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Objectivising the Social Justice Paradigm in Islamic Finance: [An Appraisal]

By

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Abstract

Islamic finance is hypothesised as the avatar of egalitarianism, equity and the zenith of social justice. Nevertheless, some scholars argue that the social justice objective of the Islamic finance is idealistic. This paper examines the extent to which the acclaimed social justice objective is innate to the services of the institutions. The focal areas include the provision of benevolent loan, corporate social responsibility, the duty of the payment of Zakat, extermination of debt based instruments, total elimination of interest, gambling and uncertainty from the financial system. However, it is concluded that, although, Islamic finance strives to realize its social justice objective, nevertheless, the institution needs to lift the bar of its acclaimed financial egalitarianism further higher.

Keywords: Islamic Finance, Social Justice

Introduction

The modern Islamic finance is projected as a financial system with the aim of realizing social justice, in variance with that of the conventional finance. The major end of the conventional finance is seen to be the maximization of the net income of its capitalist stakeholders. This objective of Islamic finance strengthens its appealing outlook across religions and regions. *Interest, gambling and uncertainty which are the underlying principles of the operations of the conventional system are eliminated from its

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practices. Its operations are structured on the mechanisms of sales, partnership or leases in order to guarantee its social justice objective in the financial system. This is, in addition to its promise of the assuaging of the conditions of the less privileged and the poor through the duty of payment of Zakat, provision of benevolent loan for business creation, corporate social responsibilities etc. Although, this is the light in which the modern Islamic financial system is projected, nevertheless, the aim has been reckoned as merely idealistic. This study surveyed some of the scholarly articles on the topic. The approach of the study is qualitative and narrative. It, thus, concluded that although there are a few misconceptions about the operations of Islamic finance, however, the criticisms are objectively constructive.

**Importance of Social Justice in Islamic Finance**

To start with, the phenomenal disparity between the Islamic finance and the conventional financial system is the emphasis of the former on the need for social justice in the financial system while the latter considers it as moralistic and unnecessary. Islamic finance operates on the principles that can ensure justice and equity in the distribution of wealth, opportunities, and privileges within a society through the financial system. However the conventional system is designed in such a manner in which, the capitalist stakeholders will move onwards to make more wealth through the financial system, while the working class and the less privileged will languish in economic demand. The operation of the conventional system on the basis of interest subjugates the larger world to eternal servitude to the very few capitalists. Therefore, the opening between the socioeconomic classes continue to expand, and there appear inequality in the attainment of education, wellness maintenance and living standards between the several economic strata. The modern Islamic financial system emerges as a universal remedy to the socioeconomic disparity. The operating mechanism of the Islamic finance, which is based on sale, partnership and lease is viewed as a promising method for the refurbishment of social justice if it is properly enforced. Nevertheless, the proper implementation of the mechanism by the players remains essentially questionable.

The review of the activities of the Islamic financial institutions shows that the institutions are yet to wholly uphold their acclaimed ethical identity (Hudaib, 2007). For instance, although, most of the Islamic financial institutions rely on common stock, which is considered acceptable under the Islamic law of transaction, given the inherent element of profit and risk sharing in it (Naughton, 2000). However, the trading of the stocks is still based on the conventional methods that include speculation which is considered as gambling and prohibited by the Islamic law of transaction. Other disputed practices in the system are the practices of short selling, margin trading, the use of stock index and equity futures and options which are purely conventional practices and are not compatible with the Islamic commercial law. Islamic finance needs to improve on these areas in its stock trading. Thus, the development of holistic Shariah compliant stock market is imperative for the industry to fulfil its social justice objective.

In the same vein, a survey that was conducted on the cost and profit efficiency of the Islamic financial institutions in some GCC countries shows that the efficiency of the institution is more centered to the generating of profits than the controlling of costs, which is an ethical matter (Mariani Abdul-Majid, 2010). This is the practice in the formal institutions that is thought immoral for Islamic finance. It will be erroneous for the
players of Islamic finance to believe that the institution can accomplish its social justice objective on that foundation. Such practice does not portray the institution positively in the area of its efficiency due to the gain in high loan activities (Abderrazek Srairi, 2010). Hence, since the founding stone of the practice of the Islamic financial institutions is the upholding of the Islamic ethic that is embodied in abstinence from interest based practise, uncertainty and gambling, there is a need for concerted efforts in the part of the participants to ensure that the principles are put into practice to attain the social justice objective.

In the other hand, only few Islamic financial institutions are complying with the requirement of the payment of Zakat which is meant to bridge the gap between the rich and the poor in the society. The commitment of the institution to the provision of benevolent loan and charity for the purpose of the microfinancing of the less privileged and for creating jobs is very slim. An investigation into the ethical identity index (EII) of seven Islamic financial institutions over the period of three years, in terms of microfinancing shows that only one of the institutions was above average. The remaining six institutions fall below average. This shows that the goal of the institution is to maximize profits, which is the same practice in the conventional financial institution.

Furthermore, Islamic finance has not reciprocated the patronage of the society, despite its social justice mantra. For example, the precept of corporate social responsibility is nonetheless to be adequately put into exercise by the institutions. The directors of the Islamic finance institutions need to shift their perception toward corporate social responsibility and fully stand by it to realize the social justice objective of the foundation. It is really clear that Islamic finance is lagging behind the conventional finance in this respect. A survey indicates that the contribution of the Islamic financial institutions to the creation of welfare through charity is really petite in comparison to the patronage it receives from the public (Thankom Arun, 2013).

Another affair that suggests the elusiveness of social justice in the practices of the modern Islamic finance is the reluctance of the institution toward creation of effective accessible platform for microfinance. The conventional microfinance is more accessible to the people round the world to a greater extent than the Islamic microfinance. This constitutes an impediment to the development of the Islamic institution at the grassroot level. A study of the condition of Islamic macrofinance in ten countries from the years 1996 to 2002 shows that Islamic finance needs to ameliorate its public acceptability through microfinance. Therefore, the objective of Islamic finance should not be just about profits. The social justice aspect should be brought to the forefront.

Additionally, since the debt based method of financing in the conventional system is considered as the obstacle to realization of social injustice in its practices, Islamic finance ought to wholly embrace the risk-sharing techniques rather than the risk-shifting methods in its practices to accomplish its social justice objective. The institution must completely refrain from the use of debt based instruments in its activities. Debt based instruments are the bane of all financial crises and social iniquity. In addition, there is a need for the creation of Shariah compliant pricing model for Islamic finance institution (Naifar, 2013).
On the other hand, the above argument does not suggest that Islamic finance has completely abandoned its social justice objective. The criticism is meant for the spurring of the institution to progress on its obligation toward the society. Islamic finance has contributed significantly toward the realization of the social justice objective in some jurisdictions. For example, a survey of the ethical practices of the Bangladeshi Islamic financial institutions between 1983 and 2010 shows that there is improvement in its relationship with the society, due to the advance in its sustainable development programme, charity and employee wellbeing. The improvement is attributed to the acceptance of the method of wider stakeholders’ approach in the services Islamic finance in the rural area. Therefore, the bank adjusted from the pattern of dependence on debt-based method for the management of their investment portfolio to the method of socioeconomic development which is the mission of the Islamic finance in the society (Ataur Rahman Belal, ‘n.d.’).

Another good example in this context is that of the Islamic finance in Malaysia. The Malaysian Islamic financial institutions diverted a favourable output of its financial market toward the funding of projects which in turn contributed to the creation of businesses, in fulfilment of the social justice objective. Thus, the public participation in the macroeconomic augments and the financial stability became formidable. That is due to the development of Islamic financial institutions in the country, as a result of the obligation to the execution of the social justice objective through Islamic microfinance (Ibrahim, 2007).

**Toward the Social Justice Objective**

Last of all, as Islamic finance is becoming increasingly acceptable across the western oriented societies, in Africa, Asia, Europe and etc. The institution needs to shore up the acceptability with a dynamic implementation of the social justice objective to establish its uniqueness, and dissimilarity to the prevalent capitalist conventional finance. One of the major issues hitherto was the challenge of the acceptability of the institution in the western oriented world. Nevertheless, the opponents of Islamic finance in the jurisdictions have now come to terms with the reality that the principle of prohibition of interest and usurious practices, upon which Islamic finance operates, is actually in conformity with the financial doctrine of all the three Abrahamic religions of Judaism, Christianity and Islam (Foucart, 2013). This perception gives the Islamic finance a supplementing opportunity of acceptability in the Christian western world.

Moreover, although, there appears to be a slight disparity between the concepts of usury and interest in the Christian faith, (Abraham, 2007), that is to say that, while Christianity forbids usury for the reason of being an excessive increase on actual loan and disruption of equity between the loan provider and the beneficiary, it does not forbid interest. The faith permits interest on the basis of its interpretation as a mere compensation to a loan provider. Conversely, the Islamic financial law does not differentiate between interest and usury. Both are considered as the prohibited ‘riba’ which is an increase on a loan or debt. Nonetheless, the slight difference in the interpretation is no more than elucidation. The reality is that all the religions do not accept usurious practices. This aids the perception of the western oriented societies to change positively toward Islamic finance. For that reason, the positive perception ought
to be complemented with the social justice objective to speed the development of the institution in the jurisdictions.

Thus, it can be reasoned that the development of Islamic finance currently rests on its dedication to the pastime of its social justice objective as contrary to the line of reasoning that the Shariah requirement policy is an obstruction to its growth (Zarrokh, 2009). The main obstacle to its growth is its ineptitudeness toward the realization of its social justice objective. In fact, Islamic finance is being perceived as a parallel financial system to the conventional system in the setting of worldwide business operations (Foucart, Western Financial Agents, and Islamic Ethics, 2013). It has come out as an alternative to the conventional capitalist system. The western financial managers have jettisoned the negative prejudices (Rice, 1999). Thus, it is up to the system to maintain itself as a viable alternative by catering for the needs of the less privilege and those at the grassroots through a vigorous pursuit of the social justice objective of the scheme.

Conclusion

To sum up, it can be deduced from the available literatures that Islamic finance is far from carrying out its social justice objective. There is a need of the institution to recommit itself to its acclaimed ethical identity to achieve the social justice objective. Therefore, with the positive perception and the acceptability that the Islamic finance is garnering across the world, having proved itself as a buffer against any financial crisis, the institution needs to improve in the contentious areas in its practices. One of such areas is that of the its equity market. Although common stock is supposed to be acceptable to the Islamic commercial law, nevertheless, matters of speculation, short and margin trading, the use of line index, equity futures etc. are however questionable. The deficiency of difference between Islamic and conventional stock markets does not portray the Shariah compliant stock market in the light of pursuing its social justice objective. The realisation of the social justice objective of the Islamic finance takes a breath on the total compliance of the establishment with the ethical demands of the Islamic commercial law. The requirements are embodied in the elimination of usury or interest (riba), gambling or speculation (Maysar) and uncertainty or speculation (ghara) from the financial system in totality. Additionally, Islamic finance needs to recommit itself to the obligations of payment of Zakat, provision of benevolent loan, socioeconomic development and corporate social responsibility (CSR). This is the only approach in which the social justice objective of the Islamic finance can be realized.

Bibliography


