

# ISLAMIC ECONOMICS BULLETIN

INDIAN ASSOCIATION FOR ISLAMIC ECONOMICS

VOLUME 13 No. 6

November - December 2003

Shawwal– Dhulqada 1424 AH

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*Islamic Economics Bulletin* is published six times a year by the Indian Association for Islamic Economics (IAFIE). It aims to create awareness of the latest development in theory and practice of Islamic Economics.

Note: For private circulation only.

## SUBSCRIPTIONS

	Overseas	India
One year	US\$ 10	Rs. 50
Two year	US\$ 20	Rs. 100
Five year	US\$ 50	Rs. 200

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The Bulletin will be offered to the Members free of charge. Subscription is payable in Bank Draft, Cheque, M.O. or Cash. Cheques and drafts should be drawn in favor of *Indian Association for Islamic Economics* payable at Aligarh. Outstation cheque should add Rs. 25/- towards bank collection charges.

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## Exclusive:

### On the failure of Islamic Banking: A. Hasib

Dr. Abdul Hasib has retired as the Executive Director from the Reserve Bank of India. He has also been associated with a number of Islamic financial institutions in the country. Dr. Hasib shares his observations on some of the recent failures of Islamic banking in the country (Editor).

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The reasons of the failure of Islamic banking in India are on account of both external and internal factors. Externally, when the whole world finance is based on interest, it is extremely difficult if not impossible, to introduce Islamic financial institutions on a limited scale. This is all the more so when the world markets are getting integrated. The difficulty becomes greater when appreciate that the Muslim community itself does not seem to be convinced either intellectually or on practical grounds about the interest being *haram*. The questions being raised about the difference between interest and usury or between interest and bank interest on the ground that bank interest is not exploitative are examples of this confusion. Add to this the point that in a world where it is practically impossible to completely eschew interest based transactions and you come to a situation where the implementation of interest free banking is fraught with impossibilities. I must admit that perhaps I am exaggerating the point because the bodies of Islamic intellectuals are unanimous that there is no difference between interest and usury. I also share the same belief. However, there are still some doubts in the minds of a large number of people about the practicability of interest free banking in the world today. There is also the additional and related point that that nowhere in the world, including Islamic countries, Islamic banking has been introduced in its purest form.

Among the internal reasons the most important are that Islamic banking is based on ethical and moral principles and it is not possible to put the entire burden of Islamic banking on the lending institutions. Borrowers` duties and responsibilities are not even discussed in discussions of Islamic banking. Then there is the almost evident point that Islamic financial institutions are almost always run by those who believe in Islamic principles and are well versed in *Shariah* but are not so well aware of rules of Islamic Banking, which are based on the fundamental principle that confidence is the backbone of running a successful institution and confidence is a factor of implementing well known canons of prudential banking by honest professionals. Many of the Islamic institutions have come to grief because of the mismatch between demand liabilities and illiquid assets, Of course, part of the reason was the absence of suitable invest opportunities, a point related to the competitive integrated markets, discussed above.

Further, all those Govt. rules and regulations, which are interest related come in the way of running an Islamic Institution. Examples are the maintenance of SLR and taking advantage of repose in India. It is possible though not easy to live with these regulations. This however requires a sympathetic attitude of authorities. One must admit that very few serious attempts have been made to convince the authorities of the usefulness and practicability of Islamic banking.

### **SIXTH HARVARD UNIVERSITY FORUM ON ISLAMIC FINANCE ISLAMIC FINANCE: CURRENT LEGAL AND REGULATORY ISSUES**

The Sixth Harvard University Forum on Islamic Finance will be held at Harvard Law School, in Cambridge, Massachusetts, on May 8 and 9, 2004. The theme of the conference is "Islamic Finance: Current Legal and Regulatory Issues." Building on the experience of previous Forums, the Sixth Harvard University Forum adopts a theme uniting several topics of current interest in the field of Islamic finance. This year's conference seeks to provide a venue for critical and objective examination of issues of law and regulation at the forefront of developments in Islamic finance. With its unique blend of academic scholarship and industry experience, the Forum has become the leading event on the Islamic finance calendar. As in previous years, leading academic Shari'a scholars, legal experts, economists, and financiers as well as students and individuals interested in Islamic law and finance are expected to participate. The Forum will take a holistic approach to exploring issues involving the ideals, ideas, practice, and prospects of Islamic law and finance.

The Forum will critically examine the state of legal and regulatory issues in Islamic finance in the light of its development and achievements to date, its present participants and scope, and its potential for improvement and growth.

Islamic finance is an interdisciplinary field and has shown remarkable dynamism. It continues to move toward new goals and sees interaction between the conventional and Islamic law in fields ranging from regulation to supervision, from market discipline to innovative products and transactions and from main-street service to mega-deal structuring. These developments demand careful dialogue between theory and practice, ethics and enterprise.

#### **The Sixth Forum will cover the following areas:**

**SHARI'A AND CONVENTIONAL LAW:** Contractual issues Dispute resolutions, conflicts of laws, mediation, etc. Shari'a advisory and Shari'a audits Shari'a view point on issues, e.g. SPV & derivatives

**CORPORATE GOVERNANCE AND REGULATION:** Regulation of Islamic financial institutions, Examination of roles of Shari'a scholars, Corporate governance, Accounting and auditing standards

**LEGAL ISSUES PERTAINING TO FINANCIAL INNOVATIONS:** Innovations in Islamic finance, Derivative securities from an Islamic perspective, Islamic financial services in conventional institutions, Islamic finance: morality and ethics

**CURRENT ACADEMIC RESEARCH:** Current doctoral research completed or near completion in the field of Islamic law and finance will be covered

#### **REGISTRATION**

Online the registration could be done at the <http://www.ifp.harvard.edu> or by e-mailing the information requested at the [ifp@law.harvard.edu](mailto:ifp@law.harvard.edu)

Registration fee: US\$100/person

Registration fee for students: US\$35/person

### **THE HARVARD FORUM AT A GLANCE**

In May 1997, the First Forum, "Islamic Finance in the Global Market," gathered some 100 participants. Though a small, single-day event, the First Forum drew some of the luminaries in Islamic finance. The Second Forum, "Islamic Finance into the 21st Century," took the vision of the First Forum to a new level. This two-day event attracted more than 200 guests, including Shari'a scholars, economists, banking practitioners, lawyers, and students. The Third Forum, "Islamic Finance: Local Challenges, Global Opportunities," welcomed even more participants anxious to tackle the kinds of vital issues emerging at previous Forums. The Fourth Forum, "Islamic Finance: The Task Ahead," focused on critical issues in Islamic economics and finance as well as opportunities for and constraints on their development.

The Fifth Forum, "Islamic Finance: Dynamics and Development" was held on April 6 and 7, 2002. Like previous Forums, it covered theoretical and practical, current and upcoming issues at that time in Islamic finance and economics, in addition to the Shari'a. The Fifth Forum's base of over 300 participants, and its display of cutting-edge research and development, portends a strong future for the Harvard University Forum on Islamic Finance.

### **ABOUT THE ISLAMIC FINANCE PROJECT**

The Islamic Finance Project (IFP) is the continuation of the Harvard Islamic Finance Information Program (HIFIP), which was established by the Center for Middle Eastern Studies in 1995. IFP is now part of the Islamic Legal Studies Program (ILSP) at Harvard Law School. It aims to study the field of Islamic finance from the legal and Shari'a points of view by analyzing contemporary scholarship, inducing collaboration among scholars within and outside the Muslim world, and increasing the interaction between theory and practice in Islamic finance.

Over the last ten years, the subject of Islamic finance has attracted growing interest among academics, students and professionals around the globe. The Islamic Investment Study, conducted by Professor Frank E. Vogel at ILSP and Professor Samuel Hayes at the Business School culminated in the publication of Vogel and Hayes' "Islamic Law and Finance: Religion, Risk, and Return" in 1998, which has been well received by scholars and students alike. This landmark study underscores Harvard's leadership role in the field, which is supported by HIFIP's wide array of activities, and now with ILSP the project is poised to offer much needed academic thrust. The Project also assists students and other researchers with advice and direction to the best resources.

### **JOINT EDITOR TO ATTEND MALAYSIA SEMINAR**

Joint Editor, Mr. Shariq Nisar, is invited as resource person to speak at the international seminar on 'Islamic Non-Banking Financial Institutions: Islamic Alternatives' to be held in Malaysia during March 1-3, 2004. A joint research paper by Mr. Shariq Nisar and Mr. Mohsin Aziz, both a research scholar at the AMU, entitled, "Islamic Non-bank Financial Institutions in India: With Special Focus on their Regulation", was accepted for presentation by the academic committee of the seminar.

This seminar is jointly organized by Jeddah based Islamic Research and Training Institute, and the Islamic Banking and Finance Institute of Malaysia (IBFIM).

### New Books and Articles

#### Books:

1. NAIM, Abdullah A., *Islamic Family Law in a Changing World*, (A Global Resource Book), New York: Zed Books, 2002.
2. *Resolution and Recommendation of the Council of the Islamic Fiqh Academy*, Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2000, 269pp.
3. SALAMI, M. Mukhtar, *Al-Qayas (Analogy) and its Modern Applications*, Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 1999, 132pp.
4. *The Rural Development Scheme of Islami Bank Bangladesh Ltd. – A Strategy for Better Implementation*, (IBTRA Monograph No.1), Dhaka, Bangladesh: Islami Bank Training and Research Academy, n.d. 36pp.

#### Articles:

1. AGGARWALL, R.K. and Yousef, T., 'Islamic Banks and Investment Financing', *Journal of Money, Credit and Banking*, Vol.32, 2002, pp.933-120.
2. AKHTAR, Noor Shairah M., 'Natural Resources and Environment -Islamic Perspective: Focus on the Ethical Aspect of Utilization of Material Resources Towards Quality Management', *Islam and the Modern Age* (New Delhi, India), Vol.34, No.2, May 2003, pp.11-24.
3. ALGAOUD, L.M. and LEWIS, M.K., 'Corporate Governance in Islamic Banking: The Case of Bahrain', *International Journal of Business Studies*, Vol.7, No.1, 1999, pp.56-86.
4. BASHIR, Abdel-Hameed M., 'Determinants of Profitability in Islamic Banks: Some Evidence from the Middle East', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.11, No.1, September 2003, pp.31-57.
5. DEEHANI, T., Karim, R.A.A., and MURINDE, V., 'The Capital Structure of Islamic Banks Under the Contractual Obligation of Profit-Sharing', *International Journal of Theoretical and Applied Finance*, Vol.2, No.3, 1999, pp.1-39.
6. HASSAN, M. Kabir, 'Dividend Signaling Hypothesis and Short-Term Asset Concentration of Islamic Interest-free Banking', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.11, No.1, September 2003, pp. 1-30.
7. KHAKI, G.N., 'Revenue System in Medieval Islamic State: A Study of Sources', *Islam and the Modern Age* (New Delhi, India), Vol.34, No.2, May 2003, pp. 26-44.
8. ZAHER, Tarek and Hassan, M. Kabir, 'A Comparative Literature Survey of Islamic Finance and Banking', *Financial Markets, Institutions and Instruments*, Vol.10, No.4, 2001, pp.155-1999.

### Book Brief

**Islamic Banking in India: Scopes and Challenges**  
**Edited by: Javed Ahmad Khan**  
**Publisher: Institute of Objective Studies, New Delhi, 2003, pp. 182**

The momentum of Islamic banking is considered to got boost after the oil boom in Middle Eastern countries during the mid seventies. After the first grand conference on Islamic economics in Makkah in 1976 the subject started taking some form of concrete shape in the form of establishment of academies of higher learning and publications on the issue. The period of early 1980s saw greater proliferation of Islamic finance institutions the worldwide. This is the first comprehensive book level treatment on the issue of Islamic banking and finance in Indian context. Though few of the papers selected in this edited volume appears to be quite outdated as they were written well before the collapse of the several prominent Islamic finance companies in India. Nevertheless this book is important in the sense that it provides interesting reading materials on the issue. More importantly when the contributors are from such a diverse background

The book contains eleven papers many of them were presented in the seminar organized by the Institute of Objective Studies, New Delhi in March 2000. Few of the papers are also selected from previously published *Journal of Objective Studies*. Authors of all the papers are well-recognized faces in India. "Introduction" is by Prof. Ausaf Ahmad, a former Prof. of Economics at Jamia Millia Islamia is now serving at the Islamic Development Bank, Jeddah; chapter two, "The Universal Concern of Islamic Economics and Finance" is by Prof. F.R. Faridi who has served as Professor of Economics, King Abdul Aziz University, Jeddah. Third paper in the volume, "Some Thought on Interest Free Banking: An Indian Perspective" is by a retired Executive Director of the Reserve Bank of India, Dr. Abdul Hasib. Paper number four "Rationle of Islamic Banking in Indian Perspective" is by well-known Islamic economists Prof. M.N. Siddiqi. Chapter five, "Operational Analysis of Financial System and Its Macro-Economic Impact from Islamic Perspective" is by Prof. K.G. Munshi earlier Prof. of Management, Ahmedabad. Chapter six of the book deals with the issue of the "Islamic banking in Indian Context" by M.H. Khatkhatay, former Managing Director of the Barkat Investment Group. Chapter seven is jointly written by Dr. Abdul Hasib and Managing Director of Baitun Nasr Urban Cooperative Credit Society, Mumbai Mr. Abdul Wahab Dalvi. The title of their paper is "Islamic Banking in the Context of Changing Conventional Banking System in India". Next paper of the book is about the "Investment Products for Indian Muslim" written by M. Obaidullah, now teaching at the Islamic Economics Research Centre, King Abdul Aziz University, Jeddah. Chapter nine of the book is about "Islamic financial Institutions in India: Economic Policies, Perceptions and Perspective" by M.I. Bagsiraj. "Obstacles in the ways of Islamic banking in India" is written by A.A. Islahi, a Reader in Economics at the AMU and now serving at the King Abdul Aziz University. While the last chapter of the book is a report, of the seminar conducted by the Institute of Objective Studies, during March 2000, by the editor himself who is serving at Jamia Millia Islamia's Academy of Third World Studies.

*Exclusive:*

**Islamic Economics Need Action Oriented People:  
Dr. Al-Harran**

Dr. Al Harran, a Ph.D in Economics from the University of Durham, is an international Business Consultant. At present he is Managing Director of Global Horizon Limited, New Zealand. Dr. Al-Harran has a unique blend of over two decades of practical and academic experience in the field of Islamic Banking and Finance. He has worked with Islamic Development Bank, Jeddah, Saudi Arabia and also taught Islamic Banking and Finance at International Islamic University Malaysia. (Editor)

**Why do we need a separate economics?**

We don't need to invent a new wheel and waste more financial resources by creating a separate economics. What we really need is restructuring economics by linking it with business enterprise and make necessary changes in our education curriculum to suit our Muslim environment. We need our students to spend at least one year (during their academic life) doing practical experience to gain knowledge as to how to run business successfully. In doing so, students will benefit and so does our universities. We have to develop strategic alliance with successful entrepreneurs and encourage them to spend six months in our universities and polytechnic teaching our youth the tools of business success and ways and means to create wealth and share it responsibly.

**How would you evaluate the past quarter century developments in Islamic economics and finance?  
What are the major achievements and failures?**

The major achievements in Islamic economics is the introduction of this new subject to be taught in our universities and Western institutions of high learning as theoretical concept and models without any application to proof that these theories are applicable in the real life. Islamic finance on the other hand as an applied field has played a major role to open many Islamic banks in the Muslim World but at the same time has widen the gap between those they have and have not. Islam promotes economic development and empowerment of the poor and the needy to achieve economic justice. Sadly, Islam banks have failed miserably to help these people so they can benefit from it.

**Despite several tall claims we have miserably failed in transforming our economies into Islamic one. Why?**

Muslim economies are solely dependent on the western financial institutions in terms of loans and technical assistance. The World Bank and IMF provide conditional loans to almost all Muslim countries so as to make sure our economic and financial policy will not succeed and our economies is controlled by these institutions and Multi-national corporations.

With such unhealthy environment at economic front how do you expect us to transform into Islamic system.

**While comparing with conventional economics we claim Islamic economics to be more efficient, stable, just, and growth oriented. How far this claim is true in real practice?**

Theoretically it is debatable that Islamic economies is more efficient, stable, just and growth oriented. Practically speaking we have not succeeded either at Islamic banks to show we are more efficient, stable, just and growth oriented level compare with conventional banking. The wind of changes is moving fast in the Muslim World and Islamic banks will also be affected in order to address socioeconomic problems that confronting us as an Ummah.

**As an Islamic economist what should be our priority?**

I look forward to see major changes in our education curriculum to produce graduates who are action oriented, market driven and successful entrepreneurs to assist our Ummah to create wealth and share it responsibly.

**What is the future of Islamic economics?**

We need to lead in Islamic finance and create successful Muslim entrepreneurs who are responsible and accountable to Allah and society. Once we succeed in the field then we can develop our own theories and talk about Islamic economics from practical point of views.

**Message to young researchers**

You need to be action oriented and market driven. You need to go the field and study the problem of poverty, hunger and youth unemployment and find practical solutions. If you need help ask the Muslim practitioners to assist you in your effort to uplift our Ummah and achieve our dream that we are the best Ummah in the globe. You need to understand our problems require internally solution not external one. Time has come that our educated youth face the challenges and be leaders not followers.

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