

Islamicity Indices program for economic and financial progress

For Islamic finance and banking to thrive and compete with the conventional financial and banking system, Muslims must first demonstrate their success in their own countries before they could seriously expect it to effectively compete with the conventional system at the world level. The missing element in most Muslim countries, with the possible exception of Malaysia, has been quality institutions and sustained economic development and prosperity. HOSSEIN ASKARI writes.



Hossein Askari is the founder of the Islamicity Indices program and the president of the Islamicity Foundation.

He can be contacted at askari@gwu.edu.

The Islamicity Indices program is an instrument for establishing effective institutions in Muslim countries, demonstrating the benefits of Islamic finance and banking while promoting its international acceptance and globalization. This program plays a key role in pointing out institutions needed to develop thriving economies and the supportive banking and financial system to sustain them. If this is achieved in one or more Muslim countries, it would demonstrate the effectiveness of Islamic institutions to major financial centers, making them more receptive to Islamic finance.

The Islamicity Indices are based on teachings from the Quran and are indicators of prevailing conditions in Muslim countries in four critical areas:

- (i) economics, finance and banking
- (ii) governance
- (iii) human and political rights, and
- (iv) international relations.

Other than as a benchmark for what Muslims have achieved in their communities and a compass for what is needed in the future, the Islamicity Indices allow non-Muslims to easily understand better the message of Islam, especially in the realms of economics, finance and banking, and thus be more receptive to its economic and financial institutions, which is an essential requirement for Islamic finance to expand globally. The Islamicity Indices do not incorporate four of the five so-called 'pillars of Islam' or what could be considered as the mechanical demand of Muslims, bearing what an Islamic rule-abiding Muslim community would look

like if it followed the rules outlined in the Quran.

The organizational structure for the Islamicity Indices is built through partnerships in Muslim as well as a number of non-Muslim countries, to disseminate the ongoing results through annual updates and reports (policy successes and failures of each Muslim country and their institutional shortcomings) thus encouraging the building of effective institutions. The respective country partners will disseminate the annual results of the Islamicity Indices through the issuance of annual country reports detailing the successes in their country and region, failures and areas requiring special attention for institution-building, sponsor local conferences and meetings and in time lobby for reforms.

In the process, a vast global community of Muslims would be built who have internalized the teachings of the Quran, including its recommendations for economic and financial institutions, taken responsibility for their implementation and who are committed to, and support, peaceful reforms and effective institutions. Such an informed global community of Muslims, with the moral support of millions of Muslims and non-Muslims around the world, will be a credible and potent force for institution-building to enhance development across Muslim countries, and a voice that must be taken seriously.

These results are a compass for needed and sustained reforms, which can be peacefully pursued by Muslims (and non-Muslims) who are educated about Islamic institutions and cannot be readily dismissed armed with these internationally accepted benchmarks. Economic and financial growth in Muslim countries coupled with financial and banking stability will encourage non-Muslims to be more receptive to an expansion of Islamic finance and banking



in their own countries. These conditions will allow Islamic finance/banking to become a global system and successfully compete with the conventional system.

While the Islamicity Indices provide the benchmark and compass for globalizing Islamic finance and banking, other supporting elements should also be adopted simultaneously. To foster the development of Islamic finance, there is a need to emphasize its risk-sharing foundation; remove bias against equity finance; reduce transaction costs of stock market participation; create a market-based incentive structure to minimize speculative behavior; and develop long-term financing instruments as well as low cost efficient secondary markets for trading equity shares. These secondary markets would enable better distribution of risk and achieve reduced risk with expected payoffs in line with the overall stock market portfolio.

In the absence of true risk-sharing, Islamic finance may provide a false impression of being all about developing debt-like, short-term, low risk and highly liquid financing without manifesting the most important dimension of Islamic finance: its ability to facilitate high growth of employment and income with relatively low risk to individual investors and market participants and a resilient financial system. (3)