Materials of Conferences

RELIGIOUS AND CULTURAL VALUES OF ISLAM KNOWLEDGE IN ISLAMIC FINANCE

Baitenova N.Z., Zamanbekov D.S., Kokeyeva D., Alykpashev J.

Kazakh National University Al-Farabi, Almaty, e-mail: zhanat52@mail.ru

Anthropology demands renewed attention to the knowledge practices of the accounting profession and anthropological analysis. Using data and theory from Islamic accountancy in Malaysia and the global network of Islamic financial engineers, this article challenges work on religion thetorical functions by attending to the inherent reflexivity of religion practice and the practice of accounting for accounting. Such a move is necessary because critical accounting scholarship mirrors, and has been taken up by, Islamic accountancy debates around the form of accounting knowledge. The article explores the work that religion literature shoulders in carving up putatively stable domains of the technical and thetorical, and makes a case for a reappreciation of the techniques for creating anthropological knowledge in the light of new cultures of accounting.

Moral precepts of Islam formed over hundreds of years under the influence of socio – political and economic changes in the lives of ethnic groups, sooner or later become followers of this religion. Following these changes, the spiritual image of a society is reflected in the religious morals and ethics laws, including the issues of ownership. Islam preaches the perfection of man, causing him to be patient, transference tests, confidence in the soul, truth, loyalty, justice, mercy, humility, beneficence to the people and provide them with assistance. Encourages generosity, frugality, and virtue, warning him of injustic, envy, fraud, weakness, laziness, deception, betrayal, curses and insults, hostility to the people, the manifestation of neglect and abuse of the weak and the poor [1].

The idea that everything is accounting and accounting is everything plays on the ambiguity of the term in English (accounting as audit, accounting as narration, and accounting as religio-cosmopolitical judgment), an ambiguity made material in the transformations of scale that accounting in all of its senses permits. If accounting is everything, can analysis, itself a form of accounts-keeping, achieve a critical perspective on it? This article seeks to demonstrate that this problematic takes on a particular significance in Islamic accountancy with far-reaching implications for anthropology. While Islamic accounting shares with anthropology and critical accounting scholarship the particular dynamics of the analytical impasse of perspectival knowledge, it also, in some quarters at least, may provide tools for a reconfigured anthropological practice. This new kind of anthropology would forgo the sameness/difference models inherent in the discipline's conventional culturalist explanations, which have animated not only anthropology but also critical accounting scholarship. I develop the argument in light of a recent and ongoing transition in the field of Islamic finance, with reference to ongoing debates among Islamic accounting specialists in published, face-to-face, and on-line forums. The transition involves international accounting standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which is based in Bahrain and was founded by one of Gambling's former students in 1990. Islamic financial institutions employ AAOIFI standards in place of, or in addition to, «religious audits» by in-house «Shari'a Supervisory Boards» (SSBs). SSBs and the AAOIFI both exist to ensure that Islamic financial institutions are «Shari'a compliant», operating in accordance with Islamic law. To demonstrate the practical ambiguities of Shari'a compliance, this article briefly considers two Malaysian Islamic economic enterprises: a national Islamic bank, and a local co-operative credit union. In Islamic finance, some very anthropological ideas – including debate over the social construction of reality and the role of values and beliefs in bureaucratic practice – have become a terrain of struggle over meanings and their pragmatic uses. The same has occurred in critical accounting scholarship. As anthropologists turn to bureaucratic forms like accounting, we have begun to question the separation of text from context, form from content, and theory from data that stabilized the disciplines late twentieth-century knowledge practices. Those oppositions now seem to characterize the knowledge practices of those we study, and turn up in precisely those bureaucratic quarters to which we now turn our attention [2].

This places anthropology in an uncomfortable position, different from the reflexivity of an earlier era because concerned less with the partiality of a particular observer's perspective than with the metapragmatics of analytics of parts and wholes that make perspectival knowledge possible, yet guaranteed to exhaust itself. This article thus accounts for anthropology as much as for Islamic accountancy. «Islamic banking and finance» refers to a world-wide phenomenon centred in Malaysia, the United States, Britain, and the Arabian peninsula, and not the financial systems of those nation-states that have officially «Islamized» their economies. It grew out of the anti-colonial project of the Islamic modernists on the Indian subcontinent in the years surrounding Partition [3]. Seeking to create a «modern» Islam that would stand in opposition to Western dominance without falling into romantic attachments that might hinder «progress», thinkers such as Maulana Maududi attempted to craft a new Islamic economic science. This new science, they hoped, would meet the needs of modern society and stay true to the Shari'a and Qur'an.The modernists sought to theorize an economy that provided a mechanism for the redistribution of wealth and that was not based on interest- bearing debt. The obligation to pay *zakat,* or alms, and injunctions against *riba,* glossed as interest, were the initial impetus for Islamic economics.

Islamic banking and finance world-wide derives its core assumptions and many of its practices from these early twentieth-century modernists. Just as importantly, global Islamic banking owes much to the immigration of Middle Eastern and South Asian students and professionals to the United States and Britain during the 1970s and 1980s, and the consolidation of large Muslim organizations such as the Islamic Society of North America and the Islamic Circle of North America. The 1970s Middle East oil boom fostered renewed interest in Islamic banking in many Muslim-majority countries. This period saw the emergence of a loose alliance of Muslim businessmen, with experience of Western regulatory and business environments who had come from employment with international oil and chemical companies as well as Western financial firms. The main nodes of this network were the financial and industrial centers of Europe and the United States, and not the Middle East or South Asia. Thus, although Saudi royals and entrepreneurs bankroll many Islamic finance conferences, journals, and academic institutions around the world, the main sites for intellectual production in Islamic economics are the Islamic Foundation in Leicester, the Institute of Islamic Banking and Insurance in London, and the Harvard Islamic Finance Information Program in Cambridge, Massachusetts [4].

In what follows, we rely on two sources of theory and data. The first includes the writings, commentary, conferences, and published reports of Islamic banking professionals who constitute the global network we have just described.

Their lingua franca is English, supplemented by Arabic terms that have their origins in classical texts but have been given new and often more precise meanings in Islamic banking and finance. Their principle media of communication are published and unpublished reports, academic and trade publications, and, importantly, the internet. The Islamic Economics and Finance internet listserv began operating in late 1999 as an outgrowth of the Islamic Banking Training Programme of the Xavier Institute of Management and Business in Bubaneshwar, India. That programme was the brainchild of a former student of the London-based Institute for Islamic Banking and Insurance, and quickly became the most important face of Islamic banking on the internet. It now consists of around twenty separate specialist «salons», or chat rooms, and one main, all-purpose discussion group. While the participants in the Islamic banking and finance network we discuss here are admittedly only one subset of all those involved in Islamic economic ventures world-wide, they constitute a very important locus of intellectual power that translates into institutional authority. Some are the authors of significant books on Islamic banking. Others are executives or employees of financial services firms (both Islamic and conventional). Many are students who will assume such positions in the future. Debate does get heated at times, especially where there is uncertainty about whether certain financial practices are permissible in Islam – derivatives trading, for instance (see Maurer 2001). What is striking, however, is the overwhelmingly pragmatic orientation to Islamic knowledge. People are far more likely to mix and match concepts or perspectives from different branches of Islamic law in order to create or justify a particular financial practice in their on-line postings than they would in a formally published bulletin or at a conference. Similarly, they are far more likely on-line to entertain comparisons or convergences between Sunni and Shi'a jurisprudence, without resorting to insult or evangelical fervor [5]. Like the Islamic banking network itself, which we see as existing somewhere between the traditional centre and periphery of the Muslim world – indeed, confounding the scalar logic of centre/periphery – these internet postings lie between official publications and off-the-record conversations, and between the various branches of Islamic knowledge. The second source, which also constitutes «data» for the people who make up my first source, comes from two Islamic financial ventures in Malaysia: a large Islamic bank and a small credit association. These two ventures demonstrate the practice of Islamic accountancy in action. In particular, they show how the debates raised in the international network sometimes fail to capture the imagination of those working «on the ground». That very failure, however, proves extremely productive for anthropological and accounting knowledge's. Since the 1980s, and more particularly in the wake of the 1991 Bank of Credit and Commerce International scandal, linked in the business press to Islamic banking in Caribbean tax havens, many Islamic banking professionals have called for clearer accounting standards. They have done so in the hope of removing any possible taint of illicitness, as well as to bolster confidence in the emerging Islamic market sector. Such standards, they hope, will also make their practices both transferable across a variety of regulatory contexts and «transparent» to outside observers. Founded in 1990 as the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAOIBFI) and renamed in 1991, the Accounting and Auditing Organization for Islamic

Financial Institutions (AAOIFI) disseminated Islamic accounting procedures in 1996-7 as part of this effort. In doing so, the AAOIFI entered a field previously dominated by Shari'a Supervisory Boards. Even after the advent of the AAOIFI, most Islamic businesses of any appreciable size still rely on the seal of approval granted by an independent Supervisory Board made up of clerics and scholars. The AAOIFI has been careful not to tread on the toes of independent Boards, and relies on their standards-setting to guide its own. The AAOIFI itself boasts a Board made up of internationally prominent individuals [7]. The AAOIFI has drafted standards that are readily grasped by its counterpart non-Islamic organizations, most notably the International Accounting Standards Committee. Yet while its language and principles share common ground with those of key international accountancy codes, for example the scheme of conventions which has come to be known as the Generally Accepted Accounting Principles, it is not engaged in a struggle for authority with local, national, or regional Boards. Indeed, the AAOIFI needs Boards, and vice versa. The AAOIFI relies on Boards to provide the «data» from which it crafts universally applicable Islamic accounting standards. In a process analogous to the establishment of the Uniform Commercial Code in the United States during the early twentieth century (Llewellyn 1951; R.W. Perry pers. comm.), the AAOIFI collects information on existing Islamic accounting practices and distils from the available data «best practices» that will have the most universal transferability and, ultimately, transparency to both Islamic and non-Islamic businesspeople and regulators. Supervisory Boards, for their part, can gain legitimacy for their decisions by referring to the AAOIFI standards, and at the same time provide a clerical seal of approval for the standards themselves [8]. Understanding the transition from Supervisory Boards to the AAOIFI requires that we consider something other than the apparent shift in authority from religion to bureaucracy. Instead, we should turn to the way in which accounting in Islamic banking and finance creates particular kinds of «facts» and engages a specific rhetoric of rationality. Islamic society, as well as all of its members, is endowed with responsibilities for the preservation and practice of Islamic values and laws. In the doctrine of Islam society needs to achieve divine purpose, all individuals in the Islamic society are related to the acquisition, education and instilling the basic Islamic values, which ipso facto constitute a development of the Muslim holy way of life that is a model in which Islamic principles reflect the dialectical link in the socio-economic structure of society. This relationship corresponding to the teachings of Islam, is crucial in the formation of daily and economic behavior of the individual and the collective. The importance attached to the development of Islam moral qualities, strict adherence to moral principles and doctrines involves a Muslim civic participation in society. It is an active moral position of the individual and the duty to «preach the good and forbid evil», along with the divine teachings, Muslims give the right and duty to participate in public affairs. The concept of justice shows the main goal of Islam – the creation of individuals just relations. This objective of the Islamic system is the main principle that determines the legitimacy of human thought and behavior, material, legal and regulatory rules of Sharia. It was this concept of justice fills all the rules governing the economic behavior of individuals and economic institutions [9]. The realization that justice is Allah's approval, and injustice – his dissatisfaction determines the direction, the meaning and effectiveness of the behavior of a Muslim. While in the Western sense of justice is the quality of human behavior in relation to the other and his actions could be considered unfair only in relation to others, justice in Islam is a multifaceted concept [10]. In other words, even when a person commits an injustice to anyone, there is always the principle of reciprocity – in the end, a person commits an injustice to yourself and reap the benefits.Modern Islamic banks can use *mudarabah* contracts to generate liquidity and turn a profit, acting as intermediaries between the depositor-investors and the managers of business ventures. In effect, modern Islamic banking takes the classic *mudarabah* contract and scales it up: the depositor-investor becomes the *rabb-al-mal* in relation to the bank, as *mudarib*, which manages the depositor- investor's money. At the same time, the bank assumes the position of the *rabb- al-mal* in relation to the business enterprise in which the bank invests, which is the *mudarib* in relation to the bank. Under this scaling principle, the bank can accept money from many depositor-investors via the *mudarabah* contractual form and, in turn, can invest it in several different enterprises through the same *mudarabah* contractual form [11]. Should the enterprises turn a profit, the enterprises, the bank, and the depositor-investors are entitled to a predetermined percentage of the profit. Should they turn a loss, the depositor-investors (and possibly the bank, depending on its operating principles) share in a predetermined percentage of the loss. The enterprises themselves (and also the bank) can pass off the loss to their depositor-investors, since the enterprises are considered to have «lost» the expertise and labour invested in prosecuting the contracts. *Mudarabah* provides a means for enterprise financing and a sort of consumer banking that are Islamically acceptable. Instead of financing its activities with interest-bearing loans, a business could accept funds from an Islamic bank and give up a predetermined percentage of its profits (and losses, effectively spreading some of the risk of doing business). Rather than a depositor earning interest on a savings account, the depositor-investor would earn a predetermined percentage of the profits (or losses, effectively bearing the risk of market activities) of all the enterprises in which the bank had invested the pooled resources of its depositor-investors. *Mudarabah* presents a number of problems for conventional accounting. First, consider conventional accounting's «entity theory», according to which accounting draws meaningful boundaries around business entities for the purpose of audit [12]. Entity theory poses problems for Islamic banks using *mudarabah* accounts, especially when it becomes time to account for *mudarabah* holdings on a balance sheet. *Mudarabah* contracts confound the clear boundaries between the entity taken into consideration for the purposes of accounting and its owners. In a *mudarabah* contract, the depositor-investor who contributes capital in return for a share of the profit or loss «owns» that capital. The bank is «managing» it and investing it in productive enterprises. The bank sees the depositor-investors on its own balance sheets, but the enterprises which receive the depositor-investors» capital from the bank do not. Yet the depositor-investors are the «owners» of the ventures in which the bank has invested. And they are not merely financially responsible for them, but morally as well: should an enterprise engage in un-Islamic activities, then ethically the depositor-investors are just as much at fault as the bank [13].

Referenses:

1. Thomas Abdulkader. Understanding Riba. − London: Routledge forthcoming, 2004. − 1603 p.

2. Lane E.W.. Madd al-Qamus. An Arabic-English Lexicon / London: Edinburgh, 1984. – 3064 c.

3. Mallat C. The Debate on Riba and Interest in Twentieth Century Jurisprudence // in C. Mallat (ed.). Islamic Law and Finance, Graham & Trotman. − London, 1998. − 608 p.

4. Muhammad ibn «Isa Abu» Isa al-Tirmidhi. Al-Jami «al-Saheeh Sunan al-Tirmidhi / Sbornik Hadith. – Mishkat al-massabih. – 353 p.

5. Sijben J.J. Regulation versus Market Discipline in Banking Supervision: An Overview – Part 2 // journal of International Banking Regulation, Vol. 4, No. 4. – London, 2002. – 571 p.

6.Mabid Ali al-Zharhi, Munawar Iqbal. Islamskoe bankovskoe delo: otvety na nekotorye voprosy /Jeddah: IBR, 2001. – 82.

7. Allen F., Gale D. Financial Intermediaries and Markets // Econometrics., Vol. 72, No. 4, P. 1023.

8. Sundararajan V., Errico L. Islamic Financial Institutions in the Global Financial System: Key Issues in Risk Management and Challenges Ahead // International Monetary Fund. − Jakarta, Indonesia, 2002. − 1611 p.

9. Sundararajan V. Risk Measurement, and Disclosure in Islamic Finance and the Implications of Profit Sharing Investment Accounts // Paper prepared for the Sixth International Conference on Islamic Economics, Banking, and Finance. − Jakarta, Indonesia, 2005. − 1532 p.

10. Gersbach H. The Optimal Capital Structure of an Economy // Alfred-Weber-Institute, University of Heidelberg. – Germany, 2002. − 711 p.

11. Modigliani F., Miller M. The Cost of Capital, Corporation Finance and the Theory of Investment // American Economic Review, Vol. 48. − New York, 1958.

12. Nienhaus Volker. Corporate Governance in Islamic Banks // Seminar on Ten-Year Master-plan for the Islamic Financial Services Industry. − Malaysia, 2005. − 839 p.

13. Klingebiel D., Laeven L. Managing the Real and Fiscal Effects of Banking Crises // World Bank Discussion Paper No. 428. − Washington, 2002. − 945 p.

14. Hassan Dr. Tariq. Islamic Capital Markets // Seminar on Ten-Year Master-plan for the Islamic Financial Services Industry. − Malaysia, 2005. − 780 p.

15. Statement on the Purpose and Calculation of the Capital Adequacy Ratio for Islamic Banks // Accounting and Auditing Organization for Islamic Financial Institutions. – Bahrain, 1999. – 602 p.

The work is submitted to the International Scientific Conference «Cultural heritage of Russia and the contemporary world», Great Britain (London), 19-26 October 2013, came to the editorial office on 09.10.2013.