Syariah Monetary Fund: An Alternative Way to Reach MDGs in Developing Countries

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***Abstract*—As we know, the current issues in developing countries that are included in Millenium Development Goals (MDGs) are impossible to achieve in such crisis situations. The world has agreed that the global humanitarian issues are serious problems and need to be resolved as an actualization of concern among mankind. Structural poverty that afflicts more than half of the people in the world can be explained as a result of the dependence of developing countries on loans from developed countries. We found that this conventional loan system with interest traps the developing countries so they can't get out of the debt bondage. The developing countries not only have to pay the main loan, but also the interest of the loan. Moreover, if there are certain conditions that force developing countries to do things that hamper their economy for the benefit of developed countries. This condition makes developing countries cannot stabilize their economy so it is impossible for them to achieve MDGs. Therefore we recommend Islamic countries to unite and form a model that called "Syariah Monetary Fund" as an institution that lends money based on the principles of Syariah. This is because the Syariah economic system does not recognize interest, more equitable and easier even when compared to the soft loan system. We hope that this effort becomes a smart solution to reduce poverty in developing countries and fight against the greediness of contemporary system.**

***Index Terms*—Millenium Development Goals, poverty, interest, Syariah economic system**

I. Introduction

Millenium Development Goals are visions of the United Nations and agreed to by all the world's countries and all the world's leading development institutions and aimed to end the problems that occur in the world, especially the poorest or the third world such as "Ref. [1]":

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, Malaria and other diseases
- Ensure environmental sustainability
- Global partnership for development.

Here we focus on the first goal that becomes the proponent of the achievement of other goals. How can we achieve the other goals before we exterminate poverty as the fundamental problem? We see that one of the causes of this endless poverty in developing countries is their dependence on foreign loans. It is necessary to remember that the dependence on external debt is not the only cause of a country could not develop its economy, but it is something that need to alert and at least can be reduced by the presence of Syariah Monetary Fund.

More than half of the population in developing countries is living below the poverty line. With the global economy growing so fast they are required to make defense for their economy. The condition of the countries is that they do not have high incomes is forcing these countries to carry out other ways to protect the lives of their people, stabilize their economy, and reach the Millenium Development Goals. One of the ways taken by the majority of these countries is to borrow funds on the international funding institutions such as IMF, IDA and IBRD. But the fact is, the third world countries will never achieve the MDGs if they still depend on foreign loans that obstruct or encumber by giving its cost on debt service which contains of payment of amortization and accumulated interest. Therefore, this paper concern on the necessity to set up an international funding institution based on Syariah that uses profit sharing system.

Profit sharing system as the Syariah economic characteristic embraces the values of justice and companionship thorough. The concept of Islamic economic justice requires that each individual gets rights and does not take other people's rights or parts, because the economic system of Syariah upholds the humanity and strongly opposed to the presence of interest.

II. Method

In order to construct this paper, we used qualitatives and quantitatives relevant data that we got from literature study. Books that contain the material of the development of economy especially in the third world countries are very useful. Most of the data and case example are adapted from Michael P. Todaro's book tittled Economic Development. Furthermore, we too collect the information from Islamic economy books such as Islamic Banking written by Antonio Syafi'i. These sources contribute a lot in making this paper, and so do the other books and online resources such as United Nation website and Quran online resource which made us easy to show some relevant hadiths according to the subject of

Manuscript received January 5, 2014; revised April 22, 2014.

doi: 10.12720/joams.3.1.17-21

this paper, meanwhile the concept of its meaning we got from Mardani's book that specially explains about *ayah* and hadith of Syariah Economy.

However, the point of making this paper is to show our new reformative ideas about the establishment of a funding institution called Syariah Monetary Fund, such an act to eradicate poverty and reach MDGs target in developing countries.

III. Result

A. *Correlation between the Danger of Interest and Poverty in Developing Countries*

"If I were the president of a Third World nation. I would be far more frightened by a well-dressed gentleman bringing loans from the IMF or Citibank than by a bearded guerrilla muttering threats of revolution" – Lewis Lapham, Imperial Masquerade, 1990.

Without wishing to offend anyone, the quotation above precisely describes the dangers posed for external debt. The high external debt is a common symptom of developing countries at the stage of economic development where the supply of domestic savings is low, the current account deficits are high, and imports of capital are needed to augment domestic resources. "Ref. [2]" As the result of a very large external debt, it can affect the balance of domestic and international financial system in developing countries. Relying on the external loan can increase the debt burden that can threaten not only the borrowers but also the lenders if the borrower countries can't bear the debt burden anymore.

In other words, developing countries are trapped into the accumulation of external debt meanwhile they are very poor countries. The expenditure that should be allocated to fund their development is much spent on repayments for the accumulation of external debt, instead to handle poverty and hunger, create job vacancies, provide standard primary education, support health facilities, and other fundamental goals.

"Ref. [3]" The main cost associated with the accumulation of a large external debt is debt service. Debt service is the payment of amortization (liquidation of the principal) and accumulated interest. It is a contractually fixed charge on domestic real income and savings. As the size of the debt grows or as interest rates rise, increase of debt service charges. Debt service payments must be made with foreign exchange. In other words, debt service obligations can be met only through export earnings, curtailed imports, or further external borrowing.

"Ref. [3]" This such system is coercive and can distort government policy in stabilizing the economy and the other policies. For example, a data shows in 1980 the third world countries in sub-Saharan Africa had their Debt-Service payment approach $32 billion annually, which is almost four times Africa's annual expenditure on health and education combined.

"Ref. [3]" In 1986, Venezuela negotiated a $6 billion SDR loan with the IMF. In Return, to curtail current-account deficits, it undertook draconian IMF-induced stabilization and austerity measures, including severe budget cuts to control inflation, wage control, sale of public corporations, devaluation of the currency, and promotion of exports (especially tourism). However, the continuing decline in per capita income, which fell 4.4% per year between 1988 and 1990, combined with increases in poverty, inequality and unemployment, led to popular discontent, urban riots directed at the IMF, and an attempted coup in 1992.

B. *Interest Versus Profit Sharing*

In order to tackle damage caused by interest, Islamic law offered Syariah economic system that actually can be applied universally, even to those of non-Islamic. In this context we emphasize the concept of Syariah-based economy, not merely offensive and raised a religious issue. "Ref. [4]" The core point of Islamic economy is to give perspectives and solutions for the various economic problems that faced by people in universal.

If the system is continuously applying interest then it will bring developing countries on poverty that will never end, and fail to achieve the MDG targets. In addition to the inflationary impact caused by interest, interest can also lead to social and cultural arrogance.

It is very clear that the interest actually can cause misery to mankind. Socially, institutional interest undermines the spirit of humanitarian. "Ref. [5]" People will be reluctant to do anything except something that gives profits for themselves. The needs of other people are considered as an opportunity to gain more and more profits. The purpose of developed countries is considered contrary to the purpose of developing countries. Thus society will not achieve solidarity to reach success and prosperity. Sooner or later, people will split up. In the arena of international relations, interest has cracked solidarity relationship between nations. "Ref. [2]" During World War II, Britain asked its war allies to finance without interest. United States refused to give additional loans without interest and therefore Britain was forced to accept the terms of the loan agreement, known as Brettonwood Agreement. The insistence caused by war forced Britain to accept the terms of the loan contract. Nevertheless, Britain deeply harbored the feelings of anger and sadness. This is reflected in the writings of John Maynard Keynes, Churchil, and Dr. Dalton. Churchil called the treaty as trade treatments and Dr. Dalton put it in the Session of Parliament "We have pleaded no-interest loans, but we are given the answer that the loan is not practical politics".

Simply we want to convey the concept of Syariah Monetary Fund Model in which the system does not recognize interest and certain prerequisites which can make it difficult for partners as a borrower of funds (in this case are developing countries). Some of the foundation of the Syariah concepts are:

"O people, fear of injustice because it actually will become the darkness on the Day of Judgment later." – HR Imam Ahmad "Ref. [6]"

This warning of injustice and exploitation is aimed to protect the rights of human, and increase the prosperity as the first goal of Islam. But here, we do not want the injustice and exploitation spread out steadily all around the world specially caused by the burden of interest, so it becomes an universal goal that we have to pay attention on it. The prohibition to apply interest (known as usury) is also reflected in this clause:

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُواْ لَا تَأْكُلُواْ ٱلرِّبَوٰٓاْ أَضْعَٰفًا مُّضَٰعَفَةً ۖ
وَٱتَّقُواْ ٱللَّهَ لَعَلَّكُمْ تُفْلِحُونَ ١٣٠

O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful. – Ali Imran: 130 “Ref. [7]”

The foundations above are just two of many theories that support the enforcement of Syariah-based economy with a profit-sharing system, the abolition of interest, and the desire to uphold a sense of humanity and justice among mankind. “Ref. [5]” The prohibition of interest has become a more widespread token of a distinctive Islamic approach to financial matters and lies at the very heart of Islamic views of a moral economy.

Here we will not discuss further the issue of hadith and so on, but rather focus on the establishment of Syariah Monetary Fund as an urgent act that should be implemented right away to save many people in the world from poverty and achieve the MDGs targets.

Beside that, in transaction of saving and loan, conventionally, the lender take the form of additional interest without any acceptable balance of the borrower except for the opportunity and the time factor that runs during the lending process. It is not fair here, the borrower is assumed to always, may not be so, must, absolutely and definitely gets profit in any use of that opportunity.

It is also unrational because the fund will not grow by itself only by a factor of time with nobody is running and working on it. In fact, when that person runs on it, he could seek to profit and loss as well.

Profit sharing can become an alternative way to solve that such problem and crisis beside the conventional system. “Table. I” shows the differences between interest (conventional) and profit sharing:

TABLE I. DIFFERENCES BETWEEN INTEREST AND PROFIT SHARING

Interest	Profit Sharing
Determination of the interest is made at the time when the contract has been agreed, with the assumption that the borrower always gets benefit.	Determination of the ratio or revenue is made when the contract has been agreed, based on the the possibility of profit and loss.
The amount of the percentage based on the amount of money (capital) lent.	The amount of profit sharing ratio based on the amount of profits earned.
Fixed interest payments as promised without consideration of whether the project that is executed by the client gets profit or loss.	Profit sharing depends on the advantage of the business. If the project gets loss, the loss will be shared by both parties.
Total interest payments do not increase even if the amount of profit is doubled or the situation of economy is booming.	The total of profit distributions is according to the increase of the income.
Doubt the existence of the interest (if not condemned) by all religion, including Islam.	There is no doubt about the validity of profit sharing.

Adapted from “Ref. [6]”

C. *Model of Syariah Monetary Fund*

Here we try to adapt the model from “Ref. [6]” of *Mudharabah* Muqayyadah (one of fund rising system) that should be applied on a smaller scale such as bank units and intended to the individual or business entity, but as a concept that we offer is a funding institution in worldwide scale, then there is little scheme should rearranged as “Fig. 1”.

Annotation:

- Certain project
- Call for investor
- Fund investment
- Fund distribution
- Profit sharing
- Profit sharing

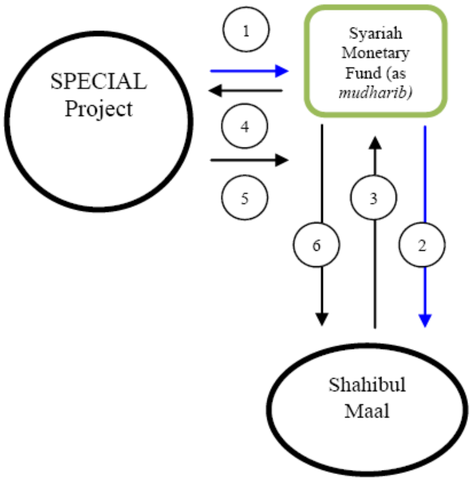

Figure 1. Fund raising model in syariah monetary fund.

“Fig. 1” is providing a model of fund rising in Syariah Monetary Fund. This model called *Mudharabah Muqayyadah.* Syariah Monetary Fund as *mudharib* (manager of the fund) has to collect the fund and distribute it into the countries that have special purpose or urgent needs such as reaching the MDGs target. “Ref. [8] Distribution is a summum bonum or the important priority in every aspect of economic system. A good economic system has fair and efficient distribution in allocating capital goods. Therefore, it is appropriate to distribute the wealth from affluent countries to poor countries.

So here, special project is concerned to the achievement of Millenium Development Goals. This paper of new ideas has stated before that Islamic countries have to unite and support the establishment of Syariah Monetary Fund by become the *shahibul maal* (investor). They can invest their fund and get profit sharing from it, of course, no interest. Because this mision not only for profit purpose, but also for humanity concern and social orientation.

Shahibul Maal imposes limits over the fund they invested. Mudharib could only manage the fund in accordance with the restrictions provided by shaibul maal. For example, only certain types of businesses, a particular place, a particular time, and others. In this case, we want the borrower (developing countries) specify their special project and targets, especially to actualize MDGs.

In using the concept of mudaraba muqayyadah investment, the institution is bounded by the provisions that have been set by Shahibul Maal, such as the type of investment, time and place. This could help to reduce the risk of unexpected using of the fund.

In addition, special investment as a mode of funding and financing, is very suitable to apply in the time of crisis and banking sector experiences loss overall. With special investment, certain investors do not have to bear the overhead banks that are too large because of all of the funds go into a special project with the returns and costs are calculated specifically anyway.

We know that everything has its risk. “Ref. [6]” Risks contained in mudaraba, especially in the application of the financing, relatively high, which is as follows:

- Side streaming, customers not using the funds as written in the contract.
- Negligent and willful misconduct.
- Concealment of profits by customers, if customers are not honest.

But the essence of this Syariah Monetary system is to foster a sense of concern for fellow human beings, justice, and honesty. Moreover, on a large scale of loan or agreement as among countries, the level of fraud can be reduced by the strict supervision of the various institutions and from the eyes of the world. This fraud management is one of soulutions we can use to reduce the risks. The IFSB (Islamic Financial Service Board) has released the standard on risk management in Islamic institution. “Ref. [9]” It has four points of credit risk management such as:

- Islamic institutions shall have in place a strategy for financing, using the various Islamic instruments in compliance with Syariah, whereby it recognizes the potential credit exposures that may arise at different stages of various financing agreements.
- They shall carry out a due diligence review in respect of counterparties prior to deciding on the choice of appropriate Islamic financing instrument.
- They shall have in place appropriate methodologies for measuring and reporting the credit risk exposures arising under each Islamic financing instrument.
- They shall have in place Syariah compliant credit risk mitigating techniques appropriate for each Islamic financing instrument.

Whereas, Islamic bank system on a smaller scale that serves individuals or companies, can answer these questions such “How banks can work without charging the cost of services? How can they cover the administrative costs and services?” “Ref. [10]” If we look further, these costs would not be so severe if the release of the interest will increase the country's wealth and tax revenue will soon rise. The state which the revenue is increased can easily cover these costs.

“Ref. [10]” In order to achieve the expectation of economic prosperity, financial institutions like banks should not only become the lender, but also become the business partner. The principles of Islamic economy prohibit the collection of interest but allow communion and profit sharing in business entities. If the banks no longer provide loans to the industry but become the business partner and sharing in the profit or loss, then in this case there is no objection for such banks in Islam. In fact, this is the only way to bring together capital and industry. The benefit derived to the banks working with the industry will be more than enough to cover administrative costs and other costs, and interest rates will not be allowed to continue the role as a tyranny in the industry. If the bank is willing to be an ally and no longer just giving loan to the industry, then they will work together more effectively.

This goal is very precious because it is more concerned with the humanity side. poverty and hunger problems that afflict many people in the world should be taken seriously, then we have to be confident if the procedures and supervision are good, the use of funds from Syariah funding will run perfectly.

With this model of Syariah Monetary Fund, we hypothesized that the burden of developing countries in paying the interest will disappear, and they can allocate the fund to finance the development in their country. They could freely control their own policies to stabilize their country, without any intervention from the lender institution. Moreover, they could propose special project that is to finance Millenium Development Goals to the Syariah Monetary Fund, and we hope by this effort the problems mentioned such as extreme poverty and hunger, high rate of child mortality, health care problems, education, and so on can be solved gradually.

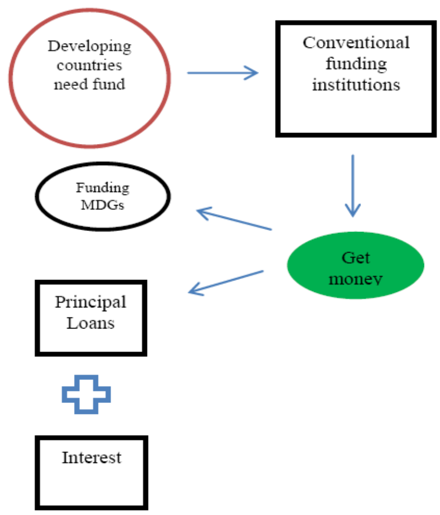

Figure 2. Estimated expenditure of developing countries that borrow on conventional institution.

See “Fig. 2” and “Fig. 3” to catch some illustrations of allocation between the country that lend money in conventional institution and if there’s a country borrows from Syariah Monetary Fund.

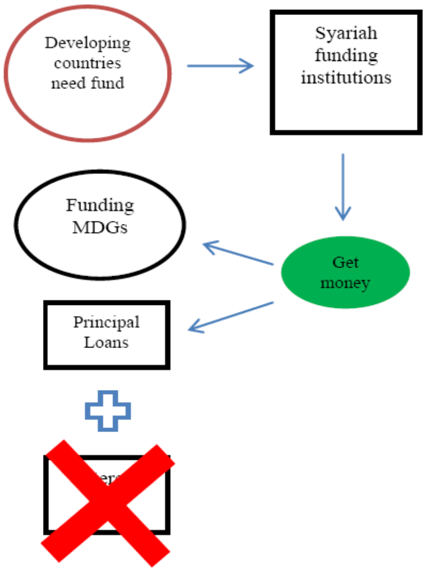

Figure 3. Estimated expenditure of developing countries that borrow on syariah monetary fund.

IV. Conclusion

From the illustration above we can conclude that actually developing countries can achieve the Millenium Development Goals gradually if they are not encumbered by the payment of any interests. The fund they used to pay the debt service such as interest and amortization can be allocated to fund the MDGs if they borrow fund from Syariah Monetary Fund that applies profit sharing system, because the allocation of payment of interest has been erased (see "Fig. 3"). The funding for MDGs could be larger, so the prosperity could be achieved soon.

We all want a peace condition and solidarity among countries in the world, with no more traps for poor developing countries. We want to foster clean generations, without any more cunning and dirty role in the financial world that very impactful. Therefore we suggest for Islamic countries with this new idea to unite together and establish Syariah Monetary Fund as lending institutions funding for developing countries and for the common good.

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