

TOWARDS UNDERSTANDING OF SOCIAL, ETHICAL AND MORAL DIMENSIONS OF ISLAMIC BANKING AND FINANCE

M. A. MANNAN

Social Islami Bank Ltd., House of Mannan Charitable Trust

ABSTRACT

It is argued that the Islamic Banking and Finance without built-in-provisioning for social, ethical and moral ingredients of Islamic Finance are most likely to be submerged in the wave of market economy operating through western materialistic and secular values. This is perhaps what is happening either consciously or unconsciously in the case of operation of contemporary Islamic Banking and Finance in corporate sector. As a case study, the operational thrust of the Social Islami Bank Ltd, a concept of three sector banking model of Bangladesh that include a formal corporate bank based mainly on market economy, a non-formal bank dealing with family empowerment micro credit and a voluntary sector banking focusing mainly on introduction of cash waqf certificate as an innovative financial instrument for the first time in history is reviewed. The paper stressed the need to redefine the role of Islamic corporate finance, rediscover new role of informal and voluntary sector finance and argued that all modes of Islamic financing should be redesigned in a manner so that inter-connectedness of economic, social and ethical preferences are "revealed" at their operational levels, leading to reformulation of Islamic production and consumption functions. Efforts should be made to mobilize Cash-waqf Fund on a global scale for establishment of World Social Bank, as a new strategy of interest-free micro credit to the poor. Cash-waqf Certificate is the clear manifestation of social, ethical and moral dimension of Islamic Banking and Finance.

Keywords: Islamic Banking, Islamic Finance, Cash-waqf, World Social Bank

İSLAMİ FİNANS VE BANKACILIĞIN SOSYAL, ETİK VE AHLAK BOYUTLARINI ANLAMA

ÖZ

İslami Bankacılık ve Finansın, İslami Finansın sosyal, etik ve ahlaki içerikleri için yerleşik ön tedarik hazırlığı olmaksızın Batılı maddeci ve seküler değerler aracılığıyla işleyen market ekonomisinin dalgasında battığı iddia edilmektedir. Kurumsal sektördeki günümüz İslami Bankacılık ve Finansının işleyişinde bilinçli ya da bilinçsiz bir şekilde vuku bulan da muhtemelen budur. Bu çalışmada, bir örnek olay çalışması olarak Bangladeş'te üçlü sektör bankacılığı (temelde market ekonomisine dayanan resmi kurumsal bankacılık, aile güçlendirmesi amaçlı mikro kredi ile uğraşan gayri resmi bankacılık ve yaratıcı bir finansal enstrüman olarak tasarlanan para vakfı sertifikasını tarihte ilk defa çıkaran gönüllü sektör bankacılığı) kavramı üzerine kurulan Social Islami Bank Ltd incelenecektir. Çalışmamız, İslami kurumsal finansmanın rolünün yeniden tanımlanması, resmi olmayan ve gönüllü sektör finansmanının rollerinin yeniden keşfedilmesi ihtiyacına vurgu yapmakta ve bütün İslami finans türlerinin, ekonomik, sosyal ve etik tercihlerinin operasyonel düzeylerde açığa çıkarıldığı bir içsel bağlılık içinde yeniden tasarlanması gerektiğini iddia etmektedir. Böylece İslami üretim ve tüketim fonksiyonlarının yeniden formüle edilmesi sağlanabilecektir. Ayrıca, fakirler için yeni bir faizsiz mikro kredi stratejisi olarak World Social Bank'ın (Dünya Sosyal Bankası) kurulması için küresel boyutta para vakfı fonunun oluşturulması gerekmektedir. Bu bağlamda para vakfı sertifikası, İslami Bankacılık ve Finansmanın sosyal, etik ve ahlaki boyutlarının açık bir tezahürüdür.

Anahtar Kavramlar: İslami Bankacılık, İslami Finans, Para Vakıfları, Dünya Sosyal Bankası

This paper seeks to develop an understanding as well as to unfold some of the key issues involved in the social, ethical and moral foundation of Islamic Banking and Finance. As a case study, the operational thrust of the Social Islami Bank Ltd, (previously known as Social Investment Bank Ltd) a concept of 21st Century three sector Islamic banking model, established in November 22, 1995 in Dhaka, Bangladesh that include a formal corporate sector based on mainly on market economy, a non-formal bank primarily focusing on family empowerment micro-credit and a voluntary sector banking focusing on introduction of Cash-waqf Certificate for the first time in history as an innovative financial instrument is reviewed and viewed as an alternative paradigm of Islamic Banking and Finance (Mannan, 1998).

In my view, Islamic Banking and Finance in the 21st Century needs “discontinuous leaps” –a change in paradigm, to clear the backlog of history (Mannan, 1998). Relatively speaking, a paradigm which refers to a set of premises, views, conventions and beliefs changes to meet the requirements of news social puzzles and economic realities (Kuhn, 1964).

It is argued that the Islamic Banking and Finance without built-in-provisioning for social, ethical and moral ingredients of Islamic Finance are most likely to be submerged in the wave of market economy operating through western materialistic and secular values. This is perhaps what is happening either consciously or unconsciously in the case of operation of contemporary Islamic Banking and Finance in corporate sector.

The establishment of Islamic Development Bank of 57 member countries of Organization of Islamic Conference (OIC) and over 300 local Islamic banks and Investment Companies in both Muslim and non-Muslim countries in the 70s' through early 21st Century are, among others, one of the major historic developments of our time. But it appears that there is a profound and disturbing gap between theory and practices of Islamic Banks on the ground, particularly when the point of contact of the Islamic reform is the feudal capitalist system as observed in many Muslim countries of today. There is however a clear need for performing historical role by Islamic banks in refurbishing the pattern, direction and strategy of the existing banking principles, policies and practices which are based largely on neo-classical Western world-view in economic matters. There is indeed a risk of destroying its distinctive character by marginalizing its social and ethical ingredients of Islamic Finance. This is not to suggest that market mechanism is not acceptable in Islamic Economics, Banking and Finance.

However, it is to be recognized that there is hardly any work done in understanding the dynamics of Islamic non-corporate informal and semi-formal Finance and role of social capital in Muslim countries. An appropriate credit can transfer power to powerless. Recent studies showed that the non-corporate sector accounts for 30-70 percent of the labor force in some developing Muslim countries. Practically, no attempt was made so far to monetize the Islamic Voluntary Sector Banking and consequent securitization of its capital market. We need Islamic Banking for all by all. Non-formal and Voluntary Sector Banking and Finance can help mobilization and capitalization of social savings, capital and investments, reinforce basic family values and ethics of a society. There is a need to redefine the role of formal corporate finance, rediscover new role of informal and voluntary sector finance.

The comparative advantage of conventional Western Banks over the Islamic Banks in terms of their systems, management experience and techniques of product innovation are expected to bring competition, resulting in sharpening of techniques and procedures of Islamic banking modes. In the process, profitability, not profit constraint is getting dominance in Islamic Banks' operations. The Western conventional Banks having Islamic window, lack the knowledge and knowhow of ethical and moral foundation of Islamic Banking and Finance. While the resultant convergence point may bring efficiency in operations of Islamic banks in the corporate sector, the emergence of at least following disturbing **five trends and dilemma** of Islamic Banking and Finance. These trends in the corporate sector deserve our serious considerations that include: (a) Marginalizing social, ethical and moral ingredients of Islamic modes of Financing; (b) Increasing secularization of Islamic Banking and Finance; (c) Increasing concentration of ownership having link to global elite and its network of reciprocal obligations; (d) Neglecting the vast masses of people in Muslim countries incapable of entering into market and lastly, lack of slow growth of perpetual social capital expressed in terms of living by giving and sharing for promoting Islamic social values.

Each of the above five hypotheses can be good subject matters for empirical studies. But this paper intends to develop a deeper understanding of social, ethical dimensions of Islamic Banking and Finance.

At this stage, it is perhaps desirable to throw some lights in general terms on the underlying seven assumptions on which this paper is based.

Beyond Common Ideas

Islamic responses to economic problems are distinctly different from assumptions of Neo-classical orthodox paradigm or Marxist-radical paradigm, although in "every system of thought, there are some assumptions and ideas in common with other systems of thought. It is through emphasis or de-emphasis or rejection, an identity is established (Mannan, 1984).

Beyond Positive Economics

The study of Islamic Economics, Banking and Finance as a distinct branch of knowledge owes its origin to the very ideology of Islam derived directly or indirectly not only from the Quran and Hadith and Sunnah (i.e. the sayings and tradition of the Prophet) but also from "Ijma" (i.e. consensus based on agreed practice), Qiyas (i.e. analogy) and "Ijtihad" (i.e. fresh thinking), as sources of Islamic laws. To Muslims, the Quran is the "revealed knowledge", it is given. While this "revealed knowledge" is beyond the scope of positive economics, the acquired knowledge may be subject to test and critique. This view of "Islamic man" is indispensable for understanding of Islamic Economics, Banking and Finance" (Social Islami Bank Ltd., 1996).

Beyond Market

Free market mechanism based on effective demand is linked to the affluent, making resources available to those who can buy them and not necessarily to those who need them and that the market is either inefficient or ineffective or indifferent in providing all aspects of basic needs with which Islamic market is concerned. Thus neither perfect competition nor perfect coo-operation model meet the goals of an Islamic economy. An optimal mix of "supervised" competition, induced and voluntary co-operation and critical control may provide a better basis for Islamic economic analysis. There is in fact, no rule for optimal mix or tradeoff between 3cs' (i.e. Co-operation, Competition and Control.)

Beyond the form of Islamic Contracts

It is not the form but the content and substance of all Islamic financial technique and contracts that matter most. The crucial distinctiveness of Islamic Bank's operations should lie not only in integrating economic, social

and moral dimensions in every transaction, but also in managing their undesirable consequences to achieve desired economic and social justice (Mannan, 1989).

Beyond replacement of Interest

The mere replacement of interest by profit-sharing may not initiate the process of authentic Islamic Banking and Finance in the 21st Century. On the contrary, there is real danger that the replacement of interest by the profit-sharing system may actually increase the level of economic exploitation of the poor by the rich.

Beyond Corporate Power: empowering the powerless

The multinationals use elaborate strategies to retain their corporate power. They tend to obstruct the entry of the poor, inexperienced who are coming from the nations having little or no link with this global elite and access to global finance.

Beyond Development

The key thrust of economic development in Islam lies in treating distributive considerations as the fundamental basis for the allocation of resources.

Social, Ethical and Moral imperatives of Islamic economics, Banking and Finance

One of the fundamental postulates of Islamic Economic behavior relates to understanding of significance of "Economic Trusteeship", and dual notion of Return and Accountability, the position of man in Islam is that of a de-jure vicegerent and a defacto sovereign over the use or misuse of resources of the earth of which he is accountable not only during his life-time but also after his death. The pre-supposition or a reality beyond the temporal sphere is fundamental to the Muslim life-philosophy. This dual notion of accountability, reward and punishment, profit and loss are an integral part in the very scheme of Islam. The Islamic economic and financial analysis cannot then be understood without appreciating this

ethical and moral position of Islam so far as it affects the economic problem (Mannan, 2013).

However, economic activities on earth are bound to be influenced by both monetary and non-monetary return. While the monetary return can be measured in terms of actual money received for the work done, non-monetary return can also be expressed in terms of Islamically desirable order of economic activities. This involves assigning Islamic weights to various alternative “halal” economic and financial activities, although the very appropriateness of a weight itself may remain controversial. Thus, given the present stock of knowledge, it is relatively easy to measure the monetary return. The measurement of non-monetary return from an Islamic viewpoint is still in its infancy. Our crucial task is to find out as to how to measure non-quantifiable values arising out of “halal” economic and financial transactions. What is needed is to develop the concept of Islamic cost and Islamic return. Once the substantive content of social, ethical and moral conceptions is better understood, the possible answers to questions regarding the meaning of this integrative nature of cost and return and justification of ethical judgments can be found out.

Thus, in the study of Islamic economics, banking and finance it is to be recognized that the best business may not be the one that always makes the most profit; that the technically most efficient may not necessarily be the socially most efficient. Its distinctiveness arises from its integrated study of social, moral and ethical issues involved in economic problems and financial transactions and their solution in conformity with Shariah. It follows then that the overall limits of Islamic Banking and finance are to be found in its economic, social, ethical and moral imperatives. On the conceptual level, Islamic Banking and Finance decisions intended to bring real material benefits, visible social advantages and moral fulfillment –all three in one package–in varying proportions ranging from credit to constructions, trading to transport, farming to fishing, manufacturing to mining and so on. As such, operations of Islamic Banking must be seen within the framework of total societal values and culture. The mere transaction without interest does not necessarily make the operation Islamic. Even in Western market societies, many economic enterprises run on a profit-sharing basis. Are these operations to be called Islamic? Contrary to popular view, the author is inclined to label such activities as secular economic transactions. In their form they may be called Islamic, not in their content and spirit, the fact is that the mere mechanical replacement of interest by profit-sharing may not necessarily capture the true spirit of Islam if it does not bring about the required change in the attitude of the participants –an attitude that generates

the forces of group participation, sharing and altruism among savers, investors, producers and consumers as well. Thus, this emphasis on totality having a number of facets brings out the true nature of Islamic banking operations—scope of which is not always understood in popular discussions.

Seen in this light the classic mechanics of operations ('Murabaha', 'Musharaka' and Mudarabah') and other tools need to be designed or redesigned in a manner so as to manifest economic, social and moral dimensions for giving them distinctive Islamic character of Banking and finance (Mannan, 2013).

Manifestation of Economic, Social and Moral Preferences in Consumption and Production Process

In neo-classical economics consumers try to maximize utility functions and the producers tend to maximize profit. Relying on these basic premises, there are different theories relating to the consumer and producer, emerged in western economic literature. Theories of consumption functions, indifferent curve analysis, reveal preference theory, among others, explain, the behavior of the consumer in response to income and price. Similarly, different variances of the behavior of the firm have been developed in which producer's behavior are explained in terms of maximization of profit or sales or the target rate of profit or satisfying profit through getting a target rate of profit etc. The key thrust of these theories lie in the concept of market economics. Both consumer and producer try to maximize their gain at the expense of others. As a result, social and moral dimensions of the consumer and producer are relegating to the background. Here the perception of consumers and producers are sharply different from the Islamic viewpoint. In Islamic economic getting, the consumer and producer behavior must manifest not only economic consideration but also social and moral considerations.

At operational level, this could be manifested if the product is expressed not only in terms of price tag but also in terms of its social and ethical tags. In a market economy, the product carries the price tag and contains technical ingredients along with price tag. Consumer who can pay this price can enter into the market but in an Islamic economy when credit will be linked to social goals and values, product would carry both technical and social ingredients. The social chemistry of a product can be expressed when a percentage for product profit is set aside to achieve a Islamically justified

social goals. This is how producers' behavior could be "revealed" in terms of economic, social and moral preferences. This could be done when a firm or Banking Company is committed to perform its social responsibility and part of its profit is allocated to achieve a social goal(s) as part of its Corporate Social Responsibility (CSR) in line with Islamic values. When the consumer buys this product, in preference to similar product of a firm having no such social chemistry level, his social and ethical preferences are "revealed", while producer will gain through increased sale of his product and enhanced social image, consumer will gain through greater social participation in community development and social solidarity having implications on income, output and employment. This is where Islamic Banks' Musharaka operations (i.e. equity participation) as well as Mudaraba operations (i. e. partnership) assume special significance. Experience and evidence suggest that this is where Islamic Bank's operational thrusts are found wanting. Murabaha (cost plus trading) becomes the dominant mode of operations.

The point at issue here is to have a balance between the different competing economic and moral preferences as well as to desecularize consumption and production process. The modern firm emphasizes the technical chemistry of the product. What is missing in the process in the social and ethical chemistry of the output. Once the social chemistry is built into the system either voluntary or through corporate objectives, this will go in a long way in creating non-exploitive caring society, because this process is expected to raise the level of social awareness and social responsibilities of both consumer and producer. This socially oriented production and consumption process should be seen as a critical element of Islamic economics, banking and finance. Here the various modes of Islamic investment banking and finance can be designed to support this consumption and production process.

Fifteen Measuring Rod of Social and Ethical Dimensions of Operations of Islamic Banks

The preceding section brings us to the question as to how to measure social and ethical dimensions of operations of Islamic banks. The following fifteen variables can be further articulated and expressed in terms of weights, ratios and percentages. They can be classified into endogenous and exogenous variables and expressed in terms of functional relationship

between dependent and independent variables. However, the following fifteen variables can serve as indicative, not exhaustive criteria of social commitment of Islami Banks.

- I. Size of allocation of the Banks pretax profit for Corporate Social investment that reinforces family values, provides social subsidy and helps poverty alleviation.
- II. Level of mass participation in terms of contents and quality of deposit mobilization, expressed in terms of number of accounts of small depositors and savers who find it difficult to enter into market.
- III. Number of beneficiaries and scope of sharing investment benefits, avoiding class Banking.
- IV. Level of priority attached to corporate objective for promoting Social investment and social capital accumulation replacing the traditional notion of corporate charity which is end in itself.
- V. Level of ownership structure of Islamic Banks and scope for participation of large number of people which may prevent concentration of ownership. Number of Shareholders and size of their contribution into paid-up capital structure is an indication of pattern of ownership and control.
- VI. Number of Musharaka operations belonging to depositors as a percentage of the total showing level of equity participation.
- VII. Size of the fund in the Musharaka account as percentage of the total investment showing the pattern of equity participation.
- VIII. Number of Mudarabah account as a percentage of total number of accounts indicating the level of partnership between labor and capital.
- IX. Size of Mudarabah operations as a percentage of total operations indicating intensity of understanding the level of sharing.
- X. Level of institutionalizing Islamic obligatory tools of redistribution with a view to generating a social surplus and fostering the level of mutual reliance and social security (i.e. Zakat)
- XI. Level of monetizing and securitization of Islamic voluntary sector Social Market Operations and development of new Financial Products for the purpose of social savings and social capital

accumulation (i.e. Waqf properties Development Bond, Cash-waqf Certificate, Mosque Properties Development Bond etc.)

- XII. Size of allocation of fund as a percentage of total for research and human resources development (R&D) as well as strategic futuristic studies for the benefit of the future generations.
- XIII. Provision for future generation reflected in investment decision particularly in the course of exploitation of exhaustible resources as well as in their maintenance of other natural resources.
- XIV. Number and size of overdue and stuck-up liability of productive loans and social credit as a percentage of total operations showing the degree of success or failure in granting credit.
- XV. Level of inter-Islamic Banks co-operation and co-ordination in areas of economic, financial and social investment.

The above fifteen variables can serve as a guide to social commitment of Islamic Banks.

Let us now discuss in some details the three sector models of Social Islami Bank Ltd. (previously known as Social Investment Bank Ltd.)

The Three Sector Models of Social Islami Bank Ltd (SIBL): The Three Sector Banking Models: “The Mannan Model (Bangladesh)”

The Social Islami Bank Ltd. (previously known as Social Investment Bank Ltd.) operationalized since 22 November, 1995 in Dhaka, Bangladesh.

The Three Sector Banking Models is described as “The Mannan Model (Bangladesh)” by Prof. Murat Cizakca in his recent Book ‘Islamic Capitalism and Finance’ published Edward Elgar in the USA (2011) in the following words: (Social Islami Bank Ltd., 1995).

“Professor M. A. Mannan has recently introduced a new model of cash waqfs. This is the case of the Social Investment Bank, a three-sector banking model operationalized since 22 November 1995 in Dhaka, Bangladesh. This bank floated the cash waqf certificate as a financial instrument in 1997. The three sectors are a formal incorporated bank, a non-formal bank focusing primarily on

microinvestment and microenterprises and finally a voluntary banking sector focusing on cash waqf certificates. Thus this institution represents a synthesis of the Western corporation with cash waqfs as well as microfinance. Mannan argues that issuance of cash waqf certificates and thus collecting cash from the public breaks the age-old monopoly of the rich for waqf establishment. Now, indeed, for the first time small savers can contribute to the establishment of a waqf. Mannan's Social Investment Bank constitutes a striking improvement upon the multiple founder cash waqfs discussed above, in the sense that theoretically the number of cash waqf certificate holders can now be infinite. Indeed, each certificate is issued in terms of a small denomination worth Tk.1000 (US\$21 only). It is therefore affordable to a large section of the population. Moreover, to make contributions even more affordable, cash certificates can also be purchased in installments (Social Islami Bank Ltd., 1995)."

In fact that the floating of Cash-waqf Certificate as a financial instrument by Social Islami Bank Ltd in 1997, followed by other six Islami Banks in Bangladesh and other countries such as Malaysia, Indonesia as well as in the USA is the clear manifestations of social, ethical, and moral foundation of Islamic Banking and Finance.

The operational thrust of activities of all three sectors are indeed mutually interdependent and collectively reinforcing, thereby making all these activities economically, socially and ethically transparent and "revealed" as explained in the table below.

Linking Credit to Culture: selected social credit programs

The following four examples of social credit schemes illustrate as to how credit can be linked to culture by an Islamic Bank.

- A. Concessional financing of consumer durable can be extended to newly married couple provided the marriage is "dowry" free. 'Dowry' is considered to be an un-Islamic social practice prevailing in many Muslim societies such as Bangladesh and India.
- B. Financing consumer durable on installment basis for all classes of fixed income group of families to improve their efficiency and quality of life.
- C. Rotating Family Savings and Credit Net (RFSCN) and group INSTALLMENT. Credit scheme for any group of individuals, such as,

housewives, bank employees, teachers and students, garment-industries employees to foster their savings and investments.

D. Concessional financing of consumer durable and investment in capital goods on installment basis for auto rickshaw drivers, rickshaw pullers, small shopkeepers and people at grass root level.

In my view, this linking credit to cultural and social Islamic values will have far-reaching theoretical and operational implications both at the level of micro and macroeconomics. This is expected to generate unprecedented forces of community participation and sharing and reduce the problem of employment, under-employment, improve the capacity of the economy to absorb the shocks of fluctuations of income, output and employment and help alleviation of poverty. This will eventually lay the foundation of an alternative concept of Islamic Banking and Finance ensuring sustainable social peace for a caring society (World Development Report, 1989).

Linking credit to family empowerment Micro-finance

The three sector model of Social Islami Bank is based on different approach and socio-economic philosophy, compared to other major financial and non-Banking financial institutions i.e. Grameen Bank and Non-Government Organization (NGO) operating in Bangladesh for alleviation of poverty. While Grameen Bank in Bangladesh and most of the NGO's intends to empower the woman, as opposed to man (as over 95% of its clients are women) they are heavily dependent on foreign loans, aids and grants and work on high interest rate basis ranging from 35% to over 50% and implicit assumptions of social class conflict, whilst the Social Islami bank model intends to empower the family as a basic social unit in line with Islamic values and generate its own internal resources through re-empowering and institutionalizing the various Islamic obligatory and voluntary tools of redistribution of income, humanizing formal and non-formal sector as well as monetizing the voluntary sector of the economy. It intends to involve both man and woman, rich and poor in poverty alleviation programs and to work on participatory basis on the implicit assumptions of social class harmony.

Table-1. Table Showing the Summarized View of the Inter-Dependent and Mutually Reinforcing Strategies of Sectoral Operations of Social Islamic Bank Limited (Previously known as Social Investment Bank Ltd)

Scope of Sectoral Operations	Basic Objectives	Basic Strategies of Operations	Location of Operations	Key Emphasis and Guidelines of Operations	Effect of the Overall Operations	Ultimate Goal of the Overall Operations
Formal Corporate Sector	Humanize the Formal Sector.	Providing corporate finance through competitive market mechanism to the relatively richer section of the society.	Mainly in the urban setting.	Tr • Triple Preferences: Economic, social and moral preferences to be "transparent and revealed" in all operations. • Li • Linking financial/economic entitlements to Social Assignments. Duties should define rights.	Strengthening the family and family chain for a better future generation.	Participatory economy and sustainable social peace for a caring society.
Non-formal/ Informal/Non-corporate Sector.	Socialize non-formal sector.	Providing informal/non-corporate finance through custom tailored micro credit package to the urban and the rural poor.	Both in urban and rural setting.	Tr • Triple Preferences: Economic, social and moral preferences to be "transparent and revealed" in all activities. Li • linking financial/economic entitlements to Social Assignments. Duties should define rights.	Empowering the family by creating income opportunities for the poor.	Participatory economy and sustainable social security for a caring society.
Voluntary third sector	Monetize third sector	Providing both corporate and non-corporate finance to the development of the third sector of the economy.	Both in urban and rural areas.	Tr • Triple Preferences: Economic, social and moral preferences to be "transparent and revealed" in all activities. Li • Linking financial/economic entitlements to Social Assignments.	Re-empowering the socio economic institutions for re-distribution of income and human fulfillment.	Participatory economy, sustainable institutional development for a caring society.

Source: Social Investment Bank Ltd (SIBL) ,2nd Annual Report, 1996, Page-9

Experience indicates that successful family empowerment credit program or group lending schemes, under Non-formal banking of Social Islami Bank Ltd. (SIBL) works well with groups that are homogeneous and jointly liable for defaults. The practice of denying credit to all group members in case of default is found to be most effective and least costly way of enforcing joint liability. Group lending arrangements without collateral are less subject to the dangers of portfolio concentration because bank is diversifying lending by serving a varied clientele in different areas under its family empowerment credit arrangement. Bank also is ensuring joint liability of wife and husband in case of lending to family or groups of families. This will humanize family and discourage internal immigration. Any attempt to decompose family through various credit and financing schemes in its ultimate analysis bound generate the forces of disintegration of families, internal migration, child delinquency, social alienation and social conflict. Any credit program which does not manage its socio-economic consequences cannot alleviate poverty (Cizakca, 2011).

Cash-waqf Certificate and establishment of World Social Bank as strategy for interest-free micro-credit to the poor

Waqf is known to be related to endowment of any property of permanent nature by a Muslim for any purpose recognized by Islamic law as religious, pious or charitable. The use of "Cash Waqf" recognized in Islam can also be traced during the Ottoman era as well as in Egypt.

As noted earlier, the main attraction of "Cash Waqf Certificate" Scheme as introduced by Social Islami Bank Ltd. for financing social investment projects of the community is that it enables every Muslim to participate in it by contributing any amount he or she can afford.

According to a recent Report, published by Pew Forum on Religion and Public Life, USA 2007, the global Muslim population stands at 1.6 billion, meaning that nearly 1 in 4 people in the world practice Islam. The same Report also presents a portrait of the Muslim world that might surprise some. For instance, Germany has more Muslims than Lebanon, China has more Muslims than Syria, Russia has more Muslims than Jordan and Libya combined, and Ethiopia has nearly as many Muslims as Afghanistan. Islam is world's second largest religion behind Christianity, which has an estimated 2.1 billion to 2.2 billion followers. The same study identified one

fifth of the world's Muslim population is living in countries, where Islam is not the majority religion.

Based on these statistics, various Simulation Models can be constructed based on different assumptions. Assuming mobilization of Cash- Waqf of one US dollar per Muslim in one month amounts to accumulation of about 1.6-billion-dollar cash-Waqf fund globally, 224 million in Indonesia, 160 million in Bangladesh, 154 million in Pakistan, 70 million in Turkey, 25 million US dollar in Malaysia and so on.

“Cash-Waqf” funds cannot used directly to finance projects. The fund will be invested in viable ventures and the returns from projects will be used to finance projects. The fact is that the challenge of the Muslim World in the fields of education, science and technology, health and research as well as the level of general economic deprivation of the masses have reached at general level of global crisis. An average of hardly 4% of the GNP of Muslim World spent on education against that of 7% on defense. At present, the Muslim world has the lowest number of manpower in the field of science and technology. “On a global scale, “three billion people live on less than \$2 a day, 1.3 billion do not have clean water, 130 million children don not go to school, and 40,000 children die every day because of hunger-related diseases. Within this deprivation is another dimension: hundreds of millions of girls and women whose lives are diminished and shortened by inadequate economic means and discrimination in social status and medical attention.” (Mannan, 1999).

Viewed from this perspective, “Cash-Waqf” finance can be seen as a process of expanding and unfolding the frontiers of human freedom that includes economic educational and social deprivations as well as disaster Management. Cash-Waqf Certificate provides new opportunities to transfer liquid asset and make connection with one another on a global scale and opened up new possibilities of human freedom from poverty. What is needed then is to rediscover this new source of Islamic finance by reviving Islamic socio-economic institutions like Waqf in its totality. Turkey has a very long history of Waqf. In addition, Awaqf properties are estimated to run into billions of dollars worldwide, yet hitherto there have been no systemic attempts to leverage this invaluable pool of assets to raise liquidity; to develop the Waqf properties and services for benefit of human societies through floating Waqf Development Bonds by Islamic Banks as intended.

Furthermore, there is an increasing demand for world class wealth management service for the fast-growing Islamic wealth management industry belonging to Muslim individuals and families (Mannan, 2011).

According to the Boston Consulting Group, these managed consulting families which is reported to be in excess of staggering US \$ 10.2 trillion. Based on the feedbacks and inter-actions with their clients and investors, many private bankers stressed there is a huge demand for Shariah-compliant wealth management products and services.

Thus viewed from these perspectives the mobilization of Cash-waqf fund on global scale, development of Awaqf properties and management of new Islamic wealth, the establishment of **World Social Bank** with its Headquarters in any major Muslim countries will create great opportunities for development of Commonwealth of Muslim countries and communities in Non-Muslim countries with a partnership of both public and private sector for serving humanity at large, thereby paving the way for Social Peace in the world. Since one fifth of the world Muslim population is living in countries where Islam is not the majority religion, there is a need to form **Commonwealth of Muslim Countries and Communities for the sake of peace.** Nation-state concept has generated crisis, conflict and war in the affairs of mankind, indeed.

In this context, a **Creative Task Force** may be established to explore the possibilities of:

1. Establishing **World Social Bank** with its Headquarters in any Muslim country.
2. Conducting joint research, massive translation of significant works/books of Muslim and non-Muslim of very academic disciplines into local languages in consideration of the fact that knowledge is a common heritage of mankind and there is then an urgent need for acquisition of knowledge and adapting contemporary excellence in science and technology by new young generation of Muslims projected to increase much faster than world's populating as a whole between 1910- 2050 (Source: Pew Research Centre, USA). Islamic Banking and Finance has its social, ethical and moral role to support these activities. In my view, the 21st Century is the golden age of development of the Muslim Countries.

CONCLUDING OBSERVATIONS

Clearly, there is a need to redefine the role of Islamic Corporate Bank, rediscover new role of informal Bank dealing mainly with family

empowerment micro-finance and voluntary sector Bank focusing on introduction of Cash-waqf Certificate. All modes of Islamic financing maybe redesigned in a manner so that inter-connectedness of economic, social and ethical preferences are “revealed” at their operational level, leading to reformulation of the theories of Islamic production and consumption function. Efforts should be made to mobilize Cash-waqf Certificate on a global scale towards establishment of **World Social Bank**, as a new strategy of interest-free micro credit to the poor for alleviation of poverty in both Muslim and non-Muslim countries. Cash-waqf Certificate is the clear manifestation of social, ethical and moral dimension of Islamic Banking and Finance.

REFERENCES

- Cizakca, M. (2011). *Islamic Capitalism and Finance, Origins, Evolution and Future*. USA: Edward Elgar.
- Kuhn, T. (1964). *The Structure of Scientific Revolutions*,. Chicago, USA: The University of Chicago Press.
- Mannan, M. A. (1984). *The Making of Islamic Economic Society*. 47 Opuba Street, Helipolis, Cairo, Egypt: International Association of Islamic Bank.
- Mannan, M. A. (1986). *Islamic Economics: Theory and Practice, Revised Edition*. Kent, UK: Hoddar and Stoughton Ltd.
- Mannan, M. A. (1989). *Economic Development and Social Peace in Islam*. London: Ta-Ha Publishers.
- Mannan, M. A. (1998, October 9-10). *New Frontiers of Islamic Banking in the 21st Century with Special Reference to Informal and Voluntary Sector Banking*. Cambridge: Second Harvard University Forum on Islamic Finance into the 21st Century, Harvard University.
- Mannan, M. A. (1999). Amertra Sen and James D. Wolfeusohn in Poverty Development and the People. Dhaka: Daily Independent.
- Mannan, M. A. (2013). *Understanding Islamic Corporate Finance: Theory and Practice*. Banglabazar, Bangladesh,: Afser Brothers.
- Mannan,, M. (2011). *Cash-waqf: Living by Giving and Sharing by House of Mannan Charitable Trust (HMCT)*,.
- Social Islami Bank Ltd. (1995). *First Annual Report*. Motijheel C/A, Dhaka, Bangladesh: Social Islami Bank Ltd.
- Social Islami Bank Ltd. (1995). *First Annual Report*. Motijheel C/A, Dhaka, Bangladesh: Social Islami Bank Ltd.

Social Islami Bank Ltd. (1996). *Second Annual Report*. Motijheel C/A,
Dhaka, Bangladesh: previously known as Social Investment Bank Ltd.
World Development Report. (1989). *World Development Report*.
Washington, DC, USA: The World Bank.