

Islamic Finance: Study, Analysis and Impact on the World Academia in the Present Century

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Abstract- Islamic finance as academic discipline evolved during the last two decades of the 20th century an attempt to look into the possibility of enterprise and investment upon the Islamic ideals. The discipline has taken a new direction as the experts are involved to concentrate over the subject along with fresh researches. The subject at once entered the academic arena due to its dynamic potential especially in the exigent financial scenario. Muslim intellectuals and the financial experts delved deep into the socio-economic themes of *Quran* and *Sunnah* and approached the presidencies from *Fiqh al-Ma'amalat* (Financial jurisprudence) to reorient academic projects in this field. Consequently, the contemporary Muslim academia asserted for the immaculate content that explored the subject for larger community interest and welfare. Now, the subject has been recognized by the world academia and the researches done can explore and analyze the Islamic financial instruments and their workability in the present century. The academic institutions worldwide are involved in study and research as to identify this field with international academic standard. The present study therefore will highlight the academic dimensions of the discipline, will give a description of major academic institutions engaged in research and will examine the relevance of the subject in the present academic scenario.

Index Terms- Islamic finance, Shariah financial instruments, OIC Summit, Financial literature, Lower economic growth, Equitable distribution, *Fiqh al-Ma'amalat*,

I. INTRODUCTION

20th century has ended with a new-fangled dynamism in Islamic intellectualism.¹ Muslim experts pertaining to various disciplines felt the need to comprehend and foretell over a variety of socio-economic issues that Muslim societies confront in the modern times.² To overcome various socio-economic challenges of the modern era, the Muslim intellectuals, especially the finance experts thought of representing *Shariah* based instruments as the auxiliary vehicles for promotion of the financial activity.³ These instruments, if adopted in the financial sector can cultivate for a welfare society being devoid of unapproved elements and practices.⁴ The Muslim world, from the last century has noticed strong assertion of Islamic value system and the Muslims, throughout the world have been striving to re-structure their systems in relation to the Islamic norms.⁵ The current trends in research focus on the relevance of the Islamic value system and its application into various socio-economic

institutions. The discipline of '*finance and investment*' has also been core concern of the academia in the present century. The thrust of the study has been to look into the possibilities that can promote Islamic equity models in the present day finance industry. As a result, the scholars involved in the cavernous study of Islamic financial jurisprudence (*Fiqh al-Mamalat*) came with the hope of possibility of banking, investment and finance within the *Shariah* procedures. This has been a landmark to identify *Shariah* approved finance activity to suffice the community development. Hence post 1940, Muslim scholars and the finance experts carried an academic attempt to represent Islamic finance in the world academia. The *Shariah* approved finance modes and instruments were brought to light for the research purpose in the world academia.⁶ From 1965 onwards the academic expertise of the Muslim intellectuals opened a fresh debate over the possibility of 'Islamic' finance and investment resulting in a massive contribution to the literature of Islamic financial studies.⁷

1.1 Academic initiative

In this given context, Muslim scholars and intellectuals had to face a gigantic challenge; to reorient the commercial themes as per the dictates of *Shariah* and to make it relevant to the current geo-economic scenario.⁸ At this juncture a huge corpus related to Islamic economics and finance got momentum and writings began to appear since 1940's regarding its relevance in building a just and welfare society.⁹ This theoretical framework regarding Islamic economics and its various dimensions was worked out from *Shari'ah* sources together with compilations in classical and medieval era of Islam.¹⁰ At academic level certain intellectuals and scholars pioneered the movement of developing the mechanisms and strategies as to how Islamic financial framework can be developed and put into practice. Some of the Muslim intellectuals made strenuous efforts on formulating a theoretical frame work for Islamic banking and finance post 1940's when they started to write on "*Interest-free banking models*". This way Islamic financial setup made its initial references out of economical framework of Islam.¹¹ The scholars in this perspective include Anwar Qureshi (1946), M. Hameedullah (1944, 1955, 1957, and 1962); Naim Sidiqi (1948), Mahmud Ahmed (1952), M. Maududi (1950). The works authored highlighted the need for Islamic commercial enterprise and evils of the interest. These works proposed models for equity based Islamic banking and its scope on backdrop of 21st century. The tradition was followed by works of M. Uzair (1955), Ab. Al Arabi (1967), Nejahtullah Siddiqi (1961-1969), Ahmed Al Najjar (1971), Baqir Al Sadr (1961, 1974, 1977, 1985, 1979), M. Yousufuddin, S.M. Hasunuzzaman, Manan, M. Ali

Elgari, Anas Zarqa, Munawar Iqbal, Umar Chapra, Abbas Mirkhor, Mohsin. S. Khan, Khursheed Ahemd and others .¹² This is how the Islamic finance emerged within the corpse of Islamic Social studies and prepared itself for the entry in to the world academia.¹³

1.2 Objectives of Islamic Finance:

The main objective of the Islamic finance is to contribute for a welfare society and to equip Islamic banking and investment sector with equity based financial mechanism devoid of unapproved elements.¹⁴ Academically speaking, Islamic finance is being researched and professionalized throughout the Muslim world. Since 1990, world has witnessed a number of changes that ultimately resulted in reinterpretation as well as in the reorganization of the social discourse.¹⁵ The last quarter of the 20th century witnessed the absolute failure of the Socialist economic order and noticed the adverse effects of capitalism upon corporate as well as upon the non-corporate sector.¹⁶ Islamic commercial directives caught attention even of the Europe's top economies to be adopted as a substitute to the conventional one.¹⁷ Islamic economic and financial Studies emerged as a special concern for researchers in the Middle-East, Europe, South-east Asia, Egypt, Pakistan, Bangladesh, Australia, North America, Iran and Turkey. The contemporary Muslim jurists and scholars made tremendous efforts to identify the workability of equity instruments (*Usul al-Shirkah al-Anan*) for Banking and Investment sector.¹⁸ The studies, apart from the academic scenario enhanced the scope for moral as well as material development together with the concerns for individual's social up-liftment.¹⁹ The literature reiterated for attainment of socio-economic justice, illustrated the relevance of Islamic finance and cultivated for the establishment of a welfare society.²⁰

II. SOCIO-ACADEMIC DIMENSIONS

Academics must serve the social cause. Islamic finance got momentum due to various socio-academic challenges during last quarter of the 20th century. The academic and professional dimensions of the study broadened its scope for contributing towards a judicious and effective mechanism.²¹ The following seem much appropriate for the evolving of the Islamic finance as an academic discipline :²²

- Post 1952 scenario that led the Muslim intellectuals to reassertain socio-political and economic institutions. By virtue of this, Islamic economics and finance began to be explored by contemporary Muslim experts at various institutions and research centers.²³
- As interest (*Riba*) is severely prohibited in Islam Muslims needed an interest/*Riba* free financial system and as a repercussion of this need, Islamic finance emerged as an academic discipline adopting *Shariah* based financial tools for application in the Islamic finance industry.²⁴
- The adverse effects in the conventional financing like, deflations, recessions, lower economic growth, unemployment, Islamic finance evolved as an

auxiliary financial system and researches began to demonstrate its dimensions and application.²⁵

- Recently, Islamic finance drew much attention, from the world's biggest economies to be adopted as an alternative mechanism to its conventional counterpart. Mohammad al-Qurchi, a Muslim financial expert observed the following for promoting the necessity of Islamic finance in academics as well as in the corporate sector:
 - a. "The strong demand from a large number of immigrant and non-immigrant Muslims for *Shariah*-compliant financial services and transactions.
 - b. The growing oil wealth, with demand for suitable investments soaring in the Gulf region.
 - c. The stability and competitiveness of many of the products (of the Islamic finance) attracting Muslim and non-Muslim investors.^{26,}

2.1 Academic Centers for the study of Islamic Finance:

From the academic point of view, mid of 20th century witnessed the emergence of Islamic economics and finance as an academic discipline.²⁷ Three decades later, efforts to implement Islamic finance simultaneously in the academic as well as corporate sector have been gravely undertaken all over the world. With this view, King Abdul Aziz University Jeddah, Saudi Arabia, opened a prestigious research centre dedicated to Islamic economics and finance under the name, Islamic Economics Research Centre, IERC in 1971. Later, in 1973 Islamic Development Bank (IDB, Jeddah), Saudi Arabia, in reflection of the first conference of finance ministers OIC at Jeddah, convened on 18th December 1973 voted for the establishment of a much expanded institution capable of research and funding the socio-economic projects .This financial institution in addition to provide financial services also contributed in academic pursuits for Islamic economics and finance with the establishment of IRTI (Islamic Research and Training Institute) for conducting research in Islamic economics and financial studies.²⁸

2.2 Global Academic Scenario

The canvas of Islamic finance has been so wide. The subject nowadays is being approached globally. Some world famous academic institutions that superintend both training and research in the field of IEF (Islamic Economics and Finance) include: ²⁹

1. International Islamic University of Malaysia (IIUM).
2. International Islamic University of Islamabad, Pakistan-IIUI- (which has upgraded its International Institute of Islamic economics to college of Islamic finance).
3. Aligarh Muslim University-AMU, India.
4. The Institute of Islamic Banking & Insurance (IIBI), London.
5. The International Institute of Islamic Banking and Finance, Hyderabad, India.

6. The Institute of Middle East and Islamic Studies, Durham University, Northern England.
7. Trisakti, University Indonesia.
8. The Markfeild Institute of Higher Education, Loughborough University Australia.
9. The Centre for Islamic Banking, Finance and Management, University of Brunei, Darussalam.
10. Kolej University, Malaysia.

The establishment of research institutes on large scale and the involvement of experts for reallocation of the financial themes set new criteria for Islamic finance.³⁰ The first Islamic conference on Islamic economics was held in Mecca in 1976. Being first of its kind in the Muslim history, steps were taken to promote Islamic economics and finance as an academic discipline in higher education and advance professional level.³¹ Since then six conferences stressed for the same in Islamabad (1983), Kuala Lumpur (1993), Loughborough (2000), Bahrain (2003), Jakarta (2005) and Jeddah (2008). In Saudi Arabia, King Ab. Aziz University established the International Center for Research in Islamic Economics (ICREIE) in 1979 to conduct and support theoretical and applied research in Islamic finance.³² During 1980s-90s such research institutes proliferated throughout the Islamic world and the universities incorporated this area of study in their academic curricula.³³ Al-Azhar Academy in Egypt included Islamic Banking and Finance Research programs in its curriculum. This process of widening the academic panorama of the studies was further aided by the publication of the relevant literature enormously by some Muslim student organizations and some publishing houses were established only for this purpose.³⁴

III. CORPORATE CHALLENGES AND ISLAMIC FINANCE

The geo-economic and ideological trends during second half of the 20th century shaped the discourse of Islamic finance and gave it the socio-academic direction.³⁵ In the Third Islamic Conference held at Jeddah in 1972, a comprehensive plan to reform the monetary and financial system was promulgated. This being an attempt to reorient Muslim economies as per the tenets of Islamic ethics was presented to the Foreign Ministers of participating countries. Meanwhile the International Association of Islamic Banks (IAIB) was established. The primary steps of this association include publication of literature pertaining to Islamic Finance like *A Handbook of Banking* (A scientific and practical encyclopedia in Islamic banking) written in Arabic by famous scholars got published at the very outset of this organization.³⁶

World renowned academic institutions as well as the corporate centers are robustly engaged in conducting and validating research in Islamic finance and economics (IFE) since 1985.³⁷ Academic institutes in Gulf, Iran, Turkey, Malaysia and Pakistan lay the primary role for disseminating and conducting research in Islamic finance. The applied research in Islamic finance conducted mostly within the Islamic Finance Industry as part of their research and development involves specific inquiry into practical problems encountered by the Islamic financial Institutions.³⁸ Along with the commendable development in the

global market significant increase in research in Islamic finance and economics, has occurred in the past three decades. The development of Islamic finance in the corporate sector is closely linked to the research pursued in this field.³⁹

The period from 1970-90 witnessed the proliferation of research Institutes like Saleh Kamel Center for Commercial Research established in 1979 at Al-Azhar University (Egypt).⁴⁰ the objective being to favor comparative research on Islamic and Western thought in Economic, financial management and accounting; advise Islamic financial institutions; organize training sessions for their executives together with symposia and conferences; publish the review of Islamic commercial studies and to promote translation and publication of classical and medieval sources in this direction.⁴¹

At Harvard University (U.S.A) ambitious research on Islamic finance is carried out under a number of programs launched during the last few years under the aegis of CMEIS (Center for Middle Eastern Studies) in collaboration with Harvard Law School and Harvard Business School, financed by IDB Jeddah, National Commercial Bank and other such organizations.⁴² In December 1995, HIFIP (Harvard Islamic Financial Information Programme) started. The programme being financed by IICG (Islamic Investment Company of the Gulf) Bahrain, a member of *Dar al- Mal- al- Islami* Geneva, dedicated to the compilation, analysis and spreading information on Islamic financial sector.⁴³ Since that time this organization has produced a number of projects and it aims to promote qualitative research in the field of Islamic finance. Among the objectives is to undertake as well as to sponsor research projects worldwide.⁴⁴

The momentum for the academic magnitude of Islamic finance also expanded when the "First Annual Program of Research Activities of IRTI (Islamic Research and Training Institute) was promulgated in 1982.⁴⁵ The programme being to intend qualitative research and to counsel the scholars, specialists and the researchers regarding in Islamic economics and finance. The objective also being to debate, discuss and incorporate the current financial/Banking trends if approved under the *Shariah* norms.⁴⁵ Thus it was only post 1970s especially after the launch of the first 'International Conference in Islamic Economics' organized by the King Abdul Aziz University, Saudi Arabia, that Islamic finance could be visualized in the world literature. The establishment of the first commercial Islamic bank, Dubai Islamic Bank (DIB) in United Arab Emirates followed by the establishment of the international Islamic Development Bank (IDB) in Jeddah, Saudi Arabia and many private and semi-private commercial Islamic banks in Egypt, Sudan, Kuwait, Bahrain were also among the basic steps in this direction. These efforts lead Islamic finance close to the operational front not only as a viable alternative but as an efficient way of financial intermediation in the corporate sector.⁴⁶

Academically speaking, Islamic finance, over the past three decades, has shown significant growth in volume and scope, attracting academic and professional attention worldwide. Currently, studies in the Islamic finance is evolving beyond expectations. It has recorded double-digit annual growth rates for the last thirty years. Islamic financial institutions, as the experts say, can sustain in hard times due to their adaptability, oriented towards the socio-economic issues. Its alliance with the *Shariah*

scholars and the financial experts has broadened its scope to fulfill the growing demands of the financial sector.⁴⁷

Due to the successful financing operations since 2000, Islamic finance industry is moving towards a new era of socio-economic development. The outcome of the experiences of several Islamic banks in carrying out financing on *Shariah*, basis looks quite perplexing.⁴⁸ This way Islamic finance has posed a profound impact upon the current academic as well as financial literature worldwide.⁴⁹

3.1 OIC Summits and on going Research

The OIC summits, since 1982 lay stress upon the alliance between *Shariah* experts and the professionals of Islamic finance. Ever since, this coalition has been a commendable effort to enhance the scope and promotion of this study.⁵⁰ This concern has been mainly established by the efforts of 'OIC *Fiqh* Academy' (1983) that a splendid chapter to the development of Islamic economics and finance.⁵¹ In the last three decades of the century adequate research in Islamic economic & financial areas has been carried out than in any other related area. The OIC-*Fiqh* Academy from 1985- 1997 made 97 resolutions, 51 among them were related to Islamic finance.⁵² In addition to this the number of publications, seminars and conferences far exceeds the publications in any other area of *Fiqh*.⁵³ The ongoing research in this field is of diverse nature ranging from doctoral dissertations to articles published in journals and conference papers dealing with the subjects like Islamic financial instruments and their application in the Islamic banking.⁵⁴ The research conducted in the form of articles, Conference-papers and Source material in this field as represented by Harvard's IFP (Islamic finance project) Data bank in the last three decades gives an output of 6484 publications prior to 1979 that represented only 238 publications and from 1990-1999, the number reached to 2722.⁵⁵ From the institutional point of view some of the renowned institutions have published an ample number of monographs (which can be considered as the core collections in this field) and research journals.⁵³ The IDB's research wing IRTI (Islamic Research and Training Institute) Jeddah, KAAU (King Abdul Aziz University), Saudi Arabia, IIUM (International Islamic University), Malaysia, IIIT (International Institute of Islamic Thought and Islamic Foundation) UK has been seriously involved for development of this field.⁵⁴ Recently professional and the university publications, like Kluwer Publishing House, Cambridge University Press, Edinburgh University Press, John Wiley Malaysia, Butterworth, Financial Times and Euro money have shown interest in publishing books related to Islamic finance.⁵⁶

IV. INSTITUTIONAL PARTICIPATION

A serious attempt by the following reputed institutions has also encouraged the scholarly pursuits and advance study and research in Islamic finance⁵⁷:

1. IRTI- Islamic Research and Training Institute, Jeddah, Saudi Arabia
2. KAAU- King Abdul Aziz University, Saudi Arabia.
3. IIUM-International Islamic University, Malaysia.

4. IIUI- International Islamic University Islamabad, Pakistan, which has upgraded its International Institute of Economic to College of Islamic Finance.
5. AMU-Aligarh Muslim University, India.
6. IIBI- International Institute of Islamic Banking and Insurance, London.
7. IIBF-The Institute of Islamic Business and Finance, India.
8. The Institute of Middle-East and Islamic Studies, Durham University.
9. Trisakti University, Indonesia.
10. Islamic University of Science & Technology Awantipora (J&K) India.
11. Islamic Foundation set up by the Markfield Institute of Higher Education in conjunction with Loughborough University.
12. The Centre for Islamic Banking, Finance and Management of University of Brunei, Darussalam.
13. Kolej University Islam, Malaysia.

Similarly, in Europe and North- America the interest in Islamic finance is growing rapidly.⁵⁸ This commendable growth is in connection with many socio-economic occurrences post 2005.⁵⁹ The Muslim minorities residing in Europe have also shown their utmost concern for the promotion of Islamic finance both at professional as well as on academic level. Islamic finance studies have also evolved in to the curricula of some reputed universities especially Harvard, Rice and Durham University during last two decades. As a result European Universities have also become centers for advance research in Islamic finance.⁶⁰

V. CONCLUSION

Islamic financial studies have become much relevant and comprehensive in Muslim as well as in the Western countries. The socio-academic dimensions and relevance of this study demand intellectual and professional expertise to evolve much efficient literature in major world languages. Currently, the world renowned Muslim scholars and financial experts are involved to explore the subject for the socio-economic and academic pursuits. The academic and professional expertise both in Muslim and Western institutions needs to collaborate for strategic action plan in the academic projects for the economic wellbeing of the society. The verdicts of the Islamic financial jurisprudence (*Fiqh al-M'amalat*) can play a significant role for evolution of equity financial techniques devoid of unapproved elements. Islamic financial studies have the potential to assess the default of the conventional finance techniques if reallocated to set the standards and challenges of the existing corporate sector. This experience, undoubtedly will facilitate and result in advance research in Islamic finance. Islamic equity instruments identified in the Islamic juristic literature are to be discussed, elaborated and put into practice to avail the possibility of finance and investment within the Islamic framework.

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