

IF academia: We can do better

By Rosana Gulzar Mohd

Correcting Islamic finance does not only involve bankers and regulators. Academia has a large role to play. And I argue we can do better.

Firstly, we need to address the controversies. Islamic finance is suffering from a dichotomy between theory and practice. What is taught in schools is a world away from what is being practiced. While ‘Islamic’ bankers keep an almost sole focus on producing the best ROE for shareholders, at the obvious expense of social welfare, Islamic finance professors go on and on about the ideals that shape this form of finance, oblivious to the divergence in practice. It is thus not surprising that the ‘solutions’ they come up with have no semblance to reality. I keep thinking, ‘We are not yet in *jannah* so how will this work in the real world?’

To come up with better solutions, I think we need to first face facts. Don’t gloss over them. I would prefer an honest (and mature) discussion of how we have gone wrong in Islamic finance and how to address them. This obviously needs rigor in thought and analysis. And critical thinking. Just because someone is from the IMF or World Bank does not mean he knows what he is saying or his intentions are purer than pure. We still need to evaluate the rigor of his arguments. On the other end, those who do not understand Islamic finance need to keep silent. The problem in Islamic finance is that we have many talking heads who really sound like empty vessels. And you know what they say about empty vessels right? (They make the most noise).

If paymaster is the issue, then perhaps have a *waqf*-like endowment, which not only funds students’ education but also allows objective research. Isn’t **this** the purpose of academia? To provide thought leadership through critical feedbacks and the tabling of feasible solutions for industry?

There is actually enough literature, mostly from Western universities and writers, on issues in Islamic finance for a course in a university. And I argue that this kind of thinking should permeate all levels of a university from the classes to the research being done. Else we have researches that show cognisance for only half the story, the theoretical part. The other half, the part on practical implementation and issues, is conveniently glossed over. For example, if our research is on entrepreneurship in Islamic finance, it is not enough to simply state how profit sharing contracts such as *mudarabah* and *musharakah* are an appropriate fit for the businesses. We need to also address real-world constraints. For example, can SMEs get financings from ‘Islamic’ banks? Or do they place insensitive hurdles such as a long track record of financial performance, requirements for a system of corporate governance which small companies can ill afford and of course, expensive fees (such as arrangement fee, solicitors fee, stamp duty fees etc)? Funny thing is, a number of these Islamic finance professors are actually Shariah advisors to the ‘Islamic’ banks but I still don’t see the practical reality reflected in their research nor lectures.

Secondly, Islamic finance studies need to include, besides finance, economics and the Shariah, the study of political economy. I am just beginning to go into this area but increasingly I see the relevance and the need. Finance is so intricately linked to politics. Do you think the prime minister of this country is not interested in his banks? Why then do we study banking and finance as if politics have no influence on its operations and policies? That

makes absolutely no sense. Likewise, our study of Islamic finance should extend to the political framework of the countries and even the context in which multilateral financial organisations work. Basically I am referring to the politics of the world. Learning finance without due regard for the political framework is again like asking a crippled man to jump. We have not been given the full picture.

Thirdly and lastly, I believe it is time for the next phase of Islamic finance research. We need to move on from simple comparisons of Islamic against conventional banks and talking about ‘risk sharing’ without a proper understanding of the concept and without addressing the key corollary issues that this concept brings. ‘Risk sharing’, as espoused by earlier academics, refer to profit sharing contracts such as *mudarabah* and *musharakah* but one academic at least seems to be trying to lump almost anything that sounds good under this concept to the confusion of most colleagues. I argue this concept of ‘risk sharing’ does not even begin to solve our problems because its discussions have not included the cons (why do you think we are not doing any ‘risk sharing’ in Islamic finance? Is it really just because bankers are evil?) and an appreciation of reality (show me a working example of ‘risk sharing’ vs pie-in-the-sky ideas of how it *can* work in the real world). At the end of the day, the equation is simple, my brothers and sisters. If it has no real world benefit, why even bother? And yet, in Islamic finance, we have sent torrents amount of money down the drain in exactly such discussions. Hence I say, We need to do better.