriment of others and limits the development possibilities of the subordinate economies . . . a situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected.

Dos Santos further states that dependency even in post-colonialism era still exists through ownership of the region's most dynamic sectors by international organization, multinational corporate control over technology, and huge payments of royalties, interest, and profits to corporations headquartered in New York and London.

The most influential Latin American thinkers who contributed to a more radical dependentista (dependency) position are Osvaldo Sunkel (1972), Celso Furtado (1963), Fernando Cardoso and Enzo Falleto (1979), and Teotonio Dos Santos (1970), popularized in the English speaking world through the writings of Andre Gunder Frank.

Andre Gunder Frank (1925–2005), a German-American economic historian and sociologist, was a leading critic of conventional development economics and modernization theory. His work is typically a collection of essays, subsequently collected and published in the book form. The most important collection of essays is *Capitalism and Underdevelopment in Latin America* (1969b). Frank in *The Development of Underdevelopment* (1966: 18) argues that

Underdevelopment is not due to the survival of archaic institutions and the existence of capital shortage in regions that have remained isolated from the stream of world history. On the contrary, underdevelopment was and still is generated by the very same historical process which also generated economic development: the development of capitalism itself.

Development of states at the centre of world capital economy in Frank's view has the effect of under-developing on the nations of the periphery. Frank further argues in *Latin America: Underdevelopment or Revolution?* (1969a) that it is political and historical mistake to blame traditionalism for underdevelopment rather it is the capitalism in the world that either destroyed or transformed earlier social systems even as it came into existence, by converting them into sources for of its own further development. Frank while adopting Paul Baran's (1957) version,

argues that external monopoly resulted in the foreign expropriation moved surplus to Europe and North American leaving the periphery or satellite underdeveloped. Using the case study of Chile, Frank (1969b: 7-8) argues that

The monopoly capitalist structure and the surplus expropriation/appropriation contradiction run through the entire Chilean economy, past and present. Indeed, it is this exploitative relation which in chainlike fashion extends the link between the capitalist world and national metropolises to the regional centres (part of whose surplus they appropriate), and from these to local centres, and so on to large landowners or merchants who expropriate surplus from small peasants or tenants, and sometimes even from these latter to landless labourers exploited by them in turn. At each step along the way, the relatively few capitalists above exercise monopoly power over the many below, expropriating some or all of their economic surplus. . . . Thus at each point, the international, national, and local capitalist system generates economic development for the few and underdevelopment for the many.

Frank has also generalized the idea of periphery and centre to the relationship between landlord and producers, where landlords exploit the local producers through different type of monopolies and sustain the underdevelopment(Frank, 1969b). In *development of underdevelopment* (1966), Frank proposes that development in underdeveloped region could occur only when the links with global capitalism had been broken. The noticeable weakness of Frank's theory resided in its failure to specify exact economic mechanism of surplus extraction, which is provided by Arghiri Emmanuel (1972) in his "theory of unequal exchange". Emmanuel in his theory argues against the Ricardian classical trade theory, claiming that trade make poor countries poorer and rich countries richer. Emmanuel views unequal exchange a hidden mechanism of surplus extraction and a major cause of the economic stagnation in the periphery. This conclusion is further verified by Samir Amin (1976). Amin estimated the amount of surplus transferred from poor to rich countries via unequal exchange to be 1.5% of the product of the rich countries but 15% of the product of the poor countries.

Furthermore, the Brazilian economist Fernando Cardoso (1979), sociologist/economist and politician, was highly critical of Frank's notion of development of underdevelopment, calling it a neat play on words however not very useful in concrete terms. Unlike majority of dependency theory economists, Cardoso argues that societies and economies of the periphery have evolved and would continue to go further. According to Cardoso, there are three stages in the economic history of the less developed nations. First stage is the agro-export of the colonial period when the pre-capitalistic sector accounted for the bulk of all economic activity. Second stage is the "developmentalist alliance", which brought a major transformation in some less developed economies specially those of Latin American after the First World War. The strategic point of

this transformation was import substitution industrialization (ISI). Third stage is marked by an authoritarian corporatist regime, in which trans-national corporations were welcomed in less developed nations. Cardoso argues that under the authoritarian state and trans-national corporations, some economic growth and development in the form of rise in GDP occurred contrary to writers like Frank, who marked this era with continued stagnation.

Paul Baran, Marxist economist, along with Paul Sweezy (1966) finds dependency theory to be an irrational kind of development, maintaining the genuine in developing countries is only possible through abandoning the world capitalist system. However, unlike Marx, Baran emphasizes only the destruction side of capitalism in less developed regions, but could not find scarce evidence of regeneration. According to Baran, twentieth-century monopoly capitalism has a vested interest in maintaining backwardness and dependence in the periphery. Baran views *economic surplus* - residual leftover out of the total income after society's basic needs are met and which a society may reinvest in productive ways to increase the future level of social output, is grossly misused in less developed countries during colonialism. Baran argues that had this surplus or a large portion of it been used for investment in less developed countries rather than been wasted, then the poor regions would have been transformed.

Baran (1957: 144) argues that colonialism blocked the potential for change. He summarizes the history of colonialism:

Thus the peoples who came into the orbit of Western capitalist expansion found themselves in the twilight of feudalism and capitalism, enduring the worst features of both worlds. To oppression by their feudal lords, ruthless but tempered by tradition, was added domination by foreign and domestic capitalists, callous and limited only by what the traffic would bear. The obscurantism and arbitrary violence inherited from their feudal past was combined with the rationality and sharply calculating rapacity of their capitalist present. Their exploitation was multiplied, yet its fruits were not to increase their productive wealth; these went abroad or served to support a parasitic bourgeoisie at home. They lived in abysmal misery, yet they had no prospect of a better tomorrow. They existed under capitalism, yet there was no accumulation of capital. They lost their time-honoured means of livelihood, their arts and crafts, yet there was no modern industry to provide new ones in their place. They were thrust into extensive contact with the advanced science of the West, yet remained in a state of the darkest backwardness.

Baran views capitalism in the less developed regions a road to an economic and social graveyard, while turning to socialism can help less developed countries to break the trap of poverty.

Dependency theory is also criticised for its concentration on the exploitative nature of the relationship between the centre and the periphery, while ignoring the fundamental factors within the less developed country that also affect its course of development and its industrial projects.

For examples, proponents of dependency theory blamed American banks for the economic shortcoming of Latin American countries while ignoring domestic policy initiatives and circumstances indigenous to each Latin American country (Kamrava, 2000). Another difficulty with dependency theory according to Kamrava (2000) is the assumption that all economic interactions whether between countries or between classes are necessarily exploitative and thus conducive to the emergence of a dependence relation, however such assumption is not valid universally. While economic dependency does exist within countries and classes but it is often outweighed by interdependence.

2.6.4 Classical Marxism

Bill Warren (1935-1978), a British communist, provides a cutting and intelligent critique of both non-Marxist and Marxist dependency analysis in his book, *Imperialism, Pioneer of Capitalism* (1980). Warren's writing in the spirit the communist Manifesto and of Marx's writing on India (Brewer, 1980) views capitalism as a progressive force for change wherever it operated. Warren proves progressiveness of capitalism in the periphery by using statistical data. According to his analysis, during 1950s and 1960s overall annual per capita growth in the poor regions has been relatively high: 2.4 percent in the 1950s and 2.6 percent in the 1960s. All institutions within less developed nations which are ceremonial and dysfunctional from economic development standpoint, Warren argues, are by-products of the colonial era and earlier modes of production. Political interdependence since after Second World War and the spread of capitalist methods of production, Warren argues, would sweep away outmoded institutions and structures and less developed nations would be transferred into the modern era.

2.7 NEO-LIBERALISM

After failure of economic policies in Latin America, more and more development economists argued for free, deregulated markets and limited interventionism (Lal, 1983), evolving into a new school of thought termed "Neo-liberalism". By the mid-1980s, the term neo-liberal was used to describe the predominantly laissez-faire, market-driven economic policies sweeping across the globe from advanced countries to less-developed nations and to the newly formed republics emerging after the collapse of the Soviet bloc in 1989 (Cypher & Dietz, 2002).

The shortcomings of traditional development models, such "import substitution industrialization" and the "independencia theory", were particularly obvious from Latin American experience with mounting debt, inflation and negative growth. While on the other side

of the Pacific, export driven growth, inflow of technological foreign direct investments and fast industrialization in countries like Malaysia, Indonesia and Singapore helped the liberal lobby of Washington's think tank and World Bank group with new convincing arguments and a list of liberal reform guidelines became known as the "Washington consensus" was born, the term coined by John Williamson (1990). The "consensus" promoted the message all over the world that a free market and open economy supported development far better than any other form of protectionism and state interventions policies. However, sizable group of "leftist" Structuralists disagreed with this model of development.

"Washington consensus" became the dominating theory and practice for economic development during 1990s. "Washington consensus" were implemented through structure adjustment program under the guidelines of IMF and World Bank in developing countries, entailed tough fiscal and monetary policy, deregulation, foreign trade and capital flow liberalization, elimination of government subsidies, moderate taxation, liberalization of interest rates, maintenance of low inflation, and so forth. It was believed that the "miracle of the market" would eventually solve the problems endemic to underdevelopment. (Naqvi, 2010) A special role in this process was attributed to global corporations and the inflow of foreign direct investments to low-cost developing economies (Piasecki & Wolnicki, 2004). The policy implications in area of foreign trade were truly fundamental. Governments in less developed countries contrary to dependency school of the 1970s shifted to acceptance of free trade and unrestricted flow of capital as the most important means of overcoming structural underdevelopment.

The post-Ricardian trade theories predicted that through specialization in labour- and capital-intensive goods, wage gaps between the poor and rich countries would be bridged, protecting the rich countries from massive labour immigration pressure. The theories developed by Heckscher, Ohlin, Stolper, and Samuelson provided theoretical explanation of welfare effects for displaced workers in developed countries, as well as the benefits of factor price-equalization on a global scale (Piasecki & Wolnicki, 2004). Similarly, literature on international trade presented conclusive arguments disapproving the effects of state protectionism (Gerber, 2002).

However, the disappointment with financial and currency crises during 1990s showed the openness strategy thoroughly promoted by the Washington consensus had its limitations. Furthermore, South East Asian currency crisis during 1997-98 showed the world that combining fixed exchange rate regimes and a large inflow of foreign investment is too very risky for macroeconomic. The same cycles of economic overheating were experienced in Indonesia, Malaysia, Singapore and Thailand, started with demand-driven inflation, real currency

overvaluation, current account deficit, and outflow of currency reserves, and finally ended with nominal currency devaluations and a recession. Even, South East Asian currency crisis could have been avoided through timely currency re-floating and tighter fiscal and monetary policies. Nevertheless, many of the liberal reformers of the time blamed external causes, such as currency speculation, globalization, the IMF, and the World Bank, for their own mistakes (Piasecki & Wolnicki, 2004).

Under Washington consensus, countries of east central Europe, Poland, the Czech Republic, Hungary and Slovakia through market reforms in early 1990s experienced rapid growth for four to five years, however this was followed by an surprising increase in unemployment, currency devaluation in the Czech Republic and growing budgetary and current account deficits.

Stiglitz (1998) witnessed that just prices under neo-classical paradigm is not sufficient to support a functionally sound market economy. Furthermore, overemphasis on competition in the market economy may be one of the main weaknesses of the Washington consensus. In countries like Argentina, Chile, and Bolivia, after Washington consensus, new private monopolies in trade, transportation, and banking emerged, which first eliminated competition in the market, then raised the prices, then reduced their tax payments to the government. Such market practices eventually lost popular support for the reformers. Stiglitz (2002) further argues that there is an insufficient link between liberalization policies and economic growth to merit the special role it plays in donor agency policies.

Another criticism of Washington consensus was its lack of attention to promote an effective legal-institutional infrastructure. Hernando de Soto (1991, as cited in Piasecki and Wolnicki 2004:306) proposes absence of land deeds and legal titles to property, two root cause of Latin American underdevelopment. For example, tenants of poor Latin American *favelas*, illegal residents, could not collateralize their houses and businesses, hence failed to take advantage of the banking system, which requires proof of ownership. Consequently, fundamental banking services were not available to hardworking poor to take advantage of bank loans and expand their businesses and raise their income. As a consequence, poverty in Latin American became epidemic because family members inherited undocumented property. Therefore, in addition to political will, factors such as lack of institutions and clear and transparent body of law: land deeds registry, stock registry, tenant-owner laws, consistent contract laws, a valuation system of loan collaterals and so forth made the true difference between success and failures of market economies and influence main popular support for liberal reform oriented governments.

The progress of international trade and investment during mid 1990s marked the new era of globalisation, a proof of the validity of neo-liberal model. Economists offered through different studies the advantages and opportunities presented by “outsourcing”, “special economic zones”, free international trade and regional integrations. Globalization was linked with “democratization” of world economic growth, a historic opportunity, which joined the interests of both poor and the rich nations. Nevertheless, the relationships between globalization and development are neither straightforward nor clear. According to critics such as Oswaldo de Rivero (2001), global economy has faced multiple problems to succeed, for example, on one hand it is facing the deepening of the gap between the more dynamic and complex world of international finance and investment, while on the other hand, there is absence of a relevant institutional system capable of management and effective control over those processes specially in developing countries. de Rivero (2001: 110-14) further argues that many poor countries have build unrealistic expectations and demands from international organizations in solving their developmental problems. If all developing countries reach to the level of consumptions of developed countries as propagated by UN in different revolutions as right of poor countries, global environmental disaster would be imminent. Since 1982, the UN have tried to implement 162 adaptation program in Africa for development, however, Severine Rugumamu (2001)concludes that the position of the African continent in the world economic system in the twenty first century will still probably continue to worsen in the short and middle term perspective, economic growth will be slow, even negative sometimes; debt crisis and terms of trade will deteriorate; poverty will increase. In addition, the population will raise and deadly diseases will spread in African countries. Others maintain that the IMF’s objectives are not really focused on the improvement of short to medium term performance but on the long term improvement of conditions which allow major participations in the international economy, such as trans-national corporations comparatively free access to the possible large range of production and sales sites in the global economy (Crow *et al.*, 1988: 310-30; Pauly, 1994: 204-15) In this view, the role and the scope of IMF is integration, bringing the less developed nations into a new international division of labour and guarantying payments of foreign loans which soared in the 1970s.

George and Sabelli (1994) surveyed the effectiveness of World Bank Structure adjustment loans studying 241 such loans conferred upon thirty three African nations between 1980 and 1989. The results showed that average per capita fell on average 1.1 percent per year in these nations, while per capita food production declined overall. The purchasing power of the minimum wages fell by an average of 25 percent, government spending on education declined by 36 percent and total number of students in elementary education decreased by 14 percent and not surprisingly

number of poor living below poverty line increase steadily. Paul Mosley *et al.*, (1991), an independent team, conducted a detail study to evaluate the effectiveness of Structure Adjustment Loans (SAL) in nine nations from countries in Africa, Asia, and Latin American between 1980 and 1987 and comparing with similar nations which has no SAL loans over the period. Their findings were similar to the study conducted by George and Sabelli (1994) .

To conclude with Sen and Williams (1982) who argue that the most significant limitation of neo-liberalism beside others is the neglect of rights, freedoms, and human agency. This is also highlighted by global financial crisis that began in 2007. Turner (1996), while analysis the global financial crisis rejected the neo-classical economics which assumes the maximization of growth through GDP per capita would result in increasing wellbeing, welfare, happiness, while inequality is accepted as a by product of economic growth. Turner argues that there is no empirical data that support this assumption. He argues that the social contributions of finance are difficult to identify, and that many “hedging” innovations have become necessary simply to protect against instabilities created by the financial system itself, hardly a net contribution to social welfare. According to Turner (2012: 67), “the pre-crisis justification of financial liberalization as beneficial because it maximized global economic efficiency and thus growth is therefore dangerously simplistic”. Hence, Turner (2012: 67) states that instrumental case advanced for free-market capitalism and market liberalizationis therefore unconvincing both in its specification of objectives and in its prescription of mean”. According to Turner, growth should not be sought as an end in itself rather the focus should be on creating economic freedom and making possible a wide range of employment opportunities.

2.8 HUMAN DEVELOPMENT THEORY APPROACH

In 1990, United Nations Development Programme under the supervision of Pakistani Economist Mahbub ul Haq, launched publication of the Human Development Report (HDR), composite statistic used as an index to rank countries by level of "human development" and separate developed (high development), developing (middle development), and underdeveloped (low development) countries. The purpose of the report, according to ul Haq (1995) was to shift the focus of development economics from national income accounting to people centred policies. HDR, using Sen’s capability approach as a conceptual framework in the analyses of contemporary development challenges expanded by Martha Nussbaum, allows policy-makers to analyze varied challenges that poor people and poor countries face, rather than imposing a rigid orthodoxy with a set of policy prescriptions (Fukuda-Parr, 2003). Sen’s approach defined human

development as the process of expanding a person's functionings and capabilities to function, such as to be healthy and well nourished, to be knowledgeable, and to participate in community life (Sen, 1990). Development from Sen's perspective is about removing obstacles to what a person can achieve in life, obstacles such as illiteracy, disease, lack of access to resources and justice or lack of civil and political freedoms.

According to Sen, human development approach contains two central theses about people and development, "evaluative aspect" and the "effective reason" or "agency aspect" (Sen, 2003). Evaluative aspect is concerned with evaluating improvements in human lives as an explicit development objective and using human achievements as key indicators of progress. This aspect is in contrast with paradigms that focus on economic performance. The second, agency aspect, is concerned with what human beings can do to achieve such improvements particularly through policy and political changes (Fukuda-Parr, 2003).

In human development approach, economic growth is seen only as a mean to development and not an end in itself. . Furthermore, the concern with the well being of all human highlights equity as a major policy objective, monitoring not only through national averages but also through measures of deprivation and distribution. Political reforms beside others have become an important aspect of human development approach. This is in contrast to neo-liberal approach, which stresses the importance of institutional efficiency either in the market or in the provision of public service.

Human development approach views people not simply beneficiaries of economic and social progress in a society but active agents of change. Thus according to this approach, investing in people's education and health is a powerful means to achieve overall economic and social progress in society (Fukuda-Parr, 2003). Furthermore, gender equity is also an important aspect of human development approach, offering a capability based approach to gender equity in development that is a departure from approaches traditionally focused on income and growth. Gender concerns have thus given the Human development approach the power and flexibility to cover aspects of inequality that would otherwise not noticed in society.

Nevertheless, Kuonqui (2006), argues that "contrary to some other views, the capabilities approach has not yet fully provided the means to supplant the intellectual primacy of neoclassical economics". He further argues that human development approach does hold some more potential beauty in its conceptualizations that neoclassical economics.

2.9 METHODOLOGICAL CONTROVERSIES IN ECONOMICS

In the early twentieth century, in line with the marginalist position and articulation of modernity in social sciences, Weber and his generation declared social science to be free from value or *Wertfreiheit*, claim further supported by Lionel Robbins (1932: 16) in his seminal book while defining Economics as “the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses”. Thus identifying and separating scarcity as the fundamental problem of economics inquiry, a value neutral definition hiding within it the *ethical commitments* of a secular society (Zaman, 2009). Furthermore, the emergence of scientific knowledge in conflict with religious knowledge in the early twentieth century led to birth of logical positivism. According to positivist, scientific statements based on observations and logical deductions are superior to statements which could not be verified or rejected by observations, hence such statements are meaningless. Therefore, in such context, values, ethics, and moral judgments are not scientific, thus meaningless except as a mere expression of an emotional attachment. The methodology of positivistic, quantitative and empirical in the discipline of economic became dominant during the 1940’s and 1950’s resulting from the seminal works of John R. Hicks, Paul Samuelson and Milton Friedman (Thomas *et al.*, 1999). Julie Reuben (1996: 2) writes that:

In the late nineteenth century, intellectuals assumed that truth had spiritual, moral and cognitive dimensions. By 1930, however, intellectuals had abandoned this broad conception of truth. They embraced, instead, a view of knowledge that drew a sharp distinction between “facts” and “values”. They associated cognitive truth with empirically verified knowledge and maintained that by this standard, moral values could not be validated as “true.” In the nomenclature of the twentieth century, only “science” constituted true knowledge. Moral or spiritual values could be “true” in an emotional or nonliteral sense, but not in terms of cognitively verifiable knowledge. The term “truth” no longer comfortably encompassed factual knowledge and moral values.

Zaman (2009) states that economics since then is seen as “scientific” leading economists to present their subject as objective, value neutral positive discipline. According to Zaman, both logical positivism and Weber’s idea that social science must be value-free strongly influenced the development of economic methodology in the early twentieth century and nearly every modern economic text book emphasises the distinctions in its opening chapters. Lipsey *et al.*, (1990) is characteristics:

- The success of modern science rests partly on the ability of scientists to separate their views on what does happen from their views on what they would like to happen

- Distinguishing what is true from what we would like to be true depends on recognizing the difference between positive and normative statements
- Disagreements over positive statements are appropriately handled by an appeal to the facts

In his famous methodological essay, Milton Friedman argued that positive economics “is in principle independent of any particular ethical position” because the content of economics lies within the area of “what is” while the procedures present a means to test the correctness of “different predictions about the economic consequences of taking action,” thereby eliciting scientific progress and policy consensus, at least among “disinterested citizens.” (Thomas & John, 1999). While on the other hand, normative economics is subjective, in the same sense as is ethics or moral philosophy. But normative economics “cannot be independent of positive economics” because: it deals with “what ought to be,” policy conclusions necessarily rest on predictions “of doing one thing rather than another,” predictions “that must be based . . . on positive economics,” however lacking scientific procedures to choose between competing normative viewpoints, that is, in deciding between underlying values, hence, “men can ultimately only fight” (Elliott *et al.*, 1997; Friedman, 1953; Thomas & John, 1999: 17) further supported by Ronald Meek (1964: 95), who proclaimed that “the days of the intrusion of value-judgments into “positive” economics are numbered”. Theoretical developments in economics along with elegant mathematical formality during 1950 and 1960’s illustrate clearly not only the evolution of economics as value-free science, but as an amoral science. William Letwin (1963: 147-8) put it this way:

...economic theory owes its present development to the fact that some men, in thinking of economic phenomena, forcefully suspended all judgments of theology, morality, and justice, [and] were willing to consider the economy as nothing more than an intricate mechanism, refraining for the while from asking whether the mechanism worked for good or evil.

On the other hand, Normative economics, by contrast, is subjective, focused on moral evaluations, and concerned with the domain of what ‘ought to be’. Frank Knight (1940), explicitly rejects the empiricist or positivist philosophy of science and blames positivists of ignoring the complexity and uncertainty of testing in all sciences. Frank Knight debates in detail that positivist views of science are particularly inappropriate to economics, which, like other sciences of human action, must deal with reasons, motives, values and errors, not just causes and regularities. On the end of spectrum from strict value neutrality is a strict non neutrality view that is usually associated with Gunnar Myrdal’s scepticism concerning the “existence of a body of scientific knowledge acquired independently of all valuations.” According to Myrdal (1958: 131), “valuations are present in our problems even if we pretend to expel them. The attempt to

eradicate biases by trying to keep out the valuations themselves is a hopeless and misguided venture”. Furthermore, Robert Solo (1991: 108-14) argues that removing value judgement from income distribution on the one hand and restricting welfare judgment to Pareto Optimality on the other, constitutes a double value judge, and therefore is an internal inconsistency. Moreover, Robert Solo states, economics is a policy science, hence value judgmental discourse is useful and unavoidable. Warren Samuels in his article *An Essay on the nature and significance of the normative nature of economics* (1988) critically presents his view against the separation between normative and positive research arguing that the intuitive distinction between ‘what is’ and ‘what ought to be’ is problematic in actual practice.

To conclude this discourse, the three powerful and widely believed positivist arguments for keeping values out of scientific discourse are summarized in the following quote from Ayer (1936: 161):

We can now see why it is impossible to find a criterion for determining the validity of ethical judgements. It is not because they have an ‘absolute’ validity which is mysteriously independent of ordinary sense-experience, but because they have no objective validity whatsoever . . . They are pure expressions of feeling and as such do not come under the category of truth and falsehood. They are unverifiable for the same reason as a cry of pain or a word of command is unverifiable [as a statement] – because they do not express genuine propositions.

According to Hausman and McPherson (2006), however, concepts like charges, gravitational forces, charges on electron and other theoretical entities are meaningful without having any direct connection with the observable entities. Furthermore, positive concept of knowledge as statements of true/false is too narrow, for example according to Zaman (2009), Gödel undecidability of the continuum hypothesis (CH) is consistent with the Zermelo-Fraenkel axioms for set theory, and hence neither true nor false. Positivist view to separate empirical and subjective issues and study separately from the value based and subjective issues is challengeable on many grounds. Similarly, positivist view that value judgment views are subjective, arbitrary and cannot be discussed rationally is refuted by Sen (1987), Putnam (2002) and Hausman and MacPherson (2006) citing many counterexamples of rational discussion of value judgment.

In addition to the preceding discussion on the internal consistency and nature of economics as a science, the epistemology of the knowledge creation is also controversial in modern sciences. Western mainstream economics, classical and neoclassical, resting on the utopia of positivism, until recently ignored the potential role of culture and cross cultural values in economic outcomes. In other words, economics as a science also articulates the idea of omnipresent

individual and organisational behavioural norms, and expects that everyone regardless wherever they are would act in the same way. In addition, mainstream theorists, as Mehmet (2002) states, trained in classical and neoclassical market theory possess a faith in the supremacy of market economy driven by rationalism and the profit motives. Positive economics and its methodology according to Sen (1987) not only shunned normative analysis in economics, it has also ignored variety of ethical consideration which affects actual human behaviour, which are primary matters of fact rather than normative judgement. According to Mehmet (2002: 154), western mainstream economic development theories identify rationality of human behaviour with maximization of self interest ruling out the ethics of altruism or reciprocity. Western rationality hence contradict the values such as justice, loyalty and honesty held by the developing world, where “ethics, history and economic are interwoven into more distinct, yet holistic, conception of individual, state and nature”. Thus to conclude, Mehmet states, mainstream development economics failed because economics is not a neutral, objective science but based on Eurocentric value system and, hence, too rationalist, thus dismissing all alternative reasoning and understanding as mistakes or irrational, consequently created a third world with prolonged poverty and underdevelopment.

In exemplifying and contextualisation of among others Mehmet’s criticism of the Eurocentricity of economics and development theories, Olson’s work can be given. As Olson (1982) endeavoured to locate the sources of different economic growth in various states and found that institutional nature and the legal norms of each country can help to explain the differences. In addition, in more recent time, Acemoglu *et al.*, (2004) locate the nature of institutions in explaining the differences of growth. The examples can be extended into other areas as well. Such as the case with cross-cultural management, which emerged in 1970s by the efforts of Edward Hall (1976) and Geert H Hofstede (1980) beside others, against the American management theories, which claimed universalism, as cross-cultural management located the impact of local cultures on managerial behaviour.

In concluding, the imposition of Eurocentric theories based on enlightenment philosophy on other societies with entirely different ontological and epistemological knowing has not produced a positive outcome for the developing countries as Mehmet (2002) argues. Therefore, referring to the norms of each society in deriving and forming an economic policy and theory can help, in the language of neo-classical economics, to endogenise ‘other’ or ‘omitted’ variables to enhance the explanatory power of the models. Thus, Islamic economics should be considered within this rationale and endeavour.

2.10 CONCLUSION

In the above survey, development theories either totally abandon neo-liberal paradigms of market efficiency, or tried to transplant them fully to developing countries contributed little or nothing to the development of poor countries. Theories on import substitution, nationalization, collective farming, subsistence production, and central planning were revealed to be unconnected from the ground realities of developing countries – culturally alien and economically unviable, thus failed to promote economic growth in development countries. These development theories well formulated and scientifically proven were developed to suit the materialistic quest of west, thus produced substantial results in the developed countries. The experiences of the 1950's and 1960's seriously challenged the presupposition that modernization reflected through different development theories will trigger the socio-economic development, which will ultimately establish political democracy around the globe. Such economic policies developed and based on western experiences with development produced uneven patterns of economic growth, hence kept majority of population of world below the poverty line. In response, Muslim especially in newly independent Muslim nations in post colonialism era, dissatisfied with the development efforts solely based on material prosperity and capital accumulation established IME as an alternative to capitalistic economy based on *Shari'ah* and *Sunnah* to revive their original identity. IME, which is presented later as alternative system not only incorporates the materialistic aspect of human affairs but also aligns these affairs with the attainment of *falah* in *akhirah*.

Chapter 3

JUSTICE AND DEVELOPMENT: A CRITICAL SURVEY

3.1 INTRODUCTION

In chapter 2, survey of history of economic thoughts since Adam Smith was provided to show how the discipline of economics evolved over time with the progressive introduction of new methods, new approaches and an improved understanding of key concepts to highlight the problems of individual economic behaviour, and the functioning or market mechanism vis-à-vis government. The survey showed that how the neoclassical model of growth explained the rise of the West but heterodox models failed to tackle underdevelopment in the third world. Dependency theory is valid but still need to provide models for development in third world countries. The benefits of capitalism brought increase in the material standard of living in developed but also widen divergence between rich and poor countries around the globe. It is also shown in the chapter 2 how modern economic methodology is diverging from the methodology used in the past century with more emphasis on empirical testing theory using economic tools. The advocates of neoclassical theory view economics as an objective science, undistorted by normative judgement, thus ignoring political role of culture and cross culture values in economics. In other words, neoclassical theory assumes human actors to be rational, self-interested, and egoistic, who seek their own welfare, and hence there is no basis for economists to judge the choices that economic actors make. In neoclassical theory, rejecting value judgments has led the economists to accentuate efficiency as its core evaluative criterion rather than alternative, value laden criteria like economic justice. Policies based on the western rationality failed to produce economic growth in the developing countries, thus keeping majority of population in these countries below poverty line. In this chapter, the importance of justice in economic realm has been highlighted by presenting different view on notion of justice with respect to development.

Justice is a moral concept; therefore, there is no single concrete concept of justice that philosophers refer to by the term “justice” in the west. Nevertheless, there are different competing conceptions of justice: Utilitarianism, libertarianism, egalitarianism and so on. All theories of justice, Islamic theory of justice with exception, covered in this literature review, presented in western society in general, have some traits in common. They are secular, humanist

and individualist. These theories have roots in the period of the Enlightenment in Europe and their methodologies can be traced back to philosophers like Hobbes, Hume, Kant, Locke and Rousseau.

According to Bojer (2003), these theories of justice are secular as they do not take their ethical prescription as given by *Allah* or revealed in a Holy writ. They only deal with humanity concerned with now rather anything with afterlife and no divinity is available to reward or punished actions. The aim of these theories is to formulate justice concerning human beings. They are individualist as justice deals with justice to individuals in society as society consists of individual, bounded together by ties of solidarity, common interests and last but not least by common good, the good of society. There is nothing in these theories which deals with good of a class, race, sex or a nation.

Theories of justice may be classified as welfarist or non-welfarist. Welfarism is concerned that the state of society should be evaluated completely by the subjective sense of wellbeing of its members, which can be further classified into egalitarian and non-egalitarian. However, welfare economics and Utilitarianism, belong to the welfarist school of thought, are neither egalitarian nor non-egalitarian (Bojer, 2003). In Western discourse as pointed out by Sen (1992) and Kolm (1996), majority of participants view distributional justice in equality sense. Whereas, the non-welfarist assesses justice not with regard to results (like utility) but rather with regard to procedures or well being is established from the objective circumstances with in which people lives (Acocella, 1998). In this chapter, a comprehensive overview of different theories of justice along with their distributive nature is discussed. Distributive justice provides normative principles to guide the just allocation of the benefits and burdens of economic activity among individuals in a society. The aim of this chapter is not to reject or accept any particular concept of justice but to show western understanding of justice based on the mental constructs before the concept of justice from Islamic perspective is presented in chapter 6.

3.2 UTILITARIANISM: “. . . THE NEEDS OF THE MANY OUTWEIGH THE NEEDS OF THE FEW.” STAR TREK

The origin of Utilitarianism is traced back to Greek Philosopher Epicurus who stated that “pleasure is the goal that nature has ordained for us; it is also the standard by which we judge everything good” (Pojman *et al.*, 2011: 103). In other words, the righteous and wrongness of something are determined by the pleasure or pain it produces. Nevertheless, Utilitarianism

flourished and known as a proper school of thoughts in philosophical and scientific circles in the seventeenth and early eighteenth centuries credited to Jeremy Bentham (Rosen, 2003). Later, John Stuart Mill, who greatly admired Bentham, contributed profoundly by writing *Utilitarianism* (1863). Henry Sidgwick in turn followed Mill, who was a university professor with a strong interest in the history of ethics. He developed and refined the Utilitarianism as a moral philosophy reaching it to intellectual maturity (Shaw, 1999). Other philosopher and economist contributed to Utilitarianism were Francis Edgeworth, Alfred Marshall and A.C. Pigou to name few.

Jeremy Bentham, an influential British Philosopher, has written extensively in variety of fields, for example philosophy, law, government, economics, social administration and public policy. Bentham in his writings articulated two main features of Utilitarianism, the *consequentialist* principles and the *utility* principle. The *consequentialist* principle states that it is not the mean but the end that counts and justifies the means. Hence, the rightness or wrongness of an act is based on the goodness or badness of the results that is produced from it. While *utility* is only concerned about pleasure as the sole good and pain as the sole evil. Bentham, although, was not the first thinker to use *principle of utility* to promote happiness, nevertheless, he is widely regarded as founder of modern Utilitarianism for his profound writings. According to Bentham (1789: 4), principle of utility is:

Principle which approves or disapproves of every action whatsoever, according to tendency which it appear to have to augment or diminish the happiness of the party whose direct interest is in question: or... , to promote or to oppose that happiness.

Action in Bentham terms does not mean only action of private individual but of every measure of government. Actions are right if and only if there is no alternative action available to the agent which would promote greater total happiness and wrong as they tend to produce the reverse of happiness. It is important to analyse the meaning of happiness in order to understand the foundation of morals utility. Happiness is intended pleasure and the absence of pain whereas reverse of happiness is pain and the privation of pleasure in one life. Similarly, social institutions and different legislations are to be judged on the same notion that is their tendency to promote the greater happiness. In determining the moral status of any action or institution we are to take into account happiness of each person being affected, giving each equal right.

Bentham proposes four distinguishable sources of pain and pleasure. They are the physical, the political, the moral and the religious. Pain and pleasure, may be expected to issue from the physical, political moral sanctions in the present life but those that may be expected to issue

from religious sanction could be experienced in the present life or in a future (Bentham, 1789: 4, Chapter 3).

Now the question consider is how pleasure and pain can be estimated as magnitude? Bentham has laid down circumstances to be taken in account in estimating the value of pleasure or pain. He says:

To a person, considered by himself, the value of a pleasure or pain, considered by itself, will be greater or less according to the four following circumstances:

- (1) Its intensity.
- (2) Its duration.
- (3) Its certainty or uncertainty.
- (4) Its propinquity or remoteness.

These are the circumstances which are to be considered in estimating a pleasure or a pain considered each of them by itself (Bentham, 1789: 7, Chapter 4).

According to Bentham, sum up values of pleasure against all those of pain. If the balance is on the pleasure then it will give the good tendency of the act upon the whole otherwise it will give bad tendency of it upon the whole. The same method of estimation of pleasure and pain can be used for community as well (Bentham, 1789, Chapter 4).

Bentham combined the principle of utility with a second postulate expressed in maxim, “Each to count for one, none for more than one” to imply equity in the distribution of benefits of the society (Ellis, 1998). In such sense, the interest, well-being, utility, liberties and rights of every person should count the same Hence there should be no discrimination in favour of rich and powerful rather all individuals should be treated equal before the law. Bentham with respect to personal distribution of income and wealth viewed that in certain circumstances equal distribution will increase aggregate utility. However, in practical sense, distribution in which everyone has exactly the same amount of income or wealth will undermine the incentive to production. However reduction in the degree of inequality in the society, which falls short of extreme equality, in Bentham’s opinion will increase the total utility in the society (Bonner, 1995). Re-distribution is nevertheless dangerous exercise because it can create insecurity and uncertainty and destroy incentives. Therefore, the costs of redistribution have to be set against the gain in aggregate happiness.

In his famous *Utilitarianism* (1863), Mill’s aim was not to just merely restate Bentham principle of utility but to justify a broader concept of the *principle of utility* to the world, specially its critics. Bentham’s philosophy seems to lead to the ethics hedonism – the belief that pleasure is the ultimate pursuit of mankind existence. However, Mill elaborates this concept in greater details.

According to him, the spiritual, intellectual and culture pleasures are of greater value than mere physical pleasure. Mill expanded the concept of utility and modified his theory so radically that he could no longer be called a hedonistic utilitarian. Mill presented a complex state account of utility “which includes the quality of pleasurable experience along with the quantity in the estimation of their worth” (Donner, 1991: 8-9). Mill did not accept or approve the main elements of Bentham’s Utilitarianism such as utility of greatest happiness principle and concept of right or wrong to promote happiness (Graham, 2011: 100).

In Utilitarianism (1863, Chapter 2), Mill argues that an ideal perfection of utilitarian morality requires an agent to be strictly impartial as a disinterested and benevolent spectator. Even though, Utilitarian never concludes to claim the morality of self-devotion; however it does recognize in human beings the power of sacrificing their own great goods for the good of others except it only refuses to acknowledge that sacrifice is itself a good. Any sacrifice which does not increase or have tendency to increase the sum total of happiness is considered as wasted.

According to Mill’s Utilitarianism, motive has nothing to do with the morality of action, in other words, it is a form of consequentialism that the moral worth of an action is determined by its outcome for example, saving a fellow creature from drowning does what is morally right, regardless of a motive be duty or a hope of being paid for the action. It is possible for the right thing to be done from a bad motive (Mill, 1863: 25).

On the **theory of Justice**, Mill in Utilitarianism says that throughout the history one of the strongest obstacles to the acceptance of *utility* or happiness has been that it does not allow for a theory of justice. He tries to find out that whether the justice or injustice is something inherent quality in things and distinct from the question of *utility*. Mill, while trying to find out the meaning of justice, comes up with a list of those things that are commonly classified as just or unjust (1863: 61-95, Chapter 5).

First it is considered unjust to deprive someone of their legal rights but there are several exceptions to this judgement. For example, a person who lacks these rights may have fortified them. Second form of injustice is to deprive someone of something he has a moral right to possess. For example a person who may have legal rights which he should not have – a provision of bad law. Whether a bad law should be obeyed or not is mixed but all people agree that law can be unjust. Therefore, law cannot be the ultimate standard of justice. Third, it is considered just that each person should have which they deserve and unjust when a person receives something they do not deserve. People deserve good things if they have done right, and evil things if they

have done wrong. The principle of returning 'good' for evil has never been regarded as a case of the justice fulfilment, but as one in which the claims of justice are ignored, in obedience to other considerations. Fourth, it is unjust to violate an agreement with someone, or break a promise or disappoint expectations which are raised knowingly and voluntarily. Fifth it is unjust to be partial and to show favouritism and preference to one person over another in inappropriate circumstances. Impartiality is not regarded as a duty in itself but rather as instrumental to some other duty. Finally equality is seen by others as an important component of justice. However, some may make an exception for the sake of expediency.

With so many application of concept of justice, it is not easy to find a mental link between them all together and on what moral sentiment the concept is based on. According to Mill (1863: 69), etymology of justice in different languages came from either authoritative custom or positive law. Thus, the most primitive component of justice is the idea of conformity to the rule of law. Mill views that this discussion however does not show a distinction of justice from other forms of morality. Mill argues that justice can be distinguished from others forms of morality by looking at perfect and imperfect obligation. Imperfect obligations are those which do not give birth to any right while perfect obligations are those that a person may demand of others. Justice corresponds with the idea of perfect obligation. Whether injustice in Mill (1863: 73) words:

.... consists in depriving a person of a possession, or in breaking faith with him, or in treating him worse than he deserves, or worse than other people who have no greater claims, in each case the supposition implies two things- a wrong done, and some assignable person who is wronged. Injustice may also be done by treating a person better than others; but the wrong in this case is to his competitors, who are also assignable persons.

Mill accepts the existence of rights however since Utilitarianism is concerned with total happiness, there may be a room for violation of the rights of an individual in the interest of society or aggregate good.

3.2.1 Different Types of Utilitarianism

In general Utilitarianism has been sub-divided into a number of variant forms. Among these are Act Utilitarianism and Rule Utilitarianism. According to Brandt (1979), Act Utilitarianism is the duty of an individual to perform an act which will produce a state of conscious beings of maximum intrinsic worth as compared with what would be produced in fact by other actions could perform instead. For example, a surgeon is weighting to perform a certain operation with morality rate of 60 percent whereas without operation the patient will be permanently confined

to bed. Now according to act Utilitarianism, the objective of the surgeon is to perform the operation if and only if so doing so in fact will produce the best result that is the patient will in fact survive. On another hand, in Brandt (1979: 304) view the rule Utilitarianism holds that

A set of rules is justified if it is what it would be, if facts and logic were brought to bear on its choice to a maximal extent that if fully rational persons would tend to support it in preference to any other system and to none and in no other sense can a moral system be said to be justified.

In other words, rightness or wrongness of any action should be judged by the goodness and badness of the consequences of a rule that everyone should perform that action in like circumstances (Smart *et al.*, 2005: 9).

3.2.2 Critical Evaluation of Utilitarianism

Henry Sidgwick in his *Methods of Ethics* (1907) raises the question of whether aim should be to maximize total happiness or the greatest average happiness. He argues that we must not only increase the happiness of others, we must also ensure that happiness is rightly and equally distributed among all. This argument is in contrast to Bentham and Mill, who stressed on increasing the total happiness for majority. Nevertheless, George Edward Moore's *Principia Ethica* (1903) has been by far the most influential criticism of utilitarian ethics. Moore holds that Mill's theory of pleasure as the sole object of desire is a confused representation of the truth that leisure is always at least part of the cause of desire. Moore formulated a new version of Utilitarianism called ideal Utilitarianism, which asserts that there are goods beside pleasure, like beauty, achievement and knowledge. What one ought to do is to maximize the greatest goods for the greatest number of people (Quinton, 1973). Jan Narveson (1988: 152) while defending his *Contractarianism*, has excellently criticised Utilitarianism. He argues that Utilitarianism have failed to show why an individual should treat someone else's utility as equal to his own in significant. Consequently, Henry Sidgwick had to resort to intuition to justify the assumption that individuals wish to maximize total utility, not just their own (Gordon, 1989: 175). Nozick in *Anarchy, State and Utopia* (1974) argues that while respecting the separateness of person we should reject Utilitarianism the fact the individuals live their own lives and their perception of pain and pleasure is different than others and their alone to experience.

Sen (1999: 56) is highly critical of moral theory of Utilitarianism as its principles are rested ultimately on utilities only. Sen discusses that there are several distinct meanings associated with 'utility' and there is an extensive literature on the respective claims of the 'happiness' or pleasure view of utility on the one hand and the 'desire fulfilment' view on other (Sen, 1999: 12).

According to Sen, the informational base of classical Utilitarianism is the utility sum total in the states of affairs; the information that is needed for making judgements. While matters as individual freedom, rights, quality of life not adequately reflected in the statistics of pleasure, cannot be evaluated in utilitarian structure as utility is only defined in classical Utilitarianism form as pleasure or happiness. The excluded information is not permitted to have any direct influence on evaluative judgement of Utilitarianism. Sen (1999: 56) concludes that all this produced a very limited informational base which is a significant limitation of utilitarian ethics. Sen, while explaining Utilitarianism as a moral principle, divides it into three distinct components: welfarism, sum ranking and consequentialism.

1) Welfarism requires that the goodness of a state of affairs be a function only of the utility information regarding that state, while paying no attention to such things as the fulfilment or violation of rights, duties and so on. Utilitarianism takes into account not just the welfare of human but animal welfare or more generally the welfare of all sentient creatures, (Peter Singer (2006), for example, has written on Utilitarianism from animal's perspective).

2) Sum-Ranking requires that utility information regarding any state be assessed by looking only at the sum-total of all utilities in that state without paying attention to the distribution of that total over the individuals. In other words, utility sum is to be maximised without the extent of inequality in the distribution of utilities.

3) Consequentialism, requires that every choice, whether of actions, institutions, motivations, rules, and so on, be ultimately judged by the goodness of the consequent states of affairs while ruling out the tendency of some normative theories to regard some principles to be right irrespective of their results (Sen, 1987: 39; 1999: 58-9).

Similarly, Bernard William (2005) argues that Utilitarianism violates personal integrity and calls on us to reject conscience and compunctions and do the lesser of evils. He further concludes that Utilitarianism is running against the complexities of moral thoughts as are considered by Utilitarianism merely personal guide rather a means to judge the actions of other people. William (2005: 149) on Utilitarianism in his argues:

.... [Utilitarianism] runs against the complexities of moral thought: in some part because of its consequentialism, in some part because of its view on happiness and so forth. A common element in Utilitarianism's showing in all these aspects, I think, is a great simple mindedness.

According to Utilitarianism, the way others feel or act in certain circumstances may compel us to act against our own feelings (Mill, 1863). But according to Williams, by forcing a person to reject her/his conscience and compelling her/his to perform lesser evils, Utilitarianism requires us to discard integrity and should be rejected on these grounds, or at least so.

One of the most common and potential damaging criticism about utilitarian moral theories is their inadequate concern with fairness in the distribution of benefits and dis-benefits (Scarre, 1996). John Rawls's *Theory of Justice* (1971) is a competing moral theory with significantly different insights in the proper structure of society than does Utilitarianism . Rawls (1971: 26) on classical Utilitarianism writes:

The striking feature of the utilitarian view of justice is that it does not matter, except indirectly, how this sum of satisfactions is distributed among individuals any more than it matters, except indirectly, how one man distributes his satisfactions over time. The correct distribution in either case is that which yields the maximum fulfilment. ... There is no reason in principle why the greater gains of some should not compensate for the lesser losses of others or more importantly, why the violation of the liberty of a few might not be made right by the greater good shared by many.

Utilitarian principle, according to Rawls, is indifferent to the distribution of resources across persons in a society. The only aim of the Utilitarianism is to maximize the aggregate utility regardless of different distributions of utility if alternative actions would be taken. Distributive justice on the other hand deals with how the benefits and burdens of society are distributed among its individuals with competing needs or claims (Roemer, 1996). Rawls while comparing maximin rules with Utilitarianism argues that Utilitarianism is likely to lead into restricting liberty of some to maximize the greatest overall utility of society. Due to this, Utilitarianism in worst case scenario might justify slavery or servitude and may also approve the sacrifice of minority's interest to generate greater aggregate utility (Oyeshile, 2008). Rawls in his *Theory of Justice* further argues that nature of Utilitarianism is against human intuition. He views wellbeing as the satisfaction of rational preference or desire but does not regard this conception appropriate for the theory of justice (Hausman & McPherson, 2006). Rawls further argues that the utilitarian principle is not compatible with stability of society because maximizing average utility may possibly require that some people be made miserable in order to make others very happy indeed (Barry, 1973). Since Utilitarianism implies that individuals ought to give up their preference to have a different set that would create more utility, therefore, according to Rawls individuals are seen as "bare persons" without adherence to their values and goals except to the extend as these promote their own utility.

3.3 LIBERTARIANISM

Libertarianism is a political philosophy that emphasizes the individual freedom and severely restrict any role of state in order to protect the individual choice. Libertarianism is normally considered as a theory of justice in the sense of the duties that we owe to each other. According to libertarianism, ideal of liberty requires that each person should have the greatest amount of liberty as long as they do not harm others (Sterba, 1992). This includes a right to life, a right to freedom of speech, press and assembly and right to property to name few. The right to life is not a right to receive the goods and necessary resource to preserve one's life from other; it simply means a right not to be killed. Further a right to property simply is a right to acquire goods and resources either by initial acquisition or by voluntary agreement. Libertarianism simply support only limited role of government to defend such rights. Murray N. Rothbard published extensively in the 1950s and 1960s arguing against the legitimacy of the state, while favouring "voluntary government" (for example: Rothbard, 1973, 1974).

Libertarianism claims that goods such as the provision of welfare and health care to the needy are the requirement of charity rather justice and fail to provide such provisions are neither blameworthy nor punishable (Sterba, 1994). While Schneewind (1996) states that the boundary between justice and charity is an artefact of our moral will and realm of justice can be expanded to include some positive general rights.

John Locke, an English philosopher, in his book *The Second Treatise of Government* (1689), defends his idea of law of nature. According to Locke even if there is no government in a society, society will still be governed by law. Locke (1689: 191) proposes that "being all equal and independent, no one ought to harm another in his life, liberty, or possessions". Locke concludes that the combination of time, inheritance, and differential abilities, motivation, and luck will lead to possibly substantial inequalities in wealth between persons, and which he acknowledges as an acceptable consequence of his doctrine.

Isaiah Berlin, Russian-British philosopher, is considered one of the most formidable defenders of philosophical liberalism. In his famous inaugural lecture delivered before the University of Oxford, *Two Concept of Liberty* (1969), Berlin expands on the ideals of liberty that were inculcated by earlier political philosophers. Berlin identifies two different concepts of liberty, negative and positive in his essay. The concept of liberty is positive in the sense that attaining liberty involves the individual's freedom to be shaping his or her life and making his or her own choices through the use of reason. However, according to Berlin these noble ideas had tendency by its nature to

chance in to very opposite of the individual's freedom. Therefore, Berlin argues that, based on this linkage between making rational choice with the notation of use of reason and the individual's achievement of his or her own liberty, governments conceived as 'rational agents' claimed to represent the 'real' desire of the individuals. According to Berlin, only government can ensure the positive liberty at times even when individuals are not fully rational to know their own real desires. That is why; Berlin argues that, positive liberty throughout the history has always given rise to the abuse of power. Berlin believes that severe breaches of the individual's liberty by Fascism, Marxism and Nazism can be traced back to their fostering of a positive liberty. According to Berlin (1969), these coercions were justified on the ground that it led to a realisation of higher or rational self.

Berlin believes that other precautionary principles – negative liberty- are needed to defend against positive liberty that is always used to justify drastic and brutal means. The concept of negative liberty centres on liberty or freedom from interference. It is based on the idea that political liberty is realised and retained by defining a certain area of human conduct in which the government as well as society are not allowed to intervene with an individual's actions (Bentwich, 2007). Narveson (1988) claims that the principle of rights accepts coercion if it is necessary to protect negative rights and we all have one single fundamental right which is the right to liberty.

Milton Friedman along with his wife Rose Friedman has written eloquently about the loss of freedom due to growing state power. Palmer (2009) argues that in a pluralistic society, democracy may be perverted into an instrument of injustice. However, when the role of state is only limited to the provision of justice, a constitutional democratic state creates a conditions for prosperity for all. Lysander Spooner in his famous essay *the Constitution of no Authority* (1870) argues that all existing state in the world are illegitimate and there is no compulsion on citizens to obey them, except in so far as their commands coincide with one's natural and universal valued obligations to respect the right of others in the society. There are modern liberals, appeared later in nineteenth century, believe that state ought also to concern itself even at some cost of liberty and property rights with issues like poverty, lack of housing, ill-health, lack of education and the like (Kukathas *et al.*, 1990).

Libertarians who strictly advocate minimal state are to be distinguished from two closely related groups. One is anarcho-capitalists who believe that even minimal state is too large and requires the elimination of state altogether. While on the other hand, there are those who are generally identified as classical liberals. Classical liberals of eighteenth and early nineteenth century share libertarian view of free market and scepticism of state power but are willing to allow greater

room for activities on the part of state like state provision of public goods or even limited tax funded welfare transfers (Zwolinski, 2008). Over the past few decades, there is another group of libertarianism which has generated increasing interest that is left-libertarianism. It is a theory of justice that holds justice in moral of property rights contrary to legal. Left-libertarianism which holds that individuals fully own themselves and that natural resources like land, minerals, air, water belong to everyone in some egalitarian sense. Just merely being the first person to claim or mix labour with un-appropriated natural resources, as in Nozick's terminology, does not generate a full private right to the resources. Barbara Fried (Fried, 2004, 2005), Peter Vallentyne (1998), Hillel Steiner (1994) and Michael Otsuka (2003) have written extensively on left-libertarianism.

Robert Nozick, professor of philosophy at Harvard University, in his book *Anarchy, state and utopia* (1974) proposes theory of distributive justice based on the primacy of our natural right to liberty which is considered to be highly influential version of libertarianism. Justice consists, according to Nozick's theory of entitlement, in the unrestricted operation of just procedures, not in the production of just outcomes (Buchanan, 1985). Nozick's theory of rights as justice is rested on unshakable conviction that there are things we ought not to do to other people, no matter what benefits it produces as consequence to others or even ourselves, using an example of 'the forcible redistribution of bodily parts'(1974: 206). Nozick rejects redistribution and argues that being forced to pay taxes that can be transfer to poor violate people's property rights. People have to work harder to obtain the same net amount of income after paying taxes. Thus, Nozick termed the tax system as a system of forced labour. Nozick further states that when others decide what you are to do with your income, they become part owner of your assets and such arrangement violate property rights. However, according to Nozick, the only justification where redistribution may work is to contribute to the realization of the principle of rectification of injustice where historical information is lacking.

Nozick supports free markets economy based on freedom to economic exchanges and personal liberty rather economic efficiency. He defends the strictly limited role of state to secure the negative rights of liberty and property. He states that 'individuals have rights' and these rights leave very limited role for state. The state is not allowed to tax income to finance social programs such as poverty alleviating without voluntary consent of citizens.

Nozick argues that theories of justice can be divided in two ways. They can be patterned or unpatterned, which can be further historical or unhistorical. According to Nozick (1974: 156), patterned theories of distributive justice or end state principle of justice require that distribution of resources should 'vary along with some natural dimension, weighted sum of natural

dimensions or lexicographic ordering of natural dimension'. Patterned principles are historical if they distribute in accordance with moral merit, while not historical if they do not look to any past conducts for example race or I.Q scores. According to Nozick (1974: 169-70), all well established patterned principles of distributive justice include "to each according to his merit", 'to each according to his need' and 'to each according to his contribution". Distributive justice in unpatterned principles does not assign shares of resources in proportion to individuals' ranking on some dimension. These principles can also be historical or unhistorical.

Nozick's theory of just distribution or the entitlement theory is unpatterned and historical. It justifies justices of distribution by listing procedures by which one can justly acquire title to particular resources determined by historical account of the property rights. Nozick (1974: 151) has presented an inductive definition to justify his theory of entitlement :

1. A person who acquires a holding in accordance with the principle of justice in acquisition is entitled to that holding.
2. A person who acquires a holding in accordance with the principle of justice in transfer, from someone entitled to the holding, is entitled to the holding.
3. No one is entitled to a holding except by repeated applications of 1 and 2.

In general according to the entitlement theory, an individual's ownership of something is legitimate if and only if it has come into his possession through a chain of legitimate acquisitions, transfers and rectifications.

However, the central problem with the theory of acquisition is how any of the earth's resources or the things made from these resources can come to be privately possessed. What right one possesses to acquire something and exclude others from using these things and then pass it on by contract gift or bequest (1974: xiv). Nozick justifies this by using the Locke argument that natural resources are common property of mankind but one attains property rights to resources and their produce by mixing labour with those resources. Nozick argues that if others are not harmed by this original acquisition then it is legitimate to acquire by this process. Furthermore, justice in transfer links to voluntary exchanges of holdings one acquires justly. Voluntariness is an important element of all just transfers. Finally, justice in rectification involves putting right the wrongs due to the result of acquisition without the mixing of labour or through involuntary transfers. In case of Nozick theory of rectification justice, victims of injustice should be adequately compensated if they are not worse off than they would have been had the injustice not done and punishment.

Libertarianism's historical focus thus sets the doctrine against both egalitarian views which hold that only equal distribution of resources are just, utilitarian views which hold that distributions of resources are only just to the extent that they maximize total utility, and prioritarian views which hold that distribution of resources are just to the extent that they benefit the worse-off in society (Zwolinski, 2008). According to Nozick's theory, pursuits of all such patterns is against the natural rights, since it unavoidably contains taking away goods from some and redistributing them to other people in order to establish the pattern and this must involve injustice. According to Zwolinski, justice according to libertarianism in distribution of resources is a matter of respecting people's right, rather achieving certain outcomes. This view of procedure theory is in contrast to Rawls's end state principle of justice, which contents that we must first decide what a perfectly just state is and then move toward it.

There is another class of libertarian which unlike Nozickian libertarianism, has its political principle grounded in the beneficial consequences which libertarian rights and institution produce. The most notable who promote this view are Ludwig von Mises, Friedrich Hayek, James Buchanan, and Milton Friedman. They contributed to modern libertarian thought through articulation of old tradition of liberalism against the new threat of totalitarianism. Hayek in his *Constitution of Liberty* (1960) argues that the ideal of liberty demands equality before the law and reward according to the market value while reject substantial equality or reward as per merit. He further argues that inequalities in society formed due to inheritance, upbringing and education, permitted by an ideal of liberty, tend to benefit the society as a whole.

3.3.1 Critical Evaluation of Libertarianism

Allan Gibbard (1976), Cohen (1986, 1995) and J.O. Grunebaum (1987) have all argued that Nozick's choice of no harm principle, of using resources external to oneself and not owned by anyone else, is subjective and not convincing, if not obviously incorrect. Nozick proposes that his concept of self ownership formulated on Kantian principle that no one should be treated as a simple means is critically challenged by Cohen (1995), arguing that any policy that violate the self-ownership by forcing wealthy in the society to support the less advantage do not necessary treat the wealthy in the society merely as a means. Cohen (1995) argues that we can still satisfy Kantian principle without committing to full self ownership. Cohen (1995) further criticizes Nozick's assumption that external world was unowned before becoming privately owned is. According to Cohen (1995), such claims are morally arbitrary, as we are not considering the legal status of the external world but its moral status just as, according to Locke (1689), persons were morally self owned in a natural state. Cohen (1995) argues that why not we assume that the

external works as jointly owned world by all instead of unowned, view also supported by Grunebaum (1987: 80-85). Gibbard (1976) proposing the “hard libertarian position”, argues that everyone has an equal right to use all properties. In this hard libertarian position, no one has a priori right to bar others from using things that she or he has produced. With no social contract to establish property rights, people will have no incentive to clear the land and grow gain. Gibbard (1976) argues that in such situation members of society will enter into bargain to establish some sort of property rights to use all things, which will establish something resembling a welfare state. Handicaps, according to Gibbard (1976), who by themselves cannot transform the external world into goods they need, will be supported by some kind of redistributive taxation. Gibbard (1976) further argues that appropriating of a piece of unowned land by mixing one labour is morally permissible only when others agree to give up the rights to use the appropriated thing.

Furthermore, Arneson (1991) argues that since self-ownership is understood by the libertarians as an absolute right, thus cannot be violated at any cost even great benefit would accumulate from doing so. Hence, Arneson (1991) states that self ownership is in conflict with Pareto-Optimality.

Rawls (1999a) rejects the entitlement theory of justice for allowing natural abilities and talent in distributive shares. According to Rawls (1999a: 62-3):

The existing distribution of income and wealth, say, is the cumulative effect of prior distributions of natural assets—that is, natural talents and abilities—as these have been developed or left unrealized, and their use favored or disfavored over time by social circumstances and such chance contingencies as accident and good fortune. Intuitively, the most obvious injustice of the system of natural liberty is that it permits distributive shares to be improperly influenced by these factors so arbitrary from a moral point of view.

Sen (1984), while criticizing Nozick for accepting only negative rights, argues that many famines in the world in the past have been taken place with no overall decline in the availability of food, reflect a sharp failure of the Nozick’s justice theory of entitlement. Furthermore, Varian (1975) has criticized Nozick’s justice theory of entitlement for lack of analysis on how the initial endowments of the agents are to be determined. Even though, according to Varian (1975), Nozick states that free market economy is acceptable way to achieve justice in transfer, however no details are provided on how agents come to acquire legitimate holdings. According to Varian (1975), there are two problems with the acquisition of entitlements in just manner. First, while the descendants of the original appropriators are enjoying a life with wealth, but those who are

born later have nothing left to appropriate. A second problem is that the acquisition of just entitlements is subject to a great deal of arbitrariness, which Nozick failed to provide any mechanism to correct any kind of arbitrariness. According to Varian (1974), it is unfair and unjust that initial endowments of wealth was arbitrarily determined centuries ago. Furthermore, Varian (1975) also criticizes Nozick theory for justice in rectification. He argues that property rights held today could be traced back to forcible appropriation in the past, for example, how can we determine the current distribution of entitlements if the past injustice to the Native American had not occurred? Varian while proposing an equal distribution of society's resources through market mechanism, argues that Nozick's principle of justice in acquisition should be replaced with the end-state principle, which will guarantee a transfer from one generation to another generation only through market mechanism. This solution is consistent with the theorem of welfare theory as it accepts the market as the mechanism for justice in transfer.

On the role of state, many critics of libertarianism have proposed limited role or no state at all, where individual cooperate voluntarily on a large scale is impossible because the interests of individuals are inherently conflicting and can only results in chaos and violence. The earliest criticism of libertarianism can be found in *The Republic* by Plato. In Book II of *the Republic*, *Adeimantus and Socrates* discuss the emergence of markets, voluntary coordination, civil society, and concludes that justice lies in "some need ... men have of one another". Similarly, Karl Marx (1958), another influential critic of libertarianism, argues that libertarians have fundamentally misunderstood the nature of freedom. Marx argues in his essay *On the Jewish Question* (1958) that to achieve the true essence of man, we must insist not on individual rights, which only separate one person from another, but instead on the primacy of the political community. According to Charles Taylor (1985), real freedom is how much one has self control, or how much one can participate in collective decisions. James Fitzjames Stephen in *Liberty, Equality, Fraternity* (1993) offers defence of coercion as the foundation of religion and morality contrary to libertarian idea that the state should limit itself to prohibiting well-defined harms to other and should not legislate morality. Stephen also supported by Robert George (1993) believes that humans would simply run riot if coercive powers to maintain morality is absent and the purpose of the state power is to make men moral.

In conclusion, libertarianism is attractive moral and political theory because it provides moral liberty of action in a society and rejects any external interference from others. It is also sensitive to the history, for example what violated the rights and what agreements were made in the past. However it faces serious objection that it places too much attention on protection from

interference and not enough attention on distribution and how to make the future better for all. It does not provide solutions for how basic needs of society should be met and how equality would be promoted in the society.

3.4 JOHN RAWLS' JUSTICE AS FAIRNESS

John Rawls was a leading moral and political philosopher. His book *Theory of Justice* (1971) is considered one of the most influential works in moral and political philosophy. John Rawls in reaction to Utilitarianism aspect of justice, which posits justice as the greatest good for the greatest number of people, draws on the tradition of Enlightenment thinking, that of a hypothetical agreement on a 'social contract'. Rawls central theme is that "justice has to be seen in terms of the demands of fairness" (Sen, 2009: 53). Rawls's theory of justice is a philosophical discourse for the liberal welfare state; however, Kymlicka (2002) argues that welfare state is a vital, not sufficient for Rawlsian justice. While Malnes and Midgaard (2009) supporting Rawls' idea of welfare state argues that if human beings are given the chance to engage in a social contract that guarantees equal consideration of the individual, liberal welfare state is the right choice and will be preferred by tolerant and reasonable human beings .

The main idea of Rawls theory of justice, an egalitarian liberal theory, is that justice should be thought about in term of fairness- justice as fairness. Rawls regards the duty of fair play as a *prima facie* duty, not an absolute duty (Haksar, 1972), since "the duty of fair play stands beside other *prima facie* duties such as fidelity and gratitude as a basic moral notion; yet it is not to be confused with them" (Rawls, 1999b: 211). In general, Rawls argues that individuals in a society are assumed to be "mutually disinterested". When each one meets, they simply try to win for himself and his immediate descendants the largest possible bundle of primary social goods; that is why they fail to see just distribution in terms of fairness. According to Sen (2009) the concept of fairness is a demand to avoid bias in our evaluation, considers the interest and concern of others and helps to avoid our propensity to be influenced by our respective interest or our personal priorities.

Rawls for his theory of justice, proposes a theoretical person who is shrouded in a veil of ignorance, must plan a just society without prior knowledge of his or her own status in that society. Rawls calls this *original position*, in which an individual will choose a system of justice for community, which will adequately provides for those who are socially deprived. According to Rawls, the individual at original position will always chooses this because he or she may end up

at disadvantage position and would wish to be adequately provided for. In other words, since the individual decision will have ramifications over his or her entire life, he or she will be risk averse and will choose the principle of justice that will ensure the highest possible quality of life even at the worst circumstances society has to offer. According to Rawls, conditions at the original position are that actors are rational and they are not altruistic, as Rawls (1971: 129) argues:

When it is supposed that the parties are severally disinterested, and are not willing to have their interests sacrificed to the others, the intention is to express men's conduct and motives in cases where questions of justice arise.

This means that actor will precisely wishes to further his or her own 'conception of goods', however under the veil of ignorance, he or she would not know what content this conception will have. The Rawls depicts this from earlier theories of political philosophies of social contract that individuals in a society agree to the terms on which they are governed in any society. Rawls (1971: viii) says that aim of the theory of justice is to "generalize and carry to a higher order of abstraction the traditional theory of the social contract as represented by Locke, Rousseau, and Kant".

Rawls's just society does not aim at any specific ideal of human good as proposed by Utilitarianism rather the goal of Rawls's just society is to offer an institutional framework with a set of basic freedom and right, that accommodate all individuals in the society to pursue their diverse plan and objectives independently (Ackerman *et al.*, 1997: 240). John Rawls proposes that the design of social institutions should be based on two principle of justice that individuals will choose at original position. These principles are:

1. "Each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others." (Rawls, 1971: 60)

This means that each individual should have as much liberty as they possibly can but this liberty cannot violate the liberty of other individual in the society. Rawls calls the first principle the principle of greatest 'equal liberty'. According to Rawls (1971: 61), liberties guaranteed by this principle are:

... political liberty (the right to vote and to be eligible for public office) together with freedom of speech and assembly; liberty of conscience and freedom of thought; freedom of the person along with the right to hold (personal) property; and freedom from arbitrary arrest and seizure as defined by the concept of the rule of law.

First principle of justice, hence guarantee the negative liberty of citizens in a society, where individuals are free from unnecessary state interference with their lives also promoted by Nozick.

Contrary to Utilitarianism doctrine, according to Rawls, 'equal liberty' guarantees that the rights and freedom of few will never be sacrificed for the good of majority or society as a whole.

2. "The second principle applies, in the first approximation, to the distribution of income and wealth and to the design of organizations that make use of differences in authority and responsibility, or chains of command" (Rawls, 1971: 61).

Second principle of justice focuses on two parts. The first part, which Rawls called 'difference principle', is that economic and social inequalities in a society are to be arranged in a way that maximize the advantage of those who are least advantaged in the society. The only justification for economic inequalities would be to ensure the maximal advantage of the least well off- this is called maximin rule. This view shows Rawls position of equalitarianism. The second part of the principle of justice or in Rawls's term the principle of 'fair equality of opportunity', deals with social arrangement in the society, in which all the social position such as jobs must be open to all. Moreover, measures must be taken to allow individual with equal opportunities reaching those positions. These measures would ensure that those whose starting place in a society is less favourable have an equal chance to achieve an important position in the society. Rawls arranges these principles of justice according to their order of priority. According to Rawls, the principle of greatest equal liberty is lexically prior to both the difference principle and the principle of fair equality of opportunity. One principle in lexical order needs to be satisfied before going on to satisfy those of the second (Oyeshile, 2008). Rawls argues that his two principles of justice would be chosen in the original position, therefore these principle are just and should be adopted in the society as a standard of justice.

Rawls (1971: 92) introduces the notion of primary goods as basis when people know nothing about their own plans and desires. Rawls identifies these primary goods as rights, liberties, opportunities, wealth, income and finally self respect. He defines self respect as "a person's sense of his own value, his secure conviction that his conception of good, his plan of life, is worth carrying out (Rawls, 1971: 440). Rawls considers self respect the most important of the primary social goods, and without which plans will seem worthless, and the other goods will have little value (Baldwin, 2006). Everyone's social situation, in a society with justice as fairness in place, can be assessed using the same index of primary goods. According to Rawls(1999a: 386):

It is clear then why self-respect is a primary good. Without it nothing may seem worth doing, or if some things have value for us, we lack the will to strive for them. All desire and activity becomes empty and vain, and we sink into apathy and cynicism. Therefore the parties in the original position would wish to avoid at almost any cost the social conditions that undermine self-respect. The fact that justice as fairness gives more support to self-esteem than other principles is a strong reason for them to adopt it.

Thus contrary to Utilitarianism, Rawls argues, claims of justice turn on distribution of primary goods, not on welfare considerations. Hence, Rawls proposes his theory of justice as fairness as an alternative to Utilitarianism, which according to Rawls, allows morally unacceptable tradeoffs between liberty and welfare. While the principle of 'equal liberty' rejects any moral justification for such trade-offs (Ackerman, *et al.*, 1997). Utilitarianism, Nozicks (1974: 33) argues, neglects account of 'the separateness of persons' when it treats the contribution of each person's well being as only a means to attaining the social optimum. Furthermore while criticising Utilitarianism, Rawls argues that according to Utilitarianism, individuals ought to give up his or her preference to have a different set that would create more utility, thus treating individuals as 'bare person' without adherence to their values and goals, except when they maximize the aggregate utility. Consequently, Utilitarianism concludes an individual moral personality insignificant.

John Rawl's theory of Justice, to conclude, aims to provide a practical alternative to the Utilitarianism, in which self interested rational person behind the veil of ignorance would choose two principle of justice to structure society in the real world.

3.4.1 Critical Evaluation of Rawl's Theory of Justice

John C. Harsanyi (2008), highly critical of Rawls' theory of justice, argues that Rawls's theory requires extensive redistribution of income and wealth in a society, which will give rise to serious economic and political problems if any attempt is made to implement this policy. Richard Arneson (2008) argues that Rawls's use of the maximin principle, which stress on the maximization of the level of primary goods that the worst-off group in society can be expected to enjoy over their lifetimes, failed to differentiate between inequalities that rises due to an individual choice from those that are due to circumstances. Furthermore, Sen (2009) argues that Rawls failed to acknowledge the wide variety between people with respect to primary goods. Is it reasonable to think that individual with different demand value a marginal increase of social primary goods equally? For example according to Sen, a pregnant woman, beside other things, will demand more for nutritional support than someone who is not pregnant. She will do far less with the same level of income and other primary goods. Therefore, Sen (2009: 66) argues that we should focus on actual assessment of freedom and capabilities. Sen (1992) claims that information about capabilities provides the most appropriate base for a theory of justice, particularly; it is more fitting to think of justice in terms of capabilities of individuals than in terms of the utilities individuals enjoy or the resources at their disposal. Sen argues that his capabilities based approach to justice is to be preferred both to Utilitarianism and to Rawl's

theory of “justice as fairness”. He argues that Utilitarianism account based on desire fulfilment instead of experienced pleasure fails because it neglects the effects of physical conditions on shaping desires since fulfilled desires do not indicate well-being. Sen, moreover, considers Rawls’s view of justice to be the most credible alternative to his own view but rejects it in part against his capabilities approach because the capabilities approach is more direct in evaluating what matters to human well-being. Sen argues that at fundamental level valuable functionings, the extents of achieved freedom, is the main concern of matter of justice and not a mere command over resources as Rawls claims. Sen further argues that these resources are only a means to valued functionings. Justice in Sen’s opinion requires a theory of individual goods that answers the Aristotelian question: What is good life? In Sen’s account, the concept of well-being is central while idea of cooperation is central to Rawls’s political conception of justice. According to Sudge (1993), Rawls’s theory of justice fails to measure up to the standards set by Sen’s capability approach especially since Sen construes Rawls’s theory of justice within the context of his own program to define the social good – a goal that is not shared by Rawls.

Sen in his *Idea of Justice* (2009: 67) further argues that “in the Rawlsian system of justice as fairness, direct attention is bestowed almost exclusively on ‘just institutions’, rather than focusing on ‘just societies’ that may try to rely on both effective institutions and on actual behavioral features”. Sen further explains in his *Idea of Justice* that justice is comparative rather than absolute as there is no such thing as perfect justice. Justice is perceived differently by different people having background with different customs and values. However, as Sen emphasizes, with dialogue and critical reasoning we can move towards an agreement on certain injustices.

Furthermore, Nozick is also highly critical of Rawls’s Theory of Justice specially his ‘difference principle’. According to Nozick (1974: 209), advocates of patterned principles while discussing distributive justice, “ignore any right a person might have to give something to someone”. Nozick says that he does not know “why the usual theories of distributive justice are so recipient oriented; ignoring givers and transferors and their rights is a piece with ignoring producers and their entitlements. But why is it all ignored?” (Nozick, 1974: 168).

3.5 CONCLUSION

Justice is often defined as “giving what is due”. This notion of justice in the western understanding is formulated according to how equality is defined and how and what is recompensed, which in turn is based on calculation. According to Smirnov (1996), this kind of

justice is to be seen only as an ideal, rarely understood as reality, which may be rationally calculated. Therefore, Smirnov states, the just society does not exist and it is only the progression toward this just society that constitutes the core of western society. On the other hand, justice in Islam, is “giving what is due” to “establish the true or *haqq*” in order to preserve and maintain the society or in other words justice from Islamic perspective means non-deviation from what is necessary for existence (Smirnov, 1996). Hence justice is understood as to is restored and brought back, by removing the *zulm* (when *haqq* is overshadowed), not brought forward for some mentally construct ideal situation or society.

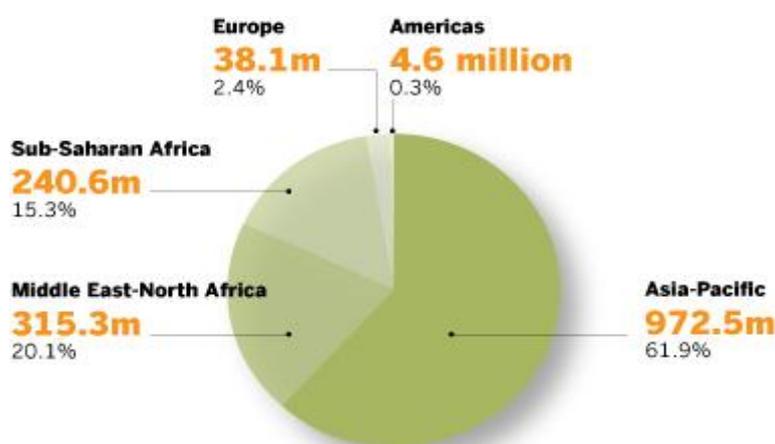
Chapter 4

CRITICAL REFLECTIONS ON THE DEVELOPMENT IN THE MUSLIM WORLD

4.1 INTRODUCTION

There are total of 1.57 billion Muslim of all ages living in more than 200 countries across the world, representing 23% of an estimated 2009 world population of 6.8 billion. Among all countries, around 62 percent of the global Muslim population are in Asia; about 20 percent are in the Middle East and North Africa and 15 percent in Sub-Saharan Africa (Figure 4.1).

Figure 4.1: Percentage of Muslim Population around the World



Source: Pew Research Centre, <http://pewforum.org/newassets/images/reports/Muslimpopulation/Muslimpopulation.pdf>,

Moreover, over 1.2 billion Muslims of the world's Muslim population lives in countries where Islam is the majority religion, representing total of 50 Muslim countries and territories in the world (Pew Research Center, 2009).

Majority of Muslim populated countries in the world are on the World Bank's roster of high income countries, with few others in the middle-income category (World Bank, 2011). Similarly world's poorest countries contain disproportionately many with predominantly Muslim population.

The combined annual GDP of 50 Muslim countries and territories is just over \$4 trillion (Annex 4). America, just by herself, produces goods and services worth \$14.25 trillion; China \$4.98

trillion, Japan \$5.06 trillion and Germany \$3.34 trillion (Fund, 2010). On average the contribution of Muslim countries and territories in the world GDP, i.e. 58.2 trillion, is around 7 percent, which is substantially less than the proportion of population in Muslim countries, i.e. 18.43 percent, to the total world population. Furthermore, in GDP, the contribution of Muslim countries in Asia to all Muslim countries is 52.63% while to the world GDP it is 3.7 percent. However, population wise, the proportion of Muslim in Asia to population in Muslim countries is 61.8 percent, whereas, it is 11.4 percent to the world total population (Appendix 4.1 for details).

Similarly the figures for Muslim countries in Middle East and North Africa, Sub-Saharan and Europe to all Muslim countries by GDP are 41.4 percent, 5.5 and less than 0.5 percents respectively while to the world GDP are 2.9, 0.39 and 0.02 percents respectively, while the proportion of Muslim in Middle East and North Africa, Sub-Saharan and European Muslim countries to other Muslim Countries are 25.1, 12.8 and 0.4 percent, whereas, they are 4.6, 2.4 and 0.1 percent to the world total population.

The above figures clearly show that Muslim countries with respect to their contribution to World GDP have short fall compare to the proportion of their population, and are relatively poor compare to the rest of the world. Meanwhile, only Muslim countries in the Middle East and North African have a higher contribution of GDP in Muslim countries compare to the percentage of their population with respect to total Muslim population. Nevertheless, compare to the world GDP, the region still fail to take advantage of their abundant oil resources.

Turkey has the highest while Comoros has the lowest GDP among all Muslim countries; however, Netherlands alone has a higher annual GDP than Turkey with the population almost equal in size of Kazakhstan (Population Reference Bureau, 2010). The same can be concluded with respect to GDP per capita, which is only higher in Middle East region while the rest of Muslim world is still lagging behind Europe and North America.

Even though, Muslim countries in the world specifically Middle Eastern countries are considerably richer and more developed than most of non Muslim sub Saharan Africa , central American and southern Asian countries, still compare to the historical legacy as leading centres for trade, learning and wealth from tenth century till fifteenth century, the current income and development levels in Islamic countries from Morocco to Bangladesh is below satisfactory and markedly lagging behind that of western Europe, north American and leading regions in east Asia (Goldstone, 2003). There is extensive discourse both at academic and political level about

the development in Muslim world. In order to view the role of religion, politics and development in the Muslim countries, in the first part of this chapter, different indices are used to measure the progress of overall development of top 20 Muslim populated countries from the world. Wherever, it is possible, data from multiple years are selected to view the trend of development comprehensively. Based on these indices, the progress of development in Muslim world is measured and it is concluded that majority of Muslim population around the world are struggling to achieve the level of development western countries have experienced and Muslim populated countries have failed to provide basic necessities to their citizens.

In the second part of this chapter, a survey on underdevelopment and Islam is provided. Many scholars throughout the history especially in the western scholarship have compared Muslim countries with non Muslim western countries, blaming Islam as a hurdle to development in the modern terms. For example, they have criticised Islamic *Shari'ah* law for its lack of adoptability with changing conditions, Islamic ideology as an obstacles to capitalist development and Islamic mysticism and fatalism for hindering individual initiative, ventures and risk,- the cornerstone of economic development (Ahmad, 2006). However, these scholars have failed to understand the true message of Islam and due to their lack of understanding development in Islam, simply conclude Islam as a cause of the underdevelopment, even there is nothing in Islam against worldly development (Al-Buraey, 1985). However, the concept of development in Islam is different from the one pioneered and promoted by the western academia. Islam is a religion about both this life and the life after death. All the policies according the teaching of Islam should be formulated in a way that helps one to achieve success (*falab*) in the life after death (*akhirah*). However, this does not mean that affairs of this life should be completely ignored. In fact, Allah in Qur'an clearly states to 'disperse through the land, and seek of the Bounty of Allah' (Qur'an, 62:10). However, these materialistic affairs should be pursuit in a sense that it helps one to achieve the success in the *akhirah*. Islam has provided guidelines regarding how one has to lead a life that helps them to be successful in this life and the life coming after this world. Unfortunately, Muslim social scientists regardless of their claims of knowing the religions, failed to implement these teachings in Muslim world. There is no such Muslim country in the world which has developed policies in true essence to the teaching of Islam (Iqbal *et al.*, 2013). On the contrary, all the policies of the west without moulding them to the culture preferences and religion beliefs are implemented in the Muslim countries. These policies as expected are doomed to be failure. Nevertheless, even accepting this aspect of failure in policies implementation, nothing substantial has done to correct these mistakes. After providing the discourse on such issues in the third part of this chapter, the last part of the chapter highlights development

according to *makki* and *madani* period of Prophet Muhammad (PBUH). Without such approach it is not possible for Muslim especially in the Muslim countries to prosper and develop. Only then, hopefully, Muslim countries will be able to achieve the status commonly referred to ‘*The Golden age*’.

Since development is essential for human welfare whereas, justice is the main axis of development, this chapter aims to critically discuss the nature of development, growth and progress in the Muslim countries to identify how they are converging or diverging from justice centred development process.

4.2 MUSLIM COUNTRIES AND INDICES

In this section, the current progress of Muslim countries around the globe is analysed using different indices of development. Muslim countries clearly are struggling on providing basic necessities to their citizen as well an environment free of corruption with rule of law. Islam teaches of justice and equality in the society however, Muslim countries have struggled to provide such an environment, suggesting the failure of these state as Muslim to start with.

4.2.1 Corruption Perception Index

Corruption is considered one of the major problems faced by the Muslim World. The most widely disseminated corruption index, Corruption perception index (CPI), is produced by Transparency International. The sources of CPI vary from one year to another but data is based on 18 rankings from 12 institutions. According to Transparency International, data must measure the overall extent of corruption in a country and not the expected impact and that the sources must provide ranking of nations. In order to analyse overall picture of corruption in the Muslim world, total of top 20 countries with most population are selected, Indonesia representing the most populated while Niger the least populated. The data in Table 4.1 provides the ranking of these Muslim countries on CPI from 2009 till 2012. These 20 Muslim countries are representing roughly 85 percent of total Muslim population around the world. The 20 countries selected are solely based on total number of population regardless of percentage of Muslims living in these countries. According to the CPI 2009, the world most corrupted countries are from Islamic world. There is no Muslim county from the top 20 most populated Muslim countries in top 50 least corrupt countries. Furthermore the least corrupted country from the top 20 Muslim populated countries among the group of 180 countries ranked in CPI is Malaysia which ranks 56 on the list. The last country on the rank is Somalia which is a Muslim

country. Similarly Afghanistan is 179 on the list which represents one of the countries in top 20 most populated Muslim countries in the world.

Table. 4. 1 : Corruption Perception Index

Country	2009(total 180)	2010(total 178)	2011(total 182)	2012(total 176)*
Republic of INDONESIA	2.8(111)	2.8(110)	3.0(100)	32(118)
Islamic Republic of PAKISTAN	2.4(139)	2.3(143)	2.5(134)	27(139)
People's Republic of BANGLADESH	2.4 (139)	2.4(134)	2.7(120)	26(144)
Federal Republic of NIGERIA	2.5(130)	2.4(134)	2.4(143)	27(139)
Arab Republic of EGYPT	2.8(111)	3.1(98)	2.9(112)	32(118)
Islamic Republic of IRAN	1.8(168)	2.2(146)	2.7(120)	28(133)
Republic of TURKEY	4.4(61)	4.4(56)	4.2(61)	49(54)
Republic of The SUDAN	1.5(176)	1.6(172)	1.6(177)	13(173)
People's Democratic Republic of ALGERIA	2.8(111)	2.9(105)	2.9(112)	34(105)
Kingdom of MOROCCO	3.3(89)	3.4(85)	3.4(80)	37(88)
Republic of IRAQ	1.5(176)	1.5(175)	1.8(175)	18(169)
Kingdom of SAUDI ARABIA	4.3(63)	4.7(50)	4.4(57)	44(66)
Islamic Republic of AFGHANISTAN	1.3(179)	1.4(176)	1.5(180)	8(174)
Malaysia	4.5(56)	4.4(56)	4.3(60)	49(54)
Republic of UZBEKISTAN	1.7(174)	1.6(172)	1.6(177)	17(170)
Republic of YEMEN	2.1(154)	2.2(146)	2.1(164)	23(156)
SYRIAN Arab Republic	2.6(126)	2.5(127)	2.6(129)	26(144)
Republic of KAZAKHSTAN	2.7(120)	2.9(105)	2.7(120)	28(133)
BURKINA-FASO	3.6(79)	3.1(98)	3.0(100)	38(83)
Republic of NIGER	2.9(106)	2.6(123)	2.5(134)	33(113)

* A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean.

Furthermore, according to CPI 2010 and CPI 2011 lists, Somalia is the most corrupted country in the world where majority of the population is Muslims while Afghanistan represents fourth most corrupted country in the world in 2011 index and third in the 2010 index, also one of the top 20 most populated Muslim countries in the Islamic world. The least corrupted country among top 20 most populated Muslim countries is Saudi Arabia which improved the ranking from 63 to 50 in 2010 but ranked 57 in 2011. Pakistan which is the second most Muslim populated country in the world fell from 139 to 143 in 2010 but improved to rank 134 in 2011. Even though there is slight improvement in few Muslim countries, however, majority of Muslim countries in top 20 either remained the same or have gone down in 2011 compare to the

previous year statistics of CPI. In Addition, the latest data, representing CPI results for 2012, shows the majority of the Muslim countries have either remained the same on the CPI or have gone even further down in the list. For example, Pakistan and Bangladesh representing one of the most populated Muslim countries are ranked lower than the previous year results.

These results are contrary to the teaching of Islam. Islam has frowned upon the practice of bribery and corruption and is considered an act of sin. Allah has clearly speaks of lawful earnings in Qur'an and those who do not earn lawfully are in fight with Allah and His Prophet (Qur'an, 2:188; 3:161). According to one Hadith, reported by Jabir that the Prophet (PBUH) said: "The flesh and body that is raised on unlawful sustenance shall not enter Paradise. Hell is more deserving to the flesh that grows on one's body out of unlawful sustenance" (Ahmad, hadith. 4481). Still, majority of Muslim countries ranked the lowest on the CPI.

4.2.2 Human Development Index (HDI)

The HDI is a composite statistic index that is about much more than the rise and fall of national incomes. According to United Nation Development Program (UNDP) documents, Human development is about providing an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests, where people are the real wealth of nations. Development is thus about expanding the informative choices people have and value to build human capabilities, which according to Human Development Report (HDR) is accomplished most fundamentally by living a long and healthy life, being educated, and having a decent standard of living, both augmented and facilitated by political freedom, guaranteed human rights, and personal self-respect. Without these, many choices are simply not available, and many opportunities in life remain inaccessible. Thus it is about much more than economic growth, which is only a means -if a very important one - of enlarging people's choices. As Aristotle said, "Wealth is evidently not the good we are seeking, for it is merely useful for the sake of something else"(Aristotle, 2002: 10) .

The Human Development approach was a response to the growing criticism to the leading development approach of the 1980s (Schuurman, 1993), which presumed a close link between national economic growth and the expansion of individual human choices. Dr. Mahbub ul Haq, the Pakistani economist played a leading role in formulating the human development paradigm.

The basic purpose of development is to enlarge people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to

knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives. (Ul Haq, 1995: 14).

The work of Amartya Sen's capability approach and others provided the conceptual foundation for an alternative and broader human development approach (Fukuda-Parr, 2003). The first report under the auspice of the UNDP was launched in 1990 with a single goal of putting people back at the centre of development process in terms of economic debate, policy and advocacy. According to Sen (ct. by Shaikh, 2007: 4):

Human development, as an approach, is concerned with what I take to be the basic development idea: namely, advancing the richness of human life, rather than the richness of the economy in which human beings live, which is only a part of it.

Since launched of first HDR, four composite indices have been developed to measure human development in any particular society— the HDI-providing a summary measure of human development, the Gender-related Development Index - the HDI adjusted for gender inequality, the Gender Empowerment Measure—gender equality in economic and political participation and decision making, and the Human Poverty Index (HPI) -the level of human poverty. Human Development Reports also focus on a highly relevant theme in the current development debate, thus providing path-breaking analysis and policy recommendations on such topics and issues. The Reports' messages and its tools to implement them in the society have been highly welcomed by the people around the world, evidenced by the publication of national human development reports at the country level in more than 140 nations.

The first HDR measured the development dimension by combining indicators of life expectancy, educational attainment and income into a composite HDI, which was to serve as a frame of reference for both social and economic development as a single statistic. HDI used a value between 0 and 1 as a minimum and maximum for each dimension or goalposts and then shows where each country on the list stands in relation to these goalposts (Programme, 1990).

The most recent HDR available is for the year 2012, published in 2013, which covers the human development data for 2010. In order to analyse and understand the true picture of human development in Muslim populated countries, seven years data has been selected provided in HDR from 2006 till 2012. For simplicity, HDI, Human Poverty Index (HPI), Gender-related Development Index (GDI), Gender Empowerment Measurement (GEM), Inequality Adjusted HDI (IHDI), Gender Inequality Index (GII) and Multidimensional Poverty Index (MPI) are

used depending on the availability of the statistics to analyse the trend of human development in Muslim countries over the period of six years (See Appendix 4.2 for details).

4.2.2.1 Human development index (HDI)

According to the Human Development Reports, HDI captures the life expectancy at birth as an index of population health and longevity. Life expectancy index is calculated using a minimum value for life expectancy of 25 years and maximum value of 85 years, therefore the longevity component for a country where life expectancy is 85 years would be 1. Moreover, the Educational Index, which measures the knowledge or education dimension of the HDI, is comprised of adult literacy rates and the combined gross enrolment ratio for primary, secondary and tertiary schooling, while weighted to give adult literacy more significance in the statistics. While, the minimum adult literacy rate is 0% and the maximum is 100%, the literacy component of knowledge for a country where the literacy rate is 80% would be 0.80. Furthermore, the statistic for combined gross enrolment ratio is calculated in a similar manner. The wealth component, using GDP per capita at Purchasing Power Parity (PPP US\$) as its indicator, measure a decent standard of living dimension in HDI. For the wealth component, the goalpost according to HDI for minimum income is \$100 (PPP) and the maximum is \$40,000 (PPP). The HDI uses the natural logarithm of income to reflect the diminishing importance of income with increasing GDP (HDR2010). The scores for above discussed three HDI components are then averaged in an overall Index

In our analysis, top 19 populated countries from the Muslim world are evaluated on different indices of HDR covering data from 2006 till 2012 respectively (Appendix 4.2). Iraq, even one of the most populated Muslim countries in the world, is not included in our analysis due to lack of data in HDR. In HDR 2006, covering the data for 2004 the top 19 most populated Muslim countries ranked lowers on HDI compare to the rest of the world with the same population size. In HDR 2006 Malaysia, representing just over 1 percent of total Muslim population in the world, scored the highest on HDI (0.805) - ranking 61 out of 177 countries on the list. Indonesia, Pakistan and Bangladesh, all Asian Muslim countries, representing around 42 percent of total Muslim population in the world were ranked 108, 134 and 137 respectively on the list. These countries scored badly on life expectancy, Knowledge and income indicators. Similarly, Republic of Niger came last on the HDI list, representing 20th most Muslim populated country in the world.

In HDR 2007/08 covering the data for 2005, Saudi Arabia and Turkey improved the development indicators for HDI noticeably and ranked 61 and 84 compared to 76 and 92 respectively in 2006 HDR report. Malaysia fell to 63 while Indonesia, Pakistan and Bangladesh more or less remained the same. Republic of Niger and Burkina-Faso two Muslim populated African countries remained in the bottom of ranking. Overall, Muslim countries again struggled to improve the living standard of their citizen and lagged behind other non-Muslim countries in the world.

There is no formal complete HDR during 2008; however, United Nations Development Programme (UNDP) (2008) has provided Human Development Indices in a table. HDI published in 2008 which covers the data from 2006 and HDR 2009 covering HDI for 2007 show that the situation of human development rather got worst in all Muslim countries. Saudi Arabia scored the highest during both years however compare to its available resources, the standard of Human development are not satisfactory. Even countries like Mexico and Cuba with fewer resources have outperformed countries like Malaysia and Saudi Arabia on HDI.

In HDR 2010, there are some improvements of Human Development in Muslim countries but it is important for the Muslim countries to keep improving their Human Development progress, at least match those countries with same resources. Unfortunately, Muslim countries are still lagging behind other non-Muslim countries regardless of the available resources. Compare to previous year report, Turkey, Sudan and Syria, the only three Muslim countries scored lower on HDI. There is no Muslim country from the top 20 most populated Muslim countries in the top 50 HDI's list, nevertheless only Saudi Arabia and Malaysia came closer to top 50.

In HDR 2011, total numbers of countries evaluated on HDI have increased to 189. Overall, all Muslim countries in the top 20 list have lost their ranking on the HDI in 2011. Muslim countries, like previous reports failed to make it to the top 50 HDI list. Even though there are some countries from Middle East which are in top 50 but such countries only represent less than 1 percent of total Muslim population and neither of those countries are in the top 20 most populated countries.

In the most recent HDR 2012, became available in 2013, evaluate total of 187 countries. The HDR 2012 presents the same picture as the previous year results, with Muslim countries around the globe are struggling to provide basic necessities to their citizens. Even though, Muslim countries across the world have been converging towards higher level of human development, however the pace of HDI progress has been fastest in countries where Muslims are not in

majority. The detail study of HDI shows that increase in HDI in Muslim majority countries are accompanied by rising inequalities in income, unsustainable patterns of consumption, high military spending and low social cohesion. Overall, HDR 2012 has mixed results, with slight improvement in some countries, while the rest of Muslim countries shows decline on Human development. It can be easily concluded from the data, that Muslim countries are still lagging behind majority of western countries.

4.2.2.2 Human poverty index (HPI)

Poverty, according to HDR, means those opportunities and choices most basic to human development are denied to lead the life one wishes for. In such situation, a person is not free to live a long, healthy, and creative life. Hence, a person is denied access to a decent standard of living, freedom, dignity, self-respect and the respect of others. Poverty, according to Human Development approach means more than just a lack of what is necessary for material well-being. It is about a choice one wants to lead his or her life accordingly. Thus, the poverty of choice and opportunities is often more relevant than the poverty of income to policy makers. The poverty due to the lack of choices focuses on the causes of poverty in a society and helps directly to formulate strategies of empowerment and other actions to enhance opportunities for everyone. Hence identifying the poverty of choices and opportunities implies that poverty must be addressed in all its dimensions, not income alone (United Nations Development Programme, 2010).

In order to measure the poverty of choice in a society, the HDR introduced HPI in 1997. According to HDR, this is an attempt to measure different features of deprivation in a society in a composite index to arrive at a comprehensive judgement on the extent of poverty in a society or a country. Therefore, HPI capitalizes indicators such as short life, lack of basic education, and lack of access to public and private resources to capture different dimensions of deprivation rather than only measuring poverty by income. The HPI concentrates on the deprivation in longevity, knowledge and a decent standard of life, three vital elements of human life also reflected in HDI (Mowafi, 2004). In HDR, two separate indices, HPI-1 and HPI-2, are used for developing countries and a group of select high-income OECD countries to efficiently reflect socio-economic differences and also the widely different measures of deprivation in the two groups (Trebilcock *et al.*, 2011). The first dimension in HPI relates to survival or longevity to assess the likeliness of death at relatively early age and is represented by the probability of not surviving to ages 40 and 60 respectively for the HPI-1 and HPI-2. The second dimension assesses the knowledge factor in a society, one being excluded from the world of reading and

communication and is measured by the percentage of adults who are illiterate. The third and last dimension related to a decent living standard mostly about overall economic provisioning, which is measured by underweight average of the percentage of the population without access to safe and clean water and the percentage of underweight children for their age for the HPI-1, while for HPI-2 it is measured by the percentage of the population below the income poverty line (50% of median household disposable income). In addition to the three dimensions discussed above, the HPI-2 for a group of select high-income OECD countries also includes social exclusion, which is represented by the rate of long term unemployment as a fourth dimension (United Nations Development Programme, 2010).

In 2006, United Nation Development Program (UNDP) published HDR 2006, covering the data for 2004. In this report, due to lack of data availability, four Muslim countries, Iraq, Saudi Arabia, Afghanistan and Kazakhstan, from the top 20 most populated Muslim countries were not ranked on Human Poverty Index -1(HPI-1). Muslim Populated countries have also performed badly on HPI-1 with only one exception is Syrian Arab Republic which ranked 29 on HPI-1 compare to its ranked on HDI which is 107. In next reports and indices covering the data for 2005, 2006 and 2007, the situation of poverty remains one of the biggest issues for Muslim populated countries. Data from these reports show that Muslim populated countries struggle to control the issue of poverty. Syrian Arab Republic fell further down to rank 56 compare to 29 in HDR 2006. Clearly the population in these Muslim countries struggle to improve their living standards and are deprived of proper education, decent living standard and healthy life compare to the rest of the world, especially non-Muslim countries in the west. UNDP discontinued publishing HPI since 2010 and has introduced multi-dimensional index, which is discussed in details below.

4.2.2.3 Gender-related development index (GDI) and gender empowerment measure (GEM)

HDR induced two new indices of human development in 1995 that highlights the status of women. The GDI measures achievement in the same three vital elements of human life like HDI but notes inequality between women and men. According to HDR (1995), the methodology adopted for GDI imposes a penalty for inequality, for example GDI drops when the achievement levels of both women and men in a country go down, similarly the GDI falls when the difference between women and men's achievements increases. Thus the greater the gender inequality in a society in three basic capabilities, the lower a country's GDI compared with its HDI.

The second index, Gender Empowerment Measure (GEM), according to HDR (1995), is a measure of agency to assess development in advancing women's status in political and economic forums across the country. GEM looks at the extent to which both women and men in a society are able to actively take part in economic and political life and participate in decision-making. Whereas the GDI looks on development of capabilities, the GEM deals with how those capabilities in a society can be utilised to take advantage of the opportunities of life. GEM measure three dimensions; political participation and decision making, economic participation and decision making and power over economic resources. The first dimension of political participation and decision making uses female and male shares of parliamentary seats as indicator. The second dimension of economic participation and decision making measure female and male shares of position as legislator, senior officials and managers and female and male shares of professional and technical positions as indicators of women empowerment. The third dimension related to female and male estimates earned income to assess the gender empowerment in a society.

In HDR 2006, covering the data for 2004, African Muslim countries scored low on GDI showing high disparities between women and men in the three dimensions of HDI. Similarly countries from Asia such as Bangladesh and Pakistan also scored badly on the index. Saudi Arabia ranked highest among the top 20 Muslim countries, scoring 0.795. However, there is still high disparities between women and men in Muslim countries compare to the other non-Muslim countries. This could be one of the reasons of low Human Development in Muslim World, which is opposite to the special status of women in the teaching of Islam (for the role of women in Islam, see Ali, 2008). There is not enough data on GEM in the Muslim countries in HDR 2006 covering the data for 2004. Only countries ranked on the GEM from Top 20 Muslim populated countries are Pakistan, Bangladesh, Egypt, Iran, Turkey, Saudi Arabia, Malaysia and Yemen. However, all these Muslim countries performed really badly on GEM, which measures women's and men's abilities to participate actively in economic and political life and specially their command over economic resources. One of the possible explanations for Muslim countries to score low on GEM could be that Muslim countries are relatively poor compared to non-Muslim world; therefore, Muslim countries would achieve low value for the GEM even if earned income is distributed equally in these countries. Malaysia scored the highest and Yemen the lowest on GEM, while the rest of the Muslim countries stayed in the middle.

In HDR 2007/08, covering the data for 2005, Muslim countries from the Top 20 list again performed badly both on GDI and GEM. In fact, all Muslim countries ranked lower than last

year, which could be due to inclusion of more countries in the list. GDI remained the same for Muslim countries compare to last year while Malaysia scoring the highest and Niger the lowest on GDI. GEM also remained the same with only few countries provided the data. Data shows that Muslim women are still struggling to be empowered to command over economic resources and actively participate in economic and political life.

Muslim populated countries from the top 20 list did not improve substantially and were still lagging behind in 'Human Development Indices covering data for 2006' and HDR 2009 covering data for 2007. Malaysia still remained the only Muslim country ranked in top 60 and Niger came almost last in the list on GDI. The role of Muslim women in the society especially their command over material resources and their ability to willingly participate in political life still remain underdeveloped in the Muslim populated countries as shown in GEM. UNDP stopped publishing data on GDI and GEM in 2010.

4.2.2.4 Gender inequality index (GII)

Since, both GDI and GEM generated debate about how to construct a valid and reliable gender index (see Hawken *et al.*, 2009; Klasen *et al.*, 2011 provide useful reviews), HDR in 2010, introduced Gender Inequality Index (GII) replacing both GEM and GDI to address key criticism made about both GDI and GEM. GII includes three critical dimensions for women – reproductive health, empowerment and labour market participation. These three dimensions are captured in one composite index since joint consideration of empowerment and development reflects important complementarities. There are two indicators used to measure women's reproductive health; the maternal mortality ratio and adolescent fertility ratio. The overall well being of women during childbirth is essentially important and a clear signal of women's status in society. The risk of death in childbirth can be reduced through basic education, adequate nutrition, and access to contraceptives, antenatal health services and skilled attendants at birth. However, such services are still denied to too many women, even though many services are inexpensive and can be easily provided. Reproduction is not only risky in itself but it often begins too early, compromising health and limiting future opportunities for women in a society. Early childbearing, measured by the adolescent fertility rate, is linked with greater health risks for both mother and baby. It also tends to prevent young women from going to school, often limiting them to low-skilled jobs at best.

According to HDR (2010), there are two indicators, parliamentary representation and educational attainment at secondary level and above, used to measure the empowerment dimension in GII.

The ratio of female to male representatives in national parliament reflects women's visibility in political leadership and in society more generally, has been increasing over time. Similarly, attainment of higher education also widens women's freedoms by strengthening their ability to question, reflect and act on their terms and by enhancing their access to information. Educated women in a society are more likely to enjoy rewarding work, contribute in public debate, care for their and their family's health and take other initiatives. Female labour force participation including both employed, unemployed but actively looking for work and part time work measures the dimension of women's representation in labour market.

GII, according to HRD (2010) measures the loss of achievement in key dimensions due to gender inequality in a society. It ranges from 0 showing no inequality in the included dimensions to 1 with complete inequality. The more correlated the disparities between genders across dimensions, the higher is the GII. Furthermore, this also recognizes the fact that the dimensions are complementary among each others, for example, the inequality in schooling tends to be correlated with access to work opportunities and maternal mortality.

Muslim countries in general have high gender inequality, which is also supported by the GII for Muslim populated countries in HDR (2010). Almost all Muslim populated countries from the top 20 list scored closer to 1. Indonesia, Pakistan and Bangladesh representing almost 42 percent of total Muslim population in the world ranked 100 and below. These statistics clearly show that Muslim world cannot achieve higher human development without removing inequality for female. According to the HDR (2010), the losses of achievements in reproductive health, empowerment and labour market participation due to gender inequality, measured by the GII, ranges from 0.17 to 0.85 reflecting percentage losses in achievement of 7 percent to 85 percent, with larger losses found in the Arab States and South Asia. Malaysia tops the list as closest to gender equality for the Muslim populated countries followed by Kazakhstan and Algeria. In the bottom 10 countries of the list, Afghanistan, Niger, and Yemen are from the top 20 Muslim populated countries. According to the HDR(2010), Saudi Arabia shows high human development, global HDI ranking of 55, an HDI of 0.75 and income per capita of nearly \$25,000. However, even with good female educational attainment, women in Saudi Arabia are virtually absent from parliament, and female labour force participation rates are only one-fourth those of men, thus giving the country a GII value of 0.76 and ranking it 128th out of 138 countries. The reproductive health is the largest contributor to the gender inequality and a reason for low rankings of Muslim populated countries on GII. Muslim populated countries from both Arab States and South Asia are also characterised by relatively weak female empowerment and unequal

labour force participation especially in Arab States. The participation of women in politics is greater in Sub-Saharan Africa than in the Arab States, Europe and Central Asia, and South Asia but empowerment is offset by inequalities in education especially Muslim populated countries.

In HDR (2011), which includes 146 countries, shows that the largest losses due to gender inequality are in Sub-Saharan Africa, followed by the South Asia and Arab States, where majority of Muslim populated countries situated. In Sub-Saharan Africa, losses arise from gender disparities in education and high maternal mortality and adolescent fertility rate. While in South Asia, women lag behind men in all indicators in particular in education, national parliamentary representation and labour force participation. In Arab states, women are affected by unequal labour force participation (around half the global average) and low educational attainment. Malaysia scored the lowest on the gender inequality index among the Muslim countries from the top 20 list ranking 43, improving on the gender equality compare to last year. While Yemen like last year scored the highest on the gender inequality index among all countries ranking 146.

In the most recent HDR (2013), the highest gender disparities persist in South Asia (0.568), Sub-Saharan Africa (0.577) and the Arab states (0.555), which representing majority of Muslim populated countries. According to the report, in South Asia, the three driving factors for highest gender disparities are low female representation in parliament (18.5%), gender imbalances in educational achievement (28% of women have completed at least secondary education, compared with 50% of men) and low labour force participation (31% of women are in the labour force, compared with 81% of men). According to the report, the Sub-Saharan countries, even though are on the highest gender disparities, showed improvement in their GII value between 2000 and 2012. Overall, majority of Muslim countries are struggling on gender equality and women in general are to equally participate in parliament, education, labour force, and economic empowerment

4.2.2.5 Inequality-adjusted HDI (IHDI)

In HDR (2010), Inequality-adjusted HDI (IHDI) was introduced, which for 139 countries, captures the losses in human development due to inequality in health, education and income. The IHDI takes into account not only a country's average human development but also how it is distributed in the society. The IHDI accounts for inequalities in HDI, by "discounting" each dimension's average value in HDI according to its level of inequality. The IHDI and HDI will only be equal when there is no inequality across people in a society but IHDI falls below the HDI as inequality rises. In this sense, according to HDR (2010), the HDI is viewed as an index

of “potential” human development, while the IHDI is the actual level of human development (accounting for inequality). Hence HDI would be the maximum IHDI that could be achieved if there were no inequalities. Furthermore, if there is any difference between the HDI and the IHDI measures, it means there is “loss” in potential human development due to inequality in the society or country.

Generally, Muslim populated countries around the globe with less human development have more multidimensional inequality. According to the HDR (2010), people in sub-Saharan Africa including Muslim populated countries suffered the largest HDI losses because of substantial inequality across all three dimensions, followed by South Asia and the Arab States. South Asia shows high inequality in health and education: Pakistan’s loss in HDI is 46 percent in education and 31 percent in health. Considerable losses on HDI in the Arab States can generally be traced to the unequal distribution of education. According to the HDR (2010), Egypt and Morocco, for example, each lose 28 percent of their HDI largely because of inequality in education. In many Muslim populated countries, inequality in health, education or both exceeds that inequality in income. According to the statistics in HDR (2010), in Afghanistan, the range of loss in health is 59 percent, while in Yemen; the loss in education is 68 percent.

In HDR (2011), South Asia, where majority of Muslim population live shows widening educational inequality while Sub-Saharan African countries have the greatest inequality in the HDI due to significant inequality across all three dimensions. According to the HDR (2011), Indonesia lost overall 18.3 percent in HDI due to inequality, with inequality in education contributing the most. Similarly, in Pakistan, Bangladesh, Nigeria, Yemen, and Egypt inequality in education is the largest contributor to losses in HDI while in Uzbekistan, Niger and Burkina Faso life inequality in expectancy is the largest contributor to losses in HDI. Overall, Muslim countries show the same trend of inequality loss to HDI with Uzbekistan losing the most of the ranking in IHDI.

In the most recent HDR (2013), there is a rise in income inequality, which in long term often results in a lack of intergenerational social mobility, leading to social unrest. This might be the possible explanation of unrest in most of Muslim countries around the globe. However, a closer look at the rank and values in IHDI show much importance in the ranking and values of Muslim countries.

4.2.2.6 Multidimensional poverty index (MPI)

Human development cannot be achieved successfully without removing all sort of deprivation in a society. Therefore, the indicators of poverty not only include insufficient income but also poor health and nutrition, low education and skills, inadequate livelihoods, bad housing conditions, social exclusion and lack of participation. According to HRD (2010) , poverty is multifaceted and thus multidimensional. Hence, deprivations in these indicators and their overlap also need to be considered beside obviously important money-based measures. The third index HDR introduced in 2010 is Multidimensional Poverty Index (MPI) to identify overlapping deprivations suffered by households in health, education and living standards and shows the average number of poor people and deprivations with which poor households contend (Programme, 2010). MPI, based on the Sen's capability approach, includes an array of dimensions from participatory exercises among poor communities and an emerging international consensus replaced the HPI, published since 1997. MPI like HDI uses three dimensions, which are reflected in 10 indicators, equal weight within its dimension. These indicators for health are nutrition and child mortality, for education are years of schooling and child enrolled, and for living standard are cooking fuel, toilet, water, electricity, floor, and assets. A household is multi-dimensionally poor if it is deprived in at least two to six indicators (HDR2010).

In HDR (2010), data covering from 2000 till 2008 is provided for MPI, which is also repeated in HRD (2011). Hence both reports have the same measurements for many countries on the lists. According to the HDR (2010), 1.75 billion people in the 104 countries covered by the MPI live in multidimensional poverty, which exceeds the estimated 1.44 billion people in those countries who live on \$1.25 a day or less. The rate of multidimensional poverty is 65 percent in sub-Saharan Africa compare to around 3 percent in Europe and central Europe. However, the largest number of people living in multidimensional poverty belongs to South Asia followed by Sub-Saharan Africa. Sub-Saharan African has the highest incidence of multidimensional poverty. The level ranges from a low of 3 percent in South Africa to a massive 93 percent in Niger with average share of deprivation of 69 percent, which is a Muslim populated country (Programme, 2010). In Niger more than half the population is poor and has experienced a child death. Similarly in Burkina Faso more than half the population is poor and lives in a house where no one has completed primary school. In Arab states the incidence of multidimensional poverty is highly heterogeneous for example MPI is generally below 7 percent in Tunisia and Egypt but the rate rises to more than 14 percent in Iraq, to 28 percent in Morocco and 29 percent in Yemen. In Europe and central Asia the level of poverty estimates with the MPI are close to zero in several

countries with the highest rates, 8.5 percent in Turkey, which represents Muslim populated country in the region. Even data is not available for all Muslim populated countries from the top 20 list in the HDR (2010), still it can be concluded that Muslim populated countries are the one suffering the highest incidence of Multidimensional Poverty.

In HDR (2011) and repeated in HDR (2013), estimated for 109 countries and covering 5.3 billion people, 38 countries from Sub-Saharan Africa together have the highest MPI poverty rates of any world region which is 29 percent of total population, however, the poorest 26 countries from South Asia or 50 percent of total population of the world have the highest combined MPI and more MPI poor people than Sub-Saharan Africa. In lower income countries, the percentage of people living in MPI poverty ranges from 5 percent in Kyrgyzstan to 92 percent in Niger. Bangladesh, third most populated Muslim country, even though through different poverty reduction programs over the period has managed to reduce poverty across all indicators, however, the proportion of the population living in multidimensional poverty is 58%, while Pakistan, representing second most populated Muslim country, has population of 49% living in multidimensional poverty. Even though, according to the report, a larger proportion of the population lives in multidimensional poverty in Bangladesh, the intensity of deprivation is 50% in Bangladesh compare to 53% in Pakistan. Yemen, where less than one fifth of population are income poor, has more than half of population poor by the MPI. The rest remains the same for majority of the Muslim countries due to repetition of the data in both 2010 and 2011 reports.

After analysing the data from Human Development covering HDI, Inequality-adjusted HDI, GII, MPI, HPI, GDI and GEM from multiple periods, it may be concluded with no doubts that Muslims populated countries are struggling to provide standard wellbeing to their people. The current conditions of the Muslim populated countries are below satisfactory and these countries are lagging behind most of the development countries not only in monetary terms but also in non-monetary terms.

4.2.3 Rule of Law Index

Rule of Law index is a tool developed and administered by the World Justice Project (WJP), a multinational, multidisciplinary organization which seeks to strengthen the Rule of Law for the development of communities of opportunity and equity around the world. The working definition of the Rule of Law according to WJP is based on following four universal principles:

- I. The government and its officials and agents are accountable under the law.

- II. The laws are clear, publicized, stable and fair, and protect fundamental rights, including the security of persons and property.
- III. The process by which the laws are enacted, administered and enforced is accessible, fair and efficient.
- IV. Access to justice is provided by competent, independent, and ethical adjudicators, attorneys or representatives and judicial officers who are of sufficient number, have adequate resources, and reflect the makeup of the communities they serve.

The aim of Rule of Law around the world is ‘to make societies safe, lift people from poverty and build economic prosperity, reduce corruption, improve public health and enhance education’ (Project).

According to WJP, Rule of Law Index is used to measure a country’s adherence to the Rule of Law and to identify areas where the country’s Rule of Law is weak. The first annual WJP Rule of Law index was presented in July 2008, defining the principles on which the index is based. The second WJP report was presented in November 2009, presenting preliminary data for 35 countries using 16 factors. Third WJP report published in October 2010 covering the data for 2009, consisting of 10 factors and 49 sub factors, organized under the four principles of the WJP definition of the Rule of Law mentioned above. The Rule of Law 3.0, presented in 2010, features preliminary finding for 35 countries, including seven countries in the East Asia and Pacific region; five from Eastern Europe and Central Asia; seven from Latin America and the Caribbean; two from Middle East and North Africa; two from North America; two from South Asia; five from sub-Saharan Africa; and five from Western Europe, together these countries account for 45 percent of the world’s population. The Rule of Law Index 3.0 covers only five Muslim populated countries from Top 20 list of countries, accounting for around 45 percent of total Muslim population in the world.

In 2011, the index covers 65 countries and one additional jurisdiction, comprising more than 400 different variables, organized into nine factors and 52 sub-factors. The latest WJP 2012-13, report covers 97 countries and jurisdiction, overall representing 90% of the world’s population, comprises nine aggregate indicators or factors further disaggregated into 48 specific indicators (See Appendix 4.3 for details).

The following list provides a set of factors use to evaluate the countries in the list on Rule of Law:

1. Limited Government Powers
2. Absence of Corruption
3. Clear, Publicized and Stable Laws, dropped in 2011
4. Order and Security
5. Fundamental Rights
6. Open Government
7. Regulatory Enforcement
8. Access to Civil Justice
9. Effective Criminal Justice
10. Informal Justice, available in 2012

4.2.3.1 Pakistan

WJP covered three cities in Pakistan utilising data covering 2009 in Rule of Law 3.0. In south Asian region, India outperformed Pakistan in most dimensions. However, when compared to countries with similarly income level, Pakistan shows an average performance. Pakistan shows weaknesses in most areas, where low levels of government accountability are compounded by the prevalence of corruption, a weak justice system, and high levels of crime and violence. In the low income category, Pakistan ranked last on Absence of Corruption, Fundamental Rights, Open Government and Access to Civil Justice. Similarly Pakistan did not perform well either on other factors. Overall Pakistan was ranked in the lower bottom against all countries on 9 factors. These statistics clearly show that Pakistan is struggling on rule of law compare to the rest of the world.

In 2011 report, covering three cities, Pakistan like previous year show weakness in all areas when compared to its regional group peers. The only two areas where Pakistan relatively performed strong are the courts' independence from improper government influence, and respect for due process in administrative proceedings. Pakistan ranked last on Access to Civil Justice and second to last on Absence of Corruption and open government among the group. Overall, the situation of rule of law has not improved in Pakistan during last two years.

In 2012 report, Pakistan remains weak in all area of rule of law index compare to both regional groups and globally. Low levels of government accountability are compounded by the prevalence of corruption, a weak justice system, and a poor security situation, particularly related to terrorism and crime. Pakistan's best score is 59th for the effectiveness with which regulations are enforced.

4.2.3.2 Indonesia

In 2010 report, Indonesia compared to wealthier countries in East Asia and Pacific region like Japan, Singapore, Australia and South Korea, rank significantly lower, however performed relatively well in comparison to countries from other region with same income level. Indonesia ranks fairly high on the clarity of its law but poorly on corruption and access to civil justice.

In 2011 report, Indonesia is in the top half of the rankings among the lower-middle income countries in most of the factors. Indonesia main strengths are in the areas of freedom and opening, ranking 23rd globally and 1st in the income group, and open government, ranking 29th globally and 3rd among income group peers. Indonesia ranked low on access to official information however enjoyed higher degrees of participation in the administration of the laws than other East Asia and Pacific region countries. Corruption in Indonesia is pervasive, ranking second to last in the region and 47th globally. Other two factors, Indonesia is struggling globally are access to justice and order and security. According to 2011 report, police abuses and harsh conditions in correctional facilities are also significant problems.

In the recent report 2012-13, rank in the middle among the East Asia and Pacific however, with one exception, that is ranking 86 on the absence of corruption globally and last in regional group. This can also be shown in factors like effective criminal justice, where Indonesia is ranked 62, access to civil justice ranking 66 and fundamental rights ranking 61. Indonesia, like previous year, remains the top countries on the income and open government.

4.2.3.3 Nigeria

In 2010 report, Nigeria also struggles on most of the 9 factors and relatively positions at the bottom of the global ranking. Moreover, like other Sub-Saharan countries, violence is still one of the main means of redressing grievance in Nigeria. Nigeria suffers in most of rule of law dimensions, including government accountability, corruption, crime and violence, regularity enforcement, and access to justice.

In 2011 report, Nigeria remained in the bottom half of the lower middle countries in most of dimension of rule of law. Compare to other Sub-Saharan Africa countries, check and balance on the executive branch function relatively is better in Nigeria, even corruption is prevalent in the country, ranking 52 on absence of corruption globally. Other factors, Nigeria is struggling are order and security, ranking 63rd globally, open government, ranking 59th globally and fundamental rights where Nigeria ranked 55th globally.

In the latest report 2012, Nigeria, belonging to the Sub-Saharan Africa region, failed to improve on any of the factors covered in the rule of law indexed. Despite ongoing reforms, many countries in the Sub-Saharan Africa lag behind other countries in the world. In Nigeria, public institutions and courts are inefficient and vulnerable to undue influence.

4.2.3.4 Morocco

In 2010 report, Morocco along with Jordan, comprise only two countries from Middle East and North Africa on the Rule of Law Index. Morocco, beside order and security and effectiveness of criminal justice system, falls behind in offering accessible mechanisms for the enactment and administration of laws, where Morocco ranks 33rd in the global ranking. In Morocco citizens have serious difficulties in accessing official documentation, including budget figures and government contracts.

In 2011 report, Morocco remained in the middle on most of dimensions globally but generally underperformed compare to regional peers. The only area where Morocco performed slightly better is order and security whereas, it lag behind in other categories. The biggest concerns for Morocco like most of Muslim countries are corruption, fundamental rights and criminal justice.

In 2012 report, Morocco, has substantially improve on multiple factors, ranking 43rd on Limited Government Powers, 51 on Order and Security, 39th on Open Government. However, Morocco ranked last on the Absence of Corruption regionally. Overall, Morocco remained in the middle on majority of factors in the region as well as globally.

4.2.3.5 Turkey

In 2010 report, Turkey, from Eastern Europe and Central Asia, generally falls in the middle of index ranking. Turkey shows a higher than average performance on the effectiveness of the judicial system but efforts are still required in the areas of fundamental rights, particularly as regards freedom of opinion and expression and freedom of religion. Other factors where turkey struggles and performs bad compare to the rest of the world are limited government power, clear, publicized and stable laws and regulatory enforcement.

In 2011 report, Turkey still remained in the middle in comparison to the other Eastern Europe and central Asian countries. Turkey received low marks in the area of government accountability (ranking 52nd globally and 8th out of 12th in region) and fundamental rights (ranking 58th globally and last in the region). These low scores, according to the report, are generally because of deficiencies in the functioning of auditing mechanisms, political interference within the

legislature and the judiciary, a poor record on freedom of expression, and arbitrary interference with privacy.

In latest report 2012, Turkey, which belongs to the Eastern Europe and Central Asia region, scores nearly the same as previous year. Turkey has performed significantly better on Absence of Corruption compare to previous year, which is contributed by factors such as Regulatory Enforcement and Civil Justice ranking 39th and 44th globally respectively. However, Fundamental Rights and Criminal Justice remained the areas of concern for Turkey possible contributed by Limited Government Power.

4.2.3.6 Bangladesh

In 2011 report, Bangladesh is also ranked, which faces multiple challenges to strengthening the rule of law. Even though, Bangladesh performed better than Pakistan in all dimension but worst on all but Order and Security in comparison to India. Other dimensions where Bangladesh like neighbour countries struggled to perform are government and accountability ranking 48th globally and Access to justice where it ranked 62nd globally. Unlike other neighbour countries, Bangladesh is perceived as relatively safe from crime, ranking 13th globally.

In 2012 report, Bangladesh has ranked poorly in Government accountability ranking 83rd globally. In addition, administrative agencies and courts are extremely inefficient and corrupt. Bangladesh is ranked last in the world in dimension of Civil Justice mainly because of the lengthy duration of cases and judicial corruption. Furthermore, Human Rights violation and police abuses are also common in Bangladesh, according to the report. According to the 2012 report, Bangladesh's best performance is in the area of order and security, where it ranks 72nd globally and ninth among low income countries. The country has lower crime rates than many countries with higher levels of economic development, although mob justice is a persistent problem.

4.2.3.7 Iran

Another country from Muslim world that ranked in 2011 report is Iran. In Iran, according to the report, law enforcement is relatively strong; however, it is often used as an instrument to perpetuate abuses. Iran is relatively weak on government accountability ranking 58th globally and last in the region. Other areas, where Iran is struggling to score high are fundamental rights, ranking last both regionally and globally and order and security, ranking last regionally while 40th globally.

In 2012 report, Iran' law enforcement is relatively strong ranking 41st globally and 4th regionally. Iran ranked last in the world on protection of fundamental rights. In addition, Government Accountability is weak and rank last regionally. On the positive side, Administrative Agencies are relatively effective in enforcing regulations (ranking 41st overall and eleventh among upper-middle income countries), and courts are accessible and relatively speedy.

4.2.3.8 Malaysia

Malaysia, another Muslim country, added to the 2011 report, ranked 1st on safety among 19 income peers. Malaysia government is relatively accountable but struggling on fundamental rights ranking 59th globally. Other areas, where Malaysia can still on improve are access to civil justice and open government. On the corruption, Malaysia is ranked 26th globally but the least corrupt in the Muslim countries from the list.

In 2012 report, Malaysia is on the top Muslim countries performing relatively well. In contrast, middle income countries in the region face challenges in combating corruption, and strengthening accountability. According to the report, however, Judicial independence is an area in need of attention, as is the poor record on respect of fundamental rights (ranked 73rd globally) , including labour rights, freedom of assembly and freedom of opinion and expression.

4.2.3.9 Kazakhstan

Kazakhstan, a Muslim populated country, ranked relatively better on regulatory agencies ranking 4th in the region and 31st globally. Kazakhstan is relatively safe county from crime and violence ranking 27th globally and 5th in the region. Despite these strength, Kazakhstan faces serious challenges in terms of accountability and constraints on the executive branch, where it ranks 59th globally. Other factors, Kazakhstan can potentially improve on are corruption and fundamental rights.

In 2012 report, Kazakhstan has significant problem in a number of dimensions. The order and security has improved compare to last year, ranking 46th globally. On the other hand, Checks on executive power are weak and official corruption is pervasive ranking 73rd). Rules and regulations are difficult to enforce, and the judiciary is plagued by corruption and political interference.

4.2.3.10 Nigeria

In 2012 report, another Muslim populated countries from Sub-Saharan region, ranked on different dimensions of rule of law. Nigeria, beside Civil Justice (ranked 53rd globally) has performed poorly on majority of dimensions. The country faces many challenges in terms of accountability, the functioning of public institutions, corruption, and order and security situation.

4.2.3.11 Egypt

In 2012 report, Egypt is ranked for the first time. According to the report, Egypt is in the process of establishing a functional system of checks and balances (ranked 40th globally and 1st in the region) and an open government (ranked 51st overall and 2nd in the region). Administrative agencies are inefficient, lax in enforcing regulations, and affected by improper political influence. The civil justice system is slow and subject to political pressure. Security is the lowest in the region and people frequently resort to violence to resolve grievances. According to the report, violations of fundamental rights, most notably freedom of religion, privacy, due process, and discrimination against women and minorities are also areas of concern.

4.2.3.12 Uzbekistan

In 2012 report, Uzbekistan is ranked for the first time on the rule of law. Uzbekistan is ranked first on order and security regionally. However, beside regulatory enforcement and civil justice, Uzbekistan has performed poorly on the rest of factors among the regional countries.

4.2.3.13 Burkina Faso

In 2012 report, Burkina Faso is also ranked on different dimensions of rule of law. Burkina Faso, belongs to Sub-Saharan region, outperforms most of its regional and income peers in all but one dimension of the rule of law. Burkina Faso, compare to other countries in the region, scores well in the areas of regulatory enforcement and civil justice, ranking 3rd and 4th in the region, respectively. Burkina Faso ranked 79th globally in government accountability due to the lack of rigorous checks on the executive and political interference among the different branches of government. Although not as pervasive as in other parts of Africa, corruption is commonplace, and crime and vigilante justice are significant challenges. According to the report, the criminal justice system also requires attention (ranking 63rd overall and 9th within the region), particularly as concerns the lack of due process and harsh conditions in correctional facilities

The above discussion based on the Rule of Law Index clearly shows that Muslim countries in particular face the perpetual challenge of building and renewing the structures, institutions, and norms that can support and sustain a culture centered on the rule of law. No real and sustainable development in these Muslim populated countries is possible without improving on the Rule of Law.

4.2.4 The Index of Economic Freedom

The index of Economic Freedom, an annual guild published by the Wall Street Journal and the Heritage Foundation, Washington since 1995, is inspired by Adam Smith's theories about liberty, prosperity and economic freedom (Smith, 1776), by creating 10 benchmarks that gauge the economic success of 183 countries around the world, which have increased to 185 countries in 2013 report. However, throughout the years, changes in methodologies are instituted to enhance the robustness of one or more of the 10 factors that are used to measure overall economic freedom and entire time series are revised so that all scores are as consistent as possible (Holmes *et al.*, 2008).

The ten components of economic freedom, each assigned a grade using a scale from 0 to 100, where 100 represents the maximum freedom, are averaged to give an overall economic freedom score for each country on the list. The ten components of economic freedom use to create the index are as follow:

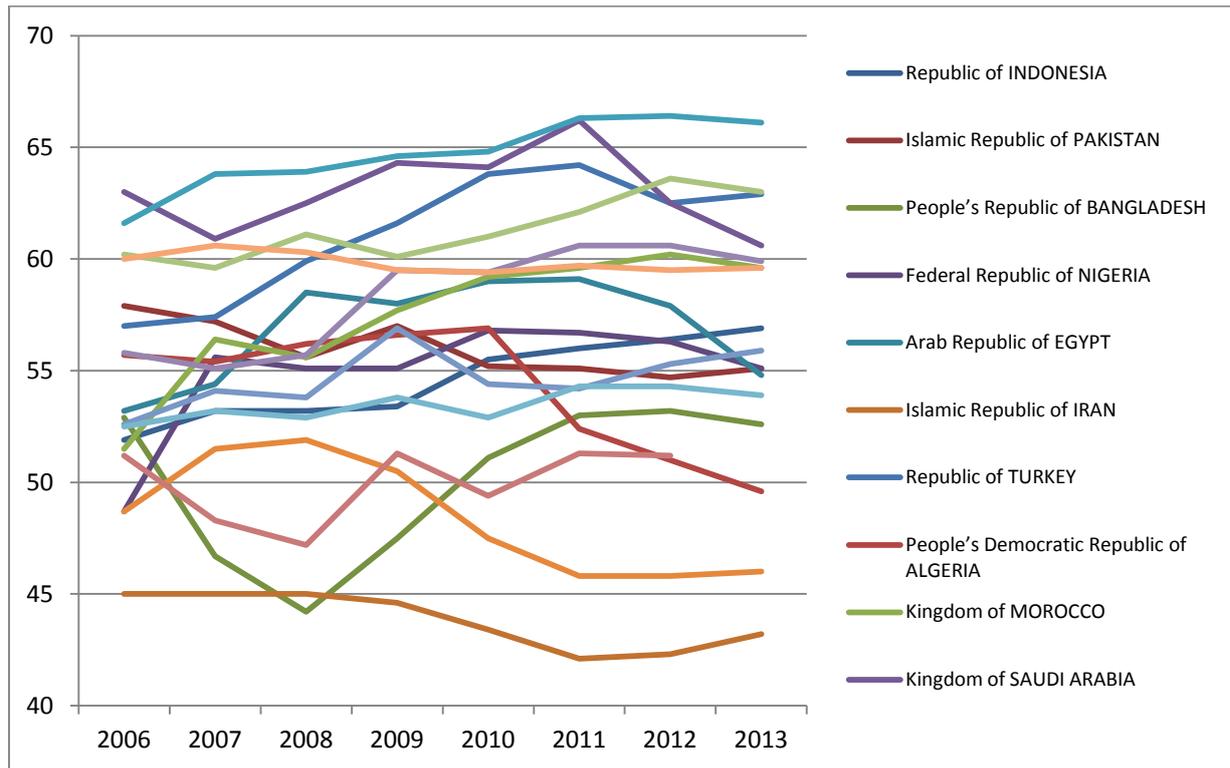
- Business Freedom
- Trade Freedom
- Fiscal Freedom
- Government Spending
- Monetary Freedom
- Investment Freedom
- Financial Freedom
- Property Rights
- Freedom from Corruption
- Labour Freedom

For our analysis, the data of eight years from top 20 Muslim populated countries is plotted against the World Average. This trend analysis in a time series data helps to show the condition of economic freedom in the Muslim countries over time. There is no data available for Sudan, Iraq and Afghanistan from the top 20 Muslim populated countries.

Majority of the countries from the top 20 list are below the World Average. The only two countries which are above the average on the index of economic freedom are Malaysia and Saudi

Arabia in 2007; however, the gap is closing over time for these countries as well. In 2013, progress in reforming the economy and developing the private sector led Burkina Faso to score higher than the global average. Even though the world saw mere improvement of 0.01 in the overall economic freedom index, yet there are slightly more visible improvements in ranking for most of Muslim countries from the top 20 list.

Figure 4.2: Trend Analysis: Index of Economic Freedom



Specifically, there are improvements for countries like Yemen and Bangladesh over time but their figures are still well below the world average.

There are also countries like Pakistan, Nigeria, Egypt, Algeria, and most notably Saudi Arabia which fell lower in 2012 than the previous year on Economic Freedom Index; however, they have started to pick up again in 2013. It can easily be concluded from the data over time that Muslim countries are struggling on index of economic freedom overtime compare to the rest of the world as shown by the world average where majority of the Muslim world belong to the group of “mostly unfree” group.

4.2.5 Legatum Prosperity Index

The legatum Prosperity Index is a global index published by Legatum institute, which includes both material wealth and quality of life. Prosperity Index, unlike other indices which measure and

rank countries by their actual level of wealth, life satisfaction or development, ranks countries based on the foundations of prosperity that help drive economic growth and produce happy citizens in a given country (Institute, 2011).

The first index report was published in 2007 covering only 50 countries while the recent index report published in 2012 includes 142 countries. In the first Prosperity index published 2007, only five countries from top 20 Muslim populated countries were included in the ranking. However, all five Muslim countries were ranked in the bottom 10 of the index, showed the depleted living conditions of prosperity in these countries. In 2008 report, more Muslim countries were added to the list covering all countries from the top 20 Muslim populated countries beside Afghanistan due to lack of availability of data. Beside Malaysia which ranked 29, Muslim countries struggled on the prosperity index in 2008. Even Malaysia fell sharply from 29 to 39, 10 places down on the prosperity index during 2009. Since, methodologies changes for improvement from time to time, the table also shows the data of 2009 based on the 2010 methodology. Indonesia and Algeria have improved the most in the prosperity index ranking in 2010 compare to 2009. Indonesia improved to rank 70 and Algeria to rank 79; both were the result of significant improvements in social capital. Overall, there is no surprise in 2010 index, with slight improvement for Turkey and Uzbekistan and decrease in rank for Morocco and Sudan and Algeria. The rest of the Muslim populated countries remained the same since 2009. In 2011 ranking, Pakistan, Turkey, Bangladesh, Nigeria, Uzbekistan, Syria and Kazakhstan have improved their overall ranking however, there are countries like Saudi Arabia and Malaysia ranked remained the same in the same year. The latest ranking available is for 2012, which show a mix results for Muslim countries. Afghanistan, Burkina Faso and Niger are ranked for the first time, although they ranked below 100. All the Muslim countries are ranked lower than the previous year, which is due to inclusion of more countries to the list. Only Indonesia from the Muslim countries is able to improve the ranking from 70 to 63. These figures clearly show that like other indices Muslim countries are also struggling on prosperity index. The conditions of living standard in these countries are really low compare to the rest of the world representing non-Muslim countries (See Appendix 4.4 for details)

4.2.6 Global Competitiveness Report

Global Competitiveness Reports are annual reports, published by the Centre of Global Competitiveness and Performance of the World Economic Forum since 1979. The latest report available is for year 2012-2013 covering 144 countries around the globe compare to 142 countries in the 2011-2012 report. The Global Competitive Index (GCI), since its introduction

in 2005, a highly comprehensive index for measuring national competitiveness, captures the microeconomic and macroeconomic foundation of national competitiveness. According to the Global Competitiveness Report (2009), competitiveness determines the level of productivity of any country, which in turn, set the sustainable level of prosperity that can be earned by an economy. The GCI measures the competitiveness of an economy by using 12 specific pillars of economic competitiveness which are weighted average into three sub index or stages, Factor Driven, Efficiency Driven and Innovative Driven which are also in line with economic theory of stages of Development.

The complete data for Sudan, Afghanistan, Uzbekistan, and Niger from the top 20 Muslim populated countries is not available. There is not data available for Syria in 2012-13 due to the security situation. For our analysis data from 2006 to 2012 is used to highlight the global competitiveness of Muslim countries with respect to the rest of the world. According to the report 2012-13, Turkey, Kazakhstan and Malaysia is listed among transition economy from stage 2 to stage 3 compare to only Turkey in 2011-12, In addition, only Indonesia and Morocco, are in the 2nd stage of development as marked by the Efficiency Driven stage in 2012-13 while the rest of the Muslim countries are in the early stages of development. In 2012-13 report, Turkey moved up 16 places to 43rd position, largely benefiting from its market size, local market competition and reasonable infrastructure development. Malaysia losing four places down to 25th position as other economies moved ahead. In a region where many economies suffer from the lack of transparency and the presence of red tape, Malaysia stands out as particularly successful at tackling those two issues. According to the report, lack of progress in level of technological readiness will significantly undermine Malaysia's efforts to become a knowledge-based economy by the end of the decade. Over the years, Saudi Arabia is one of the few countries from the Muslim world with substantial improvement in a solid institutional framework, efficient markets, and sophisticated businesses. In 2011-12, Saudi Arabia moving up four positions to reach 17th place with number of improvements in recent years including institutional framework, efficient market and sophisticated businesses. However, in 2010-11 reports, health and education in Saudi Arabia do not reach the standards of other countries in the similar income levels, occupying low ranks (61st) in the health and primary pillar. While in 2012-13, Saudi Arabia fell by one position from 17th to 18th. Indonesia in 2011-12 report dropped two places to 46th following 11 places improvement in previous two years. The dropped in the rank is mainly due to deteriorating condition of electricity supply and public institutions. In 2012-13, Indonesia dropped four places up to 50, however still remained one the best performers within the developing Asia region behind Malaysia, China and Thailand. Pakistan in 2011-12 report bounced back from last year to

move up five places to 118th while slipping down to 124th in 2012-13. Political and security situation in Pakistan are the main areas of concern and contribute to low score on other factors. Pakistan is one of the poorest performers of the developing Asia region. In particular, there are no signs of improvement in the basic areas of competitiveness, infrastructure, health and primary education and macroeconomic environment. Overall, Muslim countries are still lagging on most of indicators to achieve higher rankings on global competitiveness index (see Appendix 4.5 for details).

4.2.7 Globalization Index

Globalization Index was introduced in 2002 by KOF Swiss Economic Institute (Dreher, 2005). It measures the economic, social and political dimension of globalization by recording changes in the globalization across a large number of countries over a long period of time. The economic dimension in globalization index not only cover actual trade and investment flows but also consider the extent to which countries protect themselves by imposing restrictions on trade and capital movements (Letsas *et al.*, 2010). The social dimension of KOF index reflects the flow of ideas and information, while the political dimension explores the degree of political cooperation between countries around the globe (Dreher *et al.*, 2008). Furthermore, the KOF Index of measures globalization on a scale from 1–100 covering 208 countries in 2012, whereby the underlying variables are divided into percentiles to restrain the impact of extreme data points and reduces fluctuations over time. The data used for in our trend analysis to highlight the condition of Muslim countries are from 2002 till 2009 published in the reports from 2006 till 2012. There is no data available for Afghanistan except for 2011 and 2012. Sudan, Saudi Arabia, Kazakhstan, Burkina Faso and Yemen have no data available from 2006 till 2008. While Uzbekistan has no data available except from 2010 onward. Majority of the Muslim countries are below the world average, shows that these countries are struggling on the globalization index. The only countries above the world average are Malaysia, Saudi Arabia, Turkey, Egypt, Kazakhstan, Morocco and Indonesia in 2011 and 2012 reports. Most of the Muslim populated countries have an upward trend since 2009 except Algeria which went down (see Appendix 4.6 for details).

Overall, Muslim populated countries are lagging behind the rest of the world on Human development, Economic Freedom, Prosperity, Rule of Law, and Globalization with high level of corruption in majority of Muslim populated countries. Muslim world was ‘clearly more advanced than the west around the tenth century’, however, lost to the development in the west and fallen behind by the seventeenth century (Weber, 1963). Currently, majority of the Muslim countries are now on the World Bank’s roster of high income countries. According to Kuran

(1963) mainstream western scholarship openly expresses the view that Islam stood for unchangeability and treated Islam as defining and promoting a social system lacking a capability for adaptation. In the next section different opinion about the connections between Islam and development are discussed in details.

4.3 ISLAM AND UNDERDEVELOPMENT: A SURVEY

Islam is a universalistic, egalitarian religion of social justice with a special appeal to poor, based on the principle of unity, *tawhid* and the solidarity of its community of believers, the *ummah*. Islamic social system is based on a just socio-economic order transcending national, political or racial boundaries. However, Muslim populated countries failed to achieve the Islamic social justice system as shown by the statistics discussed above. Islamic statecraft, based on the divine-legislated social contract, failed to grow and flourish past the age of feudalism. Many attempts have been made to account for this phenomenon. The question often raise is: is Islam itself is the cause of underdevelopment? The connection is simple to make particularly under conditions of insufficient data or research on Islam and Muslim countries.

Europe from the 10th century onward experienced institutional advances that vastly increased its capacities to pool resources, coordinate productive activities and conduct exchange that help them to trigger industrialization, which peaked in 20th century. However, Muslim countries which were more developed than western countries and only China might have been more developed by 10th century, failed to keep the pace with the modernization process. The institutions in the Muslim world did not develop into capitalistic modes of production (Kuran, 2004), as it was this particular modes of production together with particular social formation that brought industrialisation for the Western countries.

Throughout the history different scholars have proposed different theories to understand the relationship between Islam and underdevelopment which would be reviewed in details below.

Weber (1958) proposes that capitalism in the west evolve due to the protestant ethics mainly observed with the Calvinist sect of Christianity. According to him, the ethics of Calvinism influenced large number of people to engage in businesses and accumulate wealth for investment while regarded Islam as polar opposite of the protestant ethics. Tawney (1926) extended the emphasis of earlier work of Weber in his famous book, *Religion and the Rise of Capitalism*, argued that it was individualism and the ethic of hard work supported by Calvinist Protestantism that foster the industrial organizations in north Europe.

Weber without understanding the true origin and spirit of Islam, however, bluntly compares Europe with Islam and blames Islam for irrational attitude and argues that Islamic ideology constitutes stronger obstacles to capitalist development in the modern sense. He marked Europe with a superior degree of rationality without giving any specific proof to prove his hypothesis. Weber was Eurocentric in the sense that he felt that certain types of rationality, rational law, certain types of corporations and rights and responsibilities were specific to western European culture. Weber also proposes the decline of Islam's money economy in terms of patrimonial structure of Muslims world. The failure of what Weber called '*sultanism*' during Ottoman Empire forced the decline of Islam and eventually Muslim world was forced to economically dependent of Europe. Weber concluded that Islam with its "thoroughly traditionalistic ethic ... directed the conduct of life into paths whose effect was plainly opposite to the methodical control of life found among Puritans," whose work ethics and prudence made capitalism possible (Weber, 1963).

Rodinson (1973) in his book, *Islam and Capitalism*, challenges Weberian analysis about Islam. He argues that Islam is not opposed to progress; in fact being a rational religion, Islam can further progress. He also shows that Islamic ideology is unbiased toward both type of capitalism and socialism and there is no reference in Qur'an that condemns any sort of commercial activity. In fact, he argues that Prophet Muhammad (PBUH), himself was a merchant and preferred trade and commerce over other professions. Rodinson further proves that the prohibitions of usury in Qur'an never seriously affected investment and trade and Muslim world through *hiyal* (ruses) always bypass the law to trade and use financial services.

According to Sutcliffe (1975) literal meaning of word Islam in Arabic is 'submission' to the will of Allah by quoting verses from Qur'an (33:36) that enjoining the believers that once a matter is decided by Allah and his Apostle, then a believer is in no position to have a choice. He concludes that the absence of 'free-will' "would seem to be sufficient to establish Islam as an obstacle to development". However, the 'sufficiency' attributed to this relationship is unclear and without any ground (Ozcan, 1995). Nevertheless, Ragab (2002) argues that "such kind of reasoning is the characteristics of many western writings on Muslim countries and their culture", based on limited knowledge of these countries and their religion, who fail to understand the inner logic of Islam as "it is understood by Muslims and as it supposedly affects their behaviours". Similarly, Parkinson (1967) while discussing the non-economic factors in the economic retardation of the rural Malays, argues that the Malays' retardation is to be blamed on their resistance to adopt any new methodology and certain Islamic beliefs that tend 'to make

them fatalistic in their approach to life'. Ragab (2002) rejects his hypothesis as his empirical evidence shows no significant effect of Islamic religious commitment on modernizing values or practices. According to Ragab, Parkinson "devises an interesting 'assumption' tailored to help force his empirical findings into straitjacket of clearly outdated Weberian views of Islam". Ragab views the causes of backwardness in the Muslim world as a result from serious disruption in the social organization of Muslim societies by long-lasting foreign dominations and thus the underdeveloped political, economic and social institutions are found to be incapable of creating proper environments for material development.

Nazih Ayubi (1995), while articulating the economic and political structure in determining the development of the Muslim countries, proposed a framework using the theoretical concept of Marx along with social formation and the concept of articulation of modes of production. Marx's mode of production, 'the base', is an abstract construct includes two ingredient, 'forces of production'; techniques and means by which human exploit nature and produce good and 'relations of production'; comprises the patterns of organizing the labour processes, the ownership and control of means of production and economic surplus distribution. The relationship of these modes of production constitutes political, social and economic structure of a society, 'superstructure', within which the mode of production operates. A 'social formation' is a real system emerges from modes of production and the 'superstructure'. Thus even modes of production are theoretical concepts; social formations are concrete historical entities that can be specified by name, place and date in analysis. Ayubi introduces the analysis of social formation to the theoretical framework of Marx's modes of production using the tool of 'power'; economic, political and ideological, to analyse the political structure and economic in reference to development in Muslim world.

Unlike Eurocentric perspective, where a particular mode of production results in a particular superstructure, Ayubi argues that the relationship between 'infrastructure' or the 'base' and the 'superstructure' is reciprocal. Even though in most cases political and ideological/culture are mostly shaped by the modes of production, state may also create its own classes. The ideology and culture with certain autonomy from modes of production may often shape the superstructure. This is specifically true in case of religion in Muslim world, which has always played an important role in economy and political structure.

Ayubi proposes that the modes of production are very different in the Europe than the Muslim world where more than one mode of production coexist and interlink at the same time, simultaneously shaping up one another. This articulation of modes of production is different

than the capitalistic society in which the capitalist mode of production is the dominant one. Ayubi (1995) while explaining why historically Muslim world took a different and unsuccessful path to capitalist development suggests the two most dominant modes of production that coexist in Middle East are Asiatic or Oriental modes of production and Nomadic modes of production.

According to Ayubi (1995), Asiatic or Oriental modes of production, most prominent in Egypt, Turkey, Syria, has two basic characteristics, state control over the producer and the absence of private property in land. Due to the lack of private ownership, the state has the responsibility to provide public works especially in administration of irrigation network. In order to maintain its power to both internal and external affair of the society, state requires and develops a bureaucracy, which became the ruling class of the state. This society structure has a weak or no middle class. On contrary to Muslim world, Europe society structures with private ownership and strong middle class bourgeoisie.

The state in Asiatic mode of production appropriates surplus labour from the society in the form of tributes, justifying and legitimising on the basis of ideology and supporting the right of the state to the surplus labour produced. Ideology embodied in the actions of state places severe restriction on the private ownership and wealth accumulation and consequently eliminating any likelihood for a basis from which a transition to another mode of production can be developed. So, the power through ideology using by state determine the means of production and obstruct the means of production to determine its superstructure. State power changes from one dynasty to another throughout the history in the Muslim world but the nature of the relations between village and state (social formation) is continually perpetuated.

Another mode of production, dominant in the Middle East especially in Saudi Arabia and the Gulf States is nomadic or kinship mode of production. In this mode of production there is continuous conflict between *badu* (nomads) and *hadar* (urbanities). The nomads, living in tribes, despise agricultural and crafts and refuse to take part in them but also at the same time tempted by the riches of the settled lands. They periodically attack the settle area and control their producers. The strength of nomads derives from 'group feeling' or *asabiyya*, which is essential in helping nomads to face the harshness of dessert conditions(Turner, 1984:215). The political power of tribes is not derived from the relations of production but from the strength of 'group feeling'. The *asabiyya* is based on three important components, kinship ties, companionship and religion. Nomadism is based on small primary units that normally start with a family and end up with a tribe. The means of production in a tribal system are shared pasture land but ownership of the herds is individual or familial. Therefore, kinship plays an important role in determining role

and responsibilities in the social formation of these tribes. Any analysis of the political structure of Middle East from a historical perspective cannot, therefore, simply be based on traditional concept of the Asiatic mode; it will have to take into account the importance of nomadic pastoralism in relation to sedentarised communities (Turner, 1978).

Historically, Islam combined different tribes in to a state in the form of rule of the caliphs, land in conquered territories were distributed among fighters. According to Ayubi (1995),the nomadic concept of booty gradually turned into an Islamic concept of income derived from public property. Later societies were developed into different classes but originally dependent of the state. After the end of conquest, military and bureaucratic class, which were depended on booty derived from conquered territories became corrupt and eventually lead to increasing centralised power. They justified possession of land by state using ideology as a power in the society. As a result little private wealth is accumulated as rulers owned the land and the resources. State determines the superstructure of the society. Ottoman Empire originated as a conquered state the same way other dynasties were formed by the nomadic warriors. Ottoman Empire introduced military feudalism; the same system already existed in Muslim world. The assignment of land to a person did not imply his ownership of it but merely to delegate him to collect taxes and other tributes. This system did not lead to the emergence of a hereditary class as state continued its close supervision of all service. This military feudalism was totally different than typical European feudalist system which eventually evolved in capitalist modes of production (Ayubi, 1995).

Muslim world developed as an Empire within which bourgeois class was weak and military bureaucrats were the strongest, where as the Europe developed as a world economy without a unified political system and strong middle class with private property rights. Muslim Empire had to raise taxes in order to administer a large land mass, therefore economic surplus was directed away from capital accumulation. After the rise of Europe, precious goods trade came under the control of British and Dutch merchants, reducing the Ottoman state revenue profoundly. The external pressure forces the Ottoman Empire to introduce land reforms through *Tanzimat (reorganizations)* and opened the region to European Capitalist penetration (Esposito, 1991). The lands law of 1858 gave recognition to private landownership and later the Tapu (Deed/Ownership) Law of 1861 granted for its registration and taxation triggered the decline of land holding class of cavalry. This lack of revenue and control by the state provided conditions for the rise of independent lords eventually brought the end of Ottoman Empire(Turner, 1978:81-82). With the capitulation to the western power, the articulation of capitalist and pre-

capitalist modes of production came into existence altogether. This phenomenon of articulation of modes of production, according to Ayubi, with two or more modes of production interacting with one another simultaneously, shaping the others, explains the relationship of economic and political structure in determining the economic development of the Middle East.

The colonial power in Muslim countries developed the feudal class, which developed into corporatist after independence but the surplus was moved to colonial capitals. Later after colonisation, regimes of the states were developed into revolutionary regimes and kin-ship regimes. In revolutionary regimes such as Egypt, Turkey, Syria, bureaucracy was re-established to control the political and productive forces of the country. The state in a control manner tried to develop industrial sector without developing the role of the capitalist industrial class. The state and bureaucracy maintained the old asiatic modes of production, using ideology as a power in the social structure to justify their actions. Where as in kin-ship regimes such as Saudi Arabia and the Gulf States, with discovery of oil wealth, the nomadic modes of production existed as the state became recipient of rent and distributed to sustain the support, loyalty and legitimacy for the monarchy. Where bureaucratic class was developed to use to manage the distribution of services. Religion was again used to sustain their existence and justify their actions.

In Muslim countries, states have a control over the society and hesitant to true reforms and democracy, using ideology to influence the means of production while keeping the status quo. As long as the incumbents have the advantages of the media, educational arms of the state and control through subsidies the religious establishment, economic development according to the spirit of Islam is merely a dream far from a reality.

Kuran (2004), suggests that the reason for under-development in the Muslim world specially countries from the Ottoman legacy are long standing institutions and legal provisions that hindered the formation of large and lasting economic organizations and that blocked the accumulation of capital across generations, in particular Islamic inheritance law failed to recognize other corporate entities while institution of *waqf* locked up large amount of capital in relatively stagnant forms. During the first few centuries following the rise of Islam, Kuran argues that Islamic law helped to establish successful commercial partnership in the form of *mudarabah* however it failed to evolve with time to suit the prevailing global economy. According to Islamic law, *mudarabah* becomes null and void if any partner died before fulfilling the contracted mission. The assets in the *mudarabah* have to be divided among surviving partners of the decedent partner according to the law of inheritance system in Islam. Therefore, partnerships were kept small due to issues of death and high cost of renegotiating the partnership. These limited and small

partnerships did not develop into large organization and Islamic contract law failed to evolve with time due to stringent Islamic inheritance system. Thus according to Kuran, while Western countries were developing legal corporations and large private firms, banks and capital markets, and investing their capital productively, Islamic countries remained bound by outdated legal and institutional systems that diverted capital into far less productive paths. Contrary to Kuran's conclusion, Islamic inheritance system has nothing against preservation of successful enterprise. In fact, lawful distribution should have helped the successful preservation of enterprises and minimized the costs of court disputes, which may have triggered development of enterprises in size and efficiency. Furthermore, large and complex corporation is mere a system of preservation wealth than for creating it and has the tendency to exercise their market power to hinder free competition in the market whereas most innovation and job creation comes from small companies, for example Taiwan where entire economy of small and family based firms enjoy rapid economic and modern development (Goldstone, 2003). If Islamic system of inheritance had been faithfully applied, landholding would not have become concentrated in the hands of a few families, which serves as one of the major sources of persistent economic inequalities and absence of democratic process (Chapra, 1993). According to Chapra (1993), without land reform through proper implementation of Islamic law of inheritance in the Muslim world, it will be difficult to make a significant headway in realising socio-economic development and fulfil *maqasid al-Shari'ah*.

Another criticism Kuran (2004) made against Islam was the *waqf* system. A *waqf* is an unincorporated trust established under Islamic law for the provision of designated services in perpetuity. There is no reference in Qur'an regarding *waqf* institution. Perhaps it was incorporated into Islamic culture in response to the precariousness of private property rights. Weber argues that *Shari'ah* failed to protect individual interest against ad hoc legal decisions under 'sultanism', merchants invested in *waqf* property, which became a source of rent rather than a component of 'acquisitive capital' (Turner, 1984, p.74), thereby they managed to rescue their wealth from the arbitrary confiscation of the power. As also mentioned by Ayubi (1995), in Asiatic modes of production, the ownership belongs to state and there is no right for private ownership. Landowners in Muslim world, in order to shelter personal assets and enhance the material security of their families, developed a form of trust, *waqf (family waqf)*, to their needs. The provision of the designated services under *waqf* system in perpetuity failed to change according to the culture and time to benefits other Muslim. According to Kuran, these elements in Islamic law, which were more suited to a medieval economy, blocked the economic

development of Muslim world. This indeed can be considered as an important reason for underdevelopment, as resulted in non-economic use of capital.

Chapra (1993) blames politics as one of the most important factors responsible for the underdevelopment of the Muslim countries. According to Chapra, the ideal characteristics of Caliphate – an institution which reflected the Islamic principles for political life in their ideal form, were gradually replaced by the traditions associate with autocratic and hereditary regimes in the Muslim world, with little inspiration from the Islamic democratic imperative of *shūrā* (consultation) and accumulated over time some of the evils associated with such rules. According to Chapra, sound political order in the Muslim world can only be restored through accountability, good governance, prevalence of a general atmosphere of *shūrā*, the equality of all before law, and enforcement of incorruptible justice. Thus reformed political system will pave the way for realising the *maqāsid al-Shari'ah*.

Another explanation for the failure of Muslim states to grow and flourish is due to the slow death of intellectual creativity which has distinguished the earlier ulama. According to Mehmet (1990), *ulama*, who were able to withstand even most tyrannical or powerful rulers, gradually lost their independence. The quality of Islamic scholarship and the independence of the *ulama*, which had originally ensured a system of islamic checks and balances in the state, was destroyed in a slow process. Eventually, corruption and bribery became systemic marked by the closing of 'gate of knowledge' and replaced by *taqlid*. However, one justification for this could be that *ulama* intentionally created a distance from the rulers. Hence to avoid any situation in the future to promote the unislamic agendas of tyrant or powerful rulers, closing the gates of rational knowledge and independent reasoning was promoted. However, regardless of the reasons, the memorizing culture to promote *taqlid* provided and controlled by religious authorities in the modern time only focus on religious, philosophical and legal study rather than experimental science and engineering. Those trained in engineering and sciences opt to emigrate to western countries where they have greater scope to apply their education.

Olson (1993) has proposed an interesting theory of how economic development in a society can be related to the development of democracy. Olson, using the rational choice theory as a basis of his arguments, claims that achieving stable property rights, the rule of law, the accountability of public officials, and the absence of corruption are the necessary preconditions for economic and social development. According to Olson (1993: 572):

An economy will be able to reap all potential gains from investment and from long-term transactions only if it has a government that is believed to be both strong enough to last and inhibited from violating individual rights to property and rights to contract enforcement.

The only societies where, according to Olson, individual rights to private property and contract are expected to last in a long-run are multi-party democratic societies. Autocracy may also assure the long term protection of these rights, yet often have a short time period; hence, the absence of any independent power to assure an orderly legal succession in a long-run means there is always substantial uncertainty about what will happen when the current autocrat is gone. Even if these autocratic governments according to Olson are for long term, the ever present possibility that autocracy will be led by someone with short time horizon always reduces confidence in investment and in the enforcement of long-run contracts. Hence Olson concludes that those countries where the highest level of economic development have reached and have enjoyed good economic performance across generations are all stable democracies. In the Muslim world, the short term autocratic or weak democratic states are thus qualitatively similar to the Olson “roving bandit”, who have no reason to consider the future output of the society at all and it is in their interest to confiscate the property of subjects and generally ignore the long term economic consequences. Furthermore, in the Muslim world over the time, military and bureaucratic class as defined by Ayubi evolved into special interest organization (as Olson termed it), reducing efficiency and aggregate income in the societies and made the political life more disruptive. According to Acemoglu and Robinson (2006), powerful interest groups or elite (including military and bureaucratic class) oppose any institutional changes as such changes are likely to erode their political power (de facto power) as they have greater rents to political groups from staying in power. These special interest groups in the Muslim world only welcome those changes that increase their future output and revenue

Muslim reformers, educated by European or accepted European tradition, accept the Weber theory of protestant ethics and theories of ascetic motivation to explain the decline of Muslim but this fact cannot be taken as a evidence that asceticism is a basic aspect of capitalist development (Turner, 1984: 40). Trade and commerce were the basis of earning in early Islamic society. According to the holy tradition, trade is superior way of earning one’s livelihood. Since Islam promotes effective utilisation of resources on earth for the betterment of society, therefore, innovations and production techniques to promote further international trade and commerce are also encouraged in Islamic economic system. It may be accepted to certain level that it is the patrimonial economic and political structure of Muslim world which explains the absence of

capitalistic development, however, the economic growth during the first few century of the rise of Islam is self explanatory to conclude that Islam has nothing in its teaching to be blamed for underdevelopment in the Muslim world.

4.4 DEVELOPMENT IN ISLAM

Development in Islamic is a multidimensional process which involves overall welfare of mankind (*falāh*), basic objective of the *Shari'ah*, through advancement, reorganisation and reorientation of entire economic and social systems in accordance with Islamic teachings, and through moral and spiritual uplift (Sadeq, 1990). Hence, in Islam, development is a goal and value oriented activity, devoted to the optimization of human wellbeing in all dimensions not merely welfare in this world is the objective (Ahmad, 1979). The welfare Islam seeks extends to the life hereafter with no conflict between the two, a dimension missing in the contemporary concept of development. Therefore, in Islam, economic development is an integrated and indivisible element of the moral and socio-economic development of human society

The axioms of the development in Islam, according to Ahmad (1979), are *tawhīd* (Allah's unity and sovereignty), *rubūbiyyah* (divine arrangements for nourishment, sustenance and directing things towards their perfection), *khilāfah* (man's role as Allah's vicegerent on earth) and *tazkiyah* (purification plus growth). Hence, in the light of these principles, development in Islam means moral, spiritual and material development of the individual and society leading to maximum socio-economic welfare and the ultimate good of mankind. These principles as a moral filter keep a balance and sustain improvement in the material and non material well being in a society. Allah has promised those who adhere to the teaching of Islam faithfully in all their affairs, a success both at material and spiritual levels in the following verse:

Allah hath promised such of you as believe and do good work that He will surely make them to succeed (the present rulers) in the earth even as He caused those who were before them to succeed (others); and that He will surely establish for them their religion which He hath approved for them, and will give them in exchange safety after their fear. They serve Me. They ascribe no thing as partner unto Me. Those who disbelieve henceforth, they are the miscreants (Qur'an, 24:55).

This is the promise Allah has made to those whom Allah has described in the following verse:

Those who, if We give them power in the land, establish worship and pay the poor-due and enjoin kindness and forbid iniquity. And Allah's is the sequel of events (Qur'an, 22:41).

However, policy makers so far in Muslim world failed to derive development policies with any motivation from Islam teachings as highlighted by Professor Khurshid Ahmad (1979:7):

...there is no evidence to support that generally speaking the policy makers derived any inspiration worthy the name from Islam and tried to translate its economic ideals into development policies, some lip-service here and there notwithstanding. Actual policies have had little or no relation to Islam with the result that the economies of the Muslim world have failed to be transformed towards Islam and the deformities and iniquities inherited from the colonial period and beyond have generally aggravated.

Most of the developmental policies in the Islamic world are merely imitations of western economic concepts, resulted in not having any significant development in any Islamic country as emphasized by Professor Khurshid (1979: 7):

A comparative study of the development policy and of actual economic performance of the Muslim countries shows that the strategy of imitation has failed to deliver the goods. How does this policy and the actual developments stand in relation to Islam? It would be correct to say that developmental policies have been more or less Islam-neutral. It is our submission that as far as Islam is concerned it cannot be neutral vis-a-vis economic development.

Chapra (1993) supporting Ahmad, these argues that western development economics does not have a separate identity of its own and has been conceived within the secular and this worldly perspective of both the market system and socialism. Thus, strategies of development based on a secular and this-world-view failed to realise development with justice (*‘adl*) and moved Muslim world further and further away from the realisation of *maqāsid*.

Mehmet (2002), while criticising the Eurocentricity of economic development theories argues that the Eurocentricity of economic theories and economic development based on these theories is mere a tool to capitalise Third World resources to benefit western interests at the expense of the welfare of the majority of Third World populations. Mehmet further argues the Third World is westernized through “western educated Third World leaders” whom are described as “admirers of the mystique of the west”. According to Mehmet, mainstream theories of economic development are not only rationalist but also reductionist constructions, reducing human relations to market relations, substituting assumptions for reality and confusing wisdom with rational behaviours expressed in a cash-based ability to pay, while disregarding social justice and human virtues such as reciprocity, sharing and cooperation. In the reductionist view, economic development is synonymous with economic growth where functional inequality is justified on efficiency grounds as a condition of the pro-capital bias of growth. According to Mehmet, economic development in the future to serve global equity where wealth distribution is closely

approximates with populations distribution need to deconstruct their ethnocentricity and mercantilist roots.

To conclude, development in Islam is defined as a balance and sustained improvement in the material and non material well being (spiritual attainments of man). This approach to development is different from the secular development propagated and implemented not only in the west but also in the developing world through different financial institutions.

4.5 APPROACHES TO DEVELOPMENT IN ISLAM: *MAKKI* AND *MADANI* MODELS

The Qur'an, the Word of Allah, revealed to the Prophet Muhammad (PBUH) through the angel Gabriel from 610 to 632 CE, holds a supreme authority in Islam and is a fundamental and paramount source of creed, rituals and ethics and laws of the Islamic religion, which is intended for all times and all places. Each chapter or *Surah* in Qur'an is donated to be either *makki* or *madani*, which according to the majority of Qur'anic commentators represents place of their revelation (Qadhi, 1999). In another opinion those chapters or *surahs* revealed before the Prophet Muhammad (PBUH) migration to *madina* are *makki* and all that revealed after the migration to Madina are *madani* (Maudoodi, 1989). However there are certain *makki* verses in *madani surahs* and vice versa. The gradual descension of Qur'an upon the heart of Prophet Muhammad (PBUH) began in Makkah when he was forty years old and the first verses revealed were the initial verses of *Surah Al-Alaq* (Netton, 2006). During thirteen years in Makkah, total of eighty six (86) *surahs* in numbers were revealed to him whereas, during the last ten years of his life which he spent in Madina, total of twenty eight (28) *surahs* were revealed to him (Fatoohi, 2009).

4.5.1 *Makki* Period

During *makki* period, the early themes of revelation include the oneness, benevolence and omnipotence (especially as it is manifest in nature) of Allah (*tawhīd*), the proper human response to Allah's goodness, which is gratitude, submissive worship, and generosity to the poor, the widow, and the orphan, the imminence of the last judgement (*akbarah*), both personal and cosmic, the rewards of paradise, the terrors and agonies of hell and guidance of mankind through Allah's selected prophets and messengers (*Risalah*) (Usmani, 2006; Watt, 1953).

4.5.1.1 Allah's oneness, benevolence and omnipotence (*tawhid*)

The most prominent theme in the early passages during *makki* period is that oneness, benevolence and omnipotence of Allah(*tawhid*), in the form of His Uniqueness, power and goodness.

In Qur'an, Allah asserts that He is unique and absolute truth, who is independent of the creation; a real being indivisible into hypostatic entities or incarnated manifestation. In Qur'an, Allah states:

Say: He is Allah, the One!
Allah, the eternally Besought of all!
He begetteth not nor was begotten.
And there is none comparable unto Him (Qur'an, 112:1-4).

Thy Lord is the Absolute, the Lord of Mercy. If He will, He can remove you and can cause what He will to follow after you, even as He raised you from the seed of other folk(Qur'an, 6:133)

Furthermore, several verses in Qur'an, provide a basic understanding of the serious nature and consequences of assigning partners or equals to Allah, a sin known in Islam as *Shirk* (Qur'an, 34:22-4; 35:40)

The first five verses of Qur'an (95:1-5), commonly regarded the first revelation which the Holy Prophet Muhammad (PBUH) received, speaks of man's creation by Allah (Wherry, 1896). In the second verse, Allah clearly states that it is He who created man from a clot of blood – a manifestation of His power and His goodness.

Read: In the name of thy Lord Who createth,
Createth man from a clot.
Read: And thy Lord is the Most Bounteous,
Who teacheth by the pen,
Teacheth man that which he knew not

The creation of man, growth of human beings and guidance is also referred at several other places as well. In *Surah Al-Balad* (90):4, *Kabad* is used with man creation, means distress or difficulty. "We have certainly created man to face difficulties". Furthermore, in the same *Surah*, verses 8-10, for man guidance Allah says:

Have We not given him two eyes,
And a tongue and two lips,
And pointed out to him the two conspicuous ways?

These verses clearly means that with two eyes He has enabled human to distinguish good from evil, while with the tongue and the lips, human can ask, if cannot see for themselves. The message of creation and guidance of human is further expanded in the following *surahs*:

Woe to man! what hath made him reject Allah?
From what stuff Hath He created him?
From a sperm-drop: He hath created him, and then mouldeth him in due proportions;
Then, doth He make His path smooth for him;
Then, He causeth him to die, and putteth him in his Grave;
Then, when it is His will, He will raise him up (again) (Qur'an, 80:17-22).

Glorify the name of thy Guardian-Lord Most High,
Who hath created, and further, given order and proportion;
Who hath ordained laws. And granted guidance (Qur'an,87:1-3).

Allah, the Most Gracious!
It is He Who has taught the Qur'an.
He has created man (Qur'an, 55:1-3).

The greatness of Allah's power can also be seen in the works of nature as mentioned in the Qur'an (88:17-19)

Do they not look at the Camels, how they are made?
And at the Sky, how it is raised high?
And at the Mountains How they are fixed firm?
And at the Earth, how it is spread out?

Prophet Muhammad (PBUH) faced greater difficulties in his early life. Therefore, to remind His goodness to Prophet Muhammad (PBUH) and to comfort the Prophet that his difficulties were not to continue but soon would be followed by ease, Allah states:

The Guardian-Lord Hath not forsaken thee, nor is He displeased.
And verily the Hereafter will be better for thee than the present.
And soon will thy Guardian-Lord give thee (that wherewith) thou shalt be well-pleased.
Did He not find thee an orphan and give thee shelter (and care)?
And He found thee wandering, and He gave thee guidance.
And He found thee in need, and made thee independent (Qur'an. 93:3-8).

Allah to show his greatness and power to the people of Makkah, in Qur'an(106:4) urges the tribes to worship Him, the lord of the *Ka'bah*, because it is He,) "Who provides them with food against hunger, and with security against fear (of danger)".

In another place (Qur'an, 55:10-11), Allah, in order to show his goodness to Human kind, speaks that He created food for man in earth.

It is He Who has spread out the earth for (His) creatures:

Therein is fruit and date-palms, producing spathes (enclosing dates).

Finally, just as the creation of this universe is a miracle of Allah, similarly the end the universes is also a sign of His power. In Qur'an (55:26-27), Allah states how He is so magnificent and self sufficient that He does not depend on His creation and He will remain forever.

All that is on earth will perish;
But will abide (forever) the Face of thy Lord— full of Majesty, Bounty and Honour.

There are many more verses in Qur'an which are expounding the theme of Allah's oneness, goodness and power, the most prominent aspect of the message of the *makki Surahs*.

4.5.1.2 The return to Allah for judgement (*akhirah*)

Another message in the early revelation during Prophet Muhammad (PBUH) time in the Makkah was about return to Allah for judgment, that everyone must return to Allah for judgement and human beings will be punished or rewarded for his or her deeds. The disbelievers have been warned that if they do not accept the message of Allah, and follow the 'Light' shown by the, they would go to the same doom as the former disbelievers did.

And He is Allah in the heavens and on earth. He knoweth what ye hide, and what ye reveal and He knoweth the (recompense) which ye earn (by your deeds).
But never did a single one of the Signs of their Lord reach them, but they turned away there from.
And now they reject the truth when it reaches them: but soon shall they learn the reality of what they used to mock at.
See they not how many of those before them We did destroy?— Generations We had established on the earth, in strength such as We have not given to you,— for whom We poured out rain from the skies in abundance, and gave streams flowing beneath their (feet): yet for their sins We destroyed them, and raised in their wake fresh generations (to succeed them) (Qur'an, 6:3-6).

In Qur'an, (96:8), Allah speaks about the judgement as 'Surely to thy Lord is the return', which is definitely for judgement after the death. At another place (Qur'an, 74:8-10), Allah says:

Finally, when the Trumpet is sounded,
That will be— that Day— a Day of Distress
Far from easy for those without Faith.

In Qur'an (84:1-12), the details of judgement days are revealed to Prophet Muhammad (PBUH). The conditions that will prevail on the Day of Judgment are depicts such as reckoning and accountability, reward of good in the form of paradise and torment of evil in the form of hell.

When the Sky is rent asunder,

And hearkens to (the Command of) its Lord--and it must needs (do so)
 And when the Earth is flattened out
 And casts forth what is within it and becomes (clean) empty
 And hearkens to (the Command of) its Lord--and it must needs (do so)--(then will come
 Home the full Reality).
 O thou man! verily thou art ever toiling on towards the Lord— painfully toiling but thou
 shalt meet Him.
 Then he who is given his Record in his Right hand,
 Soon will his account be taken by an easy reckoning,
 And he will turn to his people, rejoicing!
 But he who is given his Record behind his back
 Soon will he cry for Perdition,
 And he will enter a Blazing Fire.

The above verses clearly show that the concept of judgement day, reward and punishment for the deeds in this world is one of the important messages of revelation during Prophet Muhammad (PBUH) time in Makkah.

4.5.1.3 Man's response to Allah: gratitude (*shukr*), worship (*ibadah*), generosity & moral purification (*tazzakah*)

Another important message of revelation during *makki* period was that in response to the Allah's mercy and benevolence, all humans are expected to be grateful to Allah by only worship none other than Him, be generous to the fellow human beings only for the sake of Allah, honour the orphans, feed the poor and give his or her wealth to the poor and Cooperate in acts of goodness with fellow human beings and in this way purify his or her soul. Muslims have a duty to create a just, equitable society where the poor and vulnerable are treated decently. The early moral message of Qur'an is simple: it is wrong to stockpile wealth and to build private fortune, and good to share the wealth of society fairly by giving a regular proportion of one's wealth to the poor.

Worship is a formal expression to recognize man's dependence on 'One' who is the most powerful and good. Therefore there are several commands in Qur'an to show gratitude in the form of worship in the early passages.

Makkans, during the time of *jabiliyyah*, were in the habit of worshipping idols, early verses also taught that both *salah* and *du'a* (supplication) should only be made for and to Allah as He is the only one who can answer them. In Qur'an (23:1-11) Allah has called upon the Prophet (PBUH) and his followers to make their *salah* regularly.

Successful indeed are the believers.
 Those who offer their Salât (prayers) with all solemnity and full submissiveness

And those who turn away from Al-Laghw (dirty, false, evil vain talk, falsehood, and all that Allah has forbidden).

And those who pay the Zakat

And those who guard their chastity (i.e. private parts, from illegal sexual acts)

Except from their wives or (slaves) that their right hands possess, - for then, they are free from blame;

But whoever seeks beyond that, then those are the transgressors;

Those who are faithfully true to their Amanât (all the duties which Allah has ordained, honesty, moral responsibility and trusts) and to their covenants;

And those who strictly guard their (five compulsory congregational) Salawat (prayers) (at their fixed stated hours)

These are indeed the inheritors

Who shall inherit the Firdaus (Paradise). They shall dwell therein forever.

Further, in Qur'an (87:14-15), Allah states:

He is successful who groweth,

And remembereth the name of his Lord, so prayeth

In Qur'an, *tazẓaka* beside worship is used to gratitude to Allah for His goodness. According to Taqi Usmani (1996), the word *tazẓaka* is derived from *zakab*, the primitive meaning of which is 'to purity'. In general sense, *tazẓaka* comprehends the purity of faith and character and purity of wealth. Therefore, the pious one in the one who purify his heart by praying for forgiveness and share his wealth with others who are deprived as described in Qur'an (51:17-19)

They used to sleep but little of the night,

And ere the dawning of each day would seek forgiveness,

And in their wealth the beggar and the outcast had due share.

It can be concluded that one of the earlier messages of Qur'an especially during the time of Makkah confined to matters of gratitude by worshiping and, generosity by purifications through wealth sharing and feeding the hungry.

4.5.1.4 The role of selected Prophets and Messengers (*risalah*)

In Qur'an, another important theme of *makki* revelation was about prophet hood, which is expressed with the words, *nubuwwa*, *bi'sa*, *risalah* and *irsal* while prophet is expressed with the word *nabi*, *mab'uth*, *rasul* and *mursal* which is only granted by Allah to His selected human (McAuliffe, 2004). Prophets convey the orders and prohibitions of Allah to men without decreasing or increasing anything. In Qur'an Allah speak in the following way about the role of prophet

(Saying): Serve none but Allah. Lo! I am unto you from Him a warner and a bringer of good tidings" (Qur'an, 11:2)

Rise and Warn (Qur'an, 72:2) and

So remind, if the Reminder profits (Qur'an, 87:9)

Thus, the role of Prophet was to convey Allah' message to mankind, a declaration of the Unity of the Divine Being as mentioned in the following way in Qur'an (112:1-4)

Say, "The truth is: Allah is One.
Allah is Besought of all, needing none.
He neither begot anyone, nor was begotten.
And equal to Him has never been any one.

In Qur'an, Allah comfort Holy Prophet Muhammad (PBUH) that he is only a preacher and his job is to convey the message of Allah to others.

You are not a taskmaster set up over them (Qur'an, 88:22).

It is clear from the above discussion that main themes of revelation during *makki* period mainly focus on Allah's Oneness, Greatness and Goodness, judgement day, man's gratitude toward Allah and the role and important of selected messengers and prophets of Allah. In other words, revelation during *makki* period dealt with *tawhid* (Allah and His unity) and how through righteous conducts taught through *Sunnah of* righteous prophets and messengers human beings will be rewarded on the judgment day which is the integral components of human development.

4.5.2 Madani Period

In general, during *madani* period, the revelation in Qur'an provide many legal rulings and statements about social and family life and did not require special rhetorical images that are used in metaphors to make them understood by opponents and leave psychological impact on them. Moreover, *makki* revelation used metaphors for summarizing an idea into an image especially about the tenet of faith of eschatology when the resurrection is compared in a metaphor to the dead earth but the rain revives it and brings it back to life. However, in the *madani Surahs*, the verses (*ayas*) are longer to clarity and details when explaining the law of Allah, which is new and unknown to people (Philips, 1997).

The major focuses of the *madani* revelation were the following:

4.5.2.1 Islamic law (*Shari'ah*)

Since migration to Madinah marks the start of Islamic state, thus the verses during the *madani* period contain many social, economic and theological laws which were necessary for the organization and development of the new Islamic state. The last three pillars of Islam, *zakab* (charity), *sawm* (fasting) and *hajj* (pilgrimage) were declared and made compulsory during the *madani* period. Even though, *zakab* had been prescribed in Makkah but it was informal and details were not laid down until after the Hijarah (Philips, 1997).

In the following verses revealed during *madani* period, Allah speaks of *zakab*, *sawm* and *hajj* as compulsory for all Muslims.

Establish worship, and pay the poor-due; and whatever of good ye send before (you) for your souls, ye will find it with Allah. Lo! Allah is Seer of what ye do (Qur'an, 2:110).

O ye who believe! Fasting is prescribed for you, even as it was prescribed for those before you, that ye may ward off (evil); (Fast) a certain number of days; and (for) him who is sick among you, or on a journey, (the same) number of other days; and for those who can afford it there is a ransom: the feeding of a man in need - but whoso doeth good of his own accord, it is better for him: and that ye fast is better for you if ye did but know

The month of Ramadan in which was revealed the Qur'an, a guidance for mankind, and clear proofs of the guidance, and the Criterion (of right and wrong). And whosoever of you is present, let him fast the month, and whosoever of you is sick or on a journey, (let him fast the same) number of other days. Allah desireth for you ease; He desireth not hardship for you; and (He desireth) that ye should complete the period, and that ye should magnify Allah for having guided you, and that peradventure ye may be thankful (Qur'an, 2:183-185).

And Hajj (pilgrimage to Makkah) to the House (*Ka'bah*) is a duty that mankind owes to Allah, those who can afford the expenses (for one's conveyance, provision and residence); and whoever disbelieves (i.e. denies Hajj (pilgrimage to Makkah), then he is a disbeliever of Allah), then Allah stands not in need of any of the '*Alamin*' (mankind and jinn and all that exists) (Qur'an, 3:97).

It was also during *madani* period that drinking alcohol, eating swine and gambling were all made forbidden. Moreover, in Qur'an some Laws were revealed gradually, for example, alcohol was made forbidden in gradual stages:

The first law concerning alcohol was simply a warning of its dangers. In Qur'an (2:219), Allah speaks:

They ask thee concerning wine and gambling. Say: "In them is great sin, and some profit for men; but the sin is greater than the profit." They ask thee how much they are to

spend; say: "What is beyond your needs." Thus doth Allah make clear to you His Signs: in order that ye may consider.

The second law that was revealed warned Muslims away from *salat* when they were intoxicated (drunk) as Allah speaks about it in the following way in Qur'an (4:43):

O you who believe! Approach not As-Salât (the prayer) when you are in a drunken state until you know (the meaning) of what you utter....

The third law, however, was a complete prohibition of ever coming near any form of alcohol, which was revealed during *madani* period in the following place in Qur'an (5:90-91)

O you who believe! Intoxicants (all kinds of alcoholic drinks), gambling, and Al-Ansâb and Al-Azlâm (arrows for seeking luck or decision) are an abomination of Shaitân's (Satan) handiwork. So avoid (strictly all) that (abomination) in order that you may be successful.

Shaitân (Satan) wants only to excite enmity and hatred between you with intoxicants (alcoholic drinks) and gambling, and hinder you from the remembrance of Allah and from As-Salât (the prayer). So, will you not then abstain?

4.5.2.2 People of the book (*ahl al -kitab*)

After immigration to Madinah, Muslims came into contact with the people of the Book, the Jews and the Christians. The Qur'an makes several recurrent reference to the people of Book (*kitab*), employing the vocative particle (*ya-O*) as a linguistic tool for respect and sometimes the expression *yahud* (Qur'an, 2:62) is employed to refer to the Jews while the Qur'an employs the expression (*nasara*) for the Christians

O Children of Israel! Remember My favour wherewith I favoured you and how I preferred you to (all) creatures (Qur'an, 2:47)

And of them who say: verily we are Nazarenes, We took a bond from them, but they have abandoned a good portion of that wherewith they were admonished. Wherefore We have occasioned enmity and hatred amongst them till the Day of Judgement, and presently Allah shall declare unto them that which they have been performing (Qur'an, 5:14)

In Madinah, Jews and Christians used to ask the Prophet Muhammad (PBUH) various questions about Allah, the earlier prophets and the unseen. Thus number of *madani* verses represented answers to those questions raised by them. These *madani* verses stressed that the miracles of Jesus, such as bringing the dead back to life, were only by Allah's permission. Thus, *madani* verses provided answers to the Christians that Jesus was not an Allah nor was he the son of Allah, and Allah was not the third of the three. In the following verses (Qur'an, 5:78-82; 110; 116-17), Allah provided the answers to their queries:

Cursed were those who disbelieved from among the Children of Israil by the tongue of Daud and Isa, son of Maryam. That is because they disobeyed and were ever transgressing.

They were wont not to desist from the evil they committed; vile is that which they have been doing!

Thou wilt see many of them befriending those who disbelieve; vile surely is that which their souls have sent forth for them, so that Allah became incensed against them; and in torment they shall be abiders.

And had they believed in Allah and the prophet and that which is sent down unto him, they would not have taken them for friends, but many of them are transgressors.

Surely thou wilt find the Jews and those who associate the bitterest of mankind in enmity toward those who believe. And surely thou wilt find the highest in affection to those who believe those who say: we are Nazarenes. That is, because among them are divines and monks and because they are not stiff-necked.

And call to mind what time Allah will say: O Isa, son of Maryam! was it thou who said to the people: take me and my mother as two god beside Allah! Isa will say: hallowed be Thou! it was not for me to say that to which had no right; had I said it, Thou would have surely known it; Thou knowest that which is in my mind and know not that which is in Thy mind. Verily Thou! Thou art the Great Knower of the things hidden.

I spake not unto them aught save that for which Thou badest me: worship Allah, mine Lord and your Lord. I was a witness over them so long as abode amongst them: then when Thou tookest up Thou hast been the Watcher. And over everything Thou art a Witness.

4.5.2.3 The hypocrites (*munaafiqoon*)

Unlike Muslims in Makkah, who were helpless and oppressed and would enter Islam unless truly believed in, the Muslims of Madinah were strong and ruled the city. Thus, there were people entering Islam in order to benefit from its strength and to oppose it from within. Abdullah Ibn Ubayy Ibn sahil was about to be crowned the king of Madinah but Prophet Muhammad (PBUH) was made the ruler of Madinah when he arrived there and Abdullah hopes were ruined. Since he could not openly oppose to Muslim, thus accepted Islam and worked against it from within and eventually became the head of *munaafiqoon* (Sahih Muslim, 4431). Thus, the verses of the *madani* period warned the Muslims about the dangers of the hypocrites and taught them how to deal effectively with them (for details, Qur'an, 63)

In another place, Allah speaks about them in the following way:

The Hypocrites, men and women, (have an understanding) with each other: they enjoin evil, and forbid what is just, and are close with their hands. They have forgotten Allah; so He hath forgotten them. Verily the Hypocrites are rebellious and perverse. (Qur'an, 9:67)

4.5.2.4 Fighting in the cause of Allah (*jihad*)

It was during *madani* period that the right to fight against the enemy was given for the first time in Qur'an. Muslims during *makki* period were forbidden to fight back because they were a minority and could easily have been wiped out. The *makki* period focused on preparation of *iman* (faith). It was during the *madani* period when Muslims became strong enough to fight a series of battles against the forces of disbelief, and finally Makkah was conquered and the whole of the Arabian Peninsula came under the rule of Islam. Thus, a number of the *madani* verses revealed to teach Muslims the Islamic principles of war. For example, In Qur'an Muslims were taught how to deal with prisoners of war and forbade retreat during an attack except as a trick to trap the enemy. Muslims were also encouraged to prepare themselves with the best weapons and battle gear they could find.

If thou comest on them in the war, deal with them so as to strike fear in those who are behind them, that haply they may remember (Qur'an, 8:57).

And know that out of all the booty that ye may acquire (in war), a fifth share is assigned to Allah and to the Messenger and to near relatives, orphans, the needy, and the wayfarer— if ye do believe in Allah and in the revelation We sent down to Our servant on the Day of Testing the Day of the meeting of the two forces. For Allah hath power over all things (Qur'an, 8:41).

And whoever turns his back to them on such a day - unless it be a stratagem of war, or to retreat to a troop (of his own), - he indeed has drawn upon himself wrath from Allah. And his abode is Hell, and worst indeed is that destination! (Qur'an, 8:16).

And make ready against them all you can of power, including steeds of war (tanks, planes, missiles, artillery) to threaten the enemy of Allah and your enemy, and others besides whom, you may not know but whom Allah does know. And whatever you shall spend in the Cause of Allah shall be repaid unto you, and you shall not be treated unjustly (Qur'an, 8: 60).

It is not for a Prophet that he should have prisoners of war (and free them with ransom) until he had made a great slaughter (among his enemies) in the land. You desire the good of this world (i.e. the money of ransom for freeing the captives), but Allah desires (for you) the Hereafter. And Allah is All-Mighty, All-Wise (Qur'an, 8:67).

The Qur'anic theme, to conclude, during *madani* period dealt mostly with the establishment of a system of laws governing individual, familial and societal relationships within the sphere of Islam. These laws included, jihad, marriage, inheritance, the law concerning the relationship of the Islamic state in war and peace, the relationship of the Muslims with other religious groups and the punishments for specific crimes comes under *hudud* (Qadhi, 1999).

4.6 CONCLUSION

In Islamic ideology, the state and religion, state affairs and religious affair ought to be one. Since, Muslim countries in general are marked by corruptions, political turmoil, lack of rule of law, economic underdevelopment and lack of basic necessities including education for one to survive a decent life. Thus western scholarships link such failures in the Muslim countries with Islam. However, they make a mistake of confusing the theory and ideology of Islam with the practice and behaviour of the Muslim countries around the globe. While the former according to Al-Buraey (1990) , provides a powerful tool for transforming societies in economic, political, social and culture spheres, the latter reflects symptoms of ‘total dependency’ . The theory and practices of occidental models of developments are a ubiquitous phenomenon in Muslim countries, which only promote the pursuit of self interest. On contrary, the general principles and regulations concerning economic activities of Muslims according to Qur’an and *Sunnah* outlines that all wealth belongs to Allah, while human beings use it in their capacity as His vicegerent. These principles guarantee a decent living for every member in the society, social justice, economic equilibrium among all members of the society, and economic freedom limited by prohibition of those aspects of economic activity related to exploitation, monopoly, and usury. However, such development can only be actualised in the Muslim countries, if we follow teaching of Qur’an and *Seerat-un-Nabi* (The life of Prophet Muhammad). The revelations during *makki* and *madani* period of Prophet Muhammad (PBUH) and his *Sunnah* provide an aspiring model of development, which can help Muslim not only to succeed in this world but also in the *akhirah*.

The Muslim countries in general are facing tremendous challenges in the political, social, economic, cultural arenas. Developmental theories evolve in west in response to socio-economic and technological changes in the west, reflecting the guiding spirit of rationalism. The quest for truth is limited and guided only by the reason and empirical verification, while religion and tradition is no longer guardian of knowledge. Muslim countries preoccupied with such rationality reflect the materialistic concerns while excluding ethical and moral values such as social equity, dignity of the individual, justice. However, such theories failed to a large extent to carry out development in Muslim countries, thus realising the Muslim *Ummah* to re-examine their own religion and culture for possible alternative model of development that will replace the existing western models of development which have no consideration for Muslim culture and ideology. The sources of Islamic development model are Qur’an and *Sunnah*. Qur’an was gradually revealed to Prophet Muhammad (PBUH) during his time in Makkah and Madinah and under

such guidance, prophet through his *Sunnah* provided a developmental model harmonizing both the pursue of this world with success in *akbarah*

The ‘development path’ proposed in this chapter is based on the revelations during Prophet Muhammad’s (PBUH) time in Makkah and Madinah. The revelations in *makki* period predominantly dealt with the establishment of ‘*aqidah* (belief) and *iman* (faith) by affirming one’s belief in Allah’s unity and sovereignty, Prophethood, the angels, the previously revealed scriptures, reward and punishment, the judgement day, with aim for inner development (otherworldly development) while revelations in *madani* period dealt with how to establish a Muslim state and develop relationships with people from other faiths aiming for outer development (worldly development).

In Islamic system, to conclude, focusing only on physical development is insignificant and partial without spiritual and moral development. Furthermore, worldly development in Islam is not possible without first establishing ‘*aqidah* and *iman* for inner development as showed by the *makki* and *madani* revelations in Qur’an. The approach to development in Islam is different than the approach in western societies, which have mostly dominated the academic arena. Islam does not deny the materialist development, thus, consider it an integral part of overall human development. However, the core of human development according to the Qur’an and *Sunnah* of Prophet Muhammad (PBUH) is one realising his or her relationship with Allah and perform the role of vicegerent (*khalifah*) on the earth as prescribed by the *Shari’ah*.

The analysis in this chapter identifies the developmentalist failure in the Muslim world as well as the failures in establishing social justice. The following chapter, as a response to such a conclusion, aims to identify the Islamic construct of economy and development. Therefore, it discusses in detail IME and finance and development.

Chapter 5

ISLAMIC MORAL ECONOMY AND DEVELOPMENT

5.1 INTRODUCTION

It is generally argued that the Muslim world with its unique values, culture and religious belief failed to achieve the same progress and development experienced by western countries. Therefore, over the many years, an important intellectual acumen developed in the West and also in the secular circles of the Muslim, which considered Islam as the root cause of underdevelopment in the Muslim world. It is, however, important to qualify such positioning, and therefore, there has been a lively debate over the decades on the issue. Non-Orientalist circles conclude that Islam should not be considered as a barrier for economic activity and economic development, while still others make reference to Islam as a religion at large and its institutions and in particular Islamic law for hindering economic growth and development. Kuran (2011), being an important contender in this debate, attributes the reasons of underdevelopment to Islamic law. This chapter suggests that Islam as a religion is a 'developmentalist' oriented religion as indicated by the modern construct of IME, which constitutes the foundation of the argument in this chapter. The arguments in this chapter build on the earlier chapters and in particular the response of Islamic positioning to the blame for causing underdevelopment in chapter 4.

At the end of World War II, the national liberation movements led to independence of majority of Muslim countries. These newly independent Muslim nations in order to regain their lost identity and attain economic independence from west, implemented economic policies formulated in the west, which resulted in a failure. IME as alternative to capitalism and socialism emerged as a response to such failures with a promise to not only trigger economic growth but also provide the environment under which Muslims human centred economic development can take place for achieving *falah* or salvation.

In this chapter, systemic nature of IME is discussed as an alternative system to capitalism and socialism, incorporating the value system of Islam in economic sphere with its unique fundamental norms and methodology. It should be noted that Islamic Banking and Finance (IBF), a financing oriented institutional form of IME emerged to fit in the normative principles

provided by *Shari'ah*, thus to facilitate the need for Muslim in international capital market. In the end, development process in Islam is formulated by using the axioms of IME.

5.2 THE RATIONALE FOR THE EMERGENCE OF IME

The advocates of capitalistic economic development strategies, deeply rooted in the tiers of secularization and modernization, initially believed that the countries from Third World could and should follow a path to socio-economic and political modernization parallel to the one experienced earlier by western world, as identified in Rostow's theory of linear modernisation. It was argued that economic growth (discussed in chapter 2) in the long term will result in to socio-economic and political development in the developing countries. However, the experiences of the 1950's and 1960's seriously challenged the presupposition that modernization reflected through different development theories would trigger the socio-economic development, ultimately establishing political democracy. Furthermore, the global financial crisis in 2007 shows that there is no empirical evidence that long term growth necessarily increased human welfare or happiness (Turner, 2012). As, such policies developed out of the western experiences in economic development produced uneven patterns of economic growth, thus kept the majority of the people in developing countries deprived of the results of development such as health, higher incomes, literacy rate, and over all standard of well-being. In addition, as part of the political culture developed in such developing countries, the privileged elites in different forms remain at the centre of power and they are still not willing to share political powers with the populace (Abootalebi, 2000).

In addition to the identified policy dimensions, there is an observed problem in the theoretical construction of secular economics and systems like capitalism and socialism, as according to El-Ghazali (1994), they are not value neutral as suggested and are not concerned with transcend ethical and moral values, therefore, only focusing on formation of material well-being, while distributional aspects and human development of the system have been largely ignored. The result of such wealth creation has resulted in substantial increases in economic and social disparities in the Muslim world in particular and in the developing world in general. Consequently, as the experience indicates, such development strategies segmented the various aspects of human life into narrow parameters without any concern for religion and culture in different societies resulting in partial analysis of economic development issues. As Robinson (1979: 3) has put the limitation of western models of development in such way:

Western teaching pretends to be scientific and objective by detaching the economic aspect of human life from its political and social setting; this distorts the problems that it has to discuss rather than illuminating them.

Muslims, due to lack of multi-dimensionality in economic development theories felt dissatisfied with the whole developmental effort based solely on capital formation and material prosperity, which resulted in splitting Muslim society into modern and traditional, liberal and conservative, urban and rural and rich and poor. In Islam, the process of capital accumulation and its use is quite different as the key thrust of capital accumulation is not considered as an end but as a means for human and socio-economic development. Therefore, Islam prioritises the well-being of human beings and their harmony with the design of life and nature rather simple maximization of output leading to the output growth (Mannan, 1990).

It should be noted that Islam is considered to be a comprehensive way of life for entire humankind, and is not constrained by the artificial differences and divisions promoted by western development theories. Such an integrative worldview emerges from the ontologically base of Islam, namely the acknowledgment of Oneness of Allah and individual's surrender to His Will and guidance. Since Islam is comprehensive in nature, therefore, worship includes both spiritual and material pursuits as long as both are in accordance with the guidance of Allah in promoting overall justice in society (Ghazali, 1990). In addition, neo-classical economics and Socialism, according to Taleqani (1983) are divorced from religious percept which caused infected the West with class struggle and economic imbalance. According to Taleqani (1983: 9), "any theory or law which does not rely upon inner self and morality lacks stability and performance and will not be practiced as it ought to be" Therefore, the founding fathers of Islamic economic system felt the need to develop a system which unlike capitalistic or communist economic development strategies places the well-being of human at the centre, in order to transform the individual morally and reconstruct their social environment with a view of guiding human development on the right direction as propagated in Qur'an and *Sunnah* (Ahmad, 1994).

In addition, in the postcolonial era Muslim countries had the freedom to handle their political and economic affairs according to their norms and values. Some of the newly independent Muslim nations dissatisfied with the western concept of socio-political and economic organization and were keen to restore their authentic identity based on *Shari'ah* which colonialism has certainly affected (A.-R. Y. Ahmed, 2002). *Shari'ah* is considered to help to construct an IME understanding based on the rules and norms of Islam, appealed to newly built states, due to widespread poverty, inequality and unemployment, as IME promised to overcome

such consequences of failed developmentalism. In the search for Islamic identity in various spheres including in Islamic sphere, the emergence of OPEC put substantial amount of wealth in Muslim world; however, developed financial markets only existed in the west, which are based on interest, thus conflicting with the Islamic law. This created a demand for islamically permissible alternatives. These situations have also led to the call for the revival of IME.

Thus, IME paradigm aims “at creation of Islamic economic system with its distinct values, norm, rules and institutions with a politically oriented systemic understanding as ordained in Islamic order” (Asutay, 2007b: 4). In this, moral economy is “an approach to, and process of, interpreting and solving the economic problems of human beings based on the values, norms, laws and institutions found in, and derived from the sources of Islam”(Haneef, 2005: 5).

It is also important to state that IME is a constructivist attempt through value system and principles of Islam. In other words, despite the fact that the ontological sources of IME refer to revealed knowledge, its articulation in modern times has been through a social constructivist process. Asutay (2007b), therefore, states that due to such a micro-foundational framework, the methodological framework of IME is “based on a constructivist ideology, with the aim of forming an authentic Muslim identity as opposed to global dominance of capitalism, which has in reality failed in the economic development process”.

Before delving into the particularities of IME, it is important to stress that IME is proposed as a system and not only ‘banks’ and ‘financial institutions’. Therefore, the next session aims to discuss the systemic nature of IME to argue that IME has a systemic approach rather than being a partial analysis.

5.3 THE SYSTEMIC NATURE OF IME

The term ‘system’ according to Miller (1978) is a set of interacting units or subsystems with interrelationships or correlations among them with some degree of order. Islam in this, Asutay (2007b) states, represents the order, and within this order moral economy and other systems related to everyday life is possible. Thus totality of several systems, according to Choudhury and Malik (1992), in the Islamic order is linked together through the bond of ethical relationships. Since IME is defined within the parameters of its own ethical system, which Naqvi (1994) argues, shows its originality and relativity. This implies that, “the ethical norms of Islam is fully integrated with economic motives in Islam, as these are not voluntary actions but, ontologically, part of the revealed knowledge; and therefore its dogmatic nature makes it necessary for they to

be followed” (Asutay, 2007b: 4). In IME, the Qur’an and *Sunnah* provides the set of derived principles, rules and laws, either recorded or traditionally practiced over years, to govern the production, consumption, exchange and distribution patterns in a society. Therefore, it can be argued that IME fulfils one of the conditions of being a system.

Furthermore, the working mechanism of IME according to Asutay (2007b) is managed by a set of philosophical foundation and principles and value systems based on the ethics in Islam with the overall objective of bringing “the economy closer to the objectives of the system represents the testable ground of the system”(Kahf, 1989: 43).

The components of a system, therefore, can be located within Islamic understanding of economics, however to distinguish IME system from other systems, the fundamental elements needs to be focused and compared. According to Asutay (2007b: 4)

.... by following *the* systemisation, for constructing the IME as a system the followings, hence, are necessary: the organisation of decision-making arrangements; mechanisms for the provision of information and co-ordination; property rights; and incentive mechanism a list of characteristic to understand the system in economic realm.

Asutay (2007b), has provided a systematic and useful method of addressing the key characteristics that go to make up a particular economic system.

- (i) Framework paradigm (with ontological and epistemological sources) in terms of point of reference
- (ii) Foundational axioms
- (iii) Value system
- (iv) Operational principles/mechanism
- (v) Specific Methodology
- (vi) Functional institutions

The above characteristics of a system are discussed below and located within IME as an alternative system.

5.3.1 The Framework of IME

The primary focus of IME is the development of human beings to achieve *falab* or salvation and welfare by arranging conditions conducive to moral, spiritual, physical and environmental development of individuals. Human being as an active agent of change is considered to be responsible for making life in this world and hereafter successful or unsuccessful. The axioms or philosophical foundations define the framework of IME paradigm to development by providing the guidelines to help individuals to be able to live as a vicegerent of Allah on this earth by

endogenising the principles derived from Qur'an and *Sunnah* and incorporating those guideline in their lives to be able to achieve the ultimate happiness or *falah*.

It should be stated that *falah* defines the objective function of an individual Muslim or *homoislamicus*, which is facilitated by the *ihsani* or beneficence process, according to which individuals are expected to do good to other individuals and society in order to be able to achieve *falah* in *akhirah* or in the hereafter but also in this world. This is based on the assumption that individuals are endowed with freedom or *ikhtiyar* to choose, thus making them accountable before Allah for every decision or choice as being mentioned at many places in the Qur'an (75: 36; 23: 115; 76:2). It is through this responsibility accountability paradigm, the Qur'an points out that worldly human life is connected to *akhirah*. Human life in this world, as a testing ground, will be the major determination of their new life in *akhirah*. It is their choice then which will lead them either to *falah* in this world and in the *akhirah* or otherwise. Thus the objective of individuals is to achieve *ihsan* or beneficence to achieve *falah*. The development of *ihsan* in individual capacities results in *ihsani* social capital, which then leads to Islamic development, that is to be actualised (Asutay, 2007b). Hence, *ihsan* represents the process and *falah* is defined as the ultimate aim. It must be noted that *ihsani* social capital has significant impact on economic advancement through social networking, which acquires positive externalities and facilitates joint action for mutual benefit outside the market.

5.3.2 The Philosophical Foundations and Fundamental Principles of IME Approach to Development

The philosophical foundations or the foundational axioms of IME approach to development define the components of the conceptual framework through which economic and social policies dealing with not only economic life but also with every aspects of human life are assessed. These foundational axioms, inherent in the spirit of Islam and derive from the ontological and epistemological sources of the Qur'an and *Hadith*, are developed by the leading and eminent Islamic economists such as Chapra (1992, 2000), Naqvi (1981, 1994), Ahmad (1979, 1994, 2003), Ghazali (1990), Sirageldin (2002), whose contributions are recently revisited by Asutay (2007b). The following principles, though not meant to be exhaustive, provide necessary minimum requirement to build upon the paradigm of IME approach to development in Islam.

5.3.2.1 *Tawhīd Ullah*

Tawhīd literally means 'unification' by making something one or "asserting oneness", which comes from the verb *wahhaba*, which itself means to unite or consolidate (Wehr, 1976: 1055).

Tawhīd in reference to Allah or *tawhīd-Ullah* means realising and maintaining of Allah's unity in all human actions which directly or indirectly relate to Him (Philips, 2005: 17), as Allah is the creator and ultimate owner of all resources, thus "linking imperfect and finite social institutions with a Perfect and Infinite Being" (Naqvi, 1994: 26), further symbolising the 'vertical ethical dimension of Islam' (Asutay, 2007b). In the context of IME approach to development, individual must realise that all resources available to him/her are ultimately owned by Allah, therefore, not to be consumed for individual selfish sake only, rather as a trustee or vicegerent of Allah on earth, human beings must undertake upon himself to allow its benefits to be shared equitably, and justly among mankind (Ghazali, 1990). These rules, hence, provide the framework for economic activity in a social sphere to take place within Islamic norms (Asutay, 2007b); and also implies the vertical justice in the sense that each individual is equal in terms of their proximity to Allah and hence in their access to the resources created by Allah.

As an extension of vertical ethicality of Islam, *tawhīd* also essentialises spiritual accountability in the sense that as the continuation of this world, there is a hereafter, and that hereafter is the arena where the ultimate 'justice' will take place. This, hence, is expected to motivate individual to conduct their actions and tasks within *tawhīd* in a way to maximise their return in the hereafter as well. The extension of time horizon, thus, introduces a moral filter in one's life in terms of his/her access and consumption of the available resources to achieve the objectives identified in the following axioms.

5.3.2.2 *Tawhīd Rububiyyah*

Rububiyyah, which derives from the root *Rabb* (Lord) in Arabic, literally means maintaining the unity of Lordship. *Tawhīd* in reference to *rububiyyah* means that Allah alone cause all things to exist when there was nothing, He is the Provider, Sustainer and Maintainer of all creation without any need from it or for it and He is the is the Lord of the universe and its inhabitants (Philips, 2005). In the context of IME paradigm to development, individuals has to realise that it takes human efforts and seen and unseen help of Allah for the useful development of resources and their mutual support and sharing (Ahmad, 1994; Asutay, 2007b).

As an important axiom in terms of moral economy, *rububiyyah* indicates that everything on earth has a perfection to follow as part of their respective development path, as it is also defined as nourishment towards perfection. The development efforts, thus, should support these and prevent any obstacles for all the creatures including natural environment and human beings to

pursue their development in an effort to reach perfection or *falab*, namely salvation. This applies to human, society, state and the biological and physical environment.

5.3.2.3 *Al-'adl wa'l-ihsan*

The axiom of *al-'adl wa'l-ihsan* or equilibrium and beneficence-socio-economic justice require individuals as Allah's vicegerent on earth, to establish justice (*'adl*) and promote beneficence (*ihsan*), thus consequently "denote a state of social equilibrium" (Naqvi, 1994: 267). This axiom essentialises the social justice in particular and justice in general as the main axiom of IME and also defines the nature of justice and social justice. Being the horizontal equity or ethical norm, it essentialises equality of individuals and their equal access to the resources created by Allah. This maxim, thus, in reference to IME paradigm of development provides the necessary framework for sustainable development by "establish[ing] a balance between the needs of present and future generations, develop policies to meet fulfil the needs of individuals, enable individuals to earn respectable source of living, to develop policies for equitable distribution of income and wealth within the growth and stability oriented policies"(Asutay, 2007b).

Al-'adl implies that social justice to be essentialised and established. For this to take place, therefore, IME considers *ihsan* or beneficence as an essential pillar. Thus, individuals having such a character of *ihsan* can deliver *al-'adl* voluntarily, as a person of *ihsani* character is expected to shape his/her behaviour and mind-set within *tawhidic* understanding with the objective of achieving *falab*. Thus, *al-'adl* is the framework within which *falab* as an ultimate objective can be achieved through *ihsan*. It is therefore essential in a society that *ihsani* social capital to be developed.

5.3.2.4 *Tazkiyah*

Tazkiyah refers to the growth and purification of attitudes and relationships – with Allah, other fellow individuals, natural environment, society and state - before human beings undertakes the responsibilities laid out to him as a *khalifah* or representative of Allah on this earth. In other word, 'growth' and its necessity is articulated, but also a caveat in the form of moral filter is introduced by IME to produce 'growth in harmony with all the stakeholders'.

In the IME paradigm of development, "it directs individual towards self-development, economic and social development in a harmony in the sense that whatever the growth activity is it should be purified" (Asutay, 2007b: 8), to achieve wellbeing and success both in this world as well as in the hereafter. Thus, *tazkiyah* is an extension of *adalah* and *ihsan*, in the sense of establishing

equilibrium and harmony between all the stakeholders in a society. This implies that growth is essential and encouraged. However, in relation to *rububiyah* as well, *tazkiyah* implies that in the development path towards perfection all the interests of all the stakeholders have to be observed to produce development through observing balance. This refers to sustainable development.

5.3.2.5 *Ikhtiyār* (Human freedom)

In Islamic conception of human's freedom, *ikhtiyār* is considered as Allah-given to be used only for good. Muslims deny that human beings are born with a sinful nature, but have the faith that all human beings are capable of virtue as well as of vice. This has consequences for justice, as individuals are considered to be responsible for their actions and decisions with the objective of fulfilling justice in this world and in the hereafter. This applies spiritual accountability as well. Naqvi (1994: 35) summarizes the role of free will in the following way:

In the final analysis, we can say that, notwithstanding the differences of emphasis, there has been a tacit agreement among theologians that man is responsible for his acts, and that Allah, by His very nature, is just in deciding man's fate according to his deeds. Concomitantly, therefore, man must have freedom of will in shaping his destiny.

Therefore, in reference to IME approach to development, human beings, accordingly, have the freedom to choose and act and take full responsibility for the results as one will be answerable to Allah for their choices and actions in the hereafter.

This axiom, hence, is the extension of essentialisation of justice within Islamic worldview; as *ikhtiyar* directly establishes the foundation for justice. However, in order to produce social justice in the society, individual freedoms are subject to moral filters provided by *maqasid al-Shari'ah* so that the ideals of IME can be achieved.

5.3.2.6 *Fard* (Responsibility)

As Allah's vicegerent on earth, it is believed that Muslims are responsible to Allah for all deeds; moreover, corresponding to the free-will or *ikhtiyar*, people are also responsibility to fellow human beings. According to Asutay (2007b), although 'responsibility' is voluntary, we need to conserve the public good, hence to fulfil moral responsibility to Allah, ourselves, and our fellow human beings in a society. IME paradigm to development requires, therefore, that social justice cannot be left only for voluntary action and individual generosity (such as *sadaqah* or charitable giving), but economic well-beings of all human beings should be ensured which can be possible only if voluntary action is supported by mandatory instruments and practices such as *zakah*. The latter is institutionalised so that voluntary human failure should not create imbalances in the

social justice, which should therefore be served through the mandatory social justice related measures. This axiom, thus, by definition aims to overcome developmentalist shortcomings by substantiating it with voluntary action.

5.3.2.7 *Khilafah*

The identified axioms should not be considered only as philosophical foundations, but they lay the framework within which developmentalism should take place and to be articulating and practicing in everyday life. This requires a virtuous individual, or *homo-Islamicus* or a re-affirmed loyalty to Allah's expectation. This can only be possible for the role given to individuals, as Allah created human beings as His *kehalifah* or vicegerent on earth, a unique position not granted to other creatures, to fulfil His will on earth, by enjoining what is good and forbidding what is wrong, and promoting beneficence (*ihسان*), thus attaining high levels of good life (*hayyat al-tayyebah*), both individual and collective (Ahmad, 2003). In other words, the objectives of *Shari'ah* defined as human well-being can only be fulfilled with the *kehalifah* position.

Thus, the implications of *kehalifah* are to extract, produce, usufruct, consume, share and distribute resources in a just and fair manner as human beings are accountable before Allah for their role as as *'abd* (who serve and worship Him) and *kehalifah* (who holds *amanah* as Allah's representative on the earth). IME approach to development in such a context according to Asutay (2007b: 8) is "based on two dimensional utility function, operating in a positive correlation with each other. For instance, the more social good one does in the temporal world, the more *sawab* or glad tidings one will receive in the hereafter". Thus, *kehalifah* individual also essentialises the social accountability in the process.

5.3.2.8 *Maqasid al-Shari'ah*

The term *maqasid* (plural: *maqasid*) refers to a purpose, objective, goal and telos, while in Islamic law *maqasid* are the objective or purpose behind the Islamic rulings (Auda, 2008), which is interpreted as 'human well-being' as the higher objective in life in relation whatever is done. In the IME context, *maqasid al-Shari'ah* provides the legal-rationale framework within which the economic activities should be conducted (Asutay, 2007b). According to Kamali (2008), *Shari'ah* seeks to improve and perfect the conditions of human life on earth by eliminating prejudice, alleviating hardship and establishing justice. Thus, as defined by Al-Ghazali, *maqasid al-Shari'ah* is articulated through faith (*din*), human self (*nafsi*), their intellect (*'aql*), their posterity (*nasl*) and their wealth (*mal*) (Chapra, 2008c). However, this refers to a statistic equilibrium vis-à-vis developmentalism, as Al-Ghazalian perspective is limited with the protection of these five

elements. However, as Siddiqui (2004) stated with such an attitude, development as a policy and social justice in particular cannot be achieved. As in the sense of Adam Smith, Ghazalian *maqasid* being individual maxims cannot produce social outcome even in a dynamic analysis. Therefore, developmentalism and hence policy initiations for developmentalism require a different paradigm in interpreting the legal nature of objective or *maqasid*. For this, Ibn Qayyim's position can perhaps better suit, as he does not limit the numbers of *maqasid* to be achieved, but provides an opportunity space to be utilised according to developmentalist need. Therefore, Ibn Qayyim's position is essentialist in terms of the nature of Islamic financial products, as he states that even *riba*-free products carry ruse or they are not designed according to the identified moral objectives or the spirit of Islam, they can lead to greater harm to the society than the *riba* itself. As the Qayyimian's position identifies, according to Asutay (2012), legalistic-rational method applied by the *Shari'ah* scholar ignores the 'substance' or the spirit by prioritising the 'form'. Hence it is essential that *Shari'ah* scholarship endogenises moral principles stemming from the *maqasid al-Shari'ah* into their decision-making process for sustainable development.

In conclusion, the core axioms discussed above form the basic philosophy of IME paradigm of development to promote social welfare by establishing a just society that is, growing and capable of meeting the real needs of human beings and society without exploitation or invading their rights (Ahmad, 1994). This approach is entirely different than the axioms and foundational principles of any other system (Asutay, 2007b), which, according to Ahmad (1994), considers the process of production and distribution in either or relation with development process.

5.3.3 Value System

Conventional economists in general do not deny the role of religious values in influencing the economic behaviour. For example, Adam Smith adhered on these values in explaining how individuals by seeking self interests achieve the public interest, as well as Max Weber explained the protestant work ethics based on Calvinistic values (A.-R. Y. Ahmed, 2002). However, in capitalism and socialism, "ethical values have come to be considered as existing outside the context of the mechanism of the system, *i.e.*, exogenous" (El-Ghazali, 1994: 13). Positivism in conventional economics as claimed is being scientifically designed to be objective and "entirely neutral between ends" (Robbins, 1932: 240) or "independent of any particular ethical position or normative judgment" (Friedman, 1953: 4), while the foundation of IME is built upon normative principles, a set of *maqasids* and Islamic norms to promote the well-being of all mankind by safeguarding their faith, their life, their intellect or reason, their posterity, and their wealth (Chapra, 2008b). As Niehaus (2000: 86) observes:

While Western economists have tended to withhold value judgments and have only begun to return to the treatment of normative questions in the last few years, Islamic economics, in contrast, has always defined itself as a science which makes explicit value judgments and links them to the findings of positive economics.

The uniqueness of IME, hence, is found in its value system, derived from the main sources in Islamic ontology, which is based on balance between this world and the hereafter. According to Asutay (2007b) the ethical base of the IME provides the value system through which it governs the economic interaction in the society. In addition, while the ultimate goal of Islam is the attainment of *falah* in *akhirah*, the path to this ultimate goal is through the material world. Thus, the means to *falah* is through this material world and not through the diversion. The attainment of wealth and material life are considered gift and bounty from Allah that ought to be utilised and are considered as part of worship in its general meaning. Being vicegerent (*khalifah*) of Allah on this earth, an important axiom of IME, human beings has to utilise the material wealth in such a way to help promote brotherhood in community, hence ultimately produce a just based society. As such wealth is bestowed upon us as a trustee, while the ultimate ownership belongs to Allah. One can only achieve the moral and spiritual uplift or *falah* by spending voluntarily in fulfilling the needs of fellow human beings.

Modern economics, including neoclassical economics, in its attempt to integrate ethics into economics in the form of preferences or constraints relies on its own conceptions of reason and rationality. IME on the other hand, utilises and infuses both the reason with revelation in value selection and application. According to Haneef and Furqani (2009) contrary to western main stream economics which derives its ethics based on the western worldview that is secularistic with no role of religion insight into scientific sphere, IME derive ethics based on the Islamic worldview and from the primary sources of Islam, *i.e.* Qur'an and *Sunnah*. Islamic worldview as Haneef and Furqani (2009: 193) argues is:

...is more comprehensive as it does not dichotomise the divine and mundane, the secular and spiritual, body and soul, *dunya* and *akhirah*. This results in a more comprehensive nature of the economic agent in Islamic economics as it considers this economic agent as having all these integrated characteristics in his behaviour. Individual self-interest in Islamic economics is pursued in balance with social interest and in accordance with God's injunctions.

Therefore, in this regard, IME rejects the narrow concept of rational economic man with self-interest whose only aim is to maximize his or her own satisfaction or utility or a firm's profit. Economic agent in IME is represented by *homo-Islamicus* who is conscious of Allah in all his/her actions all the time as conceived in the concept of human being as *khalifah-'abd*. Such individual

has the *ikhtiyar* not only to maximize his/her own satisfaction but also his/her behaviour is directed to promote the spirit of fellowship, mutual support, sacrifice, co-operation, equity and fair play, as opposed to greed, injustice and exploitation in the society (Haneef & Furqani, 2009).

Hence, such unique value system makes IME a distinct system; different from the existing economic systems. Having its values and norms essentialised through revealed knowledge is the starting point of this distinction.

5.3.4 The Implications of IME Value System, Operational Principles and Mechanism

Islam provides the philosophical foundation, which as conceptual framework of IME has several implications for shaping the economic and social policies in terms of operational and institutional nature of IME system (Asutay, 2007b). For example, IME with ‘theomorphic’ view compare to ‘anthropomorphic’ considers Allah the centre, the measure of all things. Therefore in such aspect, any theories developed should reflect this principle as the core, instead of making the individual as the centre. *Tawhid* as the fundamental core of Islam and the basis of IME embraces every facet of human activities at the individual and collective level from both the natural and social perspective that reflects unification (Haneef & Furqani, 2009).

In addition, individual as *khalifah* or vicegerent of Allah on this earth has partial right to what he can produce or the wealth he owns since Allah as *Rab* has absolute ownership. In other words, based on axiom of *khalifah*, *homo-Islamicus* or Islamic economic agent can be considered as the one who is conscious of Allah’s guidance in his behaviour and follows the Qur’anic injunctions. This consciousness affects individuals’ behaviour toward one’s fellow human beings and nature, the purpose of his/her economic life and the way he/she chooses or makes decision in resource allocation (Haneef & Furqani, 2009).

As stated above, in Islam, being a trustee and *khalifah*, the entire purpose of individual’s life is to realise his/her role as an agent with free will, to be able to make a choice between right and wrong. Moreover, social justice or ‘*adl*’ axiom specifies the social responsibility and requires individuals with wealth to take care of the needy in the society through establishment of and contribution to *bait-ul-mal*, an institution to meet the needs of people in the society, which according to Haq (1996) is a *fard* for those people who are in a position to pay. Moreover, *tawhid ullah*, *khalifah* and ‘*adl*’ combined together aim to change the worldview of an individual and his attitude toward life. According to Chapra (2011), the implications of these three axioms together help reform individual in three ways: firstly, by adjusting his/her attitude toward him/herself in

the light of answerability before Allah for everything, both public and private that he/she does; secondly, changing his/her relationship with other human beings based on brotherhood (*ikhwan*) and mutual care; and lastly, readjusting his/her attitude towards all the resources at his/her disposal, including the environment, as a trust from Allah to be consumed in a way that would guarantee the well-being of all human kind. These examples explicitly illustrate how axioms work to produce the policies to respond to the issues in the society by institutionalising the operational dimensions.

Furthermore, the institutional and operational features of IME paradigm of development conceptualised on stated axioms, are based on understanding that developments of societies are based on individual and collective efforts of participants of society contrary to historical materialism, hence according to Asutay (2007b), the development methodology of IME is different than other political and economic ideology standings. This can be illustrated with the vicegerent role bestowed upon mankind, who with the free will are the active agents of social changes. Where Islam provides the framework containing the doctrine and value judgement for the IME to function as an arena where individuals make decisions

IME paradigm of development with its ethical values derived from axioms expect Islamic man or *homoIslamicus*, to be an individual who as a trustee of Allah on this earth with a view to be accountable for his/her actions to Allah, works toward the achievement of *maqasid al-Shari'ah* with the overall aim of human-wellbeing. Moreover, IME approach to development does not deny the existence of self-interest as important motivation for human action, as mentioned explicitly in Qur'an at many places as a foundational aspect of human behaviour (Farooq, 2006). The belief of the reward and punishment in the hereafter integrated in IME, abstains individuals from short term self interest, who otherwise may disregard the interest of society. Accordingly, Chapra (2000) suggests that moral filters should be engaged to serve not only the self interest of an individual but also interest of the whole society to help actualize the *maqasid al-Shari'ah*. Thus, IME framework proposes constraints so that conflicts between the self-interest of individual and social interest to be removed. The framework of IME paradigm of development draws a line to differentiate permissible from impermissible in economic activities. The *Shari'ah* has defined lawful and unlawful ways of earnings as moral filters. For example, *riba* or usury or interest, gambling, speculation, fraud, exploitation and extortion are all banned by Islam as they are deemed unproductive economic activities(Asutay, 2007b).

Hence, IME, as a likely consequence of self-interest, recognizes private ownership of property and wealth creation as the core of economic life, mentioned as *amwal* (wealth, pl. of *mal*) in

Qur'an. The creation of wealth and production of goods and services has not only been recognized as a legitimate pursuit in Islam but also as a praiseworthy one because the Qur'an assigns it a high moral ethical value. However, like self-interest, private ownership and wealth are subject to filters through moral codes as "property is a *trust (amanah)* [from Allah], and as such, property rights are subject to moral limits and used as a means of fulfilling ethical objectives – the *maqasid al-Shari'ah*" (Ahmad, 2003: 195). Hence, moral filters ensure allocation and distribution of resources in a brotherly and justly manner.

IME paradigm to development provides the complete institutional framework in which economic activity, from production to exchange and to division of labour to take place through morally filtered market mechanism, which not only serve private but also social goals. Thus, morally filtered market system promotes economic activities through the process of co-operation and competition (Ahmad, 2003: 195). For example, Shams al-Din al-Sarakhsi (1978: 264) states

The farmer needs to work of the weaver to get clothing for himself, and the weaver needs the work of the farmer to get his food and the cotton from which the cloth is made.... And thus every one of them helps the others by his work.

Further, developing the idea of co-operation and competition, Jafar al-Dimashqi (1977: 20-21) states that

Industries are all inter-dependent. Construction needs the carpenter and the carpenter needs the iron smith and the iron smith needs the miner and all industries need premises. People are therefore, necessitated by force of circumstance to be clustered in cities to help each other in fulfilling their mutual needs.

In other words, competition in morally filtered market system does not allow creating conflict between self interest but rather promote an environment of co-operation, so that, according to Asutay (2007b: 11), "various individual and social claims to resources can, economically and socially efficient manner, be fulfilled". Therefore, to produce social and economic efficiency or optimality simultaneously, IME provides a regulatory system in the form of *hisba* institution to provide ethical screening and filter mechanism to the market if required with the objective of preventing the excess of the market mechanism as suggested by Ibn Taymiyah (1982).

Further to support the market and the government, the IME has developed network of *waqf* (voluntary organisations) institutions as part of the third sector. *Waqf* institutions act as welfare institutions by working in various levels to make sure that basic needs of the individuals within its jurisdiction are met. Thus, historically, *waqf* aimed at guaranteeing the basic needs of the poor irrespective of religion, race, gender or age to enable them to participate in the dynamic of

economic life and as well provide a number of public goods and services such as education and health.

In addition *waqf* system, IME also provides voluntary instruments such as charity and also legal obligation in the form of *zakah* to respond to the failures in the economy so that the needy to be provided (Asutay, 2007b). In addition, according to Asutay (2007b) filters mechanism to promote moderation, balance and harmony is endowed with systemic instruments to provide sustainable development through preventing “the problems of waste, over-utilization and the excessive exploitation of non-renewable natural resources and the ecological and environmental aspects of economic activity” (Ahmad, 2003: 196) as all resources on the earth are perceived as *amanah* from Allah.

In concluding, IME paradigm to development assures individual freedom to justly acquire and utilize resources on the earth “but at the same time it aim at providing effective moral filters at different levels of life and activity and established its own distinct institutions to fulfil the *Shari’ah* objectives, namely human wellbeing, economic development and social justice in the society” (Asutay, 2007b: 11), thus providing a system that is able to induce the individual to work for his self-interest within the limits of social wellbeing (Chapra, 1992).

5.3.5 Methodology of IME

There is difference of opinion on the methodology of economics as the term is sometimes taken to mean the technical procedures of discipline, synonyms for methods, but more frequently according to Blaug (1980), the methodology of subject investigates into the concepts, theories and basic principles of reasoning of a subject. However, regardless of the differences in various components of methodological debate in economics, the postulates of neoclassical economic system is presented to establish the distinction with IME methodology (Asutay, 2007b; Khan, 1989).

- (i) Individuals are selfish and behave in a rational way to maximize their own utility
- (ii) Material progress is an ultimate goal
- (iii) Every individual has an inherent tendency to maximize his or her material welfare and individuals have the knowledge and ability for deciding what is good for him or her
- (iv) Methodological individualism, a view that social theories must be grounded in the attitude and behaviour of individuals
- (v) Market exchange

As a result of these postulates, the outcome is expected to be economic man/individual or *Homoeconomicus*, who by definition is only concerned with his or her interest and has an inherent tendency to maximize his or her material welfare as a supreme goal, therefore behaves rationally by deciding what is good for him or her according to his or her knowledge. According to Asutay (2007a), with such postulates conventional economic system assumes one-dimensional utility function.

The methodological framework of IME, on the other hand, is summarized as follow:

- (i) Individual is not only concerned about his or her own interest but the concern for society is also important
- (ii) Material progress is not the ultimate goal. It is desirable but subservient to the *falab* in the *akhirah*, should there be conflict
- (iii) Individual conducts economic activities in a rational way not only to maximize his/her own utility but also seeks to maximize social welfare by taking into account the hereafter as well. However, this takes places within moral filter in individual level as well, resulting in bounded rationality
- (iv) Human knowledge is imperfect and man needs guidance for making various decisions in life from Allah who has perfect knowledge
- (v) Market exchange mechanisms through moral filter to produce a socially concerned environmentally friendly system

By behaving according to an axiom of IME, it is expected that the outcome should be *Homo-Islamicus*, who is not only concerned about materialistic progress in this world, but also wishes to achieve *falab* in hereafter. Therefore, the methodological framework of IME is based on two-dimensional utility function in which decisions related to economic affairs including allocating the resources in a rational manner are made aiming to achieve *falab* through the process of *ibsan* or beneficence. In this, the everyday life and decisions constitutes one dimension, while the *akhirah* constitutes the second dimension as the mirror of this world. Thus, the objective function of individual decision making aims to reach *falab* subject to maximizing *ibsan* social capital.

In Islamic inspired methodology, individual is considered incapable of knowing what is best for him as perfect knowledge only belongs to Allah. Therefore, the methodological framework of IME based on divine knowledge. Thus, ontologically Islamic worldview is based on revealed knowledge which is, by definition, different than the conventional economics which relies solely on human knowledge. Therefore, IME assumes bounded rationality as opposed to unlimited rationality assumption of neoclassical economics.

5.4 OPERATIONALISATION OF IME: ISLAMIC BANKING AND FINANCE

As identified above, IME offers operational institutions to fulfil the features of IME, through which it aims to transfer itself from theoretical framework into operational system in dealing with the issues of everyday life. Despite assuming larger institutional development, due to the domestic and external political constraints imposed on IME, it has not been able to produce the system understanding and its relevant institutions. The only modern institution that has come out of IME is ‘Islamic banking and financial institutions’, or IBFIs.

Islamic Banking and Finance (IBF), an institutional and operational part of IME, hence, emerged in modern institutional sense in the 1970s, with the objective of operationalizing the developmentalist objectives of IME (Asutay, 2007b, 2010).

IME, unlike conventional economic system which considers the behaviour and taste and preference of an individual as ‘given’, places great emphasis on individual and social ethical behaviour for moral uplift through moral filters. Moral uplift aims at the change in human behaviour, tastes and preferences and, thereby, it complements the price mechanism to produce socially optimal economic choices along with economic optimality in which social justice is claimed to be the essential element (Asutay, 2010; Chapra, 1993). Such socially constructive behaviour through moral filter derived from normative and positive principles found in Qur’an and *Sunnah* distinguish IBF from conventional banking and finance.

The first IBF as a form of Islamic social banking was established as Mit Ghamr Saving Association in Egypt in 1963 aimed at providing credit to small artisans and entrepreneurs (Mayer, 1985). The experience with Mit Ghamr Saving Association though did not last long due to changing political circumstances; it was a social banking oriented credit unit aimed at capacity building in line with the aspirations of IME. In the same decade, another experiment was launched in Malaysia in 1967 in the form of saving associations (Tabung Hajji Malaysia), which since its inception aims to invest the savings of subscribed Muslim and invest the funds in a *Shari’ah* compliant manner. However, major institutionalization in Islamic finance started with the establishment of the Islamic Development Bank (IDB) in 1974, promoted by the Organization of Islamic Conference (which recently renamed as Organisation for Islamic Cooperation) with the aim to act as the development oriented ‘world bank’ of the Muslim world.

The developments in theoretical and professional front coupled with the rise of petro-dollars resulted in the establishment of Dubai Islamic Bank, first Islamic commercial bank in 1975.

Since then, Islamic banks and financial institutions have grown at considerable pace, having a presence in more than 75 countries around the globe, including both Muslim and non-Muslim countries. It is estimated that IBF sector is growing annually on average 15-20%, regardless of global economic meltdown with total financial assets estimated more than \$1.3 trillion in 2011 and forecasted to grow beyond the milestone of \$2 trillion by 2014 (Ernst & Young, 2012).

In addition, with further development in IBF industry, institutions like *takaful* or Islamic insurance has emerged which operates on non-interest base, providing Islamic compliant insurance product for individuals and businesses, thus managing funds in an islamically acceptable manner to contribute to the development and well being of society. There are also well developed markets for Islamic mutual funds and *Sukuk* (Islamic bond), offering islamically and morally compliant products to the community.

The important features of IBF are the prohibition of *riba* or interest, excessive uncertainty (*gharar*), speculation and gambling, while profit and loss sharing (PLS) is the essential modes of financing. The prohibition of *riba* is explicitly revealed in the Qur'an (for example, 2:278-9; 4:160-1). In addition to social justice and economic consequentialist reasons and rational for prohibition, Chapra (1992) argues prohibition of interest provides a stable and socially efficient economic environment. Thus, through probation of *riba*, IME aims to produce economic activity or asset based financing in tangible assets over the debt based system, which also rationalised the prohibition of uncertainty, speculation and gambling in IBF (Iqbal *et al.*, 1987).

Another rationale in IME for position of interest in IBF is that money does not have any inherent value in itself; therefore money cannot be created through credit system. In addition, IME does not aim to undermine the position of capital by prohibiting dealing in interest, rather changes the name of the relationship between capital and work, and institutes 'earning with effort' against the fixed return. Therefore, Ayub (2007) argues that PLS is an important axis around which economic business activity takes place. This features prevents the capital provider to transfer the entire risk of financing onto the borrower, thus not only aims at establishing justice between work efforts and return and between work effort and capital but also achieves economic and social optimality (Asutay, 2010). According to Siddiqi (2005) and Iqbal *et al.* (2005), maximising profit is not the only concern for IBF rather the principles IBF are based on are deeply integrated with ethical and moral values. These moral and ethical values lead to a better income distribution by allowing finance to those who are poorer classes of society. Furthermore, the various risk sharing schemes through which IBF promotes entrepreneurship to less affluent members of society, are effective tools of development. Hence, IBF is expected in an aspirational

world of IME to contribute to the achievement of socio-economic development with equal distributions of income and wealth through elimination of poverty, inequalities and injustices in the society as opposed to neo-classical capital market which views growth as sole objective of development and accept inequality in society as a by product to achieve sustainable growth (Turner, 2012). However, the experiences of global financial crisis of 2007 shows that there is a need to change such approach to development by replacing it by value based development paradigm as promised by IME.

Asutay (2007b) listed other features of IBF in institutional and operational terms as follow, which directly refers to developmentalist objectives of IME:

- (i) Banking with focus on serving communities not markets through initialisation of capacity building programs
- (ii) Broadening ownership base of society
- (iii) Responsible financing with systematic check on financing providers and restrains consumer from indebtedness, ethical investment, and Corporate social responsibilities (CRS)
- (iv) Linking financing services to real economy with a moral compass

In responding to such ethical principles, IBF ideally prefer profit and loss sharing investment over debt like financing, for example, *musharakah*, *mudarabah* and venture capital over *murabahah* financing. Such schemes aims to serve the greater interest of community by undertaking joint ventures with individual customers in the community compare to transferring the risk of investment through debt-like financing, where banks are solely concern with the return on their investment. These ideal modes of financing can tackle social issues such as poverty, unemployment and crimes through promoting job opportunities while utilising tools such as microfinance. In fulfilling the aspirations of IME, IBF is expected to aim development at root level by promoting real economy through asset based business activities in morally and ethically accepted industries with overall objective of not only offering *halal* products by also incorporating *maqasid al-Shari'ah* in wholesome (*tayyib*) sense All these Islamic institutions and instruments according to Asutay (2007b: 14) “aim at enhancing human well being, or the *maqasid*, which constitutes the operational dimension of IME and their very existence and successful operation is an indication that IME is a system of its own with its values, axioms, foundational principles, and also with its particular institutions, which work within the Islamic framework”.

However, oppose to their existence, according to Asutay(2007a) IBF has aimed at becoming part of the international economic markets and despite the imposed social identity, “Islamic banks are quick to point out that they are not charitable organizations, and that they must turn a profit” (Warde, 2000). This is due to the fact that, “in the harsh environment of the global economy, [Islamic] banks must compete with conventional banks that usually focus exclusively on profit maximisation. [As] this allows them to offer better remuneration to their depositors and to their shareholders” (Warde, 2000: 154). Clearly, Asutay(2007a) argues that having profit maximisation as the primary aim negates the importance of societal responsibility and social identity.

Pertaining to fulfilling the aspiration, IBF has still not positively affected the social capability building and contributed to widening ownership. IBF could adopt venture capital and profit and loss sharing schemes to widen ownership. Furthermore, there is no universally accepted regulatory body that that systematically checks Islamic financial providers.

5.5 DEVELOPMENT IN ISLAM: CONCEPT, PROCESS AND GOALS

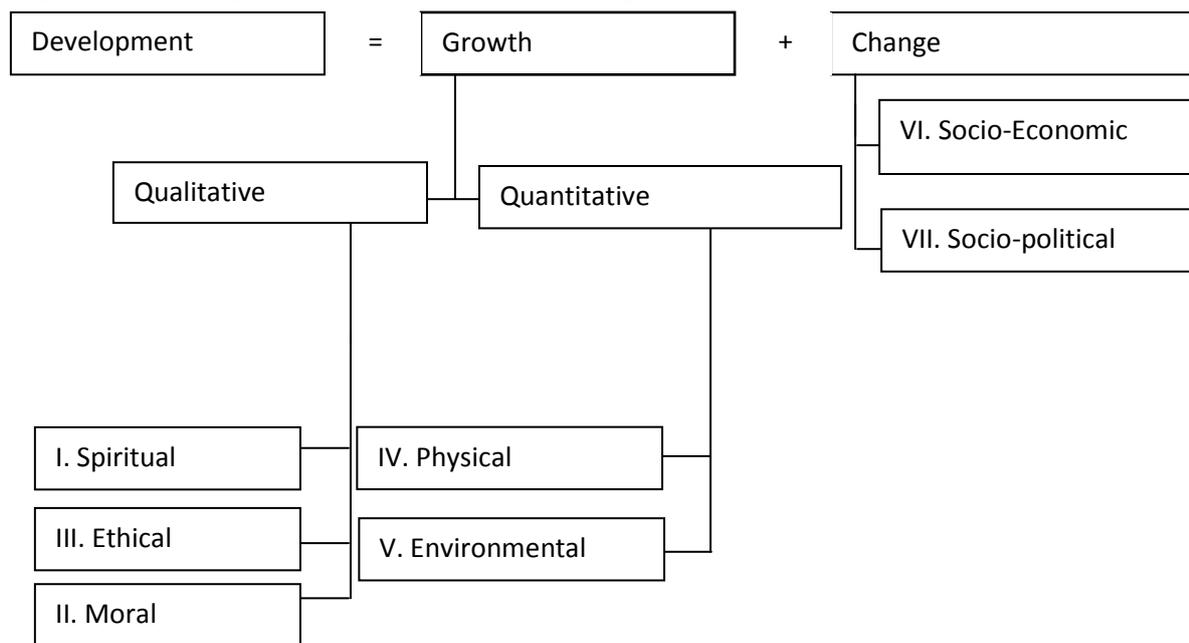
5.5.1 Islamic Economic Development Concept

After elaborating on the IME in the preceding sections, it is easy to conclude that IME itself is a sustainable development oriented religiously informed development process. As discussed above, each of the ethical foundational axioms of IME directly has developmentalist consequences or shapes the nature and mechanism of developmentalist process. The Islamic worldview requires all the actions and tasks of individuals and society to coordinate in a consistent sense to fulfil the *maqasid al-Shari'ah* namely human well-being. The same applies for each of the axioms, considering the developmentalism needs of the all societies and also the negative impact of economic development process so far, such as environmental issues, the above discussed foundational axioms make ethical claim to respond to such issues or exogenous ‘shocks’, especially when they are related to a change in the social context (Naqvi, 1994). Thus, the existence and implications of the foundational axioms in themselves are a clear indication that IME is a developmentalist process at the same time, but it also aims to shape the outcome of the developmentalist project as an ethically accepted paradigm with *homo-Islamicus*. In addition, since development aims for human welfare and well-being, development activities are the essence of IME, or simply IME is equated with developmentalism. This is verified with the fact that the emergence of Islamic economics in late 1960s was in the form of ‘developmentalist discourse’, as the founding fathers of IME aimed at developing an economic system of Islam through the

authentic meaning of Islamic norm in their search of formulating a developmentalist strategy to overcome the development needs of the Muslim world and beyond in the post-colonial period. The strategy they were concerned to develop with Islamic norms is considered to be ‘human-centred’ as opposed to materialist development theories. Therefore, in the essence of IBF, the developmentalist discourse can easily be located (Asutay, 2007a).

The development in Islam is a multi-dimensional and comprehensive process that involves improvement of human welfare through advancement, reorganisation, and reorientation of economic and social system and through spiritual uplift, in accordance with Islamic teachings as shown in figure 5.1. This is in line with the objective of *Shari’ah*, which puts importance to the welfare of people and their relief from hardship. The human welfare in Islam is not limited to this world, rather it extend to the life hereafter with no conflict between the two. According to Ahmad (1979), it is this dimension that is missing in the western concept of development.

Figure 5.1: Concept of Islamic Economic Development



Sources of Manifestations:

I: *Tawhid* (Unity)

II and III: Value-Pattern of Islam

IV and V: Socio-economic Growth

VI and VII: Indigenous Effort

Source: Ghazali(1990: 24)

The framework for development in Islam is found on the values embodied in the ontological and epistemological sources of Qur’an and *Sunnah* of Prophet Muhammad (PBUH). These two

sources together are the basic frame of reference in development and hence are the starting points in the formation of development policies, goals and the decision making processes at all levels (Ahmad, 1979; Ghazali, 1990: 23).

Economic development is an integral and indivisible element of human development and never considered distinct from framework of human development. Therefore, in Islam development is not envisioned only in terms of factors of production, distribution of goods and services produced, institutional and structural transformation or achieving ecological balance. According to El-Ghazali (1990: 23):

All these are just the indispensable means or conditions to further the development of man in his pursuit for human dignity, which may have been lost not only in economic terms, but also in the moral degradation that threatens the future path of man's life.

As mentioned above, IME perceives economic development as a multi-dimensional activity, involving number of changes, both qualitative and quantitative, in which, as articulated by Ahmad (1994: 23), "the moral, and the material, the economic and the social, the spiritual and the physical are inseparable" as shown in figures 5.1. The founding fathers of IME assumed a general equilibrium analysis of integrating all different aspects of development together. Therefore, they criticised the neo-classical economics for its failure of producing only partial analysis by focusing only on material matters (Khan, 1991). The methodology of isolating and concentrating on quantitative, which is justified and necessary in its own rights, has unfortunately led to the neglect of qualitative aspects of development in particular and life in general. According to Ahmad (1979), qualitative factors such as human attitudes, incentives, tastes and aspirations are as much policy variables as physical resources, capital, labour, education, skill, and institutions. It is, therefore, suggested that Islam seeks to rectify this imbalance through sustain improvement in the material and nonmaterial well being of an individuals. Thus, Islam not only enlarge the scope of development policy but also shifts the focus of development effort from only physical environment to individuals (Ghazali, 1990) to achieve socio-political-economic justice as shown by figure 5.1

Such a heavy emphasis of Islamic approach on the spiritual, moral and ethical development highlights (figure 5.1), however, the high degree of caution inherent in the Islamic development process, such a vigilance, as Ghazali (1990: 26) argues, "is substantiated by the very much heard norm '*Prevention is better than cure*'." In other words, if an individual, an active agent of change and development does not internalise and commit himself to the universal moral and ethical values, then there is no guarantee he will feel accountable both to Allah and the society in his efforts to

attain the ultimate success of *falab* in the *akhirah*. Thus, such individuals are prone to the dangers of corruption, dishonesty, lack of commitment, unethical business practices and the like (Ghazali, 1990).

In the light of above discussion, the approach to development in Islam is basically different from the approach, which look upon only production and distribution in development. The developmental process in the Islamic framework, “is directed towards the development of Allah-conscious human being, a balance personality committed to and capable of acting as the witness of Truth to mankind” (Ahmad, 1979: 14).

5.5.2 Goals of Economic Development in Islam

In Islamic framework, economic development is theorised, goal-oriented and value-realising activity, directed toward the maximization of human well-being in all its aspects. As mentioned above, the philosophical foundations of IME, derived from the ontological and epistemological and sources of Qur’an and the tradition of Prophet Muhammad (PBUH) and *maqasid al-Shari’ah* define conceptual standards that not only help to formulate policies related to economic aspect of human life but also broad enough to cover all aspects of human life as shown in figure 5.2. The purpose of such axioms and *maqasid* is to align all actions of human in economic sphere with the achievement of *falab* in hereafter, which is the ultimate goal of human beings. In such context, there are many goals of development and their specific targets as advocated by the Islamic worldview, and articulated by the founding fathers.

According to Asutay (2007b) the purposes of *Shari’ah* (*maqasid al-Shari’ah*) to provide legal and rational framework within which economic activities should be conducted, to ensure human wellbeing by honouring human rights and fulfilling all human needs as shown in figure 5.2. The classical work by Al-Ghazali and Shatibi put the *maqasid* into five major categories. According to Al-Ghazali (taken from Chapra, 2008c: 5-6):

The very objective of the *Shari’ah* is to promote the well-being of the people, which lies in safeguarding their faith (*din*), their self (*nafsi*), their intellect (*‘aql*), their posterity (*nasl*), and their wealth (*mal*). Whatever ensures the safeguard of these five serves public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable.

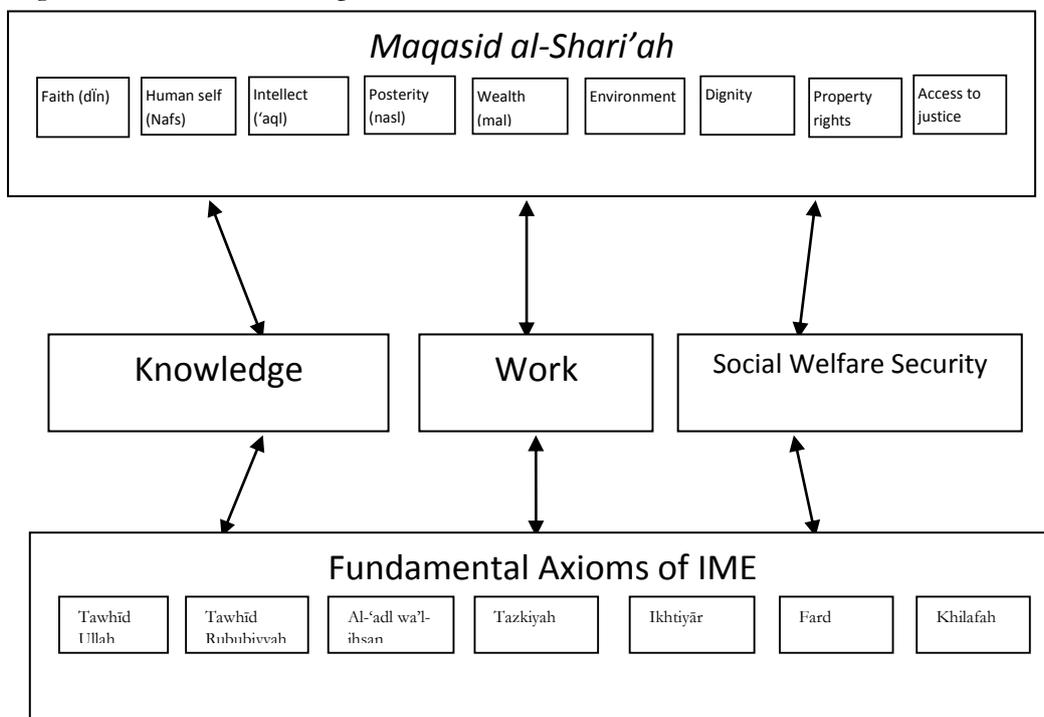
However, Siddiqui (2004) argues that Al-Ghazalian perspective is only confined with the protection of these five elements, through which, however, he claims that development as a policy and social justice in particular cannot be achieved. Therefore, Siddiqui (2004) states that, *maqasid al-Shari’ah* must include broader measures in ensuring welfare, (as) asserted by Ibn

Qayyim, who emphasized justice and equity. However, as Siddiqui (2004) states, means to attain justice and equity according to Ibn Qayyim should not be formulated by a finite list rather reason guilds how to ensure justice and equity in changing circumstance (Ibn Qayyim 1374, 4: 309-11 cited by Siddiqui, 2004). Therefore, it is important to discuss *maqasid* with the context of our times, to ensure sustainable development and wellbeing of society as represented in figure 5.2.

Naqvi (2003), while supporting the Ibn Qayyim, states that although, the *maqasid*, spelled out by al Ghazali and confirmed by al-Shatibi as definitive, are still considered the repository of ultimate wisdom and must have made an interesting list of objectives to address legal and metaphysical issues in the time they were formulate, nevertheless, Naqvi (2003) argues, “these *maqasid* need to be refocused, expanded and amended to become useful guides for public policy in modern time” as represented in figure 5.2.

According to Nyazee (2000), since these *maqasid* are not amendable to a straightforward extension to social and economic matter, therefore, it is not wise to accept Shatibi’s claim that both the *maqasid* and their ordering be regarded as final presumably for all time. For example Naqvi (2003) states, overemphasis on progeny may lead to a pro-natalist bias in population policy, which tend to aggravate poverty.

Figure 5.2: Islamic Development Goals



Naqvi (2003) argues that it may be sounded reasonable to dismiss economic growth, “wealth”, as a mere weasel word in al-Ghazali’s eremitic asceticism. However, in the modern time, economic progress must appear near the top of the *maqasid*, because according to Prophet Tradition, poverty undermines faith. In support of above mentioned positions, Chapra (2008b) states that while these five *maqasid* may be considered as primary (*al-asliyyah*), others indicated by the Qur’an and the tradition and *ijmah* may be referred to as their corollaries (*tabi’ah*) which may keep on expanding and changing with the passage of time, due to developmental needs to ensure that all human rights are duly honoured and that all the different human needs are adequately satisfied. Therefore, the axioms as discussed above and *maqasid al-Shari’ah*, serve as higher-order generalisations from which specific statements of lower order generality are deduced about the moral imperatives which motives individuals to work for social good in an IME as represented by figure 5.2. In the following section list, knowledge, work and social welfare security are proposed as development goals which not only fulfil the requirement of the axioms of IME in general but also *maqasid al-Shari’ah* in specific as illustrated in figure 5.2. However, many more goals can be formulated. The aim of this section is to show how different *maqasid al-Shari’ah* and axioms can be used to formulate different types of development goals in Islam to fulfil the need of the time. These goals aim to achieve not only worldly development objectives but also help individuals to attain *falab* in *akbarah*. In chapter 8, these development goals of Islam are further integrated with otherworldly development concept of Islam to present a comprehensive development model.

5.5.1.2 Knowledge, Work and Social Welfare System

A person, who acquires education and knowledge whether generally or at the more advanced levels of specialisation, is likely to stand in a better position to enter the workforce to earn *halal rizq* or lawful earning and contribute effectively to the welfare capabilities of the society and the state. A welfare security system is naturally enriched by the financial resources of individuals to earn enough not only to fulfil their own needs but also pay taxes and contribute to welfare of community such as through paying *zakah* and voluntary contribution. The goals of development with respect to knowledge, work (*amal*) and social security system are not only important for the development of society in the worldly sense but also help in attaining the *falab* in the hereafter.

The stance of Islam to seek knowledge is dominated by the principle of *tawhid*, which is considered as a core of Islamic epistemology (for example, Qur’an, 96:1-5) (Kamali, 2010), according to which, Allah is the source and fountain of all human being’s knowledge. Therefore, knowledge holds both worldly and spiritual dimension in Islam and becomes a mean to salvation

of the soul and attainment of success or happiness in this world and the hereafter while restriction on the acquisition of knowledge and education or stopping one to achieve this happiness in this world and consequently in hereafter, therefore consider *ẓulm* or oppression.

The role of education and knowledge is also evident from the fact that whenever Qur'an refers to darkness and light (*al-ẓulumat wa'-al-nur*), they signify ignorance and knowledge respectively (Kamali, 2010). According to Kamali (2010), knowledge in Qur'an is viewed as a mean to reaching faith (*iman, din*) and a light in the quest for spiritual uplift and a mean of attaining spiritual purity, *taqwa* and intellect to distinguish true and false in matters of belief and right and wrong in matters of practical conducts (see: Qur'an, 62: 2; and 35: 28). The important and relevance of knowledge is also apparent from the hadith stating that "Pursuit of 'ilm is an obligation of every Muslim" (Sunan Ibn Maja).

According to Al Ghazali, (2005) the attainment of essential education in Islam is not limited to religious education, an important objective of *Shari'ah*, but must include other branches of knowledge such as industry and sciences. This is due to the fact that this world is a preliminary to the next and the way we manage our worldly *life* and its affairs is instrumental to failure and success in the hereafter. Hence, good management of religion cannot be achieved without parallel progress in worldly matters. However, there is a need to develop an Islamic approach to understanding recent history and developments in Western physical and social science since western education in general is Eurocentric, secular, avoid moral issues central to Islam and denies the idea that Allah is an active agent in human history (Zaman, 2006). Such views are also supported by Ibn Khaldun (1969), according to whom the objectives of education is, first and foremost, the knowledge of Allah and how to worship and obey Him and the second is to attain a degree of *intellectual* acumen and awareness through knowledge of different disciplines that enables man to manage his *religion* and world affairs with *dignity* and ultimately to be a useful agent in the attainment of *wealth* and advancement of civilization.

The knowledge of nature, concerned of science, is the same as the knowledge of Allah, a quest of religion, since laws of nature represent Allah's ways with nature. Therefore acquiring of knowledge both world and otherworldly is a mean to achieve felicity both in this world and the hereafter.

In Islam, it is an obligation, whether personal or collective, to acquire and disseminate knowledge, science and education. However, the failure either at individual or the state level to provide the basic knowledge of Islam and science is not only against the basic rights of individuals in the

society but also the fulfilment of *maqasid* of *Shari'ah*. Since the attainment of knowledge and education is not only important for social and economic development but is also the path toward *falab* in *akhirah*. Therefore, depriving humans from this basic right is injustice and against the freedom of individuals in the society. The duty is on both individuals and the state to take all the necessary steps towards the fulfilment of this basic right of education both religious and scientific to help individuals to become productive parts of IME.

The important objective of development policy in Islamic sphere requires the expansion and Islamisation of education and acquisition of knowledge to promote universal Islamic values and new structure of relationships in society based on co-operation, co-sharing, and co-participation with an aim to develop a deep sense of commitment, responsibility, trust and accountability to Allah (El-Ghazali, 1994). Such goals will also help to attain human potentialities, filled with necessary qualitative and quantitative attributes which are fundamental in the mobilization of nation's human resources and their roles in the development process (Ghazali, 1990: 63).

Furthermore, human role as vicegerent includes serving humanity and applying the principle of justice for all. In Islam, establishment and access to justice for all in a society is crucial for peace and social harmony and consider fundamental objective of *Shari'ah* and an axiom in IME with respect to all matters from personal relations to the matters of governance. Social justice and access to justice are essentials instruments in fighting poverty and inequality in society however, ignorance and illiteracy would prevent the performance of justice as it is taught in Qur'an and tradition of Prophet Muhammad (PBUH). Therefore, wisdom and knowledge are paramount for the achievement of justice and social harmony in Islam (Abu-Arquq, 2009).

As discussed, education and seeking knowledge is the basic right and *fard* for all Muslim without any gender discrimination as it is highly important for achieving social and economic development for the wellbeing of the community and for ensuring social harmony, freedom and human rights, and consequently *falab* in *akhirah*. The approach toward human development in Islam is holistic where education and knowledge occupy central role (Abu-Arquq, 2009). The fundamental principles of IME such as *tawhid*, *kehalifah*, *'adl*, *tazkiyah*, *fard*, and *maqasid al-Shari'ah* can only be rationalised as well actualised in a society to achieve the development envisaged by Islam through promoting the role of both Islamic and scientific education and seeking of knowledge.

Second important area of development that fulfil both the *maqasid al-Shari'ah* and the philosophical foundation of IME, that is also important for the overall development of society, is

‘work’ or ‘*amal*’, which according to Kamali (2010) is defined as physical or mental efforts by a human being that is made for generating economic gain or for enhancing and developing an existing value. Work is an important part of a person’s *dignity* in terms of participating at the society, which manifests his or her *self-worth* and contribution to the betterment of society. In Islam, earning *halal rizq* or lawful earning through work is a personal duty of every able-bodied Muslim just as it is the collective obligation of the community to build the earth and develop its resources for the benefit of humanity to fulfil their role as vicegerent of Allah in this earth.

Human beings, according to the teaching of Islam, is granted with *reason* and *intellect* through which they can acquire the knowledge necessary for the utilization of natural resources by engaging in Islamically acceptable economic activities, while *maqasid al-Shari’ah* as moral filters ensure allocation and distribution of resources in a brotherly and justly manner as all resources on the earth are perceived as *amanah* from Allah.

Being a vicegerent of Allah on earth, Islam attaches importance to an individual’s freedom or *ikhtiyar* in pursuing his/her chosen line of economic activity to earn *halal* earnings to protect his/her posterity (*nasl*) and also contribute to the society through paying *zakah* and other charities. In addition, Islam is also strongly against social stratification, where a number of opportunities are not open to the large strata of the population. This results in inequalities of income and wealth in society. Ahmad (1991), also supporting Sayyid Qutb’s (1999) position, argues, that the goal of Islamic economic policy should be to provide equal opportunities to all to work and earn *halal* livelihood for themselves and entire family, which will also signifies the status of *kehalifah* and the *dignity* attached to it as need fulfilment must be through the individual’s own effort. Hence, the material and spiritual goal of Islamic development process, Ahmad (1991) states, cannot be fully achieved until all Muslims, both men or women, with equal access to opportunities, put forth their best in keeping with the optimum potential of their Allah given talents. Contrary to the above position, Naqvi (2003), proposes that the aim of Islamic growth oriented policy should be to achieve *the equality of the economic conditions* of the people with respect to their current and expected holdings of income and wealth rather *the equality of opportunity* to acquire income and wealth. The reason for rejecting the later is that “equality of opportunity means an equal chance to leave the less fortunate behind in the personal quest for influence and position” (Rawls, 1999a: 91).

In Islam, the principle of equality is derived from an unequivocal emphasis on the equality of human beings before Allah and with respect to each other, regardless of affluence, rank and social status. However, individuals in society differ in professional knowledge and skills as well as

in the work efforts. Therefore, individuals are entitled to an appropriate reward for their work and act of investments in the form of wages and profits. The Islamic concept of equity in the distribution of income and wealth does not require equal rewards for everyone irrespective of their contribution to the society. Nevertheless, there should be an active income policy directed toward raising the income level of the lowest income group, reducing the inequality in the society and leading to a greater diffusion of wealth and power in society in general (Ahmad, 1979), also evident in Qur'an(16:71; 70:24-25). This can be achieved through adaptation of an islamically oriented growth strategy integrated with socially agreed moral filter mechanism articulated through *maqasid al-Shari'ah* and fundamental axioms of IME. Such scenario, in Rawlsian general principles of justice term, provides equal starting point in life for all, where, the equality of opportunity and equality condition principles also coincide.

The significance of word 'work' or '*amal*' in Islam is evident from its used in conjunction with *aqidah* and *iman*, in the Qur'an, *Sunnah* and *fiqh* literature (Kamali, 2010). The Qur'an and *Sunnah* often highlight the spiritual dimension of '*amal* (work), whereas juristic literature on the subject sees '*amal* as an economic proposition in the first place. According to Kamali (2010), the juxtaposition of '*aqidah* and '*amal* in the Qur'an often communicates the message that the one generally complements the other.

The fact that Islam encourages productive work is also evident from abrogation of obligatory late night prayers to enable the believers to pursue their economic goals with full strength (Qur'an, 73:20) and also Allah has made the day light convenient for the people to go after their work to earn a living (Qur'an, 78:11). Allah has also condemned laziness and called upon people to take full advantage of time by investing it in righteous work (Qur'an, 103:1-3).

Furthermore, Qur'an not only permits business, but has given details instruction on the approved and disapproved varied of business practices. There are more than 370 places in the Qur'an in reference to business and commerce. Such instructions are important for individuals in Islamic society to earn *halal rizq* or lawful earning for themselves and their family and contribute to the community.

Human beings are urged in Qur'an to work hard in order to build this world and to harness its resources in the best possible manner (Qur'an, 11:61), and hence earn *falah* in the hereafter. In addition, people should not only be observant of their religious duties but should also be engaged in productive work as evident from the reference to work in conjunction with the Friday congregational prayer:

And when the prayer is finished, you may disperse in the land, seek the bounty of Allah and celebrate the praises of Allah that you may prosper (Qur'an, 20:10).

Thus, the occurrence of work along worship in Qur'an clearly indicates the value of work in Islam.

In Islam, it is the individual rights to enter the work force and choose the work they wish to do according to their capabilities and talent. Islam encourages all capable persons to apply themselves and work not just for their self-improvement and make a worthy contribution to the community but also to gain the pleasure of Allah to achieve *falab* in hereafter.

The third goal with respect to overall development in society articulated by *maqasid al-Shari'ah* and fundamental axioms of IME is 'social or welfare security system'. Islamic law has devised a social security system to operate in four areas, beginning with family, community at large, followed by cooperation among smaller groups and association and lastly supported through the legal payments of alms and voluntary charities (Kamali, 2010). While *al-Adl*, an important axiom of IME, insists on a just balance between the consumption, production and distribution relations in the economy, *al-Ihsan* requires that the economic policies in a society have a distinct bias in favour of the poor. According to Naqvi (1994), these requirements in operational terms should translate into a wide-ranging social security system to protect and operate in the above four mentioned areas.

In Qur'an the *dignity* of human as a natural right in addition to the spiritual dimensions of *dignity* also implies the individual's right to an honourable life. Human beings, as vicegerent on earth, are endowed with natural environment to nurture their needs. However, individuals need to make the effort to turn that potential into reality. It is the responsibility of all individuals and community to engage in productive activities through cooperation and utilise the resources of the earth for welfare purpose (Qur'an, 7:10).

In Qur'an, believers are related to one another in a bond of brotherhood (Qur'an, 49:10). However, it is not possible to live in a peace with one another in an atmosphere of brotherhood in the face of crushing poverty on one hand and abundant wealth on the other. Brotherhood demands that the needy are entitled to welfare assistance through equitable distribution of wealth in society. Therefore, Allah in Qur'an has imposed the *zakah* on affluent members of the community for the purpose to meet the basic needs of poor. The importance of *zakah* is also signified from the fact that it is referred along prayers in Qur'an (9:11; 31:3) and it is, like the prayers, a pillar of Islamic faith. Thus paying of *zakah* manifests one's sincerity in *faith*. Poverty

and deprivation are evils that destroy not only the material assets of men but also their moral integrity and faith as evident from the hadith that ‘O Allah! I seek refuge to Thee from disbelief and poverty (Bukhari, 678, 701). In such context, therefore it is immoral and unjust to deny support to those who may have become victim to harsh conditions, especially when they have shown to be hard-working and those who have contributed to public wealth when they had the ability to do so (Kamali, 2010).

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In Islam, welfare security system seeks to guarantee social and economic justice for its citizens to fulfil essential needs as food, clothing, shelter, health and education. In fact, fulfilling the needs of needy is a collective obligation because *protection of life* is one of the cardinal objectives of *Shari’ah*. *Religion*, another objective of *Shari’ah*, can only be preserved through acquiring knowledge, an important element of Islamic development to actualise *falab* in hereafter, and through performance of obligatory duties. Yet both of which presumes physical fitness, survival and basic needs such as minimum clothing, food and housing (Kamali, 2010; Siddiqi, 1996).

An effective welfare security system in Islam is based on the principles of brotherhood and social justice, where wealthy members of society scarify part of their wealth for the benefit of the Muslim society through paying *zakah* and other voluntary charities, in order to earn *falab* in hereafter. However, it should be recognized that many of Islamic levies in a modern Muslim society do not yield sufficient revenue to meet the need of poor and enough to eliminate poverty in the society or even reduce it much. It is the responsibility of Islamic states to impose other taxes in addition to *kharaj*, *jizyah*, *zakah* in particular to meet the recognized needs of a Muslim society (Naqvi, 2003). Islam has adopted the welfare state mechanism; however, Islamic approach is different. The Islamic state with respect to development the community through sharing must do a number of things that a welfare state does. However, the society and family in Islamic paradigm toward development must share the burden substantially. This approach makes it more possible to meet the needs of society without putting too much burden on the state through imposing more taxes on the citizen of the state (For detail critique, see. Chapra, 2000). Thus the development areas identified above, though in terms of outcomes are similarly to the

welfare state; however the approach to such outcomes is different in Islamic development model as discussed in chapter 8.

The above three areas of development, articulated through philosophical foundation of IME, not only contribute to the objective of *Shari'ah* by creating an ideal society, where believer and non-believer can live together in prosperity and complete harmony but also contribute effectively to the development process by fulfilling *haququllah* and *haququl-ibad* proposed in chapter 8.

5.5.3. Islamic Economic Development Process

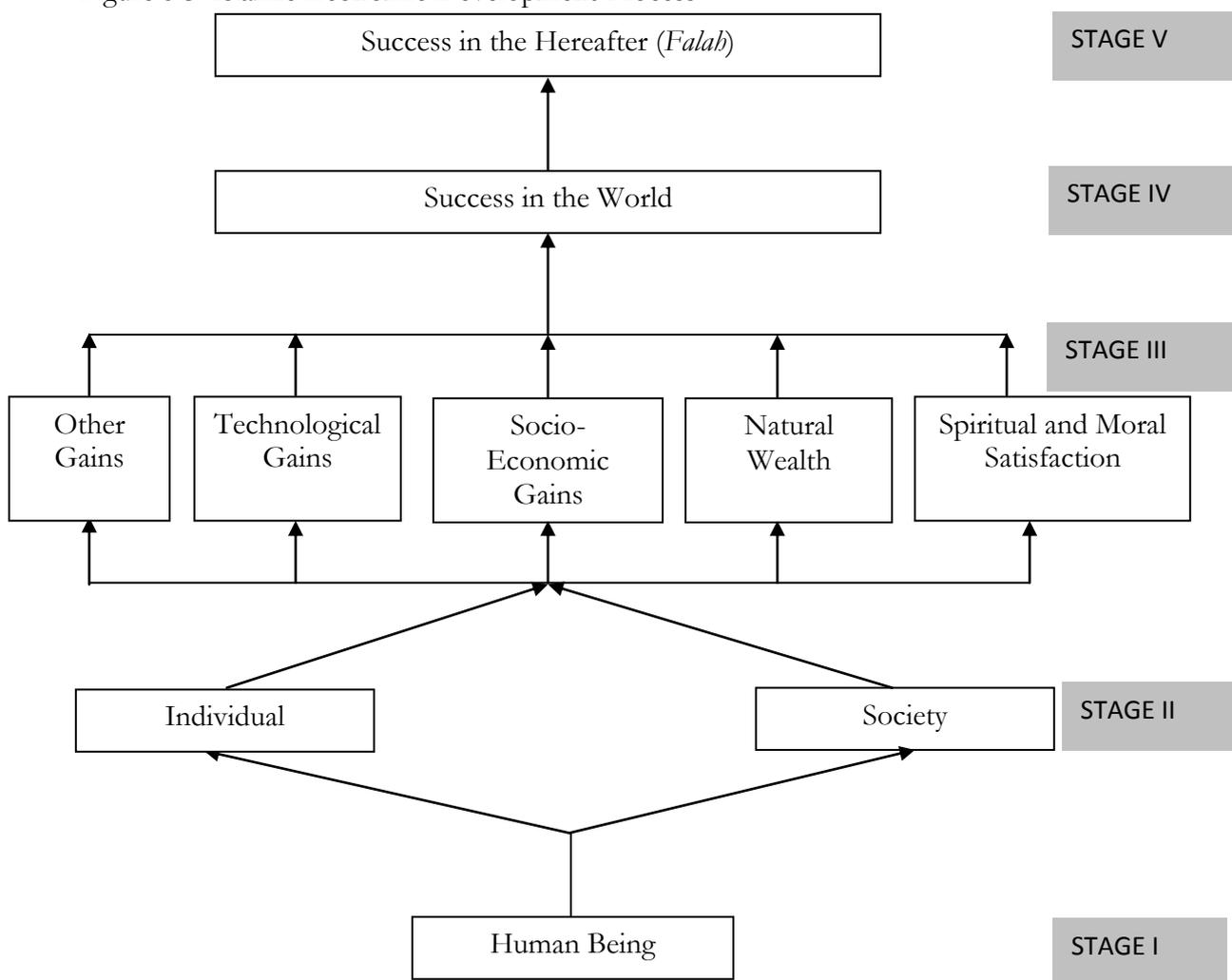
Since Islam aims to produce an outcome which is socially, ethically, morally and spiritually optimal, it requires individuals to internalise the teaching of Islam but also create a society based on socioeconomic and socio-political justice, which allow others to live in peace and harmony with each other. Due to having such essential frameworks, development process in Islam is comprehensive in nature, which views the existence of interdependency between material world and the spiritual world. Hence, in such context, there is no dichotomy between efforts made for worldly development and preparation for life in the *akhirah* in Islam as long as that success (in the world) had been achieved within the guidance of Allah. In other words, mundane and profane dichotomy is not an essential issue in Islamic teaching.

The basic element of Islamic development process, as *tawhid* requires that every person as vicegerent of Allah in this world, by virtue of being endowed with the freewill, rationality and moral consciousness, to submit and obey Allah. Thus, *tawhid* expect all individuals to conduct their actions and tasks in this world in a way to maximize their return in the hereafter. Therefore, in such context, development process in Islam can be fully understood and appreciated through a process of education both on the qualitative and quantitative aspects, which forms the basic tool in transforming man into one desired as an agent of development, represented by Stage I in Islamic development process in figure 5.3. Since development process in Islam is comprehensive in nature, therefore, education needs to be total and comprehensive in nature, it aims to build human personality, further integrated and supplemented with scientific and technological knowledge and training and prepare individuals for both their qualitative and quantitative pursuits of development, representing stage II and III in the figure 5.3.

The development process in Islam discards any apprehension over the spiritual, moral and ethical issues of development, since such issues are fundamental to the development process. In contrasts, such an apprehension is usually held by the secular based development process, who

upholds that non material has nothing to do with the material in development. The process of development including qualitative and quantitative in Islamic view must be endogenous, growing from within individual and manifesting into his/her environment and society, which implies that a society that does not develop its own foundation cannot make effective progress in its development. In such society, development must not be hindered or barred by any unjustified human prejudices such as race, colour, creed, language and religious belief. Only such development process will be able to achieve stage IV as show in figure 5.3 and become successful in this world. Consequently, development in this world will lead people to achieve *falab* in *akhirah* represented by Stage V in figure 5.3.

Figure 5.3: Islamic Economic Development Process



STAGE I: Qualitative Preparation

STAGE II: Manifestations of Qualitative Attributes into Daily Life

STAGE III: Quantitative and Qualitative Gains

STAGE IV: Utilization of the Fruits of Development for Further Development

STAGE V: Success in the World as a Determining Factor for Success in the Hereafter

Source: Ghazali, 1990: 25

In sum, in the development process, hence, the objective function is defined as *'falah'* for individual and also for the society. This is realised through worldly and spiritual gains as identified in Stage III in figure 5.3; as spiritual attainment requires also some physical gain, as in the case of 'Maslow's hierarchy' of needs. The Islamic development process, hence, does not deny the importance of material development but requires optimality between material and spiritual development. The result of this optimality is the conduct of justice; justice towards oneself and towards the others in the society, as the expectations according to *fitrah* and hence *rububiyah* is also fulfilled. By reaching such a level individual is expected to be successful in this world (stage IV) as shown in figure 5.3; and due to being successful within such a qualification implies that individual, hence, society as a result, fulfils the success in the *akbarah* (stage V), which is conditioned to the success in this world as illustrated in figure 5.3.

In concluding, Ibn Khaldun's (15th century) framework provides a summary of the interdisciplinary dynamic model for Islamic socio-economic system of development process (Chapra, 2000: 147-48):

- 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-mizān*) by which God will evaluate mankind; and
- The sovereign is charged with the responsibility of actualising justice

Thus, achieving *falah* through beneficence as identified by Islamic economic development is defined 'justice' in itself, as mentioned above implying that justice is fully integrated in Islamic economic development process.

5.6 CONCLUSION

IME with deep rooted understanding of Islamic culture and identities has the potential to trigger the economic growth other systems failed to produce in the Muslim world, as Asutay (2007b) identifies, it fulfils the prerequisites of a system understanding by having distinct framework paradigm based on a unique value system, and philosophical foundations with properly developed operational mechanism based on distinct and comprehensive methodology provides functional institutions, thus represents an alternative system. Hence Asutay (2007b) states, IME "with the conceptualisation of *homo-Islamicus* proposed a normative world, which states 'what

people should strive towards, as opposed to how people are likely to behave (the ‘ought’ as opposed to the ‘is’)”.

Furthermore, development in Islam through its goals, offer a thorough micro-based system, which not only help Muslim to be successful in this world but also help to achieve *salah* in *akbarah*. The concept of development, articulated above to fulfil the *maqasid al-Shari’ah* and promote the axioms of IME in society, can be adapted to different time and space to formulate different goals of development with the aim to promote the wellbeing of human beings both in this world and in the hereafter.

Developing countries in general and Muslim *ummah* in particular are suffering from economic problems such as unemployment, inflation, unequal distribution of wealth, poverty, balance of payments difficulties, overburden with debt and international exploitation, thus presenting serious challenges to IME to offer plausible solution to these problems. If IME offers solution to these problems then it will be only accepted by the world as alternative system. According to Khan (1989) it is not the method of inquiry that is important rather it is the contribution that IME makes toward economic progress and prosperity. However, IME aims at both, as it develops a discourse and also aims to make a contribution to the individual lives. Therefore, IBF emerged in 1970s, as functional and operational institutions of IME, is expected to not only provide economic growth but also promote justice and equity in the society as promised by the IME. In the chapter 7, this role of Islamic banking and finance is evaluated to identify its contribution to social justice and economic development. However, before evaluating the social and economic development performance of IBF, it is important to explore the concept of justice and distribution in Islam, which is the core of Islamic development and constitutes the fundamental construct of development model proposed in this study.

Chapter 6

JUSTICE AND DEVELOPMENT WITHIN ISLAMIC PARADIGM

6.1 INTRODUCTION

The birth of Islamic economics as a social science can be dated to the mid-twentieth century (Kuran, 1995), namely the post-colonial period, which marked the search for identity. The founding fathers of Islamic economics agree that the purpose of the IME is to promote justice and equity in the society to promote human and spiritual development (Chapra, 1993; Maudoodi, 1988). They view that applications of Islamic law and guiding principle in economic sphere will result in advances in the development of human, as opposed to the material well-being oriented neo-classical economics.

The efforts to restructure the entire economy according to Islamic criteria in Muslim world is limited to publications, educational programs in the mass media and the incorporation of Islamic economics into school curricula. However, there is one domain, IBF industry, where the influence of IME has been expected to be observed widely. Unfortunately, as it will be discussed in details in next chapter, IBF has not yet realised the purpose of Islamic economic system or IME suggested by the pioneers (Kuran, 1995). The problem however, is not the juristic validity of what the Islamic financial institutions can do or are doing (Hasan, 2005) rather its mere focus on financialisation of the economy by focusing on material side of development, which is labelled as 'social failure'. The entire efforts in IBF are given to the removal of *riba* and conducting the entire financial activities according to the guidelines of *fiqh*, which is mainly designed to find out whether or not a certain act is permissible or prohibited with no consideration for normative consequences of these working mechanisms. This has resulted in a divergence between IME and IBF. Consequently, IBF industry has been developing by finding a substitute financial framework in neo-classical economics paradigm rather being a part of the IME, thus has failed to promote a distinctly Islamic ethos (Asutay, 2007b; Tripp, 2006).

Islamic Political Economy or IME deals with the interactive relationships between polity (*shūrā*), the economy and the rest of the stakeholders including institutions and ecological environment with the objective of developing human comprehension, social receptivity, and institutionalization of the *Shari'ah* in the conduct of life including economy and finance spheres (Choudhury, 1996). IME, unlike Marxian political economy which only aims at the study of the

growth and decay of production, represents the laws of motion of social development consistent with the value system enshrined in its ontological and epistemological sources, the Qur'an and *Sunnah*, thus is more comprehensive and humanistic (Ghosh, 1995). As an integrated paradigm, according to Ghosh (1995), IME visualises that factors of production may not receive their rewards on the basis of marginal productivities. Hence, distribution is to be made according to need based unlike free market capital system which depends rather too much on ability or marginal productivity. IME, hence, goes beyond the narrow boundaries of 'economics' as constructed by neo-classical economy by directly engaging with the philosophical or normative assumptions, institutional and resources in an integrated manner. Thus, it represents a system rather than being a sub-system (Asutay, 2007b).

This chapter attempts to explore the concept of justice in Qur'an and *Sunnah*, which is the core element of Islamic development process, as evidenced also by Ibn Khaldun's statement that "Development cannot be attained except through justice (*al-adl*). Justice is the criterion (*al-mizan*) by which Allah will evaluate mankind"(Chapra, 2008a: 4-5). The concept of justice in Islam is analysed in this chapter through its ontological and epistemological sources, Qur'an and *Sunnah*, which is integrated into a conceptual model of Islamic development process in a chapter 8.

This chapter, hence, should be considered as a foundational chapter; establishing the rationale for expecting a social outcome from IBF, as identified by IME in chapter 5. It complements the earlier chapter on justice through conventional sources, and hence provides the framework for developing a new model of development process in Islam beyond the static models mentioned in the literature.

6.2 ONTOLOGICAL AND EPISTEMOLOGICAL SOURCES OF JUSTICE IN ISLAM

Justice is a relative term, varies considerably from land to land, defined and determined by society in accordance with the public order of that society. However, no matter how scales of justice are defined from one society to another, they all have certain elements in common beyond perceptions, which may for simplicity divide into two major categories (Hanif, 1999: 1).

First category is found in societies, which assume that individuals are solely responsible for their deeds and basically capable of determining their individual and collective interests and can hence individually or collectively establish public order under a certain scale(s) of justice. This kind of justice evolves from interaction between expectations and existing conditions may be called positive justice. Since such scale(s) of justice is the product of social interaction in the society,

with no doubts imperfect and men always endeavour to refine and improve by a continuing process of social change. The 'ideal' justice is a quest since the beginning while the 'real justice' evolves in different shapes from generation to generation.

In societies, where man is essentially considered weak and incapable to rise above personal failings, the idea that human beings can be the master of their own fate and can individually or collectively determine their interest and can lay down an impartial standard of justice to establish public order in the society is hardly acceptable. In such societies, it is perceived that there is a 'superhuman' or 'Divine Authority' which provides either the source or the basic principles of the public order under which certain standard of justice is established and maintained. This kind of justice that flows from the Divine Authority revealed either through by a sage or an inspired prophet commands respect and can have a lasting impact on the implementation and administration of justice. Societies, the Hebrew, the Christian and the Islamic to name few were committed to such view. God or Divine Authority, according to such societies, disclosed Himself through revelation, communicated through chosen people or prophets to men, in which His justice is embodied. The justice that flows from such a high divine source is applicable to all men and time and contrary to positive justice is considered Divine or Revelation Justice (Hanif, 1999).

In Islamic ontology, justice is the ultimate objective of the revelation; exist in its early form in the acts and behaviours of the Prophet Muhammad (PBUH) with the objective of imparting justice in individuals and society through examples. This later is enshrined in the sacred laws, *Shari'ah*. The concept of justice embodied in the religion and law of Islam, evoked an endless debate among scholars concerning both its scope and character and how these standards are to be realized on Earth (Khadduri, 1984), which remains a debated matter through its various articulations related to everyday life beyond the philosophical debate.

In Islam, as stated before, 'Divine justice' is enshrined in the revelation and Divine Wisdom, transmitted in Allah's word, revealed to Prophet Muhammad (PBUH), is to be found in the Qur'an. Divine Wisdom in Qur'an entrusted to the Prophet Muhammad (PBUH) was articulated in the prophet's own words and promulgated through his actions as the *Sunnah*, which subsequently came to be known as the Hadith or the Prophet Muhammad's(PBUH) traditions (for details, see Khadduri, 1961: 75). These two authoritative sources in Islam, the embodiment of Allah's will and justice, are laid down in the Law and Creed, *Shari'ah*, by scholars through the use of a third 'derivative source' of human reasoning called *ijtihad*, which formed the Islamic public order.

Since the Divine Legislator did not rule directly over the believers on the earth, Allah's authority was delegated to rulers. They implemented the Divine Justice according to their understanding and existing public orders. In principle, the Law laid down by the Divine Legislator, considered 'infallible and inviolable', is an ideal and perfect system for any public order and for all time and space. But the public order, composed of the Law, state acts and the rulings and opinions of the scholars on all matter arrived at through *ijtihad* are by necessity subject to adaptation and modification to meet changing conditions and growing needs of the community. In other words, believers agreed upon the Divine nature of justice, however, they disagree on how it should be articulated and actualised on earth and formulated various doctrines of justice reflecting the conflicting interests, local traditions and aspirations of rival leaders and groups in their struggle for power. This is very much related to hermeneutics of the Divine Wisdom, as it only provides the principles and not the actualisation in everyday life, which is left to human 'aql or rational (Qur'an, 29:35).

In this section, for understanding the standard of justice from Islamic viewpoint, a clarification of the literary meaning of justice in Arabic and the nature of justice in the Qur'an and *Sunnah* would be in order to trace the ontological and epistemological sources of justice in Islam followed by comparing the concept of justice in Islam with western notion of justice.

6.2.1 The Literacy Meaning of Justice in Arabic

Classical Arabic formed in its purest form in the Qur'an is renowned for its richness in lexicon and literary expression. For instance, for the name of Allah, there are ninety nine words, *asma al husna*, each denoting or expressing the meaning of one of His many attributes. There are several words for every aspect of justice; however the most common in usage is the word, "*adl*". Furthermore, there are different synonyms in Arabic language used for justice. *Sidq* or *haq* is used to define justice as correct or truthful action, *mizān* is used as a metaphor for the balance as a justice, *nisab* as a justice is used for inheritance share, other words for justice in classical Arabic which are the most important are, *qist*, *qasd*, *istiqama*, *wasat*, *hissa* (McAuliffe, 2004, Vol 4).

In a literal sense, '*adl*' is an abstract noun, derived from the verb '*adala*', which give several meanings. First, to deviate from, depart, from, turn aside or away (from wrong path to right one), digress from, to refrain from, abstain from, give up, waive to change one's mind, second; to as just, regulate, settle, straighten(out), fix, put in order, right, rectify, set right, to revive, third; to be equal or equivalent, to be equal or match or to equalize, fourth to balance or counter-balance, to weigh or to be in a state of equilibrium (al-Firuzabadi, 1872: 431, Vol 1; 415-16, Vol 2; 6, Vol 4;

Ba`labakki, 2009: 753-54, Vol 6; Fayyumi, 1912: 541-42; 689-90; Ibn Manzur, 1985: 9-10, Vol 8; Lane *et al.*, 1968: 484, Vol 2; Murtad  Al-Zabidi, 1966: 9-10). In other Qur’anic terms, a metaphor of symmetry and balance is used to denote justice such as *miz an*, the ‘scales of justice’ in which good deeds are weighed on the last day (Qur’an, 7:8-9; 23:102-3; 101:6-7). In Qur’an, ‘*adl*’ is used fourteen times in the sense of justice or equity, but is more commonly to mean equal treatment (McAuliffe, 2004).

In the linguistic theory, a concept may be defined by clarifying its opposite. In Qur’an, contrary to English language where ‘injustice’ is used as antonym for justice, the antonym of ‘*adl*’ is not a modified spelling of the word ‘*adl*’ but an entire different word called ‘*jawr*’, which is the technical word for injustice, literally means ‘decline or deviate from the right course, pursue a wrong course, act wrongfully or unjustly’ (Lane & Lane-Poole, 1968). There is no reference of *jawr* in Qur’an rather several other words are used to convey the sense of injustice. There are different synonyms for ‘*jawr*’, expressing a slightly different shade of meaning used in Qur’an, for example, *z lm* (wrong doing), *tughyan* (tyranny), *mayl* (inclination) *inbiraq* (deviation). *Z lm* is usually the most general word for sin or transgression, while in classical Arabic has the sense of one stepping beyond the boundaries of right action; specifically *z lim* (transgressor, pl. *z limun*) is the one who does wrong to others or even to himself. For example, in Qur’an Adam and Eve are warned that they will be among the *z limun* if they transgress Allah’s command, therefore, theft and lying also make one a *z lim*. However, human injustice can also be taken in the sense of sinning, opposing Allah or ascribing partners to Allah, for which there are many terms such as *fahsh’a* and *baghy* (McAuliffe, 2004). For example, in Qur’an, believers are constantly reminded to be just in their daily life affairs in the following ways:

Allah commands justice (*‘adl*), doing good (*ihss n*), and generosity towards relatives and He forbids what is shameful (*fahsh’a*), blameworthy (*munkar*) and oppressive (*baghy*). He teaches you, so that you may take heed (Qur’an 16:90).

The Caliph ‘Abd al-Malik (d.86/705) in reply to an inquiry about the meaning of the term ‘*adl*’ by Sa’id Ibn Jubayr tried to summarize the notions of justice in an attempt to reconcile the divergent usages of ‘*adl*’ in Qur’an:

‘*Adl*’ (justice) may take four forms: [first], justice in making decisions in accordance with Allah’s saying: “when you judge among men you should judge with justice”(Qur’an, 4:58); [secondly], justice in speech accordance with His saying: “when you speak, you should be equitable”(Qur’an, 6:152); [thirdly], justice in [the pursuit of] salvation in accordance with His saying: “protect yourselves against a day on which no person will give any satisfaction instead of another, nor will an equivalent be accepted from him, nor will intercession avail him” (Qur’an, 2:117); [fourthly], justice in the sense of attributing an equal to Allah in

accordance with His saying: “yet the unbelievers attribute an equal to Him (Qur’an, 6:1) (Ibn Manzur, 1985; Partial trans. in Khadduri, 1984).

To conclude, the literal meaning of ‘*adl*’ in classical Arabic is the synthesis of moral and social values, which refers to ‘donating, fairness, equality, balance, temperance, straightforwardness, and righteousness’, while any act against or opposite to ‘*adl*’ is considered injustice. Hence logically, Divine justice is the combination of all moral, social values and virtues which represent ‘*adl*’ and is the theme of our inquiry in the pages to follow to understand the conceptual meaning in proposing a model of development in chapter 8.

6.2.2 Justice in the Qur’an and Traditions

Justice is a central theme and regarded supreme virtue in the Qur’an and Prophetic Tradition. It is both explicitly and implicitly mentioned in many verses in Qur’an. Justice is also evident in the life of Prophet Muhammad (PBUH). Furthermore, from the administration of the state down to the market regulation through *hisbab*, justice has always been the desired objective of Muslim societies throughout the time. The supremacy of justice as the highest virtue is also reflected in the writings of great Muslim philosophers. According to Imam Abu Hāmid Al-Ghazālī in his *Al-Ihyā Ulūm-ud-Dīn* (2005), justice (‘*adl*’) is defined as “putting of all things in their rightful place” while in contrast “injustice or *ẓulm* represents a displacement or disarray of things, the violation of an order determined not by reason, but by divine command (Ormsby, 1984: 228-9). Furthermore, Imam Ahmad ibn Muhammad Ibn Miskawayh, in his book *The refinement of character (Tabdhīb Al-Akblāq)* (1968), listed justice along “wisdom” (*bikmah*), “courage” (*shujā’ah*), and temperance (*iffā*) as the four cardinal virtues in Islam from which all other virtues emanate.

6.2.2.1 Dimension of justice in Qur’an

One of the key dichotomies in the Qur’an is the separation of moral from immoral behaviour. In Qur’an, Allah has used several different words and metaphors to convey this moral balance. In the broader teaching of Qur’an, moral actions in terms of justice and injustice can be isolated in three interconnected dimensions or principles: human-human relations (*mu’amalāt* or ethical); human-Divine relations (*usual-al-Dīn* or Jurisprudential); and Allah’s own activity (‘*aqida*’ or theological).

6.2.2.1.1 The first dimension – Allah’s own activity (‘*aqida*’ or theological)

The first principle or dimension is related to the nature of Divine action (‘*af’āl*’) primarily in terms of Allah right to judge humankind. The defence of this right is expressed in an account of history

repeated throughout the Qur'an. Qur'an reveals that not only did Allah create the heavens and the earth, in just manner but He assembled the souls of His all creation and asked to testify that:

Am I not your Lord (who cherishes and sustains you)?"— They said: "Yea! we do testify!" (This), lest ye should say on the Day of Judgment: "of this we were never mindful (Qur'an, 7:172)

According to Taqi Usmani (1996), in the above verse, Allah established His right to judge human beings, should they begin worshipping idols. In Qur'an, Allah says that human beings forgot that covenant and went astray despite that many prophets and warnings sent to remind them. In going astray, human beings wronged themselves (*zalam u anfusabum*) and as for the many people whom Allah destroyed for their wickedness, He would never have done unjustly as mentioned in Qur'an at many places in the following way:

"The messengers were sent) thus, for thy Lord would not destroy, for their wrong-doing men's habitations whilst their occupants were unwarned" (Qur'an, 6:131)

"Nor would thy Lord be the One to destroy communities for a single wrongdoing if its members were likely to mend" (Qur'an, 11:117)

In addition, the Qur'an reveals at many places that Allah's scales are just and He will not deny anyone their rightful due even if it is equal to the weight of an ant (Qur'an, 4:40). At another place, Allah reveals that the weighing on that day is just (*al-haqq*) (Qur'an, 7:8). According to various *tafsir*, the word *haqq* is interpreted as a metaphor for 'adl. In the *tafsir al-Jalalayn* (2007: 158), the weighing (*al-waznu*) describes the weighing of our deeds in the scales. Therefore, in such context, on the day of the judgement as the verse affirms that the weighing will be *al-haqq*, i.e. just, fair, honest and equitable.

The truth is that Allah is 'the Just' and all His actions are just. Therefore Allah warns human beings to act with just when dealing with each others. The fact is also elaborated in the following hadith *qudsi*,

O My servants, I have forbidden oppression (*harramtul zulma*) for Myself and have made it forbidden amongst you, so do not oppress one another (*fala tuzalimu*) (Sahih Muslim: 6246).

Furthermore, at another place, Allah states in Qur'an that His words of revelation continue his justice. Allah reveals in Qur'an:

The Word of thy Lord doth find its fulfilment in truth and in justice: none can change His Words: for He is the one who heareth and knoweth all (Qur'an, 6:115)

In the above verse, words of Allah in Qur'an have been identified perfect in truth and justice. It means all the events, conditions, promises, or warnings mentioned in Qur'an are true and correct and there is no possibility of fault or defect or error in them especially against those who have doubts regarding Qur'an. In this verse, justice means that all injunctions of Allah relating to human improvement and prosperity are based on justice and in moderation i.e., there is no injustice inflicted on anyone, nor do they have hardship and pain which are humanely unbearable.

After the death of Prophet Muhammad (PBUH), disputes among Muslim theologians arose around the issue of the unity of Allah's action that both "good and evil" are from Allah. The group that raised objection to this doctrinal formulation from theological perspective was known as the *Mu'tazilites* also known as "*ahl al-'adl wa al-tawhid*" (the partisans of justice and Oneness). The *Mu'tazilites* placed its anchor on human reason (rationality) to understand the relationship between Allah to man. If Allah is 'the Just' as the revelation has it, "Allah will not do injustice to anyone"(Qur'an, 3:108), *Mu'tazilites* argued, then it is contrary to Allah perfection to associate His name with injustice or conceive that Allah will ever do injustice (Khadduri, 1984: 45). *Mu'tazilites* argues that if Allah is the creator of human actions and still punishes them for their evil deeds which Allah has brought on them, would be injustice and contrary to Divine justice. Thereby, *Mu'tazilites* believed in human freedom and free will (*ikhtiyar*).

Contrary to *Mu'tazilites* 's belief that acts are intrinsically good and evil which can be discerned by human reason, *Ash'ari* the group that responded to *Mu'tazilites* doctrine, viewed Divine justice as a matter of faith, as the difference between good and evil can only be determined through revelation and not through reason (Mutahhari, 1985). This is further elaborated by Al-Ghazali, who argues that injustice "represents a displacement or disarray of things, the violation of an order determined not by reason (*Mu'tazilites*), but by Divine command" (Ormsby, 1984: 229). Justice, according to *Asbarities* doctrine is not some value which Allah observes and respects; rather it is He who created justice.

6.2.2.1.2 The second dimension - human-Divine relations (usul-al-Din or jurisprudential)

Allah's justice with respect to human includes, His judgement on the last days mentioned in metaphors of scales of justice, creation of heavens and the earth with justice and all human affairs not merely in terms of human justice but rather they are to occur within Allah's bound. In addition, Allah's commands and His prohibitions have been revealed and explained to *ummah* by prophets so that humankind would respect Allah's boundaries (*hududu llah*) in all their public and

private affairs. Those who transgress these boundaries are the one who have wrong themselves and will be punished unless seeks repentance from Allah and are forgiven.

Allah has revealed in many places in Qur'an with respect to His justice toward humans. For example, 'We sent Our Messengers with clear signs, the Scripture and the Balance, so that people could uphold justice (*bil-qist*)....' (Qur'an, 57:25) and in *Surah* 42 verse 15, Allah command Prophet Muhammad(PBUH) to call people to follow the straight path and avoid what they desire.

The development of *usul-al-Din* is an attempt to reproduce the principles inherent in the revelations of Allah and the *Sunnah* of Prophet Muhammad (PBUH) and to prevent humankind from falling into a state of *zulm*.

6.2.2.1.3 The third dimension - human-human relations (*mu'amalāt* or ethical)

Justice in human to human relation is based on the principle of equality (*qist*) of all in Qur'an. These principles fall under *mu'amalā*, which covers both public and private affairs, such as measurements in the market, fair testimony, just recording of debts, impartial judgements and even just treatment of co-wives and orphans. Accordingly, justice is to provide each person his due and not in harming anyone in any way both in private and public life. This includes the need to give fair weight and measure. In several places the Qur'an stresses the need to give fair weight and measure:

O my people! Give full measure and full weight in justice, and wrong not people in respect of their goods (Qur'an, 11:85)

So establish weight with justice and fall not short in the balance (Qur'an, 55:9)

Give measure and weight with (full) justice (Qur'an, 6:152)

In the above verses, Allah has clearly mentioned that it is injustice and unlawful to fall short of measure or weight. All the transaction should be based on justice and those who make weighing deficient are acting injustice or *zulm* and will be punished in hereafter. Thus, justice should be maintained in all transaction of measurement and weight. The true sense of justice and fairness, accordingly, is that every holder of a right should be given his or her due in full, including the rights of Allah and all kinds of human rights as well.

As an exemplary behaviour of the Divine Wisdom, Prophet Muhammad (PBUH) while addressing those who weigh and measure in business said: "weighing and measuring is a line of duty being unfair in which has caused many communities before you to be destroyed by Divine

punishment (so, be fully cautious in this matter)” (Ibn Kathir *et al.*, 2000). In another Hadith, the Prophet Muhammad (PBUH) said: “when people start lessening weights and measures, Allah makes them suffer from the punishment of famine and price hikes” (Usmani & Usmani, 1996: 671; Vol 4). Furthermore, Imam Malik while quoting a saying of caliph Umar has said in *Mu'atta'* (1985) that weighing and measuring less essentially means that someone does not fulfil the right of another person due on him, fully and duly as Allah in Qur'an (83:1) says “woe to those who give less”. In addition, the following verse, also known as *Ayat al-Umarā*, deals with the political and authoritative dimension of justice:

Allah commands you to return things entrusted to you to their rightful owners, and, if you judge between people, to do so with justice: Allah's instructions to you are excellent, for He hears and sees everything. You who believe, obey Allah and the Messenger, and those in authority among you. If you are in dispute over any matter, refer it to Allah and the Messenger, if you truly believe in Allah and the Last Day: that is better and fairer in the end (Qur'an, 5:58-59)

Ibn Taymiyyah, the Hanbalite theologian, citing *Ayat al-Umarā* as the basis for his *Siyasa Shar'iyya*, stated that:

In the first part of the verse the rulers are referred to, and their duty is to act justly and to enforce justice among their subjects. In the second part of the verse, the ruled (subjects) are mentioned since their duty is to obey the rulers until such time as they turn aside from the way of God; obedience is not a duty to evil rulers (Leaman, 2006: 14).

In addition to establishing justice through measurement and weight in private and public affairs, Allah requires one to be a witness for Him alone. Thus the testimony should be with justice and for Allah alone as mentioned in many places in Qur'an (for example, 65:2):

Thus when they fulfil their term appointed, either take them back on equitable terms or part with them on equitable terms; and take for witness two persons from among you, endowed with justice, and establish the evidence (as) before Allah. Such is the admonition given to him who believes in Allah and the Last Day. And for those who fear Allah, He (ever) prepares a way out.

Furthermore, in relation to bearing witness, Allah reveals:

O ye who believe! Stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor: for Allah can best protect both. Follow not the lusts (of your hearts) lest ye swerve and if ye distort (justice) or decline to do justice, verily Allah is well-acquainted with all that ye do (Qur'an, 4:135)

The following verse clearly states that being just outwardly is a reflection of one's inner state of Allah consciousness (*taqwa*):

O ye who believe! stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: that is next to Piety: and fear Allah, for Allah is well-acquainted with all that ye do (Qur'an, 5:8)

Justice in any society is not possible without credible witnesses; hence there are many guidelines for accepting witnesses and oath in *ahadith*. For example:

The witness from the following is not acceptable: A dishonest man or woman, a fornicator male or female, and a person who has animosity against the accused brother. Similarly, a witness of a dependent in favour of his provider will also be rejected ('Amr Ibn Shu'aib in Aboo Dawood)

In Islam, the importance of speaking the truth is so important that those people who give false witness are equated to those who commit a sin of *Shirk* (equating others with Allah). Prophet Muhammad (PBUH) also said:

The gravest of the grave sins are: Equating others with Allah, disobeying parents and taking a false oath. When a person takes an oath and adulterates it with as little a falsehood as the wing of a mosquito, it keeps his heart stained until the day of Judgement ('Abdullah Ibn Unais in At-Tirmidzee).

In Qur'an believers are commanded to write down the contract with '*adl*' (Qur'an: 2:282) when giving or receiving credit. Muslims are command by Allah to give full measure and full weight in justice (*bil-qist*) - Do not withhold from people things that are rightly theirs, and do not spread corruption in the land (Qur'an. 82:85).

The above verse warns believers about detaining things from people that are rightfully theirs, i.e. giving short measure is considered to be fraud in Islamic law. The Qur'an (83:1-3) reveals:

Woe unto the defrauders (*mutaffifin*) who when they measure against others, take full measure, but, when they measure or weight for others, give short measure.

The concept of justice is so important in Islam that even in their personal conduct with their co-wives behind closed doors, the Qur'an warns believers to act justly. But if you fear you cannot act equitably (*ta'dilu*) [towards multiple wives], then marry only one, or what your right hand possess (Qur'an, 4:3)

In settling disputes between two groups of people the Qur'an commands those in authority to: return things entrusted to you to their rightful owners, and when you judge between people judge between men with '*adl*' (Qur'an, 4:58) and make peace between them with '*adl*' and act equitably (*aqsitu*), verily, God loves those who act equitably (*muqsitin*) (Qur'an, 49:9). Prophet Muhammad (PBUH) in this regard said:

Those who practise justice in this world will be seated on the pulpits of pearls in the audience of Allah. This will be because they continued to be equitable throughout their life”. (Musnad Ahmad, Hadith 6485)

“Judges are of three types, one of which will enter Jannah and other two will end up in the Fire. He who grasps the truth and judges by it, will go to Jannah. The one who sees the truth but decides unjustly or the one who judges despite lack of knowledge will both end up in the Fire (Reported from ‘Abdullaah Ibn ‘Amr in Aboo Dawood and in Ibn Maajah; from Aboo Hurairah in At-Tirmidzee).

The Messenger of Allah, Prophet Muhammad (PBUH) also said:

The fair and just people who are equitable: in passing judgements, in dealing with their family members and in using the authority delegated to them, will be on the pulpits of Noor in the audience of Allah (‘Abdullah Ibn ‘Umar in Muslim).

The most dear to Allah SWT and closest to Him on the Day of Judgement will be the person in authority who was fair and equitable. The most disliked and the most severely punished will be the person in authority who was unjust (Aboo Saeed in At-Tirmidzee).

Islam is even specific when it comes to children that one must be fairness and justice, regardless of who their mother is and regardless if they are males or females. Prophet Muhammad (PBUH) said:

Treat your children equally when gifting or giving things. Were I ever to suggest giving reference to anyone, I would have suggested it to be given to the daughters (Reported from Ibn ‘Abbaas by Sa’eed Ibn Mansoor in his Sunan and by At-Tabaraani in Mu’jam Kabeer).

Nu’maan Ibn Basheer mentioned in one of his sermons that:

Once my father gave me a gift. My mother, ‘Amrah Bint Rawaahah, told him that she would not approve of this gift unless it was witnessed and approved by the Messenger of Allah. My father reported it to the Prophet and said, “I have given my son from ‘Amrah a gift which she is not approving until you become a witness to it.” The Messenger asked, “Have you given similar gifts to your other children?” When he replied in negative, the Messenger of Allah said, “Fear Allah and treat all your children with equity.” According to other reports, he also said, “Do not make me witness as I cannot be witness to injustice.” He came back and took his gift back (Reported in Bukhare and Muslim).

Even when dealing with the wealth of orphans the Qur’an admonishes believers: to steer well away from the property of orphans until they come of age; give full measure and weight, according to justice (*bil-qist*) and when you speak, be just even the matter concerns a relative; Keep any promises you make in God’s name(Qur’an, 6:152)

Qur’an has also called upon believers to write down their wills to avoid dispute and injustices pertaining to allocating one’s wealth after death.

You who believe, when death approaches any of you, let two just men from among you act as witnesses to the making of a bequest, or two men from another people if you are journeying in the land when death approaches...(Qur'an, 5:106).

Finally, in Qur'an there are general injunctions to act and speak in a just manner with each other. In Qur'an, Allah has said about this in the following way:

Allah commands justice, the doing of good, and liberty to kith and kin, and He forbids all shameful deeds, and injustice and rebellion: He instructs you, that ye may receive admonition (Qur'an, 16-90).

In the above verse, Allah bids three things, to do justice, to be good, to give relative their due and forbids three things shameful acts, evil deeds, transgression. According to Ibn al-Arabi, a *Sufi* scholar, the intrinsic meaning of 'adl is to make equal however; different congruities go to make its sense different. According to him, one sense of 'adl or justice is that one should do justice between his/her self and his/her Lord and if so, it would mean that he/she should give preference to the right of Allah over his/herself. Second sense of justice requires that one enter into a deal of justice with his/her ownself, to protect from such challenges which bring physical or spiritual destruction upon him/her, refuses to fulfil desires which are harmful to him/her in the end, be content and patient and avoid putting unnecessary burden on him/herself without valid excuse. Third kind of justice, according to Al-Arabi, prevails between man and the rest of Allah's creation. The essential sense is that one should deal with the whole creation of Allah in a co-operative spirit wishing well, doing good deeds, and having sympathy for others, never betray anyone with slightest breach of trust in any transaction whether minor or major, demand justice from himself and hurt no human being by anything said or done by him whether apparent or concealed (Usmani & Usmani, 1996: 402, Vol 5).

6.2. 3 Comparison of Islamic and Western Concept of Justice

There are striking differences between Islamic concept of Justice and its western counterpart at epistemological and cosmological ground. In western scholars' view, including Rawl and Sen, the concept of justice upheld by any religion including Islam, based on a divinely revealed source, is not rational. Sen (2009: 52), while supporting rationality over Devine Law, provides an example of Akbar, the Mughal emperor, for subjecting religious law to rational scrutiny and considering reason to be supreme. Furthermore, as discussed in chapter 3, Rawls and others have considered the need of an afterlife, and Higher Being unnecessary to formulate a theory of justice. Islam views mankind as a *khalifah* of Allah, higher being with a definite purpose in this world, fulfilment of which will be rewarded in *akhirah*, whereas the western view totally rejects this

metaphysical notion and defines the purpose of human beings to materially prosper in physical reality alone. Therefore, the western view of justice stands in contrast against Islam as it's all socio-economic and political functions are meant to ensure freedom and liberty from manmade (such as theft, fraud etc) or natural (such natural disabilities or disease) barriers (or negative freedoms) in the process of achieving its very objective of unprecedented wealth creation and accumulation. On the contrary, Islam's ultimate objective is submission of will (*ibadah*) to Divine Will, hence all socio-economic, and political functions of a society are meant for this purpose.

6.3 JUSTICE, THE GOAL OF ISLAMIC SOCIETY

One of the primary goals of Islam is to establish an ideal, peaceful and fair society. Three important aspects of Islamic theory of justice are presented below that are important for the establishment of an ideal and balance Islamic society.

6.3.1 Equality, Fraternity and Co-operation

In Islam, human fraternity (*al-ikbā' al-insānī*), equality and co-operation (*ta'awun*) are fundamental tenets, which are explicitly affirmed in Qur'an and *Sunnah*. For example, in more than one place, Qur'an confirms the brotherhood of humankind, their unity of origin and human equality.

O mankind! Be careful of your duty to your Lord Who created you from a single soul and from it created its mate and from them both has spread abroad a multitude of men and women. Be careful of your duty toward Allah in Whom you claim (your rights) of one another, and (do not cut the ties) kinship. Lo! Allah has been a Watcher over you (Qur'an, 4:1).

The above verse has explicitly used *al-arbāam* (ties of kinship) to highlight the bond of unity among human beings. In Qur'an, this specific term is usually employed in the context of inheritance and blood relations within the same family. However, in this verse, the term describes the entire human population as being of the same ancestry, reminding them about their ties of kinship with one another. The objective of re-enforcing the fraternity of humankind is to provide a firm foundation for inter-national relations to establish a just and equitable world order based on principles of mutual respect, tolerance, and justice (Kamali, 2002). The community of Muslim in such context has a special role to bring out such order based on common beliefs, values and goals, as highlighted by Prophet Muhammad(PBUH) on the occasion of the *Hajjatul Wadaa'* (the Farewell Haj). In his sermon to the large congregation, he said,

O people, the Lord of all of you is one; the father of all of you is one; all of you belong to the Adam; Adam was created from the dust; an Arab has no superiority over a non-

Arab nor does a non-Arab have any superiority over an Arab — except by piety (Sahih Muslim, Hadith 2803.1).

The importance of fraternity among believers and its bearing on the faith of every Muslim is also highlighted in the following hadith: ‘None of you is a (true) believer unless you like for your brother that which you like for yourself (Al-Qaradhawi, 1977: 84 ; Sahih Bukhari, 13). Moreover in another hadith, ‘the faithful are to one another like (parts of) a building, each part strengthening the other’(Nawawi, 1975: 113, No.188). Likewise, it is stated in yet another hadith that, ‘every Muslim is a brother to his fellow Muslim, neither wronging him nor allowing him to be wrong (Tabrizi, Mishkat, 4955).

Hence, the purpose of human fraternity to exemplify Islam by presenting a living picture to the world of the concepts of *tawhid*, justice and benevolence. Allah in Qur’an commands the believer to, ‘co-operation in good work and righteousness, and co-operate not in hostility and sin’ (Qur’an, 5:2), which also accentuates the moral substance of the fraternity. In the above verse, the word *al-birr* is used to signify fair and decent treatment of others by being pleasant and courteous and being generous in helping those who are in need (Kamali, 2002). The same message is also supported by another verse in the Qur’an in the following way, ‘you shall not attain virtue unless you spend on others of what you like for yourself’ (Qur’an, 3:192).

According to Kamali (2002), it is a manifestation of fraternity and co-operation in the Muslim community that Shari’ah encourages giving *qard al-Hasan* to those who are in need even if they are not poor on the one hand and forbid usury and excessive profiting on the other.

6.3.2 Welfare Rights and Obligation

In Islam, all things in heaven and earth belong to Allah as mentioned in the Qur’an in the following way, ‘to Allah belongs whatsoever is in the heavens and the earth....’ (Qur’an, 31:26). Allah has handed over the earth with all its treasures to mankind as a *amanah* (trustee) and gave people intellect and the capacity to understand, tame and harness the forces of nature for their use, and made His bounties flow to them far too much compared to what comes from people themselves (Hasan, 1988). According to Iqbal (2007), the Qur’an reminds us that people’s claims that ‘We have been given it only on account of knowledge or effort or desert’ are not tenable in an absolute sense (Qur’an, 28:78-82; 18:32-44; 67:30; 17:66-9; 68:19-33; 27:60-66). However, the truth is that Allah increases the livelihood for those whom He wills and limits it for whom He wills (17:30, 30:37-9, 34:35-7, 39; 42:12). In distribution of Allah’s bounties, in

addition, there is a test for mankind (Qur'an, 6:165). Consider, for example, the following *hadith*: Allah's Apostle (PBUH) said:

Verily, Allah, the Exalted and Glorious, will say on the Day of Resurrection: O son of Adam, I was sick but you did not visit Me. He will say: O my Lord, how could I visit You when You are the Lord of the worlds? Thereupon He will say: Didn't you know that a certain servant of Mine was sick but you did not visit him, and were you not aware that if you had visited him, you would have found Me by him? O son of Adam, I asked you for food but you did not feed Me. He will say: My Lord, how could I feed You when You are the Lord of the worlds? He will say: Didn't you know that a certain servant of Mine asked you for food but you did not feed him, and were you not aware that if you had fed him you would have found him by My side? (The Lord will again say:) O son of Adam, I asked you for something to drink but you did not provide Me with any. He will say: My Lord, how could I provide You with something to drink when You are the Lord of the worlds? Thereupon He will say: A certain servant of Mine asked you for a drink but you did not provide him with one, and had you provided him with a drink you would have found him near Me (Sahih of Muslim, 6232).

Hence, *amanah* as a test clearly implies that the Creator expects the trustee to use it in conformity with former's will and instructions and not otherwise (Qur'an, 17:26-7; 4:36-8; 2:177; 51:19)

6.3.3 Economic and Property Rights and Obligations

Islam has also laid down a number of mutual (social) support system (*al-takaful al-ijtima'i*) to bring about the equitable distribution of wealth, which can be seen in the three areas of co-operation as follow:

1. Minimum guaranteed standard of living for all.
2. Equity but not equality in personal incomes, and
3. Eliminating extreme inequalities in personal income and wealth

Individuals in the society are expected to fulfil their own needs through their own efforts, however, for some valid reason such as old age, poverty and illness, if it is not possible, then the responsibility to provide basic needs falls on near relative, the neighbourhood and the society in general. In case of the family, for example children, parents, and near relative have rights and obligation upon each other (Qur'an, 31:14; 2:83, 180, 125; 4:7,11, 33, 36,135; 6:151; 17:23). The state, an agent of the society, is required to ensure that there is some way to maintain the minimum guaranteed standards of living for all in the community. The state can fulfil the needs to the society through an obligatory religious due called *zakah* levied on income and wealth. The Qur'an termed *zakah* as a right of the poor in the wealth of rich (Qur'an, 51:19), paid by the riches of society at a fixed rate to free and purify property from the claims of those entitled to share in it (Qur'an 9:103). State can levy additional taxes on the riches if *zakah* does not suffice

(Kamali, 2002: 138). The purpose to have a minimum guaranteed standard of living for all is to make sure all individuals in the society live with dignity (Hasan, 1988). According to Iqbal (2006), wealth acquired through *halal* means is not an end in itself in Islam (Qur'an, 4:29) but a means to moral and spiritual enrichment or *falah* in hereafter by spending voluntarily in fulfilling the needs of fellow human beings. Islam has put certain restriction on economic activities to make sure justice is prevailed all the time. Any economic activity that deals with fixed interest is considered *haram* and is equated to *zulm*, which is the opposite of justice. In contrast, trade is made legitimate (Qur'an, 2:275), and it is desired to have trade contracts written along with witness (Qur'an, 2:282). In Islam, fulfilments of promises are mandatory (Qur'an, 2:177). However, any transaction containing *gharar* (excessive uncertainty) as regards to possessions, quantity, quality is strictly prohibited and so is outright gambling (Heidari, 2007). It is explicitly prohibited in Qur'an in the following way,

O you who believe! Wine, gambling, altars and divining arrows are filth, made up by Satan. Therefore, refrain from it, so that you may be successful (Qur'an, 5:90).

Other prohibition mentioned in Qur'an are hoarding, trading in pork and intoxicants is prohibited for Muslims (Qur'an, 2:173, 219), and deceiving others, bribery, pornography and prostitution (Qur'an, 83:1-3; 17:32-9; 24:2) are considered as various signs of corruption that distort the socio-economic equilibrium.

In Islam, like most of egalitarian societies, individuals are born with different in terms of their talents and capabilities. It is unjust to equate all people in terms of their earnings while they contribute differently to production process. Perfect equality will also adversely affect the incentive to produce. In Qur'an, Allah has not only allowed income differences but also has advised people not to grudge the same (Qur'an, 4:32).

Once the basic need of all is fulfilled, Islam has permitted differences in person income. However, it is necessary to define a ratio beyond, which inequality in the society will be regarded undesirable and will require corrective actions. The purpose of Islamic justice system is to ensure a society build on the spirit of brotherhood, co-operation and mutual love. Any inequality that lead to social and political distribution, need to be removed.

6.4 CONCLUSION

Justice is a supreme objective in Islam. It is viewed as the precondition for preserving peace, equilibrium, and harmony on earth to help human beings to understand their role as the trustees

of Allah on earth (Iqbal, 2006: 91-121). Justice in Islam, according to Iqbal (2006), deals with individual freedoms and limits, rights and obligations and social utilities and dis-utilities elucidated by Allah through His prophets in order for human beings to honour the rights of fellow beings and do not exploit them. Chapra (1992: 209) while elaborating the essence of justice in Islam argues that injustice and Islam are at variance with each other and by their very nature, one of these has to uproot or weaken the other in order to survive and remain strong.

The western discourse on social justice, which is predominantly philosophical, is based on rationality and theoretical paradigms. On the other hand, the quest for justice in Islam is not limited to any particular methodology or framework. Any formula or approach that helps to attain just distribution of wealth in the society is therefore deemed to be acceptable. Fundamentally, the Islamic approach to justice is basically legal, determined in its broad outline by the directives of the Qur'an and the *Sunnah*. Islamic conception of social justice is a mixed approach that tends to combine a variety of influence, where *Shari'ah* is primarily concerned with laying down a set of principles and rules that are expressive of diversity in outlook and treating each case on its merit rather than by concern for adherence to predetermined philosophy. The concept of justice using the epistemological and ontological sources in Islam is the foundation of the development model proposed chapter 8. Further, it is used as benchmark against which the social outcomes of IBF, as identified by IME in chapter 5, are evaluated in next chapter.

Chapter 7

A CRITICAL EVALUATION OF THE SOCIAL AND ECONOMIC DEVELOPMENT PERFORMANCE OF ISLAMIC BANKS

7.1 INTRODUCTION

The mid-twentieth century saw the emergence of a literature characterised as Islamic economics with a goal to transform the existing political, legal, social and economic institutions of Muslim societies into institutions that conforms to Islamic scriptures and traditions (Hooker *et al.*, 2004; Kuran, 1995). Islamic economics was viewed as paradigm shift and a radical alternative to conventional neoclassical views for its concern for justice, equity, poverty and its multidimensional conception of human development. Thus Islamic banking and finance, being the operational tools of Islamic economics received considerable boost at both the theoretical and practical levels in order to finance economic activities in an Islamic framework. Since 1980 Islamic finance became internationalised reflecting the aspiration of Muslims to be authentic and true to their traditions, while at the same time remaining part of the ongoing and rapid changes that are occurring around the world (Asutay, 2007a; Hooker, *et al.*, 2004). According to Asutay (2007a), Islamic banks and Islamic financial institutions were promoted to provide the capital base through which economic development in the Muslim world can be achieved, thus providing the role of economic development with the objective of human well being and social justice according the *maqāsid al-Shari'ah*.

Since the establishment of Dubai Islamic Bank in 1975, first private Islamic bank designed to achieve profit maximization on commercial basis, the Islamic banks and Islamic financial institutions (IFI) have grown at considerable pace with a presence in more than 75 Muslim and non-Muslim countries and total financial assets now estimated to exceed US\$1.3 trillion (Ernst & Young, 2012). However, in the chapter 4, it has shown that regardless of all the claims by Islamic finance, Muslim countries around the globe are lagging behind the west on most of the developmental indices and failed to achieve the economic progress experienced by the Western countries. In fact, majority of the countries facing the poverty trap are from the Muslim world, where people have no access to basic needs.

IBF is estimated to grow annually on average 15-20 percent, and among the fastest growing financial segments in the international financial system with number of Islamic banking institutions worldwide, including conventional banks that are offering Islamic banking services,

has doubled to more than 300 (Akhtar *et al.*, 2008). However, according to Asutay (2007a), the close study of financing of Islamic financial institutions shows that the social dimension is only limited with their *zakah* and other charitable activities which does not imply any systematic economic development and social justice action.

The basic concern of Islam is the welfare of human, thus, the material world is but a way to Allah and not a diversion from Him. According to majority of *fuqahā* (Muslim jurists), the welfare of the people and their relief from hardship are the basic objectives of *Shari'ah* (Chapra, 1985). Thus in such context, the aim and objective of IME paradigm of development is to organize the resources of earth on the basis of cooperation and participation by removing factors as inequality, monopolies, unfair distribution beside others to achieve social justice and economic development and ultimately helping human beings to achieve *fulah* or felicity in this world and in the *akhirah*. In this chapter, IME paradigm is used as a benchmark to check and evaluate the Islamic bank and financial institutions' social and economic performance as a real contributor to economic development on the supply side while customers' perception of Islamic banking and finance on the demand side.

7.2 ISLAMIC BANKING AND FINANCE: AN INTRODUCTION

The basic tenets and principles of IBF are built upon the Qur'anic prohibition of *riba*, which literally means increase, addition, expansion or growth (Chapra, 1985). *Riba* is categorically and indisputably prohibited in the Qur'an (2:275-276; 3: 130).

The exact nature of prohibition on *riba* is controversial, but there is a widespread agreement that the ban on *riba* implies a ban on 'interest' (Nyazee, 1995). The prohibition of *riba* in Islamic finance means that no interest can be charged or received which is contrary to conventional finance, where interest is considered an important to reflect growth, economic circumstances and the availability of capital (Schoon, 2009).

Other prohibitions related to IBF are *gharar* and *maysir*. *Gharar* is generally translated excessive uncertainty regarding the asset, price or delivery data in exchange contract. Therefore, all acts and conditions, the full implications of which are not clearly known to the parties at the time of exchange contracts are considered *gharar* (El-Gamal, 2000; Munawar, 2007). For example, *gharar* is said to exist in derivative transactions, such as forward, futures and options, in short selling, and in speculations. While *maysir* is when there is a possibility of total loss to one party in the contract and is associated with games of chance or gambling (Visser, 2009). Finally, the

restrictions on particular “sin sectors” are based on the Islamic prohibitions on certain commodities such as alcohol, drugs, and pork. *Shari’ah* laws forbid Muslims from consuming these forbidden commodities and, therefore, neither individuals nor institutions are permitted to consumer these commodities. In any society, social justice requires a set of rules or moral values, which everyone accepts and faithfully complies with. The first condition for social justice in financial realm requires that both financier and entrepreneur share the profit as well as the losses, which is one of the basic principles ,Islamic finance is based on that is ‘no risk, no gain’. This principle introduces greater discipline in the financial system by motivating the financial institution to access their risk more carefully and monitors the use of funds by the borrower avoiding the risk of losses. IME does not allow the creation of debt through direct lending and borrowing (Siddiqi, 2005). It rather requires the creation of debt through the sale or lease of real assets (asset based financing) by means of its sales- and lease-based modes of financing. The purpose is to enable an individual or firm to buy now the urgently needed real goods and services in conformity with their ability to make the payment later. Broadly speaking, activities based on participatory mechanism have been based on two principles in Islam banking: the profit and loss sharing (PLS) principle and non profit and loss sharing, as depicted in figure 7.1.

7.2.1 Profit and Loss Sharing Schemes

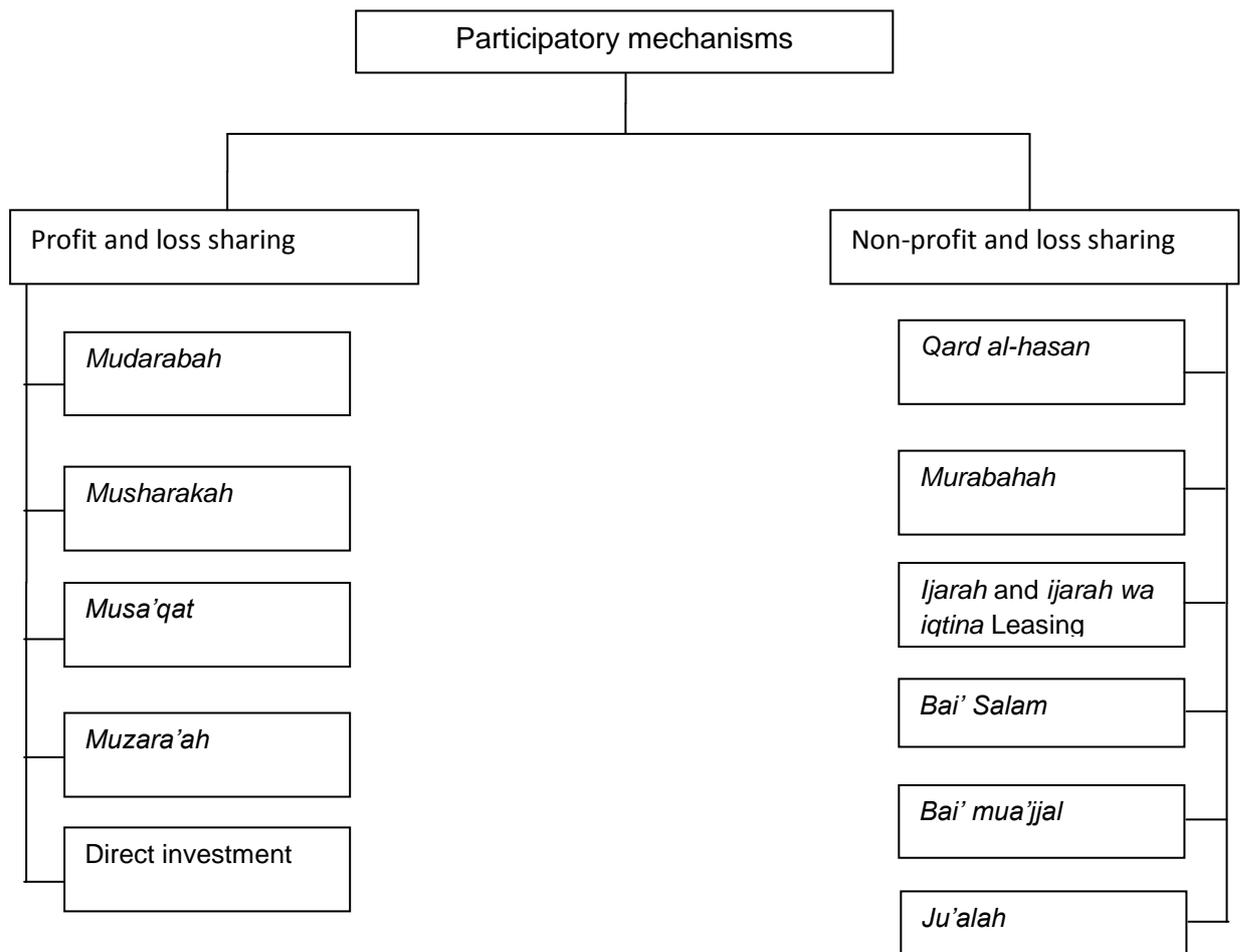
This section presents the main profit-and-loss sharing contracts:

Mudarabah financing is a special kind of partnership where banks provide capital and the entrepreneur contributes efforts and exercise complete control over the business entity. The bank, which provides capital, is called “*rabb-ul-mal*” and the entrepreneur providing management skills is called ‘*mudarib*’. It is necessary for the validity of *mudarabah* that the bank and entrepreneur agree right at the beginning on a definite proportion of the actual profit to which each one of them is entitle. In case of a loss, the bank earns no return or a negative return on its investment.

Musharakah financing is type of financing where bank and entrepreneur both supply the capital and share management of the entity or project. In case of a loss, both parties share the losses in proportion to the contribution of the capital, which could be exceeded than initial investments as its unlimited liability, while profits proportions are negotiated freely.

In general, *mudarabah* financing may be similar to limited partnership while *musharakah* financing is closed to a traditional equity stake with rights of control with unlimited liabilities.

Figure 7.1: Islamic Banking Contracts



(source: Iqbal & Mirakhor, 1987: 78)

Musqat is a type of *musharakah* contract. In this case, the bank provides farmers orchards, gardens or trees, possessed by the bank for harvesting on crop sharing.

Al-muzara'ah is a type of *mudarabah* contract between an owner of a piece of agricultural land, and a farmer for farming it in return of a percentage of its crop (Taleqani, 1983). In this case, Islamic bank provides farmers the land, possessed by the bank for cultivation on crop sharing.

Direct investment like other western banks allows banks to provide part of capital of a new joint stock company and to purchase shares of existing stock companies. However, Islamic banks cannot invest in the production of any good or service that might even appear contrary to the ethical and moral values of Islam.

7.2.2 Non-Profit and Loss Sharing Instruments

The following instruments are classified as non-PLS modes of financing, which are mostly debt-based instruments:

Qard al-Hasan, are zero return loans that that Qur'an encourages Muslim to make to those who need them. Banks and financial institutions are permitted to charge the borrower a service charge to cover administrative and transaction costs of handling the loan as long as such costs are not related to the maturity or amount of loan.

Murabahab is a sale contract where the seller explicitly mentions the cost of the sold commodity he or she has incurred and sells it to another person by adding some profit or mark-up thereon (Usmani, 2002). In Islamic bank, *murabahab* is a mode of financing, where the entrepreneur requests the bank to purchase the asset from the third party against payment. Immediately, the bank sells the asset to the entrepreneur at cost plus an agreed fixed profit margin. Payment is made in the future in lump sum or in installments. Ownership of the asset still resides with the bank till all the payments are made. According to Retired Justice Taqi Usmani (2002), originally *murabahab* was not a mode of finance, and it is only devised to escape interest and not the ideal instrument for carrying out the real economic objectives of Islam. Thus should be avoided and restricted to only those cases where *mudarahab* or *musharakah* are not practicable.

Ijarah financing is a form of leasing which involves a contract where the bank buys and then leases an item to the entrepreneur for a specified rental over a specific period. The duration of the lease, as well as the basis for rental, are set and agreed in advance. Bank retains ownership of the item throughout the arrangement and takes back the item at the end. In *ijarah* contract, the lessee or '*ameen*' is entitled to use the asset only for the purpose specified in the agreement in return for the rental agreed upon. Thus, the lessee is only accountable for loss to the asset due to his or her negligence otherwise not liable for loss caused by factors beyond his or her control (Ayub, 2007). In *ijarah-wa-iqtina*, the ownership is gradually transferred to the entrepreneur in a rent as a rent to own contract. In this arrangement, the customer simultaneously enters into two contracts, *ijarah* agreement, and the future purchase agreement and pays the purchase price in installment along the rent.

Bai muajjal allows deferred payments on products. It is like *murabahab* mode of financing with the exception that the sale under *bai muajjal* is made on credit basis rather than cash. The bank under *bai muajjal* follows the same conditions as *murabahab* except : the bank transfer the possession of goods to the client before the payment is made to the bank and the bank asks for collateral securities from the client to cover the sale price of the goods. The bank can sell the collateral to realise the amount of sale price in case of default by the client (Alam, 2003).

Bai Salam, also known as *bai salaf* is similar to forward contract, which permits advance sale contracts. In this contractual sale, the advanced payment is made by the buyer to the seller for the deferred supply of goods at a specified date pre-determined in the contract. In Islamic finance, the sale of the commodity which is not in the possession of a seller is not permitted. But the practice of *bai Salam* has been legalized as an exceptional case on the ground of necessity. In banking system, *bai Salam* allows the entrepreneur to sell some specified goods to a bank at a price determined and paid at the time of contract, with delivery of the goods in the future (Chong *et al.*, 2009).

Ju'alah is the service charge that usually occurs during transaction of various services provided by the Islamic banks to clients. This mode facilitate consultative, fund placement and trust activities (Khan *et al.*, 1990).

7.3 EVALUATING ISLAMIC BANKING FINANCING THROUGH INSTRUMENTS OF FINANCING

Islamic capital market is integral part of IME for efficient resource mobilization and allocation and infrastructure development. *Sukuk* or Islamic bonds, an important class of products in the capital markets, has great potential as financing, risk management and infrastructure development tool for corporate and government sector. According to HSBC Amanah forecast, the global *sukuk* issuance for 2012 is US\$ 44 billion, while the accumulated total of *sukuk* issued globally since its introduction in 2001 has reached US\$ 177 billion. The largest issuance by early 2012 of around US\$ 6.6 billion was recorded in Malaysia and Saudi Arabia. In 2011, the Malaysian government issued *sukuk* worth US\$ 9.6 billion, while the General Authority of Civil Aviation of Saudi Arabia issued *sukuk* worth US\$ 4 billion in 2012. There is a steady growth of *sukuk* market from 2002-2007. Despite a fall in 2008, the growth continues up to date, reaching US \$ 30.6 billion in 2011 (Rauf, 2013). However, there is no particular study yet done to access the contribution of *sukuk* with respect to infrastructure development. Therefore, in our study, we have only evaluated the social performance of IFI.

While the injunction against *riba* in all forms are indeed the cornerstone of Islamic finance however, according to IME, the role of Islamic banking and financial institution is not just limited to elimination of *riba*, since different legal devices (*hijal*) can be used to circumvent the prohibition on *riba* (for detail: El-Gamal, 2005; Vogel *et al.*, 1998). According to Asutay (2011), beside elimination of *riba*, *gharar* and *maysir*, the aim of IBF should be to serve the community through responsible financing, ethical investment and corporate social responsibility initiatives.

Thus to conclude IBF must serve social interest, for instance, beside other activities, employing microfinance to eliminate poverty by capacity building for poor, in establishing its financial optimality whereby producing an ethical and social solution to developing the Muslim and developing countries; and hence the importance of social optimality as opposed to financial optimality. Even though the principles of *Shari'ah* provide a complete guidance for banking system to bring stability in the economy, there are three stylized facts of Islamic Banks operation consistently reported and stand out in sharp contrast to those principles.

The first and the most critical of these facts is the composition of financing techniques in the overall lending operations of Islamic banks. The main thrust of Islamic financial contract is on the principle of profit and loss sharing. Islam also allows mark-up based instruments. Mark-up can imply a fixed return on investment for the bank. Although mark-up instruments are widely used, disagreement over their permissibility in Islam is regularly cited in the legal literature. Scholars thus have taken the position that mark-up techniques, while permissible, should still be avoided or restricted (Khan *et al.*, 1987; Siddiqi, 1983).

Hasan (2005) provides three years data to show the use of various modes of Islamic finance in Malaysian Islamic banks, according to which the percentage shares of *musharakah* declined from 1.4% in 2000 to 0.7% in 2001 and further to 0.5 percent in 2003 while the major Islamic financing modes are in the form of *bay bi thaman al-ajil* (deferred payment sale) and *ijarah thumma al-bay* (hire purchase) with 47.4% and 27.9% respectively in 2003. Furthermore, according to Iqbal and Molyneux (2005) the percentage weight of *musharakah* and *mudarabah* in ten sample Islamic banks total activities for the period of 1994-1996 was only 7% each, while *murabahah* claimed 70% of total financing. Similarly, Samad, Gardner *et al.* (2005) using data from annual reports 2002 of Islamic Bank of Bahrain and the Bank Islam Malaysia (Berhad) shows that the average *mudarabah* is 5% of total financing, and the average *musharakah* is less than 3%. Whereas combined average of *mudarabah* and *musharakah* for the two Islamic banks is less than 4% of the total finance and advances. Furthermore the average *qard al-Hasan* is about 4%, while *istisna* does not yet exist in practice. On the other side, *murabahah* is the most favourite and dominate mode of financing. The average use of *murabahah* is over 54% but when the *bay` bi al-thaman al-ajil* is added to the *murabahah*, the percentage of total financing is shown to be 82.68%. Rajesh and Tarik (2000) plot the data from the flow of new financing for Iran, Egypt's Faisal Islamic Bank FIBE, Jordan Islamic Bank (JIB) and Bank of Islam Malaysia. The authors show that mark-up financing has consistently comprised more than 50% of flows of new financing for all these banks. Kuran (1995) also supported the argument that less than 5% of the assets of Islamic

banks consist of loans based on genuine profit and loss sharing schemes. The same results are also supported by data from other Islamic banks. Kazarian (1993) in his study of Egypt's Faisal Islamic Bank (FIBE) finds that out of 35% of the total assets used for financing domestic projects, 90% of the financing is mark-up financing and the bank also adopted the policy of restricting PLS financing to 2% of total domestic financing. These evidences indicate that bulk of financing operations of Islamic banks do not conform to the principle of profit-and-loss sharing (e.g., equity contracts). Instead, most of the financing is based on the mark-up principle. Yousaf (2004) refers to the strong and consistent tendency of Islamic banks to utilise debt like financing instruments as the "*murabahab* syndrome". Thus indicating that Islamic banks and finance have deviated from the aspirational stand of IME (Asutay, 2007a).

The second and third facts regarding the practices of Islamic banks are concerned with the term structure and sectorial distribution of finance. Islamic economists (for example, Chapra, 1992; Siddiqi, 1983) have argued that Islamic banks can promote growth in Islamic countries by providing long-term financing to growth sectors of the economy. Entrepreneurial projects in agricultural and industry will have greater implication for growth. According to Iqbal and Molyneux (2005), with the exception of *istisna* all other trade based modes of financing are suitable only for short term financing. Aggrawal and Yousaf (2000) utilizing the data of Metwally (1992) of twenty two Islamic banks and investment banks find that on average 56.7% of total financing were for maturities of less than a year. In fact, Islamic banks out of their total assets kept 26.6% as a deposit with other banks and central bank. In another study Kazarian (1993) reports that for Faisal Islamic Bank of Egypt the ratio of long-term financing to all financings is a third of that for other Egyptian commercial banks and for the Islamic Bank for International Development (IBID) the ratios of long-term financing to all financings is half that other investment banks. Kazarian (1993) also finds that commercial banks in Egypt have extended 37% of their financing to industry and agricultural in 1979-90 compare to FIBE which allocated only 10%. IBID allocated 11% to agriculture and industry compared to 17% for Egypt's other investment banks. Saffari (1995) in his unpublished work, using the data from Iran also finds that banks failed to meet target levels of financings to industry, construction and agriculture imposed by the central bank.

Even though *musharakah* and *mudarabah*, pre-Islamic in nature (Choudhury, 2004), are core pillars of Islamic banking system, the data about financing decision of Islamic banks clearly shows that these modes of financing have limited role in the financial compositions of Islamic banks compare to the other modes of financing. However, the data about such practices is only up till

2005, therefore, due to lack of availability of latest data to provide a better picture of different modes of financing in Islamic banking, it cannot be concluded as a fact that such practices are still followed by Islamic banks.

In order to examine the current practices regarding how funds are employed for financing on the asset side by Islamic banks, we have selected randomly total of ten (10) Islamic banks from Muslim world depending on the availability of the data. These banks represent Islamic banking practices in Indonesia, Malaysia, Pakistan, and GCC region. The data about modes of financing by these Islamic banks are selected from their annual reports from 2006 till 2012 depending on the availability of data.

In our analysis, two types of data are collected, first, how these banks have utilised their funds on the assets side and secondly, how these funds are distributed over the industries. The primary goal of the analysis is to provide detailed picture of how much these Islamic banks adhere to the true essence of IME, thus using majority of their funds according to the *musharakah* and *mudharabah* modes of financing. Second, how these funds are distributed over the industry to analyse the role of IBF in economic development of these country. Such an analysis renders valuable information to evaluate the social and development contributions of Islamic banks on the other hands, and demonstrates their impact on value added and the capacity building on the other hand. Analysing the financing strategies of these institutions also enables us to conclude whether Islamic banks are contributing to *financialisation* of the economy or whether they are embedded in the real economy through financing economic activity.

The following section, being the empirical part, hence, evaluates the randomly sampled Islamic banks through such criteria.

7.3.1. Bank Level Analysis

This section shows how 10 randomly selected Islamic banks are utilising different modes of financing on their balance sheet.

Meezan Bank

Meezan Bank is the first and largest Islamic bank in Pakistan. The data presented in Table 7.1 shows various Islamic financing modes on the asset side of the balance sheet, obtained from annual reports of Meezan bank from 2006 till 2012. As it is shown, total Islamic financing and advances during the period in question, are 58.21%, 51.47%, 46.63%, 35.58%, 35.02%, 32.15%

and 34.40% of total assets respectively, which demonstrates a decreasing trend. However, surprisingly Meezan bank has not done any financing through *mudarabah*, while *musharakah* has played virtually no role in the bank's financing as it is less than 2% throughout five years of data. Nevertheless, Meezan bank has utilised different form of *musharakah*, known as diminishing *musharakah*, a type of partnership where one partner purchases the other partner's share gradually. The proportion of financing through this mode has been on increasing trend, constituted 33.02% in 2012 compare to 13.98% in 2006. The majority of diminishing *musharakah* contracts, however, are utilised to finance housing sector. Even though, *musharakah* and *mudarabah* modes of financing are the most significant in principle and are considered the core of Islamic financing, however, in practice, they constitute an insignificant portion of total financing on the balance sheet of Meezan bank and only provide satisfactory proportion when combined with diminishing *musharakah* as can be seen in table 7.1.

Murabahah on the other side, constitutes more than 60% of total financing in 2006, however has decreased to around 31% in 2012. The proportion of financing through *ijarah*, which is selling the benefit of use or service for a fixed price or wage over fixed time, has decreased from over 23% in 2006 to just over 9.43% in 2013. Meezan bank has also introduced *istisna* mode to finance construction of buildings, residential towers, villas and related products, and manufacturing of aircrafts, ships, machines and equipment, and others, in 2007. *Istisna* in proportion to total financing has increased to over 17% compare to 0.68% in 2007. This also signifies shift in the financing sectors, as the construction industry has been an essential sector financed through Islamic banking in Pakistan. This can be also confirmed through increase in diminishing *musharakah* mostly in housing schemes discussed above. *Salam* (forward financing) is just around 1% of total financing of the Meezan bank, throughout the years. Another Islamic mode of financing, utilised by Meezan bank is *tijarah* or trade financing, which has increased from none to over 4% in 2012. *Tijarah* financing is working capital financing solution, provides opportunity to both corporate and small and medium enterprises to meet their working capital requirements and enjoy the benefits of cash sales. The bank has also introduced two new modes of financings, *Bai Muajjal* financing and *Musawammah* financings since 2011. However, the proportions of both modes of financing with respect to total financing are less than 1% in 2012.

Qard al-Hasan financing, cornerstone of IME to help poor and needy, is an interest free loan encouraged in Qur'an and *Sunnah*. The size of this mode of financing to total financing in Meezan bank from 2009 till 2013 is fixed at 0.01% throughout the years. The bank also provides interest free loan under Islamic financing to the employees.

Table 7.1: Allocation of Funds under Finance and Advances – Meezan Bank

Modes of Financing	2006	2007	2008	2009	2010	2011	2012
<i>Murabahab</i>	60.17%	59.10%	46.81%	47.14%	41.88%	29.73%	30.97%
Diminishing <i>Musharakab</i>	13.98%	14.92%	23.35%	22.57%	27.18%	30.58%	33.02%
<i>Musharakab</i>	0.48%	0.23%	0.20%	0.17%	0.12%	1.27%	1.47%
<i>Ijarah</i>	23.40%	22.01%	23.38%	17.18%	13.20%	11%	9.43%
<i>Istisna</i>	-	0.68%	3.93%	7.98%	11.31%	21.71	17.54%
<i>Salam</i>	1.34%	1.87%	1.19%	1.29%	1.28%	1.16%	0.92%
<i>Tijarah</i> or trade financing	-	-	0.02%	1.42%	2.53%	0.75%	4.41%
<i>Bai Muajjal financing</i>	-	-	-	-	-	1.55%	0.21%
<i>Musawammah financings</i>	-	-	-	-	-	0.0004%	0.19%
<i>Qard al-Hasan</i>	-	-	-	0.01%	0.01%	0.01%	0.01%
Others(Staff financing and loans and running finances)	0.63%	1.20%	1.13%	2.23%	2.49%	2.26%	1.84%
Financing(Rs)	27,031,016	34,576,339	39,768,481	44,188,066	54,195,163	64,476,720	94,402,267
Total Assets(Rs)	46,438,623	67,178,559	85,276,070	124,181,734	154,752,425	200,550,394	274,436,510

Source: www.meezanbank.com/pages.aspx?iPageID=403

Furthermore, *zakah*, a compulsory religious alms giving and one of the five pillars of Islam, is collected on deposit accounts but there is no more information provided in the annual reports. However, Meezan bank distributed charity of over 106 millions (in rupees) which accounts about 6.4% of total profit in 2010.. Thus to conclude, Meezan Bank has adopted various modes of Islamic financing on the asset side of balance sheet, however, more than 70% of these Islamic financing are concentrated in instruments other than *musharakab* and *mudarabah*.

Kuwait Finance House (KFH)

Kuwait Finance House (KFH) is first *Shari'ah* complaint bank in Kuwait. The data provided in Table 7.2 shows various mode of Islamic financing and advances on the balance sheets obtained from annual reports of KFH covering from 2006 till 2011. In KFH, total Islamic financing and advances with respect to total assets of the bank from 2006 till 2010 are 70.90%, 68.04%, 68.98%, 67.63%, 67.07% and 69.5% respectively.

Even though, it is claimed that Islamic banks over time will move from *murabahab* based financing to *mudarabah* and *musharakab* instruments, however, trend in KFH shows a complete opposite picture. KFH has used *murabahab* instrument as a major mode of financing. The percentages of *murabahab* from 2006 till 2011 in total financing are consistently around 80% level. The proportion of financing through *ijarah* from 2006 till 2011 are 14.83%, 16.05%, 16.34%,

16.05%, 15.13% and 16.17% respectively. Furthermore, *istisna* and other receivables increased to 10.26% in 2008 from 5.38% in 2006 but decreased to 1.60% in 2011. This could be due to economic meltdown in the region, thus reducing number of construction projects. Notable, KFH has not yet utilised the most authentic modes of financings which are *mudharabah* and *musharakah*.

There are details provided on annual reports about the funds used for *qard al-Hasan* by KFH. Furthermore, KFH has calculated *zakab* at 2.57% on all opening reserves of the bank, remained for one complete fiscal year. KFH paid no *zakab* in 2006 while the proportion of *zakab* with respect to net income in 2007 is 0.05%, 0.71 % in 2008, 0.55% in 2009 and 0.95% in 2010, which has decreased to 0.05% in 2011. Since *zakab* is calculated as a fixed percentage of opening reserves, it remains at small percentage to net income.

Table 7.2: Allocation of Funds under Finance and Advances - KFH

Mode of Financing	2006	2007	2008	2009	2010	2011
<i>Murabahab</i>	79.79%	77.98%	73.40%	77.98%	82.82%	82.19%
<i>Ijarah</i>	14.83%	16.05%	16.34%	16.05%	15.13%	16.17%
<i>Istisna</i> 'a and other receivables	5.38%	5.97%	10.26%	5.97%	2.06%	1.6%
Financing(KD)	4,476,704	5,986,079	7,273,766	7,636,037	8,415,990	9,363,513
Total assets(KD)	6,313,791	8,797,916	10,544,142	11,290,694	12,548,499	13,459,833
<i>Zakab</i>	0.00%	0.05%	0.71%	0.55%	0.95%	0.05%

Source: www.kfh.com/en/about/investor-relations/annual-report/

In 2010, KFH, donated \$2 million for flood relief in Pakistan. KFH is also regularly donating in education, health, youth, people with special needs, needy and their families, charitable and social activities of many official bodies and associations as part of their social responsibility.

ABC Islamic Bank

ABC Islamic Bank, a division of Arab Banking Corporation, is based in Bahrain. The data showing various modes of Islamic financing by ABC Islamic banks is obtained from annual reports covering from 2006 till 2012 as shown in Table 7.3. The data shows that total Islamic financing and advances by ABC Islamic bank to total assets from 2006 till 2010 are 66.38%, 73.08, 77.07%, 71.71%, 69.84%, 73.87% and 82.80% respectively. The composition of different modes of Islamic financing utilised by ABC Islamic bank show a limited use of available *Shari'ah* compliant instruments. In 2006, the bank used only two modes of Islamic financing, which increased to five modes of financing in 2012. ABC Islamic bank has devoted majority of bank's fund to *murabahab* financing. Since, ABC Islamic bank has adopted other modes of Islamic

financing in recent years, therefore the percentage of total financing in *murabahab* has decreased from 76.61% in 2006 to 49.63% in 2010 but has increased to 66.80% in 2012. The figures in annual reports show an overall reduction in the total amount of financing over the years. According to the annual report 2010, the decrease in overall financing is due to decrease in financing of *murabahab* receivables and *ijarah* assets.

ABC Islamic bank has limited use of *musharakah* modes of financing, which was introduced in 2007, representing only 0.21% of total Islamic financing. *Musharakah* mode of financing increased to 0.32% in 2008 but did not go above 0.10% in 2009 and 2010 and remains low in 2011 and 2012. Furthermore, *mudarabah* has also basically no role in the financing compare to other modes of Islamic financing. *Mudarabah* was introduced in 2008 representing only 0.07% of total financing by ABC Islamic bank, however, *mudarabah* contracts never increased more than 0.10% of total financing till recent annual report 2012. Majority of funds excluding *murabahab* are committed to *ijarah* financing including *ijarah muntabiah bittamleek*. In *ijarah muntabiah bittamleek*, the legal title of the leased asset passes to the lessee at the end of the *ijarah* term, provided that all *ijarah* instalments are settled and the lessee purchases the asset. ABC Islamic bank's financings in *ijarah* and *Ijarah muntabiah bittamleek* in 2006 are 23.39% of total financing, out of which 20.75% were used in financing *ijarah muntabiah bittamleek*. Even though, total financings with respect to total assets have decreased throughout the years from 2006 till 2010, however, the percentage of *ijarah* receivables including *ijarah muntabiah bittamleek* have still increased to 50.18% of total financing. *Ijarah muntabiah bittamleek* has reached to 35.66% of total Islamic financing in 2010 while *ijarah* receivable in other assets represents 14.52% of total financing in 2010, while slightly decreased in 2012. In 2012, *murabahab* receivables and *ijarah* assets including *ijarah muntabiah bittamleek* combined together represent 99.80 percent of total financing while *musharakah* and *mudarabah*, which are considered the ideal financings of all, only represent 0.10percent of total financing, therefore virtually play no role in the financing of ABC Islamic Bank. *Qard al-Hasan*, an interest free loan exhorted by Qur'an and *Sunnah*, is not yet adopted by ABC Islamic bank as a mode of financing.

Moreover, ABC Islamic Bank pays *zakah* according to Financial Accounting Standard 9 issued by the Accounting and Auditing Organization for Islamic Financial Institutions using the net invested funds method, while using *zakah* as expense (Muhammad Akhyar *et al.*, 2009). The percentage of *zakah* to net income paid by the bank during 2006 is 4.31% which increased to 13.55 percent in 2010 but has remained below 4 percent in 2011 and 2012 respectively. However, this is due to decrease in the net incomes for the year ended 2010 due to economic meltdown.

Table 7.3: Allocation of Funds under Finance and Advances - ABC

Modes of financing	2006	2007	2008	2009	2010	2011	2012
<i>Murabahab</i> receivables	76.61%	73.22%	61.46%	49.82%	49.63%	56.93%	66.80%
<i>Musharakah</i>	-	0.21%	0.32%	0.09%	0.10%	0.00%	0.00%
<i>Mudarabah</i>	-	-	0.07%	0.09%	0.10%	0.11%	0.10%
<i>Ijarah</i>	2.64%	11.25%	21.90%	36.05%	14.52%	2.4%	0.11%
<i>Ijarah Muntabiah</i> <i>Bittamleek</i>	20.75%	15.33%	16.25%	13.94%	35.66%	40.58%	32.99%
Financing	546,476	997,518	1,126,222	945,442	844,109	764,495	883,335
Total Assets(\$)	823,308	1,364,882	1,461,345	1,318,402	1,208,646	1,034,819	1,066,753
<i>Zakah</i>	4.31%	0.49%	1.01%	2.60%	13.55%	3.58%	3.67%
Charity	1.35%	0.06%	0.06%	1%	0.96%	0.01%	0.03%

Source: www.arabanking.com/world/IslamicBank/En/Investment/Pages/AnnualReports.aspx

ABC Islamic bank is also maintaining a charity fund which mostly includes earnings realised during the year from transactions that were not permitted by *Shari'ah*, which explains the rise in charity in 2009 and 2010. The proportion of charity to net income from 2006 till 2012 fluctuated from 0.06 percent to 1.35 percent but has fallen to 0.03 percent in 2012. Overall, ABC Islamic Bank has utilised many modes of Islamic financing, however *musharakah* and *mudarabah* have received negligible amount of funds.

Al Rajhi Bank

Al Rajhi Bank is one of the largest Islamic banks in the world, based in Riyadh, Saudi Arabia. The data provided in Table 7.4 is obtained from annual reports covering 2006 till 2011, which shows different modes of Islamic financing of the bank. As it is shown, the total financing and advances of *Al Rajhi* Bank compare to total assets from 2006 till 2011 are 85.13%, 83.98%, 87.31%, 87.10%, 64.96% and 63.58% respectively. In 2010 and 2011, the proportion of total financing and advances to total asset decreased more than 20% compare to 2009.

Table 7.4: Allocation of Funds under Finance and Advances – Al Rajhi

Modes of financing	2006	2007	2008	2009	2010	2011
<i>Mutajara</i>	37.46%	39.67%	46.20%	45.27%	25.19%	21.84%
Instalment Sale	57.95%	54.02%	41.60%	44.02%	63.30%	69.23%
<i>Murabahab</i>	1.74%	4.24%	9.18%	9.75%	10.57%	8.54%
<i>Istisna</i>	2.34%	1.51%	0.88%	0.59%	0.39%	0.0004%
Visa Cards	-	-	-	0.37%	0.56%	0.39%
Others	0.51%	0.56%	2.15%	-	-	-
Financing(SR)	89,563,188	104,875,445	144,003,524	148,707,005	120,064,667	140,395,619
Total assets(SR)	105,208,744	124,886,482	164,929,801	170,729,729	184,840,910	220,813,412
Zakah	4.42%	8.51%	8.55%	4.84%	11.08%	0.34%

Source: www.alrajhibank.com.sa/en/investor-relations/pages/financial-results.aspx

Al Rajhi Bank has used multiple modes of Islamic financing on the asset side, however; there are no *musharakah* and *mudarabah* instruments which are considered the most important tools of Islamic finance. The four main modes of financing *Al Rajhi* Bank has used are based on deferred sales. One is *mutajara* (trade and commodity) financing, in which client agrees to purchase an assets from the bank with a promise to pay higher price than the cash price in the future, The *mutajara* financing adopted by *Al Rajhi* Bank is an agreement whereby the Bank purchases a commodity and sell it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount and for the period agreed on in the contract contrary to *murabahab* where client should be aware of the cost and profit separately (*Al Rajhi*, Annual report 2012). The *mutajara* constitutes 37.46% of total financing in 2006, which increased to 46.20% in 2008 but fell to 25.19% and 21.84% in 2010 and 2011. A second one is instalment sales, in which client agrees to purchase an assets from the bank with a promise to pay higher price than the cash price in the future through instalments, constitutes 57.95 percent of total financing in 2006 and peaked at 69.23 percent in 2011. A third one is *murabahab*, where both client and the bank agree on a price of an asset representing the purchase price plus a profit to be paid in the future, constitutes 1.74% in 2006, increasing to 10.57 percent of total financing in 2010 but fell to 8.54 percent in 2011. A fourth one is deferred sale agreement, *istisna*, where the Bank manufactures a commodity with certain specifications according to the client's request, is based on a price which includes cost plus profit, constitutes 2.34 percent in 2006 of total financing, which fell to less than 1 percent in 2011.

Al Rajhi Bank has also utilised its funds to finance Islamic visa card comprising 0.37 percent, 0.56 percent and 0.39percent of total financing in 2009, 2010 and 2011 respectively. There is no financing through *qard al-Hasan*, while *zakab* is considered as a liability on the shareholders to be deducted from dividends according to *zakab* rules and regulations in the Kingdom of Saudi Arabia. The *zakab* is 4.42 percent of net income in 2006 which has increased to 11.08 percent in 2010 but fell to less than half a percent in 2011.

Bahrain Islamic Bank

Bahrain Islamic Bank is the first Islamic commercial bank established in the Kingdom of Bahrain. The data in table 7.5 shows various modes of Islamic financing and advances adopted by Bahrain Islamic bank, obtained from the annual reports covering from 2006 till 2012. As it can be seen in the table 7.5, total financing and advances of Bahrain Islamic bank compare to total assets from 2006 till 2012 are 67.20 percent, 64.71 percent, 65.50 percent, 64.26 percent %, 69.97 percent ,

46.75 percent and 49.78 percent respectively. Bahrain Islamic Bank has adopted various modes of financing, available to Islamic banks for financing approved by *Shari'ah*. However, majority of funds are used to finance through *murabahab*. For example, in 2006, 82.94 percent of total financing is done through *murabahab*, decreasing to 38.09 percent in 2012. Bahrain Islamic Bank has also used a controversial instrument, *tawarooq*. *Tawarooq* facilitates the supply of cash to the client by allowing the client to buy product x on deferred payment from the Islamic financial institution and sell it to the third party for a cash less than the deferred price. Bahrain Islamic Bank started utilising *tawarooq* as a mode of financing in 2007, which constitutes 18.91 percent, 23.70 percent in 2008 and remained around 22 percent in 2012. *Tawarooq* combined together with *murabahab* is roughly 60 percent of total financing in 2012. The bank has also adopted another controversial instrument of investment, known as commodity *murabahab*, which constitutes *tawarooq* and *wakalah* receivable. These contracts are used under the title of due from banks and financial institutions. Therefore, they are not included in our analysis. *Mudarabah* and *musharakah*, the most important instruments of Islamic finance constitute 7.31 percent and 4.61 percent in 2006, which increase to 9.79 percent and 13.40 percent in 2008 and decrease to 6.17 percent and 11.67 percent in 2010. The bank stopped using the *mudarabah* scheme from 2011 onward. *Musharakah* constitutes around 20 percent of total financing in 2011 and 2012 respectively. *Ijarah muntahia bittamleek* provides an option for the customer to acquire the ownership at the end of a specified period, constitutes 5.10 percent of total financing in 2006, increasing to 18.63 percent in 2009. It is 14.55 percent of total financing in 2010 and remains above 20 percent in 2011 and 2012.

Table 7.5: Allocation of Funds under Finance and Advances – Bahrain Islamic Bank

Modes of Financing	2006	2007	2008	2009	2010	2011	2012
<i>Murabahab</i> receivables	82.94%	60.74%	41.79%	37.61%	49.50%	36.80%	38.09%
<i>Mudarabah</i> investments	7.31%	8.27%	9.79%	8.75%	6.17%	-	-
<i>Musharakah</i> investments	4.61%	8.97%	13.40%	12.64%	11.67%	19.69%	20.65%
<i>Ijarah muntahia bittamleek</i>	5.10%	3.08%	11.30%	18.63%	14.55%	20.59%	20.47%
<i>Tawarooq</i>	0.00%	18.91%	23.70%	22.35%	18.11%	22.87%	21.95%
<i>Qard al-Hasan</i>	0.04%	0.03%	0.02%	0.02%	0.00%	0.0004%	0.0032%
Financing(BD)	293,330	426,427	572,485	586,052	654,684	392,241	414,641
Total Assets(BD)	436,476	658,969	873,967	911,950	935,674	839,143	832,804
<i>Zakah</i>	4.21%	2.84%	6.12%	10.32%	-	-	-

Source: <http://bisb.com/en/who-we-are/financial.html>

Bahrain Islamic Bank has also used *qard al-Hasan* as a mode of financing with negligible proportion of 0.04 percent to total financing in 2006, further decreasing to 0.003 percent in 2012. Bahrain Islamic bank calculates *zakah* in accordance with the Financial Accounting Standards

issued by the Accounting and Auditing Organisation for Islamic Financial Institutions using the net invested funds method, paid by the group based on statutory reserve, general reserve and retained earning balances at the beginning of the year. The percentage of *zakah* to net income paid by the bank from 2006 till 2008 were 4.21%, 2.84% and 6.12% while the bank has incurred losses since 2009.

Bank Islam Malaysia

Bank Islam Berhad is first Malaysian bank to provide services to the specific needs of Muslims. Table 7.6 provides the data about various modes of financing offered by the Bank Islam to customers obtained from the annual reports covering from 2006 till 2012, whereas, annual report 2010 covers the data of 18 months. As shown, total financing and advances of Bank Islam compare to total assets from 2006 till 2012 are 58.21 percent, 44.46 percent, 38.46 percent, 35.15 percent, 39.06 percent, 45.25 percent and 53.25 percent respectively.

There is limited use of *musharakah* and *mudarabah*; even they are considered the most important modes of financing in Islamic finance. *Musharakah* was only utilised for 2006 and 2007 in proportion of 0.49 percent and 0.51 percent to total financing. Bank Islam also used *mudarabah* with virtually no role to play in the financing, having received only 0.21 percent of total financing in 2006 which reduced further to 0.05 percent in 2010 and discontinued thereafter. *Murabahah* is 12.81 percent in 2006 which reached to 17.67 percent in 2008 and remains around 7 percent in 2012. Another mode of finance used by the bank is *istisna* which is 6.20 percent in 2006 and 5.07 percent in 2009 but has decreased to 1.24 percent in 2012. *Ijarah muntahiah bittamleek* is 2.12 percent in 2006, with limited role of only 0.15 percent of total financing in 2012. *Ijarah* was 0.97 percent in 2006, which remains around 1 percent in 2012. Another mode of financing used by the bank is *bai' bithamin ajil*, a deferred sale contract, represents the most dominant instrument of financing adopted by Bank Islam. The bank financing through *bai' bithamin ajil* in 2006 is 63.73% of total financing, while 59.38 percent, 52.84 percent, 53.40 percent 50.55 percent, 50.07 percent and 43.71 percent in 2007, 2008, 2009, 2010, 2011 and 2012 respectively.

Bank Islam has also used the two most controversial modes of financings in Islamic finance that are: *bai' al-Inah* and *tawarooq*. *Tawarooq* is introduced as a mode of financing in 2009, with constitutes only 1.56 percent of total financing however, increasing to 37.75 percent of total financing in 2012. On the other hand, *al-Inah* is 12.18 percent in 2006, which increased to 21.91 percent in 2008 but has reduced to 8.68 percent of total financing in 2012. The bank also

introduced *Ar-Rahn* in 2012; another controversial mode in Islamic finance constituting 0.40 percent of total financing.

Table 7.6: Allocation of Funds under Finance and Advances – Bank Islam

Modes of Financing	2006	2007	2008	2009	2010	2011	2012
<i>Murabahah</i>	13.81%	12.63%	17.67%	15.69%	9.12%	9.04%	7.03%
<i>Musharakah</i>	0.49%	0.51%	-	-	-	-	-
<i>Mudarabah</i>	0.21%	0.18%	0.09%	0.08%	0.05%	0.04%	-
<i>Istisna</i> ’	6.20%	6.46%	4.88%	5.07%	2.87%	1.68%	1.24%
<i>Ijarah</i>	0.97%	1.60%	2.32%	2.70%	2.72%	2.03%	1.04%
<i>Ijarah Muntabiah</i> <i>Bitamleek</i>	2.12%	1.86%	0.29%	0.26%	0.09%	0.16%	0.15%
<i>Bai’ Bithaman Ajil</i>	63.73%	59.38%	52.84%	53.40%	50.55%	50.07%	43.71%
<i>Bai Al-Inah</i>	12.18%	17.02%	21.91%	21.23%	13.64%	10.17%	8.68%
<i>At-Tawarooq</i>	-	-	-	1.56%	20.95%	26.81%	37.75%
<i>Ar-Rehn</i>	-	-	-	-	-	-	0.40%
Others	0.29%	0.35%	-	-	-	-	-
Financing(RM)	8,501,362	8,502,016	9,061,318	9,661,864	11,859,140	14,563,470	19,949,055
Total assets(RM)	14,605,316	19,121,177	23,559,424	27,488,204	30,364,166	32,186,451	37,450,798
<i>Zakah</i>	-0.31%	1.67%	2.44%	3.74%	3.25%	2.25%	2.14%

Source: www.bankislam.com.my/en/pages/AnnualReports.aspx?tabs=4

Bank Islam has not used *qard al-Hasan* as a mode of financing, which is highly desirable by Qur’an and *Sunnah* for helping poor and needy. *Zakah* is paid according to the *Shari’ah* requirement. The bank made losses in the year 2006 and however the percentage of *zakah* to net profit in 2007 till 2012 are 1.67 percent, 2.44 percent, 3.74 percent, 3.25 percent, 2.25 percent and 2.15 percent respectively. In general, the bank used *mudarabah* as a mode of financing with very limited role in overall financing and relied on debt like financing instruments with no provision to use *qard al-Hasan* as a mode of financing.

Gulf Finance House - Bahrain

Gulf Finance House (GFH) is Islamic Investment Bank, based at Bahrain. In our analysis, table 7.7 provides data about various modes of Islamic financing and advances obtained from annual reports covering from 2006 till 2011. As it is shown in the table, the total financing and advances compare to total assets of GFH are 1.41 percent, 1.78 percent, 1.99 percent, 4.28 percent, 6.59 percent and 7.5 percent respectively. This is highly low percentage of financing to total assets compare to other banks in the region. Furthermore, GFH has limited their financing activities to only *murabahah* and *wakalah* contracts with only exception in 2006, where the bank also financed *mudarabah* contract constituting 5.18 percent of total financing. However, in 2011, bank only financed through *wakalah* while dropping *mudarabah* as a financing tool. The bank has financed

mostly through *wakalah* with 56.49 percent of total financing in 2006, which increased to 81.31 percent in 2010 and 100 percent in 2011. *Murabahab* was 38.32% in 2006 which has further decreased to 18.69 percent of total financing in 2010. The modes of financing only limited to *wakalah* and *murabahab* could be due to the nature of investment banking. There is no financing through *musharakah* and *qard al-Hasan*, which are considered important modes of financing. GFH pays *zakah* on its undistributed profits. The *zakah* paid by the bank also includes charity contributed from non-Islamic income. The bank has not made any profit in 2009 and 2010.

Table 7.7: Allocation of Funds under Finance and Advances - GFH

Modes of financing	2006	2007	2008	2009	2010	2011
<i>Murabahab</i> financing	38.32%	14.24%	26.89%	31.77%	18.69%	-
<i>Wakalah</i> Financing	56.49%	85.76%	73.11%	68.23%	81.31%	100%
<i>Mudarabah</i>	5.18%	-	-	-	-	-
Financing	98,927	96,179	69,189	29,173	14,400	62,650
Total Assets	1,500,884	2,245,067	3,485,047	1,642,336	1,018,241	825,845
<i>Zakat</i>	1.12%	0.93%	1.16%	-	-	0.52%

Source: www.gfh.com/en/investor-relations/annual-reports-2.html

Therefore, the bank did not pay any *zakah* on its retained earnings in 2010. GFH paid 1.12 percent, 0.93 percent, 1.16 percent and 0.52 percent *zakah* compare to its net income in 2006, 2007, 2008 and 2011. Overall, GFH has limited role of various modes of financing due to its investment nature of business.

Bank Muamalat Indonesia

Bank Muamalat Indonesia is an Islamic bank established in November 01, 1991 in Indonesia. The details about various modes of Islamic financing and advances on the assets of balance sheet of Bank Muamalat are provided in Table 7.8 obtained from annual reports covering data from 2007 till 2012. As shown, total Islamic financing and advances of Bank Muamalat compare to total assets are 79.40 percent, 82.28 percent, 70.10 percent, 73.05 percent, 69.20 percent and 73.25 percent respectively. Bank Muamalat has adopted various modes of Islamic financing available to Islamic banks. Bank Muamalat's financing through *mudarabah* contract in 2007 is 43.10 percent of total financing, which has decreased to only 6.21 percent of total financing in 2012, while on other hand, *musharakah* has received 16.46 percent of total financing in 2007 but has increased to 39.58 percent in 2012. Bank Muamalat has also used *murabahab* as a major instrument of financing, using 36.87 percent of total financing through *murabahab* contracts in 2007, which has increased to 46.45 percent in 2008 and has decreased to 49.57 percent in 2012. There is negligible amount of financing through *ijarah* but when combined with *ijarah muntabiah*

bittamleek, it is 1.03 percent of total financing in 2007, increasing to 4.41 percent in 2010 but remain less than 1 percent in 2011 and 2012. Bank Muamalat has also financed through *istisna*, though the amount of financing is only 1.42 percent in 2007, which decreased to 0.006 percent in 2012.

Table 7.8: Allocation of Funds under Finance and Advances - Bank Muamalat

Modes of Financing	2007	2008	2009	2010	2011	2012
<i>Murabahab</i> receivable	36.87%	46.45%	39.53%	40.90%	45.15%	49.57
<i>Mudarabah</i>	43.10%	18.46%	12.22%	8.82%	6.93%	6.21
<i>Musharakah</i>	16.46%	29.23%	40.21%	38.11%	36.97%	39.58
<i>Istisna</i> receivables	1.42%	0.97%	0.55%	0.30%	0.34%	0.06%
<i>Ijarah</i>	0.00%	0.02%	0.02%	0.02%	0.004%	0.001%
<i>Ijarah muntabiah</i> <i>bittamleek</i>	1.03%	3.10%	4.80%	4.39%	1.96%	0.75%
<i>Qard al-Hasan</i>	1.12%	1.77%	2.68%	7.47%	8.66%	3.92%
Financing(IR)	8392177176	10,364,656,347	11,235,349,577	15,632,693,102	22,469,190,000	32,861,440,000
Total assets(IR)	10,569,078,452	12,596,715,373	16,027,178,859	21,400,793,090	32,479,507,000	44,854,413,084
<i>Zakah, infaq, sadaqah</i>	4.64%	3.56%	10.64%	0.76%	1.61%	1.76%

Source: www.muamalatbank.com/home/investor/annual_report

Qard al-Hasan, the desirable way of financing for development of community, has only received 1.12 percent of total financing in 2006, which increased to 8.66 percent in 2011 but remains less than 4 percent in 2012. Bank disperses the funds of *qard al-Hasan* through *zakah* Management Board. Other funds bank distributed through *Zakah* Management Board are *infaq* and *sadaqat* funds. These funds are used to developed micro level enterprises in the economy. The percentage of Bank Muamalat's *zakah, infaq* and *sadaqat* funds to total income from 2007 till 2012 are 4.64 percent, 3.56 percent, 10.64 percent, 0.76 percent, 1.61 percent and 1.76 percent respectively.

Dubai Islamic Bank

Dubai Islamic Bank, world's first full Islamic bank, is the largest bank in UAE, established in 1975. The data provided in table 7.9 shows various modes of financing and investment offered by the Dubai Islamic bank, obtained from annual reports covering from 2006 till 2012. Dubai Islamic bank has used *musharakah, mudarabah, and wakalah* under investment activities, combined with *sukuks*. As shown in the table, the total Islamic financing and investment to total assets from 2006 till 2012 are 54.72 percent, 58.38 percent, 61.93 percent, 59.22 percent, 64.43 percent, 64.85 percent and 64.70 percent respectively. Dubai Islamic Bank has used various modes of financing and investment on the assets side of balance sheet. Dubai Islamic Bank has used

majority of its funds to finance through *murabahab*. The percentage of *murabahab* to total financing and investment is 44.54 percent in 2006, decreasing to 22.72 percent in 2012. *Musharakah*, the most preferable modes of financing in Islamic finance, represents 6.98 percent of total finance and investment in 2006, peaked to 18.32 percent in 2009, however has decreased to 11.06 percent in 2012. *Mudarabah* is 7.53 percent in 2006, reaching to 12 percent in 2008, while constitutes 6.31 percent of total financing and investment in 2012. Dubai Islamic Bank has also used with *wakalah* with small proportion representing 0.46 percent of total financing in 2006, while peaking to 5.14 percent in 2012. Another instrument under investment activities is *sukuks*, which represents 14.21 percent in 2006 and 15.20 percent in 2007 and discontinued after that.

Table 7.9: Allocation of Funds under Finance and Advances - Dubai Islamic Bank

Modes of Financing	2006	2007	2008	2009	2010	2011	2012
<i>Murabahab</i>	44.54%	39.41%	38.74%	35.11%	29.30%	27.62%	22.72%
<i>Musharakah</i>	6.98%	6.80%	16.72%	18.32%	15.07%	10.42%	11.06%
<i>Sukuks</i>	14.21%	15.20%	-	-	-	-	-
<i>Mudarabah</i>	7.53%	9.83%	12.00%	9.50%	5.75%	6.11%	6.31%
<i>Wakalah</i>	0.46%	0.36%	1.41%	1.65%	1.23%	2.97%	5.14%
<i>Ijarah</i>	14.88%	16.12%	16.55%	20.17%	34.51%	36.25%	39.25%
<i>Istisna</i>	10.98%	11.80%	14.05%	14.56%	11.30%	10.50%	7.28%
<i>Salam</i>	-	-	-	-	2.17%	5.34%	7.60%
Islamic Credit Card	0.40%	0.46%	0.52%	0.68%	0.67%	0.77%	0.64%
<i>Qard al-Hasan</i>	0.03%	0.01%	0.01%	0.01%	0.01%	0.00%	0.00%
Financing and Investment	35,255,447	48,887,841	52,659,011	49,924,941	57,171,067	58,750,977	61,699,446
Total assets	64,433,936	83,738,759	85,031,113	84,304,271	90,137,771	90,588,464	95,364,699
<i>Zakah</i>	4.55%	5.16%	8.27%	11.59%	18.01%	14.02%	14.48%

Source: www.dib.ac/investor-relations/financial-information/financial-reports

It can also be noted that Dubai Islamic Bank has also used *ijarah* as a mode of financing, representing 14.88 percent of total financing and investment in 2006, reaching to 9.25 percent in 2012. *Istisna*, contract used in manufacturing sector, is 10.98 percent in 2006, 11.80 percent in 2007, 14.05 percent in 2008, 14.56 percent in 2009, 11.30 percent in 2010, 10.50 percent in 2011 and 7.25 percent in 2012. Dubai Islamic Bank has also utilised *Salam* in 2010, representing 2.17 percent of total financing and investment in 2010, 5.34 percent in 2011 and 7.60 percent in 2012. The bank has also developed Islamic credit card, which constitutes 0.40 percent of total financing and investment by the bank in 2006, 0.46 percent in 2007, 0.52 percent in 2008, 0.68 percent in 2009, 0.67 percent in 2010, 0.77 percent in 2011 and 0.64 percent in 2012.

Dubai Islamic Bank has also devoted funds to *qard al-Hasan*, which is the desired financing mode in Qur'an and *Sunnah*, constitutes only 0.03 percent of total financing in 2006 and remained

below 0.01 percent from 2007 till 2012. Bank calculates *zakah* on pool of shareholders' equity less paid up capital donates land reserve and cumulative changes in fair value plus employees' end of service benefits and disbursed by a committee appointed by the board of directors. The percentage of *zakah* to net income from 2006 till 2012 are 4.55, 5.16 8.27, 11.59, 18.01, 14.02, and 14.48 percents respectively. Overall, the bank has invested their funds using various modes of Islamic financing and investment to provide *Shari'ah* complaint products to customers.

Qatar Islamic Bank

Qatar Islamic Bank, one of the largest providers of Islamic finance in Qatar was established in 1982. Qatar Islamic Bank offers various Islamic financing modes as shown in table 7.10, obtained from annual reports from covering data from 2006 till 2012. As can be seen, the total Islamic financing of Qatar Islamic bank to total assets from 2006 till 2010 are 48.06, 54.74, 56.24, 57.71, 56.62, 50.77 and 58.93 percents respectively. Qatar Islamic Bank has used various Islamic modes of financing comprising *musharakah*, *mudarabah*, *murabahah*, *musawama*, *istisna*, and *ijarah*. Even though, Qatar Islamic Bank has used both *musharakah* and *mudarabah* contracts on their assets side of the balance sheet to finance different activities, however, the percentage of *musharakah* and *mudarabah* compare to other modes of financing is insignificant. *Musharakah*, highly desirable contract in Islamic finance, constitutes only 0.17 percent of total financing in 2006, which has remained the same in 2007 and decreased to 0.001 percent in 2012. *Mudarabah* on other hand, even though received more funds in financing activities compared to *musharakah*, however has still received small percentage of total financing compared to other modes of financing. *Mudarabah* constitutes 3.37 percent of total financing 2006, which has increased to 9.23 percent in 2007. Furthermore, the percentages of financing through *mudarabah* from 2008 till 2012 are 5.87, 4.47, 2.91, 2.54 and 0.63 percents of total financing. Qatar Islamic Bank has used majority of funds to finance activities through *murabahah* and *musawama*, receiving 67.33 percent of total financing in 2006, 54.54 percent in 2007, 62.94 percent in 2008, 64.02 percent in 2009, 69.75 percent in 2010, 71.04 percent in 2011 and 75.85 percent in 2012.

With regards to *istisna*, the data provided in table 7.10 shows that such financing is 13.69 percent in 2006, 16.40 percent in 2007, 10.98 percent in 2008, 10.94 percent in 2009, 9.49 percent in 2010, 9.45 percent in 2011 and 5 percent in 2012. Qatar Islamic Bank has formed a committee, *zakah* Committee, responsible for collecting and distributing the *zakah* funds, according to the objective of corporate social responsibilities; however, there are no data available about *zakah* in the annual reports. Overall the data presented in table 7.10 shows various modes of financing

with limited use of *musharakah* and *mudarabah*, which in theory constitutes the foundation of the Islamic financial system.

Table 7.10: Allocation of Funds under Finance and Advances - Qatar Islamic Bank

Modes of Financing	2006	2007	2008	2009	2010	2011	2012
<i>Musharakah</i>	0.17%	0.17%	0.00%	0.23%	0.17%	0.17%	0.00%
<i>Murabahab</i> and <i>Musawama</i>	67.33%	54.54%	62.94%	64.02%	69.75%	71.04%	75.85%
<i>Istisna</i> contracts	13.69%	16.40%	10.98%	10.94%	9.49%	9.45%	5.00%
<i>Mudarabah</i> financing	3.37%	9.23%	5.87%	4.47%	2.91%	2.54%	0.63%
<i>Ijarah</i> financing	15.20%	18.17%	20.16%	20.13%	17.49%	16.73%	17.95%
Other	0.23%	1.50%	0.04%	0.22%	0.20%	0.07%	0.58%
Financing	7,156,007	11,679,082	18,865,895	22,663,482	29,351,773	29,595,870	43,137,334
Total assets	14,888,516	21,335,768	33,543,158	39,272,700	51,840,101	58,286,144	73,192,062

Source: www.qib.com.qa/en/footer/investor-relations/financial-reports.aspx

7.3.2. Analysing Distribution of Total Financing of the Sampled Banks

In table 7.11, the data shows composition of profit and loss sharing financing combined with *qard al-Hasan* financing compare to total financing for all banks. As can be seen in the table, Meezan bank has no financing through *mudarabah* financing and has been financing through *qard al-Hasan* since 2009. The combined financing through profit and loss schemes and *qard al-Hasan* in 2012 is 34.50% of total financing compare to 14.46% in 2006.

KFH and Al Rajhi banks have not financed any activity through profit and loss scheme or *qard al-Hasan*. ABC Bank introduced *musharakah* contracts in 2007 and *mudarabah* contracts in 2008, whereas the bank is not financing through *qard al-Hasan*. The financing through profit and loss in 2012 is only 0.10% of total financing.

Bahrain Islamic Bank has availed both *musharakah* and *mudarabah* modes of financing along with *qard al-Hasan*, constituting 11.33 percent in 2006, 17.27 percent in 2007, 23.21 percent in 2008, 21.41 percent in 2009, 17.84 percent in 2010, 19.69 percent in 2011 and 20.65 percent in 2012 of total financing. Bank Islam Malaysia, on other hand, has limited financing through *musharakah* in 2006 and 2007 while there is no financing through *qard al-Hasan*. The bank has only used *mudarabah* with virtually insignificant financing from 2006 till 2010. The combined financing through profit and loss schemes in 2006 is 0.70 percent of total financing, which further decreased to 0.05 percent in 2012. GFH financed activities only through *mudarabah* in 2006, constituting 5.18 percent of total financing. The bank did not finance any activity through profit and loss or *qard al-Hasan* afterward. Bank Muamalat Indonesia, fully adhering to the spirit of

IME by financing its activities through *musharakah*, *mudarabah* and *qard al-Hasan* constituting 60.68 percent in 2007, 49.46 percent in 2008, 55.11 percent in 2009, 54.40 percent in 2010, 52.56 percent and 45.83 percent in 2012 of total financings.

Table 7.11: Financing through *Musharakah*, *Mudarabah* and *Qard al-Hasan* – combined

Bank	PLS/gratuitous loan schemes	2006	2007	2008	2009	2010	2011	2012
Meezan Bank	<i>Musharakah</i>	14.46%	15.15%	23.55%	22.74%	27.30%	31.85	34.49
	<i>Mudarabah</i>	-	-	-	-	-		
	<i>Qard al-Hasan</i>	-	-	-	0.01%	0.01%	0.01%	0.01%
Kuwait Finance House	<i>Musharakah</i>	-	-	-	-	-	-	-
	<i>Mudarabah</i>	-	-	-	-	-	-	-
	<i>Qard al-basan</i>	-	-	-	-	-	-	-
ABC Bank	<i>Musharakah</i>	-	0.21%	0.32%	0.09%	0.10%	0%	0%
	<i>Mudarabah</i>	-	-	0.07%	0.09%	0.10%	0.11%	0.10%
	<i>Qard al-basan</i>	-	-	-	-	-	0%	0%
Al Rajhi Bank	<i>Musharakah</i>	-	-	-	-	-	-	-
	<i>Mudarabah</i>	-	-	-	-	-	-	-
	<i>Qard al-basan</i>	-	-	-	-	-	-	-
Bahrain Islamic Bank	<i>Musharakah</i>	4.16%	8.97%	13.40%	12.64%	11.67%	19.69%	20.65%
	<i>Mudarabah</i>	7.13%	8.27%	9.79%	8.75%	6.17%	0%	0%
	<i>Qard al-basan</i>	0.04%	0.03%	0.02%	0.02%	0.001%	0%	0%
Bank Islam Malaysia	<i>Musharakah</i>	0.49%	0.51%	-	-	-	0%	0%
	<i>Mudarabah</i>	0.21%	0.18%	0.09%	0.08%	0.05%	0.04%	0%
	<i>Qard al-basan</i>	-	-	-	-	-	0%	0%
Gulf finance House	<i>Musharakah</i>	-	-	-	-	-	-	-
	<i>Mudarabah</i>	5.18%	-	-	-	-	-	-
	<i>Qard al-basan</i>	-	-	-	-	-	-	-
Bank Muamalat Indonesia	<i>Musharakah</i>	-	16.46%	29.23%	40.21%	38.11%	36.97%	39.58
	<i>Mudarabah</i>	-	43.10%	18.46%	12.22%	8.82%	6.93%	6.21
	<i>Qard al-basan</i>	-	1.12%	1.77%	2.68%	7.47%	8.66%	3.92%
Dubai Bank	<i>Musharakah</i>	6.98%	6.80%	16.72%	18.32%	15.07%	10.42%	11.06%
	<i>Mudarabah</i>	7.53%	9.83%	12.00%	9.50%	5.75%	6.11%	6.31%
	<i>Qard al-basan</i>	0.03%	0.01%	0.01%	0.01%	0.01%	0%	0%
Qatar Islamic bank	<i>Musharakah</i>	0.17%	0.17%	0.00%	0.23%	0.17%	0.17%	0.00%
	<i>Mudarabah</i>	3.37%	9.23%	5.87%	4.47%	2.91%	2.54%	0.63%
	<i>Qard al-basan</i>	-	-	-	-	-	-	-

Dubai Bank, even though has limited but substantially higher compare to other competitors, financed activities through *musharakah*, *mudarabah* and *qard al-Hasan*. The percentage of financing through profit and loss and *qard al-Hasan* in 2006 is 14.54 percent, 16.64 percent in 2007, 28.73

percent in 2008, 27.83 percent in 2009, 20.83 percent in 2010, 16.53 percent in 2011 and 17.37 percent in 2012.

Qatar Islamic bank has even though availed *musharakah* and *mudarabah* instruments with limited financing, however, has not provided any details about *qard al-Hasan*. The percentage of combined *musharakah* and *mudarabah* in 2006 to total financing is 3.54 percent, 9.40 percent in 2007, 5.87 percent in 2008, 4.70 percent in 2009, 3.08 percent in 2010, 2.71 percent in 2011 and 0.63 percent in 2012.

It can easily be concluded from the analysis that utilization of *musharakah*, *mudarabah* and *qard al-Hasan* is insignificant compare to the overall development of the country or banking sector. All banks in the data provided used different financing techniques according to their own risk management.

7.4 EVALUATING ISLAMIC BANKS' FINANCING THROUGH ECONOMIC SECTORS

In this section, data is obtained from the annual reports of selected Islamic banks from 2006 till 2012, depending on the availability of data, to analyze the distribution of financing of the sampled Islamic banks over various industries or sectors to evaluate the role of these banks in the development and to conclude whether Islamic banks are contributing to *financialisation* of the economy or they are part of real economy through their financing activities. Analysis presented is based on the evaluation of the Islamic banks' financing across economic sectors.

Meezan Bank

The data in table 7.12 shows the sectoral distribution of financing of Meezan bank. The data is collected from the annual report covering from 2006 till 2012. As it can be seen, the bank has distributed the financing activities across many sectors. Agriculture, forestry, hunting and fishing sectors have only received 1 percent of total financing in 2006. Being an agricultural country, Pakistan economy is depended on the growth of agriculture sectors, however, the contribution of the bank to finance agricultural sector is insignificant. The percentage of financing in agriculture, forestry, hunting and fishing sectors have decreased to less than half a percent from 2007 till 2012. The majority of finances from the bank are received by the textile industry, which is the back bone of Pakistani export. Textile has received 35 percent of total financing in 2006, 31 percent in 2007, 26 percent in 2008, 30 percent in 2009, 33 percent in 2010, 24 percent in 2011 and 26 percent in 2012. Foot wears and leather garments have received 6 percent of total

financing in 2006, which has decreased to 3 percent in 2007 and 2008, 2 percent in 2009 and 2010 and 1 percent in 2011 and 2012 respectively.

Table 7.12: Sectoral Distribution of Financing Activities – Meezan Bank

Sectors	2006	2007	2008	2009	2010	2011	2012
Agriculture, forestry, hunting and fishing	1%	0%	0%	0%	0%	0.02%	0%
Textile	35%	31%	26%	30%	33%	24%	26%
Automobiles and transportation	5%	4%	2%	2%	2%	2%	1 %
Electronics and electrical appliances	0%	2%	2%	1%	4%	2%	1%
Construction	2%	3%	3%	2%	1%	0.03%	0.05%
Power (electricity), gas and water	1%	2%	5%	3%	4%	7%	8%
Exports / imports	2%	3%	5%	3%	2%	1%	1%
Transport, storage and communication	1%	1%	0%	0%	3%	-	1%
Chemicals and pharmaceuticals	4%	8%	7%	8%	7%	11%	12%
Sugar	3%	2%	2%	3%	2%	3%	3%
Footwear and leather garments	6%	3%	3%	2%	2%	1%	1%
Wholesale and retail trade	2%	7%	12%	6%	6%	0.03%	0.33%
Cement	0%	2%	5%	4%	7%	6%	3%
Services	0%	2%	2%	2%	2%	-	0%
Individuals	21%	21%	19%	14%	11%	10%	1%
Others	16%	10%	7%	20%	14%	33%	34%

Pakistani economy is facing shortage of electric power, which is severely damaging other power dependent sectors, however, the bank has only expanded 1 percent of total financing to the power sector in 2006, which has eventually increased to 8 percent in 2012, however it is still under par compare to the demand and necessity. Chemical and pharmaceutical industry, with high prospects of growth has received 4 percent of total financing in 2006, reaching to 12 percent in 2012.

Construction industry has not received more than 3 percent from 2006 till 2012. Automobile and transportation, sugar and wholesale and retail trade have received 2 to 7 percent of total financing from 2006 till 2012. Service sector is remained less than 2 percent of total financing from 2007 till 2012. Notably, individuals received 21 percent of total financing in 2006, and 2007, decreasing to 1 percent in 2012.

Kuwait Finance House (KFH)

The data provided in table 7.13, shows the sectoral distribution of financing activities of KFH obtained from annual reports covering from 2006 till 2011. As it is shown, the majority of funds in 2006 are received by banks and financial institutions comprising 45 percent of total financing.

The bank has expanded 34 percent of total financing to trading and manufacturing in 2006, while construction and real estate has received 17 percent of total financing. The financing of banks and institutions has increased to 54 percent in 2007, which decreased to 43 percent in 2008, 35 percent in 2009, and 31 percent in 2011.

Table 7.13: Sectoral Distribution of Financing Activities - KFH

Sectors	2006	2007	2008	2009	2010	2011
Trading and manufacturing	34%	26%	28%	19%	20%	21%
Banks and financial institutions	45%	54%	43%	35%	31%	31.1319%
Construction and real estate	17%	15%	17%	29%	28%	28%
Other	5%	6%	13%	18%	22%	20%

Trade and manufacturing has received 26 percent of total financing in 2007, 28 percent in 2008, and 19 percent in 2009, and remains around 20 percent till 2011. On the other hand, construction and real estate even though has received 15 percent in 2007, but increased to 17 percent in 2008, remains around 28% till 2011. The bank has also increased financing of other sectors from 5 percent in 2006 to 20 percent in 2010.

ABC Islamic Bank

The data showing financing activities of ABC Islamic bank over the industry sector is provided in the table 7.14, obtained from the annual reports covering from 2006 till 2012. In 2006, the bank has extended 34 percent of total financing to others banks and financing institutions compare to 13 percent in manufacturing industry, whereas, 18 percent of total financing went to the government and public sector, while communication has received 15 percent of total financing. On the other hand, oil and gas sector has only received 4 percent of total financing. In 2007, bank and financial institutions has received 26 percent of total financing compare to 19 percent in manufacturing sector.

The bank has also extended financing activities to commercial real estate which has received 17 percent of total financing in 2007. The percentage of financing in government and public sector has reduced to 6 percent, which decreased further to 3 percent of total financing in 2012. Bank and financial institutions sector has received 28 percent of total financing in 2008 and 2009 respectively and 35 percent in 2012, compare to 27 percent in manufacturing sector in 2008, which has increased to 32 percent in 2009 and 33 percent in 2012.

Table 7.14: Sectoral Distribution of Financing Activities - ABC Islamic Bank

Sector	2006	2007	2008	2009	2010	2011	2012
Manufacturing	13%	19%	27%	32%	36%	40.30%	33%
Construction	2%	19%	2%	2%	2%	1.60%	2%
Trading	1%	4%	3%	2%	2%	3.50%	6%
Mining and Quarrying	-	-	-	-	-	-	2%
Banks and financial institutions	34%	26%	28%	28%	34%	31.50%	36%
Government /public	18%	6%	4%	5%	3%	3.10%	3%
Tourism	-	-	-	2%	2%	2.00%	2%
Communication	15%	-	-	-	-	-	-
Commercial real estate	-	17%	30%	28%	19%	15.00%	15%
Oil and Gas	4%	3%	-	-	-	-	-
Technology, Media and Telecommunication	-	-	4%	-	-	-	-
Transportation	-	1%	2%	2%	1%	2.90%	2%
Other	13%	3%	0%	0%	0%	0.10%	1%

Financing in commercial real estate is boosted to 30 percent of total financing in 2008, which has decreased to 28 percent in 2009, and 15 percent in 2010. Transportation sector also received financing between 1 and 2 percents from 2007 till 2010.

Al Rajhi Bank

The data provided in table 7.15 provides details about sectoral distribution of financing by Al *Rajhi* bank. As it can be seen, 56 percent of total financing by Al *Rajhi* bank is extended to individuals compare to 2 percent in industrial and 2 percent in agricultural and fishing sectors in 2006. On the other hand, 14 percent of total financing is extended to commerce related industry, 10 percent to government and public sector and 13 percent to banks and other financial institutions. In 2007, the personal/individuals have received 52 percent of total financing compare to 3 percent in industrial sector and 1 percent in agricultural and fishing sector. Commerce has received 18 percent of total financing in 2007, while government and public sector has received 11 percent and banks and other financial institutions has received 7 percent in 2007. The individual/personal sector has received 37 percent of total financing in 2008, 39 percent in 2009, and 59 percent in 2011. On the other hand, industrial sector has received 4 percent in 2008, 7 percent in 2009 and 6 percent in 2010. Agricultural and fishing sector has remained at 1 percent of total financing till 2010.

Commerce sector has only received 25 percent and 18 percent in 2008 and 2009. Similarly, banks and other financing institutions have received 5 percent of total financing in 2008 and 9 percent in 2009 but no financing activities afterward. Government and public sector has received 17

percent and 16 percent of total financings in 2008 and 2009 respectively but has dropped to less than 1 percent in 2010 and 2011.

Table 7.15: Sectoral Distribution of Financing Activities - Al Rajhi Bank

Sector	2006	2007	2008	2009	2010	2011
Industrial	2%	3%	4%	7%	6%	7%
Building and Construction	3%	5%	6%	6%	10%	11%
Commerce	14%	18%	25%	18%	-	-
Banks and other financial institutions	13%	7%	5%	9%	-	-
Government /public	10%	11%	17%	16%	0%	-
Personal	56%	51%	37%	39%	53%	59%
Services	1%	2%	2%	3%	8%	6%
Agriculture and fishing	2%	1%	1%	1%	1%	0%
Commercial	-	-	-	-	20%	15%
Other	1%	2%	3%	1%	1%	2%

Building and construction sector, which received less than 6 percent from 2006 till 2009, has increased to 11 percent of total financing in 2011. The bank has also extended financing activities to commercial sector in 2010, which has received 20percent of total financing and 15% in 2011.

Bahrain Islamic Bank

The table 7.16 provides data of Bahrain Islamic bank, showing financing activities across different industrial sectors, obtained from the annual reports covering from 2006 till 2012. Bahrain Islamic Bank has extended majority of financing to banks and financial institution, which constitutes 71 percent of total financing in 2006, while commercial and real estate sectors constitute 9 percent and 7 percent of total financing. The bank has also finances others sectors including retailers constituting 13 percent of total financing in 2006. Bank and other financial institutions in 2007, has received 50 percent of total financing activities, while commercial and real estate has only received 9 percent and 5 percent of total financings respectively. Other sectors including retailers in 2007 have received 36 percent of total financing. The Bahrain Islamic bank has only expanded 9 percent of total financing to banks and financial institution in 2008, which is less than last year. However, commercial sector has received 40 percent of total financing in 2008 and real estate has received 4 percent. Furthermore, the bank has also expanded to other sectors including retailers constituting 47 percent of total financing during 2008. Bahrain Islamic bank has used 29 percent of funds financing activities in banking and financing institutions sectors in 2009, which has increased to 49 percent in 2010. However, the financing activities in bank and financial institutions have dropped to 10 percent and 13 percent

in 2011 and 2012. Commercial sector on the other hand, has remained at 40 percent in 2009 but has reduced to 27 percent of total financing in 2012 after peaking to 47 percent of total financing in 2011. The bank did not finance any activity in real estate during 2009 and 2010. Furthermore, other sectors including retailers have received 43 percent in 2011 and 60 percent in 2012 respectively.

Table 7.16: Sectoral Distribution of Financing Activities - Bahrain Islamic Bank

Sector	2006	2007	2008	2009	2010	2011	2012
Banks and financial institutions	71%	50%	9%	29%	49%	10%	13%
Commercial	9%	9%	40%	40%	27%	47%	27%
Real estate	7%	5%	4%	-	-	-	-
Other	13%	36%	47%	31%	24%	43%	60%

Bank Islam Malaysia

The data provided in table 7.17 shows the sectoral distribution of financing activities of Bank Islam Malaysia, obtained from the annual reports covering from 2006 till 2012. As it can be seen, the bank has distributed the financing activities across various sectors in the economy covering from manufacturing and construction to, mining and agriculture. However, real estate has received the majority of financing i.e. 33 percent of total financing in 2006.

Table 7.17: Sectoral Distribution of Financing Activities - Bank Islam Malaysia

Sector	2006	2007	2008	2009	2010	2011	2012
Manufacturing	12%	11%	11%	8%	6%	1%	5%
Construction	8%	7%	6%	5%	4%	5%	9%
Finance, insurance and business services	1%	1%	1%	1%	1%	2%	2%
Transportation/storage/communication	1%	1%	1%	1%	3%	2%	1%
Agriculture, hunting, forestry and fishing	1%	2%	1%	1%	2%	1%	1%
Real estate	33%	35%	32%	33%	2%	3%	3%
Mining and Quarrying	0%	0%	0%	0%	0%	0%	0%
Electricity, gas and water	1%	1%	1%	1%	1%	0%	1%
Wholesale & retail trade, and hotels & restaurants	5%	3%	5%	3%	4%	4%	3%
Community, social and personal including household	1%	1%	1%	0%	76%	75%	74%
Purchase of securities	5%	2%	2%	1%	-	-	-
Purchase of transport vehicles	19%	18%	14%	14%	-	-	-
Consumption credit	12%	15%	19%	22%	-	-	-
Education, health and others	-	-	-	-	1%	1%	1%
Other	2%	3%	7%	11%	0%	1%	0%

On the other hand, in 2006, purchase of transport vehicles sector has received 19 percent, manufacturing and consumption credit sectors have received 12 percent each. Agriculture,

hunting, forestry and fishing sectors have only received 1 percent in 2006. On the other hand, real estate has received majority of financing activities in 2007, 2008, and 2009, constituting 35 percent, 32 percent and 33 percent of total financing. The situation remained the same for financing transport vehicle during 2007, 2008 and 2009 receiving 18 percent, 14 percent and 14 percent; however, the bank has stopped financing transport vehicles in 2010.

The bank dealt likewise with consumption credit sector, contributing 15 percent of total financing in 2007, 19 percent in 2008, and 22 percent in 2009 but stopped financing consumption credit sector in 2010. Agriculture, hunting, forestry and fishing has received less than 2 percent of total financing of the bank from 2007 till 2012, which is one of the biggest contributors to real economy in Malaysia. Similarly, mining and quarrying sector, which is the main industry contributing to the economy of Malaysia, has received less than 1 percent of total financing from 2006 till 2012. Bank Islam Malaysia, which expands less than 1 percent of total financing to community social and personal sector from 2006 till 2009, has received 74 percent of total financing of the bank in 2012. Education, health and others have remained around 1 percent of total financing till 2012.

Gulf Financing House (GFH)

Table 7.18, provides data of financing activities of GFH, distributed across different sectors obtained from the annual reports covering from 2006 till 2011. GFH has financed majority of projects across only two sectors in 2006. GFH has expended 87 percent of total financing to development infrastructure sector, which includes mega project and real estate, whereas, only 6 percent of total financing is used to finance banks and financial activities and 7 percent is used to finance other projects. Development infrastructure sector has received 100 percent of total financing in 2007, and 2008, which has reduced to 49 percent of total financing in 2009. Banks and financial institutions sector has received 51 percent of total financing 2009 and 100 percent in 2011. The data regarding distribution of financing across different sectors clearly shows the limited role of community development by the bank.

Table 7.18: Sectoral Distribution of Financing Activities - GFH

Sector	2006	2007	2008	2009	2010	2011
Development Infrastructure	87%	100%	100%	49%		-
Banks and financial Institutions	6%	-	-	51%	100%	100%
Others	7%	-	-	-	-	-

Bank Muamalat Indonesia

The data provided in table 7.19 shows the financing activities of Bank Muamalat across different industries, obtained from the annual reports covering from 2007 till 2012. As it can be seen in the table, Bank Muamalat has channelled 44 percent of total financing to business services sector in 2007, which is the maximum amount of funds to a sector. The social and public sector has received 13 percent of total financing in 2007. Transportation sector has received 9 percent of total financing, whereas, trading and construction sectors has got 7 percent of total financing. Agriculture and manufacturing, two important sectors contributing to the economic development of emerging economics have only received 2 percent and 1 percent of total financing in 2007. Mining sector, also an important contributor to the economic development in Indonesia, has received only 2 percent of total financing, while electricity, gas and water sector has received less than 1 percent of total financing in 2007. Business services sector remained the dominant sector for receiving funds from the bank, receiving 47 percent in 2008, 42 percent in 2009, 40 percent in 2010 and 31 percent in 2011 and 2012 respectively. On the other hand, Bank Muamalat has expanded 12 percent of total financing to social and public sector in 2008, which reduced to 7 percent in 2009 and 4 percent in financial years 2010 and 2012. Transportation sector has received 9 percent of total financing in 2008, which has increased to 12 percent in 2009 but has decreased to 5 percent in 2010 and 2012.

Table 7.19: Sectoral Distribution of Financing Activities - Bank Muamalat Indonesia

Sector	2007	2008	2009	2010	2011	2012
Business services	44%	47%	42%	40%	31%	31%
social/public	13%	12%	7%	4%	3%	4%
Transportation	9%	9%	12%	9%	7%	5%
Trading	7%	6%	5%	5%	6%	5%
Construction	7%	8%	4%	8%	7%	8%
Agricultural	2%	1%	2%	1%	1%	1%
Manufacturing	1%	1%	2%	2%	3%	4%
Mining	2%	5%	3%	5%	6%	5%
Electricity, gas, and water	0%	0%	3%	7%	9%	7%
Real Estate	-	-	-	-	-	3%
Others	14%	11%	18%	20%	28%	27%

Bank Muamalat has channelled 6 percent of total financing to trading sector in 2008, while receiving 5 percent in 2009, 2010 and 2012. Construction sector has received 8 percent in 2008, 4 percent in 2009, which has increased to 8 percent in 2012. Agriculture and manufacture sectors, vital sectors of economy, have received 1 percent in 2008, and 2 percent in 2009. Agriculture

has received 1 percent in 2012 and manufacture has received 4 percent in 2012. Mining sector has still received less than 1 percent of total financing in 2008, which has increased to 3 percent in 2009 and 5 percent in 2012. Electricity, gas and water, important sectors to provide power to other sectors have received less than 1 percent in 2008 but have gradually increased to 3 percent of total financing 2009 and 7 percent in 2012. Real estate has also received 3 percent of total financing in 2012.

Dubai Islamic Bank

The data in table 7.20 shows the financing activities of Dubai Islamic Bank across various sectors, obtained from annual reports covering from 2006 till 2012. As shown in the table, the bank has extended 34 percent of total financing to real estate in 2006. Manufacturing and services sector has received 20 percent of total financing in 2006 and trade has received 16 percent of total financing. On the other hand, government and financing institutions have received 9 percent each in 2006. In 2007, the bank has expanded 37 percent financing to real estate, 25 percent to manufacturing and services, and 14 percent to personal financing. The government sector has received 9 percent and financial institutions have got 8 percent of total financing in 2007. In 2008, the finances expanded to real estate have remained at 37 percent, while manufacturing and services have received 22 percent of total financing. Financial institutions have received 9 percent, government has received 8 percent and personal financing has received 14 percent in 2008. Real estate has received 30 percent in 2012 compare to 40 percent in 2009. Personal financing including house financing are increased to 43 percent of total financing in 2012, compare to 16 percent in 2009. Manufacturing and services, on the other hand, have received 14 percent in 2010, compare to 25 percent in 2007. Financing institution received 9% in 2011 and 2% in 2012. Government sector has remained at 8 percent of total financing in both 2009 and 2010, but further has decreased to 7 percent in 2012. Trade sector has received only 5 percent of total financing in 2012, falling from 16 percent in 2006.

Table 7.20: Sectoral Distribution of Financing Activities - Dubai Islamic Bank

Sector	2006	2007	2008	2009	2010	2011	2012
Financial Institutions	9%	8%	9%	9%	6%	6%	2%
Real Estate	34%	37%	37%	40%	29%	31%	30%
Trade	16%	8%	10%	7%	5%	4%	5%
Government	9%	9%	8%	8%	8%	5%	7%
Manufacturing and services	20%	25%	22%	20%	16%	14%	14%
Personal financings and others	12%	14%	14%	16%	37%	41%	43%

Qatar Islamic Bank

The data provided in table 7.21 provides the sectoral distribution of financing activities of Qatar Islamic bank, obtained from the annual reports covering from 2006 till 2012. The bank has expanded 43 percent of total financing to housing sector while 26 percent to other consumer financing in 2006. Trade has received 16 percent of total financing compare to 1 percent by industrial sector in 2006, which has remained the same till 2008. The bank has also expanded financing activities to government sector, receiving 8 percent of total financing while semi-government sector has received less than 1 percent of total financing in 2006. The bank has also used contracts in the money market operation to finance different activities by expanding 5 percent of total financing in 2006. The bank has changed the composition of different financing activities in 2007. The housing sector has received 32 percent of total financing compare to 24 percent of total financing in consumer sector in 2007. On the other hand, trade has received 26 percent of total financing in 2007. The government sector has received 5 percent in 2007; however the semi-government shares have increased to 4 percent of total financing. The bank has also used the money market contract receiving 4 percent of total financing in 2007.

Table 7.21: Sectoral Distribution of Financing Activities - Qatar Islamic Bank

Sector	2006	2007	2008	2009	2010	2011	2012
Government	8%	5%	4%	2%	1%	1%	16%
Semi-government institutions	0%	4%	3%	8%	10%	6%	-
Industry	1%	1%	1%	0%	4%	1%	3%
Trading	16%	26%	20%	33%	27%	28%	-
Contracts	5%	4%	2%	8%	3%	5%	7%
Consumer financing	26%	24%	30%	16%	17%	13%	-
Housing	43%	32%	35%	31%	33%	42%	-
Others	1%	3%	5%	2%	5%	5%	4%
Non Banking financial institutions	-	-	-	-	-	-	5%
Commercial	-	-	-	-	-	-	15%
Services	-	-	-	-	-	-	4%
Real Estate	-	-	-	-	-	-	29%
Personal	-	-	-	-	-	-	16%

The bank has expanded 4 percent of total financing to government sector in 2008, which is 2 percent in 2009 and 1 percent in 2010, however if combined with semi-government sector, it becomes 7 percent of total financing in 2008, 10 percent in 2009 and 11 percent in 2010 respectively. The industrial sector has received 4 percent of financing in 2010 compare to less than 1 percent in 2009. Trading sector has received 20 percent in 2008, which has increased to 33 percent of total financing 2009 but has fallen to 27 percent in 2010. The bank has expanded

35 percent of total financing to house sector in 2008, but has dropped to 31 percent in 2009 and stayed at 33 percent of total financing in 2010.

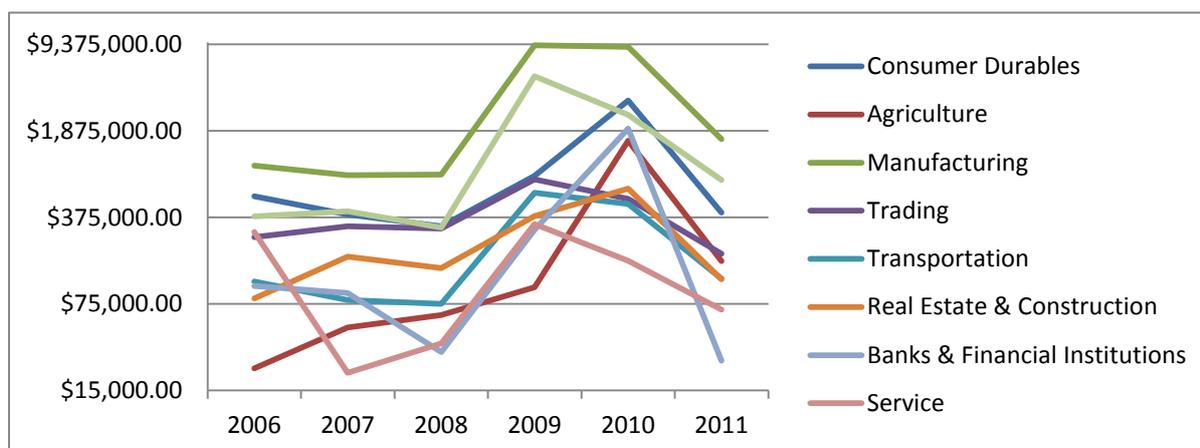
On the other hand, consumer financing is 30 percent of total financing in 2008, which decreased to 16 percent in 2009 and 17 percent in 2010. The bank has kept a steady financing in money market through various contracts using 2 percent of total financing in 2008, 8 percent in 2009 and 3 percent in 2010. Bank has diversified its financing activities across five more industries in 2012, ranging from 29 percent in real estate to 4 percent of total financing in services.

7.5 EVALUATING ISLAMIC BANKS' FINANCING AT COUNTRY LEVEL

This section while developed on the previous section, aims to present the financing distribution of all Islamic banks across various industries in eight countries. The data is visualised through trend analysis covering from 2006 till the end of 2011. The objective of this trend analysis is to show the overall financing activities of Islamic banks and their impact on real economy of these countries.

The financing activities of Islamic banks in Pakistan as shown in figure 7.2 clearly show that agriculture, which provides employment to the majority of population, has received the lowest level of financings, while industries with minimum direct impact on real economy have received majority of funds from Islamic banks. The downturn trend after 2010 shows the socio-economic situation of the country; especially power cuts have reduced the production across all industries in the country, which consequently has reduced their access to financings from the banks as well..

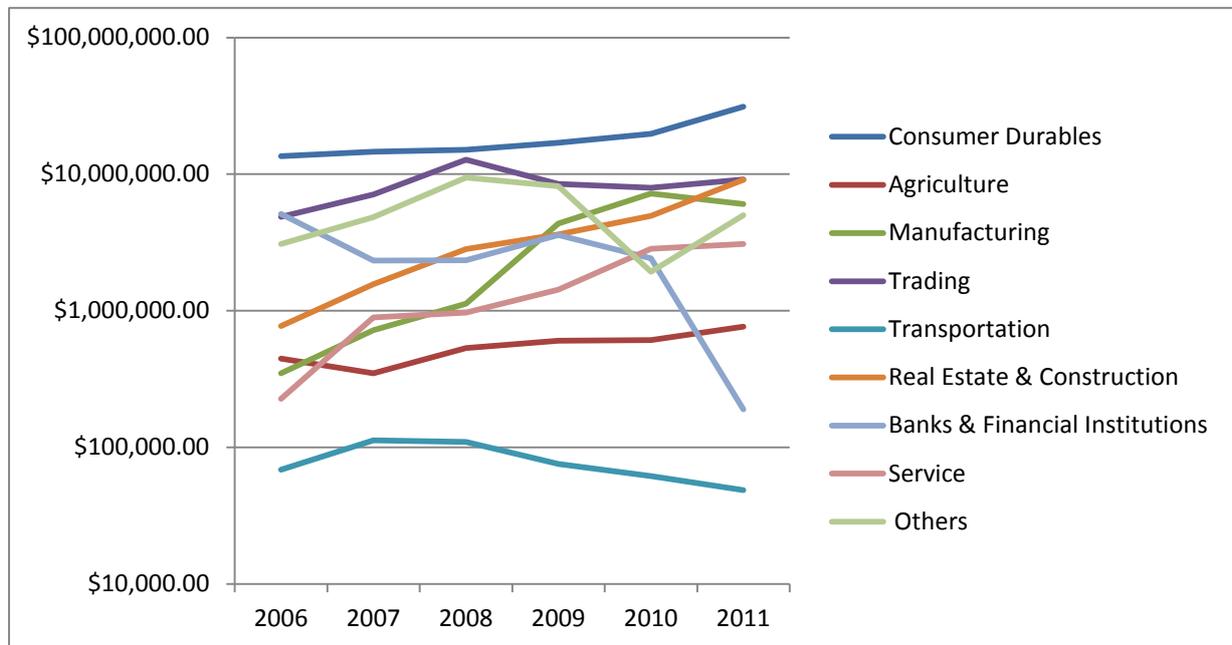
Figure 7.2: Sectoral Financing of all Islamic Banks - Pakistan



Government has been relying on borrowing from banks and other financial institutions to run day to day business activities, which could be one of the reasons for banks to further finance

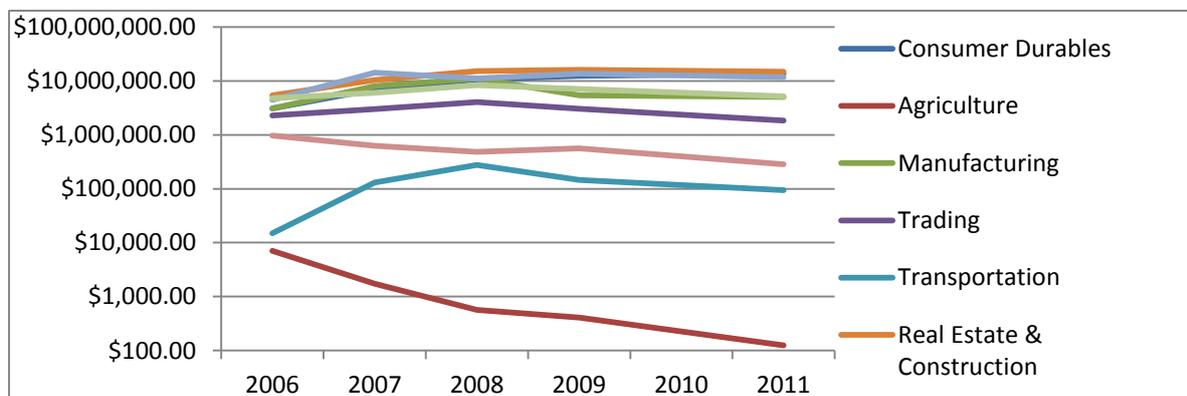
other banks especially with low rate of returns. The trend analysis of Islamic banks in Pakistan clearly shows the objective of these banks is merely maximization of profitability with no long term impact on the real economy.

Figure 7.3: Sectoral Financing of all Islamic Banks - Saudi Arabia



The trend analysis of financing activities of Islamic banks in Saudi Arabia as shown in figure 7.3 provides round about the same picture, with no contribution to long term economic development. On the contrary majority of the funds are contributed to industries with the objective of short term profitability. Islamic banks in Saudi Arabia have extended majority of their funds to consumer durables and trading related industries, while transportation and agriculture sectors have received least amount of funds, since such sectors demands long term investment with real contribution to economic development.

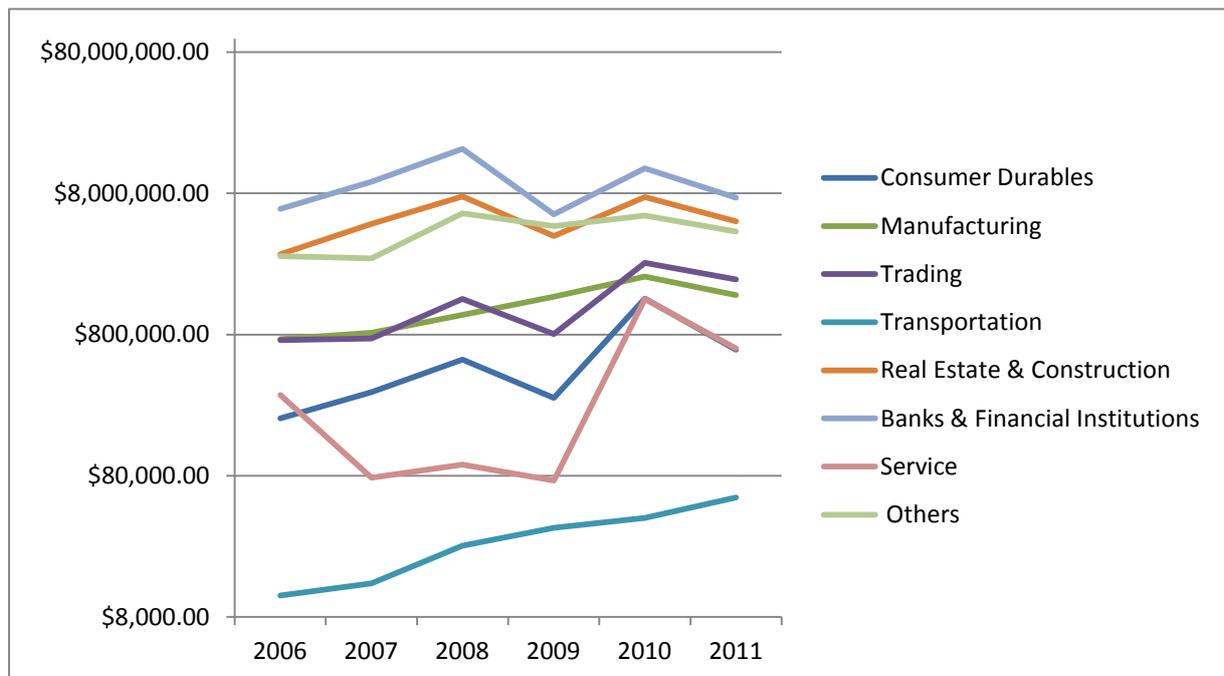
Figure 7.4: Sectoral Financing of all Islamic Banks - UAE



It seems the only objective of all Islamic banks is merely enhancing their profitability with as minimum risk as possible with no impact on real economy. There is substantial reduction of financing in bank and financial institutions industry since 2010.

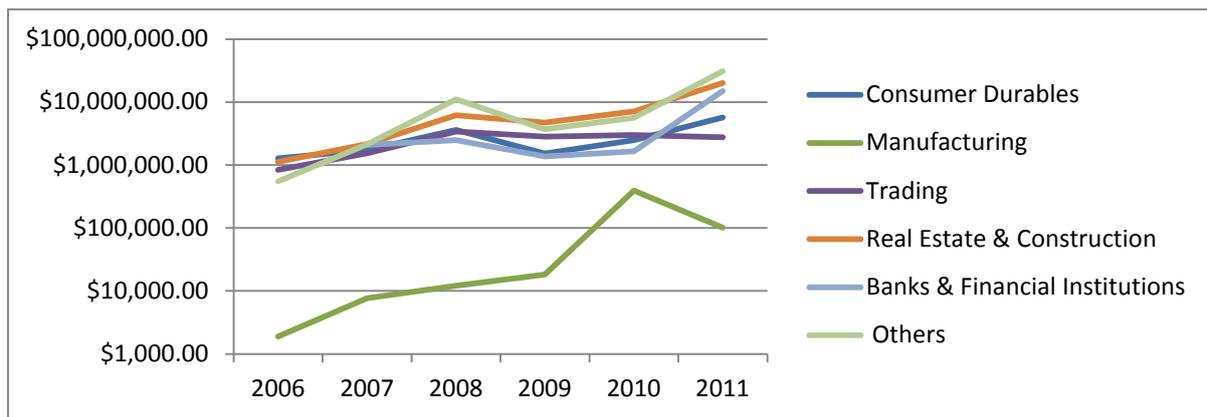
While manufacturing, trading and services sectors are roughly receiving the same proportion of financing throughout the years. There is no financing in agriculture sectors in Qatar, Bahrain and Kuwait, possible due to their geographical position and financial composition of their economy. Majority of financing by Islamic banks in these countries are done in consumer durables, trading, real estate and construction and banks and financial institutions as shown in figure 7.5, 7.6 and 7.7 respectively. Overall, there is a decreasing trend of financing by Islamic banks in Bahrain and Qatar, possibly due to financial crunch across the globe.

Figure 7.5: Sectoral Financing of all Islamic Banks – Bahrain



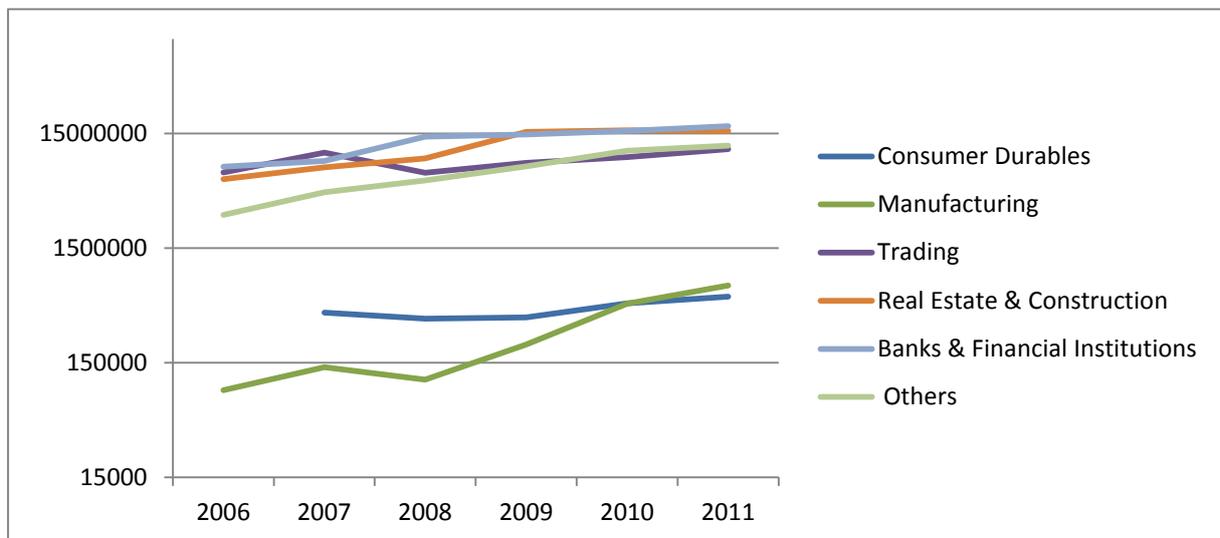
The situation is even alarming in UAE, where the trend of financing in agriculture sector is in decreasing trend. As it can be seen in figure 7.4, over the years, financing in agriculture is not only the least but also in downward trend, whereas majority of funds are extended to banks and financial institutions and consumers good. These countries are hit even harder by financial crunch due to majority of financing of Islamic banks in sectors such as banks and financial institutions, real estate and construction and trading with no real financing in long term projects as shown in figure 7.5 and 7.6.

Figure 7.6: Sectoral financing of all Islamic Banks – Qatar



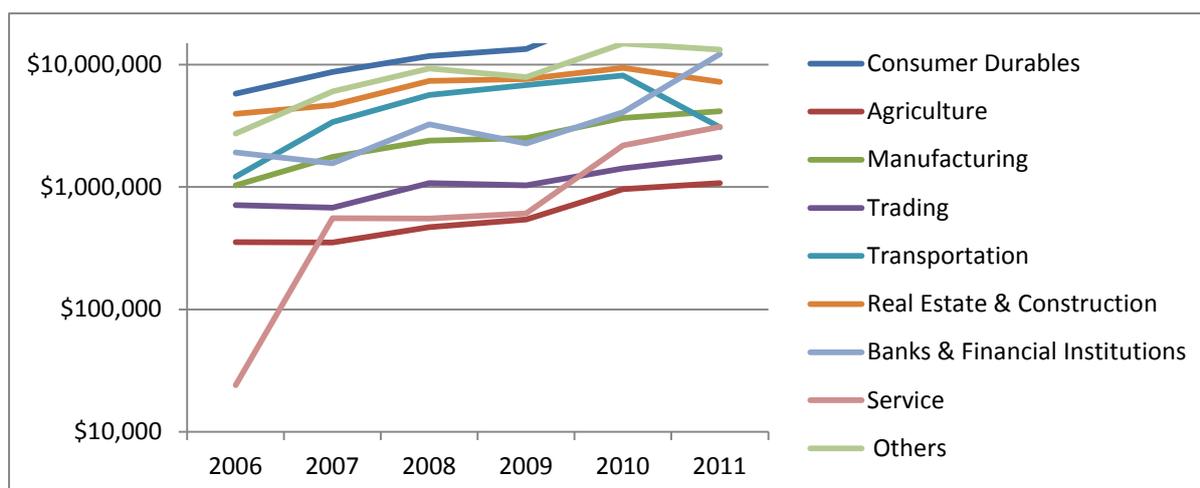
Even though, there is an upward trend of financing by Islamic banks in Kuwait, still majority of financing activities are extended to banks and financial institutions, real estate and construction and trading.

Figure 7.7: Sectoral financing of all Islamic Banks – Kuwait



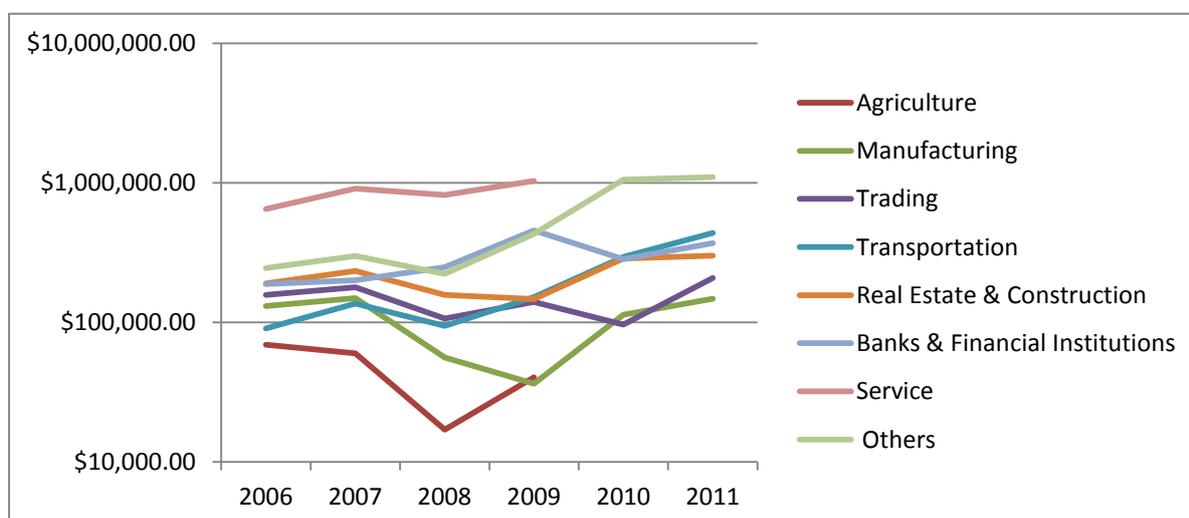
There is not much difference in Malaysia as well and the data represented through graph shows the same picture as shown figure 7.8. As it is shown, Agricultural sector has received the least amount of funds through the period studied, while consumer durables and real estate and construction receiving the most of financing. There is also upward growing trend of extension of funds to banks and other financial institutions since 2010. Service industry in Malaysia as we can see in figure 7.8 is also receiving more funds over the years.

Figure 7.8: Sectoral Financing of all Islamic Banks – Malaysia



Furthermore, Indonesia, where agriculture industry is one of biggest sectors of employment, has received the least financing while services and banks and financial institutions are receiving the most of financing as shown in figure 7.9. However, there is no data is available for both agriculture and services sector after 2009, with majority of funds are devoted to transformation and real estate and construction related industries.

Figure 7.9: Sectoral Financing of all Islamic Banks - Indonesia



The trend analyses of financing activities across different industries by Islamic banks in the above mentioned countries validate the same conclusion as discussed in the previous section. Islamic banks are contributing only to sectors having profit maximizing the sole objective with no contribution to the real economy. Hence, Islamic banks across different countries are contributing to *financialisation* of the economy rather being a part of real economy through their financing activities.

7.6 THE REASONS OF OPTING OUT OF PLS FINANCING IN ISLAMIC FINANCING

Almost all theoretical models in Islamic banking are dominated by PLS, however, actual practices as shown in the previous section clearly show a different picture, where majority of financing are done through less preferred modes of financings. Different explanations for this discrepancy between ideal and reality are as follow:

In practice, contract based on PLS are inherently vulnerable to agency problem as entrepreneurs have less incentives to put in effort and have more incentives to report less profit as compared to the self financing owner–manager (Dar *et al.*, 2000). Furthermore, due to moral hazards entrepreneurs can divert cash flows from the project either through the consumption of perquisites or through wasteful spending. Aggarwal and Yousaf (2000) present models to identify optimal contract for the bank under such conditions. They show that debt-like contracts are more profitable for banks than PLS contracts. Moreover, debt-like contracts also improve social welfare by allowing more projects to be undertaken that would otherwise not be under PLS. Hence, high quantity of mark-up based contracts offered by the Islamic banks is a rational choice given the environment they are operating. Second, in order for PLS to dominate in the financing of Islamic banks requires well defined property rights to function efficiently. On the contrary majority of Muslim countries are still lacking well defined or protected property rights. Therefore, in such scenario, PLS contracts will obviously be less attractive for Islamic banks and hence are deemed to fail if used.

Third, as mentioned before, Islamic banks are modelled in line with conventional banks. Therefore, Islamic banks and other Islamic investment companies have to offer relatively less risky modes of finance compare to PLS contracts for any given return in order to compete efficiently with other conventional banks and financial institutions, which are already established and more competitive. Fourth justification for less financing through PLS in reality, according to Dar (2000), is the restrictive role of shareholders (investors) in management. Such dichotomous financial structure of PLS contracts make Islamic banks non-participatory in nature, consequently creating an imbalance in the governance structure of PLS as proposed by the IBF.

Fifth, political turmoil especially in the Muslim world forces many institutions to opt for short term financing however, equity financing is not feasible for funding short term projects due to the ensuring high degree of risk. This makes IBF rely on debt –like modes of financing to ensure a certain degree of liquidity and risk. Furthermore, long-term investment are more favourable under PLS, however, banks in developing economies, where, beside political and economic

turmoil, financial markets are characterized by high degrees of imperfect information and rent seeking behaviours, therefore opt for short term debt-like instruments. This view is consistent with the fact that Islamic banks seem to lend short term primarily. Agriculture and industrial sectors are capital intensive which are unlikely to get funded under current environment conditions, where banks are likely to lend to companies engaged in trade and commerce

Sixth, Islamic banks choose to finance different projects through debt-like financing due to unfair treatment in taxation and hence a major obstacle in the use of PLS. While profit is taxed, interest is exempted on the ground that it constitutes a cost item. This legal discrimination and tax evasion make PLS less attractive to Islamic banks as a tool for reward sharing.

Seventh, IBF is still arguably a new industry with underdeveloped capital market. Secondary markets for trading in Islamic financial instruments, particularly PLS contracts are non-existent, which consequently so far has failed to mobilised financial resources effectively.

With increase in competition among Islamic banks and decrease in moral hazards and agency problems with well established property, and taxation law and developed Islamic capital market in Islamic counties will bring a shift toward equity in the future

Thus to conclude, Islamic finance to achieve its expected potential of growth and equality in society, it has to emphasise long term investment and economic growth and avoid confining itself to only short term, highly liquid and safe commodity trade and cost plus sale financing contracts. Long term investments are more risky but also payoff higher returns. Nonetheless, as discussed above, stumbling block to long-term finance is liquidity, informational problems, lack of level playing field between equity and debt financing, weak regulation and enforcement as well as non-protection of minority shareholder rights. The best tool of risk sharing to address the liquidity problem is provided by a developed and vibrant capital market including well-developed stock markets and other secondary capital markets for equity finance to motivate savers to provide financing and to supply entrepreneurs with sufficient resources for their projects. Thus developing an efficient stock market can effectively complement as well supplement the existing and future array of other Islamic finance instruments. It would provide the means for business and industry to raise capital. Such an active market would reduce the dominance of banks and debt financing where risks become concentrated and create system fragility. In addition, development of efficient institutions with sound governance framework is important for the emergence and growth of a sound financial system. Institutions lay the foundation of the system and the governance framework ensures that the rules are enforced so that the desired results are

achieved. Given the moral hazard and agency problems associated with equity-based financial contracts, institutions and governance become even more important in developing a risk-sharing financial system (Askari *et al.*, 2012)

7.7 EVALUATING THE FINANCIAL BEHAVIORAL NORMS OF MUSLIM CUSTOMERS OF ISLAMIC BANKS: DEMAND SIDE ANALYSIS

The reality of Muslim world arguably indicates that IBF does not represent the aspiration of IME nor fulfils the expectation of many Muslims, whom hoped IBF will be a way out. The above sections show that reality is against the aspirations and philosophical framework of IME. Islamic banks remain affiliated with efficiency and profit maximization while ignoring the importance of social efficiency. In the previous section, different explanations are suggested regarding why Islamic banks are opting for debt-like instruments against the spirit of IME, however, in this section, while presenting the demand side; we show how the behaviour and attitude of customers toward profit influence the financial compositions of Islamic banks.

There are many Muslim countries which are either based on Islam or majority of population are Muslim. It is expected that majority of rules and laws of such countries would also be based on religion. However, Rehman and Askari (2010), while developing Islamic economic index to measure the degree of religiosity of Islamic countries and to assess the adherence of Islamic countries to Islamic economic teachings through development shows that Islamic countries are not as Islamic, at least in the realm of economics, as one might expect. Instead most developed countries tend to place higher on Islamic Economic Index.

In addition, it is generally agreed upon by majority of scholars that the interest offered by the conventional banking system comes under the definition of *riba*; hence as a Muslim, one has to avoid dealing in such transactions. Therefore, Muslim ought to choose Islamic bank as the only likely alternative and the sole motivation factor while dealing with banks as depositors. Majority of studies has shown that the respondents indeed indicated religious inspiration as the most important factor in selecting Islamic banking (Al-Sultan, 1999; Bley *et al.*, 2004; Dusuki *et al.*, 2007; Omer, 1993; Osman *et al.*, 2009; Saad *et al.*, 1998).

In some studies, however, respondents did not perceive religious inspiration as a significant criterion, even the sample was taken among the Muslim populated community. For example, Dar (2004) conducted a survey among Muslim community, suggesting only five percent of the Muslim population preferred Islamic financial services over others. Moreover, other studies have

found higher rate of return as one of the important motivating factors to the depositors for selecting Islamic banks (Hamdan, 2007; Yusuf *et al.*, 2006). However, according to the *Shari'ah* complaint contracts on the deposit side (*wadi'ah*, *qard* and *mu'abah*), the return to the depositors is based on the return of the assets. Hence unlike conventional banks with pre-set rate of return, Islamic banks would only pay out to depositors' if the utilization of the depositors' fund is able to generate return from the invested assets. In another study, Chong and Liu (2009) conclude that in a long term, return on Islamic deposit schemes in profit and loss is positively related to conventional deposit rates, therefore any change in conventional deposit rates will cause changes in Islamic profit and loss schemes but not vice versa. The same result is also supported by Kasri and Kassim (2009) using evidence from Indonesia. According to Kasri *et al.* (2009), shocks in real interest rate of conventional banks negatively affects the Islamic deposit, which is supported by the finding of bank Indonesia (2005-2007), reporting significant withdrawal and transfer of funds in 2005. These results are also consistent with the Kassim *et al.* (2009), highlighting the exposure of the Islamic banks to the displaced commercial risks in the case of Malaysia.

Another finding about how rate of return is important to depositors in Pakistan can be seen by looking at the data (table. 7.22), which shows total deposits at National Savings Schemes (NSS) with respect to rate of return on such schemes. The average rate of return on NSS is provided in table from 1995 till 2010 along with NSS stock in each year.

Table 7.22: Total Deposits and Rate of Return at NSS

National Saving Schemes(NSS)	Average return (%)	NSS stock (in billion rupees)	National Saving Schemes(NSS)	Average return (%)	NSS stock (in billion rupees)
FY95	16.0	219.0	H1-FY04	8.5	844.0
FY96	18.0	262.0	H2-FY04	8.1	899.0
FY97	16.7	322.0	H1-FY05	8.0	821.0
FY98	17.4	425.0	H2-FY05	8.0	854.0
FY99	15.4	557.0	H1-FY06	9.1	775.0
H1-FY00	14.8	592.0	H2-FY06	9.8	882.0
H2-FY00	13.8	652.0	H1-FY07	10.0	903.0
H1-FY01	12.6	643.0	H2-FY07	10.2	940.0
H2-FY01	12.6	694.0	H1-FY08	10.7	971.0
H1-FY02	13.3	689.0	H2-FY08	12.1	1020.0
H2-FY02	13.0	792.0	H1-FY09	14.6	1069.0
H1-FY03	10.9	779.0	H2-FY09	13.8	1271.0
H2-FY03	9.3	909.0	H1-FY10	12.5	1368.0
			H2-FY10	12.5	1456.0

Source: State Bank of Pakistan

As it can be seen, the increase in average rate of return on such schemes is followed by increase in investment in NSS stock, while, the fall of average rate of return on these schemes have also caused a fall in investment in NSS stock. This shows the attitude of depositors toward the interest offered on these schemes. Such attitude toward NSS could be due to lack of awareness about basic knowledge of interests offered by such financial institutions.

Many studies have shown that depositors are aware about prohibition of *riba* in Islam however may not be able to differentiate the interest offered by such institutions from return offered by Islamic banks. The government, different education institutions and Islamic scholars (*ulama*) should educate the Muslim to change their behaviour and avoid *riba* related transaction even if this means sacrificing some worldly benefits.

In another latest study regarding the perception and attitude of Malaysian depositors, Mohd-Karim (2010) argues that the behaviour of depositors of Islamic bank seems to resemble to the behaviour of depositors of conventional banks, for example, Mohd-Karim proposes that 64.3 percent of the depositors of Islamic banks stated that they are concerned with the financial returns and around same numbers suggested their deposited money to be guaranteed by the government, specially due to the high risk nature of profit and share type of accounts with the Islamic banks. Mohd-Karim further argues that religious motivation is still considered high among Malaysian depositors. However, Mohd-Karim states that regardless of the desire nature of *Shari'ah* compliant contracts, the high level of awareness about the characteristics of profit sharing contracts is not being translated into a high level of understanding of depositors, thus majority of depositors still perceived profit sharing deposit account similar to other conventional banking deposit accounts, which promise contractual return and the principal deposit amounts are guaranteed. This can be partly attributed to the lack of understanding from Islamic bankers. Only 39 percent of respondents according to Mohd-Karim claimed that employees of the Islamic bank have explained the nature of underlying *Shari'ah* contracts.

Based on the above discussion the following conclusion can be made, first religious aspiration is an important factor for depositors when choosing Islamic bank over other conventional banks. Second, rate of return is also an important factor and it is found that depositor would consider switching their deposit to another bank Islamic or non Islamic if they are offering higher return. However, those studies which have used primary data (Al-Sultan, 1999; Bley & Kuehn, 2004; Dusuki & Abdullah, 2007; Omer, 1993; Osman, *et al.*, 2009; Saad & Mohammed, 1998) tend to show depositors either remain loyal to their Islamic bank, especially due to religious motivation or in worst case scenario will switch over to another Islamic bank, if it is performing financially

better than other banks. On the other hand, studies using secondary data (Chong & Liu, 2009; Haron *et al.*, 2000; Kasri & Kassim, 2009; Kassim, *et al.*, 2009; Omar *et al.*, 2007) show that depositors are reactive toward changes in the interest rate from the conventional banking sector. There are many possible explanations for such discrepancies, one reason could be that the studies that use primary sources unlike secondary data are based on hypothetical scenarios, allowing respondent to provide cautious replies especially when it comes to something related to the religion. Such replies may not reflect their actual behaviour in practice.

7.8 CONCLUSION

In the presence of thin financial market and underdeveloped institution, Islamic banks will provide Muslims with permissible analogues of conventional financial services and products that are generally consider impermissible in Islamic jurisdiction. As noted by El-Gamal (2005) in his study that Islamic products are the re-engineered version of conventional financial products approved by the jurists who are on Islamic financial institutions payroll. El-Gamal calls these products a *Shari'ah* arbitrage. He concludes that conventional banks use its regular funds to finance the purchase of assets in so called Islamic manner, through *murabahah* or *ijarah* finance.

Furthermore, recent developments of debt-like financing in Islamic finance for example *tawarooq* and *inah* are enthusiastically welcomed in the market as evident in Malaysia where sale of debt is allowed. Similarly GCC countries while disallow sale of debt, have permitted inclusion of small component of account receivable in a larger package of securities (Siddiqi, 2007). According to Siddiqi (2007) such development of debt-like instruments are due to Juristic discourse with primarily concern for the contractual aspects of these instruments. Nevertheless, Asutay (2007a) argues that such realities of financial markets where economic incentives are prioritised over religious behaviour norms have consequentially shifted the Islamic finance to become part of the international financial system, “in which it is recognised as heterogenization of financial products deprived of their value system imposed by utopian Islamic economics”. Thus has failed to produce the economic development promised by IME and promoted by the Islamic development.

After close analysis of current trend and preferences within IBF in recent years, Islamic finance in reality is far away from fulfilling the economic development's objectives. It is obvious that despite the earlier claims by the industry and scholars alike that IBF, after its infancy, would

move towards more authentic investment and partnership based financing as envisaged by Islamic economic writings; has in fact moved more towards debt-based financing.

As well as the majority of Islamic banks' financing activities are utilised for personal consumer loans or to finance real estate speculative bubbles, neither of which provides the deep, stable economic growth which Islamic economic thought claim to be superior to other systems. It is clear that IBF does not seem to be concerned for social or economic development, but rather aiming for more profit and wealth creation. In other words, despite the best intentions of IBF, the failure to achieve the broader aims of IME indicates the need for alternative, more diverse, financial institutions to fulfil the functions, which are much needed.

The objective of current practices of IBF is thus *financialisation* as opposed to financing according to IME expectations. The aim of the institutions according to Islamic development is to promote the welfare of human beings. Therefore, in such context, the objective of IBF is to help further promote and actualise the goals of the IME, ultimately the welfare of human beings. Even though, Islamic banks are based on western banking model with ultimate goal of profit making, however, such goals should be in line with the overall IME by promoting Islamic norms and values as well as protecting the needs of Islamic society as a whole. Unfortunately, Islamic finance according to Dar (2002) is seen an "elitist phenomenon without much grassroots level appeal", thus has been seen as another tool of injustice that only promote the agenda of self interest, in other words, capitalism.

However, with all criticism, currently there is no alternative available beside IBF to gather resources from mass and channelize those resources to promote economic development according to *Shari'ah*. The IBF even though has not promoted the objectives of IME as desired; however from legal perspective fulfil all contractual aspects as required by *Shari'ah*. Therefore, IBF are expected to adopt IME in a true essence to help promote economic development than mere legal requirement of *halal* or *haram*. The term '*at-tayyib*' is used in Qur'an and *Sunnah* to describe something that is good along *halal*. Hence, as Muslim, one should not be satisfied with just achieving something that is *halal*, but instead should strive for something that is also good or wholesome. If we are to adopt a similar approach in our endeavour to bring Islamic finance to greater heights, we therefore must not overlook the need to incorporate the element of *tayyib* into products and practices. This need is especially relevant when the Islamic Finance industry remains largely in an adaptive mode, as opposed to innovative, mode. The process of adapting a product or practice from conventional to *Shari'ah*-compliant may at times only focus on eliminating the *haram* while neglecting to incorporate the *Shari'ah* in the sense of *tayyib*.

Furthermore, it can be seen from the above discussion that depositors have placed high return on investment at the same level as religious motivation if not above. However, they still deal in *riba* based transaction. There are only two possible explanations for such behaviours, first, even with the awareness about *riba* and its prohibition in Islam; it is not easy for Muslims to differentiate *riba* based transactions from non-*riba* based transactions while dealing with financing institutions. Second, with all awareness about the Islamic position on *riba*, Muslims still prefer higher returns and intentionally act ignorant.

Muslims, no matter how rational economic decision sounds, should be guided by the Islamic doctrines, which require that Muslims should never place maximization of profit as a sole factor in establishing relations with banks and financial institutions specially *Shari'ah* based. It is the responsibility of every party in economic system to play an important role in educating the customers of banks and financial institutions about such issues while investing according to the *Shari'ah*. In practice, customers of banks especially Islamic banks are forcing their banks to find innovative ways to offer competitive returns on their investment. These banks are facing dilemma to either go bankrupt or adopt such techniques which allows these banks to run their businesses where interest is an important components and thus running their businesses against the spirit of *Shari'ah*.

Islam has clearly preferred trade over *riba*, which is prohibited, thus anyone who prefers financial transaction with even minimum amount of interest are going against the teaching of Qur'an. Such actions are *zulm* to one journey toward the ultimate end or *falah* and thus fail to achieve the real development.

It is understood that Islam does not stop one to compete and maximize their return; however such behaviours should be in line with the purpose of human beings *vis-à-vis* ultimate happiness or *falah* in *akhirah*. Banks and other financial institutions have to offer competitive contracts with high quality of services while still remain totally compliance with *maqasid al-Shari'ah*.

Chapter 8

CONCEPTUALISING THE ISLAMIC DEVELOPMENT PROCESS

8.1 INTRODUCTION

The previous chapters have rationalised the need and also laid the foundation for conceptualising a new Islamic development model, which is the main focus of this chapter. Before conceptualising the comprehensive Islamic development model by integrating the worldly aspect of development with the attainment of *falab* in *akbirah* and in this world, highlighting the importance of justice as a balance between the two, a theoretical framework of development process from al Ghazali's ethics is introduced. This study has utilised the Ghazalian's ethical framework of development process to link with the worldly development based on the Al-Ghazali's *maqasid al-Shari'ah* though Ibn Qayyim position is preferred with respect to extension of these *maqasid*. Hence, it is rather continuation of same discourse in this chapter with overall objective of attaining of *falab* in *akbirah*.

This constructivist attempt, hence, completes how Islam is understood to model development in this world leading to *falab* in *akbirah* and *dunya* or this world. In addition to the proposed model, different factors are discussed at micro-development level to see how such factors hinder the development both at individual and institutional level. Then, the model developed in this study is compared to Sen's *Theory of Capabilities*, which is a leading paradigm in development economics. In the end, an attempt is also made to reflect how such a development process and model can be actualised through various institutions and instruments available within IME and Islamic finance. This is expected to indicate an actualisation process for an authentic development process and model, at the heart of which 'justice' can be located as the essentialised aim of Islamic way of life.

It should be noted that the approach developed in this paper is based on IME perspective with the objective of framing normative rules for the study of Muslim societies and formulating a comprehensive Islamic development concept. However, it is also possible to develop other processes and models; depending on the assumptions and vision; the foundation for the model proposed here is based on certain assumptions and visions developed throughout the previous chapters, which aim to prioritise justice as the essential characteristic of an Islamic ideal. Whereas, axioms of IME (discussed in details in chapter 5) as operational principles and

mechanism of Islamic development model presented below, aim at equality and fair distribution of resources to create an ideal and just based society.

8.2 FALAH AND DEVELOPMENT – GHAZALIAN FRAMEWORK

As mentioned above, this section aims to present an attempt in modelling an Islamic development model, the underlying assumptions and framework of which benefits from Al-Ghazali. Before delving into the underpinning of this model, it is considered to be useful to provide a politico-economic understanding of the Ghazalian world to contextualise the principles derived from his work, which constitutes the foundations of the attempted model in this chapter.

8.2.1 Ghazalian Political Economy

Abu Hamid Muhammad al-Ghazali (1058 – 1111 A.D) is a medieval Muslim theologian, Sufi, Jurist, and one of the greatest thinkers in the history of Islam. Al-Ghazali eventful life in general is divided into three major periods. In first period or phase of his life, Al-Ghazali learned various branches of traditional Islamic religious sciences in his home town of Tus, Gurgan and Nizamiyyah madrasa in Nishapur in the northern part of Iran. Later he was appointed professor at the Nizamiyyah madrasa, representing the second phase of Al-Ghazali's life. During his tenure at Nizamiyyah, Al-Ghazali also studied the works of *falasifa* such as Avicenna, al-Farabi, and Miskawayh in an extremely close manner leading to the very clever response of the Incoherence of the Philosophers (*Tabāfut al-Falāsifa*). Other works that came out of the study of *falsafa* are The Standard of Knowledge in Logics (*Miyar al-Ilm fī fan al-Mantiq*), The Touchstone of Reasoning in Logic (*Mihāk al-Nazar fī al-mantiq*), the Balanced Book on What-To-Believe (*al-Qistas al-mustaqim*) and the most celebrated work the Revival of the Religious Sciences (*Ihya'ul ulumuddin*). The third phase is marked by his retirement, passing through spiritual crisis and eventually attaining a gnosis of external reality including a short period of teaching at Nizamiyyah (Abdul Mukti, 2005; Marmura, 1965).

Al-Ghazali's *Incoherence of the Philosophers* (*Taba fut al-falasifa*) (1963) marks the start of a significant development in medieval philosophy. In his *Incoherence*, al-Ghazali critiques twenty teachings of the *falasifa*, sixteen from their metaphysics and four from their natural sciences. According to al-Ghazali, three of those twenty teachings are not only unproven but also violate central tenets of Islam that all Muslims have agreed upon (Griffel, 2009). The first and most widely held position was that of “upholding [the world’s] past eternity: that it has never ceased to exist with Allah, exalted be He, to be an effect of His, to exist along with Him, not be posterior to Him in

time” (Al-Ghazali, 1963: 12). The second position, related to Plato, suggested that the world was created in time (Al-Ghazali, 1963: 12). The third position was agnostic in nature, and is found in the works of Galen; it holds that one can never know “whether the world is pre-eternal or temporally originated” (Al-Ghazali, 1963: 12).

In general, Al-Ghazali criticises the philosopher because of their arguments are based totally on rationality and intellect, while he insists that not everything in religion’s teaching can be perceived by human being’s intellect which is limited (Abdul Mukti, 2005). Al-Ghazali argues that the teachings of Islam are based on revelation, hence, reasons, rationality and intellect alone “cannot prove that the world has a creator, that two gods are impossible, that Allah is not a body, that He knows both others and Himself, and that the soul is a self-subsistent entity”(Watt, 1963: 59). In fact, in Al-Ghazali’s opinion, the relationship between religion and intellect is so close that they cannot be separated. Al-Ghazali (1958) claims that the intellect is the foundation on which the building of religion is based on, and it is not possible to imagine a building without foundation and a foundation without a building.

While there have been several studies on the works of Al-Ghazali; however, their main focus has been on his ethno-philosophical discourses. This may be from the fact that Al-Ghazali did not dictate even one book on economics, instead his thoughts on economic issues can be found, disseminated throughout his work, particularly, in *Ihya ulumuddin* (Al-`Allaf, 2006; Ghazanfar, 2003).

In Al-Ghazali’s view the hereafter is actually a place for ultimate rewards, whereas, worldly life is not only temporary but is also the place for struggle and preparation for one’s salvation. However, this struggle is not to be at the expense of neglecting mundane human affairs, including economic pursuits. Indeed, the rightful conduct of worldly life is a means and a pre-requisite for one’s salvation in the hereafter (Al-Ghazali, 2005: 60, vol 2).

Al-Ghazali considers the development of economy and pursuit of economic activities as part of *Shari’ah*-based socially-obligated duties (*fard kifayah*); and if they are not fulfilled, then worldly life would collapse and humanity would perish (Al-Ghazali, 2005: 83, vol 2). According to Al-Ghazali, there is nothing necessarily condemnable about the acquisitive behaviour of people, for the desire to acquire wealth and property is part of human nature and a means to achieve higher level of material well-being (Al-Ghazali, 2005: 290, vol 3). Al-Ghazali while rejecting forced equality of income and wealth in the society, argues that such behaviour will provide rationale for rulers to become tyrants and thieves and force people to surrender their surplus (Al-Ghazali,

2005: 280, vol 3). Alternatively, Al-Ghazali argues that the spirit of Islamic brotherhood must lead to voluntary sharing of one's wealth as part of one's *Shari'ah*-induced moral obligations and tendencies.

Even though Al-Ghazali considered acquisition of wealth and property as part of human nature, however, he defines any type of expenditure which is in excess of sufficiency as extravagance (Al-Ghazali, 1964: 284). In Al-Ghazali views, the purpose of *mal* is only to fulfil basic human needs, therefore, restriction the money where it should be spend is miserliness and spending it where it should not be spent is extravagance. However, the middle between these two extreme is the ideal and praiseworthy (Al-Ghazali, 2005: 259, vol 3).

In general, Al-Ghazali's analysis of economic issues and matters ranges from voluntary exchange and evolution including production activities as well as the role of money and barter system to the role of state in the economy and public finance (Ghazanfar *et al.*, 1998). Al-Ghazali also visualized the functioning of markets on the basis of an ethical moral code of conduct on the part of participants, especially he warned against hoarding of money and payment of interest, for both such actions cause money (gold and silver coins) to deviate from key functions of money for which, according to Al-Ghazali and others, Allah Almighty created money i.e. to serve as a measure of value and to facilitate exchange of goods and services (Ghazanfar, 2003; Ghazanfar & Islah, 1998).

Al-Ghazali considers false advertisement as one of the evils of the market which must be prohibited. He admonishes traders that "they should not give false information about weight, quantity, or the price. Such practices mean fraud, which is to be strictly prohibited" (Al-Ghazali, 2005: 75, vol 2). Categorically on the necessity for truth, honesty in business and avoidance of unnecessary exaggeration about the goods, he condemns practices such as adulteration, deceptive grading or marketing, and control of markets by secret dealings and price manipulations (Al-Ghazali, 2005: 78, vol 2). Thus in Al-Ghazali's opinion, markets are to function freely and must be free from deception, where participants behaviour should reflect *ihsan*, doing something extra for others in transaction beyond material benefits (Diaw, 2009; Ghazanfar *et al.*, 2003).

In brief Al-Ghazali's views of ethno-philosophical aspects of everyday life combined with his emphasis on the correct Islamic motivation on part of all economic agents not as mere means of promoting private gains but as socially obligatory duties may be one of the many insights that could help put IME on the right track and benefit all mankind. In addition, the *falab* process

through *ihساني* social capital can be easily traced back to Al Ghazali's views and positions. These concepts and processes constitute the main axis around which this research constructs its own model of Islamic development.

8.2.2 Modelling Islamic Development Process through Ghazalian Framework

Human beings throughout their lives struggle to discover and determine some end or meanings that will ensure the achievement of the greatest happiness both in this life and life after death. This end must be the ultimate and perfect in all senses, beyond which nothing can be desired. There are two aspects of happiness or success, worldly and otherworldly, as articulated by Al-Ghazali (2005: 12). The worldly happiness has its end or aim in this life only and has no concept of continuation in life after death, which in Al-Ghazali's opinion is not the ultimate happiness. Al-Ghazali proposes four characteristics of otherworldly happiness: 'continuity without end', 'joy without sorrow', 'knowledge without ignorance', and 'sufficiency' (*ḡinā*), after which nothing more is needed for perfect satisfaction (Al-Ghazali, 2005).

In the general hedonistic view, the aim of human life is to enjoy the pleasure and the delight of this world, according to Al-Ghazali (2005) is wrong for two reasons. The pleasure of this life will only last for a limited period of time that is until man's death and the pleasure of this world is impure and imperfect, mixed with pain, therefore, worldly pleasure cannot be the ultimate end or goal of life. However, this view does not mean that one needs to condemn all sort of pleasure in this world. What Al-Ghazali condemns is seeking the pleasure of this world both physical and intellectual as the ultimate goal of life. The true view of ultimate happiness is that the aim of human beings is otherworldly happiness (*as-sa 'ādat al-ukhraniyya* or *as-sa 'ādat al-haqiqiyya*) in a form of *falah* in the *akhirah*, which can only be achieved if the necessary preparation for it to be made in this life, by controlling the human qualities and not by uprooting them. This view is further supported by the objectives of *Shari'ah*, which put importance to the welfare of people and their relief from hardship to prepare them for the ultimate happiness. As discussed in the chapter 4, economic development in Islam is perceived as goal-oriented and value realising activity, directed toward the maximization of human well-being in all aspects and to ensure that all human needs are adequately satisfied. In such view, Islamic development requires optimality between material and spiritual development. The result of this optimality is the conduct of justice towards oneself and towards the others in the society, as the expectations according to *fitrah* and hence *rububiyyah* is also fulfilled. By reaching such a level, individual is expected to be successful in this world; and due to being successful within such a qualification implies that individual, hence, society as a result, fulfils the success in the *akhirah*, which is conditioned to the success in

this world. Hence, this is the sum of ‘Islamic development’ objective and this ultimate end or happiness is called *summum bonum* by different philosophers (Shafer-Landau, 2007). In chapter 5, a list of economic developmental goals; knowledge, work and social welfare system are proposed which not only satisfy the axioms of IME in general but also the *maqasid al-Shari’ah* in specific with objective of actualisation of justice in society. These developmental goals aim to achieve not only worldly development objectives but also help individuals to attain *falah* in *akbirah*. However, as explained in chapter 5, five *maqasid* suggested by Al-Ghazali may be considered as primary (*al-asliyyah*), others indicated by the Qur’an and the tradition and *ijmah* may be referred to as their corollaries (*tabi’ah*) which may keep on expanding and changing with the passage of time in order to formulate further developmental goals, due to developmental needs to ensure that all human rights are duly honoured and that all the different human needs are adequately satisfied (Chapra, 2008c; Naqvi, 2003; Siddiqi, 2004).

Thus in such context, these worldly developmental goals as a form of happiness (*sa’adat*) serves as means to otherworldly happiness, therefore any worldly conduct will be considered good if it is conducive to happiness in *akbirah* (Al-Ghazali, 2005). These forms of happiness are extrinsic in the sense as they are not valuable for its own sake but it facilitates getting or accomplishing *as-sa’adat al-ukhrawiyya* or *as-sa’adat al-haqiqiyya*, while the otherworldly happiness or *falah*, valuable for its own sake, is considered intrinsic. In this world, there are literally thousands of extrinsic values or goods serve the sole purpose of promoting the intrinsic or ultimate happiness (Wilson, 2011). This happiness and its achievement was the central theme of the teachings of all chosen prophets and all scriptures were revealed to encourage people to it, known from *Shari’ah* and also from the spiritual insight of the *sufis* (Nasr, 2002) .

Aristotle in *Nicomachean Ethics* (2002) also speaks of ‘happiness’ (*eudemonia*) as highest human good that ends in itself. According to Aristotle, the conception of happiness most commonly people have is not in line with the true happiness because people are generally deficient in ‘virtue’. ‘Virtue’ to Aristotle is a disposition to behave in the right manner, inculcated from a young age through constant practice. Furthermore, al-Fārābī on his account of the nature of soul and happiness relies much on Aristotle as well as on the neo-platonic commentators of Aristotle’s *De Anima* (Morewedge, 1992). According to al-Fārābī, an individual can reach to his ultimate destiny by going through three stages: in the first stage man ought to have a correct apprehension of the end and the ultimate destiny of his existence. In the second stage man ought to apprehend and determine right means to the ultimate destiny. The third and final stage is the attainment of immortality in order for one to reach the ultimate destiny; which in line with Qur’anic terms are

those who have faith (*imān*) and a record of good works will be immortal and happy. However Al-Ghazali criticises philosophical doctrine of destiny of the soul and charges them with infidelity because of their denial of the resurrection of the body (Aydin, 1982).

Al-Ghazali (2005) sees the ultimate happiness in paradise into two grades: lower and higher. Lower happiness is the attainment of sensual pleasures of foods, drinks, beautiful places and so on. This grade is appreciated for pious (*abrār, sālihūn*), the fearers of Allah (*muttaqūn*) and the people of right (*asāb al-yamīn*). The highest grade of happiness referred to nearness to Allah and gazing upon His glorious face for evermore. The pleasure of vision of Allah or encounter (*liqā*) with Him, in Al-Ghazali's opinion, is the highest happiness, the ultimate intrinsic good and the last of all forms of Allah's bounty. All pleasures are worthless when compared to the pleasure of contemplating the divine beauty as stated in the Qur'an (32:17): "No soul knoweth what is kept hid for them of joy, as a reward for what they used to do". This verse is also supported by a *hadith* stating that "I have prepared for My pious servants which no eye has ever seen, and no ear has ever heard, and no human heart has ever perceived but it is testified by the Book of Allah" (Muslim: Hadith 6780).

According to Al-Ghazali (2005), this grade is appropriate to the higher class of the virtuous consisting of prophets and those whom are closer to them including, saints (*awliyā*), the Gnostics (*arifūn*), the most truthful (*siddīqūn*) and the sincere (*mukhlisūn*).

8.2.2.1 The means to *falah*

Islamic teaching suggests that it is not possible to achieve *falah* in *akhirah* unless necessary preparation for it is made in this life. There are several kinds of goods or extrinsic goods in this world, which human beings can use to prepare their souls for attainment of *falah* as ultimate happiness. These are called means (*wasā'il*), which according to Al-Ghazali (2005) are divided into four main categories, where each category further includes four forms of good, making total number of means to sixteen. However, not all means are of equal importance, some are absolutely necessary and others are only useful, some are very near to attainment of *falah* in *akhirah* and relation of others to those means are comparatively remote. In the section below, we have discussed three most important categories related to our model as means to achieve *falah* in *akhirah*.

1. The excellences or goods of soul (*al-fadā'il al-Nafsiyya*)
2. The excellence or goods of body (*al-fadā'il al-Jismiyya or al-Badaniyya*)
3. The excellence or goods of environment (*al-fadā'il al-Kharijiyya or al-Mutifiyya*)

8.2.2.1.1 The excellences or goods of soul (*Al-fadā'il al-Nafsiyya*)

Al-fadā'il is the plural of *fadī'a*, which means 'merit', 'goodness', or 'worthy things' by which one can attain *falāh* in *akbirah*. The excellence or goods of soul according to Al-Ghazali (1964, 2005) are good character (*busn al-kbuluq*) and faith (*iman*). Moreover, good character is further divided into temperance and justice. The former is the repression of desire and anger while the latter is their repression to the extent that neither their demands are rejected, nor fulfilled but moderation or balance is observed. The temperance and justice not only involve the repression of desire and anger, but this repression also helps to acquire all other good and virtuous qualities of soul. Faith, second good of soul, is the knowledge of revelation and knowledge of practical religion, both are regarded together knowledge (Al-Ghazali, 1910). Thus the highest excellence of the soul of human being is knowledge, which is the distinctive feature and the highest *sa'āda*. Al-Ghazali (1964: 19-20) writes:

The *sa'āda* of man consists in the apprehension of the true nature of intellectual truths, free from senseless imaginings and sense-perceptions which man shares with animals.... When man subjugates flesh, thus delivering reason from its bondage, and begins to study not only the heavens and the earth with careful reflection and deep observations, but also his own soul and the wonders created within and thereby reaches the perfection peculiar to him, he has achieved *sa'āda*, for *sa'āda* only means the achievement of the soul of perfection that is possible to it.

Al-Ghazali in *Ihya ulum-din* (2005: 8, vol 3) using the Greek concept of *telos* - the belief that every particular thing in the universe has an end or a goal and toward which it naturally moves, writes:

The body is the vehicle of the soul; the soul is the abode of knowledge and the knowledge is the end of man, the purpose for which he has been created.

Al-Ghazali explains the nature of this knowledge and argues that characteristics of man are knowledge and wisdom, while the highest kind of any knowledge is the knowledge of Allah, His attributes and actions. The goal of man is the perfection of his *sa'āda*, making him to be able to attain proximity to the Allah (Al-Ghazali, 2005: 8, vol 3), as the definition and articulation of development in Islam.

In addition, acquiring knowledge and wisdom, and improvement of soul through good qualities is only achieved by means of actions (*'amal*) (Al-Ghazali, 1964: 13). Therefore, the combination of these two goods of soul; faith or knowledge (*ilm*) and all the praiseworthy qualities of soul through actions (*'amal*) are considered the nearest means to achieve *falāh* in *akbirah*.

As discussed in the chapter 5, the stance of knowledge in Islam is dominated by the principle of *tawhid*, according to which, Allah is the source and fountain of all human beings' knowledge. Hence, knowledge and the struggle to acquire it through proper *'amal* hold both worldly and spiritual dimension in Islamic teaching and become a mean to salvation of soul and integral part of developmentalism. Therefore, the approach toward human development process in Islam is holistic, where knowledge (*'ilm*) and all necessary preparation through right *'amal* to acquire as well internalised it occupy a central role. Furthermore, also discussed in the chapter 5, the fundamental principles of IME such as *tawhid*, *kehalifah*, *'adl*, *tazkiyyah*, *fard*, and *maqasid al Shari'ah* can only be rationalised in a society to achieve the development both worldly and *falah* in *akhirah* envisaged by Islam through promoting the role of both Islamic and scientific knowledge. The knowledge discussed in chapter 5 and in this chapter with respect to morals and ethics are process related, however, knowledge relates to economic development is outcome related and hence not dealt with in details.

8.2.2.1.2 The excellence or goods of body (*al-fadū'il al-Jismiyya* or *al-Badaniyya*)

The bodily goods such as health, strength, and long life, help in the realization of happiness. The rank of bodily goods in acquiring the ultimate happiness in *akhirah*, however, is below than the goods of soul. Nevertheless, knowledge and action (goods of soul) even cannot be pursued without sound health and strength. A long life (*tūl al-umer*) helps human beings to be better prepared for achieving *falah* by offering greater opportunities for acts of worship and relationship with others in society (*muamalat*) and attainment of perfection of soul. (Al-Ghazali, 1964: 113-14; 2005: 91-92, vol 4). This also means that resources of Allah should also be shared with others in the community to have a healthy *ummah*. Everyone ought to contribute to the betterment of the society and help to realise the objectives of development.

As discussed in the chapter 5, the goal of development articulated by *maqasid al-Shari'ah* and fundamental axioms of IME is the promotion of a social security system to operate in four areas, beginning with family, community at large, followed by cooperation among smaller groups and association and lastly supported through the legal payments of *zakah* and voluntary charities (Kamali, 2010). Such practices seek to guarantee social and economic justice for its citizens to fulfil essential needs as food, clothing, shelter, health and education. In fact, fulfilling the needs of needy is a collective obligation because *protection of life* is one of the cardinal objectives of *Shari'ah*. *Religion*, another objective of *Shari'ah*, can only be preserved through acquiring knowledge, an important element of Islamic development to actualise *falah* in hereafter, and

through performance of obligatory duties. Yet both of which presumes physical fitness, survival and basic needs such as minimum clothing, food and housing (Kamali, 2010; Siddiqi, 1996).

8.2.2.1.3 The excellence or goods of environment (*al-fadū'il al-kharijiyya or al-kutifiyya*)

Islamic teaching suggests that the goods exterior to body or the excellence of environment such as wealth, position, family, pedigree, friends and social status are not essential for the attainment of ultimate happiness in *akhirah* however only helpful to attainment *falab* (Al-Ghazali, 1964: 110-13). Therefore, the status of exteriors to body goods, according to Al-Ghazali, is below the status of bodily goods. Wealth, which is just enough for simple needs of an individual is useful in many ways, as minimum amount of wealth makes people free from the care of necessities of life and enable them to devote more time to attainment of knowledge and action but excessive wealth is full with dangers to the soul. For example, position (*Al-Jāb*) is useful in the sense that it can repel enemies who may disturb or stop one from acquisition of knowledge, thus support and prepare one for attainment of ultimate happiness in *akhirah* safely and securely. This guarantee a minimum level of living for all in the society through contributions from well off in the form of *zakab* as compulsory taxes and volunteer contribution in the form of charities. Similarly, family, relatives and friends are also useful and help a person in their worldly affairs and thus give them a better opportunity to attain the knowledge for ultimate happiness in *akhirah*. Such practices contribute to the Islamic concept of brotherhood, co-operation and sharing in the society to create one *ummah*. Furthermore, noble pedigree (*karm al-'Ashira*) is a blessing from Allah but according to Al-Ghazali, noble pedigree actually means a birth in a religious family rather in a rich or tyrant family (Al-Ghazali, 1964: 111-13; 2005: 90-1, vol 4). These excellences of environment mark a creation of society, which is based on the understanding of *tawhid*, and a belief that everything is from Allah and we have to return to Him in the end to be judge for all actions in this world. Hence, as a trustee on this earth, we have to utilise all the resources we are blessed with as *amanah* to promote the overall development of society in order to maximize *ibnsani* social capital.

In addition, the attainment of one excellence as mean to *falab* is not possible without the perfection of lower level of goods. Hence in such categorization, the goods of soul according to Al-Ghazali depend upon the goods of the body. All these goods in their turn depend on the goods of environment (Al-Ghazali, 1964: 109; 2005: 89, vol 4). Thus, the path to the attainment of *falab* in *akhirah* is only possible through goods of soul using both bodily and external goods. However, the only means which are most directly related to the *falab* are the knowledge and action.

The primary means to ultimate happiness, according to Al-Ghazali (1964) are the goods of souls, which are reducible to knowledge (*‘ilm*) and action (*‘amal*), without which *‘alab* cannot be achievable. Al-Ghazali in his life criticized both philosophers and a class of religious scholars who believed that knowledge alone is the means to their salvation and were busy ‘acquiring’ knowledge without ‘action’. Consequently, they (mistakenly) believed that through their knowledge they had reached to the stage where they will not be punished for their sins. For Al-Ghazali, however, the need for both knowledge and action is the core teaching of Islam and are mentioned in Qur’an. Al-Ghazali, in the *Jawahir* (1977) classifies all verses in Qur’an in to those which are concerned with knowledge and those concerning with action. He believes that through the means of knowledge and action man rises from the rank of lower animals to those who behold the beauty of Allah’s Glorious face (Al-Ghazali, 2005: 21, vol 1).

In addition, actions are not just limited to the specific devotional acts (*‘ibādāt*) but it also includes, according to Qur’an and hadith, any kind of good deed, whether related to man’s outward (*ẓāhir*) or inward (*bātin*). However, in Al-Ghazali’s (2005, vol 1) opinion, Muslim scholars emphasize on only the acts of the outward self but totally disregarded inward deeds. Therefore, in Ghazalian ethics, the word action has a very wide connotation, it not only includes the actions of the outward self (*Al-a’māl aẓ-ẓāhira*), but also the actions of the inward self (*Al-a’māl al-bātinā*). In addition, there are two divisions of the outward self in Al-Ghazali’s ethics, devotional acts directed towards Allah (*‘ibādāt*) and the good acts or deeds performed towards one family and society (*ādāt*). Similarly, the inward self has further two divisions, action of purifying the soul (*tazkiyat al-qalb*) from evil character-traits, and the action of making the soul beautiful (*tabliyat – al-qalb*) with good qualities. The word *tazkiyyah* in Qur’an (e.g. 2:222; 9:108) has been used at several places donating all acts of purification toward inward self from the state of shirk (association) and *kufr* (disobedience) and replacing with spiritual purity, *taqwa* and piety. Similarly, *tazkiyyah* is also to be considered as another important axiom in IME directly relates to the nature of development. At the individual level, *tazkiyyah* is an important process to ensure the purity of a believer from any non-Islamic elements that will nullify his/her conviction and submission to Allah. At the society level, *tazkiyyah* is important to purify the community as a whole from *jahiliyyah* (the state of inner instability) and other non-Islamic elements such as *kufr* (disobedience), *nifaq* (hypocrisy), *ma’siyah* (sinful), *ẓulm* (injustice) etc (Ansari, 1973: 299-315). In IME, the concept of *tazkiyyah* has been used as a subject that “concerned with growth towards perfection through purification of attitudes and relationships”(Ahmad, 1994: 20) . According to Ahmad (1994: 20) “the result of *tazkiyyah* is [therefore] *‘alab*, prosperity in this world and the

hereafter”, hence it has dual roles in determining the efficacy of economic activities according to Islamic standards. It has been used to explain the natural consequence of *tawhid*, ‘*adl*, and *rububiyah* in an integrated manner, as it directs the individual towards self-development, which leads to economic and social development in harmony with growth that requires purification (Asutay, 2007b: 7). Alternately, *tazkiyyah* refers to growing in every aspect of life in complete harmony. Consequently while explaining the role of *tazkiyyah* as a foundational principal for economic growth and development from Islamic viewpoint, Sardar (1999: 58) maintains that “*tazkiyyah* dictates that growth policies at the national level consist of four basic components: self-reliance, self-sufficiency, social justice and cultural authenticity.” Thus to conclude, these four types of actions form the whole practical or ‘*amal* aspect of Al-Ghazali’s ethics (Quasem, 1975: 58-71).

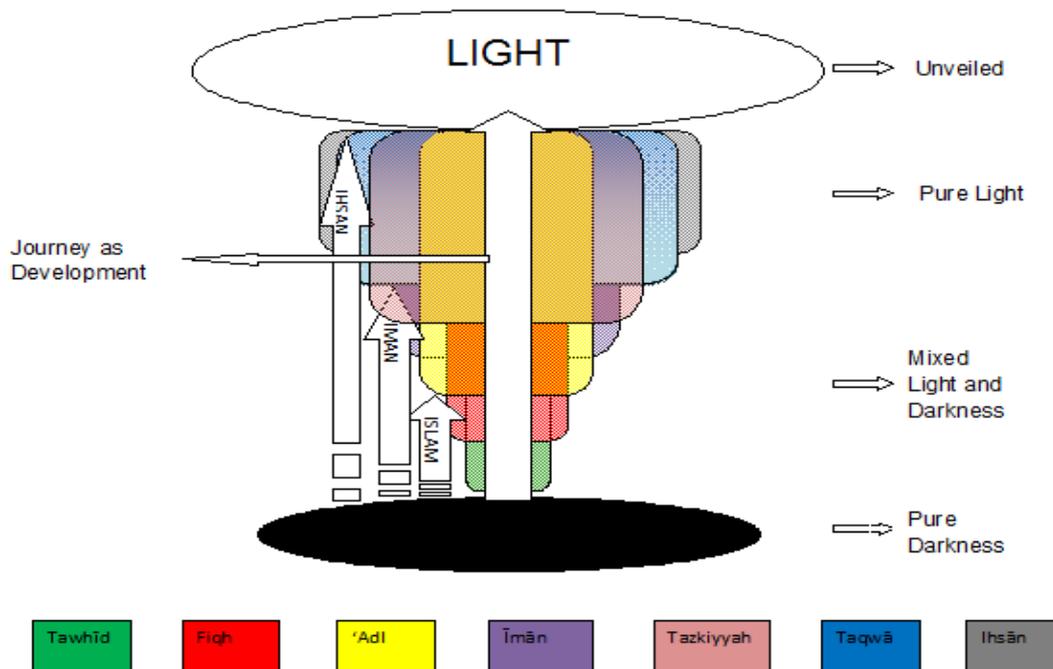
The action and knowledge through excellence of body and environment, hence, in Al-Ghazali framework represents both the vertical ethical dimension of Islam, “linking the imperfect and finite social institutions with a Perfect and Infinite Being” (Naqvi, 1994: 26) and horizontal dimension of equality to establish justice and promote *ihsan* (beneficence) through need fulfilment of their family, and the whole society, and equitable distribution of income and wealth in society to promote growth and stability (Asutay, 2007b). Thus, help to create a society based on justice, equality, brotherhood, and co-operation. In the context of IME approach to development, acquiring *ilm* and wisdom promote the awareness of Allah and that He is the Creator and ultimate Owner of resources (*tawhid*), through knowledge individual must actualise in their actions that all resources available are ultimately owned by Allah, thus He is the Provider, Sustainer and Maintainer (*rububiyah*). Therefore, all these resources must not to be consumed for individual selfish sake only, rather as a trustee or vicegerent of Allah on earth, human beings must undertake upon themselves to allow its benefits to be shared equitably, and justly among mankind (Ghazali, 1990). These rules, hence, provide the framework for economic activity in a social sphere to take place within Islamic norms (Asutay, 2007b); and also implies the vertical ethical dimension in the sense that each individual is equal in terms of their proximity to Allah and hence in their access to the resources created by Allah. In addition, good of body and environment representing horizontal dimension of equality, according to IME paradigm, “directs individuals toward self-development, economic and social development in a harmony in the sense that whatever the growth activity is it should be purified” (Asutay, 2007b: 8), to achieve wellbeing in this world as well as *falah* in *akhirah*. Thus, *tazkiyyah* is an extension of horizontal dimension of equality, in the sense of establishing equilibrium and harmony between all the stakeholders in a society through *adalah* and *ihsan*.

In the next section, development model in Islam is presented linking worldly aspect of development with the spiritual aspect utilising the Ghazalian framework. The aim of presenting the development model in Islam is to show how one can attain *falāh*, which is then combined with the worldly developments proposed in chapter 5, to complete the concept of development from Islamic perspective

8.3 ATTEMPTING MODEL JUSTICE AND DEVELOPMENT PROCESS WITHIN ISLAMIC MORAL ECONOMY

In Islam, development is not just limited to the economic aspects but also includes moral, spiritual, social opportunities, political freedom and universal uplift. Islam acknowledges material development in the framework of religion; however, the focus is on spiritual development as it prevents the material development from any deviation from the true and straight path and accompanies human beings in this worldly life and in the life after death. Development according to Islam should be wholesome with a balance and harmony among material, cultural, political, spiritual and moral values.

Figure 8.1: Islamic Development Paradigm



Zaman and Asutay (2009) conceptualise an aspiring paradigm of development in Islam while elucidating how human development is an interactive dynamic process along the journey toward

the ultimate happiness as shown in figure 8.1. As we can see in figure 8.1, *tawhid* is the core, which is the beginning, the middle and the end of the journey, of the dynamic model of development followed by *fiqh*, *‘adl*, *iman*, *tazkiyyah*, *taqwa* and *ihsan*, as shown by arrows toward light representing *falah* in figure 8.1.

In this model, *fiqh* relates to the ‘form’ or the ‘rules’ of the development process; *adl* constitutes the main substance; *iman* represents the actualisation of *tawhid* by internalising the articulation of it in every aspect of life; *tazkiyyah* is the process itself by referring to ‘growth in harmony’ for individuals, biological and social environment; *taqwa* represent the actualisation of this development process by including *adl* and acting on it through *iman*; and lastly in this development process, *taqwa* stands for individual *falah* reaching to the ‘actualised’ *iman*, *ihsan* refers to social capital in the sense of expanding individual *taqwa* for helping others to reach *taqwa* as well.

According to Zaman and Asutay (2009), every aspect of life under Islam follows a similar path of progression from *tawhid* to *fiqh* and *iman* through to *tazkiyyah* and *ihsan* as shown in figure 8.1. This path of progression is clearly mentioned in Qur’an in terms of journey along the straight path (*al sirat al-mustaqim*). As it can be seen in figure 8.1, the journey to development is represented by the arrow, a movement start from the initial core of *tawhid* and passing through different grades toward Light which symbolises the realization of the vision of Allah in next world, the ultimate end or *falah*, termed as the highest grade in the journey (Al-Ghazali, 1910). According to Zaman and Asutay (2009), the actualisation of belief in Allah (*tawhid*) is no doubt simultaneously both the foundation of all Islamic activity and the essential core of any potential ‘development’ if they are to succeed. However, if this pre-requisite is not present, there is no hope of movement along the journey to development in Islam as represented by pure darkness in figure 8.1. As the central core of a successful life both worldly and spiritually, Zaman and Asutay (2009) argues, *tawhid* sustains all other activities and simultaneously formulate the criterion by which all actions, beliefs and thought must constantly be assessed. The significance of this journey in term of implication is that Islam does not accept static existence rather engagement and interaction is required (Zaman & Asutay, 2009). According to Zaman and Asutay (2009), in this dynamic interactive journey, human, spiritual and socio-economic development are part of a continuous change paradigm. Nevertheless, reaching to the highest level of development may not be possible for all human beings; as the journey does not stop in a dynamic equilibrium process. It should, therefore, be noted that the quest to reach the highest

level in itself is development and as long as human beings are on the journey no matter at what level or grade, it is development from Islamic point of view

As Islamic teaching identifies that Allah has created everything in the universe in complete balance, the approach to development ought to be part of this balance through acquiring the resources of Allah on the earth for the betterment of society and ultimately to attain the *falab* in *akhirah*.

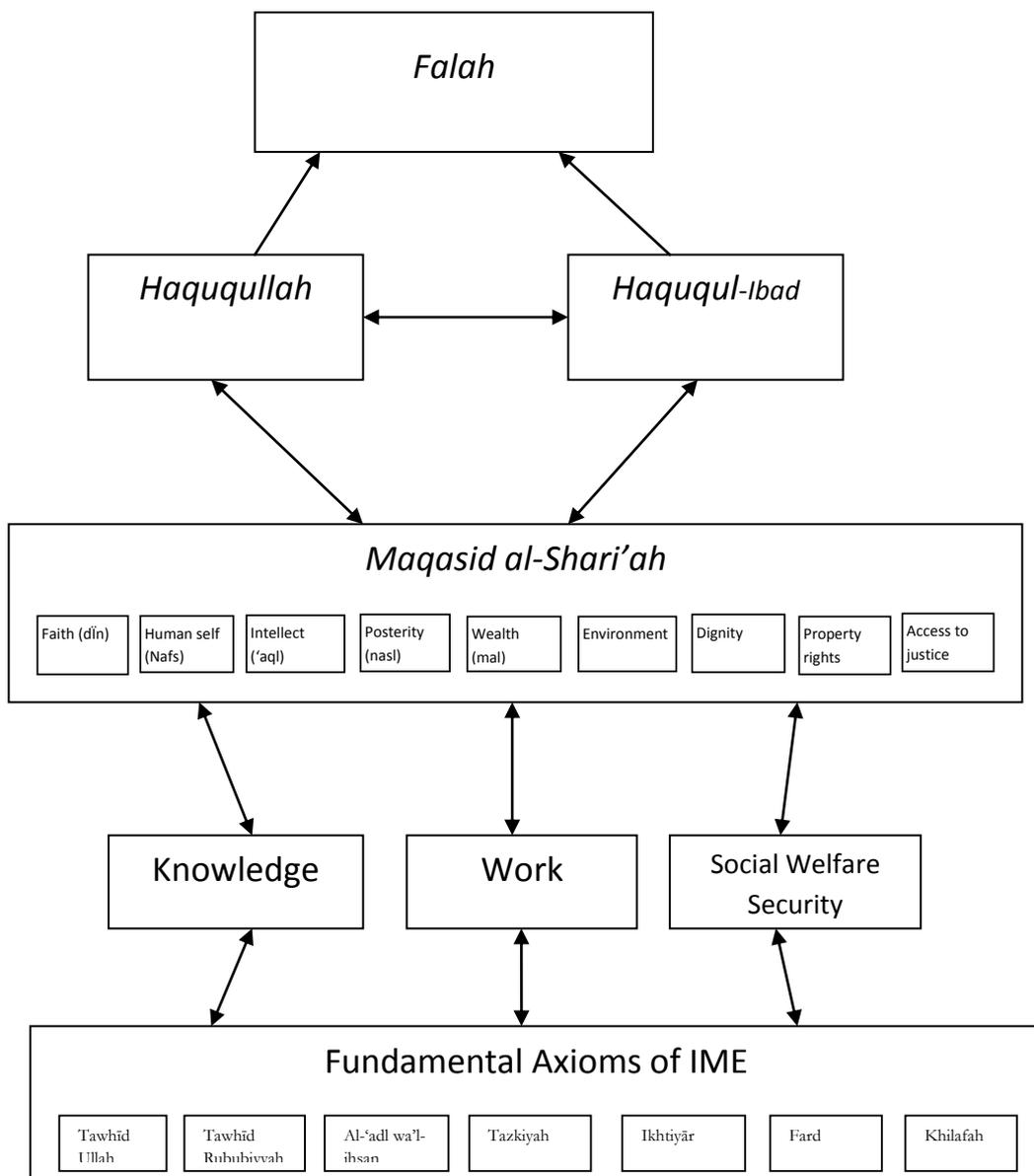
The Islamic development paradigm in figure 8.1, further elaborated in the proposed comprehensive Islamic development below, proposes a civil society oriented socio-political approach in which individuals are free to choose their destiny as identified by *ikhtiyar*, an important element of Islamic axiom discussed in chapter 5. Therefore, Islamic development model does not incorporate any kind of benevolent dictator rather a society and administration legitimized through justice as identified by Ibn Khaldun.

8.3.1 Islamic Development Model - Proposed

In the previous section, it is discussed that how human development is an interactive dynamic process along the journey toward the ultimate goal to attain *falab* in *akhirah* with a path through this world. In this section, the worldly goals of development in Islam formulated using *maqasid al-Shari'ah* and fundamental axioms of IME as path to *falab* in *akhirah*, presented in chapter 5, are linked with the spiritual uplift as discussed above, utilising the Ghazalian framework of ethics, to propose a comprehensive Islamic development model is proposed as shown in figure 8.2. As discussed in details in chapter 5, the three development goals in materialistic sense; knowledge, work and social welfare system in figure 8.2 are formulated while utilising the axioms of IME and *maqasid al-Shari'ah*. Here we have adopted *maqasid al-Shari'ah* in broader terms, which may keep on expanding and changing with the passage of time in order to formulate further developmental goals, due to developmental needs to ensure that all human rights are duly honoured and that all the different human needs are adequately satisfied. The Ghazalian framework, while linking the vertical dimension of Islamic ethics with the horizontal dimension of equality, highlights the significance of four types of 'amal or actions for spiritual uplift along the interactive dynamic journey (figure 8.1). In Ghazalian ethics, these actions fall into actions of the outward self (*Al-a'm āl aḥ-ḥ ā bira*) and actions of the inward self (*Al-a'māl al-bātina*). Furthermore, there are two divisions of the outward self in Al-Ghazali's ethics, devotional acts directed towards Allah (*ibādāt*) also represented by *haququllah* in figure 8.2 and the good acts or deeds performed towards one family and society (*ādāt*) representing by *haququl-ibad* in figure 8.2

Similarly, the inward self has further subdivided into action of purifying the soul (*tazkiyyat al-qalb*) from evil character-traits, and the action of making the soul beautiful (*tabliyat – al-qalb*) with good qualities as represented by micro-dynamic of development (discussed in the next section). The *tawhid*-centred development discussed above and also shown in figure 8.1 contextualizes and elucidates how human development is an interactive dynamic journey where human, spiritual and socio-economic development is part of a continuous change paradigm, further linking the material progress to achieve *falah* in *akhirah* along the journey.

Figure 8.2: Islamic Development Model - Proposed



The world *muslehubun* is used in Qur’an for those who are successful in *akhirah* and achieve *falah* (for example, Qur’an, 3: 104). The study of Qur’an provides essential elements one can acquire to become successful and achieve *falah* in *akhirah*. These essential elements for success in *akhirah*

fall into two broad categories, or in Ghazalian ethics the actions of outward self (*Al-a'māl az-zāhirā*), *haququllah* or rights and obligations toward Allah and *haququl-ibad* or rights and obligations toward fellow humans as shown in Figure 8.2. The former constitutes recognitions of duties by human beings to be righteous and act with purity of mind and body in worship and obedience to the will of Allah, also represented by the vertical ethical dimension of Islam discussed above in the Ghazalian framework.

The term *tawhīd rububiyah*, an important axiom of IME, as defined in the chapter 5 connotes further the concept of *haququllah* as shown in figure 8.2. It is the belief that Allah is the only Creator, Owner and Nourisher of the universe. Furthermore, *haququllah* while denoting vertical dimension of Islam is based on the concept of *tawhīd*. This implies that individuals are equal in their relationship with Allah. It is upon such a concept of equality that justice must prevail as the common value shared by the individuals, hence equality in the sight of Allah. Therefore, this very concept necessitates mutual understanding and mutual recognition amongst human beings for them to live peacefully and in harmony under the shade of brotherhood. Furthermore, *haququl-ibad* is based on social contract based on *ihسانی* social capital to do good deeds for common good with dignity and respect for all human beings while appreciating diversity and valuing the difference. This represents the horizontal dimension of equality as discussed above. In addition, *haququllah* is not something done specifically for Allah, rather it comprise of all things that improve the physical and spiritual side of the person who undertakes them as it can be seen by double arrows in figure 8.2. This also signifies the *ihسانی* social capital in a Muslim's life as part of their social and individual obligation, which consequently enhances the spirit of social justice in society.

Every Muslim is bound to fulfil both rights and obligations as the rights and obligations of other beings are as necessary as the rights and obligations of Allah. Hence, it is not just one directional process toward the achievement of *falāh* as shown in figure 8.2. For example, Allah has blessed human beings as His trustees to enjoy resources on the earth in return for spiritual accountability in *akhirah* where the ultimate justice will take place. This requires human beings to utilise these resources not only for their own benefits but for the development of whole society. In addition, the development process to achieve *falāh* depends on the balance between fulfilling one's obligation and duties toward Allah as well as *khalq* or public in the sense of social good as represented by the double arrows between *haququllah* and *haququl-ibad* in figure 8.2. For example, fulfilling the rights and obligations of Allah also requires human beings to guarantee the minimum standard of living of other fellow beings in the society by contribution through both

obligatory and voluntary payments to establish social welfare security system which is presented as a important goal of Islamic development in the chapter 5. In such context, individuals become sustainable people, conscious of their role of being the agents for *ibsan*; they are able to earn a living and contribute to the development of their communities and to strive to improve their lives as well as the community by maximising *ibsan* social capital.

The actualisation of these *baquqs* as *'amal* is not possible without *'ilm* as discussed above. Consequently, the ultimate purpose of *'ilm* or knowledge is for one to execute his/her mission as *ḵhalifah* and in the same meaning, the attainment of knowledge is also for the well-being of the human life in both worlds. In such manner, this guides Muslims to separate between good and bad knowledge and ideas according to their worldview. As discussed in the chapter 5, the core developmental goals of Islam, to promote the *maqasid al Shari'ah* and consequently actualise other objectives of IME, are *'ilm* along with work. The two combine goals will promote and guarantee Islamic social welfare system and eventually promotes a society based on justice and equity.

The importance of *baququl-ibad* to achieve *ḵalab* in *akḵirah* can also be understood from many verses in Qur'an (4:48; 5:72), which informs us that Allah may forgive, as He will, one for not fulfilling obligations and duties toward Him except *shirk* as donated by the vertical dimension of Islamic ethics in figure 8.2, but will never forgive those who do not fulfil their obligations and duties toward fellow beings. This also highlights the concept of social justice through the principal of universal solidarity or brotherhood in Islam. It is from this equality-based brotherhood within the framework of *amanah* (trust) and *ikḵtiyar* (free-will) that individual political freedom and liberty sprung as highlighted by the horizontal dimension of equality in Ghazalian framework. Individuals who preserve their vertical relation with Allah and their horizontal relation with fellow humans and their environment by articulating the axioms of IME as shown in figure 8.2 are not only able to achieve Islamic development worldly goals but also *ḵalab* in *akḵirah*. In other words, in Islamic development process, the vertical dimension of Islamic ethical system symbolises *tamḵid*, which alternatively implies that the horizontal dimension of equity, *amanah* (trust), *al-'adl wa al-ibsan* (justice equilibrium), *ikḵtiyar* (free-will), and finally *maqasid al-Shari'ah* necessitates individuals to live with the spirit of justices amongst themselves and promotes a society that actualised the objectives of Islamic development worldly goals of knowledge, work and social welfare system. However, such development goals must not end here but acts as foundations of other development goals in order to realise all objectives of *maqasid al Shari'ah* with respect to time and space. Policies, systems, institutions and all

mechanism formulated and promulgated must be within these parameters to ensure that Islamic development process and model is constructed in a comprehensive and robust mater.

Islamic development process demands the preservation of moral and environmental integrity, cultural strength and the advocating of *maqasid al-Shari'ah* to attain the holistic well-being of the society, as everything on earth is created with its own optimality or equilibrium, which has to be nourished and sustained.

Moreover, it is important to maintain the balance between both types of duties and obligation. This balance between both types of *haquqs* is a true justice, which is necessary to achieve *falah* in *akhirah*. In such context, one might fail to achieve the development according to Islamic teaching by preferring *haququllah* over *haququl-ibad* and *vice versa*. In reality fulfilling *haququllah* is *haququl-ibad*; therefore, both are important and related to each others in a causal manner. Furthermore, the fulfilment of *haququl-ibad* is only possible through the knowledge of *haququllah* and through performing right *amal* individuals can establish an ideal, peaceful and fair society. The balance and harmony between *haququllah* and *haququl-ibad* and linking and integrating the vertical ethical dimension with horizontal dimensions of equality is only possible through establishment of justice in a society. As discussed in the chapter 6, justice in a society can prevail through equality, brotherhood, and corporation, and welfare rights and obligation. The objective of re-enforcing the fraternity of humankind is to provide a strong foundation for inter-national relations to establish a just and equitable world order based on principles of mutual respect, tolerance, justice (Kamali, 2002), and promoted through equitable distribution of wealth to eliminate inequalities in the society to guarantee basic necessity of life for all. According to Kamali (2002), it is a manifestation of fraternity and co-operation in the Muslim community that *Shari'ah* encourages giving *qard al-Hasan* to those who are in need even if they are not poor on the one hand and forbid usury and excessive profiting on the other. Furthermore, horizontal dimension assumes that Allah has handed over the earth with all its treasures to mankind as a *amanah*(trustee) and has given people intellect and the capacity to understand, tame and harness the forces of nature for their use, and made His bounties flow to them far too much compared to what comes from people themselves (Hasan, 1988). Hence, *amanah* as a test clearly implies that the Allah expects the trustee to use it in conformity with former's will and instructions and not otherwise (Qur'an, 17:26-7; 4:36-8; 2:177; 51:19), that is for the benefits of society, also as an extension of *tazkiyyah*.

The Qur'an and hadith, *raison d'être* of *Shari'ah* provide details about both these *haquqs* to show people how to fulfil them and attain *falah* in *akhirah*. Moreover, *Shari'ah* provides rules as moral filters to differentiate *halal* from *haram* and help people to successfully fulfil religious obligations

both toward Allah and fellow humans and consequently promote the well-being of the people in this life and the life after as shown by Figure 8.2. In other words, *iman* is actualised within the *tawhidi* framework through the operational tools of *fiqh* as *fiqh* provides the filter to make sure about the substance. In other words, the purposes of *Shari'ah* (*maqasid al-Shari'ah*), according to Chapra (2008c), are to serve the interest of all people and to save them from *haram*. In the chapter 5, the concept of worldly development from Islamic perspective is discussed by adapting the *maqasid al-Shari'ah* in a broader and modern sense along with the axioms of IME, also represented by two boxes in Figure 8.2. The goals of Islamic development, hence, as explored so far on this chapter as well, aim to promote the wellbeing of people in the society according to the *maqasid al-Shari'ah*. The concept of worldly development discussed in chapter 5, through the discourses of the founding fathers, complete the comprehensive approach of development in Islam by linking the worldly development goals with the *falab* as proposed in the development process shown in Figure 8.2. As we can see in Figure 8.2, the axioms as discussed in chapter 5 and *maqasid al-Shari'ah*, serve as higher-order generalisations from which specific statements of lower order generality are deduced about the moral imperatives which motives individuals to work for social good in an IME. This completes the comprehensive Islamic development model integrating the Ghazalian framework of vertical and horizontal dimensions of Islam to the worldly goals of Islamic development through actualization of *maqasid al-Shari'ah* and axioms of IME to help achieve both self-development as well social-development consequently attain *falab* as shown in figure 8.2.

Furthermore, in term of economic growth, Islamic development model presented above considers market as an outcome rather a process, where civil society and decentralize political entities promote the goals of development which are legitimized through justice as identified by Ibn Khaldun.

In addition, morals and ethics are platform, a worldview from which we sense how the world should be. Political and economic systems are built on such worldviews. This view is supported by Lawrence Kohlberg(1984) by articulating how different level of distributive justice as part of moral and ethical development relate to different types of economic system. For example, social system is based on social merit and contribution to society.

8.3.2 Micro-dynamics of Development and Barriers

The above section proposes a comprehensive model of development in Islam by integrating the Ghazalian concepts of vertical ethical dimension through *tawhid* and horizontal dimension of

equality through *adalah* to achieve *falah*, along with worldly development. However, there are some ‘*amal* both at individual and institutional level that hinder the actualisation of development and corrupt the whole society. As discussed above, according to Ghazalian ethics, actions not only include the actions of the outward self (*Al-a’ \bar{m} āl az- \bar{z} ābira*) in the form of worship and *muamalat* represented by *haququllah* and *haququl-ibad* in figure 8.2, but also the actions of the inward self (*Al-a’ \bar{m} āl al-bātina*) to purify from the evils and replacing with good qualities. These ‘*amal* in Ghazalian framework combined with ‘*ilm* dominated by the notion of *tawhid* along the interactive dynamic journey complete the Islamic development process. In other words, to create an ideal and just society, where individual as *khalifah* of Allah on this earth utilise the resources for the benefits of *ummah*, it is important that all types of evil from heart are removed through *tazkiyyah* and replaced with *rububiyyah*. In this study, only the following three practices are discussed and how they can be replaced with good qualities, since they are both destructive in themselves and the root cause of all other evil dispositions (*Bidayat al bidayah*) and are frowned upon in Islam (Al-Ghazali, 2005). Furthermore, behaviour issues including, envy, ostentation, pride and conceit have consequences on other individuals in the society which in turn effects the development in society.

8.3.2.1 Envy

Envy (*hasad*) is a physiological state in which a person has a negative attitude toward another person’s superiority in happiness, success, reputation, or the possession of anything desirable and wishes to be taken away from the other person even though they will not obtain any gain from its removal (Schoeck, 1970).

Envy is one of the most destructive vices (Al-Ghazali, 2005), which impurify the soul and distracts the human from attaining *falah*. In Islam, every good an individual possesses is considered as a gift from Allah; and any wish by another person for its removal shows one is questioning Allah’s wisdom; thus he or she is not content with Divine decree.

According to Islamic teaching, an individual does not achieve the level of real faith or knowledge as long as he does not want for other Muslim brothers what he wants for himself (Sahih Al Bukhari, *Iman*, 7), whereas the envious person does not act in such manners. Thus, envy destroys faith in the same way as fire burn up the wood as in one hadith, Prophet Muhammad says that envy consumes good deeds the way fire devours dry wood (*abu Dawud*). The word *tazkiyyah* in Qur’an (2:222; 9:108), also an important axiom of IME, has been used to explain the necessity of growth toward perfection through purification of inward self from evils of soul such as envy

and hence implies the endogenisation of Islamic norms and values for development in terms of micro development of individual, society and the natural environment according to their development path. Furthermore, *tazkiyyah* is not a static state of purification, but a dynamic concept that seeks to motivate individuals and societies to grow by a constant process of purification (Sardar, 1997: 50).

In preserving the development through constant process of growth toward perfection in the light to *tazkiyyah*, which is an important factor in Islamic development process, the purification of means, and mechanisms involved in this process are essential. According to this, *rububiyah* as a concept is related strongly to the concept of *tazkiyyah*, which refers to “Divine arrangements for nourishment, sustenance and directing things towards their perfection” (Ahmad, 1979: 12). This implies the necessity of sustainable economic growth and development in terms of having harmony between various components of economic and social life. The concept of *rububiyah* as a philosophical foundation for IME reflects the continuation or extension of the *amanah*. Individual’s life on earth in its wholeness relates eternally to Allah (*tawhid*) (Naqvi, 2003), which depicts the vertical ethical dimension of Islam, “linking imperfect and finite social institutions with a Perfect and Infinite Being” (Naqvi, 1994: 26). Hence, in the context of development with respect to horizontal dimension of equality, individual as *khalifah*, must realise that all resources available to them as *amanah* belong to Allah, therefore, must be undertaken upon themselves to allow its benefits to be shared equitably and justly among mankind (Ghazali, 1990). Such an individual endowed with these qualities is expected to be an active agent of change and therefore respond to the development of other individuals, society, natural environment and the state according to the ontology of Islam as articulated in axioms, signifying the aspect of development. However, an envy may cause individuals to divert some resources from productive used and deprive others from its benefits. Hence, in the context of interactive dynamic journey, such actions deny articulation of belief in Allah who is the source and guidance to reach *ihسان* and *falah*.

Islam has laid down number of redistributive mechanisms in the form of both obligatory and voluntary payments to reduce the envy, which serves to draw off excessive well being from wealthy members of society and redistribute it among poor to ensure a just society build on the spirit of brotherhood, co-operation and mutual love and thus to maximize *ihسانی* social capital.

8.3.2.2 Ostentation

Ostentation (*riyā*), derived from the Latin word ‘ostendere’, which means ‘to show’. In cultural perspective, ostentation refers to the structure of one’s mental outlook, where a person gets

satisfaction from showing off his/her possessions, qualities or achievement in a manner opposite to its true nature or when a person performs rites of worship merely to obtain a place in the hearts of others. Thus, in Islam, Ostentation is considered a hidden polytheism (*ash-shirk al-kebafi*), one of the two forms of polytheism (Al-Ghazali, 2005).

In providing Islamo-religious perspective, in one *hadith*, Prophet Muhammad (PBUH) described the condition of three persons who will be brought in the court of Allah. Allah will ask, “What you have done for me?” He will reply, “I have been killed for your sake.” Allah will retort: you wanted it to be said that so and so is brave, and that was already said, and that is our reward. The same will be said to religious scholars, to the man who has performed the pilgrimage to Makkah, and to the recite of Qur’an (Shahi Bukhari, 10). Thus, in Islamic teaching, the root source of ostentation is to desire or want something from a source other than Allah, which is against the essence of Islam as everything is for Allah’s sake. Thus, with such an attitude deny complete acceptance of *haququllah*, an important element of Ghazalian framework, thus hinder the attainment of *falah*.

It is argued that ostentation is also one of the reasons for corruption (Wraith, 1964). In order to keep up with socially privileged, the less privileged are obligated to turn to means which are neither legal nor moral. For example, marriage functions prevalent in East Asian society are the source of ostentatious display of wealth as those with wealth spend huge moneys on weddings, which also takes a form of extravagance (*asraf*), strictly prohibited in Qur’an (Hossain, 2005). Such practices of ostentations also lead to anger and hostility amongst those who are not able to compete at the same level in the society.

Thus, ostentation is vice, that not only corrupt one’s heart to desire from a source other than Allah (*rububiyyah*), hence deny the establishment of vertical ethical dimension of Islam as represented by *haququllah* in figure 8.2 but also causes corruption, inequality and extravagance in a society where surplus income are used to show off rather to benefit the society at large, thus hinder the horizontal dimension of justice as represented by *haququl-ibad* in figure 8.2. The vertical and horizontal dimensions of justice in Ghazalian framework aims that an individual as a *khalifah* establishes justice (*‘adl*) and promote *ihsan* (beneficence) through need fulfilment of members of the society and through *tazkiyyah* encourages equitable distribution of income and wealth in society to promote harmony, growth and stability. Within this understanding of *khalifah*, all these elements of Islamic development process are inter-related and inter-connected to enable the individuals to attain *falah* in akhirah for every and each person according to the *ihsani* culture.

In a society, the common good is not central in the minds of ostentatious people. These individuals in the society create surplus income solely for the purpose of ostentation rather for the benefit of society as *amanah*. These individuals become extravagant in their spending just for showing off and fail to realise that development means the use of available resources rationally for the benefit of society at large. This extravagant spending for the purpose of ostentation has become the underdevelopment trap in the Muslim countries, as resources are consistently wasted in ostentation. Such behaviour of ostentation is evident at individual, family and national levels as resources are diverted from their proper and intended uses and are used instead in satisfying individual egos. Muslim countries around the globe are blessed with natural resources; however, majority of the wealth accumulates among few people. Different indices presented in Chapter 4 clearly show how Muslim countries are marked by inequalities in health, gender, and income and ranked at the bottom of all developmental indices. However, such inequalities can be reduced by diverting money spent on improper endeavour to education, and health and this promote a society based on justice and equity.

8.3.2.3 Pride and Conceit

Pride (*kiibr*) is one's holding or considering oneself to be superior to others in the society. Pride is considered the greatest of all vices and is prohibited in Islam. According to Prophet Muhammad (PBUH), "a person who has a grain of mustard seed weight of pride in his heart will not enter the Paradise" (Muslim, Sahih, Iman, 147, 148, 149). In Islamic teaching, real pride, greatness and honour belong only to Allah, thus a person who considers himself superior to others tries to make himself equal to Allah and hence pride is corrupting his heart and soul to achieve *falah*. Conceit (*'ujb*) is different from pride in a sense that pride requires for its existence another person who is considered to be of less merit, while conceit does not need any such person to exist. In Islamic teaching, property, ranks, knowledge and all qualities that make one superior from other are all given by the will of Allah. However, ignoring all these blessing of Allah and consider oneself superior or conceited about the qualities, leads one to shirk. In Islam, development is the journey toward the ultimate end, the *falah* in hereafter, while pride and conceit are *zulm* as they push one toward darkness away from the light (*nur*). In Islam, the superiority is how one is closed to Allah, which is only achieved through piety (*taqwa*) as Qur'an (49:13) informs us:

That the most honoured of you in the eyes of Allah are those who are most in their *taqwa*

Furthermore, a person with *'ujb* in heart is prone toward *riya* (show off), *nifaq* (hypocrisy) and *kibr* (pride), considered one of the greatest vices in Islam. Thus, Islamic teaching suggests that the person who is inflicted with *'ujb* views others with contempt, thus making a person to overvalue his deeds and underestimate the good deeds of others, which not only stops the person from seeing his shortcomings but also precludes one from any kind of improvements. The person whose heart is filled with pride and conceit never cares to rectify him/herself and always considers his/her actions holy and perfect, even though he/she is insignificant to Allah and hated by people in the society. In Qur'an identifies such people in the following way:

...Verily, Allah does not like such as are proud and boastful;

Those who are miserly and enjoin miserliness on other men and hide what Allah has bestowed upon them of His Bounties.... (Qur'an, 4:36-37)

Islam teaches about piety, equality, to be just with all people and not to hate or putdown others based on race, colour or nationality. Therefore, only piety and good actions makes one closer to Allah, as highlighted by to Prophet Muhammad (PBUH) in his last sermon,.

All mankind is from Adam and Eve, an Arab has no superiority over a non-Arab nor a non-Arab has any superiority over an Arab; also a white has no superiority over black nor a black has any superiority over white except by piety and good action. Learn that every Muslim is a brother to every Muslim and that the Muslims constitute one brotherhood. Nothing shall be legitimate to a Muslim which belongs to a fellow Muslim unless it was given freely and willingly. Do not, therefore, do injustice to yourselves. (Sahih of Muslim Hadith, 2803.1)

In the Ghazalian framework of vertical and horizontal dimensions of equality which is further conceptualised in the above proposed Islamic development model represented by figure 8.2, each individual is equal in the sight of Allah (*tawhidic* view). In other words, each individual has the same distance in relation to their proximity to Allah. Such view exemplifies the very meaning of equality from Islamic percept of conduct. The path to development and *falah* requires to establish a society based on fraternity, co-operation and sharing, hence to exemplify Islam by presenting a living picture to the world of the concepts of *tawhid*, justice and benevolence.

As discussed above, four types of actions, two outwardly and two inwardly, form the whole practical or *'amal* aspect of Al-Ghazali's ethics. It is not possible to achieve *falah* through fulfilment of *baququllab* and *baququl-ibad* without completing the whole *'amal* aspect Two important actions toward inward self, mentioned above, are cleansing soul from evil of bad character traits such envy, ostentation pride and conceit through *tazkiyyah* and replacing them with good qualities of *rububiyyah*. It is the belief that everything that human being as *khaliqah* is

bestowed with on this earth is *amanah* to be utilised for the benefit of whole *ummah*. Therefore, the role of humans is to maintain such view of reality in all his/her affair with the objective of achieving *falah* in *akhirah* in return.

Thus, envy, ostentation, and pride and conceit are vices that not only corrupt the souls to lose focus attaining *falah* in *akhirah*, but also cause the society to dysfunctional marked by corruption, inequality, distrust and extravagance.

8.4 ISLAMIC DEVELOPMENT PROCESS AND SEN'S CAPABILITIES APPROACH

In this chapter an attempt is made to propose and comprehend the multidimensional approach to development in Islam, through integrating the worldly development using *maqasid al-Shari'ah* and fundamental axioms of IME with the Ghazalian framework of development process of human beings by maintaining balance between *baququllah* and *baququl-ibad* to achieve *falah* in *akhirah*. In considering the Islamic development model, one can benefit from Sen's Capabilities Approach (CA), as in terms of process and outcomes. In Sen's CA, development is not defined in terms of increase in GNP per capita, or in consumption, health and education measures alone but as an expansion of capability, which focuses on value judgement that is to be made explicitly and in many cases by a process of public debate. This approach to development refrain from providing a set of fix dimensions to measure development hence it is easy to establish parallelism between the two models of development.

According to Sen (1999: 3), "Development can be seen ... as a process of expanding the real freedoms that people enjoy". Sen, on the one hand, like Adam Smith accentuates the role of economic growth in a society by expanding goods and services necessary for the development of human beings, while on the other hand like Aristotle, discusses that "wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else (Sen, 1990: 44).

Wealth and poverty usually have been evaluated through money-metric measure to reflect the level of economic wellbeing. However, Sen's seminal work on capabilities, among others, brought a new dimension to the debate on human welfare, building on the idea that a one-dimensional resource-based approach is not sufficient to assess multidimensional human wellbeing. The CA, in contrast to traditional approaches, not only has provided a wider informational base for estimation of human wellbeing but also has revived the dimension of justice (as opposed to equality) overlooked in the policy design of a utilitarian social planner.

As discussed in chapter 2, justice has been a disputed topic in economics and philosophy and has not received the attention in main stream economics that it deserves, despite the seminal works on justice by Rawls and later by Sen. Rawls' work, however, concentrates mainly on the institutional dynamics of justice, while Sen's work focuses on individual.

Sen's CA is a normative, similar to Islamic normative, framework for assessing individual wellbeing and social arrangements and for designing policies for social change and justice. People and, thus, societies, as Sen (1999) argues, live in normally vary in their capability to transfer income and goods into valuable achievements. For example, a disable person may need more resources to attain the same things as compared to a normal person. Furthermore, factors such as social gathering and custom or position and class in different cultures, *inter alia*, also play an important role in more complex social achievements (Sen, 1985b: 25-6; 1999: 70-1).

In general, CA revolves around three key concepts; functioning, freedom and conversion efficiency, which are explain in the following sections

8.4.1 Functionings

A person can be considered to be in two types of states; 'states of beings' and 'state of doing', while together these states are called functionings, *i.e.*, functionings are 'beings and doings' of a person. For example, being include; being educated, being healthy, being nourished, being sheltered, being happy; whereas doings are studying, travelling, caring for a child, voting in an election, taking part in debate, donating money to a charity and so on (Robeyns, 2011). These states of functionings have both intrinsic and instrumental values. For example, democracy can have both intrinsic-value in and of itself to enable citizens to shape their own lives and communities, and instrumental values - democracies tend to protect human voice (agency) and wellbeing (Drèze *et al.*, 2002: 24).

In other words, functionings are achievements of a person. For example, flow of reading add to the stock of being literate, where, the state of being can be termed as a stock and the state of doing can be termed as a flow. By definition, hence, functionings result from either choices or constraints, where the former is referred to as a refined function; the latter is simply called a functioning.

8.4.2 Conversion Efficiency

Conversion efficiency is the ability of individuals to convert their resources into functions given their freedom, which is influenced by three types of conversion factors: individual/personal, social and environmental (Kuklys, 2005; Robeyns, 2005). Robeyns (2011: 16) illustrates these conversion factors through a following example :

How much [conversion efficiency] a bicycle contributes to a person's mobility [a functioning] depends on that person's physical condition [a personal conversion factor], the social mores including whether women are socially allowed to ride a bicycles [a social conversion factor] and the availability of decent roads or bike paths [an environmental conversion factor].

The three types of conversion factors; personal, social and environmental as discussed in the above example stress that it is not just adequate to know the resources a person owns or can use in order to be able to assess the well-being that he or she has achieved or could achieve; rather, we need to know much more about the person and the circumstances in which he or she is living. Sen uses "capability" not to refer exclusively to a person's abilities or other internal powers but to refer to an opportunity made feasible, and constrained by, both internal (personal) and external (social and environmental) conversion factors (Crocker, 2008: 171-2; Robeyns, 2005: 99).

8.4.3 Freedom

Positive freedom (henceforth freedom) in terms of the range of choices and autonomy is the basic requirement of justice and measurement of standard of living and it is the principal component of Sen's CA. It has instrumental as well intrinsic value and evaluation on the basis of freedom has the potential of providing an encompassing measure of wellbeing. According to Sen's CA, "economic and social arrangements should be evaluated in terms of the freedoms enjoyed by those who live in them" (Alkire, 2002: 182). Sen (1990) discusses freedom as a focal personal feature for ethical judgement on the lives of individuals and compares it to primary goods and liberties approach as articulated by Rawls(1971); rights approach by Nozicks (1974), resources approach by Dworkin (1981a, 1981b), among others. In this context, Sen, while distinguishing between means and what people can obtain from these means, argues (1990: 115) that:

Since the conversion of these primary goods and resources into freedom to select a particular life and to achieve may vary from person to person, equality in holdings of

primary goods or resources can go hand in hand with serious inequalities in actual freedoms enjoyed by different persons.

The notion of individual freedom has two aspects in Sen's CA: 'the opportunity aspect' and 'the process aspect' (Sen, 2002). The opportunity aspect is concerned with the advantage one has as compared to others (Sen, 1985a) and with one's ability to achieve what one values irrespective of the process through which that achievement comes about, while the process aspect is concerned with the process of choice itself (Sen, 2009). The first aspect is termed 'capability', while the second is called 'agency'. In order to elaborate the concept further, Sen (1985b: 5) states that

'Well-being' is concerned with a person's achievement: how 'well' is his or her 'being'? 'Advantage' refers to the real opportunities that the person has, especially compared with others. [...]. The freedom to achieve well-being is closer to the notion of advantage than well-being itself.

According to Sen, it is the responsibility of the society to provide freedom to achieve functionings: "In dealing with responsible adults, it is more appropriate to see the claims of individual on the society in terms of freedom to achieve rather than actual achievement" (Sen, 1992: 148).

For Sen, 'capabilities' is a type of freedom that enables one to choose a lifestyle one may wish to live. Hence, the objective is to expand the freedom of people, which can be achieved by removing all restrictions that limit one's ability to make a free choice.

8.4.4 Reflection on CA in the Context of the Proposed Islamic Development Model

Islamic teaching suggests that surrendering oneself to the will and laws of Allah is the source of real freedom: as it frees the mind, soul, body and behaviour from the evil of influences of this world. Only then human beings can overcome cruel tyrants, unjust laws, differences and psychological complexes, which subjugate humans' will. Sen (1999), has elaborated five classes of 'instrumental' freedoms: political freedoms; economic facilities; social opportunities; transparency guarantees; and protective security. Sen (1999: 35-8) argues that while these freedoms are instrumental to (means of) development, they are also an end to development and therefore constitutive of it. In Islamic development process presented by figure 8.2 above, in order to execute *amanah* and develop a life within the *tawhidic* framework, individuals should have the freedom to exercise their respective responsibilities and enjoy their rights. The type of freedom, which is part of human nature, is the result of 'free-will' (*ikhtiyar*). Due to this theological doctrine of *ikhtiyar* in Islamic doctrine, individuals are bound to be responsibility for whatever they choose. In substantiating this, Sen (1999: 284) argues that "without the substantive

freedom and capability to do something, a person cannot be responsible for doing it”. However, the notion of freedom, which is understood within the Islamic worldview, is not the same as the contemporary Western understanding. Freedom in the Islamic *tawhidic* framework is bound with responsibilities and denotes the sense of ‘free from’ rather than the explicit ‘free to’. The Islamic doctrine of freedom signifies that it should go hand in hand with his responsibility as a social being (Ghannouchi, 2013). Thus, within the *tawhidic* framework, the individual’s duties in exercising his/her rights are not limited to the claim on what is his/her, but also in delivering what is Allah’s and what is others’. An individual in such terms is not only accountable for him/herself, but also accountable before Allah, and also they are also accountable before the members of society as its member. According to such relations, individual rights and freedom are limited with a degree of social control sketched out by the *Shari’ah* to enable the individual to perform their duties as directed. Freedom is also important to encourage the altruistic behaviour of individuals to create a mutually cooperating community. In such scenario, freedom and control do not contradict but rather complement each other (Mannan, 1990). Social control is needed to protect freedom and vice versa. This notion of freedom should not be confused with the current infringement of rights by dictators under the banner of religion or public interest, which is a mere pretext to preserve the elites or the despot’s interest.

In addition, the Islamic notion of ‘capabilities’ is not an ‘individualistic’ position as Sen identified; on the contrary, as a requisite of the concepts such as ultimate happiness or *falab* ‘capable’ human being is the one who also contributes to the ‘capabilities’ of the other through utilising his/her capabilities in expanding capabilities bundle. This view is further supported by Ayatullah Mahmud Taleqani (1986: 50)

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 humans 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 referred to the world in which all people can develop their human capacities in order to obtain freedom.

Thus, individuals seeking *falab* through their individual capabilities can only expect to achieve *falab* when they also contribute to the development of community through co-operation and sharing the resources as a trustee of Allah. This is an indication for the integrated and interactive nature of IME.

Generally the *Shari'ah* is predicted on the benefits of the individuals and community and its law are designed so as to protect these benefits and facilitate and promote improvement and perfection on the conditions of human beings on the earth. Hence, *maqasid al-Shari'ah* according to Al-Ghazali consists of five things, guarding religion, soul, mind, family and wealth. So anything that guarantees the preservation of those five essential is called *maslahah* and every matter that escape from it called *mafsadah* (Chapra, 2008c). In this study, three broader development goals have been chosen such as knowledge, work and social security system to protect *Shari'ah*. The justification of such goals is that these goals are comprehensive enough to protect the five mentions goals of *Shari'ah*. For example, as discussed in the Chapter 5, the objective of both worldly and religious education is, first and foremost, the knowledge of Allah and how to worship and obey Him and the second is to attain a degree of intellectual acumen and awareness through knowledge of different disciplines that enables man to manage his religion and world affairs with dignity and ultimately to be a useful agent in the attainment of wealth and advancement of civilization. In addition, earning *halal rizq* in Islam is not an obligation for self-improvement and their family but also help people to contribute the society through *zakah* and other charities for sustainable development of whole *ummah*.

In the proposed Islamic development model, these three developmental goals, in Sen's methodology represents the wellbeing of people, measured through three functionings – 'being-knowledgeable', 'being-employed' and 'being well-sheltered', each in turn measured by a range of indicators prescribed by the *maqasid al-Shari'ah* with overall purpose to preserved and promote the benefits for human beings on the earth.

In our analysis, Ibn Qayyimian position on *maqasid al-Shari'ah* is taken, as he does not limit the numbers of *maqasid* to be achieved, but provides an opportunity space to be utilised according to developmentalist need, which is also in line with Sen's reservation against the specification of basic capabilities. Such position allows to create a dynamic developmental goals which would be added to fulfil the *maqasid al-Shari'ah* as opposed to static view of *maqasid al-Shari'ah*. In order words, the wellbeing according to Islamic development model with Qayyimian unlimited opportunity space in a dynamic manner can be represented in the following way as an extension of the Ghazalian *maqasid* in line with Ghazalian frame discussed above:

Wellbeing = *maqasid al-Shari'ah* (knowledge + work + social security system) +

Even though, only three developmental goals are formulated to measure the wellbeing of individuals in the society, however, considering the broader definition of *maqasid al-Shari'ah*

(Chapra, 2008b; Siddiqi, 2004), other factors such as gender equality, gender empowerment, and environmental sustainability (can be extended to millennium developmental goals) can be included. The above brief discussion can clearly show that Islamic development proposed in this study can be easily integrated into Sen's CA. The advantage of Sen's CA over other theories is that it is not limited to the market, but looks at people's being and doings in both market and nonmarket settings. The inclusion of nonmarket dimensions of well-being in normative analysis reveals complexities and ambiguities in the distribution of well-being that an analysis of income or wealth alone cannot capture. This is especially important for measuring the well beings of individuals from Islamic approach. A more detail methodology can be developed for policy implication to measure the wellbeing of people according to epistemological and ontological sources of Qur'an for creating a society based the concept of development in Islam. However, such analysis is beyond the scope of this study and above comparison suggestion further research.

8.5 ALTERNATIVES TO IBF TO ESSENTALISE DEVELOPMENT AND JUSTICE: POLICY REFLECTION

The very emergence of IME as alternative to capitalism and socialism has been elucidated and even advocated due to Islamic stand against injustice, exploitation, inequality, and deprivation. The rational particularly for this advocacy is presented with reference to the Islamic prohibition of interest in financial transactions. The underlying ethical principle behind IBF, an operational tool of IME, is therefore, possibly the elimination of exploitation within the socio-economic sphere, in particular by not guaranteeing a fix return on loans given regardless of whether the finance has actually yielded a monetary benefit for the borrower (Kroessin, 2011). Thus, limiting the financial arrangements either lease purchases, profit/loss sharing investment, or business partnership and interest free loans. However, after more than four decades of practice, *murabahah* based mark-up finance, which arguably imitates the economic function of interest in all but name remained the main mode of financing as shown in the social performance of Islamic banks in the chapter 7. Furthermore, as this study evidenced, the scope of financing is only limited to short term profitable industries with less than satisfactory contribution to the industries, which are the pillar of real economy. There are new products introduced through financial engineering in responding to the sophisticated financial needs of the corporate and financial sectors. Developing such products is bringing IBF closer to the conventional finance by endogenising the shortcomings of conventional modes of financing into the IBF realm (Asutay, 2007b, 2012). In other words, according to Asutay (2012), 'financialisation' through such new products is a result of mimicking the conventional sector. Hence, these modern financial instruments in IBF

only aim to replicate in 'Islamic' form the functions of contemporary financial products, markets and institutions and have therefore, arguably run against the aspirations and values of IME and IBF.

Furthermore, despite many claims that IME offered an alternative development model underlined by an alternative worldview and ethical foundation in order to play its role in promoting social justice in the society, most of attempts to formulate Islamic development policies remain either utopian or flawed in as far as they are mostly articulated within neo-classical economics and neo-liberal policies rather than being 'Islamic', evident from current economic and political situation of Muslim world around the globe, shown by this study by using indices as benchmark of development in the chapter 4. Such criticism has been raised against Turkey's Islamic oriented AKP government, as well as against the new islamically oriented governments in Egypt and Tunisia.

On the contrary, IBF is growing at the rate of 15% with total assets touching \$US1.2 trillion around the globe (Hancock, 2013); however IBF has failed so far to contribute to the development of society or managed to touch the lives of ordinary people on the streets of the Muslim world, where majority is still living below the poverty line. Despite Nasr's (2009, 2010) expectations of the rising capital middle class brining salvation to Muslim societies and communities, societies in Muslim world are divided between rich and poor with unequal distributions of income and wealth, as explained in chapter 4 as opposed to spirit of *maqasid al Shari'ah* which places the well being of individual and society at the centre to guide human development both worldly and in *akhirah*. This social failure of IBF is arguably due to how Islamic banks are modelled in line with conventional banks (Ahmed, 2007), where finances are overwhelmingly tend to go to larger firms for reducing the risk of investment and maximise the profit as much as possible.

As discussed in chapters 6, one of the central themes of justice dealt comprehensively in Qur'an is human to human relation which falls under *mu'amalā* covering both public and private affairs to establish an ideal, peaceful and fair society. Such a just society is based on equality, corporation, and welfare rights also articulated by the horizontal equity dimension of Islamic development. In Such context, the social role of financial institutions in IME is to provide finance to the poor so as to increase their income and wealth. However, the realities of Islamic banking and finance are opposed to the aspirational developmentalism. Even though, Islamic banks are playing an important role in the development in IME by offering *Shari'ah* compliant products to customers, however, the cruel realities of Muslim world demands new institutional

development to respond to the developmentalist need as part of the third-stage of institutionalisation: recalling that the initial institutionalisation in 1963 Egypt with Mit Ghamr and 1967 with Tabung Haji in Malaysia being ‘social banking’, and later the second phase with Dubai Islamic Bank established in 1975 being ‘commercial’ banking. Such innovative institutionalisation will also help to articulate the Islamic development process proposed by this study.

According to El Gamal (2006: xiii), these new institutional formation should endogenise ethics, and meet social and economic ends of financial transactions rather the contract mechanics through which financial ends are achieved. In reflecting on the similar issues in search of new institutional formation to serve the IME objectives, Asutay (2012) while accepting the social failure of IBF therefore, suggested that the aspirations of IME and establishment of Islamic society based on equality, co-operations and welfare can be realised through development of non-banking-financial institutions, such as Islamic social banking (Asutay, 2007b; El-Gamal, 2006), economic empowerment oriented *awqaf* (pious foundations), *zakah* funds for development, *ar-rahn* or Islamic pawn broking institutions (Abdul-Razak, 2011), Islamic development banks, social investment institutions, ethical funds, and Islamic microfinance (Ahmed, 2004). It is expected that these non-banking financial institutions as a part of new institutional formation along with IBF will contribute to the economic development of Muslim countries around the globe. Such institutions will trigger the development at root level by promoting real economy through asset based business activities.

The new institutional development as part of third-stage of development in IME is people-centred and focuses on capacity building at root level by empowering the poor, encouraging local sustainable enterprises, and overcoming financial and social exclusion, hence realising *maqasid al-Shari’ah* to establish a just society, as the micro-foundations of Islamic development process articulated in this study. These institutions have the tendency to operationalise the objectives of achieving justice in society through distribution and redistribution of wealth. According to the Islamic developmental process, the vertical-horizontal dimensions of equality aims for just distribution of resources by creating a balance society that avoids extremes of wealth and poverty, where wealth is considered as a blessing from Allah (*rububiyyah*), to humans as *khalifah* along with the responsibility to provide support for the lives of all mankind. Furthermore, these innovative types of institutions further promote the goals of worldly developments; knowledge, work and social security system, proposed in chapter 5. These financial institutions help in improving individual lives and enable more individuals to be involved in the dynamics of economic development and eventually promote equality in a society. The aim of such institutions is to

principally serve underdeveloped, socially-disadvantaged communities particularly women, minorities and low income people, who cannot find finance from conventional sources due to inadequate collateral, insufficient capacity or resources to borrow (Sairally, 2007). The justice in the proposed Islamic development process as shown in figure 8.2 demands that all resources on this earth are *amanah* from Allah. Thus, they should be effectively utilised for the benefits of all members in the society. The creation of such types of institutions is promoting co-operation and brotherhood through resource sharing and mobilisation to create *ibnsani* based society.

The Islamic development process proposed in this study requires the fulfilment of both *haququllah* and *haququl-ibad*. The first specifies dynamic process of growth of individual to attain self development toward perfection. The second addresses the utilization of natural resources on the earth as an *amanah* for the material needs of the individual and all of humanity in order to achieve progress toward full integration, unity and equality as envisioned by ideal Islamic society. As it is also shown in this study, the achievement of *falab* in *akbirah* is not just achieved by a mere increase in material wealth, but with full development of a person along both dimensions. In Islam, economic progress and prosperity is encouraged, since this provides the means by which individuals can satisfy their material needs and thus remove the economic barriers on the path to their spiritual progress in relation to *haququllah* and ultimately *falab* in *akbirah*.

According to the Islamic development process, as articulated in this study, the aim of just society is not mere need fulfilment of individuals, but also to guarantee that resources on the earth are available to all for effective utilisation and that all members should be given the same opportunities to advance themselves. Thus an institution that has received attention in recent years for enhancing access to financial services to the poor and needy through redistribution of income and wealth in community is microfinance institutions (MFI).

Economic development and growth along with social justice are the fundamental elements of Islamic development process. In an ideal, peaceful and fair Islamic society, justice, as explain in this research, requires that all members should be given the same opportunities to advance themselves including access to natural resources provided by Allah. In addition, the objective of achieving social justice in a society can be achieved through wealth distribution/redistribution rules in Islam. As articulated in this study, the horizontal dimension of equality in relation to *haququl-ibad* in development process of Islam aims for just distribution of resources by creating a balanced society that avoids extreme of wealth and poverty, where resources and wealth is a blessing provided by the Creator for the sole purpose of providing support for the lives of all of mankind (Mohieldin *et al.*, 2011). According to Mohieldin *et al.* (2011), Islam, to avoid extremes

of wealth and poverty, prohibits unconstrained wealth accumulation and imposes limits on consumption through its rules of prohibiting overspending (*israf*), waste (*itlaf*), ostentatious and opulent spending (*israf*).

In order to prevail justice in the society as proposed by the Islamic development process, it is desirable that after fulfilling ones needs and wants and thus to maintain a modest living standard as prescribed as a middle path in Qur'an (25:67; 65:7), the net surplus must be returned to the members of society who for a variety of reasons are unable to work through three main instruments of redistribution including *zakah*, *sadaqat*, and *qard al-Hasan*. If *haququllah* is to be fulfilled and to create a just society, *zakah* is to be paid voluntarily by individuals who earns more than what he or she consumes, which is calculated according to his or her level of net worth with exception of business capital and housing (Askari, *et al.*, 2012), whereas, Muslim with financial capacity are also encouraged to donate as *sadaqat* beyond their *zakah* requirement. The rationale of *sadaqat* payments in relation to *haququl-ibad*, according to Mohieldin *et al.* (2011), is described as the expenditures aimed for redeeming the property rights of those who are excluded from the production cycle for any reason In Qur'an (2:26; 2:272), such contribution or payment symbolizes the strength of the sincerity of a person's belief, which falls in broader criteria of *haququllah*. In addition, *qard al-Hasan* is designed to meet the financing needs of the poor, which is an interest free loan that has to be repaid in order to create a sense of brotherhood, unity and co-operation among different members of society.

8.5.1 Financial Inclusion and Economic Development

It is thought that access to financial services have positive impact on the life of the poor and needy (Armendariz *et al.*, 2005). The vast majority of microfinance institutions aim to reduce poverty as their main objective through livelihood activities compared to growth oriented microfinance to create employment (Harvie, 2003). However, in most settings, there are people at the very bottom of the socioeconomic scale – the poorest, where microfinance does not reach (Hashemi, 2006).

Financial exclusion is increasingly being recognised as an important aspect of socio-economic inequality where disadvantaged individuals and communities are isolated from mainstream financial services, particularly affordable and readily available credit According to Mohieldin *et al.* (2011), lack of access to poor to finance or financial exclusion is without any doubts the most crucial factor in the failure of realization of egalitarian objective of Islam. It should be noted that there are different types of institutions being developed which are increasingly concerned with expanding financial services to the poorer and needy section of population, as Sen (1990) states,

with the objective of empowering the individual to make them enabled and functioning. Such types of institutions not only trigger economic growth and development in the society but also support individuals to actualise *maqasid al-Shari'ah* in their lives and society and eventually achieve *falah* in *akbarah*, the ultimate objective of Islamic development process as proposed in this study.

In addition, it is well recognized that financial development is important for economic development (Levine, 2005). There are many studies which have found a positive correlation between access to finance and poverty alleviation at the country level (Beck *et al.*, 2007; Demirgüç-Kunt *et al.*, 2008; Honohan, 2004). In a recent study to evaluate the effect of increased access to financial services for low income individuals on entrepreneurs activity, employment and income, Bruhn and Love (2013) find that new bank opening led to an increase in the proportion of informal businesses by 7.6 percent while total employment rose by 1.5 percent. The new bank opening also led to higher income level for both men and women by about 7 percent. Similarly, Burgess and Pande (2005) find that the expansion of bank branches in rural India had a significant impact on alleviating poverty.

8.5.2 Islamic Microfinance Institutions and Economic Development

Islamic development process, on the other hand, while adopting Al-Ghazali framework of vertical ethical dimension of Islam as proposed in this study, views all human beings equal as represented by their paralleling proximity to Allah (Asutay, 2007a). Thus there is a need for social safety nets to take care of the consumption needs of the poorest before they could be provided financial services through microfinance.

Hashemi (2006), suggests different ways through case studies about how links can be established between safety nets programs and microfinance pros to produce results. These programs provides grants to meet the immediate consumptions along with training to build skills such as business management, and saving services, and sometime provide small credit to run microenterprises. Such programs in Islamic society can be initiated on profit base while utilising and integrating *zakah* and *amqaf* funds. *Zakah*, as one of the five pillars of Islam, can be utilised to alleviate poverty. *Zakah* given by the wealthy people to poor in society can be used for consumption, asset building and production purpose to complement funds of Islamic MFIs (Ahmed, 2004). To highlight and support the importance of *zakah* in reducing the poverty in Islam, it is estimated that there are supporting evidence that 20 out of 39 OIC countries can actually alleviate the poorest living with income under \$1.25 per day out of the poverty line simply with domestic and remittance *zakah* collection (Mohieldin, *et al.*, 2011). For this, what is

needed is to redevelop proper collection, streamlining, accountability, prioritization and allocation to productive activities of *zakah*, which is already being distributed to poor in several countries around the world. In IME, there are many different types of Islamic MFIs suggested by various scholars to promote a prosperous, just and egalitarian economic and social structure, where all members of society are gainfully employed, free from want, enjoys freedom, participates in the social and political life and has opportunities to grow spiritually and culturally (Zarqa, 1989). For example, cash based *waqf* MFI (Cizakca, 2004), and microfinance institutions based on *zakah*, *amqaf*, and *sadaqat* (Ahmed, 2003; Kahf, 2004; Obaidullah, 2008). These institutions are envisaged to increase access to financing, while contributing to poverty alleviation, thus improve well being including non-income dimensions such as health, education and nutritional (for detail in Bangladesh scenario see: H. Ahmed, 2002; Chowdhury *et al.*, 2004; Khandker *et al.*, 2003).

Even though, these institutions aims to elevate poverty in the Muslim societies and contribute to the real development of economy, still the advantages of these institutions have not been yet effectively utilised in the Muslim world. According to Khan (2013), currently there are more than 300 Islamic MFI in 32 countries, however, based on a survey conducted by the Consultative Group to Assist Poor (CGAP) in 126 MFI of 14 Muslim countries that microfinance had a total outreach of 0.5 percent of total clients (Karim *et al.*, 2008). Furthermore, according to a recent report, Islamic microfinance represents less than 1 percent of the global microfinance outreach despite the fact that almost half of the clients of microfinance live in Muslim world and the demand for Islamic MFI is very strong (Dar *et al.*, 2012).

A broad range of microfinance models with varying philosophies and target groups are offered by financial institutions around the world to reach the underdeveloped class of society as part of poverty alleviation strategies; however the best known organization addressing financial exclusion is Mohammad Yunus's Grameen Bank micro-credit initiative in Bangladesh (Amin *et al.* 2003). The assumption of the Grameen model is that the expertises of the poor are underutilized. In addition, it is also believed that charity will not be effective in eradicating poverty as it will lead to dependency and lack of initiative among the poor. In the case of Grameen Bank of Bangladesh, women comprised of 95 percent of the borrowers, and they are more reliable than men in terms of repayments (Gibbons and Kassim, 1990). Even though, loans are made to individuals for one year with a nominal interest rate of 20 percent, however, groups of five individuals are formed voluntarily, which are held responsible for loan payment. The group mechanism is developed as a trust to replace the collateral or guarantor. In case of default of repayment, borrowers will have to quit along the group.

Even though, there are already many types of Islamic based local institutions formed on group-based lending format of the conventional MFI in a number of Muslim countries, however lack of fund generated Islamically is one of the major constraint to growth and efficient operations (Ahmed, 2003). Issues with the cash can be dealt through different other alternative options such as establishment of *waqf*-based Islamic MFI where assets can be generated through cash *waqf*, *waqf* certificates, *Shari'ah* compatible saving deposits, *qard al-Hasan* deposits, and *zakah* and *sadaqat* endowments. These institutions can effectively reach to the poorest of the society and allow them to not only to live a dignified life by meeting their immediate consumptions needs but also develop programs and training to develop their skills to be an effective part of the society.

The importance of microfinance in the realisation of objectives of Islamic development process as articulated in this study can be explored through a following case study by Ahmed (2008). Rural Development Scheme (RDS) of Islami Bank Bangladesh Limited (IBBL) using the Grameen model of microfinance introduced *Shari'ah* compliant group based microfinance. Each member in the group is required to open *mudarabah* saving account in order to inculcate saving habit among members. Financing is restricted to *bai-muajjal* mode of practice, though other modes of financings will be introduced later. Each individual after eight weeks of enrolment as a member of a group can request for financing in the range of Tk.8, 000-10,000 (US\$115-145) without any collateral. Each member in the group is required to return the loan over one year period in forty four equal weekly instalments. The profit rate is uniform and reasonably low at ten percent with a further discount of two and half percent for timely repayment. Further loans can be dispersed to those who qualify certain criteria of the RDS, termed as graduate clients.

In addition to developing *Shari'ah* complaint MF facility to provide opportunity to the poor members of the society and promote saving habits, RDS also requires each member of the group to deposit with RDS a minimum Tk.2.00 per week in a pool. These, *Shari'ah* compliant financial product, micro-*takaful*, play an important role in poverty alleviation through risk sharing among individuals in the group and provide a kind of micro-insurance against unforeseen adversities. Micro-*takaful* like microfinance helps under-privileged people in the society sustain their financial wellbeing, provide them with a feeling of togetherness, solidarity, and security, and opens avenues for joint efforts for mutual benefits. In other words, micro-*takaful* offer benefits for MFI for securing its revolving funds for the poor to secure the payment to the MFI in case of disability and death as well as additional benefit for the decease family. In addition, the Microtakaful can also offer them with other investment products to make their life more secured such as for education, pension.

RDS is also linked with charity through Islami Bank Foundation, a non-profit service-oriented sister organization of IBBL to finance non profit-yielding viable sectors such education and healthcare, since these areas constitute important dimension of development of human beings. In addition, RDS is also running moral and spiritual programs to inculcate in its members awareness about their social rights and responsibilities through weekly including appreciating and striving for an Islamic way of life.

The above case study clearly shows how Islamic institution combined with an innovative product can achieve all aspects of Islamic development process proposed in this study through integrating both spiritual and material development by actualising justice; the core of development process. RDS emphasizes on spiritual uplift (*baququllab*), core dimension of Islamic development process, of the faithful through running different moral and spiritual programs, linking vertical dimension of Islamic ethics with horizontal dimension of equality, to create social awareness among its members and create spirit of brotherhood and co-operate, also a desire objective of social justice in Islam. Furthermore, in the same spirit, bringing poor people of society together and providing them with the opportunities to change their economic condition through non-collateral loans, aims to create an ideal Islamic society based on justice and equity. This can be ideally combined with providing social safety nets to take care of the consumption needs of the poorest finance through *zakah* and *anqaf* funds. At the same time microfinance institutions like RDS, through linkages with charities, invest in non-profit yielding activities of the society to enhance the living standard of the members, particularly through investment in health and education. This is also an important goal of worldly development in Islam. Therefore, these types of new institutional developments and *Shari'ah* compliant products with real contribution aiming at improving the lives of people can certainly apprehend the aims and objectives of IME (Mohieldin, *et al.*, 2011) to establish a society based on equity, justice, brotherhood, corporation and welfare, namely fulfilment of IME ideals.

IME aims to promote entrepreneurship and risk sharing through profit and loss finance. The objective of risk sharing through profit and loss financing by linking rewards with the performance of the business has important implications for the efficiency with which resources are allocated. However, participatory based financings exposes these institutions to risk such as credit risk, equity Investment risk, market risk, liquidity risk, rate of return risk and operational risk which can be reduce through proper risk management controls (for details, see: Febianto, 2007). Since Small and Medium Enterprises (SMEs) requires both encouragement to entrepreneurship and risk-sharing, hence there is a natural fit for Islamic finance and SME financing. Islamic based SME institutions can be seen to provide a comprehensive asset-based

economic and equitable model that fulfils expectations such as social justice and human centred sustainable development, an important objective of Islamic development process. In addition, establishment of *wikalab* agencies can perform monitoring and minimize moral hazard (Mohieldin, *et al.*, 2011). The actualization of justice in Islamic development model promote the profit and loss sharing schemes to achieve a just distribution of gain and liability among partners and avoid debt in society which is one of the main reasons of wealth accumulation in few hands in society . For example, *qard al-Hasan* can be considered an excellent venue to further support SMEs and to reach lower income levels that are deprived of financial resources. *Qard al-Hasan* provides reliable sources of funding to economic development and reduces the lending risk as it is built on pooling and social collateral. The social benefits of availing funding to MFI's at zero cost acts a good catalyst for growth and provide an extremely high social benefits through creating jobs and generating incomes to the poor, deprived and unprivileged (Mohieldin, *et al.*, 2011). According to Siddiqi (Siddiqi, 2006), initial capital for *qard al-Hasan* can be contributed by the state, the central bank and other IFIs as well as donations from public, where, gurantees against non-payments may be provided by creating another insitutions, which would be funded among other sources, by *zakah* money. This type of insitution may be allowed to invest its idle funds into *Shari'ah* based short term securities. Sadr (2008) has provided an extensive details of *qard al-Hasan* funds in Iran. This study is important specially with respect to how individuals from communities have contributed to these funds with a reward to be received in *akbirah*. These *qard al-Hasan* based finance has been operating with the objective of helping low-income group through short-run credit to those who are unable to fulfil banks loan collateral requirement, with rough estimate of 1,229 *qardal-Hasan* registered Funds (Sadr, 2008). Sadr (2008) further reported that total *qard al-Hasan* loans amounted to \$169 million, with deposits exceding to \$227 million with 60% of the total loans had been paid back. The advantage of promoting *qard al-Hasan* based financing is two folded. At one side, it is encouraged in Qur'an in return for a reward (2:245;64:17) to give *qard al-Hasan* to people in overcoming their financial problems so as to save them from undersirable circumstances and exploitation. Thus it helps to reduce reliance on *riba* based economy in a society and state. Secondly, it also establishes better relationship among the poor and the rich in the society and promote the spirit of brotherhood, unity and co-operation as propagated through horizontal dimension of equality with respect to *baququl-ibad* in proposed Islamic development process (figure 8.2). Development in Islam as articulated in this study requires that Allah given resources (*rububiyyah*) on this earth as *amanah* have to be share among *haves and the haves not*. *Qard al-Hasan* promotes such behaviour where the wealthy class of society share the resources bestow upon them as a gift from Allah with those in

the society who need help to meet their basic needs. This spirit of brotherhood, unity and co-operation, an objective of social justice, enhance the integration of Muslim ummah and eventually promote a society based on justice and equity and thus to internalise the islamic development process in all affairs.

In Europe and United States, new forms of financial intermediaries have emerged classified under the label of 'social banking', which aim to provide social and community finance to socially vulnerable groups and reinforce social cohesion (Sairally, 2007) while at the same time are motivated by financial returns. One such provider of community development finance that can be further developed in IME is Community Development Financial Institutions (CDFIs), which are financial service providers involved in the mainstream social banking sector with the primary mission of promoting community development. For example, Local Alchemy runs by the New Economics Foundation, The Aston Reinvestment Trust, and Shore Bank. Such institutions are ideal in Islamic paradigm utilising *zakah* and *qard al-Hasan* funds due to its high importance attributed to social development and human well-being. In addition, the concept of community based development is well reflected in the establishment of distinctively Islam pro-development modes of financing (Sairally, 2007). The key role of CDIFs is to serve in the social, economic and physical renewal of under invested communities by creating jobs, economically empowering community, developing entrepreneurial initiative, developing small businesses and microenterprises, constructing affordable housing, providing essential community services like child care, health and education, serving women, ethnic minorities and other economically disadvantaged groups (Forum, 2006). As this study explored, the Islamic development process aims at the maximization of *falah* in *akbirah* through worshipping Allah (*haququllah*) as well as *mu'amalāt* (*haququl-ibad*) including all kinds of economic activities related to production, consumption, exchange and distribution. The principle of justice enshrined in Islamic development process in relation to *mu'amalāt*, as representing by horizontal dimension of equality, brings about a balance between the rights of individuals and their duties and responsibilities towards others (Parvez, 2000). Islam attempts to create a culture that binds individuals and families into a community so that a natural infrastructure for providing support and help to those in need is developed as important goals of justice in Islam. Such community based institutions are ideal forms of institutions and play important role in the development of *ummah* as prescribed by Islam. Thus the development of Islamic CDFIs while internalising the elements of Islamic ethics and social justice will have a greater role in the promotion of economic development in Muslim communities.

Considering that the new developmentalist strategy is based on micro-dynamics, such institutions fit into this new development paradigm, as they are the civil society institutions aiming to mobilise the micro-dynamics of the society in bringing micro-based development which essentialises individuals and their happiness. Islamic development strategy has always been a micro-development oriented, and therefore the above mentioned institutions will be effective tools in delivering such developments as in the history of the Muslim world. The approach to development in Islam with an aim to achieve both worldly development and *falah* in *akhirah* in this study is human centric which is exquisitely explained in Qur'an (13:11): "Verily, Allah will not change the condition of the people, until they change what's in themselves". So the change should be initiated from the people for creation of an ideal Islamic society, where every member of the society should in different ways and according to their capacity contribute to the welfare of whole society, thus strengthening *ihسانی* social capital. Therefore in such an approach, the role of civil societies and community-based organizations is the catalyst for the initialisation of development and promotion of the axioms of *amanah*, *adl*, and *kehalifan* to achieve an ideal society. This is in contrary to the current political, cultural and socioeconomic environments in the Muslim world, where the role of religion is confined to maintain the *status quo* and development is perceived to be a process can only be achieved through macro-dynamics and state. While state has assumed the responsibility to initiate, monitor and control majority of development related projects in the Muslim world for many decades now; the failure of the state is a reality. Therefore, in our model, the role of the state is as limited as possible to empowering people to change their conditions in the sense of providing regulation and legal framework to facilitate economic development.

In other words to conclude, "these institutions would not only be able to respond to the 'substance' of IBFIs beyond attachment to the 'form,' but would also contribute directly to the developmentalist expectations in the Muslim world beyond economic growth" (Asutay, 2012: 109). Thus, it is only then IBF can be considered as serving for the purpose for which it was constructed. This is, hence, the main purpose of the model proposed in this study; suggesting a new paradigm of development process, which can be facilitated with the innovative authentic IBF instruments and institutions.

As pointed out above, despite of wider acceptance of IBF worldwide, the concept of financing or microfinance for the poor and other capacity development financing is not well developed in IBF as most of Islamic banks, as in the case of conventional commercial banks, do not provide easy access to financing to the poor. As can be seen in Chapter 7, IBFs have opted for mostly real estate and trade financing. The limited provision of bank finance to micro-enterprises is

mainly attributed, among other factors, to the absence of a legal, policy and regulatory framework for collaterals and guarantees appropriate for microfinance (Obaidullah *et al.*, 2008). However, as discussed above, new types of Islamic financial institutions can be established to expand financial services to the poorer and needy section of society, as Sen (1990) proposes, with the objective of empowering the individual to make them enabled and functioning.

Even though, such micro-development related institutions can be developed independently at community level while arranging funds through *zakah*, *awqaf* and other charitable sources. However, as part of IME, such Islamic institutions could complement the existing IBF by providing financial services not offered by the Islamic banking sector. Institutions such as Islamic social banks, IMFI and CDFIs will combine the efficiency of modern banking with the provision of technical assistance and support services to improve community welfare whilst they operate in line with the *Shari'ah*. Such institutions will generate funds from *zakah*, *awqaf* and other *sadaqat* to guarantee social safety nets for poor to meet their consumption needs, allow banks to establish partnership on profit and loss schemes and provide cushion to IBF against losses due to minimum requirement for collaterals. These institutions can adopt more innovative approaches in promoting microfinance activities and reaching out to the poorest in the society for example by utilising the central role of mosques to run micro-credit programs (Dachlan *et al.*). In the same way, *zakah* funds as operated in Malaysia can be expanded into other societies to finance economic development through financing small and micro business. Hence, such institutions will also internalise the elements of Islamic ethics, social justice and community banking to the working of Islamic financial institutions. In this way, these institutions would be perceived as a valuable back up to the Islamic financial services industry, providing specialised financial services to serve the specific needs of communities, while at the same time fulfil the aspirational expectations from IFB and bringing closer to their original emergence reason. They will hence revive the principles of Islamic social banking which represents the initial and authentic practice of Islamic banking (Sairally, 2007).

Islamic commercial banks hence together with *waqf*, *zakah* funds, and Islamic micro financing institutions can develop new institutions, such as Islamic social banks, IMFI and Islamic CDFIs by providing the necessary funding for the development of such institutions, so that *ihsani* social capital through the extended *falah* circle can be expanded to respond to the challenges created by the overwhelming and ongoing nature of poverty and destitution as well as responding to the shortages in efficient and effective institutions which can actualise justice.

8.6 CONCLUSION

In Islam, as discussed in this chapter, the aim of development is to realise the *maqasid of Shari'ah* by placing the well being of individual and society at the centre to guide human development both worldly and *falab* in *akbirah*. Thus, this research is the first step to propose and comprehend this multidimensional approach to development in Islam, through integrating the worldly development goals using *maqasid al-Shari'ah* and fundamental axioms of IME with the development process of human beings while utilising the Ghazalian's theoretical framework of ethics to achieve *falab* in *akbirah*. This is the missing link in IME, even though it is generally agreed upon how Islam views development. Such approaches before have failed to link the development in this world with the achievement of *falab* in *akbirah*. This is one of the reasons of the failure of IBF, as the industry is concerned about fulfilling the minimum requirement of *fiqh* as opposed to the wellbeing of individuals in the society. Thus in current state, IBF failed to operationalise and fulfil the economic system and moral economic imperatives of Islam.

The concept of Islamic development process is based on linking and integrating vertical dimension of ethics with the horizontal dimension of equality. In such view, vertical dimension of Islamic ethical system symbolises *tawhid*, which alternatively implies that the horizontal dimension of equity along with *amanah* (trust), *al-'adl wa al-ihsan* (justice equilibrium), *ikhtiyar* (free-will), and finally *maqasid al-Shari'ah* necessitates individuals to live with the spirit of justices amongst themselves and promotes a society that actualised the objectives of Islamic development worldly goals of knowledge, work and social welfare system. However, such development goals must not end here but acts as foundations of other development goals in order to realise all objectives of *maqasid al-Shari'ah* with respect to time and space and promote the Islamic development. In such perspective, new institutional formation should endogenise such ethics to establish Islamic society based on equality, co-operation, and welfare through development of non-banking-financial institutions such as Islamic social banking, and *zakah* and *awaqf* based institutions. These institutions should be people-centred to enhance their capacity building at root level by empowering the poor, encouraging local sustainable enterprises, and overcoming financial and social exclusion, eventually promoting economic development and equality in a society.

Furthermore, to measure the wellbeing of people in society according to the Islamic approach to development presented in this chapter, the methodology from Sen's CA can be further developed for policy implication.

Chapter 9

CONCLUSION

9.1. OVERVIEW AND REFLECTIONS ON THE FINDINGS

As discussed in chapter 4, Muslim countries around the globe, which represent one-quarter of world's total population, constitute a significant part of the underdevelopment or developing world. Even though, many Muslim countries especially oil producing countries have achieved high GDP per capita and are among the richest countries in the world, these countries have not attained real development in the sense of self-sustaining economic growth and human development, as development in general is multi-dimensional and controversial concept beyond per capita income. Therefore, researchers have formulated different indices to comprehend development from those dimensions, which score and rank selected countries accordingly. Furthermore, due to lack of insufficient data as well as comprehensive index that measures the development from Islamic perspective; countries with Muslim in majority are also evaluated on such indices, as this study has done. The analysis in chapter 4 shows that Muslim countries in general are poorly ranked on Human Development Indices, Economic Freedom, Prosperity Index, Rule of Law, and Globalization Index compare to rest of world. There is also wide spread poverty and lack of growth opportunities in many parts of the Muslim world, contributed by factors such as corruption and gender discrimination. In conclusion, Muslim countries in majority belong to the least developed group of countries with few exceptions in mid level group of developed countries while no country from the Muslim world belong to the highly developed group of countries.

Contrary to the above mention depressing situation, it is claimed that Muslim states were more developed than the rest of the world in around tenth century. However, at the beginning of 17th century, West achieved superiority over Muslim World in all areas of development. The institutions in the Muslim countries did not develop into capitalistic modes of production which combined with particular social formation initiated industrialisation in the western countries. Muslim populated countries failed to achieve progress over time, hence raising many questions about Islam itself as an obstacle to development. Western scholars over the time with their limited knowledge about Islam and particularly unawareness about Islamic perspective of development have proposed baseless theories about Islam and underdevelopment based on their observations of the practice of Islam in everyday life in the Muslim populated geographies.

As iterated in this study in a continuous manner, development in Islam unlike western understanding is a multidimensional process, concerned with the overall wellbeing of human in all dimensions not merely limited to the welfare in this world. It is also extended to the life hereafter with no conflict between the two in a worldly and hereafter optimality, a dimension missing in the western concept of development. In Islamic framework of development, material and spiritual aspects of human life are complimentary and go hand in hand. Therefore, to able to attain *falab* in hereafter, one has to make the best use of the material of this world. However, *falab* does not demand the perpetual growth or non-stop quest for more and more material prosperity in this world. According to the axioms of IME, both material pursuit in this world and spiritual aspect of human life should be in balance and harmony. Hence, in such context economic development in Islam is an integral part of the moral and socio-economic development of human society. This is contrary to western mainstream developmental economics, which has been formulated within the secular and this worldly perspective however; it is still promoted in the Muslim world as part of Eurocentricity.

In such context, development in capitalistic society has been synonymous with progress and modernization, where progress is a movement from a perceived lesser state to a perceived higher state of existence. Hence according to Sardar (1996: 36), “the basic assumption of development is of a linear teleology *vis-a-vis* the standard yardstick of measurement: western civilisation”. Therefore, the western nations with their industrial development, free market economies, technological advancement, socio-political and cultural institutions symbolise the higher state to aspire and other nations around the globe have to simply follow this progress and development with the goal of becoming as good as the west.

Furthermore, since the beginning of Enlightenment, as mentioned in chapter 2, economics has been split into normative and positive economics, where the emergence of scientific knowledge based on observation and logical deductions lead to logical positivism, hence, rejecting values, ethics and moral judgement as non scientific, meaningless and mere expression of emotional attachment (see Mehmet, 2002). While on the other hand, normative economics as subjective focused on moral and ethical evaluation, and thus focused on what ought to be. Western mainstream economics resting on the utopia of logical positivism has ignored the potential role of culture and cross cultural values in economic outcomes. According to Mehmet (2002), western mainstream economic development theories identify rationality of human behaviour with maximization of self interest ruling out the ethics of altruism or reciprocity. Such Western rationality, hence, contradict values such as justice, loyalty and honesty held by the developing

world, where “ethics, history and economic are interwoven into more distinct, yet holistic, conception of individual, state and nature” (Mehmet, 2002: 154). Mehmet (2002), therefore, argues that mainstream development economics failed in developing world because economics is not a neutral, objective science as claimed by positivism but based and propagated on Eurocentric value system and, hence, too rationalist, thus dismissing all alternative reasoning and understanding as mistakes or irrational, consequently created a third world with prolonged poverty and underdevelopment. Imposition of such Eurocentric theories promoted under the umbrella of Enlightenment philosophy on societies with completely different ontological and epistemological knowing has failed to produce the same results as western nations.

Another issue with western economics discussed in chapter 3, is how economics benefits can be distributed 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 return is based on mathematical calculation. Since economic policies in western mainstream economics as claimed are value free, self interest based, therefore, justice is seen only as an ideal, rarely understood as reality. According to Smirnov (1996) just societies in such arrangement do not exist, and only progression toward these just societies is core of western societies. On the other hand, justice in Muslim society, as argued in chapter 6, is considered to establish *baqq* in order to preserve and maintain the society. This kind of justice flows from the Divine Authority, revealed either through by a sage or a chosen prophet commands respect and thus has lasting impact on social order. The justice is applicable to all men and time contrary to positive justice, most prevalent in the western discourse. Hence, justice is an integrated component of Islamic Development to maintain order and peace in the society.

Moreover as mentioned in chapter 5, newly independent Muslim nations at the end of World War II, in order to revive their lost identity and achieve economic development formulated economic policies by economists trained in the western academics, fascinated and hence influenced by neo-classical economic system. These economic policies in the Muslim world with distinct culture, unique values, and religious beliefs did not generate the same progress and development experienced by the western countries. The notion of development in capitalist system, deeply embedded in an imperialist and conflict-ridden world view of the west, is incompatible to needs and requirements as well as the visions and aspirations of Muslim world; no matter how much it is reformulated, modified and rethought. Furthermore, the experiences of 1950's and 1960's seriously challenge the presumption that modernization reflected through different development theories will trigger the socio-economic development in the Muslim world.

Muslim countries in the post colonial era with the freedom to handle their political and economic affairs and widely dissatisfied with western notion of socio-political and economic institution were eager to restore their lost identity based on the rulings of *Shari'ah*. These revivalist movements in the post-colonial period in the Muslim world were further supported by the emergence of OPEC in 1970s and generation of large amount of wealth to develop islamically permissible alternative to debt based western financial market. The founder fathers of IME felt the need to (re)develop a system which unlike capitalistic or communist concept of economic development places the well-being of human in the centre and guide human development in the right direction as articulated in Qur'an and through *Sunnah*.

As discussed in Chapter 5, IME, which according to Asutay (2007b: 5) "aim(s) at creation of Islamic economic system with its distinct values, norm, rules and institutions with a politically oriented systemic understanding as ordained in Islamic order". In other words, it has its own ethical and value system, fully integrated with economic motives which are ontologically part of revealed knowledge. Hence, Asutay (2007b) argues that its dogmatic nature makes it necessary to be followed. IME as a distinct system, focus on the development of human to achieve *falab* by arranging conditions, which are conducive to moral, spiritual, physical and environmental of individual development, and hence aims at developing an authentic development strategy. The authenticity is verified by the religious norms harnessed with cultural realities of past and historical Muslim experience. This is considered achieved through a balance and harmony between this world and the world after.

It should be noted that even the ultimate goal of human in Islam is the attainment of *falab* in *akhirah*; however the path to this is through the material world. Therefore, the existence and importance of this world neither can be denied nor ignored as Allah has created it for a purpose. The attainment of wealth and material life in this world are considered gift and bounty from Allah. However, according to IME, being a vicegerent of Allah on this earth, individuals have to utilise lawfully acquired wealth in this world in such a way to help promote brotherhood in community by taking care of needy and poor, which with the mercy of Allah will help them to achieve *falab* in *akhirah*. In thus, the role of *maqasid al-Shari'ah* should not be just limited to the protection of five elements proposed by Al-Ghazali and Shatibi, but must include broader measures to ensure justice and equity in changing circumstance as proposed by Ibn Qayyim. Therefore, in this research, the goals of Islamic development are proposed using the broader definition of *maqasid al-Shari'ah* within policy realm rather than within the confine of *fiqh* to meet the demand of current situation in the Muslim world (chapter 5).

IME places great emphasis on individual and social reform through moral filters compare to conventional economic system which considers the behaviour and taste and preference of an individual as given. Such socially constructive behaviour though moral filters derived from normative and positive principles found in Qur'an and *Sunnah* distinguish the IBF from conventional banking and finance, which is an institutional and operational part of IME emerged in the modern institutional sense during 1970s aiming to operationalise and fulfil the IME approach to development. It is, however, claimed that the social dimensions of Islamic banks and financial institutions are only limited with their *zakah* and other limited charitable activities with no real contributions to economy and social justice. In this research, in chapter 7, Islamic banks from the Muslim world are randomly selected to evaluate their social and developmental performance. These banks are present in more than 75 countries around the globe with estimated total financial assets more than USD 2 trillion, while growing on average 15-20 percent annually.

In the analysis provided in chapter 7, two types of data are collected from 10 randomly selected Islamic banks across Muslim countries to see how these banks have utilised their funds on the assets side and further how they are distributed across the industries. The aim of such analysis is, primarily, to evaluate the social and development performance of these banks, and understand the complete picture of how much these Islamic banks adhere to the true essence of IME, thus using majority of their funds according to the *musharakah* and *mudharabah* modes of financing. Second, how these funds are distributed over the industry to analyse the role of IBF in economic development of these countries. The results clearly show that debt-based financing is the major source of financing in IBF industry as in conventional banking system. Furthermore, banks like Kuwait Finance House, Al Rajhi Bank and Gulf Finance House, in the period covered, has no financing through *musharakah* and *mudharabah*, the preferred modes of financing according to IME. *Qard al-Hasan*, which is supposed to be an ideal mode of financing, is at a negligible level as majority of banks have none of their financing done through it. The analysis of financing industries by Islamic banks also shows financial sectors such as agriculture, industry and manufacturing, which play an important role in the development of economy, are not the dominant sectors in the financing strategy of IBF institutions. It can, therefore, be concluded that IBF institutions are opting for short term financing rather long term, while using debt-like mode of financing which brings a much higher return with minimum risk. Thus, the objective of current practices of Islamic banks and financial institutions is rather financialisation as opposed to financing according to objectives of IME to promote the welfare of human beings. Thus, IBF institutions have deviated from the economic development and social welfare objectives as

imagined by IME Economy and becoming part of the international financial markets with profit maximization as a sole objective. Thus, to conclude, Islamic banks fulfil the legal requirement of *Shari'ah* by avoiding *riba* and other prohibited principles; however; they fail to serve human well-being by promoting the objectives of IME.

Furthermore, customers' perception of IBF institutions is also analysed in chapter 7. It can be inferred from analysis that depositors have placed higher return on investment at the same level as religious motivation if not above. Such attitudes are propelling Islamic banks and financial institutions to invest in sectors that offer higher return in the shortest period of time along with safest modes of financings. Thus, IME's imagination fails not only in the IBF institutions, but also in shaping the economic and financial behaviour of individual Muslims. Thus, entire objective of creating *homoIslamicus* has not been achieved either despite the revivalist nature of religion, that is Islam, in most part of the Muslim world. It seems that *homoeconomicus* in individual level is also the prevailing attitude among the Muslims leading to 'Muslim capitalism' in individual and institutional level.

In responding to the developmentalist failures in the Muslim world (chapter 4) and the social and developmentalist failures of IBF (chapter 7), which was supposed to be an answer, this research aimed also at (re-)developing and conceptualising a model of Islamic development process in Chapter 8, which places human as a centre of focus, using Islamic development goals formulated through broader definition of *maqasid al-Shari'ah* and axioms of IME proposed in chapter 5. The model presented completes the Islamic approach to development integrating this worldly development with the attainment of *falah* in the *akhirah*. An important feature of the development process suggested in this research is how different worldly goals of development within Islamic framework can promote the achievement of *falah* in *akhirah*. Hence, this research is a first attempt to integrate the dynamic worldly aspects of development using different axioms and *maqasid al-Shari'ah* with the spiritual aspect of development, which is the ultimate end of humans in Islam. Furthermore, parallelism between Islamic development and Sen's capabilities approach is drawn in the terms of processes and outcomes. However as opposed to Sen's capabilities approach, freedom as understood in *tamhidic* framework is bound with responsibilities and denotes the sense of 'free from' rather than the explicit 'free to'. Thus, the individual's duties in exercising his/her rights are not limited to the claim on what is his/her, but also in delivering what is Allah's and what is others'. An individual in such terms is not only accountable for him/herself, but also accountable before Allah, and also they are also accountable before the members of society as its member. In addition, the Islamic notion of 'capabilities' is not an

‘individualistic’ position as Sen identified; on the contrary, as a requisite of the concepts such as ultimate happiness or *falab* ‘capable’ human being is the one who also contributes to the ‘capabilities’ of the other through utilising his/her capabilities in expanding capabilities bundle. The methodology presented by the Sen’s capability approach can be further developed to measure the wellbeing of people in the society using the worldly developmental goals formulated through *maqasid al-Shari’ah* using Ibn Qayyimian position and axioms of IME. In the end, an attempt is also made to reflect upon different policies to find how such a process can be actualised in everyday life with the contribution of Islamic financial instruments and institutions and how the development of new forms of institutions as part of third stage of development in IME further contribute to development of Islamic society based on co-operation, brotherhood, justice and sharing..

9.2. REFLECTING ON THE THEORETICAL AND EPISTEMOLOGICAL FRAMEWORKS

As discussed throughout this research, Muslim world, despite of its unique values and religious beliefs facilitating development did not follow the same patterns and progress of economic developments as experienced by western countries. As discussed in Chapters 4 and 5 over the years, Islam was considered the root cause of underdevelopment in the world. However, the end of World War II marked the national liberation movements which eventually led to independence of majority Muslim countries. As discussed in chapter 4 and 5, certain intellectual circles in these newly independent Muslim countries, as consequence of regaining their lost identity, aimed at developing economic policies based on distinct value system and principles of Islam, which marked the revival of IME as shown in chapter 5. As part of this construct, IBF, an institutional and operational part of IME, emerged in modern sense in 1970s to operationalise the developmentalist objectives of IME. However, as discussed in chapter 7, contrary to the Ibn Khaldunian framework of essentialising justice as articulated by Taleqani the developmental goals of IBF are only confined to the *fiqhi* concept of contractual fulfilment of *halal* and *haram* with respect to *riba*. The evaluation of the social and economic performance of IBF in Chapter 7 specially financing through debt like instrument and lack of profit and loss instruments clearly reflect a failure with respect to the broader definition of *maqasid al-Shari’ah* articulated by Ibn Qayyim as well as by the discourses developed by Ibn Khaldun and Taleqani with respect to justice and development with overall objective of human well being.

As mentioned in chapter 1, the core of this research is explicitly based on understanding of Ibn Khaldun description of development and Taleqani position on justice, which constitute the main

epistemological framework around which the developmental goals in chapters 4 and 5 (Islamic Moral Economy) are drawn upon to fulfil the *maqasid al-Shari'ah* taking the Ibn Qayyimian position, along with axioms as a moral filter with overall objective of welfare or *falah* of mankind. The Ibn Qayyimian position on *maqasid al-Shari'ah*, does not limit the list of *maqasid* to be achieved, but provides an opportunity space to be utilised according to developmentalist need which can expand or contract depending on the developmentalist need. Therefore, the comprehensive Islamic development model in chapter 8 based on the Ghazalian micro-dynamic oriented spiritual development process is framed within the expressed epistemology of Ibn Khaldun and Taleqani, representing both the vertical ethical dimension of Islam symbolizing *tawhid* "linking the imperfect and finite social institutions with a Perfect and Infinite Being" (Naqvi, 1994: 26) and horizontal dimension of equality to establish justice and promote *ihسان* (beneficence) through need fulfilment of their family, and the whole society, and equitable distribution of income and wealth in society to promote growth and stability (Asutay, 2007b). In the model, in addition to these frames, Qayyimian *maqasid* is essential in considering the operational side of the process, which is related to develop and produce policy outcomes. Such policy outcomes require an expanded *maqasid* understating rather than Ghazalian constrained frame of *maqasids*.

In addition to utilising all these frameworks, in chapter 8, axioms of IME are used as a baseline framework to articulate how developmental goals as extension of Qayyimian's *maqasid al-Shari'ah* proposed in chapter 5, can be actualised in a society with an objective of *falah* in *akhirah* as ultimate goal. The development model in chapter 8 directly makes references to micro-dynamics in a Ghazalian sense to substantiate the strength of the Ibn Khaldunian model. Thus, while 'justice' in the proposed model is articulated in Ibn Khaldunian sense with the epistemological justification provided by Taleqani, the operationalisation of the this framework in this model is considered through making reference to 'individual development' through spiritual enhancement as identified by the Ghazalian framework. Further endogenising the concept of justice based on the teaching of Qur'an and *Sunnah* and substantiated by the Taleqani position on justice as explored in chapter 6, suggests new institutional formation as an operational extension of Ibn Khaldun's definition of development to actualise an ideal Islamic society based on equality, co-operation, and welfare with overall objective of the welfare of human beings through development of non-banking-financial institutions such as Islamic social banking, and *zakah* and *awaqf* based institutions and eventually promoting economic development. Thus, the policy outcomes and the tools of achieving such policy outcomes in this model is considered only possible with the extended *maqasid* framework, as expressed by Ibn Qayyimian framework, as

development, as assumed by this research, is multi-dimensional and cannot be restricted with the *fiqh* oriented meaning of *maqasid* as put forward by Ghazalian framework.

Thus, the comprehensive Islamic development model in chapter 8, integrating the worldly developmental goals actualised through the extension of Qayyimian's *maqasid al-Shari'ah* Chapter 5, with the spiritual uplift to achieve *falab* through the extension of *haququllah* and *haququl-ibad* utilising the Ghazalian micro-dynamic oriented spiritual development process, thus reflecting the multi-dimensional aspect of development in Islam,. In this model, Ibn Khaldun concept of development through extension of Taleqani epistemological framework highlights justice as a balance between *haququllah* and *haququl-ibad* for achievement of *falab* and axiomic framework further endogenising Taleqani framework propose a society where resources are shared for the better for whole *ummah*. In this model, the Ghazalian micro-dynamics of development link the individual development with spiritual uplift with respect to *haququllah*, while the Ibn Khaldunian concept of development essentializing the development of whole society in relation to *haququl-ibad* by acquiring of Taleqani methodology of justice to substantiate how individuals in community through sharing can develop their own capabilities.

9.2. IMPLICATIONS OF THE RESEARCH

Development in Islam considers the process and the outcomes as mere means to achieving the multidimensional goal of human being summarised by the term *falab*, which can be only realised through actualisation of *maqasid al-Shari'ah* and axioms of IME. The process of development in Islam is not merely a result of persuasion of individuals' personal interests but also an outcome of mutually interdependent individuals, connected through a bond of brotherhood, in bringing meanings to the society and its everyday functioning. However, the proposed development model in Chapter 8 could only be possible to implement in the Muslim community, society and countries if there is political and economic freedom. Without true political freedom, as Sen (2011) articulated, the development is hard to achieve, as freedom is the essential element, through which development efforts can be concerted. However, the current political culture in the Muslim world and Muslims' polity in general would make it difficult to implement the IME in true spirit as can be viewed from the growth of Islamic financial markets, which in return hinder the implementation of the development process formulated and proposed in this study especially at societal level. In other words, the *pseudo* democratic system, state dependent individuals, rent-seeking culture, patronage politics and economy, wide spread corruption, mismanagement of local resources and practices of bad governance are the major obstructions for the

implementation of IME and hence Islamic development model. In Muslim world, religion has been used mere a power tool to justify the tyrant regimes and keep the status quo of underdevelopments where majority are left in captive mentality to surrender to the will of elites. Therefore, in such culture, expecting a development process based on justice and equity is highly unlikely, however at individual level, where majority lives their lives aiming to achieve *falah* in the *akhirah*, may be able to actualise the aims and objectives of IME and proposed Islamic development process.

Another issue with regard to implementation of IME is to realise the development according to the teaching of Islam, apart from encouraging a political environment, is a clear understanding of Islam in the Muslim world and beyond. A lack of understanding about Islam by majority of Muslim who either view it as a static dogma lies in their private lives or a strict literal interpretation of it as a sacred doctrine against any amendment and dynamism, misfit for the changing time and space, will never help Muslim to actualise this model thoroughly in their lives (Ramadan, 2006). Instead, the model and the implementation of IME can only be workable through a clear understanding of *Shari'ah*, where *Shari'ah* should not be confined within its limited legalistic consequent independent deontological parameter, but should be recognised as an ethical, value oriented process, whereas the objectives of *Shari'ah* or *maqasid al-Shari'ah* should be policy oriented with the objective of interpreting and contextualising the realities of time within the Islamic epistemological and ontological order, endogenising morals in dynamic manner rather than only confining them to legal mechanism in a static order (Zekavat, 2007). Hence to enable this and allow IME to be implemented align with the Islamic development, there is a need for a comprehensive educational reforms to broaden the horizon of individuals to enable them to think beyond the *taqlidi* mentality of Islam. In conclusion, individuals in Muslim world should not only have the political freedom to choose but must also be educated with religious and scientific knowledge to realise their rights, responsibilities as Muslim in order to implement IME within the sphere of Islamic development process. However, the realities of Muslim world are quite opposed to the suggested Islamic development model within IME. The conditions to implement Islamic development model could only be possible if there is political and economic freedom within Muslim communities, societies and countries. Without political freedom, the Islamic development process will remain only a utopian model with no connection with reality, and without freedom, development is hard to achieve, as freedom is the essential element, through which development efforts can be concerted (Sen, 1999). Majority of Muslim countries with pseudo democratic system, too large state, state dependent individuals, rent-seeking culture, patronage politics and economy and other undemocratic practices that allow

corruption, mismanagement, and other practices of bad governance are the major impediments for the implementation of the model.

9.3 LIMITATIONS OF THIS STUDY AND SUGGESTIONS FOR FUTURE RESEARCH

Although this research aims to present a comprehensive Islamic development model with in reference to Muslim world however, there are some limitations in this research which need to be highlighted. First, this research presents general but comprehensive theoretical Islamic development model by integrating the worldly aspects of development in Islam with the spiritual aspect of development in the form of *jalab* in *akebirah*, which does not cover differences of opinion within Islam discourse. This is a theoretical model, and further studies are suggested with respect to institutionalisation of Islamic development model proposed in this study.

Furthermore, with regard to development the theoretical aspects of the model, no historical cases and context are covered. Second, even though the ultimate end of Islamic development is the spiritual uplift of Muslims; however, the *ibnsani* based society as objective of Islamic development model bearing no faith significance in its functional mode to deliver social goods. In addition, the main spirit of Islamic development lies in the idea of overcoming the boundaries between faiths.

Third, while presenting the concept of worldly development in this research, only three important goals are formulated through broader definition of *maqasid al-Shari'ah* and axioms of IME. However, further goals can be identified to ensure justice and equity in changing circumstance as proposed by Ibn Qayyim.

Importantly, in evaluating the development trajectories in the Muslim world, mainly the tools of conventional economics and finance are utilised. This might be considered as a shortcoming; however, there are no other tools developed yet from Islamic perspective. It should also be stated that while those tools can be conventional in nature, in terms of consequences very much refer to similar expectations as IME would expect. Thus, there are similarities in the substance while the form might be different.

Based on the discussion developed and presented in this research, the following suggestions and recommendations are developed for future research, which may be taken from this study for future research to enhance the concept of Islamic development process to meet the demand of changing circumstance and time.

- (i) The boarder definition of *maqasid al-Shari'ah* can be further analysed to formulate detailed goals of Islamic development for policy implications in Muslim countries;
- (ii) The political economy of change towards an authentic development process as identified in this study can be an important study to identify the theological, political, social and economic boundaries for changing the society to produce IME oriented developmentalism. In other words, developing the conditions of *homoIslamicus* should be discussed;
- (iii) All suggested goals can be measured and verified to enhance the overall wellbeing of citizen of that country using the methodology suggested by Sen's CA.

9.4 EPILOGUE

This research aims, as mentioned in chapter 1, to explore and analyse IME as an alternative system of economy and society to capitalism and socialism in an attempt to propose Islamic development by integrating the worldly development within Islamic framework with the spiritual development in order to help individuals to achieve *falah*, an ultimate goal of Islam, through the maximisation of *ibnsani* social capital. It is expected that the failure of Muslim countries to provide the basic necessities and an environment free of oppression and injustice can be overcome with this authentic Islamic development framework within IME. It is also hoped that at least at individual level, Islamic development approach comprehended in this proposal can be internalised at individual level in Muslim countries. Thus, as can be seen from the foundational chapters (2, 3, and 6), empirical chapters (4 and 7) and conceptualisation chapter (5, 8), the aims and objectives of this study has now been fulfilled.

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APPENDICES

Appendix 4.1

List of Muslim populated countries by PEW 2011

	Country	Estimated 2009 Muslim Population	Percentage of Population that is Muslim
1	Afghanistan	29,047,000	99.8
2	Tunisia	10,349,000	99.8
3	Iran	74,819,000	99.7
4	Western Sahara	528,000	99.6
5	Azerbaijan	8,795,000	98.4
6	Yemen	24,023,000	99.0
7	Mauritania	3,338,000	99.2
8	Iraq	31,108,000	98.9
9	Morocco	32,381,000	99.9
10	Niger	15,627,000	98.3
11	Somalia	9,231,000	98.6
12	Maldives	309,000	98.4
13	Mayotte	197,000	98.8
14	Comoros	679,000	98.3
15	Jordan	6,397,000	98.8
16	Algeria	34,780,000	98.2
17	Turkey	74,660,000	98.6
18	Palestinian territories	4,298,000	97.5

19	Saudi Arabia	25,493,000	97.1
20	Djibouti	853,000	97
21	Libya	6,325,000	96.6
22	Pakistan	178,097,000	96.4
23	Uzbekistan	26,833,000	96.5
24	Senegal	12,333,000	95.9
25	Kuwait	2,636,000	86.4
26	Gambia	1,669,000	95.3
27	Egypt	80,024,000	94.7
28	Turkmenistan	4,830,000	93.3
29	Mali	12,316,000	92.4
30	Syria	20,895,000	92.8
31	Bangladesh	148,607,000	90.4
32	Kosovo	2,104,000	91.7
33	Indonesia	204,847,000	88.1
34	Oman	2,547,000	87.7
35	Kyrgyzstan	4,927,000	88.8
36	Guinea	8,693,000	84.2
37	Tajikistan	7,006,000	99
38	Bahrain	655,000	81.2
39	Albania	2,601,000	82.1
40	Qatar	1,168,000	77.5
41	United Arab Emirates	3,577,000	76
42	Sudan	30,855,000	71.4
43	Sierra Leone	4,171,000	71.5
44	Brunei	211,000	51.9
45	Malaysia	17,139,000	61.4

46	Lebanon	2,542,000	59.7
47	Burkina Faso	9,600,000	58.9
48	Kazakhstan	8,887,000	56.4
49	Chad	6,404,000	55.7
50	Nigeria	75,728,000	47.9

Muslim countries, Population, and GDP

Total world population in the World 2009	6,800,000,000
Total population of Muslim in the world 2009	1,570,000,000
Total Population of Muslim in Muslim countries-2009	1,253,808,000
Percentage of Muslim population in Muslim countries in proportion to the world population – 2009	18.43835294
Population of Muslim in Muslim Countries - Asia – 2009	774,278,000
Population of Muslim in Muslim Countries - Middle East and North Africa – 2009	314,126,000
Population of Muslim in Muslim Countries - Sub-Saharan – 2009	160,883,000
Population of Muslim in Muslim Countries - Europe – 2009	4,521,000
Percentage of Muslim Population in Asian Muslim Countries to Population of Muslim in All Muslim Countries	61.8
Percentage of Muslim Population in Middle East and North Africa Countries to Population of Muslim in All Muslim Countries	25.1
Percentage of Muslim Population in Sub-Saharan Muslim Countries to Population of Muslim in All Muslim Countries	12.8
Percentage of Muslim Population in Europe Muslim Countries to Population of Muslim in All Muslim Countries	0.4
Percentage of Muslim Population in Asian Muslim countries to the Population of world	11.4
Percentage of Muslim Population in Middle East and North African Countries to the Population of World	4.6
Percentage of Muslim Population in European Muslim Countries to the Population of World	2.4
Percentage of Muslim Population in Sub-Saharan Muslim Countries to the Population of world	0.1
GDP(in millions)- World 2009	58,228,200
GDP(in millions)- All Muslim Countries 2009	4,129,970
GDP(in millions) - Muslim Countries in Asia – 2009	2,173,859

GDP(in millions) - Muslim Countries in Middle East and North Africa – 2009	1,709,779
GDP(in millions) - Muslim Countries in Sub-Saharan Africa – 2009	229,146
GDP(in millions) - Muslim Countries in Europe – 2009	17,186
Percentage of Muslim Countries GDP to World GDP	7.0927317
Percentage of Muslim Countries GDP in Asia to All Muslim Countries	52.63619348
Percentage of Muslim Countries GDP in Middle East and North Africa to All Muslim Countries	41.39930799
Percentage of Muslim Countries GDP in Sub-Saharan to All Muslim Countries	5.548369601
Percentage of Muslim Countries GDP in Asia to All Muslim Countries	0.416128931
Percentage of Muslim countries GDP to World GDP – Asia	3.733343981
Percentage of Muslim countries GDP to World GDP - Middle East and North Africa	2.936341841
Percentage of Muslim countries GDP to World GDP - Sub-Saharan	0.39353097
Percentage of Muslim countries GDP to World GDP – Europe	0.029514909

Appendix 4.2

Human Development Report 2012

Country	HDI value(Rank) Total countries 187	IHDI(RANK) Total countries 132	Gender Inequality Index (GII) Value(Rank) Total countries 148	Multidimensional poverty Index (MPI)
Republic of INDONESIA	0.629(121)	0.514(78)	0.494(106)	0.095
Islamic Republic of PAKISTAN	0.515(146)	0.356(98)	0.567(123)	0.264
People's Republic of BANGLADESH	0.515(146)	0.374(95)	0.518(111)	0.292
Federal Republic of NIGERIA	0.471(153)	0.2769(119)	-	0.31
Arab Republic of EGYPT	0.662(112)	0.503(82)	0.59(126)	0.024
Islamic Republic of IRAN	0.742(76)	-	0.496(107)	-
Republic of TURKEY	0.722(90)	0.560(63)	0.366(68)	0.028
Republic of The SUDAN	0.414(171)	-	0.604(129)	-
People's Democratic Republic of ALGERIA	0.713(93)	-	0.391(74)	-
Kingdom of MOROCCO	0.591(130)	0.415(88)	0.444(84)	0.048
Republic of IRAQ	0.59(131)	-	0.557(120)	0.059
Kingdom of SAUDI ARABIA	0.782(57)	-	0.682(145)	-
Islamic Republic of AFGHANISTAN	0.374(175)	-	0.712(147)	-
Malaysia	0.769(64)	-	0.256(42)	-
Republic of UZBEKISTAN	0.654(114)	0.551(64)	-	0.008
Republic of YEMEN	0.458(160)	0.31(106)	0.747(148)	0.283
SYRIAN Arab Republic	0.648(116)	0.515(76)	0.551(118)	0.021
Republic of KAZAKHSTAN	0.754(69)	0.652(44)	0.312(51)	0.002
BURKINA-FASO	0.343(183)	0.226(124)	0.609(131)	0.535
Republic of NIGER	0.304(186)	0.2(131)	0.707(146)	0.642

Human Development Report 2011

Country	HDI value (Rank) - total countries 187	IHDI(CHANGE IN RANK) - total countries 139	Gender Inequality Index (GII) Value(Rank)	Multidimensional poverty Index (MPI)
Republic of INDONESIA	0.617(124)	0.504(8)	0.505(100)	0.095
Islamic Republic of PAKISTAN	0.504(145)	0.346(1)	0.573(115)	0.264
People's Republic of BANGLADESH	0.500(146)	0.363(5)	0.550(112)	0.292
Federal Republic of NIGERIA	0.459(156)	0.278(-6)	-	0.31
Arab Republic of EGYPT	0.644(113)	0.489(-5)	-	0.024
Islamic Republic of IRAN	0.707(88)	-	0.485(92)	-
Republic of TURKEY	0.699(92)	0.542(-2)	0.621(77)	0.028
Republic of The SUDAN	0.408(169)	-	0.611(128)	-
People's Democratic Republic of ALGERIA	0.698(96)	-	0.412(71)	-
Kingdom of MOROCCO	0.582(130)	0.409(2)	0.510(104)	0.048
Republic of IRAQ	0.573(132)	-	0.579(117)	0.059
Kingdom of SAUDI ARABIA	0.770(56)	-	0.646(135)	-
Islamic Republic of AFGHANISTAN	0.398(172)	-	0.707(141)	-
Malaysia	0.761(61)	-	0.286(43)	-
Republic of UZBEKISTAN	0.641(115)	0.544(17)	-	0.008
Republic of YEMEN	0.462(154)	0.312(0)	0.769(146)	0.283
SYRIAN Arab Republic	0.632(119)	0.503(4)	0.474(86)	0.021
Republic of KAZAKHSTAN	0.745(68)	0.656(5)	0.334(56)	0.002
BURKINA-FASO	0.331(181)	0.215(3)	0.596(121)	0.536
Republic of NIGER	0.295(186)	0.195(0)	0.724(144)	0.642

Human Development Report 2010

Country	HDI value(Rank) - Total countries 169	IHDI(CHANGE IN RANK) - Total Countries 139	Gender Inequality Index (GII) Value(Rank)	Multidimensional poverty Index (MPI)
Republic of INDONESIA	0.600(108)	0.494(9)	0.680(100)	0.095
Islamic Republic of PAKISTAN	0.490(125)	0.336(1)	0.721(112)	0.275
People's Republic of BANGLADESH	0.490(125)	.331(1)	0.734(116)	0.291
Federal Republic of NIGERIA	0.490(125)	0.246(-6)	-	0.368
Arab Republic of EGYPT	0.490(125)	0.449(-7)	0.714(108)	0.026
Islamic Republic of IRAN	0.490(125)	-	0.674(98)	-
Republic of TURKEY	0.490(125)	0.518(1)	0.621(77)	0.039
Republic of The SUDAN	0.490(125)	-	0.708(106)	-
People's Democratic Republic of ALGERIA	0.490(125)	-	0.594(70)	-
Kingdom of MOROCCO	0.490(125)	0.407(2)	0.693(104)	0.139
Republic of IRAQ	-	-	-	0.059
Kingdom of SAUDI ARABIA	0.752(55)	-	0.760(128)	-
Islamic Republic of AFGHANISTAN	0.349(155)	-	0.797(134)	-
Malaysia	0.744(57)	-	0.493(50)	-
Republic of UZBEKISTAN	0.617(102)	0.521(17)	-	0.008
Republic of YEMEN	0.439(133)	0.289(-2)	0.853(138)	0.283
SYRIAN Arab Republic	0.589(111)	0.467(4)	0.687(103)	0.021
Republic of KAZAKHSTAN	0.714(66)	0.617(3)	0.575(67)	0.002
BURKINA-FASO	0.305(161)	0.195(3)	-	0.536
Republic of NIGER	0.261(167)	0.173(2)	0.807(136)	0.642

Human Development Report 2009

Country	HDI value - total countries 182	Human Poverty Index - total countries 134	Gender related development index (GDI) - total countries 155	Gender empowerment measure (GEM) - total countries 155
Republic of INDONESIA	0.734(111)	17(69)	0.726(93)	0.408(96)
Islamic Republic of PAKISTAN	0.572(141)	33.4(101)	0.532(124)	0.386(99)
People's Republic of BANGLADESH	0.543(146)	36.1(112)	0.536(123)	0.264(108)
Federal Republic of NIGERIA	0.511(158)	36.2(114)	0.499(133)	-
Arab Republic of EGYPT	0.703(123)	23.4(82)	-	0.287(107)
Islamic Republic of IRAN	0.782(88)	12.8(59)	0.77(76)	0.331(103)
Republic of TURKEY	0.806(79)	8.3(40)	0.788(70)	0.379(101)
Republic of The SUDAN	0.531(150)	34(104)	0.516(127)	-
People's Democratic Republic of ALGERIA	0.754(104)	17.5(71)	0.742(88)	0.315(105)
Kingdom of MOROCCO	0.654(130)	31.10(96)	0.625(111)	0.318(104)
Republic of IRAQ	-	-	-	-
Kingdom of SAUDI ARABIA	0.843(59)	12.10(53)	0.816(60)	0.299(106)
Islamic Republic of AFGHANISTAN	0.352(181)	59.80(135)	0.31(154)	-
Malaysia	0.829(66)	6.10(25)	0.823(58)	0.542(68)
Republic of UZBEKISTAN	0.710(119)	8.50(42)	0.708(99)	-
Republic of YEMEN	0.575(140)	35.70(111)	0.538(122)	0.135(109)
SYRIAN Arab Republic	0.742(107)	12.6(56)	0.715(98)	-
Republic of KAZAKHSTAN	0.804(82)	7.90(37)	0.803(66)	0.532(73)
BURKINA-FASO	0.389(177)	51.80(131)	0.383(147)	-
Republic of NIGER	0.340(182)	55.8(134)	0.308(155)	-

Human Development Report 2008*

Country	HDI value - total countries 179	Human Poverty Index - total countries 135	Gender related development index (GDI) - total countries 155	Gender Empowerment Measurement (GEM)
Republic of INDONESIA	0.726(109)	17.2(69)	0.719(93)	0.441(87)
Islamic Republic of PAKISTAN	0.562(139)	33.6(100)	0.537(121)	0.392(98)
People's Republic of BANGLADESH	0.524(147)	36.9(110)	0.516(128)	-
Federal Republic of NIGERIA	0.499(154)	37(111)	0.485(136)	-
Arab Republic of EGYPT	0.716(116)	20(73)	-	0.283(107)
Islamic Republic of IRAN	0.777(84)	12(51)	0.769(74)	0.345(103)
Republic of TURKEY	0.798(76)	8.7(40)	0.780(72)	0.371(101)
Republic of The SUDAN	0.526(146)	34.3(101)	0.502(131)	-
People's Democratic Republic of ALGERIA	0.748(100)	18.1(71)	0.735(89)	0.312(105)
Kingdom of MOROCCO	0.646(127)	31.8(93)	0.620(112)	0.316(104)
Republic of IRAQ	-	22.6(80)	-	-
Kingdom of SAUDI ARABIA	0.835(55)	12.5(55)	-	0.297(106)
Islamic Republic of AFGHANISTAN	0.35	60.2(135)	-	-
Malaysia	0.823(63)	6.4(23)	0.817(57)	0.538(69)
Republic of UZBEKISTAN	0.701(119)	9.2(43)	0.698(100)	-
Republic of YEMEN	0.567(138)	36.6(108)	0.535(122)	0.136(108)
SYRIAN Arab Republic	0.736(105)	13(57)	0.723(91)	0.415(92)
Republic of KAZAKHSTAN	0.807(71)	7.8(34)	0.805(61)	0.524(74)
BURKINA-FASO	0.372(173)	53.7(131)	0.364(151)	-
Republic of NIGER	0.370(174)	55.1(132)	0.349(154)	-

* Data is taken from hdr.undp.org/en/media/HDI_2008_EN_Tables.pdf, as there is no report for the year covering 2006

Human Development Report 2007

Country	HDI value(Rank) total countries 177	Human Poverty Index - total countries 108	Gender related development index (GDI) total countries 157	Gender Empowerment Measurement (GEM)
Republic of INDONESIA	0.728(107)	18.2(47)	0.721(94)	-
Islamic Republic of PAKISTAN	0.551(136)	36.2(77)	0.525(125)	0.377(82)
People's Republic of BANGLADESH	0.547(140)	40.5(93)	0.539(121)	0.379(81)
Federal Republic of NIGERIA	0.470(158)	37.3(80)	0.456(139)	-
Arab Republic of EGYPT	0.708(112)	20(48)	-	0.263(91)
Islamic Republic of IRAN	0.759(94)	12.9(30)	0.750(84)	0.347(87)
Republic of TURKEY	0.775(84)	9.2(22)	0.763(79)	0.298(90)
Republic of The SUDAN	0.526(147)	34.4(69)	0.502(131)	-
People's Democratic Republic of ALGERIA	0.733(104)	21.5(51)	0.720(95)	-
Kingdom of MOROCCO	0.646(126)	33.4(68)	0.621(112)	0.325(88)
Republic of IRAQ	-	-	-	-
Kingdom of SAUDI ARABIA	0.812(61)	-	0.783(70)	0.254(92)
Islamic Republic of AFGHANISTAN	0.347	-	-	-
Malaysia	0.811(63)	8.3(16)	0.802(58)	0.504(65)
Republic of UZBEKISTAN	0.702(113)	-	0.699(98)	-
Republic of YEMEN	0.508(153)	38(82)	0.472(136)	0.129(93)
SYRIAN Arab Republic	0.724(108)	13.6(31)	0.710(96)	-
Republic of KAZAKHSTAN	0.794(73)	-	0.792(65)	0.469(74)
BURKINA-FASO	0.370(176)	54.7(106)	0.364(154)	-
Republic of NIGER	0.374(174)	55.8(104)	0.355(155)	-

Human Development Report 2006

Country	HDI value(Rank) - total countries 177	Human Poverty Index - total countries 102	Gender related development index (GDI) - Total countries 136	Gender Empowerment Measure(GEM)
Republic of INDONESIA	0.711(108)	18.5(41)	0.704(81)	-
Islamic Republic of PAKISTAN	0.539(134)	36.3(65)	0.513(105)	0.377(66)
People's Republic of BANGLADESH	0.530(137)	44.2(85)	0.524(102)	0.374(67)
Federal Republic of NIGERIA	0.448(159)	40.6(76)	0.443(120)	-
Arab Republic of EGYPT	0.702(111)	20(44)	-	0.262(73)
Islamic Republic of IRAN	0.746(96)	16.4(35)	0.736(74)	0.326(71)
Republic of TURKEY	0.757(92)	9.8(21)	0.745(71)	0.289(72)
Republic of The SUDAN	0.516(141)	31.3(54)	0.492(110)	-
People's Democratic Republic of ALGERIA	0.728(102)	21.5(46)	0.713(79)	-
Kingdom of MOROCCO	0.640(123)	33.4(59)	0.615(95)	-
Kingdom of SAUDI ARABIA	0.777(76)	-	0.744(72)	0.242(74)
Islamic Republic of AFGHANISTAN	-	-	-	-
Malaysia	0.805(61)	8.3(15)	0.795(51)	0.500(55)
Republic of UZBEKISTAN	0.696(113)	-	0.694(84)	-
Republic of YEMEN	0.492(150)	40.6(77)	0.462(117)	0.128(75)
SYRIAN Arab Republic	0.716(107)	14.4(29)	0.702(82)	-
Republic of KAZAKHSTAN	0.774(79)	-	0.772(61)	-
BURKINA-FASO	0.342(174)	58.3(101)	0.335(133)	-
Republic of NIGER	0.311(177)	56.4(99)	0.292(136)	-

Appendix 4.3

Rule of Law Index 2012-13

Factors	Indonesia	Pakistan	Bangladesh	Nigeria	Egypt	Iran	Turkey	Morocco	Malaysia	Uzbekistan	Kazakhstan	Burkina Faso
Limited Government Powers	29	69	83	74	40	85	68	43	45	97	89	79
Absence of Corruption	86	90	89	95	41	49	35	80	28	87	73	47
Order and Security	52	97	72	94	65	62	70	51	16	8	46	55
Fundamental Rights	61	93	87	85	89	97	76	80	73	95	74	55
Open Government	35	92	89	90	51	78	57	39	48	88	85	73
Regulatory Enforcement	54	88	90	78	77	41	39	61	46	64	71	33
Access to Civil Justice	66	91	97	53	73	28	44	48	39	68	69	36
Effective Criminal Justice	62	80	83	94	56	59	71	89	31	88	55	63

Rule of Law Index 2011

Factors	Indonesia	Pakistan	Bangladesh	Nigeria	Iran	Turkey	Morocco	Malaysia	Kazakhstan
Limited Government Powers	22	60	48	44	58	52	41	34	59
Absence of Corruption	47	65	58	52	38	39	59	26	43
Order and Security	37	66	42	63	40	43	35	12	27
Fundamental Rights	29	63	48	55	66	58	60	59	46
Open Government	29	65	54	59	41	48	49	42	43
Regulatory Enforcement	32	59	58	50	29	36	47	40	31
Access to Civil Justice	41	66	62	34	28	27	45	47	25
Effective Criminal Justice	26	61	40	53	39	48	59	33	38

Rule of Law Index 2010

Factors	Indonesia	Pakistan	Nigeria	Turkey	Morocco
Limited Government Powers	18	34	30	31	25
Absence of Corruption	27	35	24	16	21
Clear, Publicized, and Stable Laws	16	34	29	32	27
Order and Security	19	24	33	18	22
Fundamental Rights	25	35	32	33	23
Open Government	17	31	28	22	33
Regulatory Enforcement	21	33	22	26	27
Access to Civil Justice	32	35	18	14	25
Effective Criminal Justice	19	32	29	14	17

Appendix 4.4

Prosperity Index

Country	2012	2011	2010	2009	2009 - based on 2010 methodology	2008	2007
Republic of INDONESIA	63	70	70	85	61	71	40
Islamic Republic of PAKISTAN	132	107	109	107	99	85	49
People's Republic of BANGLADESH	103	95	96	95	87	89	47
Federal Republic of NIGERIA	123	104	106	103	98	94	-
Arab Republic of EGYPT	106	89	89	87	88	67	48
Islamic Republic of IRAN	102	97	92	93	94	73	-
Republic of TURKEY	89	75	80	80	69	61	45
Republic of The SUDAN	125	105	100	106	103	94	-
People's Democratic Republic of ALGERIA	100	88	79	91	96	66	-
Kingdom of MOROCCO	73	71	62	66	83	74	-
Kingdom of SAUDI ARABIA	52	49	49	57	81	45	-
Islamic Republic of AFGHANISTAN	140	-	-	-	-	-	-
Malaysia	45	43	43	43	39	29	-
Republic of UZBEKISTAN	64	64	76	65	92	80	-
Republic of YEMEN	134	106	105	100	101	104	-
SYRIAN Arab Republic	134	81	83	86	-	-	-
Republic of KAZAKHSTAN	46	46	50	51	76	56	-
BURKINA-FASO	112	-	-	-	-	-	-
REPUBLIC OF NIGER	114	-	-	-	-	-	-

Appendix 4.5

Global Competitiveness Index

Country	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
Republic of INDONESIA	50	46	44	54	55	54	50
Islamic Republic of PAKISTAN	124	118	123	101	101	92	91
People's Republic of BANGLADESH	118	108	107	106	111	107	99
Federal Republic of NIGERIA	115	127	127	99	94	95	101
Arab Republic of EGYPT	107	94	81	70	81	77	59
Islamic Republic of IRAN	66	62	69	-	-	-	-
Republic of TURKEY	43	59	61	61	63	53	59
Republic of The SUDAN	-	-	-	-	-	-	-
People's Democratic Republic of ALGERIA	110	87	86	83	99	81	76
Kingdom of MOROCCO	70	73	75	73	73	64	65
Kingdom of SAUDI ARABIA	18	17	21	28	27	35	-
Islamic Republic of AFGHANISTAN	-	-	-	-	-	-	-
Malaysia	25	21	26	24	21	21	26
Republic of UZBEKISTAN	-	-	-	-	-	62	-
Republic of YEMEN	140	138	-	-	-	-	-
SYRIAN Arab Republic	-	98	97	94	78	80	-
Republic of KAZAKHSTAN	51	72	72	67	66	61	56
BURKINA-FASO	133	136	134	128	127	112	116
Republic of NIGER	-	-	-	-	-	-	-

Appendix 4.6

KOF Globalization Index

Country	2012		2011		2010		2009		2008		2007		2006	
	Rank	Value												
Republic of INDONESIA	87	56.26	84	57.23	86	57.8	100	57.7	66	54.9	78	51.31	60	51
Islamic Republic of PAKISTAN	108	52.18	109	51.94	104	52.69	116	53.3	75	51.8	71	52.35	56	51.49
People's Republic of BANGLADESH	154	40.73	157	39.76	153	39.74	149	39.8	107	38.3	112	36.01	58	38.09
Federal Republic of NIGERIA	81	58.01	91	56.49	93	55.88	108	55.5	62	56	69	52.97	48	53.36
Arab Republic of EGYPT	75	59.35	76	59.92	68	61.33	78	62.2	64	55.2	64	54.18	55	52.04
Islamic Republic of IRAN	156	40.69	160	38.51	162	36.92	145	41.5	112	34.2	115	35.19	62	39.75
Republic of TURKEY	41	69.99	59	64.05	56	64.91	57	66.4	32	70	44	63.45	57	63.11
Republic of The SUDAN	168	36.79	167	35.95	166	34.77	151	38.9	-	-	-	-	-	-
People's Democratic Republic of ALGERIA	95	54.88	104	52.7	120	48.2	112	54.8	94	45.6	94	45.5	-	45.16
Kingdom of MOROCCO	66	60.99	67	61.7	72	60.85	77	62.6	61	56.4	70	52.93	40	53.20
Kingdom of SAUDI ARABIA	61	62.34	71	61.02	74	60.64	75	62.9	-	-	68	53.69	44	54.73
Islamic Republic of AFGHANISTAN	180	31.35	178	30.57	-	-	-	-	-	-	-	-	-	-
Malaysia	29	77.43	37	73.22	35	73.69	33	76.2	24	75.6	23	75.81	19	74.77
Republic of UZBEKISTAN	170	36.73	153	41.7	152	40.27	-	-	-	-	-	-	-	-
Republic of YEMEN	133	46.66	136	46.63	134	45.8	144	41.8	-	-	-	-	-	-
SYRIAN Arab Republic	147	42.78	141	44.59	122	47.93	124	50.6	106	38.5	109	39.09	-	36.17
Republic of KAZAKHSTAN	76	59.12	77	59.69	73	60.84	72	63.2	-	-	-	-	-	-
BURKINA-FASO	140	44.88	147	43.19	144	42.62	134	46.2	-	-	-	-	-	-
Republic of NIGER	164	38.2	168	35.43	165	34.82	155	36.7	116	30.7	116	34.28	-	32.98
World – Aggregate	-	58.03		58.03	-	58.12	-	57.1	-	56.4	-	55.78	-	54.8