

INTRODUCTION TO ISLAMIC INSTITUTIONS IN Economics and Finance

MUHAMMAD RIDHWAN AB. AZIZ



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PREFACE

Praise is due to Allah SWT, the Most Gracious and Most Merciful. Blessings and Prayers be upon His Messenger Prophet Muhammad SAW. I consider this book as my small and humble contribution to the Muslim society. It is very true that I was only able to complete this book by the Blessing of Allah SWT.

Thus, I would like to express my thorough and sincere gratefulness to Allah The Almighty. I would also like to express my sincere and warmest gratitude to my beloved lecturer, Prof. Dr. Joni Tamkin Bin Borhan from whom I have acquired knowledge directly and indirectly.

I also wish to extend my appreciation to friends and family for their encouragement, patience and moral support. Special thanks to all my students at Selangor International Islamic University College (SIUC) who have contributed many important points for the preparation of this book. They deserve huge credit because they are the one who have inspired me to write this book.

May Allah SWT accept this humble effort, honour it with His pleasure and make it beneficial for the readers. May He SWT also bless all the Muslims in this world.

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INTRODUCTION

The main objective of Islamic economics and finance is the achievement of human well being (*al-Falah*) and the elimination of economic injustice and unfairness. One way to achieve this aim is through an effective operation of Islamic financial institutions. The existing financial institutions seem to be inadequate and they fail to comprehensively settle many aspects of economics and financial problems of the world.

A humble effort has been made through the publication of this book in order to examine and analyse one of the very important parts in economics well- beings namely through a proper operation of Islamic financial institutions.

For decades, Islamic financial institutions have been marginalized not only by the Muslim society, but also by most Muslim countries in this world. Islamic financial institutions have been associated by numerous negative conceptions. Yet, Muslim community still cannot understand the actual concept of every Islamic financial institution and some of them regarded these institutions as merely an imitation of conventional financial institutions. Some of them even considered these two financial institutions as similar.

This book entitled “*Introduction to Islamic Institutions in Economics and Finance*” gives a new dimension for Muslim *ummah* in Malaysia to be involved intensively in all these institutions according to the approved *Shariah* rules. Through this book, I have tried to answer many questions regarding Islamic economics and financial institutions: Do Islamic financial institutions similar to conventional financial institutions? How can Muslim society participate extensively for the success of Islamic financial institutions in Malaysia? Do Islamic financial institutions provide better alternative for Muslims to solve their economics and financial problems? Do these Islamic financial institutions operate according to the *Shariah* principles and philosophies?

As the title of the book “*Introduction to...*”, this book is an effort to provide basic and brief knowledge on Islamic Institutions in economics and finance. In this book, nine Islamic Institutions in economics and finance have been introduced to the reader whereby in each chapter, basic concepts of these Islamic financial institutions have been examined. Hopefully, with this basic knowledge, more depth knowledge and application of the Islamic institutions can be published in the future.



Chapter I

FUNDAMENTALS OF ISLAMIC ECONOMICS AND FINANCIAL SYSTEM

INTRODUCTION

The twentieth century has witnessed the falling of communist and capitalist regimes. The failure of communism was not due to its justified criticism of the evils of capitalism, but it was caused by the inherent defects of the alternative system suggested by it.

The capitalist economies still suffer from inequities in the distribution of wealth. There is still a large gap between the haves and the have-nots, and “poverty in the midst of plenty” is still the major problem of their economy. These are the real problems created by capitalism and unless they are satisfactorily solved, it may give birth to another reaction that may be more aggressive than communism.

The world, therefore, is badly in need of a Third Economic System. The Muslim *Ummah* can work out this system based on the Islamic norms and principles. The economic principles taught by the *Quran* and *Sunnah* of the Prophet SAW are capable of solving the major economic problems faced by the world today.

Thus, this chapter explains the norms of Islamic economics and financial system in the light of the *Quran* and *Sunnah*, and how these principles are regarded as the best alternative for Muslim society in particular and all mankind in general. This chapter is divided into four topics namely: what is Islamic economics?, history of banking and financial institutions, development of banking and financial institutions in Malaysia and the structure of Islamic financial system.

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