

CHAPTER 23

Poverty alleviation and Islamic finance

23.1 Introduction

Human quest knows no bounds. Collectively speaking, man has both curiosity and considerable ability or potential to identify and solve problems. The mountains conquered, the depth of oceans dove into, the unknown universe explored, speak volumes about human potential and spirit. This world that we know seems to be human-centred in the sense that the human reigns supreme over all other fellow creations. One would have expected that in this human-centred story, human dignity would also reign supreme. Unfortunately, that is not the case when one takes into consideration, for example, the challenge of poverty, deprivation and suffering. Our sensitivity seems to fade into a black hole and our quest for solving problems reaches a miserable dead-end when it comes to poverty.

Modern economies have experienced unprecedented growth and prosperity, enabling a large majority of their societies to rise above poverty.¹ The economics of wealth accumulation seems to have steadily unfolded offering better standards of living to the majority of those living in the developed part of the world. While poverty is a common story transcending religion, the chapter will particularly focus on the experience of the Muslim world, especially in the context of Islamic finance.

23.2 The emergence of Islamic economics and finance

As part of the revivalist ethos, there were movements in the Muslim world that aspired to reshape the whole society on the foundation of Islam as a complete code of life. The rise of Islamic economics was part of that revivalist aspiration of the twentieth century and came

with the promise to transform, at least, the Muslim world. Since the Muslim world constitutes a significant share of global poverty, the emergence of Islamic economics and finance was expected to make a fundamental and substantive difference to some of the deep-rooted and pervasive problems, including poverty, deprivation and inequities.

In the past half century, Islamic economics has been eclipsed by the Islamic finance movement. Without any economy to back it up at the experimental or implementation level, Islamic economics gradually faded; and even though originally it was the Islamic economists who blessed and advocated Islamic finance as a part or offshoot of Islamic economics, it is now widely acknowledged that the prevailing patterns of Islamic finance are markedly delinked from any broader developmental goals. Can Islamic economics and finance (IEF) step up to the challenge of poverty, or is IEF itself suffering from poverty of substance? While these are important and relevant questions to study and explore, the widespread, pervasive and widening poverty in the Muslim world is a stark reality.

23.3 The Challenge of poverty in the Muslim world

The UN Millennium Development Goals (2005) define the poor “as individuals living in households with command over no more than USD1 per day per person valued at international prices.”² Extreme poverty is currently defined as those who live on £1 or USD1.25. This is an example of an absolute poverty line. Most countries define their own absolute poverty. Globally,

¹ Of course, this has not been without cost or collateral damage either to other societies as part of colonization or to the global environment that we all share. Indeed, a further argument can be made that developed economies have developed at least partially impoverishing, or at the expense of, others.

² The United Nations (n.d.). The UN Millennium Development Goals, retrieved on February 18, 2008, from UN web site, <http://www.un.org/millenniumgoals/>

¹ The United Nations (2007). The Millennium Development Goals Report, retrieved on February 18, 2008, from web site, <http://www.un.org/millenniumgoals/pdf/mdg2007.pdf>. Also see The United Nations (2005). Handbook of Poverty Statistics, draft, retrieved on February 18, 2008, from UN web site, <http://unstats.un.org/unsd/methods/poverty/PortalEGMjune.htm>.

⁴ Worldhunger.org. "2011 World Hunger and Poverty Facts and Statistics," available at <http://www.worldhunger.org/articles/learn/world%20hunger%20facts%202002.htm> (accessed Nov 20, 2011).

⁵ Abikan, Abdulqadir (2005). "Impoverishment in the Muslim World: A Consideration of the Legal Causes and Solutions," *International Journal of Muslim Unity*, 3:1, August, pp. 91-125.

⁶ Qur'an: 3/Ale Imran/110.

⁷ Mannan, M. A. (1980) *Islamic Economics: Theory and Practice*, Sh. Muhammad Ashraf, Lahore, Pakistan, p. 57; Siddiqi, Mohammad Nejatullah (2006). "Shari'a, Economics and the Progress of Islamic Finance: The Role of Shari'a Experts," Paper presented at Seventh Harvard Forum on Islamic Finance, April 21, 2006, Cambridge, MA, Retrieved on July 24, 2008 from http://www.siddiqi.com/mns/Role_of_Shari'a_Experts.htm

⁸ Brown, Gary (16 Oct., 2001). "Mutual Misperceptions: The Historical Context of Muslim-Western Relations," *Parliament of Australia Issues Brief 7*, <http://www.aph.gov.au/library/pubs/cib/2001-02/02cib07.htm>.

⁹ Elmessiri, A. (2003) "Towards A New Islamic Discourse: Re-capturing the Islamic Paradigm," *Islamonline*, retrieved March 24, 2008 from <http://www.islamonline.net/english/Contemporary/2003/07/article04c.shtml>.

¹⁰ Sadeq, A. H. M. (1990). *Economic Development in Islam*, Pelanduk Publications, Malaysia, p. 16.

¹¹ Qur'an: 2/al-Baqarah/60, 201.

¹² The Prophet said: "The world is prison for the believers and paradise for the disbelievers." *Sahih Muslim*, trans. Abdul Hamid Siddiqi, Vol. 4, #7058, Sh. Muhammad Ashraf, Lahore, Pakistan, 1982. The Prophet said: "Do not try too much to acquire property or else you will be absorbed by being too enamored with the world." *Sunan at-Tirmizi* (Arabic), Vol. 4, #2335.

the number of people meeting this definition of extreme poverty was 980 million people in 2004³ and a more recent estimate places it around 1.4 billion.⁴ The Muslim world has a large part of that pool of people in poverty, particularly in Asia and Africa.

Apart from the technical or official definitions, poverty can be understood as when people of a nation or community are not meeting their basic needs, such as food, clothing, shelter, sanitation, healthcare, safe water supply, etc. Societies with major poverty problems are also characterised by low income or wealth, low standard of living, high level of inequality, limited access to productive resources, etc.⁵

Islam, being a universalistic religion meant for the entire humanity,⁶ its agenda or solution regarding poverty is not limited to Muslims; rather it embraces the whole world. However, in light of the current condition of the Muslim world, a global agenda to help the humanity might be too ambitious. Indeed, without delinking from the Islamic directive to serve the humanity, for practical reasons, Muslims must evaluate the potential of IEF to alleviate poverty and suffering in the Muslim world first rather than aim to embrace the bigger, global Islamic directive.

23.4 Poverty alleviation and the IEF discourse

As a discipline, IEF discourse needs to be placed in the context of the post-colonial Islamic resurgence, when the Muslim World was seeking its independence from colonial powers and where, quite understandably, Islam was pivotal in the reawakening of the Muslim World and galvanising the popular support toward achieving political independence. During the same period in the twentieth century the polemics of Islam's comprehensive guidance as superior to any other solution from the world-shelf emerged. The Islamisation paradigm was presented to reorganise the Muslim society to place its political, economic, social, educational and all other aspects of life on the foundation of Islam.

The initial discourse focused on the premises that there are important prohibitions in Islam that Muslims must adhere to and there are also important collective goals that they must aspire to achieve because Islam is a superior and indispensable alternative to all other 'isms.⁷ Islamic economics also emerged as a vehement critique of the western colonial domination to which Muslims in general and Islamic economists in particular attributed the existing maladies primarily to the western impact on the Muslim World.⁸ Even without rejecting the western heritage and relevance altogether, Muslim critiques commonly recognise the adversarial role the West has played against the colonised parts of the Muslim World.⁹

The advocacy for Islamic economics and re-orienting the economies of the Muslim world on the basis of Islamic ideals and parameters were not merely on the basis of the Islamic theological imperative. It was also based on the assessment that the economic and financial teachings of Islam provided a superior alternative in addressing

poverty and deprivation as well as achieving development and prosperity. Notably, the emphasis was quite commonly on economic justice and general welfare of the society that would remove "all sufferings of starvation, poverty and other hardships."¹⁰ This emphasis was valid and relevant because it is an Islamic imperative.

Islam values prosperity and happiness. It teaches the believers to aspire for bounties in both the worlds: here and hereafter. However, Islam's economic teachings are more focused on the alleviation of poverty than achieving affluence,¹¹ as it does not encourage affluence and extravagance that exist in the midst of widespread poverty, deprivation and inequality. Indeed, Islam does not want people to view or treat this world as Paradise.¹² Any level of affluence and prosperity that is widely shared with the desired distributive effects is sufficient, but Islam's message is decidedly focused on removal of poverty, deprivation and inequality. It also teaches the believers to seek refuge in God from the afflictions of poverty.¹³

23.5 The lack of sensitivity and historical awareness

When it comes to history, Muslims have a simplistic approach and attitude that borders on romanticisation. Based on generally uncritical acceptance of the Islamic historical narrative, Muslims have an entrenched tendency to regard poverty as something of their collective past. According to this narrative, during just a few years after Prophet Muhammad's death, poverty was eliminated under the leadership of Hadrat Umar, the second caliph, such that zakat payers used to roam the streets to find qualified zakat recipients, but were unsuccessful. After a brief lapse, such condition was observed again during the rule of Hadrat Umar ibn Abdul Aziz (Umar II) (682-720 AD, whose period is also known as a continuation of Khilafat-e-Rashida).¹⁴

From that period, Muslims have developed an impression that poverty was eliminated permanently and it did not raise its ugly head until the period of colonisation. Historically, there is no record that poverty was scarce in the Muslim world until the colonial period. But more importantly, in regard to the period of Umar I and Umar II, when zakat payers could not find potential zakat recipients, we neither have a historical account of what happened nor any analysis – theoretical or empirical - in this context. Indeed, there is hardly any analytical work explaining what kind of economic policies, framework and institutions led to this remarkable success.¹⁵

Such romanticised historical impressions have another important implication. Believing that poverty was eliminated in the early periods of Muslim history, Muslims do not view the root of the problem and challenges as internal. Instead, some blame exclusively or primarily the western colonial hegemony as the cause of economic devastation in the Muslim world. Some also blame ideologies or systems other than Islam (capitalism, socialism, feudalism; and other 'isms') for the maladies in the Muslim world. Thus, the simple and straightforward solution that is often articulated is that Muslims

simply need to reject altogether the western and other thoughts outside the sphere of Islam and Muslims and try to establish an Islamic welfare state to solve the economic problems of the community ('Ummah').

23.6 Islam's position regarding poverty

Islam takes the issue of poverty quite seriously to the extent that the Prophet juxtaposed seeking refuge from kufr (disbelief) with seeking refuge from poverty (faqr).¹⁶ The theme of the poor, weak and disadvantage is consistently emphasised in the Qur'an.¹⁷ The Qur'an identifies two highways in the journey of life: one is a steep one leading to salvation. At the same time, the Qur'an deplores that most people neglect this steep path; instead, they choose the path of ease and convenience.¹⁸

The Qur'an, the Prophetic narration and legacy, as well as the period of the Rightly-Guided Caliphs show a remarkable sensitivity to the issues of the poor and disadvantaged¹⁹. However, despite such sensitivity and awareness and the periodic progress in reducing poverty, especially as purported during the time of Umar I and Umar II, poverty as a challenge requiring systematic solution is not as prominent a theme or issue in subsequent Islamic discourses. Of course, no other source is as explicit and staunch as the Qur'an on this matter.²⁰

23.7 Poverty as a neglected challenge

While it is regularly repeated that Islam is against injustice, exploitation, deprivation and suffering and that historically Muslims have shown remarkable success in dealing with poverty, and linking this success primarily with the institution of zakat, the reality is that except in few, limited periods, poverty has been widespread in the Muslim world throughout history and rarely has it been dealt with as part of a systematic campaign of poverty alleviation.

The above observations may surprise many since the Muslim impression about poverty as well as the role of zakat is based on a romanticised reading of the Islamic historical narrative. However, just as the emergence of IEF and later rise of Islamic finance as part of Islam's challenge against injustice, exploitation, inequality and deprivation is a fact, it is also an unfortunate reality that contemporary Islamic finance has become primarily a prohibition-driven industry with a legalistic bent, and almost delinked from real economic challenges affecting the majority of the Muslim world. Even the discourse of IEF has not embraced or identified poverty as a subject of study, let alone as a major or central subject. For example, as much as the issue of development and growth are mentioned in the pertinent Islamic literature, focused attention to or studies of poverty is rather absent.²¹ Indeed, being Shari'a compliant has emerged as the hallmark of contemporary Islamic finance, but it is at best neutral regarding the broader socio-economic issues, such as poverty.

23.8 Poverty as a broader challenge for the society

It needs to be noted that sometimes Islamic finance is subjected to unfair criticisms. Poverty is not a kind of challenge the solution of which lies with the financial sector. It is not the task of financial institutions in general and Islamic Financial Institutions (IFI) in particular to solve by themselves the problem of poverty and human suffering. The challenge of poverty requires a comprehensive national approach and agenda, where all actors in an economy and society have a relevant role to play. It just happens that being the financiers or providers of capital, there are pivotal intervention points where IFIs can serve as catalysts as part of mapped-out solutions.

Countries that are now known as developed, especially in the West, and a few, more recently developed countries as part of the emerging world, are tackling the challenge of poverty and engendering a higher standard of living. Their successes have been achieved through development that is broad based, inclusive, and participatory, which has been identified as participatory development or economic democratisation. The notion of participatory development emerged in 1980s as part of basic needs approach, a shift away from exclusively or primarily growth-oriented approach.²² Economic democracy relates to the entire hierarchical range of decision-making, but is expanded to encompass inclusive ownership of productive assets, which would involve broader access to resources, real and monetary (credit).²³

Without a genuine and adequate national agenda for development, the financial sector itself cannot play its desired role and the same is true about Islamic finance. However, even without the agenda, Islamic finance has a relevant role to play; the question is whether it is playing or ready to play that role. Therefore, before understanding and identifying the relevant role of Islamic finance, it is important to note that from a problem-solving perspective, the problem of poverty – its nature (static and dynamic), extent, causes etc. – needs to be studied. While there has not been any notable contribution from Muslims in this area of study, the accumulated research-based knowledge to date identifies some key aspects in the context of poverty. A general point about poverty is that the problem is "more than money," which also means that it is more than about finance. Thus, the starting point of confronting the challenge of poverty is not finance, the financial sector or Islamic finance, but the problem of poverty itself. By studying and understanding the problem of poverty, relevant solutions can be identified and/or developed. More specifically, as part of a comprehensive national²⁴ approach the following areas need recognition.

a. Concentration of wealth and extreme inequality

Poverty in a society is not just highly correlated with high concentration of wealth and inequality, but also inequality and concentration of wealth are among pivotal factors affecting poverty. The prevailing thinking holds that with an alleviation of poverty, inequality will gradually be reduced. However, the other side of the reality

¹³ *Sahih al-Bukhari*, Tr. M. Muhsin Khan (Madinah, Saudi Arabia, n.d.) Vol. 8, #388.

¹⁴ Al-Qaradawi, Yusuf (1999). *Fiqh-uz-Zakah*, Trans. by Monzer Kahf, Vol. II, Scientific Publishing Center, King AbdulAziz University, Jeddah, Saudi Arabia, p. 46, citing Ibn 'Abd al-Hakam, *Sirat 'Umar bin 'Abd al 'Aziz*, Damascus: Dar al Fikr print, p. 59.

¹⁵ Farooq, M.O The Challenge Of Poverty and Mapping Out Solutions: Requisite Paradigm Shift From A Problem-Solving and Islamic Perspective," *Journal of Islamic Economics, Banking and Finance*, Vol. 5, No. 2, May-August 2009, pp. 45-76.

¹⁶ *Sunan Abu Dawood*, Tr. by Ahmad Hasan, Kitab Bhavan, New Delhi, India, 1990, Vol. 3, #5071.

¹⁷ "Bonner, M. (2005) "Poverty and Economics in the Qur'an," *The Journal of Interdisciplinary History* 35/3, 391-406; p. 392

¹⁸ Qur'an: 90/al-Balad/10-17.

²⁰ Bonner, 2005, p. 393.

²¹ Poverty is not listed as a separate subject or entry in either of the two major bibliographic works, Ahmad, Khurshid (1980, ed.) *Studies in Islamic Economics*, The Islamic Foundation, Leicester, UK, pp. 271-272 and Khan, Muhammad Akram (1983) *Islamic Economics: Annotated Sources in English and Urdu*, Islamic Foundation, Leicester, UK. See Classification System, pp. 17-23.

²² Clark, David. (2006). *The Elgar Companion to Development Studies*, Edward Elgar Publishing, pp. 14-18.

²³ Kurland, Norman (2004). "The Just Third Way: Basic Principles of Economic and Social Justice," presented at the Fifth Annual Conference of the Center for the Study of Islam and Democracy (CSID), Washington, DC, May 28-29, available at <http://www.cesj.org/thirdway/paradigmpapers/csid-040528.htm> (accessed Nov 21, 2011).

²⁴ There are some global dimensions as well. Indeed, some aspects of the challenge of poverty may require a global compact, but for the sake of simplicity we will not extend our observations to the global level.

might be even more important in that poverty is inevitable where concentration and inequality are high and such concentration might be one of the major, fundamental causes of poverty as well as a key predicament. A successful and effective development approach and plan needs to take this factor into account and come up with ways to overcome this predicament in order to make a dent to poverty. If this is such a key factor, what might be its relevance to Islamic finance? Well, it might not be an easy predicament for Islamic finance in the contemporary context to overcome for a number of reasons. First, Islamic finance might already be a captive industry. Major concentration of Islamic finance is in the Gulf countries and highly skewed concentration of wealth in that area is all too well known. Thus, the primary clientele in this area not only consists of high net worth individuals, but also some super high net worth individuals thereby making them the original source of capital for this industry. Secondly, with current Islamic finance being narrowly focused on fostering Shari'a-compliance of products and services, the industry is not properly linked with the broader socio-economic objectives. Thirdly, beyond the Gulf countries that are oil rich, in most other Muslim-majority countries there is an absence of the kind of development plan,²⁵ approach and institutional infrastructure that, for example, facilitated development in East Asian countries. If these issues can be addressed, Islamic finance has an even greater potential than its conventional counterpart to make a positive difference to poverty.

b. Corruption

The first factor – concentration of wealth and inequality – is closely related to this second factor: corruption. Most of the Muslim-majority countries consistently rank highly on Transparency International's corruption index.²⁶ The widespread corruption among those who wield economic and political power in these countries serve as a predicament to broader access to resources for the people in poverty. These countries might not lack a development plan or approach, but much of that serves as a shell. Islamic finance can play a truly effective role where there is a rule of law and strong ethical foundations. Taqwa or God-consciousness is supposed to provide that ethico-moral foundation and environment, but barring that a mere shell of Islam is not enough to deliver the punch expected from Islamic finance. While the above two factors relate to the essence or soul of the development plan and approach from an Islamic perspective, the following few relate more to strategy, policy and method.

c. Education and human resource development

Without exception, all developed countries have had to make adequate and appropriate investment in education as part of a broader human resource development goal. In most countries, including in the Muslim world, there is mere lip service and political exhortations, but proper and adequate human resource development and the creation of a vibrant educational system and infrastructure are absent. While this issue should also be dealt within a broader development framework, Islamic finance should find ways to facilitate resources, even if it is through public-private ventures and collaboration.

d. Gender

It is now well established that even within the pool of those in poverty, women share the disproportionate brunt of suffering. Developed countries have been more gender-egalitarian and facilitated the ongoing participation of women. Contemporary microcredit movements have now rather well documented research that participation and involvement of women are keys to economic upliftment of household standard of living. Pioneering microcredit organisations, such as Grameen and BRAC, have focused on women as their primary recipients of resources, which has been effective in reducing the incidence of poverty among the participating women and their families.

Once again, where there is a broader development regime at the national level, Islamic finance can play a better role. However, if "Islamic" is duly observed as it should be in Islamic finance, then IFIs have to come up with more gender-conscious and gender-sensitive programs and pathways, including microfinancing and gradually through SMEs. While economic incentivisation can work better through proper public policy regimes, there is no reason why IFIs themselves cannot come up with incentives to engage qualified women in entrepreneurial ventures.

e. Health

Once again, without exception, developed countries that have reduced their level of poverty have duly invested in the health sector and facilitated better access for their people to effective and quality health services. Now that *takaful* has become not just an acceptable, but also a recognised component of Islamic finance industry, there are different ways to help people gain access to better, or at least, basic health care. Mutuality-based or cooperative type of approaches to make such services available should be further explored.

f. Technological change

Without exception, countries that have reduced poverty have developed strong domestic technological capabilities, which require better education and more skilled human resources.

Once again, while it would be more effective and robust when incentivised through public policies, the IFIs can also play a vital role by providing incentives to those initiatives and projects that utilises indigenous technology or contributes toward enhancing indigenous technological capability. This can be done through various concessional terms for qualified projects.²⁷

g. Manufacturing and processing industry

Developed countries have developed strong and competitive manufacturing and/or processing industry. Countries, such as Japan, South Korea, Malaysia, Singapore, Taiwan, have focused more on the manufacturing industry based on their comparative advantage. There are developed countries, such as the Netherlands and Denmark that have a strong presence in foodstuff processing as part of their industrial activities. Even agricul-

²⁵ Here reference to development is not in the sense of heavy centralized planning; rather, it is to emphasize the role of policy framework of incentives, support and legal environment to promote market-oriented activities that also is participatory and inclusive.

²⁶ Corruption Perception Index 2010 Result, Transparency International, available at http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results (accessed November 21, 2011).

²⁷ Farooq, Mohammad Omar. (1988). "Basic Needs Approach, Appropriate Technology, and Institutionalism," *Journal of Economic Issues*, June.

tural activities in many developed countries are highly industrialised, gradually enjoying higher economies of scale.

Our exploration of the features of developed countries that have countered the blight of poverty highlights a key point. These aspects mentioned above could not be accomplished without the proper interfacing with the financial sector. It is therefore not unreasonable to assume, even hope, that Islamic finance could similarly play a vital role in the development of impoverished Muslim countries. It is well documented that the current Islamic finance industry is more involved in the areas of trading and financing, but not necessarily in building production and industrial enterprises, especially the ones that enhance capital stock. This creates quite a paradox as trading (exchange) needs to be preceded by production activities to create the good suitable for the trade. This is something that the Islamic finance industry, within the context of a broader national development agenda, needs to take seriously and act upon aggressively.

23.9 Islamic finance and residual poverty

Through development, the level of poverty is reduced as people find employment opportunities with higher income, leading to a significant improvement in the standard of living. Still, due to a variety of reasons, there might be poverty consisting of those bypassed by general economic development. This pool needs to be targeted more directly through alternative and supplemental means of poverty alleviation, including zakat, sadaqa, waqf, etc. However, it needs to be noted that there is an erroneous, but common perception that zakat is meant primarily for poverty alleviation. A closer study of zakat from the Qur'an perspective indicates that it is more for "purification" of resources of qualified zakat payers than for any specific goal-oriented purpose. Indeed, this is an important reason why the role of zakat has been more palliative. It has never evolved into an instrument of systematic alleviation or eradication of poverty. Not surprisingly, most zakat payers are content with payment of zakat, without ever thinking about destination, utilisation or whether it made any meaningful and sustainable impact on the life of the recipients.

In the current approach to poverty alleviation from an Islamic perspective, the focus is primarily on charitable resources, such as zakat, sadaqa and waqf, and that is predominately through microcredit initiatives. Charitable resources are also resources and they can be used for multiple purposes. However, when resources, charitable or otherwise, are not mobilised and utilised in a problem-solving manner and with a mapped out approach, the desired result is often not achieved. Furthermore, due to IFI's focus on being Shari'a-compliant and also due to significant presence of the conventional financial institutions in the Islamic finance industry, IFIs have not succeeded or taken up seriously their own share of responsibility in contributing to or enhancing broader socioeconomic goals. While it is not the ultimate or primary responsibility of the financial institu-

tions or the financial sector to solve the problem of poverty, the unfortunate reality is that they have not played the role or taken the kind of initiative that they creatively and conscientiously could.

23.10 Conclusion

The discourse on Islamic economics and finance deals with the issue of poverty, but only marginally and superficially. Islamic economics does not identify poverty as its primary focus. Rather, it has emerged as a counterpart to the conventional economics, attempting to define the axioms as well as the analytical-policy framework. It is no wonder that Islamic finance as a field and industry, in line with Islamic economics, also deals with the challenge of poverty marginally and superficially.

From the earliest days of the Prophet, pursuit of justice and strong empathy toward the poor and the disadvantaged has been a hallmark principle, which translated itself to an exemplary commitment and effort to help the poor through redistribution programs. Gradually, however, the issue of poverty became a peripheral issue. No systematic program to confront poverty evolved throughout history, even though waqf institutions have played an important palliative role.

While rhetorically one finds pious statements and articulations about anti-poverty stance in IEF literature, there is a tendency toward reductionism that if *riba* is eliminated and *zakat* is properly instituted, the poverty problem would be addressed.

Unfortunately, in regard to the challenge of poverty, Islamic economics and finance itself suffers from conceptual poverty. As economics is not separate from the larger socio-political reality, Islamic economics cannot be either. That's why Islamic economics emerged as part of the revivalist movements in the Muslim world aspiring to total Islamic change, including that at the level of state, politics and governance. However, without any meaningful achievement at that level, Islamic economics gradually has become a purely intellectual field, eclipsed by its own offshoot, Islamic finance, the praxis of which has become disconnected with broader economic development. As Mohammad Nejatullah Siddiqi, one of the pioneering elders among the Islamic economists, acknowledges and laments: "Consider the current focus of Islamic economists on Islamic finance and dearth of Islamic economic literature on poverty removal, inequality and development."²⁸

While Islamic finance has become very successful and is experiencing explosive growth, it is essentially a prohibition-driven industry, where the products and services are presented as Shari'a-compliant, but mainly in a legalistic sense. It is widely acknowledged that this prohibition-driven industry still has little to do with the real-sector economic problems and issues, including poverty.²⁹ The search for the "missing links" between Islamic finance and broader economic development is continuing.³⁰ The importance of this 'missing link' assumes greater importance, where the relevant fields are delinked from *maqasid al-Islam* and where Islamic finance as a field is marching ahead without parallel pro-

²⁸ Siddiqi, Mohammad Nejatullah (2008). "Obstacles to Islamic Economics Research," Paper presented at the Seventh International Conference on Islamic Economics, Islamic Economics Research Center, KAAU, Jeddah, April 1-3, Retrieved on July 30, 2008 from http://www.siddiqi.com/mns/OBSTACLES_TO_ISLAMIC_ECONOMICS_RESEARCH.htm.

²⁹ El-Gamal, Mahmoud (May 23, 2007). "Incoherent Pietism and Sharia Arbitrage," *Financial Times; The News*, "Islamic Finance can alleviate poverty in the Muslim World," November 8, 2007, retrieved on May 13, 2008 from <http://www.thenews.com.pk/print1.asp?id=79419>.

³⁰ Ibrahim, Badr El Din A. (2006). "The 'missing links' between Islamic development objectives and the current practice of Islamic banking – the experience of the Sudanese Islamic banks (SIBs)," *Humanomics*, 22/2, pp. 55-66.

gress in social sciences in general and economics and business in particular from the Islamic perspective. Quite conscientiously, some leading Islamic economists are urging others to wake up to this "intellectual paralysis."³¹

Thus, it is not surprising that the Islamic finance industry is growing, but without the desired impact on the socio-economic realities affecting the majority of the Muslims who live in poverty. Indeed, not only is poverty alleviation or eradication a subordinate focus of Islamic economics or finance so far, but, being prohibition-driven, it has neither come up yet with any creative ways to deal with the challenges of poverty nor has it meaningfully benefited from the contemporary experience in confronting poverty. Thus, the general attitude of the promoters of Islamic economics and finance toward Grameen-bank type microcredit projects has been either outright rejection or neglect in recognizing its contributions (until very recently), because Grameen bank is based on interest, which is considered riba as part of the riba-interest equation.³² Recently, some Islamic economists³³ are making a strong case for the Islamic finance industry to take closer interest in microfinance to deal with poverty, but it still remains peripheral to its overall commercial framework.³⁴ Also, there is some recognition that zakat has to be linked to the problem of the 'structurally poor' and has to go beyond the traditional approach to utilise zakat as a band-aid for primarily incidental poor.³⁵

Yes, they can be integrated, and there are welcome ideas and efforts to do so, but it does not mean that the effort is serious and adequate on the part of the Islamic finance industry to go in that direction in a systematic manner.³⁶ Indeed, let alone the praxis of Islamic Financial institutions, even the field of Islamic economic and financial research is yet to rescue itself from its lop-sided priority. Siddiqi notes "the anomaly of Islamic economic research relegating poverty removal to the backburner and bringing investing rich peoples' surpluses for making them richer to the fore."³⁷ Furthermore, the issue of using qard hasan, generally understood or interpreted as interest-free loan, presents some anomalous conceptual and fiqhi challenges, especially when it is used to structure credit cards, even though it is widely known that credit cards generally have become a part of the western credit culture and has financially ruined the lives of so many.³⁸

Anyone studying Islam and the Qur'an cannot but be struck by its strong emphasis on and commitment to addressing injustices in the society and empowering the weak and the disadvantaged. Islamic economics and finance may not have, or need, mathematical sophistication, theoretical elegance or robust analytical apparatus, but to be relevant to the core values and concerns of Islam, it needs to focus on confronting poverty head on, intellectually and practically. This would require studying the problem of poverty in the Muslim world and beyond in terms of its nature, extent and causes. Then, taking poverty as a focus, solutions have to be sought and mapped out and then tried. No perfect solution is available on a revealed basis. However, beginning with a focus on poverty, equipped with a meaningful and dynamic understanding of poverty, and trying out mapped out solutions, our learning curve gradually can help make

a serious dent to the challenge of poverty. Otherwise, Islamic economics as an intellectual field and Islamic finance as a practical field may grow and prosper and the Islamic finance industry may become a multi-trillion industry, but the challenge of poverty would continue unabated, even though a different, positive outcome in this regard is very much possible.

³¹ Siddiqi, 2008, op. cit.

³² Farooq, Mohammad Omar (December 2007), "The Riba-Interest Equation and Islam: Reexamination of the Traditional Arguments" *Global Journal of Finance and Economics*.

³³ Ahmed, H. (2004) "The Frontiers of Islamic Banking: A Synthesis of Social Role and Microfinance," *The European Journal of Management and Public Policy*, [http://info.worldbank.org/etools/docs/library/240136/paper_IBs&Microfinance\(Dr.%20Habib\).pdf](http://info.worldbank.org/etools/docs/library/240136/paper_IBs&Microfinance(Dr.%20Habib).pdf).

³⁴ El-Gamal, Mahmoud (2007). "Mutuality as an antidote to rent-seeking Shari'a arbitrage in Islamic finance," *Thunderbird International Business Review*, 49/2, pp. 187-202.

³⁵ Ibid.

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