



EDITED BY  
ASMAK AB RAHMAN

# NEW DEVELOPMENTS IN ISLAMIC ECONOMICS

EXAMPLES FROM SOUTHEAST ASIA

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# **NEW DEVELOPMENTS IN ISLAMIC ECONOMICS: EXAMPLES FROM SOUTH EAST ASIA**

EDITOR

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## Chapter 1

# Entrepreneurship Development in Islamic Economics

*Akilu Aliyu Shinkafi and Nor Aini Ali*

### Abstract

**Purpose** – Entrepreneurship development has become a goal of many countries to achieve economic development. Islamic economics is concerned with marketing, trading, business and entrepreneurship activities. This chapter examines the role of entrepreneurship development in Islamic economics.

**Methodology/approach** – This chapter is purely theoretical in nature. Thus, the Glorious Qur'an, Hadith and other related documents are its major sources.

**Findings** – The discussion reveals that entrepreneurship development has the potential to promote economic growth and development, employment, self-reliance and national growth. The discussion identifies a lack of capital and financial support as a principal obstacle to the development of entrepreneurship and entrepreneurs. This chapter further reveals that the success of entrepreneurship development and other commercial activities requires organisation in terms of coordination, networking and sharing of resources, as well as cooperation between government, public sector, private sector and enterprise.

**Originality/value** – The chapter is original in its form and arrangement having emerged as a novel attempt and the first of its kind. The chapter has a pearl of value to the Islamic economists, entrepreneurs, academic circle, and all those who may consider it relevant for application in their desirable business and cherish the value of its standing.

*Keywords:* Entrepreneurship; entrepreneur; enterprise; Islamic economics; development

## 1. Introduction

Islam is a comprehensive way of life that encompasses all aspects of human endeavour, be they economic, spiritual, social or political. An economic system of an Islamic nature concerns itself with social well-being, business activities and

relations, and the promotion of socioeconomic justice. The term 'social well-being' here refers to the quality of life that involves value systems, cultural and belief systems, lifestyles and ways of living together, fostering the connection and individual sense of being socially included. Islam provides human beings with sound economic principles that govern their daily economic activity. These principles remind people to believe and behave within the limits of Islamic law. The Islamic world has no intention of rivalling and competing with conventional economies; rather, it aims to strictly adhere to the law and worship of Allah (*ibadah*). Islamic economics aims not only for benefit and profit in this world but for benefit in the afterlife as well. That is why it is different from its conventional counterpart, which is profit-centred and delivers benefits limited to this present existence. The principles and dictates of conventional economics are of human origin and may become outdated or be turned against humans. That is why Friedman (2009) emphasised political and economic freedom, international finance and trade, fiscal policy, monetary control, capitalism and discrimination, social welfare, distribution of income and poverty alleviation.

The quality of Islamic economics is established, particularly its potential of promoting economic development and the development of human society by its objective of well-being. Its capacity for socioeconomic welfare can reduce poverty and improve standards of living through practices such as *zakat* (almsgiving), *waqaf* (endowment), *sadaqah* (voluntary charity), *infaq* (spending for the sake of Allah), *khums* (one-fifth surplus of annual income) and *qard hasan* (benevolent lending). Islamic economics is also known for its prohibition of usury or interest (*riba*) (Qur'an, 2:276–281), corruption (Qur'an, 2:188; 4:29) and other fraudulent economic and financial practices.

Islamic entrepreneurship is integral to the Islamic economics of development. In fact, it has great potential for generating employment, developing the economy and promoting social welfare. The Islamic way of life encourages business, marketing, trade and commercial activities. Although Allah permits business and makes it lawful in the Holy Qur'an, scripture also prohibits interest and prohibited businesses, such as those concerning pork, alcohol and gambling. Islamic economics has its own mode of financing that is different from conventional economics; such financial products are key drivers of economic growth and development. The financing products most suited to Islamic entrepreneurship development are *musharakah* (joint venture) and *mudarabah* (trust financing contract).

Before the advent of Islam, Mecca was already a religious and commercial centre for the Arabs of the *jahiliyyah* (the period of ignorance). Prior to becoming a prophet, the Apostle of Allah (*s.a.w.*) would join the caravans with his uncle and eventually served as an entrepreneur (*mudarib*) for Ummul Muminin Khadijah (*r.a.*), travelling from Mecca in Saudi Arabia to Sham in Syria, before his uncle married her. The prophet (*s.a.w.*) stated, 'A sincere and truthful merchant will be raised up among the company of prophets, trustworthy people, and martyrs' (Tirmidhi records this tradition in his book of *Sahih*). This tradition shows the extent that being a good and honest entrepreneur can be encouraged and rewarded.

Studies on entrepreneurship that are relevant to this study include those on microenterprise and micro-entrepreneurship development (Choudhury, 2002;

Zapalska & Wingrove-Haugland, 2013), entrepreneurship by women (Anggadwita, Mulyaningsih, Ramadan, & Arwiyah, 2015; Nazamul, Abdullahil, & Abdullah, 2014; Tüzün, Masarel, & Nijkamp, 2003; Ullah, Mahmud, & Yousuf, 2013), entrepreneurship and profit and loss sharing (Kayed, 2012), youth entrepreneurship (Solaiman & Yasmin, 2012), entrepreneurship in Jordan (Al-Shaikh, 2013), Islamic entrepreneurship (Faizal, Ridhwan, & Kalsom, 2013; Gümüşay, 2015; Kayed & Hassan, 2013; Nazamul et al., 2014), entrepreneurship and poverty alleviation (Mamman, Aminu, & Adah, 2013) and rural entrepreneurship development (Kolawole & Ajila, 2015). While some of the above literature is on specific areas such as women, youth and rural entrepreneurship, other scholars write on subjects such as microenterprise development, entrepreneurship and poverty alleviation, and micro-entrepreneurship. Although some articles on entrepreneurship are recent (such as Bollino & Botti, 2016; Kim, 2016; Lamb, 2016; Zulkhibri, 2016), this does not imply that everything is adequately examined about entrepreneurship. Gümüşay (2015) laments the limited attention scholars give to this matter. Research in Islamic entrepreneurship is under-represented (Kayed & Hassan, 2010). Furthermore, most of these publications do not link Islamic entrepreneurship with the primary theme of Islamic economics. Nevertheless, the work of Zapalska and Wingrove-Haugland (2013) should not be ignored: they link their work on micro-entrepreneurship to an Islamic economic system. More work like this is needed.

## 2. Objective of the Chapter

The purpose of this chapter is to discuss entrepreneurship development with an emphasis on its concepts, principles, mode of development financing and the development characteristics of its realisation from an Islamic economic perspective. The methodology employed is library research, and the major sources are the Glorious Qur'an and Hadith. Other sources include books, journals and related publications.

## 3. Islamic Economics: Concept and Definition

The excellence of Islam and the sincerity of its economic philosophy deserve our attention. This system differentiates between that which is lawful (*halal*) and unlawful (*haram*) in order to guide humans toward the attainment of their goals in this world and the hereafter. Islamic economic thought is known for its concern for human and social well-being, including legitimate forms of consumption, wealth (distribution and management), monetary policies, debt, market exchange, taxation, social security, investment and capital, business and trade, commerce and industry, and the law of transaction.

The main concern of Islamic economics is the promotion of human well-being in an Islamic society. That is why Allah (*s.w.t.*) established the institution of *zakat* (almsgiving) in solidarity with the poor and made it an obligation for every Muslim whose possession of wealth reaches the *nisab* (minimum of property or wealth due for the payment of *zakat*). The Glorious Qur'an

mentions *zakat* several times; some references are Qur'an, 2:43, 83, 177; 3:85; 4:77; 5:12, 55; 6:141; 7:156; 9:5. Almighty Allah clearly defines the beneficiaries of obligatory charity (2:273; 9:60). This is with a view to relieving impoverished individuals in difficulty. Allah (*s.w.t.*) also encourages supererogatory charity (*sadaqah*) as a supplement to *zakat* (Qur'an, 2:196, 263–264; 4:114; 57:18; 58:12–13). Other institutions of humanitarian aid include (but are not limited to) voluntary spending, or *infaq* (Qur'an, 2:3, 215, 262); one-fifth surplus of annual income, or *khums* (Qur'an, 8:41); bequests, or *wasiyyah* (Qur'an, 2:181–183); and endowments, or *waqf*. Although there are no Qur'anic directives regarding *waqf*, there are various traditions that support this institution. Among such traditions, the Apostle of Allah (*s.a.w.*) is reported to have said: 'When an individual person died, all his deeds are cut-up, only three of them will continue to flow: acts of endowment, the knowledge he revives, and a good child who showers prayers upon him.'

In Islamic economics, loans and debts are considered charity. Therefore, the lender may not add any fixed return on the repayment of the borrower. The lender should also be kind in the treatment of the borrower and extend the due date should the borrower experience difficulty repaying by then. Debts should be in writing and for a fixed period; the writer is called to justice and there must be a witness of two men or one man and two women (Qur'an, 2:282). 'And if you are on a journey and cannot find a scribe, let there be a pledge (mortgaging)...' (Qur'an, 2:283). On the other hand, Islam discourages people from entering into debt, in spite of its permission for borrowing, except where there is a need for it. Allah (*s.w.t.*) in the Glorious Qur'an enjoins justice – *adl* – (Qur'an, 2:282; 4:58, 65, 135; 7:29), and kindness or benevolence – *ihsan* – (Qur'an, 16:90) for the well-being of society.

Islamic economics prohibits interest or usury (*riba*), which is universally regarded as a major corruption which can impede the economic growth and development of any society. *Riba* is a feature of capitalism that empowers the rich as superior and enslaves the poor as inferior. The Glorious Qur'an considers interest or usury as injustice. 'Neither should you commit injustice nor should you be subjected to it' (Qur'an, 2:279). The fundamental goal of this Islamic economic principle is to eliminate exploitation in trade, commerce and other business and financial transactions.

On the consumption of food, the Glorious Qur'an makes lawful (*halal*) and unlawful (*haram*) certain land and sea creatures, birds, trees, rainfall, plants and other agricultural products. The lawful ones are those kinds of foods which Allah (*s.w.t.*) has made lawful (*tayyibat*), such as edible animals, milk products, vegetables, fruit and animals butchered in the name of Allah (Qur'an, 2:168, 172; 5:1, 4–5, 88; 6:118). Unlawful foods for consumption are dead animals, blood, swine meat, sacrifices to idols and animals butchered where Allah's name is not mentioned (Qur'an, 2:173; 5:3; 6:121), as well as intoxicants (Qur'an, 2:219; 5:90). There is no blame for those who do good regarding what they ate in the past (Qur'an, 5:93). One should not make unlawful that which Allah has made lawful (Qur'an, 5:87; 7:32; 16:116). It is also *haram* to 'eat' the wealth of orphans and to make unlawful accumulation and earnings.

In the spending of wealth, Islam encourages moderate spending and prohibits extravagance (*tabdhir*) or waste (*israf*). It further encourages the purification of wealth (*tazkiya*) through the payment of *zakat*, *sadaqah*, *infaq* and *waqf*. These institutions also serve as potential sources for promoting the public good, well-being, livelihood and the common good of society. Islam has strict warnings about the hoarding of wealth (Qur'an, 9:43), parsimony and prodigality. The Glorious Qur'an prohibits, as immoral pleasures, attitudes to wealth which are arrogant, proud, niggardly, luxurious, opulent and indulgent (Qur'an, 11:116; 17:16); such might lead to self-destruction. Thus, there is a need for generosity, kindness, humility, morality, moderation, charity and the preservation of honour.

On market exchanges, Islam emphasises the quality of products, goods, commodities, money, silver and gold. These should be equal in weight, measure or value. Islam forbids business fraudulence in weights and measures (Qur'an, 83:1), dishonesty and illegal earnings.

Islamic systems of taxation are known for their distinct fiscal and distributional ethics. Taxation is a vital tool of social and economic policy, particularly for transferring resources from the private to the public sector, with a view to equitably distributing the cost of governance within a state. Taxes might be from individuals or private businesses. An Islamic fiscal levy is collected from all Muslims whose wealth necessitates the collection of *zakat* (almsgiving). A poll tax (*jizyah*) is levied on those non-Muslims who enjoy the security and protection of an Islamic state. This is justifiable, considering that non-Muslims neither partake in military service nor pay *zakat*. The holy Qur'an states 'Until you pay the *jizyah* with submission and feeling themselves subdued' (Qur'an, 9:29). Nevertheless, those non-Muslims who choose to participate in military service are excused from paying the *jizyah*. Similarly, during the period of the second caliph, Umar bin al-Khattab, the *kharaj* was introduced. This is a tax levied on fertile land owned by non-Muslims, which had been conquered by Muslims. Other taxes include land tax, sales tax, excise tax, export tariffs, import tariffs and fees for government services.

Islam has its own principles regarding social security and preventing situations which may lead people to criminal and immoral actions. These provisions include employment and aid to the aged, orphans and sick, and for those suffering from accident, drought and disaster. The institutions that commend help for the common people, the poor, the needy, slaves and orphans in the Glorious Qur'an include *zakat* (compulsory alms), *infaq* (voluntary spending), *sadaqah* (supererogatory charity), *ihsan* (kindness or generosity), *it'am* (food charity), *waqf* (endowment), *kaffarah* (expiation), *khums* (one-fifth surplus of the annual income), *manila* (free-lease) and *baitul mal* (government treasury). Other areas of social security comprise the institution of marriage, which involves *nafqa* (maintenance), *sadaq* (the bride price) and *khitba* (betrothal). Consideration of social security is incomplete without mentioning *zakatul fitr* (compulsory charity paid at the end of the Ramadan period), *fidya* (ransom), *wirathah* (inheritance) and *qard al-hasan* (benevolence loan).

The above-mentioned Islamic practices remind entrepreneurs some of their obligatory and supererogatory responsibilities in various areas of human



endeavour. These economic responsibilities are not limited to entrepreneurial transactions and activities but are all-encompassing in nature, be it regarding social well-being, economic transactions, social security, and social intermingling with the rights of others in traditional society. For instance, in Islam, giving out both obligatory and supererogatory charities to the needy is an act of worship and increases blessings on businesses' wealth security. Furthermore, these Islamic economic principles and practices highlight the responsibilities of individual Muslim entrepreneurs. These rights include the rights of Allah (*s.w.t.*), the right of entrepreneurs, their family, neighbours, the needy, customers and others. This enables individual entrepreneurs to fulfil their duties and obligations, which in turn reduces poverty in Muslim societies, creates opportunities for employment and actualises a positive entrepreneurship development and development in a Muslim society.

#### 4. Definition of Islamic Economics

Many recent scholars have attempted to define Islamic economics using different approaches, but their meanings are similar. Islamic economics is considered as 'A field of knowledge that prepare[s] the realisation of human wellbeing through an allocation and distribution of scarce resources that conform with the Islamic point of view without unduly curbing ... individual freedom or creating continued macroeconomic and ecological imbalances' (Chapra, 2001). Another definition is that it is a '...systematic approach that determines the economic problem and human attitude that relate[s] to that problem from Islamic teaching' (Ahmad, 1992). Islamic economics is seen as '...a response by the Muslim thinkers towards overcoming the economic challenges of their day through the sources of Shari'ah' (Siddiqi, 1992). Similarly, Islamic economics is '...an area that functions as a representative of Muslim conduct in a distinctive Muslim society' (Naqvi & Qadir, 1997). It is also '...a social discipline that cater[s] for the economic problem of the masses in accordance with the Islamic values' (Mannan, 1986; also Adebayo & Fagge, 2012). Islamic economics refers to the '...administration of scarce resources in ... human society in the light of an ethical conception of human wellbeing in Islam' (Adebayo & Fagge, 2012). Further still, it is also 'a mode of ...satisfying the needs of the members of organised society in accordance with ... sources of Islamic origin, value and injunctions that [cover] the areas of production, spending, distribution, management and exchange of wealth' (Musa & Fagge, 2012).

These definitions from noted scholars of Islamic economics indicate that the topic concentrates on human well-being, facilitating happiness and well-being (*falah*) in the hereafter. It also focuses on how to best use the resources gifted to humanity by their Lord, the Master of the sustenance of all dwellers of the earth. These definitions clearly indicate a wider sphere within which is set human limitations.

The emphasis of Islamic economics is to value piety, benevolence, brotherhood, cooperation, equality and justice. These are the absolute and eternal ideals

by which consumers, producers, traders and entrepreneurs must abide. The major objectives of Islamic economics are the elimination of *zulm* (injustice) and the establishment of justice (*adl*), the promotion of social well-being and the alleviation of poverty through *zakat*. It also promotes equity and the elimination of exploitation through the prohibition of *riba*, with a view to achieving justice and social order in society.

## **5. The Concepts of ‘Entrepreneur’ and ‘Entrepreneurship’**

The English word ‘entrepreneur’ originates from the French word *entreprendre*, which means ‘to undertake’. Some economists believe that an Irish economist of French origin named Castillon first incorporated the word ‘entrepreneur’ into economic theory in AD 1755. According to his perception, entrepreneurs are ‘risk-taking specialists’ (Gümüşay, 2015). The popularity of the term has been attributed to Say in 1803. The German economist Schumpeter is considered the first person to link the concept of entrepreneurship with innovation. Schumpeter (1911, as cited in Gümüşay, 2015) states that entrepreneurship is a ‘...combination and creative destruction.’ The working definition of Drucker has made entrepreneurship a discipline. According to Drucker (1985, as in Nazamul et al., 2014), entrepreneurship is the ‘...pursuance of [a] unique and innovative opportunity for achieving profitable and rapid growth.’ Examples are creating a new enterprise (Low & MacMillan, 1988), creating value through risk-taking (Ronstadt, 1984) and the mental ability to commence an enterprise (Nazamul et al., 2014).

Thus, entrepreneurship is a risky procedure that requires sound knowledge, skills, technology and human talent in order to gain anticipated rewards and goals. The entrepreneur is one who has the ownership of a business venture and controls or monitors its processes, without certainty of reward and with a readiness to take risk. Similarly, an entrepreneur is one who owns or possesses an enterprise, partnership or concept that depends on risk and success. Furthermore, an entrepreneur is an individual who establishes and operates a venture, looking for change and responding to it. An entrepreneur is also seen as the initiator of ideas and techniques about marketing and production. He/she is responsible for providing opportunities and resourcing organisations that require his/her care for the effective exploitation of opportunities. Such characteristics and activities of entrepreneurs are recognised as ‘entrepreneurship’, and the result and the determination of these actions are recognised as ‘enterprise’. An enterprise is a business or commercial venture that is framed with a potential to provide job opportunities and effective goods and services and to promote national income, economic growth and development of export possibilities.

## **6. Realising Sustainable Entrepreneurship Development**

To achieve sustainable entrepreneurship development in the Muslim world, several issues needed immediate attention. This include international issues (such

as border guard issues), environmental issues (such as migration and sustainable entrepreneurship development, regional development and sustainable entrepreneurship development, urban planning, advanced construction materials for energy and smart cities in the Muslim world). Criminal activities also affect the sustainability of entrepreneurship development in the Muslim world – these include terrorism, particularly in the Middle East, and international crime, which affects regional sustainable entrepreneurship development. Therefore, security and safety are needed in Muslim nations for sustainable entrepreneurship, businesses and markets. The provision of security should facilitate emerging opportunities, drive business and address constraints that are likely to affect current and future markets.

Furthermore, effective accounting, strategic management practices, creative marketing techniques and proficiency in modern economic and Shari'ah economic issues are relevant (economic comfort, security and legislative issues).

The use of technologies and energy (such as information and communication technology (ICT) and creative industries) in connection with Islamic micro-enterprises should yield sustainable entrepreneurship development. A focus on finance and investment, intercultural communication, social cohesion, social innovation, creative business models, and education and knowledge management are all necessary to achieving sustainable entrepreneurship development in the Muslim world. Further areas of emphasis that could solve long overdue sustainable entrepreneurship development are corporate social responsibility, support for women and youth entrepreneurship and small- to medium-sized enterprises (SMEs) in the context of market growth and sustainable entrepreneurship development in the Muslim world.

Other factors that will contribute to the realisation of entrepreneurship development include organisation in terms of coordination, networking and sharing of resources; and participation between government, public sector, private sector and enterprise. These factors are now briefly discussed.

### ***6.1. Participation for Islamic Microenterprise Development***

Islamic financing and organisational instruments generate effective development through the participation of government, public sector, private sector and enterprise. For instance, Amanah Ikhtiyar Malaysia and the Grameen Bank of Bangladesh extended zero interest rates with tolerance of loans capital to clients in Malaysia and have participated with clients in generating their income activities (Gibbons & Kasim, 1990; as cited in Choudhury, 2002, p. 119). In Sudan, Islamic banks projected a remarkable quantity of funds for the development of the agricultural sector and the rural poor with a view to achieving an income generation program (Choudhury, 2002, p. 119). This indicates the significant extent of participation in Islamic microenterprise involving government, public sector, private sector, individuals, stakeholders and enterprise for effective development. Choudhury (2002, p. 120) believes that Islamic financing and organisational instruments have a strong participatory nature. It has the potential for free-interest financing for the poor and viable socioeconomic