Editorial Notes

A key criticism that is often asserted about Islam is that its teachings focus too heavily on the afterlife and very little on motivating useful disciplines for everyday life. As a result, this can lead some to believe that Islam as a religion is anti-productivity or lacking in motivation to achieve worldly goals; however, as evidenced in the Qur’an and other holy works, this criticism is unwarranted. In fact, the Qur’an offers many examples promoting effort, work, and productivity, even when little can be expected in return. In one such example, Allah encourages Mary (the mother of Jesus) to shake the trunk of a palm tree in order to yield fresh dates. For practical purposes, it is unlikely that Mary would be able to exert enough force to shake loose dates from a palm tree. However, this is a lesson aimed at encouraging faith and trust in Allah regarding being productive and working hard, even if success seems unlikely. Passages like these show that Islam encourages productivity and hard work through faith in Allah, despite adversity. This type of work ethic encourages real world productivity in a way not dissimilar to that of entrepreneurs.

In addition, the teachings of the Prophet himself also encourage Muslims to build a productive society. “Earning a lawful (halal) living is an obligation (fard) after obligatory worship” (al-Tabarani; al-Baihaqi). Productive behavior is also encouraged by the Prophet, as he asserts, “If the moment of the truth (the end) arrives while one of you has a little plant in his hand, he should go ahead and plant it if he can”. In this sense, the words of the Prophet himself are an apt response to the criticism that Islam is anti-productive.

Another common criticism of Islam is that its teachings encourage unbalanced or extreme actions or beliefs; however, this assertion, too, is refuted by the Qur’an and the words of the Prophet himself. For example, on one occasion, the Prophet saw a Muslim man spending most of his time in the Mosque, even outside of prayer times. The Prophet confronted the man and asked him why he spent so much time at prayer and whether he had a family to provide for. The man responded that he did have a family and that his brother worked to fulfill their needs. The Prophet responded, “Your brother is more pious and devout than you are”. Again, this teaching shows that Muslims should be encouraged to be productive. Additionally, the Prophet is encouraging Muslims to maintain balance in their lives. To be truly pious, a Muslim must fulfill his religious responsibilities, but he or she must also meet the real needs of his or her family and society by being productive.

A final criticism that is commonly asserted about Islam is that the teachings of Islam are somehow incongruent with the pursuit of reason or knowledge. However, this claim, too, is refuted by Islamic teachings. The Qur’an asserts, “Allah will exalt those who have Faith amongst you, and those who have knowledge to high ranks” (Qur’an, 58, 11). Additionally, the Prophet Muhammad stressed the role of knowledge in Muslim life. “If a son of Adam dies, his good deeds come to an end except for three: charity that keeps providing benefit, knowledge that people still benefit from, and a pious child who supplicates for him”. Again, this teaching promotes knowledge as an important compo-
nent of Islamic society. In addition, it encourages productivity for the benefit of society, as well as a balance of productivity, religious life, and the acquisition of knowledge. As the Prophet commanded, “seek knowledge from the cradle to the grave,” because “seeking knowledge is an obligation upon every Muslim” (Ibn Majah; Muslim).

Holy works such as the Qur’ân as well as the words and actions of the Prophet show that Islam is an empowering religion that validates productive pursuits both in this life and in the next. Often, critics of Islam insinuate that Islamic teachings are anti-productivity, that they encourage unbalanced or extreme beliefs and behaviors, or that Islamic teachings are counter to rationality and the acquisition of knowledge. An examination of many of the teachings of Islam show that this is not the case, however. Muslims are encouraged to be productive and provide for the needs of society. Additionally, Islamic teaching focuses on striking a balance or moderation between religious observance and actively serving the needs of society. Finally, the pursuit of knowledge is held in equal regard as that of religious piety and productivity.

Perhaps a contributing factor to the common accusation that Islamic teaching does not encourage productivity is a general difference in the way Islamic society views productivity. In Western society, successful production is often associated with some tangible personal outcome, such as the acquisition of personal fame or wealth. Productivity often involves separating the individual from society and religion. However, in an Islamic context, religion is at the heart of productive motivation. From this perspective, the goals of productivity are inseparable from those of the religious goals of Islam and those of society. In essence, the misunderstanding regarding the Muslim view of productivity stems from key differences between the West and East in the way productivity is related to their religious underpinnings.

The first paper, by Akram Khan, reviews the literature regarding the progress that Islamic economies have made over the past several decades for the purpose of adding to the literature by assessing areas in which improvements can be made. The author identifies the main problem with study of Islamic economies as the failure to translate Islamic economics from a theoretical standpoint (Islamic teachings) to a valid social science framework that would potentially allow for the justification of its theoretical underpinnings. This paper attempts to fill this gap in the literature by proposing a methodology to allow Islamic economic principles to be translated in a social science framework. The author does so by helping to redefine Islamic economics in a way that overcomes weaknesses in the current literature, and the paper also presents some interesting avenues for future research.

In the second paper, Parvez Ahmed examines the status of the global Islamic finance community and assess why, despite impressive growth, the industry still fails to capture a significant share of the global financial market share. Starting with the establishment of Egypt’s Mitt Ghamar Saving Bank in 1963, Islamic finance has grown to a value of $1.357 trillion. Additionally, the industry has grown over 150 percent in the past five years. However, despite the rapid growth of the Islamic finance industry, it has only
gained a one percentage point market share increase in the past five years. While the industry is still relatively new, the authors suggest that poor or unproven governance practices in place within the Islamic finance industry may be one explanation for its failure to capture a larger global market share. The author suggests that improving advertence to Shari’ah principles may help to improve agency problems within Islamic finance institutions and mitigate criticisms of the industry that claim Islamic finance, while presented in a different form, is substantively the same as conventional finance.

In the third paper, Bijan Bidabad examines the concept of Mudarabah financial products in Islamic finance. The Mudarabah Financial Sharing (MFS) arrangement is one that allows depositors to participate in real sector projects. The arrangement is compatible with Islamic banking ideas. Instead of borrowing money at interest, the borrowers engage in a profit sharing arrangement with the bank where project profits are distributed to depositors based on the rate of return of projects in the real economy. In addition, the financial institution receives a commission for providing intermediary services related to the administration of the sharing arrangement. Depositors in the mudarabah relationship receive a Mudarabah Certificate, which can be traded in the Rastin Certificate Market for a share of the project’s profits or losses at the end of the project.

The fourth paper, by Saad and Abdullah, analyzes the practice of zakat in Malaysia as it relates to the alleviation of poverty in an Islamic society. Poverty can become a serious problem in Islamic countries, as in most. However, the teachings of Islam promote the use of zakat, which is essentially a wealth tax, as a way to redistribute wealth, decrease income inequality, and reduce poverty. There has been criticism of zakat in terms of its ability to actually alleviate poverty and achieve social goals, as it is intended. It is possible that inefficiencies exist between the collection and distribution sides of zakat that prevent it from being an efficient way to reduce poverty. This paper examines the issue of zakat distribution in Malaysia in order to determine whether it is effective in alleviating poverty in Muslim countries. The results of the study are used by the authors to make recommendations as to how the distribution of zakat funds can be modified in order to increase its efficacy at eliminating poverty.

The fifth paper, by Scott Morrison, examines the issue of reconciling traditional and Shari’ah governance in British financial institutions following the financial crisis of 2007. In Britain, in particular, the Islamic finance industry and Islamic finance windows at conventional banks have made significant growth. The policies in the U.K. have generally been neutral toward this trend, and the government sometimes has crafted policies that have promoted the spread of Islamic banking in the U.K. However, the recent global financial crisis has led policymakers to pass new regulations regarding governance practices in U.K. financial institutions. Islamic institutions are governed by Shari’ah boards, which are charged with reducing agency problems and upholding Islamic beliefs. While the goals and practices of the Shari’ah board are not dissimilar from those of conventional boards, the process of reconciling the two in light of recent
changes in the financial services industry pose some significant challenges. The article discusses these issues and provides insights into the ways in which they may be resolved. In the sixth paper, Henry Chalu answers a common criticism that Islamic banks are not “Islamic” enough by conducting a comparison of Islamic banking practices. The study examines the characteristics of Islamic banks in Tanzania using four criteria: compliance with the principles of Islamic finance, selection of customers, the structure of conventional banks providing Islamic banking services, and the competence of the Shari’ah Advisory Board. The study uses data provided by 60 Islamic financial institutions that responded. The study finds that religion plays a very limited role in the selection of customers, because the authors find a very limited awareness with regards to compliance with Shari’ah principles. In turn, banks have a very limited incentive to structure themselves in a way that promotes Shari’ah compliance or promotes the competency of the Advisory Board. As a result, the study concludes that so-called Islamic banks in Tanzania lack the criteria needed to promote true Islamic banking and therefore, are not really “Islamic”.

In the seventh paper, by Sari, Bahari and Hamad, examines the Islamic banking industry in Indonesia in terms of its recent growth and future potential. Since Indonesia has the largest Muslim community in the world, it is ripe for the Islamic banking industry. The first Islamic bank opened in the county in 1992, and it was followed by many other Islamic banks as well as conventional banks with Islamic banking windows. The industry has grown considerably since then; however, Islamic banking only maintains a 3.2% market share in Indonesia, which is very small compared with its Muslim population. This is curious, given the fact that other Muslim countries typically maintain a much larger Islamic banking presence. The authors conclude that maintaining Islamic banking practices must not be a priority for Muslims in Indonesia. There are several proposed reasons for this, including the lack of knowledge and customer awareness regarding Islamic banking, and a lack of support from government and religious leaders.

In the eighth paper, Asif Ehsan analyzes the permissibility of the futures contract in Shari’ah compliant financial transactions. Futures contracts have some key features that make them a desirable and useful financial instrument. They are highly liquid and can be liquidated before the delivery date; however, there is considerable debate as to whether futures-type transactions are permissible under Shari’ah law. Since futures contracts are relatively modern inventions, there is little precedent in Islamic law to use as a guide for their permissibility. In this paper, the authors examine several legal issues regarding the potential permissibility of futures in Islamic finance. Futures contracts have several features that potentially conflict with Shari’ah financial principles, including the non-existence of an underlying asset, sale prior to possession, bai al-kali bil-kali, and the potential for speculation and hedging. The authors conclude that futures contracts are only acceptable in Islamic finance for hedging purposes, where delivery of the asset is intended. Futures contracts for the purpose of speculation should be strictly forbidden. In addition, the authors suggest ways in which delivery of
the asset from a futures hedge can be made certain, such as through bank guarantees.

The ninth paper is by Shah and Hussain and examines and encourages the spread of Islamic finance and banking in the South Asian Muslim minority countries of India and Sri Lanka. The Islamic finance and banking industries have experienced significant growth since the 1970s. The Islamic financial industry has received much attention from practitioners and academics, especially in the Middle East and The West; however, this paper exploits the lack of attention to the Islamic banking industries in Muslim-minority countries. This paper analyzes the growth of Islamic baking practices in India and Sri Lanka in order to expand the academic literature in this regard.

In the tenth paper, Catovic examines the Islamic banking industry in the United States. Islamic finance is unique from the conventional banking system primarily in its prohibition of riba, or interest. The United States holds a significant Muslim population, and analyzing the success of Islamic banking in attracting these customers is significant from both an industry and religious perspective. The authors survey a sample of New Jersey mosques regarding their use of Islamic banking. The results provide some mixed results. Firstly, the results show that Muslims in the U.S. consume Islamic and conventional banking products at approximately the same rate. This results is troubling, since it implies that Islamic banking may be unable to differentiate itself properly within Islamic communities in the U.S. Secondly, the study concludes that Islamic banking utilization does not appear to be limited to certain age, ethnic, or religious groups. This result suggests that the Islamic finance industry has a potential market that exceeds the bounds of the Muslim community in the U.S.

I hope you will benefit from the current issue papers of Journal of Islamic Economics, Banking and Finance.

Sincerely,
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February 2014

Reference