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Exclusive:

Islamic Discipline of Economics Emerged in late-colonial India: Prof Timur Kuran

Prof Timur Kuran is known to be one of the most truculent critics of the whole movement that is called Islamic Economics. A PhD from Stanford University, Prof Kuran at present teaches at the University of Southern California. He also heads the King Faisal Chair of Islamic Thought and Culture. He has got more than fifty publications to his credit. Of them many have been translated in several European languages. His book, *Private Truths, Public Lies: The Social Consequences of Preference Falsification* has attracted the worldwide attention. Prof Kuran shares his thoughts with our Joint Editor, Mr. Shariq Nisar (Editor).

In many of your articles you had suggested that Islamic economics emerged from pre independent colonial India. How would you substantiate your arguments when not a single Islamic bank could be found in the region before the Islamic Bank Bangladesh Ltd. in 1983?

The concept of a distinctly and self-consciously Islamic discipline of economics emerged in late-colonial India, at a time when Indian Muslims were intensely preoccupied with a matter of identity: were they Muslims living in an increasingly hostile culture or Indians who belonged to one of many Indian religious communities? Which element of their identity took precedence, Islam or their Indianness? For Indians who came to be known as early Islamists, the answer was simple: they were Muslims first and foremost, and it was critical that they live as Muslims.

In pursuit of the goal of accentuating their Muslim identity, Mawdudi and his followers set out to identify Islamic alternatives to lifestyle choices, thought patterns, and even academic alternatives that they considered "Western" or simply "foreign." One of the inventions of this period was Islamic economics. The concept was already in the air, and we do not know who coined the term. We do know that it was Mawdudi who popularized it.

Mawdudi and his associates also coined terms such as "Islamic banking" and "Islamic finance." They did so to reinforce the Muslim identity rather than out of a desire to improve economic performance per se. This is entirely consistent, of course, with the premise of your question. Had the Indian (and eventually also Pakistani) Islamists of Mawdudi's generation been motivated by economic development, they would have experimented with new forms of financial organization. That Islamic economics in general, and Islamic banking in particular, could serve economic development emerged as an afterthought, much later.

You are considered as one of most truculent critics of Islamic economics. What actually is the basis of your critique?

The Islamic world was once highly dynamic and, relatedly, economically developed by the standards of the day. Then it lost its institutional dynamism and fell economically behind. Today, the world's Muslims are considerably poorer, on average, than the economically advanced countries. Although wealth is by no means the only determinant of well-being, it is one of them. Poverty is a source of humiliation and despair. In view of this situation, there is an enormous need for innovative responses to real problems. Islamic economics has not been of help in this regard. In fact, by putting symbolism ahead of substance, and focusing on matters of identity, it has delayed the identification and implementation of sound economic reforms. Though not promoted as "Islamic", the "Grameen Bank" has made a greater contribution to development than decades of economic experimentation undertaken recently in the name of Islam. I'm not sure that any of the Muslim jurists who helped to codify the institutions now being promoted by "Islamic economics" would have found what passes as "Islamic economics" appealing. They tried to find workable solutions to real economic problems. My guess is that they would have dismissed the methodology of Islamic economics as flawed and its concerns as fanciful.

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Conference on *Awqaf* in India: A Report

A three-day conference on Maintenance, Protection and Development of *Waqf*, jointly organized by the Institute Of Objective Studies (IOS) New Delhi and All India Milli Council, Rajasthan was held at the Muslim Musafir Khana ground, Jaipur on 25th October 2002.

The Conference was inaugurated by the Hon'ble Chief Minister of Rajasthan Mr. Ashok Ghelot. Besides him there was galaxy of prominent personalities on the dais like Justice Aftab Alam from Patna High Court, Dr. M. Manzoor Alam, Chairman, IOS, Mr. Abdul Dabeer, Sahara India, Mr. Abdul Mohsin Al Usman from Islamic Development Bank, MP. Pt. Naval Kishore Sharma, MLA and many others.

At the inaugural session, Hazrat Maulana Nizamuddin, Secretary, Muslim Personal Law Board and Chief of Amarat-e-Shariah, Bihar and Orissa. Mr. Shabbir Khan, President Reception Committee welcomed the participants. Dr. M. Manzoor Alam, in his keynote address, highlighted the constructive role of *Waqf* in bringing social and economic prosperity to the community. Mentioning the age-old prevalence of *Waqf*, he said as to how the Prophet Muhammad (PBUH) gave in *Waqf* his seven gardens which were gifted by a Jew and hoped that this tradition will be continued by others.

In his inaugural address, the chief minister Mr. Ashok Gehlot hoped that this conference would highlight some of the delicate problems and its action plan will help in resolving long pending disputes relating to *Waqf* in the state. He maintained that managing *Waqf* effectively is a matter of concern and declared that videography will be done to maintain proper records of *Waqf* properties. He informed that Judicial Magistrates have been ordered to maintain proper revenue records and expressed the hope that it will help in easing the friction in the society.

Mr. Siraj Hussain, Vice-Chancellor Jamia Hamdard acknowledged that administration by political appointees create hindrances in day-to-day functioning of the board. He asked the Chairman, IOS Dr. Manzoor Alam, to form a pressure group to create public awareness.

Professor A.M. Khusro, renowned economist and former Chairman 11th Finance Commission, Government of India, expressed concern over the sorry state of affairs in various *Waqf* boards across the country. He also regretted the ignorance shown by the people about *Waqf*. He requested the experts to formulate strategies for maintaining *Waqf* properties and enlighten common people on the subject.

Mr. Manzoor Ahmed, Former Vice-Chancellor, Agra University, expressed the hope that *Waqf* committees would be governed democratically and expressed his apprehensions about some posts headed by persons who hold high government positions. He urged to set up legal cell to create awareness regarding *Waqf*.

Sheikh Abdul Mohsin Al Usman of the Islamic Development Bank, Jeddah, described *Waqf* as the true saving, which benefits the mankind directly serving the cause of humanity. He observed that the greatest challenge before the *Ummah* was not only to maintain the existing *Waqfs* but also to create new ones. He welcomed the participation of government, private sector and the public at large in this noble endeavor. He also announced the setting up of a World Trust for *Waqf* by the end of next year.

Some of the resolutions adopted at the end of the conference were:

1. A mass movement for the protection, upliftment and welfare of *Awqaf* is the need of hour. The appropriate and vital measures ought to be taken in this direction keeping in mind that national awareness should be a part of its agenda.
2. To cooperate with those involved in the task of conducting surveys of various *Waqf* properties and to persuade them to work on appropriate lines.
3. The laws pertaining to *Waqf* must be properly scrutinized. Moreover, other such laws which are also related to *Awqaf* in any manner, whatsoever, should be compiled and a memorandum based upon them be presented to the government. A compendium also needs to be prepared in this context.
4. Researches should be undertaken regarding the principles and doctrines of *Awqaf*. For this task, the necessary infrastructure should be developed.
5. The administrative infrastructure of *Awqaf* should be reviewed and the recommendations about the suitable amendments must be presented keeping in view the Milli needs and aspirations.
6. Plans and schemes to increase the income of *Awqaf*, based on the suggestions of experts, should be chalked out and implemented accordingly.
7. To establish a *Waqf* Development Corporation and other such important institutions to promote economic upliftment and to translate the plans into action.
8. Preconceived efforts should be made to formulate an action plan for the establishment of a National *Waqf* Development Bank.
9. A proper stratagem should be adopted with respect to *Awqaf* in Rajasthan, which would encompass the establishment and functioning of educational, academic and economic institutions.

In view of the discussions and other important recommendations of this conference, the Institute of Objective Studies proposed to set up a Central *Waqf* Cell.

PhD on *Murabahah* at Aligarh Muslim University

Department of Economics, Aligarh Muslim University, has enrolled a new Ph.D. student to work on 'A critical analysis of *Murabahah* as an Islamic mode of Investments' Dr. Masood Hasan, Reader in the Department will supervise the work. *Murabahah* (Cost plus finance) is an important mode of Islamic finances and is very often a matter of controversy among scholars regarding its current practices.

New Books and Articles

Books:

1. Azmi, Sabahuddin, *Islamic Economics: Public Finance in Early Islamic Thought*, New Delhi, India: Goodword Books, Pvt. Ltd. 2002, 157pp.
2. Bashir, H. and Safavi, S.G., *The Roots of the Islamic Revolution in Iran: Economic, Political, Social and Cultural Views*, London: Book Extra Ltd. 2002, 154pp.
3. Jones, Gavin and Karim, Mehtab (eds.), *Islam, the State and Population Policy*, London: C. Hurst 2002, 300pp.
4. Sundarrajan, V. and Errico, Luca, *Islamic Financial Institutions and Products in the Global Financial System: Key Issues in Risk Management and Challenges Ahead*, (IMF Working Paper 02/192), Washington, DC: International Monetary Fund, September 2002, 27pp.

Articles:

1. Ahmad, Norafifa and Haron, Sudin, 'Perception of Malaysian Corporate Customers Towards Islamic Banking Products and Services', *International Journal of Islamic Financial Services*, Vol.3, No.1, January – March 2002.
2. Ali, M. Mumtaz, 'An Exploration into Western and Islamic Concepts of Development and Civilization – Few Observations', *Hamdard Islamicus* (Karachi, Pakistan), Vol.25, No.3, July - September 2002, pp.7-23.
3. Elgari, Mohammad A., 'Essential Shariah Requirements for major Exchange Contracts', *New Horizon* (London), No.121, August 2002, pp.10-13.
4. Habibie, B.J., 'Enhancing Productivity and Competitiveness in IDB Member Countries', *Thoughts On Economics* (Dhaka, Bangladesh), Vol.12, Nos. 1&2, January-June 2002, pp.31-52.
5. Iqbal, Zamir, 'The Scope of Off-Balance – sheet Transactions in Islamic Finance', In: *Proceedings of the Fourth Harvard University Forum On Islamic Finance*, Cambridge: Centre for Middle Eastern Studies, Harvard University, 2002, pp. 165-171.
6. Jarahi, Mabid Ali, 'A Comparison of Transactions in Conventional and Islamic Economics', In: *Proceedings of the Fourth Harvard University Forum On Islamic Finance*, Cambridge: Centre for Middle Eastern Studies, Harvard University, 2002, pp. 27-34.
7. Khan, Tariqullah, 'Financing Build, Operate and Transfer (BOT) Projects: The Case of Islamic Instruments', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.10, No.1, September 2002, pp.1-38.
8. Obadidullah, Mohammad, 'Islamic Risk Management', *International Journal of Islamic Financial Services*, Vol.3, No.1, January – March 2002.
9. Pramanik, Ataul Haq, 'Islam and Development Revisited with Evidence from Malaysia', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.10, No.1, September 2002, pp. 39-74.

Muslim Countries Launched Islamic Financial Services Board (IFSB)

After two years of hectic discussions and deliberations, at last few Muslim States on November 3, 2002 launched the Islamic Financial Services Board. The new body will set common standards and act as an association of central banks and monetary authorities, and other institutions that are responsible for the regulation and supervision of the Islamic financial services industry among the member countries. Malaysia, Indonesia, Iran, Saudi Arabia, Pakistan, Sudan, Bahrain and Kuwait are all represented as the founding member of the Board.

Primarily the IFSB will serve as an association of institutions that have responsibility for the regulation and supervision of the Islamic financial services industry and will: (1) set and disseminate standards and core principles-as well as adapt existing international standards-for supervision and regulation, consistent with the *Shariah's* principles governing the industry, and for voluntary adoption by member countries; (2) liaise and cooperate with other standard-setters in the areas of monetary and financial stability; and (3) promote good practices in risk management in the industry through research, training, and technical assistance. This would encompass the adoption of international best practices on risk management standards as well as the development of new risk management techniques in conformity with *Shariah* injunctions.

The Chairman of the IFSB Inauguration Steering Committee, Dr. Zeti Akhtar Aziz, in his welcoming address said, "In our endeavour to build a strong and sound Islamic financial system, of importance are the critical milestones that we establish to crystallize this quest ... the first was the establishment of the Islamic Development Bank in 1975. The second was the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in 1990. And today, the establishment of the Islamic Financial Services Board marks another important milestone". Dr. Zeti Akhtar Aziz, hailed the cooperation of the Islamic Development Bank (IDB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the International Monetary Fund (IMF) in helping to prepare the terms of reference and operational structure for the Board. He further stressed that the Islamic financial system has an in-built dimension that promotes financial soundness and stability, as it resides within a financial trajectory underpinned by the forces of *Shariah* injunctions. These *Shariah* injunctions interweave Islamic financial transactions with genuine productive activities and prohibit involvement in illegal and unethical activities. This intrinsic principle of governance contributes towards insulating the Islamic financial system from the potential risks of financial stress triggered by excessive leverage and speculative financial activities. Indeed, the Islamic financial system derives its strength and stability from its faculty to uphold *Shariah* principles. This demands the internalization of *Shariah* principles in Islamic financial transactions, in its form, spirit and substance.

BBC News reporter in Kuala Lumpur, Jonathan Kent, hailed this establishment as marking the coming of age of international Islamic banking. While launching the new board, the Malaysian Prime Minister Dr Mahathir Mohamad said the Islamic finance sector has great potential. "Although the size of the international Islamic finance is still small, it has expanded significantly at 15% per annum," he further said. "The potential for growth is enormous, given not only the huge wealth of the global Muslim community but also the interest shown in the international financial markets in this form of financial intermediation."

Shariq Nisar

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Do not you find any positive aspect in Islamic economics?

The Islamic world is in great need of venture capital. There are millions of ambitious, intelligent, and energetic Muslims who can't get ahead for lack of capital. Give them funds, and they will work wonders. An "Islamic bank" operating in the manner prescribed by its charter would work like a venture capital firm. It would lend on a profit-and-loss sharing basis to people with economically promising ideas, rather than simply to established entrepreneurs with plenty of collateral.

For all their failures to date, I consider genuine Islamic banking to offer a potential for improving the use of capital. If the world's Islamic banks start following the principles outlined in the literature on Islamic banking, they will begin making a noteworthy contribution to economic development in the Islamic world and beyond.

Turning Islamic banks away from conventional banking will require, of course, real work and a desire to put real economic results ahead of symbolism. Above all, it will require legal and political reforms that increase the level of honesty in credit markets to the point where investors find profit-and-loss sharing appealing.

What is the future of Islamic economics?

The Islamic world is currently in deep crisis. Although its growth rate was respectable until recently, in education its achievements have been disappointing, to put it mildly. It also stands out as lacking in political freedom and creativity. To compound the problem, fairly or unfairly, powerful countries see certain Muslim countries, and the Islamic world in general, as a source of instability.

For all these reasons and more, the Islamic world is likely to go through a major shake-up over the next few decades. Sooner or later, more democratic regimes will emerge, the creative side of Islamic civilization will reappear, and current political conflicts will pass.

Whether Islamic economics will survive the upheavals that we are likely to see, I do not and cannot know. If I had to guess, I would say that the doctrine will probably continue attracting to a small minority of Muslim economists. It will also grow in sophistication. However, the majority are likely to find secular schools of thought either more appealing intellectually or more useful technically.

What do you consider as the most important contribution of Islamic economics?

From Mawdudi onward, Islamic economists have been right that moral values and social norms contribute greatly to economic performance. Neoclassical economics long ignored values and norms, and this reduced its usefulness. Although Islamic economics has contributed next to nothing to the positive study of how values and norms emerge, and of how they do or do not change, at least focused attention on two very important aspects of personal fulfillment and social organization. This insistence has helped to create a favorable intellectual climate for the study of values and norms.

Any message to our readers?

In Islam, there is no priesthood. In principle, the individual is allowed, indeed is expected, to think for himself or herself. This principle applies, I would think, to intellectuals as well, including economists. It thus calls for questioning currently fashionable interpretations of what Islam requires in the economic arena. It calls for fresh thinking about ways out of current problems.

Call for Papers

International Seminar on Islamic Wealth Creation

University of Durham, 7th - 9th July 2003

Topics to be covered in the Seminar include:

- The growth of Islamic bank assets
- Islamic fund management
- Islam and entrepreneurship
- Development of Islamic financial markets
- Risk management for Islamic wealth.

The organizers aim is to attract high quality papers from both academic speakers and bankers involved in the practicalities of Islamic finance, including retail and investment banking and fund management.

For further information contact could be made to:

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