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Prospects of Islamic Financial Institutions in India

Future prospect of Islamic Financial Institutions (IFIs) of India is in the hands of the people of India especially Muslims. If Indian Muslims adopt Islamic financial principles and practices, its institutionalization cannot be far away. Unless they themselves steadfastly adhere to the values on interest free finance and IFIs, they cannot convince non-Muslims, nor create a lobby so essential to influence decision makers in a democracy, to get necessary statutory support to establish and manage IFIs in India. Al-Ameen Islamic Financial & Investment Corporation, AIFIC and Barkat Leasing and Financial Services Limited, BLFSL, Baitun-Nasr and Muslim Fund Najibabad together have about almost 100 Branches in different parts of the country. But their membership is only in thousands in a country where more than 12 crore Muslims are residing. The doors of these Institutions are open to non-Muslims only in a name, as their membership is less than 3% of the total. The total working capital of IFIs of India is only about Rs. 300 crores (Rs. 3000million). The national saving rate being around 24% even if Muslims save just 15% of income their annual savings should be around Rs 18000 crores (Rs. 180 billion). It means the present IFIs of India have mobilized only 0.37% of the savings of Indian Muslims. Is it because IFIs of India do not enjoy the confidence of Indian Muslims? Or because Indian Muslims are ignorant of the principles of interest free finance? Or because IFIs of India cannot perform banking functions? It may be for a bit of all. To find out an answer to these and related questions an awareness survey of IFIs of India and Islamic financial principles were conducted in 24 Indian cities and towns.

The survey results showed that about 56 % of the urban Indian men and 69% of women, over all 57.5% of them are totally unaware of the existing IFIs in their own city or around. Only 31% of them know that IFIs mobilize interest free or profit and loss sharing (PLS) deposits. Only 32% know that IFIs provide interest free loans. Only 14% know that IFIs provide funds on PLS basis. Only 18% know that IFIs also provide leasing or hire purchase facility. In other words between 69% to 86% of them do not know about the functions performed by the IFI'S in India. Although 79% of the urban Muslims know that 'interest' is *haram*, 82% including 'Alim' and *Imams* do not have the knowledge of any other Islamic financial principles. Given the opportunity, 80% of urban Indian Muslims are willing to deposit or invest in IFIs on PLS basis. However, lesser Muslims, 67% are willing to borrow from IFIs on PLS basis. This may be because of a comparative lack of entrepreneurship amongs the Indian Muslims. In fact, the experiences of Islamic Finance Companies of India are that the demand for and returns from PLS capital investment are much less. Finally, only 13% of urban Muslims have an account in IFIs. We can conclude from this survey that vast majority of Indians evens Muslim Ulama are unaware of the existence and functioning of IFIs because generally they learn and preach only one principle of Islamic finance that interest is prohibited. Neither do they neither study nor practice the entire principles of Islamic Economic and Financial System. The sooner they learn, practice and preach them, the better for the prospects of IFIs in India.

Prof. M.I. Bagsiraj

Accounting system for Islamic Banking

Dr. K.G. Munshi, Director and Professor at Shri Chimanbhai Patel Institute Of Management and Research, Ahmedabad, has developed a software-based accounting system for Islamic Banking. His focus is on overcoming the drawback of the double-entry system at book keeping widely prevalent. The said system has interest as a base for several aspects. Secondly, the funds flow statements generating from that traditional system of accounting in a disguised fashion project the in-built role of interest mechanism.

To rule over interest and its role, Dr. Munshi has evolved a sim V at on exerise in a sophisticated quanntitative framework which is comfortably handled by the software package through the computer. To establish its empirical feasibility and practicable applications, he has given numerical illustrations, both of hypothetically generated data and of authentic data released on the significant parameters of Indian Banking and Financial System.

The said accounting system would ensure transparancy, doing with the exclusion of interest factor in financial and banking transactions.

For more details, Dr. Munshi may be contacted at: kgmunshi@hotmail.com

A.M.U Awards Ph.D. on Islamic Banking

Mr. Chatchwan Niyomwittyanont, a research scholar from Thailand has successfully completed his research leading to Ph.D. on the topic: "Development of Islamic Banking and Finance in South East Asia: A Case Study of Malaysia" under the supervision of Dr. Abdul Azim Islahi. His viva voce examination was held on November 12, 2001, in the Department of Economics, Aligarh Muslim University, Aligarh. Mr. Chatchwan ably defended his thesis at a gathering of university teachers and research students. He has also passed his graduate and postgraduate studies from the same department.

Bahrain to Set up \$50 Million Liquidity Management Centre.

Bahrain, the world's major Islamic finance center, is planning to establish a \$50 million liquidity management center (LMC) to help meet the needs of Islamic banks and financial institutions. Bahrain-based Ernst and Young had been appointed financial adviser for the first LMC in an Islamic state.

The study was conducted by Ernst and Young which is also marketing the project among banks and financial houses with an initials capital of \$50 million. LMC is mainly aimed at meeting the liquidity needs of Islamic banks and financial houses and to create

Investment opportunities. It will also be the part of efforts by Bahrain, the Gulf's financial hub, to establish a proposed Islamic inter-bank market.

(*New Horizon*)

Malaysian Govt. Studying Feasibility of Islamic Currency.

Malaysia intends to organize a seminar with other Islamic countries and representatives from the banking sector to look into the feasibility of using Islamic currency dinar mas in business transactions with Islamic and non-Islamic countries. The value of dinar mas is based on gold. In order to develop the country into an Islamic financial center, Malaysia had drafted the Islamic banking master plan and Takaful and it has also set up an Islamic Banking and Takaful Department to supervise the development of the system.

(*New Horizon*)

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NEW BOOKS AND ARTICLES

BOOKS

1. *Proceedings of the Third Harvard University Forum on Islamic Finance*, Cambridge: Centre for Middle Eastern Studies, Harvard University, 2000, 319 pp.
2. *Resolution and Recommendations of the Council of the Islamic Fiqh Academy-1985-2000*, Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2000, 269. pp.
3. ZAMAN, Arshad, *The Role of the Financial Markets in Private Sector Development in the IDB Member Countries*, Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2000.

ARTICLES:

1. FIENNES, Toby, 'Risk Management and Liquidity in Islamic Banking – A Regulator's Perspective', *New Horizon* (London), No.111, August 2001, pp.4-5
2. El-GAMAL, Mahmoud A., 'An Economic Explication of the Prohibition of Gharar in Classical Islamic Jurisprudence', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.8, No.2, April 2001, pp.29-58.
3. HOSSEINI, Hamid, 'Medieval Islamic (Persian) Mirrors for Princes Literature and the History of Economics', *Journal of South Asian and Middle Eastern Studies* (Villanova, PA, USA), Vol.24, No.4, Summer 2001, pp.13-36.
4. IQBAL, Munawar, 'Islamic and Conventional Banking in the Nineties: A Comparative Study', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.8, No.2, April 2001, pp.1-27.
5. IQBAL, Zamir and MIRAKHOR, Abbas, 'Progress and Challenges of Islamic banking', *Thunderbird International Business Review*, Vol.41, No.4-5, July-October 1999, pp.381-405.
6. KHAN, M. Akram, 'Public Finance in Islam', *Islamic Studies* (Islamabad, Pakistan), Vol.40, No.2, Summer 2001, pp.227-256.
7. MANSOORI, M.Tahir, 'Supreme Court's Judgement of Riba- a Shariah Appraisal ', *Hamdard Islamicus* (Karachi, Pakistan), Vol.24, No.3, July-September 2001, pp.15-52.
8. SARKER, Abdul Awwal, 'Islamic Insurance System: The Case of Malaysia', *Thoughts On Economics* (Dhaka, Bangladesh), Vol.11, Nos. 1&2, January-June 2001, pp.55-67.

Ph.D. On Abu Ubayd's *Kitab Al Amwal*

Title: Early discourse on Islamic finance. A study based on *Kitab al Amwal* of Abu Ubayd al Qasim bin Sallam (d.224/836), By: Ugi Suharto.

Supervisor Dr. Sabri Orman
ISTAC. Kuala Lumpur, Malaysia.
Aug. 2000. 218 pp.

About a quarter century ago Dr. Muhammad Nejatullah Siddiqi, in a survey of works on history of Islamic Economic thought observed that Abu Ubayd surprisingly failed to attract the attention of economists and researchers inspite of his work being very rich in historical as well as juridical material and widely quoted by recent writers on Islamic economics. . This credit now goes to Dr. Ugi Suharto who chose Abu Ubayd's *Kitab al Amwal* for his Ph.D. work under the supervision of professor Sabri Orman at the International Institute of Islamic Thought and Civilization (ISTAC), Kuala Lumpur. It is an analytical study on Abu Ubayd's *Kitab al Amwal* as an early discourse of Islamic public finance. The main concern of this work is to discuss and evaluate Abu Ubayd's conception of public finance in his book '*Kitab al Amwal*'. It contains 5 chapters; Chapter one is on a critical biography of Abu Ubayd. It also provides discussion on the economic, social, and political background of *Kitab al Amwal*. Chapter two deals specifically with Abu Ubayd's conception of public finance, his definitions, terms and classification of public revenue and public spending and makes comparison with other similar works before and after him such as "*Kitab al Kharaj* by Abu Yusuf, Yahya b. Adam and Qudama b. Jafar" and also "*Kitab al Amwal* by Ibn- Zanjawaih and Abu Jafar al Daudi". Abu Ubayd takes the issue of *nafl* (pl. *Anfal*) and divides it into four types which are not found in other works of *Kharaj*. Further his notion of *rifq* (leniency), *sahl*, (convenience) and *ala qadr al taqah* (in accordance with ability to pay) which is known today as "maxim of taxation" of Adam Smith, has also been discussed. Chapter 3 is an analytical study of the relationship between the prophetic income and public revenue of Muslims etc. Chapter four is on Zakah as a special institution of public finance. This chapter is a very detailed examination of so many issues on Zakah and provides the valuable insight of Abu Ubayd into interpretation of heads of *Zakah* and its distribution aspect. The Chapter five deals with Abu Ubayd's eclectic attitude, that is, the method of "*Takhayyur*" in Islamic jurisprudence, where there are differences of opinions among jurists. It may be helpful in solving the modern problems of Islamic law. The study concludes with a summary of the thesis. It also presents some suggestions and recommendations for implementation of earlier Islamic public finance. As a whole Ugi Suharto's work is a significant addition to the literature on history of Islamic economic thought. It fulfilled a long- standing demand for comprehensive study of Abu Ubayd's contribution to Islamic public finance. We hope that this will work as stimulating force to carry out further such researches.

Khalid Waheed Falahi

International Conference on al-Ghazali's Legacy- A Report

International Institute of Islamic Thought and Civilization (ISTAC) organized during October 24-27, 2001, the International Conference on al-Ghazali's, Legacy; Its Contemporary Relevance, at Kuala Lumpur. ISTAC was founded along by the world-renowned Muslim thinker and scholar Prof. Dr. Syed Mohammed Naquib al-Attas, who is also its director. It was officially opened on 4th October 1991 as a research and postgraduate institution offering degrees in Islamic thought, Islamic civilisation and Islamic science at the master and doctoral level.

The international conference on al Ghazali's relevance was distinguished from earlier conferences on al Ghazali-one at Agadir (Morocco) and another at Paris, in the sense that the Kuala Lumpur Conference sought to promote the relevance of al-Ghazali's work to contemporary Islamic life and thought

In his welcome address, Prof. al-Attas stressed that "Muslims must realize that our dialogue today is with the powerful forces of secularization as a philosophical program whose underlying philosophy and ideology have created a separation between truth and reality and between truth and values. It is only through knowledge of Islam and its worldview, coupled with the knowledge of Western thought and civilisation and the understanding of its evolutionary history of intellectual and religious development, that we can engage ourselves in this profound dialogue with success, as al-Ghazali, under similar circumstances and in his own milieu, had demonstrated."

The conference brought together a select group of professionals and scholars from around the world who dealt with topical themes including the spiritual, metaphysical, logical, ethical, exegetical, educational,

Interreligious, psychological, scientific, socio-political and economic aspects of al-Ghazali are thought.

The session special for discussion on al-Ghazali's economic thought was chaired by Prof. Dr. Amer al-Roubaie who also contributed a paper in which he emphasized that although al Ghazali lived 1000 years ago, the opinion he furnished are in conformity with the methodology concerning various subjects in contemporary economics. Al-Ghazali's reflection on knowledge, action, ethics, governance, money and exchange deserve closer examination within the framework of the present debate concerning the constructions of the Islamic economic system.

Prof. Dr. Sabri Orman's paper focused on the outcome of al-Ghazali's analytical approach to economic phenomenon.

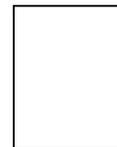
Dr. Abdul Azim Islahi presented his paper on an important aspect of al-Ghazali's economic thought money and interest, and with rigorous analysis he explored its relevance and application today. Al-Ghazali provided a very clear and succinct discussion of the functions and the problems of barter economy as well as the evolution of money and monetary exchange. In terms of its broad contents and analysis, it is similar to what one finds in a typical contemporary textbook.

Al-Ghazali left a rich legacy of economic thought upon which, through transference and translations, much more could be built by his successors. In view of a great number of fundamental economic notions discovered and analysed by him, it was felt that a full seminar should be devoted to discuss various aspects of his economic thought.

Prof. Dr. Wan Mohd. Nor Wan Daud chairman, the Secretariat of al-Ghazali Conference deserves our thanks and appreciation for successful organization of this conference. Papers presented to the conference would be a very useful and valuable addition to the literature related to al-Ghazali.

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