

The Contribution of the Islamic Economic Theory and Institutions to Human Economic Security:

The Case of the Islamic Redistributive Institution “Zakat” in Malaysia

人間の経済安全保障に対するイスラームの経済理論と制度の貢献 — マレーシアにおける
イスラーム再分配制度「ザカート」の事例研究

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

TO MY FAMILY

To my father Mohamed & mother Manal

To my wife Doaa, & my children Jude and Adam

For their support and patience,

And for allowing me to complete this journey

--- Abdalrahman

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List of abbreviations

HS	Human Security
HES	Human Economic Security
IFBS	Islamic Finance and Banking Sector
IVES	Islamic Voluntary Economic Sector
RIZ	Redistributive Institution of Zakat
ZCC	Zakat Collection Cater
UNDP	United Nations Development Program
UN	United Nations
UNGA	United Nations General Assembly
ICRC	International Committee of the Red Cross
ILO	International Labor Organization
UAE	United Arab Emirates
CDFI	Community Development Financial Institutions
NEP	New Economic Policy
NDP	New Development Policy
BCIC	Bumiputra Commercial and Industrial Community
NVP	National Vision Plan
NERP	National Economic Recovery Plan
NEM	New Economic Model
MIC	Malaysian Indian Congress
UMNO	United Malaysian National Organization
PAS	Islamic Party of Malaysia
PKPIM	Malaysian National Association of Muslim Students
ABIM	Muslim Youth Movement of Malaysia
ICB	Islamic Consultative Body
AIV	Assimilation of Islamic Values
IIUM	Islamic University of Malaysia
INCEIF	International Center for Education in Islamic Finance
BNM	Bank Negara Malaysia
LUTH	Lembaga Urusan dan Tabong Haji
JAWHAR	Department of Awqaf, Zakat, & Haj
YPEIM	Yayasan Pembangunan Ekonomi Islam Malaysia (Malaysian Islamic Economic Development Foundation)
ISRA	International Sharia Research Academy for Islamic Finance
BIMB	Bank Islam Malaysia Berhad
BMM	Bank Muamalat Malaysia
MMJ	Movement for Monetary Justice
GDP	Gross Domestic Product
SOE	State Owned Enterprises
GLC	Government Linked Companies
CSR	Corporate Social Responsibility
SRS	Socially Responsible Sukuk
SRI	Socially Responsible Investment
NBFI	Non-Bank Financial Institutions

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Abstract

Three main components represent the pillars of this research: Human Economic Security (HES), Islamic economics, and the Malaysian economy and policies addressing economic insecurities. HES is part of Human Security (HS), and both are presented in this research from the Islamic perspective to relate to both Islamic economics and Malaysia, the constitutionally Islamic country. To reach a conclusion regarding the subject, the researcher asks the question: “Can Malaysia actualize HES on the bases of equity and justice for all its citizens through enlarging and enhancing the performance of the Islamic Voluntary Economic Sector (IVES) institutions, specifically the redistributive institution of zakat?” The methodological approach of this research is basically a qualitative one. The philosophical and analytical nature of the research necessitated fieldwork in the form of interviews with prominent stakeholders so that we can grasp the essence of the interrelatedness of the three themes at hand. Additionally, given the economic nature of the research, a descriptive quantitative method is employed to reinforce the qualitative conclusions.

Chapter 2 is foundational to this thesis as it presents two frameworks: the first explains HS from the Islamic perspective, and the second explains the Islamic solution to economic insecurities. The discussion over HS involves an analysis of the United Nations discourses and their quest for international security and peace, and also revolves around the thoughts of Imam Al-Shatibi and Imam Ibn Khaldun as well as Amartya Sen and Mahbub ul Haq. The discussion over HES that produces the second Islamic framework features mainly the thoughts of the contemporary Muslim scholar Imam Al-Qaradawi because HES relates more to contemporary economic security matters.

Chapter 3 discusses Islamic economics which has two main sectors, the Islamic Finance and Banking Sector (IFBS) and IVES. The Chapter also showcases the development of Islamic economics. The objective of Islamic economics is to contribute to human well-being, that is, to play the role of an enabler; one that empowers and liberates people for freedoms. There are two main points in this Chapter. The first is about the central role of religion, even in economics. When connecting the logic presented in Chapter 2 to the argument in this chapter, one would realize the centrality of religion which seems to be the main difference between Islamic and conventional views on HS. The second point connects to the finding of the IFBS that is about to replace the previously more influential economic institutions of zakat and waqf. Despite the sector’s profit-driven strategies, it is found that religious institutions such as Al-Azhar in Egypt called for the establishment of financial institutions that serve the Muslims’ financial needs through Islamic financial transactions. Upon this, the idea of HES is valuable because it prioritizes the financial security of the individual.

Chapter 4 introduces the historical development of Malaysia. After multiple periods of occupation and colonization, there was the creation of the multi-ethnic nation-state of Malaysia, and after the 1970s, economic development becomes the center of policy discussion in Malaysia. The nation’s economic policies featuring the New Economic Policy (NEP) and Vision 2050 are presented in this chapter. Chapter 4 primarily discusses two points: first, the nation’s objectives behind the most major economic policies, namely, national unity and economic justice, and second, the development of Islamic economics as a significant part of the Malaysian economy. The importance of these two points is strongly connected to the ideas presented with the terms HS and HES as discussed in Chapter 2.

Chapter 5 demonstrates more in-depth analysis by shedding light on the redistributive institution of zakat. Unlike Islamic banks, the institution of zakat is originally Islamic. Being targeted at redistributing wealth, zakat entirely belongs to the societal level and operates to ensure human well-being. Furthermore, the institution of zakat in Malaysia is distinct for its ability to reach the most marginalized parts of society. The discussion on HS that focuses on the individual, as well as the discussion on HES that showcases the importance of economics and money in achieving satisfactory levels of security for individuals and communities, connect very well with the role of zakat. Additionally, Malaysia is an ideal place to develop this discussion as it manages the best zakat and waqf system regarding collection and distribution of wealth. However, the expectations that the institution of zakat highly contributes to HES was not necessarily met in the Malaysian contexts. The conclusion of the chapter explains how a holistic Islamic system is necessary for each Islamic institution to be able to live up to its potential.

Chapter 6 is unique as it surveys professionals' views on the three research components at hand. This chapter covers views on the development of Islam in Malaysia, an in-depth discussion on the government economic policies, and the roles of individual Malaysians in the economy. Furthermore, the development of Islamic economics in Malaysia has been significant, as the Malaysian institution of zakat has played an important role in uplifting peoples lives and contributing to economic well-being. HES, the Malaysian economic policies, and Islamic economics all seek human well-being. However, despite the perfect combination, theory and practice are sometimes completely different matters. Both government policies and Islamic economics evidence a gap between the promise and the practice. The narrative in this chapter supports the theoretical discussion presented in both Chapter 3 and 4 and points to the gap in practice.

In the concluding chapter (Chapter 7), the researcher finds that Islamic economics could grow to become more social, more so through the growth of the IVES, not the IFBS. By examining the potential of the institution of zakat which is a substantial part of the IVES, the researcher finds that this sector will always grow, and is not only highly resilient to financial crises, but also firmly connected to the Malaysians' compliance to religious and Islamic financial practices. However, a steady growth of the sector is not enough to actualize HES noticeably in Malaysian contexts. A more robust growth rate in the sector is conditional to decisive government interventions that favor the growth of the IVES.

CHAPTER 1

Introduction to economic security

1.1. Introduction

The term Human Security (HS) is widely understood and naturally adopted. A general, inclusive definition could be adapted to assist in achieving the HS each community or individual aspires to achieve, but wide agreement and acceptance of the term are rather difficult. The opposite of security “threat,” is equally important in the discussion; any individual or community aspires to eliminate threats, which is a fundamental pre-condition to actualize HS. The world today faces multiple threats such as drought, hunger, flood, conflict, disease, climate change, financial crises, and more. Not only have the number of threats multiplied, but they also spread faster and wider than ever before. Together, they threaten the core of HS. However, these threats cannot be seen or solved in isolation. To overcome challenges, all security issues must be addressed collectively to enable people to live their lives free from want, free from fear, and free to live in dignity.

Development as freedom leading to individual security

“Freedom,” is repeatedly used to explain the process of actualizing HS as both Amartya Sen and Mahbub ul Haq stress in their multiple publications. According to Sen (2000, p. 3), “Development can be seen as expanding the real freedoms that people enjoy.” In literature, development strongly connects to economics in its numerical format. Here, Sen argues that “focusing on human freedoms contrasts with narrower views of development,” such as identifying development with the growth of GNP, income, industry, technology, or social modernization.” (Sen, 2000, p. 3) To observe development as freedom, it is important to further elaborate the connectedness of freedom to economics and HS. Sen (2000) explains in (page3) and continues in (page 18) that freedom is central for two main reasons:

- The evaluative reason: assessment of progress has to be done primarily in terms of whether the freedoms that people have are enhanced;
- The effectiveness reason: achievement of development is thoroughly dependent on the free agency of people.

Of the most important evaluative systems discussed as indicators of freedom that relate to economic development are:

- Income and capabilities: the growth of wealth in the simple form of income widens the individual freedom to access better health care, better education, and engage in different activities;
- Poverty and inequality: there are substantial reasons to see poverty as reason for limited freedoms. Poverty acts in the opposite direction of increased income. Both poverty and income in the form of employment will be the primary subject for theoretical discussion in the second section of chapter 2, as well as a practical discussion in chapter 6.
- Income and mortality: this indicator is also used to evaluate economic development, especially in comparative studies.
- Other evaluative systems could also be used, such as the quality of life, markets and the relation with economic freedom.

Imam Al-Shatibi, as well as Imam Ibn-Khaldun, both classical Muslim scholars, contributed largely to social science and reflected the view of Islam that presents human well-being as the central objective of Islam. Additionally, talked about human freedom, dignity, and development under the same umbrella. The thoughts of Imam Al-Shatibi are central in Chapter 2. His thoughts, perceived as representative, are widely employed to formulate the frame of reference that describes what HS is from the Islamic perspective.

Economics as part of HS

In most of today's communities, money is essential; it liberates freedoms and enables individuals to satisfy their needs. "The usefulness of wealth lies in the things that it allows us to do – the substantive freedoms it helps us to achieve" (Sen, 2000, p. 14). In this research economics is addressed based on the philosophy of HS; as such, Human Economic Security (HES) is a term the author presents and discusses widely from the Islamic perspective in Chapter 2.

Arguably HES could be the most critical factor in achieving HS in many cases. Similar to HS; it remains a subject for discussion. However, talking about problems in economics brings back one of HS's fundamentals, "freedom from want," which simulates the economic problem, "human wants are unlimited." Apart from that central economic problem, two of the leading economic threats in all countries are poverty and unemployment. Those two are understood and measured differently, also presented solutions differ from country to another. Poverty and unemployment

are thus a clear example for agreement and disagreement; there is no major argument against the fact that those two threats are anything but pure evil, however, there are differences on how to combat those threats. Freedom from fear and want, and freedom to live in dignity are hardly possible under poverty and unemployment, which makes HES the essential matter and pre-requirement to achieving HS in most cases.

The connection to faith

“What should I do with that by which I do not become immortal?” The collection of wealth is a human desire, we all know it, and religious scriptures also stipulate that. The former question resulted from a discussion between a woman and her husband while thinking of becoming wealthier. With wealth, the wife wanted immortality, but the husband told her that life will always come to an end regardless of wealth, so the wife said that rhetorical question. This story is repeatedly cited in Indian religious philosophy to illustrate both nature of human predicament and the limitations of the material world. (Sen, 2000, p. 13) One aspect of this exchange could be wealth that brings freedom to live a dignified safe life. Another aspect is that life is but preparation for the hereafter. This second aspect is an Islamic view that does not contradict with the first aspect as long as it complies with the Islamic law.

So, the connection of HS to faith is another strong argument that suggests that religion must not disconnect from any discourse on HS and HES. The concept of human dignity is embedded in religion; the Judeo-Christian faiths in their many religious scriptures inform how mankind was created in the image of God. That is a clear declaration of the value of humans and the human life. Islam however, rejects the idea that mankind was created in the Image of God, but firmly and explicitly informs that Allah has dignified the son of Adam. To this simple end that most surely is a large topic by itself, the most basic pre-requirements of human dignity is freedom from fear and freedom from want. Those three pillars were rightly pointed out by the United Nations in their multiple publications as conditions for the actualization of HS.

The economic variable

This research will focus more on HES, thus, feature the second fundamental of HS, which is “freedom from want” that mainly reflects on human economic needs and threats. To present a valuable contribution to the discourse on HES worldwide this research focuses on Muslim

communities that are generally among the poorest and most vulnerable in the world. Given that religion strongly associates with conservatism, solutions to the Muslim community HES challenges must simulate their religious concerns. For that reason, Islamic economics is a strong component of this research. Furthermore, the Islamic economic literature is rich in examples addressing solutions to the common economic problems. Similarly, there are contemporary examples of nations that have succeeded in developing Islamic economics such as Gulf countries and Malaysia.

What the growth of Islamic economics means to achieve HES for the poor and vulnerable Muslim communities, is an important question in this research. As an example, Imam Al-Shatibi and many other classical Muslim scholars wrote holistically on HES featuring law, theology and the ethical perspective. Contemporary examples of growing Islamic economic practices in predominantly Muslim countries only slightly contribute to actualizing HES for Muslim communities. Reasons for that, as this research explains in detail, is the failure to adopt a holistic Islamic approach to human development, where development is perceived as freedom, as Amartya Sen proposes. The “holistic” feature of Islam reflected in the writings of the classical Muslim scholarship is crucial to the success and failure of contemporary Islamic economic practices and the contribution to HES. To simplify, Chapter 2 presents a holistic view and solution to HES in Muslim communities; this is the theory of the matter. Chapters 5 and 6 explain why this perfect solution is not a reality.

The becoming of Islam

Islam is a becoming process; it is up to humans to perfect its practice as its manuscripts stipulate. This sentence explains the status of weakness suffered by the Muslim and Muslim majority states. Here, the difference between Islam and “*Emaan*”¹ must be noted, but this is not the concern of this research. Additionally, the disconnect between the state mainstream ruling system and the Islamic law that is partially implemented in best cases is another obstacle confronting the actualization of a holistic Islamic view. The solution to HES in the practice of Islamic economics in Muslim majority countries today does not look much like the solutions in Islamic history, and those derived

¹ Islam literally means “to submit”, and Islam has five pillars. However, Eman means “faith” which is another level a Muslim should seek to possess. The Quran talks about the difference (Q: An Nisaa, 141), and in another verse implies that the majority are Muslims; are at the level of Islam not Emaan.

from the *Quran* and *Sunnah* especially with the mainstream Islamic Finance and Banking Sector (IFBS) mimicking the conventional financial institution as the discussion shows in Chapter 4.

What is presented today as Islamic economics to be the alternative that satisfies the needs of the Muslim population does not seem to serve as a real solution to the problem of HES because it is only one developing part of a more extensive Islamic system. Islamic economic development is important to actualize HES, but not the most important. The priority is protecting the religion and mind as explained thoroughly in Chapter 2 of this research. Consequently, the IFBS today is growing while the status of religious understanding and proper practice lacks behind. That could be one argument; another argument is the failure of Muslim leaders to prioritize what needs to be developed and protected first.

Many parts of the world today live a state of insecurity, facing multiple threats as individuals and countries. There is approximately 1.8 billion Muslims in the world that represent nearly 25% of the world population. According to the Global Conflict Tracker update of February 2018, there are twenty-eight active conflicts in the world, more than twenty-one are in Muslim countries, against Muslim minorities, or include Islamist's groups. Poverty levels and different types of insecurities within those Muslim communities are thus high. Some insecurities were inflicted upon them such as occupations, and others caused by poverty and corruption in politics. Other Muslim countries are among the richest but being lost in regional and international power-games strips away from them some of the core attributes of Islam, making them part of the security problem in their regions and beyond. Those rich countries also suffer from insecurities such as poverty because of unfair wealth distribution. Those examples come in support of the idea "the becoming of Islam." One crucial factor in the becoming of a holistic Islamic system is the choice of Muslim country leaders and their ability to disconnect from previous occupations and today's hegemons such as the United States. Additionally, versus the responsibility of Muslim leaders to disconnect lies, the responsibility to connect or re-connect to their people's choice.

There are Muslim nations who collectively possess great power and wealth. The majority of those nations suffer from poverty and unemployment at different levels which leads to more significant HS concerns. Those same Muslim nations follow the same faith of Islam that has presented concrete solutions to end poverty which is a deficiency that stands before the actualization of HES. Presenting a complete solution or explanation to this status of controversy will not be the target of

this research because solving this problem cannot be limited to an economic, social, political, or religious solution separately, the solution must include all those dimensions.

However, any solution to HS cannot neglect economic injustice which is arguably one of the most substantial threats to HS. Additionally, faith must not disconnect from any attempt to solve HS problems; in Islam, faith must be a principal component of any solution to HS. The researcher argues that “faith” is the principal difference in the Islamic view of what HS is, as explained in Chapter 2. This research will not argue for the ability of humans to achieve perfection which may never be the case, but makes the case that Islam presents sufficient rulings “a Sharia” for humans to follow. This Sharia is rich in teachings that enable humans to reach a satisfying status of HS. That is possible if humans combine faith with a mind that employs science and innovates solutions. Faith is important because today, science and technology have reached unprecedented levels of advancement. However, the current civilization has largely failed to present HS fairly to all people. Poverty levels, famines, and wars that are taking place today are unprecedented; this is arguably a result of marginalizing and demonizing religions.

The redistributive institution of zakat leading to freedom from want

The Redistributive Institution of Zakat (RIZ) is a strong foundation in Islamic economics, a tool responsible for significant wealth and resources redistribution in the communities it operates well in. For simplification reasons, zakat is an Islamic tax. There are two types, 1) *Zakat al-Fitr*, collected in the month of Ramadan, valued at 1500 JPY in Japan, collected from every Muslim, and it is compulsory. 2) *Zakat al-Maal*, (think if annual income tax) which is the payment of 2.5% of a Muslims wealth to the poor once a year, and it is compulsory on every Muslim that acquires wealth that reaches a certain amount.

Although zakat has a rather straightforward and explicit calculation with a specified list of beneficiaries, its connection to the faith of Islam and disconnect from official legal obligations in Muslim countries undermines its potential in actualizing HES. The characterization of communities’ commitment to religious obligations cannot be precisely analyzed; thus, zakat, being both social and religious, renders it being marginalized by economists and somewhat missing from economic theories focused at social and economic development. Casson and Godley (2000) indicate that culture is denied any place in economic theory because of its imprecise nature. Similar

to culture, other residual elements, which are somewhat difficult to measure, are also missing from dominant economic theories.

In Islam, however, Imam Yusuf Al-Qaradawi, in his book, *Islam and Politics* (2007), explains that the place for religion is not just the Masjid. Religion is part of everything in a Muslim's life. A critical argument in this research is the importance of religion-compliance to economic growth in Muslim communities. This discussion is the focus of the second section of Chapter 2. However, this discussion over theory appears in Chapters 5 and 6 in the respondent's views on the role of Islam in the Muslim's economic life.

The Malaysian choice

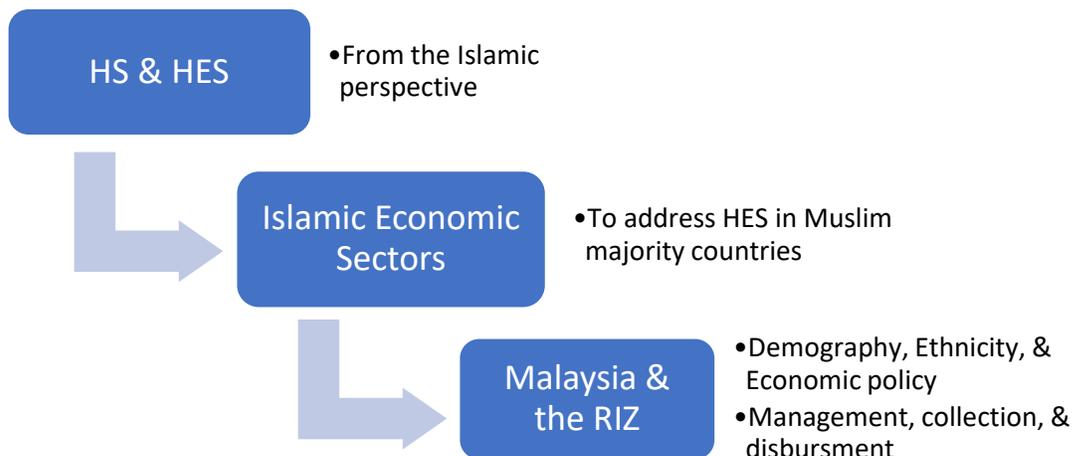
The main reasons for Malaysia being the case are; first, the country is multi-ethnic, multi-religion, and multi-lingual; this is a challenge Malaysia tackled well even if theory suggests the existence of implicit issues. Furthermore, the country had suffered from economic injustice and inequality mainly as a result of ethnic-diversity and the aftermath of previous colonial powers such as the British Occupation. This injustice polarizes communities, even non-diverse communities. The presence of economic injustice in diverse Malaysia caused severe polarization that led to ethnic conflict during the end of the 60s. The government then introduced two national goals in the 70's; "national unity and economic justice for all." From the 70s to the present time, the country has recorded impressive economic development that ensured employment and largely eradicated poverty. After the 80s, Islamic economics has been a growing part of the Malaysian economy, and the economic gap between the ethnic groups has also diminished.

Today the economic growth in Malaysia is somewhat stable, and the government intervention to push the growth of Islamic economics is increasing. With all the Islamic input into Malaysia, to what extent can the nation's economic success and everything that followed attribute to Islamic economics practiced in Malaysia. Furthermore, what is the real worth of Islamic economics in actualizing HES in the country? This provoking statement is the center of the research especially in Chapters 4 and 5, but it is not simple nor does it have a straightforward solution or answer. The discussion will provoke different philosophical viewpoints, however, multiple methodological approaches that incorporate both quantitative and qualitative methods to produce concrete and reliable outcomes.

1.2. Explaining the three layers of the research

To further clarify the research, the three main topics of this research are explained. First, the discussion will begin with HS and focus on HES in Chapter 2, then Islamic economics worldview in Chapter 3. The connection between the two, HES and Islamic economics, is the unified goal of achieving human well-being. The third layer of the research is the performance of the Malaysian Islamic economic sectors and its role in achieving HES. This discussion will take place in Chapters 4, 5, and 6. Malaysia is well connected to the first two layers of the research because two of its primary national goals are national unity and economic justice. Those two national goals are core components of human well-being.

Figure 1-1: Research components



Source: Author illustration

1.2.1. Human economic security

The Quran talked about security, security from hunger and fear, as was evident in *Surat Quraysh*. “Who has fed them, [saving them] from hunger and made them safe, [saving them] from fear” (Alquran-English). The Messenger of *Allah* (peace and blessings of *Allah* be upon him) said: “The one among you who wakes up secure in his property (or tribe, or community), healthy in his body and has his food for the day, it is as if the whole world were brought to him.” Narrated by *Al-*

Bukhaari in *Al-Adab al-Mufrad* (no. 300) and by *al-Tirmidhi* in *Al-Sunan* (2346). Further explanations on HS by Muslim scholars noted that it is important to preserve the necessities in the five dimensions of security: religion, soul, progeny, wealth, and mind (Al-Shatibi, p. 20). Another critical dimension in human security is fear of *Allah*'s punishment, which would keep people from imposing injustice on each other (Al-Turkey, N.A.).

HES is a fundamental matter of Islamic thought. Theoretically, Islamic finance that is part of Islamic economics should seek to fulfill the objectives of *Sharia* in economics, which is human well-being. Imam Ghazali describes wellbeing in his book "*Al-Mustasfaa*" as the promotion of human welfare which lies in safeguarding their religion, selves, minds, progeny, and wealth. Whatever ensures and safeguards those five serves the public interest and is desirable (al-Ghazali (1356 AH/1937 CE) as found in (ISRA, 2016, p. 39). Those five are also explained by Imam Al-Shatibi and Ibn-*Khaldun* to be fundamentals for HS. Indeed, contemporary explanations of what HS is, are quite similar to the Islamic perspective.

HS is an old understanding, but a new terminology introduced by the United Nations and appeared as part of a holistic paradigm for development by both Mahbub ul Haq former Pakistani Minister of Finance, and Amartya Sen economics Nobel Prize winner of 1998. The basic definition of HS in the (1994, p. 22) UNDP report "HS is a universal concern. It is relevant to people everywhere, in rich nations and poor. There are many common threats to all people-such as unemployment, drugs, crime, pollution and human rights violations. Their intensity may differ from one part of the world to another, but all these threats to human security are real and growing". The Commission on Human Security (2003, p. 4) added dignity as another important definition to HS "Freedom from want, freedom from fear and the freedom of the future generations to inherit a healthy natural environment – these are the interrelated building blocks of human, and therefore national security."

"Education-Job-Income is the triangle of HES" (P.Tsagaan, Human Economic Security, 2000, p. 40). Economic security is "the ability of individuals, households or communities to cover their essential needs sustainably and with dignity" (ICRC, 2015). In Islam, the act that ensures wealth redistribution and circulation in the market, which is zakat, is the third pillar of faith. Economics is the study of the human behavior in the production and consumption of products and services. Religion as defined by Dr. Abdullah Mohamed Draaz as available in Kahf (p. 5), is the method or

way that includes obeying or following. As for economics being Islamic, according to Kahf (p. 7), Islam is distinguished from other religions in dealing with economic matters. There is plenty of directions, legislation, and provisions in Islam that constitutes a complete economic system. The Quran, books of *Sunnah* and Islamic jurisprudence provide all the necessary details that help in understanding this complete system.

The process of protecting HS connects security, equity, sustainability, growth, and participation. This is so because the act of protection, which is to safeguard and develop, allows for an assessment of subsistence that people in the community enjoy (Alsubaihi, N.A). HES is more profound in a sense that it primarily incorporates economics in addition to other variables. It is already clear that HES has many interconnected dimensions. However, the main dimensions are economics and security. The other end of security is threats. Economic threats are mainly poverty and unemployment. In all cases, education is an essential pre-requirement for achieving security or avoiding threats effectively. While education is not precisely the topic at hand, it is mentioned to clarify the bigger picture.

1.2.2. Islamic economic sectors

In this research, Islamic economics is essential; scholars separate it into two main groups. First, the Islamic Finance and Banking Sector (IFBS), which is a modern more contemporary sector that includes Islamic banks and Islamic financial institutions, and many of the literature refers to it as a profit maximization sector. This sector contributed to HES, but from the middle up, meaning from the middle-class.

Second is the Islamic Voluntary Economic Sector (IVES), this sector includes *zakat*, *waqf*, and charitable organizations. The importance of this sector in this research is that it serves HES at its grassroots level. Zakat is part of this sector, but for the importance and significance of this institution to this research, it was explained earlier.

Waqf is “an endowment or a trust made by a Muslim, or a non-Muslim according to Mahamood (2014), to a religious, educational, or charitable cause” (English Oxford Living Dictionaries). Today a *waqf* could be a physical asset, or cash, and extends beyond religious, and educational causes; it includes infrastructure, health, research, transportation, and more. Beneficiaries are both Muslims and non-Muslims. More emphasis is presented in the next chapter.

Human socio-economics in different settings and times is the domain of the *Sharia* objectives and a continuous challenge for the *Sharia* scholars and Islamic finance practitioners/researchers over time. While the principles and baselines for what human security refers to are principally clear, to achieve security and eliminate fears, different financial institutions, each could have a distinct way in contributing to HES, and each type of institution approaches the matter according to their specialties.

The IVES is thought to be the most active and most capable of reaching out to needy people. For example, in Malaysia, there are 13 states, and three federal territories, in each, there is a MAJLIS² which collects and disburses *zakat* through some *Zakat* Collection Centers (ZCC) spread throughout the state. *Awqaf* foundations are also highly recognized in this field given their long history, and interesting recent development (Cajee, 2017). *Awqaf* and its development are notably important because it relates directly to community development where a *Waqf* is made by a member of the community to contribute to its development or solve a problem within it. Furthermore, it is managed by members of the community, and the beneficiaries are usually members of the community.

1.2.3. The Malaysian economic development

The Malaysian experience in development is unique because the pre-condition for a successful development process in Malaysia was to achieve national unity, economic justice, and redistributing economic resources. After an extended period of colonization by different occupations, historical Malaysia changed in different ways, such as demographics, the role of religion in governance, and also the economic mindset changed. Demographically the country was resided by Malay and some other *bumiputra*, but over the period of the British Occupation, much Chinese and Indians were brought to the lands of Malaya to work in managing the country's resources for the benefit of the British Occupation and to serve in different sectors. Over time those two ethnicities became a reality on the ground. The most important condition for Independence was the settlement of the Chinese and Indians in the Lands of Malaya. This lasting status-quo set the basis for the countries HES challenge.

² MAJLIS: is a religious council that follows the state Sultan directly

Despite having older civilizations than the Islamic civilization that started in the state of Malacca in the 13 centuries, the Malay people are proud Muslims. They do not refer back to the older civilizations; it is as if history starts from the 13th century in Malacca.³ With the British Occupation, secularization took place more dominantly, especially in politics. Years after the independence from the British Occupation secularism in government was dominant, and religion was ceremonial. However, after the 70s and 80s, Islamic thought became more dominant in the government that adopted Islam and became more powerful.

The British Occupation marginalized Islamic thought after dominance, but today Islamic thought is strongly present in the political arena. From the 70s up, many government policies connect to Islamic thought, and most recently to Islamic economics. Additionally, the dominating political parties are Malay parties that are Islamic although they do not explicitly identify themselves with Islam. Furthermore, changes in Malaysia after independence were largely reactions to previous circumstances. The demographic change before independence was imposed by the colonial powers to protect their interests. This change was accepted by the Malay at the end of the 50s to gain independence. The British colonial power largely contributed to secularization, at least in the political middle. From the time of independence to the 1969 ethnic clashes, the Malay and bumiputra lived in deep poverty although the government was controlled by Malay, the Chinese controlled wealth.

Because the root of the Malaysian problem was economic-injustice and deep poverty for the *bumiputra*, right after ending the ethnic clashes, the government introduced the New Economic Policy (NEP). From the 70s up, both general government policy and economic policy started to increasingly favor the Muslim Malay majority to make up for the long-lasting marginalization they suffered. The official government justification of the NEP was to achieve economic justice and focus on equity.

After 1969, the Malaysian government journey of economic development did not start from zero. Islamic capital existed even before the political and economic Islamization process, before the 70s,

³ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

and before independence. Real Economic development was planned in the 70s and started in the 80s where some corporations and industries were established or developed. Examples are *Tabun Haji*, *Khazanah*, Bank Islam, and Bank *Muamalat*. Also, government projects like Felda and Petronas were a reason for economic development. Those mainly government-led developments were instrumental in narrowing the economic gap as they focused on uplifting the Malay economically.

1.3. Research problem

The initiative of this research evolved as a result of the discourse among Islamic finance practitioners, researchers, and scholars on the commitment and ability of the contemporary Islamic economic sectors to achieve the objectives of *Sharia* in economics which is human well-being; protecting HS by primarily achieving HES. The literature shows failures by the Islamic finance institutions in fulfilling social and community needs; they concentrate more on profit generation (Khan, 2007; Asutay, 2007; Farooq, 2009). Those failures are primarily related to IFBS institutions. This is also clear in the writing of Helis and Migdad (2014) who explained that Islamic banks sometimes would follow the weaker Islamic *fatwas* (Islamic rulings) to achieve their goals. The failure is not just related to *Sharia* compliance; it is fundamentally in the fact that banks and financial institutions are profit maximization institutions that care little about social investment which should be a priority for an Islamic institution. In the words of Prof. Asutay, the Islamic financial institutions mimic the conventional ones.

Given this skepticism on a decent role of Islamic finance institutions in contributing to HES, the main research problem is to investigate whether the IVES institutions could increasingly contribute to the actualization of HES in the contemporary Malaysian community setting⁴. In other words, has the failure reached all Islamic economic institutions? Literature supports the argument assuming that failure is primarily in Islamic banks and Islamic financial institutions, which are somewhat new components of Islamic economics. Historically, Islamic economics included waqf,

⁴ What is meant by contemporary community settings for the purpose of this research is the fact that today's communities are becoming increasingly mixed, religion is only one component.

zakat, charity, traditional trade, traditional markets, and state revenues known as “kharaj” among other sources. Today, those Islamic economic institutions are no longer at the forefront of Islamic economics. There have been efforts and calls to re-revolutionize waqf and zakat to place them at the top again. But to what extent can that be possible? Moreover, are the current systems managing waqf and zakat showing potential?

This research emphasizes on the redistributive institution of zakat (RIZ) managed in the different states of Malaysia to assess the potential of this essential Islamic economic institution in contributing to HES in Malaysia knowing that the Malaysian management of this institution is widely recognized as the best in the world.

1.4. Research importance & rationale

This research addresses security in the Islamic world that is the center for threats and insecurities for individuals and communities at different levels. The research also presents the term HES, which is minimally present in literature from the Islamic perspective. Economic security addresses two main economic problems: poverty, and unemployment. In this research, the role of the IVES is studied as a potential solution for insecurities in Muslim communities. The Malaysian case is used for a number of reasons, the first being its success in developing Islamic economics in the country and its global recognition as a leader in the industry. Secondly, the recognition that it runs the best-managed *zakat* institution which is part of the IVES, especially in the Federal Territory of Kuala Lumpur. Thirdly, its ability to reduce poverty and establish economic development in a rather short period. A fourth and vital reason is its ability to achieve this economic progress given its diversity in ethnicity and religion. A case is not made for the perfection of the Malaysian experience, but for the recognized success, and to study the role of Islam and Islamic economics in that success.

HS focusing on the individual makes it more appealing from the Islamic perspective. The process of uplifting humans should start with the individual “the human” who represents the most important pillar of any foundation. Islamic thought indeed takes that route for ensuring HS. Theories of implementing the objectives of Islam are bottom up; for example, the corporate governance model in the Islamic economic system is stakeholder not shareholder-oriented. The essence of the Islamic economic objectives was explained by *Asutay* (2007) to be concerned with

human justice and human-centered economic growth and development. This explanation and understanding were also derived from the thoughts of the first Muslim scholars such as *Imam Ghazali, Al-Shatibi, and Ibn-Khaldun*.

Asutay (2007, p. 167), argues that the “institutionalization of social banking” is important to overcome the failure of the IFBS. Additionally, Farooq gave a unique description of the relationship where he explained that “Islamic finance had eclipsed the broader field of Islamic economics” (2009, p. 69). Farooq noted that Islamic financial institutions must benefit from the government, the private sector, and the traditional finance sector experience and that the Islamic finance institutions must not be left to operate for the sole purpose of profit, the depositors must have a role in directing investment. The general scholarly thoughts on the performance of the IFBS indicates the importance of incorporating the social and community benefit and interest in the corporate goal.

While this research will only put the performance of the IFBS into perspective, it will focus on the role of the RIZ in Malaysia to achieve HES. Combining the contemporary scholarly thoughts, one could come to realize the importance of further developing and increasingly recognizing the potential of the RIZ for some reasons. First, this sector has historically existed to play a role in community development by ending poverty and providing means of employment for people. Secondly, the contemporary presence of this sector has the same goals, but minimal effect although there are resources and promising potential for growth. Thirdly, there are attempts to develop and re-revolutionize this sector and re-position it at the top.

1.5. Research question

Can Malaysia actualize HES on the bases of equity and justice for all its citizens through enlarging and enhancing the performance of the IVES institutions, specifically the redistributive institution of zakat?

1.6. Research hypothesis

There are two main hypotheses to this research; the first is conditional on the government's public policy, the announced explicit and implicit policies. The second addresses the economic

trajectories and how they relate to economic policies versus the effect on HES. Both preliminary expectations are of value because of the variable-interconnectedness nature of the research topic.

- First Hypothesis: The IVES institutions, particularly the RIZ, can increasingly rise to their potential in contributing to HES in Malaysia if government policies allow.
- Second hypothesis: *Zakat* collection increases naturally with natural economic growth measured through the main economic indicators in the country such as GNI, GDP/capita, and employment, therefore its effect on HES will increase if:
 - o Economic indicators continue to show positive progress.
 - o Government policies allow State-Owned Enterprises and business owners, in general, to get tax refunds⁵ upon paying zakat similar to the individual zakat payer who gets tax refund equal to the value of their zakat paid.
 - o Zakat money is better invested in,
 - o And disbursement is more sustainable, less consumption-based.

1.7. Methodology and analytical approach

Multiple methods are employed in this research due to the unique research idea that discusses economics in terms of security and in light of ethics and religion. This setting necessitates diversity in data collection techniques and data sources. Data was collected from the National Bureau of Statistics, from interviews, from observations, from annual financial reports of related institutions such as Islamic banks, SOE, and the RIZ. Therefore, multiple analytical techniques were employed; descriptive analysis of panel data, and content analysis for interview results. In the following sub-titles, the research design, data collection, data analysis, and the important research variables are explained in more detail.

1.7.1. Research design

This research is designed to follow a mixed approach that utilizes both quantitative and qualitative methods to explain the status of Islamic economics and HES in Malaysia and predict the potential for a more significant role of the IVES and precisely the RIZ in the protection of HES in the

⁵ Government economic policies are largely framed to maximize un-restricted government revenue, as explained in Chapter 6, zakat expenditure is restricted to 8 categories, unlike tax, government could use tax revenues in any direction.

country. The importance of following a mixed approach is for two main reasons that are in line with the content of this research.

First, the research is qualitative because it is difficult to measure the contribution of the IVES institutions to HES via quantitative numerical methods. As HES dimensions cannot be directly observed, it cannot be directly measured (McGillivray & Clarke; Malouf, 2009; Ameen, 2009). For example, Islamic economists appear to have used ratio analysis and various input and output frontier models in measuring the efficiency of Islamic banks such as the ratio method, econometric models, and efficiency models, but the way they used the technique often has gaps, errors, and inconsistencies that render their conclusions vulnerable even in their own framework. The performance of Islamic finance institutions ought to be evaluated in reference to social responsibility in an Islamic framework. As such, finding reliable research conclusions on the performance of the IVES institutions is likely to be achieved through qualitative research methods.

However, despite the suitability of the qualitative method when dealing with human security and well-being in relation to economic security in the first part of the thesis, the second part utilizes data that is best analyzed quantitatively. The importance of the quantitative analytical approach of this research comes in line with the second part of the research that employs time series and panel data to analyze the performance of the IVES institutions, namely the RIZ in Malaysia. The outcomes of this analysis are then used to analyze the effect of the IVES on HES and the potential for a more significant role.

1.7.2. Data sourcing and collection techniques

This research employed a number of tools to resource data. Both primary and secondary data are used. The secondary data used literature that includes books, journal articles, online sources, government official reports, and bank official reports. Additionally, another important source was government panel data from the “Department of Statistics Malaysia.” The government panel data that included unemployment, GDP, GNP, employment rates, population, ethnic distribution, GDP/capita and more were collected and combined to be suitable for descriptive analysis necessary for this research.

Furthermore, *zakat* collection on a Malaysian national level was collected by combining the data from annual reports presented by the state *zakat* Collection Centers (ZCC). The process of data

collection was time-consuming and challenging because the *zakat* collection outcomes are collected and presented in the form of national annual reports only after the 1990's. The panel data were combined from the annual reports from the 1990's to the present to be bundled with the data collected from the Department of Statistics Malaysia and prepared for final analysis as presented in Chapter 5.

The researcher relied more on primary data collected from field visits, observations, and interviews with several stakeholders to finalize conclusions on the research topic. Both structured and semi-structured interviews were used. Specifically: 41 structured interviews in Malaysia, 31 semi-structured interviews in Malaysia, and 11 email-based structured interviews from Islamic bankers in Gaza. The interviews contain both quantitative and qualitative data that was very important and reliable. Interviews are flexible, where the researcher could re-word questions, and make them a better fit depending on the interviewee (Denscombe, 2014). Fieldwork and field visits have also been implemented to account for more details and further explanations to interview outcomes. On a final note, both primary and secondary data collected through the different tools work together well to present identifiable outcomes.

1.7.3. Data analysis and interpretation

The analysis of the secondary data collected depended followed a content analysis approach to identify keywords, themes, and important numbers. This was done mainly for the official government and bank reports. The second group of secondary data collected was panel data from the Department of Statistics Malaysia. Microsoft Excel program was used for analysis after organizing all the panel data collected from different sources.

As for primary data analysis, the primary tool used was semi-structured interviews that were collected by employing a purposive sampling and snowballing sampling techniques. After collecting the interviews, which were mainly recorder, and some were written, the content of the interviews was analyzed by employing content analysis and using direct quotations to support the proposed conclusions and to bring the reader into the reality of the topic that was studied. The stages of analyzing the semi-structured interviews included categorizing units of analysis that included words, phrases, and sentences. Then “open coding” which is coding the units of analysis

where each code represents a sub-title. And finally, “closed coding” which is to combine a number of sub-titles under one main title. This tool was employed in Chapter 6.

1.7.4. Research variables

- The collection of *Zakat* by the state *Zakat* Collection Centers that spread across the 13 states of Malaysia and the three federal territories.
- Time, Population, Unemployment
- Total *Zakat* collection, nationally, in the state of Malacca, and in Kuala Lumpur
- National GDP, GDP per capita
- National CPI and an adjusted national CPI, (with Dummy)
- Labor force for the state of Malacca, Kuala Lumpur, for Bumiputra, and the national labor force
- National Total tax revenue
- National Poverty Rate
- Assets of Islamic banks and conventional in Malaysia

1.8. Featured literature

The literature presented is significant to each of the three parts of the research. The idea of the research as a whole unit is new and has not been discussed holistically in previous literature. This section summarizes the literature according to the three themes of the research:

- Human economic security
- Islamic economic sectors
- The Malaysian economic development

1.8.1. Human economic security

- 1- *Human Security*: HS is a somewhat new term introduced primarily by Mahbub Ul Haq and Amartya Sen and published notably in the (1994) UNDP Human Development Report, and later in the Commission on Human Security report, “Human Security Now” in (2003).
 - a. The UNDP 1994 Human Development Report is the focus of the first part of Chapter 2 where the reports main discussion points are compared with the writings of Imam *Al-Shatibi*.

- 2- *Mahbub Ul Haq*: views that physical capital is center stage in the discourse on development while human capital is somewhat marginalized especially when reflecting on economic development. This view is nearly all of his related publications including the following:
 - a. *Reflections on Development* (Haq, *Reflections on Human Development*, 1995)
 - b. *The Poverty Curtain* (Haq, 1976)
- 3- *Amartya Sen*: discusses “freedom” as the central concern for human development. In his own words, he titles one of his books as “Development as Freedom.” Sen dedicated his life to writing on security issues and especially poverty, see:
 - a. *Development As Freedom* (Sen, 2000)
 - b. *Development as Capability Expansion* (Sen)
 - c. *Poverty and Famines, An Essay on Entitlement and Deprivation* (Sen, 1981)

Both Haq and Sen are central in the discussion over development and freedoms for the individual that in turn leads societies and communities to develop. In simple terms, their thoughts on development are bottom-up, and the central pillar is the individual. This discussion is further reflected in Chapter 2.

- 4- *The interlinkage and interconnectedness of concepts*: many scholars addressed this matter, including both Haq and Sen. Gomez and Gasper (2013), explain how concepts of HS are interlinked in many ways. McGillivray and Clark, when writing on “Understanding Human Well-Being,” also explained the interconnectedness of terms such as welfare, empowerment, quality of life, well-being, and more.
- 5- *Dr. P. Tsagaan* (2000): was one of few who discussed HES directly and noted that Education-Job-Income is the triangle of HES.
- 6- *The International Labor Organization (ILO)* (2004): also published a lengthy report on economic security. The discussion on HS was from an economic viewpoint, but the approach adopted was largely similar to the idea of HS; where the focus is the individual and how to liberate restricted freedoms through expanding the individual economic freedom.

Islamic and Arabic literature

- 1- *Imam Al-Shatibi who* (Passed 789): wrote the details of HS as it was presented today but with more details as the connection of security to the faith of Islam is entrenched in his presentation. The authorship of this classical Muslim Scholar is featured extensively in part

one of Chapter 2. His work is presented in details in the form of comparison with the 1994 UNDP report on Development.

- 2- *Ibn Abdeen*: wrote on Humanities and HS from the Islamic Perspective, see *Hashiyat Ibn-Abdeen* (Ibn-Abdeen, 1205 Hij).
- 3- *Imam Ibn-Khaldun*: who lives at the same time as *Al-Shatibi* is also a reference in humanities and wrote extensively on HS.
- 4- *Shab* (2017, p. 126): explained that “previously, academic surveys of the concept dignity in Islamic discourse have underestimated not only the true scale and potential of the Islamic materials, but also the rich tapestry of integrated formats through which ideas germane to morality and inner worth were articulated and applied in legal, theological, and ethical discussions.” Indeed, more writing on this subject will bring to the attention the actual value and worth of the Islamic literature in this subject and the broader discourse over HS.
- 5- *Imam Al-Qaradawi*: is a contemporary Muslim scholar, his work will be featured throughout this research, but mostly in part two of Chapter 2. he wrote extensively on:
 - a. Religion and politics; the role of Islam in the political institution [Al-Qaradawi, 2007]
 - b. Poverty and unemployment; he wrote describing both as pure evil and proposed solutions from the Islamic perspective, See “the problem of poverty” (Al-Qaradawi, The problem of Poverty, 1985).
 - c. Al-Qaradawi also wrote elaborating on Islamic jurisprudence to discuss contemporary threats and challenges facing Muslims.
- 6- *Samir Qantakji* (2004): wrote on HS in Islam, and precisely on the HES where he discussed the Islamic way of resolving poverty and unemployment.
- 7- *Malouf* (2009): is one of the more contemporary scholars that wrote on HS, and inclusively on HES. He also wrote discussing the incomprehensiveness of the concept, being largely inclusive, and unmeasurable.
- 8- *Ameen* (2009): wrote discussing HS in the Arab world, the challenges, and the slow adaptation and implementation of concepts such as human rights previously, and HS now.
- 9- *The interconnectedness of the terms*: Terms such as quality of life, welfare, prosperity, empowerment, human poverty, and more recently happiness, are often used interchangeably with well-being without explicit discussion as to their distinctiveness (Hammad, 2010; Al-Raysouni, 1995; Malouf, 2009; Ameen, 2009).

1.8.2. Islamic economics

- 1- *History of economic thought in Islam*: those who wrote on this include Siddiqi (1982), Al-Qaradawi (1997), Qantakji (2004). In history, there is not much philosophy in addressing economics in Islam. However, the contemporary discourse has a lengthy discussion on compliance, living up to the promise, role in community development, mitigation to capitalism economic institutions and more.
- 2- *Imam Al-Qaradawi*: wrote explaining the objective and practice of economics in Islam, mechanisms, transactions, compliance, and potential. Refer to:
 - a. Role of Ethics and Moral in Islamic Economics (Al-Qaradawi, 1995)
 - b. The jurisprudence of Zakat (Al-Qaradawi, 2006)
- 3- *Islamic economics contribution to HES*: scholars agree that Islamic economic sectors contribute to HES, but different specialized Islamic economic institutions have contributions that differ in value, purpose, and nature. There are two main sectors, the first and larger sector is the IFBS which does not live to its potential in contributing to HES, and is demanded to contribute more to society (Asutay, 2007; AbdulRahman, 2007; Farooq, 2009; Chapra, Islamic Economic Thought and the New Global Economy, 2001; El-Gamal, Islamic Finance, Law, Economics, and Practice, 2006; Khan, 2007). This is important because the theory of corporate governance in Islam is stakeholder not shareholder oriented (Iqbal & Mirakhor, 2004). Much of those scholars also argue that the IFBS has relatively failed in achieving the objective of Islam in economics, which is human well-being.
- 4- *Mehmet Asutay*: he is a contemporary scholar on Islamic economics stationed at Durham University in the UK, and he is one of the Islamic economists that call for more shifting to socio-economic practices by Islamic economic institutions, especially banks and financial institutions. His thoughts are crucial in this research.
 - a. (Asutay, 2007)
 - b. Lecture at Kyoto University, 2017
- 5- *The social Part of Islamic economics*: the second smaller sector of Islamic economics is the IVES, which is entirely designed for socio-economic development for the least privileged in the community. This sector was at the forefront of economics in Islam according to Daftara (2017). The main two parts of this sector are the institution of *zakat* and *waqf*. The western trust originates from the Islamic *waqf* (Cizakca, NA; Avini, 1995; Gaudiosi, 1988; Stibbard, Russell, & Bromley, 2012).

- 6- *The role of Zakat*: it had a role in securing economic needs and steadily developing poor communities. This role for zakat was discussed thoroughly by Al-Qaradawi (1985), Al-Turkey (N.A.), Qantakji (2004).
- 7- *Financial Inclusion*: one of the crucial roles of Islamic economics in Muslim countries is financial inclusion which is essential to achieve HES (Marston, Norris, & Unsal, 2015). This part of the discussion features many non-Muslim writers because the financial inclusion of Muslim populations in the West was a significant concern in the 90s and early 2000s.

1.8.3. The Malaysian economic development

The literature on Malaysia is observed from multiple backgrounds; historical, economic, and social background. The history related literature helps in understanding the foundations of the status quo. The economic based literature covers the development of economic policy which has strong historical and social ties. Furthermore, the economic literature covers some Malaysian institutions that relate to economic activities such as the institution of waqf and the RIZ. Concerning the literature addressing the Malaysian social setting and how it came to be as we know it today, it is strongly interlinked to history and economics literature documents.

Mahathir Muhamad wrote extensively in his book “The Malay Delma” (1970), and in other literature on the Malaysian economic development process, the role of Islam, and the role of each ethnicity. Mahathir gave credit to the Chinese ethnic Malaysians when it came to economic development. Another contribution by Mahathir was addressing the Malaysian Vision 2020 (Mohamad, Malaysia: The Way Forward (Vision2020), 1991) that he later abandoned. Furthermore, another noticeable publication was that of Ten, Guan, and Tien (2016) who wrote describing the Malaysian HS situation. The outcome was somewhat biased but remains an outlook.

Other historical reviews on Malaysia included the work of (Hooker, A Short History Of Malaysia: Linking East and West, 2003) in a book she titled “A Short History Of Malaysia: Linking East and West.” Furthermore, Orenstein (2009) wrote comparing the Malaysian national system. In that piece of literature, the author also reviews the Malaysian history. Other works that discussed the Malaysian History included that of the Library of Congress (2006) who developed a summarized document of the Malaysian history. Other resources for the History of Malaysia include a historical timeline by Aljazeera (2013)

With regard to the Islamic economic sector of Malaysia, the institution of *Waqf*, its value and what to do with it was discussed by Dr. Siti Mahmood (2014), Cizakca (Waqf vs Trust, NA) Mohsin (2014), and Cizakca (1998). The same writers among others also wrote extensively on the RIZ in Malaysia. As described in Chapter 4, some writers wrote about the relationship between the Waqf and zakat with Islamic finance institutions, especially banks. (Cizakca, *Awqaf in History and its Implications for Modern Islamic Economics*, 1998)

CHAPTER 2

Human security and human economic security

2.1. Part one: Human security

2.2. Introduction

The world today faces multiple threats such as drought, hunger, flood, conflict, disease, climate change, financial crises, and more. The Human Security Unit at the United Nations Trust Fund for Human Security (HS) elaborates that not only have the number of threats multiplied; they spread faster and more extensive than ever before. Together, they threaten the core of our HS. However, these threats cannot be seen or solved in isolation. To overcome these security challenges, all the threats must be addressed collectively to enable people to live their lives free from want, free from fear, and free to live in dignity. These three - fear, want, dignity, are the three most essential components of HS. Concepts of HS and development are interlinked in many ways (Gomez & Gasper, 2013). Terms such as quality of life, welfare, empowerment, human development, human poverty, and more recently happiness are often used interchangeably without explicit discussion as to their distinctiveness (McGillivray & Clarke, p. 3; Hammad, 2010; Al-Raysouni, 1995; Malouf, 2009; Ameen, 2009).

HS, featuring a holistic paradigm for development was introduced by both Mahbub ul Hack and Amartya Sen (Hammad, 2010), as defined by the UNDP in its (1994, p. 22) report to be “a universal concern.” The report also talked about the many threats that are common to all people such as “unemployment, drugs, crime, pollution and human rights violations.” The commission on HS (2003, p. 4), builds on the UN 1994 report the third point, “freedom from want, freedom from fear and the freedom of the future generations to inherit a healthy natural environment – these are the interrelated building blocks of human as the individual, and therefore national security.” Another landmark was the United Nations General Assembly (UNGA) resolution that adopted a common understanding on the notion of HS. This UNGA resolution agreed that HS “is an approach to assist the Member States in identifying and addressing widespread and cross-cutting challenges to the survival, livelihood, and dignity of their people,” and points out eight main points to the definition, but leaves the discussion on HS open (UNGA, 2012).

HS was defined by Muslim scholar such as *Al-Shatibi* (Passed 789), and *Ibn-Khaldun* based on the *Quran* and the *Sunnah*. The term was also thoroughly explained in a paper by the Minister of Islamic and *Awqaf* affairs of Saudi Arabia (Al-Turkey, N.A.). The main difference between the

conventional and Islamic HS is that the latter strongly incorporates faith and goes beyond life to security in the hereafter. In the *Quran*, the chapter *Quraysh* explained the essentials of HS in the following verses, (Who has fed them, [saving them] from hunger and made them safe, [saving them] from fear). On dignity, the *Quran* says, “we have honored and dignified the son of Adam” (Al-Isra: 70). Moreover, the *Prophet Mohamed puh* says “The one among you who wakes up secure in his property (or tribe, or community), healthy in his body and has his food for the day; it is as if the whole world were brought to him.”

Imam *Al-Shatibi* explains that HS necessities are five, which are “safeguarding religion, soul, progeny, wealth, and mind” (p. 20). He then explains that those five are essential for all nations with consideration of each nation’s habits, culture, and laws (pp. 20, margin 5). “Human well-being and HS, however, remain ambiguous concepts. It lacks a universally accepted definition and has numerous, and often competing, interpretations. As human well-being and HS cannot be directly observed, it cannot be directly measured” (McGillivray & Clarke). Stewart (2004), also finds lots of space for different interpretations and usages of HS as a term. This observation is not surprising because the UN also left the discussion on HS open for future development.

The components of HS that relate to economics prove more complications as the demand for precision in economics is rather high. On the other hand, freedom from fear and want, and freedom to live in dignity are hardly possible under poverty and unemployment that represent the core economic problem that any system seeks to end. HES the essential matter and the pre-requirement for achieving HS in most cases where threats are claiming lives, displacing people, or creating tension in diverse communities; because conflict is in many cases connected to wealth. Because economics demands more precision, HES is found to be defined in a more calculated manner, but the central theme of the definition remains ambiguous. The present discourse finds international bodies such as the UN call for the importance of religion and mutual respect, while in Islam, freedom of religion and protection of faith is an obligation on Muslims. The connection of religion, faith, and dignity to HS, and even to HES makes precision in calculation impossible and necessitates reason in analysis and that continuously leaves room for additions and improvement.

To clarify the margins of this theoretical research, a holistic framework is presented to explain a group of interlinked concepts concerning HS. However, in this research, light is shed on the Islamic views of what HS is. Furthermore, HS is explained in the bigger context of other interlinked

concepts. In addition to that, economic development on an individual and community level is addressed as a complementary necessity that satisfies overall HS. The paper then narrows down on one aspect of HS, which is HES. Poverty and unemployment are the main subjects of HES. Here, the focus is on the views of Imam Al-Qaradawi among others in explaining the issue of poverty and unemployment, how Islam recognizes poverty as an absolute evil, and what the solutions to both problems are.

2.3. Explaining human security

Before talking about HS, the International Humanitarian Law must be introduced to pave the way for more discussion on HS. This law is a branch of the general international law that is relatively new. The four Geneva Conventions of 1949 contain the significant part of the International Humanitarian Law, and ever since it has developed to incorporate new humanitarian matters (ICRC, 2004). After the 40's, nearly all nations have agreed to be bound by those laws.

The International Humanitarian Law is a set of rules which seek, for humanitarian reasons, to limit the effects of armed conflict. It protects persons who are not or are no longer participating in the hostilities and restricts the means and methods of warfare. The International Humanitarian Law is also known as the law of war or the law of armed conflict (ICRC, 2004).

As for HS, it is an even newer concept. According to Alsubaihi, the International Humanitarian Law is outdated; the West has found it to be no longer useful so they, through the UN, have introduced a newer more comprehensive term. He adds that the Arab nations started to incorporate the concept of Human Rights after the West have found it to be unfit and developed what is known today as HS (Alsubaihi, N.A).

The 1994 "Human Development Report" by the United Nations Development Program, was comprehensive, it spoke specifically about the main dimensions of HS while explicitly informing that those dimensions are inclusive to others (Gomez & Gasper, 2013). The report listed seven essential dimensions of HS: economic, food, health, environment, personal, community, and political security.

The basic definition of HS in the report “Human security is a universal concern. It is relevant to people everywhere, in rich nations and poor. Many threats are common to all people -such as unemployment, drugs, crime, pollution and human rights violations. Their intensity may differ from one part of the world to another, but all these threats to human security are real and growing” (UNDP, 1994, p. 22).

HS represents a basis for development on different levels including personal, group, national, and regional levels. A range of definitions existed and had developed over time with the occurring changes and newly introduced methods of conflict, which necessitated the development of a definition that incorporated contemporary threats to entire communities and countries. HS in its broadest sense embraces far more than the absence of violent conflict. It encompasses human rights, good governance, access to education and healthcare, and ensures that each has opportunities and choices to fulfill his or her potential. (Commission on Human Security , 2003, p. 4).

In reference to the dimension of HS in the UNDP 1994 report and following reports by the Commission on HS in 2003 Stewart (2004) argues that “this definition of security is too extensive for my purposes because it covers much of what is normally included in human development, i.e., levels of achievement as well as risks,⁶ and also includes economic sources of insecurity as well as those arising from violence.” Stewart (2004, p. 3), defined security as “occurring where there are low levels of insecurity, where insecurity consists of inter-personal violence or the risk of it. Inter-personal violence may have criminal or political objectives (or both)”. His definition of security is reflected at both the individual and community level, thus, not the same as national insecurities, although there might be some instances where national insecurities would affect security at the individual and community level similar to what the situation in Iraq demonstrates (Stewart, 2004).

However, the development of the concept continued, and one of the leading landmarks was the United Nations General Assembly resolution that adopted a common understanding on the notion of HS. This UNGA resolution enacted on the 66th session agrees that HS “is an approach to assist the Member States in identifying and addressing widespread and cross-cutting challenges to the survival, livelihood, and dignity of their people”, and points out eight main points to the definition, but leaves the discussion on HS open (UNGA, 2012).

⁶ Although Sen suggests that, in comparison with Human Development, it focuses more on the ‘downside risks’ (CHS, 2003, page 8).

2.4. Human security in Islam

Talking about HS dimensions from its Islamic perspective, the subject is addressed from two sources, first from the perspective of the *Quran* and *Sunnah* which are the origins of all Islamic teachings, and the second perspective is exhibited from the Sharia and Islamic Jurisprudence.

Humans in Islam are known to be the speaking and thinking creation of Allah, with a purpose which is to worship Allah (*Q, Az Zariyat* 51, 56⁷), and with a duty which is to develop and build this earth (*Q, Houd* 11, 61⁸) according to the teachings of Islam. As for security (*amn*), it linguistically means (*tumaa'nenah*) tranquility which is opposite to (*khawf*) meaning fear (Almaany-dictionary), so it is the tranquility of the soul and the elimination of fear that formulates a status of adequate HS.

In both the *Quran* and *Sunnah*, verses and hadiths that talk about HS and describe the rights of people upon each other are many. We find rights on a family level, community, state, as well as state relationships. In this bundle of HS Islamic guidance, “people,” is not limited to Muslims, using the word “people” is meant to incorporate all people with no exceptions. Many topics were covered that include the type of relationship between the ruler and the ruled, the rights of a Muslim member of the community and the right of a non-Muslim member, see for more details (Al-Turkey, N.A.; Hammad, 2010). Al-Turkey (p. 24) explains that Al-Medina was the first Muslim community that guaranteed security for all its members in the Prophetic Document that had two main distinctions; first, it was the first regulatory system that guaranteed the rights of those with different affiliations, especially on the basis of religion, and second, it was the first document that made “achieving security for all” as its central pillar. It prohibited discrimination, ended thoughts of superiority, and punished violators of the documents values.

⁷ And I did not create the jinn and mankind except to worship Me

⁸ And to Thamud [We sent] their brother Salih. He said, "O my people, worship *Allah*; you have no deity other than Him. He has produced you from the earth and settled you in it, so ask forgiveness of Him and then repent to Him. Indeed, my Lord is near and responsive."

2.5. Human security in the *Quran*

The word security and its derivatives appeared in the *Quran* referring to some matters including individual, group, and state security. Furthermore, the verses of the *Quran* talked about the rights of people, Muslim and non-Muslim, and in the Hadiths, and after that the Islamic Sharia, relationships were further elaborated. The following are verses from the *Quran* that talk about human security, but they are not the only; Albaqarah, 125; Al Umran, 97; Yousuf, 99; Saba, 18; Al-hijr, 82; Ibrahim, 35; Alnur,55; Al-Nahal,112; Al-aaraf, 99; Quraysh,4). Many other verses of the *Quran* appeared in the opposite of security, talking about the word fear and its derivatives (Q, Alankabou, 33; Al-thariyat, 28; Al-Israa, 59; Al-baqarah, 155; Alnahl, 112; Quraysh, 4)

The *Quran* talked about security in reference to security from hunger and fear as was evident in Surat Quraysh that was explained in Sahih International as (Who has fed them, [saving them] from hunger and made them safe, [saving them] from fear) (Alquran-English). According to this verse, in this Surah, most of the scholarly explanations referred to two dimensions of security given to the people of Quraysh in Makkah which are security from hunger and security from fear (Hammad, 2010).

Another critical dimension in HS is fear from Allah's punishment, which would keep the believers from imposing injustice, and any mean of insecurity upon others, and invokes them to remain within the margins of security and away from Allah's punishment by continually committing to the teachings of Islam that promote peace and security (Al-Turkey, N.A.). To this end, Al-turkey introduces the importance of faith in the whole equation addressing HS from an Islamic perspective. This point will be subject to further elaboration by the end of this section.

2.6. Human Security in the *Sunnah*

The *Sunnah* and the *Hadith* of the Prophet Mohamed peace be upon him carry many teachings that address HS. Among the famous hadiths known by many Muslims is that narrated by *Salamah ibn 'Ubayd-Allah ibn Mihsan al-Khatmi*, from his father, who met the Prophet (peace and blessings of *Allah* be upon him). He said: The Messenger of *Allah* said: "The one among you who wakes up secure in his property (or tribe, or community), healthy in his body and has his food for the day, it

is as if the whole world were brought to him.” Narrated by al-Bukhaari in *al-Adab al-Mufrad* (no. 300) and by al-Tirmidhi in *al-Sunan* (2346).

This Hadith was directed to Muslims, confirming what the dimensions of security mentioned in the *Quran* which were (security from fear and hunger), additionally adds a third dimension which is security from illness (health). Thus, according to Islam, civilization does not prosper without the establishment of the fundamental dimensions of HS which are food, security, and health. Those are physical constituents referring to the economic, security, and health sectors (Hammad, 2010).

However, the distinction of HS from the Islamic perspective arises from making the connection to the Muslims spirituality and worship of Allah. In (Q, Quraysh, 4), Allah directs people to the path that preserves those three dimensions that lead to HS, and thus, civilization and development (Hammad, 2010; Al-Turkey, N.A.). Hammad (2010) concludes that worshiping Allah is an obligation, so in referring back to the *Quran*, the way Muslim communities are able to secure their economies security, and health systems, is by first abiding by the teachings of Islam and worshiping Allah as he ordered.

2.7. Security in Sharia (the objectives of Sharia)

In the science of Islamic Jurisprudence, the Muslim scholar’s thoughts on specific topics are studied when an attempt to address a contemporary matter is made. However, as briefly discussed earlier, the idea of HS in all its contemporary perspective is not alien to Islam, and definitely not alien to Muslim scholars that addressed the matter more than 800 years ago. Two main contributions of Muslim scholars will be addressed; that of *Al-Shatibi*⁹, and *Ibn-Khaldun*. In a quick preview of the rulings of Islam with regard to the security of the individual as stated by the early Muslim scholars, clear distinctions have been necessities that safeguard human life and other

⁹ Imam *Al-Shatibi* is a Muslim scholar (passed 790). His volume (*Al-Muwafaqat*) is a great reference for this research. Imam *Al-Shatibi* was one of the founders of social sciences, and he established the basis for the term “Human Security” as we came to know it over the course of the past few decades. His volume *Al-Muwafaqat*, is an old manuscript, that was wrote clearly and made available in most libraries. It is found on the internet on “Awqaf library” which makes this book available online for everyone. This is a volume consisting of six books, the second, which is the focus of this research consists of over 570 pages. The book is found at: <http://ia802608.us.archive.org/12/items/FPmuafkat/muafkat2.pdf>

complementary matters that ease human life and add welfare to it (Al-Turkey, N.A.; Abdeen & Al-Masry, 2009; Hammad, 2010).

Imam *Al-Shatibi*, the Muslim scholar that (passed, 970) established a basis for new sciences when writing his famous volume (*Al-Muwafaqat*). Hammad (2010) recognizes, in particular, the second book that counts over 550 pages, and is one of six books in the volume talking about the objectives of Sharia, and Hammad further elaborates that the work of Imam *Al-Shatibi* is more competent than the work of *Ibn-Khaldun* (passed, 808) in this book (*Al-Mukademah*) which put the foundation for contemporary social sciences and the development (rise) and fall of civilization¹⁰.

As such, Imam *Al-Shatibi* was a founder to what is known today as “Human Security” with a clear distinction between the work of Imam *Al-Shatibi* and the contemporary definition of HS (Hammad, 2010). Furthermore, Imam *Al-Shatibi* established a complete theory of HS, and by theory, Hammad (2010) explains that all information was settled in a complementary manner taking care of a complete part of life or thought.

Imam *Al-Shatibi* (Passed 789) started his introduction of the second chapter by introducing given (agreed upon) facts –as he mentions- and it is “that the positioning of laws (Sharia) is for the good and benefit of people in the present and the future” (p. 9). He mentions four types of objectives for the Sharia, the first being the principal, and the other three explanatory types (p. 7).

The objective of Allah in Sharia (in putting laws),

- Is to benefit humans in both this world and in the hereafter.
- Is to make people understand
- To make it a duty of humans to follow
- And to make it an umbrella for all people

Imam *Al-Shatibi* then continues that the duty of Sharia is to protect the creation, and in order for the creation¹¹ to be protected, be secured, the objectives necessary to achieve security do not go beyond three that follow the order shown (p. 17). So, in order for HS to be achieved, the dimensions of HS must be achieved in the following manner, and order is necessary:

¹⁰ More emphasis will be put on the work of Ibn-Khaldoon later under the title “Community development from an Islamic perspective”

¹¹ In reference to people and their finding on earth, and how such life could sustain safety and human security

- To be a necessity
- To be a need
- To be complementary

The necessity must address the establishment of necessary matters of this world and the hereafter, as such, if the necessities were not established, this world would be rewind, and reward in the hereafter would be lost. It is important to preserve the necessities in the five dimensions of security: religion, soul, progeny, wealth, and mind (Al-Shatibi, p. 20). Ibn-Khaldun also agrees to those five necessities. Additionally, those five do not go beyond the three main dimensions of security mentioned earlier; economic, security, and health, which also need to be established upon submission and worship of Allah. As for needs according to Imam *Al-Shatibi* (p. 21), it means, things important to alleviate pressure, or some kind of hardship, however, would not lead to the ruining of lives. Similarly, complementary matters follow the same pattern and are fulfilled after needs.

The philosophy of Imam *Al-Shatibi* assumes that the necessary objectives to achieve human security are the origin of both needs and complementary objectives. Assuming the complete disruption of the necessary objectives would undoubtedly mean the complete disruption of both the needs and complementary objectives. However, the complete disruption of one or both; second and third objectives, would not necessarily imply the complete disruption of the necessary objectives. Thus, it is crucial to safeguard the necessary objectives that achieve human security, and to do that; Imam *Al-Shatibi* puts forth five pre-requisites (Passed 789, p. 31):

- First: The necessary is an origin for other objectives
- Second: The disruption of the necessary would imply the disruption of the others
- Third: the total disruption of the others would not imply the disruption of the necessary objectives.
- Fourth: the total disruption of needs or complementary objectives might imply a partial disruption of the necessary objectives that ensure human security
- Fifth: Safeguarding the other objectives is important to safeguard the necessary objectives.

Hammad (2010, p. 16) explains; “-in my estimation- this is a comprehensive theory that is integrated and arranged in a logical order.” This also finds consensus with the views of Al-Turkey who talks exclusively about human security and its importance in Islam. (Al-Turkey, N.A.)

2.8. Human security between Imam Al-Shatibi and contemporary thought

The following is a brief comparison between the writing of Imam *Al-Shatibi* who passed (789) on HS, and the contemporary writings on HS, primarily focusing on what was present in the UNDP report on human development (1994) that specifically talked about a necessity for a paradigm shift in thinking about HS matters as they are no longer limited to nuclear threats, and country security threats. The focus will be on four main points that both works were developed upon.

In the second chapter of the UNDP (1994) report, we read that the presented idea of HS is simple, but likely to revolutionize societies of the 21st century. In the following, the essential characteristics of HS enlisted in the report will be compared one after the other with the essential characteristics of HS enlisted in the second book of Imam *Al-Shatibi* in his volume (*Al-Muwafaqat*).

2.8.1. Human security: universal concern

The first element in the UNDP 1994 report was that: “HS is a universal concern. It is relevant to people everywhere, in rich nations and poor. There are many threats that are common to all people - such as unemployment, drugs, crime, pollution and human rights violations. Their intensity may differ from one part of the world to another, but all these threats to human security are real and growing” (UNDP, 1994, p. 22).

To begin with, in the Human Development report of 1994, we read “HS is relevant to people everywhere, in rich nations and in poor” (p. 3). This point was later emphasized as it appears in the quote above. To this point, referring to Imam *Al-Shatibi* writing, which was also mentioned before, he started his introduction of the second book of his volume by introducing given (agreed upon) facts –as he mentions- and it is “that the positioning of laws¹² is for the good and benefit of people in the present and the future” (p. 9). *Al-Shatibi* explains in a later note that HS necessities are five, which are “safeguarding the religion, the soul, progeny, wealth, and mind” (p. 20). Imam *Al-Shatibi* explains that those five points are essential for all nations with consideration to each

¹² And he said (*Al-Sharaae'*) meaning laws, and did not say (*Sharia*) meaning the law, which is mostly used to refer to Islamic law in Arabic.

nation's habits culture and laws (pp. 20, margin 5). Hammad (2010, p. 16) points to the comprehensiveness of *Al-Shatibies* writing on HS, and one cannot argue that his writing is only addressed from an Islamic Sharia viewpoint.

2.8.2. Human security: interdependent components

The second element in the UNDP 1994 report was that: "The components of HS are interdependent. When the security of people is endangered anywhere in the world, all nations are likely to get involved. Famine, disease, pollution, drug trafficking, terrorism, ethnic disputes and social disintegration are no longer isolated events, confined within national borders. Their consequences travel the globe" (UNDP, 1994, p. 22).

The interdependence of HS dimensions is a given factor in today's culture of social sciences. Hammad (2010, p. 16) elaborates on this point by saying in his paper written in Arabic "I cannot see a better theory explaining the interdependence of HS dimensions than the theory of Imam *Al-Shatibi*" who identified the necessities of HS (safeguarding the religion, soul, progeny, wealth, and mind), and continued by building and explaining the connections between human necessities, needs, and complements. Hammad stresses the sophistication of the theory that identifies the important dimensions and builds a clear priority-based relationship.

2.8.3. Human security: early prevention

The third element in the UNDP 1994 report was that: "HS is easier to ensure through early prevention than later intervention. It is less costly to meet these threats upstream than downstream. For example, the direct and indirect cost of HIV/AIDS (human immunodeficiency virus/acquired immune deficiency syndrome) was roughly \$240 billion during the 1980s. Even a few billion dollars invested in primary health care and family planning education could have helped contain the spread of this deadly disease" (UNDP, 1994, p. 22).

In the introduction of the report, we read that "it is less costly and more humane to meet these threats upstream rather than downstream, early rather than late. Short-term humanitarian assistance can never replace long-term development support (UNDP, 1994, p. 3). In the writing of Imam *Al-*

Shatibi, the emphasis on early protection¹³ and preservation of the necessary dimensions of security is clear (Hammad, 2010). Imam *Al-Shatibi* informs that necessary human security dimensions shall be protected, and that could be ensured through two steps: (Al-Shatibi, Al-Muwafaqat, Passed 789, p. 18)

- First: by protecting what establishes its pillars and fixes its rules, this happens by protecting the existential factors of necessary human security dimensions.
- Second: by protecting the necessary human security dimensions from actual or expected imbalances in them, this happens by protecting the necessary human security dimensions from vanishing.

2.8.4. Human security: people-centered

The fourth element in the UNDP 1994 report was that: “HS is people-centered. It is concerned with how people live and breathe in a society, how freely they exercise their many choices, how much access they have to market and social opportunities and whether they live in conflict or in peace” (UNDP, 1994, p. 23).

Evidently, the UNDP report puts people at the center of development, “regards economic growth as a mean and not an end, protects the life opportunities of future generations as well as the present generations and respects the natural systems on which all life depends” (UNDP, 1994, p. 4). In its final remarks and analysis, the report puts forth slogans that sustainable human development is “pro-people,” “pro-jobs” and “pro-nature.” However, Imam *Al-Shatibi* clearly indicates that law exists for the good of the people in the present and in the future alike. He also adds that the main purpose of laws, and thus, the Islamic law is to protect and serve people. All this was mentioned before, and what is worth repeating is that Imam *Al-Shatibi* had put people, their security and their benefit in the center of all his discussions mentioned earlier. The reference to people was inclusive to all and was not limited to Muslims.

¹³ By protection, Imam Al-Shatibi clearly explains (p. 18 margin 3) that maintenance of the existing human security dimension is only one part of the “the act of protection”, the second and more important part of protection is the continuous development of human security dimensions according to time and place, and according to local needs. So if a public services was necessary in a country, then, the word protection would refer to “the development of the requested necessity”, which also does not imply neglecting protection and continuous follow up on what already exists. The proper understanding of protection for necessary human security dimensions is what ensures the development of nations and prevents them from inertia and cultural backwardness (translated by researcher). To this end also concludes many of the Muslim scholars, see (Al-Raysouni, 1995).

To this end, the theory of Imam *Al-Shatibi* in “Human Security” is not a theory of Islamic human security, it is a theory of human security implementable in all places and times, a theory he offered to the world to seven centuries before any others (Hammad, 2010). Previously, the world has recognized the great works of Muslim scholars such as *Ibn-Khaldun* that was regarded him a pioneer of sociology, also recognized Mohammed Ibn Al-Hassan Al-Shaybani and regarded a pioneer of international law that derived from within the International Humanitarian Law. It is of great importance and value to re-revolutionize the work of great Muslim scholars to be able to present scholarly human and social knowledge from an Islamic perspective (Hammad, 2010; Al-Raysouni, 1995).

2.9. Human security, an Arabian scholar critique

Although HS as a concept is clear - in his estimation - Hammad (2010, p. 9) explains that it is not specific and could not be adjusted for. However, to do so, it would be a requirement to take note of all its meanings and stand on its concepts, thus, talking about humans and all that surrounds them. Humans relationships amongst themselves and with other creations are complicated, so, to account for all the interconnected variables affecting human lives would require a study of all sciences in an interconnected manner which is impossible in today’s research culture that is characterized with specialization (Hammad, 2010).

In another viewpoint presented by Malouf (2009), a contemporary more comprehensive human security concept than earlier UN concepts, it still carries a lot of contradictions and is still too far to be described as a comprehensive concept. Malouf explains that while this concept incorporates economic insecurities of poverty and unemployment, food insecurities of hunger and famines, health insecurities addressing diseases, political insecurities addressing human rights violations and the absence of democracy, individual insecurities addressing violence and crime, it omits other insecurities. Among the unaddressed is the psychological security matters that are a leading cause of security threats in the world, and especially in the Arab world (Malouf, 2009).

Furthermore, Ameen (2009, p. 43) indicated that there is variance in the different definitions for human security which reflects on the complicated nature of the concept. She adds that defining human security on the bases that it includes every aspect of human life makes it difficult to provide a concrete definition, and further complicates the attempts to measure and introduce practical

policies. However, concentrating on an aspect and excluding another, makes the concept suitable for one thing without the other. In the conclusion of her book, Ameen (2009, p. 195) explains that “while it is important to reach precision in defining the concept of “human security,” the implementation remains subject to each country’s priority, and even within the one country, implementation priorities will remain subject to community difference. More importantly, Ameen adds that the concept will continue to develop, and each region will have its different challenges. For the Arabs, one crucial challenge will be the foreign occupation and interference in local affairs.

To this end, it is of high importance to revisit the theory explained by Imam *Al-Shatibi* which addressed most of the agreed upon points and indeed confirmed them, especially that the individual “human” is the center of all discourse on security and development, and that was the Islamic view to the subject of HS. As for criticisms, most of what has appeared in all criticisms referred to the interconnectedness of all human matters, and despite the fact that HS as a concept is clear, it could not be adjusted for to be inclusive of all HS variables, and if limited to a variable, it would exclude another, and if it was adjusted for, implementation would remain subject to country and community difference. For that reason, Imam *Al-Shatibi* introduced the necessities of HS and established a clear relationship between necessities and other human needs and complementary dimensions with clear concentration on protecting the necessities.

Imam *Al-Shatibi* particularly explained the word “protection” to remove confusion and inform that the implementation must be adjusted for and to consider the differences between communities and countries (revisit margin 10).

2.10. Human security: protection of faith

As the UNDP 1994 report indicates that people need to be protected from fears and assured freedom from want, the Commission on Human Security in its 2003 report “Human Security Now,” urges for the need to integrate policies that focus on people’s survival, livelihoods, and dignity.

However, the need to protect people’s faith is also essential for ensuring HS, especially in diverse communities. Furthermore, attacks on religion should be combated and not just left for condemnation. The Commission on Human Security (2003, p. 141), points to the importance of

education in “cultivating respect for other races, faiths, cultures, and viewpoints, as well as respect for women.” In the Quran, Allah says “And had your Lord willed, those on earth would have believed – all of them entirely. Then, [O Muhammad], would you compel the people in order that they become believers?” (Q, *Yunus* 99) In another verse (Q, 2:256), it says “There shall be no compulsion in [acceptance of] the religion. The right course has become clear from the wrong. So, whoever disbelieves in *Taghut* and believes in Allah has grasped the most trustworthy handhold with no break in it. And Allah is Hearing and Knowing”. Furthermore, in another verse (Q, 109:6), the *Quran* says “To you your religion, to me my religion.”

The first priority for a Muslim to protect is their Islamic doctrine, their faith. The human must come to realize that his value is in his faith he possesses. The Islamic faith implies belief in one’s inevitable gain for their subsistence, and the belief that the requirement is to work “*al-Ak’ed be Alasbab*” (*Altawbah* “105) and no questioning will be for results. The personal character of a Muslim – according to the doctrine of sustenance in Islam – makes him more resilient in bearing risks and overcoming the consequences (Eweadah, 2010).

2.11. Community development

Amartya Sen (2000), discusses in his book, *Development As Freedom*, the perspective of freedom, freedom and the foundation of justice, social choice, and individual freedom as a social commitment. In his preface, Sen highlights that exercising development is overcoming problems, threats, and insecurities. This outcome supports the idea of interconnectedness.

Talking about community development could be tricky and much criticized, misunderstood, accepted/rejected if the conceptual framework is not clearly explained for the given purpose of specific works. Bullen (2007) explains the confusion in terminology by giving the example of Australia in the 1960s and 1970 when “community development” was politically oriented with “movements”, in the 1980s it related to “community self -help”, and in the late 1990s government re-focused interest on community by putting social capital on policy agenda. All this led to terms such as “community building, and “community capacity building” and more in-kind terminologies.

There is no concrete definition of what community development is (Bullen, 2007), this is also true because when looking at a single definition of community development, there is not one that exists.

This idea of unavailability of unified definitions is true for most of the social studies. Thus, a conceptual framework is necessary.

“Theoretically and methodologically, the issues are very nuanced, in which case the scientific status of the field is subject to a number of challenges. The increased dynamics of the problems local communities face, the wide variety of problems requiring quick solution cause non-unitary interventions, sometimes insufficiently tested or validated. All these things lead to a scientific erosion of community development” (Hosu, 2012).

When talking about community development in its Islamic context, the Islamic voluntary finance sector is in the midst of the discourse. With the exception of purely economic development, the Islamic banking and financial services sector plays a more significant role. However, that does not indicate that the Islamic voluntary finance sector does not play an economic role in the community.

Community development has been defined and explained by many in different contexts, from different perspectives, and for different purposes. The United Nations defines community development as "a process where community members come together to take collective action and generate solutions to common problems." For more definitions see (Bullen, 2007; Cavaye, NA; Mackenzie Valley, 2007). Additionally, look at a wide list of definitions for “community development” enlisted by Hosu (2012, pp. 10-12) those include:

- “A process, as a method, a program, and as a movement; or as a set of purposes.” (Hauswald, 1971)
- “An open system of decision making, whereby those comprising the community use democratic and rational means to arrive at group decisions to take action for enhancing the social and economic well-being of the community.” (Littrell, 1975)
- “Many community development efforts are essentially efforts to help community residents understand what is happening and recognize some of the choices they face in order to achieve the future community they desire.” (Shaffer, 1990)
- “A public-group approach dedicated to achieving the goals of the total body politic.” (Weaver, 1971)
- “Acts by people that open and maintain channels of communication and cooperation among local groups.” (Wilkenson, 1979)

2.11.1. Community development, the Islamic perspective

Of the great works in the social and human Sciences was, and still is, the work of the Muslim scholar Ibn-Khaldun who wrote his famous book “The Mukadema” which despite being about 640 years old, it remains to be a field of research for contemporary scholars (Abdeen & Al-Masry, 2009). The principal thought Ibn-Khaldun puts and builds on was that “social, political, economic, and environmental phenomena could be explained by development “*umran*,” Ibn-Khaldun, as

found in (Abdeen & Al-Masry, 2009). Ibn-Khaldun further explains that development (*umran*) is a conclusion of human effect in a community, because of a human's characteristics that include civilization, the availability of the individual and national resource, and the development of science. As the human is an important factor in the practice of development, Ibn Khaldun explains the variables that affect and shape development to be "geographical, social, political, environmental, economic, and cultural) Ibn Khaldun as found in (Abdeen & Al-Masry, 2009). Furthermore, Ibn Khaldun specified an individual chapter for each of the variables that affected development to explain the relationships and correlations between each and with development.

Furthermore, Ibn-Khaldoun laid the foundation, not only for the term development, and how it is practiced, being a mathematician, he introduced the characteristics of a city, talked about the environment in relation to city growth, the development of a nation-state, and advanced managerial methods. Additionally, he introduced rural and urban differences development and how each should be addressed. All this was summarized by Al-Masry and Abdeen (2009), and then put into perspective of others such as Plato, Marx, W. W. Rostow, as well as the classical school of thought. Al-Masry and Abdeen conclude that the work of Ibn-Khaldun is more relevant today than it is to the people of his time and that his work represents a founding pillar for social sciences.

The *Quran* and the *Sunnah* have lots to offer by providing teachings that represent the foundation for all that community development means in contemporary literature. Teachings that include empowerment, participation, doing good for others, and much more. The concept of empowerment is not alien in Islamic teachings, as the hadith of the prophet shames the act of begging (unproductivity) and uplifts the productive acts in a community.

"If one went out with a rope to (the forest) and brought home a bundle of firewood then sold them; he has obtained his honor. That act is better than the begging, whether given or not". (HR Bukhari). This hadith illustrates process, independence, change and empowerment (Amir Zal, Samah, & Redzuan, 2012). Social collaboration and support provided by one another are also essential for community development, and the individual and human action is the central pillar of change for the good of the community. In this regard, Prophet Mohammed peace be upon him says: "The best man is the greatest benefit for others" (HR Thabrani). Explaining the importance of participation, in the Holy Quran it is expressed that the best features of humans is that he must enjoin for good and forbid what is forbidden "You are the best of peoples ever raised up for mankind; you enjoin

for good and forbid Al-Munkar (all that Islam has forbidden), and you believe in Allah” [Ali Imran: 110]. This phrase from the Quran is furthermore explained by the hadith of Prophet Mohammed by saying "If one of you sees something wrong, let him change it with his hand; if he cannot, then with his tongue; if he cannot, then with his heart and this is the weakest faith." [HR Muslim].

Additionally, hadith for Prophet Mohammed clearly encourages the development of partnership in the community. The Prophet Mohammed says:

“The believers, men, and women, are Auliyâ' (helpers, supporters, friends, protectors) of one another, they Enjoin (on the people) Al-Ma'rûf and forbid (people) from Al-Munkar (All that Islam has forbidden); they perform salat¹⁴ and give the Zakât and obey Allah and his Messenger. [At-Taubah: 71].

Furthermore, the *Quran* goes as far as to encourage people to recognize the potential in one another, and not underestimate others might they be wiser, more knowledgeable, and closer to Allah.

“O you who believe! let not a group scoff at another group, it may be that the latter are better than the former, nor let (some) women scoff at other women, it may be that the latter are better than the former, nor defame one another, nor insult one another by nicknames”. [Al-Hujurat: 11].

The potential of different groups is necessary for the development of the whole community. Therefore, recognition of potential was necessary, as differences serve as strength in solving contemporary and future community issues (Amir Zal, Samah, & Redzuan, 2012).

It was necessary to start by giving an idea of the Islamic teachings available only in the *Quran* and in the Hadith. What was provided was very small literature, going further in the books of Islamic jurisprudence would imply the need to specify more space which is not precisely the primary concern of this research. It was likewise necessary to start with the definitions provided by Ibn-*Khaldun* because most of the early and contemporary scholarly work in social sciences refer to the work of Ibn-*Khaldun*.

Muslim economists and social scientists support the concept of community development. While economists tend to limit the term to “economic development” that usually incorporates social, political, and economic aspects (Suhaimi, Ab Rahman, & Marican, 2014), social scientists would tend to incorporate more components such as empowerment, the environment, and capacity

¹⁴ Salat, is the Arabic word for prayer. In the Arabic language, salat refers mainly to the five prayers performed each day.

building. Furthermore, when it comes to development, Muslim scholars would tend to present a balanced definition that incorporates both the development of the material and spiritual world (Sadeq, 1987). Since both the *Quran* and *Sunnah* are concerned with human welfare, and Muslim scholars thus reveal that the welfare of humans and relief from hardship is the basic objective of the Sharia, development in its Islamic context may be defined as:

“A balanced and sustained improvement in the material and non-material well-being of man, and development as a multi-dimensional process which involves improvement of human welfare through advancement, reorganization, and reorientation of entire economic and social systems in accordance with norms and values of Islam” (Sadeq, 1987).

Within this context, Sadeq (1987) presents a unique idea that economic development in Islam is the welfare of both lives, the life we live, and the hereafter. Based on this human life as a whole is before and after death. Furthermore, Sadeq poses the question, “What is the index of such economic development?”, he adds, “broadly speaking the index is based on 1) economic growth, 2) equity in the distribution of income and wealth, 3) a healthy and congenial social environment of Islamic norms and values”.

With regard to the Islamic finance industry, and sectors within, it is important to mention that from an Islamic perspective, according to Daftara (2017), Islamic finance is community development, and waqf, in fact, is empowerment although it is categorized as charity. To this end, some important literature on community development from an Islamic perspective is the work done by the Islamic Relief Worldwide (2014), the paper depended on primary sources of knowledge in Islam that identify fundamental principles that underpin Islamic views on development.

The fundamental principles provided in Islamic Relief Worldwide (2014) to cover the Islamic perspective on Human development were the dignity of humankind, Islamic holistic worldview (*Tawheed*), justice, freedom, human rights, equality, social responsibility, and sustainability. From the Islamic relief organization viewpoint, the term “development” certainly incorporates more social-oriented variables. The paper additionally puts forth how to achieve human development through 1) the achievement of well-being (*Falah*), 2) the objectives of Islamic ethics and law (*maqased al-Sharia*) as essential needs, 3) protection of the weak and vulnerable, 4) equitable distribution of resources, 5) governance, and 6) advocacy. Given this is a relief foundation, the term “development” is relatively preserved in terms that serve their work in relief.

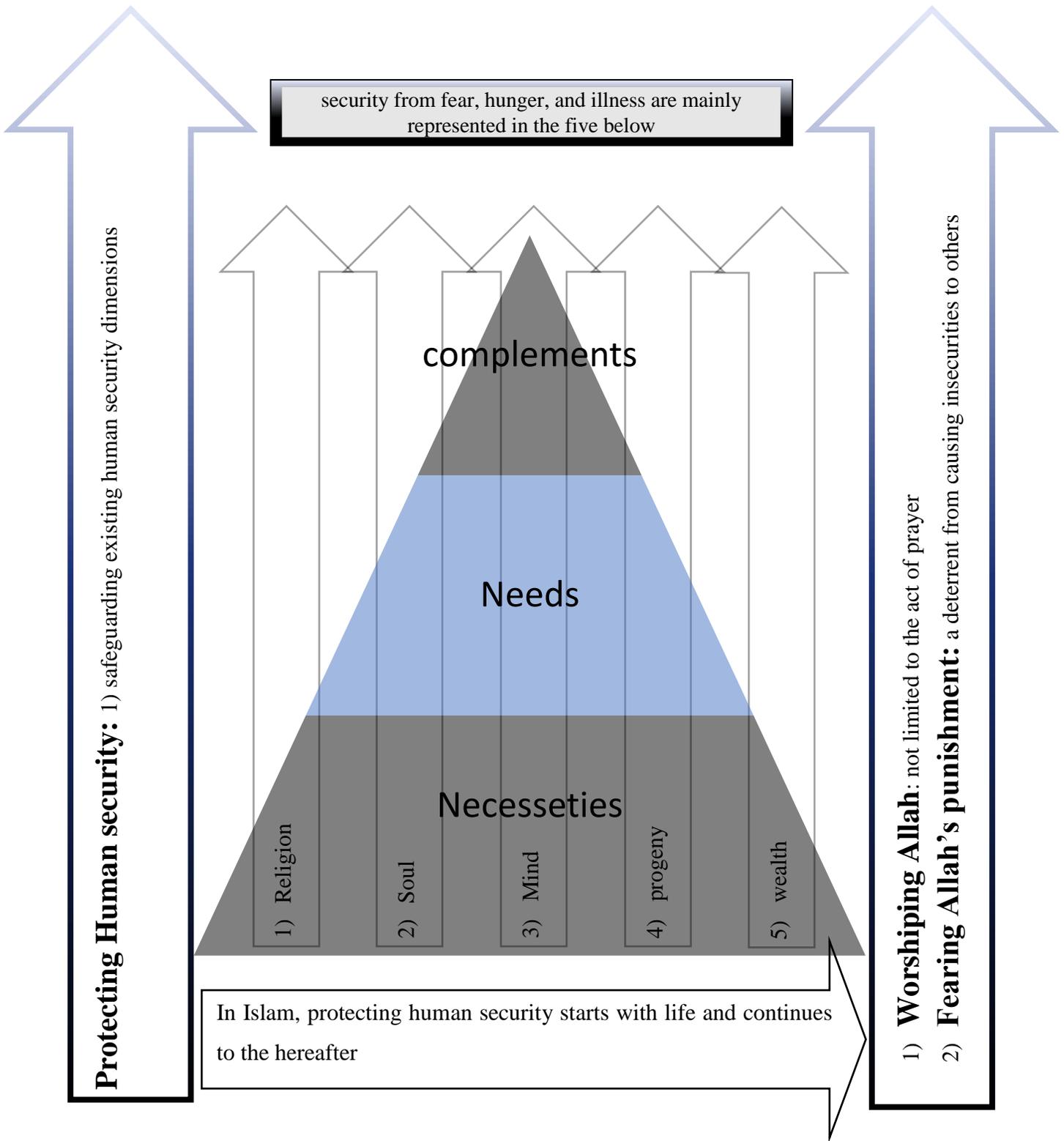
2.12. Human Security framework, an Islamic perspective

To provide a framework for protecting HS, the main components of “human security protection” must be correctly understood and clearly explained. The second chapter serves as a frame of reference and provides clear details on the concept of “human security” and what is meant by protection. All this is presented from the Islamic perspective by focusing on some of the early Muslim scholar’s thoughts on this matter; especially the thoughts of Imam *Al-Shatibi* who wrote thoroughly on the subject. After the previous examination, the following points can be used as a sufficient summary for presenting HS from the Islamic perspective:

- HS cannot be achieved in the midst of a void in spirituality and submission. In Islam, that is mainly to worship Allah as He orders, and to fear Allah’s punishment (*Quran*, Az Zariyat 51, 56¹⁵). Those are two components that ensure people being considerate of one another.
- The other important point is that HS has a range that goes beyond this life, to the hereafter (Al-Turkey, N.A.). When people bare this in mind, scarcity and hoarding will be less of a problem, and many economic insecurities will be relieved. Thus, a human’s submission to Allah, and following of the teachings of Islam is essential in ensuring complete protection to HS.
- HS is to be achieved through three main steps which are complementary and interrelated. First to secure human necessities, after that develop human needs and complementary human demands of life.
- The three main and clearly mentioned HS dimensions in the *Quran* and *Sunnah* which were security from fear, hunger, and illness.
- There are five basics (which are the core of Islamic Law or Sharia) that need to be established in all three steps of protecting human security, which is also a representation of the three main human security dimensions. Those five were pointed out by Muslim early scholars; religion, soul, progeny, wealth, and mind (Al-Shatibi, p. 20).
- Finally, the correct understanding of “protection” is essential for the successful implementation of “protecting human security.” By protection, Imam *Al-Shatibi* clearly explains (p. 18 margin 3) that maintenance of the existing human security dimension is only one part of “the act of protection”, the second and more important part of protection is the continuous development of human security dimensions according to time and place, and according to local needs. So, if public service was necessary for a country, then, the word protection would refer to “the development of the requested necessity,” which also does not imply neglecting continuous follow up on what already exists. The proper understanding of protection for necessary human security dimensions is what ensures the development of nations and prevents them from inertia and cultural backwardness (translated by the researcher). To this end also concludes many of the Muslim scholars, see (Al-Raysouni, 1995).

¹⁵ And I did not create the jinn and mankind except to worship Me

Figure 2-1: Framework, Protecting Human Security, the Islamic perspective



Source: Author's Illustration

The figure above is an embodiment of “protecting human security” in its Islamic worldview. The figure is mostly exhibited in the form of arrows to represent continuity. The other shape presented is the pyramid, it represents priorities. The horizontal arrow represents the range of HS in Islam; it is thought to start with life and continue to the hereafter. The two vertical arrows on the two sides of the figure are the main pillars upon which HS depends. Both are a continuous process. In principle, the more commitment to those two pillars, the more humans enjoy HS. In this sense, perfection is not the ultimate goal, rather continuous human struggle (Jihad) to do their best in actualizing HS. The five basics mentioned by Muslim scholars are an elaboration on the three main dimensions mentioned in the *Quran* and the *Sunnah*. Similarly, given they are presented in arrow shapes, that also represents continuity.

Thus, the critique of HS as defined mainly by the UN and others “as being wide, and ambiguous” making it difficult to measure, is reasonable because the concept is indeed difficult to comprise making it measurable. On the other side, the critique directed to those who narrowly define HS for the purpose of a particular research theme is also reasonable even if narrow definitions are exclusive of other HS dimensions. However, it might be the best way to present reasonable result when researching a particular research theme.

2.12.1. Explaining the framework:

Spirituality is an essential part of human life, in this context the reference is to the teachings of Islam and its way of life. Reward and punishment are essential in human’s life, that is to say, the presence of a “Sharia,” a law. The individual’s inner police add great value. However, not all people have that conscience, which makes law necessary. When thinking about HS, continuous development of all parts of life must be a priority. Otherwise, deterioration and cultural backwardness will take place. This framework serves as a quid line that helps Muslims reach a higher level of HS. In Islam, what is expected of humans is to try their best¹⁶. Furthermore, in Islam, faith fluctuates, increase and decreases (*Q*, AlFath: 4; AlKahf:13; Maryam:76; Mohammed:17; Almudather:31), and in the Hadith of the prophet Mohammed, “Islam was built

¹⁶ *Allah* burdens not a person beyond his scope (2:286)

upon five pillars¹⁷, it is spoken and practiced, it increases and decreases”, and this is according to the consensus of the Muslim Scholars (Alhaki, 1995). As such, in all aspects of a Muslims life, nothing beyond their scope is asked of them.

2.12.1.1. First, Span of human security in Islam

The framework exhibits a horizontal arrow which serves as a foundation. This foundation is a pillar of faith, which is to believe in the Day of Judgment. In this context, the span of HS starts with life and does not finish with death. It means that humans must work to ensure their security in the hereafter. This brings the whole discourse on HS in its contemporary settings to a new level and provides more avenues for the UN to think about. As mentioned before, the interconnectedness feature of HS variables makes it difficult to understand, especially with little Islamic education. But reading the full explanation should give a good idea.

2.12.1.2. Second: Worshiping Allah and fearing his punishment:

Humans were created to worship Allah and to develop this world they were entrusted with. The most general meaning of worshiping in Islam is inclusive to everything that is pleasing to Allah. worshiping Allah ensures the protection of HS.

“It may include everything a person perceives, thinks, intends, feels, says and does. It also refers to everything that God requires, external, internal or interactive. This includes rituals as well as beliefs, work, social activities, and personal behavior, as a human being is a whole, such that every part affects every other” (Mufi, 2015).

As for fearing Allah’s punishment, it is equally important as it represents a deterrent for humans, which also has the potential to limit humans from inflicting harm or causing insecurities to others. In other words, this explains the importance of law in human’s life, and the Islamic “Sharia” does precisely that and more. In Figure 2.1, this was explained in the shape of an arrow to remind for the importance of continuity, it is not an act that has a start and an end; that start is human life, and because we know little about how or when the end will be, knowledgeable humans will stay committed to the teachings of Islam during life to ensure their security in life and the hereafter.

¹⁷ Submission for the oneness of *Allah*, and that prophet Mohamed is his last and final messenger, performing prayer, giving zakat, fasting Ramadan, and performing Haj.

This point is important in this framework, but it is a broad subject that cannot be explained adequately within the margins of this research.

2.12.1.3. Third: Protecting Human security

HS tend to be naturally understood and is indeed perceived differently from one person to the other, the reason why Imam *Al-Shatibi* explained that differences will exist in different places and times and need to be recognized and addressed. However, understanding “protection” is key.

By protection, Imam *Al-Shatibi* clearly explains (p. 18 margin 3) that maintenance of the existing HS dimension is only one part of the “the act of protection”, the second and more important part of protection is the continuous development of HS dimensions according to time and place, and according to local needs. So, if public service was necessary for a country, then, the word protection would refer to “the development of the requested necessity,” which also does not imply neglecting protection and continuous follow up on what already exists. The proper understanding of protection for necessary HS dimensions is what ensures the development of nations and prevents them from inertia and cultural backwardness. To this end also concludes many of the Muslim scholars, see (Al-Raysouni, 1995).

2.12.1.4. Fourth: The Pyramid of priorities

Putting faith and religion aside, setting and managing priorities requires common sense to ensure the best utilization of available resources and to ensure better outcomes. Imam *Al-Shatibi* indicated that there must be an order to actualize HS. First necessities, then needs, and after that complements. Necessities are at the base, they represent the basics, and everyone must have access to them to survive. Needs are at a higher level, people that can satisfy their needs are less in number but are more capable. Similarly, people that can satisfy their complementary matters are even less in number and possess much more wealth. HS dimensions need to be satisfied in that particular order. However, what exactly is a necessity and what is a need could differ, and what is a need and a compliment could also differ from time to time and from place to place.

The Commission on Human Security (2003, p. iv), also indicates that HS is concerned with “safeguarding and expanding people’s vital freedoms. It requires both shielding people from acute

threats and empowering people to take charge of their own lives. Needed are integrated policies that focus on people's survival, livelihood, and dignity, during downturns as well as in prosperity”.

2.12.1.5. Fifth: Human security dimensions

The framework provides that the main HS dimensions as mentioned in the *Quran* and the *Sunnah* are security from fear, hunger, and illness. Muslims scholars such as Imam *Al-Shatibi* and *Ibn-Khaldun* put further elaboration on the HS dimensions to be five (Al-Shatibi, Passed 789, p. 20 margin 4). This particular understanding is also adapted by contemporary Muslim scholars in contemporary books of Islamic jurisprudence and books of Islamic economics such as the book of “Islamic Financial Systems Principals and Operations” (ISRA, 2016). The five HS dimensions are in the following particular order:

- Religion
- Soul (self)
- Mind
- Progeny
- Wealth

According to Imam *Al-Shatibi*, some prioritize soul (self) over religion. Imam *Al-Shatibi* (Passed 789, p. 20 margin 5) also indicates that according to Imam Al-Mirdawi (passed 885) in his book “Sharh Al-Tahreir,” limiting the objectives of Sharia in those five dimensions also applies and serves different nations in generating laws. So, to protect HS, first religion should be protected, and from there, the movement is to the right, and satisfaction is at its basics, and movement upwards should not happen if there are gaps below.

In other words, one should have a sufficient understanding of religion and keep healthy in addition to acquiring knowledge, having a family, and expanding wealth. The idea is to try to develop each of the five relatively at the same past. This means not to be extremely wealthy and not have sufficient religious understanding. Or to have great wealth but choose not to have a family. Such extremes are not advisable in Islam. Similarly, if one acquires great knowledge and great religious understanding but is dependent on charity; that is rejected in Islam also. What is required of a Muslim is to try to keep a balance and develop those five HS dimensions without totally neglecting one or more of the five.

2.13. Conclusion

In Islam, the individual is the center of all things, and humans are the creation that has been entrusted on this earth. Humans are first created to worship Allah (Q, 51:56)¹⁸, and in Islam, most aspects of a Muslims life are considered an act of worship when associated with the intention. Then humans are ordered to build and develop this earth (Q, 11, 61¹⁹) according to the teachings of Islam. As for security (Amn), it linguistically means tranquility (Tuma'nenah) which is opposite to fear (Khawf) (Almaany-dictionary), so it is the tranquility of the soul and the elimination of fear that formulates a status of adequate HS.

In Islam, Judgment is based on individuality (Q, 53:18)²⁰. Similarly, individuals are first advised to change and improve themselves (Q, 13:11)²¹, and the best among people are those most beneficial to their families²², and then it is of faith for every individual to be responsible in every capacity possible²³. This is a brief summary of the importance of the individual in the community, and how the bigger picture of HS formulates in Islam. The point to be made is that humans' responsibility and care not just for one's family, but for the broader community requires faith. Furthermore, one should further commit to worshipping even if all insecurities have been removed because the act of worship is an extended guarantee from Allah to ensure HS. Surat Quraysh came to remind the people of Quraysh in Mekkah never to leave the worship of Allah that has granted them the bounties of food and security (Al-Tabari, passed 923).

Figure 2.1 illustrates the main dimensions of HS mentioned in the *Quran* and *Sunnah* were three; security from fear, hunger, and illness. Muslim scholar then elaborated the HS dimensions into

¹⁸ "And I did not create the jinn and mankind except to worship Me" (51, 56)

¹⁹ And to Thamud [We sent] their brother Salih. He said, "O my people, worship *Allah*; you have no deity other than Him. He has produced you from the earth and settled you in it, so ask forgiveness of Him and then repent to Him. Indeed, my Lord is near and responsive."

²⁰ "And no bearer of burdens shall be made to bear another's burden ..." (35:18)

²¹ "Indeed, *Allah* will not change the condition of a people until they change what is in themselves" (13:11)

²² It was narrated from Ibn 'Abbas that: "the Prophet said: "The best of you is the one who is best to his wife, and I am the best of you to my wives." Some other translations referred to the closer family, but in all cases, the hadith refers to the closer family.

²³ Ibn 'Umar (May *Allah* be pleased with them) reported: "I heard Messenger of *Allah* (ﷺ) saying, "All of you are guardians and are responsible. The ruler is a guardian and responsible for his subjects; the man is a guardian and responsible for his family; the woman is a guardian and is responsible for her husband's house and his offspring; and so all of you are guardians and are responsible."

five which are religion, soul, mind, progeny and wealth. To protect those five dimensions two things are necessary, first the fear of Allah and second, the protection of HS. Fear connects to laws; both the law of God and the laws of humans and protection strictly connects to development. When law is present and enforced, development is possible. Laws and development both work together to ensure humans are secure in all life's dimensions. What makes the Islamic view important is its relatedness to about 25% of the world's population that suffer from most insecurities at the present time. This is also important because communities must accept solutions presented to resolve their insecurities.

2.14. Part two: Human economic security

The Islamic Theory for resolving the human economic problem

2.15. Introduction to economic security

The analysis on HES presented in this chapter treats the individual as the basic building block, similar to HS. Attention is thus paid to the expansion of the individual's ability to lead the life they value for themselves. The resort of economists to precision in calculation make them avoid uncalculatable social factors. For that reason, it is difficult to module a formula that leads to the perfect conclusion, and to the right answer. It is important to give simultaneous recognition to the centrality of individual freedom, but also to the force of social influences on the extent and reach of individual freedom (Sen, 2000). This remark by Sen is a repeated attempt to stress on the interconnectedness of variables and threats that limit freedoms. "Individual agency is, ultimately, central to addressing deprivations. On the other hand, the freedom of agency that we individually have is inescapably qualified and constrained by the social, political, and economic opportunities that are available to us" (Sen, 2000).

It is therefore attempted in this section of Chapter 2 to clarify the necessary dimensions of individual economic security especially relevant to Muslim communities, to then present clear analysis in Chapter 5 on the potential of the RIZ in achieving HES in Malaysia. In this section, the author focuses on Al-Qaradawi's theory on solving the economic problem, which is largely accepted as the general Islamic approach to solving the human's economic problem. This theory follows a bottom-up approach where the individual freedom from want is a social responsibility. Amartya Sen (2000, p. 282), in discussing individual freedom as social responsibility supports the claim that people must be responsible for the development and change of the world they live in. Sen's presentation of freedom as social responsibility is similar to the Islamic theory. To begin with, there is an individual responsibility to seek work actively, secondly, there is family responsibility towards needy family members, third, remaining needy people are entitled to zakat, fourth, entitlement to support from the Bait-ul-mal (state treasury), fifth, other dues to needy people, sixth is charity.

To make matters connected to both HS from the Islamic perspective and the actual causes of the economic problem, in this section the author focuses on poverty and unemployment as core economic problems that cause unfreedoms. The state of poverty disables the individual to secure better education, health treatment, and also disables young individuals to start families. The state

of unemployment also leads to similar consequences. The five dimensions of security illustrated in Figure 2.1 cannot be properly protected under poverty or unemployment. Solving those two fundamental issues enables people to enjoy a broader range of freedom.

Economists & development

There will be more discussion on the thoughts of Islamic economists on the role of the economy in society and its effect on the individual economic life in Chapter 3. However, the economist mindset seems to resemble no matter the religious background or school of thought. Economists generally attempt to generate formulas and use calculatable variables to showcase and defend an argument. While that approach understandably leads to quite straightforward conclusions, it fails to present a holistic view that addresses issues from different angles. The reluctance of economists to include variables such as culture, ethnicity, and religion necessitates more scholarly work that initiates such an approach.

Even Islamic economists will tend to explain development from a purely economic standpoint by using variables such as GDP and income per capita. Mahbub ul Haq's main argument in his many publications evolved to discover the obvious, that human capital is central in and for development. "Economists, in discussing the means of development, often talk about investment capital. Physical capital has taken center stage and caused the exclusion of many other factors of production. Human capital is measured neither quantitatively nor qualitatively, nor does it receive the attention it deserves" (Haq, 1995, p. 3). The discussion on development, more often observed in its physical nature, is crucial to the discussion on freedoms, which directly relate to humans who should be central in and for development. Amartya Sen (2000) explains development as "the removal of substantial unfreedoms." In Our discussion on HES, we focus on the removal of all unfreedoms that stand before HES, and reversely, on all freedoms liberated by securing the individual economic well-being.

Discussion on economic freedom

Freedom from fear and want, and freedom to live in dignity are hardly possible under poverty and unemployment that represent the core economic problem any system seeks to end. Which makes HES the essential matter and the pre-requirement for achieving HS in most cases where threats are claiming lives, displacing people, or creating tension in diverse communities. The components of

HS that relate to economics prove more complications as the demand for precision in economics is rather high. Therefore, HES is found to be defined in a more calculated manner in its details, but the central theme of the definition remains ambiguous. The present discourse finds international bodies such as the UN call for the importance of religion and mutual respect, while in Islam, freedom of religion and protection of faith is an obligation on Muslims for themselves and other people. The connection of religion, faith, and dignity to HS, and more so to HES makes precision in calculation impossible and necessitates reason in the analysis; that, continuously leaves room for additions and improvement.

Here, the discussion focuses on poverty and unemployment, thus, HES. The discussion will also extend to include liberated unfreedoms as a result of a better economic situation. P.Tsagaan (2000, p. 40), indicates that there are three essential components for HES. First, education is essential for a decent life, it leads to employment and that in return generates income which is the pre-condition for HES. “Education-Job-Income is the triangle of HES.” By fare, P.Tsagaan is the only author that literally used the term HES. The ICRC (2015) defines economic security as:

“The ability of individuals, households or communities to cover their essential needs sustainably and with dignity. This can vary according to an individual's physical needs, the environment, and prevailing cultural standards. Food, basic shelter, clothing, and hygiene qualify as essential needs, as does the related expenditure; the essential assets needed to earn a living, and the costs associated with health care and education also qualify”.

The International Labor Organization (ILO) in its (2004) *Economic Security for a Better World* report defined economic security as; “It is our underlying proposal that basic economic security requires basic income security coupled with sustainable voice representation security. ... Representation security requires both individual rights ... and collective rights in the form of solidaristic representation. ... Ensuring that there are equally strong individual and collective rights for all legitimate interests is a central challenge of the 21st century”.

The ILO's definition is one of the most important on economic security that couples voice representation with income security in the main theme that defines economic security. While income security may be standardized for calculation, what standards could find mutual acceptance for what voice representation is?

Islam presented a complete method for solving the economic problem. This will be the subject of this chapter. Part of the five pillars of the Islamic faith is to give *zakat*, simply, wealth taken from the rich and given to the poor. In Islam, similar to the conventional HS and HES presentation, threats cannot be solved in isolation, nor could there be a one-way solution. The interrelatedness of threats and solutions is critical; thus, a holistic approach is essential in Islam. All parts of Islam

complement each other. The Islamic Doctrine, acts of worship, and ethics work hand in hand with the Islamic political, social and economic systems to achieve HS at large and HES in particular. To solve economic threats, there is a multiple approach that incorporates family, community, and authority. Additionally, the different approaches allow for voluntary charity, but controls for compulsory forms of wealth redistribution to the poor in the community so they are not left subject to the remains of the “*to-do-good*” in the wealthy.

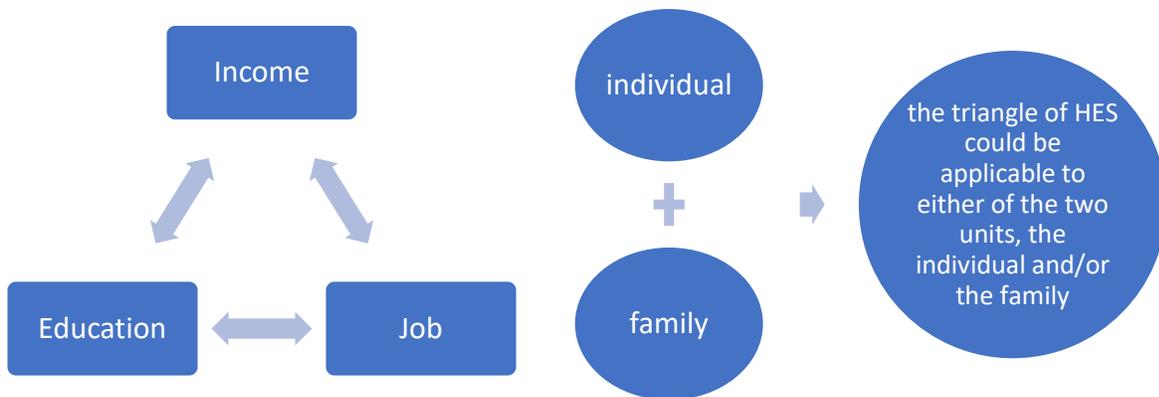
2.15.1. Defining human economic security

Short Definition:

Education-Job-Income is the triangle of HES (P.Tsagaan, 2000) that recognizes the force of external influences on the extent and reach of individual freedom (Sen, 2000) in light of the Islamic laws (the Sharia).

Explaining the definition:

Figure 2-2: The triangle of HES



Source: Author illustration

The triangle of HES is the first component of the definition, which could be implemented on the individual as the unit of analysis or the family as the unit of analysis. The second component of the definition is the external influence. The unit of analysis makes a difference in outcomes. For example, if the unit of analysis is the individual, the family is an external influence. If the father has a good education, it is likely that that son will also have a good education, thus a good job. If the father or family are business owners, how the triangle components cause-and-effect operate

will be different because if the family owns a business, the son will have a job regardless of education. A logical argument generated is that apprenticeship is also education. This is true also true, but in many cases, even if the son didn't learn the family business, he/she would still be employed regardless of being beneficial or not. However, because this case is an outlier, the triangle of HES still stands on firm grounds.

If the family is the unit of analysis, the broader community is an external influence. For example, if the entire family is highly educated, but live in a poor country with high unemployment rates, it is less likely for the educated family members to find a job, let alone the less educated ones. Another scenario is if the family is located in a community or a country where there are man-made threats such as wars, in such case, more external influences must be considered.

Of the more dangerous external influences are those that people find it difficult to understand or predict such as natural disasters which will disrupt the economic security of everyone, even if temporarily. Other external influences are economic shocks due to the failure of the economic system in operation, or the greed of finance practitioners/ stakeholders.

The third component of the definition is "in light of the Islamic law, the Sharia." The question of law is necessary, is law important in this setting? The answer is yes. However, the reason behind specifying the Islamic law is the fact that solutions to threats, insecurities, and societal challenges must be acceptable to those affected. Since the targeted communities are Muslim communities, the Islamic law must be included. However, if for the sake of simplicity, the third component could only be limited to "law." That would be to say, "in light of the law accepted by the affected community or implemented in the affected community."

Laws are important because they solve the humans need for negative incentive, in another word; punishment upon wrongdoing. Especially in economics, usually there is someone or some external entity or influence responsible for economic insecurity. For example, an individual invested his life savings with a contractor to own an apartment after an agreed period of time, and the contractor failed to deliver, there will be legal consequences to protect the rights of the individual and the investor. Law is similarly important in many different aspects of life.

The importance of the Islamic law is its connection with religion, spirituality, the deeds in this world, and consequences in this world and in the hereafter. It doesn't matter if economics is the

subject matter, or government politics, or even social matters; the Islamic law's connection to judgment in the hereafter is what makes it unique as explained in the first section discussing HS. Because after all, there must be a sense of greater power recognized by the individual which will deter them from causing harm to others in any way possible.

2.16. What is poverty

Literature dealing with economics and human resource management present a wide range of definitions for the term "poverty." Poverty is perceived differently depending on the economic system and on the social and economic scientist. Additionally, the criteria for what and who is poor differs from a community to another, so we find that a poor American would be a middle-class African citizen. Similarly, if the poverty calculation used in Japan is used in other countries, the results would be different. In some countries such as the US, the term is highly politicized, thus has not changed for a very long time although most scientists agree to the need for updating the calculation method. The connection of poverty to security both at the individual and national level makes it very sensitive. Therefore, there is no unified definition of what poverty is on an international level that allows for precise world-wide calculation.

In the Arabic language, the term poverty has two different meanings that specify the level of poverty; "*miskin*" which is poorer and "*faqeer*" which is poor. In the *Quran* "Zakat expenditure is for the poor and needy" (Q, 9:60). The majority of language scholars say that the reference of each is different (Al-mulla, 2015). However, the language investigation is not the concern here, so both will be referred to as "poor." The term poverty is important in this research because it relates to both the economic and social sciences. Furthermore, as discussed earlier, HS and HES require more than just an economical solution, a social solution is also necessary.

2.16.1. Poverty by Islamic scholars

Scholars of Islamic jurisprudence have presented somewhat different views on the definition of poverty at its different linguistic level as explained in the Arabic language. Before going into more detail, the term "*Nesab*" must be explained. It is the level at which the owner of wealth is required to pay a portion of it in Zakat. If the wealth possessed is less than this specified level "*Nesab*,"

Zakat is not required. According to the Hadith of Prophet Muhamad the *Nesab* in gold is 85 grams, and in Silver 595 grams, other wealth has its similar calculation, and 2.5% of the *Nesab* and whatever exceeds is due in zakat (Islam.com, n.d.). The following will present the level of poverty and who is considered poor according to the leading Muslim scholars (Nuwarej, 2011):

First, the Hanafi School of Islamic thought

The scholars of this school of faith said the poor is the one that possesses the least, less than *Nesab*. Or the owner of wealth that reaches *Nesab* but does not grow. So according to the scholars of this school of thought, a person that owns the value of 85 grams of gold or less, which is equivalent to about USD 3,500, is considered to be poor. If a person owns this amount but struggles to secure his necessities, then he is not required to pay zakat and is considered poor.

Second, the Shafiei School of Islamic thought

Imam Nawawi said that according to Imam Shafiei and other scholars of that school of thought, the poor is a person who does not possess what satisfies his needs whether it is wealth or work. In the details, whoever is unable to sustain his needs of food, dress, shelter, and other necessities is considered poor.

Third, the Maliki School of thought

The poor is the person who possess very little, which is not enough for sustaining daily needs.

Fourth, the Hanbali School of thought

The poor is who cannot secure the level of sustenance.

Fifth, the views of Sefyan Al-Thwri and others.

The poor is someone that possesses fifty dirhams or its value in gold. So, if a person possesses that amount, they cannot receive Zakat. However, if they possess less, they are entitled to receive zakat. This view was strengthened by the hadith of the prophet Mohamad that specifies that value (Al-Tirmithi, passed 892). Fifty gold dirhams according to the majority of scholars is the equivalent of 2.975 grams of gold (Juma, 2001, p. 19), which is the equivalent of USD 125.

From the previous views, it is clear that the general idea is similar, where a poor man is one that cannot satisfy his and his dependents needs. However, specifying the exact limit or level at which one is considered poor was not possible.

2.16.2. Concepts of Poverty

Of the most prominent Muslims scholars of today is *Imam Yousuf Al-Qaradawi*. He defines poverty as “the inability of the individual’s, or the community’s financial resources to satisfy their economic needs” (Al-Qaradawi, 1997, p. 609). According to Mustafa Nawarij (2011, p. 18), poverty is “the inability to satisfy the minimum level of sustenance in life,” or “the inability to sustain a minimum subsistence.” Elaborating on this view, Nawarij explains that a poverty line cannot be indicated because the purchasing power fluctuates and changes according to time and place. Nawarij (2011, p. 41), discussed that according to the majority of Muslim scholars, the possession of wealth and work is important and an enabler to achieve the objectives of Islam, unlike poverty. He adds that the majority of prophets, companions, and Muslim scholars were wealthy, and this opposes the prevailing view that those were poor.

According to Gheath (1995, pp. 341-342), poverty is the status of a low economic level, that does not satisfy basic needs connected to the self-respect of a group or individual, and that results from methods of wealth distribution, social status, and social expectations. The most well-known definition of relative poverty was by Townsend (1997, p. 31) who reported it as “Individuals, families, and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged, or approved, in the societies to which they belong.”

Poverty in its general terms is rather simple; everyone agrees that poverty is the inability of the individual to sustain a decent subsistence. However, measurement of poverty does not find consensus. Is poverty measured depending on income and at what threshold, or is it measured according to the level of deprivation, or according to a given scale, and finally is it relative or absolute poverty, see (Sen, Poverty and Famines, An Essay on Entitlement and Deprivation, 1981; Townsend, 1997; Gheath, 1995; Foster, 1998). From another perspective, international organizations that work on development such as the UNDP and the World Bank set global

measures. As an example, considering Sustainable Development Goal 1: “End poverty in all its forms everywhere,” how could that be measured or achieved? First, absolute poverty line such as the recently updated World Bank global poverty line of US\$1.90/day which is widely used by developing countries, another option would be relative poverty and a third option would be a subjective poverty line (Casazza, 2015).

The concern of the author is not how to measure poverty, but what are the proposed methods for solving poverty which represents a threat to HES, and also how each community could overcome that challenge with available resources and build on their own understanding. Poverty as defined and explained by the four schools of Islamic thought as well as contemporary Muslim and non-Muslim scholars and social scientists generally refer to poverty as a source of insecurity to the individual and to the community and is described as pure evil. This explains the high relevance of poverty to HES and the need for solutions. This will be the subject of discussion in this chapter, where the Islamic methods of solving the issue of poverty will be discussed.

2.17. Unemployment

Unemployment is always described as a problem or an issue. Today’s communities and countries all over the world, especially Muslim countries suffer from unemployment which has severe adverse circumstances. Unemployment is dangerous on the economy, the society, and security; in short, it is a threat to HS because the five security dimensions illustrated in Figure 2.1 cannot be properly protected. In Muslim communities, those unemployed are subject to corruption in their religion where they divert from the right path, and in all communities, the unemployed are subject to be involved in criminal acts. One of the more dangerous consequences of unemployment is that it leads to poverty. Solving both those economic problems is fundamental to ensuring development in any community. So once HES is achieved, that would necessarily mean both problems have been eliminated, or at least reduced to a minimum, which is the more likely outcome.

Some of the developed countries in the West and the Americas flourished as a consequence of the industrial development yet they still suffer from unemployment despite the presence of a social security system. The subsistence of the poor and unemployed in those developed countries is very

bad, in some cases, worse than the living conditions of the poor in developing countries, especially Muslim developing countries. One important reason is the implicit social system that Muslim communities implement; this will be elaborated in the next parts of this chapter. As for the developed countries, they have failed to present concrete solutions to those problems.

2.17.1. Concepts of Unemployment

In this section, unemployment will be defined, and the distinction between the Islamic and conventional views will be presented to pave the way for the introduction of the Islamic solution to HES problems. Unemployment in Islamic Jurisprudence according to *Imam Ibn-Abdeen* (1205 Hij), in his “*Hashiyah*”, a volume of 14 books, describes unemployment as “the inability to earn, and this inability is either internal such as being a child, a woman with certain limits, aging, and illness, or external such as being a student or a fit man’s inability to earn via Sharia-compliant ways, or the wealthy that has money but unable to invest it. However, those who worship full time are not considered unable”. According to this definition, if you are able than you are not unemployed, so a full-time worshiper would not be counted as unemployed but rather defective or delinquent. This definition is the most referenced about unemployment in Islamic thought. However, in contemporary literature, the most prominent, inclusive and adapted definition is that of the ILO. The definition is presented as follows:

“Persons in unemployment are defined as all those of working age who were not in employment, carried out activities to seek employment during a specified recent period and were currently available to take up employment given a job opportunity... where: a) without work during the reference period, i.e., we’re not in paid employment or self-employment; b) currently available for work, i.e. were available for paid employment or self-employment during the reference period; and c) seeking work, i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment. Future starters, that is, persons who did not look for work but have a future labor market stake (made arrangements for a future job start) are also counted as unemployed, as well as participants in skills training or retraining schemes within employment promotion programmers, who on that basis, were “not in employment”, not “currently available” and did not “seek employment” because they had a job offer to start within a short subsequent period generally not greater than three months and persons “not in employment” who carried out activities to migrate abroad in order to work for pay or profit but who were still waiting for the opportunity to leave” (ILO, KILM 9) (ILO).

Unemployment takes many forms (Qantakji, 2004)

- *Sever Unemployment*: which is the inability to find jobs given the presence of the desire for work
- *Structural Unemployment*: the high number of employed persons in a given institution “more than necessary,” this is usually the case in a government organization. Usually, this large number of government employees are taking a salary and not performing work.
- *Seasonal Unemployment*: is unemployment in given seasons, such as the farmers when there is no farming work, or the fishermen when fishing is either not feasible or prohibited by law in given seasons.
- *Technical unemployment*: which is the presence of unemployed persons because of the unavailability of work that meets their credentials.

Unemployment in its previously mentioned parts could be partial or total, voluntary or compulsory. In severe circumstances, unemployment could be total where it included all the types mentioned or partial where it only includes some types of unemployment. Unemployment could also be voluntary where work is available, but people prefer not to work. This happens in rich countries or in developed countries where the government fills in shortages for unemployed persons through welfare systems. However, compulsory unemployment is not associated with people’s choice although they are able to and desire work. It becomes clear that not every person that does not work is considered unemployed, and not everyone seeking employment is counted as unemployed.

Islamic teachings continuously insist on connecting economic and social practices to the faith of Islam. That is because a person’s own judgment in being ethical, constructive, and a contributing member of a given community is in many cases optional. In cases of rich or developed countries, some individuals choose to be unemployed, and their countries system allows and indirectly supports that decision because the system makes them entitled to support. In such situations, the personal ethics and decision must be invoked. In Islam, one must carefully think of HS that extends to the judgment in the hereafter. Thus, righteous ethics and moral judgment in this life represent part of the Muslim’s guarantee of security in the hereafter. This is why the teachings of Islam do not separate faith and religion from anything in a Muslims life. They are inseparable.

2.17.2. Difference between unemployment concepts

The definition of unemployment in both conventional laws and the Islamic law are quite similar. Both indicate that those unable to secure sustenance are considered unemployed. Employment, referring to the ability to secure subsistence for one’s self and dependents has one main difference

in each of the laws. Desire is the condition of conventional laws. So, whoever has the desire and seeks employment but cannot find is considered unemployed. The Islamic law eliminates desire. A person is considered unemployed only if they want but are unable to perform any kind of work or those who seek knowledge. Conventional laws could only consider those who choose to be unemployed as delinquent, but the Islamic law considers those as sinners.

The connectedness of unemployment to HES resembles in the threat it causes to the community. Vacuum can only present adverse outcomes which lead to the importance of work. In Islam, the idea of work is in itself an act of worship, and leaving it is considered sinful. The Muslims thought of security directly relates to the hereafter, and acts of worship are the tool for achieving eternal security.

2.18. Causes of poverty and unemployment

There are different levels and types of causes of both unemployment and poverty. Some causes are manmade, others are consequences of human actions, some are social, and others are economical, and finally, some causes are related to faith and compliance with the teachings of Islam.

Economic causes: (Qantakji, 2004, pp. 12-13).

- Poverty is caused by increasing prices and lower purchasing power
- Inflation and increasing wage,
- Floating currency value, decreasing exports, increasing population,
- increasing competition, increasing technology and decreasing technically skilled labor,
- Loose social security measures especially in rich and developed countries,
- and lower production rates
- The expansion of the arms industry (Baharth, 2013)

Social problems:

- Increasing population with no countermeasures
- The outcomes of education
- The absence of labor protection laws,
- Migration of skilled labor,

In Islam, there are causes that the conventional economic tradition does not recognize as a cause of unemployment and poverty. In Islam, there are a number of reasons connected to faith that cause unemployment, thus, poverty and deprivation especially among Muslim communities (Baharath, 2013):

- Refraining from paying Zakat
- Treasuring money, keeping it from investment
- Dealing with Riba (Usury)
- Financial waste of public money
- Monopoly
- Bad investment of land (Waqf)

2.19. How Islam solved poverty and unemployment

Since there is lots of poverty and high unemployment rates in many countries in the world, that means that contemporary solutions have not succeeded in facing the challenge at hand. During the Islamic civilization, adopting the teachings of Islam has presented better solutions to both problems. Referring back to different causes of HES, some may have calculated solutions. However, others are only solved if Muslims fix the wrongdoings they committed. It was in the words of Professor Mehmet Asutey²⁴ that Islam is a becoming process. This simply confirms that the outcome is a reflection of the practice. Connecting this discussion to Figure 2-1 that discusses HS, both poverty and unemployment are perceived as failure to meet the necessities exhibited in the figure.

2.19.1. Unfit contemporary solutions

The social security system and the welfare systems that operate in capitalist communities both present limited solutions to poverty and unemployment and are also part of the problem. These capitalist systems were forced to incorporate such social systems and accept the right of the poor under the pressure of war and revolutions (Al-Qaradawi, 1985, p. 10). In a welfare system, in its simplest ways, the state pays to the needy, disabled, and the unemployed regular financial support

²⁴ Asutey, M (2017, 27 September) Kyoto-Durham Workshop

from its budget which the receivers do not contribute to, and the government budget is usually public tax, so this system is not fair to the majority who usually live on the threshold of poverty and do not receive welfare support, or very little of it (Qantakji, 2004, p. 15).

There has been no literature that supported a welfare system entirely, on the contrary, all literature has pointed out the failures, and there have been some propositions for reform, but failures continue. “Social services were not designed to reduce basic inequalities, and that their focus is too narrow to enable them on their own to do.” Paul Wilding who writes *in Defense of the Welfare State* also adds that “the welfare state has made services more equal, and mentions that “the other major charge against the effectiveness of the welfare state is that it has failed to abolish poverty” (Wilding, 1986, p. 129). Available systems for social security and welfare to help the poor can partially succeed because they are designed with partial considerations, so no holistic solutions should be expected. Describing the British welfare state, Abel-Smith says “while we have no reason to be proud of our efforts to help the poor” ... “Nevertheless, our record is better than most countries of the EEC” (Abel-Smith, 1983, p.16), as found in (Wilding, 1986, p. 129)

Voluntary giving has always been a noble and supportive way to partially contribute to solving the problem of poverty and unemployment. However, limiting the solution to the good of voluntary giving and charity is a rasy for failure because if an obligation is not faced with rights that are protected by the state, poverty, and unemployment will not come close to an end, and economic exchange will not succeed, thus, social and economic failure is guaranteed (Al-Qaradawi, 1985, pp. 25-26).

2.19.2. The solution in Islam

Imam Al-Qaradawi (1985, pp. 11-18), explained poverty from different views in his book “the problem of poverty and how Islam solved it,” and then he explained the Islamic view of Poverty. He elaborates that Islam recognizes poverty as pure evil, it is a danger on faith, ethics, and morality, a danger on human thought, a danger to the family and the entire community’s stability. Both poverty and unemployment represent a threat to communities because consequences of vacuum bring insecurity.

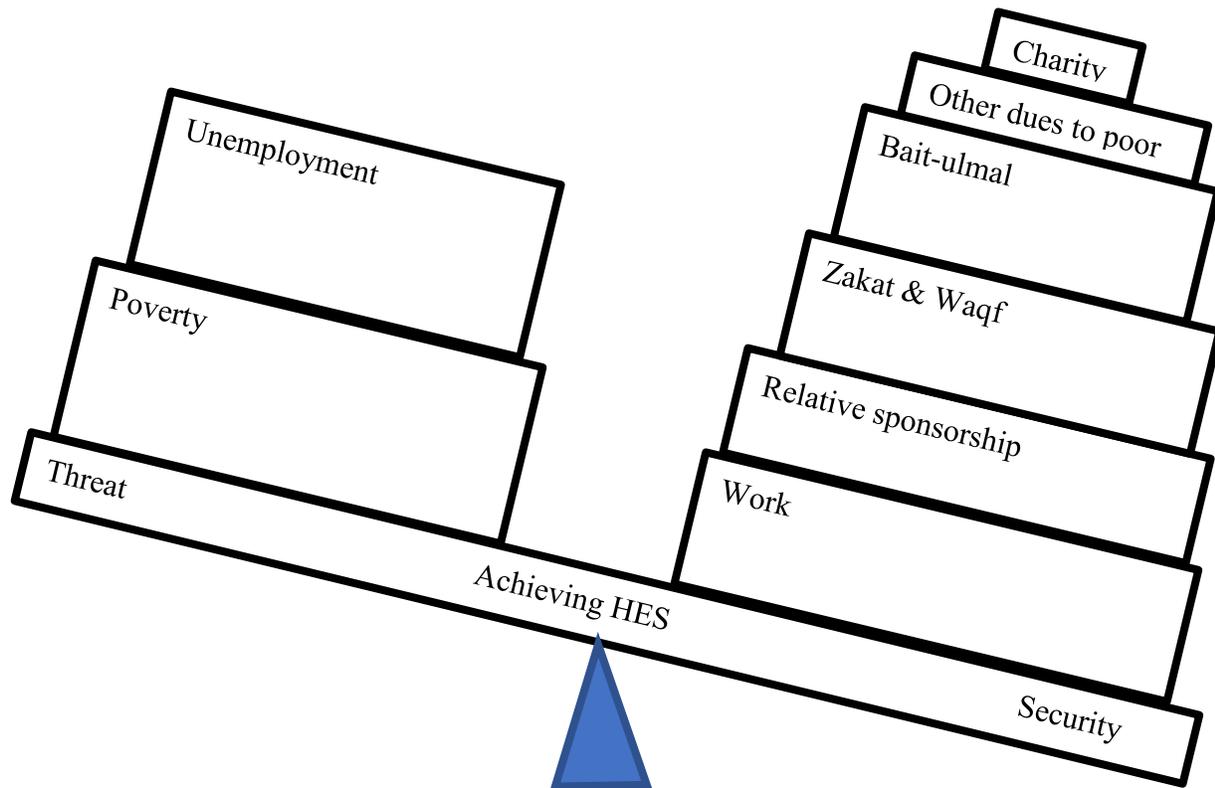
In concluding the different thoughts on poverty, *Imam Al-Qaradawi* (1985, p. 34) and Nuwarej (2011, p. 55), explained that Islam rejects extreme views that consider poverty a way to uplift

one's place in the hereafter, and rejects the views that consider it an inevitable destiny. Additionally, individual voluntary charity is not enough to solve the problem of Poverty. Furthermore, the capitalist way of solving poverty is limited, and sustainable sustenance for the poor is not the goal, so Islam does not accept the Capitalist way and rejects communism that is against wealth and ownership. Qantakji (2004, p. 22), also explained that all those social and economic systems have failed to achieve equality among people despite the fact that they have succeeded in the second half of this last century to achieve significant financial development, but the individual was considered nothing more than a unit of production. This is an alarming outcome for human dignity.

In Islamic communities, poverty must be fought, and all community members must have a sustained life where all their needs are satisfied, and that includes non-Muslims that live in Muslim communities. Only in the Islamic civilization that ruled over thirteen centuries do we find long-lasting coexistence and equality between people of different backgrounds and faiths (Qantakji, 2004, p. 21). Imam Al-Qaradawi and all Muslim scholars before and after explained that poverty is resolved by a number of ways that take a particular order.

- Work
- Relative sponsorship for the poor members of the family
 - o In Islam, relatives beyond the small family “parents and sons,” inherit other family members after death, similarly are obligated to support them upon need during life.
- Zakat
- State-Baitulmal Sponsorship of the poor (state revenues other than Zakat)
- Other dues to the poor in Islam (kafarah, Fidyah, Al-udhiyah, the neighbor, ...)
- Voluntary charity

Figure 2-3: Achieving HES in Islam



Source: Author's Illustration

Figure 2-3 serves as an essential foundation in this research that helps in completing the later parts. The figure is a presentation of a scale that balances threats and their counter security measures. The significance of poverty and unemployment as threats to economic security is the reason they are utilized in this presentation. However, counter security measures to threats, from the Islamic perspective are broad; they include family and state support, and both the RIZ and waqf also serve as counter security measures to threats.

Qantakji (2004, p. 27), explains that social justice must systematically and continually be implemented through a holistic view of different community needs instead of the timely solutions that only scratch the surface. One of the most important characteristics of Islam is that it is inseparable in addition to being holistic, but in times of Islamic revival laws should be constructively implemented considering the Islamic laws of priority (Qantakji, 2004, p. 29). Figure 2-3 shows a scale that exhibits economic sources of security needed to combat causes of economic threats. The figure simplistically indicates that the six components of the solution to the HES problems outweigh the two main economic threats holding all-else-equal.

All Muslims must work and provide to enrich themselves and their families. If members of the family were poor and could not secure employment, there is a family responsibility. The same poor family members could be entitled to zakat and other sources of support, depending on the family's inability to assist. The zakat system is the first social security system in the world (Al-Qaradawi, 1985, p. 105). However, it was not the only, nor was it the main, there are other ways in Islam, and all are connected to the faith which empowers the right of the weak and vulnerable facing the obligation of the wealthy.

2.20. Conclusion

Work, which is essential for the fulfillment of HES is present in all countries, but some problems are the absence of desire to work, refusal to accept any work, and in some cases being a citizen of a country means you get paid. Gulf country citizens for example, similar to many Europeans who prefer to depend on welfare programs and state support are part of the problem. A challenge of such nature needs solutions beyond laws. In Islam work is an act of worship, it is connected to faith and security in the hereafter as illustrated in Figure 2-1. The partial implementation of the Islamic law, and the superiority of the conventional law, arguably in all Muslim countries makes the implementation of all compulsory and noncompulsory acts of giving in Islam voluntary. With this outcome that has some small exceptions, Muslim countries can hardly be distinguished from other countries when talking about the achievement of HES. However, there are variations between different Muslim communities depending on the depth and width of external influences and the extent to which people have a commitment to the Islamic laws in their lives. Furthermore, the current practices of Islamic financial institutions are assessed given the performance on the ground and the effect on HES. This is the discussion in the following chapters.

CHAPTER 3

Foundational and historical overview of Islamic economic development

3.1. Introduction

Economics is the study of the human behavior in the production and the consumption of products and services. Religion as defined by Dr. Abdullah Mohamed Draaz, as available in Kahf (p. 5), is the method or way that includes obeying or following. “Islam is wider than religion, and the religion of Islam is part of Islam, this is why we talk about Islam as a way of life” (Kahf, 3003, p. 23). As for economics being Islamic, according to Kahf (p. 7), Islam is distinguished from other religions in dealing with economic matters. There is plenty of directions, legislation, and provisions in Islam that indeed constitute a complete economic system. The Quran, books of *Sunnah* and Islamic jurisprudence provide all the necessary details that help in understanding this comprehensive system.

What is Islamic economics?

Stewart (1991: 8) notes that: “Mercifully, methodologists these days have ceased agonizing over the question: ‘What is economics?’ It is by now accepted that economics is whatever the current academic and professional community defines it to be. It is also recognized that different economists have different definitions, none more correct than any other and that in any case, current economics covers so many diverse sub-disciplines that a single definition would be otiose”.

Monzer Kahf (3003, p. 29) appreciates the work of Ibn Khaldun when writing on *ilm-al-umran* (the science of development), Kahf proposes this definition for what Islamic economics is: “the study of human behavior individually and collectively, with regard to the use of resources for the purpose of satisfying human material objectives”. Siddiqui (2011, p. 141) explores the different definitions of economics and concludes with the basic logic that Islamic economics is to study economics from the Islamic perspective, this concluded with the following definition; “Islamic economics is the study of how different sectors of an economy could be organized on the basis of the interpretations of the guidelines given by Islamic sources of knowledge in a Muslim society.” It is notable that Siddiqui reaches to this definition while generally rejecting Kahf’s propositions comparing it to that of Robbins.

Another definition is: “Islamic economics is the knowledge and application of injunctions and rules of the Sharia that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society” (Zaman S. M., 1984).

In Islam, development takes place naturally, and the origin of economics was the IVES. Only later in Islamic history did Islamic economics start to imitate the capitalist banking and finance systems

and transactions in finance. “Did the prophet ever discuss development with his companions or do the father discuss the children development with his wife? The answer is no; it happens naturally when correct measures are taken. We should take care of variables that affect development such as Islamic values and education, health and nutrition, real economic growth, and so on. Unfortunately, even today's economic indicators are not true indicators, they only calculate according to numbers that they make up.”²⁵

Although this chapter focuses on Islamic economics and its institutions, it strongly connects to economic security as it was explained in Chapter 2. Economic development requires first the enrichment of ethics and the strengthening of Islamic values. Second, it also requires capital, economic activities, a legal system and a powerful economic system. However, with firm religious belief and practice, the first coupled with the second ensures the protection of HES.

3.2. Foundation of Islamic finance institutions

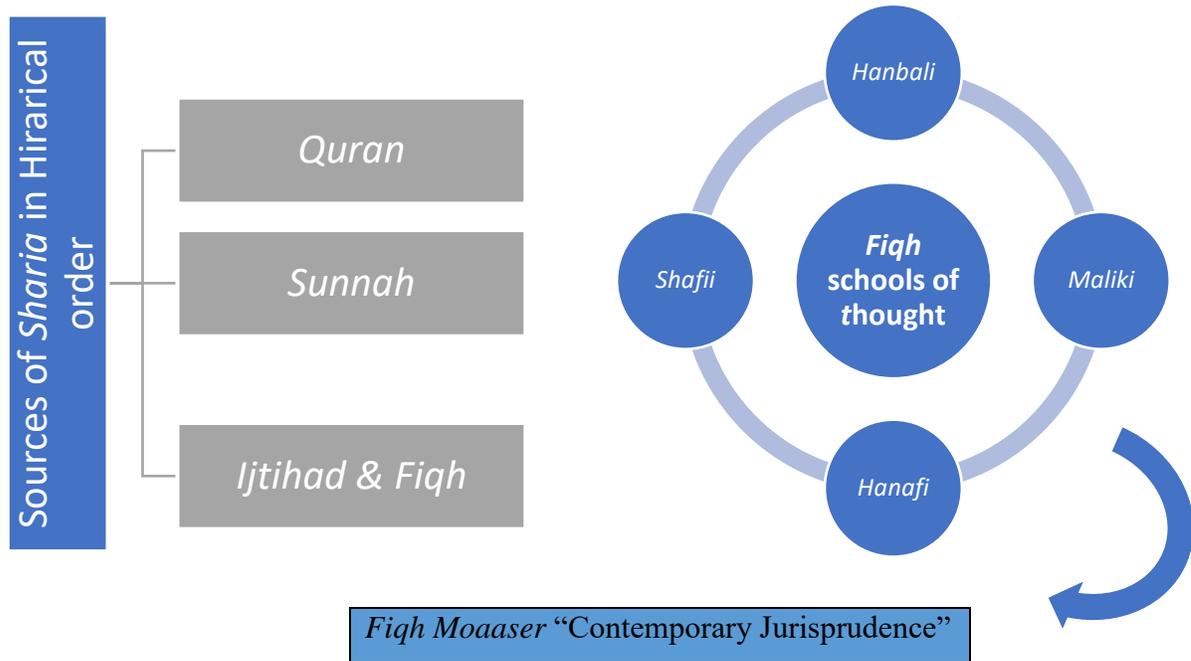
The Islamic teachings and the Jurisprudence of transactions are the intellectual foundation for Islamic financial methods used by all Islamic financial institutions through multiple financial instruments. Figure 3-1 illustrates the sources of Sharia which are the *Quran*, *Sunnah*, and *Ijtihad*²⁶ and *Fiqh*²⁷. It also shows the four leading *Fiqh* schools of thought that lead to many of the contemporary Islamic jurisprudence “*Fiqh Muaaser*” that deals mainly with financial and medical fields because those two areas have introduced many new ways, and technology has also had a significant effect on the development of finance and medicine, the reason why contemporary Islamic jurisprudence is essential for Islamic finance.

²⁵ Ismail, N. (2017, 9 May) Personal Interview, UM

²⁶ The term “*Ijtihad*” means the Muslim scholar's views and efforts in explaining certain contemporary matters that relate to Muslims life's, especially in the field of finance and medicine.

²⁷ The term “*Fiqh*” means Islamic Jurisprudence

Figure 3-1: Sources of Sharia and Schools of thought



Source: Author illustration

The decisions of the center for Islamic research, the center for Islamic jurisprudence, and the fatwas of Al-Azhar scholars launched in the year 1965 were the base for establishing the current Islamic finance industry. The decisions and recommendations by those well trusted Islamic foundations encouraged investors to establish Islamic banks in different Arab and Islamic countries. Those decisions mainly concentrated on the following points that principally govern Islamic financial transactions.

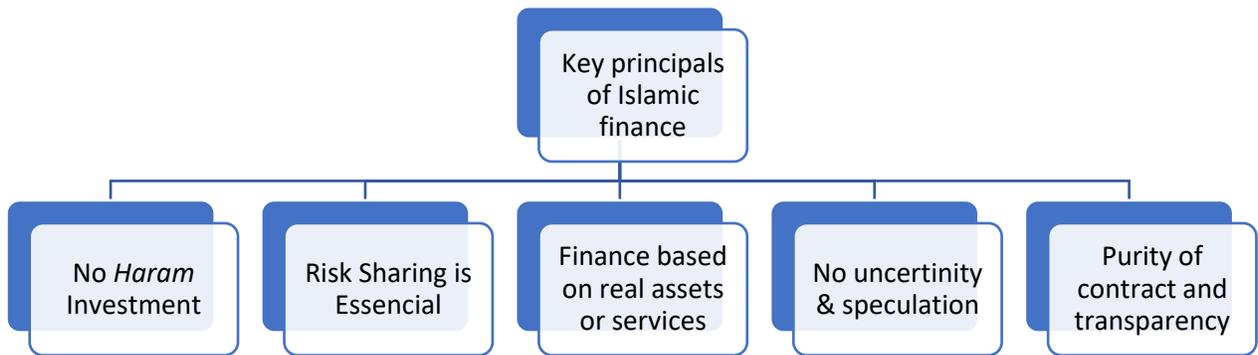
- The importance of using Islamic financial instruments in banking transactions
- Establishing investment funds and offering shares in the market in the form of *Sukuk*²⁸, "bonds" that are sharia compliant.
- The cooperation, contribution, and partnership with other firms and organizations that operate in accordance with the Sharia to create a complementary environment for Islamic financial and trade transactions.
- The banks must support the creation of a secondary market for exchanging *Sukuk* and bonds, with the condition that they all are sharia-compliant.
- Islamic banks to provide Initial Public Offering (IPO) services.

²⁸ Sukuk: Asset securitization based on Sharia principles

- Islamic banks should actively work on establishing companies that support in executing bank activities; such as intermediary activities in financial markets, and other general renting, financing, and asset management activities.

To simplify the foundation upon which Islamic finance is based on, the following Figure 3-2 illustrates the key principals of Islamic finance that prohibit interest and speculation along with other principals.

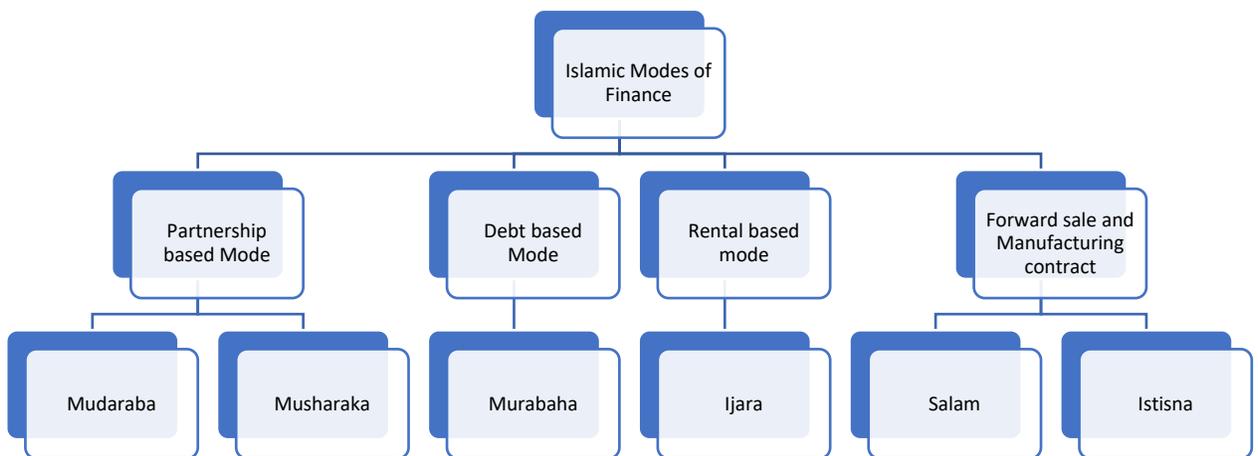
Figure 3-2: Key principals of Islamic finance



Source: Author illustration

Regardless of the Islamic financial institution and its sector, different modes and contracts could be used by various types of Islamic finance institutions.

Figure 3-3: Islamic Modes of Financing, and types of contracts:



Source: Author illustration

Mudaraba: A pre-Islamic, Arabic kind of financing, in which one individual provides start-up capital to another who will do the actual work (BusinessDictionary).

Musharaka: Islamic principle that is applied to joint ventures where interest is not charged by the creditor of the loan. Instead an agreement is made between the creditor and the buyer as to the share the creditor will get from the profit made from the venture. This also applies to any losses made in the business (BusinessDictionary).

Murabaha: An Islamic type of financial transaction in which a person with property/an asset to sell will rent/lease it to another interested buyer at a fully disclosed rate of profit. This is similar to a rent-to-own situation in which the owner maintains full property rights over the asset until the buyer has paid off the note for the asset in full (BusinessDictionary).

Ijara: An exchange transaction applicable in Islamic regions. It is trading-in the use of an available asset, for a payment, where the ownership of the asset is not transferred. This transaction is similar to a type of mortgage loan with no requirements for down payment, such as a rent-to-own arrangement in the United States (BusinessDictionary).

Salam is a sales contract that requires advanced payments to be made for a product to be delivered at a later agreed time.

Istisna is an order to produce or manufacture a product, where the payment is made up front.

Islamic finance contracts used mainly by the IVES

- Qard Hassan
- Microfinancing
- Other forms could be used, but with much more simplified terms

3.3. Historical to contemporary Islamic Economics

Islamic economics and thought go as far in history as Islam itself. Economic issues were discussed throughout the fourteen centuries of Islamic history. The discussion was continuing, it passed from a group of scholars to another, discourse was in light of the sharia, and views were associated to their author, not to the Quran and *Sunnah* which they rely on, because views could have a margin

of error, especially when considered in a different geographic and time setting (Siddiqi, 1982). Siddiqi (1982), surveys the work of thirty-one Muslim thinkers and scholars, to elaborate on the development of Islamic economic thought. Muslim scholars such as Abu-Hanifa, Malik, Ahafi'I, Ahmad bin-Hanbal, Ibn-Hazm, Al-Ghazali, Al-Razi, Ibn-Taymiyah, Ibn al-Qayyim, Ibn-Khaldun, and Jamaluddin Afghani. Those were some of the leading Muslim scholars that addressed economic thought in Islam among other subjects.

3.3.1. Islamic social finance and community directed financing.

Throughout the Islamic history, social responsibility and the Muslims responsibility towards other Muslims was strongly encouraged. Over time methods and mechanisms to do so have developed and adjusted to suitably meet the needs of different communities. In the Islamic teachings of the Quran, a Muslim is encouraged to give from their wealth, the wealth they have been entrusted with in this life, for the sake of Allah. In the Quran Allah says "by no means shall you attain righteousness unless you give (freely) of that which ye love; and whatever you give, of a truth God knoweth it well" (Al-Imran, 3:92). In the Hadith of Prophet Muhammed peace be upon him, he said "when a man dies his deeds come to an end, except three things, recurring charity, Knowledge (by which people benefit), and pious offspring, who pray for him"

Of the very early ways, social responsibility could be displayed through the giving of Zakah²⁹, charity³⁰, and Waqf³¹. Those were mainly the fundamental ways Muslims could participate in acts of social responsibility and community development. In the modern history giving charity, zakah, and Waqf, have contributed to development. Additionally, Islamic social finance now also incorporates providing "Qard Hassan³²," and microfinance. Those methods weather Islamic, or conventional, are among the best ways to assist local communities to develop their simple

²⁹ Zakah is a specified percentage of money every Muslim must give for the sake of Allah, this money is collected and distributed on mainly on the poor, among other activities.

³⁰ Charity is voluntary giving for the sake of Allah which is highly encouraged in Islam

³¹ Waqf, which linguistically means to "stop, or restrain"; it refers to devoting in the way of Allah a named asset, or a named amount of money, or a specific cause. This devotion is also a form of charity in Islam.

³² Qard Hassan, is a loan given to the poor and needy, it has no interest and very simplified terms of repayment. It is meant to assist in community development, not for profit.

economies and represents an opportunity for the marginalized communities to be financially included a least whitening their country borders.

While charity giving is a human action in general, Zakah giving is a compulsory action, similar to charity; it is meant to be redistributed for the poor and some community development matters that include education and health facilities. Waqf is also an Islamic way of being socially responsible and helping the people in different communities. Waqf has always been physical assets, only recently cash waqf has been introduced. Of the unique features of waqf is that the donated asset is to be preserved, and the outcome to be given for named charitable purposes. The English trust is similar to the Islamic Waqf, different in some ways, the idea was developed and introduced by Muslims, and it was later on that the English Trust was introduced (Gaudiosi, 1988; Cizakca, Waqf vs Trust, NA).

Examples of waqf could be found at the time of the prophet Muhammed. One example is a piece of land that was owned by the companion Omar ibn Al-Khattab which he wanted to give for charity, profit Muhammed directed him to preserve the asset "the land" and give the product "the produce" to a named beneficiary "the people of Madinah." Another example is the companion Othman ibn Affan, during the 1st century of *Hijrah*³³ He bought a water well from a Jewish man for 20 thousand Dirham and donated it as a waqf. The founder is "Othman Ibn Affan," the *waqf* property is "*Rumah* water well," and the beneficiaries are "the Muslims and non-Muslims to drink." Other famous examples are mosques, educational facilities, residential places for travelers and gusts, waqf was also used to finance scholarly activities and Muslim scholars to proceed with their research. However, waqf has developed, it now includes shopping malls, and residential buildings where the asset is preserved, and the outcomes of which are given to charity.

Social Islamic finance has developed throughout the different periods of Islamic civilizations, the last of which was the Outman kalifate which inherited waqf properties that exist until this day in all the countries that were ruled by the Othman's. However, in the last few decades, Islamic finance has taken a shift to operating in a modern way to be able to facilitate peoples need. Islamic banks,

³³ Hijrah, is the travel of profit Muhammed with the Muslims of Makkah to the city of Al-Madinah in Saudi Arabiya now.

Islamic saving and lending institutions among other types of Islamic financial institutions have developed.

3.3.2. Foundational developments that lead to the contemporary Islamic finance

The call from Muslim scholars to start Islamic finance institutions suitable for their present time ignited the beginning of Islamic finance institutions that developed to be in the form we know today. The Islamic teachings and the Jurisprudence are the intellectual foundation for all Islamic financial institutions. The decisions of the center for Islamic research, the center for Islamic jurisprudence, and the fatwas of Al-Azhar scholars that were launched in the year (1965) were also another strong intellectual foundation for establishing the current Islamic finance and banking industry. The decisions and recommendations by those well trusted Islamic grounds encouraged investors to build Islamic banks in different Arab and Islamic countries. Those decisions mainly concentrated on elaborating on the following points that principally govern Islamic finance.

- The importance of using Islamic financial instruments in Banking transactions
- Establishing investment funds and offering shares in the market in the form of Sukuk³⁴ and bonds that are sharia compliant. All the investments that the funds are involved in must be sharia-compliant.
- The cooperation, contribution, and partnership with other firms and organizations that operate in accordance with sharia to create a complementary environment for Islamic financial and trade institutions.
- The banks must support the creation of a secondary market for exchanging Sukuk and bonds, with the condition that they all are sharia-compliant.
- Islamic banks to provide Initial Public Offering (IPO) services.
- Islamic banks should actively work on establishing companies that support in executing bank activities; such as intermediary activities in financial markets, and other general renting, financing, and asset management activities.

Before, and as an immediate response to the scholarly Islamic institution's calls, some Islamic social finance institutions were established in Malaysia and Egypt who pioneered the industry (Khan, 2007). In Malaysia, *Tabung Haji* Malaysia was established in (1962), from its name, this institution started helping Muslims in Malaysia to save for performing Pilgrimage to *Mecca* "Haj," while at the same time opening many investment opportunities in industries, real estate, agriculture,

³⁴ Sukuk: Asset securitization based on Sharia principles

financial markets and more. *Tabung Haji* is a huge Islamic financial institution that engages in investment and has business in many countries of the world.

Another recent example was Mit Ghamar saving house (1963-67) was founded in Egypt, the purpose of which was to collect savings and give returns based on Sharia principles after investment. This example was successful but later ended due to political issues (Khan, 2007). Further development took place in (1971) in Egypt with the establishment of Nasser Social Bank. This bank operated as a social lending financial institution to assist the poor and needy, also to provide student loans to support education. Another significant milestone was the establishment of the Islamic Development Bank (1973) which helps OIC countries and other Muslim countries in allocating funding for development projects.

The expansion of the Islamic banks continued in the 1980's where Islamic Bank International was established in Denmark, and *Dar al-Mal al-Islami* was established in Switzerland. Few years after, Bank Islam Malaysia Berhad and Qatar Islamic Bank were both established. Another initiative was the establishment of Bank Muamalat Indonesia in which started work in 1992; this bank was an Indonesian government initiative. Due to the large expansion, and high development rates, many state and national owned banks in Muslim and Arab countries, started opening branches for Islamic finance transactions (AbdulRahman, 2007). Furthermore, European banks also began to offer Islamic financial products, which indicates that Islamic products are internationally accepted, and more importantly, the basic principles are understood.

3.3.3. The development of Islamic finance in the west

The speedy development of the Islamic finance and banking industry required considerable efforts from those working in this sector. The rapid development and the entrance of many players both Muslim and non-Muslim, as well as the traditional banking background of most of the Islamic finance practitioners, led to many failures in achieving the primary objectives of Islamic economics, and to some suspicions of non-Sharia-compliant transactions taking place (Farooq, 2009; Asutay, 2007; Helis & Migdad, 2014). This second phase in the development of Islamic finance represents a period for reflection, and more emphasis has been put on preparing a new specialized and Islamically educated wave of bankers and Islamic finance practitioners. Another critical point that has received attention is the work of Islamic finance and banking under capitalist

economies, and necessary modifications have been taking place especially with the western interest to further engage in this industry. *Sheik Ali Al-Qardaghi* professor of Islamic finance and the secretary general of the International Union of Muslim Scholars described the interest of the West and the visits he made in response to official invitations by the UK and German officials to explain Islamic finance (Al-Qaradaghi, 2016).

Many attempts took place to start Islamic finance institutions and Islamic banks in the west. The first effort in the West to establish an Islamic bank was in Luxembourg in 1978. However, the UK has been the western pioneer that advanced in Islamic finance and banking. While the observation of Islamic finance and banking development in the UK trace back to the year (1980), the real progress took place after the (1990's) (Malik, Malik, & Shah, 2011). The UK represent Europe in the field of Islamic finance for some reasons; first, it was the first to publicly announce its interest in adopting and pushing forward Islamic finance. "Gordon Brown, Former Prime Minister and the Chancellor of Exchequer, made his intention clear in 2006 while speaking at a conference in London that the UK is well placed to become the gateway of Islamic Finance in West" (Malik, Malik, & Shah, 2011)

Some of the reasons Europe became interested in Islamic finance and banking was the attempt to include millions of Muslims in their country's economies financially. This act was a direct response to some of the problems they had; one was that most Muslims living in the west sent lots of money back to their countries for investment, among other things. Providing a local, religiously acceptable alternative was one way the West was able to reduce the amount of money leaving the country. In the case of the UK, the number of Muslims is about 2.7 Million, approximately 4.5% of the population, and there is nearly .5 million Muslims that visit the UK regularly. According to the Office for National Statistics, the Muslim people in the UK has increased ten times faster than the rest of the society. This describes Muslim communities in all Western countries. More importantly, all indicators suggest that Islamic finance and banking will continue to develop.

3.3.4. Development of Islamic finance practice and involvement

The Islamic finance and banking industry has developed a comprehensive product offering over its young history. The development of the industry started in its early phases in the (the 1950's) to develop the theoretical framework. This was a time where many of the Muslim majority countries

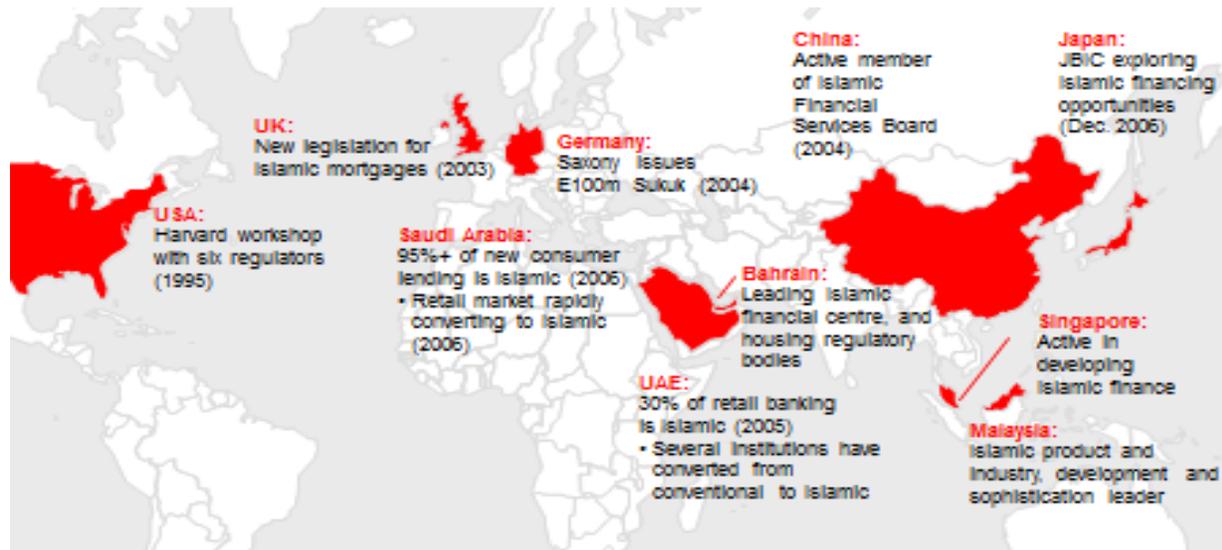
had independence. Recently after, the consensus of Muslim scholar's boards and unions called for the establishment of Islamic finance institutions to serve the Muslim populations by using Sharia-compliant transactions. This call was pioneered by Malaysia and Egypt, and followed by the creation of the Islamic Development Bank that served the OIC countries primarily.

By the beginning of (the 1980's) the Islamic finance industry was able to advance its products, which gives it credibility, sustainability, and helps to invite new active players to be part of the industry. During the (1990's) the Islamic finance and banking industry welcomed global financial institutions, e.g., HSBC. It is one of the world's largest banking and financial services organizations that serves more than 45 million customers and 71 countries and territories around the globe (HSBC, 2017). A large financial institution such as HSBC saw potential in the Islamic finance industry and was part of; it has an aim "to be where growth is" (HSBC, 2017).

The Islamic finance industry has advanced from a niche to a critical mass. Up until the late 1990's, the industry was still fragmented, but slowly developing and incorporating new international players. Retail customers have been the backbone of the growth of this sector. Gulf countries, especially in Saudi Arabia, the majority of retail banking became Islamic, and the wealth of those countries was an important variable that helped to scale up the value of the industry.

As such, the mainstream relevance of the Islamic finance industry lies in the Islamic world, namely Saudi Arabia, Bahrain, UAE, Sudan, Malaysia, and also Iran is considered to be part of the focal point countries. The involvement in the Islamic finance industry has gone beyond retail participation, even in non-Muslim countries. North African countries, Turkey, the UK, Germany, the USA, Canada, Indonesia, India, and few other countries have Niche presence in the Islamic finance industry. Those states are also engaging with the regulators to allow for more expansion and involvement in this growing industry. Other countries, however, are in the phase of conceptual exploration such as Japan, Australia, China, and some other European countries.

Figure 3-4: Islamic economic global activities



Source: HSBC Amanah, press reviews

With more and more non-Muslim countries and global financial organizations entering into the Islamic finance industry over the years, standardizations of products, and systems through which certain transactions are managed becomes essential. This was primarily requests made by managers of banks in non-Muslim countries; because their development relies on their understanding of Sharia principals. Standardization makes the work more systematic, after that, development and growth are, to an extent, a matter of marketing and the number of customers.

Self-regulatory organizations practiced standardization of Islamic finance products which brought credibility to the industry (Khan, 2007). The first act of standardization and one of the most important was made by the Accounting and Auditing Organization for Islamic Finance Institutions (AAO-IFI) in Bahrain (1991). This standardization practice posed as a benchmark for Islamic accounting standards. It incorporated 56 accounting, auditing, governance and Sharia standards. This act enhanced clarity, transparency, and harmonization (Khan, 2007). After that some standardization practices took place including the following:

- The finding of the International Islamic Financial Market (IIFM) in Bahrain in (2002) by the collective efforts of some central banks, ministries, and Islamic banks.
- The establishment of the Bahrain based General Council for Islamic Banking and Finance Institutions (GCIBFI) in 2001. The council works on promoting the industry in theory and practice and is now planning for the finding of the world's largest Islamic bank.

- The inauguration of the Islamic Financial Services Board (IFSB) Malaysia in 2002. Since its inception, the Board has issues 26 standards, guiding principles, and technical notes.
- The Liquidity Management Center (LMC) is an Islamic investment bank regulated by the Central Bank of Bahrain and incorporate in 2002.
- The Islamic International Rating Agency (IIRA), started operations in 2005 to provide assessment of the risk profiles of entities and institutions.

3.3.5. Concluding remarks on the IFBS development

Factors that lead to the explosive growth of Islamic finance (Khan, 2007):

- The steady growth and wealth of the OIC economies, and the shift from conventional to Islamic retail banking
- The large and growing institutional capital
- Liberalization of capital markets
- Retail customer commitment; this is also a religious commitment
- Resurgence of Muslim culture values
- Innovative product development.

Despite the success and growth in the Islamic finance and banking industry; which is clear in their growth rates, increasing annual profit, wider investment portfolios, and more investor satisfaction, the development in the sectors that target socio-economic development is weak and underrepresented. CSR is the most apparent bank contribution to the society, and it is minimum; as shown in the following chapters. The IVES that includes waqf, zakat, and microfinance has many solutions for the bigger problem of income and wealth destitution, as well as for financial inclusion. However, this sector is quite neglected, and the Islamic finance industry could make a difference by tapping into this sector (Asutay, 2007; Sairally S. , 2007; AbdulRahman, 2007).

3.4. Human security and community development in Islamic economic thought

Today, the global economy and the direction of growth is filled with uncertainties and modest economic growth. The latest IMF growth forecasts indicate that worldwide growth rates will increase from 3.1% in 2006 to 3.4% in 2007, but the more important point to put forth is that the growth is in emerging markets and developing economies (from 4.1% in 2016 to 4.6% in 2017), while advanced economies remain at 1.8% growth rate (IMF, 2016). The fluctuations and uncertainties that are yet to be exposed to the global economy are expected to affect the wealth of

households, and incomes are affected by slower growth. However, a more sensitive long-term issue affecting the socio-economic development of the household is the distribution of income and wealth (MIFC, 2015).

Going over the development of Islamic finance, and its practice in the world, we realize that social, economic practices in the Islamic finance industry represent a small size of the whole industry despite the significant growth in IFI's and the expansion of the modes of financing (Asutay, 2007). While growth is mainly in banking and intermediation, profit-making, and risk sharing IFI's, which indeed have great value and benefits to the country's economy, the primary objectives of Sharia in economics is the socio-economic development of the individual and the community. Nevertheless, both growth and expansion of IFI's and modes of financing could be further enhanced to serve the objectives of Sharia in economics better, and maximize impact on the life of the individual (Asutay, 2007; Farooq, 2009; Sairally S. , 2007).

Some Islamic socio-economic instruments that have lately been pointed out by researchers and scholars to have potential in community development include zakat, waqf, and qard-hassan. According to Daftara (2017), Islamic finance is community development, and Waqf, in fact, is empowerment although it is categorized as charity. Additionally, financial instruments such as Sharia-compliant microfinancing, and small and medium enterprise SME's financing. All those Islamic financial instruments and mechanisms are designed to provide financial assistance for the poor and underprivileged individuals and locals of marginalized communities.

3.4.1. Principles of socio-economics in Islam

“The goals of socio-economic justice and equitable distribution of income and wealth are unanimously considered to be inviolable parts of the moral philosophy of Islam and are based on its unflinching commitment to human brotherhood” (Chapra, 1985, p. 35). An ideal Muslim community must actualize both justice and brotherhood because there is great emphasis on both variables in the Quran and *Sunnah*. Both variables cannot be realized without equitable distribution of income and wealth; thus, Islamic teachings integrate both variables as essential parts of the discourse for their realization to become a spiritual commitment of Muslim communities (Chapra, *Toward a Just Monetary System*, 1985).

“In contrast to this (the capitalist system), Islam believes in striking at the roots of inequality rather than merely alleviating some of the symptoms. It has incorporated into the faith itself some measures which would not allow an unjust distribution to take place. Besides, it has a built-in programme to reduce the remaining inequalities even further through zakāt, and numerous other methods to bring about a distribution of income which is humane and in conformity with its concept of human brotherhood.⁶ Hence, it is necessary that even the money and banking system and monetary policy are designed to fit into the fabric of Islamic values and contribute positively to the reduction of inequalities instead of working in the opposite direction” (Chapra, 1985, p. 36).

The fundamentals of an Islamic economic system have the following objectives and principals (Chaudhry, 1999). The author listed eight objectives 1) achievement of Falah (well-being), 2) fair and equitable distribution, 3) provision of basic human needs, 4) establishment of social justice, 5) promotion of brotherhood and unity, 6) achievement of moral and material development, 7) circulation of wealth, 8) and elimination of exploitation. The principals of an Islamic economic system include 1) Allah determines right from wrong, 2) principals of use, 3) principals of moderation, 4) economic freedom, 5) principals of justice (Kahf, 1998).

The Islamic finance and banking industry, like all aspects of the Islamic way of life, should be designed to actively contribute to the achievement of the significant socio-economic goals of Islam that Chapra (1985, p. 33) lists as follows:

- Broad-based economic well-being with full employment and optimum rate of economic growth
- Socio-economic justice and equitable distribution of income and wealth
- Stability in the value of money to enable the medium of exchange to be a reliable unit of account, a just standard of deferred payments, and a stable store of value
- Mobilization and investment of savings for economic development in an equitable manner such -that a just return is ensured to all parties concerned
- Effective rendering of all services normally expected from the banking system

3.4.2. Why Muslims commit to the objectives of Islamic economics

The main reason why Muslims commit, and should further strengthen their commitment to the achievement of the socio-economic goals of Islam is that Islam made it part of faith itself to be an active member of the community and give back through giving zakat. In Islam, giving zakat is the fourth article of faith. There are several other ways of charity giving such as waqf that has also existed with the existence of Islam. A Muslim that adheres to the philosophy of Islam and commits himself to the guidance and behavioral norms of Islam is expected to exhibit altruism, humanism, and social responsibility (Sairally S. , 2007; Farooq, 2009). The three most important

characteristics of a Muslim are 1) strength of character, 2) strong bonds of brotherhood, 3) and incorruptible justice (Chapra, 1985). Faith and the practice of the Islamic teachings are fundamental to actualize HES. How both Sairally (2007), and Chapra (1985) describe a Muslim seems to be a good recipe to achieve not just HES, but also HS.

Chapra (1985), described how Islam aims at the roots of inequality rather than simply elevating some of its symptoms (meaning, as in capitalism). “It has incorporated into the faith itself some measures which would not allow an unjust distribution to take place. In addition, it has a built-in programme to reduce the remaining inequalities even further through zakāt, and numerous other methods to bring about a distribution of income which is humane and in conformity with its concept of human brotherhood.” (Chapra, *Toward a Just Monetary System*, 1985, p. 36)

For the fulfillment of the previously listed socio-economic objectives and goals, a socially responsible role was attributed to members of the community in previous literature that addressed this topic. Thus, Muslim individuals and Islamic finance institutions are expected more than others to care for community development in all its forms. The idea of integration between communities and individuals is not new to Islam. The Quran states that people were created as one nation (Q,10:19). Furthermore, drivers that restrain self-interest and selfish behavior, and motivate individuals to fulfill their social obligations are the idea of unity (*tawheed*), equilibrium (*al-adl wa'l-ihsan*), free will (*Ikhtiyar*), and responsibility (*fard*) that lie firm in the Islamic thought (Chapra, 2001).

The hadith narrated by *Abu Da'ud* is another motivation, where the Prophet (peace be upon him) says, “Paradise is the home of the generous” (Ghazi and Ghazi, 1991). Another verse from the Quran says, “By no means shall you attain Al-Birr (piety, righteousness, etc., it means here Allah's Reward, i.e. Paradise), unless you spend (in Allah's Cause) of that which you love; and whatever of good you spend, Allah knows it well” (Q,3:92). In another verse, the Quran says “they ask you, [O Muhammad], what they should spend. Say, “Whatever you spend of good is [to be] for parents and relatives and orphans and the needy and the traveler. And whatever you do good - indeed, Allah is knowing of it” (Q,2:215). Additionally, the Quran says “and from there is a right for the [needy] petitioner and the deprived (Q,51:19).

3.4.3. Islamic finance modes and activities with effect on community development

Islamic modes of financing finance real and asset-backed transactions, encourage productive enterprises, prohibit interest, speculation, and gambling, foster partnerships, and risk sharing. Thus,

Islamic modes of financing are intrinsically inclined toward growth and development (Ellahi, Bukhari, & Naeem, 2010; Sairally S. , 2007). The profit and loss sharing modes of Islamic finance, which are mainly *musharaka* and *mudaraba*, are specifically highlighted in the Islamic finance and banking literature to have a substantial effect on socio-economic development³⁵, and thus are strongly encouraged (Masood, 1989; Helis & Migdad, 2014). In addition, as emphasized earlier, the concept of *zakah*, *sadaqah* (voluntary charity), and *waqf* are recognized as empowerment activities (Daftara, Community Showcase S04 Ep63 waqf cadre training workshop, 2017), and have important roles in the welfare of Muslim communities (Cajee, 2017).

Other important Islamic financing modes are microfinance and *qard-hassan* which are being recognized as effective empowerment tools for marginalized local communities that have lower chances of securing financing from larger commercial banks, or even Islamic banks. Abdulrahman (2007) introduces various Islamic finance schemes for microfinancing based on *mudaraba*, and *musharaka* among other Islamic transactions that would contribute toward a more ethical economic development of poor micro-entrepreneurs in poor local communities. As for the *qard-hassa*, which has similar characteristic, and is simply a loan designed to serve the poor and help in financing local community entrepreneurs.

3.5. A shift to Islamic socio-economics

Although some scholars and researchers explained Islamic finance to be an act of community development in its self, thus Islamic finance institutions are expected to play a socially responsible role in community development (Dar, 2005; Daftara, 2017), others criticized the industry's operations to have failed to achieve the primary objectives of Sharia in Islamic economics (Asutay, 2007; Farooq, 2009). However, it seems that those that say Islamic finance is in itself an act of community development, seem to refer to theory, and those that refer to the failure of the Islamic finance industry seem to relate to practice. Therefore, there is a gap between theory and practice. Thus, a paradigm shift back to Islamic socio-economics is necessary because of the deviation from

³⁵ Refer to (Appendix 1) for a detailed business module that uses profit a loss sharing modes of financing to achieve socio-economic development, thus, largely participate in actualizing HES at grassroots levels.

mainstream Islamic finance institutions from their main objectives (Asutay, 2007; Farooq, 2009; Sairally S. , 2007). Here, it is important to remind that the socio-economic development role of Islamic finance and banking industry was reflected in its early beginning in the 1960's (Kahf, 1998; Helis & Migdad, 2014; Dar, 2005). A paradigm shift is possible, referring to the fact that Muslims remain firmly attached to Islam, and strive for an Islamic lifestyle (Chapra, 1985; Helis & Migdad, 2014).

3.5.1. The gap between the practice and the promise

Despite the fact that the early Islamic finance practices were socially responsible, and that the Islamic economic theory puts much emphasis on socio-economic development and community development in general, the general perception that Islamic banks are lacking recognized involvement in community development is actively present (Asutay, 2007; Farooq, 2009). The shift in emphasis from social banking to profit motives as a result of modeling the activities of Islamic banking is one crucial reason for the presence of a gap between practice and promise (Dar, 2005).

To clarify some of the reasons a gap exists between the practice and the theoretical promise in the performance of Islamic finance institutions especially in a contemporary setting, the degeneration of Muslim societies in different Muslim and non-Muslim countries around the world would be one of the problems.

"Due to the centuries of degeneration, the present-day Muslim society does not reflect the spiritual luster of Islam. Judged on the criteria of the three previously indicated most important characteristics of an ideal Muslim society, namely, strength of character, strong bonds of brotherhood, and incorruptible justice, the Muslim countries present an unsatisfactory picture, no less distressing than that in the rest of the world" (Chapra, 1985, p. 222).

Another reason for the gap is the fast growth of the Islamic finance industry and the entrance of many different players, each with different interest, and with varying professional backgrounds. After the 1960's, and as work began in the field of Islamic finance and with more players, more issues rose to the surface, and some of the newly practiced Islamic financial methods faced some suspicions (Helis & Migdad, 2014). Some researchers and scholars pointed that some of the

practiced Islamic transactions are not Sharia compliant and some other transactions rely on some of the weaker scholarly *fatwas*³⁶ to get certain transactions through (Helis & Migdad, 2014).

3.5.2. The importance of a paradigm shift to Islamic socio-economic means of development

The economic paradigm shift to Islamic socio-economic practices that elevate poverty and care for the development of the individual and the community by achieving their needs is defiantly an Islamic economic objective, but economists prefer to quantify variable, and that could be a bit of a problem. Zaman (2005) explains that the means and resources available have the potential to elevate poverty and end hunger, but economists find it difficult to function without numbers, and for the equations to work, *all-else-is-held-equal*, or is simply assumed constant. Economists are thoughtful of market reform and free trade, but not income-redistribution. Islamic banks have put more emphasis on market reform, rather than means of income and wealth redistribution, and that was a reason for criticism (Kahf, 1998; Asutay, 2007). Zaman (2005) further explains that his proposed new model for a paradigm shift that recognizes poverty in economic equations may not appeal to economists but believes that the lexicographic model can put poverty in a framework able to attract the attention of economists.

While the early Islamic finance institutions could be described as social finance institutions, today, a separation between risk sharing and for-profit Islamic banks, and Islamic NBFIs is essential. Additionally, the Islamic NBFIs cannot be described as social, financial institutions or pure Islamic Community Development Financial Institutions (CDFI), which begs the need for Islamic CDFI (Sairally S. , 2007). This suggests that none of the Islamic NBFIs are purely CDFI. However, this statement could be argued. The charitable, Zakah, and Waqf foundations are indeed Islamic CDFI that target community development, education, poverty elevation, and the provision of microfinancing for vulnerable community members turned down by larger banks, whether traditional or Islamic. Examples of such Islamic community finance organization is the National

³⁶ A Fatwa is an Islamic ruling regarding a certain matter given by one or a group of Islamic Sharia scholars.

Awqaf Foundation of South Africa among many other voluntary Islamic financial institutions that operate only for community development.

To put more emphasis on the importance of a paradigm shift from Islamic finance and banking as it exists today to more socially responsible financing, the primary objectives of Sharia in economics must be put before our eyes. Of the main fundamental Islamic economics objectives is to serve the individual, and to serve community development (Asutay, 2007; Farooq, 2009). As such, charity giving, in the form of *sadaqah* and *zakah*, or in the form of *waqf* existed with the existence of Islam to achieve socio-economic justice (Cajee, 2017). Those methods continued to exist but were overlooked, especially after the fall of the Othman empire. However, those methods were reinforced and developed along with other Islamic financing methods such as Islamic microfinancing to fill in the gap and put more emphasis on community development and socio-economic justice. This was precisely the case after the importance of such methods, especially *waqf* was recognized (Daftara, 2017; Cajee, 2017; Mohsin, 2014; Osman, Htay, & Muhammad, 2012).

The IVES is thought to be the most active in community development and the closest to the people, and waqf Foundations are also highly recognized in this field given their long history, and interesting recent development (Cajee, 2017). That is to say, voluntary Islamic finance practices were the primary practices, but today, the leading practices are those of Islamic risk sharing and profit-making banks and financial institutions. Furthermore, Daftara (2017) describes waqf to be empowerment, although it is categorized as charity in the voluntary Islamic finance sector. Additionally, Sairally (2007) calls for the establishment of Islamic CDFIs that would complete Islamic banks by providing social, financial services bigger banks refrain from delivering. All those are additional reasons for a paradigm shift back to Islamic socio-economic means of development.

3.6. The Islamic voluntary economic sector

Combining the contemporary scholarly thoughts, one could come to realize the importance of further developing and increasingly recognizing the potential of VIFI.

The VIFI mainly includes voluntary charitable acts by Muslims toward a specified or general charitable action. Those include *zakat* which is one of the five pillars of Islam and it is a donation by all Muslims equal to 2.5 % of one's annual wealth. The condition to make the payment is based on resources remaining after meeting the basic needs and requirements of one's family. *Zakat* "is a compulsory annual levy collected from the rich and distributed to or spent on the poor. Besides having religious importance, *zakat* plays a significant role in the socio-economic life of the Muslim community" (Islamic Relief Worldwide, 2014). Of the main concentration of *zakat* is poverty elevation.

Furthermore, the Islamic voluntary finance sector also includes *Fitr* charity which is a small amount of money given by every single Muslim during the last days of Ramadan, and before the Eid prayer which takes place during the first day after the end of Ramadan. In Japan, in the year 2016, it was estimated to be 1500 JPY. Another type is the general charity which is given by any Muslim at their own will for any charitable reason. Additionally, *Awqaf* is classified as a charity, where in fact it is not charity, it is empowerment (Daftara, 2017). *Waqf* is "An endowment made by a Muslim to a religious, educational, or charitable cause" (English Oxford Living Dictionaries). Today a *waqf* could be physical assets, or cash, and extends beyond religious, and educational causes; it includes infrastructure, health, research, transportation, and more. Beneficiaries are both Muslims and non-Muslims. However, in Malaysia, *waqf* is given by both Muslims and non-Muslims, and similarly, benefits are enjoyed by both (Mahamood, 2014).

"In the texts of the Islamic Sharia law, a *waqf* is a legal institution established by a living person (*waqif*, or founder) who holds a revenue property and renders the property inalienable in perpetuity, prohibited from sale, donation, transfer or inheritance" (Almanaseer & Matarneh, 2014).

3.6.1. The institution of *Waqf*

When looking at *Waqf*, it is an integral part of the Islamic history. Looking at the Islamic history and heritage, the Ottoman Empire and Palestine were a *Waqf*. The city of Madinah in Saudi Arabia is one of the founding places of *Waqf* system, and then it spread to the whole world (Cajee, 2017). Now the entire *Waqf* system is in revival mode attached to the development of the Islamic finance and banking sector. People have realized that the *Waqf* system, which is a foundation and a

cornerstone of the Islamic economy, needs to be now brought into the for-front as a social, financial mechanism, it is there, but it needs to be taking the lead once again (Cajee, 2017).

Additionally, the system of waqf is a developmental and empowerment tool that starts and serves at the grassroots level and establishes its way up. This makes it a vital tool that can contribute to the protection of HES. The local stakeholder's role in addressing the gaps in both community development and HES is not just important; it is indispensable. Malang (2008) explains that the main reason is that local stakeholders have most at stake, they are the most familiar with the gaps needed to fill and with the situation on the ground, and they best know how to solve it. "Not only must we engage them in program implementation but even more important, we must engage them from the very beginning – in program identification, design, and conceptualization" (Malang, 2008).

3.6.2. Overview of Waqf vs. Trusts

Waqf is one of the oldest charitable institutions in the world (Bremer, 2004). It existed with the existence of Islam; it was an empowerment tool (Daftara, 2017) specialized in providing support in specific directions, for specific causes in specified communities. Furthermore, awqaf exist in different forms, from traditional (land and real estate) to contemporary (cash waqf) modes of creation. Some of the awqaf that exist today are an extension of historical waqf donations from the time of prophet Mohammad, such as *al-Rummah well* in Madena. In the following, a few examples will be given from history to clarify types of waqf, and after that concentrate on awqaf development in Malaysia. The act of waqf donation that was influenced by the faith of Islam was introduced to Malaysia around the fifteenth century (Mahamood, 2014).

Umar Bin-al-Khattab acquired a piece of land in *Khibar* and consulted with prophet Mohammed peace be upon him, and the Prophet directed *Umar* to make a waqf, so the property (the asset) became a *waqf*, and he dedicated part of the produce for his descendants, and another part for general charity (hadith narrated by *al-Bukhari*). The act of waqf was then practiced by the profit companions. As narrated by Anas ibn Malik, Abu Thalhah was one of the wealthiest companions who owned a date garden, after the revelation of the verse from the Quran "you will not attain complete righteousness, before you give some of your beloved belongings" (Q. 3:92), Abu Thalhah came to prophet Mohammed to give the garden as *sadaqa* (charity), he gave in as a waqf charity,

and the profit directed him to specialize its benefit to his family and relatives. Therefore, it becomes clear that one's wealth could be given as charity in the form of waqf, and the produce of which could be spent in multiple directions including, family and relatives, friends and residents of a specified area, and generally for the poor.

The institution of waqf began to develop in the first Century AH and assumed a vivid legal form in the Second Century AH (Hasanuddin & Khan, 1997). From Medina, where the institution of waqf originated, and the previously mentioned examples existed, the idea of waqf spread all over the world. Today both waqf and trusts are similar, and it is most simple to explain a waqf by referring to the English Trust. Many works of literature talk about waqf and describe it, and some other research talks about waqf vs. trust, similarities and differences, and which of both originated first (Avini, 1995; Cizackca, *Waqf vs Trust*, NA; Gaudiosi, 1988).

“Having lost all contact with Rome, Medieval Europe had to become acquainted with philanthropic endowments through the Islamic waqf system” (Cizackca, *Waqf vs Trust*, NA; Hasanuddin & Khan, 1997). Cizackca indicates that the previous statement is attested to by Monica Gaudiosi (1988). She concludes after several tests and examinations of other views that the Islamic waqf constitutes the origins of the English trust, or what was known as the Use, or Uses (Gaudiosi, 1988). Similarly, Avini (1995), Hasanuddin & Khan (1997) examined the numerous theories that talked about the origin of the English trust, or Use, including the Roman Fideicommissum, the Germanic Salmannus, the hybrid Romano-Germanic, and the Islamic Waqf, and this was the conclusion reached:

“However, if an outside paradigm for the English use is to be located, the Islamic waqf's parallel structure and historical proximity indicate that it was the waqf which most prominently influenced the development of the use This Comment demonstrates how the two devices are so parallel in purpose, theory, and structure that it can hardly be accidental that the Waqf did not inspire the trust” (Avini, 1995)

Given both awqaf and trusts have mostly similar common origins, both institutions have a similar basic structure. Cizackca (NA) explains that under exceptional circumstances, this similarity has been utilized by Muslim minorities in predominantly Christian cultures where a waqf law is not present. South Africa is a good example where Muslims establish their waqf institutions under the law of Trusts in South Africa. The AMAL (Association of Accountants and Lawyers for Islamic law) has identified the following similarities and differences between the South African Trusts and

Islamic waqfs (Proceedings of the Seminar on Management and Development of Awqaf Properties), as found in (Cizakca, Waqf vs Trust, NA):

Table 3-1: Waqf vs. Trust

Waqf	Trust
Charitable and has a religious motive	No religious motive needed
The founder may be the beneficiary (only under Hanafi law).	The founder may be the beneficiary
Ultimate objective must be the benefit of mankind.	Any lawful objective will do
Property vests in Allah	Property vests in the trustee
Mutawalli, only a manager	The trustee has larger power
Perpetual, cannot be terminated under any circumstances	Need not be permanent. Can be terminated as stipulated in the trust deed.
Irrevocable	Revocable
Corpus is immobilized	Corpus is immobilized
Usufruct is used for the benefit of mankind	Usufruct is used for the objective stated in the deed

Source: AMAL, as found in (Cizakca, Waqf vs Trust, NA)

Nonetheless, and regardless of its origin, Awqaf's role in development is undeniable. (Bremer, 2004) Awqaf have played an important role in the development of Muslim communities throughout history. (Cajee, 2017) Several times witnessed better and worse performance according to the rulers and leaders of a given area in a given period. Both Muslim country leaders and colonial leaders of Muslim countries have misused the property of Awqaf. From Mehmet II in the 15th Century to Gamal Abdel-Naser in our time (Bremer, 2004), awqaf property have been deteriorating and not used where it was supposed to be. "The British in Malaya had the benefit of their experience in India in suppressing awqaf" (Stibbard, Russell, & Bromley, 2012). Other reasons include what the Quran describes in his study on awqaf:

"The three motives discussed thus far (for awqaf are) -piety, status, and politics - do not exhaust the pertinent factors. For some founders, perhaps most of those other than sultans and members of their households, the main motive was to shelter wealth. What fueled this fourth motive was that the Islamic world never developed effective safeguards against opportunistic taxation or expropriation" (Kuran, 2001, p. 854)

However, with the rise of Islamic finance as a strong financial industry that changed the financial habit in lots of countries, the term waqf recovered and became much more recognized. The recognition of waqf as a mean with the potential to develop communities, elevate poverty, enhance education, and more, came at a time where all those aspects of life were a challenge facing Muslim

and poor countries. Today both state and non-state actors pay attention to waqf. Whether is old waqf property, by further developing them, or spreading awareness among people to donate in that direction. The reason why a foundation such as National Awqaf Foundation of South Africa has not just popularized the concept of waqf, it has acquired 30 million USD over a few years in waqf donations, and now they are aiming for a hundred million USD (Collier, 2015). As for some countries like Malaysia, and most Muslim countries, they have either a ministry of Awqaf or a specialized official government office that looks over waqf property and operations in the state.

3.6.3. Types of waqf

Islam has provided highly structured religious foundations called waqf. However, not all waqf have strictly served religious purposes although it is a foundation based on religious structure. Waqf has a huge contribution to social services (Pitchay, Meera, & Saleem, 2014). A study for Quran (2001, p. 854) discussing waqf pointed out that motives for donating a waqf were piety, status, and politics. Those reasons and motivations, along with others fall into three main categories and types of waqf.

- Charitable, or khayri Waqf, (waqf ‘am)
- Family or ahli Waqf (waqf khas)
- Common Waqf (waqf mushtarak)

The first type of waqf is charitable waqf, in Arabic (*‘am*), simply meaning public, or general, and both meanings explain the purpose of this waqf. The donor of the Waqf, or the founder, in Arabic called (*waqif*), at the time of donating, he declares his donation to be a charitable waqf. This could be strictly religious, only used to build, develop, or maintain places of worship. Or a general waqf could be similarly used for healthcare, education, or cultural services (Almanaseer & Matarneh, 2014). More simply put, a general waqf is one dedicated to general welfare without specifying any particular beneficiaries, or specific purposes (Mahamood, 2014). This type of fund was known to all nations and practiced by most civilizations, and this type of waqf makes the majority of the similarities between a waqf and the English trust (Cizakca, Waqf vs Trust, NA; Gaudiosi, 1988; Almanaseer & Matarneh, 2014).

In contrast, family waqf, or specified waqf, in Arabic (*khas*), must be specified in terms of beneficiaries and purpose (Mahamood, 2014; Almanaseer & Matarneh, 2014). Thus, under this

form of waqf, the *waqkif* will identify the beneficiaries and the purpose. This type of waqf goes beyond the knowledge of previous nations in the field of donations and creating trusts (Almanaseer & Matarneh, 2014). The third type of waqf is the common or joint waqf, where the founder (donator) of the waqf dedicates it for both types.

3.7. Conclusion

Chapter 3 showcases the important stages of the development of Islamic economics. Throughout the chapter the case has been made that the objective of Islamic economics is to contribute to human well-being, that is, to play the role of an enabler; one that empowers and liberates freedoms. There are two main points. The first being the central role of religion, even in economics. When connecting the logic presented in the following two figures one would realize the centrality of religion. Figure 2-1: Framework, Protecting Human Security, the Islamic perspective focuses the spotlight on the role of Islam in achieving HS, even as it was presented by the UN, and Figure 2-3: Achieving HES in Islam) shows that even the most fundamental economic problems such as poverty and unemployment require faith to be part of the solution.

This chapter explained how the Muslims economies were empowered by both the institution of waqf and zakat. However, that is no longer the case. The replacement for those two institutions was Islamic finance or the IFBS as we know it today. The IFBS remains small in all the world's economies. Furthermore, this sector primarily functions to generate profit, and while doing that they try to showcase their performance to be in the service of Muslims. This argument is not the subject of this discussion, but it was brought up to remind of the gap between the current Islamic financial performance and the promise.

The second point connects to the finding of the IFBS as we know it today. Despite the sector's profit-driven strategies, its finding was by religious institutions such as Al-Azhar in Egypt. The call was to establish financial institutions that serve the Muslim's financial needs through Islamic financial transactions. Relating Figure 2-1 to the original inspiration of the IFBS, the sector should serve the Muslim's financial needs by providing financial facilities through Islamic mechanisms. The Idea HS presents is valuable because it prioritizes the security of the individual, and the idea

of HES is also valuable because it prioritizes the financial security of the individual. Furthermore, connecting the ideas of HS and HES to Islamic Economics is novel, the value of each of the three subjects is in the unique contribution each presents to achieving human well-being. However, reality indicates that there is a gap between theory and practice, but with regard to Islamic economics, evidence indicate that the gap is narrowing down.

CHAPTER 4

History of Malaysia and the nation's new Image

4.1. Introduction

Malaysia focuses on physical development; infrastructure, buildings, industries, and making sure the economic indicators showcase the countries status as a developed nation. However, what does that mean for HES if the Malaysian development neglects human development? Human development needs to catch up with the countries physical development in different sectors. In Malaysia, HES relates directly to economic justice, ethnic diversity, and therefore, government policy; particularly economic policy. While those indicators relate to economics, they also relate to human development which should be a higher priority.

The Malaysian experience in development is unique because the pre-condition for a successful development process in Malaysia was achieving national unity, economic justice, and redistributing economic resources. After an extended period of colonization by different occupations, historical Malaysia changed in different ways such as demographics, the role of religion in governance, and also the economic mindset changed. Demographically the country was resided by Malay and some other *bumiputra*, but over the period of the British Occupation, many Chinese were brought to the lands of Malaya to work for the benefit of the British Occupation. The Indians were also brought to serve in different sectors, and over time those two ethnicities became a reality on the ground. The essential condition for Independence was the settlement of the Chinese and Indians in the Lands of Malaya.

Despite having older civilizations than the Islamic civilization that started in the state of Malacca in the 13 centuries, Malay people are proud Muslims. They do not refer back to the older civilizations; it is as if history starts in the 13th century in Malacca.³⁷ With the British Occupation, secularization took place more dominantly, especially in politics. Years after the independence from the British Occupation secularism in government and policy-making was dominant, and religion was limited to ceremonies and special events as well as in people's individual lives. However, after the 70s and 80s, Islamic thought became more dominant in governance and policymaking. That had always been the choice of the majority and that same choice was the source

³⁷ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

of power to the government that adopted more Islamic laws especially in economics and became more dominant.

So Islamic thought was marginalized after dominance and now more present after a while of marginalization in the political arena. From the 70s up, many government policies connected to Islamic thought, and most recently in Islamic economic policy. Additionally, the dominating political parties are Malay parties. And those parties are Islamic parties although they do not explicitly identify themselves with Islam. The observer of their charters, objectives, and vision, would quickly realize that they are established on Islamic foundations.

Changes in Malaysia after independence were strongly interrelated. Changes are reactions to previous circumstances and are driven to maximize gain. The demographic change before independence was imposed by the colonial powers to protect their interests that live to this day. That change was accepted by the Malay at the end of the 50s to gain independence. The continued presence of the British colonial effect largely contributed to secularization, at least in the political middle. From the time of independence to the 13th of May 1969 ethnic clashes, the Malay and bumiputra lived in poverty, wealth was controlled by the Chinese, and the government was controlled by the Malay. The root of the problem being economic injustice and deep-poverty for the original people of the land, a critical consequence of this incident was the New Economic Policy (NEP). From the 70s up, government policy and economic policy started to favor the Muslim Malay majority on different levels. The official government justification was to achieve economic justice and focus on equity.

Islamic capital existed even before the political and economic Islamization process, before the 70s and even before independence. Real economic development was planned in the 70s and started in the 80s where some corporations and industries were established or developed. Examples are *Tabun Haji*, *Khazanah*, Bank Islam, and Bank Muamalat. Also, government projects like Feilda and Petronas were additional reasons for economic development. Those government-led developments were instrumental in narrowing the economic gap by uplifting the Malay economic livelihoods.

The Islamization of government policy benefited the economic development of Malaysia on many levels. There were acts of Islamization to government and policy that mainly started in the 80's

during the time of Prime Minister Mahathir Mohammed. He introduced the Islamic council, Islamic ethics into government practice, and introduced Islam as a positive source for economic development. After that, Prime Minister Badawi introduced *Islam Hadari*³⁸ (translated as modern Islam). During the same time, the IFBS developed as the local economy developed and as Islamic foreign capital was invested in the country.

On a more practical side, government economic policy was very beneficial to the country's economic development, and the Islamization of government policy had a leading role in economic development and that logically leads to achieving HES.

“The main reason for incorporating Islam into the government and in economic development was to involve the Malay Muslims into the economic development process and make them have a share in the economy. Now, and after all that effort, they own about 25% after only owning about 4% in 1964. The connection of Islam to economic development was in large positive for a number of reasons. 1-motivate the majority of people to be involved in the economy, 2-more importantly it attracted Muslim capital especially from the Gulf countries, Bank Al-Tamweel Al-Kuwaiti, Alrajih Bank, and up to 6 million Muslim tourists each year.”³⁹

4.2. Historical overview: the centrality of ethnicity

The story behind today's ethnically diverse Malaysia goes back to the time of the British Occupation to the land of Malaya as it was called then. The multiple ethnicities in Malaysia were forced by the British Occupation before the country's independence in 1957 as a multi-racial Federation. The Malay accepting the inclusion of the other ethnicities in their country was the primary condition for independence. At this time, the Malaysian population includes a large number of the second and third generation of the non-indigenous people “from the Southern part of China and India, who were brought as manpower for labor at plantations, mines, mills, and docks owned by the British” (Orenstein, 2009). The year 1969 was another milestone in the history

³⁸ Islam Hadari: the term literally means “Civilized Islam”, the use of the term is rather problematic because it assumes that there is un-civilized Islam, but that is not the intention. The term introduced by PM Ahmad Badawi who succeeded PM Mahathir Mohamed. It simply refers to the Malaysian government intention to follow a middle ground in Islamic understanding and implementation, to be accepting of others and open for development and partnerships. As explained in chapter 5 in more detail, despite the difference in political affiliation and views between the different Malaysian prime ministers, the intermediate Islamic view initiated by Mahathir Mohamed continued present in the Malaysian government, today, with more focus on Islamic economic development.

³⁹ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

of Malaysia after independence. That year witnessed ethnic tensions in the form of violent riots that broke in Kuala Lumpur and have shaped the governments political, economic, and social policies to this day (Hooker, 2003). Of the central economic policies that came in the aftermath of that riot was the NEP. Even today's planning for the nation's 20150 vision is based on those benchmarks established after 1969.

The early history of the Fourteenth Century: in the early history various civilizations existed in the historical land of Malaysia. Historians believe that during the early history trade with China, India, and the Middle East helped create economic linkages and connect cultures. Most of that trade was exchanged on the Strait of Malacca; that historical placement of the State of Malacca is what established importance and relevance of that location.

“Among the most powerful and enduring early kingdoms was Srivijaya, which ruled much of Peninsular Malaysia from the seventh to the fourteenth century with support from China and the Orang Laut (“men of the sea”) who originated from Peninsular Malaysia and were perhaps the region's best sailors and fighters. By the fourteenth century, Srivijaya's dominance had ended because it lost Chinese support and because it was continually in conflict with states seeking to dominate lucrative trade routes. As for the other region of Malaysia, Borneo, evidence suggests that Borneo developed quite separately from the peninsula and was little affected by cultural and political developments there. The kingdom of Brunei was Borneo's most prominent political force and remained so until nineteenth-century British colonization” (Library of Congress, 2006).

Malacca Sultanate and Malay identity: “Early fourteenth century Port of Malacca was founded by renegade prince Iskander Shah, purported to be descendent of Alexander the Great, and who soon converts to Islam” (Aljazara, 2013). The commencement of current Malaysia often relates to the fifteenth-century establishment of the Melaka Sultanate (Malacca) on the peninsula's west coast (Library of Congress, 2006). It is often repeated that history starts with the Melaka Sultanate for the Malay because it was a vital point for the spread of Islam (Hooker, 2003, p. 6). Furthermore, the Melaka Sultanate established the ideological foundation for the Multi-ethnic contemporary Malaysia because of the following:

“Through the determined efforts of its early rulers, Melaka became a dominant power and created a Malay Empire. Melaka became an international port city and a magnet for traders from around the world. Some of these adapted to local conditions settled down and served the government which thus evolved into a cosmopolitan society. Government, power and the right to rule were the preserve of Malays... Foreigners in Melaka included Arabs, Gujaratis, Indians, Siamese, Chinese, Japanese, Cambodians, Persians, and Malay communities from throughout the archipelago” (Hooker, 2003, p. 6).

Notably, during the early times of the ruling of Melaka Sultanate, cooperation in the form of protection for other entitlements took place between a Chinese admiral and the Sultan. That

allowed the expansion of the sultanate; Malay becomes the official language, and Melaka becomes an important Islamic center.

*Colonial Rule*⁴⁰: Multiple colonial powers took turns in calming Malaysia under their rule. 1) The beginning of the fifteenth century Portugal makes the first European colonial claim on Malaysia. It is important to note that a colonial power may make a claim only by capturing Melaka Sultanate. 2) The mid-Sixteenth Century Dutch East India Company and local allies take over by controlling Melaka Sultanate. 3) The seventeenth century is significant because now the land is known as “*Malaya*,” more economic clout associates with Melaka as British trade with China expands. Tin and gold bring a combination of Arabs, Indians, and Chinese immigrants who soon control business. 4) The late seventeenth century and eighteenth century witnessed the “establishment of British colonies and trading ports on the Malay Peninsula, and Penang is leased to the British East India Company.” 5) Mid-eighteenth century, 1857, “Modern-day Kuala Lumpur is founded as a trading post for immigrant miners, and becomes capital of Federated Malay States in 1896.” 6) Mid-nineteenth century Britain prepares for war, Japan strikes, Singapore fell in February 1942. 7) The three years of Japanese Occupation where ethnic tensions peak and nationalism grow are followed by the American atomic bomb on Hiroshima which allows the British to retake control. 8) The year 1946 witnesses the establishment of United Malays National Organization (UMNO) founded by Onn bin Jaafar and seeking independence. 9) In 1957, the Federation of Malaya was independent.

The development of Bumiputra: the term Bumiputra which is widely used in Malaysia first appeared in 1965, a year before the First Malaysia Plan was implemented. The first plan focused on promoting the welfare of all, especially the poor rural Malays. To make that happen, the formation of a special Bank Bumiputra took place in 1965. The word means “son of the soil” or “indigene,” it refers to the original people of the land. The natives of Sabah, Sarawak, and the Malays became widely known as the Bumiputra (Hooker, 2003).

The independence of the Federation of Malaya: UMNO was created after a growing wave of nationalism that occurs after an aggressive Japanese rule. This nationalist group seeking

⁴⁰ This timeline is mainly based on Aljazera’s historical timeline of Malaysia

independence from the British who took over after the American atomic bomb, but they will only tolerate a state dominated by ethnic Malays. However, the reality is other ethnicities cannot just be expelled from the Federation. Multiple British colonies join the Federation of Malaya to form the Federation of Malaysia.

The 1969 violent race riots: Kuala Lumpur has been central for a long time in the history of Malaysia; this city is full of different ethnicities. As a result, the riot left hundreds dead. According to some historical references, the separation of Singapore was over ethnic issues, and after the separation, the ethnic issues continued to simmer between the Chinese and the Malays. A dispute during the 1969 elections was the trigger point for the two-week riot which led the government to declare a state of emergency and pass laws against questioning governing institutions and Malay's special status (Library of Congress, 2006, p. 6). A connected argument explains that despite ethnic tensions were key to the eruption of the riots; it was also the failure of the parties in the ruling coalition to answer to their neediest constituents (Hooker, 2003, p. 230).

Kuala Lumpur was flooded with anxious people seeking safety, and over 15 000 refugees crowded into the city's stadiums. It was a week before a sense of order was restored and isolated outbreaks of violence continued to be reported until the end of May when the worst of the rioting had passed. Official figures at the end of May were 177 killed, 340 injured and 5750 arrested, but unofficial figures were higher. Although it was announced that the Alliance had won the elections at the federal level, and although it was known that in several states the Alliance had done quite poorly, in the public's mind the need to restore order and public safety assumed top priority and far overshadowed electoral matters (Hooker, 2003, pp. 231-232).

Mahathir Mohamed: Dr. Mahathir Mohamad became prime minister 1981 when the economy was devastated and grows at low annual rates. Occupying that office raised the concerns of the Chinese and Indians who viewed him as a cheerleader of promoting Malays privileges. However, that was not quite the case.

“Mahathir's early years in office were marked primarily by attempts to prevent official corruption and by success in increasing the power of elected officials relative to Malay rulers. Mahathir also ambitiously pursued economic reforms, such as orienting the economy toward the production of export goods, promoting joint ventures with Asian firms, and privatizing many state industries, which often were taken over by ethnic Malay-controlled corporations” (Library of Congress, 2006, p. 7).

Mahathir's success was derived from the aggressive pursuit of his policies, he was often viewed as uncompromising, yet throughout the years that followed his time in office, he led UMNO and the National Front (Barisan Nasional—BN) to successive election victories. There is broad consensus that this man is the leader of growth and the one able to successfully secure the transition

of Malaysia from being a fragile state into a stable developing economic power in the region. "Under Prime Minister Dr. Mahathir Mohamad, one of the longest-serving political leaders in Asia, Malaysia's society and urban landscape were transformed" (Hooker, 2003, p. 241). In 1997 Asian nations were affected by an economic crisis that has substantial and growing global implications. However, before the crisis, Malaysia had already restricted external borrowing, and by doing that the nation avoided an economic catastrophe that hit neighboring countries.

The fruits of the NEP that started in the 1970's were realized by a wide strip of urban middle-income class during the Mahathir office and believed they owed their economic security to UMNO which generated an increased wave of support to Dr. Mahathir Mohamed. The logic of those recent historical events, their development, and consequences are broadly understood today. One analysis explains that the development of the economic security of the majority would naturally pave the way for more extensive national development. This is the argument of Amartya Sen that writes about the importance of removing unfreedoms to liberate more freedoms. By widening the range of freedoms people enjoy, development happens.

A contemporary presentation of History: Certain facts in history are not placed in the contemporary presentation of the Malaysian history. This is the case because a sense of a united nation needs to be recognized, accepted, and the national identity must come before the ethnic identity. This is the national government goal alongside with economic justice. However, from the British colonial administration until the 1969 ethnic riots, the ethnic identity prevailed, and ethnic tensions mounted until they broke. Today ethnic tensions do not exist, but the ethnic identity remains superior to the national identity, a reality the government must continually deal with.

The Museum of National History does not record the 1969 ethnic riots although that event shaped the government's political, economic, and social policy to this day (Hooker, 2003, p. 10). This unrecognition was one of the consequences of a major program to devise a national identity of unity. The belief that a feeling of a shared past and having a stake in a better future would lessen the past tensions. This plan is widely working. However, the government needs to think about the new generations that have overcome the issues of the past, and their current issues and challenges. The feeling that opportunities are not presented equally to the people of the same country by the national government is a reason to raise the question and go digging for answers.

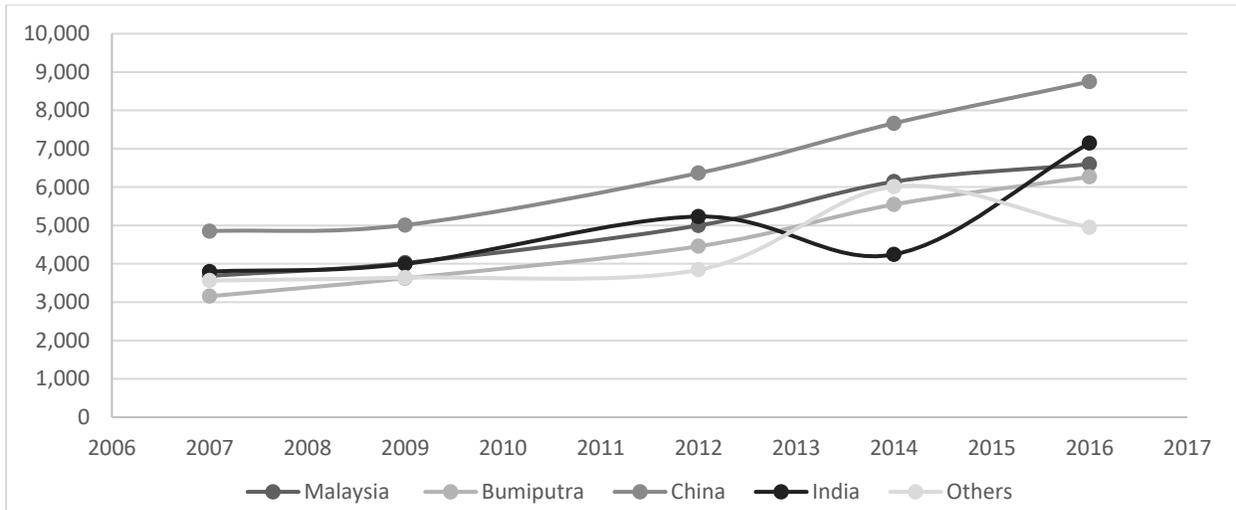
4.3. Demographic, ethnic, and economic statistics

In this section, a number of relevant variables related to HES are discussed, which also help to understand the demographic and ethnic situation, the political and government situation, the economic policy, and the Islamic economic sector of the country. There is a difficulty in addressing each component separately as they are all interdependent and very much interrelated. However, each of the variables is explained separately as much as possible to draw on specific effects, then elaborate on the broader picture.

Human population, size, distribution, and ethnicity in Malaysia are essential to HS, and in particular to HES when it comes to economic justice. The distribution of population on the lines of ethnicity is essential for wealth and economic justice in the country, and therefore essential for HES for all Malaysians especially at a lower grassroots level. Before the independence of Malaysia and during the first few years after independence, the economic wealth distribution was almost entirely in the hands of the Chinese, and it was reported that the Bumiputra who represented about 60% of the population owned no more than 2.4% of the economic capital in the country and suffered a poverty rate of 49.3%.⁴¹

⁴¹ (EPU, 2017), "The poverty rate declined from 49.3 percent in 1970 to 16.5 percent in 1990 and reduced further to 1.7 percent in 2012. ... In terms of corporate equity restructuring, 63.3 percent of the corporate equity in Malaysia was owned by foreigners in 1970, while the Bumiputras owned 2.4 percent."

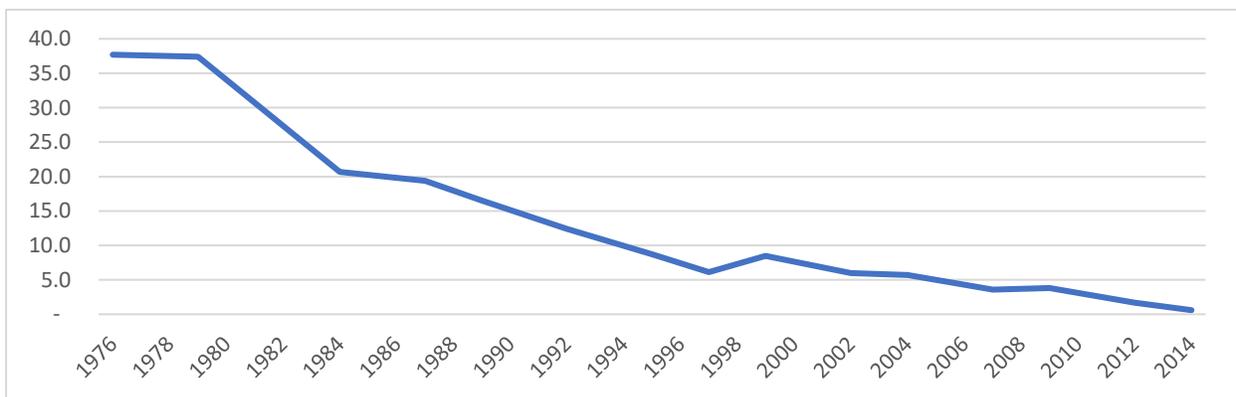
Figure 4-1: Mean monthly household income (RM) by ethnic group, head of household



Data source⁴²: Department of Statistics Malaysia, Statistik yearbook Malaysia 2016

Observing the average household income for the different Malaysian ethnic groups, the Bumiputra remains at the lower end according to the 2016 statistics. The Malaysian average household income in 2016 was 6598 RM, and the Bumiputra household income average was slightly less at 6267 RM per month. The Chinese household income is what drives the national average up as it reached 8750MR per month in 2016. This is another indicator that the Chinese economic well-being is better than the national average.

Figure 4-2: Poverty headcount ratio at the national poverty line (% of population),

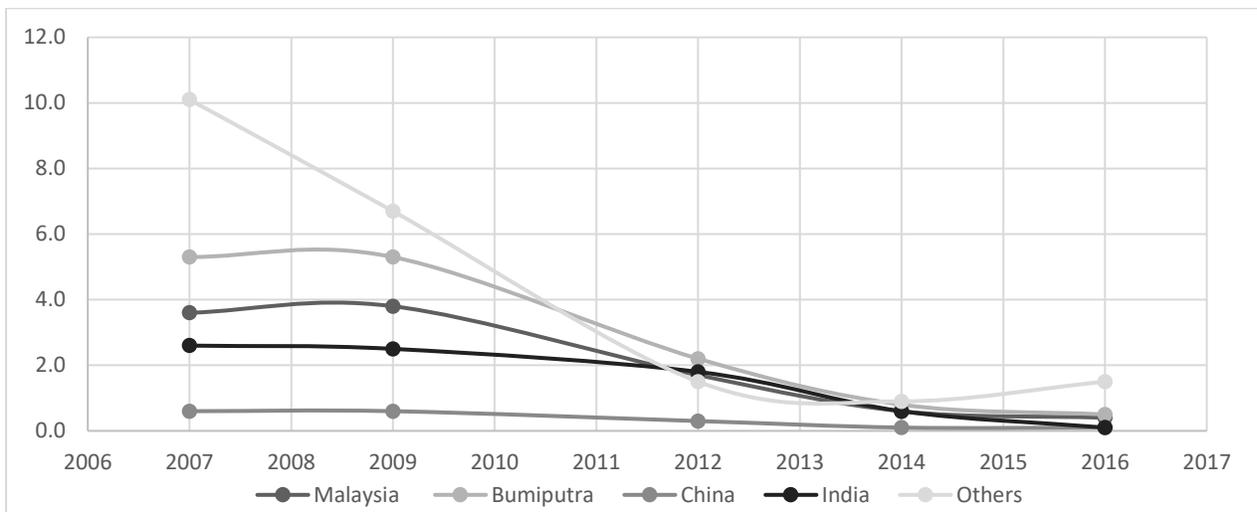


Data source: Department of Statistics Malaysia, Official Portal, Time series data, National Poverty line % of population (2017)

⁴² Each time the term “data source” is used, this means the figure or chart is created by author, and the data are sourced from the source mentioned.

The figure above showed the national poverty line from the year 1976 to the year 2014. The figure illustrates over 35 years of the Malaysian poverty line as a percent of the population. This illustration is an indicator of success. Figure 4-3 shows the difference in the percentage of poverty among each ethnic group. Of the major ethnic groups, the Bumiputra remains on top of the chart for suffering highest poverty rate. However, the poverty rate of the other minority groups in Malaysia has been increasing along with the increase in their numbers as a percentage of the total population. This represents a new phenomenon in Malaysia because the majority of those minority groups are refugees from the middle-east and other Asian countries such as Myanmar.

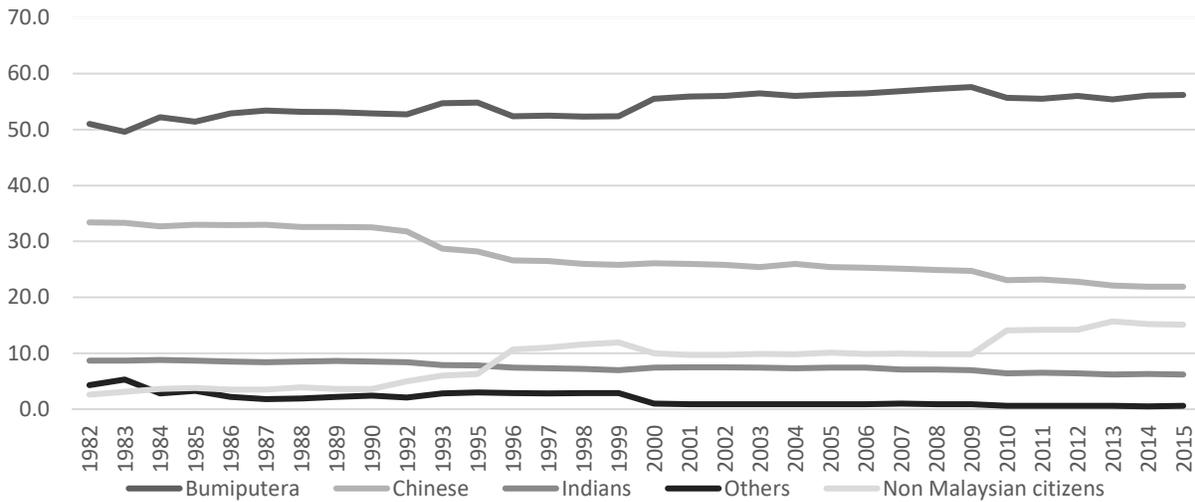
Figure 4-3:Poverty (%) by the head of household and by ethnic group



Data source: Department of Statistics Malaysia, Statistik yearbook Malaysia 2016 (StatsMalaysia, 2016)

Figure 4-4 illustrates the percentage of employed persons by ethnic group in Malaysia. The outcome is interesting with regard to the Chinese because we saw that their household income is the highest and is consistently increasing but their employment rate is constantly decreasing. This outcome could hold several meanings; 1) the Chinese work in family businesses and do not register all employed persons in the business, 2) their employment rate could actually be decreasing, but their income is increasing at a substantially higher rate. The increase in the Bumiputra employment rate could be explained by government policies with direct reference to the NEP. Another interesting trend in the figure is the increasing employment rate of the non-Malaysian citizens which reached over 15% in the year 2015. The observed reason is the positive effect of skilled foreign labor on the Malaysian growth (Ismail & Yuliyusman, 2014).

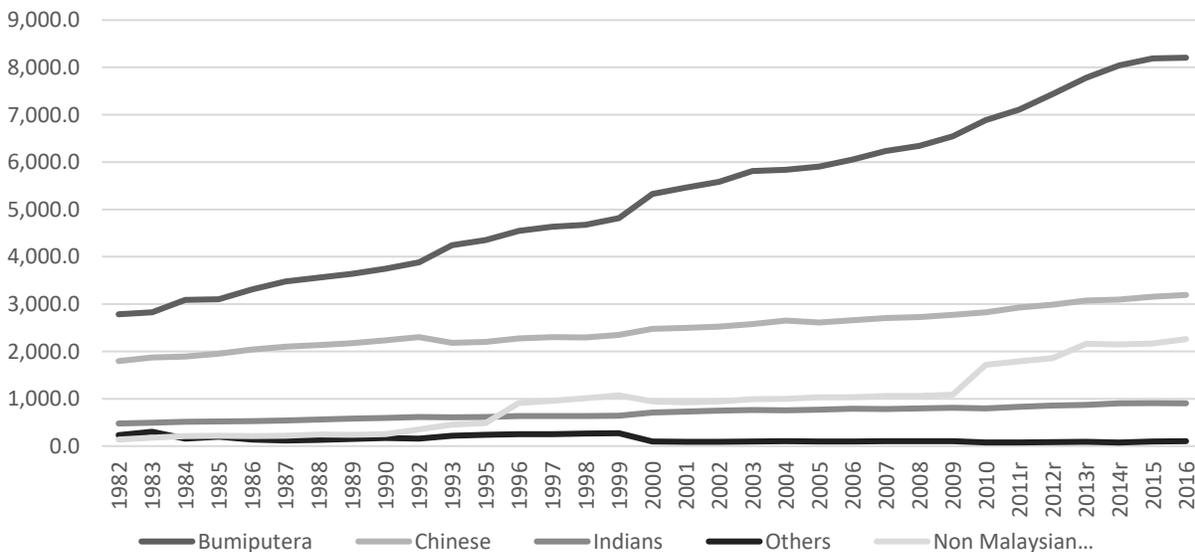
Figure 4-4: Percentage distribution of employed persons by ethnic group, Malaysia, 1982–2015



Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

Labor force naturally increases as Figure 4-5 illustrates. The most significant growth of the labor force is among the Bumiputera, and their employment rate is also increasing, but at a lower rate, as shown in the figure above. In both figures the employment distribution seems representative of the labor force of each ethnic group. That logic favors the federal government in explaining its position when it comes to its NEP as explained in the following section.

Figure 4-5: Labor force by ethnic group, Malaysia, 1982–2016



Data source: Department of Statistics Malaysia, Official Portal, Time series data, Labor force by ethnicity (2017)
 r: The 2011-2014 statistics were updated based on the population estimates of the respective years.

4.4. Policies of development for economic justice and national unity

There are a number of policies related to the country's economy, starting from the 1971 NEP, the NDP in 1991 – 2000, 2001 witnessed the creation of the Malaysian vision 2020, and all those plans were part of 5-year strategic planes that were planned for and started during the end of the 60's to end on 2020. During this time, also Islam Hadari was introduced, and with 2020 approaching a new 2050 strategic plan is being shaped. Those were economic policies and planes that were driven to make economic development while favoring the Bumiputra to reduce the economic gap between the ethnic groups. Additionally, there were a number of bodies and processes that had the goal of increasingly incorporating Islamic thought into government practices. During the Mahathir Administration, the Islamic Consultative Body (ICB) was introduced in 1981, followed by Assimilation of Islamic Values (AIV) late 1981, and those were part of Mahathir Mohamad's plan to present Islam as a positive contributor to the development of the nation on all levels including the economy of Malaysia.

“While the sources of Al-Qur'an hadith and Sunnah of the Prophet give us guidance, details must be deduced through the use of aql... Islam gives us flexibility... In Malaysia, our administration is not against Islam and takes into consideration the environment specific to Malaysia” Dr. Mahathir Mohamad, 27 Sept. 1985.

“There are many institutions and activities and services in the economy which do not carry Islamic labels and nomenclatures. They are no less important, from an Islamic point of view, than specific institutions with Islamic appellations... What is important in evaluating these institutions and activities is whether they serve the interests and needs of the ummah... to enhance the quality of life and wellbeing of the ummah” Anwar Ibrahim, Minister of Finance, July 1992.

4.4.1. Economic policy and planning

Economic policies in Malaysia have been employed well over the past years to serve national development in all sectors, and uplift the nation's global placement with regard to economic development. The following section presents policies enacted since the beginning of modern Malaysia until the year 2050, the next long-term national plan.

The 5-Year Malaysian plans

Planning by the Malaysian government was sophisticated and highly successful in terms of implementation. The government began planning right after independence with the first plan

starting in 1975, the year of independence, and a second 5-year plan took place and ended during the year 1966. The second phase of planning started in the year 1966 to lead to the year 2020. The interesting part of the starting date was it started 3 years before the 1969 ethnic conflict which poses as a landmark for government change in policy towards more economic policy favoring the Bumiputra. This indicates that the government was on a track of change, but the people's feelings of injustice could not wait long before exploding. The government planes continued with more intensity, and a number of essential policies were enacted during this time. Planning took three stages, short, medium, and long-term planning. The short terms were annual budgeting, the medium was a mid-term review and 5-year development plans, and the long-term was Outline Perspective Plans (OPP).

Table 4-1: 5-year Malaysian plans

Five Year Malaysia Plans	11 th Malaysian Plan	2016 – 2020	OPP 4
	10 th Malaysian Plan	2011 – 15	
	9 th Malaysian Plan	2006 – 10	OPP 3
	8 th Malaysian Plan	2001 – 05	
	7 th Malaysian Plan	1996 – 00	OPP 2
	6 th Malaysian Plan	1991 – 95	
	5 th Malaysian Plan	1986 – 90	OPP 1
	4 th Malaysian Plan	1981 – 85	
	3 rd Malaysian Plan	1976 – 80	
	2 nd Malaysian Plan	1971 – 75	
	1 st Malaysian Plan	1966 – 70	
	2 nd Malaysian Plan	1961 – 65	Pre-independence
	1 st Malaysian Plan	1957 – 60	

Source: author illustration

The New Economic Policy

The most significant change happened in the 70's when the NEP was adopted in 1971 following the racial riots of 1969. NEP began with the second Malaysian plan (1971 – 1975), and each plan is scheduled to last five years. The NEP existed until the fifth Malaysian plan (1986 – 1990).

The NEP had three primary objectives

- National unity and harmony
- Socio-economic restructuring
- Poverty eradication

The overriding goal was national unity, to achieve this goal, a number of strategies were adopted (EPU, 2017).

- To reduce and eradicate absolute poverty irrespective of race through raising income levels and increasing employment opportunities for all Malaysians; and
- Direct intervention by Government through the creation of a specialized agency to ensure a more Bumiputra active participation in the economy and sustainable equity ownership;
- Introduction of specially designed rules and arrangements, whereby the involvement and participation of Bumiputra are assisted and facilitated over a period;
- Provision of concessional fiscal and monetary support as part of the package towards entrepreneurial development;
- Accelerated program for education and training;
- Increasing Bumiputra ownership through privatization projects; and
- To create balance in the workforce that reflects ethnic's composition through a more equitable economic growth

Table 4-2: Stages to Vision 2020

LONG-TERM PLAN	New Economic Policy	National Development Policy	National Vision Policy	New Economic Model
	1971-1990	1991-2000	2001-2010	2010-2020
	Growth with Equity and Fostering National Unity	Accelerating Poverty Eradication and Reducing Social and Economic Imbalance	Resilient and Competitive Nation	High Income Nation
MEDIUM TERM PLAN	1971-1975 2 nd MP	1990-1995 6 th MP	1996-2000 8 th MP	2011-2015 10 th MP
	1976-1980 3 rd MP	1996-2000 7 th MP	2006-2010 9 th MP	2016-2020 11 th MP
	1981-1985 4 th MP			
	1986-1990 5 th MP			
SHORT TERM PLAN: ANNUAL BUDGETS				

Source: (Dahlan, NA)⁴³

National Development Policy

The New Development Policy (NDP) succeeded the NEP. It was introduced in the 2nd OPP, 1991-2000 during the 6th MP. The NDP was actually a continuation of the earlier NEP because it maintained most of its main elements in an act of reaffirmation to the importance of the NEP. However, there was four main modification made to the primary NEP (EPU, 2004, p. 4):

- “Firstly, from anti-poverty strategies toward the eradication of hardcore poverty
- Secondly, a shift was towards employment and the rapid development of an active Bumiputra Commercial and Industrial Community (BCIC) as a more efficient strategy to increase the meaningful participation of the Bumiputra in the modern sectors of the economy, rather than the emphasis on Bumiputra ownership and control of corporate equity.
- Thirdly, greater reliance on the private sector to be involved in the restructuring objective by creating more significant opportunities for its growth.
- Fourthly, a greater focus on human resource development as a fundamental requirement for achieving the objectives of growth and distribution.”

⁴³ PPP by Datuk Zolkopli Dahlan Deputy Director General Implementation Coordination Unit of the Prime Minister’s Department, titled: National Development Planning Practices in Malaysia

Rational of the two policies

First, growth with equity is fundamental to realize fair distribution of national wealth. Second, social and political stability can only be achieved on the bases of balanced societal development. Third, “nurturing and molding a Malaysian society with high moral values and ethics as well as positive attitudes are fundamental towards the creation of a responsible, resilient, progressive and caring society” (EPU, 2004). Forth, preservation of nature and the environment is also essential to improve life for future generations.⁴⁴ However, while some changes were made to some parts of the NEP, the NDP maintained the principals of national unity, poverty eradication, social restructuring and economic growth.

“In Malaysia’s case, the issue of whether the policy of equitable growth would affect economic development or growth negatively was not paramount. The goal of the NEP and NDP was not maximum economic growth, but national unity” (EPU, 2004).

National Vision Policy

The plan was in the process of establishment from the year 1991, and it was introduced in 2001. This policy took place during the 6th and 7th MP. Its primary objective was to accelerate poverty eradication and reduce the social and economic imbalance. According to the Economic Planning Unit of the Prime Minister’s office, the NVP was accepted by the Malaysian Business Council (MBC) and soon after by the government. Consequently, it acquired the status of public policy. Indeed, that was reflective of the people’s knowledge of the NVP, where everyone in Malaysia knows about Vision 2020.⁴⁵ This was interesting because publics generally do not have knowledge of their government policies.

Vision 2020 aimed at accomplishing total development where its founder Dato Mahathir Mohammed describes Malaysia in 2020 as “a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant,

⁴⁴ This is a general explanation from the Economic Planning Unit which is part of the Prime Minister’s office in the Malaysian government. This explanation is important, because there is a group off opposition to the government economic policy that focus on equity. But the opposition call for the implementation of total equality in government policy for all Malaysians.

⁴⁵ The vast majority of interview respondents in Malaysia, both professional and non-professional respondents had quite high awareness of the main government policies, especially Vision 2020 that seems to be publicized well.

caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust and resilient” (Mohamad, 1991). However, while that is the goal, Mohamad recognizes that there can be no development until the nation overcomes nine central strategic challenges

- First, establishing a united Malaysia with a sense of common and shared destiny
- Second, creating a psychologically liberated, secure, and developed Malaysian Society with faith and confidence in itself, justifiably proud of what it is, of what it has accomplished, robust enough to face all manner of adversity.
- Third, community-oriented Malaysian democracy
- Fourth, establishing an entirely moral and ethical society, whose citizens are strong in religions and spiritual values and imbued with the highest of ethical standards
- Fifth, establishing a mature, liberal and tolerant society in which Malaysians of all colors and creeds are free to practice and profess their customs, cultures and religious belief and yet feeling that they belong to one nation.
- Sixth, establishing a scientific and progressive society, innovative and forward-looking.
- Seventh, establishing an entirely caring society will come before self, in which the welfare of the people will revolve not around the state or the individual but around a strong and resilient family
- Eight, ensuring an economically-just society
- Ninth. establishing a prosperous society, with an economy that is fully competitive, dynamic, robust and resilient.

Those central strategic challenges are indeed essential to ensure success. However, to fast-forward on some of the leading outcomes given we live in 2017, where only less than three years remain, vision 2020 will not succeed, according to some respondents, it might be accomplished partially according to purely economic indicators with no regard to social development. The vision has failed because the founder (Mahathir Mohamad) has abolished it. Another important reason was the Asian economic crisis. Additionally, there has been a focus on physical development, not human development, and there have been increasing rates of corruption in government.⁴⁶

NERP, NEM, & Islam Hadari

The National Economic Recovery Plan

The National Economic Recovery Plan (NERP) was made public in August 1998 after the East Asian economic crisis affected Malaysia. The primary goal was to revisit government economic

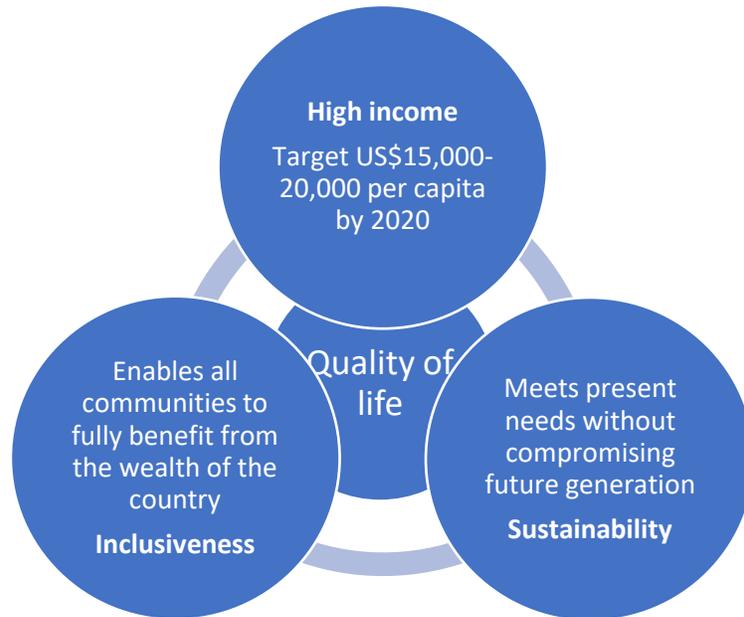
⁴⁶ The majority of the interview respondents refer to the failure of Vision 2020, for a number of reasons. More detail is found in Chapter 6.

policies and try to reduce adverse effects on the Malaysian economy. Two important points about the NERP were. First, it adhered to the core principals of the NEP and committed to poverty eradication despite the economic slowdown. Second, it resorted to currency control of the ringgit to the US dollar (EPU, 2004).

New Economic Model

While the plans of the past 30 years have offered outstanding performance, and have shifted many aspects of the Malaysian economy that range from health, education life expectancy, infrastructure, poverty reduction, and more, Malaysia is still “caught up in a middle-income trap – we are not among the top performing global economies” (National Economic Advisory Council, 2009).

Figure 4-6: Goals of the New Economic Model



Source: (National Economic Advisory Council, 2009)

Islam Hadari, 2004

Abdullah Ahmad Badawi, Malaysia’s prime minister 2004 announced his vision of Islam Hadari or Civilizational Islam in his speech to UMNO while holding the General Assembly on 23 September 2004. After the independence, but mainly after the 70s that succeeded the 1969 ethnic clashes and witnessed the enactment of the NEP, all the government’s economic and

developmental policies have taken into consideration the same variables. Those main variables being national unity, ethnic harmony, economic justice were addressed at different stages in a manner that ensured sustainability and continuous development.

The importance and significance of Islam Hadari: In October 2003, Dr. Mahathir retired from office after 22 years in administration. He was succeeded by Abdullah Ahmad Badawi who introduced Islam Haidari. The electoral victory of the National Front *Barisan Nasional*⁴⁷ that brought PM Abdullah into office was seen as an endorsement of Mahathir's choice (Hoffstaedter, 2009). Islam Hadari was characterized with its ten pillars that included faith, education, freedom, quality of life, integrity, and economic development. The timing of this vision and those words were right because it came after September 11 and the rise of Islamophobia.

Badawi's vision "could well be a paradigm of how Malaysian Muslims should see Islam in the context of a multi-racial Malaysia ... PM Abdullah seemed to want to reassure the non-Muslim community towards the increasing Islamization of Malaysia ... the PM's message to his Muslim constituents ... that Islam Hadari was neither a new religion nor denomination, but an effort to bring the Islamic community to the fundamentals of the Quran and Hadith, which formed the foundation of Islamic civilization" (Hassan, 2004).

Principles which Muslim nations and communities must demonstrate, namely:

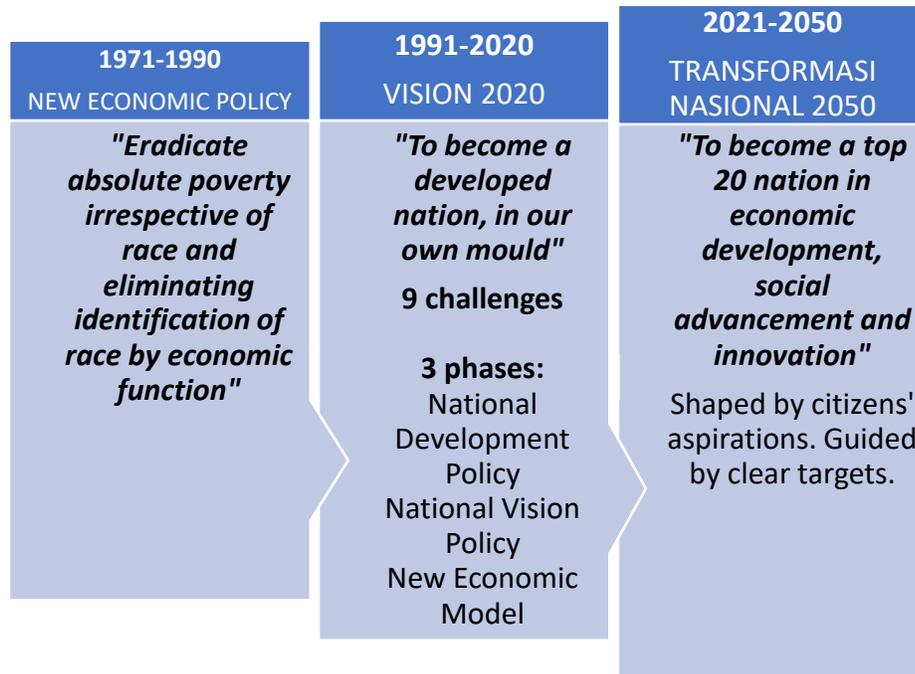
- Faith and piety in Allah
- A just and trustworthy government
- A free and independent people
- Mastery of knowledge
- Balanced and comprehensive economic development
- Good quality of life
- Protection of the rights of minority groups and women
- Cultural and moral integrity
- Protection of the environment
- Strong defenses

⁴⁷ *Barisan Nasional* is a coalition including the Malaysian Indian Congress (MIC), Malaysian Chinese Association (MCA) and the United Malaysian National Organization (UMNO) the biggest party.

4.4.2. Present to future policies.

As Malaysia gets closer to the year 2020, they may have scored considerable success in terms of physical, economic development; buildings, businesses, infrastructure, finance sector, travel and tourism, and more. However, their scoring is rather low in terms of social and human capital development; this is the younger generations discourse as it shows in the outcomes of discussions with respondents on different levels, younger grassroots level, and professional and government servants at a higher management position. Today, while the year 2017 still has few months to go, there have been some initiatives to incorporate public opinions on how the future should be, and how vision 2050 should look like, and what it should aspire to achieve. First, “mytn50.com” is a website designed to survey people’s opinions, share their aspirations, and compete for participation. Other research and academic institutions in Malaysia are already discussing their vision plans in accordance with the new national Vision 2050 such as the Academy of Sciences Malaysia (ASM, 2017).

Table 4-3: Malaysia’s key development eras



Source: Transformasi Nasional 2050, <https://mytn50.com/?language=eng>

4.4.3. Islamic thought and parties in the government

Islamic thought is actively present in government and its policies. The federal constitution of Malaysia, Article 3 (1), recognizes Islam as the “Religion of the Federation,” but leaves room for the practice of other religions “other religions may be practiced in peace and harmony in any part of the federation.” The ruling political parties are Islamic even though it may not be explicitly mentioned. Therefore, government policies are primarily affected by those who enact them in the first place. One clear example is Mahathir Mohamad. Another Example is Anwar Ibrahim although he represented the opposition, his views were Islamic. Besides the Islamic political parties and Islam being the country’s religion by constitution, a number of programs and councils that were introduced to the government or follow the local governments of the states are Islamic by name and practice.

For starters, Muslim Malay have held the highest political positions in the country since independence. One focal point for their success in government is the Muslim Malay majority that gives them their votes. A critical characteristic of the Malay Muslim is their strong connection to Islam; this appears clearly in their act of giving voluntary charity and zakat. The managers of ZCC confirm that 100% of Malay Muslim actually pay their zakat, this was part of interviews conducted with the managers of zakat collection centers in both the state of Malacca and the federal territory of Kuala Lumpur. This is only one indicator. The relevance of this to politicians is the necessity of keeping public support, which has been successful by keeping the Islamic outlook of Malaysia and satisfying the countries Majority. This is the simple picture. However, there is much more complication that will be further elaborated on later.

Islamic groups

There is a number of Islamic groups in Malaysia demanding a more significant role for Islam besides the Islamic Party of Malaysia (PAS), which is led by Mahathir Mohammed. Other Islamic groups were formed in the late sixties and early seventies such as:

- The Persatuan Kebangsaan Pelajar-Pelajar Islam Malaysia,
- PKPIM (Malaysian National Association of Muslim Students),
- Angkatan Belia Islam Malaysia,
- ABIM (Muslim Youth Movement of Malaysia)
- Darul Arqam

In Malaysia, while development was primarily and still is the result of manufacturing, trade, and science, religion and faith were also used in a progressive way for attitude transformation and human capital development, especially among the Malay Muslim Majority. "Religion is another established force with the Malays. No change, no plan and no ideology which runs counter to the religion of the Malays can succeed. In fact, Islam must be upheld and even further propagated if success is to be assured (Muhamad, 1970, p. 104).

Introduction of Islam to government

Mahathir's Administration was able to introduce Islam positively to the nation by introducing Islamic government bodies and values. PM Ahmad Badawi's Vision - Islam Hadari in 2004 also stressed the central role of Islam in the countries development. Additionally, PM Najeeb who was in office until early 2018 also followed the path of keeping Islam in the forefront of politics. Each administration surely has different approaches and focuses on different parts of Islam, but Islam in speech and in ceremonies is actively present. This is an intrinsic part of the social contract between the Malaysian majority and the government. For example, while Mahathir put much emphasis on Islamic values and building the individual's Islamic identity through enacting policy and establishing Islamic bodies, PM Najeeb administration is keeping Islam at the forefront by enlarging the Islamic finance and banking industry to represent 40% of the banking sector in the nation by 2019. Additionally, most of the government scholarships are given in the field of Islamic economics.⁴⁸

4.4.4. Policy implementation tools

There were two primary tools that were developed as government initiatives to implement the national policies. The first was for the banking sector; the government established Bank Islam Malaysia Berhad in 1983. On the first of October 1999, Bank Muamalat Malaysia Berhad was established to be the second full-fledged bank after Bank Islam in Malaysia. Both banks were government tools to play a role in the economy and to be instrumental in achieving some of the economic policies. The second tool was academic. First, the International Islamic University of

⁴⁸ The information in the last 2 sentences are from an interview with Dr. Saeid who is head of the research unit at ISRA which is a research center funded by the Malaysian central bank.

Malaysia (IIUM) was established in 1983 to produce human capital capable of undertaking positions in government and all-important sectors to make the government policies of development come to life. A second academic institution was the International Center for Education in Islamic Finance (INCEIF). It was established in 2005 by the country's Central Bank (Bank Negara Malaysia) to develop human capital in Islamic finance to lead Malaysia to the top. Both education institutions have been useful. Furthermore, many smaller private-training-centers also offer services in Islamic finance education and certification.

The government also developed and established what some would call complementary institutions to support the Islamic economic development in the country. First, the government further developed Lembaga Urusan dan Tabong Haji (LUTH), or the Pilgrims Fund, that was first established in 1963. Other important department, bodies, and centers were first the Department of Awqaf, Zakat, & Haj (JAWHAR) which is part of the Prime Minister's office in the government, second, the Malaysian Islamic Economic Development Foundation (Yayasan Pembangunan Ekonomi Islam Malaysia) (YPEIM), third, the establishment of the International Sharia Research Academy for Islamic Finance (ISRA) which is created and funded by Malaysia's Central Bank. While those could be called complementary, in fact, they are essential and have played essential roles in contributing to the countries development.

It is no secret that the Malaysian government is widely intervening in the economy, and directing the economic growth of the country, it is, in fact, directing development on all levels. Reflecting on government policies the idea of a government led economy becomes clear, and for the record, this Asian way of development, despite different from the western free market economy, it has also proven to be successful. The Malaysian government has led economic development on the one hand through policy, government agencies, and education and research institutions. On the other hand, through actual engagement in business and investment. The government owns the Armed Forces Fund, BIMB Holdings, IHH Healthcare, Malaysian Airlines, Khazanah Nasional, Petronas, Tabung Haji, Affin Holdings, AgroBank, AmBank, Maybank, CIMB, PROTON Holdings a car manufacturer, and the list continues to airports, Medea, education, and others.

4.5. Malaysian Islamic economic sectors contribution to economic security

According to the literature review and the fieldwork investigation, a complete Islamic economic system in Malaysia or other countries does not exist. What exists is the practice of some Islamic trade transactions in some Islamic financial institutions that execute those transactions under the umbrella of the central bank that usually runs a capitalist economy. What makes an Islamic economy absent is the absence of independence from capitalist financial regulations, as well as the smaller size of Islamic economic institutions in any economy, that is also the case in the Malaysian economy. The Malaysian federal government is seeking to increase the assets of Islamic banks to 40% of total banking assets in the nation by 2019.⁴⁹ But once again, the fact that an Islamic economy does not exist should not stop Islamic economic institutions from growing and competing in the financial market.

However, because of all this complication in the practice of Islamic finance and banking, and the connectedness to the capitalist system, several limitations stand before achieving full compliance with Sharia and stand before fully adhering to the primary objective of Islam in economics which is human well-being. This is with regard to IFBS. In other words, this Islamic and banking sector in Malaysia is not social enough, but profit driven. The primary source of direct social interaction is through CSR, which makes this sector not different from other conventional sectors. All large corporations practice CSR. However. The financial transactions of Islamic banks and financial institutions are much better for the economic stability and the individual security than conventional banks because of a number of factors; 1) risk sharing 2) no interest 3) no speculation 4) conservative investment 5) loans are given with more investigation.⁵⁰

This leads to the question, at which social level does the IFBS operate? The direct answer is at the middle-class and up. The simple explanation is that banks give loans and make investments, and that is how profit is made, only those with jobs or some kind of repayment guarantee can gain access to bank loans. What that means is the lower income middle class and the poor in general cannot benefit from the bank's financial services. The vast majority of banks do not provide services at the lower grassroots level, and certainly not to the needy individuals of the community.

⁴⁹ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

⁵⁰ *ibid.*

Only in a case where the bank is a social bank. The IVES completes the shortcomings of the IFBS to achieve the goal both should have. The IVES is represented mainly in the institution of zakat and waqf, as well as charity, among other in-kind institutions. The more significant advantage of this sector is that it operates entirely for social purposes. But the main disadvantage is its small size compared to the IFBS.

Table 4-4: Comparison between the IFBS V. IVES on an international level

#	Comparison	IFBS	IVES
3	Includes?	Banks, insurances,	Zakat, Waqf, Charity, Qard-Hassan
5	Objective	Profit	Non-profit
6	Social	Marginal social participation	Mostly social development drive,
7	Role in poverty	Minimum	Large role
8	Role in Employment	Large	Smal
9	Origin	Non-Islamic	Islamic

Source: Author illustration

To put all Islamic economics institutions into the perspective of the Malaysian economy, a rather brief description, outline of the IBFS is provided, and more emphasis is put on the IVES as the focus of the research is concentrated more on establishing HES according to the Islamic thought which prioritizes bottom-up development in a community. The IVES, although small in its current settings, not just in Malaysia, but in all the world, when compared to the IFBS, it still better serves the establishment of HES, and HS according to the Islamic teachings.

4.5.1. The Islamic finance and banking sector in Malaysia

The IFBS in Malaysia started developing at the early stages. the 1969 LUTH or *Pilgrim's Fund* was the first Islamic institution in Malaysia that started with the goal of helping the Malay Muslims to save for their pilgrimage trip to Mecca. This fund now represents one of the largest Islamic financial institutions in Malaysia especially when the government invested more in it. With the AIV policy, the government established Islamic institutions, what pioneered those institutions in the field of Islamic finance and banking was *Bank Islam Malaysia Berhad* (BIMB) established in 1983. Another part of the IFBS that developed was Takaful or Islamic insurance. A number of those Takafuls are Takaful operator (*Syarikat Takaful Malaysia Berhad*), Takaful National, Maybank Takaful, and Takaful Ikhlas which all developed by 1983 (Alfattani, NA). From the

1990s onward, the Islamic finance industry in Malaysia grew up and became competent with economic growth in Malaysia. For example, *Bank Muamalat Malaysia* (BMM), introduced Islamic windows, now the majority of banks have Islamic windows if they were not full-fledged Islamic banks.

Today Malaysia has 55 licensed financial institutions, 28 commercial banks, 16 Islamic banks, 2 international Islamic banks, 11 investment banks, and 2 other financial institutions. Furthermore, there is 56 licensed insurance companies and Takaful operators. (Bank Negara Malaysia, 2017)

Table 4-5: Bank assets in Malaysia (Million RM)

year	Islamic Banks	Conventional Banks **	total
2007	92,337.8	1,094,371.0	1,186,708.8
2008	181,359.6	1,120,753.7	1,302,113.2
2009	219,848.4	1,171,661.5	1,391,509.9
2010	253,516.0	1,260,007.8	1,513,523.7
2011	320,518.5	1,423,879.3	1,744,397.8
2012	367,685.9	1,514,646.4	1,882,332.3
2013	419,548.7	1,616,783.7	2,036,332.4
2014	469,024.1	1,750,347.3	2,219,371.3
2015	526,328.8	1,827,955.3	2,354,284.0
2016	572,865.1	1,870,711.5	2,443,576.6
2017*	600,414.2	1,911,232.0	2,511,646.2

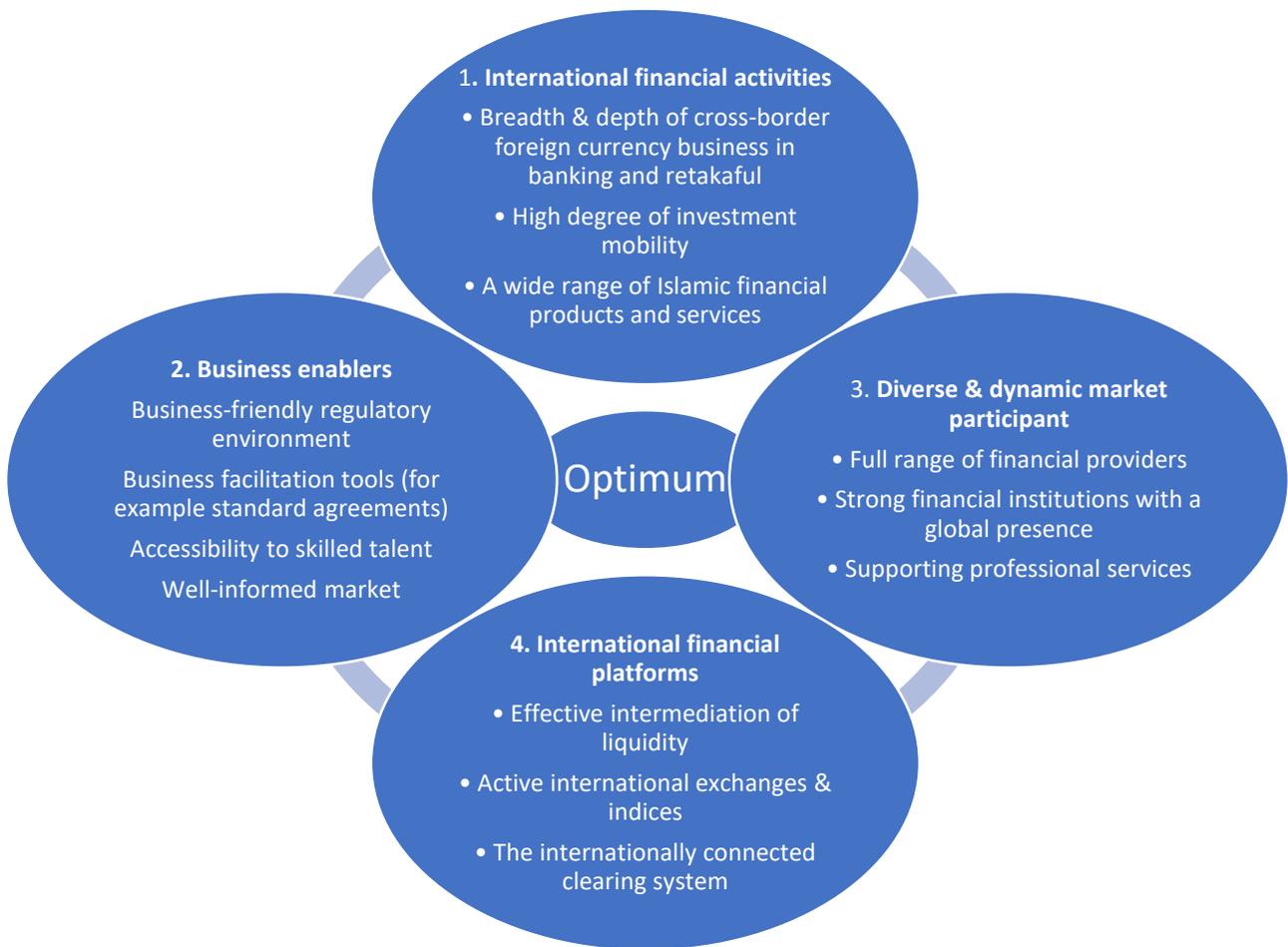
Data source: Central Bank of Malaysia (BNM, 2017, p. 1.7)

* this data is for the month of June, the data from 2007 to 2016 is for the month of December.

** conventional banks include both investment banks and commercial banks

Government economic policies are interested in maximizing profit through the expansion and development of the IFBS. They want to be more international in foreign currency business in banking and re-takaful by expanding the Islamic finance products and services. Additionally, a broader financial market and stronger international presence in financial markets is another government plan for expansion. The government also seeks to introduce business enables into the Malaysian market that includes business-friendly regulations, business facilitation tools, accessibility to skilled talents, and well-informed market. Furthermore, there is a plan to establish international financial platforms for intermediation of liquidity and active international exchange.

Figure 4-7: Key spectrums of an effective international Islamic financial center



Source: Financial Sector Blueprint 2011-2020 (Bank Negara Malaysia , 2011, p. 115)

4.5.2. The Islamic Voluntary Economic Sector in Malaysia

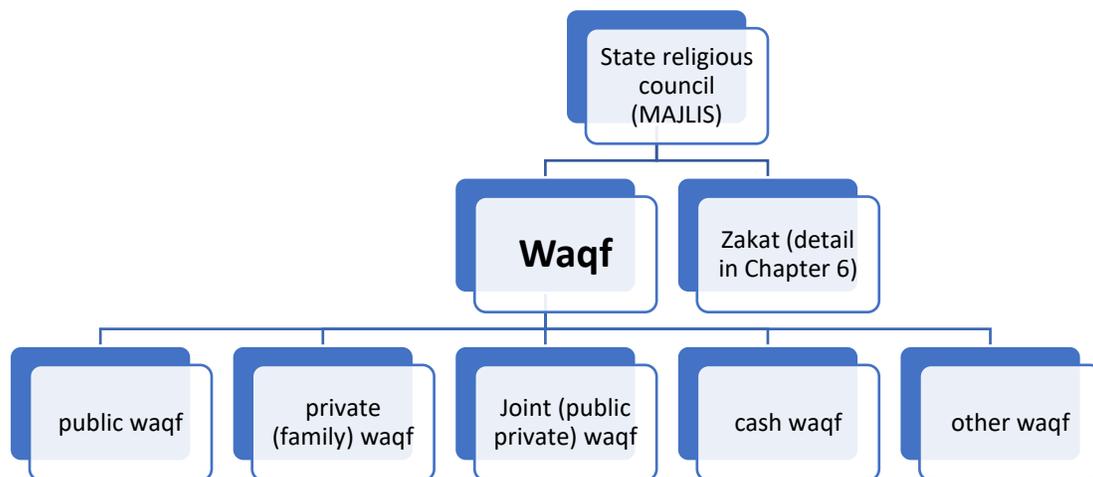
In this section of Chapter 4, the focus is on the waqf in Malaysia, its management and who is responsible. Figure 4-8: Waqf management in Malaysia, and types of waqf, visualizes the structure of management and responsibility in Malaysia. Following the waqf, the RIZ in Malaysia is presented. From literature and fieldwork, it becomes clear that plans for the development of the IVES are not a high government priority. There is, however, an increasing interest in maximizing returns on zakat and waqf assets by introducing more investment alternatives to the institution of waqf and zakat in the country. There have been some trials in Malaysia, and they have indeed pioneered those initiatives.

4.5.2.1. Waqf in Malaysia

The act of waqf donation was introduced to Malaysia around the fifteenth century (Mahamood, 2014). However, according to Othman (1986), it was believed that the institution of waqf was founded eight hundred years ago, as found in (Yaacob, 2013). There are a few century differences between both beliefs. However, it is likely that the institution of waqf came to the Malay lands when the Arab Muslim traders introduced Islam around the tenth century (Yaacob, 2013). Ever since, waqf increasingly grew as a strong Malaysian culture of giving. In the Malaysian law, section 25 of the Civil Law Act 1956 stated that the administration of Muslim's property should work in accordance with the Islamic law. There are 14 State Islamic Religious Councils, one for each of the 13 states and one for the Federal Territory (Hasan Z. , 2008).

Of the main reasons waqf depreciated, suppressed, and many of its property lost and misused was the colonial era of the Europeans. "The British in Malaya had the benefit of their experience in India in suppressing the waqf of Malaysia" (Stibbard, Russell, & Bromley, 2012). However, Malaysia similar to other countries started to care more for waqf properties. Before the development of new waqf mechanisms, waqf existed in the traditional form; public, private, or joint, and it was physical assets. However, the contemporary waqf institution in Malaysia includes new mechanisms to manage, use, and accept awqaf, such as cash waqf and the use of Sukuk (Islamic bonds) in the management of the waqf property. Additionally, Sukuk is themselves accepted as waqf donations.

Figure 4-8: Waqf management in Malaysia, and types of waqf



Source: Author illustration

While the British Occupation had negatively affected the property of waqf, the current waqf property also faces many problems, mostly in the form of management and sound investment decision. The structure which allows each state to act independently as the sole trustee of any waqf in the state also presents particular problems for waqf management. A number of common problems in waqf management have been identified (Ismail, Salim, & Hanafiah, 2015; Ibrahim & Ibrahim, 2013).

- Persons in charge of waqf management are not qualified and have a shortage of personnel to manage waqf property
- Donated waqf land is in many occasions isolated and valueless
- Shortage of liquidity and inability to invest in the existing properties.
- Different state laws regarding waqf contribute to slow progress in reviving waqf through proper investment in the available property
- The objectives and the functions of the administrators are not clear
- Lack of concrete plans and actions to develop waqf properties

The potential of Waqf for immediate HES

The value of waqf in Malaysia is considerable; however, the maximization of use is somewhat absent. Most of the waqf is land assets in marginalized areas in the country which makes the possibility of maximizing use tricky, at least in the near future. The common understanding of the role of waqf in Malaysia is to build and establish:

- Hospitals, schools
- Graveyards,
- The government uses the land to build Masjids
- More recently land is sometimes used in profit generating projects

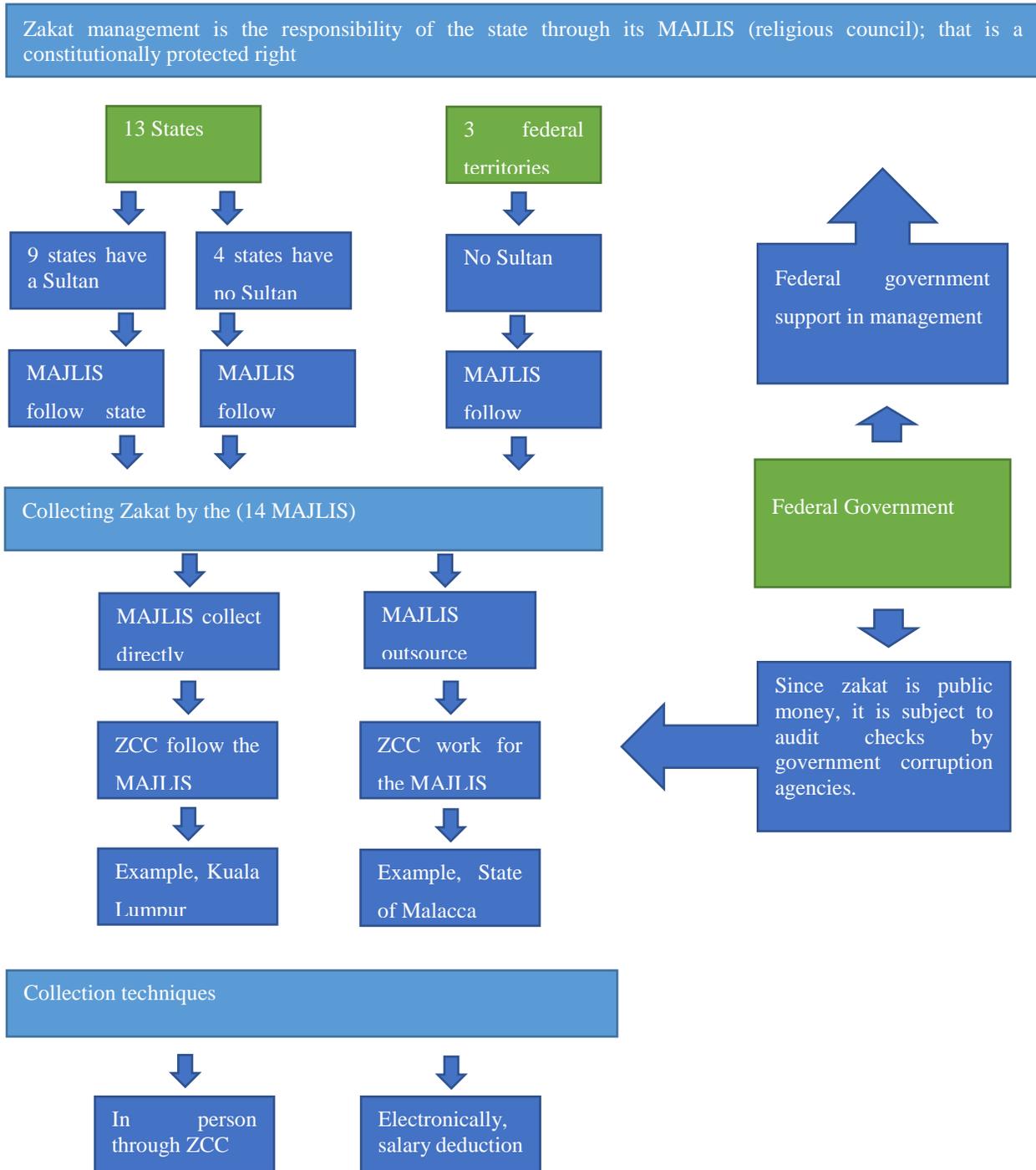
The institution of waqf as it exists in Malaysia today most definitely has more considerable potential, but that will not be in the near future only if solid official plans are designed to revolutionize this rather inactive pile of wealth. In its current form, waqf cannot provide first-hand assistance to people or uplift their economic wellbeing. However, the institution of Waqf has a critical complementary role to play in social uplifting. The services it provides are essential, the gap it fills in on behalf of the government in social and religious sides is also important. There is cooperation for improvement, yet more effort is required to place the best people in the institution of waqf to maximize benefit.

4.5.2.2. Zakat in Malaysia

The Malaysian institution of zakat is characterized by a number of distinctive features such as being social, independent, and not centralized in the hands of the federal government. There are 13 states in Malaysia, and 3 federal territories, each has a Sultan and a religious council which acts as the responsible body for collecting and disbursing zakat the state. Religious councils also act as sole trustees of the Islamic waqf. Thus, religious councils manage many religious entities such as Masjids since most of the Masjids in the country are waqfs.

Figure 4-9 illustrates how the zakat is managed and the functions of the state's religious council. This illustration also shows the relationship between the federal government, the state Sultans, and the state religious council's. One may assume that the federal government may be on top of the hierarchy, but that is not the case. The federal government has the capacity to audit and make financial revisions with no prior appointment. In other words, since zakat is public money, the national government's corruption agencies have the responsibility to review the records and financial statements of any religious council any time. As for management, the federal government could cooperate, but the state Sultan is the highest authority when it comes to the management of the religious council that oversees the operations of waqf and zakat.

Figure 4-9: Zakat management and collection



Source: Author's Illustration

Figure 4-10: Concepts related to Zakat



Source: picture taken during fieldwork in the state of Malacca ZCC, 2017

The meaning of each point in Figure 4-10:

- Islam: Zakat is only obligatory for Muslims
- Merdeka (freedom): the translation is literally “freedom,” what this is referring to is the freedom one possesses according to law, and that this payment is entirely made according to one's own will and desire.
- Sempurna Milik (Perfectly Owned): meaning the property owned and controlled by a single owner. This is to explain to the people what is the wealth you must pay zakat on
- Cukup Nisab (the threshold): as explained earlier, zakat on wealth, has specific calculations. And the zakat on wealth is paid when a person's ownership exceeds a certain threshold, a 2,5% on the excess is due.
- Cukup Haul (annually): “Haul” in the Arabic language refers to the year. Here zakat on wealth is calculated annually, and if it reaches the specified threshold, zakat is due.

This stand is presented in the ZCC of the state of Malacca. It explains the fundamental terminologies and tells the people that although zakat is obligatory based on religion, it is not according to law and individuals are free to make their own decision. Each center also has bothers for consultancy and support in calculating zakat or understanding certain matters.

Explaining terms related to zakat

The following explanations are intended to serve as a guidepost and may not capture the complexities of the terms. The translations are merely literal renditions that may not necessarily convey the nuances behind the Arabic terms. (Malaysian Accounting Standards Board, 2006)

- *Haul*: a period of twelve operating months. Zakat on business is assessed when the business has been in operation for at least 12 months.
- *Shariah*: Islamic laws derived from the Al-Quran and As-Sunnah.
- *AsSunnah*: the acts or sayings of Prophet Muhammad (peace be upon him).
- *Zakat*: obligatory contribution assessed based on certain assets owned by a Muslim that satisfy certain conditions and is to be distributed to specified categories of beneficiaries.
- *Zakat base*: the net adjusted amount of assets and liabilities used for or derived from business activities that are subject to zakat.
- *Zakat on business*: obligatory contribution assessed based on business assets owned by an entity that satisfy certain conditions and is to be distributed to specified categories of beneficiaries.
- *Zakat rate*: percentage applied to the zakat base to calculate zakat.

4.6. Conclusions

The development of policies in Malaysia is evidently planned for and managed with precision and implemented with care. The implementation of the Malaysian enacted policies is somewhat tricky because of the ethnically diverse nature of the Malaysian community. Furthermore, the political party's division along ethnic lines strengthens that argument. The historical overview elaborates on the complications caused by ethnic diversity in political and social matters. Furthermore, political rivalries within the same ethnicity were also present. The Malaysian government was led by Malay political parties from independence up to this date. However, the year 1969 that witnesses the famous ethnic clashes caused by economic injustice is considered a landmark in the Malaysian socio-politic-economic history. After that year, the government made foundational changes in its economic policies to achieve economic justice. The goal according to the government was economic equity. The NEP was first introduced, followed by five-year strategic plans that end in 2020. The idea of "Islam Hadari" was not new, but the term gained momentum because it explains the nation's openness approach at the same time give considerable attention to different religious, cultural and ethnic ambitions.

Dr. Mahathir Mohamed had many opponents, but his time in office marked the most successful period of economic development and national stability. Mahathir Mohamed became part of the opposition, but his thoughts are still being developed by the government. His Islamic thoughts remain present, more in Islamic economic development, but less in human development at large. The constituent Malaysian governments have kept middle ground and opposed holistic implementation of the Islamic law. It is also intentional to present Malaysia in a secular outfit, which is the notion of “Islam Hadari.” In Malaysia, there is freedom of religion, culture, dress, holidays, and there is development in technology and modernity. The twin towers in the middle of Kuala Lumpur and the presentation of the city as a tourist destination is the image they want the world to see. This presented image is the strategy of a government that constitutionally recognizes the nation as Islamic. The Islamic recognition makes the Muslim conservatives proud, and the modern open outlook makes the others satisfied.

Part of the government middle-ground policies is to develop Islamic economics and be a global hub. The development of economics is something no one opposes, even if it is Islamic, but such development is appreciated by Muslims. However, the part of Islamic economics developed and supported by the government is mainly the IFBS that contributes to development from the middle-up. In the main frame of reference in Chapter 2, the author describes the best means of achieving HES in Muslim communities. However, the Malaysian government engagement in Islamic economics could minimally contribute to HES as prescribed in the frame of reference. The main reason is that HES must be achieved at grassroots levels first, but the IFBS gives financial facilities to middle-income individuals up. Low-income individuals can benefit, but minimally.

With regard to economic indicators: population, labor force, household income, and employment rates are increasing for all three major ethnic groups in Malaysia with the exception of the employment rate of the Chinese although their average household income is the highest and is steadily increasing. Given the illustrated data in the introduction, the national government can logically justify its economic policies, especially the NEP. Those economic indicators also relate to an implicit social contract accepted by all ethnic groups and the government with regard to economic security. In simple terms, fair wealth distribution leads to stability, and security takes place. This is what the government is trying to do, and the data illustrated in the figures support that.

CHAPTER 5

The contribution of the redistributive institution of zakat to human economic security

5.1. Introduction

Based on the logic generated in the frame of reference proposed in Chapter 2, Islamic economics should not be primarily concerned with maximizing profit and minimizing risk; it should principally be concerned with maximizing human economic well-being and minimizing human economic threats. In Chapters 4 and 6, the discussion generated from the interviews and the previous literature supported the idea that the IFBS needs a shift to more social-economic and human-centered financing. There is no request made for the sector to relinquish its quest for increasing profit and reducing risk, but the goal is to present a proper balance and live up to the Islamic title, and thus the promise of Islamic economics.

As the argument on what the role of the IFBS should be, and how their financial attitudes should shift has been overly consumed in previous literature, government intervention through policy seems to be the x-factor. However, IFBS is only one part of the Islamic economic industry, the other part of the Islamic economic industry is the IVES that features the waqf and zakat institutions which better relate to HS and HES protection. This Chapter focuses on the redistributive Institution of zakat and its role in removing insecurities, especially economic insecurities.

The previous literature has discussed zakat management, collection, and disbursement. What this Chapter focuses on is the real potential of zakat. To reach conclusions on the potential of zakat, the criticisms of the RIZ are discussed in detail. There are two main sub-section in this chapter that discusses; 1) who should pay? Do they pay? And what the government is doing to secure achieving that real potential, if anything? 2) Who manages the zakat money? Could there be better ways of management and disbursement of zakat money to those entitled?

5.1.1. A holistic view

Pursuing a view of development that presents the institution of zakat as part of an integrated process of the expansion of substantive freedoms that connect with one another is the view presented in this research and scrutinized in this chapter. To point to this scrutinized approach is not to deny the importance of a broader approach that permits simultaneous appreciation of the role of many different institutions that engage in economics; including banks and financial institution. Additionally, institutions that engage in politics, education, and health also have

important roles in enlarging the range of individual agency to more extensive freedoms. This is also the approach Amartya Sen (2000, p. 9) explains when making the argument that freedom is a fundamental variable in analyzing development.

In Islamic economics, the institution of zakat is distinct for being originally Islamic unlike Islamic banks, where the former are financial institutions initially initiated by the west with a goal to generate profit. Islamic banks remain struggling with compliance with the rulings of Sharia because their survival depends on their ability to play by the banking rules, leading them to mimic conventional banks. The institution of zakat is an original Islamic institution but struggles with the conventional nationwide legal system. For example, in Malaysia, the tax is compulsory by law while zakat is compulsory by religion which is not forcible by law, and rightly so, it should not. However, payment of zakat and payment of the tax affect each other in Malaysia and there is a law that forces payment of zakat, but it is not practiced.

Because zakat is considered tax-like, the connection of the Malaysian tax to zakat is discussed in this chapter in some practical detail. Tax, as defined in the Oxford Dictionary, is a contribution levied on the persons, property or business for the support of the government. Most significant definitions refer to the same principal outcome, which is revenue for the government. Zakat, however, is revenue to the poor, and only part of which could be designated for the government in the case where the government is the body that collects and disburses zakat; in that case, it would be entitled to a given percentage that covers its operating cost.

The institution of zakat being faith-based is essential for social development and HES in Muslim countries. According to the Commission on Humans Security in their (2003, p. 142) Human Security Now Report, “the international community should invest more in civil society, including NGOs, reaffirming the role of individuals, corporations, foundations and faith-based organizations in transferring resources to communities and people in need.” That is precisely the role of the institution of zakat.

Given the logic of numbers, the population of Malaysia is about 31 million, and for the sake of simplicity, around 50% are Muslim, which is quite the case; in Malaysia, the zakat on the individual collected during the month of Ramadan (Zakat-ul-Fitr) is about 1.30 USD multiplied by 15.5 million would equal 20.15 million USD. As for zakat on wealth, (Zakat-ul-Maal), it is

much larger than that number, and both types of zakat are annually collected and disbursed only in eight specified social directions as explained later on in this chapter. In the year 2016, the zakat collection in Malaysia was 2.5 billion RM, which is equivalent to about 641 million USD⁵¹. According to this logic, the zakat on wealth is about 30 times more than the zakat on the individual. Furthermore, logically the case could be made that the zakat collected in Malaysia is more than the officially announced number because not all people pay their zakat through the state ZCC.

5.1.2. Methodology and philosophy

The method used in this chapter is mostly qualitative. Content analysis and descriptive analysis of quantitative data were employed in this chapter. Different data materials were collected; panel data from the Malaysian Bureau of Statistics were used to show economic trends and clarify some meaningful relationships. Semi-structured interviews were employed to provide profound internal perspectives from some of the larger institutions such as Khazanah, the nation's largest investment fund and one of the largest SOE in Malaysia. This combination of methods employed helps in fulfilling the philosophy of this research, to gain a holistic understanding and deliver logical and adoptable outcomes.

5.2. Management of zakat

The institutional and managerial structure of the institution of zakat was explained in section 4.5.2.2) talking about zakat in Malaysia. In this section, there are three main topics covered. First, the laws for calculating zakat in Malaysia. Second, the connection of zakat to tax collection in Malaysia. Third, the connection of corporate zakat to tax in Malaysia.

⁵¹ The exchange from MYR to USD was made on 3/7/2018

5.2.1. Laws of calculating zakat in Malaysia

According to the Malaysian Standards Board in their technical release i-1 (2006); titled: “Accounting for Zakat Business,” indicate that zakat for the current period, the present time, shall be recognized when:

- “an entity has a current zakat obligation as a result of a zakat assessment; and”
- “an outflow of resources embodying economic benefits will be required to satisfy the zakat obligation.”
- “The amount of zakat assessed shall be recognized as an expense in the period in which it is incurred.”
- “When an entity pays zakat on its business assets, such amount of zakat is recognized as an expense and included in the income statement for the period in which it is incurred.”

Assessment of Zakat: “Zakat shall be assessed when the entity has been in operation for at least 12 months, i.e., for the period known as haul. Zakat on business shall be calculated by multiplying zakat rate with zakat base.”

Zakat Rate: “The rate of zakat on business, as determined by the National Fatwa Council, is 2.5% of zakat base.”

Zakat Base: “Zakat base is the net adjusted amount of zakat assets and liabilities used for or derived from business activities. An entity is advised to refer to the relevant zakat authorities for further guidance in determining the net adjusted amount of zakat assets and liabilities.”

Modules calculating zakat

According to Mohamed Abdul Wahab et al. (1995), there are three methods⁵² of business zakat accounting practiced in different states of Malaysia. Those modules are also recognized by the Malaysian Accounting Standards Board (2006).

- First: only current assets such as cash in hand or bank and accounts receivable. This is practiced by the Bait-al-Mal of Perak, Kedah, Wilayah Persekutuan and other States.
- Second: current assets and profit from investment. Two institutions practice this method, i.e., Bait-al-Mal of Perlis and the Pilgrim Management Fund Board.

⁵² The three methods explained are widely used in Malaysia and online user-friendly zakat calculators are made available online by Islamic banks and other institutions and charities that accept zakat.

- Third: the difference between current assets and current liability, which is also called the networking capital method. This method is adopted by Bank Islam Malaysia Berhad.

The Department of Islamic Development Malaysia (JAKIM) published Malaysia Zakat Guide (Panduan Zakat di Malaysia) in the year 2001. According to this book, two business zakat accounting are highly recommended to use. First is the adjusted growth capital method, and second is the working capital method (Hamat, 2009).

Adjusted growth capital method:

$$\text{Equity} + \text{Long-Term Equity} - \text{Fixed Asset} - \text{Non-Current Asset} + / - \text{Adjustments}$$

Adjusted working capital method:

$$\text{Current Asset} - \text{Current Liabilities} + / - \text{Adjustments}$$

The following equation demonstrates the difference between both method equations:

$$\text{Equity} + \text{Long Term Liabilities} - \text{Fixed Assets} - \text{Noncurrent Assets} = \text{Current Asset} - \text{Current Liabilities}$$

Both methods generally conclude with the same result where the input is driven from the same balance sheet. However, most of the states in Malaysia use the adjusted working capital method, which is also known as the Shariya method (Hamat, 2009, p. 15). Presenting the most common methods of calculation, some adjustments relating to current assets and liabilities are necessary (Awang, 2011; Hamat, 2009).

Table 5-1: Current assets adjustments

Current Assets (RM)	Explanation
Work In Progress (W-I-P)	W-I-P should be deducted from a net worth of current assets since only finished goods are recognized as productive.
Raw Material	Raw material should also be deducted since only finished goods are recognized as productive
Fixed Deposits with a licensed Bank, Collateralised	Encumbered Fixed Deposits with a licensed bank is deducted since it is not recognized as having full ownership. Normal fixed deposits are subject for zakat.
Interest on Fixed Deposit	Non-halal source of Income should be deducted.
Charity kind of fund	Fund formed for charity purposes; i.e., for education and ‘khairat’ contained in assets should be excluded from zakat.
Dividend	The dividend which was paid by an investment company will be deducted from the net worth of current assets (if the dividend has been assessed earlier for zakat before being distributed) since zakat is not charged twice in the same period (haul).
Donation	Donation made by a company at the end of the accounting period (haul) needs to be re-added (assessed for zakat) since the donation will not affect the company’s liquidity unless the donation is taken from the charity fund.

Source: (Awang, 2011)

Table 5-2: Current liabilities adjustments

Current Liabilities (RM)	Explanation
Hire Purchase	Need to be re-added because it is recognized as a source of business, having full ownership thus not allowable for deduction.
Bank Borrowings	Need to be re-added since it is a source of fund and recognized as full ownership.
Dividend payable	Need to be re-added since it is a business profit which needs to be assessed for zakat first before it is distributed to shareholders.
Trade loans	Need to be re-added since the loan is classified as a source. Iman Syafie (one of the Islamic Scholars) argued that a loan tantamount to having full ownership.

Source: (Awang, 2011)

5.2.2. Zakat connection to tax

Both zakat and tax are public money, the first is required by Islam but not compulsory in the Malaysian law, the second required by the Malaysian law and is compulsory. Table 5-3 illustrates the difference in value which is enormous. Additionally, Figure 5-1 presents a graphical illustration of the same relationship that helps to visualize the difference in value.

The philosophical view is more or less money in the hands of the government with complete or limited freedom to spend in any direction. This presented analyses can only exist implicitly, no judgment is imposed on intentions, but for the sake of clarifying possible linkages that connect loose ends, this implicit analysis is presented. The meaning of “freedom to spend” is that the government can spend tax however it needs and desires. However, if the government is the entity collecting zakat, spending will be restricted to eight different directions only, as explained in section 5.4. (the distribution of zakat).

Table 5-3: Value of zakat V. value of tax
1991 – 2014 (Million MYR)

Year	Zakat Malaysia	Tax revenue
1991	61	30596
1992	76	34381
1993	92	39780
1994	110	44240
1995	122	50134
1996	159	56905
1997	202	48765
1998	198	48874
1999	196	51857
2000	259	66601
2001	320	72241
2002	374	71380
2003	408	78902
2004	473	87563
2005	573	93932
2006	671	102668
2007	806	120909
2008	1038	114754
2009	1197	118302
2010	1364	144297
2011	1639	161539
2012	1933	166269
2013	2265	175452
2014	2457	177323

The federal government revenue comes from several sources. Of the important sources are corporate income tax, individual income tax, GST, oil-related revenue, the share of oil-related revenue, in addition to other sources. The tax revenue represents approximately two-thirds of the total government revenue according to the ministry of finance as also reported in the central banks 2016 annual report (Bank Negara Malaysia , 2017, p. 83; Ministry of Finance Malaysia, 2017, pp. 79-80).

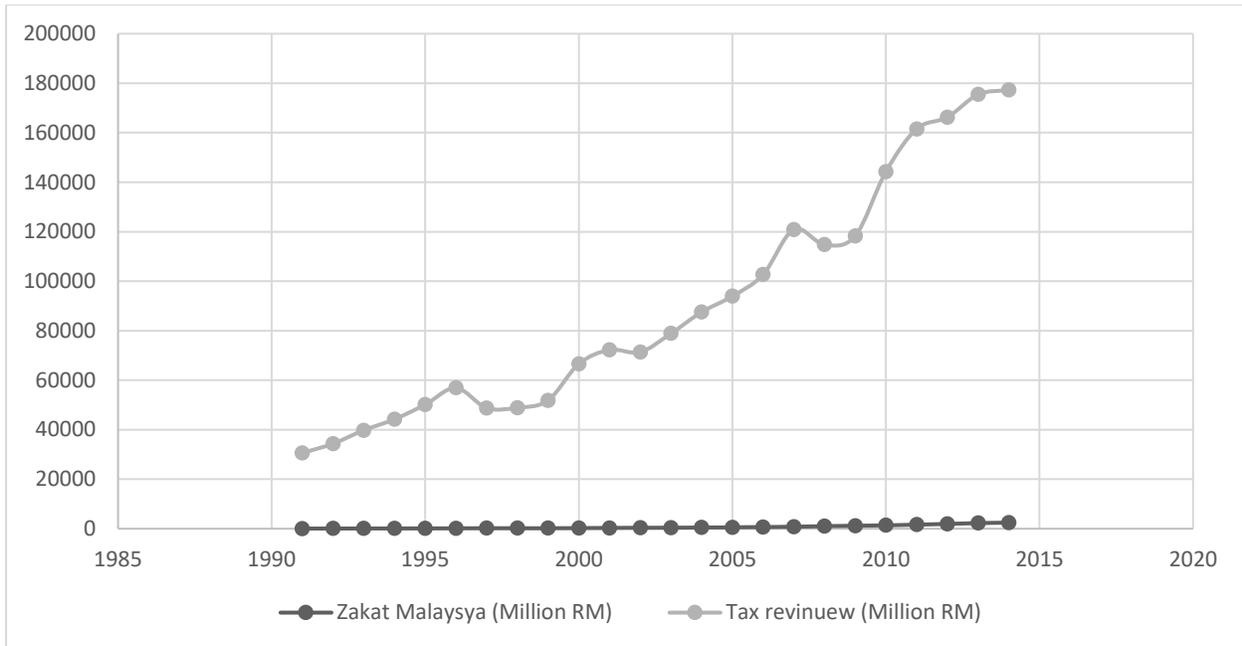
The zakat payment to any state MAJLIS through any ZCC is tax deductible. Individual zakat paid could result in making tax reach zero. With regard to corporate zakat, “based on the Malaysian Income Tax Act (Section 44 (11A)), Zakat paid by a corporation is claimable, and the amount eligible for claim is restricted to 2.5% of the Aggregate Income reported to the Inland Revenue Board. Hence, yes it will reduce the amount of chargeable income and tax payable.”⁵³

The philosophical view is more or less money in the hands of the government associated with complete freedom to spend in any direction. This presented analyses can only exist implicitly, no judgment is imposed on intentions, but for the sake of clarifying possible linkages that connect loose ends, this implicit analysis is presented. The meaning of “freedom to spend” is that the government can spend tax however it needs and desires. However, if the government is the entity collecting zakat, spending will be restricted to eight different directions only as explained in section 5.4. the distribution of zakat.

Data source: Tax data: Department of Statistics Malaysia, Official Portal, Time series data (2017); Zakat data: until 2012 (PPZ MAIWP, 92-2016), after 2013 (JAWHAR, 2017)

⁵³ This information was provided by the tax specialists at Khazanah as required during the interview.

Figure 5-1: Value of zakat V. value of tax 1991 – 2014 (Million MYR)



Source: Author Illustration

Data source: Tax data: Department of Statistics Malaysia, Official Portal, Time series data (2017);

Zakat data: (PPZ MAIWP, 92-2016)

The overly broad difference must have some indications. Those could include but not limited to the following reasons:

- Only half of the Malaysian population is Muslim
- Not all of the Muslim business owners pay zakat
- SOE also do not pay zakat, and considering the fact they are the largest enterprises in the nations makes a more significant difference.

The value of zakat to tax is double or triple as evident in Table 5-4 that illustrates the payment of zakat to tax by Bank Islam Malaysia. Given this logic, if all the dues in zakat are paid, and given Muslims represent about half of the population and collectively possess about 60% of wealth if we include SOE, zakat should account to somewhere around 20% of tax. Since we now know that SOE does not pay zakat, and they represent more than 30% of the Muslim wealth⁵⁴ in Malaysia, and not all Muslims pay their due zakat, which explains the considerable value difference.

⁵⁴ The discussion on what Islamic wealth or Islamic capital is, took place in Chapter 4.

5.2.3. Corporate zakat V. tax in Malaysia

Zakat on wealth is similar to the income tax filed annually to the national government in most countries of the world. However, zakat is on wealth and tax is on income. Zakat is a fixed 2.5% of one’s wealth, but income tax could range from 5% to 45% of income. Concentrating the comparison between corporate zakat only and tax is because the first type of zakat (zakat al-fitr) is a symbolic amount of money that is obligatory on all Muslims, as for zakat on wealth (zakat al-maal) it’s not an obligation on all Muslims, only on those who possess wealth that exceeds a certain threshold as discussed earlier (called nesab).

Bank Islam Malaysia zakat example

“In the financial year, the Bank has fulfilled its obligation to pay zakat on its business to State zakat authorities by adopting the growth capital computation method and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji. The Bank paid the Zakat on its portion, i.e., shareholders’ fund as well as other funds received by the Bank except for depositors’ fund.”

“Several zakat authorities had refunded a portion of the zakat paid for the Bank to act as their agent (wakil) to distribute to eligible beneficiaries (asnaf) among needy individuals, mosque, non-governmental organizations, higher learning institutions (needy student’s welfare funds) and schools as guided by the Business Zakat Payment Guideline that was approved by us.”

Table 5-4: Bank Islam Malaysia 2015 – 2016 zakat and taxation

Pg189	2016 (,000)	2015 (,000)
Profit before zakat and tax	720,441	685,131
Zakat and taxation	45,019	25,587
Zakat	12,851	8,711
Taxation	32,168	16,876

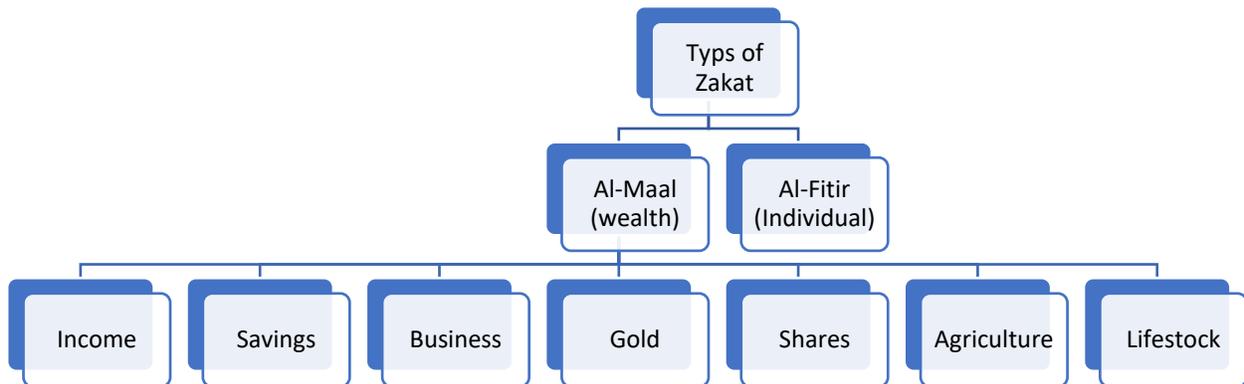
Source: (Bank Islam Malaysia , 2017)

The general perception of an individual is that zakat is part of the charity and the corporate perception is that zakat is part of CSR when the corporation is an Islamic one such as Islamic banks. That is clear in the case of Bank Islam Malaysia; zakat is part of the Zakat & Charity Committee.

5.3. Collection of zakat

Although the collection of zakat is straightforward and unified among all Muslims, the legal system makes a difference. Despite Malaysia being constitutionally Islamic, practically it is secular. Law does not enforce religious practices, and the federal government tries to stand on the middle-ground to achieve an equilibrium that may leave some people unsatisfied but will achieve the common goal of development. The illustrated sources of zakat in Figure 5-2 are clear, but dues by each are not necessarily collected completely because that will only depend on the desire of the owner. In contrast, the tax is compulsory for all. Although zakat is tax deductible as explained earlier, not all Muslims pay. That would indicate either of two issues or both; that the person does not care about Islamic teachings, or does not understand how the calculation works. This is particularly true with regard to zakat on wealth when it involves something other than income, saving, and gold because the calculation is more straightforward.

Figure 5-2: Types of zakat



Source: Author's Illustration

5.3.1. Value of zakat collection in Malaysia

During the year 2016, Malaysia collected 2.5 billion MYR the equivalent of 641 million USD⁵⁵ in zakat money. Approximately, 19.5 million of the population are Muslim, if a simple calculation is made, assuming every Muslim pays their zakat, it would be equivalent to 67RM each, which is a

⁵⁵ The exchange from MYR to USD was made on 3/7/2018

little less than 2000 JPY. However, that is not even the case, because this 2.5 billion RM is collected mostly from businesses, not individuals. “The individual zakat paid does not even represent 10% of the total zakat, the majority is paid by large businesses and corporations.”⁵⁶

In Malaysia, the individual-zakat is about 1.30 USD multiplied by 15.5⁵⁷ million would equal 20.15 million USD. As for Zakat al Mall, it is much larger than that number, and both types of zakat are annually collected and disbursed only in eight specified social directions as explained later on in this chapter. Considering the 2016 zakat collection in Malaysia was 2.5 billion RM, the zakat on wealth is about 30 times more than the zakat on the individual collected during the month of Ramadan. Furthermore, logically the case could be made that the zakat collected in Malaysia is more than the officially announced number because not all people pay their zakat through the state ZCC as the findings of chapter 5 conclude.

Table 5-5: Value of zakat in Malaysia

Category	Malaysia	Kuala Lumpur	Malacca
Size	330,800 km ²	243 km ²	Area: 277 km ²
Population	30.33 million ***	1.73 million*	873 thousand ***
Zakat collected	2.5 billion RM	566 million RM*	70.5 million*
Beneficiaries	--	--	14 thousand*
Covering need	Shortage of coverage	Shortage of coverage	Full coverage
Per individual contribution	6.7RM	49RM	12RM

*2016 estimation **2010 estimation ***2015 estimation

Data source: Department of Statistics Malaysia, Official Portal; Zakat data: (PPZ MAIWP, 92-2016)

The illustration in Malaysia Table 5-5 showing the value of zakat in Malaysia and showcasing two examples; Kuala Lumpur and the state of Malacca is interesting for a number of reasons. 1) The economic situation and average cost of living are reflected. Kuala Lumpur has one of the highest cost of living, and the state of Malacca represents the general average in terms of the cost of living in Malaysia. 2) The interviews with both ZCC’s revealed that despite the collection in Kuala Lumpur is highest or second in the list after the state of Selangor sometimes, it cannot cover all

⁵⁶ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit. However, Petronas does not pay zakat, those large SOE do not pay zakat, but have large CSR budgets that according to the interview with a financial investment manager of Khazanah, this charity payed by SOE would exceed the value of zakat if zakat was to be paid.

⁵⁷ This number represents about half of the Malaysian population, which is a rough estimation of the Muslims in the country.

the demands of those entitled to receiving zakat, as for the state of Malacca it could.⁵⁸ 3) Those numbers showing the individual contribution are not the only charitable financial contributions in the country. There are still waqf contributions, charitable contributions collected by tens of different NGOs, some of which also accept zakat money. Additionally, there are non-religious charitable contributions, 200 million MYR into one project in 2015 and 2016 just by Khazanah⁵⁹.

5.3.2. Banks in Malaysia

Islamic banks in Malaysia give in charity and in zakat, probably all banks in Malaysia do that because all banks have Islamic windows, thus pay zakat. The growth of zakat versus the growth of Islamic banks is the point of discussion in this section.

Table 5-6: Bank assets in Malaysia V. zakat collection (million RM)

Year	Islamic Banks (million MYR)	% change in Bank Assets	Zakat (MYR)	% Change in Zakat
2007	92,337.80		806,284,072	
2008	181,359.60	96.41	1,038,092,894	28.8
2009	219,848.40	21.22	1,196,871,799	15.3
2010	253,516.00	15.31	1,363,772,681	13.9
2011	320,518.50	26.43	1,638,916,783	20.2
2012	367,685.90	14.72	1,933,086,318	17.9
2013	419,548.70	14.11	2,265,424,891	17.2
2014	469,024.10	11.79	2,456,779,714	8.4
2015	526,328.80	12.22	2,490,587,187	1.4
2016	572,865.10	8.84	2,480,071,544.58	22.2
2017*	600,414.20	4.81		12.2

Data source: Central Bank of Malaysia (BNM, 2017, p. 1.7)

* This data concerning Islamic banks is for the month of June, the data from 2007 to 2016 is for the month of December. Zakat Data source until 2012 (PPZ MAIWP, 92-2016), from 2013 to 2016 (JAWHAR, 2017)

⁵⁸ This information relates to the year 2015 and 2016.

⁵⁹ Sulaiman, H. (2018, 20 February) Personal Interview, Khazanah/ Mardi, M. (2018, 20 February) Personal Interview, Khazanah. This money is managed by Yayasan AMIR serving the development of education for all Malaysian Children in Public Schools. The director also indicated that more money could have been collected for that cause through “Sukuk Ihsan” but the capacity of their partner does not allow.

Financial and economic attitude

Revisiting the views of Professor Nazari and most members of a financial activist group called Movement for Monetary Justice (MMJ), the individual attitude in spending, and the Banks financial propositions, they call facilities, are a predicament facing the achievement of HES. The spending attitude of individuals does not help the development of the RIZ. Especially the attitudes of salary-men that are encouraged by the banks who only operate as facilitators in circulating money in an economy.⁶⁰ That mindset that depends on bank loans minimizes the value of “wealth redistribution” in principle and disrupts the work of the RIZ and waqf along with other charitable organizations. The classical example in Malaysia is the deductions from many salary-men; we could find 1000 RM for a car loan, another 500 for some furniture, and maybe 5 - 15 RM in waqf and zakat contributions if any. In many cases after all those deductions debt-cards are used for daily consumption which most likely leads to overconsumption and falling in debt. According to prof Nazari and many others, an Islamic bank should advise against such attitude, or at least not encourage.

5.3.3. The case of Malacca

The case of Malacca is compelling because it falls in the middle and overall represents an average level of income and economic activities. Furthermore, the state has a successful record in managing, collecting and distributing zakat. According to the ZCC manager, as far as the numbers show, all Muslims in the state pay their zakat. He explained that due to the smaller size and average cost of living the state enjoys, they are able to cover all the needs of those entitled to zakat support.

⁶⁰ Sheikh, T. (2018, 21 February) Personal Interview, CIMB. He is a graduate of Harvard University, refused the idea that banks contribute to economic development, “they only act as intermediaries” or “we can say that they have an indirect role. The main reason is that banks do not engage in business, the contractors and other partners do”

Table 5-7: Example of zakat collection according to type in the state of Malacca 2013-2016 (Million MYR)

Type of Zakat	2013	2014	2015	2016
Income	25.1	30.4	35.2	39.6
Savings	9.7	11.1	12.3	13.1
Business	13.1	11.1	12.4	12.3
Gold	.5	.5	.7	.7
Shares	1.2	1.4	1.6	.8
Life-stock	.08	.07	.1	.08
Agriculture	.06	.08	.06	.08
Zakat Al-Maal Total	49.8	54.7	62.3	66.8
Zakat Al-Fitir	3.3	3.6	3.6	3.7
Zakat Total	53.1	58.2	66	70.5

Data Source: ZCC of Malacca⁶¹

* The summation may not count up precisely as the numbers were rounded up

Table 5-7 shows the sources of zakat. The sources that relate to economic and financial operations such as shares, business, and agriculture show fluctuation in the pattern of money collected each year. On the other side, if we look at zakat al-Fitr, it is zakat on the individual, thus, only connected to the increase in population; and the Malay population is increasing at higher rates than other ethnicities in Malaysia.

While the state of Malacca may be considered a successful case, but it certainly has better potential to unfold. This yet-to-be-reached potential will ensure more sustainability and better resilience, but it requires enhancing the performance of managers in economics and investment. Similar to other states, Malacca disburses the money of zakat in small monthly stipend to ensure subsistence of families. State religious councils should be focusing on developing profitable businesses to allow beneficiaries to take control of their lives and feel the dignity associated with self-reliance and independence, or in other words, to be free from want.

⁶¹ This data was collected from the ZCC of Malacca during the researcher field visit, however, this data is also available on line.

5.4. Distribution of zakat

Figure 5-3: List of zakat recipients

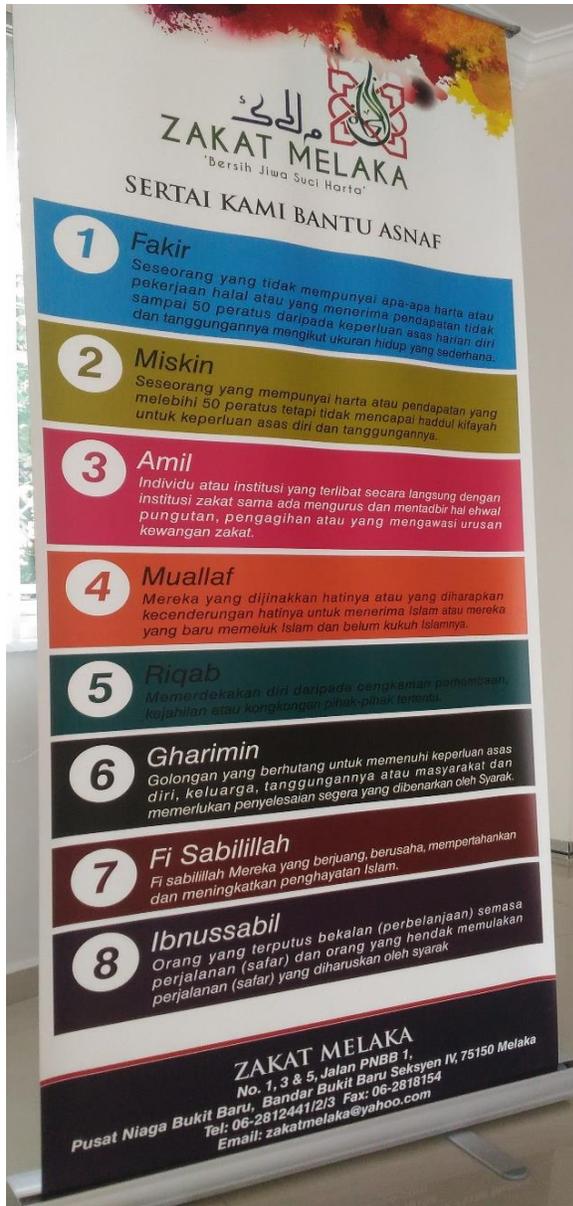


Figure 5-3 illustrating the list of recipients, those entitled to receive zakat as stipulated in the Quran (Q; Al-Tawbah: 60). There are eight acknowledged categories as listed in the Stand shown in the picture taken at the ZCC in the state of Malacca.

In the second part of Chapter 2, the discussion was focused on how Islam solved the Issue of poverty and strongly related to it, unemployment. In Figure 2 of Chapter 2, Zakat appeared as one part of a more extensive system, and rightly so, it is. This chapter focuses on zakat, the part of the system that targets the problem of poverty at its grassroots. The picture illustrating the eight general categories of those entitle to zakat.

- The poor
- The vulnerable (the needy)
- Service providers
- People whose hearts are to be reconciled
- Freeing captives or slaves
- The person in debt
- For the sake of Allah
- For the traveler

Source: Picture was taken during fieldwork in the state of Malacca ZCC, 2017

5.4.1. Consumption v. sustainability

The criticism of the performance of the Malaysian MAJLIS in managing the zakat money is specific. This criticism is directed to the way this money is distributed when it could be better utilized and invested in a way that ensures the sustainability of the zakat pool of money and thus ensures the economic well-being of those entitled to zakat support. From a different angle, the criticism points to the means by which entitled individuals could benefit. For example, a monthly allowance to ensure sustenance is not the best way. A better way for the zakat money to be spent on those entitled is by training and positioning those entitled to receiving zakat in productive projects. The logic of the critics to the current management style of the Malaysian MAJLIS's stipulate that beneficiaries could receive zakat once or twice in larger chunks of money that would allow them to open a profitable project, which would most likely mean to never be in need again.

The delivery of zakat money should depend on the general status of the receiver. Meaning; the receiver is to be investigated, strengths and weaknesses are to be recognized, and the best mean of money delivery that ensures sustainability is to be utilized. Handouts, monthly allowance, and regular coupons are only meant to specific groups of zakat-entitled individuals. Zakat entitlement could be received through opening a business for the beneficiary if they have a particular skill. The goal of zakat is to end any insecurity that entitled-individuals face while ensuring dignity and sustainability. Dignity could be ensured by making an individual free from needing the continued support from the zakat institution. Consequently, sustainability can be ensured by supporting a profit-generating start-up, project, or businesses.

5.4.2. Examples of zakat distribution

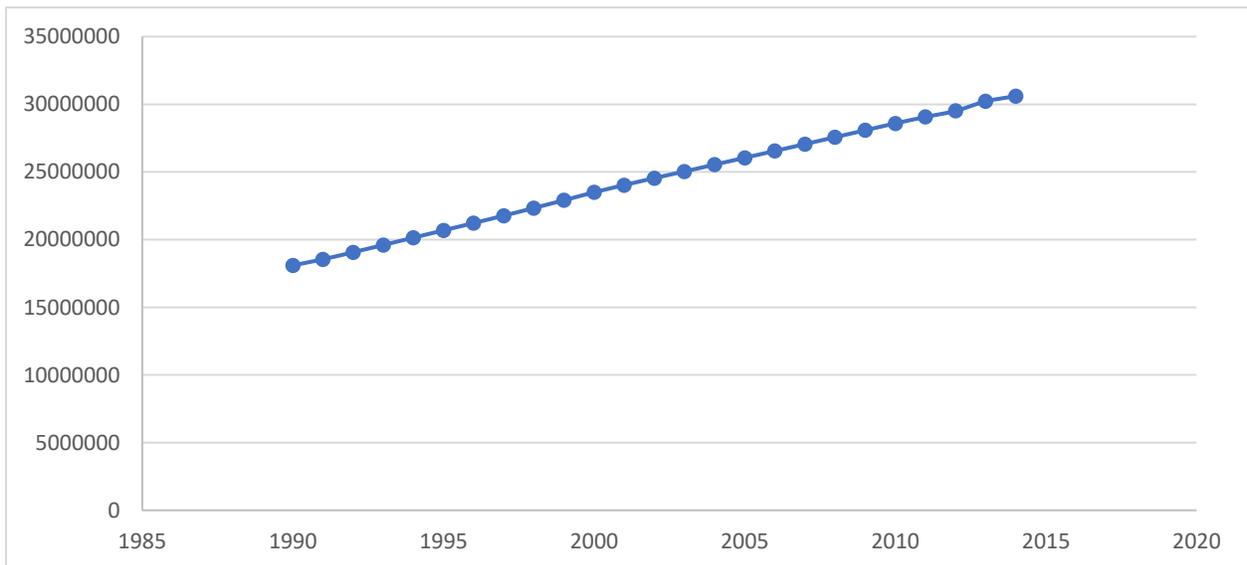
As illustrated in the previous picture, there are eight specific categories and all are humanitarian. This could be one reason what state MAJLIS adopt a consumption-based mechanism in handing out zakat. Food, shelter, education, and refugee support are among the typical practices of state MAJLIS in distributing zakat. The month of Ramadhan is a high season in spending zakat money; lots of that money is designated for *Iftar* (food for breaking the fast). The two days of *Eid al Fitr* and the 3-4 days of *Eid Al-Adha* are also seasons of high zakat expenditure. During such times food, shelter improvement, and clothing are primarily distributed. The annual reports of all state

MAJLIS are full of pictures and events with details of money spent as well as places and numbers of people benefited.

5.5. Economic indicators surrounding zakat

One philosophy in this research stipulates that combatting threats cannot take place in Isolation. Despite the fact that this research partially has an economic nature to it, a realistic conclusion may not be presented if we assume “*all else equal*” when looking into the case at hand. The importance of putting zakat, as public money, in the wider economic environment is derived from that philosophical presentation. As explained at the beginning of the chapter, every individual must pay at least one type of zakat, zakat al-fitr, for that reason, looking at population and the growth rate associated with the zakat-paying population allows the proper calculation and expectation of zakat collection. As clear in “Figure 5-4: Population of Malaysia 1985 - 2015” the growth is evident, and the growth rate is steady. This is one crucial indicator connected to the largely steady growth of zakat collection.

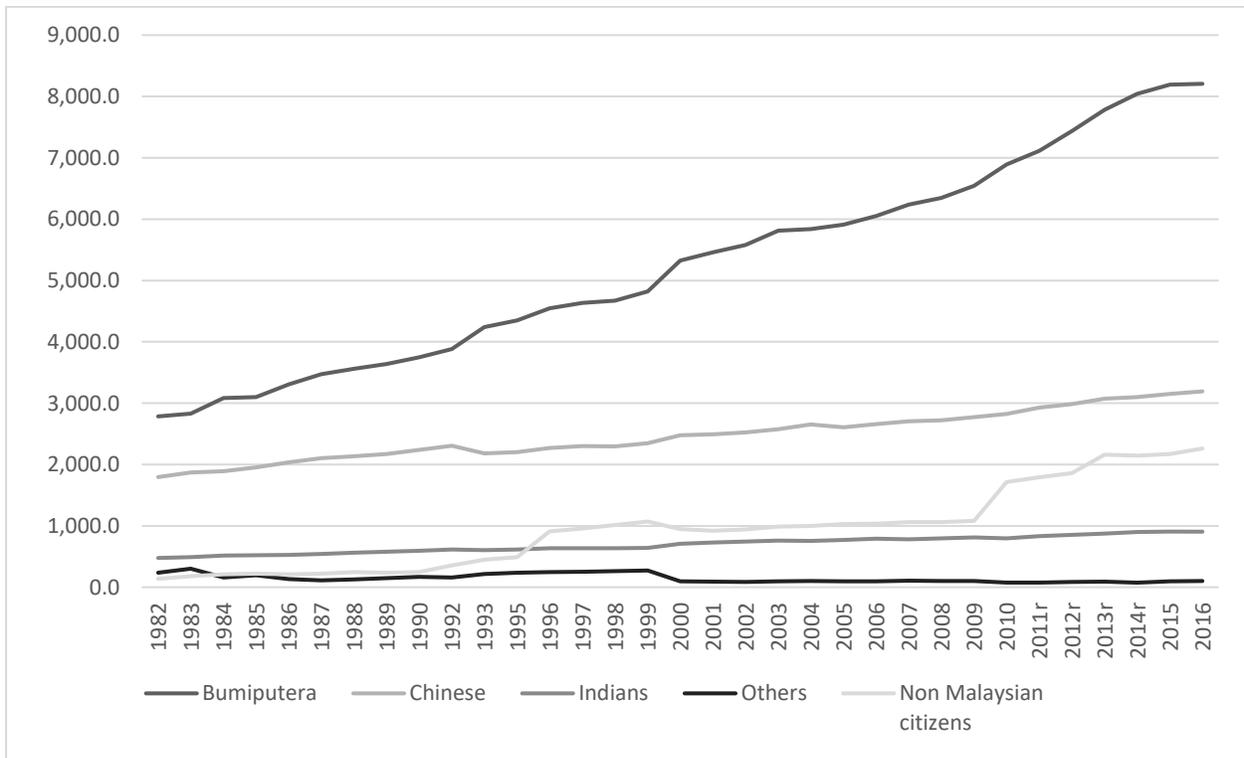
Figure 5-4: Population of Malaysia 1985 - 2015



Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

Given the ethnic diversity of Malaysia which introduces religious and cultural diversity, not all Malaysian citizens pay zakat because a little over 50% are Muslims, and only Muslims pay zakat. Figure 5-5 showcases labor force distribution among the different ethnic and foreign groups in Malaysia. In Figure 5-5, two lines are essential for our calculation of zakat and understanding of its surrounding. First, the blue line which represents the Bumiputra, the Muslim⁶² population, is important because they represent about 50% or slightly more and all of which pay zakat. The second line which also related to the discussion on Islamic economics and zakat is the light blue line, the non-Malaysian citizens. A large percentage of those are skilled foreign workers who were attracted to work in the Islamic finance sectors. This part of the population is also important because they pay zakat and largely participate in the enhancement of the Islamic economic sectors in the country.

Figure 5-5: Labor Force by the Ethnic group, Malaysia, 1982-2016 (,000)

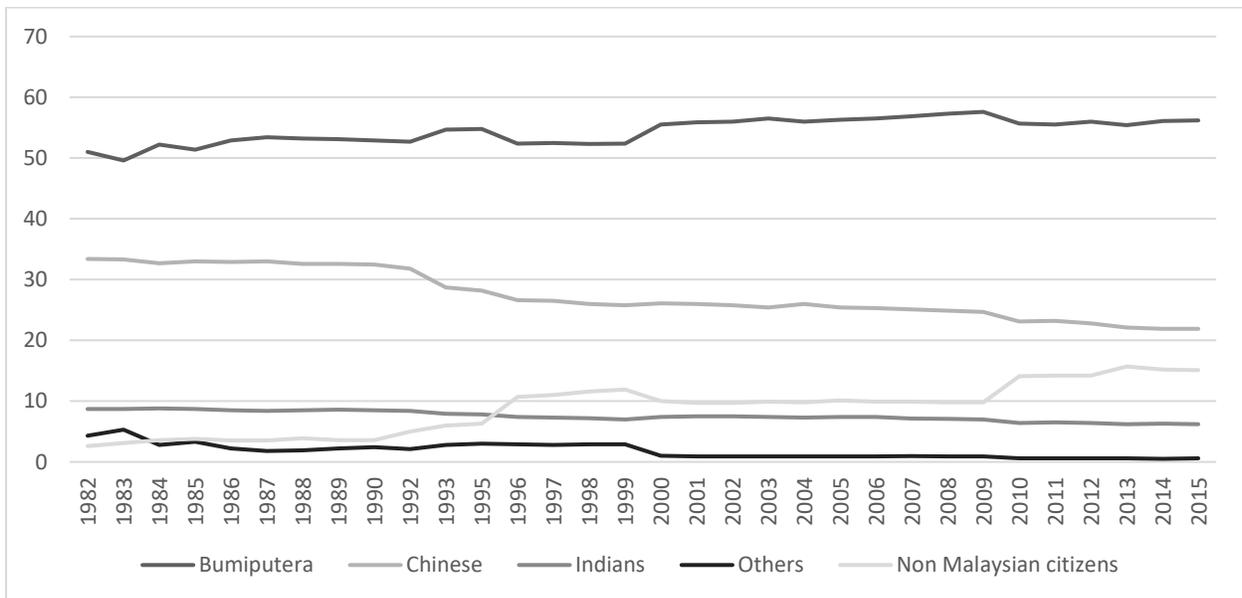


r: The 2011-2014 statistics were updated based on the population estimates of the respective years.
Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

⁶² In reality not all Bumiputera are Muslims, and not all Chinese and Indians of Malaysia are non-Muslims. But with regard to the Bumiputera, the vast majority are Muslims.

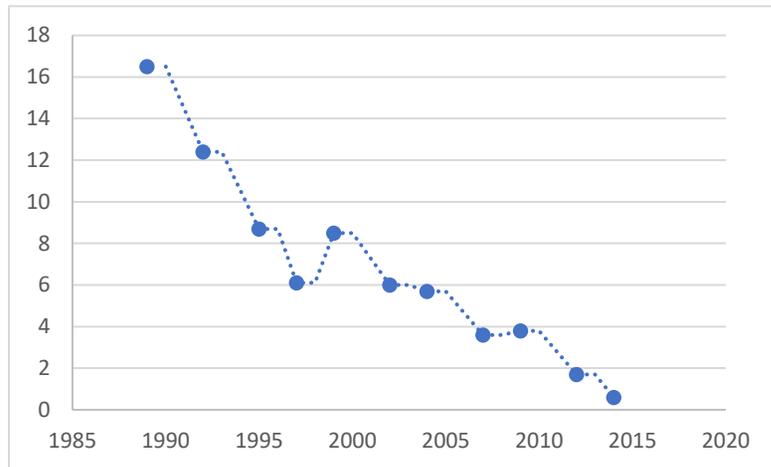
Figure 5-6 showcases the percentage of the employed persons in Malaysia. This figure reflects on the government policies explained in Chapter 4. The increase in the employment rate of the Bumiputra and the non-Malaysian citizens could be explained by the Malaysian government’s NEP that prioritized the Bumiputra in employment among other things. However, what concerns us with regard to zakat, there is a positive relationship between Bumiputra employment and zakat. Additionally, there is a positive relationship between the type of employment and zakat, the higher the monthly salary, the more likely zakat collection increases. Furthermore, the orange line representing the Chinese Malaysians employment rate shows a continuous decrease, that could partially be explained by the government economic policy that had favored the Bumiputra, and another explanation is their ownership of private businesses that may not present proper employment records for a number of reasons that could include tax evasion.

Figure 5-6: Percentage distribution of employed persons by ethnic group, Malaysia, 1982–2015



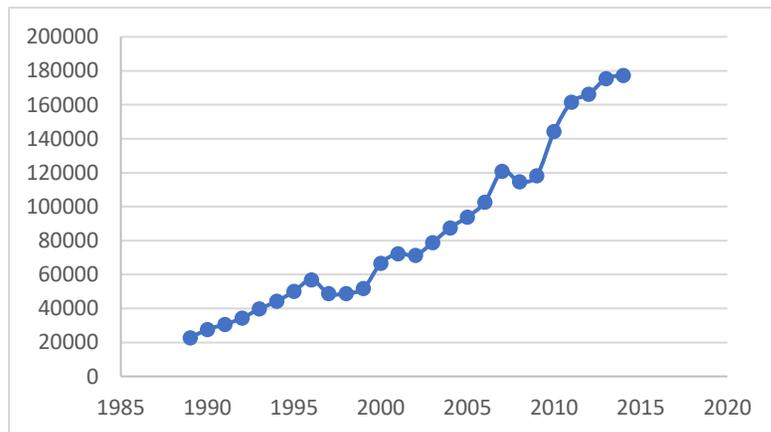
Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

Figure 5-7: Poverty 1985 – 2015 (%) rate



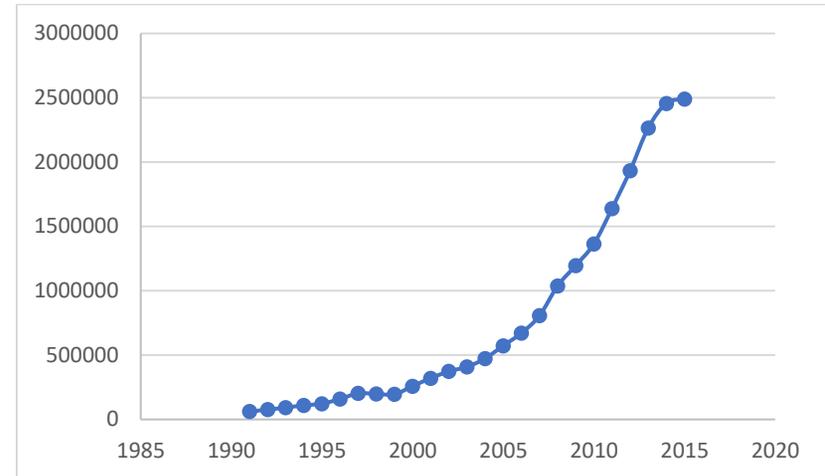
Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

Figure 5-8: Malaysian tax revenue 1985 – 2015 (Million MYR)



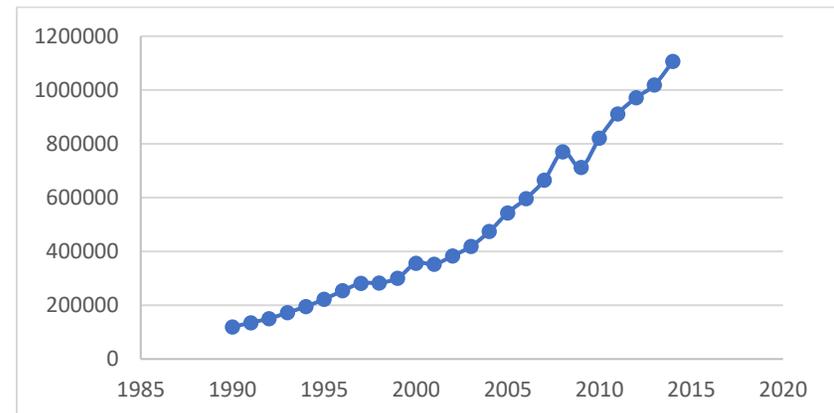
Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

Figure 5-9: Total Zakat Collected in Malaysia 1985 - 2015 (,000) (MYR)



Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

Figure 5-10: Malaysian GDP 1985 – 2015 (Million MYR)



Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

The four figures in the previous page collectively show a great picture of success. However, this success is not beyond normal for a country like Malaysia. Excluding zakat, if we look at Figure 5-7, Figure 5-8, Figure 5-10; the poverty rate, Tax collection, and GDP, one can realize the similar effect. For example, in looking at the years 2007, 2008, and 2009, both GDP and tax revenue decrease, consequently the poverty rate increases. This shows us the logic of economics. Similarly, if we make the analysis using percent change,⁶³ one can clearly realize that both tax and GDP follow a similar pattern.

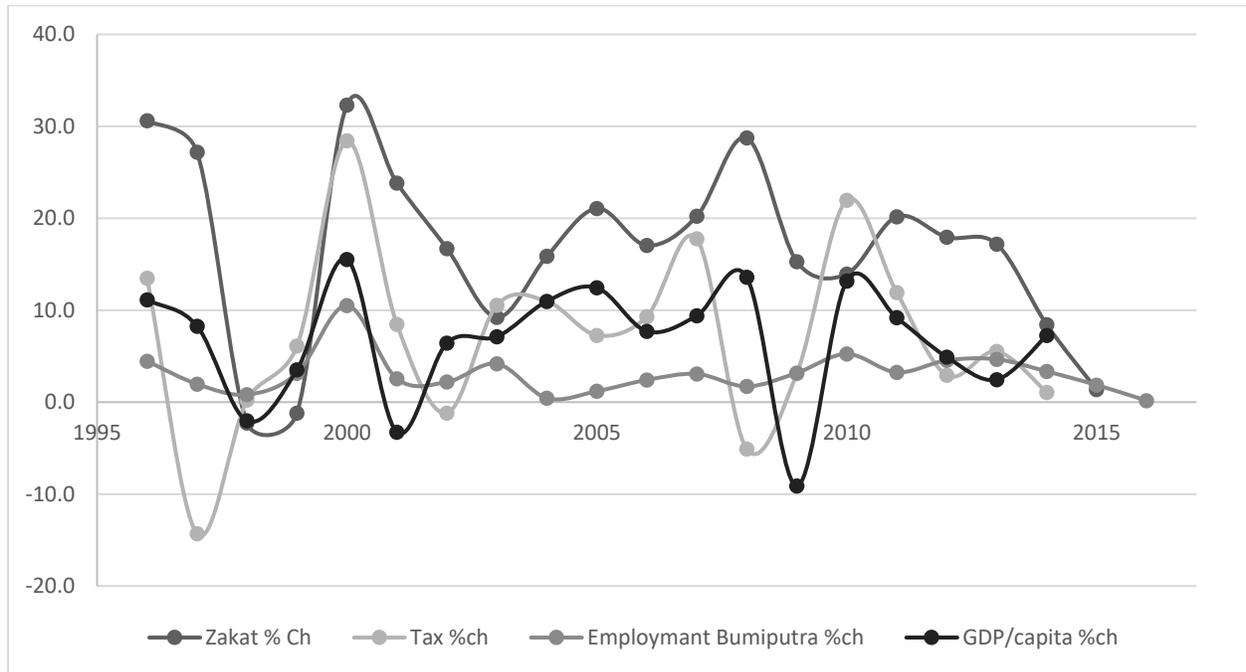
On the contrary, Figure 5-9 shows the total zakat collection, the general pattern is similar to both that of tax and GDP, but if we use the same example, the years 2007, 2008, and 2009, one can realize an increase in the zakat collection. That increase is also evident in the analysis made in

Figure 5-11 showing the percent change, where the percent change around the year 2008 increase. According to the outcome of this simple analysis, one may say that zakat is logically connected to economic indicators, but that connection is not reliable. Although zakat is public money similar to a tax, the outcomes of Chapter 2 that introduced the role of religion and faith, explains how even economics is firmly connected to the religion of Islam and that religion is essential in all aspects of a Muslim's life.

⁶³ *The poverty rate could not be added to*

Figure 5-11 because it is presented every 2 or 3 years, therefore leaving missing data which makes the comparison inaccurate.

Figure 5-11: % Change in Zakat, Tax, Bumiputra employment, and GDP/capita, Malaysia, 1995-2016



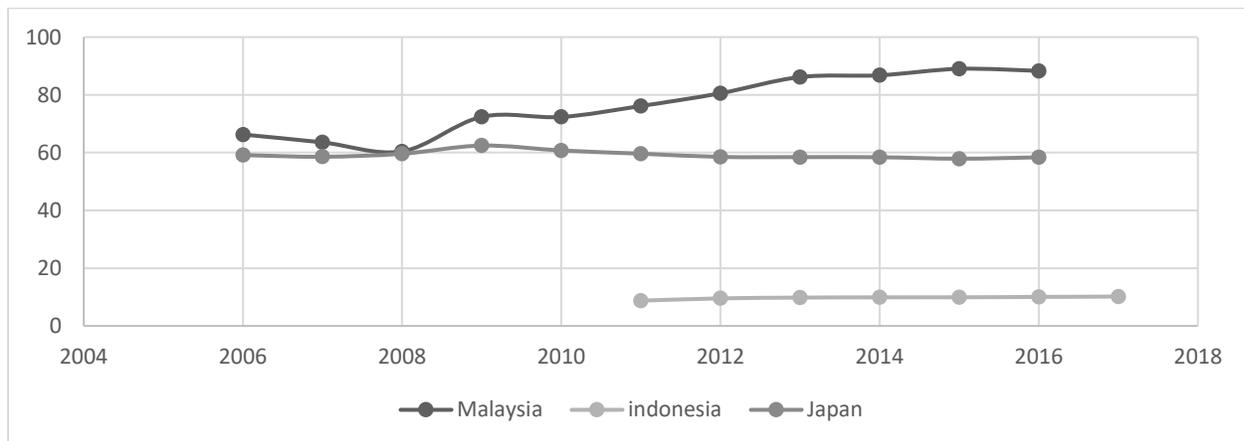
Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

5.5.1. The debt predicament limiting the growth of the voluntary sector

Debt is similar to interest in some ways. The MMJ make that point clear to avoid misunderstanding, especially in relation to the Islamic law that makes debt permissible. The predicament as they propose it; debt is discouraged in the Islamic law, evil, and much despised because one consequence is that it forces most averaged income individuals into a whirlpool of a financial crisis leading to bankruptcy. The argument made is that debts in its contemporary stipulations function in a way where individuals are set to pay installments to up to 20 years that could form up to 50% of their income in case of house loans. That is a case where individuals are made liable to banks, in other words under the mercy of banks for as long as they owe banks money. The long-term holds uncertainties and threats, that is a predicament although Islamic law functions on the bases of partnership and shared risk, the origin of the discussion in Islam is asceticism, not to incentivize individuals to luxuriate their lifestyle beyond their actual financial ability. This issue is reflected in the debt ratio in Malaysia which reaches about 89% as shown in Figure 5-12.

“We investigate the macroeconomic impact of such increases by employing a novel estimation technique proposed by Chudik et al. (2016), which tackles the problem of endogeneity present in traditional regressions. Using data on 54 economies over 1990–2015, we show that household debt boosts consumption and GDP growth in the short run, mostly within one year. By contrast, a 1 percentage point increase in the household debt-to-GDP ratio tends to lower growth in the long run by 0.1 percentage point. Our results suggest that the negative long-run effects on consumption tend to intensify as the household debt-to-GDP ratio exceeds 60%. For GDP growth, that intensification seems to occur when the ratio exceeds 80%. Finally, we find that the degree of legal protection of creditors is able to account for the cross-country variation in the long-run impact.” (Lombardi, Mohanty, & Shim, 2017)

Figure 5-12: Household debt % of nominal GDP 2006 – 2016



Source: CEIC⁶⁴

As the study by Lombardi, Mohanty, and Shim (2017) suggest, the Malaysian household debt is very high. Some studies suggest that a 60% household income is acceptable in developed countries, and a 40% household income is acceptable in developing countries. Some generally suggest that a 30% debt is acceptable; so one-third of a household income goes to paying back debt. What all this data suggests is that Malaysia may be developing impressively in the short and medium run, but the long run does not look very promising if the same financial attitude continued.

Debt could be a solution to some hardships. To take a stand on this issue in Malaysia, we should know why people borrow money. If money is borrowed for education or health, that could be a good reason. Even for education, one should calculate the feasibility of returns on investment. However, in Malaysia, most of the loans are to purchase automobiles and houses. This behavior

⁶⁴ CEIC is A Euromoney Institutional Investor Company, the displayed data is available at the following website: <https://www.ceicdata.com/en/indicator/malaysia/household-debt-of-nominal-gdp>

does not serve the individuals financial security. The additional threat is that all banks including Islamic ones give financial facilities and incentivize bank loans and the use of credit cards.

5.6. Different faces of charity and social responsibility

Zakat is a face of charity, the only difference its compulsory to Muslims when one's wealth accumulates to a certain threshold. Zakat and charity are simply directed to the same causes. Figure 5-3: List of zakat recipients

illustrates where zakat is disbursed which resembles that of charity. Charity is encouraged and well rewarded in Islam, but zakat was named compulsory because of the incentive-driven human nature. After all, being part of any community setting necessitates you contribute to it. In the first section of Chapter2, Figure 2-1 illustrates the importance of religion and faith which cannot be measured or evaluated, thus, to secure the HES of any community there must be redistribution standards. The RIZ is presented as the redistribution mechanism in Muslim communities. However, since Malaysia is not an entirely Muslim community although it is a constitutionally Muslim country, there must be redistribution mechanisms accepted by all Malaysians. For that reason, the institution of tax exists.

Contribution to wealth redistribution could be channeled through non-official/compulsory mechanisms that include a charity of any kind. There are big contributors to zakat, but how much of their supposed contribution is actually paid is a question to be discussed in this section. Alongside Islamic banks, State Owned Enterprises (SOE), or Government Linked Companies (GLCs) are even larger in size and scope; they are state-owned in the sense that the state owns all or most of the company's shares. In this important section details on zakat payment by big contributors is presented where possible. In the case presentation of such data is not possible, a discussion that explains why is replaced.

Large institutions generally recognize zakat as charity, which it is, but also locate it under the same management umbrella. For example, Bank Islam Malaysia in their 2016 annual report shows zakat

to be managed by the zakat and charity committee.⁶⁵ Islamic banks being Islamic institutions recognize their responsibility and commit to it, part of that responsibility is to pay zakat. Similarly, SOE also recognizes their responsibility and commit to it, that responsibility necessitates contributing to charity and CSR, not zakat. The following section explains the reasons.

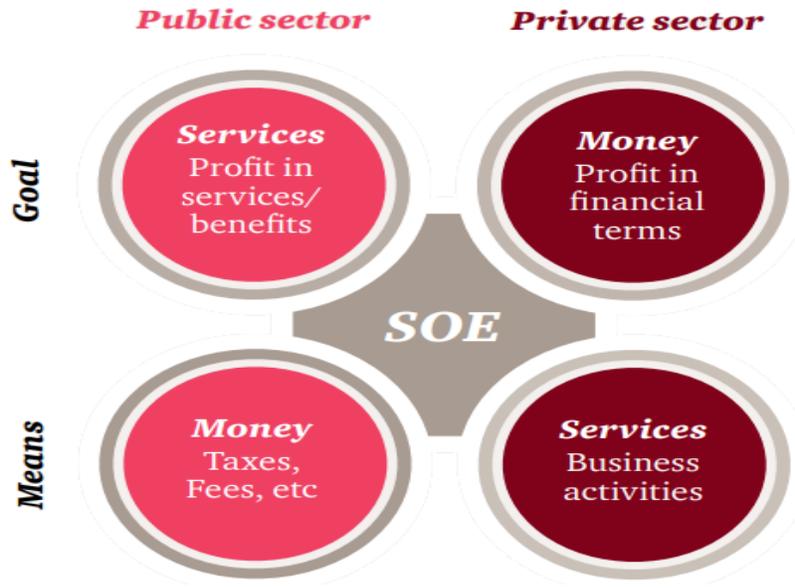
5.6.1. State Owned Enterprises

SOE give in charity, not zakat. How important is that, and does it make a difference? And why? In short, it does make a difference because zakat benefits Muslims only most of the time, But SOE have a responsibility towards all of the state citizens, and when the societal contribution is channeled through charitable mechanism, it serves everyone equally.

In Malaysia, SOE represents a great deal of value and highly influence the status of economics in Malaysia. Reportedly, the Malaysian government through SOE controls the Malaysian economy, as the economy of the country is rather state-led. Figure 5-13 shows the positioning of SOE between the public and private, and between making a profit and providing services. This positioning enables the government to take large control of the country's economy. In this section, the example of Khazanah is mainly presented. To collect detailed information, an interview was conducted with the director of the Finance Division of Khazanah the country's largest sovereign wealth fund who also oversee the operations of Petronas and other SOE of Malaysia.

Figure 5-13: Balancing SOE's objectives

⁶⁵ Bank Islam Malaysia 2016 annual report (pg. 109)



Source: (PWC, 2015)

“Although SOEs prioritize operations that maximize their earnings, the close relationships SOEs have with senior government officials blur the line between strictly commercial activity pursued for its own sake and activity that has been directed to advance a policy interest. For example, Petroleum Nasional Berhad (Petronas) is both an SOE in the oil and gas sector and the regulator of the industry. Malaysia Airlines (MAS), in which the government previously held 70 percent but is now 100 percent government-owned, required periodic infusions of resources from the government to maintain its large numbers of employees. The airline is still undergoing a restructuring, and the stated goal of the country’s largest sovereign wealth fund, Khazanah, which holds all of the airline’s shares, is to re-list the airline as early as 2017.”⁶⁶

PETRONAS: Looking back at the results of the interviews that were mainly presented in Chapter 5, some of the outcomes indicated that the Muslim capital in Malaysia is now bigger than that of the Chinese if SOE would be added to the calculation of wealth balance. The interviewee assumption indicates that SOE’s are Muslim companies, so as far as it concerns this research, those companies should be paying zakat. Looking at the annual report of PETRONAS (2016), there is not one single mention of the word zakat in the report. The company pays tax, but not zakat. According to the interview, PETRONAS is one of the biggest SOE that matter. But the question arises if large SOE do not pay, or partially pay zakat, the potential of the RIZ in Malaysia is

⁶⁶This information is from a US government website designed to help US companies in international business <https://www.export.gov/article?id=Malaysia-State-Owned-Enterprises>

suppressed. So what if the logic of the Malaysian national government of the constitutionally Islamic country?

Khazanah: Similar to PETRONAS, why Khazanah does not pay zakat is explained by their Director of Finance Division who is well aware of the Islamic teachings and the enterprise's responsibility as a SOE. In simple logic, "the responsibility implies that we are an Islamic state constitutionally, but in reality, we are secular. We have a responsibility towards all Malaysians, not just Muslims. Zakat could only be spent in a certain direction; non-Muslims can rarely be beneficiaries of zakat. According to that logic we spend in charity probably more than the supposed value of our zakat."⁶⁷

In Khazanah's 14th annual review⁶⁸ of 2017 and outlook for 2018, a number of societal value initiatives are displayed. *Yayasan Hasanah* is a foundation of Khazanah Nasional, 233.5 Million MYR were spent in 2017, 221.0 Million MYR were spent in 2016 by Khazanah and Hasanah in CRS initiatives, bringing the total spent to 1.2 Billion since 2006. The same foundation with Khazanah awarded 110 scholarships in 2017.

Furthermore, Khazanah is involved in socially responsible investments and does not invest in sin products. One of the valuable investments they initiated in 2015 was "*Sukuk Ihsasan*," Malaysia's first sustainable and socially responsible investment Sukuk. The first Sukuk Ihsasan were offered exclusively to institutional investors. The proceeds were channeled to Yayasan AMAR, a not-for-profit organization incorporated in 2010 to improve the accessibility of quality education in Malaysian government schools. As of January 2017, over 65,000 students and 83 Trust Schools benefited across ten states. Notably, in all Khazanah's activities, there is no categorization of beneficiaries, it's always for the public, for all Malaysians.

Principally the first round of Sukuk Ihsan reached up to 100 Million MYR, and the second round of Issuance has exceeded that number. The investor trust in Khazanah is a very important reason for collecting that amount of money for social investment. The strategy of Khazanah is to gain investor trust and then ask them to donate; they have always accepted. According to Khazanah

⁶⁷ Sulaiman, H. (2018, 20 February) Personal Interview, Khazanah/ Mardi, M. (2018, 20 February) Personal Interview, Khazanah

⁶⁸ The brochure was collected from Khazanah office during a visit February 2018.

Finance Division Director, the amount of money for the Sukuk Ihsan would have been larger, the reason for limiting the number to 100 Million MYR is the capacity of Yayasan AMIR, the partner receiving the proceeds to spend into the 5-year Trust School Program.

Revisiting the example of the state of Malacca, Table 5-7 illustrates the total number collected in zakat for the year 2016; it was 70 Million MYR. Khazanah's charitable activities and socially responsible investments are much more significant in value and effect. There are about ten large SOE, and if each would serve the society, we could imagine the value of zakat if all that money were to be channeled through the ZCC of the states and disbursed through the states Religious Councils.

5.6.2. Charity beyond zakat

Wealth circulation is necessary to ensure security for the vulnerable, the poor, the unemployed, and the disabled. Measuring or valuing charity, whether in currency or otherwise is something that can only be estimated. Looking at different world giving indexes one could find different estimations of who ranks first and second in terms of giving, helping, or volunteering; the logic of each index indeed differs in some way, but accuracy is beyond reach, even if accuracy is technically possible, practically biases always has a way to affect results. Now, this is true probably for all country nationals alike. However, the drive is different; humanity, religion, tax exemption, or compassion, all those are reasons to give to charity.

Wealth redistribution is central in Islamic economic thought as discussed in Chapter 3. Additionally, Chapter 2 points to the fact that human incentive is a fundamental pillar in understanding how HS is achieved from the Islamic perspective. Faith and adhering to the teachings of Islam is one way to assure wealth redistribution, the human need for positive and negative incentive is another way to ensure wealth redistribution. Islam counts on the good in people to "adhering to religious teachings," but also introduces a law that faces the human reality; not all people will voluntarily give, but all people must give back because this is how communities grow and develop.

Those two paragraphs help set the stage to discuss the nature of Malaysia. There is constitutional recognition of religion, but there is also a reality that recognizes secularism to be the real practice. The government is responsible for a diverse population; there are different religions, different

cultures, and different expectations. The importance of discussing charity and zakat in the previous section is that zakat is one part of a wider setting, separately it could not be presented a full solution.

5.7. Outlook to the future

Given the outcomes of the discussion in this chapter, the holistic character is missing; policy, economic operations, and religious teachings do not complement each other well according to the Islamic principles in Malaysia. This is not denied by those in policy-making positions or Islamic economics. On the contrary, there is a definite attitude toward improvement and more holistic compliance to the Islamic law. However, that positive attitude remains a desire that goes against some powers on the ground. Malaysia is Islamic constitutionally, but in reality, it is secular.⁶⁹ The ratio of Islamic to secular could be observed on the ground and reflected in economics. Any person who visits the country would not feel they are in a Muslim country like those of the Middle East. About economics, there is much more conventional capital than Islamic, conventional banks remain more substantial, and a case could be made for donations in charity being larger than donations in zakat.

Zakat collection will likely remain limited to normal growth. The status-quo will keep the conservatives satisfied, and the government revenues of tax high. Part of the Malaysian government's somewhat implicit policy is *Islam-Hadari*, where the government tries to balance between religion, state authority, and social responsibility. According to the government's moderate approach, it does not want to be seen as leftist, but somewhat modern and progressive.⁷⁰ The government provides all means necessary for calculation, collection, distribution, and even development of the zakat money, but it will not take action forcefully.

⁶⁹ Sulaiman, H. (2018, 20 February) Personal Interview, Khazanah “Malaysia is constitutionally Islamic, but in reality, it is a secular state. As a SOE Khazanah does not invest in sin investments, but there is conventional investment and banking” he adds, “the Islamic finance and banking sector is still developing, we try to cooperate more with Islamic banks, but we have a responsibility towards ALL Malaysians, that is one reason why Khazanah does not pay zakat, but spends in Charity”

⁷⁰ Shaafii (2017, 28 September) Personal Interview, IIUM

The only way for zakat collection to grow is if the government allows⁷¹ that to happen. We need to remember that the economic system in Malaysia is a capitalist system. The literature and the research results confirm that. Furthermore, the Malaysian economy is centralized, and according to some of the respondents, the government's greatest fear is losing power, and that happens partially if their revenues diminish. However, the government keeps a balance by giving incentives to pay zakat, by that they ensure that the lower income Muslim families that may not be entitled to pay tax will at least pay zakat, and the government gives up to a 100% tax return to individual zakat payers. However, the government makes it compulsory for businesses to pay tax and only up to 2.5% of their income could be a zakat-based tax deduction if the business paid zakat.

5.7.1. Is zakat the best means to achieve HES in Malaysia?

Zakat is an essential means to achieving HES in Malaysia. It cannot be the only, and it is certainly not the largest and not the most resourceful. However, the RIZ is vital to achieving the economic security goal in Malaysia. Religion and wide acceptance is one reason, another is its grass-roots level reach-ability. According to the defection of HES⁷² illustrated in Chapter 2, the institution of zakat is of great value in the Malaysian community; it is widely accepted, it reaches and operates in every corner of the nation, and it is highly resilient to external influences, certainly more than other economic indicators as explained in section 5.5 of this chapter.

The reason for recognizing the Malaysian institution of zakat as the best is because of its use of technology in collecting. The technology used in electronic transfers and deductions encourages people to make small monthly installments instead of more substantial annual payments that may discourage people. However, lots of enhancement is required at the other end of the responsibility which is the distribution of zakat. While charity may be widely recognized in delivering aid and consumption-based support, that should not be the case with zakat. The principal of operations in zakat should be ensuring sustainability and dignity. Sustainability is achieved through supporting

⁷¹ When initiating that growth of zakat is connected to the government allowing it, it may implicitly mean the government is preventing that growth. This is not the case. The government controls a large percentage of the Malaysian economy mainly in the form of SOE such as Khazanah and Petronas which do not pay zakat, but probably contribute in charity and CSR financing in amounts that exceed their dues of zakat.

⁷² Education-Job-Income is the triangle of HES (P.Tsagaan, 2000) that recognizes the force of external influences on the extent and reach of individual freedom (Sen, 2000) in light of the Islamic laws (the Sharia).

profit-generating businesses to entitled zakat beneficiaries which would minimize the duration of the beneficiary's dependency on zakat. Zakat support in the form of business would also mean more dignity enjoyed by beneficiaries once they secure independence and self-sufficiency.

5.7.2. How to expand zakat

The expansion of zakat comes through better collection and management. Those in charge of zakat have power and influence on a national level, thus, affect policymaking. The collection could not be forced, but certain agreements with more massive SOE could be settled. On the other hand, education and campaigning would be one way to remind all those required to pay zakat. About management, proper investment is necessary, and proper spending strategies need to be developed to ensure sustainability by supporting profit-generating businesses and projects to zakat-entitled individuals that have the ability and skill to manage a business. Such strategies ensure dignity and sustainably and eliminate insecurities.

Why the government should allow more zakat to be collected from businesses is logical for some reasons, but requires the zakat authorities to prove their capacity and ability. 1) there is a shortage of government ability to start development from the lowest grassroots level, the institution of zakat can do that. 2) Approximately half the population are Muslim, and not all will choose to pay more in zakat, which means the tax will not be affected much. 3) Both institutions, zakat, and tax are public institutions, both collect public money, and both are the right and left pockets of the same body, the government. More zakat collection means better results for HES at the lowest community levels of the larger Malaysian community that has the largest poverty rates. 4) The growth of zakat collection has a direct effect on poverty alleviation where the majority of the poor are the Bumiputra. It also has the potential to play a more prominent role in reducing unemployment, where the majority of the unemployed are among the Bumiputra as well. 5) The Malaysian institution of zakat is the best in the world regarding management, and it is developing. The government could also invest more in this institution by increasing the professional investment employees.

CHAPTER 6

Human economic security in Malaysia

6.1. Introduction

HES in Malaysia has a long history that is different from other country experiences in the world. To understand HES, which is simply the economic situation of the people in Malaysia, HES must be put in the context of ethnicity, economic justice, and the Bumiputra privileges by government. On a more practical level, by referring to the frame of reference in Chapter 2, HES goes through three steps. First education, then employment and after that income; as such HES is achieved. So, what this is referring to is that at a younger age education is essential which leads to securing a job (employment), which is the fundamental action that generates income, and when income is sufficient, more unfreedoms are liberated. This is in simplistic terms. When dealing with the other variables involved in this transaction, the country's economic policy needs to be discussed, as well as the idea of achieving economic justice between the country's different ethnicities.

Because the government recognizes Islam as the religion of the state, and the majority are Muslims, the Islamic thought of government leaders and political parties influence government policies. For that reason, the influence of Islamic thought on government and government economic policy is also a discussion point in this chapter. Furthermore, the IFBS, as well as the IVES are further discussed to see their role in uplifting HES for Malaysians as a whole and the Bumiputra in particular. Malaysia is the leading country in IFBS according to some ratings, and the IVES, especially zakat agencies are recognized as the best in the world. While discussing government and Islamic economics, more focus is put on the IVES that includes zakat, waqf, and charity. The goal is to connect their involvement and practices in achieving HES according to the values and objectives of Islam, which the Islamic economic sectors are centered around.

When talking about HES, fears and threats are equally important to point out. Those threats are first the ethnic divisions; where the society is divided along ethnic lines, and the country's political parties are also divided along ethnic lines, not political thought. Another threat is economic injustice, which is a central cause for ethnic division, and was the central cause of previous ethnic clashes. Those two threats fundamentally relate to HES and have lead the government to implement a number of economic policies, the main one being the NEP.

With the presence of threats and counter government policies, the country is actually doing well according to many indicators. After discussing Islam in the government, economic and ethnic-

related threats, counter government policies, and Islamic economics' role in HES; a discussion on future developments necessary to sustain a stable status-quo takes place. This is followed by a discussion over challenges and the way forward, which concludes this chapter.

6.2. Methodology and analytical approach

This chapter is based primarily on the results of the structured and semi-structured interviews conducted for the purpose of this research.

- More than thirty in-depth semi-structured interviews with researchers and academicians as well as with professionals and practitioners in the field of Islamic economics, both in the finance sector and the voluntary sector.
- Another approach was to conduct a number of structured interviews with more than 40 randomly chosen people including taxi drivers, university students, among others in the city of Kuala Lumpur and the state of Malacca to examine the economic understanding of the common people.
- General observations over the period of 30 days end of 2016 and 20 days beginning of 2017 were incorporated into this research and mainly serve in better understanding the research topic.

6.2.1. Study results

The main titles of this chapter are a reflection of the main fieldwork results. There are five themes that cover the subject at hand, and each has a number of sub-themes. The second set of data shows the outcomes of structured interviews with randomly chosen people that examine their economic understanding and role in the economy.

The study result themes:

- Islam in Malaysia
- Government policy and HES
- Malaysian's role in the economy
- Islamic economic institutions and HES
- Economy 101 (basic economic understanding)
- Economic security and the way forward.

6.3. Islam in Malaysia

Islam in Malaysia is present in different forms and levels. It is present in government and policy, also in economic practices and finance. It is present in the people and reflected on their appearance, action, and culture. Some of the country's most heated topics are economic justice and government economic policy. This additionally leads to a discussion over the role of Islam in solving the issue of economic injustice through government-led businesses and agencies as well as the government support for the growth of the Islamic finance and banking sector.

Islamic values: Most human values cannot be limited to a faith or a particular group such as honesty, prosperity, trust, giving and helping, justice, fairness, equality, and other values that are generally universally shared. However, there are values that are precisely connected to faith such as giving and sharing through zakat which is the third pillar of Islam

6.3.1. Presence of Islam in the country

The country has different histories of religions other than Islam, Buddhism was one and has a long history of civilizations, but Malaysian always relate to the Islamic civilization that started from the Sultanate of Malacca just two-and-a-half-hour drive from the city of Kuala Lumpur. "The most structured and organized way of spreading Islam between the Malay was with the rise of Malacca Sultanate in the 13th century and the beginning of the 14th century"⁷³. That re-emphasizes what the respondent repeatedly noted that the Malaysians are proud of Islam.

On another note, the public buildings reflect the Islamic architecture, and many people confuse public buildings with Masjids. One of the Malaysian main tourist destinations are Masjids, which are built to last as a constant reminder of the country being a Muslim country. Lots of money was spent on Masjids, but they also bring in lots of the tourist money as 5-6 million Muslim tourists visit annually mainly from the Gulf countries. Additionally, in every public space or public premises, there has to be a prayer space which is called SURA.

⁷³ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

People's dress code and the women's wearing of the hijab is another form of Islam in the country although the Malaysian dress style is more cultural than it is religious. The country also has religious schools and education centers, and also heavily invests in scholarships for Islamic education in Islamic economics. "Affin Bank Scholarships and PTPTN scholarship funds give most of their scholarships to students of Islamic economics." So, Islam is also present in the economy in the form of banks, insurance (takaful), savings, zakat centers, waqf, and more.

6.3.2. Islam in the government

One of the government servant working in the highest management position in a ZCC actually claimed that "we are the only Muslim state that recognizes Islam under the constitution." Despite this is factually incorrect, he added that the people here are very proud of Islam, and indeed that does appear to be the case. Islam is present in the government because it is led by Malay who are necessarily Muslims according to the counties laws. Islam is strongly present even if not explicitly stated. "Some Malay political parties that do not identify themselves with Islam are in fact Islamic, and we can tell by looking at their charters, goal, agendas, and visions."⁷⁴

The Malay Muslim Identity was kept by the reservation of the state name as (Sultanate). On the other hand, "Malay nationalism is connected to Islam. Thus, the policies are at least influenced by Islamic thought."⁷⁵ However, the influence of the Islamic thought is limited, and there are issues and challenges. Professor Nazari who is a university professor at UM and the former Dean of the Faculty of Business and Accountancy says that "we have to differentiate between Islamic and halal, a thing is not always halal, and on a government level they understand that because Dato Ashraf, the minister of finance said that the problem of Malaysians is that they limit halal to consumption only."

During the 1960s and 1970, Islam was present in the government in the form of cultural events and ceremonies. However, on a more practical level, there were acts of Islamization to government and policy that mainly started in the 80's at the time of Prime Minister Mahathir Mohammed. He introduced the Islamic council, Islamic ethics into government practice, and introduced Islam as a

⁷⁴ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

⁷⁵ *ibid*

positive source for economic development. After that, Prime Minister Badawi introduced Islam Hadari which is an extension of Mahathir's work, but the name captured world attention.

The government is a strong supporter of Islam through its policies, education, building Masjids, and supporting the Muslim Malay. A note that clarifies the presence of Islam in the government states that “we as a MAJLIS are a clear representation of Islam in the government because we are in charge of zakat which is public money and we are always observed and monitored by the government agencies for financial auditing and corruption.”⁷⁶

Connecting Islam to the government and to economic development had a significant influence on the establishment and growth of different industries and businesses. Part of the economic development was in the private sector, some was government driven, and some were attracted to the country in the form of foreign direct investment. Local economic development includes the Halal industry in food consumption, Islamic banking, and Islamic education. Policy-wise, there is Islam-Hadari; that attracted Muslim capital, students, tourists and opened up relationships.

Islamic Values in Malaysia

Islamic values are shared with all people in the world. There are some values that relate to the Islamic faith only, but the following will be a discussion of how the respondents viewed this matter within their community on different levels. One of the observations when it comes to Islamic values, it really is a reflection of whom you talk to. The respondent scholars and researchers, although professional, their social environment and surrounding work-culture effects their views. So, if someone is conservative and they have a conservative work environment, and a conservative family, they would tell you that values are good and getting better, and the same goes for the opposite. The values were discussed from a social side, a financial side, and from the charity side.

First, Values from a social side.

For Islamic values to be present, a decent level of Islamic understanding needs to be possessed by the public. To begin with, education is firmly connected to values in the society. Isolation of

⁷⁶ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

Islamic education and “non-Islamic education⁷⁷” is problematic. “Students that study only *Ulum-Din* (Islamic education) have a weak performance in college and in life because Islam is a whole unit, but it seems that we don’t understand the teachings and values of Islam well.”⁷⁸ Another view from a teacher and social activists in charitable NGOs indicated that values are not well present in the Malaysian community as a whole. “From teaching 7-17-year-old children, I can tell you that Islamic values are dry and one dimensional. For example, the idea that a Muslim can be other than a Malay is new to them. One problematic note is racism, children look down at Indians, and that is something they learn from their families.”⁷⁹

However, there was a general thought that from the 80s up, the Islamic thought and values are spreading more and more in the Malaysian community. Others thought that after the 60s and 70s there was Da'wah (Islamic education or preaching), but it focused on halal and haram, not values. One view insisted that “people are better than what we think, but the problem is that a fault could be easily generalized, and in the Malaysian community there is not just one mistake there are many.”

On a different note, the work culture is somewhat slow, something that most of the respondents talked about either explicitly or implicitly. One interesting comment by a retired financial practitioner talking about the concept of growth and work after retirement says: “people’s concept of growth is so worldly (does not consider the afterworld), I shock people when I remind them of death, and tell them that even the 6-feet of grave-land is temporary, as Muslims we have to believe that and keep it in mind. When people retire, they spend all their time in the Masjid or doing nothing productive, we never know when we will die, and as Muslims, we have to work as if we live forever, and work is an Islamic value.”⁸⁰

⁷⁷ Non-Islamic education generally refers to sciences that include mathematics, chemistry, engineering, medicine, economics, and everything that is not (Quran, Hadith, Fiqih, ...). This is a wrong perception by many Muslims because the names were only used to categorize different sciences, not to label them as Islamic and non-Islamic. For example; there are Islamic Science, Social Science, Science and Engineering, etc. The wrong understanding leads people to think that if it is a no-Islamic science, it is not permissible and that inaccurate understanding had negative consequences on the development of many Muslim communities.

⁷⁸ Mukul, A (2017, 6 May) Personal Interview, UM

⁷⁹ Banu, A. (2017, 12 May) Personal Interview, NGO

⁸⁰ Banu, A. (2017, 30 May) Personal Interview, Investor

Second, Values from a financial side

Omar Chapra writes about the importance of Islamic values saying that we have Islamic finance, banking, and industries, but values are not growing at the same rate. “People’s lack of Islamic knowledge and the wrong act of limiting Islam to halal and haram in consumption makes it easy for banks and others to take advantage of the people’s lack of understanding.”⁸¹ For example, borrowing is ok, but too much is not, and banks will never stop lending. “I was hoping that sharia people would take it upon themselves to promote fairness, Islamic values, and the right way of dealing with money each in their bank.”⁸²

In finance and investment in Malaysia, the market for Socially Responsible Investment (SRI) Sukuk is weak. And there are two reasons for that. “When the government investment agency sells SRI Sukuk to enhance the countries education system, very little investors buy, they all want profit, and this is a shame for us as Muslims. This tells you that even Muslims care first about themselves then maybe about their county.”⁸³ On another note, Islamic banks cannot be blamed much for lack of investment in socially responsible investments because it is largely the people’s choice. “When a socially responsible Islamic bank informs depositors and investors that they will start getting returns on their investment after few months, they will pull out and invest in Islamic banks that give profits directly and care less about the bank's record of social responsibility.”⁸⁴

Third, values from a charity side.

There was complete agreement that the Malaysians in general and the Malay, in particular, are very kind and like to give on most occasions. The presence of values such as giving in the Malay community makes the zakat system successful. “The zakat collection and disbursement system in Kuala Lumpur is an example, researchers and officials from other countries and local states come to study us as a case.”⁸⁵ When interviewing with the managers of zakat centers in KL and in Malacca, both gave the example of increasing zakat as an indicator for the presence of good Islamic values because the act of giving is an Islamic value. “If we look at zakat, it is increasing, and so is

⁸¹ Ismail, N. (2017, 9 May) Personal Interview, UM

⁸² Kasri, N. (2017, 11 May) Personal Interview, ISRA

⁸³ *ibid*

⁸⁴ Mahdi (2017, 12 May) Personal Interview, ISRA

⁸⁵ Saiful (2017, 23 May) Personal Interview, MAIWP KL

the Islamic values of the people. The people pay because they understand and believe, and paying is not mandatory, it is voluntary, it's an instilled value in the Malaysians."⁸⁶

As concluding remarks for this section, while giving is a great value, it is not the only one. There is much more to the value system, that is addressed by scholars and professionals who interact with a broader and more diverse work environment. On an individual level, the respondents widely agree that people in Malaysia tend to think of themselves first, then their society, and that is not an Islamic spirit. Some of the voices that addressed this matter said: "I agree, Islam is present, but it is not the best presence, and the people are not the best representatives," a more negative view says that there is some resentment against Islam in this country. Because it is seen as the state religion, and ruling power is Muslim and would do anything to stay in power. All those views were for Muslims that recognize a problem, and also say it is generally improving.

6.4. Government economic policy and HES

The Malaysian economic policy is connected to HES, because of unfair distribution of economic resources between the nation's different ethnicities. That was problematic because the Majority of the population who lived terrible economic situations and possessed no more than 2% of the nation's economic resources before and around the independence. The connectedness of government economic policy to HES precisely began right after the ethnic riots that took place in the year 1969. That was a focal point that made redistribution of wealth necessary.⁸⁷ This section will cover three central themes, first, the government's economic policy, second, government-led businesses and agencies and their role in HES, third, the logic of the government economic security from different perspectives with a connection to HES.

Economic development, and therefore economic policy is either centralized like in China, Malaysia, and other Asian countries, or development is based on open market economies like most European countries. Each way has its flaws, and those following one way tend to attack the others like the west attacked Malaysia for corruption and too much economic intervention during the

⁸⁶ Pengarah, Z. (2017, 17 May) Personal Interview, ZCC Melaka

⁸⁷ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

1997 and 1998 economic crisis. And the Asians replied to the West during the 2008 world financial crisis. But there is no right and wrong; there might be right and better. As for the case of Malaysia, its economic development experience is a case that deserves attention and deserves to be studied.

Malaysia has a centralized economic development system, they have initiated the NEP, as well as a 5-year economic plan until the year 2020, and after that, they now have a 2050 plan. Those plans and economic policies were the cornerstones of the nation's economic development. The government is not just an organizer or a facilitator; it is the leading player in economic development. Given it is a Muslim country with a government led by Islamic political parties, the economic policies were specially designed to ensure economic justice and uplift the economic well-being of the Malay.

6.4.1. Government economic policy

The government's NEP was put after the 1969 ethnic conflict for economic redistribution and fairness. As the original Malay owned about 2% of economic capital, and others, especially Chinese owned more than 60%. The government policies after the 70's were a direct national response to existing economic injustice, and to reduce the economic gap that led to the ethnic conflict in the first place. The Malaysian economic policies that favored the Bumiputra gave them special privileges that go beyond economics. Those policies that have now been present for about 45 years are perceived differently according to the respondents, but there was an agreed upon logic and a general consensus on the principal of the policies that aimed to achieve economic justice. The criticisms of the economic policy become more and more valid in the current times.

To begin with, some respondents supported the government policies that favor the Malay because they see it as their right. Their logic is that the non-Bumiputra were favored by the British for long years, so it is only fair to give the Bumiputra their opportunity. "We are at least 20 years behind, we need many years to catch up, and the government MUST continue its support to the Malay." "The government economic policy in principle is ok, given it aims to achieve economic justice in the country for a historically deprived group of people, but the problem is that it is now being

abused by undeserving Bumiputra that are still entitled to receive those privileges.”⁸⁸ Furthermore, “government policies were put to avoid ethnic tension and conflict and to serve social justice according to the government, but a recent new trend that started to take place and was close to perfection, led by influential opposition like Anwar Ibrahim called to end Bumiputra privileges and implement an equal economic policy for all.”⁸⁹

Other views see that the government now has actually begun to make changes where Prime Minister Najib Razaq Administration is said to give Chinese more facilities. However, those practices by the government, if actually exist, they are not an official government position because the government is still following the NEP that favors the Malay. Finally, some views that look at the government economic policies as unjust and need to be changed say: “because justice is the right thing to do, a policy must not continue forever; it should have a timeframe, so the beneficiaries know they will not have this policy that forever them forever, which makes them work harder.”⁹⁰

Other Government policies

While flaws in the government practices are pointed out, respondents re-emphasize on the government's acceptable overall performance. There is a threat related to ethnic conflict, so the government enacted a law to address that issue. There are practices by Islamic banks that do not comply with Sharia, but the central bank enacted laws against those practices. Additionally, there are issues with increasing corruption, but the government has started agencies that monitor and combat corruption. Furthermore, there are other government practices related to borrowing that are refused by a group of critics that refer to those acts as threats to the economic security of the people. “There are strong government policies against any kind of ethnic conflict that includes everyone even the Malay. The seditious ACT⁹¹: under this act, any racial, or ethnic criticism or complaint is severely punished. The problem with this act is it is wide and very inclusive.”⁹²

⁸⁸ Waleed, A. (2017, 6 May) Personal Interview, UTM/ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO/ Kasri, N. (2017, 11 May) Personal Interview, ISRA/ Banu, AZ. (2017, 12 May) Personal Interview, NGO

⁸⁹ Banu, AL. (2017, 30 May) Personal Interview, Investor

⁹⁰ Banu, AZ. (2017, 12 May) Personal Interview, NGO / Mukul, A (2017, 6 May) Personal Interview, UM

⁹¹ This act either held another official name or it may be implicitly recognized as part of other similar or relevant acts. Thus, no official information was found under that particular name as far as the researcher investigation led.

⁹² Banu, AZ. (2017, 12 May) Personal Interview, NGO

There are a number of issues and counter policies by the government: “With regard to failed housing projects, Bank Negara has clear guidelines that the bank cannot take anything more than what they have paid for customers. The government has put a lot of money in reviving back the Abandonment of Housing Projects (AHP).”⁹³ Furthermore, “From my work, I know that many government transactions in the form of projects would be given for 10 million when they are only worth 2 million. This is corruption, but the MACC is an anti-corruption agency that started to work to reduce the rising rates of corruption.”⁹⁴ On another note, “The Malaysian government borrows money using Sukuk and other instruments, and when economic development is by debt, that is a big problem that poses as a threat to the people’s economic security. Increasing rates of debt ratio to income is a big threat, but there are no policies or even awareness of it.”⁹⁵

6.4.2. Government-led business’s role in ES

Because the Malaysian economy is centralized and government-led, the establishment of large companies and even entire industries was part of the government policy for economic development. “The economic development of the 80s and 90s were a result of government-led projects, not the individual free market-based economy.”⁹⁶ Manufacturing and petrol companies were established and further developed, which led to the development of the country’s infrastructure, which in return also led to the significant development of the tourism industry, and with all that, even the agricultural industry developed. Examples of those companies and industries are palm oil, PETRONAS, and car manufacturers. Those are important for the economic security for a number of reasons, 1) they provide lots of jobs mainly for the Malay, 2) they led the economic development to shift to manufacturing from agricultural, 3) improve justice in wealth redistribution which is the initial reason for the government economic policies of the 70s.

In a final reading to the role of government led businesses, they have had a significant impact on HES. That could be observed through their social contributions and socially responsible investment. “Government-lead businesses were established to serve economic development and

⁹³ Kasri, N. (2017, 11 May) Personal Interview, ISRA

⁹⁴ Banu, AZ. (2017, 12 May) Personal Interview, NGO

⁹⁵ Kasri, N. (2017, 11 May) Personal Interview, ISRA

⁹⁶ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

were a tool of the NEP after the 70s to raise the income of the Malay and reduce the economic gap mainly between the Malay and Chinese.” Furthermore, “The government was a leader in the political and economic development, and intervened directly to push economic development especially in industries and services to favor the Malay economic situation and uplift them to achieve economic justice.”⁹⁷

Social enterprises need lots of advertising and education on the importance of giving back to the society for them to be successful. On the other hand, the profitable government-led businesses are good for economic development, “but the problem of overpricing government projects wastes lots of the public money and lots of corruption is taking place.”⁹⁸ At the same time, the government spends little on social enterprises support compared to what it wastes on corruption. “Social enterprise is a new sector in Malaysia, it has been for 2-3 years, and the government is pushing to make it grow, and this year provided about 3 million in incentives, which is little money.”⁹⁹ However, what is notable is the role of SOE in supporting social enterprises that directly benefit HES. One example is the support provided by Khazanah to Yayasan AMIR and others.

6.4.3. The logic of government policy in relation to HES

The logic of the government economic policy is perceived differently where the government talks about economic justice, and others say it is now time to impose total equality. Government policies are logical in a sense that they try to achieve justice in economic distribution which was the spirit of the Bumiputra policy or the NEP. “The Malaysian Government advocated for equity, not equality. Because it perceives that social justice can be achieved by providing the poor with the large support they need.”¹⁰⁰ The majority agreed that the spirit of the government’s economic policy was logical and serves the cause of HES, but only a minority of the respondents insisted that the government economic policy must continue.

- “Supporting the Malay is good for all and for the country because it implies equity.”
- “The government support for the Malay must continue because it serves economic justice.”

⁹⁷ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

⁹⁸ Banu, AZ. (2017, 12 May) Personal Interview, NGO

⁹⁹ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹⁰⁰ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

- “I think that there is an implicit agreement between all Malaysians in approval of government policies, even now. Chinese might disagree, but when you ask them about how they are affected, there is not much to say.”¹⁰¹ On a connected note, this claim could be supported using economic indicators such as average income by ethnicity.
- “The government economic policy must be updated to solve problems of privilege abuse, and focus on the actual poor Malay and incorporate additional support for the poor non-Malay.”¹⁰²

There is a new trend that started appearing which is close to perfection and was led by substantial opposition like Anwar Ibrahim. It was to end or abolish NEP and work to achieve total equality by introducing new laws that give all Malaysians the same rights and ends the special Malay privileges. But this did not get through. The following views explain the need for fixing government policies from different perspectives and for different reasons.

“The problem is that Government economic policy helps the already well-off Malay and leaves out the actually poor Malay, it made the Malay lazy, and made their students less achieving because they have guaranteed a place in college while others need to work hard to get a place.”¹⁰³ “What is missing is continuous assessment for the progress of beneficiaries. And the problem with the government economic policies is that they are being abused by those entitled to the government support by law, but in reality, do not need it; you would be amazed by the number of rich kids on government scholarships.”¹⁰⁴

On a more practical side, government economic policy was very beneficial to the country’s economic development, and the Islamization of government policy also had a leading role in achieving economic development that logically leads to achieving HES.

“The main reason for incorporating Islam into the government and in economic development was to involve the Malay Muslims into the economic development process and make them have a share in the economy. Now and after all that effort, they own about 25% after they used to only own about 4% in 1964. The connection of Islam to economic development was in large positive for a number of reasons. 1-motivate the majority of people to be involved in the economy, 2-more

¹⁰¹ Waleed, A. (2017, 6 May) Personal Interview, UTM

¹⁰² Banu, AZ. (2017, 12 May) Personal Interview, NGO/ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹⁰³ Banu, AZ. (2017, 12 May) Personal Interview, NGO

¹⁰⁴ Banu, AL. (2017, 30 May) Personal Interview, Investor

importantly it attracted Muslim capital especially from the Gulf countries, Bank Al-Tamweel Al-Kuwaiti, Alrajihi Bank, and up to 6 million Muslim tourists each year.”¹⁰⁵

Now there are government agencies that operate to combat corruption in government agencies. In the Malacca zakat center, the respondent informed that there are two agencies that investigate the zakat money since it is public money 1) government corruption agencies, and 2) general auditors of federal agencies. On the other hand, there is a seditious act that was enacted right after the 1969 ethnic conflicts. This act severely combats any act that threatens the ethnic stability, it is very inclusive and serves the cause very well as it represents a substantial deterrent for all Malaysians. Both government policies relate directly to the protection of HES as many different dimensions of HS are very interrelated.

6.5. Malaysian’s economic role, & relation to HES

There is a role for the individual as a citizen in contributing to the economic well-being of their country. In Malaysia, there is a general perception that seems to be still present, which assumes that the ethnic Chinese Malaysians contribute more to the country’s physical economic development, a substantial proof is what Mahathir Mohammed said about the Chinese being the ones that made the economic development of the country happen. The general observation of this study assumes that this perception is not as real today as it used to be before 10 or 15 years ago. A more in-depth observation and analysis indicate that contribution is based on financial capacity. The Chinese had the most significant financial capacity, but now the ratios have changed. On a private sector level, the Malay now own 25 to 30% of economic capital, and when including the overall economic capital of the country, the Chinese ownership does not exceed the 40%. So, by exhibiting numbers, a valid claim could be made that the government has largely succeeded in implementing its economic policies that aim to achieve fairness in economic distribution. But there is more to that than just numbers. In the following, the individual Malaysian’s role in the economy will be discussed, and then the Malay and Chinese role will be roughly compared.

¹⁰⁵ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

6.5.1. Individual economic role

Individuals like the government, borrow money. The household income to debt ratio is very high, about 90%, and that is a problem. However, in the short-run and maybe in the medium-run it contributes to economic development as the government directs. “I was told by senior management in the central bank, that they want Islamic banks to do exactly the same as conventional banks, to lend money, so the economic cycle continues and the economy grows.”¹⁰⁶ One of the old and involved financial practitioners explained the individual role in a simpler way saying “Malaysia is a capitalist system, in this type of systems, the masses feed the elite.”¹⁰⁷

The individual plays a decisive role in the country’s economic development as the government wants. This is logical given Malaysia is a centralized economy where the government is primarily involved. On a general level, the individual role in the economy contributes to its development, therefore has a role in achieving HES, but probably from the middle up, not bottom up.

So how HES would be achieved from the very bottom up, and what is the individual’s role? One way to look at this question is bank deposits. The individual deposits being pooled in banks and savings institutions are huge. A depositor is practically an investor. Individual investors must be socially responsible. They must deposit their money in socially responsible banks and financial institutions. However, they are not interested in being social or responsible; they want to profit.

“Investors are not interested in IHSAN SRI Sukuk; they don’t care about social responsibility, they only want profit. And even if the bank is investing, it has to make a profit for its depositors, so banks will not be interested in those kinds of Sukuk as well to fulfill the desires of the customers.” Illustrating the other end of the observation: “at an individual level, people must contribute to investment in social activities, but since generating profit is the goal, people go to banks and financial institutions because they know they will get good returns on their investment. Therefore, the bank mentality prevails and effects people.”¹⁰⁸

¹⁰⁶ Ismail, N. (2017, 9 May) Personal Interview, UM

¹⁰⁷ Ismail, N. (2017, 9 May) Personal Interview, UM

¹⁰⁸ Kasri, N. (2017, 11 May) Personal Interview, ISRA

With regard to paying zakat, it is important because it directly contributes to the country's welfare and the welfare of poor people. However, "individuals paying zakat don't even represent 10% of the zakat paid by the large corporations. Overall the individual zakat paid barely represents 5% of the annual tax paid."¹⁰⁹ When the government gives people incentive to pay zakat it is not affected, and zakat completes the work of the government, so it is the same.

It is essential for the individual to understand the basics of the economic system to be able to make sound investment decisions. But it seems that is not the case. "It is easy for professionals to make financial decisions, but the normal people find it hard, this is how the financial sector takes advantage, so the public must have better financial awareness, lots of things will change."¹¹⁰ "when people live in a city and have a decent income they take loans for cars, so they spend irresponsibly, and then come to ask for financial support. As a zakat center, we have to examine the eligibility of the person, we find that this person is not eligible, so some people after they get rejected, they go to the media and talk negatively about zakat centers. So, individuals have to be economically responsible. But taking loans is easy, it is easy for normal people to fall into financial problems."¹¹¹

The professionals describe how the individual is his own enemy when it comes to their financial irresponsibility. The increasing cost of living should make everyone worried. This is a financial threat that affects everyone in the country, the debt ratio to household income is about 90%, but people don't seem to understand that additional borrowing is the main reason for the big problem they all complain about, the increasing cost of living. While people realize that the cost of living is increasing, they don't know the reason and don't know that they are part of the problem. To this end, it would be fair to conclude that individuals contribute to economic development as the government prescribes and desires, but fail to do development according to what they wish.

6.5.2. Bumiputra economic role

Malay are two main types. 1) Coastal Malay who were traders and a little bit better off economically compared to 2) Malay Farmers who worked in agriculture and were very poor, but overall, both suffered poverty, but the latter suffered extreme poverty. The Malay people generally

¹⁰⁹ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

¹¹⁰ Banu, AL. (2017, 30 May) Personal Interview, Investor

¹¹¹ Saiful (2017, 23 May) Personal Interview, MAIWP KL

feel that the government should continue supporting them, but some also feel that the economic policies need some refreshment. It is no secret that the Malay are criticized for not being vibrant. It is also true they have been working in agriculture for long times, and still, but their work mentality is changing over time.

With regard to the Malay role in development, one interesting view explained that the Malay people like their country which is a pre-request for development. The Malay are economically productive mostly through government-led business. And on the other hand, the government is working hard to support the Malay businesses, especially at an individual level. “I wouldn’t call the Malay lazy, that was the criticism of Mahathir, but in large they have failed to take advantage of all the facilities provided to them, they have to be more proactive. One example is the government gave one Malay a real-estate in a prime area to make investment and business that is a guaranteed profit, but what happened is the Malay rented to a Chinese for 2 thousand while he could have made up to 22 thousand per month according to profit estimates in the area.”¹¹²

Those that agree with the fact that the Malay people were put way behind on a track in the race of life, and therefore the government support must continue, also insist that the Malay should take full advantage of the government privileges to make their lives better.

“If you are a Malay one of the biggest insecurities is that you will end up like Malays in Singapore; a small minority after being the majority.” So, the government positions are mostly occupied by the Malay, the government is led by Malay, and the army is also led by Malay. Those institutions are open to others, but they would not reach high positions. The negative side associated with the feeling of insecurity is the corruption that is increasing in the government and among police forces.

“It’s very embarrassing that the Malay people are the corrupt ones in this country. This is clear because Malays are largely present in government and police, and in both, there is high corruption.”

Muslim Malay Da'wah (preaching) groups and individual, don’t really understand the economic system well, so they cannot explain it to people. They would only tell people to deal with Islamic banks as if the problem is only conventional banks. The problem is in the economic system and

¹¹² Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

individual financial unawareness. When asking the manager of Malacca zakat center about why the Malaysians contribute to giving voluntary zakat, his first response was that they were afraid of hell, so they wanted to do good deeds. “Muslim Malay are afraid of hell; this is one reason why they pay zakat. So, they pay for religious purposes, and now there are more awareness campaigns for better Islamic understanding.”¹¹³

6.5.3. Chinese economic role

“The Chinese ownership of large economic wealth was not a gift from the British Occupation, but it was largely facilitated. However, that takes nothing away from the ethnic Chinese Malaysians, their capital with no doubt has contributed to the nation’s economic development, and government policies were always friendly and supportive to the Chinese capital and investment in the country unlike the African leaders whose policies drove the capital of the white man out of the country”¹¹⁴

On a private sector level, Chinese are the most active especially in the real-estate sector and local businesses. Mahathir Mohammad praised the Chinese for their hard work. Although there is large government support to the Malay, the Chinese still possess the highest share of the private sector. For example, “some Islamic banks have up to 40% of their investors as non-Muslims, mainly Chinese. It is just good for their business, and the Chinese know how to do business.”¹¹⁵

However, the Chinese have an issue with their business attitude, and they also face a challenge. Their business ethics is not very good. For example, “in the abandonment of housing Projects AHP, most of the contractors that fail to deliver the houses to the clients are Chinese businesses. And that is after they take the customer money, benefit from the government support, and then take advantage of the situation (like economic crises) and play the system and get away with it. There has been a number of cases, and most of which are for Chinese.”¹¹⁶ On the other hand, if you are a typical Chinese family, you would feel economic inequality, especially lower-middle-class families. So, one might say that while Chinese may not be served justly when it comes to HES, they sometimes contribute negatively to the general HES of the Malaysians. Despite the negative

¹¹³ Pengarah, Z. (2017, 17 May) Personal Interview, ZCC Melaka

¹¹⁴ Umran, M. (2017, 7 May) Personal Interview, PICOM CEO

¹¹⁵ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

¹¹⁶ *ibid*

and positive, no matter the ethnic similarity, one should not be treated based on another person's actions. According to the HES presentation in Chapter 2, such collectivism goes against the Islamic spirit in protecting HS.

The primary source of threat to Chinese is ethnic violence because they are still a minority, but they have most at stake because they own most of the businesses. Furthermore, the Chinese and non-Muslims have a general fear that the country will turn into an Islamic state where they impose Sharia law, which will not happen because it is rejected by the Muslim led government itself, but it is terrifying to them to just hear such discourse. With regard to education, as a Chinese, you need to work hard as a student to secure a place in college "a medical doctor elaborates that the majority of students that do well are non-Bumiputra because they have to fight for a position."¹¹⁷

"Chinese are not silent about the government economic policy and the Malay privilege; they are muted. There are increasing complaints from Chinese against government policies, and they want total equality. But there is a threat that accompanies this which is the government policies against ethnic tension."¹¹⁸

6.6. Malaysian Islamic financial institution's role in HES

This section has two themes, the first discusses the role of Islamic finance and banking institution's role in HES, and the second discusses the role of voluntary Islamic institution's role in HES. The value and presence of the financial institutions is larger and broader, but what they dedicate to social responsibility practices is rather small compared to their size, just like any corporation. The voluntary institutions have a much smaller value, less capital, but all of this capital is directly invested and spent on HS matters as well as HES in particular.

Table 6-1: Comparing the Value of Banks, Zakat, and Waqf.

	Value of assets
Banking (finance sector)	More than 2 Trillion mixed assets
Zakat (voluntary sector)	1.3 billion in liquid assets (2.5 billion)
Waqf (voluntary sector)	About 4 Billion in physical assets mostly

Data source: Malaysia Bureau of Statistics, JAWHAR

¹¹⁷ Banu, AZ. (2017, 12 May) Personal Interview, NGO

¹¹⁸ *ibid*

6.6.1. IFBS economic role and role in HES

Islamic capital existed even before the political and economic Islamization process before the 70s and before independence. Real economic development was planned in the 70s and started in the 80s where some corporations and industries were established or developed. Examples are Tabun Haji, Khazanah, Bank Islam, and Bank Muamalat. Also, government projects like Feilda and Petronas were a reason for economic development. Those government-led developments were instrumental in narrowing the economic gap as they focused on uplifting the Malay economic lives. During the same time, the Islamic finance and banking sector developed as the local economy developed and as Islamic foreign capital was invested in the country.

The IFBS developed because the economy developed and because it responded to the Majority of people needs. It provided employment, reduced poverty, and more importantly removed religious threats related to financial and banking transactions where this Islamic banking sector works without interest and complies with Sharia law; and to the Muslim Malay, this is an integral part of their HES.

Islamic bank's financial assets are now 26-27%, and the goal is to make them 40% by 2019. About 51% of Maybank financial Assets are Islamic, and this is the largest bank. CIMB is the second largest bank and has 30% Islamic assets.¹¹⁹ Large industries and ministries now deposit their budgets in Islamic banks; this is government intervention to achieve the goal of making Islamic banks represent 40% of banking assets by 2019.

Positive role

Islamic banking, saving and investment corporations work to serve generally middle-income class. This sector largely contributes to economic development and to HES in such way where they provide financial facilities enabling those people to secure housing by buying houses, and secure transportation by buying cars. Those are the main two among many other needs and complementary goods. However, those institutions also contribute to HES for the poor by paying zakat, tax, and allocating about 3% of profits to CSR activities.

¹¹⁹ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

- Zakat is disbursed entirely to the poor
- Parts of tax money is spent by the government on welfare
- And CSR is also entirely spent on social activities and needs that include health, education, and necessary community needs.

Islamic banks contribute to economic security because they invest in real and socially responsible assets. On another level, Islamic banks give responsible loans. On a direct level, they participate in CSR and pay 2.5% of their profit in zakat; around 1.5 million and more. In return, the zakat centers give them 30% back to spend on our behalf, and they report on all the expenditure.¹²⁰ CSR of Islamic banks is good because it promotes their brand as a full-fledged Islamic bank.

Furthermore, banks cooperate with zakat and waqif by co-venturing to manage zakat and waqf collection. To banks that money is treated like deposited money, that way banks can take advantage of that money in investment because it is in millions. The increasing size of the sector and the similarity of the transactions with conventional banks as well as the drive for profit attracts foreign banks, businesses, and investors to take part in the Islamic finance and banking sector. “Some Islamic banks have up to 40% of their investors as Indians or Chinese, generally non-Muslims.”¹²¹ There are significant saving institutions that help Muslims save and invest and also save for haj and Umrah. There are also Islamic Takaful (Insurance) that help people in different insurances like health and car insurance.

According to some views, debt is necessary, Islamic banks need to provide debt-based structures in order for the economy to grow, but banks shouldn't be too focused on debt as it could lead to problems in the future. For example, in the AHP issues with customers and banks with contractors, because the debt is paid over long periods of time, sometimes the housing project fails, or the contractor fails to deliver. In this situation, some Islamic banks are supportive of the customers, so some banks give discounts to customers when settling the issue according to the borrower's income. Conventional banks would bear no responsibility. So, while long-term borrowing is risky and could cause damage to a person's economic security, Islamic banks share the risk.

¹²⁰ Saiful (2017, 23 May) Personal Interview, MAIWP KL

¹²¹ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

Negative role

The opposite opinion about the Islamic finance sector claims that they do not contribute to economic security. Islamic banks are part of the problem because they make debt easy for everyone, so demand on property and others purchases is easy, so prices go up fast while income is constant or grow slow. The idea circles around the fact that banks are designed to make a profit, including Islamic banks, so to say the least, they will do their best not to take risks which is against one of the principals of Islamic financing, which is risk sharing. Another problem with Islamic bankers is that most of their seniors are from a conventional background, they think that by converting to Islamic finance the economic, finance, and cost problems will go away, while the fact is they will not because Islamic banks are also creating lots of debt which pushes the cost of living up.

“Islamic banks give out loans, which could be good, but they do not share the risk with people properly. I have a friend that took an Islamic loan to buy a house, faced an issue, and the whole transaction turned out to be a bad deal, she would tell me that they are worse than conventional banks.”¹²² This transaction is, in fact, an actual case. In the AHP, where the house project contractor fails to deliver, the customer loses, and the contractor could get away. With regard to some banks, they would ask for everything but profit, and those are the worst cases of non-compliance with Sharia law. This information was collected from a researcher in a government research center that confirmed such events. This is a direct threat to HES because housing is essential, but the more significant threat is the amount of money lost by the individual is very large. However, and to be reasonable this is not a representative case, and it is being combated by the Central Bank.

The problem with the Islamic financial system is that it imitates the conventional financial and banking system, and also imitating the conventional financial tools and transactions but changing the processes to be compliant with the Sharia law. Here there are a number of points necessary to point out. In an interview with Prof Nazari he told that “the central bank, through one of the higher management, said that we want Islamic finance to do exactly the same as conventional banking, and this is how we can guarantee the continuation of the financial system in the country and

¹²² Banu, AZ. (2017, 12 May) Personal Interview, NGO

activate all the money in the country.” This backs the claims that say Islamic finance and banking is nothing but repetition, and that is not Islamic.

With regard to SRI by government financial and investment agencies, as of now, there is only one SRI Sukuk issued by Khazana in 2015. When developers of SRI Sukuk want to sell, it is difficult to convince the buyers and investors; they are not the best Sukuk out there to buy. Bankers are not helping in the development of social enterprises either, and this was written in the social enterprise's report. “The appetite for bankers is not in social activities; they are not social, they are profit maximization animals. Here I don't care about bankers; they are conventional anyway; I care about Sharia people in the banks who should be pushing to do the right thing and achieve the objective of Islam in money.”¹²³ However, this view was rejected by Khazanah; “we collected 100 million the first year, we had to stop because the capacity of our partner could not handle a larger number, and it was the first time, the following year we expanded and I was successful, and in the following round we will also expand the range of investors to allow individual investors alongside with corporate investors.”¹²⁴

The Islamic finance and banking sector must be susceptible to compliance with Islamic law in all their transactions because there is talk about some transactions not being compliant. On another point, their lending must be for necessities; it must not be for luxury. Banks have the ability to recognize a need; it is part of the investigation they do. “In Islam, we know that debt is not supposed to be an industry, you only lend to help, and borrow if you need. Islamic banks lend to do business, and do not advise the customers that borrow for luxury, let aside borrowing for no reason or being wasteful.”¹²⁵

However, on a final note, in principle, Islamic banks and financial institutions participate in economic security, they provide employment, insurance for people, give loans to businesses and house ownership. They also help people save and invest in a Halal way. There is always the rich, middle, and poor; the rich don't need banks and loans, the middle class can get loans and fulfill their needs and payback in small installments. With all the negatives of borrowing, until now, there

¹²³ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹²⁴ Sulaiman, H. (2018, 20 February) Personal Interview, Khazanah / Mardi, M. (2018, 20 February) Personal Interview, Khazanah

¹²⁵ Ismail, N. (2017, 9 May) Personal Interview, UM

are no better alternatives, and people still prefer the better not-perfect Islamic alternative. While some voices criticize Islamic banks, at least they recognize a partial role in achieving HES in the sense that Islamic banks and financial institutions pay zakat, tax, and participate CSR, but they do conclude by assuming that the damage banks are doing, in the long run, is far larger than their benefit.

6.6.2. Role of IVES in HES

Zakat and waqf are religious acts but are also influential in the economy. Zakat and waqf fall under what is generally known as the IVES which directly effects HES at the grassroots level. They play an essential role in helping the very poor by providing financial support, and there are housing arrangements through waqf money and assets for the poor.

Table 6-2: Zakat collection in Malaysia

	Malaysia	Kuala Lumpur	Malacca
Size	330,800 km ²	243 km ²	Area: 277 km ²
Population	30.33 million ***	1.73 million*	873 thousand ***
Zakat collected	1.3 billion (2.5 billion)	566 million RM*	70.5 million*
Beneficiaries	-----	Non-defined	14 thousand*
Covering need	-----	Shortage in coverage	Full coverage
Per individual contribution	6.7RM	49RM	12RM

*2016 estimation **2010 estimation ***2015 estimation

During the year 2016, Malaysia collected 2.5 billion RM in zakat money. Approximately, 19.5 million of the population are Muslim; if a simple calculation is made, assuming every Muslim pays their zakat, it would be equivalent to 67 RM each, which is a little less than 2000 JPY. However, that is not even the case, because this 1.3 billion is collected mostly from businesses, not individuals. “The individual zakat paid does not even represent 10% of the total zakat, the majority is paid by large businesses and corporations such as Petronas.”¹²⁶

If we consider that individuals only pay 10% of the total zakat money collected in the year 2016, then 10% of 2.5 billion is 250 million, and the amount paid by each Muslim in the country is about

¹²⁶ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

6.8 RM which is only the value of zakat al-Fitr. That also means that people on an individual level do not pay zakat al-Mal which is the zakat every eligible Muslim pays on their accumulated wealth if it exceeds a certain threshold. However, we can conclude that every individual in KL and Malacca actually pay their zakat al-Fitr, but not all pay zakat Al-Mal.

“If people are so busy with paying off debt, how will they contribute to IVES? - only some people contribute to waqfs, zakat, and charity by 1 – 10 RM / month, but contribute to banks by paying an average of 1000RM/month in installments to repay debt. What happens is that banks in a way take away the resources for IVES. The result is clear that IVES will not grow much, the system is not helping”. However, this is only one-way zakat, and charity money is channeled, but it is the dominating and most significant. This sector works very well in Malaysia because people here are generous and like to give, especially Malay mostly for religious reasons. Additionally, the government gives incentives for people to pay zakat, they get 100% tax refund. Both zakat and Tax are two pockets for the government which makes it logical for the government to give incentives to zakat payers.

Zakat centers are government agencies that manage public money. Therefore their balance sheets are audited, and anti-corruption government agencies also monitor and observe their work. Some respondents explain how some people are losing trust in the ZCC and the system because they feel their money is not spent properly. A lady that is running a charity, and helps refugees and immigrants that come into Malaysia also receive people’s zakat but explains that most people still give to the ZCC. Another view explains that there is some mistrust in ZCC, but the bigger problem is in how the money is managed.

“Unfortunately, there is growing mistrust in the work of zakat, and the bigger problem is how they spend the money on people making them dependent and have a consumption mentality when they should be seeking to uplift poor families in a sustainable way.”¹²⁷ “A charity, a zakat center, or a waqf, yes, they are religious in principle, but they have lots of money that can be used to uplift

¹²⁷ Norma (2017, 9 May) Personal Interview, NGO

people's lives not just be disbursed to the poor. Money should be well invested, and sustainability should be the target.”¹²⁸

6.6.3. Issues in zakat management & capacity to affect HES

Zakat is increasing because there is an increase in income, population, awareness, and internet and technology make it easy to pay in monthly installments. While most literature says that management is a problem, there is transparency, which makes the assessment of the problem more accurate given that all information is available. “In Kuala Lumpur, about 70% of the people pay their zakat electronically each month instead of annually, and people even pay more than 2.5% because it is small monthly installments. Zakat collection increases every year in KL, and in Malaysia as a whole, but the cost of living is increasing, and it is worse in the city, so we still cannot cover all the needs.”¹²⁹

In Malaysia, there is a more extensive government welfare system that also helps in poverty alleviation and the zakat system in each state also support the government attempt in reducing poverty. All eligible Malaysians benefit from both systems; even non-Muslims benefit from zakat money. Overall, poverty and homelessness are not a big issue, but it is an ongoing problem that requires ongoing efforts. Both the welfare system in Malaysia as well as the zakat system seem not to be entirely cooperating to reduce the act of double benefit. In KL for example, one of the top management of the Kuala Lumpur MAJLIS, who is in charge of disbursing the zakat money explained that some people benefit from both the zakat and the government welfare and that they have knowledge about that. His justification was that the life in the city was costly, and some needy families actually need support from both agencies.

When directly connecting HES to the zakat system in Malaysia and its capacity to make change the general response is very reluctant to confirm that the zakat system has the capacity to make a change on a HES level. And since zakat is generally Islamic, if an assumption was made that zakat has the capacity to make a change on a HES level for the Muslim Malaysians, that assumption would still not find enough support.

¹²⁸ Banu, AZ. (2017, 12 May) Personal Interview, NGO

¹²⁹ Saiful (2017, 23 May) Personal Interview, MAIWP KL

“There may be no corruption and full transparency in zakat centers, which seems to be the case, but still I don’t see all the voluntary sector including zakat centers as a solution, they are not enough, we need to improve minimum wage, health care, education, the economy, and the value of our currency. This needs government and power.” “I don’t think this sector can affect poverty and unemployment; I think it is still small, and it is badly run, even if it is transparent, it can be run better.” “Students of religion manage those institutions, and that is a problem, I know this first hand because I have experience in finance and investment and the managers of the zakat centers think that managing zakat is a spiritual matter.”¹³⁰

On a final point that responds to those that claim bad management exists in zakat centers, that question was asked to top managers of zakat centers both in Kuala Lumpur and Malacca. How would you reply to those that say zakat centers need management improvement? “I’m not going to say yes or no, but I know that we cannot please everyone. However, zakat collection is increasing every year, management is also enhancing, technology is being used, government agencies monitor, we have annual reports with every penny spent, all our higher managers are professionals, technicians and researchers from other countries come to study our system, we are simply an example for the world in zakat management” “Why there are some complaints and some talk in the media about zakat centers corruption! Needy people come to us to apply for assistance, and we also search for needy people to assist them. However, we have to examine each case. Some people have loans for luxury cars, and very high house rent, we reject them because their problem is financial irresponsibility, not poverty. Some of those actually go to the media to complain about discrimination and corruption.”¹³¹

6.7. The Islamic label in economics and finance

The discussion over the importance of the Islamic label in all Islamic institution-related transactions is minimally present in literature and not much discussed among professionals. In the world of finance and economics, the headlines are dominated by successful transactions and

¹³⁰ Banu, AL. (2017, 30 May) Personal Interview, Investor

¹³¹ Saiful (2017, 23 May) Personal Interview, MAIWP KL

profitable businesses. For example, there is an industry known as the Halal-industry that flourishes among Asian Muslims and those Muslims in non-Muslim countries. This industry has its pro's and con's, but the concerning matter associated with this Halal-industry is some obvious misuse of the essence of the idea. The idea was founded to help Muslims select consumable products related to meat and some drinks. The fact that one found the Halal label of water, fish, fruits, and vegetable raises a question mark.

This question mark also leads to questioning the current goal of this Halal-industry. Similar to this is Islamic finance. The financial transactions titled Murabaha, Mudaraba, Musharakah, or other transactions that immediately refer to compliance with Islamic law; this has been the growing norm, similarly do not have to be implemented by an institution that holds an Islamic title. Although finance is more complicated than consumption, a Muslim must know that fish and water are Halal, and must also know that a Musharaka transaction is compliant with the Islamic law. Referring to the frame of reference in Chapter 2, education is foundational to ensure the security each individual or community desires and accepts for themselves. To know whether something is halal or not, compliant or not, one must be educated.

This illustration lays the foundation for the discussion, some say the Halal-industry is necessary, others say it's not. Similarly, some say the Islamic title for financial institutions is necessary and others say it is not. Both logics are presented and later discussed.

Community leaders must be well aware of what is halal, and what is not, whether it is related to finance, or consumption. "One predicament that stands before us is the limited economic and financial literacy of many of the Islamic educators/preachers. I know many of our good brothers that only tell people 'go to Islamic banks,' that is wrong; the right thing to say is, do not borrow money or take a bank loan only if it is necessary. Because debt in itself is despised in Islam, and it is only allowed to assist needy people during downfalls."¹³² Knowledge of what ought to be is necessary, but here it seems to be somewhat missing among community leaders.

¹³² Ismail, N. (2017, 9 May) Personal Interview, UM

In an interview¹³³ with a banker, a well-educated Harvard graduate, he explains that the negative sides of debt instruments are recognized by Islamic banks in Malaysia, and by the national government. For that reason, Islamic banks are reducing the Murabaha transaction. He shared his thoughts on the responsibility of lending, and the interest of the end customer. The focal point is ethical banking, which is Islamic banking; “Islamic banks have the ethical and religious responsibility to limit lending only to those in need, and because it’s a bank, lending must also be to those capable of paying back.” On a connected note, he discussed the Islamic title of the Institution. “Islamic banks are compliant with the Islamic law, but certain performances are not the best; with regard to the Murabaha and Islamic credit cards. As such, a bank’s services are widely known, the title of the transaction reflects its compliance with the Islamic law. Therefore, if Islamic banks lose the Islamic title, and connect the Islamic title to the transaction itself, they would reduce much of the burden and criticism.”¹³⁴

SOE in Malaysia are government owned, to some people, Malaysia is an Islamic country and so should their SOE’s. However, there is no Islamic label associated with the nations SOE’s such as Khazanah and Petronas, and that is for a good reason. “For example, with regard to zakat, Khazanah does not pay zakat because it is socially responsible for all Malaysians, not only Muslims, and what we pay in CSR and in-like expenses is much more than what we would pay in zakat.”¹³⁵ This indicates the limitations that may be caused by the Islamic title and the expectations that generate as a result. This does not, however, suggest a shortcoming of the Islamic system but relates the conventional capitalist system that controls the national government.

Others look with more suspicion to the entire Islamic finance industry. An interview with a finance professional who is also a recent convert to Islam gave the opinion that Islamic finance is far from Islamic. “in my old life I worked for more than ten years in finance, and I know what interest ‘riba’ looks like, Islamic finance in much of their transactions they are not compliant with the Islamic

¹³³ Sheikh, T. (2018, 21 February) Personal Interview, CIMB

¹³⁴ Discussion summary, Sheikh, T. (2018, 21 February) Personal Interview, CIMB

¹³⁵ Sulaiman, H. (2018, 20 February) Personal Interview, Khazanah / Mardi, M. (2018, 20 February) Personal Interview, Khazanah

law.”¹³⁶ This view is similar to the views of the persons associated with MMJ.¹³⁷ The rejection of Islamic finance generates because it is mostly based on lending and profiting from loan transactions. The argument they generate is; while borrowing is permissible in Islam, it is not advisable. The origin of Islamic economics is trade and where partners share the risk and perform a duty. What they suggest is that Islamic banks should not be called Islami, they are only banks because they work exactly like a bank, but minimally follow the spirit of the Islamic law.

6.8. Economics 101: Economic understanding & effect on HES

The following is a simple case that examines the economic understanding of the ordinary Malaysian. The strategy was to have a short-structured discussion with people encountered in the street or taxi driver hired for transportation. Forty-one structured interviews were conducted for that purpose. This section will include responses to the following discussion points.

- Describing the cost of living
 - o Giving justifications for point of view
- Ownership of property
 - o Securing cost (loan, cash, family support)
 - o If by bank loan (how much of the loan is paid, and how much remains)
- Location of residence
 - o Reason for choice of location
 - o Rent or owned

Most of this data is quantified and presented in the form of figures that numerically explain the outcomes. Some views are textualized to further explain some of the interesting views. The logic of this discussion is to tackle the idea of debt and how it relates to economic security. Therefore, asking about property ownership, indebtedness, and views on the cost of living explain the point. The simple questions asked are invoked by the fact that debt to income ratio in Malaysia is high, it reached 89%. Some of the primary outcomes of the previously mentioned questions are that only 20% of loans taken are paid back, which could mean that a wave of financial insecurity would

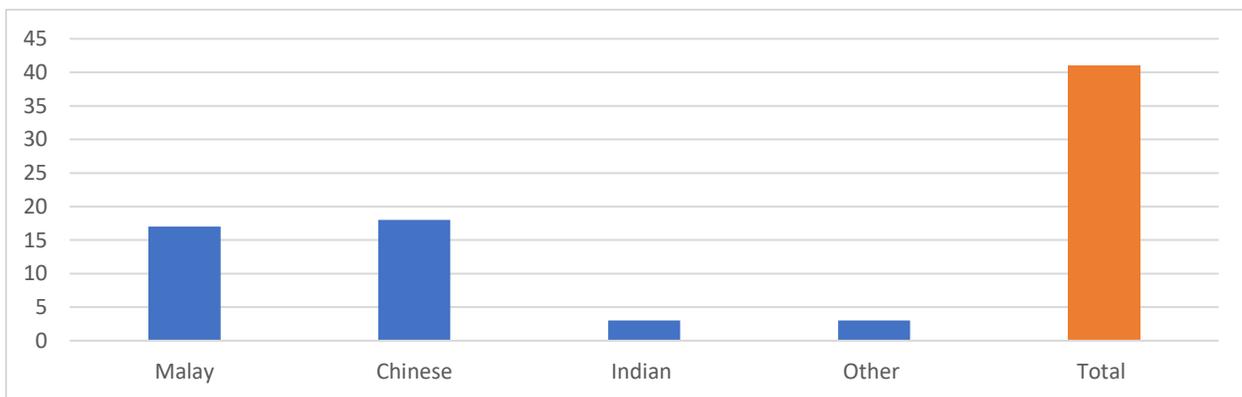
¹³⁶ Chignell, A. (2018, 20 February) Personal Interview, WWGF

¹³⁷ Ismail, N. (2017, 9 May) Personal Interview, UM/ Banu, AL. (2017, 30 May) Personal Interview, Investor/ Zakariia, R (2017, 20 May) Personal Interview/ AbdulAziz, M. (2017, 21 May) Personal Interview

relocate ownership of the property to the lender, which is in most cases banks. This is a significant source of insecurity that people seem not to understand well.

The sample taken is representative of the Malaysian community and of the nature of the Malaysian economy. In Figure 6-1, the ethnicity of the respondents is illustrated. The majority of the respondents were from a Chinese ethnic background followed by Malay. This could be explained because many of the respondents were private taxi drivers¹³⁸ and the private sector is widely dominated by the Chinese Malaysians. As for the Malay, although they are two times more than the Chinese, they dominate the public sector.

Figure 6-1: Ethnicity



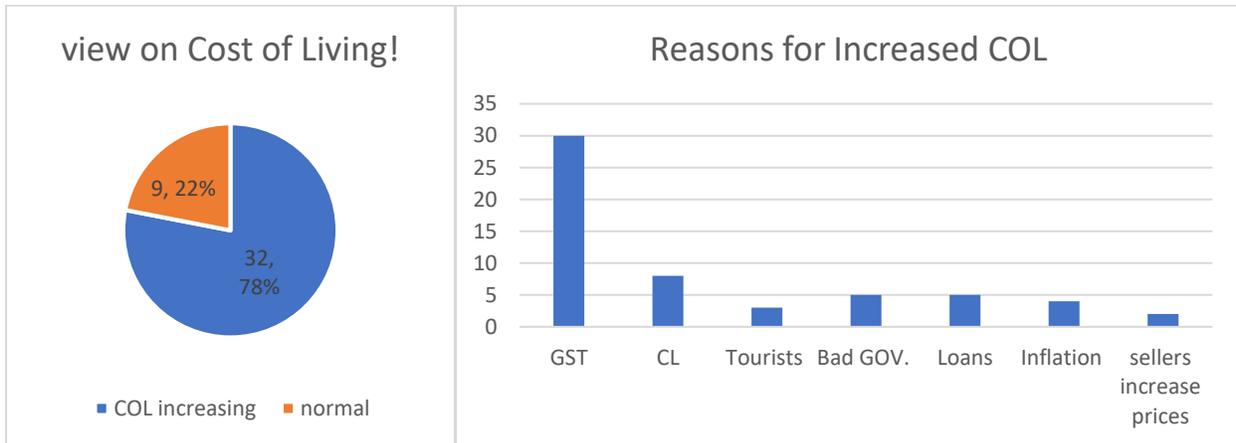
Source: Author illustration

The development of the discussion kicks-off with the simple question and complaining about the cost of living and the increased prices which is acknowledged by the respondents. As illustrated in the figure below, while some thought that the Cost of Living (COL) is standard, the vast majority elaborated that it is increasing. The reflected reasons on why the COL is increasing attract the attention to the shallow understanding of economic behavior and consequences. As illustrated in Figure 6-2 the Goods and Services Tax (GST) is thought to be the main reason for the increasing

¹³⁸ There are some private transportation services that compete with the traditional taxi services in many countries such as UBER and GRAB. Those are legal taxi services that can be booked online and, in many cases, cheaper than the normal taxi cost. In addition to that, the drivers are usually part time workers and use their own cars. This is considered a private business, and as explained earlier, the Chinese Malaysians dominate the private sector where the Malay dominate the public sector. This is why it is logical to find more Chinese in this business despite being almost half the Malay population.

cost of living. The respondents also think that living in the city (City Live (CL)) and tourism makes the COL expensive. Furthermore, other reasons are lending, inflation, sellers increasing the price and bad governance. Such reasons are relatively valid, but they are not the main reason for the increasing COL which is an economic threat to many people, especially low-income people in the country.

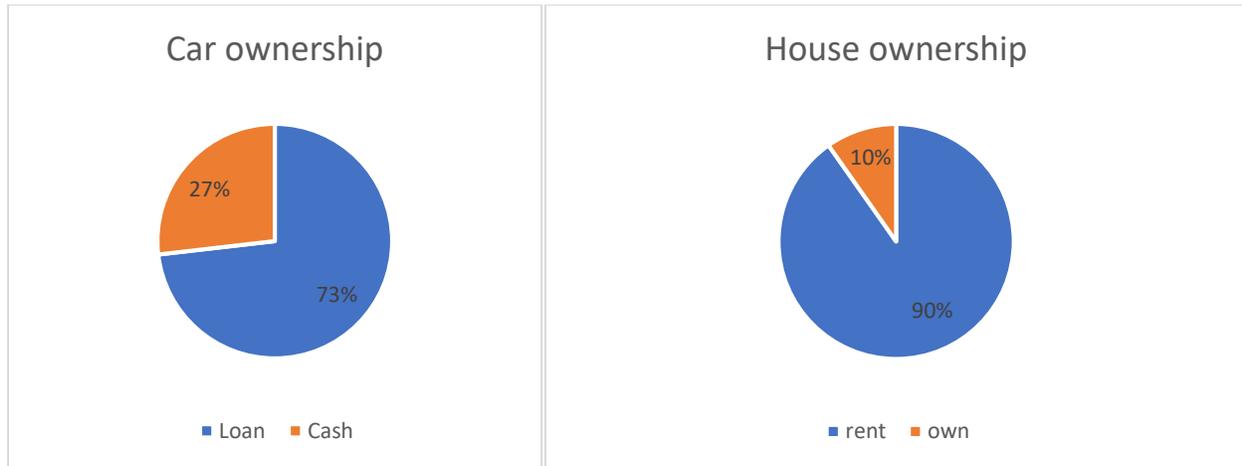
Figure 6-2: Views on cost of living and leading reasons



Source: Author illustration

An essential factor for the increasing COL is the debt to household income ratio which reached 89% end of 2016. This indicates that the majority of household income is paid in debt leaving a small margin of the income for regular expenditure. The consequence is more debt to fill in the need. So in reality, people are spending more than their income which signals an increase in the consumer purchasing ability. This is one reason to drive prices up. In economic terms, the higher the demand, the higher the supply. But in the market for houses, the supply of houses cannot meet the demand at the same time, so the prices of houses increase at a higher rate. Furthermore, the real estate industry in Malaysia has many foreign customers that come from China and Singapore and are willing to pay the high prices. This excess in demand also contributes to driving the housing market up. Additionally, foreign investors can still afford the higher prices which causes prices to continue increasing.

Figure 6-3: Property ownership



Source: Author illustration

Figure 6-3 illustrates the ownership of property. The respondents were asked about cars and houses. Cars in Malaysia are part of daily life, like bikes in Japan and houses are essential for everyone. All respondents possessed cars and held ownership titles, but 73% of the respondents got bank loans to buy their car. The significant point is the percentage of payback, which was only 21.4%. This number is an exact reflection of the debt to household income ratio that was 89% in 2016. This is important because it also indicates the excellent representation of the sample. However, houses were mostly rented, where 90% of the respondents rented their houses, and only 10% possessed ownership. Furthermore, the majority of the houses were on the margins of the cities not inside the city of Kuala Lumpur and the state of Malacca. Usually, the margins of cities are cheaper. This also reflects on the point made earlier that the Malaysian people can't afford the increasing cost of houses, especially in the city.

6.9. HES and the way forward reaching to HES

To talk about the future of HES in Malaysia, and the role of Islamic finance and voluntary institutions, first, fears and threats must be addressed. Following that a discussion about necessary developments for the success and continuing developmental process in the country, and necessary developments that ensure HES for the people of Malaysia. Finally, the way forward and what must be done is the concluding part of this section.

6.9.1. Future fears and challenges

Government problems

Fears, challenges, and problems are natural opposites of HS, and HES. In Malaysia, the government is facing increasing levels of corruption and bribes by police officers who are a Malay majority is becoming a regular phenomenon. Social and economic development are at risk because of government corruption. All respondents largely agree, and some have actually experienced a number of occasions including official officers taking bribes first hand.

“Some police forces are corrupt, and it is not a secret. If one officer chooses to be good and do the right thing he will change departments or even fired.”¹³⁹ Another opinion indicated that “corruption is easy, government officials do it in millions, officers in thousands, and young Malaysians each can take bribes and cheat the system in their work. That need to be solved.”¹⁴⁰ Furthermore, “the government is being accused of corruption. But what I know is that it actually exists, and happens with many people that find themselves forced to give bribes to police officers who are mostly Malay, where is the Islamic value in that!”¹⁴¹

In all cases, the government must face corruption, or it will cause greater damage. However, while corruption is an internal government problem, there are social problems the government deals with such as extremism among some Malaysians in different ways, one example is: “The government is combating extreme Malays that want to impose Islamic law and may have ties with extremist groups. This is a small problem, but the government is extreme in dealing with it.”¹⁴²

There are two other problems the government faces, one financial, and the other is social but very interconnected to policy and economics, it is ethnic conflict. “The biggest fear of everyone, especially the government is a break of ethnic conflict,” this is how a number of respondents explained this but insisted that it is a future threat that keeps the government alert, it is not a present threat. In other words, there are no indicators that assume urgency in dealing with ethnic tension

¹³⁹ Waleed, A. (2017, 6 May) Personal Interview, UTM

¹⁴⁰ Banu, AZ. (2017, 12 May) Personal Interview, NGO

¹⁴¹ Banu, AL. (2017, 30 May) Personal Interview, Investor

¹⁴² A-Tayeb, M. (2017, 14 May) Personal Interview, UTM

as an imminent threat. However, and according to many of the respondents, ethnic threats will begin to rise if the current government economic policy remains with no change.

From the financial side, money is power, in order for the government to maintain power, it needs to maintain a decent flow of money. The problem is, government borrowing is increasing, its internal borrowing is high, and now they are beginning to borrow from external sources. “The biggest insecurity for the government is their power and how to maintain it. The government only thinks how to survive, and they do that by borrowing, and the danger is in their direction to external borrowing, now they want to borrow from China to do a railway. The problem with borrowing from China is that china forwards to Malaysia American government-backed securities that are protected by American power in return for real Malaysian assets.”¹⁴³ This statement indicates that the American securities are not as stable as they used to be. China is getting rid of them and replacing paper with real assets.

Social and economic problems

In Malaysia, there is an economic threat; it is so because economics in Malaysia are directly related ethnicities in a way which immediately bring ethnic conflict back to the table. Ethnic conflict that is directly related to economics is perfect for the destruction of HES. Therefore, the government must solve the economic threat, which has only been partially solved, because now other ethnicities besides the Malay feel economic injustice, and the government has to deal with their understanding and feeling because it is dangerous if they, especially the Chinese, put the government economic policies in ethnic terms.

“If government continue with pro-Bumiputra policies leaving behind others for a long time, ethnic tensions might come back.” “The inequality in government policies is a challenge that might lead to the threat of ethnic clashes.” “There is a growing ethnic gap, it is at safe levels now, but there must be preemptive government actions in that regard.” Those views all show that the past must not be the judge of today. Today's generation is somewhat ethnically mixed, which is a valuable

¹⁴³ Banu, AL. (2017, 30 May) Personal Interview, Investor

step toward more national unity. Those views also suggest that have lasted a long time and its time to change.

Socio-politics further complicate the scene. “Somehow this community has managed to segregate itself into those ethnic groups where suspicion and mistrust both grew bigger. We have political parties that are divided along ethnic lines. UMNO is Malay, MIC is Indian, and MCA is Chinese. When you have already politically drawn lines, what would we expect from the society over a number of generations?”¹⁴⁴

Socio-economics also is presented as a current and future challenge. “The major economic threat in this country is debt for 2 reasons, 1) is because people are not aware of it, 2) is because the Malaysian economy is a capitalist system, and in this system, the masses feed the elite.”¹⁴⁵ In a case where ethnic conflict happens it will be primarily because of economic injustice, but this time it will be an injustice that also includes parts of the Chinese and Indians, although the Chinese still dominate the economies of the private sector. So that implies that the government economic policies should address this matter.

So, while political parties are divided along ethnic lines, not political thought, which keeps reason for ethnic conflict to break, there is also little social, and community interaction between different races (marriage, business), and those are a missing preventer for ethnic clashes. With regard to the NEP and the Bumiputra, when those policies are abused, and those policies neglect an entire ethnic group, then it is problematic, as it may lead to a rise in ethnic tension.

There is a purely economic issue connected to people’s financial decision which affects their overall socio-economic condition. The increasing cost of living drives people to take loans, but that only makes thing worse because loans increase the peoples purchasing ability in a short period of time which is one direct cause of the increasing cost of living. The problem is, while the cost of living is increasing, people’s incomes are relatively constant. Another people related problem is people’s love for profit making, caring less about social responsibility. This is one of the persuasive arguments in favor of banks, which assumes that banks only act according to their customer's

¹⁴⁴ Banu, AZ. (2017, 12 May) Personal Interview, NGO

¹⁴⁵ Banu, AL. (2017, 30 May) Personal Interview, Investor

wishes, which is essential to stay in business. One view suggests that “the people and depositor mindset are driven to make money and generate profit, and what banks try to do is to satisfy their customers.” Furthermore, “one of the biggest challenges is to make social change where the citizens are themselves favorable of social development.”

Islamic finance, banking, and voluntary sector problems

The banking and voluntary sectors are not well connected. First, the finance and banking sector faces problems and cause problems. The Islamic finance and banking sector is working under a capitalist economic system. Therefore, under no circumstance is this sector able to live up to the full potential of Islamic economics. This problem that they face leads them to fall into issues of compliance with Sharia law when conducting some financial transactions. More and more problems with Sharia compliance is a direction to failure. Another point is that the system those Islamic financial institutions are established upon. The essence of a bank establishment is directed to make a profit, and not share risk. Both in a way do not comply well with the objective of Islam in economics, which makes Islamic financial institutions struggle to achieve the objective of Islam in economics. “The appetite of banks, (including Islamic banks) is not in social investment; they are profit maximization animals.”¹⁴⁶

Artificial economic growth is generated by banks because of sizeable unnecessary borrowing facilities presented to the public is a threat. The creation of debt is a big problem just like Interest. Here, the discussion over the involvement of Islamic banks in the creation of debt, therefore, the creation of a bubble economy takes two directions, the first does not differentiate between Islamic banks and conventional banks, and the other does.

“China is growing fast, but it is a bubble economy depending on debt, it will crash, and if we look at Europe from the 15th Century on, it faced collapse after another because of unnecessary high borrowing that creates a bubble economy and then collapses, and Islamic finance and banking is not much different.”¹⁴⁷ Lending in Islam should not be mainstream. “Debt in Islam is acceptable, but the problem is in excessive debt. When your debt is beyond your affordability, and for

¹⁴⁶ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹⁴⁷ Ismail, N. (2017, 9 May) Personal Interview, UM

unnecessary things, that is a problem that needs to be addressed, because it seems to be common." "The issue is that Islamic banks are not only giving loans they are advertising for it and facilitating it when they should only be used for emergencies."¹⁴⁸

"The Islamic bank challenge is that it works under a capitalist economy, and conventional laws, not Islamic, which makes it difficult for them to be 100% compliant with Sharia law. The reason for high debt ratios is the house financing, and this includes all banks, mostly conventional banks because their loans are not responsible and they have a goal of maximizing profit, and that comes from long-term personal financing. House loans are the best for them. Islamic banks are selective when they give such loans because they share the risk."¹⁴⁹

The voluntary finance sector, mainly zakat face a problem which is the increasing cost of living. So, when the cost of living increase, more people seek help from the zakat centers. Despite the fact that every year zakat collection increases and more money is disbursed to the poor in each state by their zakat centers, cost of living seems to be increasing at a higher rate. "COL is constantly increasing, and we can take note of that because those are variables we use when making decisions regarding the eligibility of the person applying for support from the zakat center. The increasing cost of living is a constant threat to the people's economic well-being, and it is one of the main drivers that drag people into poverty and force them to seek our help (in Zakat centers). If the cost of living was not increasing, I would say that we would be making much better progress."¹⁵⁰

6.9.2. Other developments for HES

What does development mean for HES! This evolved into an interesting theme. Development in Malaysia directly connects to the physical development of the infrastructure, and the economic ratings and standards. Development also relates directly to industries, tourism, and fancy buildings. However, some aspects of the Malaysian community need to be developed in order for the circle of development to be complete.

- Education, both countrywide public education, and Islamic education
- The health care system

¹⁴⁸ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹⁴⁹ Buhrawa, S. (2017, 15 May) Personal Interview, ISRA Head of research unit

¹⁵⁰ Saiful (2017, 23 May) Personal Interview, MAIWP KL

- Further development of management in zakat centers to be more involved in investment, not just collection and disbursement.

Education was critical to guarantee development and enable people to secure their lives at all levels. PM Tun Abdul Razak who came before Mahathir Mohamed and paved the way for Mahathir's legacy started with education development by giving scholarships to study in other countries. Political and diplomatic relationships and the development in this field also started during his time. Education was essential for development, and it remains essential for development to continue. The government then, and now still give many scholarships for all, but with the NEP, the Malay were prioritized. However, the education system in Malaysia is not great and needs improvement.

“The education system in Malaysia compared to more developed countries is not that good. Malaysia is very much result oriented, and we are not substance oriented.”¹⁵¹ “Economic development is not difficult; it is people working hard. We have an economic problem that will happen, and to avoid it, the whole society must change and gain financial literacy, especially Islamic financial literacy, so da'wah (Islamic preaching) must be made, the Islamic finance sector will create halal products, but not build the Islamic value, and the government will lend and borrow but not educate on the dangers of borrowing.”¹⁵²

The government assigned its investment arm, Khazanah, to issue SRI Sukuk as part of their CSR to alleviate the standards of the Malaysian education system. The government is realizing a problem and is working to make changes by involving investors to invest in government socially responsible Sukuk or bonds designed to uplift the education system. But there seems to be very little interest in SRI. One interesting reaction was that “this is embarrassing to Islamic banks and investors, and shows they have little interest in showing the presence of the Islamic value.”¹⁵³

¹⁵¹ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹⁵² Ismail, N. (2017, 9 May) Personal Interview, UM/ Waleed, A. (2017, 6 May) Personal Interview, UTM/ Norma (2017, 9 May) Personal Interview, NGO

¹⁵³ Ismail, N. (2017, 9 May) Personal Interview, UM. This statement has some truth to it from an observer perspective. Interviews conducted with Khazanah employees rejected that analysis and explained that the SRI Sukuk were successful the first issue was experimental and the partner capacity could not handle a large amount of money so they limited the issuance. But in fact the investment was successful and the second year is proof.

6.9.3. The year 2020 “developed nation” and way forward

From the 70s the Malaysian government enacted the NEP and the 5-year strategic plans that lead to 2020 where the government has planned for that date to be a time when Malaysia becomes a developed country. The 2020 vision will not be achieved; this was the view of the majority. The main reasons were:

- The vision 2020 was put in the year 1991 when Malaysia was confident in its ability to achieve that goal
- Some unexpected problems happened, mainly the 1998 economic crises
- There is an inherent ethnicity related insecurity
- The abandonment of Mahathir Mohammed to the Vision he established
- “When observing the government policies, and looking at politicians, to see them acting like clones, I do not think there will be a holistic development.”¹⁵⁴
- “We have the concept of misplaced loyalty. The Bumiputra thinks that the government is providing for them and helping them, so they have to be loyal to the government. Blind loyalty is an ongoing problem.”¹⁵⁵
- “While the infrastructure and tall buildings look good, government corruption is on the rise, and many social problems such as healthcare, education, the development of human capital, ethics and values remain relatively problematic.”¹⁵⁶

Now 2020 is not a government priority; it is now replaced with a new vision that targets transformation in the year 2050. However, in economic terms and numbers, the government is close to achieving 2020, but politically and socially not close. The government has extended 2020 to 2050, but the same variables of success still apply, if there are many leakages in the government, it will be a challenging target to achieve.

The way forward is not by borrowing for personal luxury and entertainment, but by working hard and engaging in real business. One could resort to debt, but caution and precision in calculation must come first. Moreover, that comes through education and commitment to correct Islamic values. For example, Islamic finance institutions and banks should be responsible when giving out loans and should take it upon themselves to spread awareness and invest more in social investments. “I do not care about Islamic bankers; I care about the Sharia people in Islamic banks, they should

¹⁵⁴ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹⁵⁵ Banu, AZ. (2017, 12 May) Personal Interview, NGO

¹⁵⁶ Ismail, N. (2017, 9 May) Personal Interview, UM

take it upon themselves to promote fairness, the Islamic values, and the right way of dealing with money, especially in their banks.”¹⁵⁷

On a different note regarding government policy and HES, a number of the respondents stressed the importance of imposing total equality for all. There is common-sense connected to this proposition. First, it was previously proposed by the influential opposition in the government, Anwar Ibrahim. Second, given that the Malay and the bumiputra are the majority in the country, and given they are also the poorest in the country, they will remain the largest recipients of the public support. With that in mind, the government can achieve both equity and equality for all the Malaysians and eliminate potential ethnic threats, especially those related to economic injustice. “The way forward regarding equity, equality, and economic justice in the country is to make the system equal for all, and it will have similar results because the Bumiputra are the poorest so they will benefit most, but at the same time we achieve total equality, and no one can complain.”¹⁵⁸

¹⁵⁷ Kasri, N. (2017, 11 May) Personal Interview, ISRA

¹⁵⁸ Banu, AZ. (2017, 12 May) Personal Interview, NGO

CHAPTER 7

The way forward: Realizing the potential of the IVES

7.1. Introduction

Occasional financial crises that have occurred in many parts of the world for different reasons intensified the discussion and debate among industry leaders, policymakers, and relevant stakeholders on matters such as financial innovation, financial stability, laws and regulations, and frameworks designed to monitor and improve the financial performance of both Islamic economic sectors. The acknowledged fragilities of world financial systems led to the implementation of several measures that include enhancing Basel III capital requirements and governance to address shortcomings. While such measures are necessary, isolation in problem-solving to specific disciplines is not the best approach. The fact that it is an economic and financial problem does not waive the effect of non-economic external influences which also need to be addressed.

The philosophy of this research that stresses the importance of making “*all-else-included*,” is what makes it unique. Despite the economic theme of the research, the discussion did not limit to economics; instead, religion, economics, policy, and to an extent human nature were tackled to understand each component’s value, cause, and effect on HES. Focusing on the economic security of Muslim communities brought the attention to two topics, first, Islamic economics, and second, the notion of HS introduced by the UN. The objective of both topics is to secure human well-being, which is also the primary objective of HES but with more focus on economics. To present more in-depth analysis, the Malaysian RIZ was studied for its nature that simulates and serves the primary objectives of Islamic economics, HS, and HES in light of the Malaysian national goals being national unity and economic justice.

In this concluding chapter, some conclusions that simulate each of the main research components are illustrated and followed by policy recommendations that target the most concerned stakeholders. The main conclusions will tackle the following points, 1) HS and HES from the Islamic perspective, 2) Islamic economics role in achieving HES, 3) the Malaysian setting and HES, and 4) outlook to the future of the RIZ. The second part presents two main policy recommendations, 1) to the national government and to the state authorities embodied mainly in each state MAJLIS, 2) and to the stakeholders of the Islamic economic sectors.

7.2. Concluding summaries

The conclusions briefly address the main findings of the chapters consequently. First is the second chapter that discussed both HS and HES from the Islamic perspective and formulates the frame of reference to the following chapters. Second, Islamic economic sectors and what best serves HES. Third, the contemporary Malaysian diverse community setting and the government policies employed to achieve the national goals; which are national unity and economic justice. Fourth, an in-depth analysis based on narrative and fieldwork outcomes from Malaysia. Fifth, in-depth analysis and study of the Malaysian RIZ in light the outcomes of the prior chapters.

7.2.1. The Islamic view on security

Seeking to achieve the security of people is a noble quest that many entities target, whether it is the individual or official authority. Through laws, order settles in the communities that follow their prescribed laws. Muslim communities have their prescribed laws that are described as universal because part of the definition of Islam is that it is a universal religion. The literature leads to the conclusion that the UN only re-revolutionized the notion of HS, there, credit is due, but the UN was not the first to present such logic. The logic of HS that is widely known as “freedom from fear, freedom from want, and freedom to live in dignity,” is excellent but the Islamic view deems it incomplete, it is missing the role of faith. This complete view has been there for more than 800 years during the Golden Islamic era, and it is found in the writings of classical Muslim scholars such as Imam Al-Shatibi and Imam Ibn-Khaldun. The same logic was also there about 1400 years ago when the Holy Quran was revealed to Prophet Mohamed peace be upon him. For those reasons and the greatness of the HS notion, it was accepted by many Muslim states in the UNGA in 2012. This research has not gone deeper in history, but it is highly likely that some of the same logic could be found in the philosophies of earlier civilizations. It seems that what is known today must be related to what yesterday preserved. However, yesterday scholarship in this context is minimally represented, and it could be showcased better in further research.

The term HES is not present in previous literature as it is presented in this research. In fact, it is only present in one academic article as far as the author could find. The term follows the same logic of HS; it is grassroots bases, individual-centered, emphasizes the importance of bottom-up development, and focuses on economic and wealth redistribution mechanisms without denying

other institutional or official roles that may operate differently. Furthermore, to achieve economic security, the Islamic law is employed to serve and meet the Muslim communities expectations.

The holistic characteristic of Islam is what makes it most capable of presenting sound solutions. Islam is a becoming process; it is up to humans to perfect its practice as its manuscripts stipulate¹⁵⁹. What this indicates is the statues of weakness suffered by the Muslim and Muslim majority states. The disconnect between the state mainstream ruling system and the Islamic law that is in best cases partially implemented is another obstacle confronting the actualization of a holistic Islamic view.

The management of wealth and money is an essential part of the Islamic jurisprudence. Muslim jurist from the time of the Prophet Mohamed until today had specific books that address issues of what we know as economics, which is the same Arabic word used now and then (Iqtisad). However, in Islam, even laws and wealth management are firmly connected to faith and piety. Law “*Shariya*,” whether local or international, could in some cases significantly fail to achieve HES if ethics and faith are missing. That is recognized and repeatedly noted by Muslim scholars as explained in Chapter 2. However, in reality, the partial implementation of the Islamic law, and the superiority of the conventional law, arguably in all Muslim countries makes the implementation of all compulsory and noncompulsory acts of giving in Islam voluntarily. With this outcome, Muslim countries can hardly be distinguished from other countries when talking about the achievement of HES.

Despite the superiority of conventional laws, the participatory Islamic systems still operate and serve Muslim communities. Muslim jurists explain that poverty and unemployment, thus HES can be overcome by work, family support, payment of zakat, state treasury retunes, other dues to the poor, and voluntary charity. Education and then work, which are essential for the fulfillment of HES are present in all countries, but some problems are the absence of desire to work and refusal to accept any work. A challenge of such nature needs solutions beyond laws. This is why knowledge and faith are not replaceable, and development is best when people are empowered by faith and able to achieve development sustained by scientific methods that connect all human innovations to end backwardness.

¹⁵⁹ Asuety, M (2017, 27 September) Kyoto-Durham Workshop

7.2.2. Islamic economics serving HES

Economics for HES could simply be explained as management of wealth to avoid financial insecurity. The early financial engine was trade, partially as we know it today if we remove technology and other complication. The foundation of Islamic economics like other sciences in Islam is based on the Quran, the *Sunnah*, and the consensus of Muslim jurists. Following that are the four leading schools of Islamic jurisprudence. In other words, even Islamic economics is firmly based on the teachings of the Islam.

The contemporary IFBS developed financial institution on the bases of collective social insurances to enable the communities to share risks. Those financial institutions mimicked the western financial institutions; pool money, invest and generate profit. The IFBS continued to grow and overshadowed the IVES mainly waqf and zakat which were the more prominent and more dominant institutions in the past. Islamic finance scholars describe a problem where IFBS is not committing to the primary objective of Islam in economics which is human well-being. This sector may be operating primarily according to the Sharia, but there is a growing gap between the promises and the practice.

For that reason, the original Islamic waqf and zakat institutions are the subjects of the research. Although smaller and less capable today, those institutions have great potential for the actualization of HES in Muslim communities and beyond. The institution of zakat is entirely social, like the larger IVES. Contemporary scholars in this sector have been calling for the importance of bringing the IVES back to the forefront of Islamic economics. While that may be difficult, it remains imperative to focus on this sector because the IFBS has been growing, but with small benefit to the communities they operate within. Furthermore, literature also points to the importance of a paradigm shift to Islamic socio-economics. That indicates the importance of increasingly developing the IVES because it fulfills the social part of development.

7.2.3. Diverse Malaysia and government economic policy

Malaysia's ethnic diversity was a consequence of the British Occupation. In Malaysia, ethnicity is an essential topic connected to HES, which then leads to the importance of the Malaysian government's economic policy especially since the beginning of the 70s and the enactment of the

NEP. A number of government economic policies took place after the NEP, all of which kept the principals of the NEP as focal points. The principals were to achieve national unity and economic justice. To achieve those two national goals the government established and developed implementation tools. The first set of tools were in the fields of research and education and the second set of tools were in the field of economics where the government developed and established a number of banks and SOE. Through SOE the government invested in the Islamic economic industries at large. The government is now heavily investing in the IFBS as the sector showed potential and was successful in financially including the Muslim population in the Malaysian economic system.

A critical part of the government goals is national unity, which is to achieve the unity among all the ethnicities where the individual's national identity comes before his ethnic identity. The other important goal is to achieve economic justice. Both goals are fundamental to national development at large, and economic development in particular. Since one of the Governments tools to accomplish those goals have recently been the enlargement of the Islamic economics sectors, this poses the question, what is the role of the Islamic economics sectors in achieving HES to the Malaysian citizen? The primary findings of Chapter 4 indicate that IFBS is another part of the economy that contributes to development by mainly acting as a financial intermediary. No specific results show that IFBS have an obvious effect on HES. The growth of the IFBS in Malaysia is pushed by the government and the sectors acknowledgeable contributions to HES are in the form of CSR and zakat, which are two interlinked activities. Other contributions to the society are that the sector does not invest in sin products and better shares risk with investors among other similar contributions.

7.2.4. Observations, reflections, and the Malaysian narrative

During the end of the 60's Malaysia witnessed ethnic tensions and many people were killed; the cause was unfair economic distribution. Today it is evident that ethnic tensions do not have a way between Malaysians and that is primarily because the leading cause was removed by introducing the famous NEP. However, today Malaysia faces common economic threats; common to all Malaysians and shared with other countries. For example, the household debt ratio is high and threatens those indebted to financial institutions. Ethnic tensions are not a source of threat, it is only discussed when asked about, that discussion immediately connects to the NEP, is it fair or

not? And should it still be an active policy or not? And does it contribute to national development or narrow-development?

Economic systems are different, and since the Malaysian economic system is capitalist in nature and within that larger system the Islamic system operates to manage the Islamic economic operations, economics in the country is not simple for the commons to understand. Furthermore, the author's analysis showed that some professional financial researchers and practitioners are not aware that some practices exist and others do. For example Petronas a large SOE was mixed for paying zakat when it does not. This complexity certainly does not favor the ordinary people. However, the government and specialized organizations are widely working on standardization, an act that removes complexities.

Realising the importance of the whole: The idea of security and religion connecting to Islamic economics and development was an alien presentation that needed an explanation to most of the professionals that contributed to this research. This by itself is an observation that showcases the high desire to specialize and become an “ignorant scholar.”¹⁶⁰ Part of the Islamic economic problem failing to live up to the promise is narrow economic and financial specialization by the sector professionals. They have realized the problem, which is why Sharia scholars are largely part of the managing bodies of Islamic banks. While that is good progress, when both education backgrounds are embodied in one person, the performance is much better. Islamic bankers themselves see that Sharia scholars with economic and financial education and possess practical experience are far more useful and efficient than others.

Ethnicity and policy in Malaysia: HES in large is not a significant issue in the country, but it is connected to a number of sensitive variables that make a difference. According to the outcomes of Chapter 5 and based on the fact that the country is ethnically diverse, the political parties are drawn along ethnic lines, not political thought. Another outcome is the government's central economic policies are directly and indirectly targeted toward achieving economic justice, in other words, uplifting the Bumiputra's economic conditions. This is an ongoing open discussion which led some interviewees to say that the economic policies in the country are drawn along the lines of equity,

¹⁶⁰ This refers to someone who is specialized in one thing but knows very little to nothing about other sciences.

not equality. Those people indicate that the consequence of this “practiced equity” is not good because it draws more tension. However, there is a comprehensive law against ethnic driven conflict or complaints known as “The Seditious Act,” which can be widely implemented by the government against any opposition. According to the opponents of the NEP, such law makes people afraid of speaking their mind and silence does not mean acknowledging the NEP. However, the government reasoning for continuing to employ the NEP is valid, the policy is not present like before, and the non-Bumiputra still have the larger share of the private sector after more than 20 years.

The people’s views on sources of threats: There are a number of problems that relate directly to HES that exist in Malaysia on a social and financial level, as well as on a government and policy level. 1) Corruption in government and overpricing government projects given to partner contractors is an ongoing phenomenon. 2) Social enterprises do not find a way to success, even those supported by the government. 3) Socially responsible investment Sukuk are not circulating like business Sukuk in the market. 4) Peoples investment mindset is driven towards making profit and maximizing return, caring less about socially responsible investment. In return, banks are profit-maximizing animals because this is the request of their customers. 5) The increasing cost of living is a direct threat to peoples HES. But people are part of the problem, by irresponsibly taking lots of loans. At the same time, they are not part of the solution, by minimally investing in socially responsible investment activities. 6) Zakat centers are collecting more, but the cost of living is growing at a higher rate, so their burden is getting larger, reducing their ability to contribute to the poor’s HES.

The interesting fact about view-points is they could be well articulated and presented, but in fact, inaccurate in some parts intentionally or because of asymmetry information. For example, an Islamic finance researcher explained that social investment is weak, blamed the investor’s greed for profit, and gave the example of the socially responsible Sukuk by Khazanah. Khazanah, being the most significant state investment fund is essential in this research. After the interview with Khazanah, the socially responsible Sukuk appeared not to be a failure, the partner institution did not have the capacity to manage a fund larger than 100 Million RM, so they stopped selling those Sukuk when reaching the hundred. To that end, some details could be misunderstood. However, what was widely acknowledged was that the state MAJLIS lack of experience in investment which

limits the actualization of the full potential of the RIZ and waqf. Sophisticated collection and bad spending techniques will not lead to development.

7.2.5. The Malaysian debt predicament

The end of 2016 marked a high debt ratio to household income in Malaysia, an alarming 89% that threatens the economic well-being of indebted individuals if the slightest financial crisis occurs. In Islam debt is permissible, but it is also regulated and not desirable. For that reason, Islamic literature discusses debt in a debatable manner. Indeed, Islamic banks are part of the debt predicament because they represent about 27% of Malaysian banking and the majority of their financing is in the form of Murabaha contract, which many would describe as a debt instrument designed to maximize profit and minimize risk in the shortest period possible. Along those lines, as reflected from the local Malaysian narrative, people could not see much difference between Islamic and conventional banks. The main reason people go to Islamic banks is that they are Islamic and because they fear to engage in impermissible transactions. Impermissible transactions are a financial threat to a Muslim because it relates to insecurity in the hereafter.

On the other hand, Islamic bankers logically explain the similarity of Islamic banks to conventional banks by explaining the market economy and the point of equilibrium. Bankers either cannot comprehend the problem or intentionally complicate the problem. Market economies are not the problem, the excessive use of debt instruments is one problem, the bank reluctance to engage in real trade and better share risk is another problem, the banks encouragement to use “Islamic credit cards is another problem,” and interestingly all are permissible but Islamic jurisprudence also present teachings on limits and priorities.

Contentment simulating the economic idea, “marginal utility and consumer behavior,” can serve as an example of when the good can turn into harm. The equilibrium point can serve as the optimum point of maximum satisfaction, or the commonly accepted point. The Malaysian household debt to income ratio of 89% is high, it is definitely in the danger zone, but why? Because the supplier continually benefits, and the consumer realizes the danger too late. One may understand the conventional bank's attitude, but Islamic banking is ethical banking. This is suggesting that Islamic banks and their Sharia boards should be the ones to notify the consumers

they have passed the safe point of borrowing even if this goes against the interest of the bank, but it is part of the bank's responsibility to share the risk and disclose information.

Why Malaysians take loans is a discussion worth echoing. When debt is for education or health, it would be justifiable. Even with a conventional loan that could end up being a bigger problem, the principal reason for taking the loan was logical. In such situations, Islamic loans would not end up a bigger problem because what a person owes will not increase. Returning to Malaysians, it was evident that many people take loans for cars and houses that are beyond their financial capacity which makes the repayment period very long. Such an attitude is not only a bad investment according to investment professional but also very risky for the individual, not the bank. Engaging in a bad investment with high risk while the opportunity cost is better leads to financial crises.

7.2.6. The future of the institution of zakat and effect on HES

When the status-quo remains after 15 or 20 years, nothing special will happen for HES in Malaysia precisely by the RIZ. According to the analysis conducted in Chapter 5, all economic indicators that were analyzed, grow naturally at a steady rate, including zakat collection. Therefore, the theoretical potential for the institution of zakat in uplifting HES in Malaysia will not be reached. The importance of this potential, the potential of zakat for HES, is not just theory, examples from Islamic history prove that the institution of zakat was a central source for the state treasury, *Bayt-ul-Mall*, which also exists in Malaysia and holds the same functions. But the problem as indicated earlier, Malaysia is not an Islamic economy, and zakat is not collected as it should be. But since the legal and financial system is not entirely Islamic, instead the conventional capitalist financial system dominates, reality should be addressed rather than theory. So, while the fundamental theoretical and historical role of the institution of zakat in actualizing HES can be proved, the current practical role of the institution is small.

The state MAJLIS managing zakat should come to realize a number of facts that include, 1) money is best sustained if adequately invested, 2) being responsible for the zakat money, the market will not give that much consideration. After all, investors are competitors in the market; even Islamic banks will make sure they maximize their profit even if their partner is a state MAJLIS. Zakat managers should well understand the market and act smart. 3) Consumable aid will not lead to sustainability, and if continued, in many cases operates against achieving human dignity. 4)

Support in the form of profitable start-up businesses based on the eligible recipient's skill serves sustainability, the actualization of dignity, and possibly self-actualization. Those were the significant criticisms of the state MAJLIS in managing the zakat fund and the waqf fund and property. In overcoming those points lies an unlocked potential.

Economic estimates and logic for growth: The growth of zakat collection is highly resilient against financial crises mainly because it is compulsory in Islam. Zakat al-mal could be affected by the economic performance because it is related to wealth. Data shows a continuous increase in zakat collection nationwide in Malaysia which generally proves the point. However, the more in-depth analysis indicates that zakat collection has indeed been affected by the economic situation, but always had positive percent change from year to year. Sometimes the percentage change of the following year is less than the previous; when looking deeper into the data, we find that the lower percentage change in the following year is related to the lower zakat collected from sources such as business zakat, zakat on gold, and zakat on livestock, all of which are related to the economic situation.

Collection of Zakat: The collection of zakat in each state in Malaysia is a reflection of the state's economic well-being. Judging from interviews with both the state of Malacca and the federal territory of Kuala Lumpur, zakat collection is 100%, meaning everyone (individual) pays zakat. However, there remains the question of business zakat. One finding shows that SOE's do not contribute to zakat. If more business owners and SOE increasingly pay zakat, the proportion of zakat collected through sources affected by the economy will increase. Thus, the total of zakat will be more vulnerable to economic crisis, but the zakat fund might double in size.

A possible win-win case: An argument made is that government does not lose resources if they allow more zakat to be collected through SOE. The reason for that is, zakat money is also public money that is directly spent to uplift the very poor, something the government is not very good at. So, while the government tax revenue might reduce marginally, the institution of zakat will fill in a bigger gap for the government using fewer resources, and the reasons for that are:

- Corruption in government is high
- Government projects are overrated
- Zakat is public money, and it is monitored by corruption agencies and national government auditing teams
- Zakat input and output is fully disclosed and publicly open

- Zakat institutions in Malaysia are recognized to be the best in the world for using technology and simplifying money transfer from payers to ZCC's and then to the recipients
- More financial and investment professionalism put into the institution of zakat, the better the outcome. So, what is missing for zakat is financial investment professionalism and managing disbursement.

The most important point is, the majority of the poor in Malaysia are Bumiputra, which also means they are Muslims. Given that zakat widely benefits poor Muslims as a priority, the effect of zakat growth beyond natural rates will have a noticeable impact on eradicating poverty. The results and implications of this could be:

- The government could announce this step as part of its policy to eradicate poverty from the bottom up rather than from top-to-bottom
- The government will gain more public support and trust
- Associating this impact with uplifting the performance of the institution of zakat in the field of investment will further increase the growth of zakat.
- Some of the Malay businessmen distribute their zakat by themselves in their own villages and hometowns. Some do it because they want to give directly, but others do it because they do not entirely trust the system.
- When the system performs better, those who did not trust the system, are likely to start giving their zakat through the state central institution of zakat.

7.3. Recommendations

In this section two recommendation are presented; the first concerning the national government and the second concerning the state authorities represented by each state MAJLIS (religious council).

7.3.1. Government recommendation

Considering the logic generated at the end of Chapter 6, we find that the government policies are reasonable. The primary government function is to provide services to the people. The government of Malaysia must do that, and continually ensure efficiency to maximize benefits and deliver better services. There is an optimum level of performance achieved when reaching the point of equilibrium in any operation. However, even the point of equilibrium leaves some people or groups unsatisfied. In Malaysia, Muslim groups through their representatives in government demand more Islamization of policy, economics, and more. The same is true for the Chines and the Indians

through their representatives in government. This setting demands a point of equilibrium in order for the nation to develop collectively.

- This is the case because we find that non-Bumiputra in Malaysia do not agree to the terms of the NEP that favors the Bumiputra.
- This is also the case because the Bumiputra still think they are entitled to more privileges to account for the previous marginalization.
- On religious matters that connect to economics, zakat is widely recognized but not enforced by law although there is a law that makes it compulsory to pay zakat if you are a Muslim; this is one way the government makes a balance.¹⁶¹
- This is the case because the government allows for money paid in zakat to be tax deducted.
- Additionally, while Islamic banks pay zakat, the nation's SOE owned by the supposedly Muslim state do not pay zakat. And according to the interview with Khazanah's director of the Finance Division, those are SOE owned by the government that is responsible for all the Malaysians, and the zakat money can only be spent on Muslim beneficiaries.

With this logic, the role of the government must continue to achieve the best equilibrium point that ensures collective and balanced development. With regard to the RIZ in Malaysia, the government should capitalize on the potential of this large pool of wealth to serve the population it is meant to serve. The study shows there is more significant potential for the RIZ, more than what is present today. In the concluding remarks on the potential of zakat, it was explained that the government could allow SOE to pay zakat and that would be a collectively positive scenario. In the case the government allows SOE to pay zakat, it could negotiate the means of spending zakat within the religious margins. That could include building schools and hospitals. The national government could be seen as widening the religious practice while actually covering some of its responsibility.

7.3.2. RIZ recommendation

World-class scholars that tackle issues of freedom, security, and threats such as Amartya Sen and Mahbub ul-Haq recognize the importance of a holistic view. The RIZ is critical in Muslim communities because it plays that role; it eradicates poverty, supports the marginalized, and operates at a grassroots level and employs a bottom-up approach to development. What is missing is the proper understanding that other institutions also play that role and that cooperation is

¹⁶¹ Shaafii (2017, 28 September) Personal Interview, IIUM/ Sulaiman, H. (2018, 20 February) Personal Interview, Khazanah/ Mardi, M. (2018, 20 February) Personal Interview, Khazanah

fundamental to growth. The difference between the institutions should not be an obstacle. For starters, some states do not have a standard database with the federal government's social security system which means that some people benefit from public money for the same reason twice. Furthermore, the religious grounds of institutional operations should not be an obstacle that stands before broader cooperation. Additionally, the sustainability of funds is best ensured through smart investment which means engaging in the market. Such engagement necessitates intelligent investment performance because the market is not a place for ethics and ethical conduct. Ethical performance, good conduct, and compliance with religious and federal laws take place because they are regulated and compulsory in many cases. Even the Islamic economic sectors have been influenced by that reality because most of the employees and employers within, come from that conventional background.

At this point, the gap in the RIZ is quite clear. The state MAJLIS in charge of the RIZ must live up to that reality and take charge of necessary change by first accepting the surrounding environment with all its components. The recommendations for the RIZ include:

- *Proper appointment:* Pure religious education possessed by those who run the RIZ and MAJLIS will not lead to growth and development. Bankers, who are professional investors and very good at making a profit have realized that Sharia board members with both religious education and economic and financial education and experience are much more valuable to the banks, efficient, and more productive. What is true for a bank can also be true for the RIZ because the point here is the better character for an intelligent investor within the margins of the Islamic law.
- *National database:* All state MAJLIS's must have a database for beneficiaries with the federal government. The cooperation between different public entities that have a connection to the world of charity and social development will minimize individual exploitation of the system. That would minimize expenses and leave room for more investment that ensures sustainability.
- *SOE to pay zakat:* State authorities could negotiate deals with the federal government to allow SOE to pay their portions of zakat. Similar to Islamic banks, the RIZ could give banks 30% or more of that zakat for the SOE to spend in their own mediums. This could be part of the government policy to keep equilibrium.
- *For better collection:* under the current legal system in Malaysia, the best way to increase zakat collection is through better education and more campaigning.
- *Disbursement of zakat:* Unlike other forms of charity, zakat should not be consumption and coupon based. In principle, zakat should ensure the sustainability and dignity of beneficiaries, and that is best done by assisting in starting businesses and profitable projects for those capable. Only in the case where the recipient is unable should monthly installments or coupons be handed. By doing so, the RIS encourages work and contributes to development.

7.4. Conclusion

Freedom from fear, freedom from want, and freedom to live in dignity; how to liberate those freedoms for different communities in a way they appreciate and accept is a noble quest to fulfill. Those three freedoms are what constitutes HS, which is the objective everyone seeks, certainly, human well-being, or HS, as many scholars interchangeably use the terms are a noble objective of Islam, and indeed an objective of Islamic economics. Focusing the discussion on the economic well-being of Muslim communities generated the term HES which the author defined as “Education-Job-Income is the triangle of HES that recognizes the force of external influences on the extent and reach of individual freedom in light of the Islamic laws (the Sharia).” This definition and part two of chapter 2 represent the frame of reference for the rest of the chapters, especially Chapter 5 that discusses the contribution of the RIZ to HES.

Revisiting the thoughts that shaped the research problem and the preliminary expectations of what this research outlook would finally illustrate, we find that realities cannot be escaped if the analysis was based on factors that simulated the reality, “*all-else-included.*” The problem at hand discussed failure by Islamic economic institutions to live up to the promise of Islamic economics; to achieve human well-being through conducting financial operations compliant with the Islamic law. Despite the fact that compliance with the Islamic law is highly achieved in financial transactions, the spirit seems to be missing. Because Islamic economics is broad, a separation was necessary; there is the IFBS and the IVES. The failures of living up to the Islamic spirit in economics relate to the first sector; the second sector is different because the means, goals, and rules are different.

After analyzing the operations of the IFBS, it was clear that its service for HES would be minimum. HS, even economic security must start from a grassroots level, and the IFBS does not do that, which led to the focus on the IVES featuring mainly the institutions of waqf and more so the institution of zakat in this research. The preliminary expectations, the research hypothesis, illustrated in Chapter 1, make the overall assumption that the IVES is better suited to serve HES in a Muslim community. There are two hypothesis, the first relating to government policy concerning zakat payment, and the other concerning the performance of each state MAJLIS in managing the whole cycle of zakat.

Addressing the hypothesis presented in Chapter 1 this research asks the question¹⁶² addressing the ability of Malaysia represented by the federal government and the state authorities to achieve HES equitably through enlarging and enhancing the performance of the RIZ. The short answer is significantly affirmative in theory, but the issue remains with the conditional “if.” that has been put to the test. The theoretically positive response to the research question cannot be reflected in reality with confidence. The external influence dictates the prolonging of the status quo, and the status-quo of the RIZ showcases the smaller effect of the RIZ than other contributors with regard to achieving HES for the Malaysians. In other words, first, the state managed waqf institution and RIZ contribute to achieving HES but have more potential for a more substantial effect. Second, the federal government, through SOE and other national systems contribute to HES more than the state RIZ.

The potential of the RIZ exists and is promising. The potential of waqf also exists and is promising. Thus the potential of the IVES is promising in Malaysia. However, the potential unlocks when there is commitment and when orders are followed well. The discussion repeatedly took place from different angles in each of the previous chapters, from a religious, social, economic, and policy perspectives. Unlike in the fictitious world of economics can we assume “*all else equal*,” reality must be addressed realistically and holistically. The whole is important because solutions cannot be realized in isolation. In the context of the Malaysian state authorities and the RIZ managers, to unlock the potential, a holistic mindset in strategic thinking must be employed.

- State authorities must take the role of advocates and affect national policy making
- Capitalize on education, an essential cornerstone for any kind of development and fundamental in HES.
- Act as a valuable competitor in the market, which is the case because state MAJLIS’s possess large pools of capital in the form of zakat and waqf.
- It is just a game of money and wealth to most people, with the good intention present, engaging in market operations to ensure the RIZ sustainability and unlock its potential is worth the effort, but an Islamically educated manager, only, may not have the capacity to comprehend that logic, and there lies most of the problem as the authors see it. Thus, managers of the RIZ and waqf under each state MAJLIS must possess both religious and economic or financial education and experience.

¹⁶² Research Question: Can Malaysia actualize HES on the bases of equity and justice for all its citizens through enlarging and enhancing the performance of Islamic economics, particularly through the IVES institutions, specifically the redistributive institution of zakat?

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Appendix 1: Social business module

Business Module (Islamic) based on wide social participation

Islamic finance product development and the application of Islamic financial products could take many forms. Among the essential forms is participation in social development on a grass root level. This engagement ensures the actualization of HES. The following example demonstrates a business module used on wide social participation using the instrument of Sukuk among other methods.

The Pakistan export market for rice was very weak in 1987 due to war; the liquidity crunch was there. The Pakistani government requested an Islamic bank (Muslim Bank) to finance a rice product and a cotton product with 650 million dollars. Muslim Bank entered into syndicated financing with 28 banks. Here we will take only 4 banks as an example.

Input and output method of funds under equity participation

- Sukuk for the transaction under trade financing for Pakistan origin rice procurement, processing, and export
- Financing by using four methods
 - o Sukuk into Mudaraba
 - o Mudaraba into Musharaka
 - o Musharaka into Murabaha & Ijara
 - o All in a single transaction

This transaction not only brings up the fortune for the investor, but it set a trend that changes the traditional custom of Pakistan growers market where the landlord exploits the growers for the payment of the crop. This is social and economic empowerment at a grassroots level.

How the mechanism works

First stage: Pooling capital

The first stage was to collect the money. Four banks enter into the contribution of funds, and the capital that was received by the bank was 45 million, 56 million, 70 million, and 100 million

Table 9-1: Sukuk Issued by Muslim Bank under Mudaraba, purchased by four banks.

First Stage	Capital	Bank1	Bank2	Bank3	Bank4
Amount US\$	280,000,000	45,000,000	65,000,000	70,000,000	100,000,000
Sukuk price \$	10,000	4500	6500	7000	10000
Number of Sukuk	28,000				
Equity ratio		16.07	23.21	25.00	33.71

So basically, Muslim Bank became the "Mudareb," and the four banks are the "Rab ul maal."

Second stage: Mudaraba contract

Terms and conditions set by the Sukuk were that the profit ratio would be shared into 20 -80, 20 for Muslim Bank, and 80 for the four banks, in addition to 2% management fees to organize the whole system.

Table 9-2: *Mudaraba conditions*

Mudaraba	Mudarib	Rab-ul-maal
	Muslim Bank	4 Islamic banks, Sukuk holders
Mudaraba Terms		
Capital	280,000,000	
Profit sharing ratio on NP	20 -80	Net Profit
Management fee	2%	Of Gross Profit

Third stage: Musharaka contract

Once the money is collected, especially if the investor is an external one, to start implementing a local project, the local currency must be used. Muslim bank entered into a Musharaka with the Central Bank of Pakistan. The Central Bank of Pakistan took the priority of dollar, and make it into groups of total capital that are being invested. Additionally, the Central Bank of Pakistan preferred to go into a Musaraka rather than apply a rate on the exchange. The Central Bank entered as a partner “Musharik” with 5 million US dollars. That is an achievement in this transaction; everything is being implemented on a ratio base rather than a rate base.

Table 9-3: *Mudaraba contract (USD)*

Central Bank profit ratio 5:95	
Central Bank participated with US\$ 5 million	
Muslim Bank	280,000,000
Central Bank	5,000,000
Musharaka Capital	285,000,000

Fourth stage: Ijara contract

The fourth stage of this Islamic products is the Ijara contract. After the Musharka contact between Muslim Banks and the Central Bank, the later acts as the “Rab-ul-Maal,” and enters into a rental “Ijara” contract with the private sector where the central bank rented a warehouse with the capacity to store 1 million tons of rice. The warehouse includes some facilities and services including a very big installation of a processing unit. This was taken at the price of 15,000 US dollar per month.

Table 9-4: Rental, Ijara contract with the local private sector

Rent		Including	Facilities and services	
Space in square meters	15,000		- Stockroom	
Rent in US \$ / square meter	8.33		- Rice processing unit	
Monthly rent	125,000		- Processing facility	
Annual rent / 12 months	1,500,000		- Office area	
		- Rest house		
		- Power generation unit		
		- Water supply		

Stage five: Murabaha contract

The central bank entered into a Murabaha transaction with a rice milling corporation that deals in the procurement, processing, and exporting to different countries of the world, but due to the liquidity shortage, they were not able to go into direct purchasing of the rice, because the private sector was powerful. The rice milling corporation agreed to participate in the Murabaha transaction by giving an "Arboon" it contributed its 10% equity of the Murabaha to bring the Murabaha capital to 313,500,000 US\$.

Table 9-5: Murabaha transaction

Central bank >>>>> Rab-ul-maal ratio 90%			
Rice milling corporation >>>>> Morabih ratio 10%			
Morabih selling expense >>>>> 6% as cost of product			
% Murabaha	Ratio 10 : 90		Murabaha Capital 313,500,000
Contractors	Central Bak Rab-ul-maal	Rice Mill Corp Morabih	
	Financing	Arboon 10%	
Capital Participation	285,000,000	28,500,000	

The 6% Morabih selling expense as a cost of the product is calculated on the base of gross profitability. In Murabaha, you cannot calculate profit on the bases of the principal amount. So if there was no gross profitability, there would be no selling expenses, no management fees, and no selling profit.

Stage six: Procurement of stock for spot buying and unit price

The arrangement has been made by the Central Bank to appoint four local commercial banks to act as a Muccadam (Agents of the Central Bank). In the Murabaha contract, Rab-ul-maal, should not pay the money directly to the Murabih, because that would make the contract lose its description as a Murabaha contract. The Murabih cannot become an agent of the Islamic bank because there could be chances of exploit to the financial facility being provided by the Islamic bank, and the costing of the transaction cannot be relied upon. So the four commercial banks were

authorized to pay for local rice growers on behalf of the Rice Milling Corporation against procurement of rice for the local growers. The four local banks have 3000 branches operating all over Pakistan and utilized about 1600 of the branches that operated around rice growers in the country.

Direct payments were made to disregard old and orthodox method that proved exploitation to poor growers in the last 100 years by landlords, mediators, and grain market players. Rice growers were given a choice to take cash against delivery of stock or open bank account to ensure their fund's payment was made at the bank counter of any of the four banks. Taking cash was risky for the banks because growers were coming with large quantities of rice worth millions of dollars. Most of the growers wanted to open an account, this step proved to be very successful and turned out with some positive outcomes. Rice growers could not read and write, yet wanted to open bank accounts, so passbooks with their picture and fingerprint was issued to each of the growers that wanted to open an account. Over 47,000 accounts were opened in the banks by the growers, and that brings a large change in the grower's mentality as they ensure their money security and participate in ensuring the flow of money in the country's financial system.

The Murabaha capital value of (313,500,000 UD\$) was disbursed equally (78,375,000 US\$, but the value was in local currency not in US\$) to the four local banks acting as agents for the central bank to purchase rice from local growers.

Table 9-6: procurement of stock for spot buying

Morabih equity 10% added with Rab-ul-maal for procurement of stock for spot buying				
The Murabaha Capita 313,500,000 US\$				
Total quantity of rice procured in 1,000,000 Metric tons				
Amount disbursed to each of the agent's local banks to pay the purchase price	Agent Bank #1	Agent Bank #2	Agent Bank #3	Agent Bank #4
	78,375,000	78,375,000	78,375,000	78,375,000

Table 9-7: Price of rice being set

	Rates Per Metric Ton (PMT)
Purchase price PMT	242.00
Rental Storage US\$ 1.5 Million	1.50
Value-added	23.00
Transportation	18.00
Insurance	2.00
Port Charge	3.00
Brokerage	3.50
Bank commission	4.00
Operational expenses	8.00
Selling expenses	6.00
Cost Price PMT	311.00
Total Purchase Price	311.000.000

Table 9-8: Rice procurement and Bank handling fee

	Agent Bank #1	Agent Bank #2	Agent Bank #3	Agent Bank #4
Metric Ton	250,000	250,000	250,000	250,000
Handling fee	1,000,000	1,000,000	1,000,000	1,000,000

Stage seven: Calculation of profit from last Murabaha contract to first Mudaraba contract

At this point, Rice mill corporation exported the rice stock with the cooperation of Muslim Bank who approached the Sukuk partners who were assigned to market the orders in their respected area of operation. Sukuk partners mobilize the import of rice and place the order to the Rice Milling Corporation. This effort is rewarded under the letter of management fee in the first Mud araba contract. After that, export proceeds arrive at Central Bank, and all documentation is handled by the four agent banks.

Table 9-9: Calculation of net profit at the last stage

Calculation	Amount
Total Purchase price	311,000,000
Export expenses in total Stock purchases and export	2,500,000
Export value	313,500,000
PMT Stock Value	313.50
Sales price PMT, US\$	390.00
Total sales report	390,000,000
Gross Profit	76,500,000
Less Arboon by Morabih (Rice Mill Corp)	28,500,000
Net Profit	48,000,000

The Murabaha contract was the last contact in this process. Upon the completion of the project, each of the partners settles with their partners before settling with the first principle partners. The following figure recaps the whole project steps to simplify the reverse steps of sharing the profit.

Table 9-10: Profit share (Murabaha Contract), earning of the Rice Milling Corporation

Murabaha Capital 313,500,000 US\$			
Central Bank >>>> Rab-ul-maal ratio 90%			
Rice Milling Corporation >>> Murabih ratio 10%			
Ratio 10: 90			
	Central Bank	Rice Mill Corp	Total
Capital participation	285,000,000	28,500,000	313,500,000
Profit earned	43,200,000	4,800,000	48,000,000
Profit on capital	13.7799	1.5311	15.3110
Murabih Sales fee 6%		6,000,000	
Murabih Profit income		4,800,000	
Murabih total income		10,800,000	
Morabih return on investment		37.895	

Table 9-11: Profit share (Musharaka Contract), Earning of Central Bank.

	Central Bank	Muslim Bank	Total
Capital In US\$	5,000,000	280,000,000	285,000,000
Net Profit	43,200,000		
Profit ratio 10: 90	10	90	100
Profit by ratio	4,320,000	38,880,000	43,200,000

Profit share (Mudaraba Contract) earning of Muslim Bank.

Table 9-12: Sukuk in Mudaraba Financing with Muslim Bank

Terms	Value
Mudaraba Capital	280,000,000
Profit sharing ration on Net Profit	20: 80
Management fee on Gross profit	2%
Muslim Bank Gross profit	38,880,000
Management fee (Less)	777,600
Net Profit	38,102,400
Mudarib profit (Muslim Bank)	7,620,460
Rab-ul-maal Profit (Sukuk Holders)	30,481,920

Table 9-13: Profit Sharing (Sukuk Issuance) By 4 Islamic Banks

first stage	Capital	Bank1	Bank2	Bank3	Bank4
US\$	280,000,000	45,000,000	65,000,000	70,000,000	100,000,000
Sukuk Price	10,000.00	45000	65000	70000	10000
Number of Sukuk	28,000				
Equity ratio		16.07	23.21	25.00	35.71
First-year Sukuk Profit	US\$ 30,481,920	4,898,880	7,620,480	7,620,480	10,886,400
Return %	10.886%				
Capital return on investment	10.8864%	1.7496	2.5272	2.7216	3.8880
	Per Sukuk Profit 1088.640		Profit in % 10.88640		Profit Amount 30,481,920

Appendix 2: Time series data

Year	Zakat Malaysia	Zakat Malaysia % change	Poverty	Tax revenue (million RM)	Tax revenue %change	population	population %change
1989			16.5	22753			
1990				27721		18102000	
1991	61107168			30596	10.4	18547000	2.5
1992	76131823	24.6	12.4	34381	12.4	19067000	2.8
1993	91933241	20.8		39780	15.7	19602000	2.8
1994	109620365	19.2		44240	11.2	20142000	2.8
1995	121868020	11.2	8.7	50134	13.3	20682000	2.7
1996	159171621	30.6		56905	13.5	21223000	2.6
1997	202455228	27.2	6.1	48765	-14.3	21769000	2.6
1998	197864322	-2.3		48874	0.2	22334000	2.6
1999	195506007	-1.2	8.5	51857	6.1	22909000	2.6
2000	258698918	32.3		66601	28.4	23495000	2.6
2001	320348660	23.8		72241	8.5	24030000	2.3
2002	373924167	16.7	6	71380	-1.2	24543000	2.1
2003	408430424	9.2		78902	10.5	25038000	2.0
2004	473269094	15.9	5.7	87563	11.0	25541000	2.0
2005	573008306	21.1		93932	7.3	26046000	2.0
2006	670636173	17.0		102668	9.3	26550000	1.9
2007	806284072	20.2	3.6	120909	17.8	27058000	1.9
2008	1038092894	28.8		114754	-5.1	27568000	1.9
2009	1196871799	15.3	3.8	118302	3.1	28081000	1.9
2010	1363772681	13.9		144297	22.0	28589000	1.8
2011	1638916783	20.2		161539	11.9	29062000	1.7
2012	1933086318	17.9	1.7	166269	2.9	29510000	1.5
2013	2265424891	17.2		175452	5.5	30214000	2.4
2014	2456779714	8.4	0.6	177323	1.1	30598000	1.3
2015	2490587187	1.4					
2016	2480071545	-0.4					

Year	Total employment	total employment %change	Employment Bumiputra	Employment Bumiputra %change	Total Unemployment	Unemployment %change	CPI %
1989							
1990	6685000		3748600		315000		71
1991							74
1992	7047001		3881600		271000		77
1993	7383000		4242500		316001		80
1994							83
1995	7645000		4351100		248000		86
1996	8399000	9.9	4544700	4.4	216001	-12.9	89
1997	8569000	2.0	4634400	2.0	214001	-0.9	91
1998	8599001	0.4	4672300	0.8	284000	32.7	96
1999	8837001	2.8	4819300	3.1	313001	10.2	99
2000	9269000	4.9	5325800	10.5	286001	-8.6	100
2001	9357000	0.9	5461000	2.5	342000	19.6	101
2002	9542001	2.0	5580600	2.2	343001	0.3	103
2003	9869001	3.4	5813500	4.2	369001	7.6	104
2004	9979001	1.1	5839000	0.4	366001	-0.8	106
2005	10045000	0.7	5908500	1.2	368000	0.5	109
2006	10275000	2.3	6051400	2.4	353001	-4.1	91
2007	10538000	2.6	6237000	3.1	351000	-0.6	93
2008	10659001	1.1	6343700	1.7	368001	4.8	98
2009	10897000	2.2	6545400	3.2	418000	13.6	98
2010	11899001	9.2	6888300	5.2	404000	-3.3	100
2011	12284000	3.2	7111900	3.2	391000	-3.2	103
2012	12723000	3.6	7435000	4.5	396000	1.3	105
2013	13210000	3.8	7781800	4.7	424001	7.1	107
2014	13532000	2.4	8042200	3.3	399001	-5.9	111
2015			8192400	1.9			
2016			8206100	0.2			

Year	GDP (Million RM)	GRP %change	GNI (Million RM)	GNI %change	GDP/Capita RM	GDP/capita %change	GNI/Capita RM	GNI/capita %change
1989								
1990	119081		114017		6578		6299	
1991	135124	13.5	128324	12.5	7285	10.7	6919	9.8
1992	150682	11.5	142676	11.2	7903	8.5	7483	8.2
1993	172194	14.3	163928	14.9	8785	11.2	8363	11.8
1994	195461	13.5	186049	13.5	9704	10.5	9237	10.5
1995	222473	13.8	212095	14.0	10757	10.9	10255	11.0
1996	253732	14.1	241931	14.1	11956	11.1	11399	11.2
1997	281795	11.1	266699	10.2	12945	8.3	12251	7.5
1998	283243	0.5	267923	0.5	12682	-2.0	11996	-2.1
1999	300764	6.2	279878	4.5	13129	3.5	12217	1.8
2000	356401	18.5	327492	17.0	15169	15.5	13939	14.1
2001	352579	-1.1	326956	-0.2	14672	-3.3	13606	-2.4
2002	383213	8.7	358152	9.5	15614	6.4	14593	7.3
2003	418769	9.3	396232	10.6	16725	7.1	15825	8.4
2004	474048	13.2	449646	13.5	18560	11.0	17605	11.2
2005	543578	14.7	519635	15.6	20870	12.4	19951	13.3
2006	596784	9.8	579490	11.5	22478	7.7	21826	9.4
2007	665340	11.5	651355	12.4	24589	9.4	24073	10.3
2008	769949	15.7	746915	14.7	27929	13.6	27094	12.5
2009	712857	-7.4	698643	-6.5	25385	-9.1	24880	-8.2
2010	821434	15.2	795303	13.8	28733	13.2	27818	11.8
2011	911733	11.0	890133	11.9	31372	9.2	30629	10.1
2012	971252	6.5	935410	5.1	32913	4.9	31698	3.5
2013	1018821	4.9	984846	5.3	33720	2.5	32596	2.8
2014	1106580	8.6	1069258	8.6	36165	7.3	34945	7.2

Year	Labor Force	labor force %change	LF Bumiputra (,000)	labor force Bumiputra %change	tatal Bank Assets (Million RM)	Conventional Banks (Million RM)	Islamic B Asset (million RM)
1989					566		
1990	7000000		3748.6				
1991							
1992	7319000		3881.6				
1993	7700000		4242.5				
1994							
1995	7893000		4351.1				
1996	8616000	9.2	4544.7	4.4			
1997	8784000	1.9	4634.4	2.0			
1998	8884000	1.1	4672.3	0.8			
1999	9152000	3.0	4819.3	3.1			
2000	9556000	4.4	5325.8	10.5			
2001	9699000	1.5	5461	2.5			
2002	9886000	1.9	5580.6	2.2			
2003	10240000	3.6	5813.5	4.2			
2004	10346000	1.0	5839	0.4			
2005	10413000	0.6	5908.5	1.2			
2006	10629000	2.1	6051.4	2.4			
2007	10890000	2.5	6237	3.1	1186708.8	1094371	92337.8
2008	11028000	1.3	6343.7	1.7	1302113.2	1120753.7	181359.6
2009	11315000	2.6	6545.4	3.2	1391509.9	1171661.5	219848.4
2010	12304000	8.7	6888.3	5.2	1513523.7	1260007.8	253516
2011	12741000	3.6	7111.9	3.2	1744397.8	1423879.3	320518.5
2012	13222000	3.8	7435	4.5	1882332.3	1514646.4	367685.9
2013	13981000	5.7	7781.8	4.7	2036332.4	1616783.7	419548.7
2014	14264000	2.0	8042.2	3.3	2219371.3	1750347.3	469024.1
2015	14518000	1.8	8192.4	1.9	2354284	1827955.3	526328.8
2016	14668000	1.0	8206.1	0.2	2443576.6	1870711.5	572865.1
2017					2511646.2	1911232	600414.2