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INTEGRATION OF COMMERCIAL AND SOCIAL FINANCE IN ISLAMIC PERSPECTIVE: IDEAS AND NECESSITIES

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ABSTRACT: Islamic finance is challenged to be able to contribute positively in solving modern finance needs and at the same time realize Islamic vision in creating socio-economic justice and equilibrium in society. The integration of commercial and social finance is one way to address this challenge. This is possible since Islamic finance is having two potentials, namely Islamic finance is the fastest-growing segments of the global financial industry and the amount of social funds is always increasing; and Islamic finance is founded on the principles that that support socially inclusive and development promoting activities, financial inclusion, risk sharing, value based financial intermediation, reducing vulnerability of the poor and more broadly contributing to financial stability and development. The paper attempts to explore the foundations and unique characteristics of Islamic financial institution practice that could provide a better platform to achieve socioeconomic justice as through integration of commercial and social finance. In this regards three dimensions will be discussed, namely Islamic finance and the idea of good finance, Islamic finance and socio-economic equilibrium and Islamic finance the re-definition of Shariah compliance.

Keywords: Islamic Finance, Social-Commercial Integration, Good Finance, Socio-Economic Equilibrium

1. INTRODUCTION

Islamic finance is often viewed as a potential alternative towards conventional financial system. The dramatic expansion of Islamic finance and its march towards integration with global financial system might be seen as a success story which shows that Islam and the Shari'ah can contribute positively to solving modern finance needs. This also shows that Islamic finance is viewed as an attractive system that has potential to be viable alternative to conventional financial system and adopted across the globe.

The expectation for Islamic finance is also high whereby it is challenged to be able to offer solutions to the problem of poverty, inequality, domination and discrimination to the lower segment of society, the problem of frauds, greediness and other unethical behavior in modern financial practices.

Likewise, Islamic finance is challenged to offer solutions to financial practices that would put break on exotic structure instruments that have no real benefit to the public; bridge finance and real economy and commercial activities; and put high commitment to the triumph of ethics and morality in financial transactions, have attracted wide audiences to Islamic finance. There is a general hope and belief that Islamic finance is able to offer a coherent perspective for understanding real financial problems as well as a genuine alternative to the very foundations of how finance should be managed to actualise human prosperity.

However, so far, it is felt that there is imbalance in Islamic financial services industry. The Global Islamic commercial finance is still dominated by three sectors covering Islamic banking, Islamic capital market and also takaful. The social finance is still lack behind. In addition, according to Yasushi Suzuki (2015), there is a tendency towards financialization is in Islamic finance industry following the path of conventional financial system. In addition, the ethical dimension and social orientation in financial practices have also been neglected in the dominant definition of Shariah compliant by only looking at the contractual compliant of financial product with Islamic law (Asutay, 2012).

This conceptual paper attempts to explore the foundations and unique characteristics of Islamic financial institution practice that that could provide a better platform to achieve socioeconomic justice as envisioned by Islamic economics. In this regards three dimensions will be discussed, namely Islamic finance and the idea of good finance, Islamic finance and socio-economic equilibrium and Islamic finance the re-definition of Shariah compliance.

2. ISLAMIC FINANCE AND THE IDEA OF GOOD FINANCE

In the recent decades, there has been a growing interest in the issue of ethics and finance from the public, academics, investors and businesses. The calculation of costs and benefits in term of financial profit as a reliable guide to determine what is harmful and beneficial is viewed as insufficient in deciding what is good and bad. There is a call to also look at social impact of financing whether finance could bring positive impact to society and environment.
It is recognized that profit maximization which is often fueled by thrift and greediness in financial industry has caused the financial crisis. Financial instruments called derivatives have been used in unethical ways to fool regulators and personal gain at the expense of public interest (Juurikkala, 2010: 27). This is possible in the current age of financialization that dominating the industry (Foster, 2007; Epstein, 2005).

The term 'financialization' can be defined as a pattern of accumulating profits through financial channels rather than the traditional means of trade and commodity (Krippner 2005) or a shift of economic epicenter from industrial to finance capitalism (Foster 2007). Wealth creation requires investment in real economy. However, the process of financialization helps elites (the rich) accumulate huge pile of capital from financing activities rather than investing in traditional production and investment in tangible assets (Suzuki, 2015). This trend, as observed by Daniel Bell (1973) started in the early of 1970s whereby there is an imminent shift of society from the traditional mode of production and distribution to a new form of which he termed as 'post-industrial' society in which financial sector dominates human economic activities throughout the world.

Eventually, this has resulted a huge gap between financial economic sector and real economic sector. Financial market is dominating every sphere of economy and has become the pace-setters of all markets as wealth effect, positive and negative. Final market also plays a crucial role in economic cycle, in which 'gambling and speculation with analysis, advice, appraisal, advertising, and commission-charging becomes a major growth industry' (Dore 2000:6). Robertson (1998: 54) observes "People are increasingly experiencing the workings of the money, banking and financial system as unreal, incomprehensible, unaccountable, irresponsible, exploitative and out of control."

The Islamic financial system is expected to respond to the current adverse global situation and its unfair financial system, which is exploitative, discriminatory and unjust in its allocation of resources. The existing conventional financial system is also unstable, having fragile foundations that lead to bubble growth and a steady stream of attendant crises.

Therefore, there is a massive call for Islamic finance to be able to reduce the gap between financial market and real economic sector, and financial intermediation should be done in order to facilitate the growth in real economic sector. Asutay (2012: 101) puts his concern that there is a tendency in Islamic finance industry towards financialization in Islamic financial product development that mimicked the conventional products and hence endogenizing the shortcomings of conventional finance into the IBF realm.

Furthermore, Islamic finance as a good finance also calls for ethical commitment in financial activities. It is recognized that frauds, insider trading and the manipulations of books, auditing and accounting scandals have been reported as part of modern financial practices. Those unethical actions at the global finance situation have triggered mankind to rethink the relationship of ethics and good finance (Furqani, et all, 2016).

In Islamic finance, ethics, rules and regulations are inseparable elements that guide market players in their interaction within the system. Profit and ethics, should not be viewed as something irreconcilable. Profit is lawful and legitimate if it is derived from legitimate means. In fact, Akin and Mirakhor (2016: 560) argues that profit maximization is applicable to an Islamic economy provided that the normative structure, derived from the Qur'an and Sunnah, is in place. In other word, profit maximization goal has to be done with rule-compliance. Lynch (1994: 3) also argues that profit maximization can be integrated with ethics through moral embeddedness in the business purpose whereby profit could be used for developing human potential, providing relief from suffering, opening up new opportunities in technology and other fields of human endeavour.

Unfortunately, in conventional finance, ethical consideration is treated as an exogenous variable to the system. Ethical exogenism implies that finance philosophy and practice is independent of value propositions and interventions. Professionalism in the field of finance is often defined and measured in a mechanistic perspective of profit maximization to the corporate and shareholders irrespective of social benefits. As a result, all stakeholders operating within the system seek to achieve higher and more profits than to put effort on how finance could bring positive impact to the society and environment.

Since ethics is assumed not to form part of the financial system, commercial and social dimension of finance are not seen as integrated in pursuing and establishing a good social order within the system. Eventually, when the gap widens, a dysfunction in the financial system occurs. A typical case is the example of recurring crises in the modern financial system which, for some, is triggered by unethical motives and actions. They are said to represent a moral failure instead of a system failure. The cause is the unethical behavior of market players, who attracted by greed and profit maximisation, justify their highly speculative practices and have transformed financial dealings into a casino, rather than an industry that empowers people and stimulates productive activities and development.

Being a new way in doing finance, the integration of commercial and social finance is not only necessary, but it is the dimension that would justify the relevant of Islamic finance in modern context. With that perspective, Islamic financial system aims at creating a supportive environment of creating a good finance in which eventually a good society could be established. This is possible since Islamic finance is developed based on Islamic ethics. The ethical premises of Islamic finance are derived from the foundations of Islam that provide guidance as to how a good financial system should work. These value propositions, among others, are the following:

- Islamic finance is based on the Principles of Shari'ah (*aḥkām al-Shar'iyyah*) which set the rules and regulations applicable in financial dealings and aims to achieve the goals of Shari'ah (*maqasid al-Shari'ah*) which establish the direction of financial activities.
- Islamic finance promises growth in accordance with ethics and moral commitment, social responsibility and financial stability.
- Islamic finance offers a variety of contracts and allows dynamism and flexibility in product development and innovation.

This ethical concern to strengthening business ethics should be elaborated, defined and developed as a guide to market players for setting the proper behavioural framework that should direct financial activities. The integration of commercial and social finance should be embedded in the mind and behavior of Islamic finance players so that a good finance can be realized.

3. ISLAMIC FINANCE AND SOCIO-ECONOMIC EQUILIBRIUM

Integrated commercial and social finance in Islamic finance is necessary to achieve the socio-economic equilibrium. The integration would help in solving the socio-economic problems of in society through two mechanisms: the social benefits of commercial finance activities and the social orientation in the commercial finance products.

This is possible since Islamic finance is recognized as having two potentials: *firstly*, Islamic finance is the fastest-growing segments of the global financial industry with global assets expected to surpass US$3 trillion by 2020. Those funds can be used in growing the economy as well as in supporting the lower segments in society. *Secondly*, Islamic finance is based on the principles that support socially inclusive and development promoting activities, enhanced financial inclusion and intermediation, risk sharing, reducing vulnerability of the poor and more broadly contributing to financial stability and development.

As has been explained, profit in Islamic perspective is allowed and justified not only for personal benefit but also for social benefit. Profit maximization goal should not lead Islamic finance institutions to gain at the expense of society at large. Financing the poor, the small and medium scale enterprise for example, should not be meant to get more profit, instead, it should be aimed at empowering the poor through some partnership, participation and collaboration in productive works. The Prophet SAW in this regards has shown the way by helping a needy person to buy an axe to cut wood instead of giving money to meet his immediate consumptive requirements (Ibn Majah, vol 1, p. 338).

Likewise, profit generated should be channelled back to the benefits of society. Islamic finance in this regard is the commercial finance with socio-economic objectives of benefitting the public at large. In this regard, the public would receive benefits from the Islamic financial activities such as in the form of CSR's funds, grants, scholarship, public facilities, and etc.

Islamic finance can also be designed with integrated model incorporating the social dimension in financial products in order to reach wider segment of society, particularly the low income society that have been neglected due to inability to provide low cost funds and empowering the poor, the disadvantaged and marginal segment of society (Martowardojo, 2016).

So far, we have seen so many innovations integrating the commercial and social finance in Islamic finance activities, such as by integrating *waqf*, *sadaqah* and *zakat* into Islamic financial products, SRI (Socially responsible investment), impact finance, and etc that would harmonize the commercial interest and social benefits.

Waqf as one of traditional philanthropy activities in Islamic teachings has been designed in financial products to attract investors that are willing to fulfill the social agenda. Some Islamic Financial Institutions have jointly collaborated with *waqf* agencies/bodies, particularly to alleviate poverty and to support more equitable redistribution of wealth (MIFC, 2015).

In 1997, the Islamic Bank Bangladeshi Limited (IBBL) has established the cash waqf certificate to mobilize waqf for the development and progress of the socioeconomic Muslim society. Islamic Development Bank (IDB) has also established the World Waqf Foundation (WWF) in 2001 in collaboration with waqf organizations, governmental organizations, NGOs and philanthropists from the private sector with an aim to promote *waqf* to contribute to the social and economic development of member countries and Muslim communities and to alleviate poverty. In Bahrain, the Central Bank of Bahrain and Islamic financial institutions (IFIs) together established a waqf fund in 2006, proceeds from which were allocated to finance training, education and research at various levels in the Islamic finance industry.

In Malaysia, Waqf Selangor Muamalat sets the first milestone of integrating *waqf* and Islamic finance. It is a joint collaboration between Perbadanan Waqf Selangor Berhad and Bank Muamalat Malaysia Berhad where *waqf* funds were channeled to the allocated *waqf* projects to help the needy beneficiaries for educational and health benefits and etc. This step has been followed by Bank Islam Malaysia Berhad that signed a Memorandum of Understanding (MoU) with University College Insaniah (KUIN) whereby both parties will collaborate to realisze the "Insaniah Waqf Fund" project. The purpose of the project is to develop a mosque in KUIN in Kuala Ketil, Kedah (MIFC, 2015).

Integrated commercial and social finance can be done also through Islamic microfinance institutions (IMFI) that provide various Islamic financial products and services needed by low income and poor groups of the society. Islamic microfinance provides more holistic framework to enhance financial inclusion, eradicate poverty, and a healthy economy by promoting microfinance, MSE financing, and micro insurance based on two main pillars namely redistributive mechanism in the form of zakat, sadaqah, waqf; and risk sharing instruments through microfinance and microtakaful institution (Ascarya, 2015: 4).

One well known type of Islamic microfinance institution (IMFI) in Indonesia is Baitul Mal wa Tamwil (BMT). BMT is Islamic micro-finance institution that focuses on collecting compulsory and voluntary charities, such as zakat, infaq, sadaqah, awqaf and optimizing their distribution by applying Shariah based management in various micro-finance products. At the end of 2014 number of BMT has reached 3,900 BMTs with total assets of Rp15 trillion, managed by 20,000 employees serving 3.5 million customers that attempt to outreach the large number of society through various financial inclusion instruments such as micro-financing, micro-saving, micro-takaful, micro-pension, transfer and etc. (Ascarya, 2015: 29).[1]

4. ISLAMIC FINANCE AND THE REQUIREMENT OF SHARIAH COMPLIANCE

The integration of commercial and social finance brings a new dimension in the meaning of Shariah compliance in Islamic financial practices. It is recognized that the emphasis on contractual compliance in legal definition by cleansing the practices from interest (*riba*), gambling (*maysir*), uncertainty (*gharar*) and other prohibited (*haram*) elements as commonly found in financial services is not sufficient to answer the expectation of public on Islamic finance. The ethical commitment that would manifest Islamic ethics in financial practices and social orientations of benefitting the public at large are also expected Islamic financial practices.

So far, Shari'ah compliance is understood in a narrow meaning of having financial products that satisfies the contractual requirements and mechanisms in Islamic law *per se* without a clear commitment or systematic application to ethics and social objectives which make people suggest that Islamic financial system seemed unable to offer a better operating alternative to the conventional financial system (Laldin and Furqani, 2016).

[1] Ascarya (2014: 6) has attempted to survey various models of microfinance. He identified 17 models of microfinance in the world, namely 1) Association model; 2) Bank Guarantee model; 3) Community Banking model; 4) Cooperative model; 5) Credit Union model; 6) Grameen Bank model; 7) Group model; 8) Individual model; 9) Intermediary model; 10) Non-Government Organization (NGO) model; 11) Peer Pressure model; 12) Rotating Saving and Credit Association (ROSCA) model; 13) Small Business model; 14) Village Banking model; 15) Self Help Group model; 16) Graduation model; and 17) Micro-banking Unit model.

There is high expectation of a new approach providing a moral alternative to conventional financial service as part of a complete system of finance that integrate the commercial and social interest. Willem Buiter (2009) in *The Financial Times* expresses this concern:

> What we need is the application of Islamic finance principles, in particular a strong preference for profit-loss and risk-sharing arrangements and a rejection of '*riba'* or interest-bearing debt instruments. I am not talking here about the sham Shariah-compliant instruments that flooded the market in the decade before the crisis; these were window-dressing, pseudo-Islamic financial instruments that were mathematically equivalent to conventional debt and mortgage contracts, but met the letter if not the spirit of Shariah law, in the view of some tame, pliable and quite possibly corrupt Shariah scholars. I am talking about financial innovations that replace debt-type instruments with true profit-loss and risk-sharing arrangement.

Islamic finance, being an alternative to conventional finance, is created as an attempt to rearrange the modern financial practices to be in line with *Shari'ah* principles and requirements. *Shari'ah* as the backbone of Islamic financial system does not only contain the rules and regulation of contractual arrangements, but also principles, foundations and objectives upon which financial system from an Islamic perspective is established and should be directed on (Furqani, 2013).

Islamic finance, in this regards, brings the Islamic visions of economy in the financial sphere in the effort of realizing human well-being and a just and fair order of society and the financial practices are arranged to meet those objectives. In other word, there is also expectation that Islamic finance should move from a 'prohibitive driven' industry that attempts to remove the prohibited elements in financial transactions towards having a 'positive agenda' of realizing Islamic ethics and socio-economic objectives such as social justice, equality and poverty elimination and empowerment of community (El-Gamal, 2006).

With the integration of commercial and social finance, Islamic finance attempts at reforming the adverse situation of the human economy; supplementing what is lacking in current practices; and offering a new, better perspective in guiding man to achieve wellbeing. The multifaceted crisis confronting humanity—as manifested in the gap between material welfare and other dimensions of wellbeing, massive poverty and injustice, ecological destruction, etc.—reflects that the current financial practices is not really working to answer those issues and, therefore, a new alternative is expected. This would require a comprehensive understanding of Shari'ah in a multi-disciplinary perspective transgressing the legal compliance technicalities so that we could strategize how the industry should be structured and the Islamic vision in financial sphere could be applied. At the same time, this would invite all stakeholders; Shari'ah scholars, philosophers, economists, sociologists, and etc to join the march of developing an 'Islamic' financial system (Furqani, 2013).

The integration of commercial and social finance in Islamic finance practices also would assist us to achieve the objectives of Shariah (*maqāṣid al*-Shariah). The prime ethical objective of Shari'ah (*maqāṣid al-Shari'ah*) is establishing and realizing *maṣlaḥah* (benefits) and eliminating *mafsadah* (harms) in human life. Shariah in all its rulings aims at realizing *maṣlaḥah* that would facilitate benefits, fairness, justice and goodness and removing *mafsadah* that would implicate to the harms, injustice, exploitation, and dispute in financial products and transactions (Al-Qaradawi, 2007).

In this regard, a breakthrough in understanding Shariʿah principles and objectives in financial dealings and practices should be attempted. Islamic finance should be directed towards a bigger agenda of creating a new financial system addressing human economic life. The challenge posed for Islamic finance should not be understood as transforming the conventional financial practices or products to an Islamic mould, but rather, reforming the adverse situation of the world economy; supplementing the weaknesses in current practices; and also offering a new and better perspective in guiding man to achieve the ultimate well-being.

Islamic finance in other word is an attempt to rearrange the daily socio-economic aspects of life in line with Islamic injunctions within the overall framework and system of Islām as well as to provide indigenous solutions to the problems of the *Ummah* (Ahmad, 1999).

This is true since Sharī'ah is essentially a wider concept than that of Islamic law/rulings/jurisprudence. The concept of *maqāṣid Sharī'ah* (objectives of Shariah) requires pursuing Islamic finance with the consideration of its impacts in achieving the *maṣlaḥah* (benefits in human life) and removing the *mafsadah* (harms, difficulties and hardship in human life).

The focus of attention should therefore not be limited in offering financial practices that merely satisfy the minimum standard of legal requirements (Shari'ah compliance) by replicating the conventional financial structure and modifying the conventional financial products. Efforts should be put in producing a well-conceived, consistent, and integrated framework in financial practices from an Islamic perspective. Creative and innovative product development is needed to respond the various needs in finance that would stimulate economic development and human wellbeing.

This perspective would set a new perspective of finance, comprehensive changes in framework and approach, provide unconventional (if not out of the box) solutions in satisfying financial needs, and would enter and cater the larger number of society in the mobilization of resources and realizing wellbeing.

5. CONCLUSION

Integrating commercial and social dimension in Islamic finance practice and developing the Islamic social finance sector in the context of the Islamic commercial banking is very challenging. New approaches and formulations are required to address and to overcome the challenges to reach the objectives as directed by *maqāṣid Shariah* in the attempt of creating a good finance, achieving socio-economic equilibrium.

The integration of commercial and social finance is possible since Islamic finance is founded on Islamic principles that prohibit *riba*, *gharar*, *maysir* and encourage partnership, risk sharing, honesty, fairness that mark a good finance.

Innovative ways would have to be explored even to the extent of considering a new model of Islamic financial institution to develop the sector. The efforts would be directed to transforming the financial and banking system, and ultimately the whole economy, so that they will conform to the Islamic spirit, principles and objectives. The concern is not merely to secure the narrow legal compliance of banking and finance practices (comply with the Islamic legal rulings/ *Sharīʿah* compliance), but a more substantive movement toward a good financial system enshrining Islamic values, visions and objectives (committed to *maqāṣid al- Sharīʿah*).

This certainly invites our creativity to design contracts that would take into account the social sphere in Islamic finance operations, along with commercial financing practices. Further research in this fundamental area should be done so that a meaningful Islamic banking and finance could be produced.

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