



Book Review: Social Capital and Risk Sharing; An Islamic Finance Paradigm

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This article summarizes and analyzes the main ideas in the book *Social Capital and Risk Sharing: An Islamic Finance Paradigm* by Ng, Mirakhor, and Ibrahim (2015). The book asserts that social capital is a fundamental element for the success of an Islamic financial system based on risk sharing and distributive justice. Using a content analysis approach, this article discusses the relationship between social capital, ethics, and market stability, and assesses the relevance of modern instruments such as equity crowdfunding, waqf–social impact partnerships, and macro-market instruments in operationalizing the Islamic finance paradigm. The main conclusion is that strengthening social capital, through mechanisms of ethics, solidarity, and Shariah compliance, is a primary prerequisite for realizing a just, stable, and sustainable Islamic financial system.

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INTRODUCTION

Global finance in the last two decades has been characterized by increasing instability, the proliferation of speculative instruments, and a strengthening disconnection between the financial sector and the real sector. The global financial crisis of 2007–2008 was a turning point that exposed the structural weaknesses of the conventional financial system, which relies on risk transfer mechanisms and excessive credit expansion. A system centered on leverage, interest, and unilateral risk transfer has proven to create systemic fragility and failures in distributive justice. In this context, the debate regarding the importance of moral values, social trust, and ethical governance in the financial system has re-emerged.

Islamic finance presents an alternative paradigm through risk-sharing mechanisms, the prohibition of *riba* and *gharar*, direct linkages to the real sector, and an orientation towards justice and *maqasid al-shari'ah*. However, although Islamic finance is growing rapidly institutionally and in the market, some critics state that industry practices still tend to replicate conventional financial structures through debt-based instruments, thus not fully reflecting the profit-and-loss sharing principle. This condition raises a fundamental question: what factors can strengthen the implementation of risk sharing in Islamic finance?

The book *Social Capital and Risk Sharing: An Islamic Finance Paradigm* (Ng, Mirakhor & Ibrahim, 2015) answers this question by highlighting social capital as a key variable that has received little attention

in Islamic finance discourse. Social capital—which includes trust, social norms, ethics, community networks, and the quality of social relationships—is understood as the foundation that enables risk-sharing mechanisms to function effectively. Without a high level of trust, profit-sharing contracts will face moral hazards, information asymmetry, and high transaction costs.

The authors of this book emphasize that social capital in the Islamic perspective stems from theological concepts such as *Tawhid*, *Walayah*, and a moral commitment to justice and *ihsan*. Thus, social capital is viewed not only as a sociological phenomenon but as an integral component of the Shariah economic order that connects spiritual, moral, and institutional aspects into a single entity. Furthermore, the development of financial technology (fintech), capital market globalization, and shifts in the world economic structure open new opportunities for the application of risk-sharing models in both micro and macro economic sectors. However, these opportunities can only be utilized if society and institutions possess adequate social capital, in terms of trust, integrity, compliance with rules, and social solidarity. Thus, the urgency of strengthening social capital becomes highly relevant in the transformation agenda of the Islamic finance industry.

This article summarizes the book's main ideas and elaborates on how social capital can strengthen risk-sharing mechanisms, improve financial stability, reduce inequality, and encourage value-based financial innovation. The discussion also examines the relevance of the book's

findings to the need for policy reform, the design of Shariah financial instruments, and sustainable community development. This article aims to summarize the main content of the book in an academic format while providing a systematic understanding of the relationship between social capital, risk, and Islamic economic development.

RESULTS AND DISCUSSION

This article is structured using content analysis of all chapters in the book. The elements analyzed include:

1. The conceptual framework of social capital in the Islamic perspective,
2. The role of risk sharing in economic stability,
3. The relationship of social capital with capital markets and growth,
4. Practical instruments proposed by the authors,
5. Policy implications for the Islamic finance industry.

The analysis is conducted thematically by comparing the core ideas of each chapter and integrating them into a scientific article structure.

Social Capital as the Foundation of the Islamic Economic System

The authors assert that social capital has strong spiritual roots in Islam. Two fundamental theological concepts serve as its foundation:

- a. *Walayah* – God's love and affection for His creation, which requires humans to reciprocate with acts of *ihsan*, justice, and empathy.
- b. *Tawhid* – the oneness of God and the unity of humanity, which

emphasizes the importance of solidarity and non-exploitation in economic activities.

Both concepts produce economic behavior that is Shariah-compliant: honesty, contract compliance, and cooperation. Social capital acts as a social lubricant that lowers uncertainty, transaction costs, and conflicts of interest.

Risk Sharing and Uncertainty Reduction

The book emphasizes that modern economic reality is filled with Knightian uncertainty—uncertainty that cannot be measured. In such a situation, a debt-based system that transfers risk to one party becomes inefficient and unjust. Conversely, risk sharing:

- a. Strengthens the relationship between the financial sector and the real sector,
- b. Creates a fairer distribution of risk,
- c. Increases economic resilience,
- d. And encourages entrepreneurship.

Classic instruments like *mudarabah* and *musharakah* are considered more aligned with real-world uncertainty. Furthermore, the authors show that the *commenda* model in medieval Europe, which drove trade growth, originated from the Shariah concept of *mudarabah*.

Social Capital, Ethics, and Capital Markets

Shariah capital markets require an ethical foundation and trust. The authors present empirical evidence that:

- a. The level of public trust correlates positively with capital market development,

- b. Ethical capital markets drive economic growth,
- c. Countries with low social capital tend to have higher income inequality.

From these findings, the authors recommend:

- a. Developing a trust and ethics index for capital markets,
- b. Strengthening reputational intermediaries as market behavior monitors,
- c. Establishing an Industry Social Capital and Ethics Board.

Social Capital and Income Inequality

Income inequality is viewed as a moral and social problem. The authors show that social capital is capable of reducing inequality through mechanisms of:

- a. Protection of property rights,
- b. Increasing social solidarity,
- c. Strengthening redistribution mechanisms (*zakat, sadaqah, waqf*),
- d. Increasing access to economic opportunities.

The integration of risk-sharing instruments (financial sector) and redistribution (social sector) is a comprehensive approach in Islamic economics.

Crowdfunding and Social Impact Partnerships in Islamic Finance

The book pays great attention to modern financial innovations as a way to expand the implementation of risk sharing.

Equity Crowdfunding

- a. Increases access to financing for MSMEs,
- b. Builds an investor community based on social capital,

- c. Aligns with profit-sharing principles.

Risk-Sharing Macro Instruments

The authors propose that the government issue retail instruments based on profit-sharing for development financing, replacing debt bonds.

Waqf-Social Impact Partnerships (SIB)

- a. Combining productive *waqf* and social impact bonds:
- b. Increases the accountability of *waqf* institutions,
- c. Creates high-impact social investments,
- d. Expands public participation in social development.

CONCLUSION

The book *Social Capital and Risk Sharing: An Islamic Finance Paradigm* by [Ng, Mirakhor, and Ibrahim \(2015\)](#) provides a significant conceptual contribution to the development of Islamic economic discourse, particularly in restoring the position of risk sharing as a fundamental principle of Shariah finance. Through an integrative analysis, the authors demonstrate that social capital is a structural prerequisite that enables profit-sharing systems to function optimally and produce more equitable economic benefits.

The elaboration in the book confirms that social capital is not merely a social asset in the sociological sense, but is a "moral infrastructure" that influences the economic behavior of individuals and institutions. Strong social capital—characterized by trust, social cohesion, integrity, norm compliance, and solidarity—lowers transaction costs, reduces information asymmetry, minimizes moral hazard, and creates an environment

that supports profit-sharing-based contracts. Thus, social capital becomes an enabling condition for the creation of a stable and ethical financial market.

Furthermore, the authors of this book show that the risk-sharing system not only has an economic stabilization function but also broad social implications. Risk-sharing mechanisms encourage a more even distribution of wealth, strengthen real-sector-based growth, and facilitate inclusive participation in economic activities. In this context, social capital acts as a bridge connecting spiritual values (*Tawhid, Walayah*), economic governance, and social welfare.

The book's main contribution also lies in its ideas regarding the expansion of Islamic financial instruments that truly reflect risk-sharing principles. Through concepts of equity crowdfunding, macro-market instruments, and waqf-social impact partnerships, the authors attempt to show that the Islamic finance paradigm can be operationalized in a modern, innovative manner suited to contemporary societal needs. This approach asserts that Islamic financial innovation is not merely technical but is heavily influenced by the quality of social institutions and the social capital that underpins them.

From a policy perspective, the book's findings have important implications for the direction of the Shariah finance industry's development. Regulation and the design of financial instruments must be directed not only at market efficiency but also at building societal social capital through strengthening governance, industrial ethics, institutional integrity, accountability, public education, and aligning Shariah values in business

practices. Without adequate social capital support, the Islamic finance industry potentially risks merely replicating conventional financial instruments without producing a substantive impact on social justice and economic stability.

Ultimately, this study asserts that the future of Islamic finance is determined by the system's ability to strengthen the foundation of social capital and restore the orientation towards authentic Shariah values. The development of risk-sharing-based instruments is not just a technical choice but a normative foundation reflecting *maqasid al-shari'ah*—especially in terms of justice, public interest, and social welfare. Thus, the social capital-risk sharing paradigm initiated by the authors provides a new direction for the reconstruction of a more resilient, inclusive, and sustainable Islamic financial system.

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