REGAINING THE ETHICAL STANDARDS OF ISLAMIC FINANCE

DR. MABID ALI AL-JARHI

HEAD OF TRAINING & FINANCIAL EXPERT, EMIRATES ISLAMIC BANK

PRESIDENT, INTERNATIONAL ASSOCIATION FOR ISLAMIC ECONOMICS

This is a preliminary draft, not to be quoted without the author's permission. Opinions expressed do not necessarily represent the opinions of the Emirates Islamic Bank or the International

Association for Islamic Economics.

INTRODUCTION

Islamic finance has come of age. Reaching puberty, as mandated by Shari'a makes one legally and morally responsible for his actions. That explains our attempt to define ethics of Islamic finance and set moral standards to be followed by all concerned in the industry.

When it comes to definitions of ethics, and business ethics in particular, we have relied in this preliminary paper on a quick survey of the literature. We also referred to other writings to explain how interest-based lending escaped religions morality in the west. After providing an Islamic perspective of ethics and business ethics, the article directs itself to the moral responsibilities of system participants. Naturally there is a great deal of soul searching to do and there are tough questions that must be answered by everyone. In this regard, more questions than answers are provide. As a result, the Islamic finance system is found to have deviated from its own ethics and must put some efforts in their regaining.

In order to gain the ethics of Islamic finance, the article proposes some modifications in the current system, with a special attention on the process of certification of members of Shari'a boards before their appointment. In addition, a new system of human resource development is proposed, based on comprehensive treatment of shortages in both knowledge and skills. Rating agencies are called upon to introduce the Shari'a aspects in their rating systems and specific elements have been proposed in this regard.

CONTENTS

INTRODUCTION 3

CONTENTS 4

BASIC ISSUES: 5

WHAT IS ETHICS (VELASQUEZ, 2006)? 5

WHY ETHICS (VELASQUEZ, 2006)? 5

WHY ETHICS NOW? 6

AN ISLAMIC PERSPECTIVE ZARQA (1997) 7

INTEREST RATE IN HISTORICAL PERSPECTIVE, OR HOW REBA ESCAPED RELIGIOUS ETHICS IN THE WEST, LEWISON (1999) 12

COMBINING ISLAMIC ETHICS WITH ISLAMIC FINANCE 16

MORAL JUSTIFICATION OF ISLAMIC FINANCE 16

I. IS IT JUST TO CHARGE INTEREST ON LOANS (AL-JARHI 1983-2007)? 16

II. THE PLIGHT OF THE POOR, LEWISON (1999) 17

III. INTEREST RATE AND EFFICIENCY LOSSES (AL-JARHI 1983-2007) 19

IV. OTHER HARMFUL EFFECTS OF INTEREST-BASED FINANCE (AL-JARHI, 2004) 20

MODERN INTEREST-FREE FINANCE: HOW PEOPLE EXERCISE THEIR HUMAN AND RELIGIOUS ETHICS 23

I. JEWISH FINANCE (LEWISON 1999) 23

II. OTHER TYPES OF INTEREST-FREE FINANCE (LEWISON 1999) 23

III. ISLAMIC FINANCE 26

SOME ASPECTS OF ETHICS OF ISLAMIC FINANCE AS A SYSTEM: SYSTEMIC ETHICS 28

I. ETHICS OF SYSTEM EVOLVEMENT: 28

II. ETHICS AND MORAL RESPONSIBILITIES OF SYSTEM PARTICIPANTS: 28

III. SYSTEM-FUNDS USERS: ENLIGHTENED USE OF ISLAMIC FINANCE 29

IV. SYSTEM-REGULATORS 29

V. PROVISION OF ISLAMIC FINANCE PRODUCTS THROUGH CONVENTIONAL AGENCIES 30

VI. ETHICS OF SHARI'A SCHOLARS 30

REGAINING THE ETHICAL STANDARDS OF ISLAMIC FINANCE 33

REFERENCES 38

BASIC ISSUES:

WHAT IS ETHICS (VELASQUEZ, 2006)?

1. Ethics is defined as "the principles of conduct governing an individual or a group. It is the study of morality". Ethics therefore examines one's or society's moral standards to determine whether they are applicable to concrete situations and issues. Ethics aims to develop a body of moral standards that people consider reasonable to hold and acceptable to apply to human choices.
2. Business ethics is a form of applied ethics that relates to the moral standards applicable to business policies, institutions, and behavior. It analyses moral norms and values, and attempts to apply conclusions to business institutions and activities
3. Business ethics deal with three types of issues: systemic, corporate, and individual.
4. Systemic issues relate to the economic, political, legal, and other social systems within which businesses operate.
5. Corporate issues relate to a particular company.
6. Individual issues relate to a particular individual.

WHY ETHICS (VELASQUEZ, 2006)?

1. Ignoring ethics in business is based on several arguments.
2. The first argument claims that businessmen pursue profit maximization and not "doing good works". Presumably, profit maximization in perfectly competitive markets maximizes social welfare. However, on the one hand, perfectly competitive markets are a rarity. Second, the banking industry and Islamic banking in particular is not perfectly competitive.
3. The second argument is based on the loyal agent argument, which claims that the manager, as a loyal agent, has the duty to advance his company's self-interests. This assumes that ethics does not matter and there are no limits to the manager's duties. However, legal and social institutions place limits on agents'

duties. It also assumes that if a manager agrees to serve a firm, then this automatically justifies his actions on behalf of the firm.

4. The third argument is that to be ethical it is enough for business people merely to obey the law. However, while law and ethics as not identical; it is generally immoral to break the law.
5. Ethics should be brought into business because ethics should govern all voluntary human activities, including business. Business activities cannot exist unless the people involved adhere to minimal standards of ethics. In testing whether ethical considerations are consistent with the pursuit of profit, results have been mixed, but no studies have found a negative correlation.
6. When people must choose between cooperating and not cooperating in rules or agreements, and when each has more to gain by not cooperating, then rational self-interest suggests that people should not cooperate. The prisoner's dilemma, then, seems to show that the rational self-interested person should be unethical in business when there is something to be gained through unethical behavior.
7. However, this conclusion is based on a false assumption. However, the prisoner's dilemma deals with isolated interactions among people who never interact again. This threat of future retaliation makes it more rational for the parties in a series of repeated exchanges to cooperate than to try to take advantage of each other. Therefore, when people deal with each other repeatedly, cooperation is more advantageous than continuously trying to take advantage of the other party.
8. Business interactions are repetitive and ongoing. The prisoner's dilemma argument, then, implies that, over the long run and for the most part, it is better to be ethical in business than to be unethical.

WHY ETHICS NOW?

A. DR. ZARQA (1997)

1. Scandals have taken place in conventional finance and to a much less extent in Islamic finance (Taqwa Bank, Dubai Islamic Bank

and Bank Islam Malaysia).

2. Islamic finance means Shari'a compliance and ethical investment. Both mandate ethics on the industry.
3. Ethics are strongly connected to survivability.
4. Islamic finance has contracts that require ethics in implementation: Mudaraba and Wakala, because they involve a great deal of information asymmetry.
5. Adhering to ethics reduces transactions costs and contract-enforcement costs.

AN ISLAMIC PERSPECTIVE ZARQA (1997)

A. THE THREE IMPERATIVES

1. Judicially enforceable, *Wajibun Qada'an*: The "judicially enforceable" is equivalent to binding rules of law in most other legal systems.
2. Praiseworthy (do's) and blameworthy (do not's), *Mandub* and *Makruh*: These are pure moral duties, which if observed by an individual for the sake of Allah, carry Divine reward in the Hereafter. Failing to observe Mandub or Makruh carries no punishment. They are sweet carrots with no stick insight!
3. Mundub and Makruh have further degrees of emphasis which are spelt out by Muslim jurists.
4. Religiously binding, *Wajibun Diyanatan*: may not be judicially enforceable it is but still religiously binding. The "religiously binding" carries a sanctions on the Day of Judgment, i.e. punishable in the hereafter. This is an important intermediate category between the imperatives: Mandub and Makruh on the one hand and judicially enforceable on the other.

B. ISLAMIC ETHICAL VALUES:

1. Islamic ethical values are not different in an essential way from those known to humanity from the time of earliest prophets till now.
2. The common standards of goodness known to most human being are shared by Muslims.

3. Islam revived and articulated the fundamental religious and moral traditions that go back to Ibrahim and Noah and many Prophets in between, peace be on all of them.
4. In the Prophet's words, Islamic came to emphasize and complete moral values.

C. BUSINESS VALUES: AN ISLAMIC PERSPECTIVE:

1. Legitimacy
    - 1.1. This is first prerequisite to all deeds in Islamic ethics.
    - 1.2. One cannot be ethical before being legal in the first place. For instance, Islamic Shari'a considers as morally worthless a charitable contribution to good causes from money earned by illegitimate means.
    - 1.3. Abiding by ethics beyond the law:
    - 1.4. The "purely ethical" and the "religiously binding" as two distinct ethical imperatives beyond the "judicially enforceable".
2. Morality of Motive:
    - 2.1. Muslim jurist have considered whether the legal validity of a contract should be suspended if one party knows that the other party will depend on this legal transaction to achieve an illegal subsequent end.
    - 2.2. The classical example is that of (A) selling grapes to (B) even though (A) know (B) is very likely to make wine out of the grapes.
3. Goals Beyond Profits:
    - 3.1. Assume a firm acting within the "judicially enforceable" (legally binding) rules of Shari'a. Is it acceptable for it to be a profit maximizer, i.e., to have no other goal but profit? This is a good point to ponder.
4. Concern About Others:
    - 4.1. Concern about the impact of one's decisions and actions on others is at the core of morality and ethics.
    - 4.2. Unfortunately, it is also the ethical dictum most

amenable to extreme and untenable interpretations.

4.3. Who those “others” are ? And how much of our profits and shareholders’ interests should we give up for their sake? This is another good point to ponder.

D. PRACTICE OF ISLAMIC ETHICS

Practice of business ethics requires three steps from Zarqa point of view.

1. Articulation

1.1. This requires collaboration of Shari'a scholars, business practitioners, academicians or scientists in the relevant disciplines.

1.2. An example of good articulation is the Cadbury Report recommendations regarding a major issue in corporate governance: share holders rights *Vis-à-vis* directors.

1.3. Each business sector needs its own ethical guidelines. Investment banks and securities dealers, for instance face special ethical dilemmas not faced by maritime shippers and electronics manufactures.

2. Facilitation and Cooperation

2.1. To encourage ethical business practices we should reduce the cost of ethics to business.

2.2. Resistance to ethics will diminish if it can be made consistent with the long run interest of economic agents.

2.3. This in fact is one major advantage of religiously-based ethical standards, as they carry the promise of reward in the hereafter, even if they go unrewarded in this life..

2.4. The ultimate goal is to make ethics profitable, rewarding materially not just spiritually.

2.5. The second best is to make it less costly. This often required some institutional set up. Environmental preservation and pollution control provide many examples of the necessity of institutions in this regard.

2.6. Muslims and others working in Islamic finance should take part in international collective action to facilitate the

application of ethical standards globally.

3. Communication

   3.1. Two prime lines of communicate are required.

      3.1.1. One is with the business community to learn about the ethical dilemmas they face and the practical possibilities for raising the ethical standards. This is a prerequisite for the “Articulation” imperative.

      3.1.2. The second line of communications is with the rest of the world. Muslims can contribute towards forging a “Global Ethic”, we learning much from the rest of the world.

E. AXIOMS OF ISLAMIC ETHICAL PHILOSOPHY: (BEEKUN, 1996)

1. Ethics is defined as a set of moral principles that distinguish what is right from wrong, and in an Islamic context, the Qur'anic term *khuluq* is closest to it. Also, some other terms referenced from Qur'an describing the concept of good are *Khayr* (goodness), *Berr* (righteousness), *Qist* (equity), and *'Adl* (equilibrium and justice).
2. Five axioms of Islamic ethical philosophy

   2.1. Unity, derived from the absolute oneness of God,

   2.2. Equilibrium, derived from justice

   2.3. Free Will, based on authority of man given through *Istikhlaf* (trusteeship)

   2.4. Responsibility, based on *Istikhlaf*

   2.5. Benevolence

F. PRINCIPLES OF BUSINESS CONDUCT IN ISLAMIC: (TANRI, 1997)

1. Business conduct in Islam is founded on two fundamental principles, namely freedom and justice.
2. Freedom in matters of business transactions envisages:
3. The right of owning property,
4. The legality of trade, and
5. the presence of mutual consent.

6. Mutual consent, however, can exist only when there is volition, honesty and truthfulness over-against coercion, fraud and lying.
7. Nevertheless, constructive criticism should not be avoided; and
8. Leaders should strive to create an atmosphere of free thinking, healthy exchange of ideas, criticism, and mutual advice so that the followers feel comfortable in discussing matters on interest to the group.
9. Justice in matters of business transactions includes:
10. Fulfillment of promises (pacts and contracts verbal and written)
11. Exactness in weights and measures (specifications) in all business related items including work, wages and payment, and labor movement
12. Truthfulness, sincerity and honesty are ordained, While lying and cheating are condemned,
13. Efficiency, i.e., jobs should be carried out without any lapse or omission, with best planning and to be the best of their efficiency and competency
14. Selection of merit and competency for the job,
15. Investigation and verification before decision or judgment making
16. Manners to be followed for ethical conduct:
17. Leniency: It constitutes the foundation and core of good manners. This includes politeness, forgiveness, removal of hardship, and compensation.
18. Service motive: In all business activities, Muslim should intend, to provide a needed service to his/her own community and the humanity at large.
19. Consciousness of Allah: A Muslim is required to be mindful of Allah even when engrossed in business engagements.

INTEREST RATE IN HISTORICAL PERSPECTIVE, OR HOW REBA ESCAPED RELIGIOUS ETHICS IN THE WEST, LEWISON (1999)

1. Taking interest on a loan was considered inherently evil and immoral. Earliest civilizations showed ill feeling toward interest. It was seen as intolerable to the Greek philosophers,. Aristotle held that money's purpose was solely as a medium of exchange; money was a sterile thing, incapable of bearing "fruit". Taking interest involved gain from money itself, instead of from the activities of exchange which money was meant to facilitate.
2. Its prohibition was prominent in the Bible[1]. However, the prohibition of interest was not universally observed, even during biblical times. Early Christianity maintained its antipathy of usury[2]. The Catholic Church in 325 C.E., during the Council of Nicea, passed a canon prohibiting the taking of interest by clerics[3], citing Psalm 15. For the following five hundred years, the Church intermittently attacked usury. Between the ninth and thirteenth centuries, the Church imposed a new string of harsh restrictions on usurers, ranging from excommunication to the equating usury to robbery, to the prohibition of all usury in 1139 by the Second Lateran Council.
3. Yet, wherever there was trade, the charging of interest on loans continued. One justification was the peculiar ambiguity of Deuteronomy 23:20-21[4]. This ambiguity led to various attempts to skirt usury prohibitions.
   3.1. The scholastics believed that extra charges for late payment were justifiable, while charges to cover a lender's opportunity costs were viewed as unjustifiable.

---

1. [1] Exodus 22:24, Leviticus 25:35?37, Deuteronomy 23:20-21, Ezekiel (18:13), Psalms 15:5, Proverbs 28:8, Nehemia 5:7.
2. [2] The injunction in Luke (6:35) to "lend freely, hoping nothing in return."
3. [3] citing Psalm 15
4. [4] On the one hand, it prohibits the taking of interest from one's brother. On the other hand, it permits the taking of interest from a "foreigner".

3.2. Distinctions were made between loans for consumption and loans for production, with usury restrictions being placed only on the former.

3.3. Another notable way to avoid interest prohibitions was through foreign money changing activities that took advantage of varying rates of exchange.

3.4. The universal prohibition on usury imposed by the Catholic Church in 1139 contributed to the conditions that led to widespread Jewish involvement in money lending in medieval Europe.

3.4.1. Severe economic restrictions (e.g., exclusion from craft guilds) prevented Jewish pursuit of other trades, and the Jews remained outside the Church edict.

3.4.2. Some biblical verses permitted money lending at interest to non-Jews under Jewish law[5]. Many Jewish legalists interpret those verses as a positive commandment to take interest on loans to Gentiles[6].

3.4.3. Talmudic sources qualify the permissibility of taking interest from Gentiles by limiting it to the level required for subsistence if there are no other means of survival.

3.4.4. Jews were not the only moneylenders during this period, but evidence suggests that Church constraints on usury had a decided dampening effect on Christian money lending.

3.5. Feelings against usury and Jewish usurers were intense. Usury sat near the height of all social evils. Many felt that the biblical prohibition upon usury between Jews provided evidence that usury was a universal sin. It was further believed that Jews should be forced to include non-Jews as "brothers" so that the Christian ideal of universal brotherhood could be realized.

3.6. Numerous cases of violence toward medieval Jewish moneylenders were recorded. Immediately following the massacre of the Jews at York, England in 1190, the conspirators went directly to the place where the records of

---

5. [5] Deuteronomy (23:20-21)
6. [6] Including the famous rabbi Moses Maimonides [1135-1204]

debt were kept and destroyed them.

3.7. Jewish prominence in money lending waned when many Jewish communities were taxed out of business by various civil authorities. Jewish money lending activities continued, however, with the ascendancy of the *Court Jew*, whose fortunes rose and fell with those of the royal administration he served. Jewish banking continued into the 19th and 20th centuries with the rise of merchant banking families of both Europe and the United States.

3.8. The German Reformation initially caused only a subtle change in the general attitude toward usury, but its influence later grew to revolutionary proportions. The final steps toward the acceptability of usury were not taken until John Calvin's (1509-1564) who enabled the modern attitude toward interest.

3.8.1. Calvin broke with the Greek philosophers and with earlier Church teachings by proclaiming that, in fact, money was not sterile and unable to yield its own fruits, at least not in the case of loans for production purposes. Calvin paved the way from a "tribal brotherhood," where usury was forbidden, to a "universal brotherhood," where it was more or less entirely permitted.

3.8.2. Eventually, as the market economy in Europe grew more sophisticated after the Renaissance, arguments within Protestant nations changed from whether usury was permitted, to how much was a reasonable rate. These changes in attitude were buttressed by then-new classical economic arguments regarding issues such as risk and the time value of money from the likes of John Locke. Not until the 19th century, however, did the Catholic Church finally soften its position on usury. The Church ruled that "... the faithful who lend money at moderate rates of interest are “not to be disturbed,” provided they are willing to abide by any future decisions of the Holy See."

3.9. Some restrictions on interest rates remain to this day.

3.9.1. Many U.S. states restrict permissible interest rates on consumer retail loans to something close to twenty percent. More than one American state has had usury limits

incorporated into its constitution.

3.9.2. Arkansas' constitution of 1874 limited permissible interest rates in that state to only ten percent. Arkansas still had not effectively changed its usury law.

3.9.3. Using national loan market data from January 1983 to August 1989, it was estimated that 60% of short-term, fixed rate small loans (between $1000 and $24000) made in the U.S. during that period were negotiated at rates above the legal maximum in Arkansas.

3.10. It can no longer be argued that usury is much of an ethical issue in the modern American marketplace. While federal and state limitations on interest rates do exist, banks and other financial institutions have on the whole been left alone to charge what markets will bear. If moral objections are raised at all, they are to the taking of excessive amounts of interest rather than the taking of interest per se. This is, in fact, the meaning conveyed through modern use of the term "usury", excessive interest rates.

3.11. It is precisely the people in the most precarious economic positions that are paying the most "usurious" rates, which is ironic since the biblical injunction is explicit in its condemnation of any interest charges to the poor.

COMBINING ISLAMIC ETHICS WITH ISLAMIC FINANCE

MORAL JUSTIFICATION OF ISLAMIC FINANCE

Islamic finance claim to ethics is based on two grounds: justice and Pareto optimality. Charging interest on a medium of exchange may appear to be unjust. In addition, the poor would suffer in an interest-based system. Pareto optimality would be absent with a positive interest rate, which deprives society from a higher level of welfare. The two grounds are elaborated below.

I. IS IT JUST TO CHARGE INTEREST ON LOANS (AL-JARHI 1983-2007)?

1. Money of course serves as a unit of account, a store of value and a medium of exchange.
2. Any commodity can serve as a unit of account or a store of value. Only money can serve as a medium of exchange.
3. Being a medium of exchange depends on *general acceptability*. Even with fiat money, if general acceptability is lost, money ceases to function as a medium of exchange. A practical example is what happened to the Deutsche Mark during hyperinflation associated with World War I.
4. The value of transactions services provided by money is therefore created by the whole society. Morally, no one should charge for such services, except the society as a whole.
5. Money is issued by the central bank (a government-owned entity) to lend to government and to banks (generally private enterprises) at a rate of interest. This does not raise any ethical issues, as the net income of the central bank is plowed back into government budget.
6. More money is created by banks and lent to the public. The net result goes to the coffers of bank shareholders. They accumulate wealth at the expense of the public, and this redistribution in favor of shareholders appears to be unethical.
7. Banks can appropriate such wealth at the expense of the public

because of monopoly rights afforded them by the government and manifested by the central bank licensing process.

8. In addition, when an individual lends money and charges interest, he is selling something that he does not own (transactions services of money) and usurping the rights of the whole society that gave general acceptability of money. It is therefore immoral and unjust.
9. The redistribution of wealth from the public to banks and to money lenders can be significant. Let us assume that money broadly defined is about 25 percent of GDP. Let us also assume that 40 percent is currency and demand deposits (narrow money) and the rest is quasi money. If banks charge 6 percent per annum on loans, the wealth they appropriate to themselves is about one percent of GDP.
10. Individuals may hold monetary balances. Their use of money as a unit of account or a store of value is their exclusive right. However, their use of money as a medium of exchange depends of the general acceptability that is drawn from the society as a whole. Therefore, they are not entitled to lend money to others (who expectedly would use it as a medium of exchange) at a rate of interest, as they would be appropriating to themselves what belongs to society as a whole.
11. This injustice is one of the reasons provided by Al-Jarhi for proposing 100 percent reserves on demand deposits.

II. THE PLIGHT OF THE POOR, LEWISON (1999)

1. The plight of the American poor:
2. "Fringe banking" institutions charge the highest rates of interest and are often the only source of credit for the poor.
3. As many as 60 to 70 million adults in the U.S. do not have any type of bank account (Rowe, Jr., 1993). Members of this group are likely to be poor and must pay for all of their financial transactions, from telephone bills to car payments, in cash.
4. Lack of bank accounts typically denies access to simple consumer credit services. It precludes one from being granted access to simple bank loans, credit cards, and other forms of

consumer financial services.

5. Consumers with low incomes or poor credit histories are frequently denied access to many mainstream consumer credit sources and often find themselves in the same borrowing class as those consumers who lack even a basic checking account.
6. "Fringe banking" includes institutions that lie outside of the traditional mainstream of the consumer financing business, like:
7. Check cashing establishments,
8. Subprime mortgage lenders,
9. lay-away plans,
10. rent-to-own stores,
11. "Title lenders", "payday lenders", and
12. Pawnbrokers, numbers rackets, and lotteries.
13. Such institutions are the usurers of the modern age. they charge rates of interest that are many time greater than typical market rates, and their clientele come mainly from the ranks of the poor and underemployed.
14. They routinely charge their customers annualized interest rates between 100 and 200 percent.
15. It is often argued that lending the poor, like credit cards involve greater risks, justifying charging higher interest rates. However, credit card rates are much lower than pawn shop rates, running closer to 20-30 percent interest on an annual basis, or close to one hundred percent less than pawnshop rates on average. Pawnshop loans are secured by pledged collateral, thereby drastically reducing the risk to the lender. Rent-to-own stores and payday lenders charge still higher rates of implicit interest while taking on even less risk than pawnbrokers do.
16. In rent-to-own stores, a customer pays a weekly fee, usually less than twenty dollars, for a home appliance. If the payments continue for a specified period, typically 18 months, the customer can keep the item. The store provides for maintenance, but, customers are liable for insurance premiums, delivery charges, late fees, and other charges.. In the end, customers pay 350-450 percent more for the item than cash retail payment.

After a period of time, the renter becomes psychologically trapped into the agreement due to the high sunk costs, without ability to build equity in the asset over time. Failure to continue payments simply leads to repossession without reimbursement.

III. INTEREST RATE AND EFFICIENCY LOSSES (AL-JARHI 1983-2007)

1. In the second half of the last century, Milton Friedman and Paul Samuelson came forward with the observation that the cost of producing real balances in a system of fiat money is zero *at the margin*. In order to reach optimality, the price of money (the rate of interest) must be zero. To reach that goal, the economy must be deflated at a rate equal to the real rate of interest.
2. Curiously, Samuelson noticed that the goal of optimality cannot be reached within laissez faire. This could be interpreted as the need to change the structure of the financial system. However, Friedman introduced his rule (which is the same as Samuelson's, but the name of Friedman persisted), which has been taken as applicable to the current system.
3. The rationale behind Friedman rule is two sided. On the one hand, optimality requires that equality between marginal cost of producing real balances and price of money (the rate of interest). On the other hand, putting a positive price on money would lead trading agents to economize on the use of money as a means of exchange through the substitution of real resources for money in transactions. Such substitution runs contrary to optimality, as total output can be increased with less substitution .
4. The proposal to reach a zero nominal rate of interest created a lot of discussion in the economics academia, but failed to stir concern in the banking community. Central banks took no notice of Friedman rule, indicating perhaps that they thought it impractical.
5. Discussion ensued later about the zero-bound rate of interest and whether it implied a liquidity trap. Further discussion examined the Friedman rule in overlapping generations models in contrast with the infinitely lived representative agents models. Others studied the rule in models with and without non-

distortionary taxes.

6. Instead of calling on people to lend each other at a zero interest rate, the interest rate is forced by the application of Friedman Rule to take a zero value or to move asymptotically towards zero, convincing people to hold sufficient real balances in order to benefit from the deflation reward on money. Lending at a zero interest rate is a case of charity and cannot be used to finance business investment. The latter deflationary policy depends on persuading central bankers. Between the two, we can expect no institutional reform of the monetary system.
7. Islamic finance provides 12 contracts through which money can be channeled directly to economic activities (investment, production, trade and consumption). This eliminates the first and third sources of injustice.
8. The second source referring to the share of the poor cannot be eliminated without a conscientious effort to provide microfinance to the poor on the side of Islamic banks, coupled by giving them a role in disposing of the share of the poor in Zakah proceeds through building up micro projects and giving their management and (later on) their title to the poor.

IV. OTHER HARMFUL EFFECTS OF INTEREST-BASED FINANCE (AL-JARHI, 2004)

A. INSTABILITY

1. The interest-based banking system is inherently unstable. Banks liabilities are classical loans that are absolutely guaranteed. Bank assets meanwhile are subject to several risks, including risk of default. If significant failure happens on the asset side, a bank would fall down, and this may cause a run on banks.
2. Lending based on interest has lead to the creation of an integrated debt market which has been a source of instability and contagion. Hot money (short-term funds) can enter and exit to and from the bonds market in any country at will, causing repercussions with ramifications in this country as well others closely related through trade and financial flows.

B. RISKS OF MORAL HAZARD AND ADVERSE SELECTION

1. Interest-based lending has an intrinsic problem of information asymmetry. The only exception is the case of universal banking that is common in non-Anglo-Saxon countries, where banks can take equity and trade (like Islamic banks), thereby reducing information asymmetry.
2. Information asymmetry leads to risks of moral hazard and adverse selection.
3. Such risks result in under-financing the economy, with losses in output and employment.

C. DISORIENTATION FROM ECONOMIC DEVELOPMENT FINANCE

1. Interest-based finance is *lending-based*, i.e., it allocates financial resources according to lending criteria (ability to pay, collateral, etc.). This deprives projects with good development potential from finance.
2. Economic development would have insufficient attention and therefore, the national economy remains lagging behind.

D. SOCIOECONOMIC DISINTEGRITY

1. Conventional finance can be likened to a spectator's game where few skilled players stay in the playground and a big crowd watches from outside.
2. Risk is known to be one of the most important ingredients of making investment. Those who finance investment share a good part of the risk involved with those who carry out actual investment activities. Conventional finance leaves risk to be borne by specialists. Banks and financial institutions provide investors with loans guaranteed by collateral. In this fashion, they keep themselves apart from certain kinds of risk, like those attached to production, marketing and distribution, and limit their exposure to risk related to collateral only.
3. We can therefore notice that risk as well as decision-making is borne by a small number of concerned people. Risk sharing is not balanced by sharing in decision-making. The components of society are placed apart into two groups: risk bearers, spectators and decision makers. As the three groups are disjoint, when the

economy hits a disaster, it acts like an old car in a head-on collision; each part goes its own way.

E. UNSUSTAINABILITY

1. Conventional debt has certain characteristics that could place debtors in difficulties if circumstances do not allow them to repay in time.
2. Interest is usually calculated on the outstanding balance of debt, usually compounded annually and sometimes at shorter intervals. Delinquent debtors are often subjected to penalty rates of interest, which are higher than regular rates. Such higher rates are usually applied to all outstanding balance regardless of which part has been delayed in payment.
3. It is not uncommon to find borrowers who end up paying debt service that is many folds the original principal they borrowed.
4. This is common in the case of credit cards, where problems of indebtedness are enormous and still linger despite successive attempts to reform the system.
5. it is also symptomatic of developing countries debt, as they continue to face debt problems that sometimes reach crisis levels. Creditor countries and institutions have often sought to find ways and mechanisms to provide debt relief to debtor countries. Despite continuous efforts, the debt problems faced by developing countries seem to be ever-present.
6. We can therefore conclude that interest based financing lacks a great deal of sustainability. Creditors have to stop every few years to give debtors relief in terms of rescheduling and forgiveness. Sometimes this also includes floating low quality debt at lower market value and swapping it with equity. The system has demonstrated unsustainability several times.

MODERN INTEREST-FREE FINANCE: HOW PEOPLE EXERCISE THEIR HUMAN AND RELIGIOUS ETHICS

I. JEWISH FINANCE (LEWISON 1999)

1. In Judaism Lending money to the poor is a more meritorious deed than charity. Some Jewish scholars considered the granting of a free loan to be the very highest form of charity. This applies not only money, but to virtually any item. One should lend tools, food, or anything that his or her neighbor needs.
2. There are rules pertaining to free loans in Judaism, covering issues as diverse as which potential borrowers are given priority, what the proper amount to lend is, and the issues regarding the security pledges for loans. There is also a rule to repay a loan, witnesses, guarantors, interest, and even what a borrower is permitted to do with borrowed funds.
3. Free loan societies are an important institution in the Jewish world. *Yad Sarah* (Hand of Sarah) is an organization in Jerusalem that lends medical equipment of families that cannot afford to make the expensive purchases. Other Jewish free loan associations exist to lend everything from plates and silverware for large functions, power tools, apartments, books and audio cassettes, and even baby pacifiers at all times, day or night.
4. Nearly every city with a large Jewish population in North America has a free loan society, and these operate within strict biblical guidelines, charging no interest for their loans. Their importance in fostering Jewish entrepreneurship in the U.S. has been documented.

II. OTHER TYPES OF INTEREST-FREE FINANCE (LEWISON 1999)

A. IN DEVELOPING COUNTRIES

1. Community-based credit bodies provide a possible escape from usury for the poor. such community-based credit schemes have

succeeded in the form of microlending agencies in India and Bangladesh. The idea of microlending has begun to catch on and is expanding throughout the U.S.

2. Some suggest that free loans are at least a partial answer to a host of poverty problems, as evidenced by a free loan experiment conducted with a group of poor female borrowers.
3. Small farmers in many countries have long been denied access to formal credit because banks charge high administrative fees for each loan, making access to small-scale loans prohibitively expensive. Information gaps exist because banks have no mechanisms for selecting small farmers who are most likely to succeed. While some formal microcredit schemes have become popular, informal microlending continued to be important.
4. In Bangladesh formal microlending works side-by-side with informal schemes. Farmers using formal loans and those using informal loans are credit constrained; they substitute labor for other inputs that require cash at the beginning of the season, creating inefficiencies in production. Such credit constraint is actually milder for the informal borrowers; the implicit shadow price of working capital is substantially higher for formal than informal loans.
5. Even with formal microlending, access to credit remains a problem for small farmers.
6. Informal remain more successful in identifying those small farmers that are most likely to make the best use of the borrowed funds.
7. Although formal microcredit, contrary to traditional formal lending, avoids high administrative fees it does not solve the problem of selecting successful borrowers.
8. Informal lenders have an information advantage.

B. IN THE USA (SERVON, 2006)

1. Peer group lending programs in the United States adapt methodologies first used in developing countries and apply them domestically to benefit low-income communities (Hung, 2003).
2. Based on surveys of programs across the country, loan

delinquency is primarily a function of context, especially the credit risk of borrowers and time. However, evidence suggests that the payoff structure and peer group actions have discouraged some loan default(Hung, 2003).

3. The U.S. microenterprise finance started in mid 1980s. it provide business training, small amounts of credit ($35,000 or less) or both to businesses with five or fewer employees. They approach 500 programs. and had several important influences including the growth and development of the international microenterprise field and the women's economic development movement.
4. For the most part, U.S. microenterprise development organizations (MDOs) were initiated as locally based responses to a need for better economic options, particularly for people who lacked access to mainstream financial institutions. As a result, a majority of programs have targeted what are often categorized as disadvantaged groups such as women, public assistance recipients, displaced workers, and people of color.
5. The environment in which they operate is characterized by greater sophistication, professionalization, and infrastructure but also by a challenging funding environment and a lack of appropriate incentives to move forward.
6. Initial goals of scale and sustainability remain elusive because of several problems, including increased competition, and difficulty in reaching the target market. Most microenterprise organizations are busy struggling to find the next dollar rather than thinking smart.
7. Some argue that the American microenterprise requires significant changes to survive, including restructuring the industry, encouraging innovation, creating a legitimate accreditation process, and adopting standards.
8. Some programs have begun to take important steps in appropriate directions—merging with other organizations and diversifying their product lines, but these programs are the exception rather than the rule. Other programs, including some of the field's early leaders, are shrinking in the face of the above challenges.

C. IN EUROPE (KRITIKOS, KNEIDING AND GERMELMANN, 2009)

In industrialized countries, with their highly developed banking systems, there has been ongoing debate on whether an uncovered demand for microlending services exists. A pilot study exploring customer preferences for microlending products in Germany found high demand for microlending and identified potential recipients as retail and foreign business owners, and persons who had previously received private loans.

III. ISLAMIC FINANCE

A. PROGRESS AND CHALLENGES

1. The Islamic finance industry has been noted to be thriving and gaining more momentum all over the world. Some capitals have distinguished themselves as potential international centers for Islamic finance, including Kuala Lumpur, Singapore, London, Bahrain and Dubai.
2. Figures have not been tallied on a global scale, but the author has been following up aggregates in the Gulf region.
3. Islamic finance assets have been growing at more than 30 percent per annum on the average during 2000-2008, compared to 16 percent for conventional finance. The market share of the industry measured by assets increased from 7 percent in 2000 to 17 percent in 2008. Such share has been growing at about 11 percent per annum on the average. By the end of 2008 the industry managed $228 billion of assets.
4. Our estimates based on a conservative scenario that counts for the 2009-1010 slowdown indicate that the share of the industry in assets may approach 40 percent and its total assets may come close to $2 trillion by 2020 in the Gulf.
5. Islamic finance in the Gulf has been growing faster in assets, deposits, equity and profits. Its customers include a high percentage of non-Muslims, especially in Malaysia and the UAE.
6. However, Islamic finance is not free of serious challenges. Some of them are:
7. Shortage of human resources,

8. Problems of governance in Shari'a boards:
9. Prevalence of a small number of non-Shari'a scholars in Shari'a board membership
10. Some members who have claim to scholarship have graduated from low profile universities and have no track record of teaching and research.
11. Most Shari'a boards do not have an economic advisor sitting on the board.
12. Gresham's law is clearly manifested in Board membership; the least qualified as Shari'a scholar has the highest number of board membership.
13. Increasing prevalence of products of ill repute, which are conventional products marketed as Islamic products. Examples are:
    - 13.1. Tawarruq, through multiple sale and Salam contracts,
    - 13.2. Eina-based products
    - 13.3. Risk trading products, based on swaps.
    - 13.4. Securitization of debt and cash,
    - 13.5. The challenges faced by Islamic finance pose serious questions of ethics on the side of Shari'a board memberships.

SOME ASPECTS OF ETHICS OF ISLAMIC FINANCE AS A SYSTEM: SYSTEMIC ETHICS

I. ETHICS OF SYSTEM EVOLVEMENT:

14. Use of Shari'a compliance to gradually approach Halal objectives

15. In application of Shari'a rules in the field of finance, we do not expect to instantly reach the Halal goal instantly, but we may have to reach it gradually. On such course, several licenses and compromises may be taken, depending on circumstances.

16. This implies that we must accept the fact that all Fatwas remain provisional, until licenses and compromises are reduced to absolutely unavoidable minimum. Until we reach that goal, there would be several midcourse corrections.

17. However, once a fatwa is issued, it remains unchanged. For example, the structure of Ijarah Muntahia Bettamleek has not changed since its inception, despite the many Shari'a issues regarding the licenses and compromises related to it. Another example is the leverage rates allowed for holding and trading stocks.

18. Lack of continuous gradual adjustment towards the goal of Halal means that Islamic finance would stay in place forever. It could even converge to conventional finance in the medium run.

II. ETHICS AND MORAL RESPONSIBILITIES OF SYSTEM PARTICIPANTS:

A. SYSTEM FUND PROVIDERS

1. System fund providers are shareholders and depositors.
2. Shareholders take the responsibility of appointing management and Shari'a board members.
3. Their choice of Shari'a board membership involves a degree of Shari'a arbitrage, which brings Gresham’s law into play.
4. Regulators have not been willing in most cases to set and apply

governance rules for Shari'a boards. This increases the moral responsibilities of shareholders.

5. Investment and saving depositors should concern themselves about Shari'a board membership and the Shari'a quality of finance products issued using their resources.
6. Full transparency regarding Shari'a boards credentials should be exercised.
7. Investment and saving depositors share the risk with shareholders. Yet they have no voice.
8. Notably, Mudaraba and Wakala contracts, which are the basis for providing saving and investment deposits, do not allow sharing in management, but they allow monitoring. Regulators here must step in and impose reasonable schemes to keep depositors informed about investment conditions in the bank.

III. SYSTEM-FUNDS USERS: ENLIGHTENED USE OF ISLAMIC FINANCE

Fund users should consider the following aspects:

1. The available alternative finance structures, compared with regard to:
   - 1.1. Shari'a compliance of finance structures
   - 1.2. Involvement of products of ill repute.
   - 1.3. Treatment of temporary insolvency
2. When using PLS modes of finance, sufficient incentives should be given to fund users to encourage transparency, disclosure of profits, and avoidance of moral hazard.

IV. SYSTEM-REGULATORS

1. Unique treatment of Islamic finance
   - 1.1. Are regulators suited for Islamic or conventional finance?
   - 1.2. Does the financial institution have internal processes to guarantee?
     - 1.2.1. Financial solvency,
     - 1.2.2. Rational investment decisions

1.2.3. Correct Shari'a rule?

2. Corporate governance rules:
   2.1. Can the management carry out Islamic finance?
   2.2. Are members of the Shari'a board qualified?
   2.3. Has the function of product structuring, development and documentation been assigned to a specific department.
   2.4. The qualifications and size of Shari'a auditing unit and its independence
3. How will the role of "lender of last resort" be exercised towards Islamic banks?
4. How much of the banks resources are recycled through the London Metal Exchange?

V. PROVISION OF ISLAMIC FINANCE PRODUCTS THROUGH CONVENTIONAL AGENCIES

1. Moral justification of mixing Islamic and conventional finance: rules and safeguards
2. How separate the sources and uses of funds are?

VI. ETHICS OF SHARI'A SCHOLARS

1. Optimal qualifications for Shari'a board membership:
   1.1. Odd number of Shari'a scholars
      1.1.1. What is a Shari'a scholar?
         1.1.1.1. PhD in Shari'a from a highly ranked university
         1.1.1.2. Track record of published research and teaching
   1.2. An economist as member/advisor
      1.2.1. What is an economist?
         1.2.1.1. PhD in monetary and financial economics from a highly ranked university,
         1.2.1.2. Track record of published research and teaching,
         1.2.1.3. Banking and finance experience.
2. Misrepresentation of qualifications

2.1. Can one be the judge of his own qualifications?

2.1.1. Obviously not. A third party is required to make judgment based on expertise.

2.2. Can the market be the judge?

2.2.1. The market can be a judge to market-related skills and knowledge, especially in the field of management.

2.2.2. For jobs related to giving "objective judgments, based on Shari'a rules, the market can be a bad judge as those who charge less for their services and are willing to provide *more convenient opinions from the point of view of shareholders*, will be chosen over the more knowledgeable. In other words, if market judgments were to be relied upon, Gresham's Law would take effect.

2.3. Founders of schools of thought did not have a PhD?

2.3.1. This argument is often forwarded by unqualified members of Shari'a boards in order to call for reliance on market judgment.

2.3.2. History tells us that founders of schools of thought had to travel from one end of the vast Islamic world to another in order to learn from widely dispersed scholars and be certified by them, before sitting to teach themselves.

2.3.3. University education and PhD programs are the modern substitute for old education system. It is less expensive, and more reliable, especially in a world with less honesty in the field of science.

2.4. How many Shari'a board can one be a member of?

2.4.1. Shari'a boards should meet monthly. A one day meeting would presumably require at least three days of preparation. This means that the maximum number of meeting that can be attended usefully is 4 to 5 per month.

2.4.2. If a scholar wishes to spend all of his working time as a Shari'a board member, foregoing vacations and leisure time, he can be a member of a maximum of 5 Shari'a boards.

2.4.3. If a Shari'a member is overly efficient, because of his vast experience and availability of a team of assistance to support his efforts, we can multiply the above number by 2 or even 3. In other words the maximum number that is humanly possible would be between 10 and 15 Shari'a board memberships.

3. Who should pay for members of the Shari'a boards:

3.1. This point has been raised, based on the impression that the management pays Shari'a boards.

3.2. However, shareholders are the ones who set remuneration to Shari'a board members.

3.3. However, if shareholders are the ultimate judge on Shari'a board members, i.e., they are not subjected to rigorous certification by a third party before appointment, a conflict of interest arises.

3.4. Conflict of interest

3.5. When Shari'a board members are both certified and appointed by shareholders, on the expectations that they would provide lenient judgments, the conflict of interest arises.

3.6. Shari'a board members would find it necessary to make judgments most preferred by shareholders in order to keep their standing as (market certified) scholars and members of Shari'a boards.

3.7. The conflict of interest increases with the number of Shari'a board membership, as the Shari'a board member puts less effort in formulating his judgment and uses shareholders preference as a thump rule for making decisions.

REGAINING THE ETHICAL STANDARDS OF ISLAMIC FINANCE

A. HAS ISLAMIC FINANCE LIVED OP TO ITS ETHICS?

1. The answer is frankly no.
2. Islamic finance quiet often works without a banking law. It often has to work under regulations that hinder its strict following of Shari'a. Regulators do not only disengage from proper supervision of Islamic finance, they go further to put all possible hindrances.
3. The Islamic finance industry has seen converging towards conventional finance.
4. Islamic finance has become ridden with products of ill repute.
   - 4.1. An initial estimation of Tawarruq in Saudi Arabian Islamic finance could be as high as 60 percent. The top members of Shari'a boards there appear unrepentant, even after the decisive Fatwas issued by two major Fiqh academies: the International and Rabita Academies.
   - 4.2. Tawarruq estimate in the UAE can be as high as 30 percent as three of the four new Islamic banks that started operations during 2009 are Tawarruq oriented.
   - 4.3. Tawarruq is not the only product of ill repute. Other products are based on ‘Eina as well as risk trading.
5. This has violated the basic principle of avoiding Reba.
6. The fact that the Tawarruq prophets in Saudi Arabia and the Gulf explicitly rejected the decisions of the two Fiqh Academies raises an important moral issue regarding the process of collective Ijtihad.
7. By including unqualified members in Shari'a boards, shareholders have been unethical and the unqualified violated their religious ethics.
8. Self regulatory institutions have not been ethically perfect:
   - 8.1. AAOIFI has introduced a standard for Tawarruq.
   - 8.2. IFSB has dodged the issue of setting governance rules for

Shari'a boards in order to weed out the unqualified.

9. Self-styled members of Shari'a boards insist that they are not bound by resolutions of Fiqh academies. This is an attempt to destroy the credibility of the process of group Ijtihad.
10. Qualified Shari'a scholars have given more prominence to formal validity of contracts and much less importance to validity of purpose. In particular, some of them closed their eyes to transactions that included multiple sale contracts (each would be valid by itself) but the transaction would boil down to selling present for future money. The mechanistic approach still figures supreme in Fiqh with insufficient concern for *Maqased*.

B. MULTI-TIER PROCESS OF FATWA FORMULATION

1. There is no agreed division of labor among Shari'a and economic scholars regarding the formulation of Fatwas.

1.1. Suppose that Shari'a scholars would concentrate on formal validity of contract, while economists would direct their efforts on identifying the economic effects of transactions that may be considered as formally valid in order to evaluate the validity of purpose. Issuing a Fatwa can become a three-tier process.

1.1.1. First tier is to evaluate formal validity through Shari'a scholarship,

1.1.2. Second tier is to evaluate the validity of purpose through looking into the micro and macroeconomic activities through economics scholarship.

1.1.3. The third tier is to combine both in one fatwa through joint discussion between Shari'a and economics scholars.

1.2. Obviously, the second tier can be done first before Shari'a scholars make their judgment on formal validity.

C. ADDING SHARI'A AUDITING TO BANKING SUPERVISION

1. Banking regulators should add to their supervisory functions of Islamic banks Shari'a auditing.
2. This can be done by appointing experienced Shari'a auditors.

3. As an alternative, regulators can require external Shari'a auditing.
4. Shari'a auditing at the regulators level should include checking the product structuring and documentation processes, qualifications of Shari'a board members, strength and effectiveness of the internal Shari'a auditing department, following of resolutions of International Shari'a academy.

D. INCLUDING SHARI'A ASPECTS IN THE RATING SYSTEM OF ISLAMIC FINANCIAL INSTITUTIONS

1. Rating agencies should include the Shari'a aspects of Islamic financial products when rating Islamic financial institutions.
2. The first aspect is the qualifications of Shari'a board members.
3. The second is the composition of a Shari'a department to support the efforts of Shari'a boards.
4. The third is the size and qualifications of the Shari'a auditing unit or department working under the Shari'a board.
5. The fourth aspect is the substance of the Shari'a board reports and the record of their implementation.

E. MOVING FROM SELF TO BALANCED REGULATION

1. Islamic finance was never proposed to be self regulated.
2. Self regulation came about because of the vacuum left by the lack of engagement by central banks, which either insisted on applying the same regulations to both conventional and Islamic banks (Saudi Arabian Monetary Agency and the Central Bank of Egypt) or applying no regulations at all.
3. Regulation of Islamic finance should not be left to the industry alone. It should be a process in which the following parties would participate:
   - 3.1. National regulators: central banks or Financial Service Authorities,
   - 3.2. The Fiqh Academies,
   - 3.3. The IFSB,
   - 3.4. The General Council of Islamic Banks,

3.5. The Islamic Research and Training Institute, IDB.

3.6. The International Association for Islamic Economics, IAIE,

4. Each regulating body would monitor Islamic finance performance under its jurisdiction.
5. A committee representing all parties would meet periodically, examine detailed data and make recommendations to national regulators.
6. The most problematic side is that of the choice of Shari'a board members and the governance rules of Islamic boards.

6.1. We suggest that members of Shari'a boards must be certified by IFSB.

6.2. IFSB would form an academic committee that includes three deans of Shari'a colleges, chosen from the ten top Shari'a colleges worldwide and three economists with PhD's in economics from the top fifty economics schools worldwide. The committee would be chaired by the Secretary General of the International Fiqh Academy. The committee would certify candidates nominated for membership in Shari'a boards, either as Shari'a or economics scholars. Certification would be based upon:

6.1. Academic credentials (quality and relevance of PhD degrees, teaching and research track record).

6.2. Interview of candidates,

7. Central banks would require that shareholders would appoint only IFSB-certified candidates.

F. BUILDING UP AN INSTITUTIONAL FRAMEWORK FOR EDUCATION AND TRAINING IN ISLAMIC FINANCE

1. The purpose here is to provide knowledge and skills to those working in Islamic finance.
2. It should be distinct from the efforts placed into the process of the islamization of knowledge.
3. The experience of the Training Unit at the Emirates Islamic Bank can be useful in this regard.

3.1. The design of a number of courses that cover all aspects of Islamic finance.

3.2. Training material and instruction is done by people with PhD’s in Shari'a and/or economics, depending on the subject matter.

3.3. Courses from economics, accounting and management can be added to formulate diploma and MA programs.

REFERENCES

1. Abeng, Tanri (1997), “Business ethics in Islamic Context: Perspectives of A Muslim Business Leader,” *Business Ethics Quarterly*, Vol. 7, No. 3 (July), pp. 47-54.
2. Al-Jarhi, Mabid Ali (1983), “A Monetary and Financial Structure for an Interest-Free Monetary Economy: Institutions, Mechanism and Policy”, presented to Seminar on Monetary and Fiscal Economics, Islamabad, Jan., 1981, in Z. Ahmad, M. Iqbal and M. Fahim Khan, eds., Money and Banking in Islam, Center for Research in Islamic Economics, Jeddah, and the Institute of Policy Studies, Islamabad.
3. Al-Jarhi, Mabid Ali (2004) “Islamic Finance: An Efficient & Equitable Option”, Islamic Economic Studies, IRTI, IDB.
4. Al-Jarhi, Mabid Ali (2007**),** Towards The Foundations Of Islamic Macroeconomics.
5. Andersson, Camilla, Erik Holmgren, James MacGregor and Jesper Stage (2008), “Giving credit to the microlenders, Formal microlending, credit constraints and adverse selection: a case study of shrimp farmers in Bangladesh,” Discussion Paper 08-02, Environmental Economics Programme, Jan.
6. Beekun, Rafik Issa (1996), Islamic Business Ethics, International Institute of Islamic Thought, Herndon, VA 20170.
7. Hung, Chi-kan Richard (2003), “Loan Performance of Group-Based Microcredit Programs in the United States,” *Economic Development Quarterly*; 17; 382.
8. Jones, Thomas M., (1995) ‘’ Instrumental Stakeholder Theory: A Synthesis Of Ethics And Economics,” *Academy of Management Review*, Vol. 20, No. 2, 404-437.
9. Kritikos, Alexander S., Christoph Kneiding and Claas Christian Germelmann (2009), “Demand Side Analysis of Microlending Markets in Germany,” *Discussion Paper No. 903*, Deutsches Institut für Wirtschaftsforschung, Berlin, June.
10. Lewison, Martin (1999), “Conflicts of Interest? The Ethics of Usury,” *Journal of Business Ethics*, Vol. 22, No. 4 (Dec)

11. Rice, Gillian (1999), "Islamic Ethics and the Implications for Business," *Journal of Business Ethics*, Vol. 18, No. 4 (Feb)

12. Servon, Lisa J. (2006), "Microenterprise Development in the United States: Current Challenges and New Directions," *Economic Development Quarterly*; 20; 351.

13. Turvey, Calum G. and Rong Kong (2008), "Vulnerability, Trust and Microcredit: The Case of China's Rural Poor," *Research Paper No. 2008/52*, The World Institute for Development Economics Research (WIDER), United Nations University (UNU).

14. Velasquez, Manuel G. (2006) *Business Ethics: Concepts and Cases*, Sixth Edition, Prentice-Hall, Inc, Pearson Education Company Upper Saddle River, NJ 07458.

15. World Economic Forum (2010), *Faith and the Global Agenda: Values for the Post-Crisis Economy*, World Economic Forum, in collaboration with faculty at Georgetown University.

16. Zarqa, Muhammad Anas (1997), "The Relevance of Values in Management: An Islamic Perspective, "Institute of Islamic Understanding Malaysia, Seminar on Values Based Management, 25-26 Nov.