

Economic Development and Islamic Finance

Authors: Zamir Iqbal and Abbas Mirakhor eds., 2013
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This is a valuable book edited by two eminent scholars, Drs. Zamir Iqbal and Abbas Mirakhor. Dr. Iqbal is Principal Financial Officer of the ‘Quantitative Strategies, Risk and Analytics Department’ in the Treasury of the World Bank in Washington, while Dr. Mirakhor is now the First Holder of the INCEIF chair of Islamic Finance in Malaysia after having served as Executive Director at the IMF for a long period. The other contributors are Professors Habib Ahmed, Hussein Askari, Obiyathulla Bacha, Wang Yong Bao, Murat Clzakca, S. Nuri Erbas, Azura Othman, Scheherzade Rehman, Kamaruddin Sharif, Andrew Sheng and Ajit Singh. The enviable credentials of both the editors as well as some of the eleven other contributors to the volume are themselves enough to lead the reader to believe that the book is a valuable addition to the literature available on the subject. This belief gets a further boost after a careful reading of the book’s contents.

After a brief general discussion of the Islamic and conventional concepts of economic development in the ‘overview’, the book gets into a relatively more detailed discussion of the subject in twelve papers divided into three parts: theoretical foundation (three papers), development aspects (seven papers), and policy formulation (two papers). On the whole the book highlights some of the key features of Islamic finance that can help create a better understanding of the positive role that Islamic finance can play in promoting the kind of economic development that is necessary to ensure the actualization of socio-economic justice and overall human well-being as envisaged by Islam.

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Islamic financial assets have, according to the authors, grown at the rate of about 15 to 20 percent per annum over the last two decades and are presently estimated to be around \$1.3 trillion. There is no doubt that this amount is very small compared to the overall size of financial assets around the world as well as the minimum amount that is necessary to enable the Islamic system to play a catalytic role in the financial and economic development of Muslim countries in conformity with the Islamic vision. It is, nevertheless, very encouraging if we take into account the fact that this development has not only taken place over a very short period of around two decades but has also been able to generate a significant interest in, and respectability for, Islamic finance around the world. Of particular significance is the development of *ṣukūk*, which are essentially *Shari'ah* compliant bonds backed by real assets and the return on them is linked to a real sector activity. This helps indicate that the Islamic financial system is structurally designed to be free from the kind of speculative rise in financial transactions of a gambling nature which played a major role in the international financial crisis that took place in 2007. The world continues to suffer from the aftereffects of this crisis even now after the passage of around seven years. Moreover, the potential for the expansion and development of *ṣukūk* and for their being able to play a catalytic role in the financial and economic development of Muslim countries has already become well recognized.

The book also brings out vividly the Islamic vision of comprehensive human development which stands for a balanced satisfaction of all the different material, social and spiritual needs of the human personality instead of just the economic. Fulfilling primarily the material needs at the expense of all the other needs carries the danger of leading to socio-economic disequilibrium which may tend to have a built-in tendency to promote moral decline, family disintegration, juvenile delinquency, social unrest, and anomie, all of which may lead ultimately to even economic decline. This is because concentrating on only the serving of self-interest and profit maximization, as eulogized by a number of mainstream economists, is likely to hurt other sectors of life which are as important as the economic for ensuring sustained development and overall human well-being. As rightly emphasized by Ibn Khaldun in his magnum opus book, the *Muqaddimah*, all sectors of human life are interlinked, and a continuous decline in one sector is likely to lead ultimately to a decline in all other sectors of life, including the economic.

In addition to this philosophical perspective related to the worldview, the book elaborates the basic principles of Islamic economic and financial systems. Some of the most important of these are: sanctity of contracts and private property, money as potential capital and not actual capital (which role it plays only when it joins hands with other resources to undertake productive activity), prohibition of destabilizing

speculative behavior, and promotion of risk-sharing instead of risk-shifting. All these principles are closely interwoven into the Islamic economic system which is a morally-oriented social-welfare programme having the vision of establishing a just and humanitarian social order where socio-economic justice is an inviolable principle of human interaction and honouring of contracts and agreements is not just a legal requirement but also an inviolable moral obligation. In this system, real assets are exchanged for real assets and all transactions are an integral part of the real economy. Accordingly, interest is prohibited because interest-based contracts are instruments for risk-shifting and not risk-sharing. Since the lender does not participate in the risk, there is a tendency on his part to be lax in evaluating the project and thus resort to excessive lending, which is now generally accepted to be one of the major causes of international financial crises.

On the whole, the book is a valuable addition to the literature on Islamic economics and finance. It shows how profit-and-loss sharing can contribute to not only growth in investment, full employment and accelerated development but also a more equitable redistribution of wealth which is necessary for ensuring social peace and sustained development. It is, thus, fair to say that this book is worth being a part of every library, irrespective of whether it is that of individuals or institutions.

