Tools and Conditions for Achieving Sustainable Development in Islamic Finance

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1 Introduction

Islamic banks were meant to be institutions that play a developmental and social role in the Islamic societies, unlike traditional financial institutions, whose primary goal is to make profits. However, it has been observed recently that most Islamic financial institutions (IFI) have ignored 'sustainability' as an essential asset in their development projects. They fell short in assuming their developmental and social responsibility, hence seeming indifferent in their purposes from traditional financial institutions.

It is fair to claim that IFIs are profit-making institutions established to make profits for their owners and investors, not as charitable organizations or social institutions. What distinguishes IFIs from traditional financial

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institutions is their declaration of compliance with shariah in their profit-making mechanisms and modes of earning. It is the objective of profit generation in accordance with shariah that governs and endorses its *modus operandi*, and not any secondary achievements that may or may not be part of their direction of work. However, it is justified to argue that if achieving the same legitimate profit is possible in ways that can complement serving the community while bearing no loss to these institutions, then it is obligatory for them, in this case, to adhere to those ways. There is no excuse for IFIs in such a case to ignore or neglect these social development measures because building a developed Islamic society is obligatory on its individuals and institutions. There is no excuse for a Muslim or an Islamic institution to refuse to participate in contributing to the upliftment and development of society in ways that do not harm himself.

It is conspicuous in this aspect that the IFIs have not duly contributed with their possible and harmless role, as this social dimension is absent from their operations despite the severe deteriorating economic conditions of Muslims in most Islamic countries. Society hence does not hesitate to allege that IFIs fail to play their possible role where they could have contributed socially and served the Muslim community in a way that does not burden or harm them. The IFIs are not keen to invest in sustainable development projects, environmental projects, and sectors of social benefit such as education, health, support for youth sectors, and to support projects that lead to Neither are these institutions keen on financing small and medium enterprises (SMEs), but rather prefer to support large-scale companies regardless of their developmental role due to magnified and unjustified risk considerations in many cases.

It is also duly noted that IFIs have sought to finance expensive non-essential goods, which has helped the wealthy direct their money toward acquiring these luxuries at the expense of establishing development projects that employ the labor force and helps build a productive economy. It is further alleged that IFIs did not enter into real investment contracts that are developmental in nature, like *Musharaka* or *Mudharaba* contracts. Instead, the IFIs mechanized these investment contracts to adapt to serve their financing models, which resulted in investment contracts becoming pure financing contracts.

The IFIs have burdened their clients with fees and imposed profit rates on finances that were sometimes more than the interest rates charged by conventional institutions, with the excuse of compensation for the additional expenses incurred by IFIs, unlike the conventional financial institutions. Additionally, IFIs offer financing products that

carry shariah risks in their transactions, such as *Tawarruq*[1] *Inah,*[2] and organized *salam*[3] products. As a result, the adverse effects of dealing with *riba* are felt while dealing with such obscure products.

These are the claims and criticisms, in brief, that are raised against IFIs as they are not in tandem with any positive developmental or social role that these institutions can play. Before delving into this aspect, it is necessary, in principle, to conceptualize the legal conditions and regulations for IFIs to assume their development and social responsibility because shariah is a law of justice that ensures the rights and interests of all the stakeholders while recognizing the nature and special circumstances of each entity that is charged some responsibility toward others.[4]

[1] Tawarruq is when the bank agrees with the customer requesting financing to sell him a commodity at a deferred price and then sell it in the market on behalf of him at a lower face value and deposits that money in the customer's account. So the customer gets the amount he wanted as financing, but in return, he must pay the bank the excess of what he borrowed, i.e., the amount for which he had purchased that commodity from the bank. The International Islamic Fiqh Academy session no. 19 held in Sharjah—April 2009, issued a decision (Resolution no. 179 -5/19) prohibiting this type of organized Tawarruq because it involves indirect riba.

[2] Inah is when the bank sells a commodity to the customer at a deferred price to be paid in installments, and then the bank buys it back from him. A detailed picture of this sale is as such: the bank prepares a list of the goods it currently owns and allocates them for cash financing operations. It asks the financing applicant to sign a contract to buy one of those goods from the bank at an installment price that adjusts the total amount of financing and its profit. The bank then asks him to sign a contract in which he sells the same commodity to the same bank with a price equal to the financing amount, and the amount is placed in his account. Some banks are less regulated, so they do not have a list of owned goods. They rather sell a share of the bank's real estate assets that it uses, and then repurchase it from the client. Such a sale is forbidden in all schools of thought, although some sects state that such a contract is valid due to its clauses yet is not allowed (Al-Kasani 1982, Ibn Qudamah 1983, Al-Dasuqi n.d.). It is wrongly attributed to the Shafi'is that Inah sale is allowed (Abozaid, 2004).

[3] Salam originally is the sale of a described guaranteed item with a future date in exchange of an advanced price. As for what is known as organized salam, it is a financing process in which the procedure is slightly different from Tawarruq and Inah, and is similar to reverse Tawarruq where instead of bank selling the commodity to the client and then selling it further on his behalf, it rather buys a commodity from him, which it later buys from the market for his account. The result of reverse Tawarruq and its effect is the same as Tawarruq, but with modification in form and method.

[4] For instance, shariah does not obligate zakat on a rich who is in debt, or on a person whose wealth is enough only to serve his basic necessities.

2 Legal Conditions to Include IFIs in Socio-Developmental Responsibilities

There are a few legal restrictions that the IFIs should adhere to contribute to social and developmental sectors. Their socio-developmental activities should not be at the expense of harming the shareholders or depositors because they are the owners of the money, and they invested it in the institution with the aim of growing their wealth. The institutions' behavior of this wealth management in a way that harms this goal violates their contract's requirements. If the shareholders or depositors are harmed as a result of the management's actions without their consent, then the management is legally bound for its guarantee to the owners of that money because that act was an infringement. The agent or *mudhārib* is legally bound to guarantee the capital if he transgresses or is negligent, or did not comply with the terms and conditions of the contract (OIC Resolution No. 30, 1988; Zuhayli, 2005).

IFIs contribution should not be in the form of a donation that is not authorized by the institution's shareholders or by the depositors because only the owners of the money have the sole authority to donate it unless with their authorization. If an unauthorized donation takes place from such an agent, then it becomes binding on the agent himself and should be paid from his (agent's) money (Zuhayli, 2005).

Another condition is that the contribution should be in accordance with a business plan with which it is likely to achieve the desired benefits. The social and development contribution from the IFIs should not have an adverse effect due to improper planning or a mistake in implementation. Further, the socio-development contributions should be from legitimate tools and channels and not mixed with invalid tools. It is not permissible by shariah to adopt illegal mechanisms to achieve social or other benefits. According to Islamic legal maxims, the end does not justify the means, and warding off evil takes precedence over achieving benefits. Achieving a legitimate provision requires that it should not conflict with the shariah and its principles (Al-Ghazali, 1992; Al-Buti, 1982; Ibn 'Ashur, 1946).

3 Methods and Tools Perceived for IFIs to Address Their Social Development Responsibilities

After explaining the basic legal conditions that the IFIs must observe to make an effective developmental contribution, we mention below some of the tools and channels envisaged to achieve this contribution according to the means available to the IFIs. This discussion can be formulated in three points:

Selection of the Financed Sector

In this regard, IFIs should facilitate the conditions for granting finance to start-ups and small and medium-sized enterprises (SMEs), with sound financial tools like investment contracts, without giving preference to giant corporations, given the prevalence of credit risk considerations in them over others. It should also be keen on selecting real development projects when deciding on investment and financing, especially those with sustainable development contributions, and differentiate between them by considering the optimum development and production impact. IFIs should also be keen on investing in the economies of poor Muslim countries rather than the economically powerful countries or be keen on investing in a way that serves the interests of these countries. Furthermore, they should cease or limit the financing of luxury goods and services, such as extravagant weddings and luxury cars. They should instead focus on commodity finance that is productive and, at the same time, work and spend on educating customers and developing consumer awareness about abstaining from financing goods that are deemed as luxury and extravagant. On the same line, IFIs should minimize the use of financial products that tend to harm individuals and put them in debt, such as credit cards and personal finance, especially consumer personal finance.

Adopting the Appropriate Internal Policies

In this regard, it is envisaged that the following four policies should be adopted:

1. Fairness in imposing fees, compensations, and fines on clients. In many cases, these fees, exorbitant compensations, and fines burden the customers. This would result in them preferring and supporting those conventional institutions that may not consider any developmental or social aspects in their work.
2. The real risks in financing contracts by selling, leasing, or diminishing *mushārakah* should be borne by IFIs, because assigning these risks to the client instead of the institution is an injustice that will overtax him leading him to possible losses.
3. The IFIs should refrain from attempting to find means to guarantee their capital and the expected return from the financiers through *mushārakah*, *mudhārabah*, and *wakālah* contracts. Among these fraudulent methods, for instance, is to take a pledge from those financiers to purchase investment assets with amounts that guarantee the IFIs of their desired returns, or when the sukuk manager or issuer issues an undertaking to purchase the *sukuk* assets at their nominal value, which involves the prohibited guarantee of the capital (Abozaid, 2010). Such behavior harms the financiers and results in similar adverse effects of usury because the financing of these institutions will not differ in substance and form from the traditional usurious financing in this case.
4. Employing the IFIs' zakat fund to support disadvantaged needy groups of the society. Additionally, if the IFIs have impure returns[5] to be cleansed, they should use them appropriately to support the needy.

Type of Products

IFIs must be genuinely distinguished from the products and practices of traditional financial institutions in their substance and not just in forms. Islam's prohibition of *riba*, *gharar*, and similar contracts was due to its catastrophic adverse economic and social effects, not merely due to the formalities of contracts that lead to *riba* and *gharar*. Hence, the real prevention from *riba* and *gharar* contracts lie at the core of the commitment of IFIs to the social mission.

Islamic economists, scholars, and shariah auditors have raised questions about the practices of a few such IFIs where they have found procedures that are fundamentally indifferent to usury, gambling, and gharar

[5] Impure returns are the profits that the shariah Board of an institution requires it to set aside due to the occurrence of some shariah violations in its transactions.

contracts. If this claim is found true, it implies that the IFIs' developmental and social message is in jeopardy because they would bear the same economic and social harms as usury and gambling. The type of products that call for caution is as follows.

Contracts That Involve Riba

Among the financing contracts that are in practice by some IFIs that call for scrutiny due to their resemblance to usury, are the following contracts:

Cash Financing Contracts for Individuals and Institutions, Like Tawarruq, 'Inah and Organized Salam

It is well-known that financing through the '*Inah* contract is commonly practiced in South-East Asia, and financing through *the Tawarruq* contract is popular in Arab countries.[6]

As for the organized *salam* financing that has recently appeared, its procedure is that the bank employee asks the customer requesting cash financing to sign a sale contract with the bank, which says that the customer sells the bank a commodity with specific specifications mentioned in the contract by using *salam*. In other words, the dealer (i.e., the bank) is not required to deliver the commodity immediately. Rather its delivery is delayed to a specific date mentioned in the contract. In return, the dealer receives its price immediately, which is lower than the market price for that commodity. Once this contract is signed, the bank deposits the price of the commodity in the customer's account, which

[6] As mentioned earlier, 'Inah is to sell something on credit and then buy it with cash, for the purpose of justifying offering a loan with an excess. Tawarruq differs from it in that the bank sells what it bought on credit to a third party but usually through the first seller. None of the scholar of Fiqh said that Inah is allowed, although some jurists such as Imam Al-Shafi'i have spoken about the validity of such a contract considering that the Inah contract fulfills the obvious conditions of sale. According to Imam Shafi'i, he would regard a contract to be valid considering their appearance, but he does not say that it is permissible. He says, "Judgments are based on that which is apparent, and Allah is the Guardian of the unseen. He who judges people by means of intuition, has committed an act that is prohibited from Allah and His messenger (peace be upon him). It is only God who takes account of reward and punishment for the unseen, because only He knows it. Unlike Him, the humans should judge from what is evident. If anyone were to take the inwardly as evidence, that would had been for His messenger (peace be upon him)" (Al-Shafi'i 1973). This is also seconded by Ghazali who was a Shafi'i scholar, as he said that to regard something as valid does not imply that it is permitted (Al-Ghazali 1992).

was his actual financing requirement. To complete the process, the customer will authorize the bank to purchase that commodity they had just sold to the bank at the market price. Then an agreement is placed that the supplier will deliver this commodity directly to the bank based on the first *salam* contract between the customer and the bank. The bank, on behalf of the customer, pays the price of that commodity—which is more than the first price—in the *salam* contract, so the customer owes the bank more than the amount he had deposited in his account earlier. Then, after the bank receives the commodity, in its capacity as the buyer in the previous *salam* contract on behalf of the customer, it immediately sells it at the market price for its own account, profiting from a difference between the purchase price and the selling price. Such a finance product, using the *salam* contract, ends with the same result as financing using '*Inah* and *Tawarruq*. These cash financing contracts do not really differ from interest-based financing contracts except in the formalities, terms, and techniques used. The International Islamic Fiqh Academy (2009) has issued a resolution (No. 179- 5/19) prohibiting *Tawarruq*, whereas the prohibition of '*Inah* is well-established among all the Islamic jurists (Abozaid, 2008).

Considering the economic effects on society, these contracts create a financial obligation (debt) on the customer toward the IFI for a transaction in which the bank provided cash lesser than the amount that the customer is obligated to pay to the bank. This economic effect of the process is identical to the effect of the usurious loan, which is the obligation of the customer to pay an amount that is more than the amount he obtained from the bank. Studies have proven that these usurious loans negatively affect societies. The proponents of the interest-based capitalist economy have also recognized the adverse economic impact on societies, and this is further attested by the global financial crisis. Dr. Mabid al-Jarhi, a pioneer contemporary scholar of Islamic economics, said:

> If tawarruq becomes commonly practiced, and the exchange of cash-in-hand for deferred cash also becomes prevalent, the economy would return to a cash market where the cash at present will have an additional value in exchange for future cash. This is 'interest' even if it is labeled otherwise. Thus, cash will have a price that will drive people to economize on its usage and replace the real productive resources with money that does not generate any wealth. This weakens economic efficiency, and the society will lose what real resources can produce. (Al-Jarhi, 2007)

Just as usurious loans are used to refinance or reschedule previous usurious debts with an increase in them when the customer fails to pay those debts, the same cash financing contracts are also used in some IFIs to pay off bad debts that may have arisen from previous cash financing contracts. Undoubtedly, refinancing or rescheduling the debt using the traditional usurious method or cash financing through *Tawarruq*, '*Inah*, or organized *salam* will result in an increased amount of the previous debt that the dealer had to pay. This is precisely the form of *riba al-jāhiliyyah* (the pre-Islamic method of usury) that shariah prohibits.

In this regard, according to Dr. Anas al-Zarqa, the most important wisdom behind the prohibition of real non-commodity financing (i.e., financing in which the commodity is not actually intended by the buyer or the seller, as is the case in cash financing from '*Inah*, *Tawarruq*, or organized *salam*), is to prevent the means to annulling an existing debt for a new (rescheduled) debt. In the Islamic legal context, jurists term this as *faskh al-dayn bil-dayn*, meaning annulling a debt with a debt, and this is *riba al-jāhiliyya*. He said:

> Linking financing to only genuinely needed commodities prevents from using the fictitious sale to pay off previous debt, which used to happen in the pre-Islamic riba. Unlike institutional murābahah or all other forms of financing, tawarruq and 'inah facilitate borrowing to pay off previous debts. (Zarqa, n.d.)

In contrast to cash financing, which depends on sale contracts for its own justification, real commodity financing (through real *murābahah*, e.g.) is completely different. Real commodity financing is an actual economic activity that revives the economy because of the fact that there is an actual exchange of goods occurring in reality, and not merely on forms between suppliers or manufacturers and consumers. This economic activity motivates producers and factories to increase production by actual sale of their goods, and the Islamic bank is then a mediator between the producer and the real consumer.

Financing Using Questionable Forms of Ijarah Muntahia Bittamleek Product

Its process is that the IFI enters into an agreement with the customer to buy a property from him or a common share of a property and then leases back that property or that portion of it to the same customer as a

lease ending with ownership without that institution actually bearing the consequences of owning the leased property during the rental period. So the same asset returns to the customer for an amount higher than the first price for which he had sold to the financial institution. This, in other words, is called '*Inah*.

Such a form of *Ijārah Muntahiya Bittamleek* carries characteristics of *Inah*, and hence characteristics of usurious debt in it, in various aspects:

First: The financing institution does not actually bear the consequences of the leased property. The institution that had previously purchased the leased property from the customer, levies all the expenses of the leased property on the customer itself, such as the insurance cost and basic maintenance expenses. This is done by dividing the rent into three sections:

1. A fixed fee: The total of this fee represents the cost of purchasing the leased asset from the customer.
2. A variable rent: This represents the profit of the lessor institution in addition to the cost of purchasing the leased asset from the customer. Practically, this is the prevailing interest rate in the market when the rent is due.
3. An additional fee: This represents emergency expenses, such as basic maintenance expenses. The lessor institution imposes these expenses on the customer (lessee) by adding these expenses to the rent amount for the rental period following the period in which those expenses were incurred.

The lessee hence must bear the additional expenses which should actually be borne by the lessor himself because the property is in his ownership, and this proves that the lease is unreal and superficial. Even if the leased asset is damaged or destroyed, the insurance company is the one who pays the value of that leased asset. However, the insurance premiums are paid by the lessee, as if the guarantor of the damage and destruction of the leased asset is the lessee himself.

Second: Sometimes, in such a lease-ending-with-ownership financing method, the owner does not actually sell to the customer, as is the case in the issuance of lease-to-own-ownership *sukuk* that occurs on the purchase of government property whose ownership is not transferred by the government to private companies or individuals, such as seaports,

airports, and all basic public utilities. It is legally required for the lessor to own what he is renting. However, the fact that such a lease is on assets that the Islamic bank or financial institution cannot actually own indicates that the process is not an actual sale and lease. Instead, it is interest-bearing financing that is disguised as a legitimate contract (Abozaid, 2010).

Third: The asset's purchase price agreed to be leased to the owner is usually linked to the amount required to be financed and not to the asset's market value. If this were to be a real sale contract, the price would have been equivalent to the market value of that asset. However, since it was linked to the financing amount, it clearly indicated the fictitious process and the will to replace the usurious loan in the form of selling and then leasing.

The three aforementioned matters demonstrate that this form of the lease ending with ownership is not different from the '*Inah* sale, which is interest-based.

It is argued that the ownership of the leased asset is returned to the first seller through a gift at the end of the process or through selling it to him at a symbolic price that is much less than the first price, and hence it differs from *Inah*. This argument is, however, rebuffed because a contract is judged regarding its permissibility or prohibition based on the essence of the contract and not merely on the literal meaning of its clauses or the formalities. Furthermore, if this were acceptable, then the pronunciation of embracing Islam would be accepted by a hypocrite, and the consent on adultery by fulfilling the formalities of a marriage contract would have made it acceptable. Hence, the form of the contract here is that the seller received money by his sale of a commodity that he owned in reality and then later paid more than what he received to the same person based on a prior agreement. This, in essence, is '*Inah* whereby the sale asset remains with the seller in reality with the obligation to charge profit from the other party for the amount he paid.

Though *Ijarah Muntahia Bittamleek* is permitted legally as the Islamic Fiqh Academy has also pronounced (Resolution no.110), its application, in a way, leads to '*Inah*—where the lessee is the first owner without levying any responsibility on the owner for the consequences of the leased asset—should be deemed illegal due to its similarity to characteristics of a usurious loan.

Contracts That Involve Gambling

As for the contracts that are practiced by some IFIs and differ from gambling neither in its form nor in their effects on individuals and societies are as follows:

Uncontrolled Trading of Stocks in the Stock Markets and Securities Exchange

Recently, many people have met with misfortunes due to their dealings in the securities and stock markets or investing in encrypted digital currencies. This has resulted in a terrible disturbance in the economic and social conditions of a large segment of society and has left people destitute and indebted after being rich and prosperous. Some of this took place in financial markets that were characterized as Islamic, but the real shariah legal controls for the activities of those markets were absent. The legal violations in these markets can be summarized as follows:

1. Listing the shares of companies that deal in usury and prohibitions based on weak and distorted legal derivations. For example, it is regarded permissible to include the shares of companies that have usurious activities or other prohibited activities if the percentage of those activities is below a certain percentage of the total activities of the institution (20—30%). They bring evidence from juristic reports and phrases indicating that the transaction is not prohibited if it is mixed with forbidden activity in case the permissible portion is predominant. In fact, however, these transmitted reports are actually limited to cases where the permissible is mixed with the forbidden unintentionally, in addition to cases where it is not possible to specify and distinguish what is forbidden according to the jurists cite examples of such applications (Al-Kasani, 1982; Al-Suyuti, 1982). These reports cite specific cases where, for instance, the meat of an animal that is not slaughtered according to the shariah method, is mixed with many other portions of meat that have been slaughtered as per the shariah method, and the mixing of the unclean with the pure in a way that cannot be separated. However, in our discussion here, the company's forbidden activity is known, distinct, and the mixing of forbidden activities and portions is intended. Moreover, the company can and has the option to shun it whenever they want.

2. Adopting weak jurisprudential justifications and *Talfīq*[7] to justify the trading of some of these shares, such as short selling and margin trading, which are in fact, gambling sales that lead to similar consequences as that of gambling.
3. The absence of supervision and necessary restrictions that necessitate the imposition of shariah principles and texts on the movement of trading in these shares, considering the consequences of this exchange from the occurrence of destructive speculations, where a small group of traders is controlling the movements of the market (upward and downward fluctuations)—resulting in the market dealers losing or going bankrupt due to these behaviors.

Dealing in International Commodity Markets and Forex Using Future Contracts

Some IFIs have violated the prohibition of forward dealings in foreign exchange and the prohibition of dealing in international commodity markets via future contracts. They justified their actions by restructuring the contracts in a different format. Either by mutual promises and bilateral binding agreements between the two parties on the execution of exchange or sale on a specified future date and at a price that is agreed in advance or by using fictitious sale contracts (like *Tawarruq*) that achieve their goal of creating a commitment between them to exchange currencies or to buy and sell specific commodities on a specific future date and at a specific price. This act of mutually promising on a contract to avoid shariah prohibitions is regarded as impermissible by International Islamic Fiqh Academy (OIC Fiqh Academy resolution no. 157 (6/17). In addition, some IFIs used swap operations of non-fixed returns for fixed returns via the same methods, such as the *wa'ad* structure product by Deutsche bank, which was issued as an Islamic product and approved by a group of shariah advisors (Delorenzo, 2008).

Most of these dealings are actually undertaken for speculative purposes and not for the genuine purpose of hedging against the sharp price fluctuation risks in the future. The effects of those practices are similar to

[7] 'Talfiq' is a legal term describing the merging of the opinions of several schools of thought into one conclusive issue which is often dissimilar to all. It is a mere patchwork rather than a proper integration of juristic opinions.

gambling, such as enriching some at the expense of others, instability in currency rates, and the loss of economic functions of money.

These are examples of some suspicious contracts practiced by some IFIs that, as shown, are not really different from usury and gambling. Hence, the IFIs should abstain from such contracts that resemble them in their practices and products. This is because IFIs, if they practice such contracts, would be drifted away from their shariah principles and objectives and become impotent to any positive development or social role. Regardless of the impermissibility, these conventional institutions might make some positive social contributions. Yet, their impact, no matter how great, will not conceal the adverse impact of those contracts that are contaminated with usury and gambling. Accordingly, in order to rise and carry out some of the desired development and social mission, IFIs must abstain from these products.

4 Basic Administrative Requirements for Islamic Financial Institutions to Carry Out Their Development and Social Responsibility

It is impractical to expect IFIs to carry out some of their social responsibility that were mentioned above as perceived methods and tools unless these institutions fulfill the following conditions at the administrative level:

1. The owners of these institutions have a determination and desire for effective social contribution. IFIs cannot assume any developmental and social responsibility if this approach is opposed and rejected by the owners and shareholders of these institutions.
2. The executive management of the institution also believes in the development and social mission of IFIs, respects shariah, and is keen to implement and adhere to it.
3. The higher management of the institution is keen on improving the selection of the institution's fatwa committee mechanism and process. The selection should be based on the criteria of efficiency, integrity, and piety, not based on leniency and convenience. This is because the fatwa committee is the one who decides the practices for the institution that may either violate or achieve the social responsibility of IFIs. If the fatwa committee believes only in the

interests specific to its employer (the institution) and is known for its leniency, then it will most probably fail to observe any social consideration in its work. In fact, ensuring the integrity of fatwa and their real contribution to achieving commitment to social responsibility requires a more drastic approach in a manner that would sever the direct material link between the institution and its appointed fatwa board so that the issued fatwas are not polluted with personal and material interests of their issuers.

4. Proper selection of internal shariah auditors because they are the ones entrusted with the task of monitoring the correct implementation of the decisions of the fatwa board that are supposed to help achieve this social responsibility. In fact, their choice is dependent on the institution's fatwa board, as it is only a good and honest fatwa board that will be keen on selecting competent and trusted internal legal auditors.
5. Lifting restrictions that are placed by the supervisory and regulatory authorities on some of the perceived social contributions of IFIs. Such as restrictions that may be imposed on the participation of these institutions in real investment projects, in which there is no guarantee of capital or returns, or restrictions that may be imposed by some governments on the charitable and philanthropic activities of these institutions.

5 Conclusion and Recommendations

The contribution of Islamic financial institutions to achieving economic and sustainable development (with an environmental and social dimension) is accompanied by committing to several conditions and adopting a set of methods and tools dictated by the current conditions of the Islamic financial institutions and banking industry. This research records that the management of Islamic financial institutions (IFIs) must consider the best interests of the owners of these institutions and their shareholders. The social contribution of IFIs should not be at the expense of any unlawful harm to the interests of the owners.

IFIs should be willing to direct their finances and investments in the most feasible and socially beneficial options and avoid financing or investments that have a negative impact on the economy and society. IFIs should not exaggerate credit risk considerations when financing or

investing in economically and socially viable projects in order to encourage and support these projects.

The study recommends that the IFIs should follow equitable internal policies that do not contradict the desired social message of these institutions, including their commitment to justice in imposing fees, profits, and fines on clients. They should also actually bear and share the consequences of financing and investment activities, its risks, and guarantees.

IFIs should adhere to the proper management and employment of zakat funds by directing it to its true beneficiaries and spending it on social concerns that are beneficial and most rewarding while also working to maintain and increase the resources of these funds. It is necessary that the IFIs purify themselves from suspicious and illegitimate products and replace these products with legitimate ones with real productive impacts on the economy. This is because financing products that are in line with shariah, in essence, is inherently developmental and socially beneficial, and financing products that contradict the spirit and purposes of shariah is economically and socially harmful—even if it takes an Islamic form. Any social contribution by institutions that practice suspicious products will not be effective until these products are revoked and abolished.

In order to protect Islamic financial institutions from suspicious products that have an economic and social impact, the chapter recommends the need to work on preparing a higher legal advisory board consisting of trustworthy, professional, and independent scholars that are assisted by trusted economists, to classify Islamic financial products in terms of their contents, effects, and outcomes, in order to dispose of conventional products that have leaked into these institutions under Islamic labels.

Furthermore, the chapter proposes forming a supervisory body that will set a governance framework for the activities of fatwa boards in financial institutions. The formation of such a body can be undertaken by the central bank. This will help disband the link of personal interests between the fatwa board and the institutions in which it issues fatwas, by supervising the appointment of the shariah board and should be independent in terminating their service. This supervisory body shall pay the salaries of the members of the fatwa committee from the amounts deposited by the institutions.

It should be legally required for the IFIs not to diverge from the decisions and fatwas of *Fiqh* councils. On the other hand, the restrictions imposed by the higher supervisory authorities on Islamic financial

institutions should be lifted, which may prevent or restrict the effective development and social contribution of these institutions.

The chapter concludes that if Islamic financial institutions benefit in attracting clients and making profits from branding with the label of Islam, then fairness requires that they serve Islam in return by contributing something to the development of its economy and addressing its social causes.

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