



“Do they not see the birds held poised in the vault of heaven? Nothing holds them up except God. Truly, there are signs in this for those who believe. God has made your houses places of rest for you and made tents for you out of cattle hides, which are light for you to carry, both when you are travelling and when you are staying in one place. He provides for you from the wool and fur and hair of cattle, household goods and articles for use for a time.”

[Al-Qur'an, Al-Nahl:79-80]



Prophet (ﷺ) said “Kinship is derived from Allah. If anyone maintains ties of kinship, Allah maintains ties with him. If anyone cuts them off, Allah cuts him off.”

[Al-Adab Al-Mufrad: 55]

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“Nations fail today because their extractive economic institutions do not create the incentives needed for people to save, invest, and innovate. Extractive political institutions support these economic institutions by cementing the power of those who benefit from the extraction.”

Daren Acemoglu and James Robinson
Why Nations Fail

Consumption Smoothing – Islamic Economics Perspective Salman Ahmed Shaikh

It is an empirical observation that people desire to have smooth consumption throughout their lifetimes. Lifecycle consumption hypothesis (LCH) and permanent income hypothesis (PIH) try to explain that in micro-founded framework. Both negate the Keynes’

assertion that average propensity to consume (APC) falls as income rises. Some micro-economic evidence is also consistent with LCH and PIH, at least in advanced economies.

Below, we try to explain how consumption smoothing is achieved and supported in an Islamic economic framework through a set of institutions and behavioural norms given that people want to spend their lifetime resources fairly equally throughout their lifetimes.

- ❖ Prohibition of Scrupulous Consumption.
- ❖ Proportional Zakat.
- ❖ Automatic Stabilizers.
- ❖ Inheritance Distribution.
- ❖ Private Transfer Payments: Infaaq (charitable giving) and Waqf (endowments).

Prohibition of Scrupulous Consumption

Islam discourages lavish consumption, i.e. Israaf (extravagance even in lawful things) and Tabzeer (wasteful consumption in unlawful things). Islam encourages modesty and balance and hence, with rise in income, consumption should not rise proportionally and hence, average propensity to consume for 'self' shall reduce. However, this may not reduce Average Propensity to Consume (APC). With increase in income, Islam encourages spending on others with directives for Infaaq (charitable giving).

Proportional Zakat

In Islamic economic framework, proportional Zakat linked with earned income acts as an automatic stabilizer. When aggregate personal disposable 'earned income' increases, more Zakat is collected and more amount remains at the disposal of the government to allocate as transfer payments to Fuqura (poor and needy), Masakeen (extremely poor and needy) and Gharimeen (borrowers in trouble).

When personal disposable 'earned income' decreases, obligatory Zakat also decreases and thereby providing an automatic relief to the income earner who is going through a lean patch. Moreover, fixed proportional levy reinforces Ricardian equivalence by reducing uncertainties in tax changes.

Automatic Stabilizers

When the personal disposable incomes decline in recessions, more people will become eligible for Zakat. Since Zakat is levied on both income and wealth, the redistribution of wealth will always be functional and operative in an Islamic economy due to wealth Zakat irrespective of the phase of the business cycle. Transfer payments to unemployed, poor, needy and debtors will continue unabated even when the economy faces a recession.

Inheritance Distribution

Family system of Islam brings social capital into existence. It ensures empathy and responsibility. It brings a very lasting and durable social safety net.

Islamic injunctions about how to treat orphans ensure social security for individuals with special circumstances.

Furthermore, the inheritance laws ensure that the wealth of the deceased is distributed widely among the members of the family of the deceased and this permanently and systematically ensures doing away with the concentration of wealth in every generation.

Private Transfer Payments: Infaq and Waqf

In Islamic economic framework, private transfer payments to the endowment deficient households in the form of 'Infaq' (charitable giving) and through the institution of 'Waqf' (endowments) could ensure that people have enough

income for their autonomous consumption even if markets are not ready to generate incomes for them during some periods.

Key Highlights of IFSB Report 2024 Muhammad Hammad

The Islamic Financial Services Industry (IFSI) assets saw a global growth of 4% year-on-year (YoY) to reach USD3.38 trillion in 2023, despite a challenging macroeconomic environment characterized by inflationary pressures, geopolitical tensions, and banking sector stresses.

Islamic banking continues to be the largest segment of the IFSI, constituting 70.21% of the total global IFSI assets in 2023, while Sukuk outstanding and Islamic funds collectively represented 29.08%, and the Islamic insurance segment represented 0.71%.

The regional distribution of global Islamic finance assets reveals a pronounced concentration in the Gulf Cooperation Council (GCC), which accounts for 52.50%.

The East Asia and Pacific region holds the second-largest share at 21.80%, trailed by the Middle East and North Africa (excluding GCC) at 12.70%. Further breakdown is as follows: Europe and Central Asia (8.30%), South Asia (3.10%), Sub-Saharan Africa (0.70%), and others (0.90%).

Financial Stability of the Islamic Financial Services Industry

Islamic banking segment

The Islamic banking segment demonstrated continued resilience across the key soundness indicators. Islamic banking assets saw a YoY growth of 7.21%, reaching USD 2.37 trillion by Q4 2023. The growth was driven by increases in deposits and financing of 7.92% and 5.97%, respectively.

The continued expansion of the global Islamic banking segment was also reflected in robust profitability indicators across most jurisdictions, against a lower or moderate cost to income, which positively affected Islamic banks' net income.

The improvement in profitability was backed by a decline in Non-Performing Financing (NPF) ratios across most regions with one exception and an increase in financing across all regions, mainly in the household, real estate, construction, and manufacturing sectors. Islamic banks remain well-capitalized.

The overall capital structure of the global Islamic banking segment across all regions continued to be robust and within regulatory requirements, with the average capital adequacy and Tier 1 capital ratios at around 19.10% and 17.83%, respectively. The global leverage ratio for Islamic banks remains above the 3% regulatory requirements for all regions.

However, challenges remain due to the scarcity of Islamic liquidity management instruments. Islamic banks often rely heavily on cash as part of their high-quality liquid assets to meet regulatory requirements, highlighting the need for expanded investment opportunities and the development of more diversified Shari'ah-compliant financial products.

Islamic capital markets

Sukuk outstanding reached USD 850 billion, reflecting a 2.45% YoY growth, with the continued strong demand for Sukuk reflected by oversubscription of major issuances during the year. Sovereign issuances accounted for over half of total issuances, while corporate issuances saw a slight downturn, although corporate issuers' participation in the Sukuk market has significantly improved in recent years. Sustainability-related Sukuk issuances increased substantially in 2023, amounting to a total of USD11.94 billion, of which around 65% were green Sukuk.

Islamic AuM fell to \$182.24 billion in 2023 due to macroeconomic and currency factors. Equity funds led allocations, followed by commodities. Islamic equity markets remained strong, outperforming conventional peers.

Islamic capital markets face liquidity challenges but have growth potential. Drivers include an improving global outlook, ethical investing, technology, government initiatives, and international integration.

Takaful

The global Islamic insurance industry demonstrated resilience in 2023, with contributions growing by 6.5% YoY to reach USD 24.05 billion in Q3 2023. This growth was primarily driven by the strong performance of the general segment, which saw an overall increase of 21% YoY globally. However, there were regional disparities in growth, with some regions reporting strong growth while others saw a slight decline, particularly in regions where the family segment is more dominant or those that experience a decline in USD terms due to the impact of currency depreciation.

Profitability differed by region, with some areas seeing significant gains. Factors driving growth included rising awareness, demand for savings and mortgage products, and regulatory efforts to consolidate the sector.

Underwriting performance was stable across most regions. Expense ratios decreased in the general segment, while the combined ratio slightly increased, signalling potential challenges.

Capacity constraints and increasing demand may cause market conditions to tighten further in 2024. Protection gaps are a key concern, exacerbated by rising natural catastrophes, climate risks, and geopolitical conflicts. Proactive regulatory actions are essential to

address these potential challenges and ensure the segments' stability and resilience. These include strengthening regulatory frameworks, implementing stress testing requirements, enhancing risk modelling for climate risk management, and monitoring potential vulnerabilities and risks, including interlinkages between sectors.

Forecasting

The International Financial Services Industry (IFSI) is poised for sustained growth in 2024, driven by an enhanced outlook for near-term global financial stability and anticipated disinflation. Robust resilience indicators underpin this positive trajectory. However, unforeseen tightening in global financial conditions may trigger capital outflows from emerging markets, potentially exerting downward pressure on currencies and other assets.

Thus, continued vigilance remains important, and regulatory and supervisory authorities should take steps to ensure institutions offering Islamic financial services (IIFS) can withstand potential global shocks and other risks through effective risk management and supervisory oversight using stress testing and early corrective measures. Where there are existing data gaps for the IFSI, reporting requirements should also be enhanced.

It is also important for regulators to prioritize full and consistent implementation of international prudential standards, notably complete the implementation of risk management, capital adequacy, and disclosure standards. Further progress on crisis management, particularly establishing adequate recovery and resolution frameworks, is also of critical importance to limit any impact in the case of failure of an IIFS.



Roundup of ICIHES 2024 Johor Bahru, Malaysia

On November 3 and 4, the Second International Conference on Islamic and Halal Economic Studies was held in Johor Bahru, Malaysia. It was jointly organized by Pertubuhan Legasi Tun Abdullah Ahmad Badawi, Universiti Kebangsaan Malaysia, Universiti Teknologi Malaysia, Ritsumeikan University, Japan, Kyoto University, Japan, Halal Development Corporation Berhad (HDC) and Jabatan Kemajuan Islam Malaysia (JAKIM).

The conference kicked off with address by Deputy Minister of Religion in

Malaysia. Dr. Zulkifli highlighted the importance of halal economy and how



the current government in Malaysia is committed to provide an enabling environment for halal industry. He highlighted the schemes and initiatives taken to support the halal economy in Johor as well as in Malaysia.

In his keynote speech, Prof. Mehmet Asutay of Durham University, UK emphasized that halal industry shall keep in perspective the pitfalls in traditional economy and try to achieve inclusivity by focusing on extended stakeholders governance, environmental responsibility and collective social interest.

He urged that the collective social interest shall prevail in policy making rather than serving the markets and elites. He emphasized on inclusivity in the economic and financial system and cautioned against becoming another segment serving the elites in the capitalistic paradigm.

Agro Bank also partnered in the conference. Chief Strategy Officer, Agro Bank, Mohamad Taufik in his keynote speech highlighted how Agro Bank became a full-fledged Islamic financial institution and now providing financing to the agricultural sector in both the upstream and downstream using not only the traditional as well as equity based modes of financing.

He highlighted that Agro Bank has also shared its expertise with Central Bank of Pakistan and such collaborations can help the other countries in halal economy to benefit from shared expertise.

The growth of the halal business is steadily expanding on a national and worldwide scale. The growing interest of numerous countries in developing the

halal industry indicates a promising future for this sector. In recent decades, religious demand has driven the halal economy to become a distinct segment of the global supply chain.

The consumption pattern associated with halal products is not limited to Muslims alone but also encompasses all economic stakeholders. Non-Muslim consumers may also prefer halal products for sanitation, quality, hygiene, and safety reasons.

The conference aimed to provide a platform and opportunity for practitioners, scholars, researchers, academicians, graduate students, NGOs and others from all over the world to converge and be proactively engaged in intellectual discourse on halal economy discussion, to explore new ideas and present the latest research findings related to all issues on halal economy either locally or internationally, in relation to the current phenomena pervading the Muslim communities.

It was emphasized by the experts in panel discussion that the halal industry plays a crucial role in achieving the Sustainable Development Goals (SDGs), specifically in addressing poverty, and hunger, promoting healthy lives and well-being, fostering decent work and economic growth, as well as driving industry innovation and infrastructure development, and sustainable consumption and production. To achieve this, collaborations among various stakeholders are vital to accomplish the objectives of SDGs.

Experts urged that regulation and standardization is important, but capacity building, innovation and productivity are also important to thrive

in the halal industry. Muslim majority countries including Malaysia have to focus on leading the regulation as well as the market through enhancing innovation, value addition, productivity, infrastructure and trade collaborations regionally and globally.

Prof. Kasogi Yasuhi of Ritsumeikan University, Japan highlighted that there are plenty of reasons why halal economy shall be embraced by all. Prof. Abdul Ghafar Ismail, Honorary Professor at University Kebangsaan Malaysia in his speech highlighted how halal economy can benefit Johor economy as it is one of the significant contributors to Malaysian economy and holds great potential as a port city.

The conference also exhibited the halal products and services provided by University Kebangsaan Malaysia and Universiti Teknologi Malaysia among others. There are exclusive services and capacity building programs offered by these two universities to increase awareness and acumen about halal regulation, halal testing and halal certifications.

During the panel discussions, experts also emphasized that there is need for trans-disciplinary research in halal studies involving, economists, lawyers, scientists along with sociologists and jurists.

It was discussed that halal economy includes halal markets as well as distributive institutions beyond markets. Such institutions play a crucial role in helping micro-enterprises and consumers to get their needs fulfilled in halal economy.

Experts also discussed that the term halal economy is more neutral, more inclusive and gives an opportunity for dialogue and shared vision. It also helps Islamic economy to portray its significance as the size of Islamic finance may still be less than 5% of global finance, but halal economy adds to traditional economy while leaving or replacing only a few segments in traditional economy. Thus, policy discussions and dialogue will be helpful while using the term halal economy as it is an embedded and commonly shared reality.

Nonetheless, the authors also cautioned that halal economy shall not be looked upon only as a market opportunity. It should strive to avoid the pitfalls and limitations of liberal market economy and contribute positively to the goals of inclusive, sustainable and sound environmental and economic governance and development.

The papers presented in parallel sessions focused on nexus between the concept of halal and sustainability and how the blending can help reach new market segments, foster collaborations and reduce apprehensions about Islam. The research papers discussed the following important elements in halal economy.

- ❖ Consumers' attitudes and readiness towards halal products
- ❖ Market segmentation analysis of halal markets
- ❖ Search for new markets in halal economy
- ❖ Regulatory aspects in halal products
- ❖ Definitional aspects to refine and contrast the concepts of halal and Tayyab

Roundup of World Zakat Waqf Forum 2024 Jakarta Indonesia

The 13th edition of the World Zakat Forum was held in November 2024 in Jakarta, Indonesia. The participants included Zakat administrators, representatives from Muslim states, corporate entities, NGOs and members of local communities and leaders from around the world.

They reaffirmed the resolve to follow principles of justice, compassion, and shared prosperity with a united vision to establish a sustainable and impactful global order for Zakat and Waqf.

This year's conference had the honour of welcoming the Ministers of Religious Affairs from Indonesia and Malaysia, who addressed the delegates with inspiring messages. Their esteemed presence reflects the growing recognition of the WZWF as a significant platform for dialogue and collaboration.

The forum highlighted that Zakat and Waqf serve as beacons of support and transformation for people around the world.



The forum emphasized on integrating Zakat and Waqf in a way that transforms lives and strengthens communities. There is need for collective vision encompassing the individual, the family, and the wider social order, fostering a comprehensive approach to socioeconomic development.

The forum saw enactment of the Global Zakat and Waqf Policy Advisory Council, where the foundational principles of Zakat (Zakat Core Principles) and Waqf (Waqf Core Principles) will serve as the twin policies for transformation. This council will uphold the integration of these core principles as guiding forces for unified, sustainable, and impactful policy development in the Zakat and Waqf sectors worldwide.

The forum called upon the leadership of OIC and IsDB member countries, alongside the Muslim communities globally, to acknowledge the urgency of reinvigorating Zakat and Waqf in daily life.

The forum pledged to work collaboratively with leaders of other faiths and like-minded institutions, as we share a common mission founded on justice, compassion, and shared prosperity. Through interfaith partnerships and cross-institutional collaboration, the forum aims to foster mutual respect, understanding, and shared action.

Recognizing the importance of effective governance and operational standards, the forum resolves to establish a robust Standard Operating Procedure (SOP) to ensure systematic management, transparency, accountability and integrity. This includes setting up an advanced archiving system for the preservation and accessibility of historical records, as well as implementing structured membership protocols to enhance engagement and representation within the WZWF.

The forum affirmed its aim to position the World Zakat and Waqf Forum as a vibrant, enduring institution, aligned with the aspirations of the 21st century and beyond. Building on the legacy of institutions such as IsDB and OIC

established since the 1970s, it aims to inspire a renewed sense of mission and purpose.

The WZWF annual meeting also reaffirmed its steadfast commitment to upholding the rights and interests of the Palestinian state, in alignment with international laws, established protocols, and relevant United Nations resolutions.

Finally, the conference urgently called upon the WZWF to take a leading role in championing green initiatives. WZWF urged to mobilise members from Muslim countries and communities in a unified commitment to sustainable development and resilience-building, to mitigate the profound impacts of climate change and protect future generations.

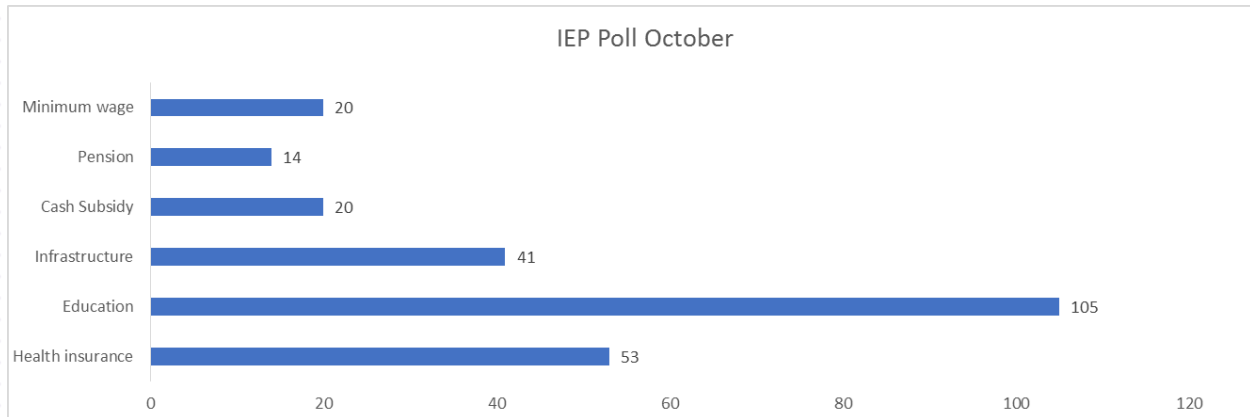
IEP Public Poll

In October 2024, the Islamic Economics Project held a public poll on its Facebook and LinkedIn page. The question in the survey was: “For improving the general standard of living, which allocations in the budget is important”:

- ❖ Health insurance
- ❖ Education
- ❖ Infrastructure
- ❖ Cash Subsidy

- ❖ Pensions
- ❖ Minimum wage

More than 250 people voted in the poll; the answers are illustrated in the graph below. It is interesting to note that more than 42% of the people voted for education.



21% of the respondents think that health insurance will be most important. 16% of the people are in favour of spending on infrastructure while 8% believe that cash subsidy and minimum wage are better options. Only 6% people voted for pension.

Education is the highest-voted option in the poll because investing in education helps develop a skilled workforce, reduces poverty, and increases economic mobility. Healthcare allocation ensures access to quality medical services, improves health outcomes, and reduces mortality rates.

Investing in infrastructure, especially in roads, public transportation, water supply, and sanitation improves connectivity, facilitates economic growth, and enhances quality of life.

Cash subsidies can indeed improve the general standard of living, especially for low-income households, by increasing their disposable income and enabling them to afford necessities.

Minimum wage laws can help reduce poverty and income inequality, which are key determinants of a standard of living, by ensuring a living wage. Pensions were the least-voted option in the poll because resources are limited. That's why the government should use these resources effectively and provide other necessities instead of allocating on pensions. Pensions can offer financial security and reduce stress about basic needs, so they might also be a useful head for allocation when other needs are well looked after.

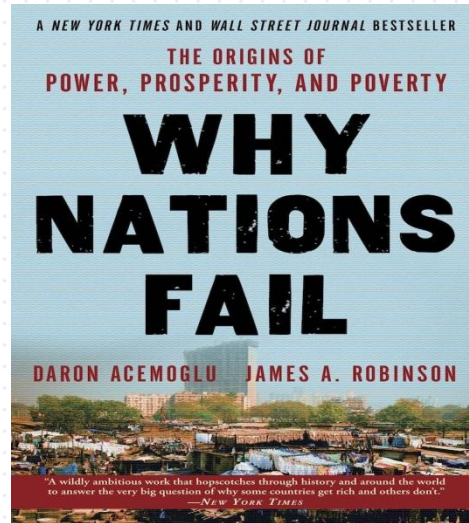


Book Review

Title: Why Nations Fail

Editors: Daron Acemoglu and James Robinson

Publisher: Crown Publishers



Why Nations Fail by Prof. Darren Acemoglu and Prof. Robinson is an examination of the factors that contribute to the success or failure of nations. They argue that inclusive political and economic institutions lead to prosperity, while extractive institutions lead to poverty and failure.

The authors criticize the proponents of other theories explaining global inequality. For example, the geographical theory of Jeffrey Sachs and Jared Diamond, the theory of ignorance of the elites by Abhijit Banerjee and Esther Duflo, as well as various cultural theories, such as that of Max Weber about the influence of Protestant ethic on economic development.

Authors argue that a country's propensity to wealth or poverty is not simply based on its geography (compare Mexico and USA), culture (Christian USA vs. Christian South America) or knowledge base (which can be borrowed and taken up through IMF, WB and global development financial institutions, albeit with limited positive results in Africa and South Asia).

Many countries have been in stagnation for a long time, and then, at a certain point in time, began a rapid economic growth, although their geographical position did not change.

Authors argue that some nations are wealthier and more prosperous than others because of their political and economic institutions (e.g. government, market system). Good (inclusive) institutions enable investment and a sense of security in the government and the economic system and so nations prosper, but bad (extractive) institutions do not. Virtuous circles of innovation, expansion and peace are formed from inclusive institutions which form a cycle of increasing prosperity.

Prof. Acemoglu and Prof. Robinson argue that exclusionary policies designed to enrich the elites and exploit the poor majority have prevented technological innovation, as the existing elites fought tooth and nail against anything that might endanger their privileges.

In the eyes of the authors, it is inclusive political and economic institutions, which incentivize investment and innovation, through their protection of human and property rights that ultimately lead to the success of a nation. They draw upon a wide array of examples, such as differences in intellectual property rights, and the impact that this has had in prosperous nations whilst contrasting this with the lack of such rights in poorer nations.

Inclusive economic institutions protect the property rights of wide sections of society (not just the elite), they do not allow unjustified alienation of property, and they allow all citizens to participate in economic relations, in order to make a profit. Under the conditions of such institutions, workers are interested in increasing labour productivity. Nations, where individuals or corporate organizations find it difficult to loot the country's national treasury, they will find it easier to build a good economy.

Extractive economic institutions exclude large segments of the population from the distribution of income from their own activities. They prevent everyone, except the elite, from benefiting in economic relations, who, on the contrary, are allowed to even alienate the property of those who do not belong to the elite.

In the context of such institutions, workers have no incentive to increase labour productivity, since all or almost all of the additional income will be withdrawn by the elite. Such economic institutions are accompanied by extractive political institutions that exclude large sections of the population from governing the country and

concentrate all political power in the hands of a narrow stratum of society (for example, the nobility).

Examples are absolute monarchies and various types of dictatorial and totalitarian regimes, as well as authoritarian regimes, with external elements of democracy (constitution and elections), which are so widespread in the modern world, where power is supported by power structures: the army, the police, and dependent courts.

The very fact that there are elections in a country does not mean that its institutions cannot be classified as extractive: competition can be dishonest, candidates' opportunities and their access to the media are unequal, and voting is conducted with numerous violations, and in this case the elections are just a spectacle, the ending of which is known, in advance.

Authors also discuss China's economic boom, attributing it to increasingly inclusive economic policies. According to Acemoglu and Robinson, economic growth can lead to changes in political institutions. They caution that if China does not improve its political balance, it may face a collapse similar to the Soviet Union in the 1990s.

Political institutions, like a constitution, determine the written distribution of political power, while the distribution of economic resources determines the actual distribution of political power.

Both the written and actual distribution of political power impact economic institutions and how production is conducted. They also shape future political institutions. Economic

institutions also determine the distribution of resources for the future. This framework is time-dependent, as today's institutions determine tomorrow's economic growth and institutions.

Some critics think that the book fails to explain the recent economic development in China and India.

China, under an authoritarian regime, has achieved rapid economic growth, while democratic India has lagged behind. This challenges the book's theory of inclusive and extractive political institutions. Several examples in Asia, including Singapore and South Korea, easily refute argument that democratic political institutions are prerequisites for economic growth.

The authors believe that political "inclusiveness" must come first, before growth is achievable. Yet, most examples of economic growth in the last 50 years—the Asian miracles of Hong Kong, Korea, Taiwan, and Singapore—took place when their political system tended more toward exclusiveness.

The authors point out that political institutions create economic ones, so true economic change starts with political change. This means that a country has to adopt inclusive practices in order to achieve meaningful economic growth. However, the case study of China tells a different picture.

Peter Forbes also argues that politically inclusive countries at home may still have extractive elements—for instance, the existence of a shadow banking system, of conglomerate manufacturers.

He warns against extractive practices, under the guise of an inclusive economy.

Critics also argue that there is insufficient appreciation in the book that inclusive domestic institutions can be supported by extractive ones abroad. Colonists enjoyed economic benefits from colonies. Extractive institutions abroad could support the growth of inclusive institutions domestically.

From an Islamic economics perspective, the authors undermine that inclusive institutions may foster growth, but exacerbate inequality. Growing inequalities then undermine shallow claims of inclusivity and can make democracies also serving elite dominance. Crony capitalism is an example.

Therefore, inclusivity of opportunities in law is one thing, but having an equitable distribution of income and wealth for equality of opportunities and fair start are different things altogether.

Furthermore, inclusive institutions within nation states still are not able to boost commitment towards wider goals of global peace, justice and environmental sustainability. Even the most so called inclusive nation states are complicit in crimes against humanity across borders and chief contributors to the environmental and economic injustice with future generations of their own domestic lands.

Islamic economics promotes inclusive institutions and checks extractive institutions through its norms and teachings about justice, fairness, honesty, accountability and transparency. It highlights the worldview

which gives objective morality, deterministic incentives and reward system in two-worldly view of life and reduces tension between nation states, between current versus future generations and between human versus other species.

Islamic economics presents the custodian model rather than anthropogenic view of world and life. The objective and universal morality given by Islam can bring about shared prosperity not only of few, but all human nations, not just current, but future generations and not just human, but other species as well.

Islamic economics compliments market mechanism with beyond market institutions to check inequality by wealth transfers from rich to the poor in Zakat and by building social safety nets as perpetual common property resources to reduce private concentration of wealth through Waqf.

Lastly, the inheritance distribution ensures that there is 'one to many' transfer of inherited wealth in each generation from each unit of the household.

Research Paper in Focus

Paper Title: The Influence of National and Individual Islamic Governance on Islamic Banks' Social Performance

Author: Admir Meskovic, Emira Kozarevic and Alija Avdukic

Publisher: Journal of Islamic Accounting and Business Research, 15(6), 911 - 944.

The paper examines whether the social performance of Islamic banks has an association with Islamic governance or not. The paper takes data from multiple countries and the results are interesting. As against the common perception, there is a positive association between Islamic governance and social performance of Islamic banks.

The paper also cites several studies which discuss the social failure of Islamic banks. The results suggest that while Islamic banks may need to still improve their social performance, strong Shari'ah governance only compliments that

objective rather than appearing as a hurdle or substitute.

Therefore, the results imply that rather than making a choice between strengthening Shari'ah governance and improving social performance, the Islamic banks shall focus on both.

However, the social performance of Islamic banks has to be evaluated on standalone basis as well rather than just looking at its association with Shari'ah governance.

The authors mostly used indicators which are capturing existence and non-

existence of an attribute rather than looking at the economic significance and salience of the activity.

Therefore, it is important to document not just the existence of performance on social indicators, but also the level of performance. Then, it is also useful to compare it with conventional banks to see whether that performance is as per the industry average, better than the industry average or worse than the industry average.

Furthermore, the use of multiple indicators can overshadow the performance on some more critical indicators. As part of economy as banking companies, Islamic banks are obliged to follow the labour related regulations, governance related regulations, environmental related regulations, ethical codes of conduct and so on.

It is important to capture what are the distinct initiatives Islamic banks had taken on their own with the explicit and conscious mind-set to further the social performance in compliance with Maqasid-e-Shari'ah.

As authors note themselves, capturing social performance on self-reporting basis is a limitation. It can bring self-stated bias where the institution is over projecting its efforts and initiatives and under reporting weaknesses or omissions in social performance.

In the model itself, it will have been better to include measures of profitability and liquidity. Plausibly, more profitable and liquid banks would be in a better position to have strong social performance. It could also be that profitability and liquidity drive social

performance since Islamic governance variables is expected to have less variability as all Islamic banks invariably have strong Shari'ah governance mechanisms in place anyways.

Furthermore, it will have been useful to also capture the country-specific variations in the separate regressions for banks in different jurisdictions. Among the other explanatory factors, the funding source of Islamic banks also needs to be taken into account as shareholders determine the path for the bank. If shareholders have strong social and impact motives, then this can allow the management to be focusing on social performance more intently.

It is also important to study the data more carefully. For instance, an asset light Sukuk priced at interbank rates may not be in anyway economically distinct than a bond. Just because it involves an asset, it does not make the transaction meaningful to the real economy in the sense it is emphasized in Islamic economies literature.

Likewise, use of Musharakah and Mudarabah in interbank transactions may involve huge volumes, but it is not going to have meaningful and distinctive results unless it is used to finance SMEs, MSMEs and private sector businesses. Furthermore, avoiding interest may make the transaction interest-free, but not necessarily less costly. Higher cost of financing can be more exclusionary and lead to extractive profits for banks higher than the industry average.

Lastly, the results of negative association between national Shari'ah board and social performance are not plausible and even somewhat contradictory to the

other result that Islamic governance is positively influencing social performance.

The future studies shall revisit the model variables and attempt to document the social performance of Islamic banks in a more objective and deeper way.

Islamic banks need to revisit their performance and focus on both strong Shari'ah governance as well as distinctive and meaningful social performance.

Reflections

Religion concerns primarily with the moral sphere of life. It concerns with the moral conscience and strengthening it to elicit positive actions and behaviour. The developments in technology through modern science are in no way a replacement of moral values. Just like we can survive without sun neither in ancient times nor to this date, the same way religion is also a fundamental part of human society by giving it values and meaningfulness.

If the precious moments of life are pursued in following the commands of the Creator with regards to moral behaviour and fulfilling responsibilities, then death will be followed by a life of everlasting happiness and that will begin for never-ending again. The concept of afterlife accountability promises absolute justice for every small act of evil or kindness in this life.

Immanuel Kant is quoted to have said: "In law, a man is guilty when he violates the rights of others. In ethics, he is guilty if he only thinks of doing so.⁹⁶" The question is who knows the intentions and who can provide absolute justice. Even if we could know intentions and start enforcing punishment, the suffering is irreversible as the punishment can only

take the life of the murderer at best. Criminals responsible for genocide and unjust wars cannot be accorded with absolute justice even if they accept all their crimes. Belief in afterlife accountability promises absolute justice for every small act of evil or kindness in this life. It enlightens human's life and makes every act of everyone relevant. Belief in afterlife accountability actualizes the cause and effect in moral matters.

Islamic worldview says that humans are one of the creatures of Allah along with other living and non-living things created by Allah. As creatures, not as fittest survivors, we owe thankfulness to Allah for our existence, which is made possible through all suitable life-supporting systems on this earth. This worldview engenders a spirit of compassion, humility, kindness, care, sacrifice and humbleness.

Have we created ourselves? If not and if we have been created, then the intellect with which we discover knowledge about the matter in physical sciences to answer the question of 'What is' and the conscience with which we differentiate between right and wrong, are both created and bestowed by Allah.

Some people often ask that why would people who do not belong to any faith, but who do pro-social acts not get anything in the afterlife from Allah. If a person does not believe in Allah and afterlife, then, it is important to understand what will have been the motive of that person for good actions. It may be one of these things: 1) helping others and see their lives improve in this world, 2) getting a good name and die in good records till this world ends and 3) gain self- satisfaction till the life ends. These can be some of the broad

objectives for a person who does good acts and who knowingly does not believe in Allah and afterlife. As far as this world can provide justice, all of these objectives will be achieved to a certain extent. If not achieved or if a person anticipates that the world will not be just enough to reward good actions and right intentions; then, one has to question how the 'aspiration of absolute justice' can be fulfilled. Religion promises absolute justice for every wilful action and intention in the afterlife for everyone.

Market News

- ❖ Omani lender launches Shariah-compliant medical finance solution (Salaam Gateway, Oct 08).
- ❖ Qatar Stock Exchange sees Islamic stocks outperform (ZAWYA, Oct 08).
- ❖ Tuum launches foundational Islamic Banking and Finance solutions (The Paypers, Oct 21).
- ❖ The 26th Amendment mandates the elimination of Riba by 2028 (The Express Tribune, Oct 21).
- ❖ Pakistan to get a \$3 billion loan from Islamic Trade Financing Corporation (Arab News PK, Oct 25).
- ❖ Malaysia invests \$906.67 million to enhance MSME lending and Islamic finance (Asian Banking & Finance, Oct 22).
- ❖ The High Court approves MCB's conversion of 39 branches to Islamic banking (Mettis Global, Oct 08).
- ❖ Saudi's Al Rajhi Bank secures a \$1.92 billion Sharia-compliant credit facility (ZAWYA, Oct 09).
- ❖ Qatar: Dukhan Bank announces successful debut issuance of \$800 million Senior Sukuk (ZAWYA, Oct 03).
- ❖ Kuwait Finance House sells an 18.18% stake in Sharjah Islamic Bank (ZAWYA, Oct 24).
- ❖ The father of Malaysian Islamic Banking, Abdul Halim Ismail passes away (Bernama, Oct 20).
- ❖ Bank of Sharjah issues \$750 million Sukuk for Sharjah Government (ZAWYA, Oct 10).
- ❖ IsDB raised \$1.25 billion through its second public Sukuk of 2024 (IsDB raises, Oct 09).

- ❖ Masood Textile secures Rs 2 billion from the Sukuk issue to refinance debt (Mettis Global, Oct 11).
- ❖ Bahrain: GFH wins investors' approval for \$500 million Sukuk programme (ZAWYA, Oct 10).
- ❖ \$19.6 billion of Islamic bonds, Sukuk listings on Abu Dhabi market: SCA (ZAWYA, Oct 01).
- ❖ Outstanding global Sukuk hit \$900 billion by Q3: Fitch Ratings (Arab News, Oct 09).
- ❖ Saudi Arabia offers October 'Sah' Sukuk savings products with over 4.9% return (Arab News, Oct 06).
- ❖ Dentons advises Arada Developments LLC on the \$150 million tap issuance of its \$400 million Sukuk due 2029 (Denton's, Oct 10).
- ❖ Dubai Islamic Bank issues \$500 million Sukuk (ZAWYA, Oct 10).
- ❖ UNDP facilitates consultations on the "Development of Green Sukuk Framework" and Professional Training on "Islamic Finance and Green Sukuk" in Uzbekistan (United Nation Development Programme, Oct 22).
- ❖ Saudi raises over \$2 billion from multi-tranche Sukuk (ZAWYA, Oct 24).
- ❖ Nasdaq Dubai welcomes listing of \$500 million AT1 Sukuk by Dubai Islamic Bank (Emirates24/7, Oct 24).
- ❖ Abu Dhabi's Mubadala picks banks for debut 5-year Sukuk sale (Business Recorder, Oct 28).
- ❖ Govt picks Rs 251 billion through Sukuk auction via PSX (Mettis Global, Oct 18).
- ❖ PSX raises over Rs 1 trillion through via GOP Ijarah Sukuk (Associate Press of Pakistan, Oct 17).
- ❖ Saudi Aramco completes \$3 billion international Sukuk issuance (ZAWYA, Oct 03).
- ❖ RHB concludes RM 800 million Sukuk issuance (Bernama, Oct 18).
- ❖ Emirates REIT to sell Office Park for \$196 million as Sukuk deadline approaches (ZAWYA, Oct 01).
- ❖ Takaful insurance market expected to reach \$120.2 Billion by 2030 as revealed in new report (WhaTech, Oct 10).
- ❖ Solidarity Bahrain launches life Takaful protection plans (ZAWYA, Oct 22).
- ❖ Malaysia Budget 2025: RM 20 million in matching grants for micro-entrepreneurs' insurance, Takaful contributions (MIFC, Oct 23).
- ❖ Selangor Sultan receives RM3.9 Million in Business Zakat from PNB (Bernama, Oct 16).
- ❖ Rp 34 trillion collected through Islamic social finance instruments (ANTARA News, Oct 04).
- ❖ Amid BJP allegations of Waqf notices for 1,200-acre land at Honwad, the Karnataka government says none from the village served notice (The Indian Express, Oct 28).

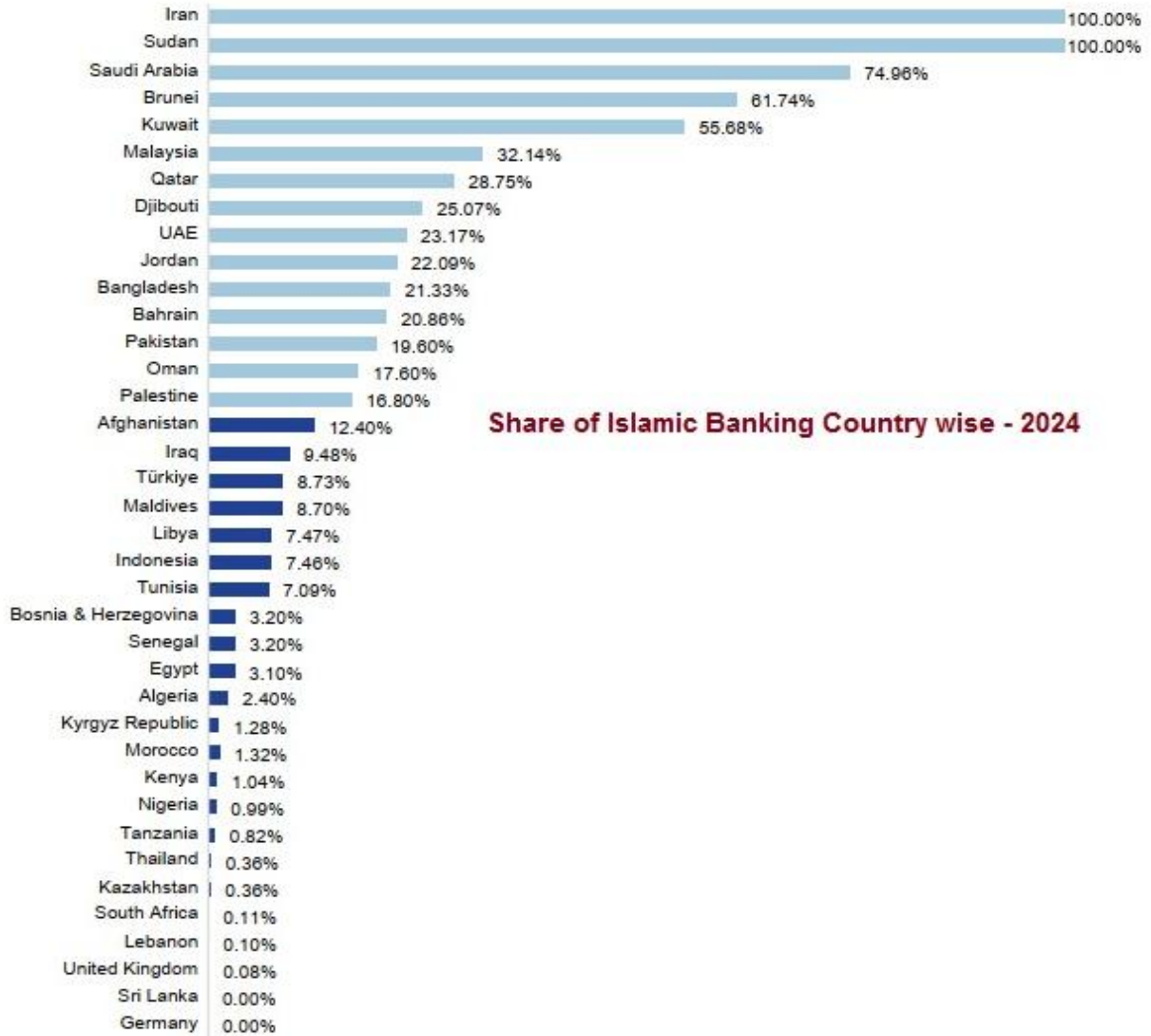


Economic and Financial Indicators

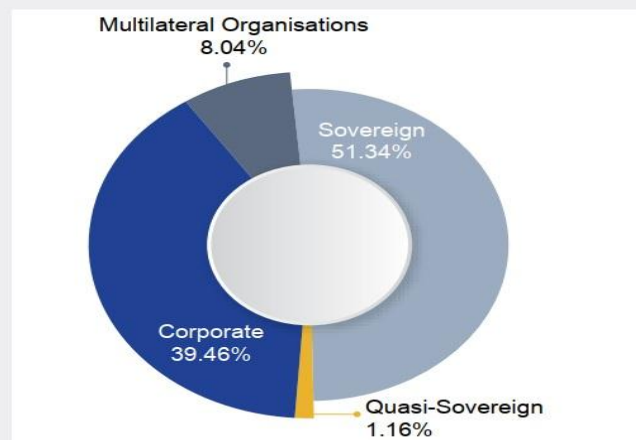
Islamic Banking Statistics 2024

Country	CAR	Gross NPF	ROA	ROE	Net Profit Margin	Cost to Income
Bahrain	19.5	0.8	0.8	10.2	37.3	54.1
Bangladesh	21.2	1.2	0.5	11.1	34.4	54.8
Brunei	16.4	2.0	1.7	14.0	55.3	45.6
Egypt	18.34	2.0	3.50	40.58	63.70	14.59
Indonesia	25.41	2.10	2.55	18.19	33.31	66.69
Jordan	19.4	2.0	1.5	16.9	51.4	48.6
Kuwait	17.9	1.7	0.5	4.1	57.5	40.9
Malaysia	17.7	1.5	1.0	14.1	37.8	41.9
Morocco	20.0	0.3	-1.5	-17.3	-63.3	159.6
Nigeria	13.53	6.02	2.31	54.40	31.82	60.3
Oman	15.6	3.2	1.2	8.8	36.4	56.8
Pakistan	21.7	4.9	5.3	81.9	64.2	35.8
Palestine	14.8	5.4	0.4	5.2	10.4	61.0
Qatar	19.1	1.8	1.5	16.2	40.1	13.3
Saudi Arabia	19.5	1.0	2.22	16.9	61.9	38.1
Sudan	8.60	4.68	3.01	34.1	37.5	50.0
Turkey	17.9	0.9	3.2	41.3	37.6	41.8
UAE	18.4	6.3	2.0	15.3	35.7	54.4

Source: IFSB Data

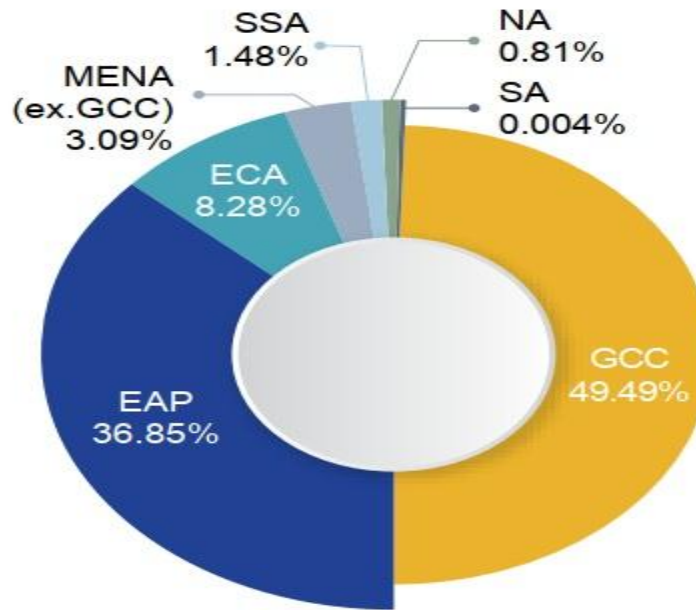


Şükük Issuances by Issuer Type (2023)



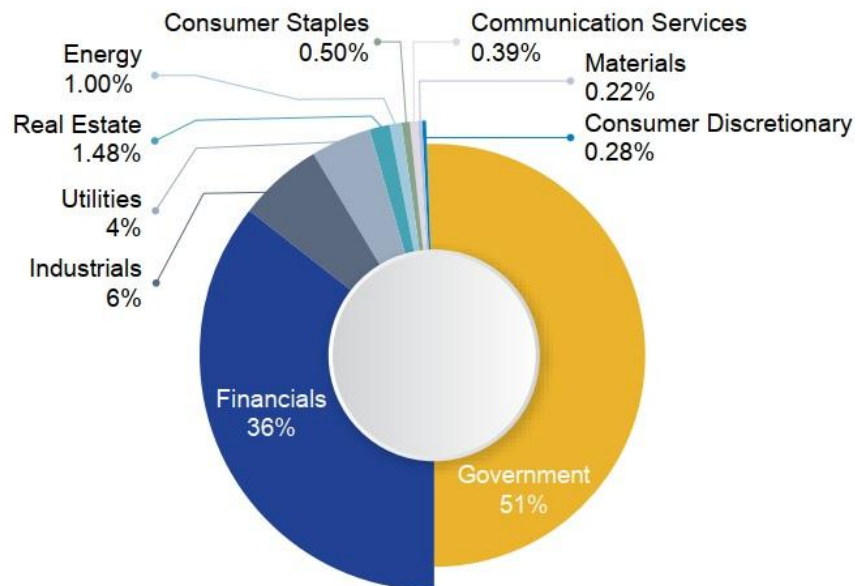
Source: IFSB estimates based on data from Refinitiv

Corporate Şukūk Issuances by Region of the Originator (2023)



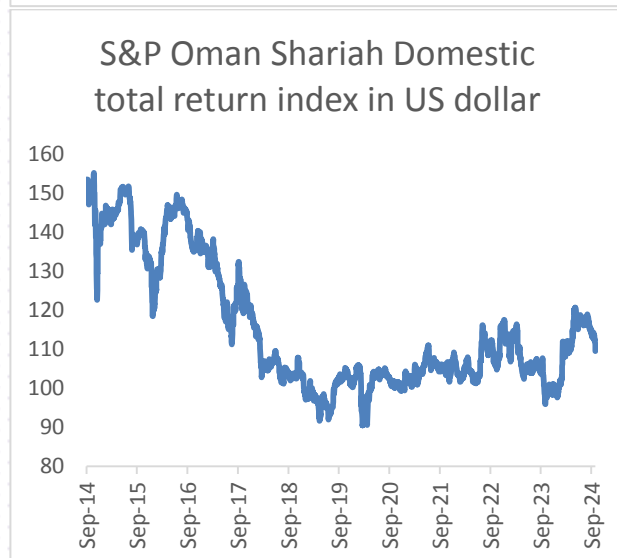
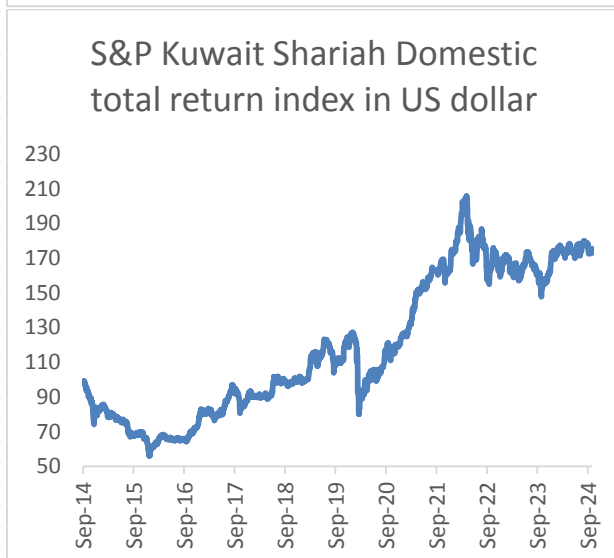
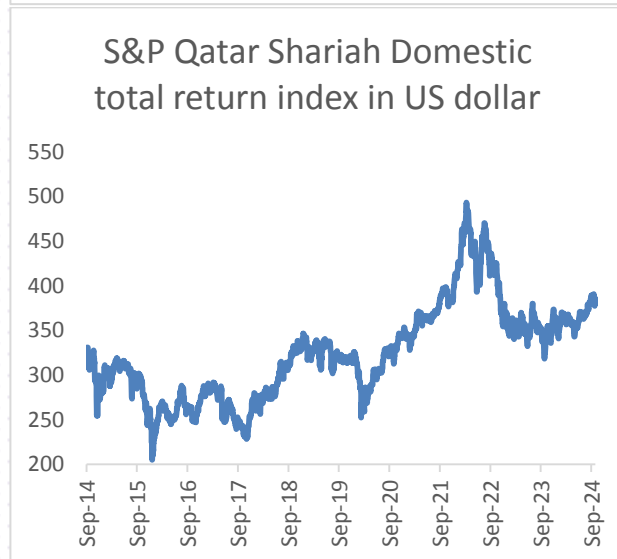
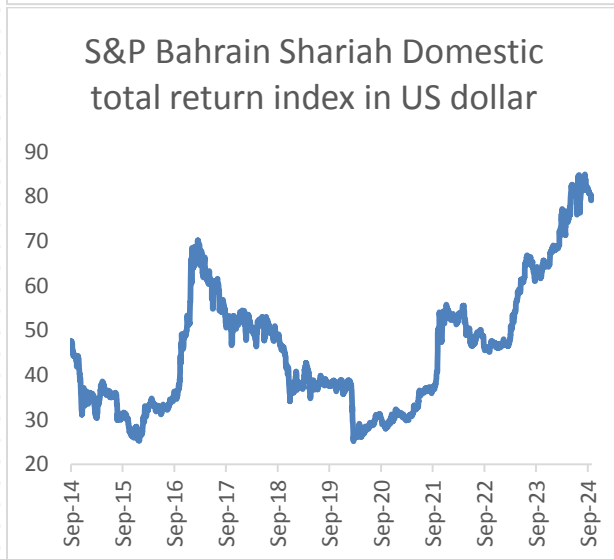
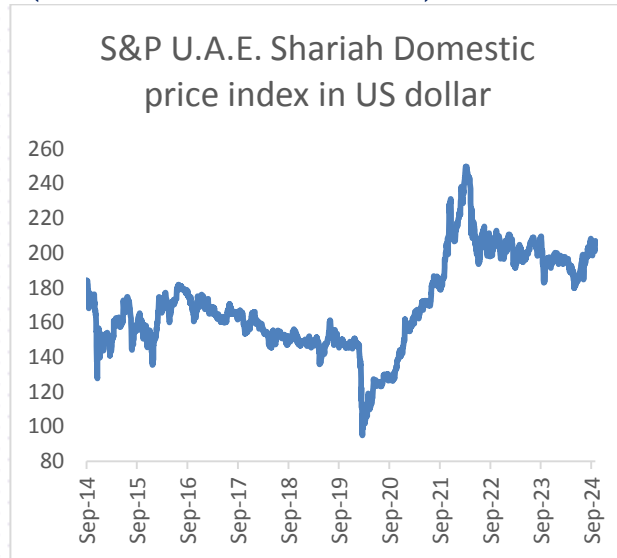
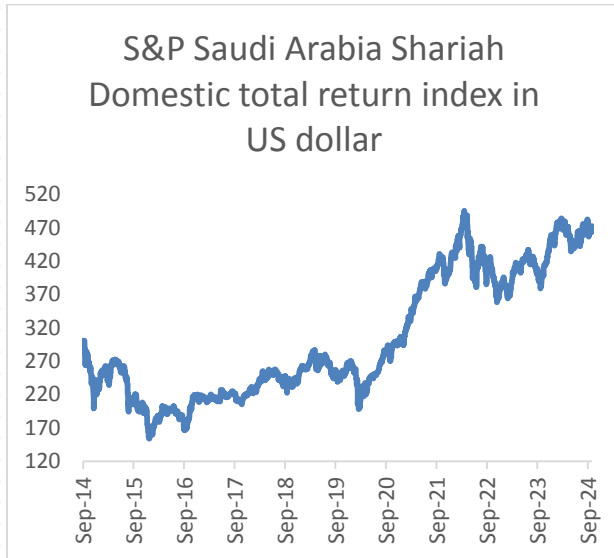
Source: IFSB estimates based on data from Refinitiv and Regulatory Authorities (excluding Iran due to data limitations)

Sectoral Distribution of Global Şukūk Issuances (2023)



Source: IFSB estimates based on data from Refinitiv and Regulatory Authorities

Islamic Investment Indices (Source: SP Dow Jones)



Projections for Real GDP Growth for 2023, 2024 and 2025

Country	2023f	2024f	2025f
Algeria	1.7	2.4	2.1
Bahrain	2.7	3.2	3.1
Bangladesh	5.2	6.2	6.4
Benin	6	5.9	6.1
Burkina Faso	4.3	4.8	5.1
Chad	3.2	3.4	3.1
Comoros	2.8	2.9	3.6
Côte d'Ivoire	6.2	6.5	6.5
Djibouti	4.4	5.4	5.9
Egypt	4	4	4.7
Gambia	5	5.5	5.8
Guinea	5.6	5.8	5.6
Guinea-Bissau	4.5	4.5	4.5
Iran	2.2	2	1.9
Iraq	-1.1	6	3.7
Jordan	2.4	2.4	2.4
Kenya	5	5.2	5.3
Kuwait	1.3	2.6	2.4
Lebanon	-0.5		
Maldives	6.6	5.3	5.9
Mali	4	4	5
Mauritania	4.5	5.6	6.8
Morocco	2.5	3.3	3.5
Mozambique	5	8.3	5.3
Niger	6.9	12.5	9.1
Nigeria	2.8	3	3.1
Oman	1.5	2.8	2.6
Pakistan	0.4	2	3
Qatar	3.3	2.9	3.1
Saudi Arabia	2.2	3.3	2.5
Senegal	4.7	9.9	5.2
Sierra Leone	3.4	3.7	4.4
Suriname	2.4	3.2	3.1
Syrian Arab Republic	-5.5		
Tunisia	2.3	3	3
United Arab Emirates	2.8	3.4	3.4
West Bank and Gaza	3	3	3
Yemen	-0.5	2	

Source: World Bank Global Economic Perspectives, June 2023

Call for Papers

Special Issue, Emerald Journal of Financial Reporting and Accounting
Contemporary Issues in Accounting, Finance & Governance: Sustainability & SDGs
<https://www.emeraldgrouppublishing.com/calls-for-papers/contemporary-issues-accounting-finance-and-governance-towards-sustainability-and>

Call for Papers, Journal of Islamic Social Finance
<https://journals.iium.edu.my/jisf/index.php/iiibf/>

International Conference on Islamic Finance & Sustainability 2025 (ICIFS 2025)
4 - 6 February 2025, Balai Khazanah Islam Sultan Haji Hassanal Bolkhiah (BKISHHB) &
Universiti Brunei Darussalam (UBD)
<https://submit.confbay.com/conf/icifs2025>

Annual Conference of the British Association for Islamic Studies
Old Divinity School, St John's College, University of Cambridge
<https://www.brais.ac.uk/conferences>

Other Resources on Islamic Economics Project Portal

- ❖ Research Articles
- ❖ Research Presentations
- ❖ Islamic Finance Calculators
- ❖ Course Outlines
- ❖ Academic Resources
- ❖ Data Resources Links
- ❖ Islamic Economics Journals List
- ❖ Qur'an and Hadith on Economics
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