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Annual Conference of IEA: Let us use this Forum

It was in December 1938 that the annual Conference of Indian Economic Association (IEA) was held at Nagpur. One of the Subjects of discussion in conference was the theory of Interest. Dr. Anwar Iqbal Qureshi, the then head of Economics Department, Osmania University participated in the discussion and pointed out the defects of prevailing theories of interest and ventured to suggest that interest had done more harm than good to society as a whole, and you would lead to a better world if interest was altogether abolished. At this Mr. Findlay Shirras was annoyed and alleged him that Dr. Qureshi was influenced by the 'orthodox Muslim's Point of view' on the subject of interest. Dr. Qureshi responded him saying that he was speaking at the conference in his capacity as academic economist but he would be prepared to present the Islamic point of view with regard to interest at some late occasion. This event led him to author his famous work "Islam and the Theory of Interest" (1945), the first work in English on a subject of Islamic Economics by a professional Economist.

The IEA is an association of academic & professional economists, which does not subscribe to any particular economic or political ideology. At the best, it provides a forum for professional economists and others working in the same field with the sole object of stimulating interest in the economic problems so as to help the development of sound and correct economic thinking with particular reference to the problems of this country.

The 74th annual conference of IEA was held at S.K. University, Anantapur (AP) on Dec. 28-30-1991. One of the topics of research for this conference was "Markets in Economic Theory" and a paper was presented in this conference on "Market and Price Mechanism in Pre-classical Literature" in which views of Abu Yusuf, Al-Ghazali, Ibn Taimiyah and Ibn Khaldun were presented and compared with their Western counterparts (the abstract appeared in the conference volume (1991) Anantapur pp.159-60).

In early 1993, the IEA held the first of its two platinum jubilee conferences at Indore and organized a symposium-cum open discussion session on "25 Years of Economics. Thinking in India" under the chairmanship of Prof. Ali Mohammad Khusro. The speakers discussed the richness and wide range of works done by the Indian Economists on the subject starting from conventional Economics to Hindu Economics (Report appeared in the Indian Economic Journal Vol.41, Oct-Dec. 1993, pp.144-71). Surprisingly enough, one of the most important themes to which Indian Scholars have made pioneering contribution, viz., Islamic Economics, has got no mention in that assembly of learned scholars. This motivated this writer to pen down "Post-Independence India's Contribution to Islamic Economics" (Muslim and Arab Prospective (New Delhi) Vol.4 Nos. 7-12 pp 397-407).

The 77th conference of IEA was held at Mysore University in Dec. 1994. One of the themes of Conference was "Ethics in Economics" and a paper was presented on "Ethico-Economics: the Future System" (The full paper was published in the Conference Volume, Mysore 1994, pp.84-90) in which the author discussed the shortcomings of Capitalism, command system and welfare state, presented the case of ethical economics and argued that in a plural society like India with multi-religions and diverse ideologies an integration of ethics and economics would provide a common acceptable solution to economic problems and is in complete harmony with peoples socio-cultural tendency. Especially the fast growing subject of Islamic Economics is very emphatic on the synthesis of ethics and economics. The IEA's 83rd conference is scheduled at Jammu University during Dec. 30, 2000 - January 1, 2001. The topics are:

1. Crime, Corruption and Development
2. India and WTO
3. Second Generation Economic Reform in India.
4. Economics of Child Labour

In the IAE conference, generally 500 to 1000 delegates participate from all over the country. It provides a good opportunity to interact with the professional economists of the country. One can choose any aspect of the given topics. Those who have capability to present healthy, constructive and Islamic ideas related to topic, they must utilize this platform.

A.A. Ishtihari

Shariah Standard for Islamic Financial Institution

Shariah standards for Islamic financial institutions were discussed during a meeting organized by Association of Accounting Organization of Islamic Financial Institutions (AAOIFI) in Bahrain. The meeting was aimed at studying the comments and opinions of the participants of the public hearing, which was attended by more than 40 participants representing central banks, Islamic and conventional banks, accounting organizations and Shariah Scholars.

The Shariah Board is scheduled to meet in Medina, Saudia Arabia. According to AAOIFI secretary general Dr. Rifaat Abdel Karim, "we hope Islamic banks will take the initiative to adopt them and we also hope that monetary and regulatory authorities will ask Islamic banks to adhere to the AAOIFI standard in order to enhance the credibility of the Islamic banking community". [New Horizon]

Two Islamic Bank Set to Merge

Two Bahrain - based Islamic Banks are set to merge, subject to approval from the Bahrain Monetary Authority (BMA). Board approval has been granted for the combination between Faysal Islamic Bank of Bahrain and the Islamic investment company of the Gulf (IICG). Both banks are controlled by the Dar-al-Maal al-Islami Trust.

The announcement follows the successful acquisition in December 1998 of Arab Islamic Bank which was the first merger within the Islamic banking community in the Middle East. The deal comes after Al-Ahli Commercial Bank of Bahrain and United Bank of Kuwait, a London - based consortium bank in December also agreed to merge. [New Horizon].

National Seminar on "Building a Healthy Family in the light of Islamic Principles of Indian Culture"

Saharanpur: The "Program for Ethical, Academic of Cultural Enterprises (PEACE) organised a national seminar on the above issue during July 1- 3, 2000. The seminar was attended by a number of renowned Muslim academicians, Islamic scholars bureaucrats and social activists. After 3 days deliberation the participants approved a model of family welfare, which recognises family as an essential and important institute of human organization along with individual of society, and family peace as a fundamental principle of a peaceful human living. To ensure the family peace, the model recommends steps like

1. Strong measures at all levels against unhealthy and immoral social practices.
2. Effective measures at war footing against all dimension of sex commercialisation.
3. Popularisation of personal hygiene for good productive life.
4. Employment of women within Islamic frame works.

Lecture on Islamic Business Ethics

Trustee of Islamic Research Foundation Br. Ashraf Mohamedy who is also a sub-broker at Bombay Stock Exchange, delivered a talk at Faculty of Management Studies and Research, A.M.U. Aligarh on "Business Ethics in the light of Quran and Sunnah". The lecture was followed by a question answer session on career prospects for MBAs in the growing Islamic Banking and Financial sector.

Problem with Islamic Financial Institutions in India

Since last couples of years, a number of non-banking financial and investment companies are facing hard times in the Indian capital market. The financial reforms started in the early 1990s and its regulations in the mid 90s have required more transparency on the financial transaction of these investment companies. Many of the companies could not uphold the required standard and consequently collapsed. Among these companies, there were also some Islamic investment companies, claiming to compliance with the shariah rules in their financial transactions. These Islamic companies too are facing financial crisis due to the tight rules and regulations imposed by the Reserve Bank of India and Security and Exchange Board of India (SEBI), being unable to fulfil the commitment of their depositor's money. This has not only created panic among investors but has also put a question mark on the viability of Islamic financial Institutions in India.

Recently, one of the most reputed Islamic finance house-the Barkat Investment Group of Mumbai has come into major financial crisis (See Page 4). This is a very pathetic situation as a flourishing Islamic finance companies like Barkat, is on the verge of collapse. Since last one and half a decade, Barkat has created a momentum of Islamic finance in India with the establishment of Federation of Interest free Organization (FIFO) in the country. Barkat has also provided scholarship for the students of Islamic banking and finance. It's managing director, Mr. M.H. Khatkhatay, has devoted himself for this cause. In 1996, he was the main force behind the "Tata Core Sector Equity Fund" (Now Tata IT Fund) an investment scheme suitable for the Muslim investor. The scheme has now achieved creditability in the market.

As for the Islamic investment companies in India are concerned, it cannot be denied that their investment portfolios were simply to earn quick and higher return by putting their whole capital in one of two baskets and ignoring the investment companies to collect deposits on the basis of profit and loss sharing system.

Keeping in view the financial reforms-taking place in India, it is time that Muslim Scholars, Businesspersons, and Bankers sit together and sort out the problems facing Islamic companies in the country.

Shariq Nisar

New Books and Articles

Books:

1. CHAPRA, M.Umer, *The Future of Islamic Economics - An Islamic Perspective*, Leicester, UK: The Islamic Foundation, 2000, pp.446.
2. *Islamic Development bank Annual Report - 1999*, Jeddah, Saudi Arabia: Islamic Research and Training Institute, IDB, 1999, pp.412.
3. WEISS, Walter, M., *The Bazar, Market, and Merchants of the Islamic World*, London: Thames & Hudson, 1998, pp.255.

Articles:

1. ABDUS - SAMAD, 'Comparative Efficiency of the Islamic Banks Vis-à-vis conventional Banks in Malaysia'. IIUM Journal of Economic and Management (Kualalumpur, Malaysia), Vol.7, No.1, 1999, pp.1-25.
2. DHAOUADI, Mahmoud, 'Capitalism's Impending Dangers for Global Human Development', *The American Journal of Islamic Social Sciences* (Herndon, VA), Vol.17, No.1, spring 2000, pp.39-64.
3. HOSSEINI, Hamid, 'Economic Reality Versus Islamic Ideology: The changes in Iran's Foreign Investment Policy under the Islamic Republic', *Journal of South Asian and Middle Eastern Studies*, (Villanova, PA, USA), Vol.12, No.3, spring 2000, pp.1-18.
4. KAHF, Monzer, 'Non-Tax Private Sector Financing of Government in Islam', *Journal of Objective Studies* (New Delhi, India), Vol.11, No.2, July 1999, pp.1-35.
5. KHAN, Atiqu-Zafar, 'Insurance and Takaful: Some Clarifications', *Journal of Islamic Banking & Finance* (Karachi, Pakistan), Vol.16, and No.4, 1999, pp.41-7.
6. KHAN, Javed Ahmad, 'Current Researches in Islamic Banking and Finance', *Journal of Objective Studies* (New Delhi, India), Vol.11, No.2, July 1999, pp. 97-142.
7. KHAN, M. Akram, 'Some Accounting Issues Relating to Zakah', *Islamic Studies* (Islamabad, Pakistan), Vol.39, No.1, 2000, pp.103-120.
8. SEZNEC, Jean - Francois and GOHAR, Bilal, 'Ethics, Islamic Banking, and the Global Financial Market', *Fletcher Forum of World Affairs*, Vol.23, No.1, Winter September 1999, pp.161-70.
9. SIDDIQUI, Moin A., 'Islamic Bank Facing Global Challenges', *The Middle East* (London), No.299, March 2000, pp.34-39.
10. ZAHEER, Khalid, 'Can Bank Lending be Islamically Fair?', *Renaissance* (Lahore, Pakistan), Vol.9, No.6, 1999, pp.23-9.

Book Review

The Future of Economics - An Islamic Perspective

By M. Umer Chapra

Published by: The Islamic Foundation, Mark field Conference Centre, Rat by Lane, Leicester, LE69 9SY, United Kingdom, 2000, pp.446. E-mail: i.foundation@Islamic foundation.org.uk

This book presents the most original and comprehensive intellectual discussion on Islamic Economics and taken into account the stock of the situation in this field, both in the past and in present. The author, one of the prominent Muslim Economists, enlightens the issues in the context of socio-economic development of Muslim Ummah since the early Islam. His analysis is based on the contemporary economic theories. While arguing as to why it is necessary to have economics with an Islamic perspective, he has devoted full chapter on the dismal performance of conventional economics, taking into account the rational economic man, symmetry between public and private interest, Keynesian consensus and its breakdown and also the present scenario.

But Chapra also admit that Islamic Economics has rather 'failed to escape the centripetal pull of western economic thought, and has in many regard been caught in the intellectual web of the very system it set out to replace. He has boldly accepted, perhaps for the first time, that 'the practical wisdom of Islamic Economics has been unable to come anywhere near it's goal so far. It has not been able to come to grip with the task of explaining the rise and fall of Muslim economies in the past, the gap between Islamic norms and the actual behaviour of economic agents, and the causes of the problems faced by Muslim countries. He also finds that Islamic Economics has been unable to suggest a balanced package of policy proposal in the light of Islamic teachings, to enable Muslim countries to perform the difficult task of reducing their imbalances and simultaneously actualizing the maqasid, particularly the socio-economic justice.

His view on the contemporary Islamic banking and finance are rightly the critical, showing a big gap between the dreams and reality. Chapra also raises the problems of transparency in Islamic world and points out serious drawback in the collection and publication of necessary data and their scientific analysis. Without such data, he realizes, it is not possible to know the degree of equity prevailing in the allocation and distribution of resources, which is the most criteria for judging the Islamization of a Muslim economy.

However, this is not the end of his book. He provides fresh insight on the Islamic economics paradigm. In chapter 3, he discusses the conflict of reasons and revelation in the Muslim world and its modern implications. He is more optimistic that Islamic Economics fortunately has the advantage of drawing strength from the renaissance, which is steadily gaining momentum in the Muslim world after the centuries of decline and disintegration. He goes to the classical Islamic economic writers - Al -Ghazali, Ibn Rushd, Ibn Khaldun, Al - Maqrizi and Shah Waliullah Dihlavi, finds out the causes of Muslim Ummah, and suggest a complete package of reform applicable to the contemporary world.

This book will be a landmark in the field of Islamic economics and truly a path - breaking work for readers in the 21st century.

J.A.Khan

Barkat in Crisis

Following is the letter written by the Managing Director of Barkat Investment Group Mr. M.H.Khatkhatay to the investors of Barkat. We produce the same for the information of our readers (*Editor*).

Dear investor,

As you may be aware, the Barakat Investment Group has been operating profit and loss sharing investment schemes since 1988. Till 1997, its various financial units had been promptly repaying investors; amounts and paying them reasonable returns on the same, based on profits made. Thereafter on account of adverse economic conditions and acute liquidity crisis in the financial and real estate sectors, most of our schemes incurred heavy losses.

This situation arose mainly due to four reasons:

- i. Since 1995 the stock market began sliding into a deep depression from which it began recovering only in 1999. By this time we had already disinvested from our high performing shares at depressed prices under liquidity pressures. A substantial part of our funds were invested in equity shares.
- ii. In 1996, the real estate market also began collapsing and has since gone into an unprecedented recession. The bulk of our investments since inception have been in real estate as all our investors are well aware.
- iii. As of 01st April 1997 the central government completely banned all firms involved in investment activities from accepting any fresh deposits. This led to a one-way flow (only out flow) of funds from the firms in the Group leading to tremendous liquidity pressures on our operations.
- iv. As our man date was for operating on an interest-free basis, we could not access the usual avenues for addressing our liquidity needs. In our liquidity crisis, we had no lender to turn to who could provide us short - term liquidity support on a profit-sharing basis. Hence, the crisis kept deepening.

Through the period of crisis, we have tried to maintain contact with our investor and apprise them of our situation. We have also been making our best efforts to bring things under control, at the same time trying to clear a substantial portion of the investors' total claims even though belatedly.

Since April 1999, the Maharashtra Government has passed the Maharashtra Protection of Interest of Depositors Act, 1999 (Maharashtra Act No. XVI of 2000) to protect the interest of investors on financial establishments. Under the same Act, our case is also sub-judice before the Special Court constituted under the above Act presided by an Additional Sessions Judge at Mumbai. We have as per the direction of the honourable court already furnished the detailed list of all our properties to the court and further expressed our no objection for attachment of the said properties for their sale and distribution of proceeds amongst our investors. The attachment of properties is already in progress and the investigation of the case is with General Branch, Crime Branch (GBCB), CID, Police Commissioner's Office, Crawford Market, Mumbai.

We therefore request all our investors having unsatisfied claims against us to approach the above authority at Mumbai for the same at the earliest.

We regret the unfortunate turn events and the hardship our investors have been put to, due to factors beyond our control. We sincerely thank our investors who have reposed faith in us and stood by us in our hour of crisis and assure them of whatever co-operation is within our powers to extend to them.

We remain,
Yours sincerely,

(M.H.Khatkhatay)
Managing Director

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