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Exclusive:

Islamic Banking and Finance in the 21st Century needs “discontinuous leaps”: Prof. M.A. Mannan

Equally dexterous in Research and its application Prof. Mannan is considered as one of the earliest Islamic economists of the subcontinent. With a Ph. D. degree in Economics from Mich. U.S.A. Prof. Mannan has more than four decades of experience in money, banking, finance, economic planning, civil administration, teaching, and research. He has served about 13 years at the highest professional position of Senior Economist in Islamic Development Bank (IDB). His book: *Islamic Economics-Theory and Practice* is internationally recognized as the first textbook on the subject. With more than 20 reprint the book has been translated in dozen of foreign languages. A Founder Chairman of the Social Investment Bank Ltd. (SIBL) Dhaka, Bangladesh, Prof. Mannan shares his views with Shariq Nisar.

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Could you please let us know about your current area of engagement in Islamic economics?

I am currently involved in the (a) Neglected frontiers of Non-formal Islamic Banking and Finance dealing with management of family empowerment Micro-credit for the poor (b) Islamic voluntary sector Banking with special reference to introduction of Cash-Waqf Certificate, an innovation in Islamic Financial Instrument for the first time in history and investment and (c) establishment of World Social Bank with its Head quarters preferably in Indonesia for Global mobilization, creation and investment of Cash Waqf Fund to expand and open up new frontiers of human freedom that includes freedom from educational, social and economic deprivations.

Your famous book ‘Islamic Economics: Theory and Practice’ is still a prime textbook for the beginners. What major development has taken place since last two and half decade that you could add in your book?

I wrote this book almost 40 years ago on the assumption that my readers have no prior knowledge of either economics or Shariah. To compliment this, I wrote a number of other books at my mature age. The book; “THE MAKING OF ISLAMIC ECONOMIC SOCIETY”: Islamic dimensions in economic analysis, is intended to offer the readers an analytical exposition of Islamic dimensions in economic analysis at a level higher than my earlier book, a creative synthesis and an intuitive grasp of many recent developments in the field of Islamic economics, money and banking. In this book, I have advocated the concept of “effective need” instead of “effective demand” as a basis of market mechanism in Islam, rejected “Pareto optimality” and “given demand” hypothesis in explaining the behavior of the firm, advanced the notion of “expected desirable income” hypothesis in developing the nature of consumption function and planned price differentiation”, limited indexation and credit creation by Islamic banks, raised the problems of intra-poor distributional equity through the disbursement of Zakat revenue, advocated the formation of Muslim Commonwealth of Communities.

Your writings have much focused on the economic development in Islamic prospective. What are major stumbling blocks in this regard?

In my view, Lack of Muslim Leaders with social vision, pro-colonial development policy adopted by Muslim leaders in their countries, institutional rigidities and rampant corruption in Muslim Societies are among others, the main stumbling blocks of development of Muslim Countries. Following conditions pinpoint the development process in a modern Muslim Society.

1. Mass participation and sharing in economic activities through the establishment of Islamic social banking at grass-roots level.
2. Using distributive consideration for determining production priorities.
3. Humanizing the line of production, distribution and consumption.
4. Institutionalizing the obligatory, Islamic tools of redistribution of income and the Islamic voluntary sector.
5. Provision for future generations.
6. Increasing the level of economic cooperation and the levels of regional, economic and monetary integration.

Contd. on page 4

Prof. M. Nejatullah Siddiqi Receives Shah Waliullah Award in Islamic Economics

India's prominent Islamic economists and thinker, Professor M. Nejatullah Siddiqi has been awarded the Shah Waliullah Award by the Institute Of Objective Studies, New Delhi, for his pioneering contributions in the field of Islamic economics and banking. At a glittering ceremony held at Jamia Hamdard Convention Centre, New Delhi, on May 19th, the former Chief Justice of India, Mr. M.H. Ahmedi while presenting the award, which consists of a One Lakh Indian Rupee, cited the Prof. Siddiqi's significant contributions in the new discipline of Islamic Economics and Finance.

In the early 1970s, when Islamic Economics not accepted as a full-fledged discipline, Prof. Siddiqi came out with his pioneering book 'Banking Without Interest'. In this groundbreaking work, Prof. Siddiqi demonstrated with academic rigor, for the first time, (though he humbly associate in this initiative Dr. M. Uzair of Allahabad University) that banking institution can operate without difficulty if the principles of profit-sharing is substituted for the practice of fixed interest payments. He explained with numerical examples as neither the creation of credit nor control over its supply would pose any problem in the change over from interest to profit sharing. In his framework of an Islamic bank, Prof. Siddiqi presented a two-tier *mudharabah* (profit and loss-sharing) model of interest-free banking which was not only the first fully professional and thorough treatment of the subject but also a basis for debate among Muslim scholars. Later on in 1983, his another related work; *Issues in Islamic Banking*, opened with an overall evaluation of an Islamic banking operations and how under the Islamic system, there will be a central bank to control the supply of money and regulate and guide the activities of commercial banks and other financial institutions. He argued that these principles are not merely a replacement for a system that Islam finds morally reprehensible, but are genuinely innovative since they offer new mechanism of control of monetary growth and elimination of inflation as well as combating the inherent tendency of interest-based system to encourage inequalities of wealth.

His next outstanding work, *The Muslim Economic Thinking: A Survey of Contemporary Literature*, (1981) is based on his masterly survey of contemporary literature in three major languages; English, Arabic and Urdu published till 1975. Here, Prof. Siddiqi introduced the new generation of professional economists, with the economic thoughts of great Muslim thinkers like Ibn Khaldun, Ibn Taimiya, Abu Yusuf, Nasiruddin Tusi, Shah Waliullah and other thinkers. He also put forwarded the ideas of Muslim thinkers about the fundamental principles, the goals and nature of the economic system of Islam in both the micro and macro economic framework. Besides, his thorough researches also highlighted the important institutional aspects like *zakat*, public finance, inheritance, social security and insurance, money and banking, labour industrial relations population, economic growth and development. This book and his other writings won him King Faisal Award in 1977?

Prof. Siddiqi's engagement in the Centre for Research in Islamic Economics, at the King Abdul Aziz University, Jeddah, Saudi Arabia, between mid 1970s till mid 1990s can be said to be quite fruit full for the expansion of his ideas at the international scene. This was the time when a number of Muslim economists had already entered the field of Islamic economics and finance. At the practical level too, he witnessed the implementation of his ideas and vision of Islamic banking. During the period, his thought provoking papers in the academic journals expanded the horizon of Islamic finance in the context of economic liberalization and globalization. After the interaction with the international community of scholars at the seminars particularly at the western universities, Prof. Siddiqi brought some more evaluative writings on the issues of Islamic monetary and fiscal aspects.

Today, at the age of 72, Prof. Siddiqi is still energetic, studious having potential in his fresh ideas and understanding of the current situation facing the humanity. This was rightly acclaimed by Dr. M. Manzoor Alam, the Chairman of the Institute, who thanked his 'affectionate' teacher for accepting the Shah Waliullah award.

Karnataka University Enrolls a PhD Scholar in Islamic Economics

A new research scholar, Mrs. Rahatunnisa got registered in the Karnataka University Dhavard, to pursue her PhD programme in the field of Islamic economics. She will write her dissertation on "Muslim Scholars Contribution to Economic Thought – With special Reference to Al-Ghazali, Ibn Khuldun, Ibn Taimmiyah and Shah Waliullah", under the supervision of Dr. Syed Afzal Peerzade, a reputed scholar of Islamic economics and formerly principal, at Anjuman College of Commerce, Science and Arts, at Bijapur, Karnataka.

Mrs. Rahatunnisah is also a lecturer in Economics, at the Anjuman Degree College of Dhavard, Karnataka.

Islamic Chamber of Commerce to Hold Gold Dinar Convention

The Malaysian Islamic Chamber of Commerce, Kuala Lumpur branch, will hold a one-day convention on the use of the gold dinar as an alternative medium of exchange for international trade at the Putra World Trade Centre on July 1, as informed by its chairman, Tan Sri Elyas Omar. He said the chamber had invited Prime Minister Datuk Seri Dr Mahathir Mohamad to officiate at the opening ceremony and deliver a keynote address. Elyas said the chamber hoped to attract about 500 participants from within and outside the country to the convention, which would be conducted in English. The convention is aimed at enhancing knowledge on the use of the gold dinar. Elyas said the chamber also hoped to enhance bilateral ties with trade chambers in other countries. This would enable its members to benefit from networking arrangements with their counterparts from other countries, he said.

At present, the Kuala Lumpur branch of the chamber has about 200 members while the national tally of the same is about 4,000. Elyas said the chamber hoped to attract more Muslim entrepreneurs, especially those in the small and medium scale industries, to join the body.

(Source: Yong Soo Heong, at www.bernama.com)

New Books and Articles

Books:

1. ALIZADEH, Parvin, (ed.), *The Economy of Iran: The Dilemmas of an Islamic State*, New York: I.B. Tauris, 2001, 303pp.
2. BAECK, Louls, *The Mediterranean Tradition in Economic Thought*, London, New York: Routledge, 1994, 241pp.
3. JONES, Gavin and Karim, Mehtab (eds.), *Islam, the State and Population Policy*, London: C. Hurst 2002, 300pp.
4. SIDDIQI, M. Nejatullah, *Dialogue in Islamic Economics*, Islamabad, Pakistan: Institute of Policy Studies, & Leicester, UK: The Islamic Foundation, 2002, 365pp.

Articles:

1. AHSAN, Muhammad, 'Theoretical, Historical and Contemporary Perspective of Human Development in the Muslim World', *The Islamic Quarterly* (London), Vol.XLVI, No.3, 2002, pp.277-311.
2. ALI, M. Shoukat, 'Creation of Money and the Role of Central bank in an Islamic Framework: A Simulation for Pakistan', *IJUM Journal of Economics and Management* (Kuala Lumpur, Malaysia), Vol.9, No.10, 2001, pp.55-76.
3. Dar, Humayon A., 'Attitude of Muslims in the UK Towards Islamic Finance', *New Horizon* (London), No.125/126, December-January 2003, pp.17-19.
4. HANEEF M. Aslam, & ANWAR, Muhammad, 'Contemporary Muslim Thinking at the Turn of 21st Century', *IJUM Journal of Economics and Management* (Kuala Lumpur, Malaysia), Vol.9, No.10, 2001, pp. 1-30.
5. KHAN, M. Akram, 'Role of Supreme Audit Institutions in Shaping the Islamic Economy in the 21st Century', *IJUM Journal of Economics and Management* (Kuala Lumpur, Malaysia), Vol.9, No.10, 2001, pp. 77-100.
6. KHAN, M. Fahim, 'Guaranteeing Investment Deposits in Islamic Banking System', *Journal of King Abdul Aziz University: Islamic Economics*, (Jeddah, Saudi Arabia), Vol.16, No.1, 2003, pp.45-53.
7. NISAR, Shariq, 'The State of Islamic Finance in India: Strengths and Weaknesses', *Review of Islamic Economics* (Leicester, UK), No.12, 2002, pp. 73-86.
8. RAHMAN, Tanzilur, (Justice), 'Mudharabah and the Pakistan Perspective', *Hamdard Islamicus* (Karachi, Pakistan), Vol.25, No.3, July-September 2002, pp.31-55.
9. TOUTOUNHIAN, 'Computing Internal Rate of Return in Islamic Banking and Zero Cost of Capital', *New Horizon* (London), No.127, February 2003, pp.9-14.
10. ZARQA, M. Anas, 'Islamization of Economics: The Concept and Methodology', *Journal of King Abdul Aziz University: Islamic Economics*, (Jeddah, Saudi Arabia), Vol.16, No.1, 2003, pp. 3-42.

Teaching Economics in Islamic Perspective

(Following is the excerpt of a letter written by Prof. F.R. Faridi to Prof. Nejatullah Siddiq while commenting upon latter's draft proposal of teaching economics in Islamic perspective. Though the letter is more than 20 years old, it is still as pertinent today as it was at the time of its writing. This letter is taken from recently published book "Dialogue in Islamic Economics" by Prof. M. Nejatullah Siddiqi, **Editor**).

The teaching of Islamic economics on the belief that all-important areas of microeconomics are essentially valid and useful for the study of man in the ordinary business of life is questionable. Microeconomics claims to give some laws of economic behavior derived from observation of a particular society at a particular time. None of these laws have ever been tested except, perhaps, the general validity of demand and supply. This approach is also fraught with numerous conceptual dangers. It may land us in the same area of problems as for example the so-called distribution theory.

And what is more important that it may never lead to the birth of new economics of Islamic instead we may end with conventional positive economics for the following reasons;

An effort to introduce values in the behavior of consumer and producer, and the recognition of multiplicity of objectives including non-material ones together with the identification of market imperfections corresponds to the "footnote" recognition, by the economics themselves.

Building up the essentials of Islamic economic analysis requires, perhaps, a start from the scratch- that is to say; we should buildup our own theory of consumer behavior, and producers with entirely different motives. Our efforts may not look elegant in the beginning, but may be eventually rewarding. In this process we may benefit from the state of knowledge of economics but benefiting is different from adopting its man corpus with modification.

In my humble opinion, the most useful approach, perhaps, to the teaching of Islamic economics should proceed on the following lines;

1. The recognition of the fact that economic activity is one aspect of life and the man is not an economic machine. Substituting of the maximization of utility theory by the pursuit of Allah's pleasure and man's need.
2. Reformulating the concepts of positive economics also normative economics such as;
 - a. Demand and Supply
 - b. Capital and Saving
 - c. Growth and development
3. Substituting of demand (Need + Money) as index of social priorities by Need and an effective theory of need.
4. The political economy of Islam should be taught as a beginning with emphasis on the following;
 - a. Goals and priorities
 - b. Institutional setup
 - c. Its structural organization
 - d. Tools and techniques available to it
 - e. The role of the state
 - f. The role of the market
 - g. Distribution as central and more important than development as policy objective

This has been historically the course secular economics has taken. And this should be the course we should allow Islamic economics to take.

Cont. from page 1

During half century of theory and quarter century of practice what Islamic economics has offered to the most deserving class of the society?

Unfortunately, Islamic Banks have done little for the poor. To the best of my knowledge, Social Investment Bank Ltd. is the only Islamic Commercial Bank in Bangladesh, which operates on the basis of integrated three sector model: Formal, In-formal and Voluntary sector of the economy. This is the only bank in Bangladesh, perhaps in the world which starts with the very phrase, "Targeting Poverty", while stating its objects in Memorandum of Association for achieving a goal of participatory economy for a caring society.

Social Investment Bank Ltd. (SIBL) is indeed a concept of 21st Century participatory three sector banking model in one: in the formal sector, it works as an Islamic Participatory Commercial Bank with human face approach to credit and banking on the basis of profit & loss sharing; It is a Non-Formal Banking with the poor in non-corporate sector dealing with informal finance, Micro-credit and Micro-enterprises that empower the family and create local income opportunities and discourage internal migration; It is a Development Bank intended to monetize the voluntary sector, committed basically to financing development and management of over 1,55,000 Waqf, Mosque properties in Bangladesh as well as Non-Muslim Trust properties. SIBL is indeed committed to implement the principle of participatory economy with human face approach to credit and banking on interest free basis with a view to empowering the family as the basic social unit.

The crucial lesson of operation of SIBL are that the real performance of Islamic Banks lie not merely in their volume of deposit, investment and distributable profit as reflected in the **conventional financial balance sheet** but also in the growth of **human capital balance sheet** expressed in terms of broadening the base of Islamic finance and diffusing its concentration of ownership, expanding the number of beneficiaries at the grass-root level as well as in the growth of **social capital accumulation balance sheet** expressed in terms of re-inforcing family and social values that stimulates civil society.

It appears that Islamic Corporate Banking is getting submerged in the wave of market and running the risk of marginalising social and ethical ingredients of Islamic Finance. While the convergence between Islamic Banks and Western Banks having Islamic window may bring efficiency in operations of Islamic Banks, it is expected to face at least following **five dilemmas** in the corporate sector:

- (a) Concentration of ownership and beneficiaries of Islamic Finance;
- (b) Neglecting the vast masses of people at the grass-root level;
- (c) Secularizing Islamic Economics, Banking and Finance;
- (d) Marginalising social, ethical and moral ingredients of Islamic Finance; and

(e) Neglecting the growth of human and social capital which reinforce shared values and stimulates caring society.

The fact is that Islamic Banking and Finance in the 21st Century needs "discontinuous leaps" - a change in paradigm, to clear the backlog of history. It is however, felt that, the Islamic Banking in the 21st Century will face great challenge of our time but it would create great opportunities as well, for developing participatory economy beyond market, arrest the present trend toward the globalisation of poverty and colonization, concentration of ownership and beneficiaries of Islamic Banking and Finance, redefine the role of Islamic formal corporate finance, rediscover new role of informal and semiformal finance, through developing tailor-made credit package for re-empowerment of families of both the rich and the poor at the grass-root level, help development of voluntary sector Social Banking for mobilization and capitalization of social savings and investments.

Do you think Islamic economics/Islamic banking can make some significant contributions in Bangladesh?

Despite pervasive corruption and institutional rigidities, I am sure that Islamic Economics Banking and Finance can make a significant contribution in Bangladesh. There are at least five Islamic Banks and three conventional Banks with Islamic windows operating in Bangladesh with over 200 branches through the country.

In fact, Islami Banks of Bangladesh is the largest bank in the private sector and top income tax payer among over 40 private sector Banks in Bangladesh. Social Investment Bank Limited became the three "A" Class Banks in the country in 2000. Overall Islamic Banks are performing better than Non-Islamic Banks in Bangladesh.

Could you please let us know that how far the Islamic economics has traveled? What have been its major achievements and failures?

The principles of Islamic Economics Banking and Finance existed since advent of Islam. I am simply trying to unlock the code of our time and lock principles of Islamic Economics into our code of time in the language, understandable to us. Our collective achievement lies in the fact that Islamic Economy Banking and Finance can provide a viable alternative to existing Market Economic system, not only in Muslim Countries but also in Non-Muslim countries as well. Our collective failure lies in the fact that we have so far not yet been able to put up a great resistance to the present trend towards globalization of poverty and neo-colonization of our future.

There are many financial institutions in India that strive to work on Islamic principles. What advice would you like to offer people running these institutions?

I am inclined to suggest that Islamic Financial institution operating in India should include in their operations the most neglected areas of non-formal Banking dealing with micro-credit as well as Islamic voluntary sector Banking with a view to introducing Cash Waqf Certificate.

Any message to young researchers?

If young researchers take the trouble of reading my books on Islamic Economics, Banking & Finance written relatively at my mature age, offer their comments, so that I can learn and link my generation to their new generation, then my labor will be amply rewarded. I have a dream; I need prayers for all of you.

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