

Islamic Moral Economy and for Sustainable Development

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Reflections

Search for meanings...

COVID-19 – Stoicism vs Meliorism, or the need to redefine human and organizational behavior along with public policy

Alternative definitions of human and the consequent human behavior

Islamic human definition: aiming *falah* subject to *ihsan* (socializing individual)

Beyond 'economics' (maximizing and efficiency) towards *iqtisad* 'equity, balance, equilibrium'.

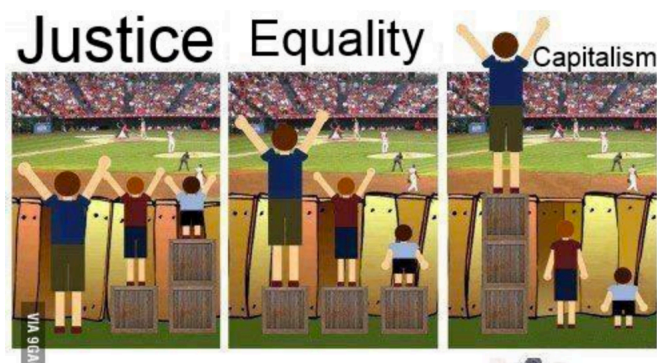
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Reflections 2

- The research in the field is dominated by Islamic banking, finance and business
- These mostly remain within 'economics' understanding rather than suggesting 'iqtisad' objectives
- The emergence of Islamic economics movement is post-colonial intellectual movement to develop a counter hegemony through cognitive knowledge system of Islam
 - a system response
 - a (Islamic) political economy/*iqtisad* response
- The historical block of Gramsci – the founding fathers' generation to create a counter hegemony (Qutb's *jahilliyah* and Shariati's Cain and Able)
- In a Polanyian sense to rescue 'human, land (environment), even capital from domination and to be dominated'

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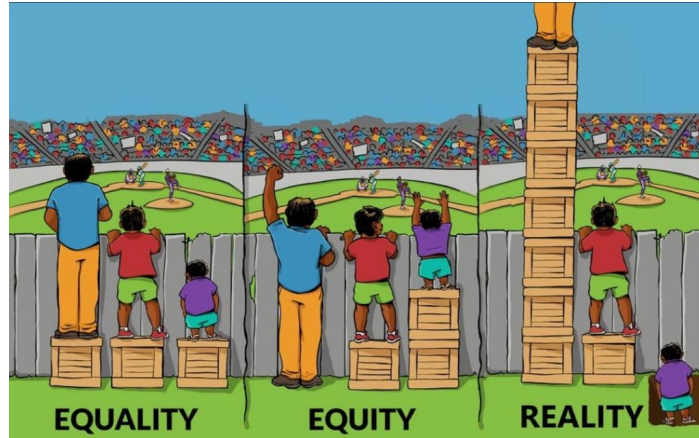
Analytical Discourses



- Islamic moral economy essentialises justice, but encourages for equality through the expansion of *ihsan*;
- This framework should constitute the objective of Islamic finance.

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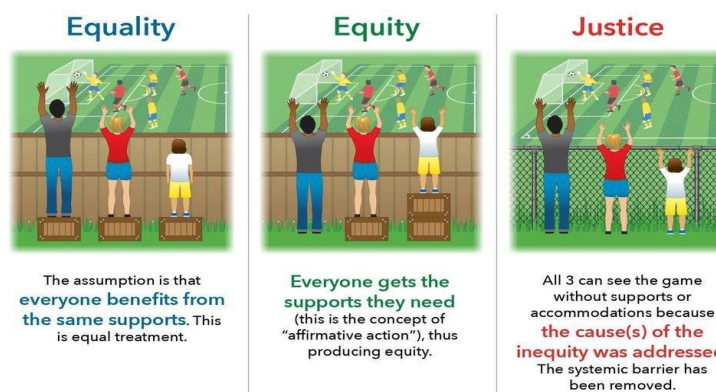
Analytical Discourses



The reality is even deeper than we think!

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Analytical Discourses



Islamic moral economy goes to the extent of removing barriers so that everyone can have access in an attempt to emancipate and empower individuals through the expansion of *ihsan*;

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Background (1)

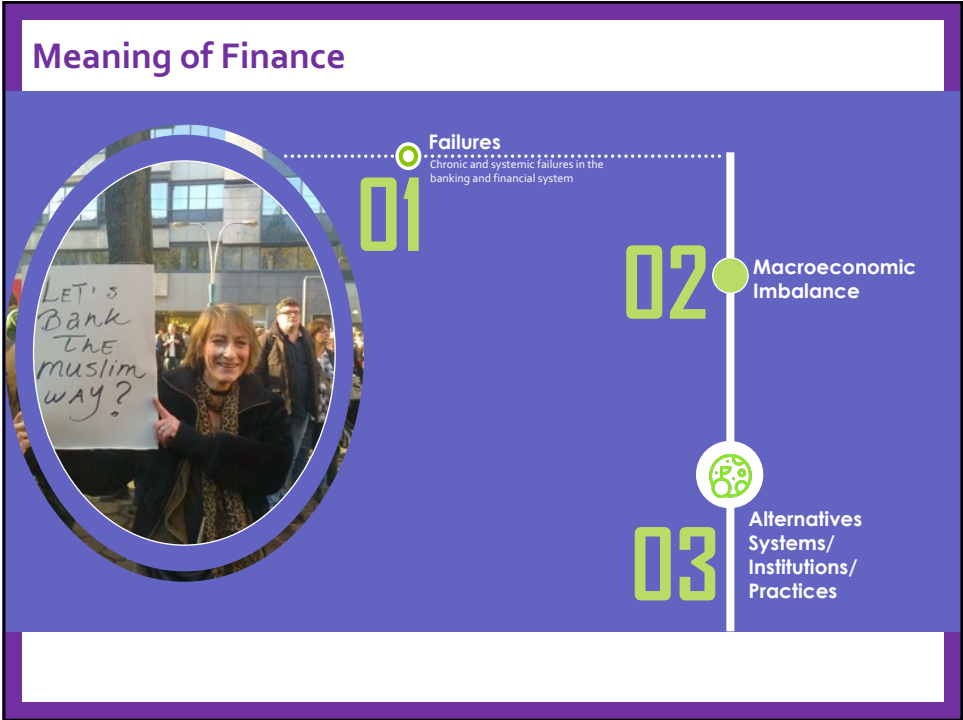
- Islamic finance emerged as part of Islamic Economics/Moral Economy/Political Economy thinking, which has gained roots in the global financial system.
- In the opinion of the founding fathers of Islamic economics, the failure of economic development in the Muslim world was attributed to capitalist economic development strategies, which ignored the importance of **the well-being of all the stake-holder**.

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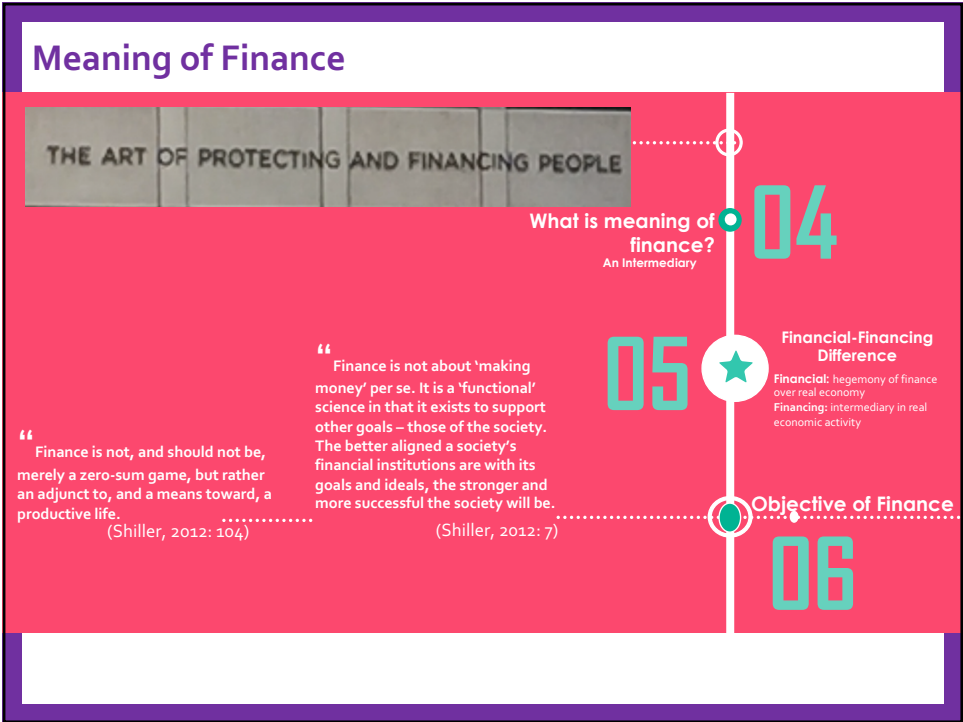
Background (2)

- Islamic Moral Economy movement emerged as a **counter hegemony** and as a **double movement** to develop an economic system understanding, which could develop a **human-centric development** strategy within **extended stakeholder governance**.
- Islamic moral economy aims at **rescuing 'human, land/environment, labour and capital'** to essentialise an **embedded** economy – embedded in the value system of Islam.
- Islamic finance must therefore serve the same interest rather than financialize and dismiss the interest of the extended stakeholder by focusing only on the shareholder interest

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Islamic Finance Objectives (1)

- Within the Islamic Moral Economy paradigm, Islamic finance hence emerged to de-centre capital and establish an equilibrium between the interests of all the stakeholders.
- Contribute to the creation and sustainability of **'good society'** namely *ihsani* (beneficent) society through individual *falah* (salvation).

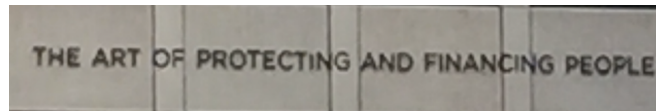


Photo from the building occupied by a financial institution in Brussels

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Islamic Finance Objectives (2)

- This suggests the importance of **'de-centring finance'** by **essentialising the productive nature of the economy and development of all the stake holders including human development as the essentials of modes of production;**
- In other words, finance cannot be the ultimate objective but only an intermediary and instrumentality;
- Such an objective should be essentialised for Islamic finance to act as an instrument of financing rather than financialised reality.

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Essence of Ontology

- How do we think about the world and the bounties we have? **Right or Privilege?**
- If the answer is **Right**, then you are attached to **Eurocentric/modernist ontology**, which defines individual as rational, self-maximising and utilitarian;
- If the answer is **Privilege**, then you are attached to a **religious (Islamic) ontology**, which tells you that whatever you have is given as a privilege for you rather than as a right – such as Islamic ontology;
- This would inform you about a particular human construct that is seeking for piety by maximising *ihsan*/beneficence to achieve *falah* or salvation in this world and hereafter.
- Hence, one moves into a different paradigm!

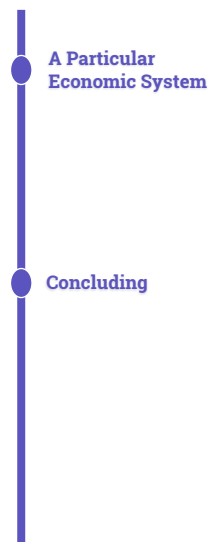
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Islamic Moral Economy (1)

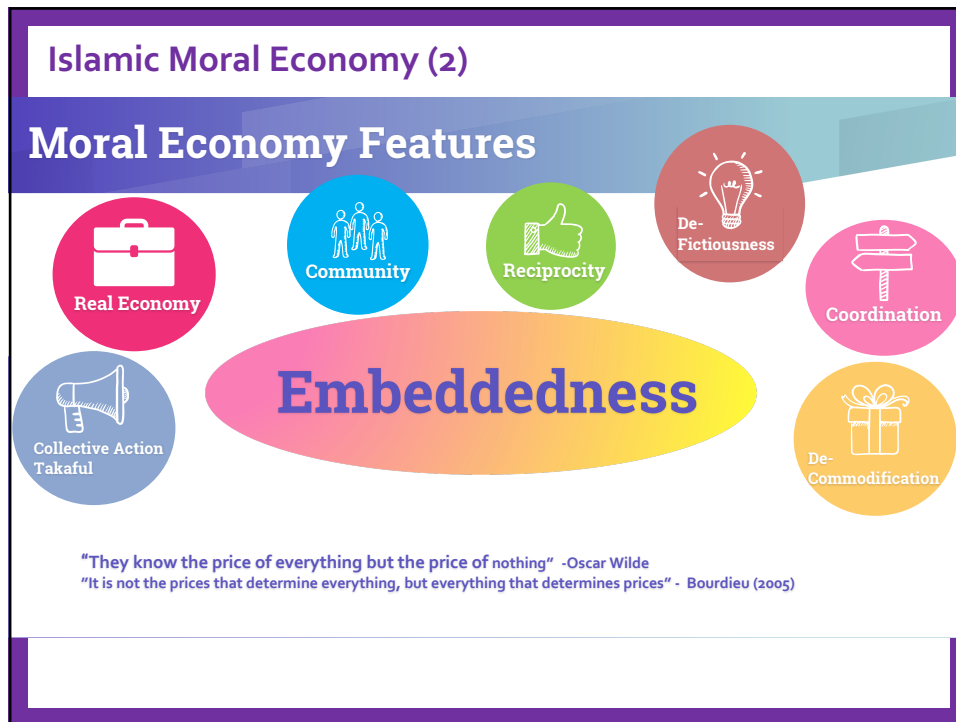
| Particular set of relationship, beliefs, and norms → particular economic life



Embeddedness



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Defining *Iqtisad* vs Economics (1)

- *Iqtisad* as an Arabic word comes from the root of 'qasd';
 - *Qasd* means 'directing towards an objective', 'true path', 'in line with an aim', 'equable' and 'temperate'.
- *Iqtisad* also related to 'qist' which implies 'just share' and hence 'justice'.
- In this context, *iqtisad*, relates 'to giving the right of everything', 'to locate everything in its place', and hence 'establishing justice'.

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Defining Iqtisad vs Economics (2)

- Hence, *iqtisad* relates to directing towards an objective – namely emancipation and empowerment so that human-centred development can be essentialised and economic life can be embedded in the social formation of the society.
- *Iqtisad*, thus, relates to philosophical foundation and theoretical articulation.
- Economics as a word originates from Greek '*oiko*' (home) and '*nomia*' (norms and rules); hence economics relates to everyday practice and does not relates to philosophy and theory.

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Articulating the Emergence of Islamic Moral Economy (1)

Islamic moral economy assumes certain axioms:

- Unitarity and complementarity (*tawhid*) ;
 - everything is linked and embedded; unitary balance; extended stake holding;
 - and vertical ethicality; – suggesting extended stakeholding; everything has to be in balance; and
 - everybody's and everything's interest has to be considered;
 - *riba* is prohibited so that domination and hegemony of capital can be overcome to equalise the interest of all stakeholder;
- Social justice and beneficence/equilibrium (*adalah* and *ihsan*); hence, horizontal ethicality (individuals being equal in their access to the resources) and helping others to rise up to establish equilibrium;
- Growth in harmony (*tazkiyah*) so that the interests of all the stakeholders can be observed;

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Articulating the Emergence of Islamic Moral Economy (2)

Islamic moral economy assumes certain axioms:

- Enabling individual, society and natural environment to reach its perfection, sustainability (*rububiyah*);
- Trust (*amanah*) that all the resources that are in our disposal given as trust and hence their development and growth is essential (sustainability);
- To overcome the conflict between individual and society, voluntary action is not perceived to be enough; and hence certain social/economic oriented financial and economic obligations or being *fard*;
- Responsible individual, as the vicegerent of God on earth (*khalifah*, vicegerent individual) to fulfill the expected duties in their economic and financial behaviour to make their decision through a financial filter; *Khalifah* individual charged with the duty to establish justice and treatment of everything as *amanah* or trust;

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Articulating the Emergence of Islamic Moral Economy (3)

Islamic moral economy assumes certain axioms (2):

- Operational dimensions of these axioms aim to achieve 'human well being' as essentialized by *Maqasid al-Shari'ah* – objective of Shari'ah, which means achieving the well-being of all stakeholders.
- *Maqasid* constitutes a base for the articulations of economic and financial choices to be linked to their 'consequences' beyond only 'intentionalism' so that whatever we do is for human well-being.
 - Consequently, Islamic moral economy aims at sustainability – human and resources

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Nature of Islamic Moral Economy (1)

- Based on such a paradigm, Islam suggests a particular **moral economy and hence a particular modes of production emerging from Islamic social formation; embedded moral economy;**
- Modes of production suggests how society is organised and how this organisation is reflected in the economy; how resources are distributed in the sense who owns what, why and how long?;
- **Islamic modes of production** suggests that all the stakeholders are treated equal; and capital is decentred in Islamic modes of production; value is constituted by all the participants;
 - Non-accumulative modes of production for *ihsani* objective; therefore, extended stake-holding;
 - All the resources should be expended in real economic activity so that wealth and sustainability can be achieved implying a position against accumulationism.

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Nature of Islamic Moral Economy (2)

- Risk sharing and profit-and-loss sharing based modes of sharing economy;
- Market mechanism but not market system of disembeddedness;
- Demand reduction; debt-discouraged society for real economy away from **financialisation**;
- The Islamic modes of production or social formation suggests '**sharing economy**', '**collaborative economy**' and '**participatory economy**' recognising each factor's contribution to the process; in this '**sharing is a structural nature of the economy**', not an exogenised form;

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Authentic Nature of Islamic Moral Economy (3)

- Islamic moral economy relates to **substantive notions of morality and justice** beyond the limitation of 'form based understanding of fiqh';
- Islamic moral economy's system frame relates to '**emancipating and empowering individual**' through defining and transforming individual, social good through the ultimate objective of *falah* and *ihsan* - *ihsani* society;
- An important feature of a Islamic moral economy is "**embeddedness**", or economy and finance is "submerged" in social relationships or a general structure of society ; economy and finance is not independent of the social formation of the society.

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Islamic Moral Economy Paradigm

Resulting in:

- Emancipating and empowering individual and society;
- Not treating nature as well as other stakeholders as an object of exploitation but considering it/them as complementary of individual human being in this world. Therefore, not commodifying them;
- The rights of each of the stakeholders contributing to the value must be recognised within justice objectives;
- No fictitious commodities; no commodification;
- Sharing and collaborative economy; suggesting disruptive business model in relation to the existing economy;
- Reciprocity and distributive economy; namely socialising economy;
- Resulting into an embedded economy; embedded into social (Islamic) relations and norms; Islam as norm determines the economic/social relations.

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Summarising Sustainable Development Process of Islamic Moral Economy

Ibn Khaldun's (15th century)'s framework provides a summary of the interdisciplinary dynamic model for Islamic socio-economic system:

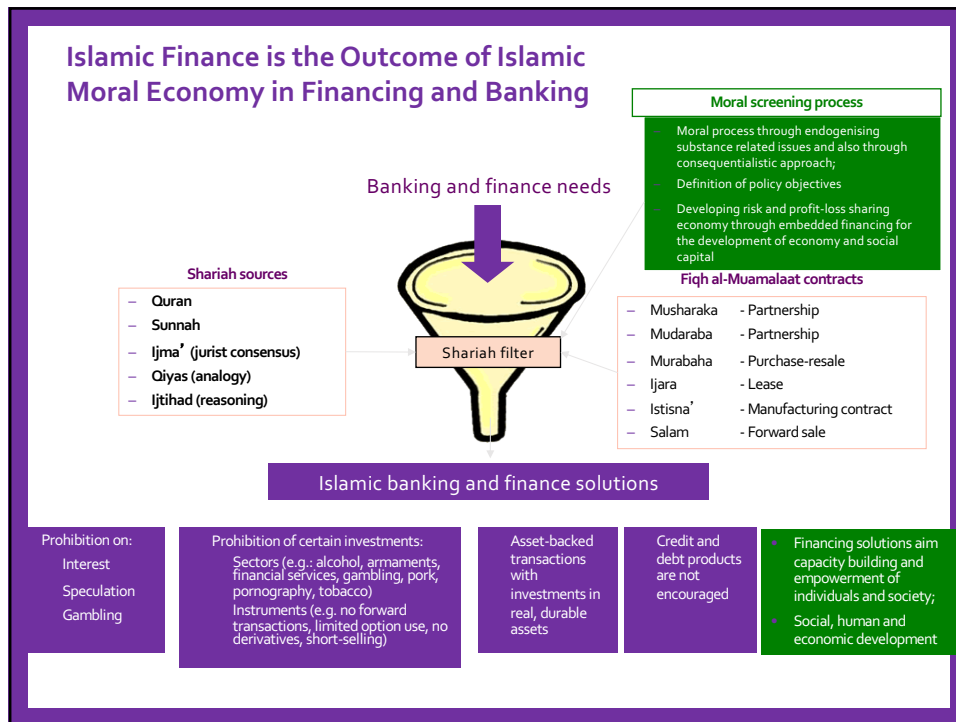
- “The strength of the sovereign (*al-mulk*) does not become consumed except by implementation of the *Shari'ah*;
- The *Shari'ah* cannot be implemented except by a sovereign (*al-mulk*);
- The sovereign cannot gain strength except through the people (*al-rijal*);
- The people cannot be sustained except 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-mizan*) by which God will evaluate mankind; and
- The sovereign is charged with the responsibility of actualising justice”.

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The New Turn for Islamic Finance

- Despite the insistence of socio-economic objectives or 'goal orientation' Islamic finance has shifted towards financialization;
- SDGs, Green Finance, Socially Responsible Investment, Impact Investment, however, seems to be more appealing for Islamic Finance than the original essentialisation;
- While these are essential correction mechanisms, they remain moderating the consequences of financialised capitalism;
- **The fear:** these can be the source of new financialization through the instrumentalization in the market; namely marketization - such as Carbon Trading!
- Islamic finance should therefore return its fundamental basics as a double movement!

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Islamic Finance So Far? Utopia vs Reality

- Success story in generating transactional base;
- But Islamic finance has not been able to contribute to the transformation of the societies;
- The 'Islamic' in Islamic finance is no longer visible beyond '*fiqhi* treatment of Islamic products';
- As it has moved away from the substance, form and articulation of Islamic moral economy; hence divergence between aims of Islamic moral economy and the practice of Islamic finance:
 - **In Islamic finance, finance is centred; rather than de-centring discourse of Islamic moral economy; it is still the determining variable of value in Islamic finance;**
 - Debt and debt based products are hegemonic; and hence financialises the societies;
 - PLS and risk-sharing is no longer the main thrust of Islamic finance;
 - Innovations towards convergence to existing market system in the sector creates further **financialisation**;
 - Fictitious commodities and commodification is common practice resulting into de-embeddedness;
 - Social responsibility is relegated to charity;
 - Stake-holding governance is given up for share-holding interest;
 - Inclusive financing nature is limited with religious inclusiveness;
 - Developmentalist objectives, SDGs and ESGs are not considered;
 - Signalling the risk for resilient and sustained growth of the industry;

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Sources of the Divergence between the Form and Substance (Aspirations vs Realities)

- Disembeddedness and financialisation;
- Commercial banking with shareholder frame is accepted as a model, rather than essentialising Islamic business models – implying that Islamic business models (PLS and risk-sharing) cannot be conducted under commercial banking model;
- Commercial banking as a model cannot by definition developmentalist objectives; institutional uncompatibility;
- Risk shifting for share-holders' interest as opposed to stake-holding for risk sharing;
- Form is essentialised at the expense of substance resulting from the rational legalistic method of *fiqh* as a methodology; *niyyah* or intention is only considered while consequences are ignored while *tawhid* requires complementarity between intention and consequences;
- Substantive morality is replaced with instrumental responsibility;
- Mimicry and mirroring in institutional and product level;
- Problems in understanding the meaning of *maqasid al-Shari'ah* in a form oriented sense;
- Theoretical and intellectual failures...
- Observed inconsistency between aims (as defined by Islamic moral economy) and tool/instrument (bank as an profit maximising institution); bank and financial institution perhaps not the best institutions to serve according to the Islamic moral economy.

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The way forward - Long -run

- Regulative environment has to provide an opportunity space for the development and sustainability of Islamic finance within Islamic moral economy framework;
- Institutional grafting by forcing moral economy outcomes producing institutions to be subjected to the same operational principles of profit-maximizing institutions is not right;
- The policy making must consider preparing the transformation of the economy towards sustainable and moral consequences oriented moral economy;
- The governance of financial institutions must essentialize *ihsani* governance or stakeholder governance model so that the rights of all the stakeholders can be essentialized;
- Hence, transformation of political economies in the Muslim world...

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The way forward... Short-run (1)

- **IBF can fulfill the moral economy objectives by following strategies:**
 - Direct investments: Banks independently employ funds in profitable projects
 - Participation investments: Banks as capital partner with share in projects in PLS arrangement
 - Equity-based structures: Private equity, venture capital, project and trade finance
 - Ethical underpinning: Investments inherently follow International Equator Principles*
 - Financing the 'unbankable' individuals to create social capital for development through microfinancing; and other financial instruments, such as zakah funds, qard al-hassan;
 - Contributing economic, social and human as well as environmental development by returning the right of society to society and by engaging with projects to increase the social return;
 - Impact investing; Social investing; Climate-green investing;
 - Real economy connectivity away from financialisation.

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The way forward... Short-run (2)

Developments in Islamic banking and finance has paved the way for the emergence of other forms of economic and financial institutions with the objective of contributing to economic development and human well-being:

- Waqf (Foundation/Trust) System
- Zakah (alms) funds
- Islamic charities
- Islamic microfinance, SMEs funding;
- Ar-rahn (Islamic pawn broking);
- Crowdfunding and Fintech;
- Islamic social banks;
- Socially responsible Investment/Impact Investing;
- Green sukuk etc.;
- Islamic development funds;
- In addition, sustainable development-oriented understanding and socially responsible investment is making inroads

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Conclusion (1)

While referring to the *Qur'an* and locating the principles governing Islamic finance in *Qur'an* refers to authenticity, consequences of Islamic finance do not show success in the intended meaning of this authenticity or *Shari'ah* as located in the aspirational notions of Islamic Moral Economy.

And therefore,

IBF is indeed a commercial and transactional success; but the authentic meaning of development in the sense of transforming societies is still an on-going project.

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Conclusion (2)

- Commercialisation and market pressures has shaped industry's development to date
 - Competitive forces have ensured replication of conventional offering
 - Global regulators initially dismissive, now "no obstacles, no favours"
 - Global debt-friendly monetary system has hampered development of equity-based propositions
- Islamic finance should embrace an evolving role
 - Industry should perform role of asset managers with socio-economic banking
 - Shari'ah-based vision is next stage of industry development: from replication to innovation
 - Islamic financial institutions have an important role to play in the Muslim world's development

The distinctiveness of Islamic finance should be preserved to make a meaningful change

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Conclusion (3)



Correcting the failure of Islamic finance, which has deviated from the aims of Islamic moral economy by giving way to the financial incentives, should be in the form of introducing further but robust social justice oriented principles into Islamic finance by endogenising social justice into its operational nature as in the example of social banks.



There is a need to go beyond the legal interpretations and reading of the text; as value and objective oriented approach would help to overcome the growing tension between the performance of Islamic finance and the utopia of Islamic economics.



By using the analogy of the neo-classical theory, IBFs have to move into the third stage of institutional development by introducing social banking into the market.



In addition, other non-banking Islamic financial institutions should be considered including microfinance, *waqf* and *zakah* funds.

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Reflections

- Current practice reminds Eliot (1925, The Hollow Men)

*"Shape without form, shade without colour,
Paralysed force, gesture without motion..."*

- But as Rumi would say:

'How pleasant is to flow without blurring and freezing

...'

Now is necessary to say something new'.

*For socially and environmentally responsible value oriented just
economic and financing system, which can enable individuals to
function and which can aim at well-beings of individuals...*

*Utopias should exist so that realities can be constructed and
engineered...*

Thank you...