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Introduction

Various theories of economic development are much hotly debated and contested. However, there is less disagreement that better financial mobilization and management leads to higher growth and welfare. The emergence of Islamic finance has raised expectations of faster development in the Muslim world, especially because it talks about greater linkages between finance and real economy and higher emphasis on justice and equity in distribution of wealth among people. The strong growth of Islamic finance since its modest beginning in the mid-seventies provided an opportunity for the Islamic Finance Project of Harvard to organize the Tenth Biannual Harvard University Forum on Islamic Finance (2012) on the theme of Islamic finance and development. The main purpose of the Forum was to assess the contribution of Islamic finance to global economic development and its contribution to small and medium enterprises (SMEs). Some linkages between faith-based investments and socially responsible investments were also explored. Over fifty speakers, including top researchers, academicians, finance professionals, regulators, and experts from various faith-based initiatives, deliberated intensely on various facets of the theme for two days. This book is a modest attempt to gather all those thoughts and ideas in book form. Some of the best papers of the Forum are included after having been revised by their respective authors.

There are a total of eleven papers in the book, the first four of which focus on the role of Islamic finance in economic development. The next four examine the need for an alternative ethical financing and strategies to spur the development of the global economy. The last three papers provide specific case studies from three different countries in their quest to enhance grassroots-oriented developments through Islamic finance.

ISLAMIC FINANCE AND ECONOMIC DEVELOPMENT: A BIRD'S-EYE VIEW

From the very original value proposition of Islamic finance, there is an inextricable link between resources and development, and an unequivocal emphasis on economic development. One such example is the historical precedent for land grant and land use in Islam. A basic principle in Islamic economics is that land (or resources) should not be left unutilized and that failure to use such productive means warrants strict action. This understanding is premised on a prophetic precedent, which provides that:

"There is no right of ownership to be claimed on the land if the owner does not reasonably exploit it after three years of possession." By implication, resources cannot be left idle; rather, they must be reasonably exploited for the benefit of society. All transactions in Islamic finance therefore are required to contribute to the wellbeing of society, directly or indirectly.

Being an increasingly important segment of the global economy, Islamic finance assumes greater significance to promote economic development. This is the thesis of Volker Nienhaus's contribution, the opening paper of this book, which re-emphasizes the need of the hour: the development of instruments of participatory finance based on *musharaka* and *mudaraba*. Such instruments must have "an innovative risk-return profile" that is attractive to financiers. One must acknowledge the fact that since most Islamic financial institutions compete with conventional financial institutions, the former have focused their attention more on products which have similar risk-return profile as of interest-based. Consequently, most of the offerings of Islamic financial institutions hover around debt-based conventional financial products. This has become a matter of serious concern for many Islamic economists and financial experts, who blame the conventional financial system for the mess of the global financial system.

According to them, participatory finance instruments promote better economic development than debt-oriented financial instruments. These concerns are beautifully summed up in the opening paper of this book.

The important highlight of the opening paper is three key strategies that have been identified for Islamic finance to contribute to economic development. First, to prevent the loss of resources often triggered by financial instability; second, to provide resources to the real economy; and third, to support entrepreneurs through participatory financing.

Neil Miller examines the position of Islamic finance from a practitioner's perspective. He focuses on alternatives to the prevailing economic models, the potential role of Islamic finance in national development, its role in for-profit private entities offering shari'a-compliant services, and empirical evidence relating to the role of Islamic finance in development.

Miller brings his experience to bear by raising some relevant questions relating to the role of Islamic finance in economic development. The major argument of Miller's paper is centered on whether the Islamic finance industry is doing what it ought to do. It is very pertinent for the industry to reflect on these questions.

Islamic entrepreneurship in the realm of economic development has not attracted adequate attention from many researchers in the past. Rasem Kayed and Kabir Hassan, building on their book on Islamic entrepreneurship, have explored the role of Islamic entrepreneurship in the wider context of economic development. It is argued that the Islamic view of development, which is often linked with entrepreneurship, has two dimensions: creation of material wealth as well as fulfilling the spiritual needs of the individual and the community at large. The paper argues that the difference between the two worldviews of entrepreneurship and development might not provide a good platform for reconciling the different underlying theories. Hence, there is a need for an Islamic model of entrepreneurship that will take into consideration the specific requirements of Muslim communities based on the general philosophy of Islamic economics.

Zamir Iqbal and Abbas Mirakhor's paper closely examines the dynamics of financial inclusion in Islam and the framework Islamic finance provides for attaining this objective. Some of the conclusions of their paper are quite interesting. First, the paper argues that the underlying philosophy of Islamic finance supports and promotes financial inclusion through a number of redistributive channels, which according to the authors are underutilized in Muslim countries. Second, institutionalizing these conceptual frameworks would go a long way toward engendering development in Muslim countries while promoting financial inclusion. Nevertheless, an enabling environment is required with the requisite legal and regulatory framework to ensure transparency and accountability in the management of the funds provided by such redistributive channels. The paper therefore argues for the promotion of public policy formulation based on risk-sharing.

RELEVANCE OF ALTERNATIVE ETHICAL FINANCING TO GLOBAL ECONOMIC DEVELOPMENT

Local initiatives relating to financial inclusion that are geared toward enhancing access to finance must be well-grounded to be well-positioned to contribute to global economic development. Different models, practices, and strategies are explored in the second part of this book, which contains four papers on different aspects of reform-driven strategies for alternative ethical financing to trigger global economic development from the very grassroots level. The importance of ethical business cannot be overemphasized in the global financial system, where investors' awareness is increasingly tipped in favor of ethical investments, particularly among the various religious blocs.

It is on the basis of such a proposition that paper five explores the feasibility of having a socio-legal framework for faith-based investment (FBI) and socially responsible investment (SRI). Umar A. Oseni examines the need for faith-based investment initiatives to be integrated into the SRI sector for global economic cooperation. The recent global financial meltdown has rekindled the need to positively harness faith-based investment initiatives. While admitting the remarkable differences between faith-based investing and socially responsible investing (SRI), the paper discusses how the faith-based initiatives overlap with or complement socially responsible investments. With a focus on faith-based initiatives, the paper argues for re-examining the global economy for a better and a more sustainable solution.

Another important topic discussed in Oseni's paper is green financing or green business, which remains an emerging area of Islamic finance. He argues for investing in green *sukuk*, which involves investment in projects that are environmentally friendly. These may also include projects that provide green technology and renewable and alternative energy. Some of these initiatives are now being explored in the Middle East and North African (MENA) region. For example, the Climate Bonds Initiative, the Clean Energy Business Council of the MENA region, launched a Green Sukuk Working Group on March 5, 2012, and The Gulf Bond & Sukuk Association. These initiatives will have a better impact when a sound socio-legal framework is introduced to regulate such investments.

In their paper Vaishnavi Bhatt, Sajjad Shah, and Jahangir Sultan investigate the performance of mutual funds that promote values. Investment strategies are driven by different ideals and desires. Some investors tend to focus more on the need to maximize their profit, while others are more concerned about ethical and societal goals. These motives are also found in shari‘a-compliant investments. The authors have divided investors into two groups: value-driven investors and profit-seeking investors.

Values-driven investors keep in mind non-pecuniary objectives as primary goals before applying the risk-return assessment. They optimize their utility functions in the three-dimensional space of compliance to values, return, and risk, and mostly utilize negative screens to narrow down the allowable investments before filtering further to choose the best return for a given risk. Profit-seeking Islamic finance investors, on the other hand, view Islamic finance investments as a source of additional return due to their lower leverage and businesses with reduced externalities, rather than pursuing Islamic finance investments solely because they comply with religious values.

The next paper explores strategies for financing the real economy through ethical principles with specific reference to hybrid *sukuk* for SMEs in France. In this paper, Anass Patel contends that SMEs might need to explore alternative routes for funding since banks are not favorably disposed to granting credit facilities to SMEs. The paper makes two major submissions: first, bank loans are not adapted to SMEs' position, as collateral is not the "holy grail" of risk mitigation for banks; second, the profit and loss sharing approach for SME financing in France can work well. The paper addresses the goal of putting together a low-cost structure finance program that is compliant with all regulation that protects borrowers and with the ethical principles of Islam and that is open to different financing partners such as banks, mutual funds, investors, and individuals.

Séamus Finn critically examines the capitalistic model of economy with special emphasis on the customs, rules, and regulations of financial and commercial transactions from the early ages through the modern period.

Finn has examined the evolution of credit through the Middle Ages based on Judeo-Christian teachings and also explored references to Roman Catholic and Islamic teachings.

Finn's paper emphasizes the need to ensure integrity, stability, and sustainability in the economic model. These, according to him, should be the cornerstones of the global financial system. He concludes that an economic model that achieves these goals would be consistent with the traditions of the faith community because socio-economic justice and welfare are shared values in the faith traditions.

CASE STUDIES: ISLAMIC FINANCE AND GRASSROOTS-ORIENTED DEVELOPMENT

The final part of this book comprises three important case studies which explore practical issues within certain geographical contexts related to the role of Islamic finance in economic development. Is-haq O. Oloyede and Abdulqadir I. Abikan give a preliminary investigation of the regulatory hurdles along the way in the quest for a more inclusive Nigerian economy.

Their paper discusses regulatory challenges in Nigeria and argues for more efforts to create awareness about Islamic finance in order to promote its greater acceptability among the masses. Some strategies like pilot projects, advocacy for sponsoring the Islamic Finance Act, or investment in research and personnel training and introduction of shari'a-compliant products like *muzara'a* (sharecropping), *musa'aqa* (irrigation), and *musharaka* are also suggested to address economic development needs in the country.

Saudi Arabia has a vibrant Islamic finance industry and contributes significantly to the global *sukuk* issuance. Craig R. Nethercott explores the achievements and ambitions of Saudi Arabia with emphasis on its infrastructure development. Nethercott notes that in recent years Saudi financial thinking has moved away from conservative Hanbali perspectives to become more inclusive. Consequently, a number of new construction projects in the petrochemical, gas, and power sectors have been financed through greater use of *istisna'a* and *ijara* models. Moving forward, Nethercott advises caution in the use of the build-transfer-operate (BTO) model, as he anticipates that liquidity squeezes will remain a limitation for medium and large projects.

Finally, Bridget Kustin undertakes an interesting ethnographic study to understand the priorities of clients and Islamic microfinance institutions in Bangladesh using the case study of the Rural Development Scheme (RDS), a flagship program of Islami Bank Bangladesh Limited (IBBL). Her paper informs us of some salient features of the scheme, such as: two-thirds of RDS operations are currently located outside urban areas; RDS' policy of focusing