

ISLAMIC ECONOMICS AND ITS WORLD VIEW

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Definition of Economics:

“Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.... **Prof. L. Robbins**

Economics is the social science that studies the allocation of **scarce resources** to satisfy **unlimited wants**.

- **Scarcity** means that people want more than is available.
- Scarcity limits people both as individuals and as a society.
- As individuals, limited income, time and ability, restrict people from doing or having ALL what they like.
- As a society, limited resources such as manpower, machinery, and natural resources limit the amount of goods and services that can be produced.

Types of Economies

➤ **Capitalist Economy**

It is an economic theory advocating that property and businesses should be owned and controlled by individuals.

➤ **Socialist Economy**

It is an economic theory advocating collective or governmental ownership and administration of the means of production and distribution of goods.

➤ **Islamic Economy**

It is an economic theory based on Shariah prescriptions.

Definition of Islamic Economics:

1. Islamic Economics is that branch of knowledge which helps realize human well-being through an allocation and distribution of scarce resource that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macro-economic and ecological imbalances-..... ***Oman Chapra.***
2. Islamic Economics aims at the study of human falah achieved by organizing the resources of the earth on the basis of co-operation and participants**Muhammad Akram Khan.**
3. **Islamic Economics is the science of how man uses resources and means of production to study his worldly needs according to a predetermined code given by Allah (SWT) in order to achieve the greatest equity-... Prince Muhammad Al-Faisal Saud.**
5. Islamic Economics is a social science **which studies the economic problem of the people imbued with the values of Islam.** It is a composite social science which studies the problem of production, distribution and consumption through integrative system of exchange and transfer overtime and their social through integrative system of exchange and transfer overtime and their social and moral consequences **in the light of Islamic rationalism. M.A. Mannan.**

Islamic Economic Worldview

This can be examined in two perspectives

1. How Islam views the world (as basis of Islamic economic principles)
2. How the world views the Islamic Economy (this shall be examined in due course).

The Islamic Worldview:

It is defined as “a set of implicit and explicit assumptions about the origin of the universe as well as the nature and purpose of man not only in this world but in the hereafter too”.

The Islamic worldview can be described as a dual worldview, comprising both **this world and the Hereafter**.

- Man is the vicegerent God (*khalifah* of Allah) on earth and the resources at his disposal are a trust (*Amanah*).
- He must utilize them according to the will of the Creator and he will be held accountable for any **misuse of these resources**. It thus, follows that these resources are means to attain *falah*.
- Man’s aim in life is to achieve happiness not in this world alone but in the hereafter too, i.e. to achieve *falah* (success/prosperity).

The foregoing forms the basis of the objectives of Shariah; how Islamic economy is run and explains why, even though man is given freedom in commerce, man exercises such freedom subject to certain restrictions under the Shariah. This enables man to achieve his purpose of success both in this world and the hereafter.

Objectives of Islamic Economics

- 1. To establish justice in the Economy (5:58) (16:90), Nahal, Nisa)**
 - Surely Allah enjoins justice and the doing good (to others) (16:90 Al-Nahal)
 - Whenever you judge between people, you judge with justice 5:58 (An-Nisa)
- 2. To protect the interest of the deprived and the oppressed. (28:5) (Kisas)**
 - And we desired to bestow a favour upon those who were deemed weak *in* the land, and to make them the leaders, and to make them the Heirs 28:5 (Al-Qasas)
- 3. To establish good practices and institutions in the economy and to eliminate bad practice and bad institutions from Economy (22:41)**
 - [Well aware of] those who, if we firmly establish them in the land (on earth) will keep up prayer (remain constant prayer) and give in charity and enjoin good and forbid bad 22:41 (Al-Hajj).

In summary, Objective of Islamic Economy (Maqasid al-Shariah) is to promote the welfare of the people by safeguarding-

- Equal Distribution of wealth
- Social justice

Differences between Islamic Economy and Conventional Economy:

Comparing Capitalist Economy and Islamic economy, **Prof. Rodney Wilson** opined:

“ Ultimately Islamic banking and finance is about the emergence of a distinctively Islamic form of capitalism that may co-exist and interact with Western, Chinese, Russian or any other capitalism. Such a development should be welcomed and facilitated, and not hindered or suppressed”

Differences

1. In Islamic economy, operations are based on Shariah Principles. In conventional economy, operations are based on manmade principles.
2. In Islamic economy Promote risk-sharing between provider of capital (investor) and user of funds (entrepreneurs). In conventional economy Investor is assured of pre-determined rate of interest
3. Islamic economy aims at maximising profit but subject to Sharia'h restrictions. Conventional economy aims at maximising profit without any restrictions
4. In Islamic financing, you have partners, investors and traders, buyer or seller relationship. In conventional economy Creditor-Debtor relationship
5. Islamic economy encourages asset-based financing and based on commodity trading. Conventional financing is based on money trading. (Money is a medium of exchange and not a commodity, its sale and purchase is prohibited in Islamic law).
6. In Islamic economy, no right of profit if there is no risk involved (The profit and loss sharing depositor may lose money in case of loss). In conventional economy It is almost risk free banking and depositor has no risk of losing its money because interest is guaranteed

Principles of Islamic Economics Systems:

1. To please God (Allah) in all financial and commercial endeavours.
2. The wealth and asset in all their forms given under trust by God (Allah).
3. Moral values and guiding factors for all Economic activities.
4. Maximum equitable utilization of human and material resources given by Allah
5. Human dignity and respect of Labour.
6. 'Maximum freedom for economic activity within a just framework.
7. Equitable distribution of wealth and income and disciplined private ownership.
8. Simplicity economy and austerity in expenditure.
9. Adal and Ihsan (Justice and kindness).
10. Strict prohibition of Riba, Interest and Usury in all forms.

Components of Islamic Economy:

- Commerce
- Islamic Banking and Finance (This includes the Islamic banking, Islamic capital market, and Islamic Insurance (Takaful) subsectors.

Islamic economic (financial) system(ifs):

- A financial system that is based on Islamic principles and values, which eliminates riba and ensure a profit sharing mechanism in the financial system, may be called IFS.
- It may be characterized by the absence' of interest based financial institution & transactions, doubtful transactions or gharar, stocks of companies dealing in unlawful activities, unethical or immoral transactions such as market manipulation, insider trading short-selling etc.

Common Features of Islamic Economy (or finance):

They are the major prohibitions and collateral obligations among others namely:

- i. Riba (Interest/Usury) Prohibition
- ii. Gharar (Uncertainty) Prohibition
- iii. Maysir /Qimar (Gambling/Speculation) Prohibition
- iv. Haraam (Unlawful products dealings) Prohibition
- v. Zakat (Obligatory Alms, Tax and Sadaqah) Obligations.
- vi. Qard Hassan (Benevolent loan/Good loan/Loan without interest) obligations

Further details on the Common features

- ◎ The basic framework for an Islamic financial system is a set of rules and laws, collectively referred to as Shariah, governing economic, social, political and cultural aspects of Islamic societies. Shariah originates from the rules dictated by the Quran and its practices, and explanations rendered (more commonly known as Sunnah) by the Prophet Muhammad. Further elaboration of the rules is provided by scholars in Islamic jurisprudence within the framework of the Quran and Sunnah. The basic principles of an Islamic financial system can be summarized as follows:
- ◎ **Prohibition of interest:** Prohibition of Riba, a term literally meaning "an excess" and interpreted as "any unjustifiable increase of capital whether in loans or sales" is the central tenet of the system. More precisely, any positive, fixed, predetermined rate tied to the maturity and the amount of principal (i.e.) guaranteed regardless of the performance of the investment) is considered Riba and is prohibited. The general consensus among Islamic scholars is that Riba covers not only usury but also the charging of "interest" as widely practiced.
- ◎ This prohibition is based on arguments of social justice, equality, and property rights. Islam encourages the earning of profits but forbids the charging of interest because profits, determined ex post, symbolize successful entrepreneurship and creation of additional wealth whereas interest, determined ex ante, is a cost that is accrued irrespective of the outcome of business operations and may not create wealth if there are business losses. Social justice demands that borrowers and lenders share rewards as well as losses in an equitable fashion and that the process of wealth accumulation and distribution in the economy be fair and representative of true productivity.

- ◎ **Risk sharing**: Because interest is prohibited, suppliers of funds become investors instead of creditors. The provider of financial capital and the entrepreneur share business risks in return for shares of the profits.
- ◎ **Money as "Potential" Capital**: Money is treated as "Potential" capital -that is, it becomes actual capital only when it joins hands with other resources to undertake a productive activity. Islam recognizes the time value of money, but only when it acts as capital, not when it is "Potential" capital.
- ◎ **Prohibition of speculative behavior**: An Islamic financial system discourages hoarding and prohibits transactions featuring extreme uncertainties, gambling, and risks.
- ◎ **Sanctity of contracts**: Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard.
- ◎ **Shariah approved activities**: Only those business activities that do not violate the rules of Shariah qualify for investment. For example, any investment in businesses dealing with:
 - alcohol,
 - gambling,
 - ponography,
 - arms dealing,*

casinos, et cetera, would be prohibited

VIEWES OF THE WORLD ON ISLAMIC ECONOMY

Religious Views:

- From religious point of view there are copious provisions in the scriptures such as the Jewish Torah and the Christian Bible which equally prohibit interest (Riba) in financial transactions. The Council of Arles (314), Nicaea (325), Carthage (348), and Aix (789) objected to interest as a method of profit making. In the third Lateran Council, 1179, it was proclaimed that manifest usurers shall not be admitted to communion, nor if they die in their sin receive Christian burial and the wills of unrepentant usurers were declared invalid.

- **The bible provides thus:**

“Thou shall not lend upon interest to thy brother: interest of money, interest of victuals, interest of any thing that is lent upon interest. That the Lord thy God may bless thee in all that thou putest thy hand unto, in the land wither thou goest into possess it”Deuteronomy 23:19-20.

“If thou lend money to any of my people that is poor by thee thou shall not be unto him as an usurer, neither shall thou lay upon him usury” Exodus 22: 25

- The above Biblical injunctions are in tandem with the provisions in the Quran thus:
“ **O believers, take not riba (interest/usury), doubled and redoubled, and fear Allah so that you may prosper”(Quran 3:130).**

U.K, U.S and France's Desire To be Hubs Of Islamic Finance:

- The authorities in the U.K. desire the U.K to be the hub of Islamic finance in the West. Gordon Brown as the then Prime Minister in 2006 declared the intention of the Government of UK to make Britain the Global centre for Islamic Finance. In the U.K, there is Islamic Bank of Britain (IBB). The U.K experience has been interesting. Under its Finance Act, 2005, there are copious provisions for the treatment of Islamic Financial products ... (See Tiley & Collision's U.K- Tax Guide, 2011-12; Keith Gordon & Xi Mena Montes ed; U.K Lexis Nexis, 2011)
- William L. Rutledge declared that U.S regulators are open to Islamic Financial products... (see William L. Rutledge, 'Regulation And Supervision Of Islamic Banking In The United States', Remarks at the Conference on Islamic Finance: Players, Products and Innovations, organized by the Arab Bankers of the North America in the New York City, 19 April 2005). There are now about 25 Islamic financial institutions in the United States.
- Christian Lagarde, the IMF Managing Director, wants France to be the hub of Islamic Finance in Europe. Christian Lagarde says Islamic Finance can promote stability and she decided to include Islamic finance in surveillance..... (See www.economictimes.com.)
- The Australian government, around 2009 announced that the Board of Taxation would undertake a comprehensive review of Australian's tax law in order to identify impediments in the 'current' law against the development and provision of Islamic finance, banking and insurance products based on the recommendations of the Australian Finance Centre Forum.
- The Luxembourg tax authorities published an administrative circular related to Sharia compliant finance instruments in 2010.
- In South Africa, though Islamic finance had been around since 1989 when Albaraka Bank South Africa was licensed, the South African government has confirmed that it was introducing tax neutrality laws for Mudarabah, Murabahah and Diminishing Musharakah as the starting point.
- The Finance Act of Ireland provides for the tax treatment of certain credit sale, deposit and investment transactions (referred to in the legislation as 'specified financial transactions') which achieve the same economic result in substance as comparable conventional products. ... Section 39, Finance Act, 2010.

Giant Strides of Islamic Economy (Banking and Finance) World Over:

- Islamic banks have more than 300 institutions spread over 51 countries, including the United States through companies such as the Michigan –based University Bank, as well as an additional 250 Mutual Funds that comply with Islamic principles.. (Figure was as at 2005).
- According to CIMB group Holding, Islamic finance is the fastest growing segment of the global financial system and sales of Islamic bonds alone would rise by 24 percent to \$25 billion in 2010. According to Standard and Poor’s Rating Services, the potential market for Islamic finance is \$4 trillion.... See www.Wikipedia.org, see also Business day, Tuesday 31 July 2012.
- In the OIC countries alone , Islamic finance assets were worth about \$2.1 trillion at year-end 2015..(See S&P Rating Islamic Finance Outlook, 2017)

ISLAMIC BANKING AND FINANCE NIGERIA:

- Islamic banking and financing took off since 2011. However, there have been arguments since then as to whether it should be allowed or not. Some argued that it has religious connotation and therefore offends section 10 of the constitution. On the contrary, others also argued that based on section 38 of the constitution which affords freedom of religion, it is not out of place to have Islamic financial system as an alternative for the Muslims to participate in.
- In view of the fact that Islamic economic system does not discriminate against anyone, as non-Muslims are also allowed to participate in it, I opined that it is the right of all Nigerians, whether Muslims, Christians or persons of any other religious conviction to have an Islamic (non-interest) financing or any other non-interest financing of choice as alternative financial system(s) in Nigeria in order to afford Nigerians sufficient choices to enable them realize their full economic potentials. Section 16 of the 1999 Constitution is in tandem with this view in its provision thus :

16 (1) the state shall within the context of the ideals and objectives for which provision are made in this constitution;

- (a) harness the resources of the nation and promote national prosperity and an efficient, dynamic and self reliant economy.
- (b) control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity.
- (c) without prejudice to the right of any person to participate in areas of the economy within the major sector of the economy, protect the right of every citizen to engage in any economic activities outside the major sector of the economy.

(2) the state shall direct its policy towards ensuring:

(a) the promotion of a planned and balanced economic development” .

•Based, on the foregoing provisions, Nigerian government in its bid to fulfill her economic objective under chapter two of the constitution, may permit and encourage the establishment of alternative financial system such as Islamic banking and finance and any other non – interest banking in order to attain a balanced economic development ... (See CFRN, 1999, S.16 (2) (a).

NON-JUSTICIABILITY OF CHAPTER II OF THE CONSTITUTION:

- Laudable as the Fundamental objectives in chapter II are, if the not fulfilled by Government, what could the citizens do, in view of the fact that the provisions therein are not justiciable.
- Solution is in the hands of the press. Going by section 22 of the Constitution, “the press, radio, television and other agencies of the mass media shall at all times be free to uphold the fundamental objectives contained in this Chapter and uphold the responsibility and accountability of the Government to the people”.
- Benefit to the Farmers. Imagine the advantage of a product of Islamic Finance product like Salam to an Agrarian society like Nigeria.
- Social benefits to the masses. Imagine the advantage of Islamic banking product like Qard hasanah (benevolent loan) to the poor and to the students.
Even when they are unable to pay back in time, Islamic bank would not charge them any penalty because the law says “And if the debtor is in straits (difficulty), let there be a respite until the time of ease, and if you remit (forgive) the debt as charity, it will be better for you.
- Benefits to the Press. Imagine the advantage of an Islamic finance product like Diminishing Musharakah for house financing for NUJ members.
The Nigerian Press, the ball is in your court

THANK YOU