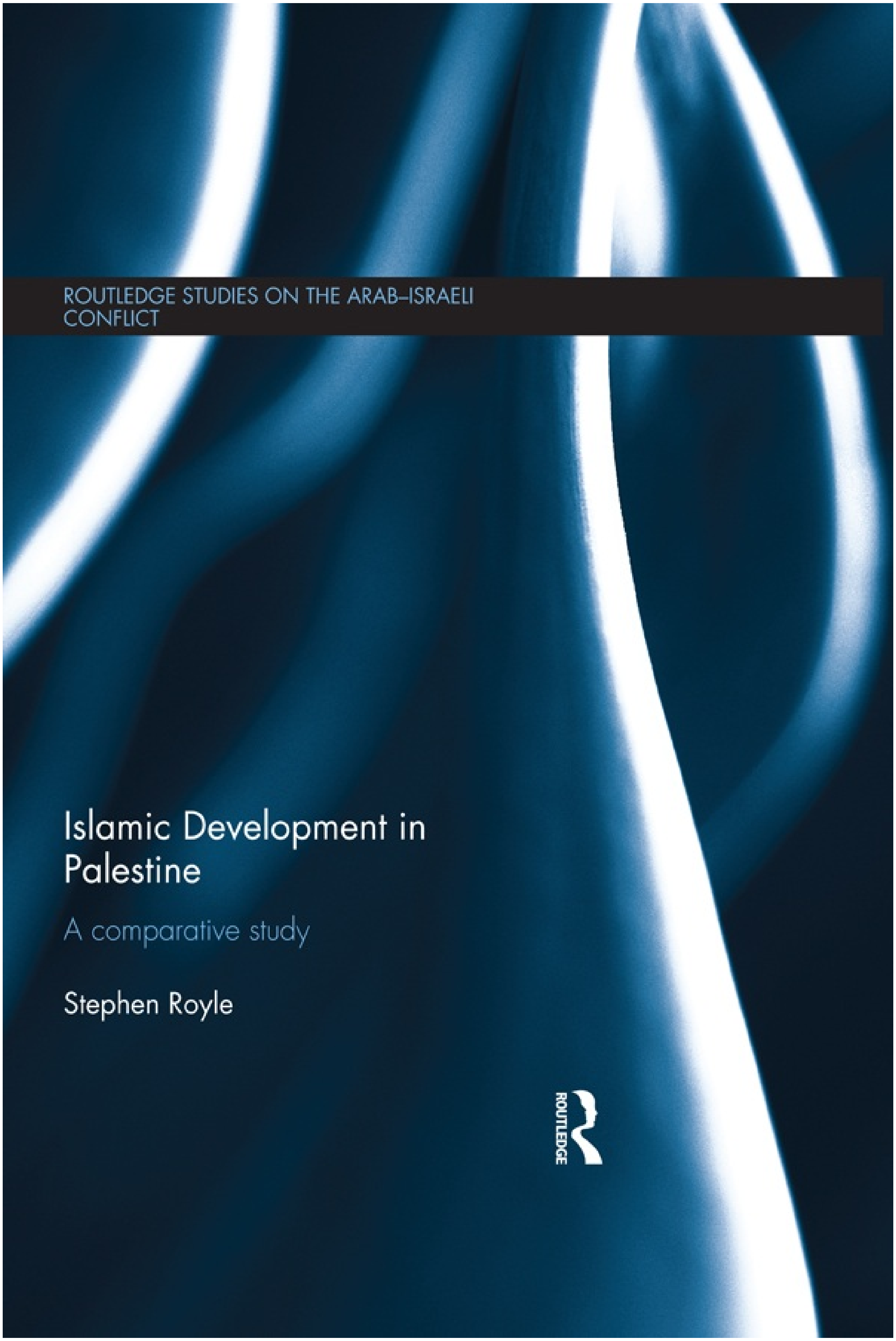
ROUTLEDGE STUDIES ON THE ARAB–ISRAELI CONFLICT
Islamic Development in Palestine
A comparative study
Stephen Royle
ROUTLEDGE

Islamic Development in Palestine

Islamic Development in Palestine assesses the capabilities of an Islamic approach in aiding self-organisation by examining the case of the occupied Palestinian territories in conjunction with a comparative analysis of four other diverse nations.

The book identifies and focuses on three main mechanisms of Islamic development: Islamic finance, Islamic microfinance and Islamic charity. Identifying the need to recognise the non-linear nature of societal interaction at the individual, community and state levels, the book turns to complexity theory as a solution to better understand development. It assesses the role of Islamic development at both macro and micro levels as it seeks to identify issues pertaining to rigid and hierarchical policymaking in development. It also highlights the importance of local knowledge and the need to allow for sufficient freedom to emerge in support of a sustainable self-organised development process.

Utilising complexity theory in a discussion of political economics and development with regards to Islam and Islamic development, this book is of interest to students, scholars and policymakers working in Middle East studies, Islamic studies and development studies.

Stephen Royle is an experienced analyst based in the Middle East. He has previously been an advisor to the Palestinian Prime Minister. He obtained his PhD from the Department of Politics, Philosophy and Religion at the University of Lancaster, United Kingdom.

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Terminology

Islamic, Arabic, Farsi

Allah	God
Al-Mujama al-Islami	Islamic Centre
aql	reasoning
ar-rhanu	pawn-broking under Islamic principles
bonyad	semi-private charitable trust
Bumiputera	Malay indigenous population
damanah	collateral
Dawa	Literally, ‘calling’ or ‘invitation’ to Islam, but notably used by some commentators to describe Hamas’ charitable actions or holdings
fatwa	Islamic ruling
fiqh	Islamic jurisprudence
gami’ya	Egyptian version of RoSCA (rotating savings and credit association)
Hadith	action or saying of the Prophet Muhammad
halal	permissible under Islam
Hamas	Acronym of Harakat Al-Mukawamah Al-Islamiya
haram	sinful activity
Hizballah	Party of God, Lebanese Shi’a party
ijma	Islamic consensus
ijtihad	interpretation of the holy text
Ikwan Muslimiya	Muslim Brotherhood
Intifada	Literally ‘shaking off’, in Palestinian context more commonly ‘resistance’
Jamaat Islamiyya	Literally ‘Islamic congregation’, name of Islamist party

Jihad al-Bina	Holy Struggle Construction Foundation (Hizballah)
kafala	guarantees (financial)
Khalifa	Viceregent of God (also used as a term for national leaders in Muslim countries)
khayr	charity (goodwill)
khums	charity under Shi'a principles, normally one-fifth of earnings
Majlis al-Tanfizi	Executive Council (Hizballah)
maslaha	societal welfare
maysir	gambling, risk taking
mustahiq	recipient of *zakat*
muzakki	payer of *zakat*
Nakba	Catastrophe (specifically, the events in 1948 in Palestine)
nisab	minimum amount of wealth required in order to pay *zakat*
qiyas	analogy
Quran	The holy book
riba	usury, sometimes 'unethical interest charge'
sadaqa	charity (voluntary)
sanduq (plural: *sanadiq*)	Literally, 'box', used to describe a place of 'financial holding'
sanduq al-tawfir	savings (normally interest bearing)
Shari'a	Islamic law
Sunna	scriptures following the path of the Prophet Muhammad
tanmiya	Islamic form of development
taqlid	imitation
Tawhid	Unity of God
ulema	Islamic scholars, Shi'a religious leader
umma	(Islamic) religious community (also, a nation's people in accordance with values of Islam)
Velayat-e Faqih	rule by clerical scholars (particular to Iran)

waqf (plural: *awqaf*)	religious endowment
zakat	charity (compulsory)
zulm	unjust

Financial terms

Profit and loss sharing (PLS) mechanisms

hawala	Transaction in which bank undertakes responsibility for customer liabilities for small charge, which is paid back by the customer over an extended secured period
mudaraba	Transaction in which financier (banks, for example) provides capital and customer manages the project. Profits are arranged by pre-agreement
musharaka	Equity driven product for investment and profit depending on amount of each initial investment
qard al-hasan	Interest free loans and free of profit sharing margin. Modest service charge is applied
wakala	Authorisation for bank to act on customers' behalf

Non-profit and loss sharing (non-PLS) mechanisms

ijara	Lease and hire (bank rents equipment to customer and at end of rental contract customer will buy the equipment for a pre-agreed cost minus rental fee already applied)
istithna'	Sales contract where customer specifies product to be made or shipped (which is paid for by the bank under a pre-agreed cost)
mu'ajjal	Sales contract with deferred delivery where bank pays in advance and customer delivers to its client at a later date
murabaha	Transaction in which bank buys product on behalf of customer who in return pays back the bank in instalments over a pre-agreed period with a profit margin attached
salam	Transaction in which financier (or bank) buys an asset in advance at an agreed upon price, which will be repaid by the seller at a later date based on the quantity and quality of goods produced

Deferred sale products

bai-bithaman-ajil (BBA)	Form of debt financing

Deposit products

mudaraba	Transaction in which customer shares deposit revenue with bank (includes saving products and time deposit products) *qard al-hasan* Donated deposit products free of cost (related to charity)
wadi'ah	Current account

Insurance products

takaful	Insurance product with joint risk sharing (amongst group of clients who, after accrued costs over a specified time period, receive their share of what was invested)

Securities

sukuk	Securities or investment certificates commonly associated with stock bonds

Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ABIM	Islamic Youth Force of Malaysia
ABL	Association of Banks in Lebanon
ACAD	Arab Center for Agricultural Development
AHLC	Ad Hoc Liaison Committee
AIM	Amana Ikhtiar Malaysia
AIsB	Arab Islamic Bank
AQAH	Al-Qard Al-Hasan
BCBS	Basel Committee on Banking Supervision
BCC	Banking Control Commission
BDL	Banque du Liban
BIS	Bank for International Settlements
BN	Barisian National
BNM	Central Bank of Malaysia (Bank Negara Malaysia)
CAPMAS	Central Agency for Mobilization and Statistics
CBE	Central Bank of Egypt
CG	Consultative Group
CGAP	Consultative Group to Assist the Poor
CGC	Credit Guarantee Corporation
CHF	Cooperative Housing Foundation
CIDA	Canadian International Development Agency
CPI	Corruption Perceptions Index
DAP	Democratic Action Party
DBJ	Development Bank of Jordan
DEEP	Deprived Families Economic Empowerment Progamme
DfiD	Department for International Development
DFLP	Democratic Front for the Liberation of Palestine
DOP	Declaration of Principles on Interim Self-Governing Arrangements (Oslo Accords)

DRMFS-International	International Enterprise for Development of Rural Micro Finance Services
EFSA	Egyptian Financial Supervisory Authority
ERC	Red Crescent in Egypt
ESFB	Egyptian Saudi Finance Bank
ETP	Economic Transformation Programme
FIBE	Faisal Islamic Bank of Egypt
GCC	Gulf Cooperation Council
GCIBIFI	General Council of Islamic Banks and Financial Institutions
GTP	Government Transformation Program
IBFIM	Islamic Banking Finance Institute Malaysia
ICCI	Islamic Chamber of Commerce and Industry
IDB	Islamic Development Bank
IFAD	International Fund of Agricultural Development
IFC	International Finance Cooperation
IFI	international financial institution
IFRS	Foundation International Financial Reporting Standards Foundation
IFS	Islamic financial sector
IFSB	Islamic Financial Services Board
IIBID	Islamic International Bank for Investment and Development
IIRA	International Islamic Rating Agency
IMF	International Monetary Fund
IRGC	Islamic Republican Guard Corps
JLC	Joint Liaisons Committee
LAAC	Local Aid Coordination Committee
MBAM	Mu’assasat Bayt Al-Mal
MCA	Malaysian Chinese Association
MDB	multilateral development bank
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MFI	microfinance institution
MI	Al-Mujama al-Islami (Islamic Centre)
MIC	Malaysian Indian Congress
MISFA	Microfinance Investment Support Facility for Afghanistan
MOI	membership owned institution

MSS	Ministry of Social Solidarity
NBD	National Bank for Development
NBE	National Bank of Egypt
NEP	New Economic Policy
NGO	non-governmental organisation
NIC	newly industrialised country
NSB	Nasser Socialist Bank
OFID	OPEC Fund for International Development
OPP	Outline Perspective Plan
oPt	occupied Palestinian territories
PAS	Parti Islam Se-Malaysia (Pan-Malaysian Islamist Party)
PCMA	Palestinian Capital Market Authority
PEMANDU	Performance Management and Delivery Unit
PEX	Palestinian Securities Exchange
PFLP	Popular Front for the Liberation of Palestine
PIF	Palestinian Investment Fund
PIsB	Palestinian Islamic Bank
PLO	Palestinian Liberation Organisation
PLS	profit and loss sharing
PMA	Palestinian Monetary Authority
PNA	Palestinian National Authority
PNC	Palestinian National Council
PNDP	Palestinian National Development Plan 2011–2013
PNPA	Palestinian National Policy Agenda
PR	Pakan Rakyat
PRCS	Palestinian Red Crescent Society
PRDP	Palestinian Reform Development Plan 2008–2010
RoSCA	rotating savings and credit association SAC National Shari'a Advisory Council SACCO Savings and Credit Cooperative
SG	Solidarity Group
SMC	Supreme Muslim Council
SSB	Shari'a Supervisory Board
STL	Special Tribunal for Lebanon
TFPI	Task Force on Project Implementation
UMNO	United Malays National Organisation
UNICEF	United Nations International Children's Emergency Fund

UNLU	Unified National Leadership of the Uprising
USAID	United States Agency for International Development
VRL	variable rate liabilities
ZFE	Zakat Foundation of Egypt

Introduction

'Development' is a contested field of study and debates involving theoretical values and practical implications are frequent within local and international communities. Despite this, billions of dollars are spent each year in attempting to improve the human condition, often with little or negative effect. Given the nature of the contemporary development paradigm, stemming largely from a consensus devised in Washington, new approaches have been sought to challenge the strategies underpinned by the status quo, one of which has seen the emergence of a political-economic approach based on Islamic principles. However, even with an emphasis on ethical values such attempts have become increasingly suspect of adopting the same rigid, hierarchical and prescriptive practices and therefore have failed to recognise local needs.

While this book will advocate for a paradigm shift in development thinking, the focus of the study addresses Islamic development within the context of its providing the occupied Palestinian territories (oPt) with an alternative model to enhance its own ability to self-organise – or develop with minimal interference. To better emphasise the particular case of the oPt, the proposed functions of Islamic development in the West Bank of the oPt are compared with four other experiences in the countries Iran, Egypt, Lebanon and Malaysia. While diverse in identity, these cases offer examples of political economic policies based on neoliberal and nationalist underpinnings; they present a degree of trial and error but ultimately maintain the fundamental capability to adapt. This further highlights the restrictive environment in the oPt but also the limitations in using Islamic development as an alternative model. Islamic mechanisms for development have as yet been unable to establish a new paradigm and have instead shown a tendency to be influenced or affected by hierarchical rigid strategies, internally and externally (macroeconomic), particularly through the neoliberal framework. In summary, as this book will show, the Islamic model, like other Western versions, is not a panacea for development in the oPt – this considering the strict securitised policies and lack of development based on more locally driven self-organised strategies.

This book therefore offers an original insight into development in the oPt by using complexity theory as a framework for discussing Islamic development, and defining Islamic development through distinct mechanisms, i.e. Islamic finance, Islamic microfinance and Islamic charity.

Understanding 'development'

'Economic development' is a term that emerged in the post-war period and was primarily aimed at confronting the issues affecting 'lesser developed'[1] countries, and as it became increasingly evident to fend off communism. Therefore, despite a variety of Western strategies competing with one another, the term became synonymous with the wills and ways of the dominant powers, i.e. the United States of America aided by the establishment of international institutions such as the World Bank and the International Monetary Fund (IMF). Under the guidelines set, 'lesser developed' countries were viewed as being different from the industrialised nations and therefore needing a strategy to lift them out of their condition, based on a guiding belief that 'every economy had an interest in the development of all' (Gilpin, 2001: 309). In the first instance it was thought that a strong state alongside international investment would help develop the relevant institutions and policies so as to ensure public investment, trade participation and ultimately the mimicking of Western economic trajectories. In using David Ricardo's (1977) theory of 'comparative advantage' and contesting Marx's critique of capitalism, Walt Rostow (1960) believed that this could be achieved through the initial development of specific sectors, relevant to market needs (albeit based on a Western perspective), which culminated in five 'stages of economic growth' where a nation could develop from a 'traditional society' into one that is 'preconditioned to take off', followed by 'take off', a subsequent 'drive to maturity' and finally to an end point of 'mass consumption'. It was perceived therefore that all countries could be located at a particular stage of development and that periodical investingment in it, through infrastructure and human resources for example (see Marshall, 2008: 13), would allow for elevation to the next stage at a faster rate and in the process avoid communism.

As in the case of many states signed up to the 'modernisation' process, and even those that opted for similarly rigid nationalisation policies, diversity in production was hampered by over-reliance on prescribed areas of industry, which in turn were affected by over-production and constant price fluctuations in the market. A lack of diversity in production and inefficiency led to a reduction in exports and an increased reliance on imports. State debt therefore became a normality that ultimately affected social provisions. Dependency theorists emerging in the post-war era, such as A. G. Frank (1967) and T. dos Santos (1970) (with particular focus on Latin America), highlighted the extent to which 'modernisation' and the influx of 'colonial' capital distorted the structure of local economics and society (Hoogvelt, 2001: 38), imbuing subordination to and dependency upon the stronger Western economies.

Dependency theorists (and neo-Marxists for that matter) have offered critical insights into the structural distortions affecting countries that were part of a 'development' programme. However, although influential in highlighting the human condition to development bodies, they have been less successful in forging a paradigmatic shift. In essence, while there is a general consensus amongst critics regarding development failures, there is a greater need to highlight the flawed theoretical foundations in theories like Rostow's that assume economic development is prescriptive, orderly in expectations and can be directed or controlled through restructuring without recognition of the myriad factors (internal and external) that can affect societies within an unknown timeframe. It is important to note then that countries do not develop in an identical manner because of the many diverse factors affecting societies; they can 'miss stages, become locked in one particular stage, or even regress' (Ingham, 1995: 38).

Despite emerging criticisms, by the late 1960s and early 1970s growing concern surrounding the national debt of 'developing' nations ensured development economics had begun to swing to the right with the emergence of neoliberal thinkers such as Milton Friedman (1962) and the Chicago School who advocated 'shock policy' for 'developing' states by encouraging a rapid shift from nationalised models to free market economics.[2] These ideas became embedded in development thought and, by the 1980s, statist economic failures strengthened calls for neoliberalism, supported by 'empirical evidence of economic problems, such as the notoriously inefficient state owned industries documented in the World Bank's 1982 report on Sub-Saharan Africa' (Babb, 2009: 126). It was generally thought amongst neoliberals that the source of the problem was related to government policies which 'distort economic incentives, inhibit market forces and actually work against economic development' (Gilpin, 2001: 311), and the only solution to these problems was 'structural adjustments', or more succinctly, loans under conditions of reform that would attach a 'developing' country to the prevailing macroeconomic agenda governed by the US.[3] In doing so it prescribed rapid deregulation, privatisation and free markets, all for the purpose of stimulating GDP thus favouring a macroeconomic framework over that of the micro. This became part of what is known as the 'Washington Consensus'.[4]

Spearheaded by the US government, structural development ensured policy-based lending was a core activity within the development process. Through US control and shareholder activism[5] respectively, international financial institutions (IFIs)[6] and multilateral development banks (MDBs)[7], which were at this point largely seen as inefficient and culpable in 'pushing loans onto socialist governments rather than enforcing tough policy conditions' (Babb, 2009: 127), encouraged the governments of 'developing' states to implement the necessary reforms. As exemplified in the 'House Appropriations Subcommittee, Appropriations for 1987', through IFIs and MLBs 'growth oriented tax reform, improvement of the environment for both domestic and foreign direct investment, trade liberalisation and the rationalisation of import regimes, and the privatisation of burdensome and inefficient public enterprises' (in Babb, 2009: 129–130), became motifs of the neoliberal era but cumulatively reduced the amount of control a developing state had over the development process (Leys, 2005: 110–115). As Stiglitz (1998: 20–21) critically writes:

> Rather than encouraging recipients to develop their analytic capacities, the process of imposing conditionalities undermines both the incentives to acquire those capacities and recipients' confidence in their ability to use them. Rather than involving large segments of society in a process of discussing change – thereby changing their ways of thinking – excessive conditionality reinforces traditional hierarchical relationships.

Statistically, both growth and poverty reduction under neoliberal policies have remained modest. For instance, in a study carried out by Easterly (2003: 379) he found there were 'thirty-six countries that the IMF and World Bank gave ten or more adjustment loans to over 1980–1998. The median growth rate of income per person in this group over the past two decades was zero.' More interestingly, he concluded that whilst poverty (therefore inequality) worsened under periods of growth, yet under contraction fared better, it was of more concern as to how this process detached the lower economic echelons of society from the economic project in general. Easterly (2003: 379) writes:

> [L]owering the sensitivity of poverty to the aggregate growth rate could be dangerous because it gives the poor less of a stake in overall good economic performance. This might increase the support of the poor for populist experiments at redistributing income.

Evident failures and the end of the Cold War emphasised the need for changes in development strategy. Since the early 1990s, then, a greater focus on poverty alleviation and a broadening of objectives to incorporate 'governance, including the legal reforms, institutional facets of reform implementation, and concentration on budget processes' (Marshall, 2008: 41) has strengthened the idea of a 'Post-Washington Consensus', particularly in an environment influenced by 'anti-terrorist' policies. For some such as Marshall (2008: 41) this has helped move 'development' beyond its linear roots and made 'sustained reform a reality'. In 2002 the UN Millennium Project, headed by Jeffrey Sachs, sought to affirm this paradigmatic shift by designing an intricate programme for state development that consisted of a variety of projects ranging from nitrogen-fixing leguminous trees to replenishing soil fertility, and battery-charging stations to medicines for malaria (Easterly, 2007: 6). Accordingly, this attached 'nations to a new global partnership to reduce extreme poverty and setting out a series of time-bound targets, with a deadline of 2015, that have become known as the Millennium Development Goals (MDGs)' (UN Millennium Project, 2006).

Nevertheless, contrary to previous suggestions, these policies have not amounted to a paradigm shift, as many of the core policies of the Washington Consensus and its underlying orderly and hierarchical neoliberal philosophy remain intact, evident by the imposition of unrealistic timeframes and projects. Furthermore, Easterly (2007: 6) believed the MDGs merely overcomplicated the development process and introduced too many actors. In essence, the overarching strategy continued to imitate policies from the Cold War period and therefore showed evidence of a 'classic Planners' mentality: applying a simplistic external answer from the West to a complex internal problem in the Rest' (Easterly, 2007: 7).

It is evident then that contemporary development initiatives, despite moving beyond the historical trajectories espoused by theorists such as Rostow, still apply ordered and prescriptive methods based on the idea that society can be 'restructured' if the developing state follows the rules handed down to them from the hierarchy. Policies originating from IFIs and MDBs are therefore part of the linear macroeconomic framework, supported by dominant nations such as the US, which affects the ability of 'developing' states to implement their own economic strategies, which would normally include mobilising their own resources and financial mechanisms, such as a model of taxation and the development of local banks. This fundamentally removes the capacity of a state to adapt to its own local conditions, which are ever-changing and constantly require knowledge to affect a response, something international development agencies struggle to do.

For example, in highlighting the importance of 'self-help' Easterly (2007: 300–301) references the case of Japan in the nineteenth century, which in lacking sufficient revenue raised a 3 per cent tax on the value of land. In addition to this, land, which had been previously allocated to farmers under the regulation of local custom, became the private property of the farmers themselves. Whilst Easterly's example is somewhat simplistic in its analysis, this did help trigger a number of options, such as an increase in land sales and an ability to apply for loans by using the land as collateral. In essence, it augmented local interaction and created bonds between the state and society, providing access to property and finance which in turn helped Japan prosper and adapt. So despite suffering periods of economic failure, militarisation and conflict it is plausible to suggest that 'without reliance on external intervention Japan was able to oversee a vibrant internal movement of its people that inspired local industrialisation' (Easterly, 2007: 301).

Contrary to the Japanese example, however, the development paradigm that has existed since the end of the Second World War has evinced a high degree of linearity based on a false perception of Western historical growth. Strategies have therefore maintained their prescriptive, orderly and hierarchical nature despite attempts to shift the foundational focus from the state, to free markets and more recently the human condition. Loans and grants are provided in accordance with the values associated with this core model, and emphasis (particularly since the financial crisis) is still very much on stabilising the macroeconomic environment, despite efforts (by development workers for example) to shift focus to the micro level. In essence, IFIs, MDBs, donor agencies and much of the NGO sector are governed by the same statistics, measurements and endpoints promoted via Washington, and therefore global regulations, particularly financial standards (such as the Basel Accords[8]), continue to serve these macroeconomic principles.

Understanding complexity and development

Somewhat simplistically, a complex adaptive system gains energy through the interaction of its parts. Through this process of learning with one another, self-organisation can emerge thus making it responsive to change. Nonetheless, the more parts there are and the greater the interaction (internally and externally), the more difficult it becomes for the system to remain within the realms of a stable attractor[9] or indeed healthy complexity. As Reed and Harvey (1993) note, if we take human systems for example, not only are historical and contextual factors likely to influence systemic changes but also 'values and actions of humans themselves' (cited in Byrne, 1998: 50) – a position undervalued by traditional hierarchical economic models that tend to ignore the transformative influence of social actors in favour of reducing occurrences to statistical analysis (Byrne, 1998: 48). As Boulton (2010: 33) writes: 'neo-classical economics is based on the mathematics of the physics of equilibrium thermodynamics, which assumes that, for closed systems, and when history can be ignored, things move towards equilibrium.'

This fundamental flaw in using linear approaches to understanding the human condition has led to a variety of mistakes, no more evidenced than by the ideas of 'development' that 'chooses not to study the unfolding of the patterns its agents create but rather to simplify its questions in order to seek analytical solutions' (Arthur, 1999: 107). However, if we acknowledge that human systems have complex adaptive capabilities, we can then promote better understanding of how human systems evolve or coevolve in 'varying and unpredictable ways over time' (Geyer and Pickering, 2011: 12). Instead of placing them on 'ladders' of development or reducing them to labels of 'underdeveloped' or 'developing', it is more accurate to acknowledge how such systems (nations, for example) in sharing and competing within the same space become part of a 'fitness landscape', where adaption to the overriding conditions is the ultimate objective, not a development endpoint. A fitness landscape could therefore represent a global economic environment, a 'state' or 'condition' which is created and affected by the nations coevolving themselves and can include factors such as macroeconomic principles. In this landscape the peaks represent high fitness or an ability to adapt, while the valleys amount to low fitness, and flatlands are neutral (Byrne, 1998: 32). The nations that are successful in adapting occupy the peaks like the US or China, while others such as those in sub-Saharan Africa are struggling to climb out of the valleys. While it is desirable for struggling nations to ascend the peaks it is important to reiterate that because of the nature in which these nations coevolve, through politics and economics, for example, change is affected by the nations themselves who shape the contours of the landscape. It is evident that those occupying the peaks are more able to influence the landscape but, once again, this is not permanent, as a punctuation within any given system or nation caused by internal fluctuations or systems coevolving (through the collapse of an economy, for example, that affects investing nations) can cause the emergence of a new attractor, at the end of which a nation that previously occupied the peaks could find itself in the valley.

The main objective is quite simply to stay out of the valleys, but this is very difficult to achieve. However, it can be supported by once again stressing the importance of allowing diversity and interaction, and freedom to gain the necessary resources and knowledge to promote self-organisation and adaption (through the formation of local policies and regulation, for example[10]). As Rihani (2002: 235) writes:

> Under suitable conditions of connectivity and regulation, the local chaos provides the energy that allows a nation to acquire self-organised, stable but evolving patterns. As a result, progress comes mainly in the form of modest local improvements that accumulate over long periods of time.

Overtly rigid policies with specified timeframes and endpoints can therefore stifle interaction, a common problem in contemporary development models. If we return to Easterly's example of Japan once more, self-organisation was clearly evident in the development of the nation and it was done without excessive external interaction (or intervention for that matter) or the imposition of inflexible hierarchical models. Instead it was achieved through the implementation of its own local policies (including the promotion of resources and finance), where interaction (locally and eventually externally), learning and failure were all key factors in creating a sustainable but adaptive system. What we can state therefore is that neither communities or nations evolve in a linear manner as their histories and values have been accumulated over long periods of time and, while their futures are unpredictable, they will be influenced by their ability to maintain local opportunities and avoid constraints while coevolving with other nations (Rihani, 2002: 235).

It is important then that development policy thinkers recognise the limits of externally imposed top-down models as the 'essential point about self-organization is precisely that none of the agents – either as individuals or as members of the group – can plan or shape the evolution of the system in any other way than by their local interaction' (Blomme, 2012: 10). Instead, under the guise of complexity the best we can hope for in regards to development would be to 'improve a nation or community's performance within continually shifting conditions by means of enhancing its members' fitness and capability'. Simple projects that emphasise self-help would therefore be far more achievable than the current myriad of projects designed within the realms of 'human development'. With this in mind, and reflecting the work of Snowden and Boone (2007) plus Geyer and Rihani (2010), Figure I.1 aims to identify with a shift in thought regarding the methodology and implementation of development strategies by highlighting the problems with rigidity and disorder.

By using complexity theory to understand how a society evolves, we are made aware that local interaction and self-organisation are vital in establishing a system based on balance and flexibility. However, too many interactions caused by war or a basic lack of law (potentially leading to chaos), and too few triggered by a strict regime, occupation or other external interventions, such as economic sanctions (rigidity), can affect the ability of a society to learn and adapt. After criticising the contemporary development paradigm for its overtly linear nature, this has naturally stigmatised the Islamic development alternative due largely to the various predominately Muslim nations being subjugated by or adopting the dominant macroeconomic principles within the fitness landscape, showing evidence of mimicking the neoliberal order. In some cases this has been reinforced by rigid Islamic-based policies that have brought about the question of interpretation or *ijtihad*. The practicality of these tensions will be drawn out in reference to the chosen Islamic mechanisms: Islamic finance, Islamic microfinance and Islamic charities, and their application in the four comparisons and, notably, the case study.

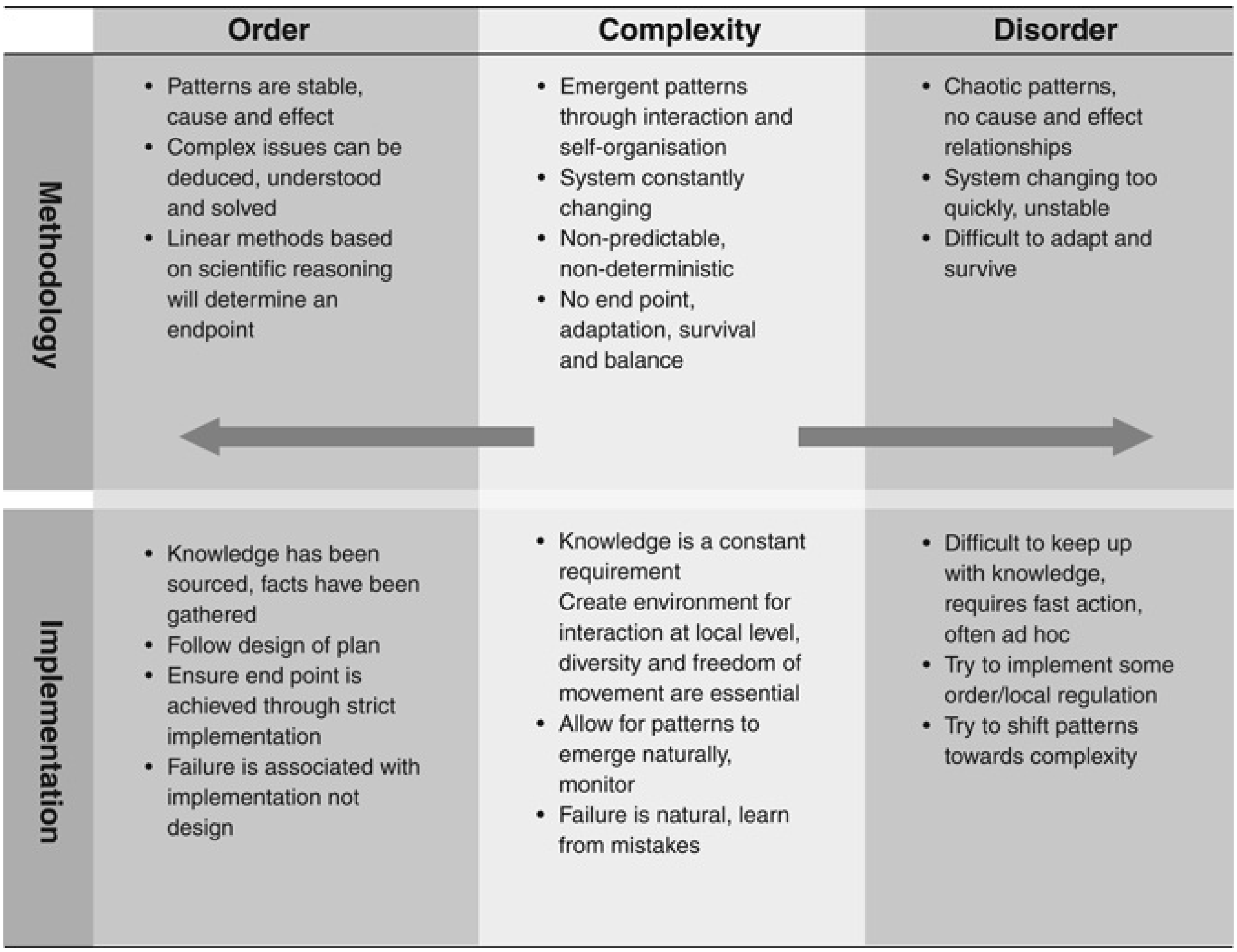

Figure I.1 Between order and disorder.

Introducing Islam, complexity and development

'Development' is a relatively new term in Islamic socioeconomic discourse, with the Arabic word *tanmiya* being used as a direct translation. However, the meaning of *tanmiya* in Islam requires a more holistic understanding than that of the endless progression suggested in Western theories (Elmessiri, 1997; Kroessin, 2011). For example, within a modern economic context Sayyed Hossein Nasr (1990: 16–19) in his critique identifies a crucial void between the impractical nature of Western philosophical utopianism and Islamic 'eschatological' beliefs that see the world as being re-established through cyclical rejuvenation and divine intervention, not the secular activities of human agency. In subscribing to this philosophical viewpoint the West in general can be considered as too focused on creating a society that is motivated by the goals of production and consumerism, thus promoting an irrational use of resources and avoiding the values set out in Islam, leading to inequality and *zulm* (injustice).

Islam is therefore a metaphysical ontology that encourages the pursuit of a righteous existence through belief in the unity of God (*Tawhid*) who is the embodiment of perfection.[11] As a result of this, human beings are to see themselves as the Vice-regent of God on earth, or *Khalifa*, made in God's image (Nasr, 1966: 15–38), to be continuously judged by their actions hereafter. It is both the recognition of this metaphysical relationship and the responsibility placed upon the individual Muslim to act accordingly that is said to stimulate ethical practice and promote societal welfare (*maslaha*) throughout the *umma* (community or nation) thus proposing the maintenance and rejuvenation of society rather than a linear progression towards an end point.

However, in contrast to the certainty that is expressed in the *Quran*, a degree of uncertainty does exist due to the nature by which the implementation of a religious system relies upon the actions of humankind. For example, in view of global changes Islamic scholars (*ulema*) have sought new evaluations of life and in doing so have looked towards interpretation (*ijtihad*)[12] as a critical means of maintaining or promoting societal welfare. *Ijtihad* is the allowance of interpretation within the realms of Islamic knowledge that can lead to new evaluations of life and ultimately *fiqh* (Islamic jurisprudence) (see Ahmed, 2006), but it is not a perfect process, as is demonstrated by the various schools of thought that have emerged over Islamic development (see Table I.1), complicated further by the various cultural and regional interactions with these schools of thought. However, it could also imply that the divergent nature of Islamic interpretation and sects identifies with diversity in Islamic development thought that is arguably a key to a healthy development of Islam.

What is clear from a contemporary theoretical perspective, then, is that tensions are not only evident between the values of Islam and that of Western development, but also within Islam itself as the myriad of schools, regions, countries and peoples are increasingly forced to interact and coevolve on a global scale. In the view of Western development, for example, Islam has often been accused of being an impediment to growth (see Lewis, 2002) due to the use of the invocation of the *Quran* in responding to conditions affecting Muslim societies. However, these arguments not only oversimplify the West's interaction with diverse regions of predominately Muslim faith, but also misunderstand the way in which the Islamic response over the past few centuries has shown itself to be a by-product of conditions and Western dominance. This does not just refer to the extended periods of colonisation suffered by Muslim societies but also the many who have succumbed to macroeconomic pressures.

In the Middle East, for example, nations under neoliberal guidelines were required to reduce spending, alter investment resources from urban to rural and public to private sector, abandon the economic ethos of planned economies and, most controversially for the benefits of long-term prosperity, promote efficiency above equity (Richards and Waterbury, 1996: 215). Because of this, Muslim scholars such as Muhammad Baqir Al-Sadr (1935–1980) – mirroring the words of various Western critics of the Washington consensus – questioned the methods used by Western states which sought to impose

> the life-style of the European man as a leading practice and to mark out the steps of this practice in order to build up a perfect and complete economy capable of raising the backward Islamic countries to the level of the modern European nations.
>
> (Al-Sadr, 1982: xix)

Table I.1 Schools of Islam

Shia (ad 660)	Totalling approximately 10 per cent of the Muslim population,[1] Shia emerged in response to a belief in the aftermath of the Prophet Mohammed that the selection of leaders or Caliphs of the Muslim community should follow the bloodline of the Prophet's family, or more precisely that of Ali b. Abu Talib (ad 595–660). Ali has therefore been elevated into a position of a prophet by followers of Shia. It is said to be more flexible in regards to rule making and is prominent in Iran, Iraq, Lebanon and parts of India. (There are, however, several sects of Shia belief, including Imami, Ismaili and Zaydi, that have followed different Imams.)
Hanafi (ad 767)	This most popular school of thought in reflecting the value of reason is prominent in regions spanning from Europe to the Middle East and even Central Asia and Asia, for example, the Balkans, Turkey, Egypt, Syria, Pakistan and India.
Maliki (ad 795)	In following Malik ibn Anas this school references the practice of society in Medina as an example of an Islamic society without relying upon the Hadiths. It is common in Northern Africa and in parts of the Gulf.
Shafii (ad 819)	Stemming from Muhammad ibn Idris al-Shafii, whose preference in using the Hadiths as a reliable source and greater analogy has proved an important aspect of Islamic jurisprudence. Commonly practiced in East Africa and South East Asia.
Hanbali (ad 855)	Ahmad Hanbal defined Islam through its primary sources. Considered primarily as a conservative school of thought it is often associated with practice in Saudi Arabia and even the Gulf Emirates.
Zahiri (ad 884)	Abu Sulaymen Dawood Al-Zahiri was keen to promote literal translation of the *Quran* and Hadiths instead of analogous practice. Although this is considered as the least known of the schools of thought, tenets of its practice are evident in Morocco.

Note

1 See Venardos, 2006.

Such tensions have therefore led to an expansion in responses seeking to find Islamic solutions to an appropriate way of life. As history has shown us however, even when asserting an Islamic (or Islamist[13]) approach, many have failed to ascertain the complex manner in which society adapts or evolves, not unlike Western development theories. For example, at one end of the Islamic revivalist spectrum fundamentalism (an extreme example being the *Taliban* and a less conservative being *Wahhabism*) advocates a return to a way of life evident in the early centuries of Islam (see Kroessin, 2011). At the other end, nineteenth- and twentieth-century scholars such as Jamal al-Din al-Afghani (1838–1897) (see Keddie, 1968), Muhammad Abduh (1849–1905) (see Abduh, 1966), Sayyid Abul Al'a Al-Maudoodi (1903–1979) (see Al-Maudoodi, 1986) and Sayyid Qutb (1906–1966) (see Qutb and Shepard, 1996), who in rejecting Western theory have also in a contradictive manner utilised similar mechanisms, using nationalist, socialist and democratic idioms in conjunction with Islam as a solution to societal ills with particular reference to the use of *Shari'a*.[14] In the former case, the *umma* could be obtained via the imposition of archaic societal structures based on inaccurate assumptions that reject interaction (internally and externally) and ultimately deny the possibility to adapt to changing conditions. However, even in the more adaptive latter trend there are elements of constraining positivist and ordered thinking. As Tripp (2006: 74) writes: 'many believed that the proper ends of society could be rationally discovered.'

Nevertheless, despite competing narratives and numerous critiques of the contemporary paradigm, Islamic development has remained somewhat abstract and messy. Some scholars have sought to rectify this through the development of Islamic economics, believing that applying ethical standards compliant with metaphysical belief will help rid the issues associated with society's ills.[15] Asutay (2007: 4), for example, in emphasising the normative value of applying Islamic economics states: 'The ethical norms of Islam are fully integrated with its economic motives, as these are not voluntary actions but, ontologically, part of the revealed knowledge; and therefore its dogmatic nature makes it necessary for them to be followed.'

Islamic finance has therefore become a useful mechanism when discussing development as theorists have implicated it as a practical solution. Chapra (1992: 225), for example, views Islamic economics as a 'package of tools' that does more than just reference *zakat* (almsgiving) and *riba* (usury) by applying mechanisms that govern interaction between perspective parties. Timur Kuran (2005) is however critical of Islamic economics for this very same reason, believing it to be too prescriptive given its metaphysical nature which has resulted in it failing to provide a real solution equivalent to its claims, thus merely serving as an ineffective cultural barrier to globalisation.

However, by using positivist economic methods associated with the conventional financial sector, Islamic economics has also opened itself up to the criticism of 'mimicking' Western development. For Warde (2005: 47) this has been highlighted through a convergence with the Washington Consensus, galvanised by a growing influence of liberal-oriented education upon Islamic scholars which has created a process whereby the justifying of 'private property, free enterprise and the sanctity of contracts' in Islamic terms has enabled the ushering in of privatisation and deregulation. So instead of stimulating the rejuvenation of the community based on Islamic values, and a general recognition that there was no quick fix or short cut to 'reach the desired level of economic development more quickly' (Al-Sadr, 1982: xxi), Muslim thinkers (and states) have increasingly acquiesced and conformed to the same deterministic methods evident in the current development paradigm, and Islamic financial mechanisms are a core part of this.

As a result of this persisting development trend, Islamist and Islamic organisations have tried to fill the vacuum caused by the retreat of the state and the limitations in gaining access to finance under neoliberal guidelines. Many of these organisations have gained credibility in doing so by providing welfare support and microfinance mechanisms for those in need. However, in a development era influenced by anti-terror policies, informal financial mechanisms are heavily scrutinised and any transactions that occur without sufficient transparency have resulted in accounts being blocked and even the closure of organisations and prosecution of individuals.[16] This has had a damning impact upon Islamic mechanisms of development such as the charitable sector (including *zakat* organisations)[17] and even standard Islamic financial practices such as Islamic banks, investment companies, and money transfer businesses, causing excessive scrutiny of inter-financial transactions between conventional banks and Islamic institutions which has affected working relationships in the process (Henry and Wilson, 2004: 55).

The reality therefore is that Islamic development, like its conventional comparison, is also a misnomer. Despite a number of financial methods emerging, no true paths or gateways have been discovered and instead it involves a number of critiques and propositions to affect the human condition, sometimes using inaccurate historical references and often mimicking flawed Western strategies. In many cases, this has resulted in an inability to adapt to the real economic landscape and a failure to find solutions to poverty within countries of Islamic tradition. Some theorists have related these conditions to the lack of adaptability in Islam caused by juristic 'laziness' (Iqbal, 1984: 141) or even the 'door to *ijtihad*' closing after the tenth century, culminating in the stagnation of Islamic jurisprudence (Venardos, 2006: 36–37). Alternatively, Springborg (2009: 246), in referring to the Middle East and North Africa (MENA), suggests that the lack of political freedom in society has restricted the creation of an Islamic model, and therefore the Washington Consensus supplies the most viable economic method for development given the lack of consensus with other political economies (such as the Beijing model).

It has become apparent then that in trying to implement a new paradigm, greater preference for imitation (*taqlid*), reasoning (*aql*) and analogy (*qiyas*) have not only challenged the true meaning of *ijtihad* but restricted innovation by merely justifying the contemporary paradigm. Nonetheless, this does not mean that a new paradigm cannot be forged, but to do it through Islam will require new thinking, recognition of flexibility, and the implementation of a balanced economic process that respects both standardisations and human needs. As Al-Qaradawi (1999: xxii) has stressed: 'To say that the door of ijtihad is closed would incorrectly leave these issues unsettled. None can close the door of ijtihad since it was opened by the messenger of God (P).'

However, to enable a practical assessment of Islamic development in relation to these tensions, this book identifies three key contemporary areas in which the principles of Islam are firmly embedded. They are Islamic finance, Islamic microfinance and Islamic charity. Having already highlighted the suggested importance of Islamic economics in the creation of a more ethical paradigm, it is important to understand how it functions through an analysis of financial practice, particularly Islamic banking. However, criticisms as to the limits of banks (in general) in affecting local poverty has also led to the development of more focused microfinance methods based on similar Islamic principles. The ability of Islamic microfinance to meet these challenges is also tested as regulation, costs and outreach difficulties have challenged sustainability. And, like formal Islamic finance, this has created a tension within the practice. In some cases, Islamic charities (based on the principle of *zakat* for example) have sought to fill this gap in the short term. However, concerns regarding transparency within the dominant framework have affected otherwise legitimate organisations that have in some cases succumbed to stigmatisation and even closure. In sum, tensions exist throughout the three core themes which will become evident in Chapter 1, and made relevant to the case of the oPt.

Understanding Islam, complexity, development and the occupied Palestinian territories

Inclusive of the population being 97.5 per cent Muslim (Pew Research Center, 2011: 157), the occupied Palestinian territories (oPt) provides us with a very interesting case study when considering Islamic development, not only because of its central importance within the Middle East, a region Leon Carl Brown (1984: 4) has called 'the most penetrated international relations sub system in today's world', but because the territories (the West Bank and Gaza) are occupied by Israel. What this implies is that without being able to operate as a fully autonomous 'state' (despite receiving 'Observer Status' at the UN in 2012), proposing development trajectories is even more uncertain if not spurious than it would be under normal circumstances, particularly as policies of a highly securitised nature have intensified what exactly 'development' is in the oPt. An alternative vision is very much warranted, but overcoming the barriers established under the occupation, which, since the 1993 Oslo Accords[18] has included economic stipulations set out in the Paris Protocol,[19] and the implementation of neoliberal policies in collusion with the idea of a 'state building' process, makes this unlikely.

In summary, since the nineteenth century 'Palestine' has suffered the effects of 'modernisation', colonisation and, from 1967, occupation. Nevertheless, despite periods of conflict and political upheaval there are still ongoing efforts to 'develop' and establish a Palestinian state based on principles highlighted in the Washington Consensus. Nevertheless, as this book will acknowledge in analysing the potential for Islamic development, the strategies that have emerged since 1993 in particular have failed to provide solutions and, as some theorists would argue, they have even reinforced the occupation and the plight of the Palestinian people.

From a critical perspective, for example, Sarah Roy (1999) in highlighting the structural inadequacies believes the economic process after Oslo has amounted to the 'de-development' of Palestine given that a combination of restrictive policies with a resultant economic dependence on Israel (despite declining interaction because of the closures) and donor funding has removed the 'capacity for production, rational structural transformation, and meaningful reform, making it incapable even of distorted development' (Roy 1999: 65). Peter Lagerquist (2003), in his analysis of the so-called 'industrial zones' established as part of the economic development programme following Oslo, affirmed these same structural distortions by highlighting the intricate nature in which the donor sponsored industries (such as textile companies) merely provided human resources to Israeli businesses. For him, this instead of development was a continuation of 'colonial' economics evident since 1967.

Indeed, following the end of the second Palestinian uprising or Second Intifada (2000–2005) the 'state building' process deepened and, despite recognition of attending to the needs of Palestinian society, the hierarchical prescriptions remained. Through the office of Prime Minister Salam Fayyad, a paper titled *Ending the Occupation, Establishing the State* was published in August 2009 (see PNA, 2009) with respect to the development plans inspired by the leading international bodies. Consistent with previous plans promoted in the 'Washington Consensus', the report affirmed support for establishing governance, security, rule of law, accountable institutions and free market economics with particular support for private investment. Despite criticisms of Fayyad, however, for Raja Khalidi and Sobhi Samour (2011: 12) there has been little room for an alternative strategy, as US pressure, the occupation, reliance on donor funds, and advocacy stemming from the Bretton Woods institutions have contributed to a 'minimal "policy space" – the freedom to determine economic policies without external constraints being binding'.

Without the space to initiate local development, macroeconomic pressures combined with concern regarding debt (PNA and banking sector debt) have instead resulted in tighter regulations and reductions in financial access. The emergence of microfinance initiatives to help alleviate the lack of funding has provided some respite, but sustainability, due to excessive securitisation and export restrictions, has questioned the reasoning for such a process and therefore highlighted a reliance on donor aid once again. Even charities are closely monitored, particularly those of an Islamic nature that have been stigmatised because of links to terrorism (see Levitt, 2006). Proposing development trajectories within the occupied framework has therefore only managed to strengthen the restrictions, as even key areas of focus prescribed by the Washington Consensus – labour, employment, trade, market access and revenues, for example – are ultimately controlled by the limits supplied by the occupation. The narrow confines in which Islamic development has to work, and the tensions that exist provided by an enforced mimicking of a Western model, will be presented in detail in the course of Chapters 4, 5, 6 and 7.

In applying complexity to the oPt we know that the conditions have reduced its ability to function and adapt to the fitness landscape. With the application of hierarchical economic development models following 1993 in particular, this has created a situation whereby the territories function within a 'rigid stable attractor'. Local interaction is therefore governed by a series of policies that prescribe directions and targets for growth, that are inevitably flawed not only because of the linearity associated with their design but because of the influence Israel is able to uphold when confronted with a potential change to the status quo. In using Urry's (2006: 14) theory, complex interactions are like walking through a maze, the walls of which rearrange as one walks. Making the way through the maze requires adjustment to the walls that are adapting to one's movement. In the case of the oPt the walls are being controlled by the occupying force and continue to change, but instead of being able to adjust, the development policy (governed largely by the US) maintains a rigid path and therefore restricts the steps that the oPt can take. The oPt is therefore not only challenged by Israel's ability to adapt to Palestinian movements, but also by the general development policy which directs its movement. The attractor is therefore stable, but has become overtly rigid due to the limits imposed on Palestinian actors, thus reducing the ability to freely interact and influence a systemic change. The aforementioned Islamic models also have minimal impact in this environment.

Chapters

The bringing together of development in the oPt with complexity theory and Islam, requires a more detailed discussion regarding political economics and developmental policies in practice. Chapter 1 provides an overview of the core tensions associated with the three chosen Islamic mechanisms of development (i.e. Islamic finance, Islamic microfinance and Islamic charity). In assessing their limits within the current paradigm in supporting self-organisation, for instance, it is noted that each of the mechanisms struggled to establish a balanced approach to development. The comparative models in Chapters 2 and 3 highlight this whilst being reflective of their own environments. In the case of Iran, sanctions have had an impact upon the nation's wellbeing, but this is compounded by the implementation of rigid economic policies based on Islamic principles that removes the necessary flexibility needed to obtain a socioeconomic balance. In the case of Egypt, recent turmoil has affected its stability, but a general adherence to a linear neoliberal prescription has remained, which continues to add to the countries woes. In Chapter 3 the case of Malaysia highlights a process of emerging complexity given the degree of adaption and slow but steady recognition of all cultures. Nevertheless, despite a preference for Islamic principles, a tension exists as to the manner in which the Islamic mechanisms have become increasingly conventional. In the example of Lebanon, on the other hand, too many interactions internally and with other regional states continuously draw it into the realms of chaos (positive feedback loops), therefore impacting upon its economic mechanisms and complicating any Islamic approach to development.

Using the knowledge gained from the previous chapters, the case of the oPt in Chapters 4 (an overview), 5 (Islamic finance), 6 (Islamic microfinance) and 7 (Islamic charity) further relates to the tensions that have emerged in regards to Islamic development within a heavily securitised environment, particularly as the oPt functions as previously noted within a 'rigid stable attractor'.

The information presented in the chapters on the oPt not only provide further evidence to the limits of 'Islamic development' when confronted with a rigid framework, but also a larger issue at the macroeconomic level. In the concluding chapter, these issues will be highlighted using the research collected on the oPt and the comparative models. As the conclusion will show, the existence of a development model based on the principle of self-organisation is not yet evident in the oPt; largely because of the securitised conditions in which it exists, but also because of the implementation of a development programme that reinforces this. The prevalence of the neoliberal framework will be shown, as will the limits of Islamic development within this context at the broader macroeconomic level.

Methods

To help build a more complete picture of development in the oPt, primary sources including interviews, eye-witness accounts, minutes from meetings and the use of original reports and documentations were used in the chapters relating to the oPt. This required extensive field research, but Gaza could not be included due to the security conditions, which restricted access to and from the territory. The likelihood of visiting Gaza decreased further after Israel's invasion during Operation Cast Lead in 2008. Although it is recognised that Gaza is a useful case study considering its use of tunnel trade and the fact that the Islamist political movement Hamas are in control of economic policy, the reality was that the study would succumb to a series of frustrations, and therefore with limited or superficial knowledge within the subject area.[20] Addressing development in Jerusalem, the proposed capital of a Palestinian state, was also limited due to the lack of Palestinian authority over the disputed city; it was therefore not considered for this book. This is, however, an area of study that would benefit from further research. Nevertheless, research in the West Bank benefited from a three-year period living in al-Ram, Ramallah and Nablus; plus working for An Najah University in Nablus (and in Ramallah) on behalf of its administration, which provided access to the international development process in the West Bank. Nevertheless, the research undertaken posed considerable ethical issues.

The West Bank exists within a highly politicised and securitised environment and using qualitative methods (interviews etc.) required access to individuals and Islamic organisations attached to finance, charities (particularly *zakat*) and welfare in general. As previously noted, heightened fear and issues of financial transparency following Hamas' electoral victory in 2006 ensured that much of the attention was placed on financial institutions and local NGOs, particularly of an Islamic or Islamist variety. The conducting of interviews was therefore a sensitive process, and while formal institutions such as the Palestinian Islamic Bank were keen to talk, others such as Hamas members or local citizens involved with Islamic charities were reluctant to have their name publicised due to the real fear of being stigmatised or arrested. The interviews themselves were not recorded in order to avoid any potential security issues. To ensure ethical standards, many of the interviews carried out were also affirmed via email or a second interview so as to ensure the safety of the participants involved.

The interviewees came from a broad array of local (community and elite based) and international actors between the years 2008 and 2012, which undoubtedly strengthened the quality of information and affirmed issues consistent with the goals of the book. Interviews with so-called 'elites' proved particularly useful as they not only helped assert a narrative of events, but provided new evidence or access to other important figures, developed networks and ultimately helped the research progress. However, not all 'elites' were willing to participate. Some were keen to recommend colleagues while others ignored requests. Several of those interviewed also had clear political agendas in mind, particularly political party members (notably Fatah and Hamas) who were keen to promote their own party line.

The research also involved a degree of personal risk due to the nature of the study and the carrying out of interviews with members of what the international community have called ‘terrorist organisations’, such as Hamas. For example, some senior analysts have suggested that the boundaries of Hamas’ activities are too blurred to differentiate (see Levitt, 2006) and that its altruistic actions are a mere front for the goals of eradicating Israel and establishing an Islamic state. Negating the merest association with ‘acts of terror’ was vital in avoiding the attention of local security (Israeli and Palestinian), and ensuring my stay and research was prolonged. Focusing on financial and welfare matters instead of political issues aided this.

In contrast to the primary sources used in the case study, secondary sources were used in accumulating the information in Chapters 1, 2 and 3. Although secondary sources may be considered as less trustworthy, in regards to this research they helped establish the diverse theme by using statistics, newspaper reports, books and other journals to highlight the issues relevant to Islamic development and the political-economy, thus building a more detailed profile and therefore helpful foundation (see Moses and Knutsen, 2007: 121).

Notes

1 This book will promote a shift away from using terms such as ‘less developed and ‘under-developed’, which indicate a hierarchical framework. However, when referring to ‘development’ theories it beneficial to use the terms that the various development bodies are using so as to establish their thought processes in regards to human systems.

2 This also coincided with the collapse of the Bretton Woods system and a decline of the US as a necessary liquidator of market operations. Often referred to as the ‘Nixon Shock’, it represented a period where the US president realised a universal lack of faith in the US dollar which had come under intense pressure due to the over-production of money that was being printed to fund the ideological struggle (e.g. Vietnam). It resulted in the removal of the fixed rate system, forcing currencies to float on the exchange market.

3 Part of the debt issue, caused by previous policies, it was said could be rectified through targeting lower inflation (monetary policy), currency devaluation and reducing government expenditure.

4 The term ‘Washington Consensus’ was initially coined in relation to development in Latin America after 1989. It added to structural adjustments by also highlighting the need for fiscal discipline, redirection of public expenditure that reflect high economic returns and income distribution, tax reform (lowering marginal rates and broadening tax base), interest rate liberalisation, competitive exchange rate, trade liberalisation, liberalisation of inflows of foreign direct investment (Williamson, 2000: 252–253).

5 For further understanding of this process, see Nelson and Weiss (2013).

6 IFIs include the World Bank, IMF and regional development banks.

7 WDBs include the World Bank, and regional banks – the African Development Bank, Asian Development Bank, European

Bank for Reconstruction and Development, and the Inter-American Development Bank.

8 The Basel Accords (which will be referred to in more depth in the next chapter) that are issued by the Basel Committee on Banking Supervision aim to regulate banking, as seen with Basel I, II, III.

9 The mathematical term 'attractor' is used in complexity to identify with dynamic systems, where a number of values combine in aiding a system's evolution.

10 Regulation domestically requires a degree of acquiescence from the public. At a global level in regards to free market economics Boulton (2010: 38) notes:

> I would argue that a complexity view would concur that someregulation is necessary – at least to break up cartels, limit the size and concomitant influence of firms and national political interests and to promote diversity and seek to equalize power.

11 Islam literally meaning 'surrender to God'.

12 Ibn Taymiyah (1263–1328) has been credited as being a main proponent of *ijtihad* and an influence on subsequent discourse.

13 Although debated, the simple difference between Islamic and Islamist is that the latter seeks to implement Islam within all aspects of social life.

14 For a useful historical analysis of the changes in Islamic responses to economic conditions, see Tripp (2006).

15 Such theorists include Ahmad (1980), Al-Sadr (1982), Asutay (2007), Chapra (1992, 2000, 2001), Siddiqi (2006) and Zaman (2008), who have championed Islamic finance as an alternative to conventional practice that evidently places macroeconomic gains above the welfare of humanity.

16 Following the events of 9/11, Executive Order 13224 was published by the US Government, establishing the 'Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism Notice of September 24, 2001' (US Government, 2001).

17 For example, the Holy Land Foundation based in Richardson, Texas, suffered closure and had its leading figures charged with acts of money laundering and supporting a terrorist organisation (amongst others) for their part in providing funds for welfare charities set up by Palestinian Islamist organisation, Hamas.

18 The Oslo Accords aimed to promote a two-state solution by recognition of two different peoples.

19 The Paris Protocol was signed in 1994 and focused on labour, trade relations, fiscal and monetary issues between Israel and Palestine in recognition of the 'two-state' process. More detail regarding this is provided in chapter 4.

20 For a detailed view of Gaza, see Roy (2011).

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1
The practicality of Islamic mechanisms

In reference to the theoretical framework, human systems have the ability to self-organise and in doing so produce a high degree of complexity which in its interactive state helps to develop new properties and even shape new systems (or attractors). What happens locally is of great significance, as it is here where the most effective patterns for sustainable interaction will occur (Rihani, 2002: 136), and not as prescribed in linear development strategies through hierarchical methods. Development approaches should therefore help stimulate local interaction by ensuring relevant societies have the freedom and resources to achieve a sustainable and self-sufficient pattern of development, which includes the building of local institutions and regulation. However, this should be done in respect of obtaining a balance between macroeconomic aspirations (which includes the need for external interaction) and local needs, thus promoting adaptability.

As established in the introductory chapter, 'Islamic development' is a relatively new concept, but as a response to conditions it has largely adopted conventional methods, which has affected some traditional practices. To gain a greater understanding of this occurrence we need to take a detailed look at the three practical Islamic mechanisms commonly used to aid societal development: Islamic finance, Islamic microfinance and Islamic charity. This chapter will therefore assess Islamic development in practice to see how it performs in relation to the dominant neoliberal development paradigm which, although it has worked for some, has not universally benefited others, notably in predominately Muslim countries. The mechanisms will therefore be judged on their ability to promote a more balanced form of development that avoids prescriptive strategies and hierarchical policies that fail to recognise local requirements.

As previously noted, the idea of development or *tanmiya* in Islamic discourse draws its philosophy from a metaphysical standpoint and the oneness of God. For writers such as Nasr (1990: 16–19) this is the fundamental schism between Western and Islamic approaches, where the latter views the world as being re-established through cyclical rejuvenation and divine intervention and the former through secular activities driven by human agency. Shariati's (1980: 15–21) criticism of modernity also reflects this view, as he believes ideologies such as capitalism and Marxism have been based on an unattainable desire to control nature, and therefore put the human species (or 'man' as Shariati claims) at the centre of the universe, which inadvertently adds importance to the material components that elevate humans to a place of significance and power on earth. More worryingly, for thinkers such as Al-Sadr (1982: xix) this has transformed into a structure based on Western values that sought to impose

> the life-style of the European man as a leading practice and to mark out the steps of this practice in order to build up a perfect and complete economy capable of raising the backward Islamic countries to the level of the modern European nations.

Despite the criticisms, a coherent Islamic response to the conditions has not been forthcoming and instead Muslim thinkers (and nations) have increasingly conformed to the same deterministic methods evident in the current political-economic paradigm. *Taqlid* (imitation), *aql* (reasoning) and *qiyas* (analogy) have therefore been used to draw parallels with the Washington Consensus, which in so doing has removed a degree of flexibility to deal with conditions in the locality. Given its non-hierarchical nature (other than God) along with the schools of thought and a variety of cultural influences, Islam is in fact in a strong position because of its diverse nature. However, this would continue to depend on the use of *ijtihad* in promoting a balance between external interaction and the needs of society. The practicality of this will be addressed in the following sections before introducing the comparative models and the case of the oPt.

Islamic finance

In 1963 one of the first recognised Islamic banks named Al-Idkhar Mahalliyah was established in Mit Ghamr, Egypt. It was adapted from the German Sparkassen savings bank (based on a social model) and provided access to credit for rural and other small businesses built on non-interest banking and profit sharing. It also promoted charity payments or *zakat* through accounts which paid a percentage of individual deposits to local charities (Klarmann, 2007: 93–94; Tripp, 2006: 136). By the 1970s Islamic banking had branched out across the Middle East, largely through the surplus capital gained from the oil industry in the Gulf state region and the subsequent demand for financial mechanisms to purify earnings in accordance with Islamic values. Currently, the Islamic financial market spans Europe, Asia, Africa and the Middle East offering Islamic accounts, loans, insurance and securities through both Islamic institutions and Islamic 'windows' within conventional institutions. In accordance with a report released by PricewaterhouseCoopers (PwC, 2013), the estimated global market value of Islamic finance was $1.2 trillion in 2012 and expected to reach $2.6 trillion by 2017.

Islamic banking is at the forefront of Islamic finance and promotes ethical financing in accordance with Islamic norms, or as it is sometimes referred to the 'moral economy' (Tripp, 2006). For Siddiqi (2006: 6), 'by far the most impressive argument in favour of Islamic finance has been that it integrates the financial sector with the real sector.' In justifying its ethical nature, El Hawary *et al.* (2004: 5) draw attention to four general areas which, although not exclusive, are adhered to by Islamic banks to varying degrees. These are: risk-sharing (shared responsibility and returns); materiality (ventures must consist of a material ends and not speculative financing[1]); no exploitation (equality in input and output); and no financing of sinful activities (*haram* activities such as alcohol and other non-ethical business investments). Based on these principles, Islamic banks offer deposit accounts, credit facilities and even bonds (*sukuk*). They will also pay a percentage of profit as *zakat* to charitable organisations.

However, Islamic banking is more synonymous with its promotion of interest free financing and its provision of credit based on principles of *Shari'a*. Interest is considered as usury (*riba*) in Islamic discourse, centred on the premise that money should not be used to generate more money, but be invested in products and services. As the *Quran* states:

> O ye who believe! Devour not *riba*, doubled and multiplied, and be careful of your duty to Allah that ye may prosper.
>
> (*Quran* 3: 130)

The Islamic finance sector in theory therefore should avoid loaning money based on time-related mechanisms as it also places an unfair burden on the borrower. Discussing the impact upon humanity, Siddiqi (2004) attributes five reasons for the prohibition of *riba*: it corrupts society by encouraging the individual to seek personal gain over universal wellbeing; it encourages improper appropriation of other people's property; it promotes negative growth in that numerical gains are preferred over social welfare; it demeans human personality; and it is ultimately unjust. Concern surrounding 'interest' charges does have historical foundations within other religions and philosophies alike. In light of a more contemporary market concerning development and particularly credit banking, economists such as Stiglitz and Weiss (1981, 1992) have also voiced concern over the impracticality and disparities in obtaining access to credit in a system (which aims to control macroeconomic efficiency) that exhibits a fluctuation in interest rates.[2] Putting forward their idea of 'credit rationing' higher interest rates means a greater chance of reducing the amount of low risk borrowers, whilst also increasing high risk tactics from actual borrowers who in realising the excess in interest charges would forgo bankruptcy instead of repayment. In essence, Stiglitz and Weiss advocate equal access to credit whilst simultaneously encouraging an ability to repay loans, thus increasing the overall size of economic activity and involvement. They state

> that banks might not increase the interest rate they charged even in the face of an excess demand for funds, for to do so might reduce their expected rate of return because the probability of default would increase.
>
> (Stiglitz and Weiss, 1992: 694)

Although there is a general consensus amongst the *ulema* regarding *riba*, some have suggested it to be negligent of current practice and therefore detrimental to societal development (see Kuran, 2005). That is to say, in a conventional financial system, if loan demands exceed what is in supply, interest rates will be increased in order to raise more capital at the suppliers' end thus balancing the flow. From a certain Islamic perspective, this process is based on macroeconomic principles of supply and demand, which ultimately gives power to the financier and places the risk upon the credit seeker at the micro level, as even before knowing the success of a particular enterprise a price has been predetermined by the loaning bank or institute (Siddiqi, 2006). As a response to this, some Islamic scholars have suggested separating the macro from the micro in order to control the financial flow and prioritise welfare over cash supply (Wilson, 1995: 111–119).

Nevertheless, a general acceptance of conventional mechanisms such as interest charges remains. To this end, Islamic banks and institutions have designed products that intend to avoid the label of 'interest' by administering charges similar to that of interest rates. (See 'Terminology' for explanation of the various products.) This shows a degree of adaption to the macroeconomic landscape, considering that survival of the sector must be of equal importance to ethical exchange. In order to maintain this balance the charge is related to work or the principle of risk sharing, which in banking terms is equated to profit and loss sharing (PLS). Taking into account the ethical methods identified by El Hawary *et al.* (2004), a PLS is a prearranged agreement between the borrower and financial investor that sees a return in money linked to profit rather than interest, an equity model as such. The most common example of this in credit supply is *mudaraba*, where the financier provides the capital and the customer manages the project with profits being pre-agreed upon. The fixed charge, which is often higher than conventional interest, is justified due to risk of failure on behalf of the financier and the cost of administrative support (which is often time consuming). A PLS therefore aims to promote access to credit based on a partnership agreement thus reducing loan defaults in the process.

For Khan (2010), however, PLS financing has become increasingly less common due to general market uncertainty and the level of risk and time consumption suffered by banks using this method. Instead non-PLS mechanisms like *murabaha* and *ijara* have become more common due to their similarities with 'debt-financing'. What this highlights is a preference for conventional mechanisms that identifies with the needs of financial institutions who have to adapt and survive within a market of information asymmetry by mitigating their own risk (Zaman, 2008), a position that runs in opposition to the proposed Islamic ethos. Using details from the 2007 Islamic Development Bank publication (IDB, 2007), Khan identifies with this trend by acknowledging 92 per cent of the IDB's profits in 2007 resulted from non-PLS financing (Khan, 2010: 809).[3]

To reiterate, then, this growth in non-PLS financing identifies with the conventional profit-orientated system, which considering the economic downturn and the subsequent regulations and standardisations implemented by Islamic financial institutions, for example, has appropriated financial institutional survival (banks in particular) above societal needs.

Investments that are considered 'high risk' or offer minimal profits in return (such as *mudaraba*) are therefore overlooked in favour of more secure investments; this essentially fractures the link between society and credit thus restricting universal adaption to conditions based on local requirements. Alternatively, applying a rigid framework in favour of society, based on a perceived Islamic ethos, for example, will also restrict development. In sum, regulation is needed but imposing 'blanket policies' upon all financial institutions does not allow for diversity or the survival of local banks that can tend to the actual needs of a locality.

Regulation, standardisation and Islamic consensus

Forging a consensus or *ijma* in Islamic finance in order to develop the necessary regulations for promotion of a paradigm shift has proved difficult due to the various regions, countries and interpretations that make up the sector. To summarise, the Islamic credentials of an individual Islamic financial institution are monitored by their own appointed *Shari'a* Supervisory Boards (SSB), which normally consist of three members or more and are selected based upon a combination of religious and financial expertise (Alexakis and Tsikouras, 2009: 92). Nevertheless, no two SSBs are likely to have the same opinion on a financial matter, thus complicating the structuring of agreements. For example, what is permitted according to *Shari'a* principles in Malaysia could be considered unethical in the more conservative Saudi Arabia. To this end, without standardisation, or indeed regulation, the Islamic financial sector (IFS) will continue to be considered as susceptible to malpractice and irregularities, resulting in limiting potential international interactions. This was evident during a legal battle in 2009, where Kuwaiti shareholding company, The Investment Dar (TID), which had sanctioned the Islamic agreement, refused to pay conventional Lebanese bank, Blom, the US$10 million it had invested plus 5 per cent guaranteed return, insisting that the deal no longer complied with its interpretation of *Shari'a* because it constituted gain through interest (Knowledge@Wharton, 2010).

Such events are detrimental to the IFS and, in the words of the former Governor of Pakistan's central bank, Shamshad Akhtar, 'Reaching consensus and shared guidance of common Shariah standards would let the industry grow and compete on a level playing field [with conventional finance]' (Euromoney, 2008). In truth, the IFS has been developing regulation since the 1970s as a way of improving its competitiveness congruent to that of the conventional sector. What began with scholarly interaction, through entities such as the *Fiqh* Academy, led to the establishing of financial bodies like the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and the IFSB (Islamic Financial Services Board).

The AAOIFI was founded in Bahrain in 1991. Many AAOIFI decisions revolve around its upholding of Islamic ethics, evident in its promotion of equity financing rather than the more conventionally orientated debt-based approach. For example, it has ruled a number of *sukuk* as non-compliant for this very reason; as Chairman of AAOIFI's *Shari'a* board, Sheikh Muhammad Taqi Usmani states:

> Islamic financial institutions should appreciate that they are Islamic. They have a different set of rules to conventional banks. But if Islamic financial institutions can sit together and join hands to issue *sukuks* that are equity based, I expect that the rate of return will be much higher. This will draw the interest of conventional institutions
>
> (Euromoney, 2008)

Sukuk remains the most controversial form of Islamic financing despite its growing appeal, where most significantly over the years 2003 and 2004 *sukuk* bond markets increased in value from $1.9 billion to $6.7 billion (Freshfields Bruckhaus Deringer, 2006: 3). The issue is that they are related to conventional bonds or securities which gain profits from the investment in 'interest bearing debt' and not actual ownership of an asset, while payments are made to bond holders through regular interest-related payments that can be either fixed or floating, but normally guarantee a fixed rate of return. However, for Islamic finance scholars such as Usmani (2007: 3), *sukuk* differ from traditional bonds because they seek to promote equitable distribution of wealth by offering easily attainable 'shares' in assets. To legitimate this process, however, requires an emphasis on investments in enterprises that generate profit so as to initiate profit sharing parameters. In addition to this payment, maturity of the bond should represent market value not initial investment. Interpretation holds the key to the use of *sukuk*, which so far is not universal. Nonetheless, in the Southeast Asian market, regulation has become more flexible and *sukuk* has become an integral part of the regional market, particularly in Malaysia.

As an alternative to AAOIFI, the Kuala Lumpur-based IFSB was created in 2002 and is reflective of the growing market in Southeast Asia. It holds the position of an 'international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and insurance' (IFSB, 2012). For Karim and Archer (2007) the IFSB has made real the idea of a consensus and in doing so has strengthened the sector.

Both the AAOFI and the IFSB are influential in establishing standards, but questions remain regarding how this is being achieved and what the consensual direction actually is? According to Mohammad Nedal Alchar, Secretary General of the AAOFI, 'It is not our policy to enforce our standards on any government, but we are finding that governments are adopting our guidelines by default and that is a positive thing' (Knowledge@Wharton, 2010).[4]

Nevertheless, while the interlocking of SSBs has helped promote this standardisation of Islamic practice in coordination with the international bodies, regulation is very much orientated towards institutional survival and therefore adoption of policies stemming from the

West (Bassens *et al.*, 2011: 94–103). What seems apparent, therefore, is a general adherence towards conventional neoliberal standards, understandable given their overwhelming strength and size. Relevant to the debate in *ijtihad* we can suggest two reasons for this. First, there has been no development in Islamic jurisprudence to attend to matters concerning corporations and therefore financial law. As Hefner (2006: 18) comments: 'this is to say that the broader legal framework on which Islamic banking depends actually owes more to Western civil law than it does to classical Islamic precedents.' Second, as acknowledged by Warde (2005: 47), the pervasiveness of Western education upon Islamic scholars has led to a deeper convergence between the principles of Islamic economics and the Washington Consensus. Neoliberal norms are therefore justified within the sector by applying Islamic terminology rather than the seeking of a new consensus, a process that once again is said to challenge the Islamic ethos and the practice of *ijtihad*.

What this means in practical terms is that the adoption of standardisations used in conventional finance has become a common feature of Islamic financing. As previously suggested, the AAOIFI is heavily influenced by international regulatory bodies such as the Bank for International Settlements (BIS), the Basel Committee on Banking Supervision (BCBS) and even advisories like the International Financial Reporting Standards Foundation (IFRS Foundation). The IFSB itself was created with support from the AAOIFI, Islamic Development Bank (IDB) and International Monetary Fund (IMF) (Alexakis and Tsikouras, 2009: 92), and the IMF is even a member of the IFSB. To emphasise, this growing international consensus and alignment of regulation has become more prominent within the current economic climate observed in the strengthening of capital buffers and quality of liquid assets. This has also been deemed a necessary process for Islamic financial institutions (notably Islamic banks), a motion supported by the IFBS who have stated their intention to fully amend their regulations in accordance with Basel III by 2013 (Kara, 2011).

For Kara (2011), adoption of the Basel standards is of little matter for Islamic banks as they 'are among the best capitalised banks in the world, and historically comply with inflexible standards of capitalisation'. This holds some weight, as Islamic banks in general are relatively small in size and due to their investment limitations in accordance with *Shari'a*, maintain reasonable levels of leverage and liquidity. There are of course challenges to this. From a technical perspective Alexakis and Tsikouras (2009: 97) believe it is questionable whether the Basel accords are most appropriate for Islamic banks given the differences in the profit and loss sharing (PLS) accounting system used by Islamic financial institutions. They therefore advocate a more adjustable system of accounting that will allow Islamic financial institutions to adapt more adequately. However, as previously noted the preference for non-PLS mechanisms also feeds into this. Nevertheless, from a developmental perspective, Islamic banks remain small businesses in a number of practicing countries and therefore as previously discussed capital restrictions can limit their ability to serve the locality or even expand, which ultimately affects access to credit, particularly for those in need of finance for either consumption or other business purposes.

The IFS should be careful to balance the needs for regulation, institutional survival and those of society in maintaining its development. Even calls for regional standardisations come with a warning as expressed by Dubai-based *Shari'a* scholar, Sheikh Muddassir Siddiqui, who in recognising the different interpretations and laws amongst the Gulf States believes that regional uniformity is too difficult to achieve and could lead to further fragmentation of the sector by alienating those whose opinion differs. Pertaining to the idea of establishing a council in the Gulf, he stated:

> If the purpose is to exchange views on specific and unique challenges facing GCC [Gulf Cooperation Council] Islamic financial institutions then it is a good idea…. But if the idea is to form a local GCC council to issue Shariah Standards, then I would recommend strengthening AAOIFI's role as a standard setting body for Islamic finance.
>
> (Knowledge@Wharton, 2010)

Obtaining a balance within the Islamic financial sector remains problematic and while achieving a consensus may enable greater transparency, it can also hinder the objective of supporting localities. This appears evident through a general adherence to the dominant development framework that continues to apply prescriptive policies, which has had an effect of detaching banks in particular from the societies they are supposed to serve. To this end, as the Islamic financial institutions continue to coevolve within the landscape, demands to adapt become more prevalent, adding to the tension within.

Islamic microfinance

Before assessing the impact of Islamic microfinance, it is preferable to understand the roots of microfinance, as it is from here that Islamic models, combined with Islamic financial mechanisms, have drawn most of their influence.

Microfinance

From a basic perspective, microfinance is often referred to as:

> financial services for poor and low-income clients offered by different types of service providers. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as 'microfinance institutions' (MFIs).
>
> (CGAP, 2013)

However, in a broader manner CGAP[5] (2013) say it refers to:

> [a] movement that envisions a world in which low-income households have permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption, and protect against risks. These services include savings, credit, insurance, remittances, and payments, and others.

Microfinance initiatives can therefore provide access to financial services (such as low-level credit, deposit and insurance mechanisms) which in turn can stimulate a larger percentage of any populations' involvement in a development process by targeting those who otherwise find it difficult to access financial mechanisms. Indeed, one of the most appealing qualities of microfinance is that it can operate using small amounts of finance within small and sometimes unstable environments, presenting itself with a higher degree of robustness when compared to the formal financial sector. Ideally, microfinance adopts the space between formal finance (which in many cases cannot be accessed) and dependence on charity. Nevertheless, to do this successfully in conjunction with promoting self-organisation, MFIs need to maintain their flexibility so they can serve both institutional survival and society.

As suggested then, different forms of microfinance have emerged representing demand and the environment in which they are needed. For example, the Grameen model established by Professor Muhammad Yunus in 1976 is now a popular template for microfinance, though it was initially designed to provide financial access for the rural poor in Bangladesh (Grameen Bank, 2013). It presents itself as the reverse of conventional banking methodology.

> Conventional banking is based on the principle that the more you have, the more you can get…. As a result, more than half the population of the world is deprived of the financial services of the conventional banks. Conventional banking is based on collateral, Grameen system is collateral-free.
>
> (Grameen Bank, 2013)

In order to maintain its ethical principles it also applies what it calls 'simple interest rates' so as to avoid excessive charges beyond that of the original loan. It states:

> under no circumstances total interest on a loan can exceed the amount of the loan, no matter how long the loan remains un-repaid. No interest is charged after the interest amount equals the principal.
>
> (Grameen Bank, 2011)

Grameen has managed to project itself as a sustainable operator and in 2011 it recorded a net profit of US$683,563,802 (Grameen Profit and Loss Account for year ended 31 December 2011). However, problems have also been incurred which almost led to a collapse of the business in the late 1990s. For Rutherford *et al.* (2004: 6), this failure was methodological and was a result of a misguided faith in its own principle which believed that

> poor people always pay back their loans; that credit for the poor creates self-employment for the poor, and access to it should be a right; that collateral as a way to secure loans is outmoded and can and should be abandoned in lending to

> the poor; that poor people can work together in groups to help each other manage their borrowing; and, perhaps most important of all, the idea that financial services, and credit in particular, are a powerful weapon against poverty and a powerful means to empower women.

For Hulme (2008: 7) also, it was taken for granted that the 'poor' would automatically use the money provided to invest in their own microenterprise as more often than not 'they went into the complex financial portfolios of low-income households'. The loans supplied by Grameen did not always transpire into business activity and therefore did not generate the necessary income for repayment. Instead this has been covered by 'patching together earnings from casual employment, self-employment, remittances and a variety of loans from other sources' (Hulme 2008: 7). For example,

> as clients stayed with Grameen Bank, they were under pressure to take bigger, ordinary loans alongside new housing loans. As a result, they took on levels of debt they could not service from their income. To stop them from defaulting, they were issued with larger loans by Grameen branch managers to repay earlier loans.

A lack of regulation is an issue within the microfinance sector in general and in the case of Grameen has even led to its branch managers massaging the accounts in order to avoid default (Hulme 2008: 6). From a client perspective, an inability to service loans or the rate of interest adds a higher degree of pressure to the families, which in extreme cases has led to an increase in 'microfinance suicides'[6] taking place in India, Bangladesh and on the African continent. Nevertheless, promoting a balance between regulation and access to finance is a necessary part of achieving overall sustainability and ultimately success for MFIs involved. As noted by CGAP (2013):

> From a development perspective, financial sustainability is not an end in itself. Rather, it is a tool for reaching the maximum number of clients. MFIs may only operate for a limited time, reach a limited number of clients, or be driven more by political goals than by client needs if services are not priced at sustainable levels.

Nevertheless, reflecting a balance once more Kantor and Andersen (2010: 3) have issued caution as to the methods adopted within the current dominant framework. In referring to the Microfinance Investment Support Facility for Afghanistan (MISFA),[7] they believe that by reflecting the values of the more liberal-orientated nations, it led to an over-emphasis on outreach and portfolio numbers as a means to obtaining sustainable operability (expected within a five-year period), thus imposing hierarchical, time-related programmes.[8] In sum, this accentuated quantity over quality and neglected the needs of the client, which included the environment they lived in and the local financial support mechanisms already in place.[9] In regards to a potato crop in Bamiyan, they have stated:

> even with this economic base, credit was used partly for consumption and productive investments were risky. Both factors led to repayment struggles among borrowing respondents. For some, this was evident through a cycle of debt, where borrowers were dependent on a new microcredit loan to repay informal credit taken to meet repayment deadlines from a previous microcredit loan. Their investments did not yet earn enough to support both MFI debt repayment and

> consumption needs. However, given the economic potential of the potato crop, if other agencies had delivered additional interventions prior to or in tandem with MFI credit (i.e., infrastructure, market access, risk reducing mechanisms), the scope for livelihood improvement could have been stronger.
>
> (Kantor and Andersen 2010: 4)

As with the case of Grameen, this oversight led to an increase in the number of defaulters, a lack of accountability and an escalation in fraud. For Kantor and Andersen then, much of this could have been avoided if a more holistic assessment relating to economic viability had been carried out, and technical training plus support provided before and during the programme.

The number of defaulters and 'drop-outs' is often considered to be related to the unsuccessful implementation of a microfinance programme and, as some would suggest, a lack of regulation. This in turn has caused clients to dismiss the more formal initiative in favour of informal loans and, in many cases when having accepted a formal loan, avoid repayment. In order for a successful microfinance initiative to occur, CGAP have advocated sustainable charges whilst Kantor and Andersen (2010) promote a higher degree of technical support in the implementation of a microfinance initiative. However, for this to happen administrative costs combined with risk factors, particularly in unstable environments, are likely to inflate the rate of the charge (interest) and demand for collateral, which as an offset can deter potential participants. In Iraq for example, microfinance programmes offered through organisations such as USAID[10] have focused on trying to stimulate the 'private sector'.[11] However, in reflecting the environment in which they operate, an approximated interest charge in the region of 18 per cent (USAID, 2011: 18)[12] has been applied while collateral in the form of guarantees has also been requested. In general, as CGAP (2013) remind us:

> the administrative cost of making tiny loans is much higher in percentage terms than the cost of making a large loan. It takes a lot less staff time to make a single loan of $100,000 than 1,000 loans of $100 each.

Consequently, realising this potential restriction there have been attempts to reduce the costs of administration, increase repayment and empower communities through the use of more community- or solidarity-based financing initiatives that can use 'peer' pressure as a form of regulation (USAID, 2011: 23).

Solidarity groups (SGs), savings and credit cooperatives (SACCOs) and rotating savings and credit associations (RoSCAs) are therefore examples of community or member driven microcredit initiatives that are designed to increase sustainability and empowerment. RoSCAs refer to members of groups or communities that come together in a number of meetings over a set period, and who invest equally in a fund that is then distributed to one member of the group or community each time a meeting takes place. Whilst seemingly informal in nature, similar structures have been found in societies globally since the 1950s (see Geertz, 1962) and can have an important impact upon poverty levels by offering a quasi-regulated mechanism that uses 'peer to peer' methods to maintain its regulation. According to Ardener and Burman

(1995: 2): ‘where incomes are very low, where there is no formal social security network, where ill health stalks and a variety of calamities hover, a system of low-cost RoSCAs helps to meet the challenges for all.’ For El-Gamal *et al.*’s (2011: 3) study in Egypt, when compared to simple loan-repayment mechanisms ‘the RoSCA model performs significantly better with regards to take up, and no worse with regards to repayment, when compared to the Grameen model’.

SGs in a similar but more formal manner are self-help-based organisations (normally between ten and twenty members) that are supported by an initial fund or contribution from a MFI. SGs ‘come together to access capital in which all the members are mutually liable for each individual’s loan, building an alternative to normal loan collateral requirements’ (Brown *et al.*, 2011: 88). SACCOs operate in a similar manner but can normally draw on a bigger membership.

By using these methods, MFIs are alleviating their own risk levels by placing responsibility with the groups. It also reduces time and cost by decreasing the number of loans normally administered for the same number of clients. For Hudon and Seibel (2007: 15–16) these types of initiative (which in their example are referred to as ‘membership owned institutions’, MOIs) are most appropriate in post-conflict situations where finances received from donors or in the form of reparations can be supplied as equity to MFIs, which in turn can be invested in local cooperatives. Nevertheless, although an initial injection of finance can act as a stimulant, it does not mean that MFIs should become dependent on donor funding as this could affect long-term sustainability by impeding the simple function of generating profit for long-term organisational practice (Hudon and Seibel, 2007: 14–15). In accordance with the complexity framework, neither will it support development as it reduces the need to be adaptive to conditions by replacing a practice of flexible regulation and self-sufficiency with dependency and complacency. As Hudon and Seibel (2007: 14) write:

> Donor dependency and lack of self-reliance in terms of funds have two repercussions: lack of viability (with operational self-sufficiency rates frequently far below 100%); and lack of growth of outreach, which would require rapidly increasing internal resources, derived from savings and retained earnings. Subsidised institutions not aiming at operational sustainability, even on the long run, can put their clients at risk if donors withdraw their support.

While the use of community-orientated microfinance initiatives are useful mechanisms for increasing interaction, they rely on mutual trust, relative stability and freedom of movement. Larger numbers within a grouping (such as SACCOs) are often harder to administer and the small size of the loans available reduces the appeal of forming a group (see USAID, 2011: 46).

Nevertheless, microfinance (particularly microcredit), alongside other financing and charitable initiatives, has an important role to play in the development of any society. However, we can suggest that for a successful programme to take root, basic principles within our framework should be advanced. First, the locality of a programme should be enhanced so as to provide the necessary knowledge to help promote self-organisation. Second, regulation is a necessary feature in promoting the sustainability of a microfinance initiative, and the stronger the environment is for allowing self-organisation the more appropriate the form of regulation will be. This should avoid excessive interest charges or hefty collateral requirements as regulation based on a balance between social responsibility and the financial requirements of an MFI should maintain sustainability. Nevertheless, microfinance, like standard finance, can be restricted by the framework in which it exists.

Islamic microfinance and self-organisation

Islamic microfinance is a relatively new initiative and its growth as a sector has reflected an increase in demand for finance in Muslim populated countries, and from an ethical perspective for that finance to respect religious values. For example, the Islamic Research and Training Institute (IRTI, 2007: 20) in a study conducted using forty-four members of the Islamic Development Bank (IDB), found that in seventeen of the countries only one-fifth of the adult population has access to formal finance.[13] As previously noted, the high risk attached to a loan can restrict access as there is either insufficient collateral to cover the cost or a high interest charge is applied, which is problematic when reaching out to a Muslim community, particularly given the issue of *riba*.[14] Because of these circumstances, demand for Islamic products has remained high,[15] which has therefore created a sizeable market for microfinance products that adhere to the Islamic ethos by emphasising mutual partnerships, the value of equity, social justice and the rejection of *riba*. However, maintaining the right balance between societal needs and regulation, particularly given the added issue of religious ethics, is vital to the success of an Islamic microfinance programme. Removing one of these elements could therefore affect the survival or reputation of a programme and would defeat the objective of promoting an alternative form of finance when considering the limitations currently hindering the conventional Islamic financial sector.

In attempting to instil the normative values mentioned at the local level while promoting access to finance, the Islamic microfinance sector has drawn much of its inspiration from the Grameen model given its ethical approach and concern surrounding interest charges.[16] As mentioned, however, apart from the issue of *Shari'a* compliancy, the Islamic microfinance sector also shares the conventional issue of maintaining a balance between sustainable practice and the needs of society, which can be lost depending on the environment that it is operating within. Nevertheless, regulation is an important component, but removing flexibility through the imposing of rules that are either too society-focused or profit-oriented can be damaging to the overall goal of development. In Iraq, for example, the government has sought to address the problem of poverty by offering microfinance loans with a fixed charge of 2 per cent in 2007 and 0 per cent in 2008, which although ethically binding has, according to USAID (2011:

16), created an 'unreasonable benchmark among potential borrowers, with some diverting their resources into lobbying in an attempt to qualify for these schemes'. Conversely, Islamic microfinance charges or mark-ups operating in predominately Muslim countries are in a number of cases higher than conventional MFIs, due largely to the administration involved in using such methods (partnerships). Like the formal Islamic financial sector, maintaining competitiveness is therefore a challenge to Islamic microfinance.

Due to its relative infancy within the financial sector, Islamic microfinance does not offer a multitude of financial products, and even then it mostly focuses on the provision of microcredit using mechanisms such as *murabaha*, *ijara*, *mudaraba*, *musharaka* and, in some cases, the more charitable *qard al-hasan*. The method normally focuses on two categories: those with experience or established businesses, and inexperienced clients looking to establish new businesses (IRTI, 2007: 29). In the case of the latter, softer loans may be preferred to enable a nurturing process and the funds for such can be provided through charitable donations and the like. Nevertheless, for sustainable practice to emerge more market-based methods have become the norm.

Similarly to Islamic finance then, *murabaha* methods have become the most popular form of microfinance supplying approximately 70 per cent of the global total (Karim *et al*., 2008: 8). As previously noted, *murabaha* as a non-PLS mechanism is an asset-based sales transaction where the financier will purchase a product on behalf of the client and then go on to sell it with a marked-up value. In a number of cases, particularly evident in microfinance, a client under contract can act as an agent in procuring the goods themselves but the product remains the property of the financier until it is paid back in full. PLS mechanisms (such as *mudaraba* and *musharaka*) are more ideally suited to the Islamic economic ethos given their emphasis on shared input and output, but the failure of a business venture can result in the financier bearing the whole cost, which, when added to the resources needed for the management of an agreement (i.e. distribution of profit and loss), has led to 'substantial operating costs particularly for micro and small enterprises that are not accustomed to formal accounting' (Karim *et al*., 2008: 3).

Islamic finance in general is short on technical expertise and therefore the preference for *murabaha* methods in microfinance can be justified considering its relatively flexible nature within the current economic paradigm. This means the financier in avoiding unsustainable administrative costs can reduce the risk commonly associated with PLS mechanisms and charitable offerings such as *qard al-hasan*. This, once again, identifies with a lack of technical expertise, but it also supports the case for conventional alignment.

To strengthen the position of the financier further, guarantees (*kafala*), mutual arrangements, collateral (*damanah*) and more informal methods are also used, but for IRTI (2007: 31), if the circumstances permit, it is preferable to establish a 'safety net'[17] for the MFIs which could overcome any short-term differences between income and expenditure and therefore reduce the need to apply high charge rates.

Of course as mentioned, not all situations allow for the establishing of regulatory bodies and therefore require alternative methods such as community ownership programmes (similar to solidarity groups and RoSCAs for example), using Islamic mechanisms. An example of such is the *Sanduq*[18] programme established in Jabal Al-Hoss, Syria during 2000. The *sanadiq* (plural) sought to enhance self-sufficiency and sustainability through the mobilisation of funds via members of the community (male and female) who would voluntarily become shareholders within the scheme (Seibel, 2007: 2). Ethical value was maintained through the use of *murabaha* methods, which, according to the programme designer, Seibel (2007: 2) would, for example,

> buy 10 sheep and sell them to a member, to be repaid in instalments with a fixed mark-up. At the end of the year the profit made by a *sanduq* would be shared between the members and the *sanduq* as a source of growth.

By 2002, twenty-two *sanadiq* were up and running with 4,691 members and a total shareholder equity of US$130,000 (Imady and Seibel, 2003: 2). Once a *sanduq* was operating well and loans were being repaid on time, the UNDP added a further investment into the fund.[19] In sum, through 'guidance and training by project staff, the sanadiq evolve as institutions which are self-managed and autonomous in their decision-making' (Imady and Seibel, 2003: 5). Success of these ventures was accounted for at the end of December 2002, where it was recorded that the repayment rate was 99.7 per cent and return on average equity was 17 per cent, which allowed for 46 per cent being paid to shareholders and 54 per cent held as capital (Imady and Seibel, 2003: 2).[20]

However, not all Islamic cooperatives are successful as noted in Seibel's (2008: 98) study of Aceh in Indonesia where, of the '1,052 government-directed microfinance cooperatives in the province, registered but not effectively regulated nor supervised, only 3 per cent were found to be performing reasonably well, while 64 per cent were non-performing'.

What this indicates is that while in certain situations Islamic community initiatives may enhance inclusivity, interaction and development, there is no guarantee that without sufficient regulation (order) or supervision they will succeed. For example, the current chaotic situation in Syria means that any form of financing will be hard to come by and it is unlikely that any of Seibel's examples are still operating. Nevertheless, as with conventional methods the maintaining of a balance via regulation and sustainable but fair charge rates, and societal support through technical supervision, can help promote the longevity of a microfinance programme. International Islamic financial bodies such as AAOFI as of yet have not become formally involved in the Islamic microfinance sector, but with the growing participation of Islamic banks it seems almost inevitable that some form of standardisation will be advanced in the long term. If this is the case, then it is important for the sector to maintain its flexibility so as to support local diversity. If, per se, a more 'prudential' framework was applied by an international organisation or through domestic banking laws, as occurs in standard finance, then this could reduce the effectiveness of microfinance. As IRTI (2007: 59) acknowledge: 'Some countries, prohibit unlicensed non-bank institutions (including NGOs) from lending. This is an unnecessary restriction that can stifle experimentation with microcredit.'

Complex adaptiveness can only be encouraged through flexible well balanced frameworks, which, in regards to the Islamic microfinance sector or other community-based initiatives, will enable it to increase societal interaction, which in turn will allow for investment, the development of businesses and potentially profit. Nevertheless, situations do not always allow for microfinance schemes to run efficiently and even when they do, regulation or the lack of such can hinder survival while from an Islamic perspective regulation from a conventional perspective can remove ethical value, while too much regulation in relation to *Shari'a* can reduce long-term practice. Concern surrounding informal financial mechanisms of an 'Islamic' variety have also impacted upon the sector, particularly within the current neoliberal paradigm influenced by 'anti-terrorism' policies. The need to improve transparency at local levels through the application of blanket policies may seem necessary, but it can also affect the operability of Islamic MFIs, a process that has also affected the charitable sector.

Islamic charity

Islamic charity or charitable mechanisms have the ability to build trust mechanisms at the local level and, through direct contact, develop the necessary knowledge to target those most in need. This can enable even the poorest to access financial or welfare support, which in turn can support interaction and inclusivity, important aspects when considering self-organisation. Nevertheless, like Islamic finance and Islamic microfinance, it can also be affected by the circumstances in which it is governed or the framework in which it is operating. For example, interpretation and regulation are part of an important debate within the realms of Islamic charity, but more so in a contemporary context is concern over the non-transparent collection and distribution of finances. These issues will be discussed below.

Religious importance

Islamic finance mechanisms as discussed are a relatively modern concept and although they are designed to imbue ethical standards within economics they are equally challenged by the need to be practical and efficient within the current financial landscape. Because of this, a great amount of study has gone into the effect and use of interest charges (under the guidance of *riba*), which has almost diverted attention away from ethical responsibility normally associated with charitable activity. It is precisely this that led Muslim scholar Yousuf Al-Qaradawi (1999: xx) to state: 'Such an important matter like *zakah* [*zakat*] still needs more study and research, especially since it is one of the fundamental obligations of Islam and a cornerstone of its financial, economic, and social systems.'

Zakat, as the third pillar of Islam and a rule of compulsory payment, along with *sadaqa*, which refers to voluntary offerings, and *khayr*, which implies goodwill, are the terms most commonly associated with Islamic charity in the *Quran* (and the *Hadiths* and *Sunna*). Charity in Islam, like other monotheistic faiths (Judaism and Christianity for example), forms an important part of the religion and is mentioned throughout the canonical texts. It is here where the rules of charitable giving and collection have been established. 'You shall give the due alms to the relatives, the needy, the poor, and the travelling alien, but do not be excessive, extravagant' (*Quran* 17: 26–29). This is repeated in different forms throughout the *Quran*, reminding the follower of their duties. For example:

> Charities [deemed as *sadaqa*] shall go to the poor, the needy, the workers who collect them, the new converts, to free the slaves, to those burdened by sudden expenses, in the cause of Allah, and to the travelling alien. Such is GOD's commandment. GOD is Omniscient, Most Wise.
>
> (*Quran* 9: 60)

> Worship none save Allah (only), and be good to parents and to kindred and to orphans and the needy, and speak kindly to mankind; and establish worship and pay the poor-due.
>
> (*Quran* 2: 83)

For those who are capable and do not fulfil this duty, they are also reminded of their place in the now, and the afterlife.

> Who do not give the obligatory charity [deemed in reference to *zakat*], and with regard to the Hereafter, they are disbelievers.
>
> (*Quran* 41: 7)

It is through the holy texts therefore that socioeconomic responsibility is advocated, driven by its metaphysical foundations as 'the real owner of the richness of the earth is Allah' (Samad and Glenn, 2010: 303). Wealth is therefore viewed as a universal right, for rich and poor which is acknowledged by Muslim scholar Abul A'la Al-Maudoodi (1986: 7) who states that 'God has not distributed His gifts and favours equally among mankind but, in His infinite wisdom, has given some individuals more than others', thus supporting equality of opportunity rather than equality as an end point, and a system that can be enriched by the offering of *zakat*. To this end, the redistribution of one's own wealth is to gain favour from God, or as Al-Maudoodi (1986: 58) refers 'sublimity and purification', as noted in the *Quran*.

> Those who spend their wealth for the cause of Allah and afterward make not reproach and injury to follow that which they have spent; their reward is with their Lord, and there shall no fear come upon them, neither shall they grieve.

(*Quran* 2: 262)

Stemming from this responsibility, financial access is promoted for the community at large. As Kochuyt (2009: 99) writes: 'In Islam charity is indeed elaborated as a tax system that obliges the believers to give alms to the poor.' However, it is too simplistic to refer to charitable activity in Islam as merely a provision for those in need. Instead, it is the objective of the belief system to aid the cyclical rejuvenation of society through the collecting and dispersing of funds based on a process of reciprocity, where those once in receipt of good will can return the favour within the community in which they reside. It is by adhering to these principles and paying *zakat* (and *sadaqa*) that a social system in sum should be effected by eradicating poverty and maintaining socioeconomic justice, safeguarding wealth from the jealousy of others (particularly the poor), purifying wealth and removing parsimony, and remaining thankful to God for what is received (Samad and Glenn, 2010: 303).

However, transferring this knowledge into a practice that has maintained relevance throughout the centuries has remained a difficult task. The various schools of thought (as previously listed) have, for example, continued to contest the application of *zakat* in particular – i.e. in its use as a state welfare mechanism or as an individual responsibility. Once again, applying the rules of the canonical texts to implementation presents a challenge between rigidity and flexibility, and therefore the use of *ijtihad*. As Al-Qaradawi (1999: xx) writes:

> Muslim jurists differ on many details of *zakah*. Each has his own opinion and arguments, and there are sometimes contradictions among their interpretations, which leaves the majority of people in chaos and confusion about what opinion to choose.

Implementation

The implementation of a charitable system, particularly one concerning *zakat* and its success as a source for poverty alleviation, is hotly debated. Historically, it was during the times of the Prophet Muhammad (particularly in Medina) that *zakat* was formally recognised as part of what can be described as a state system. It was deemed that all wealthy Muslims 'who exceeded the *Nisab*,[21] i.e. had a surplus over and above the equivalent of 85 gram of gold, were required to pay *Zakah*' (Samed and Glenn, 2010: 307). As stated in the *Quran*:

> And they ask you what they ought to spend. Say: That which is superfluous. Thus Allah makes plain to you (His) revelations, that haply (by chance) you may reflect.

(*Quran* 2: 219)

For those whose wealth exceeded the *nisab*, it became common for a tithe of 2.5 per cent to be charged on personal holdings of gold and silver, a trend that has continued with money to this day. However, relevant to the time period, minerals[22] and agriculture were considered to be the most profitable forms of revenue. For example, those extracting (mining) minerals from the earth were charged by the state 20 per cent of what they had found.

> *Abū Hurairah*: … In treasure-trove (or minerals) one-fifth (shall be taken by the state).
>
> (Ali, 1983: 221, 24: 66)

For agriculture, the charge depended on access to water supply with 10 per cent being applied to lands naturally irrigated and 5 per cent for those watered by hand.

> *Abd Allah*: In (the produce of) lands watered by rain and springs or in what is watered by water running on the surface of the ground is one-tenth, and (in) what is watered by wells one-twentieth.
>
> (Ali, 1983: 221, 24: 55)

The aforementioned proscriptions highlight a collection process that makes best use of the resources available to benefit a community at large. However, following the initial period of Islam,[23] *zakat* collection and distribution under the *Umayyad* dynasty became more dispersed, less regulated and ultimately more individualised. Part of this was due to the expansion of Islam itself beyond Arabia and into Central Asia, Africa and Europe, while for Samad and Glenn (2010: 312) the process was also affected by a lack of notable causes in which to spend *zakat* thus leading to an accumulation of funds in Damascus (the city of the ruling dynasty), and mistrust of the ruling elite, caused by schisms such as those between the third *Khalifa*, Othman, and the fourth, Ali.[24]

Nevertheless, while *zakat* became less attached to a system of governance the collection of charity became ingrained in Muslim communities, which led to an increased use of local foundations such as *waqf* (Powell, 2009: 44). These voluntary religious trusts, which are very much evident in Muslim societies today at local and state levels, collect donations of property, goods and money (through *sadaqa*, for example) according to religious principles and use it for the greater good of the community.[25] Under the Ottoman dynasty (after the thirteenth century) in particular, the *awqaf* (plural) became an integral part of socioeconomic development (Sadeq, 2002: 140) which in turn enhanced their status as legitimate institutions. As Peri (1992: 167) writes:

> the *waqf* was made responsible for the building and maintenance of mosques and other centers of worship, as well as for the upkeep of their clerical staff. In the field of education the *waqf* contributed much to the founding and operation of various types of cultural establishments and institutions of learning. Institutions of social welfare and poor relief, such as hospitals, soup kitchens and diverse charity funds, were mainly financed by the *waqf*.

Charitable collections through *zakat* and *sadaqa*, and through the use of administrative bodies such as *waqf*, have remained an important part of Muslim communities to this day. However, their application and use have become increasingly debated, particularly with the advance of the state system.

Islamic charity: contemporary analysis

As mentioned, within a modern state the use of charitable mechanisms has caused much debate amongst Muslim scholars and governing bodies alike. Discussions involving the mandatory payment of *zakat* have been at the forefront of this argument, leading some states to ignore its potential, others to organise bodies to collect and distribute, and even a number to use it as a justification for tax and welfare models (Powell, 2009: 58). However, each of these methods involved different issues such as accountability, the ethically controversial use of *zakat* within the state apparatus (Powell, 2009: 45) and, in the case of taxation, an inappropriate payment framework that is no longer time-relevant.

In regards to the latter issue, Kuran (2005) believes the use of *zakat* payment structures through identification with the *Quran*, *Hadiths* and *Sunna* are flawed. For him, this is negligible in relation to current circumstances given the changes in material values within the market. He writes:

> the involved rates are generally lower than those of the prevailing secular taxation systems; even the 20 percent levy on mining income falls short of the marginal income tax in most modern economies. For another, the commodities covered by the traditional scheme play a considerably less important role today than they did more than a millennium ago.
>
> (Kuran 2005: 20)

As previously discussed, an unwillingness to recognise societal changes in Islam can have a detrimental effect on development. For Kuran (2005: 20) this is compounded by a trend amongst Muslim scholars that a ‘restructuring of zakat would violate Islam’s spirit’. Nevertheless, failing to adapt makes a follower equally culpable to the negative circumstances, which for scholars such as Al-Qaradawi (ed. 1999: xxii) can only be negated through *ijtihad*. In a contemporary sense, then, *zakat* can be nurtured in a manner where ‘individual effort and research undoubtedly pave the way for sound collective *ijtihad* until a time comes when Muslim states make it feasible for reliable scholars to work together as teams of collective *ijtihad*’. A failure to adapt *zakat* to current conditions can then limit its impact upon development in Muslim societies, which for Kuran (2005: 22) is attributable to an over-emphasis on using the holy texts which fail to provide clear (and relevant) operative procedures and therefore does not leave ‘centralized, obligatory mode nor the decentralized, voluntary mode’ out of the equation. Drawing upon a study carried out by James Scott, Kuran (2005: 22) highlights how this deficiency has impacted upon implementation in states such as Pakistan where evasion of payment became the norm. As noted in the study, between 1977 and 1979 only 15 per cent of a local village (in Kedah) paid their dues, and it was found that farmers would disguise or distort the amount of cultivated land they possessed, underreport crop production and pay *zakat* using damaged grain, all of which was common practice.

However, according to Powell’s (2009) study there is cause for optimism regarding the institutionalised role of *zakat* in development. In his study of forty predominately Muslim countries, he found that the ten states which used quasiregulated or voluntary collection bodies and the six which enforced *zakat* as a mode of taxation had a greater correlation with poverty alleviation than the twenty-four states which did not institutionalise *zakat* (Powell, 2009: 59). In regards to earnings, the voluntary system had 50 per cent of its population in the higher wealth group, 40 per cent in the middle and only 10 per cent low income. For the mandatory *zakat* group, 50 per cent were in the high earners, 33.3 per cent in the middle and 16.6 per cent in the lower end. When compared to the non-*zakat* group, 25 per cent were in the high earning bracket, 29.2 per cent in the middle and 45.8 per cent in the lower (Powell, 2009: 74–75). This trend even extends to levels of equality (Powell, 2009: 78) and although Powell recognises that a distortion may exist in the statistics of the *zakat* collecting states with large oil reserves, there is enough evidence to suggest that charitable collections should not be dismissed as incompatible with the modern state or merely seen as 'charity for beggars' or 'charity socialism' (Al-Qaradawi, 1999: xxii). They do have a role to play in the current economic order as a mechanism for lifting individuals, communities and even states beyond poverty thresholds.

As suggested by Powell (2009) the institutionalisation of *zakat* can aid transparency, especially when considering the politicisation of programmes by Islamist organisations. In the current climate concerns surrounding 'Islamisation' or even 'radical indoctrination' have led to increased interest in the operations of Islamic charity, particularly spearheaded by the US within the international community. This has led to a degree of pressure being applied to governments of predominately Muslim countries (particularly in the Middle East) to monitor and even disband organisations considered to be operating beyond the boundaries of conventional practice (such as the Holy Land Foundation example), which in essence has only managed to increase politicisation, securitisation and to some degree secretiveness of Islamic charity. Equally, some governments charged with charitable responsibility can also be deemed untrustworthy by its people, which can damage and restrict a process of *zakat* collection also. Once again, flexibility and regulation are highlighted as key factors in the aiding of Islamic charity in development, which includes allowing for a collection and distribution model to occur based on the environment with which it is confronted, albeit in a transparent and accountable manner. This means that variations of practice and regulation should be made acceptable but also that not all types fit each situation. For example, institutionalisation may be affected by corruption or the weakness of a government (during unstable periods, for example), and therefore more local initiatives, through *waqf* or *zakat* collecting bodies such as NGOs or Mosques, should be allowed to practice if they adhere to transparent and accountable methods. Imposing blanket policies, once again, can therefore damage the ability of local communities to self-organise.

Variations in the use of charitable mechanisms such as *zakat, sadaqa* and *waqf* are increasing, however, not least through microfinance initiatives. For example, Obaidullah (2008: 38) endorses the infusion of *zakat* principles within microfinance mechanisms so as to induce financial responsibility. He states: 'An individual entitled to pay *zakat* is called *muzakki* and the individual entitled to receive *zakat* is called *mustahiq*. Islamic microfinance programs aim at transformation of *mustahiq* into *muzakki* within a definite time frame.' To this end, *zakat* through an organisational body can be used for stimulating growth via investments in the training of individuals or even as capital for microfinance ventures. Charitable organisations can therefore support community development and simultaneously gain from a return in equity. Further to this, Hassan (2010) has advocated the establishing of organisations independent of the government to administer *zakat* and *waqf* funds, in order to reduce intervention. In such a model the finances gained could be reinvested in Islamic microfinance but the general principle would be to stimulate a community enough to provide support for healthcare, education and welfare initiatives.

Nevertheless, the welfare of the community remains the focal point of Islamic charity. It is therefore more common for charitable organisations which collect *zakat* and *sadaqa* either from within the locality or from international sources to operate through a management body or, more often than not, a *zakat* commission. Sometimes (as will be highlighted in Chapter 7) it can be used to invest in local industry or more simply through the building of schools, health centres and often more holistically through a programme of supporting 'orphans'.[26] In some cases they are filling a welfare vacuum, while in others they are supporting state infrastructure or even aiding the challenging of it. In each case, charitable mechanisms can be affected by chaotic circumstances or as the current paradigm suggests through the imposition of rigid policies. This can occur through external intervention and the imposition of blanket policies, internal government control or as a response to the dominant framework by a process of strict interpretation of the canonical texts. Equally, without regulation they can also fail to have any impact on development and even become politicised and non-transparent.

Summary

Through the three mechanisms highlighted in this chapter, a common theme has emerged relevant to the theoretical framework. What is suggested is that securing a 'balance' in practice that allows for societal interaction to take place through financial access or resources is inherently difficult due to the environment in which the various communities operate, and because of an over-arching framework that has a tendency to reduce self-organisation through the imposition of blanket policies. Adaption to the dominant framework has therefore become prevalent, but this has not occurred without significant tensions emerging. These tensions will be highlighted in the case of the oPt where macroeconomic policy and securitisation at the local level mean that the scope for Islamic development is highly restricted. The following two chapters on the comparative cases will also provide evidence of rigidity. However, despite evident restraints they will also show a degree of potential to adapt. In each case, the process of *ijtihad* would be a useful mechanism for developing new trends and practices, but the reality remains that mimicking and justifications within the current paradigm have proved more beneficial to institutional/organisational survival than developing a development model based on non-linear methods and respect for self-organisation.

Notes

1 This mostly refers to gains from derivatives but we can also include actions that may be considered as unnecessarily risky (*gharar*) or even gambling (*maysir*).

2 'Credit rationing' according to Stiglitz and Weiss defines the limitations on access to credit, particularly for those who lack sufficient collateral to obtain a loan based on high interest rates.

3 Khan also acknowledges that 11.2 per cent of the IDB's portfolio consists of PLS financing.

4 There is also the International Islamic Rating Agency (IIRA) and the General Council of Islamic Banks and Financial Institutions (GCIBIFI).

5 CGAP (Consultative Group to Assist the Poor) is located in the offices of the World Bank and is supported by over thirty agencies and foundations (such as the European Commission, USAID, DfiD etc.

6 'Microfinance suicide' relates to the increased number of suicides being recorded due to stress and the inability to pay back microcredit loans that have been distributed to 'poor' people with high interest rate thresholds. See Melik (2010) and Biswas (2010).

7 MISFA is a government-controlled programme that was designed to coordinate the members of and contributors to the microfinance sector who were supporting society through the constructing of small businesses and enterprises. As of June 2011, seven MFI agencies partnered with MISFA had established coverage of twenty-two provinces, obtaining 336,317 clients of whom 73 per cent are women (MISFA, 2011).

8 In Iraq, for example, outreach and portfolio numbers from the poorer members of society has been a key indicator of success (using a poverty base line of US$2.20 per day, 23 per cent of the Iraqi population can be considered as poor according to the Central Organization for Statistics and Information Technology in USAID, 2011: 14)

9 This refers to informal credit supplies which were seen to be provided within the relevant communities without extra cost.

10 USAID programme known first as *Izdihar* and now *Tijara*. Implemented through the Louis Berger Group, Inc., with the main portfolio holder being US organisation CHF who hold 38.9 per cent (USAID, 2011: 19).

11 MFIs are now present in eighteen provinces in Iraq and in the case of the USAID sponsored initiative have recently embarked on a programme of down-scaling the size of loans to a minimum of US$500 in order to attract more participants. Despite these efforts and a relatively successful geographical reach, out of an estimated 7,183,820 people classed as poor, only 1 per cent of this number are part of any microfinance scheme (USAID, 2011: 18).

12 This is based on 2010 statistics.

13 Interestingly, in the same study it also showed countries that fare well with over half of their population with access are Lebanon (79 per cent), Saudi Arabia (62 per cent) and Malaysia (57 per cent) (IRTI, 2007: 20).

14 It is also worth recalling that unethical investments in compliance with *Shari'a* are forbidden, such as inappropriate investments or debt financing, unnecessary risk taking (*maysir*), in addition to ambiguous packages that imply uncertainty in obligations and output in relation to the subject matter (*gharar*).

15 According to Karim *et al.* (2008: 5) this is common across a number of Islamic countries such as Yemen, where 40 per cent of the poor demand Islamic services regardless of price.

16 Obaidullah (2008: 25) also suggests that the practice of Mit Ghamr Bank in Egypt during the 1960s has also influenced the sector (see Chapter 2).

17 Safety nets are most commonly associated with a pool of financial resources available to MFIs in case of trouble. However, MFIs are also known to create product safety nets such as seeds and crops for agricultural initiatives.

18 The literal translation of *sanduq* is 'box', but in the context of economics it relates to a place of holding for finance.

19 For example, between 2000 and 2002 the UNDP provided US$370,000 in equity to the *sanadiq* (Imady and Seibel, 2003: 2).

20 There was no deposit service established as the technical expertise was not available.

21 The minimum amount of wealth required in order to pay *zakat*.

22 Minerals during this period commonly referred to precious metals such as gold and silver and stones such as diamonds.

23 Sometimes referred to as a 'golden' period which included the times of the Prophet Muhammad and the following four Caliphates.

24 The beginning of the Sunni–Shia divide.

25 A *waqf* however cannot transfer ownership in the religious sense but can offer what it has for the purpose of charity, such as healthcare and education (see Sadeq, 2002: 139).

26 The definition of an 'orphan' relates to both Quranic gestures and Ottoman law, as Mahmoud Yazbak (2001: 123) writes:

> According to shari'a, an orphan is an under-aged infant or child, until the age of puberty, whose father or both his/her parents have died. In the sijill cases (Muslim court records) under study here, under-aged children who lost their mother are not defined as orphans.

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2
Comparative studies
Iran and Egypt

The next two chapters will identify with the limits, potential and practicality of the three Islamic development mechanisms in four different countries relevant to their own domestic issues and the overarching neoliberal paradigm. Policies and interactions will be tested against rigidity and chaos, and an ability to promote adaption to the conditions evident in each case. While it is obvious that none of the examples are perfect models in regard to complex development, each does possess potential within their own locality, and when compared to the main case study they will help draw out the extreme predicaments the oPt faces in trying to promote self-organisation, particularly when using Islamic development methods.

This chapter will analyse the cases of Iran and Egypt, useful examples considering they are predominately Muslim states that have attempted to adopt a form of Islamism within their domestic programmes (Egypt more recently and to a lesser extent), albeit from a differing Shia and Sunni approach respectively. In Chapter 3, the diverse populations of Malaysia and Lebanon, for different reasons, are challenged by the prospect of integrating Islamic values within their domestic programmes due to the make-up of their societies. However, while Lebanon teeters on the edge of chaos, Malaysia has shown signs of adaption and self-organisation. The oPt is largely Sunni Muslim and does not contain the same sectarian tensions as Lebanon and Malaysia. However, the chaotic and highly complex environments of the latter show us how domestic mechanisms work under high levels of internal interaction (such as war in Lebanon's case), and their functionality under international or macroeconomic policies.

Iran: defying the status quo but strengthening rigidity

Much has been made of Islamism in the oPt, particularly because of organisations such as Hamas. Regardless of their current or future influence within political economic circles, they also have to be aware of imposing policies that restrict development. As an example of linearity based on an Islamic ethos, Iran presents us with an ideal case study. Since the revolution of 1979, which took on an Islamic identity, numerous linear domestic policies reflecting nationalisation, Islamisation and privatisation have been imposed. However, in attempting to implement regulations based on the aforementioned methods Iran has persistently succumbed to its own rigid interpretations and therefore struggled to adapt to the 'landscape'. Therefore, despite the imposition of international sanctions due to the pursuance of a nuclear programme, which has further restricted development potential, a failure to respond to domestic conditions in a more complex policy-oriented manner has left a large amount of debt which in turn has affected the population, particularly those most in need. A more flexible strategy is needed to aid Iran's development but this will require significant political upheavals which may shift the balance from an 'overly rigid order' to one of 'chaos'.

Overview

Following the revolution of 1979, Iran declared itself an 'Islamic Republic' under the leadership of Ayatollah Khomeini. During this period it sought to affect a new style of governance by using *Velayat-e Faqih* (rule by clerical scholars) and implementing *Shari'a* law. Iran's Islamic style of government is overseen by the 'Supreme Leader' who has the power of canonical interpretation and therefore legislation (Zubaida, 1997: 103), which is also typical of the flexibility in interpretation associated with the *Shia* school of thought.

Domestically, Iran has attempted to promote a degree of balance and legitimacy through the holding of popular elections for the position of president, as opposed to its non-elected religious council. It also has a parliament, local councils and mayors. The balance of power within this system itself has fluctuated between Islamic conservatism, pragmatism and reformism (see Rahigh-Aghsan and Viggo Jakobsen, 2010), which has fuelled internal dissatisfaction with the process itself, epitomised by the thirteen out of fourteen Grand Ayatollahs opposing the 'Islamic' system in 2007 (Terhalle, 2007). There has, then, been a sense of non-coherence surrounding Iran's proposed 'Islamist' programme; instead a tendency to adopt rigid nationalisation strategies has prevailed.

This becomes evident when analysing Iran's economic strategy, which has passed through various phases of rigidity. First, Iran nationalised much of its industry after the revolution in the belief that it needed to put a stop to the international exploitation of its resources and reduce the inequalities that had become evident under the Shah. This only managed to replace one rigid order with another, albeit based on nationalisation. For example, the 'temporary cultivation agricultural land bill' which allowed for the confiscation of private land was considered justified as it was perceived to be better than the alternative (Warde, 2000: 43). However, in doing so it removed expertise from the agricultural sector and isolated parts of society which would be considered useful in any development programme, an issue synonymous with nationalisation policies in the twentieth century. In trying to establish its 'Islamic' nature during the early 1980s, Iran therefore pursued nationalist state policies. For Warde (2000: 117–118) this was largely influenced by the 'left' within the revolutionary process, but it is also true that much of this was driven by there being no Islamic model in which to follow. The Iranian Islamic Republic government therefore struggled to establish its Islamic philosophy through a new political and economic strategy for development and instead opted for a rigid model based on socialism and nationalisation.

Following the death of Ayatollah Khomeini in 1989 (and the war with Iraq 1980–1988), Iran embarked upon a new era under the weaker 'Supreme' leadership of Ali Khamenei, expressing a degree of openness under the presidencies of Rafsanjani and Khatami. The cost of an eight-year war had left Iran seeking national repair and therefore, as with the Pahlavi dynasty (under the Shah), it heaped responsibility on the oil industry. This cajoled Iran into developing international relations by involving it in the global market, thus contradicting its position of the 1980s as an 'exporter of revolution' and a bastion for the Muslim world (see Ehteshami, 2002: 283–309).

The shift to more liberal beginnings proved to be something of a false dawn as a failure to deviate from its embedded nationalisation policy proved difficult and only amounted to increasing the level of non-transparency. Oil rent continued to pay for the ruling elite's core policies but it did little to relieve national debt or poverty. For Ehteshami (2002) international governments such as the US saw this as an opportunity to offer political bargains, but for Iran to compromise its own position within the international framework was too divisive. It was under these circumstances that conservative support placed Mahmud Ahmadinejad, a former officer in the Islamic Republican Guard Corps (IRGC),[1] in the position of President.

Under the presidency of Ahmadinejad reliance on oil revenues continued, which by 2008 accounted for almost 80 per cent of national revenue (see Katzman, 2010). This has continued Iran's exposure to price fluctuations within the petrochemical market, which according to Rahigh-Ashan and Jakobsen (2010: 567) has left the government with a budget deficit of US$30 billion and foreign debt of US$28 billion. With financial conditions worsening under the added strain of economic sanctions, new policies were sought.

It was during Ahmadinejad's first tenure as President that the 'Fourth Economic, Social and Cultural Development Plan' of 2005 was approved as a means to turn Iran into an advanced economic nation. Designed as a four-stage process to be implemented over a twenty-year period, the plan identified with social and cultural conditions, but the overriding feature was its attempt to liberalise and diversify the economy in conjunction with promoting administrative efficiency (see Amuzegar, 2010: 114). For example, there were to be reductions in public expenditure, an increased percentage of income from taxation, privatisation of industry, greater emphasis on diversity (non-oil) in supporting the annual national budget and realignment of the currency with national and international inflation. Nevertheless, matching aspirations with actual policy transformation in Iran has proved difficult due to the complicated political situation and the lack of transparency within it. This led to the partial implementation of the economic plan and a degree of superficiality in regards to reporting methods. As Amuzegar (2010: 114) has stated: 'at no time since the 1979 revolution have official economic statistics been so scarce, inconsistent, doctored or deliberately withheld by the responsible authorities.' Despite intentions to hide it, Iran has been hit by low growth and high unemployment (or stagflation), discrediting the idealistic nature of the fourth plan without it ever really coming into force.

As noted, a lack of transparency has plagued Iran's development. Rahigh-Ashan and Jakobsen (2010: 568) believe that this evident failure is due to resistance from empowered religious charities called *bonyads* and the constant interference of the IRGC, who would have nothing to gain from changing the current situation. *Bonyads* in particular have an interesting role in the economic development of Iran since they report directly to the Supreme Leader but do not come under the authority of parliament or any financial regulatory body. Ilias (2010: 7) refers to them as 'semi-private charitable Islamic Foundations or trusts' and it is generally thought that they carry considerable political and economic influence without accountability or transparency, having accumulated approximately 40 per cent of national non-oil wealth (Wright, 2000 in Powell, 2009: 63). In addition to this, Ilias (2010: 8) also acknowledges that during the 'privatisation' process, many of the shares were actually given to *bonyads* rather than private enterprises. Domestically they are involved with agriculture, mining, construction and commerce whilst making foreign investments in places such as Africa, Europe, Russia, the Middle East and Asia.[2]

Of course the country's insecure position within the international community has also created tensions (notably with Saudi Arabia, Israel and the US), furthered by its prominent role in Iraq's domestic affairs. Iran's weapon and nuclear development programmes have also provided cause for concern, and up until 2015, punitive measures towards it via sanctions have been sought. The US State Department even reported that due to international restrictions placed on its financial industry (up to 2010), Iran lost approximately US$60 billion in energy investments (Reuters, 2010c). The lifting of sanctions will undoubtedly improve Iran's situation and access to the international market, but without a more flexible and transparent domestic economic framework it is unlikely to sustain Iran in the long term. Once again, reliable statistics are hard to find but according to the CIA World Factbook (2013) it is estimated that 18.7 per cent of Iranians live below the poverty line. Other data from Iran's Department of Statistics (2010) suggest ten million people (less than 8 per cent) live under the 'absolute' poverty line and thirty million (less than 24 per cent) under the 'relative' poverty line (in Payvand Iran News, 2010).

Islamic finance

In trying to avoid the neoliberal consensus, Iran has instead implemented a series of rigid policies that have failed to maintain a balance between banking sector growth and society's needs. To understand this, we can refer once again to the three pivotal events after the 1979 revolution that have been particularly significant for Iran's financial sector: nationalisation, Islamisation and privatisation.

First, in response to the Western orientated policies of the Shah, the banking sector was nationalised thus reducing diversity and financial flexibility. The number of banks were reduced from thirty-six to nine and subsequently divided into two areas, commercial and specialised. The commercial banks included Bank Melli Iran, Sepah Bank, Tejarat Bank, Mellat Bank, Refah Bank and Saderat Bank (Khan and Mirakhor, 1987: 1–13). The specialised banks on the other hand were connected to national industries such as Bank of Industry and Mines, Bank of Agriculture (Bank Keshavarzi), Housing Bank (Bank Maskan) and the Export Development Bank of Iran.

It was via the nationalisation process that the second stage Islamisation took hold through the creation of the 'Law of Usury Free Banking' in 1983, allowing for the implementation of Islamic banking in 1984 (see Zarrokh, 2010: 177–193). This permitted credit and deposits without the payment of interest through a favouring of *qard al-hasan* financing. However, in what Warde (2000: 120) describes as a 'curious element of the official banking system', depositors have been offered deposit incentives in the form of prizes, gifts, lottery draws and even preferential treatment when seeking a loan. In order to attract a broader customer base, Iran has nevertheless attempted to diversify its Islamic deposit products. For example, 'term investment deposits' (normally associated with *mudaraba* depositing) offer greater return potential but under higher risk. Customers are encouraged to invest anywhere between Rialls 2,000 and Rialls 50,000 into accounts for periods ranging from three months to over one year (Zarrokh 2010: 188). Abiding by *Shari'a* principles, the banks then reinvest this money into other ventures from which the profits are returned to the depositor either at a predetermined rate or with a commission charge attached. However, under sanctions the range and quality of investment is severely restricted and therefore it has been difficult for the banks to operate on a 'profit' basis, thus limiting potential return.

The availability of non-interest credit has also added to the instability of the financial sector. Loans using *qard al-hasan* have been made available for entrepreneurial activities, consumerism and personal needs. For example, a charge rate of 1.5 per cent has been applied on industrial-related loans, to be repaid within five years, while for personal loans a 1 per cent charge was added with a one-year repayment limit (Zarrokh 2010: 188). PLS methods have nevertheless become more popular through the use of *mudaraba* and *musharaka*. *Mudaraba* provides approximately 19 per cent of total individual and business loans (Central Bank of

Iran, 2006 in Zarrokh, 2010: 191) and is commonly used for short-term commercial activities where the banks and businesses take a share in the 'unknown' profits. *Musharaka* is primarily used for initiating new businesses where all assets and profits are divided amongst the involved parties

However, in reflecting government control the Central Bank of Iran (Bank *Markazi*, established in 1960) holds precedence over the rate of charge, rate of minimum profit and the percentage share of profits a bank can take from an agreement. In the latter case, this means that while a bank may have contributed capital of up to 95 per cent for a given project (under *mudaraba* guidelines for example) it may only be able to claim 50 per cent of this as profit. And while Zarrokh (2010: 189) believes this enables 'policy makers in setting the economic priorities of the country', akin to separating the macro from the micro, it has also reduced the profit making mechanisms of the banking sector. For Amir Naghshineh-Pour (2009: 5) the ignoring of free market supply, demand and inflation (maintenance of low interest charges in the face of high inflation for example) has resulted in structural irregularities within the banking system. Customers therefore have had little incentive to invest or save in the face of an overt 'borrowing market' (hence the popularity of *qard al-hasan* and PLS mechanisms) and with deposit accounting failing to attract significant numbers to cover costs, debt has begun to spiral. By 2008 non-performing loans reached US$17.8 billion, a situation that Iranian economic advisor Massoud Rad (Financial Times, 2008) has said could 'make most banks bankrupt if there was an effective auditing system'. In 2009, the Iranian Labour News Agency (ILNA) reported that the total debt of state-run banks had exceeded US$32 billion, with commercial bank 'Bank Melli' accumulating US$9 billion of this (Press TV, 2009).

In face of this potential banking sector collapse, the third and final significant event aimed to recapitalise the banks under the Privatisation Law of 2008. While inefficiency and debt accumulation were heralded as reasons for this change, the process has not occurred without issues. As Central Bank Governor Mahmoud Bahmani stated: 'Of course, the reality must be accepted that the opening up of the banking system's resources sack in the past few years has brought them [the banks] to the brink of crisis' (Reuters, 2010a). In reality the privatisation process, whether rigid or not, has been limited and as of yet not all banks have been privatised (commercial or special). Also, attempts by the Central Bank to increase charge rates as a way of stymieing inflation have resulted in the removal of two governors between 2008 and 2010 (Fielding-Smith, 2009). President Ahmadinejad and his government chose instead to limit credit supplies and maintain low charges, a potentially hazardous move considering poverty levels and the need for credit access. As a way of improving cash flow, however, foreign investment has been sought and as of 2009 the financial sector was opened up to foreign banks; but with international sanctions still in place this area of potential growth remains uncertain.

Linear regulations based on a perceived Islamic model (but more akin to nationalisation) have therefore limited the development of the Iranian banking sector, which has ultimately impacted upon societal welfare. Rejection of Western financial norms and values based on neoliberal economics may be justified but in offering a solution that also inhibits flexibility of the banking sector and society itself, it has succumbed to the same deficiencies as it was trying to overcome.

Islamic microfinance

As in the formal finance sector In Iran, an ethical preference for *qard al-hasan* is evident at the micro-level. Informal *qard al-hasan* funds have traditional roots amongst families and communities and often function in a similar manner to RoSCAs where members provide cyclical contributions to a fund which is given as a lump sum based on the principle of the applied mechanism (Bakhtiari, 2009: 101). According to Obaidullah (2008: 39), there are approximately 3,000 of this type of *qard al-hasan* fund operating in both rural and urban settings in Iran, divided amongst family funds, workplace funds, community or village funds, and larger based funds. By the 1960s *qard al-hasan* funds took on a more semi-formal nature, and despite functioning under governmental guidelines have been registered as NGOs. According to statistics from Iran's Central Bank, in 2008 there are approximately 7,000 of these semi-formal organisations operating throughout the country (in Bakhtiari 2009: 102), where they are permitted to collect deposits and operate loans via an annual charge of 2 per cent (Bakhtiari, 2009: 102).

According to Bakhtiari, these *qard al-hasan* funds are a form of microfinance institution but are evidently more applied to alleviating poverty as they focus on social needs rather than interest payments. Unfortunately, there is little in the way of statistical evidence to substantiate this claim as Bakhtiari's statistics focus primarily on distribution. For Karim *et al.* (2008: 7), however, *qard al-hasan* funds should be considered as charitable organisations and not microfinance institutions as they are 'made for large one-time expenditures' and 'forgiven in the event of default'. This criticism, as with the formal financial sector's use, questions both the self-sufficiency and sustainability of the *qard al-hasan* funds at the semi-informal level and again suggests non-performing loans and ultimately debt.

Information about the Islamic microfinance sector in Iran is minimal. However, there are suggestions that the practice is evolving through the formal financial sector. For example, in an undated study by Dr. Dariush Rashidi from Bank Keshavarzi (Agricultural Bank) in Iran, the development of rural microfinance services through Bank Keshavarzi helped initiate the 'Rural Microfinance Support Project' (RMSP) in 2002, offering services for micro credit, savings and insurance. This project has been supported by two international organisations; the International Fund of Agricultural Development (IFAD), which provided technical support plus consultancy, and the International Enterprise for Development of Rural Micro Finance Services (DRMFS-International), which acted as an executive agent to the initiative. One of the main components of this programme was to create self-sufficiency and sustainability by turning solidarity groups (SGs) into 'self-help groups'.

The report notes that the RMSP reached out to 2,300 participants, 50 per cent of whom were women and all of whom were attached to successfully run solidarity groups with a 100 per cent repayment rate. Rashidi also highlights that more than fifteen new businesses were created in the agricultural sector and that the overall objectives of the project were being achieved. He notes: '15% of solidarity groups gradually and independently acquired the specifications and duties of self-help groups and initiated granting micro credit facilities to their members using the internal capital of the groups.' It is difficult to ascertain the mediumto long-term effect that this programme has had on the rural population considering the initial modest outreach and lack of information. Nevertheless, the promotion of solidarity groups[3] taps into the use of sustainable microfinance mechanisms and is a removal from the non-interest based mechanisms relied on in other financing areas. Nevertheless, an emphasis on charitable offerings is prevalent. As noted by Bakhtiari (2009: 105–106), Bank Keshavarzi still uses *qard al-hasan* for many of its programmes' such as the 'Hazrate Zeinab Project' which started in June 1994 and allowed women to borrow up to IRR5 million (Iranian rials) without the need for collateral. Debt is repaid over a period of up to five years depending on the conditions and product demand (Bakhtiari, 2009: 105–106). By 2003 it was estimated that each average loan was worth approximately IRR2 million (according to 2012 conversion rates, US$160) (Bakhtiari, 2009: 106).

With what information is available, it is difficult to assess the actual impact that the Iranian microfinance sector has on society or to that end its long-term existence as a viable mechanism for development. What we can assert is that there is a preference for the use of non-sustainable charge rates (through the use of *qard al-hasan*), which automatically questions development practice and the long-term survival of the institutions involved, not least of which is Bank Keshavarzi. This questions long-term access to finance and a reduction in the numbers able to use such funds. Rigidity once again relates to government control and the use of methods based on fixed Islamic principles, which limits returns and ultimately sustainable and cyclical microfinance mechanisms. If the financial sector itself was flourishing, then there could be cause for charitable microfinance. However, this is not the case and instead debt and non-transparency are areas of concern.

Zakat

Iran abides by the basic *Shi'a* principles of almsgiving by encouraging the payment of *khums* or *zakat* on one fifth of income or valuable goods, which traditionally should be collected and redistributed by the religious leader (*ulema* in *Shi'a*). However, over the past five decades such charitable mechanisms have become increasingly politicised.

In pre-revolution Iran, *zakat* payments became an integral part of the political struggle. Under the Shah's rule, governmental departments administered all religious organisations including the *awqaf*. However, issues of non-transparency associated with the Shah's government questioned the religious legitimacy of the collection. In protest against this, people began to direct their payments towards the Ayatollahs who in return used the finances to develop mosques, religious schools, education and charitable organisations. This ultimately strengthened the clergy against the Shah by giving them greater community gravitas and financial autonomy (Curtis and Hooglund, 2008: 125).

Following the revolution *zakat* remained voluntary despite being overseen[4] by the state. As a means of fundraising, a system of taxation was instead used, much to the dismay of conservative religious followers. The guaranteeing of a steady national income was prioritised, particularly during the war with Iraq (Omid, 1994: 141) and taxation was viewed as a more efficient way to achieve this. It is difficult to obtain the statistics regarding the percentage of income gained through taxation but as a comparison, it was estimated in 1998 that even as a voluntary process approximately 44 per cent of the Iranian population paid *zakat*, much of which was collected by the *bonyads* (Hassan, 2007, in Powell, 2009: 63).

The role of the *bonyads* (referred to as 'semi-private charitable trusts') in the collection and distribution of *zakat* highlights a less than transparent process, and although they are deemed to represent different areas of expertise there is a lack of information regarding their practice. For example, Powell (2009: 63) refers to what he calls *Bonyad-e Mostazafin*, which attends to the needs of 'family members of martyrs' and has approximately US$12 billion in assets and employs 400,000 workers. Ilias (2010: 8), however, in acknowledging *Bonyad-e Mostazafin va Jambazin* (oppressed and war veterans), views it as the largest *bonyad* and second only to the National Iranian Oil Company as a commercial enterprise. It apparently has 200,000 employees, 350 subsidiaries and US$10 billion in assets.

Zakat remains an important source of revenue in Iran, but similar to the process under the Shah's government the current system has become part of a political process and therefore lacks transparency, accountability and legitimacy. The *bonyads* are not accountable yet have considerable financial autonomy and political weight. Neither is it clear as to whether their collection and use of *zakat* is benefitting society or if the funds are being used as a means to satisfy political motives; but what can be deduced is that because of financial irregularities, sanctions and even the macroeconomic anti-terror agenda, Iran has been less keen on making their financial business known. With *zakat* in Iran overseen by the government, though in a somewhat non-transparent manner, charity is therefore vulnerable to corruption which is likely to divert resources to areas of political need rather than development.

Summary

Despite evident sanctions affecting Iran's involvement in the global economic landscape, it is a sovereign state and has sufficient control of its own domestic policies. It also has a sizeable oil sector that can be drawn from to develop its infrastructure. However, as in recent decades, much of this will also depend on its interactions with the international community. Iran has a much broader development framework than that of the oPt, but its decision making should continue to recognise the real needs of its people while avoiding the use of rigid policy mechanisms.

Egypt: consistency through rigidity

Along with ancient history, the name of Egypt is synonymous with Arab and Islamic culture. Lying on the southern base of the Mediterranean and at the gateway of the Suez Canal, its geographical positioning has presented opportunities to and for Africa, the Middle East and Europe. However, like the oPt, since the sixteenth century Egypt's location has also made it of strategic importance to France, the Ottoman Empire, Britain and the US. These external factors have had a significant impact upon the development of Egypt.[5] Nevertheless, unlike the oPt it has managed to assert its own sovereignty, not without internal difficulties.

The uprising of 2011 that led to the removal of President Hosni Mubarak and his replacement by Muslim Brotherhood representative Mohamed Morsi – who then in turn was overthrown by former general Abdel Fattah el-Sisi – typified Egypt's internal struggles; particularly over the last 100 years where even after the removal of the monarchy in 1952, it has been governed under an autocratic democracy. This system has faced numerous challenges that have included failed military ventures,[6] internal political struggles and the application of rigid economic strategies. The latter has played an intrinsic part in the instability of the country as failed nationalisation led to the imposition of a neoliberal programme, consistent with the Washington Consensus. It therefore remains to be seen whether a more balanced process that allows for self-organisation will emerge in the long term.

Overview

After the revolution of 1952, a process described as 'Arab socialism' emerged in Egypt bearing similar traits to that of socialist systems in Eastern Europe, albeit somewhat watered down or 'limited' in its promotion of a class struggle (Dekmejian, 1971: 138). This programme under the leadership of Gamal Abdel Nasser (1956–1970) advanced nationalisation and central planning which included control over production and industrialisation (including the harsh extraction of agricultural surplus), land reform (see de Janvry *et al.*, 1983),[7] banking and greater expenditure on welfare. With the responsibility of central government increasing, so did the burden of cost, which eventually exposed the cumbersome nature of the state-run project. After the death of Nasser in 1970, liberal reforms began to emerge under Sadat (1970–1981). His pro-Western free market approach (which also included improved relations with Israel) was balanced with an emphasis on Islam and initially offered greater freedom for Islamist groups such as the Muslim Brotherhood (*Ikwan Muslimiya*) and *Jamaat Islamiyya* (commonly referred to in this manner, but literally 'Islamic congregation'). This was evident in the rewritten constitution of 1971 which stated: 'Islam is the religion of the state; Arabic is the official language; and the principles of the shari'ah are a principle source of legislation' (Zahid, 2010: 81).

Sadat's balancing between a decaying nationalised industry, international pressure to apply free market economics and the promotion of Islamic values seemed somewhat contradictory and only managed to increase his unpopularity. He was killed in 1981 after an apparent *fatwa* from Egyptian Islamists approving his assassination. Under his successor Hosni Mubarak, Islamist groups were suppressed, however, 'liberalisation' of the economy continued and 'Structural Adjustment' plans were applied in 1991 after considerable pressure from the IMF. A rapid process of privatisation, a reduction in tariffs on imports and the devaluation of currency increased the strain upon an already small and inefficient industrial base. This culminated in the growth of trade deficits as an increase in the import and cost of commodities outweighed Egypt's export industry as prices stagnated (Ibrahim and Ibrahim, 2003: 95).

These past and present factors have increased Egypt's reliance on the 'rent' it receives from its unearned wealth, which can decrease economic growth, as there is little in the way of an incentive for the government to promote production, entrepreneurialism or even an appropriate process of taxation. Dictatorships can flourish within such a system as the gap between government and society can grow thus decreasing accountability (see Beblawi, 1990; Beblawi and Luciani, 1987). This has been the case in Egypt as aid (often politically motivated), oil (the profits of which are rarely reinvested in society), usage of the Suez Canal, and remittances from expatriates have provided the country with a significant percentage of its income (Beblawi, 1990: 87–88; Beblawi and Luciani, 1987: 43–46).

In brief, the rigidity imposed under neoliberal policies (which has included political caveats relative to its role within the Middle East Peace Process) combined with reluctance on behalf of the leaders to relinquish their autocratic control, have further hindered Egypt's ability to adapt. A combination of factors related to this brought the people to the streets in 2011 demanding the removal of its autocratic leader. Nevertheless, despite such initial positivity the road ahead looks increasingly similar to what has been implemented before. According to the Egyptian State Information Service (2011) poverty was already affecting 70 per cent of the population whilst general debt remains in the region of 90 per cent of total GDP. This will continue to affect public services such as welfare provisions and subsidies offered by the government. Instability will also decrease the likelihood of enticing foreign investment into Egypt, while the much relied-upon tourist industry faces a considerable period of rebuilding amidst an environment where concerns over Islamist terrorism are on the increase. Seeking stability is an obvious objective, but so should finding an economic balance to the neoliberal framework that Egypt has become reliant upon, not least the conditional aid supplied by the US and the policies distributed via the mechanisms of the Washington Consensus. In summary, Egypt continues to struggle through, with occasional bouts of political and economic uncertainty. These conditions reinforce the status quo, and with that a reliance on its rentier economy and donor aid. Overcoming this in the long term will require much more investment in the population and greater industrial diversity. This is inherently difficult given the economic circumstances, but Egypt has maintained its sovereignty and therefore sufficient flexibility to manage its affairs.

Islamic finance

Egypt was one of the first nations to venture into what we now know as Islamic finance. In the early twentieth century the Grand Mufti of Egypt, Sheikh Muhammad Abduh, made an interpretive ruling on *riba* that supported a fixed rate return on deposits from post office savings (*sanduq al-tawfir*), which although deemed controversial did present a degree of openness within Islam towards the formal financial industry (Tripp, 2006: 127–128). In 1963 the first Islamic bank named *Al-Idkhar Mahalliyah* in Mit Ghamr was established, based on an adapted model of the German *Sparkassen* savings banks (see Klarmann, 2007: 93–94; Tripp, 2006: 136). Defining itself as an Islamic institution, the bank did not become part of Nasser's nationalisation plan until 1968 when it was merged with the National Bank of Egypt (NBE). Nevertheless, during its time it managed to attract approximately 250,000 depositors whilst providing access to credit for rural and other small businesses wanting to use Islamic methods. According to Tripp (2006: 136), the bank did not pay interest on deposit accounts but instead offered profit sharing ventures and even *zakat* accounts that paid a percentage of individual deposits to local charities.

Under Sadat's 'open door policy' the financial sector underwent a process of privatisation. This reduced constraints that had previously aligned banks with certain sectors of the nationalisation programme (such as agriculture or exportation for example), which despite their societal focus were largely inefficient. It also allowed a window for the revival of the

Islamic sector through the Nasser Socialist Bank (NSB) set up by Egyptian Al-Najjar in 1971, who had previously established the Islamic bank in Mit Gamr (Wilson, 2002: 143–163). Although the NSB did not have an Islamic title (it also does not have a *Shari'a* board presiding over it), it used PLS financing through *mudaraba* methods (Warde, 2000: 74) to promote access to banking facilities and credit for urban families and small businesses (in contrast to the agricultural focus in Mit Gamr). The NSB cannot be officially titled as a 'bank' as it is not registered with the Central Bank, although it is required to comply with *Shari'a* law (Klarmann, 2007). According to Wilson (2002) the NSB's philosophy was based on benefiting society, but because of its preference for the more costly PLS mechanisms it affected deposits which. combined with government restrictions on the Islamic sector's holding of capital, has impeded long-term sustainability, and therefore self-sufficiency.

Approximately 300 Islamic institutions operated during Sadat's tenure (banks and investment companies), managing a total capital of between US$8 billion and US$12 billion which was equivalent to that of the entire state budget (Ibrahim and Ibrahim, 2003: 95). However, the Central Bank saw a need to tighten financial regulations due largely to an issue involving Islamic investment companies being unable to pay pre-agreed dividends to their customers (Eur, 2002: 322). According to Warde, 'the firms involved in the scandal weren't technically Islamic banks but the fact that they used the Islamic label was consequential' (Reuters, 2010b). This occurrence furthered speculation about the Islamic financial sector, thus adding to the view that it was an unregulated, parallel financial system that took money away from the formal sector (Eur, 2002: 322). In order to reassert its control, the Central Bank issued new legislation in 1988 that required Islamic investment businesses to convert to shareholding companies. This meant that shares on deposits would replace the informal receipts previously given. Stipulations were also added, such as the limiting of authorised capital to EGP50 million (Egyptian pounds), and they were also not allowed to receive deposits for a period of three months. If the institutions did not abide by these new regulatory standards they were liquidated, a process that actually occurred under Mubarak.

The Islamic nature of the sector was further undermined in 1989 when the leading Islamic jurist (the *Grand Mufti*) in Egypt, Dr. Muhammad Sayed Tantawi, decreed that interest paid on deposits was profit and not *riba*, much to the dissatisfaction of renowned scholars such as Yousef Al-Qaradawi (Wilson, 2002: 153). This *fatwa* challenged the original premise of what Islamic finance was and added value to the view that its practice in Egypt merely paid lip service to *Shari'a* principles without prioritising social aspects.

To this end, obtaining a balance between society and survival of the financial sector in general has remained problematic. Abdel Hamid Moussa, Chief Executive Officer of the Faisal Islamic Bank of Egypt (FIBE), has been quoted as saying 'Egypt is one of the biggest markets in the region, but the problem so far has been the lack of regulation' (Bloomberg Businessweek, 2011). Although regulation of the banking sector is the responsibility of the

Central Bank of Egypt (CBE), it has not provided clear legislation for the Islamic sector (Klarmann, 2007: 93).[8] Instead, the creation of the Egyptian Financial Supervisory Authority (EFSA) in 2009 under what is known as the 'Single Regulator Law' has provided an administrating body to deal with securities markets and other financial practices (EFSA, 2010) such as those within the Islamic sector.

Currently there are three Islamic banks that dominate the Egyptian market, two of which are joint initiatives between Egypt and Saudi Arabia, and there are also numerous conventional banks that offer Islamic products through Islamic 'windows'. The Faisal Islamic Bank of Egypt (FIBE; Egypt–Saudi) is the largest of the banks and operates with an independent *Shari'a* board.[9] According to Klarmann (2007: 94) and Wilson (2002: 151) the FIBE has focused primarily on commercial activities using *murabaha*, *musharaka* and *mudaraba* methods, whilst steering away from speculative investments such as shareholdings and even *qard al-hasan*. This is consistent with Aggarwal and Yousef's (2000: 103–105) view that social lending through Islamic banks is no longer a priority in Egypt, evidenced by the increased use of non-PLS mechanisms that favour short-term loans. This means that even in an area that should be considered as a priority for the ethical standards of Islamic financing, 'conventional banks have outperformed Islamic banks in providing long-term financing' (Aggarwal and Yousef, 2000: 105). Profit margins and banking stability have prevailed which is consistent with the FIBE's long-term strategy as noted by Kazarian (1993), who discovered 35 per cent of the FIBE's assets were kept overseas whilst 65 per cent of total assets were not used for financing new projects (cited in Aggarwal and Yousef, 2000: 100).[10]

In addition to the FIBE, other Islamic institutions have offered Islamic finance such as Egyptian Saudi Finance Bank (ESFB) and the Islamic International Bank for Investment and Development (IIBID). The former is considered the second largest Islamic bank in Egypt and practices in accordance with *Shari'a* principles, albeit similarly to the FIBE. The latter, however, has faltered through the accumulation of debt and an inability to meet minimal capital requirements under internationally influenced regulations. This has led to the acquisition of the bank by a conventional institution, the United Bank (Klarmann, 2007: 94).[11] Nevertheless, there is a market for Islamic finance highlighted by the National Bank for Development's (NBD) net portfolio increase of 170 per cent between 2009 and 2010 (NBD, 2010: 2). Given this growth, the NBD embarked on a path of becoming fully '*Shari'a* compliant' by the end of 2012, aided by the Abu Dhabi Islamic Bank (ADIB) who own 49 per cent of the company (NBD, 2010: 6).

Banking regulations (internally and externally influenced) have undoubtedly played a role in the mixed fortunes of the Islamic banking sector, driven more recently by the implementation of the Basel agreements (currently having implemented Basel II). Nevertheless, the task of profit making has been made all the more difficult by the lack of government support, enshrined in its taxation policy towards Islamic transactions. For example, using Islamic mechanisms often requires the transfer of property title (given the nature of a 'sales' contract) which in Egypt is justifiably taxed through 'capital gains', a problem the conventional sector does not have (Brunei Times, 2010). Bureaucracy and regulation have therefore become a hindrance to the development of the sector; according to a 2009 report carried out by consulting firm Mckinsey, only 3 to 4 per cent of Egypt's US$193 billion banking industry was Islamic (Brunei Times, 2010).

In summary, obtaining a balance between profit, regulation and societal needs has remained elusive for Egypt's Islamic banking sector. Inflexibility in applying Islamic methods as a means to supporting society and a lack of initial regulation had damaged self-sufficiency and the reputation of the sector, but the imposition of a highly regulated 'neoliberal' framework (which includes international standardisations) in return has removed financial access from those most in need or those who would only use Islamic methods. Previous governments have failed to utilise the potential of Islamic finance given both local and regional demand, and therefore legal concessions will need to be made if it is to be a crucial part in the development programme.

In the past few years the approval of *sukuk* by EFSA has allowed for a new market to emerge.[12] It has been envisioned that the *sukuk* market can help alleviate Egypt's national debt by offering an alternative form of investment to the high interest charge normally associated with conventional 'treasury bills' that have increased government debt and its budget deficit (Nowar, 2013). However, for Abdallah Erfan (researcher at Notre Dame University, US), regardless of the Islamic label, 'At the end of the day, the government is borrowing in order to rein in the deficit whether through sukuk or interest-bearing bills' (Nowar, 2013). Applying Islamic methods to the financial system in Egypt therefore requires much more thought, as rather than promote development through flexible and diverse initiatives, it could damage the image of the sector in the long term by applying Islamic terminology to a continuing linear framework.

Islamic microfinance

As with Islamic finance, Al Najjar's *Al-Idkhar Mahalliyah* Islamic bank in Mit Ghamr can be credited as a key contributor to the development of the Islamic microfinance industry (Obaidullah, 2008: 25). The Mit Ghamr bank was a socially motivated institution that provided access to credit for agricultural businesses using PLS methods. It was not Islamic in name (similar to the Nasser Socialist Bank) but adhered to Islamic values via an emphasis on ethical practice and support for society. However, beyond the Mit Ghamr example, both Islamic and conventional microfinance have failed to make a significant impact in Egypt and despite having a potential customer base of 2 million, it is estimated that only 5 per cent of this has actually been targeted by microfinance initiatives (Iqbal and Riad, 2004: 1).

This lack of growth can be partly related to regulations in the financial industry that not only require banks to have significantly high capital reserves but also restrict non-banking institutions from holding savings. This has limited the development of the microfinance sector by reducing its capacity to build financial self-sufficiency. The imposition of this stringent regulation is related to the irregularities encumbered by the growth in informal 'Islamic' financial institutions during the 1970s and early 1980s and therefore MFIs have had to rely on loan repayments or donor investments, which has failed to produce a sustainable sector.

Current institutions involved in the provision of microfinance (predominately microcredit) in Egypt are banks, NGOs, the National Postal Authority (who are allowed to hold savings) and, on a much smaller scale, informal or indigenous institutions similar to RoSCAs, which are more commonly referred to as *gami'ya* in Egypt (El-Gamal *et al.*, 2011: 3). As mentioned, banks and non-banking institutions are regulated by the CBE and EFSA respectively, however NGOs and MFIs fall under the administration of the less economically equipped Ministry of Social Solidarity (MSS) (MIX, Sanabel, CGAP 2010: 21). Given the parameters in which to work, NGOs and informal lenders are less prepared when compared to banks who are clearly in the best position to develop microfinance in Egypt, 'since they have the advantage of both outreach capacity through their branch networks and fundraising capacity through their legal ability to accept savings deposits' (Iqbal and Riad, 2004: 1). Nevertheless, because of the uncertainty surrounding Islamic financing and the risk associated with microfinance, Egyptian banks have been less inclined to invest in local-level initiatives.

The National Bank for Development (NBD) does however have a separate unit for microfinance which is able to hold its own deposits and therefore operate as a self-sufficient and sustainable institution. Having previously been supported by UNICEF, USAID, CIDA and the Ford Foundation, it is now able to function using its own resources due largely to its professional banking operations (Dhumale *et al.*, 1998: 9). As a result of this, the NBD aims to 'contribute to economic development by financing the informal sector to provide job opportunities and ultimately reduce unemployment rates' (NBD, 2010: 18), which is aided by its outreach via the forty-four branches it has throughout the country (WSBI, 2008: 16). As part of its Islamic ethos, the NBD offers non-collateralised *murabaha* (non-PLS) and *musharaka* (PLS) financing, ranging from EGP1,000 to EGP50,000 (NBD, 2010: 18).[13] To balance against the risk associated with the use of Islamic mechanisms (particularly PLS) the NBD has set aside 3 per cent of its microfinance earnings into an emergency reserve fund in case of payment default. In 2010 it was estimated that the number of clients reached 41,711 with an outstanding portfolio of EGP210 million (NBD, 2010: 18).

Despite not demanding collateral, the NBD does require 10 per cent of the loan to be paid up-front into a savings account as a way of securing the loan (or as often argued, to instil financial responsibility). The cost of this alone can deter some credit seekers, particularly those in the lower financial brackets, which is also compounded by administrative charges associated with this type of mechanism and the specialised services that the NBD provides (applied charges are normally in the region of between 16 and 22 per cent). As Iqbal and Riad (2004: 2) noted, the 'challenge is to find a level of loan charges that maintains profitability but does not choke off program growth over time.'

The Islamic microfinance sector in Egypt therefore remains limited in regards to both outreach and the parameters in which it can work. Fears over regulation are warranted given previous issues surrounding Islamic financial institutions in Egypt, but with poverty levels increasing and access to finance becoming scarcer there is a need to diversify financial outlets. Islamic microfinance under a more flexible administrative process could be an option worth investing in given the demand; however, this would require a relaxation on regulations so as to allow the MFIs to develop themselves without relying on external funding per se.

Zakat

According to a 1998 study by Hassan (in Powell, 2009: 61), 89 per cent of Egyptians pay some form of *zakat*. For individuals in Egypt *zakat* is voluntary as a separate form of taxation exists[14] (albeit limited) and therefore there is no official system for collection and distribution. However, the Nasser Socialist Bank (NSB), which as previously mentioned is controlled by the government, has collected both voluntary and mandatory *zakat* payments (from publically owned institutions) and has even distributed the funds, as it deems necessary. Wilson (2002: 148) has taken this a step further by stating the NSB's *zakat* operations were merely a 'window' for government activities, based on the belief that the Egyptian government under Mubarak hijacked parts of the Islamic financial industry for its own purpose and that the *zakat* system operated by the NSB is a tool for enhancing its influence over the NGO sector.

The politicisation of *zakat* has therefore been linked to maintaining autocratic control and even balancing against parallel charitable mechanisms developed by Islamist organisations such as the Muslim Brotherhood. Charitable organisations revolving around mosques in support of communities have become a popular occurrence in places such as Egypt (see Ayubi, 1991: 197–198), where organisations have filled the welfare vacuum left by the government (particularly under neoliberal policies) and therefore have taken it upon themselves to develop schools, vocational training centres and social services. They are often paid for by donations and private *zakat* collection. The Muslim Brotherhood in Egypt for example have utilised this system to great effect, strengthening their position amongst Egyptian society's poorer population and providing the Islamic organisation with a structure in which to spread its influence and ideology, which at times before Sisi ran parallel to the policies and plans of previous governments.

Nevertheless, as standardised practice, the NSB has been able to acquire 2.5 per cent of profits from public sector companies. It also has the responsibility of collecting voluntary *zakat* payments and distributing it based on *Shari'a* principles (Khaf, 2004: 19–20). The NSB has and continues to function as a socially orientated institution and according to the Egypt State Information Service between 2004 and 2005 it invested approximately US$1 billion in social projects (Powell, 2009: 61). However, as statistics show in 2006 it only managed to collect US$128 million in *zakat* (Powell, 2009: 61), a relatively modest amount, which falls way short of expenditure.

Other official forms of *zakat* collection and distribution bodies exist. At the commercial financial level, banks such as the FIBE have strengthened their Islamic credentials by offering accounts, collection facilities and distribution methods based on *zakat*. However, for Wilson (2002: 151) the FIBE is primarily concerned with obeying *Shari'a* law and not necessarily the social responsibilities attached to it given its propensity towards the commercial sector. It does nonetheless operate a dual *zakat* process. First, it collects and distributes *zakat* on behalf of clients and account holders. Second, it allocates a percentage of its own profits to *zakat*. In 2012 total *zakat* funds were estimated to be EGP207.5 million, with EGP46.6 million of this to be paid in legitimate dues and the rest (collected from account holders etc.) to be distributed to individuals, students (including student housing), mosques, medical institutions, registered charities, Holy *Quran* competitions (reading and memorising) and vocational training centres (FIBE, 2013: 76).

At the NGO level the *Zakat* Foundation of Egypt (ZFE) operates as a charitable subsidiary project of the Islamic Chamber of Commerce and Industry (ICCI),[15] and aims to highlight the ethical significance of *zakat*. They state:

> It is a contemporary entity derived from the juristic provisions of *Zakat* (alms) as it is interested in spreading the awareness of the importance of *Zakat* as well as the economic and social role played by it in the Islamic nation's life. ZFE works to a contemporary perspective to distribute the *Zakat* in its eight channels that God Almighty identified.
>
> (ICCI, 2010)

Evidence of ZFE's approach can be seen in their donation in 2010 of US$1 million to the Red Crescent in Egypt (ERC). This was done in response to the ERC's programme of supporting families affected by the floods of January 2010 (ICCI, 2010).

Nevertheless, despite numerous bodies utilising *zakat* to support the welfare of the population, poverty is still a growing issue. Adding to this, the payment or non-payment of *zakat* has played a particularly divisive role in the political-economics of the country. For example, in 2008 Al Azhar University issued a *fatwa* declaring the government should pay 20 per cent of its oil profits to *zakat* (see Shariah Finance Watch, 2008) based on the traditional demands of the holy texts and in response to Mubarak's continued adherence towards 'rentierism'.[16] In 2008 it was estimated that such a policy would have raised revenues of US$2 billion. However, under Mubarak 40 per cent tax was already being paid by oil companies to the government for prospecting and production. In addition to this, in the same year, Muslim Brotherhood member and Egyptian MP, Alaam al-Din al-Sikhawi, proposed the implementation of a *zakat* law that would make almsgiving compulsory for Egyptian society (Hamzawy and Brown, 2010: 26). Given the lack of trust in government mechanisms at the time and issues of corruption he suggested that 'tax' payments should be diverted to special *zakat* institutions, which would then distribute the money to those in need. Nevertheless, the government (past and present) is reliant on the money it receives under the current arrangement and any attempt to disrupt the status quo would affect their revenue streams and potentially undermine their legitimacy as leaders, in what is a fragile environment.

Summary

Since the end of Nasser's nationalistic reign, Egypt has sought to adopt policies based on modernisation and neoliberal development theories. In reality, though, such policies have failed to provide growth or the sufficient mechanisms capable of supporting society. Instead, autocratic rule and a lack of transparency in tandem with the adopted development framework have induced poverty and removed diverse actors from the process. This trend has been apparent in other parts of the Middle East and North Africa, and similarities are evident even in the oPt where conditional funding under the occupation and the lack of a democratic process have ensured the adoption of neoliberal policies and the removal of Islamic organisations. Under such rigidity (particularly through hierarchical policies), self-organisation and development cannot truly emerge.

Notes

1 The IRGC is considered an elite force which was blacklisted by the US in 2007 for being a 'global terrorist' and was subsequently targeted for its commercial and financial activities (see Berman, 2011).

2 There are also allegations against them of buying weapons of mass destruction on behalf of the Iranian government (see Ilias, 2010: 7–8).

3 It is unclear what Islamic methods are being offered in regards to the solidarity groups.

4 It is preferable to use the term 'overseen' rather than 'administered' as it is difficult to know whether all *zakat* channels are part of a government-controlled initiative.

5 According to a 2006 census carried out by the Central Agency for Mobilization and Statistics (CAPMAS), Egypt has a total population (including those living abroad) of 76.5 million (Egyptian State Information Service, 2012), 90 per cent of whom are Muslim.

6 For example, the Suez conflict, 1967 and 1973 Arab-Israeli Wars and intervention in Yemen's Civil War.

7 Land reform in Egypt involved the redistribution of farming land. Initially it was viewed as being beneficial to smaller businesses and families but was poorly managed and instead proved less efficient than the previous feudal system. This was due to inadequate expertise and the inappropriate partitioning of what was once productive land (Ibrahim and Ibrahim, 2003: 93–94).

8 Standardisation of the conventional sector was further enhanced with the creation of the 'Banking Apparatus and Exchange (Banking Law)' on 15 July 2003. Following international principles, it aimed to consolidate the financial sector by encouraging mergers and setting in place stringent capitalisation and capital reserve requirements (Klarmann, 2007: 93).

9 At the end of 2010 the FIBE recorded total assets of EGP31,654,104 (FIBE, 2011)

10 Kazarian (1993) also found that of the small share of money used for investments in new schemes, 96 per cent was based on mark-up rates (non-PLS) and not PLS mechanisms, much of which was collateralised.

11 As with this acquisition, this has led to most Islamic financing in Egypt being conducted through 'windows' of conventional institutions.

12 For example, the NBD issue certificates for one-, three- and five-year periods in Egyptian pounds and US dollars based on *wakala* agreements (NBD, 2010: 16); profits are calculated according to *Shari'a* and paid to the customer on a monthly, quarterly or maturity basis. For example, the five-year *sukuk* offers 'annual expected profit rate ranging between 9% to 9.25% posted monthly' (NBD, 2011).

13 According to WSBI (2008: 16), the loan size is 'determined after studying the client's credit needs, sort of activity, income cycle and cash flow'.

14 In 2005 tax reforms were made to support privatisation efforts. For example, tax is applied to income based on salary and this can range from paying nothing for those on EGP5,000 or below to 20 per cent for EGP40,000 and above. Changes in corporate tax also reduced the 42 per cent charge to 20 per cent, this excludes oil prospecting or producing however. As standard, tax is also applied for real estate, customs, social insurance and sales (see Arab Republic of Egypt, Ministry of Finance, 2005).

15 The ICCI is an international organisation made up from the private sectors of fifty-seven countries. It is affiliated with the Organisation of Islamic Conference.

16 This is of course based on the Quranic declaration that 20 per cent of mineral profits should be paid to *zakat*.

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3
Comparative studies

Malaysia and Lebanon

Malaysia: complexity emerging?

Malaysia received its official status as a state after gaining independence from British colonial rule in 1957. It continued to define its borders with the inclusion of Sarawak and Sabah in 1963 plus separation from Singapore in 1965. It possesses an ethnically mixed population currently consisting of Malays and other indigenous people (commonly referred to as *Bumiputera*) at 60.5 per cent, Chinese at 22.8 per cent, Indian at 6.8 per cent and others (including internationals) at 9.8 per cent (Department of Statistics, Malaysia, 2011b: 9). This ethnic mix has influenced political and socioeconomic schisms within society, which have also been exacerbated by Malay adherence to Islamic norms. For example, the National Cultural Policy of 1971 established Islam as a symbol of Malay culture (Guan, 2000: 4), while more recently attempts to embed Islam within the legal system (via the Attorney General's Office) through the creation of three new units – Islamic Family Law and *Shari'a* Judicial System Development Unit, Islamic Banking and Finance Unit, and Unit of Interaction and Harmonization – have caused a debate within society regarding the civil aspects of law (see Abbott and Gregorios-Pippas, 2010: 145). From a political perspective the escalation of 'Islamisation' over the past three decades can also be attributed to competing political groups, or more specifically the role of the more secular UMNO (United Malays National Organisation) in responding to the rise of the Islamic opposition party, Parti Islam Se-Malaysia (PAS) (see Liow, 2004: 184–205).

Nevertheless, the Malaysian government have also realised the benefit of promoting inclusivity, particularly for economic gains, and therefore despite ethnic and political differences there is evidence of flexibility and healthy complexity emerging.

3.1.1 Overview

In modern Malaysia, ethnic plurality and religious freedom are advocated as a way of promoting inclusiveness, evident by its consociational electoral process, which consists of cross-ethnic party blocs. Currently, the more secular Barisian National (BN) is the leading coalition and has been since 1973. The largest and therefore most influential party in the BN is the United Malays National Organization (UNMO). The BN also consists of the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC) amongst others. The opposition block Pakan Rakyat (PR) is considered as the Islamic coalition, although it does consist of parties that are not Islamic in nature and members who are non-Malay such as the Democratic Action Party (DAP). The largest party in this coalition however is the Malaysian Islamist Party (PAS).[1] In reflecting this diversity, political parties have been encouraged to adapt to the circumstances which for Hamayotsu (2010: 163–164) was the main reason for the PR coalitions' successful performance during the 2008 elections: 'PAS has put Islamist ideology and platforms aside in order to remain committed to the multi-ethnic opposition coalition.' In recognising these factors BN Prime Minister Najib Tun Razak, upon replacing Abdullah Badawi, sounded his intentions to regain the Chinese and Indian votes lost during the 2008 elections. Holding a more moderate position (as opposed to being overtly Islamic or pro-*Bumiputera*) enabled the BN to achieve 72 per cent of public support in the 2010 approval ratings (Ming, 2011: 132–133). Following a highly contested election in 2013, the BN once gain managed to hold on to power.

Attempts to overcome similar tensions are also evident in the socioeconomic sphere, where the previous application of rigid economic policies had impacted upon local interaction. For example, such socioeconomic tensions within Malaysia are generally associated with a traditional schism between the impoverished rural *Bumiputera* and the so-called 'economic hegemony' held by the Chinese population (Jomo, 2004: 2). Following independence, structural hangovers from the colonial period unveiled a high degree of inequality and poverty affecting the Malay and *Bumiputera* in particular. In response to these circumstances, the majority government introduced new cultural and economic policies that would favour the Malay and *Bumiputera* through a form of positive discrimination. This has been a constant source of friction between government and society, particularly since 1969 (Guan, 2000: 4).[2]

From an economic perspective, the New Economic Policy (NEP), implemented in 1971, was designed to eradicate poverty whilst claiming to remove the ethnic stigma attached to economic practice. Nevertheless, it could be argued that the NEP prolonged rigidity, and ethnic and socioeconomic strain. As part of this overarching plan, policies such as the 'First Outline Perspective Plan' (OPP)[3] aimed to reduce poverty and raise the Malay/*Bumiputera's* corporate stock within Malaysia from 1.5 per cent in 1969 to 30 per cent by 1990 (Jomo, 2004: iii). In brief, although corporate parity had only reached 18 per cent by 1990, this can still be seen as a considerable shift. In addition to this the government also reported success in poverty reduction as rates lessened from 49.3 per cent in 1970 (Guan, 2000: 20) to 3.8 per cent in 2009 (World Bank, 2013). Likewise, it has also been reported that disparity in income ratio decreased between the Malay/*Bumiputera* and Chinese from 2.29 to 1.38 in the same time period (Jomo, 2004: 6; World Bank, 2013).

There are of course those who disagree about the level to which economic parity within society in general has occurred.[4] For Jomo (2004) the massaging of statistics has hidden the extent to which economic gains have served the interests of a small body of elites (rather than a particular ethnicity). For example, one way of avoiding the issue of 'corporate stocks' has been through the use of informal pacts known as 'Ali Baba' agreements. These agreements are tantamount to a business arrangement whereby a Malay/*Bumiputera* 'investor' provides the licence or listing requirements for a Chinese entrepreneur whilst remaining either a silent partner or company director (Whah, 2010: 5). Jomo's allegations are also supported by the Asian Development Bank's Gini coefficient statistics[5] which accordingly rate Malaysia as one of the most unequal countries in East Asia, with the sixth highest income disparity in the Asia-Pacific region being reported in 2011 (Karim, 2010: 111).

Within these traditional debates, then, the championing of modernisation via a burgeoning economic elite (see Hooker and Othman, 2003) has resulted in a greater preference for Western norms, and while inequality remains an issue it does highlight a willingness to adapt to the dominant economic landscape. What this means is that the government, and to a certain extent 'society', have begun to recognise the importance of utilising the diverse community in national development. For example, Venardos (2006: 144) highlights the obtaining of a balance between the demands of the majority and of not alienating its Chinese population, who are considered as the 'catalysts' for industrialisation. It is also evident that Malaysia views its relations with China as vital to securing investment, which has undoubtedly influenced this appeasement. Malaysia is China's biggest trading partner in Southeast Asia; according to the Ministry of International Trade and Industry, the combined trading total reached M$147.2 billion (Malaysian dollars) in 2010 (Mishkin, 2011).

We can summarise, therefore, that although state intervention provided the impetus for social changes in favour of the majority Malay/*Bumiputera*, economic aspirations on par with that of 'fully developed' nations has become a priority. Malaysia gained the status of 'newly industrialised country' (NIC) in 1990 by obtaining 30 per cent of exports from its manufacturing base (PwC, 2012: 3). In addition to this, the government also set a thirty-year plan to have a fully industrialised economy by 2020, which according to national statistics would require a real annual growth rate of 7 per cent (Prime Minister's Office of Malaysia, 2010). Despite economic inconsistencies, Malaysia has registered a GDP growth rate (at constant 2005 prices) of −1.5 per cent in 2009, 7.2 per cent in 2010 and 5.1 per cent in 2011 (Department of Statistics, Malaysia, 2011b: xxiv).

It has become evident, therefore, that the Malaysian government has been careful not to infringe upon its own economic development by isolating its ethnic minorities or business elite and therefore state intervention has been slowly dissolved by a process of privatisation and corporate governance. Under the premiership of Najib the removal of rigid cultural frameworks continued to occur with a promotion of greater ethnic and socioeconomic balance. For example, using the Performance Management and Delivery Unit (PEMANDU, established in 2009), the readdressing of public service delivery (affecting crime reduction, welfare and education, for example) has been addressed by the Government Transformation Program (GTP), while the promotion of market access has been generated through the Economic Transformation Programme (ETP). These policies are not universally supported, and there is a danger of them emitting hierarchical strategies based on neoliberal policies, particularly the ETP which in shifting away from the '30% equity target' (Ming, 2011: 138) has offered a more liberal policy that aims to strengthen the connection between the government and the private sector. However, in supposing a trickledown effect (see PEMANDU, 2016), the Malaysian government could be accused of abandoning social responsibility in favour of rigid neoliberal policies, akin to the Washington Consensus. Nonetheless, it is fair to say Malaysia is far from perfect, but continued interaction and debate within society is a healthy property, which can aid adaption. In sum this is consistent with complex adaptive systems and is very much evident in its financial and charity sectors.

3.1.2 Islamic finance

Malaysia's first foray into Islamic financing occurred in 1963 through the government initiated *Tabung Haji* trust. It served as a *halal* savings account for pilgrimages to Mecca while simultaneously encouraging economic activity within a financially underdeveloped market (Mariani *et al.*, 2009: 3). In 1966, in a bid to overthrow its colonial past, nationalisation of the financial sector occurred. However, it was not until 1983 with the inauguration of the Islamic Banking Act that the first Islamic Bank, Bank Islam Malaysia Berhad, was established. This was eventually followed by the sale of Islamic products in conventional banks (Islamic windows) which itself spawned new Islamic banks from the profits gained (Mariani *et al.*, 2009: 3–4). Over the past few decades the Malaysian financial sector has embarked on a more capitalist-oriented approach symbolised by the growth in Islamic products related to conventional financing such as *takaful* (insurance) and the packaging and sale of *Shari'a* compliant securities such as *sukuk* (including a global *sukuk* in 2001).

The financial sector itself is regulated by the Central Bank of Malaysia (Bank Negara Malaysia or BNM) and functions as a parallel system, with both conventional and Islamic institutions abiding by the same rules but keeping their assets separate. In response to the growing demand for *Shari'a* products the National *Shari'a* Advisory Council (SAC) was established in 1997 and is charged with using its Islamic expertise to consult the BNM on financial issues, ultimately ensuring compatibility with *Shari'a* (BNM, 2012) in accordance with international standards set by AAOIFI. SAC's role is to use its Islamic expertise through *ijtihad* to maintain Islamic legitimacy and *maslaha* (public wellbeing), which often means setting benchmarks on permissible and non-permissible items. For example, in relation to the sale of securities, 5 per cent of gains are permitted on 'prohibited' activities such as *riba* from conventional banks or business involving alcohol, pork or gambling. At the more lenient level 25 per cent of turnover or profit is permitted on activities that may enhance wellbeing but involve controversial activities such as stock-broking, hotel resort operations and share trading (SCM, 2011: 14–18)

In supporting this growth, the Malaysian Islamic banking sector has proved innovative in its design of products although it is also known for stretching the limits of Islamic reasoning.[6] *Mudaraba*, *musharaka*, *ijara* and *salam* are familiar methods when issuing credit, whilst *mudaraba* is common for depositing[7] where it exists as 'variable rate liabilities' (VRL), meaning that the bank controls payouts to the depositor. Since the onset of Islamic financing in Malaysia, however, the most popular form of credit issuing to emerge has been *bai-bithaman-ajil* (BBA)[8] or, in simple terms, 'deferred sale' products. The BBA is a form of debt financing – non-PLS – mechanism that is predominately associated with the financing of property and other consumer items using both fixed and, more recently, variable rates. According to the BNM in 2008 it accounted for 37.1 per cent of total Islamic financing (in Kader and Leong, 2009: 190). Despite its link to conventional mechanisms, Rosly (2005: 37–54) believes BBA is justified under the terms of *Shari'a* not only because it is based on a 'sale' agreement but also because of the 'risk' involved in the sales transaction that places both banker and customer on mutual ground given the unexpected profit. Nevertheless, for Kader and Leong (2009: 199), the success of BBA has been increasingly challenged by the competitive nature of the parallel banking system as the appeal of its fixed rate in particular lessens when compared to fluctuating interest charges.[9] In short, Malaysia's base lending rate has remained relatively low over the past decade, thus highlighting BBA's relative inefficiency in the finance market. In order to overcome this predicament the BNM initiated a variable rate based on BBA methods which, according to Adebola *et al.* (2011: 22),

> was to reduce Islamic financial institutions' over-reliance on fixed-rate financing; to mitigate liquidity risk due to market volatility; as well as to lessen the challenge of mismatch risk by enabling Islamic financial institutions to vary the profit rate for financing in order to raise the deposit rates.

In order to remain true to its Islamic nature Adebola *et al.* (2011: 22) have called for more profit and loss sharing mechanisms in order to remain 'interest free' and separate from the conventional sector. However, the popularity of BBA highlights an alignment with conventional methods and the need of Islamic banks in Malaysia to maintain competitiveness within the parallel financial system.

This competition is also evident in the growth of the Islamic Capital Market,[10] which has seen the initiation of *Shari'a* compliant securities such as *sukuk*,[11] Islamic Unit Trusts, *Shari'a* Indices, Transferable Subscription Rights (TSR, or *Shari'a* compliant warrants), call warrants and Crude Palm Oil Future Contracts.[12] The bond market in Malaysia is playing an integral role in the infrastructural development of the country. By the end of December 2010, the market reached MYR763.4 billion (Malaysian ringgits), amounting to approximately 97 per cent of GDP (BNM, 2011), and it is estimated that Islamic bonds or *sukuk* accounted for 39 per cent[13] of this market (BNM, 2011).

Takaful is also offered (at both national and international level) often using *mudaraba* methods. Regulated by the BNM (although initiated directly by *Syarikat Takaful Malaysia*, via *Bank Islam* branches and *Tabung Haji* offices), two common forms exist. First, there is the 'General Takaful', which consists of one-year contracts for motor, accident and fire, for example. If no claims are made the profits from this group venture will be shared under the *mudaraba* ratio. The second is the 'Family Takaful' where money is paid in as security against loss of life and returns are provided via financial aid (Venardos, 2006: 156).

Evidence of flexibility and adaptation in the Malaysian Islamic financial sector is evident, not only because of reasons related to institutional survival but respect for societal development as well. As will be discussed in the *zakat* section, financial innovations have attempted to reduce inequality while providing a bridge for access to finance. The Malaysian Islamic financial sector is not perfect and there are concerns surrounding its increased preference for profit-orientated banking based on the macroeconomic framework. However, sufficient flexibility and adaption is evident in the Islamic products it seeks to produce and the attempts it makes to maintain the link between society and credit.

3.1.3 Islamic microfinance

According to Conroy (2002), despite the comprehensive availability of credit, the microfinance industry is lacking in reach, quality and maturity. Part of the reason for this could be the lack of demand, as 57 per cent of Malaysia's population has access to credit (Obaidullah 2008: 10) and therefore the use of formal financial methods may be more in line with Malaysia's status as a 'newly industrialised country'. Another factor that has hindered the development of micro credit is the Central Bank's maintenance of a low yield spread, between the base interest rate and maximum lending rate, which in the case of the latter was fixed at 2.5 per cent above the base lending rate. This, as[14] Conroy (2002) had previously highlighted, was 'less than would be required to cover the extra costs associated with microfinance lending'. For example, despite applying a new 'interest rate framework' in 2004 which removed the maximum lending rates for banks, BNM maintained a threshold on rates thus providing 'financing to SMEs at below market rates, ranging between 3.75% and 5%' (BNM, 2004). While such policies promote financial access they do not encourage banks to invest at the micro level. Agrobank and Credit Guarantee Corporation (CGC) are leading the SME lending market in Malaysia, but according to Saad (2011: 259) 'the loan sizes of these institutions are somewhat above the conventional microfinance'.

To enable financial access to poorer members of society, the government supported MFI Amana Ikhtiar Malaysia (AIM) was established in 1987 with the objective of alleviating rural poverty. In offering microcredit based on a *Shari'a* compliant 'Grameen' model (Obaidullah, 2008: 3), studies have suggested that AIM has been successful in reaching its goals.[15] In an impact study conducted by AIM itself in 2005 it showed that borrowers would be out of poverty after four loan cycles with an average payment of MYR3,500 per loan (Saad 2011: 259). Although poverty levels are low, many of those who face financial uncertainty are concentrated in rural *Bumiputera* areas, and therefore there is a need for local programmes to attend to such. AIM has attempted to do this but has faced competition from charitable organisations who also seek government funding. In addition, maintaining cash flow has also affected the sustainability of the institution. For example, between 1991 and 1995 the government provided funds of US$7.3million for loans through an Islamic organisation (YPEIM) which disbursed the said cash over a longer period of time. This according to Sukor Kassim (2000) affected AIM's cash flow, expansion and viability (in Conroy, 2002).

Given the low poverty levels, relatively high percentage of population that has access to finance, and the use of charitable mechanisms in attending to the needs of the poor (particularly in rural areas), it could be concluded that the size of the Islamic microfinance sector in Malaysia is relative to the demand and once again highlights a high degree of adaptivity to the circumstances. However, careful moderation of the charitable sector would also ease concerns regarding dependency on charitable income.

3.1.4 Zakat

Islamic Law in Malaysia is regulated by the government through the *Shari'a* Council, which also has responsibility for *zakat* that forms an important part of the fiscal policy. It is, however, administered at the state level through selected officials and the creation of *zakat* collection and distribution units in each of the thirteen provinces, which operate according to varying degrees. The payment of *zakat* is voluntary given that income tax is also paid. However, *zakat* receipts can be deducted from income tax, or if deemed unethical a citizen can pay 'double taxation' (Karim, 2010: 111). A fixed rate of 2.5 per cent is applied on residual cash, gold, silver and commercial goods, while other rates apply to different minerals or livestock. The growing success of *zakat* collection in Malaysia is highlighted by an increase of MYR450 million in 2004 to MYR806.28 million in 2007 (Wahid and Kader, 2010: 465).

However, given the local leverage allowed by the government as mentioned, performance levels at the state level have differed. For example, evasion of the process is still common amongst some communities, while for Kuran (2005: 21) the 'burden' of *zakat* more often than not falls upon rice growers, many of whom are living in poverty. He writes:

> In the state of Perlis, for instance, rice growers accounted for 93 percent of the *zakat* collection in 1985. If nothing else, this finding shows that *zakat* does not necessarily transfer resources to the poor; it may transfer resources away from them.

As a way of boosting efficiency, some states have opted to privatise either or both the collection and distribution of *zakat* funds in an attempt to instil corporate governance (see Wahid and Kader, 2010). As part of this trend, the use of marketing ploys along with a structured system of payment and transparent reporting have increased overall performance (Kaslam, 2011). For Kaslam (2011) adopting these methods has enabled the largest *zakat* fund in Malaysia, Selangor *Zakat* Authority (LZS-MAIS), to more than double its collection from MYR61,432,750.66 in 2001 to MYR159,836,252.79 in 2006.[16] By 2009, LZS-MAIS was said to be worth MYR238.6 million (Shariff *et al.*, 2011: 551).

The true judgement of a social institution, however, is based not only on how it collects but how it uses the funds it receives. For LZS-MAIS, distribution of *zakat* reflects societal needs such as social welfare, education and economic development programmes and in doing so it targets those most in need. According to a local press release in 2010, of the total collected from the 52 per cent Muslim population in 2009 (out of a population of 2.8 million), 13.5 per cent was given to 'poor Muslims' and 25 per cent to 'needy Muslims', which in sum has given Selangor one of the lowest poverty rates amongst all of the states in Malaysia (below 1 per cent for poverty and 'hardcore' poverty) (Shariff *et al.*, 2011: 551). Conversely, the *zakat* agency in Sabah with a population of 1.9 million to draw from (62 per cent Muslim) has only managed to collect MYR25.4million in *zakat* with 47.6 per cent of this being provided to 'poor' and 'needy' Muslims in the state (Shariff *et al.*, 2011: 551). This has left Sabah with 'poverty' and 'hardcore poverty' rates of 19.2 and 4.7 per cent respectively, the worst in Malaysia (Shariff *et al.*, 2011: 551), thus placing it in a cycle of poor collection, limited distribution and increased poverty.

Redistribution via the national level could provide a solution to inequality problems, but removal of localisation could also dispense with flexibility and responsiveness (see Wahid and Kader, 2010: 475). The distribution of state *zakat* in general has nevertheless faced criticism for a lack of transparency in its practices, which has led to an increase in informal mechanisms. According to Karim (2010: 111) this apparent inefficiency has led to a preference for 'institutional charities, which are governed independently from the state or through networks of families which are linked through kinship and friendship'. More worryingly, it has also seen a growing trend in the number of 'loan sharks' and 'pawn brokers' within the informal credit market. For Karim (2010: 114) this is partly due to low *zakat* payments and the fact that it is largely provided on an annual basis which only serves to cover some of the debt accrued over the same period or immediate consumption needs. Nevertheless, in response to this trend both national and 'new poor' banks have begun to offer a legitimate form of Islamic 'pawn broking' or *ar-rhanu*, that offer 'safe keeping' charges instead of interest (Karim, 2010: 114). Bank Rakyat, for example, offers holding rates based on the price of gold jewellery exchanged.

Zakat does, however, remain modest when compared to taxation, the former providing MYR1.2 billion in revenues compared to MYR112.93 billion of tax collection in 2009 (Sharrif *et al.*, 2011: 552), which is perhaps reflective of Malaysia's increasingly industrialised nature rather than a negative feature. Nevertheless, smaller amounts should not decrease efficiency to which the current debate stems. For Sharrif *et al.* (2011), compulsory payment on Muslim income, regulation through a national supervisory body and greater collaboration between 'federal' and 'state' levels would benefit the process, while Wahid and Kader (2010) suggest further 'localisation' would better aid links between needs and distribution. What is clear is that along with taxation, the Islamic charitable system in Malaysia functions relatively well when compared to other predominately Muslim countries. The continued debate surrounding regulation and the needs of society is therefore a healthy one, particularly in the context of developing self-organisation as a premise for development.

Summary

Malaysia's success is related to its process of learning, undertaken through decades of difficulties, some of which still exist today, and its ability to adapt based on self-organisation. It is far from being perfect but it has been able to use its diverse culture despite evident tensions. It could therefore be argued that obtaining independence energised the interaction of its people thus allowing sufficient movement to develop. Of course, the same requirement is necessary for development in the oPt, but this does not mean that such rapid growth will occur as Malaysia evolves within very different circumstances and cannot be used as a template for success. However, the freedom it gained has undoubtedly spurred its growth, which highlights it as crucial part of development.

Lebanon: on the edge of chaos

Viewed in the complexity framework Lebanon is a hot bed for interaction and positive feedback loops, particularly as it draws external interference and therefore much of what occurs regarding political and economic development takes place at the 'chaotic' end of the spectrum. The IMF (2010: 5) have summarised Lebanon's plight by stating: 'Domestic stability rests on the fragile political system that is split along confessional lines, and the country lies at the crossroads of regional tension.'

Overview

Lebanon as a European colonial creation[17] received its official constitutional status under French Mandate in 1926, followed by independence in 1943. However, the imposition of borders around the numerous ethnic communities, which included Christian, Sunni, Shi'a and Druze, created a large degree of irredentism. The situation was further complicated by the creation of a constitution that fixed power in favour of the majority Christian community, based on a 1932 census and notable French support (Zamir, 1988: 98). The political system was established on consociational grounds based on confessional parameters (see Lijphart, 1977: 44) and executive power was vested primarily in the Christian-nominated position of President, followed by a Sunni Prime Minister (head of Council of Ministers) and a Shi'a Speaker of the House (Parliament). Instability has therefore been induced by sectarian differences but over time has also included changing demographics, socioeconomic cleavages, patronage, clientilism, ideological movements and externalities (see Hudson, 1999), which have included state interference,[18] the after-effects of the Palestinian *Nakba* and more recently the Syrian civil conflict. In sum, because of these factors Lebanon has been plagued by intense periods of civil unrest and violence, highlighted by the sectarian hostilities in 1958,[19] the Civil War between 1975 and 1990, the assassination of Prime Minister Rafik Hariri in 2005 and the war with Israel during 2006. Thus, Lebanon draws much of its instability from excessive interaction (or positive feedback loops) caused by the nature in which its system is coevolving at the regional level.

After the Civil War and the signing of the Ta'if Agreement in 1991,[20] the political system was readjusted to reflect the new dynamic that had emerged following the end of open hostilities. Although influenced heavily by the Syrian government, it transpired that both Sunni and Shi'a groups were stronger when compared to a divided Christian community, a process that was supported by an apparent shift in demographics in favour of the Muslim population.[21] This was particularly evident in the new constitution itself which stated in an amendment to article 64 that the Prime Minister was now the 'head of government' (see The Lebanese Constitution, 1997).

Rafik Hariri became Prime Minister in 1992[22] and the legacy of his policies remain divisive to this day. His initial appointment as Prime Minister came during a period of economic hardship following the Civil War and therefore as part of a post-war reconstruction effort; he embarked on a programme of neoliberal economic reform that included 'infrastructural economic policies, bids for privatization, the stabilization of the Lebanese Lira, cuts in taxes and introduction of a value added tax (VAT)' (Nizameddin, 2006: 101). Reducing public debt was of paramount importance but so was improving Lebanon's position within the international community and the global economy. In Hariri's second spell as Prime Minister, economic reform, albeit strained due to ongoing political insecurities, continued and at the Paris II meeting in 2002 further investment from the international community was sought. Financial aid to the tune of US$3.1 billion was provided to tackle debt deduction and management issues, while US$1.3 billion was raised for development projects (with notable funding from Saudi Arabia) (MEED, 2003: 31). Much of the financing was used to 'repurchase outstanding and higher interest bearing debt' (Cooper, 2003) which basically meant the sale of short-term securities in publicly owned sectors such as energy, telecommunications, mobile phone networks and others.

From a political-economic perspective, Hariri's policy initiated a nationalisation versus privatisation debate, which provided the party blocs with further cause for disagreement. As a means to alleviate debt, which had reached US$34 billion or 185 per cent of GDP by 2006 (Nizameddin, 2006: 96), some would argue that the proposed economic reform did not go far enough. For example, Nizameddin (2006: 102) believes this was due to the restrictive checks and balances that were built into the Ta'if Agreement. Under the negotiated arrangement, the political and economic parity that was promoted amongst rival factions ensured all would have to be in agreement before any changes or sales could be made, but it also meant that allies of the Syrian government (predominately in the opposition bloc to Hariri, such as *Shi'a* group Hizballah)[23] would be given special consideration (Nizameddin, 2006: 102). For Denoeux and Springborg (1998: 158–173), however, Hariri's programme of privatisation promoted a period of 'Saudisation' where the implementers and supporters of the project were the only ones to profit.

In 2008 inequality ratings according to the GINI coefficient placed Lebanon amongst the MENA average (with 0.37 for nominal consumption and 0.36 for real consumption). Nevertheless, the lower 20 per cent of the population were responsible for just 7 per cent of consumption while the upper 20 per cent consumed 43 per cent (IPC, 2008: 3). According to a UNDP (2010: 6) report reflecting the period between 2006 and 2009, 300,000 people were unable to meet basic food and non-food needs, while 28.5 per cent of the population are considered poor, and 8 per cent are living in conditions of extreme poverty (US$2.40 per capita per day).

Socioeconomic disparities in the more impoverished areas have played into the hands of groups such as Hizballah, whose provision of welfare programmes and financial support mechanisms have played an important part in developing Lebanese communities (particularly *Shi'a*), which in turn has enhanced its reputation as a social and political actor. Despite its being internationally labelled as a terrorist organisation, Ghorayeb (2002: 26–27) draws attention to Hizballah's transformation from being a 'revolutionary total refusal anti system party, into a protest anti system party', which has enabled it to become an influential part in Lebanese politics under the leadership of Hassan Nasrallah. Their maintaining and developing of a sizeable arsenal[24] has been justified as a defence mechanism against Israel; however, Hizballah has also used its considerable strength internally when in 2008 it seized key areas in West Beirut from opposing political parties (BBC News, 2008).

In June 2011, the unity government was brought down after eleven members (the minimum required to dissolve a government) representing Hizballah and its allies walked out in protest against Saad Hariri's refusal to convene a cabinet session to discuss the UN-backed tribunal on his father's assassination (Mirza, 2011: 20–21).[25] Such factious elements have continued to destabilise Lebanon, which has now been added to by the civil conflict in Syria. On March 22, 2013 Prime Minister Najib Mikati resigned from his position following a cabinet meeting when Hizballah blocked a proposal to create a supervisory body for the parliamentary vote and also opposed extending the term of a senior security official (Bassam, 2013).

Regardless of development strategy, Lebanon continues to be blighted by instability and uncertainty, which as a result has minimised the role of the financial sector and discouraged long-term investment. A report carried out by EFG-Hermes (2010) on the Lebanese banking sector stated that debt in 2010 was at 137 per cent of GDP. Much of this debt has been caused by the years of internal fighting leaving Lebanon burdened by fiscal deficits and unsustainable public debt (Harvie and Saleh, 2008: 857). Conditions worsened after the 2006 war with Israel, which resulted in severe damage to the country's industrial infrastructure, notably agriculture in which '35% of the Lebanese population either directly or indirectly rely for their livelihood on farming' (Harvie and Saleh, 2008: 859). Remittances, which provide a large percentage of the country's inflow, continue to boost industry, trade and construction in the short term, which in 2008 reached US$5.5 billion (Maalo, 2010). Nevertheless, self-organisation remains difficult while Lebanon continues to be burdened by an unstable framework that borders on chaos, compounded by the application of rigid neoliberal policies that added to the societal strains. Pushing development strategy into the realms of complexity seems some way off but concessions and adherence to some form of order is necessary, only then can healthy interactions begin to emerge. Such instability has affected access to formal finance, but banks under international guidelines have become more robust. It is interesting to note, however, with poverty being an issue in large parts of the country and welfare insufficient, it has created a vacuum that has been filled by political organisations such as Hizballah.

Islamic finance

Lebanon's Islamic finance sector is relatively small and like the conventional form has been burdened by conflict. Because of this, in specifically the Islamic sector itself, restrictive banking regulations have been applied. Still, the banking sector in general has developed enough robustness during this period to remain an integral part of the country's on-going performance. Despite the evident troubles confronting Lebanon, then, in 2008 *Banque du Liban* (BDL) Governor Riad Salameh stated that Lebanon was immune to the financial crisis because of an ingrained conservatism towards finance. In this regard, stringent regulation involving low tolerance of debt accumulation and restrictions on international investments are perceived to have given Lebanon protection (Antelava, 2008).

The Central Bank of Lebanon or *Banque du Liban* (BDL) was established in 1964, from where it enabled the financial sector to officially enhance its own domestic capacity by building upon the foundations left over from the French Mandate period. In formulating its own national regulation (through the 'Code of Money and Credit'), Lebanon was able to reduce foreign bank monopolies, contribute to domestic financing and compete in the deposit market (BDL, 2011). As of 2011 the BDL oversaw 138 different banks including local, international, investment and Islamic banks (BDL, 2011). Islamic finance gained official status under the auspices of the BDL as of 2004 with the signing of 'Law Number 575: The Establishment of Islamic Banks in Lebanon' under the former leadership of President Emile Lahoud and Prime Minister Rafiq Hariri.

The BDL works in coordination with the government in designing fiscal and monetary policy, and with the Banking Control Commission (BCC)[26] which supervises institutional functionalities. Lebanon's continued integration into the global financial system has gained support from the IMF and World Bank and in 2002 the banking sector adopted Basel standards. This was followed by the implementation of Basel II in 2008, and Basel III in 2010 (see Daily Star Lebanon, 2010), which has encouraged greater adherence to risk management through the maintaining of capital buffers in the face of global financial insecurity. As a result of this, trust levels in the Lebanese banking sector have increased and, according to the head of the Association of Banks in Lebanon (ABL),[27] Joseph Torbey, net remittances to the country reached $13.3 billion in October 2010 (Daily Star Lebanon, 2010). In a country like Lebanon, regulations like this can promote a degree of stability while encouraging investment. Nevertheless, despite this upturn there have been concerns regarding the level of capital reserves required, which continue to challenge the survival of smaller banks who could be forced to merge with larger institutions (Daily Star Lebanon, 2008). Once again, this can remove diversity, and ultimately financial access from the local level.

Adherence to Basel and other regulations have also affected the flexibility of the Islamic banking sector which struggles to compete with its conventional rivals. Nevertheless, a number of different mechanisms are offered, such as *murabaha*, *musharaka*, *mudaraba*, *ijara*, *salam*, *istithna'* and collective investments. In 2005 it was estimated that *murabaha* was the most popular Islamic method of finance with 73 per cent of the market share, highlighting the importance and preference of non-PLS mechanisms (Chamas, 2006: 17). PLS mechanisms such as *musharaka* held 19 per cent while *mudaraba* struggled to reach 1 per cent of the market (Chamas, 2006: 17). The third most popular form was *istithna'* with 6 per cent (Chamas, 2006: 17).

There are currently four Islamic banks operating under *Shari'a* principles, two Lebanese and two from within the region, all of which have direct connections to the conventional sector. In regards to the foreign banks, Al Baraka is part of the Bahraini Al Baraka Group and the Arab Finance Investment House stems from Arab Finance House Holding. Domestically, the Lebanese Islamic Bank is part of Credit Libanais and BLOM Development Bank is naturally part of BLOM. As a way of encouraging local growth, Islamic banking regulations stipulate that 'Investments and placements in Lebanon must account [for] at least 50% of assets and rights included in the balance sheet items in each Islamic bank' (El-Tahir, 2012: 43). This is a clear sign of promoting domestic development, but when considering other regulations it can also impede the long-term survival of the sector given the lack of quality investment opportunities within the unstable framework.

In regards to other regulations, Chamas (2006) has drawn attention to a degree of friction between conventional and Islamic regulations that place the latter in a less competitive position. For example, pay-outs on unrestricted account deposits are linked to the Islamic institute's annual profit which is limited to once per year, and not the relevant investments overall performance as used in the conventional sector, where pay-outs also occur on a more regular basis (Chamas, 2006: 20). The conventional sector therefore has greater flexibility in providing both investments and deposits as Islamic institutions face difficulties regarding sales products and the payment of interest. For example, Islamic mechanisms deal in real assets and often require sale and re-sale in order to remain *Shari'a* compliant. However, under Lebanese regulations this means that each transaction faces stamp duty on sale and re-sale thus paying double the charge (common with *ijara* arrangements) (Chamas, 2006: 21). Even *murabaha* faces difficulties as it is subject to a sales VAT charge that was initially set at 10 per cent with potential to rise to 15 per cent in the future.[28] Conventional banks do not operate using purchase-sale agreements, which puts them at an advantage, as both Islamic banker and eventually the customer (whose charge rate includes the total cost and mark-up) are subject to these charges in the *murabaha* agreement. Some Islamic institutions have attempted to negate this process by avoiding the sales contract, but this is controversial under *Shari'a* law given the ethical boundaries regarding loans (Chamas, 2006: 22). In addition to these problems, the BDL also requires all banks to deposit 15 per cent of their 'weekly average volume of deposit accounts' into their central fund, which is remunerated via interest back to the banks, which Islamic institutions cannot accept (Chamas, 2006: 23), thus once again, compromising the position of the Islamic institutions.

Since the passing of the 2004 law, then, the Islamic financial sector in Lebanon has struggled to compete with conventional institutions. First Vice Governor of *Banque du Liban*, Raed Charafeddine, stated in an interview: 'The Islamic banking law came out as a compromise in 2004.... It didn't give the industry enough steam to take off. We are at the preliminary stages of rectifying the 2004 law' (in El-Baltaji and Hall, 2010).

With assets representing a mere 1 per cent of the conventional industries' US$251 million total in Lebanon (Halawi, 2010), it is evident that the Islamic sector has failed to make a significant impact upon local development. Regulations have played a role in doing this but much is related to the levels of instability within Lebanon. In addition to this, while placing a 50 per cent minimum on local investment may appear useful in the long term, such rigid markers could in fact reduce the sustainability of the sector.

Islamic microfinance

Instability has left a considerable welfare vacuum and ultimately poverty amongst the lower financial echelons of Lebanese society. This, combined with stringent banking regulation, has therefore provided scope for the development of a microfinance sector that could increase societal participation, particularly at a local more impoverished level. Nonetheless, gaining access to even microcredit in Lebanon remains difficult as the level of instability often dictates the rate of interest and collateral needed to obtain a loan. Because of this, according to Abbassi *et al.* (2009: 2), the microfinance sector in Lebanon trails that of its Arab counterparts, as not only are outreach and growth affected by the conditions but also a lack of professional capacity by NGOs in the management of microcredit programmes.

There are approximately twenty microfinance institutions (including banks) operating in Lebanon offering microcredit, a majority of which are NGOs (Abbassi *et al.*, 2009: 2). Two of the largest microfinance institutions are Ameen (formerly a CHF programme) and Al Majmoua. Both MFIs use conventional methods and in doing so apply a high interest charge, reaching anywhere up to 33 per cent (Chamas, 2006: 118). Despite this, both Ameen and Al Majmoua have operated on a highly selective basis as a means to ensuring their profit margins, and prior to 2006 this was evident in the high levels of self-sufficiency they attained. Even in the aftermath of war with Israel in 2006, international organisations such as the European Union diverted aid to these organisations to help their clients rebuild and restock (Interview with Nadine Chehade in Microworld, 2011). Nevertheless, the long-term survival of these institutions depends on their ability to increase outreach, which has so far proved difficult.

Where formal finance and microcredit does not reach, the emergence of more local informal mechanisms using Islamic methods have become more common, some of a highly politicised nature. For example, operating in parallel to the conventional MFIs is the Hizballah affiliated *Mu'assasat Bayt Al-Mal* (MBAM), which is supported by a 'network of donors' (Obaidullah, 2008: 25). MBAM consists of two strands, first *Al-Qard Al-Hasan* (AQAH) which provides *qard al-hasan* financing. Despite limited information, according to a study by the International Finance Cooperation (IFC) in coordination with Grameen-Jameel (in Abbassi *et al.*, 2009: 3), some sources have suggested AQAH services between 25,000 and 100,000 clients. More recently, Nadine Chehade (in Microworld, 2011) has stated AQAH operates with 70,000 clients. The second form of microcredit is *Yusor lil-Istismar wal Tamweel* (meaning Yusor for Finance and Investment) that operates using standard PLS mechanisms (Obaidullah, 2008: 26). For Obaidullah (2008: 26), MBAM's success is based on the dedication of its volunteers and the relationships they have developed with the people, and although there is a lack of transparency and therefore information regarding the organisation, it has achieved a high repayment rate which is often administered by the collateralisation of 'capital assets, land, gold, guarantor and bank guarantees'.

The unstable framework in which it exists, which limits both access and outreach, restricts the Islamic microfinance sector in Lebanon. Nevertheless, MFIs such as Al-Majmoua have begun to recognise the demand for Islamic financial products but further investment and innovation is needed to secure the long-term future of the sector. In the meantime, politicised programmes such as MBAM have been able to fill the finance vacuum given their ability to source donors and work at a very local level. Although social needs are in some manner being attended to, there is little in the way of transparency or stability that would suggest a successful microfinance sector emerging in the short term.

Zakat

Lebanon has what Powell (2009: 65) calls a 'voluntary legalised *zakat* system'. However, as a national collection and redistribution mechanism to alleviate poverty in Lebanon, it is very much restricted by the unstable environment and confessional divide that limits its resource base. For example, even with total Sunni support for the governmental programme it still only amounts to approximately one-third of the population. Other concerns such as political mistrust and corruption[29] are also likely to deter individuals from paying *zakat* to a governmental body. Nevertheless, the 'Zakat Fund' as it is known is attempting to increase its revenue via other sources. In 2012 it embarked on a partnership with the Lebanese Islamic Bank through the creation of a 'Zakat Affinity' Visa credit card that automatically transfers 0.5 per cent of a particular purchase to the Zakat Fund without extra cost (Lebanese Islamic Bank, 2012). Innovating with formal products such as this may well prove profitable for the 'Zakat Fund' in the long term but as noted, instability in Lebanon will continue to dictate finance and the national *zakat* system has been further undermined by the success of Hizballah's parallel welfare services, funded through its own *zakat* channels.

For Hamzeh (2004: 42–43) Hizballah's social welfare services are symbolic of its Islamic ideology, and therefore ethical responsibility is encouraged through the payment of *zakat* and *khums* (normally one-fifth of earnings and associated with the Shi'a faith). Affirming its place as a parallel welfare structure, the myriad of welfare provisions supplied by Hizballah are also said to branch out across sectarian divisions (see Alagha, 2006: 166–167) and have been particularly successful when compared to a largely inefficient government, paralysed by debt and infighting (see Norton, 2007: 107–112).

Under its 'Executive Council' or *Majlis al-Tanfizi* there are a number of units that provide welfare for the Shi'a community at large and more generally those affected by war (see Hamzeh, 2004). An example of such is the Social Unit[30] which provides support for its followers or 'martyrs' families while also overseeing other sub-groups such as *Jihad al-Bina* (Holy Struggle Construction Foundation), which arguably stands as the most prominent non-governmental organisation in Lebanon. As described by Hizballah itself:

> Jehad Al-Binàa Development Association is an Islamic development and service based association, established in 1988, in Lebanon, following the directives of Ayatullah Khomeyni, to alleviate the hardships that our disadvantaged population and deprived families face, drawing on the support of Allah in carrying out moral and Islamic duties.
>
> (Jehad Al-Binàa Development Association, 'The Generous Hand: Six Years of Work and Construction 1988–1994, Beirut, March 1994' in El-Moubayed Bissat, 2002:7)

According to J. P. Harik (2005: 85), *Jihad al-Bina* uses the funds it receives[31] to boost socioeconomic development by targeting infrastructural issues such as water shortages in Shi'a districts like Dahiya, where a 4,000-litre reservoir was constructed and is constantly being refilled with water.[32] According to L. El-Moubayed Bissat (2002: 7) *Jihad al-Bina* has paid particular attention to developing the poorer agricultural regions, exemplified by its setting up of 'health solidarity funds' in Bekaa and South Lebanon as a replacement for 'National Social Security Funds' not available to farmers. In addition to this, equipment such as machinery, cheap seeds and fertilisers have been provided for farmers while dairy farms, soil testing labs, tomato processing and canning operations were constructed to encourage the growth of the agricultural sector.

Nevertheless, the success of Hizballah's *zakat*-related projects essentially undermines the government and restricts its resources somewhat by operating as a parallel welfare system. This is a feature of the unstable framework and the lack of executive control in providing order. It is also a matter of concern for countries such as the US and Israel who view Hizballah as a terrorist organisation and therefore monitor its financial activity. However, this has also increased the secrecy of the organisation itself making it difficult to gather reliable statistical information.

In general, mistrust within the unstable framework has ensured the charitable mechanisms in Lebanon have little impact upon self-organisation, and are instead restricted to certain communities or even politicised. As with the financial sector, some form of order is needed, but this remains elusive while security in the country remains uncertain.

Summary

Lebanon's chaotic circumstances continue to shape both politics and development. The lack of the latter in particular, despite the country's evident ability to attract investment over the years, has encouraged Islamic organisations such as Hizballah to fill the welfare vacuum. Nevertheless, while existing instability has affected the creation of a long-term national solution, it has caused the financial sector to become more conservative, which has also restricted flexibility in Islamic finance. In this regard, while the frameworks of Lebanon and the oPt are at the opposite ends of the spectrum (chaos and rigid), instability has also had a similar effect on stabilising the oPt's financial sector, including Islamic finance. However, as in the case of Lebanon, it has also reduced the role it plays in investing and developing the locality. Obtaining a balance within chaotic and rigid frameworks therefore remains a challenge.

Notes

1 PAS has sought to enhance its Islamic credentials and infuse Islamic ethics into political and economic practice. Following its expulsion from the ruling coalition (BN) in 1977, it developed relations with the Islamic Youth Force of Malaysia (ABIM). ABIM is an Islamic non-governmental youth organisation that became part of the *Dakwah* movement, which itself shows similar ideological traits as the Muslim Brotherhood and expressed a desire to return to Islamic roots, championing the cause for poorer members of society (Abbott and Gregorios-Pippas, 2010: 138). The leader of ABIM between 1979 and 1981 was renowned Islamic scholar and current head of the PR opposition coalition Anwar Ibrahim. However, in adapting to the political conditions of 1982 the UMNO incorporated Anwar Ibrahim into its party.

2 Ethnic tensions peaked in 1969. It was also the year that elections took place, bringing Abdul Razak into power. In the opinion of theorists such as Guan (2000) this period was also symbolised by the government's 'aggressive' reconstitution public cultural policy in favour of Malays.

3 The second OPP was introduced in 1991 (to 2000) and the third in 2001 (to 2010).

4 For Jomo (2004) this is partly related to unreliable statistics provided by the government and partly the methods of collection used due to issues of sensitivity.

5 The Gini coefficient is a measurement of income inequality where 0 (zero) indicates perfect equality and 1.0 represents perfect inequality based on expenditure and income distribution.

6 Growth of the sector is epitomised by the actual increase of banks from 126 in 2004 to 766 in 2005 (KPMG, 2007: 1).

7 Total Islamic deposits in Malaysia grew by 14.8 per cent during 2010, amounting to a total value of MYR216.95 (US$69.36 billion), almost half of which were in the *mudaraba* form (Oxford Business Group, 2011: 94).

8 BBA comes from the Quranic term *al-bay* meaning 'trade'.

9 Kader and Leong also note that the popularity of BBA amongst customers was dependent on the rate of charge rather than religious duty.

10 The Malaysian capital market in general is divided between the bond market and equity market.

11 *Sukuk* in Malaysia is issued through different kinds of agreements, including *murabaha*, *BBA*, *musharaka*, *mudaraba*, *ijara* and *istithna'*. The most popular form of debt security is *murabaha* which, according to Abd Sukor *et al.* (2008: 66), involves securitisation through the issuance of *murabaha* notes.

12 It is the role of the SAC to oversee these products in accordance with religious law although regulatory standards are also maintained by adhering to the internationalised norms set by AAOIFI (see Securities Commission Malaysia, 2011)

13 This is a downturn from 2007 where Islamic bonds represented 56 per cent of the total amount issued (see Razak and Abdul Karim, 2008: 13).

14 On Wednesday, 19 March 2014, BNM chose to replace the BLR with a more flexible base rate www.bnm.gov.my/index.php?ch=en_press&pg=en_press_all&ac=2976.

15 It is estimated that as of 2006, AIM had 157,787 members and had disbursed a total of MYR1.8 billion loans (Saad, 2011: 259).

16 Most funds in 2006 were raised as a percentage of income (51.9 per cent), followed by business (17.6 per cent) and savings (10.4 per cent) (Kaslam, 2011).

17 Lebanon also grew out of the Sykes–Picot Agreement of 1916.

18 Syria's involvement (via occupation from 1976 to 2005 and political relations since) has divided the opinion and politics of the population, whilst incursions from Israel (invasion in 1982, the 2006 War and constant skirmishes on the southern border of Lebanon) have increased instability.

19 The 'Crisis' of 1958 showed emerging tensions between Christian Maronites and Muslims (particularly Sunni).

20 As it is more formally known 'The Document of National Accord' was negotiated in Ta'if, Saudi Arabia with input from the US and Syria. The Ta'if Agreement supported constitutional reform plus the empowerment of other government branches including the judiciary, legislative and greater balance in the executive through the Prime Minister and Council of Ministers. The Council of Ministers even obtained a right to veto proposals while sitting in 'opposition' after the Doha discussions of 2008.

21 This is yet to be proved by another census, much of which is related to a lack of will-ingness by any representative group

who may not want to trigger sectarian uncertainty or cede power, particularly Sunni Muslim and Christian elites who perhaps do not wish to acknowledge the growth of the Shia Muslim community in Lebanon.

22 Hariri represented Lebanon as Prime Minister on two occasions: 1992–1998 and again in 2000–2004. He and his government stood down in 2004 in protest against an extension beyond the initial six year term as President of pro-Syrian Maronite, Emile Lahoud (see Harris, 2006: 297–298).

23 Following the death of Hariri, political parties became firmly divided into blocs. The March 8 bloc, for example, consists of Shi'a parties Hizballah and Amal plus the Freedom Patriotic Movement, a predominately Christian group led by Michel Aoun. There are also Druze, Sunni and secular representatives. The March 14 alliance contains the Future Movement, a predominately Sunni grouping whose current leader is Saad Hariri (son of former pm Rafik Hariri). Also participating in this bloc are the Lebanese Forces (Christian Maronite), plus others from Sunni, Christian, Shi'a and Druze parties.

24 They refused to hand over weapons under the Ta'if Agreement and have since strengthened, a contentious issue in Lebanon. See Karouny (2011).

25 The immediate UN investigation (Resolution 1595, 2005) concluded that both Syria and Lebanese groups, including Hezbollah, were involved in the attack. In June 2011 the UN's Special Tribunal for Lebanon (STL) submitted an indictment report to the Lebanese authorities for the arrest of several nationals that included four members of Hizballah (Chulov, 2011).

26 Under the umbrella of the Higher Banking Council (HBC), a financial judicial body.

27 The ABL promotes the interests and public image of the Lebanese banking sector (see ABL, 2016).

28 The initial charge was 10 per cent, which rose to 12 per cent in 2012, although it was initially thought that a 15 per cent charge should be applied.

29 In 2009 the Lebanese Transparency Association released results from the Corruption Perceptions Index (CPI) in Beirut, Lebanon scored 2.5/10 and was ranked 130th out of 180 countries, see Lebanese Transparency Association (2009).

30 Adding to the Social Unit in the 'Executive' are the Islamic Health Unit, Education Unit and Finance Unit.

31 Harik highlights Iran as a key source.

32 This began in the late 1980s and early 1990s and according to interviews carried out by Harik (2005) with Hezbollah's director of social services, Hajj Hussein Shami, this was still occurring beyond 2001.

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4
The occupied Palestinian territories

Palestinian development has been fixed within an overly 'rigid stable attractor', debilitating any prospect of self-organisation and ability to adapt to the fitness landscape. This is because the occupation has led to the imposition of securitised political and economic policies, and regulatory mechanisms (through international agreements and regulation) that have weakened the Palestinian response and restricted the movement and interactive capabilities of those living in the West Bank and Gaza. Any attempt to change this system or attractor has only managed to reinforce the boundaries, which means that instead of forging a new system Palestinians are merely moved around within the current one, and when levels of insecurity develop in response to the conditions (through resistance in the First and Second Intifadas for example), Israel (with international acquiescence) has been able to readjust its control without suffering too much from the consequences itself. Because of this, even when compared to the harshest conditions in the previous examples, the oPt lacks the ability to make its own effective policies or self sustaining development.

In identifying with Urry's (2006: 14) maze analysis once again, in the oPt the changing walls symbolise Israel's ability to adapt to Palestinian movements, but the restrictions on movement within the maze are further increased by attempts to control the direction of Palestinian 'development' through the imposition of a neoliberal framework that imposes a set of rules that must be accepted. The attractor is therefore stable, but has become overtly rigid due to the limits imposed on Palestinian actors, which reduces the ability to freely interact and influence a systemic change. Emerging patterns and positive feedback are therefore stifled.

To remind ourselves, then, the following is required in order to allow for healthy complexity to emerge:

- Knowledge is a constant requirement in adapting to change and the framework at large.
- It is preferable to allow patterns to emerge naturally, remove restrictions but monitor their movement.
- Failure is natural; self-organising systems learn from mistakes, adapt and evolve.

It is important to create an environment for self-organisation at the local level, allowing for diversity and the freedom of movement (through interaction). In all of the aforementioned case studies, despite their varying degrees of flexibility within their respective environments, they are at least able offer some signs of this, particularly Malaysia.

However, as this chapter will highlight, the implementation of a complexity-focused development process continues to be restricted by a series of policies and control measures stemming from the occupation and an ineffective international 'top down' development strategy that seemingly ignores the needs of society. The oPt has a population of approximately 4,048,400, of whom 2,513,300 are in the West Bank and 1,535,120 in Gaza (MAS, PCBS and PMA, 2010), and it is estimated that 30.3 per cent of total Palestinian households are living in poverty, 19.1 per cent in the West Bank and 51.8 per cent in Gaza Strip (Safi and Miqdad, 2009).

Moving beyond this rigid framework is difficult but, like Malaysia, the formal Islamic development mechanisms in the oPt are developed and appeal to the locality., while the charitable mechanisms have largely succumbed to a security framework imposed by Israel and the international community, for fear of funding terrorism. As noted, the environment in which these mechanisms exist conditions their ability to respond; this will be discussed in this and the following three chapters. What we do know is that approximately (as of 2010) 97.5 per cent of the Palestinian population living in Gaza and the West Bank are Muslim (Pew Research Center, 2011: 157). There is also historical significance as Islamic culture has been ingrained into the locality since the seventh century.[1] The *Shafi'i* school has remained the most practiced form of worship but, due to the regional influence of the Ottoman Empire, religious judicial practices pre-dominately refer to *Hanafi*,[2] a lasting structure within the Palestinian legal system.[3] In a similar manner, the roots of the Palestinian *Waqf* can also be traced back to the post-Crusade period where land obtained by sultans was given religious status to raise revenues to finance their upkeep (see Assi, 2008).

The foundations for Islamic development are very much supported historically, but in this chapter we will see how intervention, politicisation and securitisation within a rigid framework has limited the foundations for such an approach. The political, social and economic factors relating to the oPt will therefore be discussed by referring to three key periods: post-1948, post-1967 and post-1993, before a more detailed analysis of the contemporary situation in the oPt, focusing on the West Bank in particular, is offered. However, external interference began in earnest during the so called economic 'modernisation' of Palestine in the nineteenth century, a process initially embraced by the Ottoman rulers of the land (Pappe, 2006: 21–23). One of the consequences of this was the induction of Palestinian agriculture into the global market system, which led to a variety of subsistence products being replaced by the mass production of specific 'cash crops', reducing product diversity and damaging the self-sufficiency of local communities. As Pappe (2006: 24) writes: 'Palestine became irreversibly dependent on and connected to the world economy.' According to Brynen (1995) this challenged the indigenous system and undermined the position of the rural sheikhs[4] as new trading patterns were forged, weakening the social bonds that had existed. This occurrence, combined with international interest in the fate of Jerusalem,[5] increased the influx of outsiders to the region which has ultimately altered social and economic structures.

In cementing this, the Sykes–Picot Agreement of 1916 enabled the establishment of borders over the geographical Middle East, which was followed by the Balfour Declaration of 1917,[6] which precipitated a mass influx of Jewish immigrants into what became British Mandate Palestine. Mandate Palestine was a relatively short-lived experiment (1922–1948) as the declining colonial power succumbed to both physical and economic constraints. In 1947 UN Resolution 181 brought about the 'termination' of the mandate. It sought the 'partition' and 'independence' of what was Mandate Palestine into two separate Jewish and Arab states, whilst maintaining an economic union. It was also deemed that Jerusalem would be supervised under a 'Special International Regime'.[7]

The reality was of course different. While Israel was able to gain international support[8] following the atrocities endured by the Jewish population in Europe during the Second World War, the Palestinian quest for statehood failed to gain any momentum. The US, as the emerging global hegemon, was particularly influential in promoting the existence of a Jewish state, and President Truman in his Yom Kippur speech of 1946 called for the British government to allow 'substantial' Jewish immigration into Palestine (Time, 1946: 30).

In the early years, then, the Palestinian people were exposed to both the global market and colonial intervention, not unlike that witnessed in Iran, Egypt, Malaysia and Lebanon. However, it was the establishing of the Israeli state that established an altogether different dynamic for the Palestinians.

Historical overview

1948 and the Nakba

It is evident that the mass influx of Jewish immigrants punctuated the Arab region which led to the expansion of Israel, much to the detriment of Palestinian Arabs. From a Palestinian perspective 1948 has been marked as a watershed in their existence, commonly referred to as the *Nakba* or 'catastrophe'. During the *Nakba*, Palestinians were systematically removed from their homes, villages and towns; by October 1948 this had led to the displacement of approximately 750,000 to 800,000 people (Sayigh, 1997: 3).[9] According to Farsoun and Zacharia (1997: 123), the *Nakba* meant 'the destruction of Palestinian society and patrimony and

Palestinians' dispossession, dispersal, and destitution'.

In attempting to find an immediate solution the UN General Assembly declared Resolution 194, confirming the 'right to return', an issue that has still not been realised to this day. As a result of this, there are approximately 4.6 million Palestinians currently living in fifty-eight refugee camps in Jordan, Lebanon, Syria, Gaza and the West Bank (UNRWA, 2010).[10] In the aftermath of 1948, this mass movement of people not only destabilised the regimes of the newly established Arab states,[11] but also reduced the cohesiveness of the Palestinian response. As Sayigh (1997: 665) writes: 'The establishment of the State of Israel over most of mandate Palestine in 1948 deprived its Arab inhabitants of the national base in which territory, economy, and society met.'

In the absence of a defined territory and therefore the necessary state mechanisms to provide social support for the population, local and international agencies emerged in response to the welfare vacuum. In the immediate aftermath of the *Nakba*, the United Nations Relief Welfare Agency (UNRWA) became the primary body in dealing with refugee issues.[12] Its initial objective was to economically integrate Palestinian refugees into their new surroundings, a process met with resentment from the refugees, which was further complicated by reluctance on behalf of the Arab states to accept the resettlement process against Palestinian will (Rempel, 2010: 413). Social services were provided through the granting of direct relief (food, clothing etc.), economic technical assistance (such as skills training for the job market in the adopted Arab countries), educational technical assistance and financial aid (for self-supporting projects) (Forsythe, 1971: 31–32). Nonetheless, in doing so UNWRA either consciously or subconsciously diverted attention away from the political situation by turning the issue of refugees into one of poverty and development (Rempel, 2010: 414). This is evident in the establishing of the Development Bank of Jordan (DBJ) in the 1950s, which was set up with 80 per cent of its capital being provided by UNRWA (Forsythe 1971: 37–38). The DBJ aimed to offer loans to refugees for agricultural or industrial projects, stimulating personal growth whilst benefiting the new host nation. Once again, however, this did not favour the purpose of Palestinian nation building and instead served the interests of Jordan by placing the Palestinian agricultural sector within their national remit, thus inhibiting Palestinian production and self-sufficiency (Pappe, 2006: 151). UNRWA to this day continues to face accusations of malpractice and administrative inefficiency, but considering its financial limitations it has continued to support the Palestinian population.

From a Palestinian perspective, much of what did become coherent in the aftermath of 1948 revolved around armed resistance. Although this tactic (which included acts of terror) did not achieve the primary objective, it did help redefine Palestinian identity (Cobban, 1984: 245) and simultaneously provided a platform for political movements such as Fatah,[13] the Popular Front for the Liberation of Palestine (PFLP),[14] the Democratic Front for the Liberation of Palestine (DFLP), communists and the more holistic Palestinian Liberation Organisation (PLO) which was created in 1964 as a means to coordinate a unified Arab approach against Israel.[15] The PLO was initially criticised for being too attached to the Arab-nationalist agenda of Egypt's Nasser (Lesch, 2006: 22) and did not become the true representative of the Palestinian cause until 1969, when the head of Fatah, Yasser Arafat, assumed leadership after a power struggle.

The various movements, although often coordinating over military objectives, were largely divided by differing nationalistic aims and therefore jostled for public acquiescence. In recognising both the political and socioeconomic climate, Fatah's appeal in particular was boosted by its offering of social provisions. The Palestine Mujahidin and Martyrs Fund, which was established in September 1964, delivered financial aid to families of killed, disabled, or captured guerrilla fighters;[16] it was also accompanied by the Fatah Medical Services, which gave medical support to Palestinian villages (Sayigh, 1997: 225). Nevertheless, without a national elitist base in which to drive through policies, particularly of an economic nature (Pappe, 2006: 151), Jordan held responsibility for capital in the West Bank whilst Egypt oversaw Gaza, until 1967. Even at this early stage, the Palestinian cause, and for that matter self-organisation, was restricted by the interests of external actors and the chaotic situation most Palestinians found themselves in. Nevertheless, the assertion of a more rigid framework appeared following the occupation of the territories.

The aftermath of the Six Day War of 1967

The losses of 1948 were compounded further after the Six Day War of 1967, leading to Israel's occupation of the Sinai,[17] Golan,[18] West Bank (which included Jerusalem) and Gaza. In essence Israel managed to secure all of what was pre-1948 Palestine but in doing so inherited a 'hostile' Palestinian population (Lesch 2006: 24). In response to Israel's expansion, the UN declared Resolution 242[19] on the 22 November 1967, which aimed to affirm the sovereignty of borders in the region and called for Israel's removal from the areas it occupied during the conflict, which once again has not been fully adhered to. Since this point, both the West Bank and Gaza strip have suffered the consequences of Israel's occupation, as settlement building (on land defined in Resolution 242[20]), military incursions plus the imposition of political and economic policies have continued to suppress Palestinian development.

It has been suggested that Israel has helped modernise the oPt, evident in annual GDP growth rates between the years 1967 and 1972 of 12 per cent in the West Bank and 11 per cent in Gaza (Arnon, 2007 in Hever, 2010). However, according to Yusif A. Sayigh (1986: 58–59) it is fallible to suggest that economic performance under Israel has been positive, arguing that comparative to Jordan and Lebanon between 1948 and 1983, Palestinians actually suffered a significant drop in income per capita/GNP as both high inflation and the numerous currency devaluations in Israel had a profound impact upon individual welfare. In making the shekel legal tender in the oPt (alongside the Jordanian dinar in the West Bank), Israel has also gained seigniorage through the increased printing of its currency (DATA Studies and Consultations, Bethlehem, 1999).[21] The occupation has therefore ensured an intrinsic link between Palestinians and Israel, albeit an unbalanced one as the West Bank and Gaza became subsidiaries of Israel's strategy for economic growth. This was immediately evident in Israel's imposition of a custom union that according to the German-Arab Chamber of Commerce (1995) quadrupled tariffs (in Naqib, 2003: 503). For Naqib (2003: 503), this change in tandem with other non-tariff barriers

> resulted in a huge trade diversion away from neighbouring Arab countries and the rest of the world toward the Israeli market, raising the cost of capital and intermediate goods to Palestinian producers that effectively wiped out their competitive edge in foreign markets.

With external trade links affected, Israel's policies also constrained local development. For example, it closed all Arab and foreign banks in the territories and opened thirty-six Israeli commercial banks in their place (Samara, 2000: 20–34).[22] Whilst obviously favouring Israel's banking sector (and national growth), it was not in their national economic interest to allow Palestinians to develop their own industrial base. To this end, access to finance was limited and when made available an abnormally high interest charge was applied[23] (Sayigh, 1986: 50). Even when minimal local banking was allowed in the 1980s, it was affected by the dual currency situation (Jordanian dinar and Israeli shekel) which compromised the bank's ability to forecast repayment due to exchange differences, thus discouraging long-term lending (Naqib, 2003: 508). With credit supply affected, Palestinians became reliant upon local savings, Jordanian financial links, remittances from Palestinians abroad and Arab funds for capital and investment. Nevertheless, such financing is susceptible to bouts of inconsistency and therefore cannot be considered as a sustainable source for development, particularly evident in the case of the oPt.

Israeli policies therefore constrained natural interaction by inhibiting financing, local production and global market access, something Roy (1999: 65) has referred to as the de-development of the oPt. As she writes: 'a de-developed economy is deprived of its capacity for production, rational structural transformation, and meaningful reform, making it incapable even of distorted development.'

This process also distorted the skills and labour market considered necessary for development in the oPt. Y. A. Sayigh (1986: 48–49) highlights five key issues relevant to this. First, Israel's control of land and water forced Palestinian workers out of the agriculture sector. Second, the oPt was used as a dumping ground for cheap Israeli goods. This combined with a loss of tourism caused handicraft workers to seek other employment. Third, as mentioned, it was not in the interest of Israel to allow Palestinians to develop their own industrial base, so policies blocked the growth and diversification of the manufacturing sector.[24] Fourth, Palestinians were not able to provide employment through their own public sector as Israel held administrative responsibility. Finally, with holding authority over the land and therefore building permits, any employment via the construction sector was also controlled by Israel. Cumulatively, the Lack of employment opportunities in the West Bank and Gaza resulted in the absorption of Palestinian workers into Israel, which by 1983 accounted for 37.8 per cent of the total Palestinian workforce, employed mostly in low skilled jobs.

Without the means to diversify, adapt and become self-sufficient, social welfare also continued to be affected as there was limited means in which to raise funds. With Israel offering minimal infrastructural support and UNWRA stretched, political and religious movements became more organised in filling the void. As with Fatah's social services, the PLO under Arafat and with the influence of Fatah, developed political and social departments to attend to such. Sayigh (1997: 666) suggests that in the absence of a territorial base, the PLO was the nearest thing to a 'state' for Palestinians, establishing a constitution, executive, legislative assembly (PNC), representative governmental departments, an army (Palestinian Liberation Army), audited budget and internal statutes. It even levied small taxes and conscriptions on Gaza with Egyptian assistance and requested similar processes in other Arab states. By doing this it was able to fund welfare programmes such as Samed, established in 1970 (Pappe, 2006: 190–191). Although it weakened UNRWA's role as the main employer,

> Samed was a welfare organisation originally intended to assist bereaved families of fighters who had been killed in action, but was soon expanded to deal with unemployment, particularly in Lebanon, the West Bank and Gaza Strip. This nationalisation of the welfare system did much to help the PLO enhance its standing among the refugees.
>
> (Pappe, 2006: 191)

The PLO's domination of the national movement was not supported by all and with tensions between the various different groups already existing within,[25] added dissension amongst the populations of the West Bank and Gaza increasingly challenged its governing position. Indeed, by the 1970s the situation helped reinvigorate the Islamic movement which had previously stalled due to the discrediting of the Muslim Brotherhood[26] within the region (Tamimi, 2007: 17). The Palestinian Islamic riposte was based upon the premise of an Islamic *umma* rather than the secular national goal (Nüsse, 1998: 92), and drew appeal from all facets of Palestinian society, increasingly so as the nationalist movement floundered under Israeli pressure. Gazan-based members of the Muslim Brotherhood, such as Sheikh Ahmad Yassin,[27] were particularly influential in guiding the movement, emphasising the need to strengthen society through Islam in view of the ills suffered under the occupation (Tamimi, 2007: 35–36). On the back of this, parallel Islamic social institutions were developed to carry out this work, competing with the secular and nationalist models. In 1973,[28] the social organisation *Al-Mujama al-Islami* (MI, Islamic Centre) was established in Gaza City, and following this Khan Younis (Gaza) (Tamimi, 2007: 36) before becoming a central administration for Islamic funds in the West Bank and Jordan (Abu-Amr, 1993: 7). It provided support through its affiliated mosques (some built especially) and sponsoring of medical clinics, schools, kindergartens and libraries, while also holding influence in the administration of the Islamic University of Gaza (Milton-Edwards, 1996: 105). While following the Muslim Brotherhood strategy used in Egypt, it was able to maintain a degree of legitimacy within the Palestinian community, without endangering its existence through political involvement.

For Milton-Edwards (1996: 104–106) it was part of Israel's 'divide and rule' strategy to allow Islamic movements such as MI to exist as they were not involved with the resistance movement and also challenged the PLO's nationalist objective. In 1978, Israel even encouraged MI's registration as a charity, thus giving approval of its existence and allowing it to obtain legitimate funding from the Gulf and other Arab states.

Hamas[29] did not emerge until 1988, after the start of the First Intifada in 1987. Emphasising the blurring of boundaries between the Muslim Brotherhood's ideology and Hamas', the decision to create a resistance movement involved members of the brotherhood such as Sheikh Ahmad Yassin and Dr. Abd Al-Aziz Al-Rantisi, partly because of the unbearable conditions[30] (Tamimi, 2006: 11–14) and partly because of its desire to direct the Palestinian movement instead of the nationalists.[31] Initially Israel recognised Hamas and allowed them enough movement to source financial support, something they were very good at doing. With the PLO losing Arab sponsorship after its support of Saddam Hussein during the 1991 Gulf War, the more astute Hamas under the leadership of Yassin was able to make use of this opportunity. For example, it was suggested that the monthly stipend of US$28 million from Saudi Arabia to the PLO that was received before the Iraq War, was redirected to Hamas (Milton-Edwards, 1996: 155). This allowed Hamas to further develop its social programmes such as those evident in MI, spreading its appeal across Gaza and the West Bank. Of course, once Hamas embarked on its military campaign against Israel, this situation was to become much more complicated.

Despite the emergence of political organisations during this period, the first *Intifada* (1987–1993) was a public uprising and symbolic of the conditions being endured. Israel's expansion subjugated the Palestinian population while its policies stifled freedom of movement and development. So while chaos was evident in the aftermath of 1948, under the conditions of the occupation following 1967, a degree of stability did emerge, which allowed for limited activity, albeit within restricted parameters. What this means is that while restrictions were in place, a degree of movement was permitted which enabled access to the Israeli job market and even provided openings for Islamic organisations to practice. However, it did not establish sufficient space for self-organisation to emerge, an obvious conclusion considering Israel's desire to protect and strengthen its own position within the landscape.

In seeking to move beyond this situation, a multi-track solution, which involved a greater role for the international community, was sought so as to advance a negotiated peace between

Israel and the Palestinian people (represented by the PLO). This Process was formalised in Madrid in 1991 and was succeeded by the Declaration of Principles on Interim Self-Governing Arrangements (DOP), or Oslo Accords as they have been more commonly termed, in 1993.[32] The principle of the accords was to provide the foundations, over a five-year period, for the establishment of formal agreements based on the aforementioned issues and eventually the fulfilling of a two-state solution. However, although the Oslo Accords embodied a degree of conciliation through the recognition of two peoples, it failed to move beyond the initial framework and reflected Israel's position of power in the region (Pappe, 2006: 274). In reality then, despite wishing to deliver statehood and ultimately the ability to control its own destiny, it further strengthened the attractor in which Palestinians existed and therefore somewhat paradoxically, further removed flexibility from the system.

The effects of the Oslo Accords

As previously mentioned, the Oslo Accords were about setting foundations for discussions based on the above issues and not an immediate resolution. However, as history has shown, the lack of political progression is tantamount to its failure. As Shlaim (1994: 24–40) writes:

> The DOP is completely silent on vital issues such as the right of return of the 1948 refugees, the borders of the Palestinian entity, the future of the Jewish settlements in the West Bank and Gaza, and the status of Jerusalem.

The foundation of the agreement was unbalanced from the very beginning and it also allowed Israel to absolve economic responsibility for the territories under the new arrangement. Israel has had little need or pressure to acquiesce having gained control over borders, resources and amenities (including electricity supply and communication networks), thus benefiting financially from the status quo. Negotiations did, however, allow for a more cohesive international response to the situation, as countries and international organisations alike sought to provide support towards the conceiving of a Palestinian state. However, despite its good intentions the political influence of the international community was limited and largely restricted to 'development' policies, particularly of a humanitarian and economic nature. As part of the accords the Palestinian National Authority (PNA) was established, acting as a governmental body within a non-defined territory and replacing the PLO as the official representative of the Palestinian people.[33] Under the leadership of Yasser Arafat, it was viewed that through the incremental design of the peace process, the PNA would eventually assume responsibility for economic, political, judiciary and security issues pertaining to the West Bank and Gaza. Once again though, the reality has been somewhat different.

Israel's reluctance to relinquish its hold over the oPt was further evident after the Oslo Interim Agreement of 1995, which officially separated the West Bank from Gaza and divided the West Bank into zones A, B and C. As part of the proposed gradual approach to handing over responsibility, Israel assumed full control of all areas designated as ‘C’, which included building and land registration. Shared responsibility was offered in Area B (approximately 23 per cent of the West Bank) although Israel once again was to hold complete control over land registration procedures. The PNA gained full control over land disposition in Area A only (cities such as Ramallah, Nablus, Jenin etc., accounting for approximately 3 per cent of land) (see Roy, 1999: 20). Although this division was intended to be a temporary solution it effectively established segmentation and internal closure upon the Palestinian population under what Le More (2008: 43) calls a ‘quasi legal veneer’. What this meant was that while the PNA was granted administration of the cities, Israel was able to strengthen its control over the areas in between and the routes of access. The cantonment of the territories therefore inhibited the movement of people or goods between the West Bank, Gaza and Israel, and to travel between these destinations required permits. This had a huge impact upon Palestinian workers who had previously relied upon access to Israel for their income. As Arnon and Eshet (1997) wrote:

> During the 1993–1997 period, the standard of living in the West Bank and Gaza decreased by about one-third. Because of its dependence on work in Israel, as this work declined, the Palestinian economy underwent a radical structural transformation. From 27 percent of the work force working in Israel in 1993, the number dropped to 7 percent in 1996.

Israel’s closure policy intensified after the start of the Second Intifada in 2000 in response to the resistance and terror attacks. As Ajluni (2003: 66–67) writes: ‘Israel imposed progressively harsher border closures and movement restrictions within the OPT and, beginning in late 2001, widespread sieges on Palestinian population centers resulting in virtual “town arrest” for most people in the West Bank.’ This once again resulted in ‘a rapid reduction in national income’. Israel also strengthened its position on the territorial borders and simultaneously reduced access to travel permits. Externally, international crossings between the West Bank and Jordan, and Gaza and Egypt suffered restrictions and closures (Le More, 2008: 42–43). To compound matters, by 2002 the construction of a security barrier separating the West Bank from Israel had commenced, physically annexing the territory and establishing new boundaries contradictory to previous resolutions and proposed agreements. Nevertheless, this has not stopped the building of Israeli settlements within the West Bank (they were removed from Gaza in 2005), made easier by the zoning arrangement.

In an accompaniment to the political side of the Oslo Accords, economic development was cited as an integral factor towards achieving peace. The details of the economic agreement were pre-negotiated in Madrid 1991 and then formalised under the Paris Protocol of 1994. The protocol was initially designed to promote stability and growth within the transitional stage by enhancing economic relations but its policies have had a long-lasting negative effect, becoming more cynically viewed as an attempt to pacify the masses without addressing the occupation. For example, UNCTAD (2009: 1) accused the Paris Protocol of applying a limited economic policy framework which 'locked in the economic structural distortions and fragilities that began with the Israeli occupation of the West Bank and the Gaza Strip in 1967, and has perpetuated the dependence of the Palestinian economy on that of Israel'.

Part of the economic development was to be achieved by boosting Palestinian financial resources, but rather than separate the economies it legitimised the oPt's dependence upon Israel through the formal interconnection of customs and taxation. In regards to the custom union, the PNA were allowed a choice in tariff rates from a specific list of goods while an agreed upon taxation policy gave them 75 per cent of income tax collected from Palestinians working in Israel, and 100 per cent from Palestinian settlement workers. Adding to this, the PNA was also to benefit from the VAT on all goods purchased in Israel by Palestinian businesses (Naqib, 2003: 506). To invigorate the business sector, the removal of restrictions on licensing and permits provided some flexibility but Israel has maintained its right to veto any developments in the oPt it deems detrimental to its security. In addition to this, Palestinian imports and exports still have to pass through Israeli customs, generating duties for Israel alone. So despite the international endorsement[34] of industrial development in the oPt, all trade fell under the de facto control of Israel and its security policies which Lagerquist has stated is a continuation of colonialism (see Lagerquist, 2003). In sum, this protocol has ensured the PNA is reliant upon good relations with Israel (and the international community) in order to maintain its financial flow or indeed establish new enterprises, a process used against the Palestinians by the Israeli government on many occasions.[35]

As part of the international response, what needs could not be met in the short term were to be subsidised by donors. Between 1994 and 1998 the PNA received US$3.46 billion in aid, of which US$2.6 billion supported the overarching development plan, in total supplying an annual average of 21 per cent of GDP (Cottier and Pannatier, 2000: 2). Overall, supervision was provided by the Ad Hoc Liaison Committee (AHLC, which functions to this day), supplemented by the Consultative Group (CG). The AHLC is chaired by Norway with support from the EU and US, whilst the World Bank (also the secretariat), International Monetary Fund (IMF) and United Nations play an active role in the functions of the committee.[36] CG acts as a World Bank mechanism, coordinating donor programmes, aid mobilisation and the facilitation of agreements between the PNA and the donor community (Le More, 2008: 32).[37] Of course not all funding was received directly as a significant amount was imparted through loans. In Paris, US$350 million was pledged as loans, further to this US$350 million from the Arab Bank plus US$150 million from the European Investment Bank was provided as commercial loans (Adnan Al-Ahmad, 1996, in Samara, 2000). The problem with this as Samara (2000: 30) notes is that loans have to be paid back, and considering the PNA's main source of income was taxation, which already did not cover expenditure, it has ensured an accumulation of debt.

What was meant to initiate Palestinian development only managed to further entrench a dependency, first upon Israel and second on international aid as the ability to self-organise decreased. With the creation of state-like institutions and a large public sector to govern it (especially security), the cost of running the oPt, without the ability to freely access new sources of funding (through a sizeable private sector that can produce tax or employment for example), ensured the maintenance of living standards (and stable GDP growth) relied on both grants and loans. With these loans came conditions, fuelled by issues of corruption within the PNA and the ongoing security situation. Influenced by the institutions of the Washington Consensus, the PNA was encouraged to increasingly adopt neoliberal policies as part of the overarching aid programme, promoting privatisation, corporate governance and deregulation. Egypt has adopted similar regulations, but its public sector at least can draw on its rentier sources. Such conditional funding, consistent with that of neoliberal hierarchical strategies has therefore only managed to increase the rigidity of the framework in the oPt. To aid this mission, the Palestinian Monetary Authority (PMA) was established as part of the government, acting in the absence of a central bank and providing a regulatory fixture within the administration.

Economic policies as a means to promoting 'development' became the trend. The strengthening of the stock exchange (Palestinian Securities Exchange, PEX), which was originally established in 1995, was prioritised and became a regulated fixture in 2004 with the creation of the Palestinian Capital Market Authority (PCMA), which was tasked to supervise securities, insurance and real estate. According to the CEO, Ahmad Aweideh, the PEX has

> one of the most liberal regulatory frameworks in the Arab world.... There is no limitation on the percentage of foreign ownership of the PSE's listed companies, there is also no capital gains tax on trading or restrictions on foreign exchanges.
>
> (Mirza, 2010: 22–24)

In addition to this, a culture of investment was also encouraged by the creation of the Palestinian Investment Fund (PIF) in 2003. Aided by the IMF and World Bank, the PIF was established using PNA assets and was registered 'as a joint-stock company with a capital of $570 million, including the Authority's shares in communications companies, real estate enterprises, and the electric company, which were transferred to PIF, which of course has its own board of directors' ('The Palestinian Economy and Future Prospects: Interview with Mohammad Mustafa', 2010: 50). The PIF was tasked to support local development initiatives, but in accordance with regulations, the stringent nature in which the PIF has operated has meant that many of the projects it has sought are often based on profitable return, and therefore restricted to larger initiatives.

This neoliberal environment has nevertheless presented some new opportunities for the business and financial sectors, which along with the openness that emerged naturally increased the number of local and international banks operating in the territories.[38] Nevertheless, although a significant percentage of the banking sector's assets stem from deposits, a combined process of deregulation, instability and a weak government body has encouraged the banks to seek more profitable investments outside of the oPt, to the detriment of local lending and activity (Samara, 2000: 26–27). In 1996 the ratio of loans to deposits in Jordan was 80 per cent and 90 per cent in Israel, whilst in the West Bank it was 21.6 per cent and Gaza 18.6 per cent (Hamid, 1996 in Samara, 2000: 28). Compounding this, 72 per cent of loans during this period were supplied on a very short-term basis so as to avoid customer insolvency. It is estimated that 'real loans' accounted for only 6 per cent (Al-Quds, 1995 in Samara, 2000). While this made sense for multinational banks, local banks were also encouraged to act in a similar manner (partly because their headquarters were based in Amman, Jordan). Since 1993, then, the success of banks in the oPt has been based on their capital holdings and ability to seek international investment opportunities rather than their links to local development.

The conditions for aid also became more prominent after the US took on the role of arbitrator in the peace negotiations, as opposed to its previous one of mediator (Lasensky, 2002: 97). Under President Bill Clinton the US sought concessions from both sides in the Wye Agreement of 1998, aiming to instigate a 13 per cent withdrawal by Israel from the West Bank (which ultimately failed) and confirming the PNA's commitment to security and anti-terrorism. Although it was a difficult deal to adhere to,

> Arafat sought to justify the Wye deal by pointing to the new aid and the warming ties with the United States. A month after Wye, Clinton convened the donor group and over $2 billion was pledged to the PA for 1999–2003.
>
> (Lasensky, 2002: 98)

What the Wye concessions actually meant for the PNA was compliance with anti-terrorism security measures, which more specifically for the oPt required the implementation of strict policies against Islamic organisations such as Hamas and the infrastructure that supported them. The relative independence enjoyed by Hizballah's mechanisms in Lebanon, for example, made it more difficult to target its financial streams. Hamas' networks on the other hand required access to the oPt, a largely well contained entity. However, as a consequence domestic and international charities affiliated or potentially associated with the sponsoring of Islamic charitable organisations in the oPt were closed down and had their assets frozen. This affected communities who relied upon these organisations for welfare, education and healthcare, thus once again creating a vacuum. According to Roy (1999: 79): 'The closing on 9 November 1998 of the Anaqa' Islamic Women's Society in Bethlehem, including its outpatient health clinic and kindergarten, is one example of what Wye has made legal.' In 2003 Arafat instructed his authorities to freeze the bank accounts of twelve Islamic charities in the West Bank and thirty-eight in Gaza, which included *Al-Mujamma*, further affecting thousands of livelihoods (Hroub, 2004: 31).

This process intensified the relationship between Hamas and the Fatah dominated PNA (which had the support of the PLO) but also increased the popularity of Hamas, now seen as the resistance to the detriment of the more compliant Fatah and PNA. Despite the restrictions placed on Hamas' charitable activities, it managed to continue its welfare operations on a smaller scale, limiting its dealings to cash transfers only. An example of Hamas' defiance was exemplified in their continued issuing of cheques to those suffering under the conditions, to be cashed at local banks. But as the banks could not do this due to the newly imposed legal restrictions and freezing of respective Islamic organisation assets, it put the pressure on the PNA who were seen as aiding the starvation of the people. Quietly, the PNA relented and allowed the banks to cash the cheques (Hroub, 2004: 33).

Such attempts to pacify Hamas did not affect its popularity. Its reasoning against the peace negotiations were based on religious, political and economic grounds and in regards to Oslo the former head of Hamas' Political Bureau, Abu Marzuq was quoted as saying it 'legalises the occupation' (Hamas press conference, FM, 29 October 1993, in Nüsse, 1998: 146). After all, in their charter it had previously announced 'the land of Palestine is an Islamic Waqf [Trust] upon all Muslim generations till the day of Resurrection' (Maqdsi, 1993: 122–134). For hroub (2004: 24), however, throughout the negotiations (particularly Camp David) Hamas did not position itself clearly and although unhappy with the state of affairs, it developed a pragmatism that would see it benefit from any eventuality, whether it led to resistance or politics. Hamas continued to challenge the legitimacy of the PNA, and in sustaining its financial mechanisms, maintained an ability to present itself as a potential parallel authority, drawing upon separate funding in the process.

As part of the proposed transition to a democratic state, elections were held at the local, national and leadership level. The first post-Oslo presidential and legislative elections occurred in 1996 and were dominated by Arafat and Fatah.[39] Hamas refused to participate due to concerns surrounding fairness and not as previously thought because of Islamic ideology (Tamimi, 2007: 211). Because of the instability caused by the Second Intifada, the next elections (local and presidential) did not occur until 2004–2005. The presidential elections were very much forced through after the death of Arafat in November 2004[40] and Mahmoud Abbas, an original Fatah member and former Prime Minister alongside Arafat before standing down from his position,[41] became the new leader. For the first time, Hamas participated in the 2004–2005 local elections and took resounding victories in key municipalities in and around large populated towns and cities such as Jenin, Nablus (a former Fatah stronghold) and even suburbs of Ramallah (*Guardian*, 2004).

Evident conditions, general public dissatisfaction with the peace process, infighting amongst Fatah and the PLO, plus issues of corruption, affected the approval ratings of Fatah, the PLO and the PNA in the build-up to the local elections and also the legislative elections of 2006. This allowed the now pragmatic Hamas, buoyed by its municipal success, to take a foothold in mainstream politics, which it seemingly did after winning the majority of parliament seats in

2006,[42] propelling new leader Ismail Haniyeh into the position of Prime Minister. In crediting the electoral process, former Foreign Minister Raid Malki (and former member of the PFLP) stated it to be a 'striking example of free political contestation in a region long ruled by tradition, secrecy, and fear should set alarms ringing in one authoritarian capital after another across the Middle East' (Malki, 2006: 131).

Nevertheless, the subsequent overturning of results once again highlighted the limitations of freedom in the territories. Israel[43] was obviously concerned by Hamas' position of 'non-recognition' towards it and its continued call for resistance (which included acts of terror and suicide attacks) while the international community, fronted by the US, echoed these same sentiments by rejecting Hamas' victory and stopping aid to the Hamas-led PNA. Despite external objections to the result, the elections were generally considered a success as stated by the Secretary General of the Central Elections Committee at the time, Dr. Rami Hamdallah:[44] 'The elections were carried out with the utmost transparency and efficiency, receiving plaudits from international observers and diplomats alike.' But intervention in the proceedings complicated matters further and another senior Palestinian official (and Fatah member) told me:

> The overruling of the legislative results had a huge impact upon the legitimacy of the whole process, confirming Hamas' initial criticisms and simultaneously empowering them. It would have been better for us all if they had remained in power and suffered the same restrictions.

Any plan of advancing a state-building process were effectively undermined at this pinnacle point, as the fear over terrorism, which had been gathering momentum since Oslo, justified the imposition of a rigid framework under securitisation. For Michele Dunne (2010: 4), former advisor to the US State Department, this strategy which had been pursued by the US had previously become embedded in the law-making policies of the PNA and as a result had already 'encouraged Arafat down the path of authoritarianism trod by other Arab leaders'. As the new leader, Abbas was expected to carry on in this role whilst somewhat in a contradictory manner projecting democratic values.

By 2007 the election law was changed under pressure from the international community to target organisations such as Hamas, banning any political entity from participating that was not part of the PLO, the so called 'representative' of the Palestinian people. With violence returning and internal struggles taking centre stage, the West Bank and Gaza became two separate administrative entities, with the Fatah-dominated PNA keeping control of the former and Hamas gaining the latter. Since this point, Gaza has become a virtual prison encircled by security barriers and the Israeli Defence Force. This continues to affect the basic requirements for self-organisation such as free movement, clean water, medication or access to building material. The West Bank on the other hand, embraced the international agenda for 'peaceful' negotiations and embarked on a 'state building' process fronted by non-elected leaders

President Mahmoud Abbas and Prime Minister Salam Fayyad, a former World Bank employee.

Present: state building in the oPt, 2008–2012

In view of complex development, a continuation and in some cases the strengthening of policies reflecting the securitised-political confines continue to affect the oPt, with the West Bank and Gaza suffering different development restrictions but within the same rigid framework. While the focus of the research for this book was carried out in the West Bank, it is still important to highlight the dissimilarities with Gaza. After Hamas' seizing of control in Gaza and its continued support for resistance, Israel has persisted with its aggression towards the territory which led to operation 'Cast Lead' in 2008. With borders blocked, resources limited and conditions worsening, the people of Gaza have been forced to embark on a process which resembles survival rather than development, using any available material to construct or repair and utilising illegal trade through tunnels into Egypt for amenities and consumer items. Although evidencing a degree of adaption within the strict boundaries, the situation is unsustainable, which is evident in the degradation of the water supply, and movement restrictions that removes regional interaction, diversity and change. The West Bank, on the other hand, whilst having significantly more freedom to move, is still restrained by Israel's security mechanisms but with the addition of an internationally coordinated economic plan based on neoliberal principles that has failed to lift the West Bank population out of its current predicament, and in some cases even increased restrictions. The relationship between both administrations (both claiming to be the official PNA) is therefore very complicated, with differences in strategic response to Israel, and the implementation of policies and regulations stemming from the international community, being particularly divisive.

Gaza

Conditions have worsened in Gaza since Hamas' seizing of power, resulting in the firm establishment of a blockade. While this imposition continues to restrict access to vital resources,[45] the humanitarian situation was exacerbated in 2008 after Israel launched operation 'Cast Lead' in response to rockets being launched from Gaza into Israel. It was reported that over 1,400 Palestinians were killed, 850 of whom were civilians, including 300 children and 110 women (ICRtoP, 2009). 'Cast Lead' has had a detrimental impact upon the long-term sustainability of Gaza, as recorded by the UNDP (2009: 9):

> At least 6,268 homes were destroyed or severely damaged. The civilian population suffered further from damage to electricity, water and sewage systems. Military operations also caused substantial damage to schools, universities, hospitals, health centers, businesses, factories and farmland and public governance facilities.

The situation in Gaza became worse following the 2014 war, called Operation Protective Edge, where thousands more lives were lost following exchanges that included rocket fire from Gaza and incursions into Gaza by Israeli forces.

With Israel controlling access to and from the territory from its borders and the Mediterranean sea, and the Egyptian government remaining largely compliant on its borders,[46] only the most basic humanitarian items have been allowed through which has not only hindered post-conflict reconstruction efforts but the health of the population. An aid worker with an international health organisation highlighted the difficulties gaining access to Gaza:

> Access to either side of the occupied territory is only granted to those who have been 'security cleared'. To get this permission, the right papers do not guarantee your entry. You also need the right roots, accent and at times, look. For example, permission for a Palestinian would take several months, while permission for an American national could be ready in as little as two weeks. Unless of course you have an Arab or Asian sounding name, in which case it could prolong the situation to months. Once passage has been granted, we would then rely on these aid workers to smuggle in any needed medical equipment and supplies, which involved a 1.5 km walk on foot through a military buffer zone. For example, this equipment could be a tube to a neonatal unit desperately needed in a hospital as the machinery cannot function without it, but that hasn't received coordination from the Israeli administration for eight months because the tube is deemed a security hazard. For the larger items, approved coordination with the IOF [Israeli Occupation Force] is necessary, which can take up to a year or more. Coordination for people and equipment into the Palestinian territory takes so much time that international health organisations have staff members whose roles are entirely dedicated to the process. All of this coordination assumes a 'normal' situation and good relations. This can switch at any time when all access could be blocked for people, equipment and supplies.

Negotiations with the Israeli administration and sometimes the West Bank PNA are vital to obtaining access to Gaza. Once in Gaza, administrative control is held by Hamas, which often complicates any proposed movement of materials. Hamas' mandate over Gaza has included its establishing of a parallel authority, believing that it is the rightful representative of the Palestinian people following the 2006 parliamentary elections. In the face of international isolation it has sought to implement its own form of governance, upholding courts of law and designing an economic policy relevant to the situation. Parallels have been drawn between it and Hizballah, but generating finance is difficult and therefore taxation has become a main source of income. For example, some items such as medicine arriving via the international donor community are known to have been taxed. While through more irregular channels, the trade that passes through the tunnels from Egypt to Gaza not only subsidises societal needs but provides tax revenues for the Hamas administration as well.

Hamas' quest for finances to govern Gaza has inevitably increased tensions with the West Bank PNA, further complicated by the conditional demands of the international community and Israel. In November 2011 a Hamas appointed court ordered two banks, the Bank of

Palestine and Palestinian Islamic Bank, to pay tens of millions of dollars in tax arrears, which were instead being paid to its rival authority in the West Bank (Akram and Bronner, 2011). This has set precedence for the other nine banks operating in Gaza, not to mention the numerous private companies who are slowly being forced to acknowledge Hamas' authority.

Since 2008 then, the divide between the West Bank and Gaza (and for that matter Hamas and Fatah) has become more pronounced given the different circumstances in which they exist. Hamas' desire to be the legitimate representative of the Palestinian people requires external support so as to remove the blockade and allow for the transfer of finances to and from the area. It also requires greater leniency from Israel and Egypt to allow for freedom of movement and links with the West Bank and surrounding nations. Until this happens, Gaza will remain fixed within the highly rigid framework.

West Bank

On viewing the West Bank there is evidence to suggest a general improvement in conditions since the end of the Second Intifada. Although the Legislative Council has not reconvened following Hamas' election victory and subsequent overruling, the international donor community became more at ease with the PNA under the leadership of Abbas and Fayyad (who was also appointed Finance Minister). This has also been relayed to Israel which has showed a degree of compliance in allowing the strengthening of the economy within the West Bank.[47] The securitised-neoliberal agenda has become more formal, which has included a greater role for PNA security forces in an increased crackdown on Hamas and other Islamic organisations that has worked in tandem with the policies of the donor community at large. In a meeting with Palestinian dignitaries, Christian Berger, former EU representative to Israel and the oPt also stated: 'Democracy and electoral freedom are important components of any healthy society, but this is thrown into doubt when political parties maintain their right to bear arms.' As part of this process and in order to increase transparency in conjunction with the conditional 'development' programme, between 2007 and 2008 Fayyad controversially oversaw the closure of approximately 123 Islamic and secular charities in the West Bank, which included ninety-two *zakat* committees (Schäublin, 2009: 42). The subsequent reforming of the NGO sector has therefore enabled the PNA (under the auspices of Israel and the donor community) to have greater control over financial interactions and appointments (particularly the *zakat* committees), which has worked against Hamas. Fayyad noted his support for this action:

> I said that we were dissolving and reforming these committees because the needs of the poor must never be used for political gains by any party. When the Authority comes to have a law regulating political parties, we should prohibit two things: First, party involvement in providing material support for people, because it is a way to buy people's consciences and therefore contrary to basic human rights as I know them. Second, there should be clear language prohibiting party

cadres from bearing arms.

(Farraj *et al*., 2009: 66)

As mentioned, both Fatah and the PLO had used similar structures to galvanise their nationalist agenda at a time when they were best placed to obtain funding and deliver necessary services given the lack of a government. In view of Israel's pursuance of PLO associated organisations, Islamic organisations such as Hamas emerged to fill the welfare gap, gaining local credibility and strengthening its institutions in the process. Like the Muslim Brotherhood in Egypt, Hizballah in Lebanon and even religious organisations in Iran prior to the revolution, Hamas sought to use similar mechanisms to increase their influence. The fear of Hamas developing its parallel institutions increased the local monitoring of its activities. Any individual found to be involved financially in the support of Hamas (or other Islamic organisations that are perceived to threaten the security of Israel) even now could face arrest, interrogation and a prison sentence. For example, Dr. Ghassan Khaled of Nablus, a lawyer and academic at An Najah National University, was one of six men arrested in 2010 by PNA security forces following allegations of receiving funding from Jordanian groups to help establish an Islamic college outside of Nablus. Having already served almost two years under administrative detention for his supposed affiliation with Hamas, Ghassan was placed under arrest but eventually released without charge.[48]

However, the closure of all non-sanctioned Islamic NGOs (a large percentage of which had no evidential ties to Hamas or terrorism) continued a trend of removing charities and welfare organisations that were arguably best placed to aid societal needs (this will be discussed in depth in Chapter 7), regardless of whether they were party affiliated or not. With local efforts hindered, the international community has cemented its control of the development process through donors and NGOs alike and in coordination with Israel and the PNA, delivering programmes based on security, governance and free markets, the latter despite not having full access to borders.

In embracing the process, the PNA has designed several strategic plans aimed at convincing the international community of its credentials and towards gaining independence. For example, the Palestinian National Policy Agenda (PNPA) of 2007 (in PNA, 2007a) delivered the framework for which a Palestinian state would be founded,[49] providing guidelines for the subsequent Palestinian Reform Development Plan 2008–2010 (PRDP) that aimed to offer a 'coherent basis for the allocation of all government resources and reflects the commitment of the PNA to adopt an integrated policymaking, planning and budgeting process' (PNA, 2007b: 3). In this plan, greater emphasis was placed on socioeconomic development in accordance with institutional building (including ministerial responsibility) within the parameters of the occupation.

This proposal was backed by the international community, which has included the economic plan of Quartet[50] representative Tony Blair, leading to a large number of checkpoints, roadblocks and internal access restrictions being removed between the years 2008 and 2010. In removing some of the movement restrictions it contributed to a post-Intifada growth rate of 8 per cent GDP in the same period. This success is most prominent in Ramallah, the international hub and de facto capital, where hotels, restaurants and bars have continued to expand, drawing from the income of international diplomats and NGO workers, plus the numerous governmental institutions working in the city. In the former economic capital Nablus,[51] the checkpoints and roadblocks surrounding the city were largely removed and the roads between the north and south of the West Bank became more open to travel.

Buoyed by this relative success, in August 2009 Fayyad authorised ‘Ending the Occupation and Establishing the State’ (see PNA, 2009), proposing a more institutionally organised and assertive approach towards independence, potentially by 2011. It was in this plan that Fayyad emphasised the utilisation of religious organisations under the national agenda via the Ministry of *Waqf* and Religious Affairs, and therefore sought to administer Islamic charity through the PNA, ensuring that demands from within the current development paradigm were being adhered to.

Building on this momentum and coinciding with the PNA’s pondering of application to the UN for statehood, a new plan was devised in April 2011 titled the ‘Palestinian National Development Plan 2011–2013’ (PNDP). Based on similar strategies set out in the PRDP, the PNDP looks beyond the occupation by attempting to forecast how the oPt would function as a self-sufficient, sustainable and liberal state. It places significant emphasis upon macroeconomic efficiency and fiscal restraint, stating the government’s role is two-fold: ‘it must place its own finances in order, reducing dependency on external aid, and it must create an institutional environment conducive to private sector investment and growth’ (PNDP, 2011: 12). The PNDP’s forecasts are based on best-case scenarios, estimating that GDP will continue to rise reaching 12 per cent by 2013. Unemployment rates are expected to drop from the 25 per cent measured in 2009 to 15 per cent by 2013. Tighter fiscal policy and institutional reforms will also help reduce the recurrent deficit (and therefore reliance on aid) from 25.9 per cent of GDP in 2009 to 4.1 per cent in 2013. With this in mind, development expenditure will rise from 6.5 per cent of GDP in 2009 to 9.9 per cent in 2013. In summary, it suggests a process whereby the removal of restrictions will allow for private sector growth, thus providing investment incentives and beyond this increasing tax revenue. Along with public sector cuts, this will ultimately release funds for development and attend to social, economic and infrastructural needs up to 2013.

Whilst these statistics are evidently idealistic and the growth trajectory is somewhat linear in its design, the issue of narrow parameters in which the PNA has to work remains. Already constrained by the lack of a manufacturing base and not having ‘a competitive currency exchange rate in support of export-led economic growth – measures that a conventional neoliberal program would prescribe' (Khalidi and Samour, 2011: 12), the Fayyad plan can be construed as ineffective by emphasising the economic goal above political restrictions. In this sense, the PNA would struggle to adapt to the fitness landscape without knowledge of or access to the necessary resources. To clarify, the PNA has the remit only to affect investment in public infrastructure, building market-friendly institutions and intervening when markets are not functioning efficiently (Khalidi and Samour 2011: 9–10). It does not, however, have the ability to apply a sustainable fiscal policy; as UNCTAD (2009: 11) states, the actual 'policy instruments available to the Palestinian Authority are restricted to expenditure allocation, which is a more limited policy space than that available to local Governments in many countries'. Once again, without a private sector from which to draw resources, expenditure is reliant on inconsistent revenues gained from taxation and international aid, thus further restricting the scope of strategic planning.

With the reliability of international funding affected by the current economic downturn, the PNA have resorted to measures of austerity, which has included a drastic reduction in public spending, thereby affecting employment levels and services. In March 2012 advisor to the PM, Omar al-Ghoul stated: 'Austerity measures will continue, and if donor countries will not fulfil their pledges, the PA will take further austerity steps to try and reduce effects of the crisis' (Ma'an News, 2012). Such policies have increased unrest amongst the population, but for the PNA this has become a necessity as it is also put under pressure to service its bank loans, recognised by the IMF (see Kanaan *et al.*, 2011: 27) who recommend the PNA develop a contingency plan

> to contain the accumulation of domestic payment arrears or recourse to bank borrowing, although it will be difficult to fully prevent them if the revenue/ aid shortfalls persist. The plan would include strict prioritization of expenditures, postponement of non-essential projects, and effectively applying the FMIS (Financial Management Information System) to better align commitments with cash availability.

Through the implementation of such policies and the international community's commitment to filling the economic gap, the development process remains hierarchical, ordered and prescriptive. Through coordination mechanisms set up in the post-Oslo era, the Washington Consensus, as mentioned, has been entrenched leading to a focus upon legal and economic norms, particularly the strengthening of police and security forces in coordination with Israel. Although this has improved safety, it has also allowed Palestinian elites who have remained prominent throughout the post-Oslo period to augment their own fiefdoms by using the situation to gain funding and power.[52] To complement security measures the donor community[53] also prioritised the development of legal institutions. Nevertheless, with funding being orchestrated in accordance with Washington/Israeli acquiescence, this has often led to duplications in projects evident by the EU's (Seyada I and II[54]) and the Canadian government's focus on strengthening the Attorney General's Office from 2008 onwards. Given the amount of funding and limited parameters to spend in, it has also led to excess funds being available without proper cause. A senior member of the EU Seyada team stated:

> I was approached by a European representative office [to the oPt] who had two million dollars that needed to be spent before the end of the financial year and without any prior knowledge wondered if there was any legal projects that they could invest in.

Essentially, funds previously given to more humanitarian causes have been redirected to the security and legal sectors under designs of the hierarchical strategy. For example, Canada (in coordination with the former Canadian International Development Agency, CIDA) became one of the largest investors in Palestinian judicial reform. Aided by a change in government, their attention within the region shifted from welfare-based initiatives to security-legal-based projects. In January 2010, the then Canadian Treasury Minister Vic Toews stated: 'Canada is not reducing the amount of money given to the PA, but it is now being redirected in accordance with Canadian values' (Spivak, 2010). Since this point, the Canadian government has ceased its funding of UNRWA due to claims surrounding the employment of Hamas members in Gaza. They have also reduced spending on community service programmes in the West Bank. For example, in Nablus, An Najah National University's Community Service Centre which provides social, legal and technical support for towns and villages in the north of the West Bank and had planned to take its welfare model nationally, had its funding cut from CAD$14 million to CAD$5 million in the two years between 2008 and 2010.[55]

In all, the finances that were made available to security and legal programmes during the period 2008–2011 initiated new business opportunities, influencing the number and agenda of NGOs (local and international) which compete with public institutions for donor resources.[56] Numerous human rights initiatives, legal education projects and workshops were designed to fulfill the development agenda. Universities have been asked to implement courses (fully funded) regarding forensics, mute courts, legal clinic training and private sector reform. Some of the programmes were carried out in direct partnership with donors (such as USAID, WTO, UN and EU) while others have formed parts of projects set up by international NGOs themselves. Of course, other societal issues such as health,[57] education and equality are still attended to but all have been shaped in a similar manner by the donor community.[58]

What this highlights is that without the ability to raise its own funds to contribute to nation building, the PNA has followed a form of development 'trending' that ultimately removes flexibility to counter issues as they arise, particularly considering that donor funding works within timed and often phased schedules. And while it has provided a large number of highly paid administrative jobs for locals, it has had a paradoxical effect of over-inflating salaries and helping remove educated Palestinians from the nation building process (i.e. technology and industry), therefore further distorting the job market, a process that does not need to be encouraged given the persistent levels of insecurity and, as a consequence, brain drain.

Nevertheless, donor funding is big business in the oPt as Prof. Mahmoud Eljafari has stated:

> External revenues including donor grants had quadrupled from 1999 to 2008 to nearly $2 billion, 90 per cent of which was directed to financing the current budget. Those revenues accounted for 40 per cent of the GDP and were now the 'engine of the economy'.
>
> (UNIS, 2010)

To advance macroeconomic stability and financial durability within the oPt, the banking sector has also received greater attention so as to improve transparency and efficiency. According to Sherin Al-Ahmad of the PMA (ICMA, 2011), between 2006 and 2011 'assets have increased by 55%, paid in capital by 79%, deposits by 65%, and non-performing loans decreased from 14.5% to 2.6%. Alongside this, profits for the overall industry increased by more than 170% since the end of 2006.' As of 2012, this enhanced performance has been played out through eighteen banks operating via a network of more than 200 branches and representative offices[59] (PMA, 2012). Governed by the PMA, the banking sector has undertaken reforms so as to ensure progress relative to that of international banking regulations. For example, in accordance with Basel I, capital holdings increased from US$20 million in 2008 to US$35 million by the end of 2009. In aspiring to meet the standards of Basel II (implemented 2012), the PMA set a capital benchmark of US$50 million and required that 15 per cent of net profit (after tax) be used as an additional buffer (Kanaan *et al.*, 2011). These policies, as previously mentioned, favour larger banking operations and the PMA has reasoned with this by encouraging smaller banks to merge, which as mentioned can remove the diversity needed at the local level for self-organisation.

Accordingly, banks in Palestine are predominately foreign and commercial, which does not fit well with the demands of a developing 'state' given that investment in Palestinian production could be considered neither as profit-worthy or risk-free due to the level of insecurity (MAS, 2008). Combined with land ownership issues (particularly the zoning problem), the cost of obtaining a loan, or a mortgage for that matter, from a bank often comes at a high cost, making both the venture and investment too risky to consider. Foreign investing and depositing therefore continues to be the preferred option of both local and foreign banks, thus creating a situation where the banking sector is detaching itself from the very needs of Palestinian society, exasperating a problem where poverty is already affecting 30.3 per cent of households (PCBS, 2009).

For example, a qualified Arabic language teacher and father of three children living in a village near Ramallah failed to obtain a small investment to extend his private tutorial business that would help with text books, advertisements and a website. He said:

> The banks in Palestine are not for people like me. I am a teacher, I am not well paid, and they know this. They also know I have debt and that I have two jobs (teaching and tutoring) to help pay this off and support my family. Still, they don't want to help me improve, it would not be worth their time and effort.

To help overcome the general financial shortfall within the oPt, the PIF (in addition to its own investments) has been charged with the responsibility of helping make-ready the West Bank (and to a certain extent Gaza) for international investors, carrying out detailed studies on areas of potential growth and therefore profitability. However, despite offering charitable grants of smaller amounts to public projects, the PIF's concerns do not necessarily extend to individuals, SMEs or public infrastructural development (such as new hospitals) as their margins for profit are considered to be too small. In essence, while the PIF is a quasi-non-governmental organisation, its concerns lie in private sector investment on a grand scale. Nevertheless, as with the banking situation, even this is heavily restricted by the occupation as highlighted by the head of the PIF, Mohammad Mustafa (in 'The Palestinian Economy and Future Prospects', 2010: 50):

> There are many obstacles, such as lack of proper title for much of the real estate and the fact that 60 percent of the West Bank is categorized as area C, which means that the land that can be built on is extremely limited. This makes the land in commercial zones extremely expensive, and there's no clear policy that is enforced in a way to make investment attractive.

Despite pursuing an economy based on large investments, there is a need to attend to smaller businesses (see MAS, 2008). For example, the agricultural industry remains a considerable source of revenue and employment[60] for the oPt. Despite land and water resource issues caused by the occupation, it managed to contribute 10.3 per cent towards national GDP in 2004, and in 2007 it provided approximately US$40 million in export income, 15.2 per cent of total Palestinian export income (PNA Ministry of Agriculture, 2010: xiii). However, during the first quarter of 2012 the sector's contribution to GDP was reported to be an all-time low of 4 per cent (World Bank, 2012: 17). What this means is that while the agricultural sector has considerable potential to play a significant role in providing sustenance for a growing population and therefore the development of a Palestinian state from the local level, conditions continue to affect both the quantity and quality of produce. For example, according to a 2010 report by the World Food Programme (2011: 7–8), 33 per cent of the total oPt population were considered 'food insecure' (22 per cent WB) while 11 per cent (12 per cent WB) were 'vulnerable to food insecurity'. The lack of appropriate farming techniques does play a part in this deficiency, but much is also down to a lack of water and land, and travel restrictions. The agricultural sector in the oPt therefore lacks the capacity under the current framework to cope with local competition, particularly that of Israel whose foodstuffs flood local markets.

In truth, the lack of access to water resources and damage to aquifers in the West Bank restricts both the agricultural sector and potential industrialisation. Cara Flowers of a water-related NGO stated:

> Given their allocation of water which is guarded by Israel, the PNA will have to be involved in any agreement regarding industrial water usage and the reallocation of such to an industrial sector. If water availability is insufficient a company

> could consider importing, although the costs for this are high. The PNA and the business in question would therefore have to take into account volume, cost and supply consistency if it is to follow through on a project.

In sum, the West Bank is both politically and economically constrained by the current situation. Settlements are still being built, Palestinian houses are being knocked down,[61] cities such as Jenin, Hebron and Nablus teeter on renewed violence daily, water and land access limitations persist under the control of Israel, roadblocks and checkpoints are still deployed, and Israeli Defence Forces remain an integral part of daily life for Palestinians. In addition, the application of a conditional-hierarchical development strategy has only managed to strengthen rigidity. To compound matters, the PNA's quest for statehood took a major blow when in September 2011 the US government, in support of Israel's position, confirmed it would use its veto at the UN Security Council to ensure statehood would not be obtained. US Ambassador to the UN, Susan Rice has been quoted as saying:

> There is no short cut to statehood, no magic wand or piece of paper that can be waved at the UN that changes conditions on the ground for the Palestinian people.… Even the Palestinians know that they have to get back to negotiating table or there won't be a Palestinian state.
>
> (Spillius, 2011)[62]

However, on 29 November 2012 the PNA was granted observer 'state' status by the UN General Assembly. It remains to be seen if this will aid the removal of the rigid framework, but it is clear that without a political agreement and a reduction in restrictions, self-organisation in the West Bank or the oPt for that matter cannot occur.

Summary

The occupation has therefore led to the imposition of securitised political and 'development' driven economic policies, and regulatory mechanisms (through international agreements and standardisations) that have weakened the Palestinian response by restricting its ability to learn and adapt. This has included:

- no control over borders, including a blockade of Gaza;
- securitised policies that restrict movement including travel (within and outside), affecting trade etc.;
- resource issues including access to land (Area C in particular) and water, which affects sustenance and any potential industrial development;
- removal of interactive capabilities through hierarchical development policies that have detached society from financial access points, and individuals from the development process.

Any attempt to move from this framework (through appealing for status as a state, for example) has only managed to reinforce the boundaries, which means that instead of forging a new 'attractor' Palestinians are merely moved around within the current one, and when levels of insecurity develop in response to the conditions (through resistance in the First and Second Intifadas, for example), Israel (with international acquiescence) has been able to readjust the attractor to suit their goals.

The oPt bears many similarities to the comparisons used in this book, not least because of colonialism and its exposure to the global market. But its development alongside that of Israel has placed it in a highly restrictive system, and this is where it differs from Iran, Egypt, Lebanon and Malysia. The oPt has had political, geographical and economic boundaries consecutively enforced throughout the decades, reducing its ability to self-organise. These features are further highlighted in the following chapters on the Islamic mechanisms in the oPt.

Notes

1 The Al-Aqsa Mosque in Jerusalem was initially built at the end of the seventh and start of the eighth century (by Abd al-Malik and his son Walid of the Ummayed dynasty) as a place of Muslim worship and was considered to be the place where the Prophet Muhammad is said to have stopped on a night journey from Mecca before ascending to heaven. It remains one of three points of pilgrimage and has gained particular symbolic resonance for Palestinian Muslims since Israel's occupation of the land in 1967.

2 Hanafi judicial influence appeared from approximately 1512 under Ottoman ruler, Selin the Grim.

3 The Palestinian legal system has been influenced by Ottoman, British and Jordanian practices. Today both Israeli and international precedents are shaping the judicial process.

4 The term 'Sheikh' in Arabic is used to address a village elder or leader, also often with religious (Islamic) connotations.

5 Throughout the centuries, the status of Jerusalem as a centre for trade and as a traditional home for the Abrahamic religions has drawn interest from across the globe. This has included conquests in the name of the Persian Empire, the Roman Empire, Islam and Christianity.

6 The Declaration came in the form of a letter from Foreign Secretary Arthur James Balfour to Lord Rothschild, an influential British Jew, and stated the position of the British government as favourable to the Zionist cause.

7 To review the full transcript, see www.yale.edu/lawweb/avalon/un/res181.htm.

8 Which included the eventual de facto and de jure recognition from the US and USSR respectively (Pappe, 2006: 131).

9 They were not only dispersed to what we now know as the West Bank and Gaza, but across the Arab countries such as Jordan, Lebanon, Syria and Egypt which eventually led to the Gulf, other parts of Northern Africa and beyond.

10 UNRWA defines Palestinian refugees as 'persons whose normal place of residence was Palestine between 1 June 1946 and 15 May 1948, and who lost both their homes and means of livelihood as a result of the 1948 conflict'. UNRWA's definition of a refugee also covers the descendants of those who became refugees in 1948.

11 Civil war in Jordan (1970) consisted of a crackdown by the Jordanian army on Palestinian factions for their influence in subverting the monarchy of King Hussein (reigned 1952–1999), seemingly triggered by the hijacking of airliners that were brought to Jordan. The war was termed 'Black September' for the losses encountered by Palestinians during the conflict and the movement's expulsion from Jordan (see Cobban, 1984: 36–57). In Lebanon (as previously discussed), Palestinian activity was perceived to be having a destabilising effect on the Christian-dominated government. It also invited external interest, as seen with Israel's invasion in 1982, during the Lebanese Civil War (1975–1989).

12 The Palestinian Red Crescent Society (PRCS) started offering free medical support from 1968 onwards. Supplementary schooling was also supplied for girls and boys aged 8–15, through Lioncubs and Flowers Institution (Mu'assasat al-Ashbal wa al-Zahrat). (See Allush, Palestinian National Liberation Movement and Mass Action, in Sayigh, 1997: 17–18.)

13 There is contestation over the founding dates of Fatah (1959 is used by Fatah), although it most notably came to prominence during the 1960s, gaining credibility in launching guerrilla attacks on Israeli forces. It is a secular nationalist party.

14 According to Sayigh (1997: 217–218) the PFLP advocated resistance and the overthrow of 'reactionary' Arab governments plus social revolution. However, it failed to react to the changing needs of political development and did not participate in the creation of any 'parallel government' in a Palestinian context.

15 It also has a legislative arm called the Palestinian National Council (PNC).

16 In 1968 the fund was turned into the Society for the Care of the Families of Martyrs and Prisoners operating in five Arab countries.

17 Egypt negotiated it back after the war of 1973.

18 A loss for Syria and has still not been returned.

19 To view the full document, see UNSC (1967).

20 In addition to resolutions 181, 194 and 242 the UN General Assembly ratified its position on the creation of a Palestinian state through resolution 3236 in 1974. The Security Council also declared resolution 298 on Jerusalem in 1971, condemning the actions of the Israeli government over the occupation of parts of Jerusalem.

21 According to 1991 statistics, the oPt would have been able to generate 45.2 per cent of GDP by issuing its own currency (DATA Studies and Consultations, 1999).

22 After negotiations with Jordan in 1986, Israel did allow the opening of two Cairo-Amman branches and one Bank of Palestine.

23 Instability and risk will have also contributed to this situation, particularly for smaller loan rejection.

24 With a limited industry, the West Bank and Gaza became dependent upon Israeli imports and what production did exist supported the Israeli market, such as the re-exportation of Israeli goods which were subcontracted to manufacturing

companies in the oPt to be finished (Sayigh, 1986: 48).

25 To reiterate, without a state the PLO and its various factions and parties were based not only in the West Bank and Gaza but across the neighbouring Arab states. Tensions within the political parties, such as Fatah, was also common as members contested for prestige and control.

26 Egypt's Gamal Abdal Nasser saw the Muslim Brotherhood as a challenge to both his regime and nationalism. He therefore sought to disparage and dismantle the movement.

27 Yassin was born in Askelon (now Israel) in 1936; he and his family fled to Gaza after the *Nakba*.

28 Abu-Amr (1993: 7) states it was started by Yassin in 1976.

29 An acronym of Harakat Al-Mukawamah Al-Islamiya.

30 Evident by Israel's Iron Fist policy (1985–1986), which sought to dispel the resistance movement by increasing administrative detentions and deportations (Shakrah, 1986: 120–126).

31 Abu-Amr (1993: 11) states that the creation of Hamas and its move to resistance was done so as to not discredit the non-violent Muslim Brotherhood and to keep up with the PLO coordinated Unified National Leadership of the Uprising (UNLU).

32 Oslo II was signed in 1995 to strengthen the accords.

33 Neither the US or Israel recognised the PLO prior to the 1993 Oslo Accords. Because of its preference for resistance it was forced to move from Jordan after 1970 and Lebanon after 1982 before moving to Tunisia and then being repatriated in the oPt after 1993. The PLO does, however, remain a fixture in Palestinian politics, particularly where negotiations are concerned.

34 The World Bank, USAID and the European Investment Bank had invested in a scheme to develop industrial zones in the oPt for this very reason.

35 An example of this occurred in November 2011 when the Israeli Cabinet agreed to withhold US$100 million of tax revenue owed to the PNA for political reasons associated with the oPt's successful application to be a member of UNESCO. See Teibel (2011).

36 Its other members are: Israel, PNA, Jordan, Russia, Saudi Arabia, Egypt, Canada, Japan and Tunisia.

37 These bodies were added to by the Local Aid Coordination Committee (LAAC) created in 1994 to mirror the CG, the Joint Liaisons Committee (JLC) in 1995, an issue solving committee for tri-partite relations, the Task Force on Project Implementation (TFPI) established by the JLC in 1997 and numerous other working groups.

38 Between 1993 and 2000 nine banks and more than sixty branches were opened in the oPt.

39 The 133 legislative seats were voted in equally on constitutional and party grounds.

40 Also in 2004, leader of Hamas Sheikh Yassin and his deputy Al-Rantisi were assassinated by Israeli forces.

41 Abbas was brought in as Prime Minister to facilitate the Oslo Accords but stepped down after becoming frustrated by his lack of power in office.

42 Hamas was the major party in a political bloc.

43 Israel also immediately blocked PNA customs and tax revenues.

44 Dr. Rami Hamdallah became Prime Minister in 2013.

45 For an example of what is being allowed into Gaza, see C3. Coordinator of Government Activities in the Territories (GOGAT) (2010).

46 Since the overthrowing of former Egyptian President Hosni Mubarak, prospects for greater access emerged but so far movement remains limited.

47 The idea of economic ties had long been supported by Israel. During the 1970s, Moshe Dayan proposed a policy of 'open bridges and cooptation of traditional elites'. During the 1980s Menahem Milson promoted 'Israeli Civil Administration and Palestinian Village Leagues' (Khalidi and Samour, 2011: 7). In the context of the state building project, the principles of the 'Peace Valley Plan' (supported at the time by President Shimon Peres) which sought to align Israel–Jordan–oPt economically), provided the foundations for discussions post-2008.

48 I met Ghassan following his initial release from prison in early 2010. His links to Hamas are disputed, but his situation is typical of the securitised environment.

49 Based on four principles: support Palestinians to remain on their land and develop the nation; end the occupation and establishing a sovereign state; establish the state on pre-1967 borders; establish the state based on liberal principles respectful of law and the free market.

50 US, Russia, EU and China.

51 Nablus was one of the oPt's strongholds for resistance during the Second Intifada.

52 One of these figures was former head of the Palestinian National Security Council (PNSC), Mohammad Dahlan, who had previously established a security force in Gaza before being forced to move to the West Bank after Hamas' seizing of power, due to fear of assassination. After being propelled to head of one of the security organisations in the West Bank (PNSC), his popularity faded under allegations of conspiracy (some say to kill Arafat and others to implement a coup), and he was removed from his position and as a member of Fatah.

53 The US through USAID have been particularly supportive of improving security; the EU and Canada in particular have focused on the legal aspects, particularly prosecution.

54 In the first year of Seyada II it was estimated that there would be an initial outlay of €4.4 million.

55 This information was obtained whilst working for An Najah in 2008–2011.

56 Part of the NGO boom in the oPt has been related to governmental and local corruption.

57 The PNA does offer an insurance policy called Al-Aqsa that provides a minimal healthcare service for families who contribute approximately US$12 per month (Lundblad, 2008: 205), and there have been plans under Fayyad's economic stewardship to implement a national insurance programme. However, budget restraints are such that this has not yet taken place.

58 As of 2011, the emphasis was slowly shifting beyond the security agenda and to private sector development. Technology, credit access, industry and knowledge economies have become important features within this.

59 Of this total, there are nine local banks that include two Islamic banks and ten foreign banks that comprise of eight Jordanian banks, one Egyptian bank and one HSBC.

60 Constituting 13.4 per cent of Palestinian manpower in 2008, although this was down from 15.9 per cent in 2004 (PNA Ministry of Agriculture, 2010).

61 During 2011, the UN reported that more than 500 Palestinian homes, wells, rainwater harvesting cisterns and other essential structures had been destroyed in the West Bank and East Jerusalem, displacing more than 1,000 Palestinians (Amnesty International, 2011). In November 2011 Israel confirmed a speeding up of construction for 2,000 new settler units to be built in the West Bank and East Jerusalem.

62 The PNA has gained considerable support from the international community in general where between the years 2010 and 2011 120 countries recognised the 'State of Palestine' based on pre-1967 borders (Elgindy, 2011).

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5

Islamic finance in the oPt

Chapter 4 provided an insight into the restrictive conditions framing Palestinian development. In doing so it highlighted how policies of a rigid nature under the occupation and through the implementation of a 'development' programme have continued to limit self-organisation. In this chapter, Islamic finance will be discussed in the context of its ability to support local interaction and self-organisation based on its normative values within the rigid stable attractor, particularly the role of Islamic banks which are confronted with policies that (1) have little relevance to the oPt's situation, (2) restrict their interaction with the local population and (3) challenge the long-term sustainability of Islamic banks.

The Palestinian financial sector

As previously highlighted, in the modern era a domestic financial sector plays a vital role in the development of a given state by obtaining deposits and investing in initiatives that help build capacity and growth. It can also move finances around to address areas of need, investment or potential productivity. However, this process through a number of reasons mentioned has largely avoided the Palestinian people. What this means is that since Mandate Palestine, conditions and policies have affected the links between Palestinians and the formal financial sector. This has restricted local development by removing the foundations for self-organisation. For example, in Chapter 4 a lack of support and investment in the agricultural sector was emphasised due to its potential for supplying sustainable resources and employment for Palestinians. However, banks operating in the locality have remained reluctant to invest in this industry because of concerns regarding reliability of crop production under the unstable conditions, which strengthens concerns about repayment. Similar conditions exist in the financial sector in Lebanon, which allowed for more informal mechanisms to emerge. However, as this and the following chapters will show, all forms of investment and funding are heavily scrutinised.

Before the occupation, early attempts to stimulate agricultural production came in the form of an 'Agricultural Mortgage Bank' which was set up in 1935 with the goal of providing long-term loans to the sector, supporting 'improvement and development' (Nadan, 2005: 9). Nevertheless, this venture was unable to convince investors (Arab banks) of its benefits and it remained a highly selective profit-oriented process that occasionally appealed to banks because of political interests or in the name of the Arab cause (Nadan, 2005: 9–13). Of course, the Arab Revolt of 1936[1] destabilised the situation in Mandate Palestine and this uncertainty escalated leading up to 1948, which deterred both institutions from lending and farmers from paying back loans. Such issues increased Palestinian reliance on informal moneylenders, who for Nadan (2005: 1) maintained their comparative advantage over banks as they could 'easily utilise collateral on loans (crops and lands); they ignored the law of maximum interest rate and they had good information about borrowers'. To this end, because of the conditions, informal financial networks that included families, friends or businesses became an integral source for Palestinians. However, over the following decades these informal networks became increasingly challenged by concerns over their lack of transparency.

Between 1948 and 1967 the banking law in the West Bank was administered under the Jordanian Banking Law, which oversaw eight Jordanian and foreign-owned banks, totalling thirty-two branches (Bahu *et al.*, 1995: 5) throughout the territories.[2] From the onset of the occupation in 1967 up to 1993, the links between formal finance and Palestinian society were severely hampered and the local banking sector was almost non-existent. Israel became the sole legislator which resulted in the imposition of approximately 180 military orders that directly affected the financial sector, placing it under stringent control and restricting its activities (Abu-Rub and Abbadi, 2012: 126). All banks (Arab, Palestinian and foreign) were closed within two months following the occupation and thirty-six branches of Israeli commercial banks were put in their place (Samara, 2000: 29). However, they had little incentive to invest in Palestinian production and Palestinians had little interest in using Israeli banks. According to Laurence (1988: 52–54) what interaction did exist involved small-scale credit loans for trade, and letters of guarantee to fulfil trade commitments to Israeli companies, which often occurred at an inflated cost. As Sayigh (1986: 50) affirms, even when access to finance was available an abnormally high interest charge was applied.

Not only did Israel's military orders sever Palestinian financial links with other Arab countries, it also declared the Israeli shekel as legal tender in the West Bank (although the Jordanian dinar continued to circulate and the US dollar became more important) while simultaneously controlling the import and export of currency into the territories (Bahu *et al.*, 1995: 8). In the case of the latter, it limited the flow of currency to banks in the oPt, but in the case of the former, as noted in Chapter 4, the situation was far more problematic. First, the imposition of the shekel ensured Palestinians were unable to gain from the seigniorage attached to money production; this reduced their ability to plan a development strategy through the banking sector, which instead constituted a 'resource transfer from the occupied Palestinian territory to the countries whose currencies are used in the Palestinian economy, namely Israel, Jordan and the United States of America' (UNCTAD, 2009: 13). Second, even when Israel permitted licenses to local banks such as the Cairo Amman Bank and the Bank of Palestine in the 1980s, practice was complicated by the use of the shekel and the simultaneous circulation of the Jordanian dinar and US dollar. This compromised the banking sector's ability to forecast repayment or debt maturities due to exchange differences, thus applying extra risk and ultimately discouraging long-term lending, particularly to the private sector (Naqib, 2003: 508). Once again, this situation frustrated links between the finance sector and society in general, as UNCTAD (2009: 13) note: 'Debtors, on their side, often do not possess financial securities, mortgages or other suitable assets to offer as collateral to mitigate the high risk commercial banks face', which increased the banking sector's reluctance to deal with local development.

Israel's control over financial legislation did not end until 1995 but Israeli bank branch numbers operating in the territories decreased during and after the First Intifada. The Oslo Accords did bring new impetus to the financial sector but concomitantly opened it up to a privatised market. The liberalisation of the financial sector was determined under Oslo negotiations (which included the Paris Protocol) as part of the overarching aid programme, promoting privatisation, corporate governance and deregulation. Incorporating the Palestinian financial sector into the global market could be seen as a positive move as it enabled it to develop its capacity to participate on an international stage. For banks in particular the neoliberal environment presented new market opportunities, which increased the number of practicing local banks, and international banks in particular, which were best placed to capitalise on the opening. As Bahu *et al.* (1995: 9) wrote:

> Jordanian banks were able to penetrate the West Bank almost en masse due to the Israeli-Jordanian MOU [Memorandum of Understanding] which was signed on December 1, 1993. By the end of 1994 there were 7 banks with 34 branches operating in the Palestinian territories.

The post-Oslo arrangement also allowed for a degree of Palestinian administrative autonomy over the financial sector, which was furthered by the establishment of the Palestinian Monetary Authority (PMA) in 1994[3] (endorsed under the 1993 Banking Law). The reality that has remained, however, is that the PMA's powers are some way below that of a central bank as it does not have the ability to issue currency or act as a lender of last resort, and therefore 'such purposes as the adjustment of the exchange and interest rates, as well as open market operations, are not part of the portfolio of instruments available to the PMA' (UNCTAD, 2009: 12–13).

The foundations of the current financial sector have therefore been established on less than secure grounds due to a combination of local instability under occupation, rapid advancement of a neoliberal process and the lack of a strong governmental body to protect and develop 'Palestinian' interests. Because of this, banks operating within the territory have had little incentive or requirement to invest in high risk local ventures and have therefore sought more profitable investments outside of the oPt (Samara, 2000: 26–27). Nevertheless, despite failing to invigorate interaction at the local level, the unstable conditions have managed to make the banking sector more robust through the implementation of financial regulations, stemming from international concerns surrounding banking instability (particularly the lack of capital being held). For example, this trend became evident in 1996 when an assessment of regional 'loans to deposit ratios'[4] showed the West Bank to have a high liquidity rate of 21.6 per cent compared to 80 per cent in Jordan and 90 per cent in Israel (Hamid 1996, in Samara, 2000), making it less vulnerable to an economic downturn.[5] By 2012 this had improved to 56 per cent (World Bank, 2012: 10). While this may be perceived as a positive, given the need for modern banks to hold capital, the high liquidity rates also suggest a lack of investment activity, or even the lack of opportunity to invest.

Despite further financial regulation following the official implementation of 'Banking Law No 2' in 2002,[6] little was done to promote a balance between the stability of the financial sector and local development. According to a report by MAS (2008: 3), bank liabilities in 2006 for the oPt in general were a mere 41 percent when compared to 68 per cent in Jordan and 80 per cent in Egypt. Of this 41 per cent, overdrafts amounted to 37 per cent and loans 63 per cent. However, as MAS highlighted:

> Statistics show a small share of credit goes to manufacturing sectors, accounting for only 18% of bank lending, while credit granted to the agricultural sector remained low at a mere 0.81%. The industrial sector received 6.2% of total credit, construction 11% and the public sector 25.4%.

The banking sector in the West Bank has therefore had to respond to conditions caused by the occupation and the influence of macroeconomic designed policies implemented by the PMA. Focus on the oPt financial sector became even more pronounced after the overturning of Hamas' election victory, which 'with IMF technical assistance, have enabled the application to all banks in the West Bank and Gaza (WBG) of a rigorous supervision and regulatory framework through regular on-site and off-site supervision' (Kanaan *et al.*, 2011: 3).

2008 and beyond

In accordance with international standards, the PMA has undertaken the role of regulator and the supervisor of banks in overseeing the implementation of a system that promotes 'strong credit and payment infrastructure, and monitoring compliance with a governance code and an anti-money laundering law' (Kanaan *et al.*, 2011: 3). From an international perspective, macroeconomic stability during the economic downturn has been of the utmost importance and therefore the promotion of financial durability, banking efficiency and transparency has become even more important considering the securitised context in which the oPt has to operate. Since 2008 this has included the implementation of Basel standards. For example, in accordance with Basel I capital holdings were increased from US$20 million in 2008 to US$35 million at the end of 2009. In aspiring to meet the standards of Basel II (implemented 2012), the PMA set a capital benchmark of US$50 million and required that 15 per cent of net profit (after tax) be used as an additional buffer (Kanaan *et al.*, 2011). Much of the concern surrounding stability was related to the credit facilities offered to the PNA by the banks, which had reached US$1.2 billion by 2012, 13 per cent of total assets and 99 per cent of equity (World Bank, 2012: 11). This had an immediate effect on the banking sector, as the IMF (Kanaan *et al.*, 2011: 14) state the 'PMA has also applied Basel standards and procedures when liquidating two banks in 2010', one of which was an Islamic bank. A new Banking Law was devised in 2010 to coincide with the changing conditions and this continued with the implementation of Basel III, beginning in 2013. There is also speculation that this could lead to the increasing of capital holding to US$100 million (Bank of Palestine, 19 May 2011; Portland Trust, 2009).

Adopting international standards has undoubtedly improved the stability of the Palestinian banking sector, strengthening the individual institutions considerably. Abu-Rub and Abbadi (2012: 126–127) believe the PMA's decision to implement the minimal bank capital following Basel has aided the sector's increase in 'net equity' to US$1.1 billion, a true reflection of improvement. Sherin Al-Ahmad of the PMA (ICMA, 2011) affirms this upward trend by stating that between 2006 and 2011 banking assets 'increased by 55%, paid in capital by 79%, deposits by 65%, and non-performing loans decreased from 14.5% to 2.6%. Alongside this, profits for the overall industry increased by more than 170% since the end of 2006.'[7]

By 2012 this improvement was shared amongst eighteen commercial banks, eight of which are locally owned[8] and ten foreign[9] (PMA, 2012a).[10] Banks that struggle to maintain the standards, particularly smaller ones, have been encouraged to merge. In defending this action PMA Governor Dr. Jihad al Wazir stated that this was 'not only for profitable reasons but also to face the requirements of the coming stage, such as the expansion in international trade particularly at a time when the Palestinian Authority seeks to join the World Trade Organization (WTO)' (PIFBS, 2010).

Nevertheless, this has been met with some disapproval. Palestinian economist and consultant Dr. Bassim Makhoul, for example, believes the PNA (and PMA for that matter) are too concerned with raising capital rather than the banking sector's main purpose of supporting development via the simple practice of turning deposits into investments, something smaller banks can do very well. What Makhoul suggests is that, in a region that requires local financial input, credit supply is being stifled by macroeconomic aspirations and therefore a focus on lower risk individual loans. He added:

> When you provide retail loans to individuals, most of the time they are used for importing goods from outside of

Palestine, for example consumer goods from Israel, and therefore add very little to Palestinian growth and development.[11]

Makhoul's claims have held resonance since 2008 when a study carried out by MAS on the Banking Law of 2002 highlighted concerns over the separation of credit supply from the population. They stated:

> [I]t is noted they are insufficiently tailored to the specificity of the Palestinian economy, which is still in the stages of formation and development. They did not grant any exceptions or preferential treatment to SME credit organizations, although SMEs account for the majority of Palestinian enterprises and the SME sector represents the engine of the economy in terms of both production and employment.
>
> (MAS, 2008: 3)

From a banking perspective, investment in Palestinian production through SMEs is neither profit worthy nor risk free due to the level of insecurity (MAS, 2008). Combined with land ownership issues (particularly the zoning problem), the cost of obtaining a loan or a mortgage for that matter from a bank often comes at a high cost, making both the venture from a client's perspective and investment from the bank too risky to consider. The PMA and banks are therefore 'following conservative processes in granting loans', and even when finance is made available they 'do take more than enough collateral due to the exceptional situation in Palestine' (Timewell, 2010).

Once again though, reflecting upon the rigidity imposed on the oPt and the boundaries within which its institutions have to work, the banks, and the PMA for that matter, are limited in what they can actually do, as Timewell (2010) writes:

> Lending, or lack of it, represents a key issue for banks in Palestine. While direct lending rose 23.7% in the first three quarters of 2009 to reach $2.26bn, lending remains weak because bankers are not seeing the opportunities to lend.

In response, banks are increasingly seeking external investment opportunities in an attempt to secure their own survival, which is difficult for the smaller banks that have to maintain capital and liquidity rate requirements. This has led to a reliance on deposits and stricter policies regarding loan repayments. In regards to the latter, risk is therefore being transferred to the customer who under the circumstances is exposed to market frailties. In the West Bank, combining this with the increasing difficulty the PNA has in attempting to pay its public sector workers or even match inflation,[12] it is likely to destabilise the situation further, particularly as the funding of the police and security forces comes under the PNA budget. An officer working with one of the main national security units based in Ramallah highlighted his predicament:

> Our salaries use to be covered by the donors [it was intimated that this was primarily the US] and our payments were always received on time and in full. Because of the personal financial stability achieved under this process we were able to obtain loans from banks to get married, buy cars and even get mortgages. However, since the PNA assumed responsibility for our salaries the payments are not always on time and when they do arrive they are reduced. I received two thousand shekels this month [approximately $500] but from this amount the bank took sixteen hundred and I am unable to re-negotiate this. I have a wife and two children, how am I supposed to feed them? Many of my colleagues are

in the same position, and if the situation does not improve and we cannot get more pay, we will strike.[13]

This is typical of the situation confronting public sector workers in the West Bank and many others who took advantage of the donor inspired financial boom following the end of the Second Intifada. Statistics suggest that personal debt doubled to approximately US$750 million between 2008 and 2011 (Sanders, 2012) and, with the economy showing little sign of real growth while under the occupation, it brings into question the long-term survival of the financial system. The role of the PMA and the banking sector will continue to be questioned considering the unstable environment; perhaps it is also their responsibility to shoulder some of the burden for making excessive credit available in the first place. Nevertheless, they cannot be blamed for the effects of the occupation or the imposition of hierarchical economic policies, and therefore it is also understandable that the sector promotes its own survival when seeking investments. Obtaining a balance within these parameters remains difficult, but with Islamic banking promoting the ethical standards and partnership arrangements conducive to more unstable environments, there is in fact a potentially important role for them to play in the development of self-organisation in the oPt.

Islamic finance and banking in the West Bank

Given the level of instability experienced and the impact which this has had on self-organisation in the oPt, it could be suggested that Islamic finance in its most ethical form could help generate equitable and sustainable growth through its profit and loss sharing mechanisms, thus creating a situation where individuals and businesses can access finance at a more equitable rate. This was evident during the Second Intifada according to a businessman from Nablus who had invested in a taxi service:

> Before the start of the [Second] Intifada I took a loan from a [commercial] bank to invest in two new taxis that would take passengers from Ramallah to Hebron. Business was good and I was able to pay the bank back from the profits we made. After a short while it became feasible to seek another loan in order to invest in another two taxis. This time a friend approached me and asked if I had contemplated Islamic finance? I was initially unsure, as I knew the rates were higher than that of normal banks. However, after speaking to the Islamic bank I decided that despite the extra cost the benefit of having a risk sharing component would provide me with a little more security if anything were to happen. After the start of the Intifada this became apparent. We were no longer able to continue driving from Ramallah to Hebron due to road closures and checkpoints and therefore I was unable to service the loans I had acquired. The normal [commercial] bank maintained its demand for scheduled repayments, which I could not provide. This resulted in losing my first two taxis to the bank. Alternatively, the Islamic bank [the name of the bank was not given] kept the partnership arrangement going over a longer period, which enabled me to keep the taxis running, pay the loan off at a slower rate and have some profit for myself.[14]

According to a financial associate of the taxi owner, the financing from the Islamic bank was based on a ‘diminishing *musharaka*’, which allowed for 50 per cent of earnings to be directed to the bank, 30 per cent for the running costs of the taxis and 20 per cent for personal profit.

Under similar circumstances a cement company operating near Nablus faced the problem of liquidation during the Second Intifada and had sought a loan from the Palestinian Islamic Bank (PIsB) in order to clear its cheques. However, with the PMA operating an annual interest charge of 7 per cent a special arrangement based on a *murabaha* agreement was put forward. This meant that the bank would loan money to the company based on a sale value of ILS180 per cubicmetre bag of cement with a mark-up of 7 per cent, which it would take in instalments. The cement company was able to ensure a profit was made by charging ILS200 for every cubic-metre cement bag sold. After the cement company had shown sufficient sustainability the partnership was eventually upgraded to a *musharaka* agreement, which allowed for further investment in machinery and ultimately increased production.

These examples provide evidence of supportive links, albeit basic, between Islamic banks and Palestinian society based on the banks taking greater responsibility for risk. In general though, the overall the situation has been somewhat harsher. As a consequence of any conflict, a large number of individuals and businesses in the oPt were unable to service the loans they had acquired which for the Islamic banks, who favoured the mechanisms previously highlighted, led to increased exposure to the financial realities.

Iran, when confronted with a banking liquidity issue, chose to reduce the number of loans offered by the banks, but this also stifled development. Alternatively, extraneous regulation closed down the sector in Egypt and restricted it in Lebanon. In the oPt, institutional stability was also prioritised by the banks and the PMA, with extra pressure to improve transparency and efficiency within the boundaries of the securitised regulations. This led to a detailed scrutinising of the Islamic banking sector’s methods and eventually a reduction in Islamic mechanisms in favour of pursuing the sector’s competitive longevity, which also meant being risk averse.

The regulations applied increased institutional stability, but along with the conditions they have also limited the Islamic sector’s scope for investment. This was noted in a paper conducted by Palestinian academic Rasem Kayed (2011), who stated that although Islamic banks in the oPt have lower solvency risk levels than conventional banks; they do have trouble mobilising their funds effectively. Current banking practice has therefore been influenced by uncertainty over the oPt’s long-term relationship with Israel and the subsequent application of regulations. Nevertheless, it has also challenged the ‘Islamic’ ethos of the sector, which as a label itself concerned international observers. A combination of these factors has made it difficult for Islamic financial institutions in the oPt to promote the appeal of the sector and ultimately its ability to compete in the global financial system. For different reasons than Iran or Lebanon, then, access to finance has been restricted to the public, which has hindered the development process.

Islamic banking is a relatively new concept in the oPt, but can trace its official roots to the setting up of Beit Elmal Al-Philistini in 1994, a finance company that sought to cloak its 'Islamic' nature so as to not raise suspicions from the occupying force, Israel (Jabr, 2003: 264). In 1995 the Cairo-Amman Bank established an Islamic window and the Arab Islamic Bank (AIsB), which was also created by the Bank of Jordan. This was followed by the formation of the Palestinian Islamic Bank (PIsB) in 1997 through a group of shareholders (including the Schuman family of the commercial Arab Bank), and the Al-Aqsa Islamic Bank in 1998, which was forged through a partnership between Beit Elmal Al-Philistini, the Jordan Islamic Bank and Dallat El Baraka (ibid., 2003: 265).

By 2005 strains on the Islamic banking sector began to show, highlighted by the PIsB's signing of an agreement with the Cairo Amman Bank to purchase the net assets of its Islamic operations for US$3 million (Arab Banking Network, 4 January 2013), thus reducing the number of banking institutions to three. The situation of the Cairo Amman's Islamic banking window was not unusual as the occupation continued to affect the quality of investment and quantity of returns. Adding to this the incremental increase in capital requirements, it was inevitable that smaller banks such as Islamic institutions would struggle under the conditions. Problems for the sector increased following the election victory of Hamas in 2006, which resulted in greater scrutiny of financial practices. For example, in 2007 the PIsB faced questioning over the inadvertent transfer of US$750,000 from Discount Bank in Israel, which was then deposited into the account of 'Hamas Executive Force' based in Gaza (Reuters, 2007). Under the security parameters the accounts were eventually frozen, but in the eyes of international observers (notably the US) this did little to improve the image of Islamic banks operating in the oPt.

As regulations became significantly more restrictive Al-Aqsa Islamic Bank became the next to fall, albeit under curious circumstances. According to the PMA (2010) a process of liquidation was completed following a 'voluntary' decision by the 'General Assembly of the bank' on 31 March 2010. They stated:

> The Monetary Authority cancelled the license of the Bank as of 4/1/2010, and the company registrar issued a decision to revoke Al-Aqsa Islamic Bank license as of 08/16/2010…. The liquidation process comes to manifest the policy of Palestine Monetary Authority aiming to enhance the soundness and stability of the Palestinian banking system and enhancing the confidence of local and international community in this system.

In response to this, a former senior member from the bank commented:

> Although we were not a big bank we managed a stable business and carried out our work in a very transparent manner. Despite this, we were continuously asked to supply details to the Americans (it was not ascertained exactly who this was but it was on-going between the years 2007 and 2010), which we always complied with and they were always happy with our results. Then one day we were told the bank would have to close, it was like we were being blacklisted and this resulted in having our assets merged with the Palestinian Islamic Bank.[15]

In 2010 the bank's portfolio was officially purchased by the PIsB but events leading up to this acquisition were less than clear. Of course, part of the reasoning for this closure was related to concerns regarding Al-Aqsa's financial capability in meeting the necessary capital requirements. As previously noted, in such situations the PMA advocated the merging of smaller banks, a process which Al-Aqsa was seemingly forced into. As a local economist noted: 'Al-Aqsa was closed, forced to shut down and sell its assets without a proper legal hearing or a trial. This is not an indicator of a transparent process and is quite simply wrong.'[16]

The dissolution of Al-Aqsa Islamic Bank has meant that there are currently only two Islamic banks operating in the oPt, the Arab Islamic Bank and the Palestinian Islamic Bank, both of which are operating under the regulations set by the PMA in coordination with international standards, notably Basel I, II and, soon, III. To maintain Islamicity in their methods, such as returns on deposits or investments, both banks have established their own *Shari'a* committees that determine outcomes relative to the PMA's requirements. They do however follow the *Shari'a* regulatory guidelines set by AAOIFI, which in the oPt predominately relate to *murabaha* practice. The diverse mechanisms available during the initial years of the Islamic banking sector are no longer evident and instead a well regulated structure has been put in place that has virtually restricted the banks to using non-PLS mechanisms such as *murabaha*. According to a 2009 study by the 'Association of Banks in Palestine', *murabaha* accounted for US$174 million (86.4 per cent) of total Islamic financing by the banks (Makhoul, 2010: 20), while the more speculative *mudaraba* was estimated at US$10 million (5.1 per cent). Leasing and future sales (e.g. *ijara*) based on industrial investments approximated US$7.5 million (4 per cent).

In an interview carried out in November 2012, Saeb Sammour, Deputy General Manager of the PIsB stated:

> Ninety per cent of all financing by the PIsB is done via *murabaha*. *Murabaha* is a form of low risk financing for us. It is closely aligned to conventional practice and therefore makes it easier for the bank to adapt to the regulatory requirements. Palestine is an unstable place and for the long-term stability of the bank it is important that we carry out a detailed analysis on all of our transactions as to ensure we do not encourage risk.[17]

For Imad A. Al-Asadi, PIsB Regional Manager (West Bank), given the circumstances it is acceptable for the rate of *murabaha* to be aligned with the interest rates set by the PMA, and therefore the use of *musharaka* and *mudaraba* are considered too risky. He stated: 'We would like to offer a more diverse range of products but at this present time we, as a small bank, are building our own foundations.'

The PIsB concentrates its financing on individuals and commercial projects. For individuals such as employees, practitioners and persons of low income, *murabaha* agreements are used (Makhoul, 2010: 20–21). For example, loans of up to US$30,000 are offered for the purpose of purchasing goods with a repayment range of twelve to sixteen months, for cars US$50,000 is permitted with a repayment limit of sixty months, while US$150,000 is available for land and real estate under a similar period (Makhoul, 2010: 20–21). Commercial loans are directed at business persons, companies and SMEs using predominately *murabaha* methods (for raw materials and fixed assets) between a fourto sixty-month period (based on client requirements), with a profit charge ranging from 5 to 7 per cent (Makhoul, 2010: 21). The AIsB offered similar terms regarding individual and commercial financing using *murabaha*, albeit at a smaller level and with a fixed annual profit charge of 4 to 5 per cent (Makhoul, 2010: 20).

However, in regards to generating local development through retail, PIsB's Sammour affirmed: '90% of retail loans are with individuals.' As previously noted this is problematic for Palestinian development as banks are avoiding the potential engines of economic growth in the oPt, SMEs, in favour of individual loans which are often used for importing goods. In considering this situation and the PIsB's links to society, Al-Sadi reaffirmed the reality of the situation by stating: 'It is our intention in the long term to invest in Palestine, but at this time we must alleviate risk.' It was intimated that the PIsB are looking into the possibility of providing microfinance to retail SMEs, but again this is still under discussion. Promoting a balance does however appear to be apparent in the PIsB's long-term strategy which was established during a series of internal meetings during October and November in 2012. Al-Sadi stated:

> We want to ensure the bank continues to grow so we can improve upon the size and scope of facilities that we provide. To do this we are looking to invest outside of Palestine [beyond the West Bank and Gaza] to help with the building of the bank's financial foundations. We cannot make profit by investing in Palestine alone as there is too much uncertainty and we cannot guarantee our own survival under these circumstances. It is therefore important that we develop ourselves and increase our own sustainability before we play an important role in the development of Palestine. Because of this we are looking at potential *sukuk* investments outside of Palestine.

The issue of *sukuk* has still not been clarified by the PMA, and in general all investment activity is scrutinised. To aid the Islamic sector there have been suggestions of establishing a *Shari'a* compliancy department within the PMA to aid smooth passage of regulations between both conventional and Islamic practice, but negotiations are ongoing.

The Palestinian Islamic financial sector has established rules based on international standards, and in some ways appears to aspire to the Malaysian model. However, concerns regarding transparency and macroeconomic pressures have overtly influenced regulations in the oPt and therefore contributed towards removing flexibility in Islamic banking. It is understandable, then, that from the perspective of an Islamic bank in the oPt, it was a necessity to ensure survival and therefore adopt the regulations and compete with the conventional sector. Unlike in the case of the Lebanese Islamic banks, however, there have been attempts by the PMA to facilitate this. Discussions between the Islamic sector and the PMA are ongoing, not only to ensure universal standards are adhered to but as a forum for the banks themselves who seek to develop their institutional capacity and investment portfolio relative to their competition. On 14 October 2012, the PMA carried out a workshop sponsored by USAID titled 'Increasing Prospects for Islamic Finance and Islamic Banking', with the aim of promoting awareness and ultimately availability of Islamic sources in the oPt (PMA, 2012b).

Improving the marketability of Islamic banking to customers in the oPt is also part of an ongoing process and, considering that a majority of the population are Muslim, it could be deduced that there would be a natural leaning towards its use. However, in a study carried out in the West Bank by A. A. I. Mahmoud and R. A. Kader (2012), they suggested that in contradiction to their initial hypo-thesis the Islamic nature of a bank was not a major concern for businesspersons operating in the territories.[18] Instead, they found that a bank's proximity was a priority (given previous movement restrictions), followed in ascending order by issues with referencing, the rate of profit and credit facilities, service level and quality of management, and finally evading interest-based transactions. Although the latter is considered an important component of the Islamic ethos, Mahmoud and Kader (2012: 48) believe it is more accurately related to business acumen. They state:

> [B]usinessmen who are capital providers to Islamic banks are attracted to the widespread use of *murabaha* by the Islamic banks, which ensures reasonable profits on their capital, since the mark-up rate is pre-determined. On the other hand businessmen who receive financing from the Islamic banks in the form of deferred payments are attracted to the fact that they can default on the payment of their instalments without facing the consequences of having to pay any penalties as the case in conventional banks.

Although this study does not account for rural enterprises (such as farms), it does suggest that the level of instability in the oPt affects the perception of depositors and credit seekers (in this case relative to businesses), who basically see reliability as the most appealing quality. The Islamic banks have therefore had to adapt to these demands and a high degree of professionalism has begun to emerge. Attention to this area has even led to the creation of cross-sector training programmes carried out by international organisations such as the Islamic Banking Finance Institute Malaysia (IBFIM) (Bernama, 2012). Nevertheless, despite infrastructural improvements, the banks are aware of the situation that confronts them as they seek to reduce their over reliance on deposits. In order to diversify profit streams and compete within the market, the general consensus as with the conventional banks is to find appropriate investments outside of the territories. This poses two important issues. First, the investments would have to comply with both PMA regulations and *Shari'a* rulings, thus restricting scope, and, second, it only adds to the issue of capital being removed from the oPt and not circulated within. This once again reduces the ability of individuals and businesses to gain access to finance, which challenges the ethos of the Islamic banking system and self-organisation. To maintain some of this value the banks are nevertheless keen to support local projects based on their recognising of social responsibility.[19]

Despite ethical intentions, Islamic banks are ultimately governed by the regulations of the PMA and it is their performance that will promote institutional stability and survival. To this end, the performance of both Islamic banks has differed, with the PIsB appearing as a more stable institution with potential to grow at a healthy rate, while the AIsB has struggled. In its 2011 non-audited financial report, the AIsB stated net profit before taxes and *zakat* reached US$1,377,675, compared with a net loss of US$1,703,313 in the audited data for 2010 (Zawya, 2012a). However, according to reports from the first nine months of 2012, net profit before taxes reached US$279,628, compared to a net profit of US$1,603,490 from the first nine months of 2011, a net decrease of 82.6 per cent (Zawya, 2012b). In the same period, liabilities had reached US$129,415,007 (compared to US$81,397,059 in December 2011, a 59 per cent net increase), but under the applied regulations and liquidity ratios these liabilities have been matched with assets of US$370,178,994 (23.4 per cent net increase from the previous year) (Zawya, 2012b). Nevertheless, the status of the AIsB appears weakened by its dramatic drop in profit during 2012 and this is indicative of the unstable circumstances and the competitive nature of the market. Further analysis may even suggest harder times ahead for the bank as it struggles to meet its capital and liquidity targets, and the growing concern regarding 'mismatches' between the potentially destabilising currency situation (shekel, dinar and dollar) and an over-reliance on short-term deposits compared to investment in longer-term loans, such as mortgages[20] and even other markets stemming from this.

In contrast, the PIsB has shown significant durability, evident in its financial statement for the third quarter of 2012 where it reported net profits before tax of US$5,379,263 compared to US$1,460,076 in 2011, an increase of 268.4 per cent (PEX, 2012). In the same period, assets were recorded at US$411,718,718 (4.8 per cent net increase from 2011), and liabilities and unrestricted investments were US$355,636,000 (4.4 per cent net increase from 2011) (PEX, 2012). According to a local economist: 'the Palestinian Islamic Bank is the larger bank of the two, and accounts for approximately 70% of the overall Islamic banking market now.'[21]

Overall, the PIsB has managed its business with a high level of efficiency relative to the regulatory boundaries it works within. As with a number of other Islamic banks globally, according to Sammour:

> Adapting to Basel I and II has occurred without too many problems. Because of the nature of our investments and holdings it has been a relatively simple process and we have been able to match requirements such as capital holdings and liquefiable assets.

Nevertheless, even before the implementation of Basel III, Samour recognised that adaption 'will not be so straightforward'. Once again though, to counter this and more specifically adapt to the increasing capital requirements, more investment opportunities are being sought outside of the oPt.

Summary

The Islamic financial system in the oPt is relatively small and, apart from one insurance company, the main focus of the sector is the two Islamic banks: the Palestinian Islamic Bank and the Arab Islamic Bank. From an Islamic financing perspective their mechanisms are limited while from an ethical standpoint it could be suggested that an obvious alignment with conventional practice (and non-PLS mechanisms) has reduced the Islamic nature of the sector. The latter is particularly evident in the scope of finance provided. However, it should be stressed that the banks are strictly regulated by the PMA who in turn are stringently monitored and influenced by the securitised parameters under occupation and international financial regulations. While the latter has contributed to the stability of the financial sector in the oPt and should be applauded, it has also restricted local development, as investment in Palestinian infrastructure and local businesses is often seen as non-profitable due to the conditions. To this end, while the current Islamic banking system has aspirations to be like Malaysia and be a regional leader in Islamic finance, regulations under the oPt's securitisation have restricted its interaction with society and ultimately the promotion of self-organisation, evident in the short-term investments that are designed to limit risk. With this becoming increasingly difficult, both Islamic banks have sought more investment opportunities outside of the oPt.

In reality the restrictions within the framework (or rigid stable attractor) do not allow for sufficient freedom of movement or natural development, and therefore investment opportunities and ultimately the links between finance and society are distorted. Islamic financing through the banking sector in the oPt can therefore not pursue a healthy path due to a lack of complexity. In the long term not only will this challenge the existence of local banking but as a consequence reduce societal development further. In response to these conditions, other forms of finance have been sought, predominately through informal networks as previously noted. More recently there has been greater attention paid to the role of microfinance, particularly of an Islamic variety, which has therefore been viewed as a potential legitimate source to fill the finance vacuum.

Notes

1 The uprising against the British Mandate was triggered by the killing of Sheikh ʻIzz al-Dīn al-Qassām in 1935, which led to an escalation in social unrest, predominately related to economic conditions and political dissatisfaction with the Mandate.

2 In Gaza there were three Egyptian and foreign-owned banks consisting of six branches.

3 By presidential decree as an independent institution and later by an act of the Palestine Legislative Council PMA Law Number (2) of 1997 which outlined the full authority and autonomy of the PMA (see PMA, 1997).

4 Commonly used for assessing a bank's liquidity or available funds in view of a crisis per se. The higher the percentage is, the higher the risk it will have. Low percentages equate to high liquidity ratios and are therefore less risky.

5 During this same period, 72 per cent of loans were supplied on a very short-term basis so as to avoid customer insolvency, and it was estimated that 'real loans' accounted for only 6 per cent (Al-Quds, 25 December 1995, in Samara, 2000).

6 This was amended from the Monetary Authority Law and the Banking Law of 1999.

7 In 2010 it was reported that net profit of the banking sector had reached US$140 million. See Abu-Rub and Abbadi (2012: 126).

8 The five standard commercial banks are: Bank of Palestine PLC, Palestine Investment Bank, Palestine Commercial Bank, Al Quds Bank, Al Rafah Microfinance Bank; and two Islamic banks: Arab Islamic Bank, Palestine Islamic Bank.

9 The foreign banks are: Cairo Amman Bank, Arab Bank, Jordan Kuwait Bank, Jordan Ahli Bank, Bank of Jordan, HSBC Bank Middle East Limited, Egyptian Arab Land Bank, Union Bank, Housing Bank for Trade and Finance, Jordan Commercial Bank

10 The banking sector employed 4,679 staff: 2,331 in local banks and 2,348 in foreign banks (PEX, 2010).

11 Interview conducted with Basim Makhoul in Ramallah, November 2012.

12 This has been exacerbated by the non-payment of donor funds and occasional bouts of Israel withholding tax transfers, as discussed in Chapter 4.

13 Interview held during November 2012.

14 Interview conducted in Nablus, oPt, May 2010.

15 Interview conducted in Ramallah, November 2012.

16 Ibid.

17 This is even supported by AIsB's 2009 Annual Report (2010: 59) which reported *murabaha* as already accounting for approximately seven times as much Islamic financing as the second most popular, *mudaraba*.

18 According to the study, data was collected from 'two hundred businessmen' from 'twenty percent of the population using a structured questionnaire'.

19 For example, the PIsB has provided funding and equipment to schools for the visually impaired across the territories and offers sign language services. See Salah (2012).

20 Several requests were made to the Arab Islamic Bank during October 2012 for an interview with a senior manager in the West Bank. Due to the limited timeframe and other commitments this did not happen.

21 Interview conducted in Ramallah, November 2012.

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6
Islamic microfinance in the oPt

Thus far it has been asserted that a rigid framework has been applied through restrictive policies and regulations, stemming not only from the occupation but the imposition of a linear development model. This has ensured the oPt has struggled to develop a financial sector capable of supporting self-organisation. Hierarchical policies and regulations passed through the PMA have therefore combined with conditions under the occupation to make local investment a less reliable source for the growth of the financial sector. Banks in particular remain reluctant and take a dutiful approach to risk alleviation. In turn this has pressured existing clients and restricted the ability of society in general to gain access to finance.

However, there is still a need for Palestinian society to gain a modicum of self-organisation within the parameters which exist, so as to ward off increasing poverty levels and reliance on donor funding. As previously noted, one way of stimulating greater interaction is through investments in smaller local ventures (through SMEs, for example). While this is a somewhat riskier venture, it can be seen as more profitable for a Palestinian state in the long term, especially when compared to the popular current practice of individual loans, which tend to support the importing of consumer goods (notably from Israel) rather than develop local business activity.

Emphasis on risk alleviation rather than the sharing of risk also challenges the Islamic financial mantra. Because of this, Islamic banks in the oPt have struggled to circulate finance, which affects their ability to maintain a balance between their own survival, local development and ethical practice. What has emerged then is an ever increasing need for banks to seek investments outside of the oPt, thus threatening the link between finance and development, and although this has been recognised by local and international actors alike, solutions for filling this gap have mainly revolved around donor aid. Nevertheless, attempts have been made to address this issue through the use of microfinance methods, particularly of an Islamic variety orchestrated by the Deprived Families Economic Empowerment Progamme (DEEP) in coordination with the UNDP. Nevertheless, the ability of this sector to promote access to finance, encourage self-organisation, and in the long term the sustainability of the microfinance institutions is also affected by the strict parameters and lack of investment opportunity currently available.

Conditions for Islamic microfinance

As noted, international organisations such as CGAP have endorsed microfinance given its ability to empower local actors whilst improving economic stability. In its most ideal form it can help kindle cooperative arrangements and encourage communities to pool their resources in an attempt to obtain a more economically sustainable future. As CGAP–Microfinance Gateway (2013) notes: 'For loans that will be used for business purposes, microcredit best serves those who have identified an economic opportunity and can capitalize on it if they have access to a small amount of ready cash.' MFIs aim to provide funding where formal financing cannot; while that means that collateral is not always required there is a need for clients to have the ability to work the loan, which is normally governed through an interest charge at a higher rate, justified by the evident risk in the operational market. However, in recognising its robustness writers such as Hudon and Seibel (2007) have suggested that microfinance can act as a stimulant for grass-roots development in unstable or post-conflict settings, giving the clients ownership of the project and the development process itself. In a Palestinian context, this notion is taken up by Barden (2010: 98), who believes the agricultural sector is ideal for microfinance considering the conditions. He states: 'Bringing the rural population into the formal economy can be an important factor in building a stable framework free of conflict. Those with a stake in the system are unlikely to want to destroy it in the streets.' Nevertheless, whilst the oPt can be considered as unstable and even as a post-conflict setting in the West Bank in particular,[1] the scope for Palestinians to develop their own infrastructure through industries such as agriculture ultimately relies on the policies of Israel and those of the donor sector who have continuously, knowingly and unknowingly, restricted Palestinian movement and adaption. For Roullet (2005: 5), instead of the oPt being a 'post-conflict' situation, the framework is more akin to

> … 'occupation-violence' where occupation breeds violence, which justifies occupation, which breeds violence, etc. In the middle of this cycle, the economic development is limited, and depends on how tight the military occupation is: number and fluidity of checkpoints, degree of curfews, etc.

Considering the economic conditions, microfinance does have the potential to work within these restrictions – as Roullet (2005: 23) notes: 'clients may anyway be inside the almost autarkic market imposed by checkpoints' – but this comes with a warning that 'microentrepreneurs still need access to suppliers and markets that might be behind the checkpoints closing their cities, which means that they suffer like other entrepreneurs'. So while poverty levels and unstable conditions make the oPt a potentially viable market for microfinance, the uncertainty that exists make investment prospects high risk for both clients and MFIs alike. MFIs in the oPt therefore have to balance between finding appropriate investments and promoting access to finance, while clients require greater support and flexibility in repayment methods.

There is a lack of transparency or at the very least a lack of knowledge about microfinancing in Iran, Egypt and Lebanon. Much of this is because formal procedures do not exist. The microfinance industry in the oPt has nevertheless developed at a reasonable rate since the mid-1980s and in 2010 there were 3,336 active clients, grossing a finance portfolio of US$11,416,678 million (ACAD, 2011: 5). According to Palestinian economist Dr. Bassim Makhoul (2010b) the industry has gone through three stages. The first occurred between 1986 and 1995, and saw the emergence of a limited sector funded by international organisations such as USAID[2] and the EU that focused on stimulating business activity for profit-related reasons. However, in addition to this, UNRWA in their continuing attempt to alleviate poverty also began to offer microfinance for small and medium-sized enterprises in Gaza in 1991, which eventually spread to the West Bank in 1996[3] (UNRWA, 2010: 6). By 2010 the UNRWA programme accounted for US$103.89 million in Gaza (42 per cent of its operations) and US$83.52 million (26 per cent of the total operations) in the West Bank (UNRWA, 2010: 6). However, despite claiming to be run on a 'self-sustainable basis' the programme has relied on investments for its capital from numerous countries and organisations, including Australia, Germany, US, the Arab Gulf Programme for United Nations Development Organisations (Saudi Arabia) and, notably, the PalFund Trust sponsored by OFID (OPEC Fund for International Development) which by 2010 had provided in the region of US$10million (UNRWA, 2010: 6).[4]

Coinciding with the formal establishing of the PNA following Oslo (1993), the second stage occurred between 1995 and 2000. During this period MFIs became part of the institutional boom (of both a formal and informal nature) that developed under the proposed two-state solution. Both a need and potential market were therefore recognised and the sector began to take shape with greater respect for administrative responsibility and regulation. In accordance with Makhoul's (2010b) third and final stage from 2000 onwards, this culminated in the formal recognition of the sector and in 2002 the creation of a networking body via nine established MFIs that would represent, enhance coordination and provide services for MFIs in the West Bank and Gaza (Sharakeh, 2013).[5] By 2004 this body became formally recognised as the Palestinian Network for Small and Micro-finance, or as it is now more commonly known, Sharakeh. It is registered as a non-governmental not-for-profit legal organization at the Palestinian Ministry of Interior. Currently, Sharakeh focuses on building the capacity of MFIs operating in the oPt while promoting awareness of microfinance mechanisms within a competitive environment. Its mission statement reads:

> Sharakeh represents and promotes the development of an efficient and transparent microfinance industry, by rigorously advocating for member interests, providing members with high quality services, facilitating appropriate industry policy development, and actively promoting the industry with the general public and potential microfinance partners.
>
> (Knotts, 2012)

Essentially, performance and poverty reduction remain Sharakeh's overarching goal and to maintain this it has a board of directors consisting of seven persons selected from its full members, and a management team who oversee practice and implementation of microfinance policy.

The effects of the Second Intifada ensured that MFIs became an important part of rebuilding the business sector, gaining legitimacy from the newly established network and receiving plaudits and donations received from international agencies alike.[6] Of course this has also exposed MFIs to the financial realities, as Roullet (2005: 22) notes:

> In that respect MFIs are victims of their own success: the increased expectations of the donors' community for their own performance, in such a way that the underperforming ones are and will be in dire straits unless they review their operations.

Nevertheless, despite attempts to improve conditions and promote financial inclusiveness through the targeting of rural areas and gender-specific loans, improving outreach has proved difficult. With an estimated market of 200,000 people approximately only 18 per cent are serviced by loans (UNRWA, 2010: 23). As already noted, MFIs face similar issues to banks when seeking quality investments in the oPt and this also includes concerns regarding the use of interest charges. Therefore, in a market such as the West Bank where approximately 75 per cent of the population are Muslim, less than 10 per cent of this has access to banking, debt and personal finance (Barden, 2010: 100), which suggests there is scope for the development of Islamic microfinance products. A study carried out by International Finance Corporation (Planet Finance, 2007: 20) found that 47 per cent of micro-entrepreneurs surveyed based their application for credit on religious beliefs rather than the interest charge. Makhoul's (2010b: 7) study, using data gathered from 850 clients (400 of whom received Islamic microfinance), also found that 87.3 per cent prefer Islamic mechanisms because of the issue of usury, 81.1 per cent because of the ease of payment relative to the cashflow of their projects and 65.8 per cent because the purchasing parity involved with the *murabaha* arrangement meant a less costly charge when compared to standard interest rates.

Islamic microfinance in the West Bank

Both the conditions and religiosity have created a demand for Islamic microfinance products in the oPt. However, it was not until 2008 that this was formally recognised with the establishing of the Deprived Families Economic Empowerment Program (DEEP) under the supervision of the UNDP. Adhering to the standards established under the Sharakeh initiative, DEEP's mission states its desire to link 'Microfinance and Safety Net Programs Creating New Pathways for the Poorest', but with the intent of using Islamic mechanisms as a way of inducing ethical practice. This was elaborated upon by DEEP project coordinator, Iyad Nabulsi:

> During the trial period (2008–2011) the programme had two initial functions with the hope of stimulating production as a way of increasing empowerment. First, for those assessed as living below the poverty line grants were provided. A technical assessment was carried out of the person or family to ascertain what capabilities they had, such as embroidery skills or available machinery that could be put to use. This was followed by a period of training to ensure a standard could be obtained. Once in motion, advice and technical support for the family was provided as to enhance sustainability of the enterprise, this included the use of financial expertise. Between 2008 and 2011 4,500 subjects participated in the project receiving an average investment of US$5,000. Second, for those living above or on the poverty line, more rigorous microfinance schemes were promoted. As with the grant based programme, initial assessments and necessary training was provided with the aim of generating income for the participant and their families. Two thousand five hundred subjects participated in this scheme receiving an average investment of US$4,000.[7]

As of 2011 the DEEP programme functioned with seven MFIs providing services to the West Bank and Gaza; YMCA, PARC, FATEN, Asala, Reef, ACAD and Islamic Relief, each of which specialise in particular areas and subscribe predominately to a form of *murabaha* financing. For example, Asala focused on improving the conditions for low- and medium-income women by providing financing for start-ups or existing ventures. They offered two types of loans, first US$1,000 to US$5,000 with an applied *murabaha* charge rate of 18 per cent and a repayment period of between six and twenty-four months, and, second, loans of US$501 to US$15,000 with an applied *murabaha* charge of 8 per cent and a repayment schedule of between twelve and thirty-six months (Makhoul, 2010b: 23).

With regards to the agricultural sector, both ACAD (Arab Center for Agricultural Development) and Reef provide schemes. ACAD have focused on persons of low income and former borrowers, and provided in general three types of loans. For less than US$3,000 the *murabaha* charge was 12 per cent with a repayment schedule of up to two years. The second type focused on loans of between US$3,500 and US$5,000, offering a 9 per cent *murabaha* charge with repayment between three and thirty-six months. For loans of US$5,000 or more a lesser *murabaha* rate of 8 per cent was offered with a repayment schedule once again of three to thirty-six months.

Reef has also sought to invigorate the agricultural sector through the provision of microfinance using very similar methods. They have offered large scale financing to cooperative ventures of up to US$100,000 to invest in cattle and livestock with a *murabaha* charge of 6 per cent over a twelve-month period (Makhoul, 2010b: 24). Reef also offers similar amounts to societies or individuals wishing to obtain industrial machinery (payable over a thirty-six month period) and smaller loans of US$1,500 for families in rural areas (Makhoul, 2010b: 24). Barden (2010: 100), for example, draws attention to a farmer in the district of Jenin who obtained US$5,000 from Reef for the purchase of a greenhouse for his vegetable crop. As with all of the DEEP listed MFIs, the farmer had to contribute to the project by providing the labour and preparing the land. In return Reef provided the financing in-kind based on an equitable profit sharing basis whilst also offering technical support throughout. The revenue generated from the project paid back the loan for the greenhouse and the farmer made sufficient profit in the process.

Smaller loans are also provided through organisations such as the YMCA, who offer financing between US$300 and US$7,000 for small businesses or existing projects, with a charge rate of 8–12 per cent applied and a repayment schedule varying from three to twenty-four months respectively (Makhoul, 2010b: 24). For families and wage earners seeking to develop existing businesses or housing, FATEN offers two types of microfinance. The first provides funding for projects of less than US$5,000 with a *murabaha* charge of 6.5 per cent and a repayment period of four to forty-eight months. The second type of loan is between US$5,000 and US$10,000 with a charge of 8 per cent over a four to forty-eight month repayment schedule.

The first phase of the UNDP-DEEP project ended in May 2011. According to Iyad Nabulsi[8] the project was a success, showing '85% of the initial partners involved in both the grant and loan schemes were still involved at the end, and many of them show both sustainable and profitable gains, some on a daily basis'. With all of the MFIs involved in the DEEP programme offering relatively low *murabaha* charges on loans and technical support throughout, it made the initiative more society friendly and therefore encouraged empowerment. For example, Makhoul (2010b: 34) in his study noted that those receiving Islamic microfinance had their income on average improved by 19.2 per cent. In addition to this, 67.6 per cent became able to save money for emergencies and 67.8 per cent were able to tend to basic needs such as the purchasing of medicine, food and even improved housing. More interestingly, 53.8 per cent have removed themselves from extreme poverty levels and 59.9 per cent said they had reached the status of financial independence (Makhoul, 2010b: 35).

The DEEP programme in general has therefore had a positive effect upon the people it provided finance for, meeting its initial objectives. Iyad Nabulsi further explained that the success of the project had drawn global interest and encouraged both donors and clients alike to participate in the second phase (2011–2014). He stated:

> We intend to extend the parameters of the programme to include more client participants and offer a broader range of financing methods in the process such as *musharaka*, including diminishing *musharaka*, *bai-salam* and *ijarah.*

To reiterate, then, the success of the DEEP programme is related to the professionalism and the technical support provided in the implementation of the ethical-based project. In addition to this, the low *murabaha* charge adopted by participating MFIs has also contributed to client satisfaction. Once again, statistics recorded that 57 per cent of the participants accepted the rate of *murabaha* was less than that of conventional loans (25 per cent stated it was similar to interest charges) (Makhoul, 2010b: 39) whilst repayment schedules received a more balanced response. In general, Islamic microfinance in the oPt has maintained a lower charge rate when compared to the regional or global equivalents. For example, in 2008 the average charge was

17.2 per cent in the oPt whilst in the Middle East the average was 31 per cent, Latin America 47 per cent, Asia 31 per cent and Africa 39 per cent (Makhoul, 2010a: 1). Islamic microfinance in the oPt, evidenced by the Palestinian DEEP programme, has applied even smaller charges ranging from 6.5 to 18 per cent, and although this signifies a society focused approach it does bring into question the long-term sustainability of the institutions who continue to offer lower rates, particularly when considering the conditions and the considerable amount of financing the MFIs are receiving from donors. In its initial phase DEEP received US$42 million to initiate its microfinance scheme in coordination with the aforementioned MFIs. Most of this money came from the Islamic Development Bank and the Arab Fund while the UNDP provided technical support.[9]

As previously stated, over-reliance on donor funding decreases the ability of society to self-organise and subsequently increases dependence. Subsidising the microfinance programme is likely to remove the prospect of the sector becoming sustainable in the long term and therefore to impact negatively on poverty levels (see Crabb, 2007). For example, according to an independent audit carried out on ACAD's operations in 2011 by Deloitte, it is clear that its operations have been significantly supported by donors, with the Islamic Development Bank providing a US$700,000 three-year loan with a 2 per cent charge rate in 2008 (through the UNDP-DEEP programme), which was continued with a US$400,000 loan in 2010. In March 2010 the Agence Française de Développement (AFD) supplied a 'non-interest' loan of €673,000 (ACAD, 2011: 7). In September 2010 ACAD also signed an agreement with the UNDP worth US$100,000 to provide diminishing *musharaka* for low-income families over a four-year period. It was however determined that in this agreement profits gained from the projects would be re-injected back into ACAD's lending capital for Islamic microfinance only. In summary, it is noted in the audit that the cost of ACAD's 'programmes and administrative expenses as well as fixed asset procurements are significantly financed by donations' (ACAD, 2011: 10).

Subsidising microfinance therefore has its detractors. Makhoul (2010a: 30–31) believes this has led to an oversight in the operational practice of MFIs who have focused on setting 'interest rates and murabahah depending on the strategy of cost and competition [amongst competing local MFIs]' without taking into account the cost of inflation, which had reached 23 per cent in the West Bank during 2010. Applied interest or *murabaha* charges for that matter have gotten nowhere near inflation and because of this the portfolios of MFIs have declined in real terms. For MFIs involved in DEEP in particular, the cost of this indiscretion has been compounded by the realisation that using an Islamic approach, which has included detailed technical support and low *murabaha* charges, has required 'more effort and time to implement, and thus more expensive than financing options of interest' (Makhoul, 2010a: 38). In short, it is estimated that administrative-related activities amounted to 90 per cent of all expenses in 2009 (Makhoul, 2010a: 11).

What Makhoul (2010a: 36) highlights is that because of accumulating costs, the failure to adapt to high inflation and implement sustainable interest charges has led to a gap between the Average Portfolio Yield Rate (APR)[10] of the MFIs in DEEP and the Sustainable Portfolio Yield Rate (SPR). This jeopardises the existence of the MFIs involved and only FATEN has managed to maintain a significant level of self-sufficiency, which is more likely due to its success in other areas of financing, such as conventional microfinance, rather than its use of Islamic methods. FATEN[11] has received numerous global awards for its contribution to microfinance and its overall transparency in practice. By the end of 2010, out of the estimated US$8,270,000 granted in Islamic financing by the DEEP MFIs, FATEN had provided 32 per cent followed by ACAD with 26 per cent (Makhoul, 2010b: 26). However, due to the accounting process undertaken by FATEN, and all of the other MFIs operating Islamic methods for that matter, it is difficult to identify just what the profit difference is between both Islamic and conventional microfinance. What we can surmise is that according to its 2011 annual independent audit, it disbursed 9,654 loans worth US$24,710,426 (Palestine Auditing and Accounting Co., 2011: 17), almost three times more than that of the DEEP programme between 2008 and 2010. FATEN's gross portfolio yield was also close to inflation at 20.6 per cent while its profitability has been proven with a return on assets rate of 9.5 per cent,[12] return on equity 16 per cent and an operational self-sufficiency ratio of 195 per cent (ibid.).[13]

When compared to FATEN, other MFIs are less secure, and as one economist who worked for FATEN declared: 'We are sustainable but organisations such as ACAD and Reef are struggling to even cover their overheads.' Reef is owned by its shareholders, two of whom are European microfinance institutions, Triodos Facet from the Netherlands and PlaNet Finance from France. Reef's funding is supplied by its shareholders, but mostly from loans and grants,[14] and its profits from microfinance are used to cover loans and pay dividends to its shareholders who expect an annual return of 5 per cent (Barden, 2010: 101). Despite its corporate structure, in 2011 Reef had a return on assets rate of -8.18 per cent and similarly with a return on equity of -12.83 per cent (Mixmarket, 2012). In addition, it also only achieved a gross portfolio yield of 11.64 per cent, significantly lower than average inflation.

As previously noted, uncertainty surrounding the sustainability of MFIs in the oPt, particularly those offering Islamic mechanisms, has provided cause for concern, especially when considering the preferred accounting methods. As Makhoul (2010a: 46) writes:

> All institutions participating in DEEP do not make the process of assessing profitability or return or even the contribution of each product or service offered separately, which hinders the process of assessing the sustainability of products, and this ultimately leads to a blurring and lack of clarity in the mechanisms used by microfinance institutions in the Palestinian territories in setting interest rates and *murabahah* to their financial services provided, especially private loans and credit creation.

This has caused considerable concern for the PMA who, in response to the converging of Islamic and conventional accounting, have sought to impose new structures on the microfinance sector (PMA, 2011; PNA, 2011) demanding that each MFI declare itself either conventional or Islamic so as to reduce transparency issues. This once again lessens the flexibility of the sector and potentially inhibits the prospect of obtaining a balance between catering for society's needs and profitability, something that the leading MFI in the oPt, FATEN, seems to be doing quite well in their offering of both Islamic and conventional methods. A member of one of the MFIs stated:

> This is an incredibly frustrating situation that brings into doubt the survival of the microfinance sector as a development tool. It is fair to say that a number of us are lobbying the PMA quite hard to overturn this ruling.[15]

Summary

When compared to the comparative Islamic microfinance models in this book, the oPt has developed an impressive programme and could potentially be a leader in the industry. Microfinance in general has an important role to play in both the sustenance and development of Palestinian society when considering the restrictive conditions and, as Roullet (2005: 22) writes, it 'contributes to the reshaping of the whole financial sector in Palestine'. Of course not everyone can benefit from the schemes on offer, evident in its estimated outreach of 18 per cent in a market of 200,000 potential clients (UNRWA, 2010: 23). In regards to Islamic microfinance, there is a growing demand and a current market that has managed to produce positive results, not least according to Makhoul's study (2010b: 35) which showed 53.8 per cent of participants involved in the DEEP programme were no longer under 'extreme poverty levels'. The offering of technical support and a relatively low *murabaha* charge in the DEEP programme has enabled a higher success rate for clients. However, apart from FATEN all of the MFIs involved are struggling to meet their overhead costs and are reliant on the funding supplied by donors to keep their businesses going. To this end, an issue of sustainability has arisen that affects the long-term developmental role of MFIs operating in the oPt. To relieve this situation it is thought that a higher more 'sustainable' charge should be applied to cover the administrative costs in particular, but this may also challenge the ethical objectives of the project.

Nevertheless, while concern is warranted, especially regarding accounting methods, it would be a mistake on behalf of the PMA (under the influence of international guidelines) to limit the MFIs' practice to a choice of either Islamic or conventional methods. As with the FATEN example, successful operation of both under more flexible parameters has enabled socioeconomic empowerment, profitable enterprise and therefore a degree of adaption. Introducing this policy is therefore likely to strengthen the rigid stable attractor, which will reduce diversity in financial access, and for those who cannot reach sustainable practice, failure and closure.

Maintaining the balance is therefore important; according to a senior FATEN member, one way of alleviating the economic concerns would be to ‘merge some of the smaller MFIs to increase their capital’. This would also reduce the competition between the MFIs and allow for the introduction of a more sustainable rate of charge. However, the reality remains that regardless of the interaction and debate regarding sustainability, the Islamic microfinance sector’s performance is dependent upon the rigid stable attractor in which it operates, and while it does offer itself as a source for self-sufficiency it is ultimately unable to test its true value because of the conditions. At present, then, the DEEP project in particular, which should promote itself as key institute for receiving donor investment when compared to other destinations, tends to survival rather than self-organisation given its dependency on external grants. There is potential for local banks to provide equitable loans to MFIs (using local deposits to invest in local ventures), but once again given the restrictions placed on the financial sector, this will be difficult to implement.

Islamic microfinance does seem to offer an alternative to conventional methods, but the cost of the projects as highlighted in the case of the oPt makes it less competitive within the conventional framework. Therefore, while adaption to these circumstances is advocated for institutional survival purposes, it is essential that policies, whether macroeconomic or local, should not restrict the true objectives of attending to local needs.

Notes

1 It would be inaccurate to suggest Gaza has reached this point considering the continuation of the blockade and subsequent militarised exchanges.

2 One such programme has been the Ryada microfinance initiative administered by Cooperative Housing Foundation (CHF). It was established in 1994 and was one of the first institutions to provide credit (see ESCWA, 2009).

3 This UNRWA scheme was also implemented in Jordan and Syria.

4 UNRWA did however report a 21 per cent profit in the West Bank during 2009–2010 (UNRWA, 2010: 14).

5 Initially there were nine MFIs who set up this initiative: ASALA, ACAD, FATEN, UNRWA/MMD, ANERA, PARC, CHF, PDF and YMCA, and Al Ameen from Gaza which later separated from the grouping to become a profit orientated business (Sharakeh, 2013)

6 By 2007 it was estimated that US$30 million had been invested by donors through capital and technical assistance to the microfinance sector in West Bank and Gaza, with USAID apparently being the biggest contributor, followed by the EU and the Islamic Development Bank (Planet Finance, 2007: 20).

7 Interview conducted with Iyad Nabulsi in Ramallah, May 2011.

8 Ibid.

9 Technical support was also provided at considerable cost to the UNDP and therefore can also be considered as a key contributor.

10 Totalling all income divided by number of investments.

11 Also known as Palestine for Credit and Development, it was initiated as a programme in 1994 and was officially established in 1999 (FATEN, 2016).

12 During 2009–2010 MFIs operating in the West Bank reported a return on assets (ROA) of 6 per cent with a long-term average of 4 per cent, considerably lower than the MENA average of 8 per cent (UNRWA, 2010: 14).

13 According to MicroCapital.org (2013), FATEN also receives international investment. Sanad, a German micro investor for SMEs (part of German development bank Kreditanstalt für Wiederaufbau Entwicklungsbank) invested US$2 million into FATEN.

14 According to Mixmarket (2012), grants are the main source of income.

15 At the time of writing this issue was unresolved but the MFIs were still trying to persuade the PMA to change their plans. A PMA spokesperson in December 2012 declared there was no official ruling regarding this matter 'as yet'.

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7

Zakat and Islamic charities in the West Bank

In view of the complexity framework, what happens at the lowest level is of great significance as it is here where the most effective patterns for sustainable interaction will occur (Rihani, 2002: 136). Societal interaction over time creates knowledge which induces adaptability to the circumstances confronting them. A natural and somewhat successful part of this process of self-organisation has been the setting up of charities, welfare systems and the design of social policies, all emerging from within a locality and providing socioeconomic protection within their given environment. As previously noted, Muslim societies throughout history have attempted to instil ethical and charitable values through a variety of processes revolving around the meanings of *khayr, sadaqa* and particularly *zakat.* Considering the conditions in the oPt, charitable mechanisms are most welcome given the levels of poverty that exist. Nevertheless, as asserted, the oPt suffers from a continuation of restrictive policies that has placed it within a stable but rigid framework. This is particularly evident in regards to the highly politicised and securitised nature in which regulations (from the macro and through local levels) have targeted Islamic charities in the oPt. Without the autonomy or even flexibility obtained by government and non-government actors in Iran and Lebanon for example, it has impacted upon the ability of local communities to attend to local needs and also caused an implantation of development schemes designed to replace the Islamic models, many of which have a distinct lack of local knowledge.

In Chapter 4, attention was drawn to the emergence of both secular and Islamic political movements in the oPt, reflecting upon their social role under occupation. However, the roots of Palestinian Islamic charity can be traced back to the establishing of *waqf* in the post-Crusade period where land obtained by sultans was given religious status in order to raise revenues to finance their upkeep (see Assi, 2008: 380–385). During the Ottoman period both private and public[1] *waqf* gained in both size and status, and were developed in cities and towns such as Jerusalem, Gaza, Nablus and in places that are now part of Israel like Ramla and Lydda (Peri, 1992: 167). The *awqaf* built and maintained mosques, developed education and provided charity, essentially offering the functions of what would now be a municipality in the territories. Over the centuries they accumulated land, property and assets, but towards the end of Ottoman rule a general lack of regulation led to a number of them becoming overburdened by a lack of control over the amount of entitlements and therefore beneficiaries, which significantly diminished financial resources.[2] Under British mandate the British government supervised the Palestinian *waqf*, initially through the Supreme Muslim Council (SMC) and after 1937 via an official *waqf* committee (see Reiter, 1996). Beyond 1967, charitable organisations in the West Bank were governed by the Jordanian Ministry of *Awqaf*, which after 1977 began to register the larger ones as '*zakat* committees' under Jordanian law (Schäublin, 2009: 8).

Beginning with the First Intifada, Islamic charities and *zakat* committees in particular established themselves as a vital means to sourcing international finance, which enabled them to 'diversify their activities' and establish 'nurseries, schools, childcare centres, hospitals, medical centres, specialized clinics, and job-generating projects' (Schäublin, 2009: 16). After Oslo (1993) the PNA assumed responsibility for the Islamic charity network, and although it still adhered to the Jordanian legal formula it sought to embrace it as part of the nationalist project. By 2009 'effective and efficient management of zakat funds and Waqf property' was being advocated (PNA, 2009: 21).

What makes the oPt distinctive from the other examples is that attempts to implement local welfare or charitable systems (public and private) based on the Islamic ethos have succumbed to periods of intervention, war and occupation. It is because of this that their scope and ability to improve development have been affected. Although there is no evidence to suggest that what was active during the Ottoman period would have provided sufficient support to adapt to the ever-globalising economy, it is important to emphasise that stemming from the aforementioned periods and ending with Israeli occupation, rigid policies have been enforced at the macro and micro level and impeded the ability of Palestinians to self-organise.

Since the onset of the occupation in 1967, then, Palestinian *waqf, zakat* and Islamic charities have suffered numerous restrictive policies that have led to reductions in funding,[3] the loss of influence and outreach through security containment, plus land seizures and cumulatively the loss of resources. Despite this, Islamic charitable mechanisms have become increasingly popular, bolstered by their relative efficiency and worsening socioeconomic conditions in the oPt.[4] For example, the Hebron Charitable Association, considered one of the largest of such organisations in the West Bank,[5] had an approximate expenditure of US$7 million in 2006 (Benthall, 2008: 7). As of 2008 it supported 2,500 orphans and other children affected by poverty. It has also run schools (20 per cent of the students of which paid fees) and computer labs in addition to dairy farms and a bakery (Lundblad, 2008: 208). Nevertheless, with financial resources shrinking due to the securitised situation it has taken to renting out housing and shops to raise revenue for its charitable ventures.

Under current circumstances, then, Islamic charities face the task of deposing a label that restricts their interaction with Palestinian society. The securitization and politicisation of the sector, which has been propagated externally by Israel, the US and the EU, has blurred the boundaries of charitable activity by connecting a number of *zakat* committees and general

Islamic charities to a terrorist support network, organised by the Islamist movement Hamas.[6] Hamas since its creation has emphasised charity as an integral mechanism but, like the Muslim Brotherhood in Egypt and Hizballah in Lebanon, it has also sought to gain political influence within the conditions in which it exists, not unlike its rival non-Islamic Palestinian organisations, such as Fatah and other actors within the PLO and PNA. However, there has been an overplaying of its influence in the charity sector, which does not reflect the complicated nature in which Islamic organisations operate within the territories and West Bank in particular. In order to understand the potential of Islamic charities within a process of self-organisation, this chapter will assess the relationship between security and the Islamic charities themselves, promoting a detailed understanding of how they have become an important part of society but continue to suffer because of the highly rigid framework in which they operate. To emphasise this point, I will provide a case study on the nature of Islamic charities in Nablus, a city in the West Bank of Palestine that witnessed an upsurge in support of Hamas during the Second Intifada.

Securitisation of Islamic charities in the West Bank

The anti-terror agenda that currently pervades international politics is most evident in the oPt, and is particularly relevant when analysing the Islamic charitable sector in the West Bank. Since the Second Intifada in particular, the dynamic between Palestinians and Israel has been largely governed by the latter's attempt to control security and prevent any violent attacks against its citizens. It was during this period that Hamas established itself as a military force, one that has used conventional and asymmetric methods (including suicide attacks) to target Israeli forces and civilians.[7] Israel has used this to gain support from the international community in decreeing Hamas to be a terrorist organisation.[8] Therefore, the securitised environment advocated most prominently by Israel and the US increasingly drew attention to Hamas and its influence within the oPt, which included its supposed leadership over a network of Islamic charitable organisations operating in the West Bank. According to Israeli sources there are internal[9] and external[10] streams associated with aiding the objectives of Hamas. For example, Israel's Ministry of Foreign Affairs (IMFA, 2003a) has highlighted their 'extensive network of financial sources, operating within the framework of *Dawa* activity, with a total value of tens of millions of dollars a year'. An interesting aspect of Israel's analysis is its referral to the *Dawa* (which translated from Arabic is closely related to 'invitation' or 'calling' to Islam), believing that this is 'the movement's infrastructure' (IMFA, 22 September 2003b) and consists of various social services that are carried out by a number of organisations operating throughout the oPt. For Levitt and Chosak (2005), the *Dawa* has generated 'both popular support for the organisation and logistical support for its terrorist attacks'; thus a nullifying of its financial streams combined with the creation of 'transparent public and private social-service organisations unaffiliated with Hamas or other groups engaged in terrorism or political violence' would reduce Hamas' support whilst simultaneously attending to the needs of society.

This approach was adopted at two levels. Internationally, both Israel and the US targeted organisations that were deemed to be providing funds for charities in the oPt that had affiliations with Hamas; the Holy Land Foundation in the US being a case in point. This was added to by the banning of four organisations in the UAE and Kuwait, three in Qatar and the UK, two in Saudi Arabia, Bahrain, Sudan and Egypt, and one each in Dubai, Algeria, Morocco, Jordan, Lebanon, Australia, Sweden, Norway, Switzerland, Austria, South Africa and Turkey (IMFA, 2008b: 173).

Domestically, the systematic targeting of charitable organisations and *zakat* committees which had any association with Hamas was advocated on the grounds that they were a vehicle for terrorists 'to move personnel, funds, and materiel to and from high risk areas under cover of charity work, and provide terrorist operatives with day jobs that provide both salary and cover' (Levitt, 2006: 62). For example, in Levitt's analysis of Nablus in the north of the West Bank, he associates the Nablus *zakat* committee with acts of terror and suggests it is typical of Hamas' ability to 'institutionalise grassroots dependency on the organisations institutions', pointing to its business acumen in 'providing jobs through businesses which they own or in which they are partner, including the Yasfa [sic[11]] dairy company' (Levitt, 2006: 119).

In addition to the *Zakat* committee in Nablus, Al-Tadhoman Charitable Society has also been cited by Levitt for its apparent connection to terrorist activity having previously been associated with the Muslim Brotherhood's charitable network beginning in the 1950s, and more recently for its links to individuals affiliated with Hamas.[12] To emphasise once again, Levitt draws attention to former head of the charity Sheikh Hamed Bitawi who was considered as an official of Hamas,[13] and Adli Yaish who he accuses of using his position as member of Al-Tadhoman and treasurer for the Nablus *zakat* committee to transfer Hamas funds (Levitt, 2006: 103).

To summarise, then, much of the concern for the Israeli government and the US (including Levitt *et al.*) has revolved around the role of Islamic charities in providing a support network for terrorist activity and concomitantly influencing the welfare process which in turn is said to assist in the indoctrination of Palestinian society. As a counter-measure, and despite warnings against such, this led to the imposition of a 'blanket policy' on Islamic charitable institutions[14] that has seen the targeting of individuals, plus local and international organisations linked with Hamas. An individual who suffered as a consequence of this was Sheikh Daragmeh from Ramallah, a local businessman and religious leader with links to Hamas. It is thought that Daragmeh attracted attention to himself via his charitable contributions, notably an apparent offering of US$2 million[15] for the building of Yarmuk Mosque in Ramallah; he was subsequently targeted by PNA security forces. An associate of his told me:

> Sheikh Daragmeh is a businessman but he gives a lot of money to charity. He has given loans to friends without charge and supported students who need help with their fees. In 2007 his businesses were attacked by the Fatah security forces (PNA), who eventually closed them down and took his money.[16]

This incident typifies the extent to which securitisation of the Islamic charity sector has increased following Hamas' electoral victory in the West Bank, but it also indicates a process of ongoing politicisation and justification for the removal of an actor with political aspirations. As previously noted, Fatah and the PLO have since the 1960s provided social services, which enhanced their political position. Since the 1980s Hamas has adopted a similar strategy, which has contributed towards internal political tensions. As an Islamist organisation, Hamas has a political goal in mind and is therefore entrenched in a political struggle regarding the direction of the Palestinian cause, notably with Fatah. As a senior Fatah member from the Nablus area told me:

> Much of what they [Hamas] do is political. They are competing for votes, money and support so it is important for them to be seen as the 'good ones' against Fatah. Some of them are honest men, some are not but there is a political goal in mind when they attach themselves to charities.[17]

In responding to this and backed by the international community, the PNA under Abbas and Fayyad oversaw the closure of approximately 123 Islamic and secular charities in the West Bank, which included ninety-two *zakat* committees[18] (Schäublin, 2009: 42). In *Ending the Occupation and Establishing the State* Fayyad reiterated the PNA's objective to:

> Protect and promote effective and efficient management of *Zakat* funds and *Waqf* properties through:
>
> - Improving the management of the *Zakat* funds and ensuring equitable distribution.
> - Following up on the survey of the *Waqf* properties.
> - Creating a computerized database to keep all information on *Waqf* properties.
> - Developing policies on the best utilization of *Waqf* properties.
>
> (PNA, 2009: 21)

In addition to this, in May 2009, the PNA affirmed its authority when the *Qadi al Quda* (highest judge of the *Shari'a* Courts)[19] officially informed the PNA Minister of Justice of its decision to freeze the *waqf* properties of all local mosques not belonging to the PNA, and the real estate belonging to the *zakat* committee (Schäublin, 2009: 45). This of course angered some former *zakat* members in the West Bank who claimed 'they had bought real estate with their own money and registered it under the name of the zakat committee' (Schäublin, 2009: 45).

As suggested by Levitt and Chosak (2005), to complement these security measures donor agencies invested further into international organisations (governmental and non-governmental) that were subsequently tasked to fill the welfare vacuum created. This was implemented through a highly bureaucratised process orchestrated by organisations such as the World Bank and UN. NGOs such as UNRWA, the Red Cross and Red Crescent continue to provide some relief while more politically motivated agencies such as USAID, CIDA and the EU attempted to bolster the national infrastructure through the PNA, using terms such as 'civil society', 'democratisation' and 'rule of law' in the process. Nevertheless, despite enforcing this policy the PNA were also well aware of the problems that would be incurred following the closure of the Islamic charities (including *zakat* committees) as they had played an important role in supporting society for a number of decades. As Benthall (2008: 7) noted prior to the closures:

> The extent of deprivation and need in the Palestinian Territories has become more serious over the last thirty years, as a result of the failure of a succession of initiatives to try to resolve the Israel-Palestine conflict. In several major towns in the West Bank, some 90 *zakat* committees, as well as numerous Islamic charitable associations, have been gradually expanding their activities in providing services to local communities.

The inability of the PNA to raise sufficient funds to implement an appropriate fiscal policy towards supporting the development of a social service sector is tantamount to the lack of a national infrastructure under occupation. Since 1993 in particular, these financial shortages have been exacerbated under highly politicised requirements and more specifically preordained expenditure in other areas such as security and law, which is steered and supported by the donor industry. For these reasons, the PNA acknowledged the need to maintain a local charitable sector to relieve the burden on itself. Therefore, shortly after imposing its authority it encouraged a number of *zakat* committees and Islamic charities to re-apply for registration under its regulatory guidelines.

The subsequent reforming of the NGO sector has therefore enabled the PNA to promote transparency in both the formal and informal financial sectors in the West Bank, but perhaps more significantly it has affirmed control over senior appointments to charitable organisations. For example, the reformed *zakat* committees are required to register with the various ministries relevant to their area of work, and the Ministry of *Waqf* must approve the election of any new committee members (Benthall, 2008: 10). The committees operate with between seven and thirteen members, none of whom are allowed to be related. There is no payment to its members and a strict auditing process was applied (Benthall, 2008: 10).

The PNA initiated policies that pacified external actors and also removed the prospect of a strong parallel organisation emerging, such as Hizballah in Lebanon. However, the policies also impacted negatively on local, particularly rural, communities that relied upon the services provided by local charities. The effects of this will be discussed below following an analysis of the theoretical flaws in the current approach.

A flawed theory?

With the PNA establishing control over the Islamic charitable sector in the West Bank, it appeased both Israel and the international community over their concerns regarding Hamas and other Islamist organisations. Nevertheless, the implementation of a blanket policy and PNA regulation has had a huge impact upon the Islamic charitable sector's functions, and while attempts to imbue transparency should be applauded, there is no denying that broader motives were at the heart of this reform. Based on this assumption it is important to discuss the 'claims' on which the policies were based.

First, the notion of a *Dawa* or a Hamas-orchestrated network of charities should be challenged. For example, Benthall (2008: 8) in his research found no evidence 'to support the contention that there is a social welfare section called "the Dawa" ', and whilst he does acknowledge that Hamas has its own structured welfare organisations, they do not hold control over other independent charities stating firmly: 'Dawa is a principle, a set of values, not the name of a department' (Benthall, 2008: 8). Benthall recognises the role of Hamas within the charitable sector (typified by *Al-Mujama al-Islami*), but asserts there is no clear evidence to indicate a holistic network of Islamic charitable organisations exporting a violent rhetoric or supporting acts of terrorism. And while we can acknowledge Hamas' part in politicising the sector, it is perhaps more accurate to recognize the existence of a more complicated process which, as Høigilt (2010: 31) notes, has survived through a degree of cohesion amongst all of the charities without a hierarchical chain.

Second, the *Dawa* theory is justified by the linking of Hamas affiliated individuals to active charities, including *zakat* committees. Once again though, the simplicity of this assumption ignores the intricacy of the situation. For example, some actors were not Hamas party members but part of a political bloc opposed to the Fatah and PLO dominated PNA. As Schäublin (2010: 10) notes: 'In the municipal elections of 2005 and the PLC elections of 2006, many *zakat* committee members ran on the opposition ticket of the Hamas-led Change and Reform bloc, which retroactively contributed to the politicization of the committees' role.' In addition to this, many of these persons associated with Hamas had the appropriate technical expertise to deliver an Islamic charitable service and in a majority of cases this alignment was enhanced by a support for Islamic values and even a process of Islamisation rather than violence. Nevertheless, as previously discussed the mere mention of Islamisation in the current context is enough to trigger security concerns as it is most commonly attributed to radical indoctrination. It is poignant to note in the case of the West Bank that many of these Islamic (or Islamist) organisations have regular contact with local communities and to a certain extent the goal of some is to perform the ideological duty of 'Islamisising or re-Islamisising' society (Lundblad, 2008: 195), but there is no evidence to suggest that a process of indoctrination is taking place. In Høigilt's (2010: 35) study of Islamism in education in the oPt, he found that despite linkages between Hamas members and certain private Islamic schools funded by Islamic charities, there was no evidence to suggest that a process of radical indoctrination was taking place, affirming that all of the schools he visited adhered to the national curriculum put forward by the PNA.

In essence, the appeal of the Islamic sector is related to their speed and efficiency in delivering welfare services compared with the bureaucracy encountered when dealing with the international sector (Challand, 2008: 241), which in general subscribes to norms attached to the Washington Consensus. To this end, traits of implementing a rigid hierarchical policy are evidenced once more, confirmed by Challand (2008: 242) who states: 'every year donors pour hundreds of millions of dollars into various organizations and where external involvement is paramount in solving the "Palestinian question" from above, regardless of the situation on the ground.' Conversely, Islamic organisations are able to remain 'flexible, adapting to local need' by tapping into 'local knowledge, networks, and resources to tailor assistance' (Challand, 2008: 241).

To summarise, then, the imposition of securitised and highly politicised policies, based on a flawed theory of Islamic charity operations in the West Bank, has led to a process whereby local individuals and organisations have been restricted in their interaction with society. The effects upon organisations, individuals and communities will be discussed below.

Effect on Islamic charities and society

Securitisation and politicisation has stigmatised the Islamic charitable sector in the West Bank, which from a Western perspective has resulted in a blurring of the boundaries between Islamic, Islamist and radical, thus significantly reducing the funding of Islamic organisations in general and ultimately affecting those most in need. It has been suggested that Islamist organisations such as Hamas have been able to better maintain their funding streams due to their ability to tap into informal networks, but the same cannot be said of the sector in its entirety. As Challand (2008: 231) writes:

> Islamist NGOs apparently did not have serious financial difficulties during the early years of the second intifada and managed even to increase their work. On the contrary, charitable NGOs have suffered during the Oslo years from diminishing locally generated income and international support, whether from the Gulf region, which might have preferred supporting Islamists, or from Western donors fearful of funding Islamists.

The 'blanket policy' has therefore impacted upon individuals, Islamic organisations and communities within the West Bank. From an individual perspective the aforementioned Adli Yaish, formerly of Al-Tadhoman and the Nablus *zakat* committee, was elected as Mayor of

Nablus in 2005 owing much to the success and trust he had gained in his previous positions. However, in 2007 he was arrested by the Israeli government for reasons associated with his financial roles and his running in the 2005 Nablus Municipal elections under the banner of the Reform and Change bloc (Hamas dominated bloc). After fifteen months imprisonment, Yaish was released without charge.

Other lesser political individuals and organisations have suffered similar fates, as highlighted in the case of a *zakat* committee based in Al-Ram.[20] Before the wall was constructed, the district of Al-Ram fared well due to the passing trade of Israeli-Jews and Israeli-Arabs who preferred to buy goods in its less expensive markets and shops. The neighbourhood was also more affluent due to the number of Palestinian Jerusalemites who worked in the city, and who like most at the time had freedom of movement between the West Bank and Israel. Following its closure[21] and its labelling as Area C, the district has suffered degradation due to neither the PNA (for financial reasons) nor the Israeli government taking on the responsibility for the community's upkeep. To compound matters, during 2007 the *zakat* committee which acted as a welfare body within the district had its assets frozen and its leading administrator arrested by Israeli authorities. A senior local figure in the Al-Ram area told me:

> The organisation had been running for a number of decades before it was closed. It provided funds and material for families who couldn't afford to pay for food or send their children to school with the right equipment. They had nothing to do with Hamas and never paid money to it or received anything from it. There was a discrepancy in the accounting that allocated a small amount of money to an area that could not be justified,[22] it wasn't a big amount, hundreds perhaps a couple of thousand shekels,[23] but this was enough to detain 'the administrator'[24] of the charity for twelve months.[25]

To clarify, the removal of key individuals and organisations has hindered funding streams and in some cases detached welfare services from communities most in need. For *zakat* committees, in particular, the new regulations have challenged their existence. For instance, the heavily politicised structural reorganisation left the newly established committees with operational difficulties due to the fact that 'the new leadership had little experience in running zakat committees' (Schäublin, 2009: 46). To help rectify this, the PNA later appointed senior persons with 'local legitimacy and in exceptional cases people from Fatah, who were previously members of the old committees' (Schäublin, 2009: 46). Nevertheless, with support for Fatah and the PNA decreasing the new administration process have been unable to convince donors and potential recipients of its credentials.

For example, part of the new arrangement requires the full registration of persons giving or receiving charity, which as previously mentioned is now administered at the governmental level through the Ministry of *Waqf*. This has created several issues. For instance, as in many other Muslim communities, the issuing or receiving of *zakat* in the West Bank (and the oPt in general) is done with anonymity being of the utmost importance. As previously noted, in adhering to the ethical principles taught in the *Quran*, charity is a duty but should be given with modesty: 'You shall give the due alms to the relatives, the needy, the poor, and the travelling alien, but do not be excessive, extravagant' (17: 26–29).

Adding to this, many of those receiving *zakat* do not wish others to know of their situation, again forming part of the ethical reasoning not to divulge information. However, in the West Bank there are also personal safety reasons relating to the securitised environment. This was highlighted during several dialogue exchanges with individuals from the Nablus, Jerusalem and Ramallah districts who were uncomfortable talking about the situation but all expressed a lack of trust in the administration process.[26] Some feared that their involvement with an organisational charity would result in their arrest and this concern filtered throughout their communities, including the mosques, a foundational point for charities in most Muslim communities throughout the world. This embedded mistrust has also convinced wealthy donors (local and international) to fund other projects outside of the charitable sector, notably affecting *zakat* committees, which in turn has impacted upon community outreach.

Instead of funding *zakat* committees, some wealthy benefactors have chosen to avoid the region while others have opted to invest in national infrastructural projects, such as the building of university faculties or medical wards for hospitals. Nevertheless, as a contradictory aspect of the securitised strategy it has also forced a considerable amount of charitable activity into informal networks. As Schäublin (2010: 48) writes: 'While the Zakat Fund and the central zakat committees are struggling to access funding, people are increasingly developing informal structures to collect and distribute zakat money locally.' An example of the way in which this is occurring was described by a *zakat* donor from East Jerusalem

> Wealthy people wanting to donate will be put in contact with community leaders who will meet with this person or their representative and act as a guide to the town or village. While travelling around, the community leader will point at homes, schools and families for example who he believes are most in need. If the donors are happy with what they have seen they will provide a financial contribution (direct cash transaction) towards the area they deem most fitting.[27]

Survival of the Islamic charitable sector in the West Bank, despite the imposition of restrictive policies, depends on its ability to embed within local communities. Patterns of success and failure have been identified in the case of charity in Malaysia, where a healthy balance between regulation and societal needs has emerged. Some of course are struggling while others have prospered. However, the ability to tap into diverse streams of funding and apply flexible mechanisms for distribution allows for a greater degree of flexibility, and local self-orgnisation. In the oPt, the opportunity to succeed or fail is lost at the regulatory levels, and politicisation of this network has also added to the difficult conditions within the West Bank (and oPt in general). With the PNA unable to deliver a social programme capable of supporting society as a whole, it ultimately asks questions of how stable the current situation is. In the following case these conditions will be identified in more detail.

Case study: Nablus Islamic charitable sector

Nablus is one of the largest cities in the West Bank and has a population of 315,956 (PCBS, 2009). Of this 174,403 reside in urban dwellings while 111,197 live in rural areas. In addition to this 30,356 live in refugee camps.[28] Islam is the predominant religion although there is a small Christian community along with a Samaritan village overlooking the city. Traditionally, Nablus has been considered as an economic centre for Palestinians, and between 2007 and 2008 Tony Blair (under the guise of the Quartet) aimed to help reinvigorate this reputation by negotiating the removal of Israeli checkpoints from around the city stating: 'we have to keep working to end the occupation of the city which turned it from an economical and commercial capital to very hard situation' (IMEMC, 2007).

Nablus is perhaps most well-known for its olive oil soap industry, carried on in a modest fashion today through two small factories operating in and on the outskirts of the old city. However, their production relies on olive oil imports from Malaysia[29] due to the inefficiency[30] of the agricultural sector, which reduces profit margins drastically. So in a region like Nablus where agriculture could be a foundation for development, given the fertility of the land and number of people living in rural areas, it only manages to employ approximately 3,315 workers (PCBS, 2009).[31] Statistics show that the most popular industry for employment was wholesale and retail trade with 13,948 workers, followed by construction 13,733, manufacturing 12,141, public administration and defence (security) 7,762, education 7,241 (largely thanks to An Najah which employs over 3,000 staff in its four campuses), health and social work combined with other social and personal activities 4,247, while 1,681 did not state their profession (PCBS, 2009). However, out of a possible 90,089 males between the ages of 15 and 64, 23,995 are not economically active. For the female population of the same age bracket a huge 75,084 out of 87,107 are in the same position (PCBS, 2009). In the refugee camps alone, out of a possible 16,773 15–64-year-olds, 9,635 are not economically active.

The lack of an industrial base due to resource and movement restrictions, and as highlighted in Chapter 4 a reliance on importing goods particularly from Israel, has left the city and its surrounding areas in a vulnerable position. As with the oPt in general, Nablus is unable to flourish under the current circumstances which has led to a reliance on donor aid and NGO welfare support (through organisations such as UNRWA). It has also led to a significant degree of dissatisfaction amongst the population, which is of considerable concern for those wishing to promote 'development'. Such concerns came to fruition during the First and particularly the Second Intifada when Nablus became a stronghold for resistance and ultimately lawlessness. According to ICG (2008: 159), Nablus was viewed as one of the 'archetypes of security dysfunction'. To this end, Israel and the international community (particularly the US) encouraged the PNA (under Abbas and Fayyad) to send 300 extra military trained personnel onto the streets to support police efforts. Nablus consequently became a West Bank prototype for instilling the values espoused under the contemporary neoliberal paradigm; for example, the 'rule of law' and a move towards strengthening the capacity for free market economics. It also enabled an official clamp-down on the activities of militarised factions, notably Hamas which had broadened its support base significantly during the years of Intifada.

Fear over Hamas' growth and its charitable activities in Nablus brought considerable attention to the city following the Second Intifada. An example of the purging that took place included the closure of a shopping mall in Nablus under an order signed by Defence Minister Ehud Barak on 7 July 2008, reportedly because of financing received from Hamas affiliated organisations (IMFA, 2008a). Intelligence in support of this suggested the mall was part of a Hamas affiliated enterprise.[32] Charities such as the Nablus *zakat* committee and Al-Tadhoman were also targeted in coordination with the PNA, and the removal of Hamas affiliated officials from the charities ensured that control over the charitable sector in Nablus was enforced. To investigate this situation in more detail we can take a closer look at the Islamic charities aforementioned, the Nablus *zakat* committee and Al-Tadhoman.

Nablus zakat committee

The Nablus *zakat* committee was the earliest of its kind to be established in the West Bank (Schäublin, 2009: 35) and was officially registered under Jordanian law in 1977 (Benthall, 2008: 10). Before the occupation it was based out of a mosque in the old city of Nablus (Benthall, 2008: 9) where funds were collected (voluntary and based on the traditional value of 2.5 per cent of wealth per annum) from the locality and distributed via the imam. However, after Oslo and owing to its growing reputation amongst the local community, it established itself as the main distributor of social services such as orphan programmes, an eye hospital and a day clinic (Benthall, 2008: 11) as well as a support mechanism for business activity through partnership investments in companies such as dairy producer Al-Safa.[33]

Al-Safa emerged in 2000 after a programme that was started in 1987 by the Nablus *zakat* committee supported by the International Islamic Relief Organization and the Kuwaiti Zakat House. Under initial guidelines it distributed dairy cattle to rural families so as to induce income levels and promote self-sufficiency (Humanity Voice, 2008). However, without the necessary channels under the conditions in which to market or distribute the milk produced, the *zakat* committee deemed it necessary to build a factory in order to maximise output and diversify its dairy products. The factory cost US$5 million in total and was financed by a grant from the Arab Fund, grants from other charities and soft loans (Humanity Voice, 2008). As the only dairy factory in the West Bank, Al-Safa also gained from international projects. For example, in 2004 and 2005 Canadian organisation Human Concern International were the main financial contributors to two food programme initiatives (for children in particular) to the combined amount of US$92,083 (HCI, 2008).

The service provided by Al-Safa and its ability to attract investment led Schäublin (2009: 26) to believe the dairy company was a 'model development project' that would continue throughout the *zakat* transition. He highlighted six points:

- Provides a market for cattle farmers – one farmer used to have ten cows, and now has 300 (the project started by buying cows for farmers);
- Provides local employment;
- Reduces the risk of brucellosis, which is caused by unsterilized milk;
- Provides a quantity of free milk and milk products;
- Receives payment contracts with numerous agencies to distribute milk and milk products in the oPt for free;
- Markets some milk products to the retail consumer sector, so as to supplement the dairy's revenue.

As exemplified by Al-Safa, through building its asset portfolio the *zakat* committee was trying to develop a strategy to support its own long-term sustainability. In doing so it was able to gain from international organisations (governmental and NGO) such as the UNDP and the World Food Programme (Benthall, 2008: 11) who were keen to tap into its local knowledge and fund its social service programmes. In addition to this, support from other Arab countries also aided the *zakat* committee's mission. For example, during 2003 the UAE provided the committee with funding to deliver food baskets during Ramadan to families in Nablus, which included fifty-five surrounding villages and four refugee camps. According to the chairman of the committee at the time, Dr. Abdel Rahim Hanbali, the food was divided in accordance with those most in need: 'A 10-dollar basket is for the small family, while a basket costing 20 US dollars is allotted to a medium family and a basket valued 30 dollars to a large family' (UAE Interact, 2003). However, despite showing business acumen in its operations and unlike many of the other committees operating in the West Bank, it has been estimated that 90 per cent of fundraising activity has come from the local community, highlighting the importance of the organisation to the city (Schäublin, 2009: 30).[34] According to a charity worker in Nablus, the *zakat* committee was 'like a city itself'.[35]

Its closure under the government of Abbas and Fayyad affected the numerous projects and programmes it was funding. In the view of the international community and the Fatah dominated PNA, the committee had become politicised through its association with Hamas. This accusation was fuelled by figures such as the former deputy chairman, Sheikh Hamid Bitawi, a well-known figure who had relations with Hamas and had been known to preach militancy (Benthall, 2008: 15). However, as previously noted and reported by Thanassis

Cambanis (2007):

> While most of the leaders of the Nablus Zakat, like Hanbali and the mayor of Nablus (Adil Yaish) are not members of any political party, they are known as religious men who support the same Islamist political philosophy espoused by Hamas. Israel considers the distinction semantic, often identifying Islamist 'independents' as Hamas activists.

As previously discussed, the mere mention of the term Islamism within a Palestinian context gave reason to disband Islamic charities, but since the re-establishing of the Nablus *zakat* committee under the PNA its fundraising and general performance has decreased. There are several theories regarding this. The securitisation of the process undoubtedly deterred people from investing in it (particularly international governments and organisations). This general concern amongst the community was suggested by a local finance worker in the city of Nablus who said: 'I can understand why people do not want to give money to the *zakat* committee, even at my own Mosque the Imam will no longer collect *sadaqat* through fear that he will be associated with terrorism.'[36]

For others, the *zakat* committee's decline was associated with politics and corruption. One Hamas member stated:

> There is corruption within the ranks of Fatah and it is now they who control the *zakat* committee in Nablus. This is why the people have no trust in the system. Before, the committee was run by professionals and this is why it was successful, not because they were Hamas or Fatah, but because they knew what they had to do. The committee performed an important job in society, filling a vacuum and relieving government burden, it is they[37] who politicised it.[38]

For the former Minister of Justice under the Hamas controlled government, Dr. Ali Sartawi,[39] international intervention has also played an important role. For him, financial transactions under the old committee was done with the utmost transparency and was a 'legitimate way to finance development', unlike the current NGO system sponsored by international agencies that diverts funds away from local charities and needed areas and towards 'fake projects' such as data collections. He stated:

> For example, a high ranking police official was approached by numerous NGOs with lots of money available for the issue of honour killings, which despite its importance is something that is a very rare occurrence in Palestine especially when compared to other crimes.

For current *zakat* committee Chairman, Dr. Mohammad Hanoun,[40] a Fatah member, the decision to take on the position in the first place was a difficult one due to the political and financial difficulties the committee was experiencing. The reality for the *zakat* committee was that it was forced to undertake a structural change which involved a number of smaller *zakat* charities in the Nablus area being brought under its umbrella, which resulted in a change of name to 'The Central Zakat Committee', while also adding to the Nablus branch's own financial burden. Despite this he started on 28 March 2008. For him:

> The perception of *zakat* committees in Palestine is that they are run by Hamas and this has led to the closing of funding

> avenues from the international community. Our resources are strained, especially considering the addition of new *zakat* committees who have all brought with them their own financial burdens. Since starting I have tried to remobilise local collections but we are talking about hundreds of dollars rather than thousands. This is not good when we have businesses and charities to support.[41]

Dr. Hanoun's concerns are all the more evident when assessing the current situation of Al-Safa. In May 2011, a manager attached to the dairy process stated:

> A business study was carried out on Al-Safa that has highlighted its inefficiencies without the previous funding streams. It currently has approximately 120 staff and eleven dairy farmers under its jurisdiction, however there has been no official workers' rights, salary or payment structure policies implemented under previous management. Accounts have been mismanaged and now there is a desperate need to rectify this as it is no longer self-sufficient.

In truth this decline has been occurring since the Second Intifada which challenges the idea of a 'golden' period under the old committee. As reported by Cambanis (2007): 'A year ago, Hanbali was shipping 60 tons of milk a day, ultra-pasteurized so as not to require refrigeration. Now, with the Palestinian demand crumbling, he is producing 14 tons of milk a day.' The situation was also confirmed by Hanbali himself, as Cambanis (2007) writes:

> If he were running Al Safa Dairy Plant as a private business, Hanbali said, he would fire all but a third of the employees, since the factory is operating so far below capacity. But he keeps everyone on the payroll, even if some end up doing make-work, such as mopping already clean floors or standing guard by the loading dock.

Al-Safa is struggling because of the stigma attached to its main source of funding, the *zakat* committee, but in reality this is related to the imposition of a rigid framework under occupation and via a hierarchical development programme. What this means is that due to the circumstances new markets are not easily sourced and because of an influx of Israeli products into the Palestinian market, Al-Safa's products are less competitive, which reduces its ability to become self-sufficient. In the short term it requires a cash injection to enable its survival and with the *zakat* committee unable to finance it, calls for soft loans or, more drastically, nationalisation of the industry have become more pronounced.[42] For Dr. Hanoun a *zakat* committee should not be saddled with such industrial burdens[43] and instead he has suggested refocusing energy onto social services once again. For example, he has recommended an extension of programmes where the committee had helped provide specialised equipment for medical centres under an agreement that would enable the *zakat* committee to send patients from the community for treatment at a reasonable cost. Also, he would like to expand the programme where patients with insufficient funds requiring treatment are provided with 25 per cent off the total costs, a process that can reduce the amount by a further 25 per cent if the equipment used in the treatment process is purchased by the committee.

Beyond medical areas, Hanoun also suggested that further attention should be paid to lifting locals out of poverty by improving access to ethical loans. As in the simplest form of Islamic financing (similar to *qard al-hasan*) he believed a person should be encouraged to repay, as it is their responsibility to return the money borrowed back to the community. Hanoun provided a successful example of such:

> A man loaned a pushcart every day from a company for 25 shekels per day (selling coffee). This cost cut into his profit margin thus limited his income. The *zakat* committee bought a cart for this man (1200 shekels approximately) and instead of fixing an unreal repayment cost he paid the money back once his profit margin was large enough to ensure self-sufficiency.

For Dr. Hanoun, then, smaller investments and social services should be the priority of a *zakat* committee rather than large businesses or political affairs, but he also stressed:

> The *zakat* system needs to stay under tight control, essentially to be governed in a transparent manner preferably by the government. This would allow for continuity, efficiency and stop political influences from taking over *zakat* objectives. Nevertheless there needs to be leniency from the US and other international organisations in allowing funding to the *zakat* committee, particularly in Nablus. There is a need to open the doors again.

The Nablus *zakat* committee evidences close ties to society. Over the past few decades it has managed to gain trust because of its professional approach and ability, through its natural proximity, to recognise the needs of local individuals and communities. To this end it has shown a degree of adaptability to very difficult circumstances. However, a continuation of, and in some cases additional, restrictive policies based on ideas of security and politics has reduced its fundraising potential while the stigma attached to it, whether because of personal safety or mistrust of the PNA and Fatah, has stopped both international and local streams of funding. It is currently trying to overturn this image but will also require flexibility at the macro policy level.

Al-Tadhoman

Like the Nablus *zakat* committee, Al-Tadhoman (meaning 'solidarity') was susceptible to securitisation and politicisation prior to 2008 due to a number of its members being associated with Hamas. However, unlike the *zakat* committee it has managed to maintain its funding and service delivery without too many issues. Nevertheless, the association with Hamas almost brought the Islamic charity to ruin, which would have proved particularly damaging to the local community considering its support for thousands of orphans[44] and education in general. Al-Tadhoman had worked with a number of international and local charities, including the Nablus *zakat* committee, before the changes were implemented and, as highlighted, it also provided funding for business ventures. However, its main responsibility was society and children in particular, whom it supported through the funding of Islamic schools, scholarships and equipment.

Not wanting to allow the charity to fail, in 2008 several local dignitaries stepped in with a rescue package, which involved the appointment of a temporary committee and following this a managerial board, none of whom had any political ties. Despite seeking support from government officials, which included Prime Minister Fayyad, the new management[45] under Dr. Alaa Makbool wanted the charity to remain private so as to avoid the politics but also, as one associate of the charity stated:

> Our reputation amongst the international community and locality is vital. For example, if we were to align ourselves with the Fatah controlled government it may lead to us losing the respect of the people, which could damage our existence.[46]

Under the new era, Al-Tadhoman has chosen to focus its energy on children and education. It currently has three schools, a primary and secondary level for boys and a secondary for girls, amounting to 1,800 students in total. It is estimated that there are approximately 150–200 orphans in the schools. As Dr. Alaa Makbool stated:

> We are of an Islamic label, and we aim to promote both ethical responsibility and discipline to our pupils. Our curriculum is based on the national model and we support openness and reflect upon different religious perspectives.[47]

Makbool was obviously keen to disassociate Al-Tadhoman from its past and any reference to politics or 'Islamisation' of the schools. The schools instead pride themselves on the achievement of their students which as Makbool highlighted: 'out of 100 students taking the Tawjieh [high school equivalent, 2009–2010], fifty-nine achieved 90 per cent or more, the second highest in Palestine.' Application rates for the schools had also increased from 400 before 2008 to 2,000 in 2009, of which only 150 can be accepted each year. Makbool did however admit that the schools run on a small deficit due to reduced fees for some students which, as he intimated, needed to be covered by the tuition fees of the other school children.

Unlike its educational business, the orphan programmes run by Al-Tadhoman are sponsored by charitable donations in their entirety. It is estimated that support is given to approximately 3,500 orphans in the local area, providing food, clothing and equipment (for school etc.). The charitable financing has come from both international donors such as Qatar, Italy, France and the Welfare Association plus local actors, including returning donors prior to 2008. Makbool noted: 'before Eid [in 2010] approximately JD250,000 [Jordanian dinars] was donated via Al-Tadhoman to support the orphan project.'

Al-Tadhoman has shown a degree of adaption to the circumstances given the restrictions placed upon Islamic organisations in the West Bank. It has appointed a group of managers that have the respect of the local and international community whilst maintaining relations with the PNA without being too close. By focusing on core issues such as education and child welfare it has also been able to maintain its funding streams, particularly from the Gulf states, and therefore its survival and potential to grow make it an important part of Nablus' development. In contrast to the *zakat* committee, Al-Tadhoman has been allowed flexibility to redefine its mission under locally regulated standards and this has proved beneficial to education in general.

Summary

As mentioned in the introduction to this chapter, Islamic organisations have played an important role in Palestinian society for a number of centuries. Over the past fifty years these charities, particularly the *zakat* committees, have provided organised assistance to a population under the effects of an occupation, filling the vacuum left by a lack of state infrastructure. Nevertheless, while internal politics have not aided coherence, it has been the restrictive policies within the framework that has affected the ability of these organisations to aid self-organisation. Islamic charities in the West Bank such as Al-Tadhoman have shown ability to access local communities, obtain necessary information and deliver services without the bureaucracy, and therefore should be considered an important part of any process as they are attached to the people and have gained their trust in return.

This knowledge has not as yet been utilised by the drivers of the 'development' programme in the West Bank. On Tuesday, 6 November 2012, the World Bank held a brainstorming session in Ramallah to announce its new project for 2013–2016. It was titled 'World Bank: Social Service Delivery' and was held with the objective of instigating joint projects between local NGOs, PNA ministries and local governments in three particular areas: (1) strengthening the NGO sector, (2) providing grants for NGOs and (3) development of standards and policies. From a theoretical perspective, the World Bank was obviously trying to build networks for interaction but simultaneously and in a somewhat contradictory manner, it was applying a structure that emphasised the strengthening of NGOs, the same NGOs that have been created under the guidelines of the contemporary securitised macroeconomic order within the parameters of the occupation. To this end there were no representatives of the Islamic charitable sector present, notably the *zakat* committees that come under the responsibility of the PNA. Once again then, a time-driven project that is to have measurable results at the end of the three years proposes a hierarchical, prescriptive form of development that ignores the real complex patterns, and ultimately the needs of society. Despite the World Bank's 2012 report, which highlighted the limits of development under occupation, it is yet to provide support for the foundations to deliver a Palestinian programme that would help remove the rigid framework, particularly one that would involve localised Islamic charities.

Local dynamics proved influential in stimulating success for some regional Islamic charities in Malaysia, but they also maintained a regulatory-needs based balance. Regulation is vital, so as to promote sustainability, to avoid corruption and reduce the emergence of informal politicised mechanisms, such as those developed by Hamas in the oPt or witnessed in Egypt through the Muslim Brotherhood and Lebanon via Hizballah in particular. Likewise, societal needs should be a priority, and it is gaining knowledge from this local level while at the same time encouraging its involvement, that will spur self-organisation.

Notes

1 Public *waqf* were often governed by the 'state', see Assi (2008: 381).

2 Peri (1992: 167–186) draws upon the case of the Hasseki Sultan *Waqf* in Jerusalem to analyse this occurrence.

3 As noted in Chapter 4, incursions upon local interaction have affected not just religious organisations but secular ones (such as the politicised charities set up by Fatah and the PLO) and international humanitarian efforts through UNRWA.

4 Conditions in the oPt have also increased the number of orphans, a main concern under the Islamic charitable ethos as mentioned. Attending to this issue has become one of the main tasks for Islamic/Islamist organisations operating in the oPt in general.

5 The Hebron Charitable Association is often inaccurately defined as a *zakat* committee. As Benthall (2008: 7) notes, it was formed in 1962 under an Ottoman Law of 1909. It initially received funding from British Muslim Hands, to care for orphans (Lundblad, 2008: 208).

6 Mathew Levitt is a particular advocate of this approach; he is a former Deputy Assistant Secretary for Intelligence and Analysis at the US State Department of the Treasury and now a writer.

7 It should be noted, however, that it was not just Hamas which advocated terror tactics. For example, factions of Fatah and Islamic Jihad were prominent actors during this phase of the violence. Hamas openly supported this strategy and were considered highly organised in their actions.

8 Apart from the US, the EU also announced the Act; Council Common Position 2001/931/CFSP of 27 December 2001 on the application of specific measures to combat terrorism. Hamas was listed under 'Hamas-Izz al-Din al-Qassem' which was considered the terrorist wing. Palestinian Islamic Jihad was also listed.

9 Domestically, local charitable associations which include mosques and Islamic foundations are said to be involved in raising funds and recruitment.

10 They attribute most of the external funding to the Gulf region, notably Saudi Arabian sources, Iran and charities based in the US such as the Holy Land Foundation and in Europe like Interpal in the UK. Levitt (2006: 19) has highlighted the funding Hamas received from the Holy Land Foundation, amounting to $147,148 between January 1997 and September 2000.

11 It is more commonly known as Al-Safa.

12 Al-Tadhoman was initially shut down by PNA in 2000 under controversial circumstances surrounding US$50,000 which was sent by the Bosnian government to Al-Tadhoman rather than the PNA (Levitt, 2006: 103).

13 Bitawi was also a deputy in the *zakat* committee. He passed away on 4 April 2012.

14 International Crisis Group (2003) had previously warned against the idea of imposing a blanket ban on charitable institutions due to the likelihood that it would worsen the humanitarian situation. Therefore a more careful approach was suggested that called for the individual assessment of Islamic charitable organisations and their actual output rather than potential associations. See www.crisisgroup.org/en/regions/middle-east-northafrica/israel-palestine/013-islamic-social-welfare-activism-in-the-occupied-palestinianterritories-a-legitimate-target.aspx.

15 There is no official evidence to confirm this but this was an approximate amount according to several Palestinian sources in the West Bank.

16 Interview conducted in Ramallah during May 2011.

17 Interview conducted in Nablus during June 2011.

18 Following 2007, all *zakat* committee representatives were dismissed and reappointment was at the discretion of the PNA (Schäublin, 2009: 44).

19 The *Shari'a* courts are known to cooperate with the Ministry of Waqf but work within the guidelines of the oPt's 'Basic Law'.

20 Al-Ram is a district of Jerusalem which was annexed into the West Bank after the building of the separation wall.

21 For a short period following the construction of the wall, access was granted to internationals and Jerusalemites (Palestinians) through a checkpoint in Dahiet Al-Bareed, a community next to Al-Ram. Once this was closed all passage to Israel was directed through the main checkpoints in Qalandiya and Hizma for those with the appropriate permits.

22 During this interview it was not made clear where the money went but it was suggested that it could have been paid to an individual who had deceased.

23 As of 18 October 2012, GBP1 is equivalent to ILS6.12 (Israeli shekels).

24 For ethical reasons I have chosen not to use the real name of this person.

25 Interview conducted in Al-Ram during November 2009.

26 Some of these people were concerned about Israel's role in the process while others did not trust the Fatah dominated PNA.

27 Interview conducted in Jerusalem during June 2011.

28 The three refugee camps are Balata (the largest), Askar and Ein Beit Al-Mar.

29 This information was obtained during an interview with a local economist in Nablus in May 2011, who wished to remain unnamed. This person also suggested that olive oil is brought from other countries such as Italy.

30 As highlighted, the agricultural sector in general has been affected by the occupation as both land and water are restricted. Olive tree groves are also used as a symbol for developing Palestinian land and are often targeted by Israeli settlers in the West Bank. In addition to this, there has been difficulty establishing a coherent policy regarding agricultural efficiency.

31 As specified by the PCBS census from 2007, representing the population from ten years old and upwards.

32 Levitt (2006: 119) refers to a mall in Nablus that is part-owned by Al-Tadhoman.

33 In Benthall's (2008: 15) study of the Nablus *zakat* committee in 1997, he found that out of an expenditure of US$1 million 40 per cent went to families in need through monthly payments, 30 per cent for orphans, 7 per cent student educational support, 8 per cent medical support, 10 per cent staff salaries (monthly payments) and 5 per cent to other legitimate miscellaneous causes. In addition to this it also managed the Islamic Medical Compound and Al Safa (which he stated was on a cost recovery basis). Although it is difficult to ascertain the exact type of agreement between the *zakat* committee and Al-Safa it appears that a partnership agreement is in place, akin to a 'profit and loss sharing' mechanism but with the *zakat* committee bearing responsibility for its potential failure.

34 Schäublin's results relate to a study carried out by an Islamic charitable organisation from London that obtained the information from questionnaires sent to the various *zakat* committees operating in the West Bank.

35 This information was obtained from a discussion with local charity workers who were keen to point out the size of the *zakat* programme before it was re-established under the PNA.

36 Interview conducted in Nablus during June 2011.

37 'They' (according to the interviewee when asked) included Israel, the US and the PNA.

38 Interview conducted in Tulkarem, in the West Bank, during May 2010.

39 Interview with Sartawi conducted with consent during October 2010.

40 Hanoun is also a member of staff at An Najah National University in Nablus where he holds the position of Vice President for Community Affairs. He was interviewed in July 2011.

41 Interview with Hanoun conducted with consent during May 2011.

42 There have been a number of bureaucratic issues surrounding this which have included concerns expressed by Minister for Religious Affairs Mahmoud Al-Habash.

43 Under the previous *zakat* commission a number of hospitals and healthcare centres were established, e.g. in Huwara, Sebastia and Nablus. Some alleviation has occurred with Huwara, for example, being handed over to the Ministry of Health under the condition that it must have an emergency unit for the locality (it is also a medical college).

44 Under the Islamic definition as previously noted.

45 It also has a board of trustees which consists of figures from the government, religious leaders and the private sector.

46 Interview conducted in Nablus during May 2011

47 Interview with Makbool conducted with consent during May 2011.

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8
Conclusion

Through research and analysis of Islamic development in the occupied Palestinian territories, there is little in the way of evidence to suggest a new development paradigm is emerging. We should not be surprised by this and if we look at the comparative models used in this book, we can see that Islamic mechanisms in other countries are constrained by rigid national policies, political interference (particularly charities) competition in the broader framework and macroeconomic restraints.

In the Islamic financial sector in general, a tension exists between the need to fulfil ethical obligations based on Islamic principles and a desire to be part of the macroeconomic framework. To affirm, then, Islamic development through the mechanisms identified in this book has evidenced several core features: adaption to the dominant framework; imposing rigid methods based on a perceived historical notion of Islam in defiance of the dominant paradigm; having minimal effect due to the conditions in which they exist; and through the application of hierarchical 'development' framework, an inability to adapt to the conditions.

In the case study, due to the imposition of policies related to the occupation, Palestinians have no control over border access, resources or movement within the oPt. This has been compounded by the application of a 'development' model based on neoliberal principles, which instead of promoting a balance as seen in Malaysia per se, or attending to local needs, has reinforced the rigidity of the framework. What this means is that under occupation where the framework is controlled by Israel, bouts of violence, international intervention or periods of economic growth occur within the limited boundaries of the equilibrium, as there is little potential for dynamic interaction (positive feedback) to occur given Israel's ability to adjust the framework. Instead of helping to break this, the application of a rigid development strategy that includes a series of conditional regulations has therefore reinforced rigidity and ultimately restricted the steps that Palestinians can take when attempting to adjust to the already constrained framework. This has ensured that large parts of society are unable to gain full access to financial mechanisms such as Islamic finance, Islamic microfinance and Islamic charity, as they exist within the same parameters. The imposition of such policies does not support self-organisation and this has placed Palestinians of the West Bank and Gaza within a 'rigid stable attractor'.

Islamic development mechanisms

Islamic finance

In the case of the oPt, then, the Islamic financial sector (notably banks) has been heavily restricted in supporting local development because of the policies stemming from the occupation and the development paradigm that has placed it in a rigid framework. A combination of securitised policies enforced under the occupation and subsequent instability has applied considerable risk on investment, to what in other stable countries would be considered an opportunity. The financial sector is governed by stringent international guidelines (such as Basel's capital buffers), which have decreased local investment opportunities, and as a growing concern influenced efforts to seek investments abroad. Although adopting such standardisations has enabled the sector to become more robust, it has as a consequence detached financial access from large parts of society, which has challenged the ethos of the Islamic banks in particular. A similar process has occurred in Lebanon where general uncertainty because of the levels of instability has forced the banks to adopt conservative practices as to ensure institutional survival, also using international guidelines such as Basel. In the case of Lebanon, this has meant that each Islamic transaction faces stamp duty on sale and re-sale thus doubling the charge.

While not as restrictive in its regulations, Islamic banking in the oPt has followed a similar trend. However, institutions such as the Palestinian Islamic Bank (PIsB) have become stronger financial organisations based on conventional norms. But this has not been the case for others like the Al-Aqsa Islamic bank, which has been forced to close after being unable to meet new requirements. Nevertheless, even the PIsB in response to the circumstances has become increasingly detached from local development. This despite aspirations to eventually fulfil its own Islamic ethos. Islamic banking operations therefore reflect conventional practice within the rigid framework, and the use of non-PLS *murabaha* (under ethical guidelines) have been preferred in order to better align Islamic administration with that of standard banking practices and the goals of international regulations.

Because of the situation in the oPt there is neither a strong government or central bank in which to pursue a more balanced approach, and while it is unlikely that there would be support for a nationalisation policy akin to the Iranian example (where fixed Islamic charge rates have also reduced the banking sectors ability to adapt), there is little in the way of flexibility to allow for a vibrant Islamic financial sector to emerge, one which could adapt to both local and macroeconomic conditions. Such a process has been observed in Malaysia, which in aspiring to be a fully industrialised nation has recognised the need to utilise its diverse society (despite obvious issues). Islamic financing in Malaysia mimics the dominant framework which as a consequence stretches the limits of its Islamic reasoning, but in doing so it is constantly seeking new methods to maintain its competiveness and adapt to changing conditions. This is not the case in the oPt where adoption of conventionally aligned methods do not fit with the status of the people. Instead the Islamic financial sector is small and well regulated, and while once again this is preferred to a lack of transparency, which became evident in the Egyptian Islamic banking sector during the 1970s, it does little to promote diversity in financial access or more importantly local links and interaction.

As noted, then, regulation is an important component in developing a transparent and sustainable Islamic financial system. However, the oPt faces obvious challenges and its ability to move out of the rigid framework via financial development is ultimately governed by this.

Islamic microfinance

As a result of the limitations in accessing formal financial networks, charities and informal credit schemes have a tendency to fill the vacuum, evident in the case of the oPt. The growth of Islamic microfinance throughout predominately Muslim countries therefore comes with little surprise as it has the potential to promote financial access to those who otherwise would not. Nevertheless, maintaining a balance between regulation, demand and the needs of society under the pressures of a macroeconomic framework that emphasises transparency, has proved difficult as shown in all of the examples. At the rigid end of the spectrum, in Iran informal networks have developed into semi-formal RoSCAs with a preference for *qard al-hasan* methods. Once again though, state (and Bonyad) control of such networks in the face of economic sanctions against its financial sector has ensured that transparency, demand or flexibility have not been met, and instead an unsustainable source of funding exists based on low fixed charge rates. In a similar rigid manner, an initial lack of regulation in Egypt within the Islamic financial sector has been somewhat over-compensated for by the imposition of financial policies that restrict the services provided by non-formal institutions such as MFIs. In this case, the holding of savings, outreach and ultimately self-sufficiency are affected, leading to a reliance on loan repayments and donor funding. Once again, this has the effect of removing society from financial access points but has also contributed to a vacuum increasingly filled by politically motivated organisations.

Similar traits emerged at the chaotic end of the spectrum, where instability in Lebanon has led to stringent regulations at the formal level and a lack of successful MFIs operating in the nation. This has led to the emergence of more informal local initiatives sponsored by politically motivated organisations such as Hizballah. Whilst Hizballah are generally considered successful in implementing local projects, issues of transparency and sustainability remain. Nevertheless, the lack of a strong microfinance sector in Lebanon and the emergence of highly politicised networks, which fill the financial vacuum, are related to the unstable conditions, complicated by a lack of access to formal finance. It is perhaps the success of Hizballah's model in Lebanon that forced foreign governments and Israel to block finances reaching Hamas, a process that also affected a number of other Islamic organisations operating in the oPt.

To some degree, despite operating within a rigid framework under highly securitised policies, the oPt has been relatively successful in removing non-transparent or politicised networks from the development process. This has however occurred to the detriment of many Islamic and Islamist organisations, thus impacting upon informal charities and financing networks that were tied to the wellbeing of local communities. A relatively successful Islamic microfinance sector has nevertheless emerged, focusing primarily on offering Islamic microcredit for poorer members of society. Administered by DEEP and sponsored by a number of international countries and organisations (including the UNDP), it is able to operate under standardised guidelines whilst having the added luxury of a financial 'safety-net' operating between the MFIs themselves. However, conditions still affect the quality of investment and output, which has increased the risk factor within the sector. Despite this, the DEEP programme has continued to encourage lower Islamic charge rates (based on *murabaha*), which has challenged the long-term survival of MFIs that choose to focus their investments on Islamic methods.

In order to promote self-sufficiency, MFIs such as FATEN have used conventional microfinance to cover their short-term costs. However, even this adaption has been challenged due to an accusation of MFIs blurring the boundaries of transparency through the joint accounting of conventional and Islamic financing. In response, the PMA has sought to enforce tighter regulations by making the MFIs declare their position as either Islamic or conventional. Once again, this removes the flexibility and diversity needed to support institutional survival (as in the case of FATEN), which ultimately impacts on those who have a demand for such products. It is a combination of these factors then that the Islamic microfinance sector has failed to reach 'self-sufficient' status as of yet and an over reliance on donor funding continues to keep most of the institutions in practice, which subsequently builds a dependency.

Microfinance mechanisms in the oPt ultimately lack the necessary regulatory flexibility to allow its sector to strengthen and ultimately adapt to local needs. Once again, comparing to the more adaptive Malaysia, it has sought to develop microfinance models based on already existing local practices, but as an independent stable financial entity, Malaysia is able to mitigate the risk associated with the loans. This also serves as a warning at the macro level, and attempts to standardise microfinance practice (through international regulation) could remove the ability to tend to local needs. Removing flexibility through the application of a blanket framework would further reduce access points and contradict the very purpose of the sector.

Islamic charity

In a similar vein, Islamic charitable organisations, particularly of a local variety, can be viewed as a result of self-organisation within society. In the context of Islam it is also a pillar of the faith itself and has formed an important part within the structures of Muslim societies globally throughout the centuries. Much of the debate within a contemporary context has revolved around transparency and how collection and payments (through *zakat* and *sadaqa*, for example) can be best used to support society. For example, in Egypt the government has sought to control the charitable sector but in response to its inefficiency, it has also contributed to the emergence of parallel bodies who have aimed to fill the vacuum left by the state, particularly the Muslim Brotherhood. Under chaotic conditions in Lebanon, the Hizballah model has also gained most attention, despite the Lebanese government's attempt to establish its own mechanism. However, this has contributed to the politicisation of charity, while creating a parallel system that is neither transparent nor part of an overarching state structure. Similar attempts in the oPt's Islamic charitable sector led to the most stringent form of securitised policies, which emerged in response to politicisation and the creation of informal networks, notably by Hamas.

However, without sufficient opportunities to develop a sustainable fiscal policy, informal payments and charity have been used to fill the welfare vacuum. Within the rigid framework then, Islamic charity has been affected by allegations of cooperation with organisations such as Hamas, who like Hizballah gained status as a 'terrorist organisation' given its use of terror tactics in response to Israel's occupation. Due to the rising popularity of the Islamist organisation, the international community led by the US sought to restrict its funding streams and encouraged a blanket policy (implemented by the PNA under Fayyad) that affected the revenues of all Islamic charities, whether having political aspirations or not. Local organisations that had emerged to fill the welfare vacuum and are naturally placed to support society in both rural and urban areas have therefore had their operations affected by closure or indeed stigmatised through association with terrorism. This has ultimately deterred potential sources from funding Islamic charities in the oPt.

Of course, a degree of transparency and regulation is warranted, and as noted in the case of Nablus some charities have adapted to the framework on a smaller scale. However, for the larger *zakat*-based charities across the territories, which were relied upon in the absence of a real government, their operations have been affected by the imposed framework, where the smallest amount of unaccountable money or the merest link to an individual or organisation that has ties to Hamas has resulted in closure and the detaining of individuals. This occurrence has affected schools, healthcare and general financing initiatives.

However unlikely, if Palestinian sovereignty is achieved, it would not necessarily be wise for it to avoid regulation or adopt charitable mechanisms akin to those that emerged in Iran, as this would only contribute to its financial deterioration. Alternatively though, there is scope and benefits to be gained from regionally coordinated charity, particularly as a means to stimulating self-sufficiency, as seen in the case of Nablus. Although not perfect, in some of Malaysia's regionalised *zakat* systems, similar local interaction has benefited society, allowing for a degree of self-organisation to emerge.

Overview

As complexity theory highlights, there are no master plans for development and instead much depends on what happens at the local level. The examples used in comparison to the oPt have therefore emphasised diversity, but also commonalities in the effects that policy has on development. For reasons of rigidity or chaos then, the oPt, Iran, Egypt and Lebanon languish in the valleys of the fitness landscape with high debt and poverty affecting prospects and the populations at large. For example, in the case of Iran we can suggest that despite the negative impact that international sanctions have had on the wellbeing of Iranians, there has been little indication that healthy complexity would emerge under the restrictive policies (based on a form of Islamic nationalisation) it placed on finance and financial interaction in general. Even Iran more recently has sought to abandon this approach. Egypt on the other hand remains part of the macroeconomic status quo, and its long-term development has undoubtedly been affected by its adherence to rigid policies, initially via nationalisation and following this the neoliberal framework. Obtaining a balance within parameters is difficult and while no state is perfect, Malaysia does possess traits of being 'complex adaptive' within its development process.

Nevertheless, when compared to the oPt all of the aforementioned examples have significantly more freedom and therefore maintain a greater chance of adapting to the fitness landscape. We can affirm then that the success of a development strategy is dependent on the flexibility society has, or can promote within a given framework and not as proposed in linear thought through the imposition of hierarchical rigid strategies. What this means is that to create healthy complexity, the ability to self-organise is of the utmost importance and should not be cast aside in favour of securitised policies, ideological obedience or hierarchical development theories, because, in the end, this will not lead to greater stability

Impact on Islamic development

As highlighted in the case study of the occupied Palestinian territories and the comparative models, the Islamic mechanisms are often bound by or mimic the dominant framework and therefore show evidence of ceding to rigid, hierarchical and prescriptive methods that impose 'blanket' structures and fail to recognise the needs of the locality. Even when an alternative form of Islamic development is sought, using nationalisation policies for example, similar linear methods albeit from a different ideological viewpoint have ensured the same non-adaptive outcome. The use of Islamic terminology in justifying such policies has therefore become common practice and therefore the same 'development' mistakes continue to occur. This book has made much about the use of *ijtihad* in supporting flexibility in interpretation so as to maintain a balance between changing societal needs and standardisations of practice in promoting a successful development model. However, with a tension between ethical responsibility and macroeconomic participation present within the realms of Islamic development, a preference for mimicking conventional practice has led to Islamic justification and reasoning, rather than influencing a new paradigm based on supporting locality (through non-linear methods for example). By adhering to international regulations then it has in some cases removed local diversity and the chance to promote self-organisation for a large number of Muslim societies. More recently, this has been reinforced by a preference for universal standards (such as Basel) and non-PLS financing.

Islamic microfinance has been equally affected to varying degrees by the framework in which it has operated, as a balance between regulation (including sustainable practice) and demand, and societal needs have proved difficult to maintain. High interest charges are a particular problem and there have been criticisms regarding the adoption of conventional methods. In addition to this, in trying to fill the vacuum left by development deficiencies, Islamic charities have also faced the challenge of politicisation and charges of non-transparency within the dominant framework and the pursuance of policies based on 'anti-terrorism'. This has reduced their appeal and effectiveness, which in some cases has removed resources and support from local communities. However, transparency is an issue, particularly for international advocates of the dominant framework, and there is a growing call for further regulation. Nevertheless, this should not be done at the expense of losing flexibility and diversity and therefore the ability to attend to local needs.

In sum, Islamic development under the terms defined in this book shows evidence of following the same strategies used within the dominant neoliberal framework. This has restricted a diverse and flexible approach to development.

Impact on contemporary development and self-organisation

What all of this means then is that development within the current paradigm has adhered to strategies based on linear scientific reasoning, which has shown a tendency to revert to hierarchical structures through either restrictive policies or an over-reliance on false trajectories of growth within defined timeframes. This state of course reflects the nature in which the nations coevolve, heavily influenced by those, such as the US, which occupy the peaks of the fitness landscape. Strategies bearing the traits of the Washington Consensus are therefore very much evident within those nations that seek to lift themselves from the valleys. Because of their overt linearity instead of respect for local conditions, this has impacted upon their ability to self-organise in recognition of their own evolving conditions. Development within the current context is therefore too detached from the locality for it to have a successful impact and despite genuine efforts to attend to 'human' needs, the process is now too complicated. In trying to compensate for the numerous issues affecting the human condition then (through MDGs for example), development has become too demanding and remains largely irresponsive to the real needs of different nations and communities.

As noted, however, alternatives such as an Islamic approach have thus far failed to offer a healthier strategy that recognises the non-linear nature of human systems and therefore a tendency to mimic Western projections exists. To overcome such will require a significant change in the current state and to this end better management that understands the importance of allowing complex adaptive systems to emerge. Self-organisation via the local interaction of its parts will therefore provide the necessary energy to prevent the system or nation itself from drifting towards chaos (Geyer and Rihani, 2010: 239) or indeed, a rigid order. This will require recognition of local diversity, continuous learning, and respect for freedom in order to allow for regulation and adaption to occur. Communities or nations themselves should be aware of this and attempt to do as much as possible to improve performance based on these same principles. The changing landscape therefore demands constant assessment and adaption, which is difficult to obtain under linear frameworks of development. Without this, healthy complexity or at the very least stability in a nation will not be achieved.

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Page numbers in *italics* denote tables, those in **bold** denote figures.