

# RESEARCH IN ISLAMIC ECONOMICS: THE MISSING *FARD 'AYN COMPONENT*<sup>1</sup>

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## Introduction

Since the mid-1970s, there has been a lot of interest in Islamic economics, banking and finance. The establishment of the OIC in 1969 and The Islamic Development Bank (IDB) in 1975 proved to be historic landmarks in the contemporary history of the Muslim *ummah*. These two institutions clearly provided an avenue for the revitalization of the *ummah's* hopes and aspirations. In 1976, the First International Conference on Islamic Economics was held in Makkah al-Mukarramah, bringing together economists, jurists and scholars of other related disciplines for the first time to discuss issues of concern to the Muslim *ummah*, leading eventually to the birth of the discipline of Islamic Economics. Since 1976, six other conferences have been held: in Islamabad (1983), Kuala Lumpur (1993), Loughborough (2000), Bahrain (2003), Jakarta (2005) and Jeddah (2008).

In addition many other international and national conferences, workshops, symposiums and seminars have been organized all over the world attempting to discuss economic issues and its related disciplines from Islamic perspectives. Thousands of articles, books and seminar papers have been written, numerous Islamic economic research and teaching institutions have been set up, while many universities and institutions of higher learning have introduced courses/programs on Islamic economics and its related fields. At the governmental level, a few Muslim countries, Malaysia at the forefront, have attempted to introduce Islamic banking and finance reforms in their economies.

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Official contemporary writings place the genesis of Islamic economic institutions in Malaysia in the 1960s, with the establishment of *Tabung Haji* or Pilgrim's Fund in 1963. However, the present writer is more inclined to view actual planned Islamic economic reforms as having started in the 1980s. Unlike before, the leadership of that period decided to utilize Islam as a positive ingredient in the development of the nation and its peoples, especially the Malays. The role of Islam, at the state level, went beyond ceremonial purposes. Besides the Inculcation of Islamic Values Policy in 1981, various institutions, both in the economic and non-economic spheres were established to help generate positive inputs to the development of Muslims in Malaysia. Many reforms were also undertaken in the legal and education spheres to provide the support needed to sustain these Islamic economic efforts.<sup>3</sup>

While acknowledging the events over the last 30 years both internationally and in Malaysia, this paper wants to focus on an area that somehow has been overlooked. Despite the active interest in the area of Islamic banking and finance, one is still faced with the fact that research in Islamic economics has declined, the enthusiasm of the late 1970s and 1980s has waned, the growth rate of people still actively working in Islamic economics has declined and the second/third generation of Islamic economists have become quite a rare breed. This is why this 3<sup>rd</sup> Islamic Economics Congress and the effort by the organizers to focus on strategic areas for the future of the ummah are greatly welcome. The paper will try to argue that we must devote sufficient resources, both financial and human, to do research in what is called the 'missing *fard 'ayn*' component in Islamic economics, banking and finance, i.e. the foundations or *usul* of Islamic economics

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<sup>3</sup> For a detailed analysis of the role and development of Islamic institutions in the economic development of Malaysia, see Mohamed Aslam Haneef (2005), 'The Development and Impact of Islamic Economic Institutions: The Malaysian Experience' in K.S. Nathan and M. Hashim Kamali (eds), *Islam in South East Asia: Political, Social and Strategic Challenges for the 21<sup>st</sup> Century*, ISEAS, Singapore.

## **Research in Islamic Economics and Finance: Where's the Islamic Economics?**

Using data from a few, mainly publicly available sources, a recent study by Nazim Ali (2007)<sup>4</sup>, attempted to do the following:

1. document the current status of Islamic economics and finance research based on available publications
2. to identify trends in research activities (in terms of type and content of work), thereby looking at the evolution of Islamic economics and finance over the years
3. to present information on various institutions involved in research activities in the area of Islamic economics and finance
4. to discuss sources of funding for these research activities and identify some areas for further research.

The following findings are from his paper, but the present writer makes some observations relevant to this session, focusing on research requirements.

1. The numbers of research output in the form of articles, books, conference papers and 'other materials' (till 1999/2000) is quite significant at 6484 items. Progress was especially visible in the 1990s, where output more than doubled from the previous decade, mainly due to the establishment of Islamic financial institutions.
2. While the total numbers and the growth rate in the last decade may give an impression that Islamic economics is gaining popularity and is on the right track, it would probably be accepted that a huge proportion of these publications would be in the area of Islamic banking and finance, not in Islamic economics, especially in areas dealing with theory and foundations. While Ali's paper does not elaborate on the areas of publication, in an unpublished work done with

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<sup>4</sup> 'Islamic Finance and Economics as Reflected in Research and Publications', paper presented at Workshop organized by INCIEF, Kuala Lumpur, 2007. The use of the phrase 'Islamic Finance and Economics' indicates the turn of events over the last 3 decades that has seen Islamic economics being 'hijacked' by Islamic finance. Hence for purposes of the present paper, we will revert to the phrase 'Islamic economics and finance' as reflected in the title of the conference and in the proper adab of classifying sciences in Islam.

colleagues involved with the IIUM Journal of Economics and Management that looked at the four major Islamic economics journals since the mid-1980s, this 'trend' was very clear.

3. According to Ali, while the major teaching and research centers (universities) in Islamic economics are based in Asia (Kuala Lumpur and Pakistan) the major share of the output (articles) is from Europe while books and conference papers are from the middle east. This indicates greater academic orientation in Europe (and the USA) compared to areas considered to be in the Muslim world. The output from the Middle-East consists more 'applied research' and 'product development' output in the area of Islamic finance.

This finding deserves greater attention among Islamic economists and those who are in the funding agencies. Certainly in the case of the Kulliyah of Economics and Management Sciences, IIUM, the first 25 years of its existence has been primarily focused on teaching. While proud that the KENMS has produced about 2,000 graduates from about 80 countries, the research agenda and publication record in the area of Islamic economics is still very much in its infancy. Even the number of active teachers and researchers who are fully dedicated to the teaching of, and research in, Islamic economics (as opposed to Islamic banking and finance) is less than 25% of its faculty, indicating a serious need to re-focus on creating the next generation of Islamic economists. From discussions with colleagues in other institutions in Malaysia and other countries, the same trend seems to exist everywhere.

Ali also mentions that recently, some major publishing houses based in the west have become involved in publishing materials in Islamic economics and Finance. However, a cursory look into the titles produced in the last five years indicates a very clear bias to Islamic banking and Finance. Where is Islamic economics? Has commercial interest and market forces totally determined the direction and areas of research? Is this a healthy trend and are we to allow this to continue?

4. In the section on research trends, Ali (2007) divides research into two main categories, theoretical and applied. One limitation that was noticed in his write up was that he seemed to focus primarily on Islamic finance, rather than including Islamic economics. Hence when he observes that ‘the industry has long realized the importance of academic research for its growth’ he seems to be referring primarily to the Islamic finance industry. He rightly sees universities and other higher institutions of learning as the main seats of research in Islamic finance and points to the fact that it is mainly academics, researchers and graduate students who form the bulk of researchers in the area.

However two issues have to be pointed out. **Firstly**, if we accept the premise that Islamic banking and finance has to have Islamic economic foundations, then here has not been a sufficient amount of research in those foundations. **Secondly**, if we accept the statement that the ‘industry’ realizes the importance of academic research to its own survival, we must also ask who sets the agenda of research? Does ‘theoretical/academic’ research in Islamic finance answer to the demands of industry or does academic research chart out the future path of the industry? While logic will say that it is a two way process, my view is that it has been, and is still, the industry that determines the direction of theoretical research in academia and this trend is ever-increasing. In terms of funding, it does not take a genius to figure out that if left to its own, private financial institutions will fund research in areas and in directions that it sees important and not easily fund research in areas that only seem to be theoretically stimulating but with no apparent ‘practical’ outcome.

Are pure ‘theoretical’ studies not important? If we say that pure theoretical studies are important, who will fund it? Also very important is *who will conduct this type of research?* From the example of the KENMS, the number of academics and students who choose to do ‘pure’ theoretical research are even a smaller and rarer commodity.

The situation is equally depressing in Islamic economics proper. Very few academics continue to work in building the theoretical foundations of Islamic economic theory and not many bother to focus on policy areas in Islamic economics. Before the west developed such sophisticated analyses of Islamic finance, did they not dedicate sufficient resources- financial, human and time- to the development of solid theoretical foundations in economics and finance? Unfortunately, in Islamic economics, after less than 20 years of writings in economics and its foundations, we Islamic economists abandoned our own field and many decided to join the juggernaut of Islamic finance. While we need people in Islamic finance, we have to find the resources and help create a ‘critical mass’ in the theoretical foundations area if we want to sustain Islamic economics and finance.

5. Unfortunately, Ali’s paper does not discuss funding for research much. While industry led research has sufficient funding, he admits that research in other areas is very constrained due to limited funding, relying on general all-purposes grants from universities or institutions or from personal funds. He mistakenly assumes that public institutions (including the IIUM) have reasonable funding for Islamic economic research (especially for the ‘academic/theoretical category’). The remaining parts of this paper will try to discuss this very important issue of funding research in Islamic economics, especially in foundational areas, that I hope the Congress will agree constituents as far as ‘ayn for the sustainable future of Islamic economics, banking and finance. The paper will argue that by international standards, the amounts of public financial resources dedicated to research in Islamic economics, is insufficient.

### **Expenditure on Research in Malaysia: The Case of Islamic Economics**

It is a fact that Muslim countries, even those that are considered Middle-income, are not spending what they should be on R & D. A good example is Malaysia, by all measurements and criteria one of the most ‘successful’ OIC nations. Unfortunately, as far

as R & D expenditure, the figure is a mere 0.69% of GDP for the year 2006. Compare this to countries that were almost at par with Malaysia during independence 50 years ago like Singapore (2.2%), South Korea (2.5%) and Taiwan (2.2%) and we can possibly understand why these latter group of countries have outpaced Malaysia.

However, Malaysia, and I am assuming many other middle income Muslim countries realize that more funding has to go into R & D if development in this era of knowledge is to be sustained. In the case of Malaysia, about 20% of its annual expenditure is spent on education as a whole. While much of this is spent on infrastructure (i.e. the setting up of new schools and universities), more attention is being paid to human resources and R & D as well. For example, in 2006 about 25% of academic staff in higher education institutions had Ph.Ds. By the end of the 9<sup>th</sup> Malaysia Plan (2006-2010), the target has been set to achieve 60%. RM1.2 billion has been allocated for this. While there were only 21.3 researchers per 10,000 workers in 2003, the target has been set to reach 50 researchers per 10,000 workers by 2010.

As far as R & D funding, one major source of public funding for Universities in the last decade has been the Intensification of Research in Priority Areas Fund (IRPA Fund). The following tables show the amounts of funding since 1996 and as an example, look at the funds that went to the National University of Malaysia, UKM. While these figures may seem substantial to some, one has to keep in mind that for the 8<sup>th</sup> Plan, the research expenditure per GDP was only 0.49%. This figure has been targeted at 1.5% in 2010.

Table 1- Distribution of IRPA Grant Between Universities (No. Of Projects)

University	7th Malaysian Plan (1996-2000)	8th Malaysia Plan (2001-2005)
UPM	123,194,573.00 (646)	167,007,637.00 (498)
UKM	77,326,697.00 (350)	151,734,290.00 (274)
UM	78,868,611.00 (438)	106,348,952.00 (149)
UTM	81,941,118.00 (404)	119,694,845.00 (310)
USM	76,412,225.00 (361)	81,105,845.00 (202)
UiTM	456,600.00 (5)	10,217,616.00 (44)
UIA	2,732,840.00 (27)	4,707,180.00 (14)

Source: Yassin, Othman and Sembok, undated.

Table 2- UKM's IRPA Projects by Category

Category	No. of Projects	Amount(RM)
Experimental	Appl. 219	37,111,427.00
Research		
Priority Research	9	50,855,184.00
Strategic Research	1	38,207,048.00
NBD(Biotechnology)	21	18,629,449.00
Total	250	144,803,108.00

Source: Yassin, Othman and Sembok, undated.

Table 3- Distribution of IRPA Experimental Applied Research Grant in  
UKM

Sector	No.of Projects	Amount (RM)
Science and Engineering	89	14,142,256.00
IT & services	39	7,643,883.00
Social Sciences	33	4,804,857.00
Health	23	3,753,935.00
Environmental	12	2,456,590.00
Energy and Minerals	6	1,282,696.00
Manufacturing	10	1,743,370.00
Agro-Industry	5	953,000.00
Economy	2	330,840.00
Total	219	37,111,427.00

Source: Yassin, Othman and Sembok, undated.

While research funding as continuously increased over the years, the funding for non-science and technology has not benefited much. For example, various funds were set up under the 9<sup>th</sup> Malaysia plan:

1. Science Fund - RM 1.2 billion
2. Techno Fund – RM 1.5 billion
3. Fundamental Research Grant Scheme (FRGS) – RM200 million

While the first two are administered by the Ministry of Science, Technology and Innovation, the third is handled by the Ministry of Higher Education and was set-up to cater for ‘fundamental’ research that leads to further research and development. In addition, smaller amounts of research funds are made available to universities to administer, especially via the establishment of about 100 ‘Center’s of Research Excellence’. For the 2008 national budget, most of the RM12 billion was allocated for R & D and commercialization of Science and technology in the 4 Research Universities or

RUs. These RUs are expected to focus much more on graduate studies and to spearhead research work.

The above scenario in Malaysia is probably reflective of many other middle-income Muslim countries. However, as in the case of Malaysia, it is a fact that most of these allocations are for Science and technology research. The figures for social sciences would be relatively small. Trying to further breakdown the social science allocations to identify amounts spent on research in Islamic economics is a very difficult task since no such figures are readily available.<sup>5</sup> In the case of UKM as seen in Table 3, one of the designated Research Universities, funding amounts are relatively large. But as the figures clearly show, economics (not to mention Islamic economics) receives a very small amount of funding. Using the IIUM case as an example, we can try to estimate very generally, the amounts that we are talking about. If we take the FRGS funds for the last two years we get the following figures:

Fundamental Research Grant Scheme (2006-2007)

	2006	2007
Number of Projects Applied	138 (Econs-13)	120 (Econs-4)
Amount Applied	RM27.8 million (Econs-RM870,000)	RM19 million (Econs-RM413,500)
Applications Approved	42 (Econs- 3)	44 (Econs-2)
Approved Amount	RM2.7 million (Econs-RM102,000)	RM3 million (Econs-RM90,000)

Source: IIUM Research Center.

As mentioned earlier, besides smaller amounts of funding from academic institutions themselves<sup>6</sup>, the main source of funding is government allocation to universities and research institutions. The FRGS is meant to provide funding to all disciplines, especially

<sup>5</sup> Keep in mind also that since we are focusing on research funding for Islamic economics, we are leaving out the funds from the private sector thus far, as these have been primarily for research in Islamic banking and finance.

<sup>6</sup> For example, the IIUM has limited funds of RM2,500 (Contingency Funds), RM10,000 (Short Term Funds) and RM 20,000 (Medium Term) for research in all areas of knowledge.

in those areas of social sciences and humanities, more allocation has gone to the sciences. Out of the RM5.7 million obtained by the IIUM for these two years, a little less than RM200,000 (or about 3.5%) was granted to projects from the Kulliyyah of Economics and Management Sciences (KENMS). Out of this, less than half the amount (RM60,000 or about 1%), dealt with Islamic economics directly, At the national level, besides the IIUM, another 5 or six institutions have staff actively involved in teaching and research in Islamic economics. If we multiply this figure by 5, the amounts are still very small. It is as if the government, in their race to develop S & T expertise has forgotten the equally important task of dealing with the soft side of development and of important foundations (but less commercial) of Islamic economics, banking and finance..

While private funding is available for research in Islamic banking and Finance, the same cannot be said of Islamic economics. This depicts the sad state of Islamic economics and a possible reason why the number of active researchers in Islamic economics has dwindled. Taking the IIUM case as an example, not many are interested to do theoretical research in Islamic economics and funding agencies also seem to be less interested to fund such research areas. **One possible lesson learnt from this example is that ‘open, public funding’ sources may not be the best way to fund research in Islamic economics.** It may be necessary for us to look towards the creation of dedicated endowments to do this job. **I propose that a research team be formed to do the following:**

1. research funding agencies and schemes in at least Canada, Britain and the European Union to enable us to come up with more concrete proposals relating to public funding.
2. In addition, to look into the various endowment funds available in the USA, Europe and in Muslim countries (in the past and present) to give us lessons on that option.

**I further propose** that this team be given a period of 6-8 months to complete this research project and the findings be presented at a smaller workshop by the end of this year.

**Priority Areas of Research: Fard ‘Ayn in Islamic Economics**

While all areas of Islamic economics need to be developed, I strongly believe that we Islamic economists have not learnt the right lessons from the experience of our own history nor western economics. If we look at the intellectual history of western economics, it will clearly indicate that throughout the 18<sup>th</sup> – 19<sup>th</sup> centuries, much research and intellectual effort was spent discussing and developing the ‘foundations’ of modern economics. History of ideas, philosophy, methodology and debates on fundamental concepts occupied the best minds of the day. All great ‘builders’ of modern economics in that period, had spent time and wrote in these areas. Present day Professors, researchers and economists work in areas and advance the discipline that had been laid down and somewhat ‘agreed-upon’ by scholars of the past.

Unfortunately, in our effort to build Islamic economics, we Islamic economists, have not learnt from this example. In less than 2 decades, we ceased to be interested in these ‘foundations’ and moved to more downstream, applied areas, ostensibly to provide solutions to current problems. Some even look-down on research and publications that deal with ‘mere conceptual work’ and see only applied work or user-friendly research as being worthy since ‘practical solutions’ are needed. While the huge demand for ‘practical solutions’ was, and is, a very important determinant of research activities, I believe we need to be more wary of ‘quick fix’ solutions.

Unless we spend sufficient resources- human, financial and time- on the **foundations of our discipline**, we will not go very far. In the west, they have already built very strong foundations and hence they can confidently move to more applied and user-friendly research. In our case, not enough resources and research has been done on our foundations. For example, how would we know that our solutions were ‘Islamic economics’ solutions if we have not done work to create sufficiently researched Islamic

benchmarks? Worse still, we may be guilty of deceiving ourselves and others in the name of Islamic economics. What can we take from modern economics, banking and finance? How to 'sift' modern economics so that we do not accept ideas and values that are contrary to that of Islam? How to integrate our heritage with modern knowledge in a genuine way so that we can create the solutions for the problems of Muslim and of humanity at large? This needs research into the foundations of knowledge, in this case, Islamic economics. In this sense, I consider research in these areas as a *fard 'ayn* to help develop down stream areas like banking and finance.

Other than saying that foundation research must be given priority, it may not be feasible to try and determine a final list of areas or topics. All institutions having research activities need to give attention to this in a more organized and systematic way. By this, I am in no way suggesting some kind of centrally planned research agenda. What I think can be done is all academic institutions that have teachers/researchers should come up with their own list of priorities based on their expertise. Using the principle of comparative advantage, we could 'trade'. If this theory is right, there will be gains for all. For areas deemed important but are not undertaken, we would need to decide ways and means to address this deficiency. Funding will have to be available and this is the second stage of our efforts.

Once the idea of 'fard 'ayn' research in Islamic economics is accepted, we will have to devise ways to generate the funds. We could count on the government to fund this research since it is deemed to be 'fard 'ayn'. While seed money could come from public funds, I think that this should not be the main source of our hopes. I do not also think we should hold our breath for the private sector to fund this 'less commercial' area, although the government could ask all Islamic Financial Institutions to contribute a certain percentage of their profits to fund this type of research.

I think the most viable source of these funds would be endowments. If we look at our rich Islamic history, it can provide a great source of research projects in itself! We can also look into the more innovative contemporary practices of commercial enterprises, like

Johor Corp, and a few other more advanced institutions all over the world to give us ideas how to obtain funds for this very important, long-term project. Much more thinking must go into these very preliminary ideas. It is hoped that this Congress passes a resolution to this effect. However, I realize that there is also skepticism about requests for even more funds. We must be able to convince all stakeholders that this area and the funds obtained will be used in the most efficient way.

### **Procedures to Ensure Efficiency and Quality:**

In a recent paper by the European University Association, (2007) <sup>7</sup> several key points were highlighted as important to ensure sustainability of research funding and management. We apply these very relevant points to make our case for Islamic economics

#### 1. Universities as Key Stakeholders

In the case of research in Islamic economics, I agree that Universities and/or dedicated research Centers in Universities, especially public universities, should also be the leading stakeholders. If needed, part of the funding may need to be used to strengthen these institutions. Initial training and funding for reference materials may also be necessary.

#### 2. Autonomy and Accountability

Do not over-regulate and control but allow individual universities/research centers to determine research agenda (based on expertise); preference for ‘lump-sum’ funding rather than piece-meal funding to allow individual institutions and individual project leaders to be given trust and held accountable. Research culture cannot be imposed ‘top-down’ but must be naturally nurtured via proper incentives and a system that promotes this culture. In this well-established institutions have a natural advantage in creating this research culture. Similarly, people who have never done research or published academic articles cannot be expected to produce miracles, despite all the money in the world.

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<sup>7</sup> ‘European Commission Green Paper on the European Research Area: New Perspectives- Viewpoint from European University Association, September 2007.

### 3. Historical 'Under-Funding' Must be Overcome

This means committing sufficient funds to sustain a proper research agenda for individual institutions. It would be a great mistake to under-fund research in Islamic economics or to be too eager for immediate results or practical solutions. Much theoretical (and even conceptual) work is yet to be done and disseminated to create a sufficient critical mass of Islamic economists. Adequate funding has to be made available to create sufficient world-class infrastructures and repositories of materials in Islamic economics. Taking stock of what we have and then 'resource-sharing' would be a first step. Do not spread our already limited resources (especially human resources) too thinly. Setting up new institutions just for the sake of setting up new institutions or for personal agendas only disadvantages the ummah. The time is for consolidation. for the future of the ummah.

### 4. Competitive Funding Grants at Full Cost

Sufficient priority must be placed on what is termed 'fundamental research', i.e research that will create future potential for research. By this we include areas of research, creation of new researchers, collaborative research etc. and the amounts of these grants that are competitive with other research funds and areas. In addition, the grants should cover all expenses and have adequate remuneration for a graduate student to dedicate 4-5 years of his life to getting involved in research in Islamic economics.

### 5. Research-Teaching-Policy Linkage

No research agenda can succeed without connecting it to graduate programmes. In this, research funding must be channeled to institutions that have the capacity to sustain research, especially at the doctoral level. However, doctoral research will only happen where there is also excellent teaching facilities/programmes and if programmes in these universities can also demonstrate some policy relevance to policy makers. One important feature of this doctoral research agenda should be to allow 'joint supervision' between institutions (say KENMS and UKM) and the

possibility of allowing Ph.D candidates to spend time in another institution to gain exposure to some feature or scholar there. This would also assist in creating a 'single market for researchers'.

There must be also some form of assessment/evaluation to ensure that funds are used efficiently and the backbone of this evaluation is peer review and almost all of the evaluation work will involve selecting, briefing, supporting and in other ways, dealing with peer reviewers.

One important element in evaluating projects would be the communications strategy/plan of individual institutions. Final approval of research funding would depend on agreement of a professional, properly resourced communications strategy, i.e. disseminating the findings. The strategy should account for up to five per cent of the individual programme/ centre budget. A communication strategy is simply a vehicle to get you from where you are now to where you want to be and how the project will benefit the ummah. This would be a very important requirement to ensure that individual institutions are themselves clear about what they want to do, how they plan to do it and how they plan to evaluate their progress.

## **Conclusion**

This brief paper has tried to impress upon participants of this congress the very important need to enhance dedicated research funding for Islamic economics. This funding should be sufficient, if not substantial; give priority to 'fundamental' research, especially research that will have the potential to generate further research, help create a new generation of Islamic economists and international collaborative projects. The Key stakeholders, i.e. Universities and dedicated research institutions in Islamic economics, have to be vested with autonomy from the sources of funds, and in turn, individual institutions should be given sufficient autonomy to carry out their respective agenda effectively. Action must be taken now before the interest in Islamic economics totally vanishes. If this happens, our future generation of Muslims and our students will read about our deliberations and remember us and this congress as having failed in the short

history of Islamic economics. This is why we cannot fail and must do everything in our power to renew the spirit and commitment of the 2nd Congress more than 35 years ago.

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