

A Companion to Muslim Ethics

Gender

Zayn Kassam

Does the Quran cast women as inferior to men in how they relate to God? What of the social order that is envisioned by the scripture, and how it has played out in Muslim societies? Leading feminist scholars such as Laila Ahmed, Asma Barlas, Riffat Hassan, Azizah al-Hibri and Amina Wadud argue that the sexes clearly enjoy moral and spiritual equality in the revelation, which is key to respect for their human dignity. This chapter is not an appraisal at large of the locus of women in Muslim ethics. Rather, it focuses on contemporary practices that shed light on an enduring tension between basic teaching and actual conduct toward women in Muslim communities. There follows a reflection on ways in which 'ethical resources' are brought to bear by those aiming to reorient practice, amid the challenges of a globalised world in which Muslim women are increasingly confronted.

Text and Context

The sura *Nisa*, the Quran's chapter on women, opens with a robust assertion of the inherent worthiness of men and women, and the 'like nature' of male and female (4:1). She does not spring from 'Adam's rib'. On the contrary, she is deemed to merit special esteem as the giver of birth, and as one who often finds herself among the oppressed. Solidarity is the proper response of the community amid life's challenges, in the eyes of the Creator 'who cares for all' (4:130). A latter passage offers a celebrated affirmation that

charity, constancy, devotion, discipline and humility are not female virtues but for all ‘Muslim men and women’ (33:35).

At the same time, the Quran does in some cases distinguish between the sexes in the economic and legal sphere. Women are to inherit half the bequest allotted to men (4:11), and half their testimony counts at law (2:282). Men are ‘a degree above’ women in a verse that clearly relates this to men’s responsibility as typical breadwinners (4:34). Scholars such as Amina Wadud and Azizah al-Hibri have argued that the term for ‘a degree above’, *qawwama-muna ala*, implies no intrinsic superiority at all. Further, that the inheritance and testimony provisions must be read in the specific setting of family and contract relations of the time.¹ By comparison, the value of inherent equality in the eyes of God is timeless.

As in much of the discourse on religious ethics, a central issue here is about how one should read the Quran. Are the verses equally binding for all Muslims for all time, or do they speak to their historical context as modern jurists and thinkers like Muhammad Abduh (1849–1905), Fazlur Rahman (1919–88 CE), Abdolkarim Soroush (1945 –) and Khaled Abou el Fadl (1963 –) have argued? After all, the particular directives at issue come mainly from medieval law books that draw on sources which include not only scripture, prophetic traditions and practice but also scholarly consensus (*ijma*), analogical reasoning (*qiyas*) and local custom (*adat*). One recalls the figure of Khadija, wife and confidant of Muhammad when he received the first revelations, whose life involved a career of leadership not only within the umma but also in the wider sphere of trade.

How, then, did the scriptural vision of equal dignity and respect for women unfold among those to whom it was revealed? First, the rapid spread of Muslims into the Byzantine and Persian empires meant close contact with societies that had long been patriarchal. This shaped the Muslim reading of scripture and the nature of

¹ A. Wadud, *Qur’an and Woman: Rereading the Sacred Text from a Woman’s Perspective* (Oxford, 1999), pp.63–93; A. al-Hibri, ‘Women and Social Change’, in A.B. Sajoo, ed., *A Companion to the Muslim World* (London, 2008), pp.139–47.

social institutions, just when the Muslim schools of law were emerging. We have strong evidence of this in the work of scholars such as Barbara Stowasser, Leila Ahmed and Asma Barlas. A case in point is that Eve in the Quran has no part in Adam's fall, nor is his inferior – yet is treated in the commentaries (*tafsir*) no differently than in the Biblical ones. Muslim writers drew on the *asbab al-nuzul* literature which elaborated on the settings in which revelation was thought to have occurred, and the *qisas al-anbiya* literature which told moral stories about pre-Islamic prophets and other scriptural figures. Both of these literary modes kept the attitudes to women (along with narrative details) found in Biblical texts and discourses.

Now the legal schools saw fit to emulate the veiling and seclusion of women in societies that Muslims had conquered, where such practices marked high cultural status. True, the Quran enjoins women 'to draw their scarves [*khumur*]² around their bosoms' (24:31) and 'to draw their cloaks [*jilbab*] around themselves [when outdoors] so that they may be recognised and not be harassed' (33:59); it asks that the wives of the Prophet be approached 'from behind a curtain' (*hijab*) (33:53). But these verses were used to turn a limited physical barrier into a portable barrier (the veil) for all Muslim women in all public encounters. It became, variously, a status symbol consistent with Byzantine and Persian practice, as well as a tool of male social control; both influenced a claim to piety that may have had little to do with scriptural intent. In a similar vein, polygamy was put forward as a right on the strength of the Quran's statement that men may marry up to four women if they could treat them equally, ignoring its warning that such treatment was not achievable with the best of intentions (4:129). The ethics, then, was trumped by other preferences.

Another major trend was that Islamic legal development came under the control of state administration, despite the original idea

² The text does not explicitly call for head coverings, so either the practice was so commonplace as to require no mention, or the adoption of veiling when Muslims emulated Byzantine and Persian practices became a guide to reading the verses.

of an independent class of jurists or *ulama* as 'keepers' of the law. In the Persian, Mughal and Ottoman empires, what remained under the control of the *ulama* were laws on ritual obligations, family matters and, to a point, charitable endowments (*waqf*). During British rule in India, new uniform administrative, financial, criminal and civil codes did away with prior laws; yet the colonial power upheld religiously established family laws for various Indian communities on the supposed basis of their sanctity.³ This had the effect of bringing family relations under the control of laws actually tied to ethnic custom, though regarded by their adherents to be part of Muslim tradition (rightly or wrongly); it also revitalised Islamic family law.

Some countries such as Morocco, Tunisia and Egypt modified their legal codes on personal law to reflect to a small degree the changing nature of society, including more equitable treatment of women (which is consistent with the moral and religious egalitarianism found in the Quran). Other states have utilised the instrument of 'Islamisation' to legitimate political power. Under General Zia ul-Haq in Pakistan, this meant a patriarchal stance toward women backed by the legal system in the name of Islam. In 1979, Zia had the constitution amended to include specialists in Islamic *fiqh* or jurisprudence in the high courts and the Supreme Court. Also in 1979, the Hudood Ordinances declared that a man and woman not validly married to each other were guilty of *zina* or adultery if they engaged in sexual relations; four male witnesses were required to prove this. It made rape difficult to prove, since women's testimony was denied legal weight and the unborn child of a woman so impregnated was evidence of illicit intercourse. For her, this turned rape into adultery, for which the penalty could be stoning or death. Many women fought back, through organisations such as the Women's Action Forum and the Pakistan Human Rights Commission, which sought to defy the institutionalisation of medieval codes of practice.

³ Srimathi Basu, 'Cutting to Size', in Rajeswari Sunder Rajan, ed., *Signposts: Gender Issues in Post-Independence India* (New Delhi, 1999), pp.254-7.

Akbar Ahmed has shown in his work among tribal societies in northwest Pakistan that ethnicity or tribal affiliation, religion and nationality are identities that are held concurrently. There can be much tension among these identities, further complicated by class and literacy issues. Beyond Zia's Pakistan, attempts at Islamisation have ranged from Afghanistan under the Taliban to Nigeria. In most cases, the result has included the veiling or reveiling of women. Leila Ahmed notes that in the wake of colonisation, the narrative of resistance to colonialism went through an ironic twist. The veil, whether enforced or voluntary, 'came to symbolise in the resistance narrative, not the inferiority of the culture and the need to cast aside its customs in favour of those of the West, but, on the contrary, the dignity and validity of all native customs, and in particular those customs coming under fierce colonial attack – those customs relating to women – and the need to tenaciously affirm them as a means of resistance to Western domination.'⁴

This also means a retrenchment of patriarchal elites. 'The position of women in Muslim society mirrors the destiny of Islam: when Islam is secure and confident so are its women; when Islam is threatened and under pressure, so too are they.'⁵ The campaign for 'Islamisation' makes its target the family, and by this it means women, who are made the moral bearers of what is felt to be a Muslim identity under threat.

Social Practice

Two issues that afflict women in Muslim communities – but are not restricted to them – merit concern as a matter of practical ethics: female genital mutilation and honour killings. Only a small portion of the estimated 650 million Muslim women globally experience these practices. Yet the killing of a single woman on mere

⁴ Leila Ahmed, *Women and Gender in Islam* (New Haven, CT and London, 1992), p.164.

⁵ Akbar S. Ahmed, *Discovering Islam: Making Sense of Muslim History and Society* (New York, 1989), p.184.

suspicion of adultery is one crime too many. When so many of the afflicted happen to be Muslim, we are obliged to inquire into what accounts for the behaviour, and the ethical implications in the secular as well as religious domain.

Female Genital Mutilation

The practice of female genital mutilation (FGM), also known as ‘cutting’ or ‘circumcision’, did not originate with Islam. It is practically unknown in Arabia and its environs, and there is no mention or sanction of female (or male) circumcision in the Quran. Early sources attest that Muslims adopted male circumcision in keeping with the covenant made with the common progenitor of the Semitic monotheisms, Abraham. Not surprisingly, he is also made the source of female circumcision in Muslim traditional literature. Taken by Muslims to be the first monotheist, Abraham is the husband of Sarah who cannot bear children; with Sarah’s permission he has a child, named Ishmael, by Sarah’s handmaiden Hagar. Ibn Kathir, a 14th-century historian and Quranic commentator, mentions that Hagar grew haughty with Sarah, which provoked Sarah to vow to cut ‘three limbs’ off Hagar. Thereupon, Abraham ordered Hagar to pierce her ears and circumcise herself.⁶ But there is no record of such attribution in the highly regarded hadith collection of Bukhari.⁷

The practice is unknown in Central and South Asia where large numbers of Muslims live, many with histories going back to Islam’s earliest centuries; it is also entirely alien to many parts of the Middle East. Yet a series of classical Muslim legal works came to treat circumcision, male and female, as standard. For the Shafii school of law, which predominates in Egypt and Sudan, this generally entailed an obligation; for the Hanbali, Hanafi, Maliki and Jafari schools,

⁶ Barbara Freyer Stowasser, *Women in the Qur’an, Traditions, and Interpretation* (New York, 1994), p.47.

⁷ See Noor Kassamali, ‘When Modernity Confronts Traditional Practices’, in H.L. Bodman and N. Tohidi, eds, *Women in Muslim Societies: Diversity Within Unity* (Boulder, CO and London, 1998), p.44.

markedly less so.⁸ Why was male circumcision extended to include female circumcision, a pre-Islamic practice from outside the heartland, in Islamic religious prescriptions? When in 1994 social activists in Egypt sought to outlaw the practice, a senior Muslim legal scholar declared that the hadith accounts of female genital mutilation were of unsound provenance, and there was no basis for the practice in Islam. But the then head of Cairo's Al-Azhar, the premier training ground for Sunni *ulama*, claimed that 'female circumcision is a part of the legal body of Islam and is a laudable practice that does honour to the women.'⁹ Finally in 2008, with the endorsement of another senior cleric, Grand Mufti Ali Gomaa, Egypt declared the practice forbidden by Islam and also a threat to public health. Marie Assad notes that some Islamic jurists still approve of female circumcision not only as a tradition endorsed by the Prophet, but also for 'its effect on attenuating the sexual desire of women and directing it to the desirable moderation.'¹⁰

The sociological evidence is that FGM is a feature mainly of regions that include Egyptian Copts, Jews and Muslims, parts of the Near East, down to eastern Africa in Somalia, Kenya and Uganda, and also Southeast Asia. It predates the advent of Islam in Africa by at least a millennium, for it is known from Pharaonic times. In its most extreme form, it involves infibulation that excises the clitoris and the labia, as well as vaginal narrowing; this makes coitus, childbearing and urination painful and difficult. The reasons for the practice have also been explored. 'Honour' in patrilineal societies is thought to be at stake in reducing female libido, with genital discomfort discouraging women from taking extramarital partners. Often it is an essential rite of passage to

⁸ Nuh Keller, ed. and tr., *Reliance of the Traveller: A Classic Manual of Islamic Sacred Law* (Beltsville, MD, 1999); E.K. Hicks, *Infibulation: Female Mutilation in Islamic Northeastern Africa* (New Brunswick, NJ, 1996); W. Walther, *Women in Islam: From Medieval to Modern Times* (Princeton, NJ, 1993)

⁹ Quoted in Kassamali, 'When Modernity Confronts Traditional Practices', p.43.

¹⁰ Marie B. Assad, 'Female Circumcision in Egypt: Social Implications, Current Research, and Prospects for Change,' in *Studies in Family Planning*, 11 (1980), pp.3–16.

adulthood, which may explain why the negative health and sexual effects are overlooked.

Grass roots organisations use educational strategies to raise awareness of the health risks at stake, and to address the larger issues of women's poverty and status in social settings where group membership involves male views of honour and shame. Kurdish activists in Iraq have mobilised *ulama* and politicians alike to have the practice outlawed. In Somalia, the campaign against FGM announces that the practice is 'not healthy, not clean, not Islamic, and [does] not even guarantee virginity'. Meanwhile, migrant communities from Somalia and other parts of eastern Africa have found themselves caught on both sides of the divide.

From Canada and the United States to Italy, thousands have been known to continue the practice, sometimes defended as a 'cultural right'. Activist organisations and clerics from the same communities have worked in solidarity with mainstream human rights groups against FGM. Doctors from within and outside the communities are reluctant to be involved. The result is an underground market of exploitation and severe physical and psychological health risks.¹¹ Criminalising the practice has proven less than satisfactory, when not supported by wider networks of resources for vulnerable migrant families and communities. What is least helpful is the portrayal of FGM as somehow pointing up the backwardness of Islamic cultures. Aside from being wrong-headed, such an approach sparks a defensive denial on the other side and makes the work of reformers more difficult.

Honour Killings

Another issue that is closely bound to patriarchal control and 'tradition' is that of honour killings, notably in the Middle and

¹¹ See P. Gallo, L. Araldi, F. Viviani, and R. Gaddini, 'Epidemiological, Medical, Legal, and Psychological Aspects of Mutilation/At-Risk Girls in Italy: A Bioethical Focus', in G.C. Denniston et al., eds, *Male and Female Circumcision: Medical, Legal, and Ethical Considerations in Pediatric Practice* (New York, 1999), p.242.

Near East and South Asia. Diaspora communities in Europe and North America have also experienced numerous such killings. In the particular context of South Asia, the practice is reminiscent of Indian 'dowry-burnings', as both tend to be cast as 'kitchen accidents' where the victim is severely burnt with kerosene, or disfigured with acid. A painful death is often the result. Hard data on the incidence of honour killings is lacking, but a conservative United Nations estimate put the global figure at 5000 such crimes each year.¹²

Typically, a woman is killed by her in-laws or by her own family on the basis of allegations about an extramarital relationship seen as bringing shame on the family's honour. The decision is made by the family or in some cases by a tribal council (*jirga*). It is usually males who do the killing; but as with genital cutting, women themselves play a role in the process, sometimes directly in the burning or disfiguring of 'dishonourable' women. Law enforcement and judicial authorities treat the crime lightly, with the perpetrator(s) facing a minimal sentence or none; the matter may also be treated as 'domestic violence' rather than as murder.

Explanations for such crimes generally focus on patriarchal ideas of familial status, with women being regarded as bearers of honour. Economic deprivation can add to the 'competition' among male members of the community to preserve such honour. There can be other mundane motives, too. The victim's removal can allow another marriage to take place that will bring further bride-wealth. As well, the use of women to settle scores with other men is a feature of such killings.¹³ In this form of vigilante or tribal justice, the sharia-related norm of bringing forward four witnesses who can testify to the woman's sexual misdemeanour in court is rarely observed.

¹² UN Commission on Human Rights, *Report of the Special Rapporteur, Ms. Asma Jahangir: Submitted Pursuant to Commission on Human Rights Resolution 1999/35 (E/CN.4/2000/3)* (New York, 2000).

¹³ Amnesty International (London), 'Pakistan: Honour Killing of Women and Girls' (1999), accessible at: <http://web.amnesty.org/library/Index/engASA330181999>.

Once again, nothing in the verses of the Quran lends the slightest support to such behavioural choices. On the contrary, the text strongly upholds the sanctity of life, the honour of women, and integrity in delivering justice. Yet there can be no denying perceptions among communities where honour killings are practised that they are consistent with 'religious' traditions. Even in the diaspora context, a 2006 poll of 500 British Muslims, Hindus, Christians and Sikhs revealed that 10 per cent of respondents would expressly condone the killing of a relative to protect family honour.¹⁴ Legal, political and religious institutions in Muslim societies (and beyond) have long failed to effectively counter the practice, despite the strenuous efforts of human rights and women's advocacy groups.¹⁵

In her efforts to address the complexity of honour killings, Riffat Hassan has created the International Network for the Victims of Violence in Pakistan (INRFVVP) to raise awareness of violence against women and raise funds for burn units, health care, medicine for burn victims, and shelters for survivors of attempted honour killings. She worked to convince Pakistan's former president, Pervez Musharraf, that honour killings should be criminalised and dealt with appropriately by the justice system. Musharraf called for a review of the Hudood Ordinances, and in 2005 saw through a change to criminalise the practice (but without removing the customary option of 'blood money' that can allow perpetrators to go unpunished).¹⁶

Such legislative reforms are certainly vital in reorienting how justice systems deal with honour crimes, especially in the Middle East. Yet far more is required for a significant shift in social behaviour, given the cultural legitimacy that the practice enjoys. Amina

¹⁴ BBC Asian service poll, cited in Joan Smith's introduction to Ayse Onal, *Honour Killing* (Beirut and London, 2008), p.11.

¹⁵ See Onal, *Honour Killing*, on attitudes across a broad spectrum of systems; and Tracy McVeigh, 'Ending the silence on "honour killing"', *The Observer*, 25 October 2009: <http://www.guardian.co.uk/society/2009/oct/25/honour-killings-victims-domestic-violence>.

¹⁶ Owais Tohid, 'Pakistan outlaws "honor" killings', *Christian Science Monitor*, 25 January 2005: <http://www.csmonitor.com/2005/0120/p06s01-wosc.html>.

Wadud and Asma Barlas, for example, have drawn attention to popular as well as scholarly readings of Quranic verses as sanctioning men's superiority over women, or the claim that women should be obedient to men, as feeding old patriarchal attitudes about the permissibility of 'keeping women in line'. Khalid Abou El Fadl suggests that purported hadith narratives which demean women need scrutiny:

If one adopts the faith-based conviction that the Prophet was not sent by God to affirm and legitimate conservative and oppressive power structures, traditions that affirm the hegemony of patriarchy would have to pass the strictest level of scrutiny. However, applying this level of scrutiny to these traditions would reveal that there were too many patriarchal vested interests circulating, advocating, and embellishing these types of [hadith] reports.¹⁷

Recent trends in Islamisation, noted earlier, tend to reinforce traditionalist views about the place of women that can legitimise violence against them in assorted settings. Often such trends respond to the perceived need to resist the influence of western cultural models, by holding on to or retrieving 'authentic' identities and practices. Examples include the adoption of stricter dress codes, bans on the sale of alcohol, the use of religious spaces to advance militant ideologies, and restrictions on the public role of women. The economic and social effects of globalisation only compound the situation, and not in Muslim settings alone. True, women have greater participatory opportunities in a globalised public sphere; but they have borne the brunt of the exclusionary impact of rapid transitions, with the 'feminisation of poverty' and of direct contestation with men. Nativist responses to globalisation, in the form of nationalism, fundamentalism and other expressions of local identity, too often reinforce patriarchy instead of challenging it in the shared quest for civil society.

¹⁷ Khalid Abou El Fadl, *Speaking in God's Name: Islamic Law, Authority and Women* (Oxford, 2003), pp.246–7.

Conclusion: An Ethical Reflection

A positive outcome of the privations caused by the impact of globalisation is the emergence of feminist or women's organisations that are transnational in their concerns and strategies. Their agendas cover issues ranging from social violence and maternal-child health to education, poverty and the environment. Such organisations also critique the patriarchy of nationalistic and religious ideologies, whether on the part of the state or otherwise. Equitable access to justice as well as equity under the law are among the most serious obstacles, for they affect how women fare on matters such as rape, honour crimes, divorce, child custody and inheritance. Beyond calls for legal reform, a number of approaches have been advocated that aim to shift the ethical terms of the discourse and the practical ways in which the problems are addressed.

Muslim feminists in Iran have been at the forefront of taking on the task of re-reading the Quran and the hadith against patriarchal interpretations. In many cases, they have promoted a 'parallel universe' in which women can play a fully active role in banking, the civil service, educational institutions (including seminaries), health care, publishing, sports and even the cinema. Legal reform is high on their agenda, but in the meantime, a gender-segregated life with strict dress codes and other constraints is regarded as at the very least superior to one of public exclusion.

What they share with Muslim gender activists in less traditional settings – such as Laleh Bakhtiar, Asma Barlas, Zainab al-Ghazzali, Azizah al-Hibri, Fatima Mernissi, Asifa Qureishi and Amina Wadud – is a commitment to re-reading the scripture and hadith which they see as richly supportive of their emancipatory aims. For them, this is not merely a strategy for social and legal reform but an essential part of their identity as 'believing women' (a popular phrase which echoes sura 33:35). Riffat Hassan, whose work on honour crimes in Pakistan was noted, sees engagement with theology as a promising route to reshaping the law. Hassan derives a specific list of rights from the Quran, in parallel with the secular 1948 Universal Declaration of Human Rights. These include the rights to life, freedom (including to 'responsible dissent'), privacy,

sustenance and mobility, but also a compound right to live a 'good life' that protects human developmental and spiritual choices.

Others such as Maha Azzam, Asma Jahangir and Mehrangiz Kar have drawn on more secular tools for reform, though the issues they face as women are very similar. Often it is the particular setting that determines what strategies are adopted; some stay away from theological matters because they can be divisive or bring unwelcome attention (including in western contexts). It is not unusual in practice for women activists to straddle the secular-religious divide. The Iranian Nobel laureate Shirin Ebadi, for example, is a human rights lawyer and former judge who freely professes her faith in a liberating Islam.

'Islam's ethical vision is stubbornly egalitarian, including with respect to the sexes', notes Leila Ahmed; what Islam says about women is 'embedded in and framed by the new ethical and spiritual field of meaning that the religion had come into existence to articulate.'¹⁸ In sum, ethical resources that range from scriptural texts to networks of solidarity offer a potent critique of prevailing social practices that erode the dignity of women. These resources can also bridge the divide of 'religious' and 'secular' in dealing with social practices. The evidence suggests that economic, cultural and ideological factors have much to do with society's failures in diverse settings. Ethical traditions can summon social legitimacy in ways that are unique, in reshaping the secular and religious landscape that is shared by communities of women and men.

Further Reading

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¹⁸ Ahmed, *Women and Gender in Islam*, p.63.

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Economy

Rodney J. Wilson

Being Muslim implies concern with the ethics of social justice. This extends as fully to economic relations as to all other aspects of one's life. Ethical concern here springs from the very basic principles of Islam, such as the giving of alms (*zakat*) and the prohibition of usury (*riba*), as essentials of a just economic order. It applies no less to contemporary concerns about poverty and sustainable development. What Muslims call *fiqh muamalat* or civil jurisprudence has much to say about the propriety of one's behaviour in economic relations. This chapter is a reflection on the development of that rich tradition and some of its key implications for our time.

We will begin with an Islamic perspective on the nature of economic cycles and their impact on human conduct. The great Muslim philosopher of history, Ibn Khaldun (1332–1406), offered a moral theory of the rise and decline of economies, where decline was ascribed to greed and corruption resulting in social breakdown. Islam as a religion stresses social responsibility, which is in danger of being neglected at the peak of economic cycles. Peaks are often accompanied by individual excesses and government complacency, for it is wrongly assumed that the boom will continue. History, noted Ibn Khaldun, teaches otherwise; yet its lessons are too often ignored.

Indeed, many today assume that economic downturns will be followed by upswings that will leave most people better off than they were before the decline. However, the notion of continuous

material development dates back just over 200 years to the era of Adam Smith (1723–90) and the origins of classical economics. In terms of material wealth, the majority of Muslim societies may rank as poor, but using other measures of development, especially those based on social capital, the picture becomes more complex. What are the objectives of economic development from an Islamic perspective – and does economic prosperity facilitate or distract from spiritual fulfilment?

We will inquire as well into Islamic guidance on economic policy, which involves decisions on taxation and public spending. Should tax systems be redistributive and aim at a more equitable distribution of income and wealth, or should the priority be low taxation to reduce economic costs and free individuals to make their own choices on resource allocation? Islam has its own traditional system for redistribution through *zakat*, one of the pillars of the faith; is this a substitute for or an addition to state taxation and compulsory social insurance contributions? There is also the provision of *waqf*, charitable trusts, the income from which is assigned to social welfare spending. A wider issue is whether religiously motivated charitable donations ameliorate the hardships of the poor or, like many secular welfare systems, simply create a culture of dependency.

‘Islamic finance’ has become the area of greatest interest to Muslim economists who ask how the principles of their faith may be applied to commercial transactions. To what extent is Islamic finance ethical? A key concern is to ensure financial contracts are just, so that none of the parties are exploited. Interest or *riba* is regarded as exploitative, as is *gharar* or contractual uncertainty. *Gharar* may cause misunderstandings for clients that could be taken advantage of by financial institutions. Islamic finance is not only concerned with the methods of financing, but also with how money is used. Finally, we will consider the parallels and differences between Islamic (or ‘sharia compliant’) and secular ‘socially responsible’ finance, with regard to a variety of choices in economic behaviour.

Cycles of Economic Life

There have always been ups and downs in economic activity that imply uncertainty, which for many will result in loss of income and employment. There are ethical and moral issues with such cycles, not least because the gains and losses vary considerably within most societies. A privileged minority tends to enjoy the greatest gains during upswings, while the poor and those in marginal employment suffer most in the downswings. Economic cycles are a human phenomenon. They are not inherently bad, though they can be associated with exploitative behaviour, with opportunists gaining most during periods of growth, and perhaps being more adept at protecting themselves during contractions.

Economists and economic historians have proposed many theories to explain these cycles: a common idea is that a failure to control the supply of money can result in price bubbles which ultimately burst. Such explanations are morally neutral. Ibn Khaldun, writing in the late 14th century, proposed a theory of the economic cycle in which moral standards in society were not merely influenced by the phases of the cycle, but were in fact the cause.¹ For Ibn Khaldun, credit or blame for events was attributable to the ruler or government, as those in charge were finally accountable to God for their acts. A just government must seek to establish stability in which commerce would prosper and artisans might specialise and embark on long-term projects, without the risk of not being paid for their labour.

Ibn Khaldun lived in an era when most governments were autocratic, with much power residing with the ruler, though this did not preclude rulers from being benign. Indeed, a just and God-fearing ruler might set an example to the people and encourage society to be peaceful and productive. But as material output rose, the temptation to be corrupt could also grow, undermining the spiritual virtues of the society. Ibn Khaldun was especially critical of rulers and governments that sought profit at public expense

¹ Ahmed El-Ashker and Rodney Wilson, *Islamic Economics: A Short History* (Leiden, 2006), pp.275–83.

– for example, by paying private agricultural suppliers as little as possible, then selling the goods with a high mark-up. It was unjust for governments to abuse their command status to exploit their populations, and indeed Ibn Khaldun sees this as one of the causes of economic recessions, which ultimately can undermine the greatest empires and cause their eventual demise.

These writings are vital in understanding how Muslims came to view market economies and the role of the state. Markets are seen as natural venues for commercial transactions, places where buyers and sellers interact, and social and economic bonds are formed. Most of the great centres of Muslim civilisation, including Mecca, Medina, Damascus, Cairo, Istanbul and Isfahan, owed their existence to trade, which was celebrated rather than seen as a source of conflict and division. However, Ibn Khaldun recognised that markets could not be entirely left to run themselves: a kind of trading standards authority or *hisba* had to ensure that market participants did not exploit each other. There are numerous writings on the functions and role of the *hisba*, most notably by Ibn Taymiyya, a 14th-century scholar who greatly influenced Ibn Khaldun. The state oversees the *hisba*, with a state official, the *muhtasib*, responsible for ensuring that the market functions fairly and efficiently. The *muhtasib* is like a regulator, though in dealing with complaints and disputes among traders, he is also like a modern ombudsman.

Economic cycles should be viewed not as a problem to be overcome, but as an ordinary aspect of human interaction and need. The growth phase of a cycle, often triggered by a technological innovation, is linked to work, energy and increasing material achievement. Then, society may suffer from exhaustion and need time to contemplate what direction it should take. For Muslim thinkers the effort of *ijtihad* was needed, to work out how moral teaching could be adapted to new circumstances. This effort may lag behind material developments and new forms of human activity; the innovations themselves, such as new methods of financing or biomedical breakthroughs, might need time to be evaluated from a sharia perspective.

Traditionally, openness to trade is favoured over what we would

now call protectionism. The great Muslim civilisations always traded extensively with predominantly non-Muslim economies such as those of China and Europe. Today, the Organisation of the Islamic Conference (OIC) would like to see more trade between Muslim countries, an aspiration also of its subsidiary, the Turkish-based Standing Committee for Economic and Commercial Cooperation (COMCEC). At the same time, the future direction of trade is likely to favour commerce with China and India, two largely non-Muslim countries, though with large Muslim minorities.

Development and Ethics

Most countries with Muslim-majority populations are ranked as developing nations, on the basis of material indicators such as gross domestic product (GDP) per capita, level of industrialisation, and use of cars and telephones. On such measures, Muslim countries like Bangladesh fare badly, while others such as the oil-rich Gulf nations are among the most affluent in the world (though their GDP per capita varies enormously according to whether only local citizens are counted or the entire population, most of whom are migrant workers). Now the relationship between national economic wealth and political power and influence is important – and Islam is certainly respectful of human material endeavour. But to measure human development in terms only of these indicators is to leave out a whole dimension of public welfare and the social good.

Indicators such as the degree of literacy and the general level of education add usefully to the picture. Traditionally, Muslim societies gave high priority to learning, religious and secular, with *madrassas* attached to mosques as the key institutions. During the 20th century, there was a huge expansion in state education in most Muslim countries resulting in virtually universal primary education and high levels of literacy and numeracy. Primary school completion rates reached 99 per cent in 2007 in Indonesia, the world's most populous Muslim country, while the comparable figures were 98 per cent for Egypt, 96 per cent for Turkey and

93 per cent for Saudi Arabia, with virtually no gender gap remaining.² A majority also benefited from secondary education, and university education became accessible to many. Most contemporary Muslim societies recognise the empowering effect of education, with higher education viewed as a way of ensuring that there will be better-informed citizens. Yet academic standards vary considerably, as do literacy levels and gender equity in access to learning, and there is a significant lag overall vis-à-vis western standards.³

Measures of life satisfaction and ecological wellbeing figure prominently on the London-based New Economic Foundation's 'Happy Planet Index' (HPI).⁴ Here, predominantly Muslim societies (along with Latin American ones) rank far higher than most western 'developed' economies: Egypt is ranked 12th in the world, Saudi Arabia 13th with an extremely high life satisfaction score, and Indonesia 16th. In contrast the United Kingdom ranks 74th and the United States 114th on the HPI, reflecting not only heavy carbon footprints but also low life satisfaction scores. There are fewer family breakdowns in most Muslim societies, and high levels of social capital which in many poorer countries tends to compensate for the lack of physical capital. Whether social capital and harmony can be preserved as societies become more affluent is an open question.

There has been much interest among economists searching for 'Islamic solutions' to the problems of poverty and economic disempowerment. Ways to effective solidarity are sought as a practical expression of the concept of *tawhid* (unity under the one and only God).⁵ In Islam there is no virtue in poverty and no equivalent

² World Bank, *World Development Indicators Database* (Washington, DC, April 2009).

³ Anil Khamis, 'Cultures of Learning', in Aryn B. Sajoo, ed. *A Companion to the Muslim World* (London, 2009), pp.237–62.

⁴ The HPI is sponsored by the New Economic Foundation (London): <http://www.happyplanetindex.org/>.

⁵ See M. Umer Chapra, *Islam and the Economic Challenge* (Leicester, UK, 1992), pp.199–212.

to the monks in Buddhism or Christianity, who not only forgo material aspirations for a life of prayer but also expect to be supported materially by fellow believers who work and earn income. Opting out of worldly pursuits is seen as trying to escape reality; believers must contribute to society through their capacity to work, which after all is an endowment of their Creator.

These premises also apply to the nation state or the Muslim community within a state. Although the ultimate purpose of life is to serve the Almighty, not personal and social material enrichment, successful Muslim states that have advanced economically are seen as better role models. During the early centuries of Islam, when this new religion spread rapidly from its Arabian heartland as far as the Atlantic and Central Asia, the adoption of Islam was associated with increasing commerce as barriers to trade and movements of people in the new territories were reduced or eliminated and converts enjoyed prosperity. Merchants played an important role in the spread of Islam to South Asia and across the Indian Ocean to Malaysia and Indonesia. This was not surprising given that Mecca and Medina themselves were significant trading centres, and that in the Quran the virtues of honest trade are stressed and contrasted with the evils of usury which is viewed as exploitative.

The stress on the benefits of trade in Islamic economic literature has parallels in the work of Adam Smith, for whom free trade was an engine that drove the wealth of nations. Smith saw little need for intervention in markets, as the rationalising 'invisible hand' would ensure efficient outcomes.⁶ Muslim writers have been concerned not only with efficiency but also justice, much like today's advocates of fair trade. Farmers, labourers and consumers deserve a fair price and should not be exploited. Traditionally, as noted, this was the responsibility of the *hisba*. Its mandate was comprehensive, including selling practices, with a prohibition on

⁶ Smith does lay stress on the ethical side of market behaviour in *The Theory of the Moral Sentiments* (1759), which is tied to 'sympathy' that is innate to human nature. But he was confident that this too would ultimately be rationalised by the market's 'invisible hand', which would produce benevolent social organisation.

monopoly behaviour that could result in consumers being taken advantage of. Weights and measures were inspected for accuracy; food safety and hygiene were to be ensured. As such, there were obvious parallels with trading standards authorities today.

Despite the historical emphasis on the importance of trade in Muslim economic thought, contemporary Muslim states do not rank highly in the World Economic Forum's competitiveness index. This is largely based on measures of economic openness that are viewed as essential for market efficiency and economic growth. Qatar emerges as the most competitive Muslim state, ranked 22nd overall, with the United Arab Emirates 23rd, Malaysia 26th and Saudi Arabia 28th – but Egypt finishes 70th, Algeria 83rd, Syria 94th and Pakistan 101st. Factors affecting performance include the efficiency of markets for labour and goods, with favourable ratings for the speed with which businesses can be started, lack of bureaucratic procedures and low tariffs and ease of trade. In many Muslim countries, the inefficient bureaucracy is a legacy of post-colonial nationalist or socialist policies that were unrelated to Muslim traditions which favoured trade and open economy policies long before European colonialists entered the picture.

Again, the World Economic Forum's rankings reflect the material priorities of political economy, not ethical considerations. This is less the case when it comes to perceptions of corruption as indexed by Transparency International, which samples the number of times bribes are required to facilitate business transactions, licences or planning approvals. Qatar emerged as the least corrupt Muslim country and in 2008 ranked 28th globally, while the UAE was ranked 35th. Egypt was ranked 115th, Sudan 173rd, Afghanistan 176th and Somalia 180th. Islamic teaching, of course, abhors corruption and lauds honesty and morality in commerce. Bribery is singled out for particular condemnation and contrasted with reward for honest work. Not surprisingly, one of the appeals of Islamist political parties is the perceived honesty of their members despite living in societies where corruption is rampant. As with other states, there seems to be an inverse relationship between the degree of corruption and the level of development of Muslim countries, which may be because a high level of

corruption impedes progress. The notion that material advance encourages corruption is not borne out by the data on Muslim states; the most developed are the least corrupt.

Countries which are more developed have the power to influence the global political agenda. Throughout the 20th century it was largely non-Muslim states that were in the ascendancy and determined the international agenda, but with the defeat of Fascism in the Second World War, the collapse of the Soviet Union, and the limitations of the subsequent global hegemony of the United States increasingly apparent, economic and political power is becoming more diffuse. In particular, the group of 20 industrialised nations (G20) which accounts for 80 per cent of global economic activity has become the major forum for international economic decision-making, including over development issues. Three Muslim countries are represented on the G20 – Saudi Arabia, Turkey and Indonesia – the first time Muslim states have had a say over the direction of international economic policy since the demise of the Ottoman Empire. Although so far these three Muslim states have not advocated an ‘Islamic’ economic agenda, they can represent the interests of Muslim banks and other sharia-compliant institutions in the debates on global economic reform.

The presence of those three nations in the G20 will also raise awareness of global issues in the Muslim world, which may result in a widened agenda for *ijtihad*, the process of dynamically applying sharia principles to changing circumstances. Muslim economists have been giving much attention to the analysis of the global financial crisis of 2008, and its implications for sharia-sensitive finance. At the same time, there is growing concern within the G20 and other global forums about the issue of climate change and what it could imply for economic and social wellbeing. Clearly, Muslim societies share with all others in the stakes with regard to the ethical handling of resources, both ecological and economic.

Practice

On matters of economic policy such as the role of the state and the nature of taxation (fiscal policy), opinion varies widely among

Muslim writers and activists as to what is ethically appropriate. But there is wide agreement that equity in the distribution of income and wealth as well as in access to resources is a moral imperative.⁷ Equitable distribution does not mean equal distribution, which would be inefficient and detrimental to the interests of society, as the ability to manage assets varies according to one's intellect, knowledge and integrity. Those with control over more resources have greater accountability to their Creator; equity is defined in terms of the balance between rights and duties. This means ensuring that resources are used not only for personal consumption and gratification but for the benefit of the wider community. Yet consumers need not feel guilty about their possessions or lifestyle – as long as they are not the fruit of exploitation. Rather, this is viewed as part of the bounty of the Creator for which one should be properly grateful. Serving the needs of others is one way of expressing that gratitude (though one is encouraged to do this as a basic aspect of membership in the umma or civic community).

Traditionally, there were four major forms of taxation levied in Muslim societies: *kharaj* or land taxation, *jizya* or head tax, *fai* or levy on war booty, and *zakat*, a form of wealth tax. Land taxation has obviously been vital in rural societies where it can provide an incentive for agricultural production; if land is left fallow, the owner incurs the same tax liability as the more productive farmer. There is also an equitable and redistributive aspect to *kharaj*, as those owning more land will pay more. Applying *jizya* may be more controversial from an ethical perspective, as a head tax where everyone pays the same amount is arguably regressive and inequitable. The rationale is that if everyone benefits from the resultant spending, as with street lighting for example, then this demands an equal contribution. However, the poor are usually exempted from *jizya*, as are women and children.

The idea of individuals gaining from the booty of war is repugnant in most modern societies, but in traditional societies this

⁷ Syed Nawab Haider Naqvi, *Perspectives on Morality and Human Well-Being: A Contribution to Islamic Economics* (Leicester, UK, 2003), pp.143–83.

was regarded as quite normal. The application of *fai* in Islamic societies served to reduce individual gains, and meant that a proportion of the booty would accrue to the state, which would be appropriate if the war served a just cause.

The role of *zakat*

While none of the other traditional taxes is applied in contemporary Muslim societies, *zakat* remains vital in Islam, an obligation for all the faithful. *Zakat* is generally an annual levy, in the amount of one-fortieth of the value of assets of each Muslim. Since the purpose is entirely one of wealth-sharing and charity, it should arguably be classified not as a tax but rather as alms-giving, which benefits not only the recipient but also the donor as wealth is purified through such giving.

There is much debate over which assets are liable for *zakat*, how it should be collected, the use of the proceeds and whether it should be a substitute for secular taxes such as income or value added tax.⁸ Usually *zakat* is regarded as applying to financial assets such as funds in bank accounts and securities such as bonds or their Islamic equivalent, *sukuk*. *Zakat* is not levied on owner-occupied property; whether it should be applied to private rented property or commercial real estate can be debated. If immovable property and equity investment are exempt from *zakat*, this may encourage holdings of these types of assets and discourage excessive monetary holdings in bank accounts and debt instruments.

A government ministry is responsible for *zakat* collection and disbursement in most Muslim countries. In Saudi Arabia, for example, there is a Department of Zakat and Income Tax, and in Indonesia, where *zakat* collection used to be decentralised, there is now a national *zakat* agency.⁹ In the United Arab Emirates, a state Zakat Fund was established in 2003 as an independent agency

⁸ Timur Kuran, *Islam and Mammon: The Economic Predicaments of Islamism* (Princeton, NJ, 2004), p.105.

⁹ Arskal Salim, *The Shift in Zakat Practice in Indonesia: From Piety to a Socio-Political-Economic System* (Bangkok, 2008), pp.17–60.

from the Ministry of Justice, Islamic Affairs and Endowments. A similar position exists in Malaysia where a Zakat Collection Centre was established in 1991, and in Pakistan where the Ministry of Religious Affairs has exercised responsibility for the organisation of *zakat* collection and distribution since independence. In the United Kingdom there is no state involvement in *zakat* collection but there are several voluntary agencies administering *zakat* as registered charities. These include Jamiat Ihyaa Minhaaj Al Sunnah (JIMAS), or the Association to Revive the Way of the Messenger, and the Malay Community Association of the United Kingdom. The Zakat Foundation of America has played a similar role in the US since 2001. All these organisations have websites.

Is *zakat* collection and disbursement better undertaken by the state or voluntary organisations? Where the ministries or agencies of national governments are honestly run and maintain proper records, preferably independently audited, there is a strong case for them being involved in *zakat* administration. Democratic legitimacy is not necessarily a prerequisite, but transparency and good governance of *zakat* funds are essential, as is effective management. Where voluntary organisations are involved, it seems preferable for them to be registered charities rather than profit-making commercial organisations. Where professional asset management is required, this can be outsourced to financial institutions – but the charities should maintain overall control and responsibility to *zakat* payers. In most jurisdictions, registered charities must submit annual independently-audited accounts to a state regulator as a condition for taxation benefits.

Zakat revenue must be used for social expenditure for the benefit of the poor and needy; it cannot be used for general government spending on investments in infrastructure or defence. Defining who qualifies as poor and needy is a debatable issue, as poverty is relative: a poor person in the UAE or Qatar may have a much higher income than a poor person in Afghanistan or Bangladesh. There is also the issue in countries with large expatriate populations, such as those in the Gulf, of whether *zakat* should be disbursed only to local nationals or to foreign workers who are generally poorer. In the UAE, the needy are defined as those with

little income: orphans, widows, divorcees, the elderly, those who are ill or incapacitated, students, the unemployed, and families of prisoners and missing people. Inevitably, similar questions arise with *zakat* disbursements as with other social security spending. For instance, should it be used to support broken families who may have some responsibility for their own predicament, and might this produce a dependency culture?

Organisations such as JIMAS confine *zakat* disbursements to within the United Kingdom, though they also assist asylum seekers who have already arrived, as well as Muslim students having problems in paying tuition fees. The Zakat Foundation of America focuses on emergency relief as well as long-term sustainable development through the funding of water wells, education and skill training, access to health care and microfinance for those who cannot obtain bank funding for lack of collateral assets or a regular income.

As *zakat* is fixed, it cannot be used as a tool of fiscal policy (like taxes on spending or income, which can be raised or lowered in response to varying economic circumstances). *Zakat* revenue rises in a boom and falls in a recession, though it is during recessionary times that more *zakat* disbursement may be required. This highlights the need to maintain reserves in *zakat* funds rather than simply balancing current receipts with current expenditure during a boom. *Zakat* funds should be cautiously handled and not fall into deficit, as payment for borrowing from financial institutions would not constitute a legitimate use of *zakat*.

Waqf charitable trusts

Another tradition with a strong ethical purpose is *waqf*, a charitable trust usually created through bequests in wills on death. Islam prescribes that inheritance be subject to a fair and equitable distribution that recognises the rights and obligations of each of the beneficiaries of an estate. Each beneficiary has discretion over how one-third of their estate may be distributed. It is usually from this portion that a *waqf* is established; but it can also be created through a lifetime donation. Once funds are designated for *waqf*, the donor

no longer has ownership over them. Commonly, a *waqf* is used to fund the building of mosques and *madrassas*, as well as public health care institutions.

A *waqf* is an endowment where the initial donation can generate income which can continue in perpetuity. Although a cash *waqf* may be set up which invests in ethical securities that yield dividends and capital gains, most *waqfs* involve real estate with rent as the major source of income. Where *waqfs* are situated in prime urban locations, some of the land may be occupied by a mosque while the remainder is leased for commercial or residential use. Often, property developers will pay a substantial sum to acquire a leasehold on such land, with the ensuing rental income shared with the *waqf*. Such arrangements unleash the income-generating potential of *waqfs* and increase the funds available for charitable causes.

As with *zakat* administration, there has been much debate over the governance of *waqfs*. Historically, most were private endowments linked to individuals or families. But in many countries, especially those with socialist policies in the post-colonial era, *waqfs* were taken under the control of the state and run by special ministries. Such policies were pursued in Egypt, Syria and Turkey. For example, recent Turkish law has allowed greater autonomy for *waqfs* and tax incentives for the foundation of new ones. Many Islamists resented the interference of the state in *waqf* affairs, though it should be noted that in Ottoman times a register was maintained of *waqf* property and state courts dealt with disputes. Indeed, many of today's debates echo those of previous centuries, as is shown by a detailed study of *waqfs* in Ottoman Algeria.¹⁰

Ethical Finance

Parallels are often drawn between 'Islamic' finance and 'socially responsible' investment practices. This has long applied to such services as mortgages and mutual funds, but in the wake of the

¹⁰ Miriam Hoxter, *Endowments, Rulers and Community: Waqf al-Haramayn in Ottoman Algiers* (Leiden, 1998).

financial crisis of 2008 there has been strong interest in alternatives to conventional banking at large. Could Islamic banks provide a model for a fairer and sounder type of financial institution to the benefit of both Muslims and non-Muslims?

A key contrast between Islamic and conventional banking is the traditional prohibition of *riba* or interest. For those who espouse Islamic finance, this tends to apply to all interest-based transactions. The rationale for the prohibition is essentially ethical: usury is exploitative for borrowers, and even where interest rates are more modest, the client must yield to the rate that the financial institution offers. Nor is the interest payment scheme related to the client's capacity; if he suffers a loss of income, there will be no respite from the interest payments and debt obligations. If rescheduling of a loan is allowed, this will usually entail higher interest payments, as the period of the debt will be lengthened.

Islamic finance is based on the principle of risk-sharing, in which the financial institution takes on a higher degree of risk to justify its return. For example, in financing trade, *murabaha* comes into play: the bank buys a commodity on behalf of a client before reselling it to the client at a profit which is disclosed. The profit is justified as the bank assumes ownership; if the goods are defective, the client could sue the bank for damages. With conventional trade finance, there is no such recourse; the client must bear the full risk of unsatisfactory goods. For longer-term finance, Islamic banks offer *ijara* contracts, based on operating leases over assets such as buildings or equipment. The bank is responsible for the insurance and at least partial maintenance. By comparison, in conventional practice such burdens are transferred to the lessee.

Risk-sharing is also a feature of Islamic insurance or *takaful*. Participants pool the risk by bearing each other's burden: donations to the *takaful* fund are socially rather than individually motivated. The monies are invested in a sharia-compliant manner that avoids any *riba*-related profit, and the interests of the management company are kept separate from those of the policy holders, who alone have a claim on the *takaful* fund. By contrast, in conven-

tional insurance the policy holder seeks to transfer the risk to the insurance company, since the motive is simply to protect oneself.¹¹

Islamic finance can also be used for microcredit, which involves funding for the poor who cannot offer collateral or qualify for bank loans for lack of a regular source of income. To safeguard the funds, microfinance relies on peer pressure among the recipients to repay their loans. Often microfinance is provided through credit unions, with participants encouraged to save and their modest savings used to fund co-participants in the scheme. The administrative cost of providing many small loans is high, so there is often a subsidy from aid agencies. For sharia-compliant microfinance institutions, the subsidy may come through *zakat* proceeds or *waqf* endowments, which can ensure sustainability; *riba* is not involved at any stage. The Grameen Bank in Bangladesh, through which the Nobel-laureate Muhammad Yunus pioneered modern microcredit (especially for poor women) in the mid-1970s, does involve *riba* in its funding.

By far the largest network for microcredit in the Muslim world is the Aga Khan Agency for Microfinance (AKAM), which serves both rural and urban communities in Central Asia, the Middle East and sub-Saharan Africa. As a non-profit and non-denominational initiative, AKAM is geared toward the most vulnerable members of society.¹²

Aside from the standard microcredit to individuals and groups for small to medium-sized enterprises, loans are offered for education and housing as well as for insurance to protect health, crops and other assets at risk. In Pakistan, AKAM recently partnered with national postal outlets (the largest public or private network

¹¹ See Rodney Wilson, 'Concerns and Misconceptions in the Provision of *takaful*', in Sohail Jaffar, ed., *Islamic Insurance: Trends, Opportunities and the Future of Takaful* (London, 2007), pp.72–85.

¹² The agency is part of the Aga Khan Development Network (AKDN), whose mandate is 'underpinned by the ethical principles of Islam – particularly consultation, solidarity with those less fortunate, self-reliance and human dignity'. See <http://www.akdn.org/akam.asp>.

in the country) to broaden its reach – which already included microinsurance for nearly 400,000 individuals among the poor in 2008.

Beyond microcredit, two traditional forms of financing have been revived in recent years, though the high risks for the financier have limited their popularity. *Mudaraba* involves a partnership in which one side contributes the effort and the other the funding, with profits divided according to an agreed percentage but losses borne by the financier alone. In practice, *mudaraba* has largely been applied to bank deposits, with the depositor being the financier. This enables depositors to earn a profit share rather than the interest which accrues on conventional savings, viewed as *riba*. As the profit is a reward for risk-taking it is regarded as ethical, unlike gains for simply hoarding funds in an account. The risk for the *mudaraba* depositor relates not only to the variable profit rate but also potentially to the loss of the funds deposited, since these cannot be guaranteed. Most banks reinvest some of the profits in reserve funds that can be used for contingencies, which helps protect the value of deposits.

Partnership is also involved in *musharaka*, where all the parties invest and share profits as well as losses in proportion to their investment. In other words, those contributing more capital have more assets at risk, but they also have a greater capacity to absorb losses. *Musharaka* often involves sharia-compliant investment companies rather than banks, as they are more lightly regulated than banks and can take on the risks which direct investment inevitably involves. *Musharaka* is particularly useful for injecting private equity capital into small or medium-sized family businesses to enable their expansion. The sharing of risk is regarded as preferable to taking on significant amounts of additional debt for unproven ventures with a limited track record.

‘Sharia-compliant’ and ‘socially responsible’ funds

While *musharaka* may be used for private equity investment, mutual funds are the usual vehicle for pious Muslim investors who wish to have exposure to the shares of quoted companies listed on stock

markets. Mutual funds were not a traditional vehicle for Islamic financing, but the general rule is that choices are permissible unless explicitly forbidden, and there is no prohibition on this method of financing. Indeed, as mutual funds involve sharing risks and rewards, they are arguably just from an Islamic perspective.

The advantage of investing through a fund from both an Islamic and general ethical stance is that the stock acquired can be screened. Portfolios only include companies which are identified as being engaged in *halal* activities, or in the case of ethical investments as being socially responsible.¹³ Usually for Islamic funds, screening methods are approved by a sharia board appointed for this purpose; ethical funds will have an independent body accountable to the investors. Islamic funds do not invest in companies involved in the production and distribution of alcohol, pork products or tobacco, nor in conventional banks involved in *riba* transactions. Ethical funds often use sustainability criteria and will not invest in companies which pollute heavily and contribute to global warming, or companies with suppliers that exploit low-cost labour or employ children who should be at school rather than engaged in sweatshop factories. Ultimately, what Islamic funds can and cannot invest in is determined by religious teaching, whereas the ecological or socially determined criteria used by ethical funds are an outcome of investors' consciences and preferences.

Islamic funds are also concerned with how the businesses are financed and the types of assets they hold. For example, it is recognised that most listed companies will have bank borrowings on which interest is payable; Islamic funds do not invest in heavily leveraged companies where the ratio of debt to asset value exceeds one-third. Companies earning more than five per cent of their income from interest on treasury holdings are also excluded from sharia-compliant investment portfolios.

¹³ See Rodney Wilson, 'Screening Criteria for Islamic Equity Funds', in Sohail Jaffer, ed., *Islamic Asset Management: Forming the Future for Sharia-Compliant Investment Strategies* (London, 2004), pp.35–45.

Ethical funds do not use financial screening criteria, but they do apply other positive and negative screens. For example, sustainable energy sources such as wind farms or solar panels are viewed as desirable types of business from an ecological perspective. It has been suggested that Islamic funds should invest in companies that create employment in the Muslim world where unemployment and poverty are major issues, in contrast to the preference today for investments in developed economies.

Conclusion

During the last half century there has been mounting interest in the ethics of economic choices, which has intensified in the aftermath of the 2008 global financial crisis. This coincides with the 'rediscovery' of traditional teachings in the Muslim world on economic behaviour, and the efforts of scholars to apply this through *ijtihad* to modern banking and financial activity. From Malaysia and Indonesia to the European diaspora and the Middle East, economists and finance specialists are as engaged with religious scholars as with the latest global trends in seeking effective ways of putting principles into practice.

As well, there is a strong interest in altruism in economic behaviour, in the wider context of proper motivation for economic choices. Those involved in 'socially responsible' and Islamic finance have much to learn from one another. Again, when it comes to social as well as economic development – notably with respect to poverty alleviation and equitable distribution, environmental sustainability and the fair flow of trade – secular and religious ethics share a robust concern. A convergence in this regard is already evident in the work of many Muslim organisations and activists who recognise the inescapably global nature of economic life.

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