

ISLAMIC ECONOMICS BULLETIN

INDIAN ASSOCIATION FOR ISLAMIC ECONOMICS

VOLUME 14 No. 2

March – April 2004

Muharram – Safar 1425 AH

ADVISORY COUNCIL

F.R. FARIDI	(President)
ABDUL HASIB	(Member)
M.N. SIDDIQI	(Member)
AUSAF AHMAD	(Member)
ABDUL AZIM ISLAHI	(Member)
S. AFZAL PEERZADE	(Member)
M. OBAIDULLAH	(Member)
ZAFARUL ISLAM	(Member)
JAWED AKHTAR	(Member)

Editor

JAVED AHMAD KHAN

Joint Editor

SHARIQ NISAR

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

IAFIE MEMBERSHIP

Patron	US\$ 500	Rs. 5000
Life Member	US\$ 100	Rs. 2000
Annual Member	US\$ 10	Rs. 100

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.

Address for Correspondence:

The Editor,
Islamic Economics Bulletin
4/1914, Faridi House, S.S. Nagar
Aligarh, 202002,
U.P - India
Phone: 0571-2401028

E-mail: iebulletin@yahoo.com

Designed at:
Net Viral,
Regency Plaza, Medical Road
Aligarh

Where are those Islamic Banks?

Prof. Khurshid Ahmad, a strong proponent of Islamic Banking in Pakistan, in his speech in the Senate on 10 February 1986 claimed: “*if it is in our power we will finish interest in 24 hours*”. After eighteen years since Prof. Khurshid made this claim there are scores of Islamic economists and bankers claiming great advances in the field of Islamic banking and finance. Simultaneously, there are many who still ask for a single interest-free bank. What a paradox? There are people claiming greater heights achieved by the Islamic banking at the same time there are people still wanting to see where are those banks? For example, Prince Al-Waleed Ibn Talal chairman of \$20 billion worth Kingdom Holding Company said in a recent interview published in ‘Arab News’. “*My point is why do the profits of Islamic banks go down when world interest rates fall and their profits go up when the interest rates go up. In the light of my seven years experience as chairman of Saudi United Bank, I can tell you that there is no such thing as an Islamic bank.*”

When the Supreme Court of Pakistan (Shariat Appellate Bench) in its unanimous judgment of 23 December 1999 held interest to be *Riba* and ordered its elimination by 30 June 2001, the United Bank Limited, Pakistan, requested for extension in the time limit on the plea that no interest-free banking plan was available. UBL in its plea, for annulment of the judgment of 23 December 1999, claimed elimination of interest was not feasible and that Islamic banking was still a *heela banking*. UBL posed following questions in its plea that still remains a challenge to be taken by Islamic economists and financial experts. The questions are;

- 1) Is there any single bank in the Islamic or non-Islamic world which is truly run on interest-free basis?
- 2) Are not the practices of Islamic banks a queer blend of interest based modes of finance carrying a façade of Islamic names?
- 3) What are exactly the Islamic compliant instruments of finance? Can these instruments meet the myriad and diverse needs of modern trade, finance and banking? and
- 4) Does the Islamic Development Bank as the model Islamic bank operate on interest-free basis?

Taking notes the Supreme Court of Pakistan in its order of 24 June 2002 set aside the judgment of 23 December 1999 and sent the *Riba* case back to the Federal Shariat Court. Federal Shariat Court in turn asked the counsel pleading for elimination of interest to submit in writing their arguments and replies to the objections. However, the required statement of the counsel is still awaited.

The time is running out for the proponents of Islamic banking not only in Pakistan but all over the world to keep the word of Prof. Khurshid, “*Today we have with us a clear outline plan showing how a new system can be structured*” and bail out the lawyers and the councilors standing in favor of the prohibition of *Riba* or else the world will continue asking where are those Islamic banks?

Shariq Nisar

Comment [A1]: change

International Seminar on Non-Banking Financial Institutions: Islamic Alternatives, Malaysia: A Report:

Increasing attention to Islamic finance in the western world is not spontaneous but rooted in the deep and prolonged success of its practices in several Islamic countries. Malaysia is one of the countries that have remarkably achieved several milestones when it comes to the practices of Islamic finance. It is not only the Islamic banking that has been thriving well in the country but also the Islamic capital market has a deep penetration. To achieve another milestone and to capture another very important segment of the market, Malaysia recently organized a three days international seminar on Islamic Non-Banking Financial Institutions. Jointly sponsored by the Islamic Development Bank, Jeddah the seminar drew speakers from over a dozen countries like United States, Canada, Iran, Saudi Arabia, India, Pakistan, Bangladesh, Turkey, Indonesia, and Kuwait.

Inaugurating the seminar the Finance Minister (Second) Malaysia Tan Sri Nor Mohamed Yacop said the development of NBFI should be an important pillar in the "third wave" of the development of the Islamic financial system, the first wave being the Islamic banking and the second wave the Islamic capital market. The finance Minister exhorted the participants to focus on many of the important components of NBFI that have not yet fully developed like waqf, inheritance management, micro credit, qard e hasana and corporate zakat etc.

Of the total 21 papers presented in the seminar 14 were contributed by the authors out side Malaysia including the one from India jointly written by two AMU research scholars Mr. Shariq Nisar, Department of Economics and Mr. Mohsin Aziz, Faculty of Management Studies and Research.

Mr. Shariq Nisar attended the seminar and presented the paper on "*Islamic Non-banking financial Institutions in India: with special focus on their regulation*". The paper mainly focused on how the period of late 1980s and early 1990s saw the proliferation of Non Banking Finance Companies (NBFCs) in India and the subsequent failures of a large number of finance companies mainly caused by the depressed economic scenario in early 1990s and the highly changing regulatory environment in the late 1990s. Some prominent Islamic NBFCs of India like Barkat Investment Group, Al Barr Finance House Ltd., Baitun Nasr Urban Cooperative Credit Society Ltd. And Al-Najib Milli Mutual benefits Ltd. were taken for detailed case studies in the paper.

Call for Papers

Contributions are invited for the sixth International Conference on Islamic Economics and Finance. The theme of seminar is Islamic Economics and Banking in the 21st Century and is scheduled to be held at Jakarta, Indonesia during August 2005. The purpose of this conference is to take stock of the achievements made during the last 30 years of practice of Islamic finance and to address the unresolved issues constraining the growth of the industry.

The Submissions should be accompanied by a CV of the author(s) along with the corresponding address and e-mail contact. All contributions should be electronically submitted to: 6iebfc@isdb.org

Dates to Watch:

Submission of outlines	September 15, 2004
Acceptance of outlines	October 30, 2004
Submission of Papers	March 1, 2005
Comments on Papers	April 15, 2005
Submission of Final Papers	May 15, 2005
Discussant Reports	June 30, 2005

Further inquiries could be addressed to:

Dr. Munawar Iqbal (Chief)
Islamic Banking & Finance Division, Islamic Research and Training Institute, Islamic Development Bank
P.O. Box 9201 Jeddah 21413
Saudi Arabia Phone: (966-2) 646-6331 Fax: (966-2) 637-8927

Or

Mr. Ahmad Buchori (Senior Bank Researcher)
Directorate of Islamic Banking, Bank Indonesia
A Building, 21 Floor, Jl. MH Thamrin No. 2,
Jakarta 10110, Indonesia
Tel: 62-21-381 8074 Fax: 62-21-350 1990

Call for Papers

Contributions are invited for an international conference on: **Role of Islamic Financial Institutions in Resource Mobilization** to be jointly organized by the Union of Arab Banks, Beirut, Lebanon and Islamic Research and Training Institute of the Islamic Development Bank, Jeddah on 1-2 December 2004 at: Beirut, Lebanon

Dates to Watch:

- Deadline for submission of Abstracts: July 15th 2004.
- Deadline for submission of complete manuscripts is September 30th, 2004.
- Notification of acceptance of papers is October 10th 2004.

Guidelines for Submission:

- Papers will be refereed by a Technical Committee, and if accepted, they will be published in conference proceedings.
- The conference organizers will pay for the travel and accommodation costs of the scholars whose papers are accepted.
- Manuscripts should be type double-spaced on one side of the page only. The title of the paper, author name and institutional affiliation and correspondence address including e-mail should appear on the cover page of the paper.
- A summary of about 150 words should appear on the first page immediately after the title of the paper. To assist blind review, authors should not identify themselves anywhere in the text.
- Literature citations should be made in a uniform style in the text and footnotes.
- All graphs and figures should be placed at the end of the paper.

Contact Persons:

Dr. Adam B. Elhiraika (aelhiraika@ISDB.ORG) IRTI,
Islamic Development Bank
P. O. Box 9201 Jeddah 21413
Saudi Arabia Tel: 966-2-6466328

Or

Mr. Imad Shihab (Conferences@uabonline.org)
P. O. Box 11-2416 Riad El-Solh 1107 2110
Beirut, Lebanon
Tel: 961-1-800949/863460

New Books and Articles

Books:

1. GHAZANFAR, S.M., *Medieval Islamic Economic Thought: Filling the Great Gap in European Economics*, London: Routledge Curzon, 2003, 256pp.
2. GOITEIN, S.D., *A Mediterranean Society: An Abridgement in One Volume* (Revised and Edited), Jacob Lassner, Berkely: University of California Press, 1999.
3. JIGAR, Mohammad, *Revenue Free Land Grants in Mughal India: Awadh Region in the 17th and 18th Centuries 1658-1765*, New Delhi, India: Manohar Publications, 2003, 304pp.
4. JONES, Gavin and KARIM, Mehtab (eds.), *Islam, State and Population Policy*, London: C. Hurst, 2002, 300pp.

Articles:

1. AHMAD, Abdel Rahman Yousri, 'Riba: Its Economic Rational and Implications', *Journal of Islamic Banking and Finance* (Karachi, Pakistan), Vol.19, No.2, 2002, pp.53-64.
2. AHSAN, Muhammad, 'Theoretical, Historical and Contemporary Perspectives of Human Development in the Muslim World', *Islamic Quarterly* (London), Vol.46, No.3, 2002, pp.277-311.
3. CHAPRA, M. Umer, 'Development Economics: Lessons that Remains to be Learned', *Islamic Studies* (Islamabad, Pakistan), Vol.42, No.4, Winter 2003, pp.639-650.
4. HASSAN, M. Kabir and ALAMGIR, Dewan A.H., 'Micro-financial Services and Poverty Alleviation in Bangladesh: A Comparative Analysis of Secular and Islamic NGOs', In: M. Iqbal (ed.), *Islamic Economic Institutions and the Elimination of Poverty*, Leicester, UK: The Islamic Foundation, 2002, pp.113-86.
5. LOQMAN, Muhammad and MOHAMMAD, Kazi Deen, 'Islamic Banking for Economic Development: A Study in the Context of Islamic Ummah and Globalization', In: *Youth and Globalization: Proceedings of WAMY'S International Conference*, Riyadh, Saudi Arabia: World Assembly of Muslim Youth, 2002, pp. 47-71.
6. KURAN, Timur, 'The Islamic Commercial Crisis: Institutional Roots of Economic Underdevelopment in the Middle East', *The Journal of Economic History*, Vol.63, No.2, June 2003, pp.414-446.
7. METWALLY, M.M., 'Consumer Equilibrium in an Islamic Economy', *Journal of Islamic Banking and Finance* (Karachi, Pakistan), Vol. 20, No.2, 2003, pp.17-23.
8. TAHIR, Pervez, 'Introducing Iqbal the Economist', *Pakistan Development Review* (Islamabad, Pakistan), Vol.40, No.4, 2001, pp.1167-76.

Contd. from p.4

Abdul Razaq Lawal in his paper *Concept and Operation of Interest Free Banking* addressed some of the fundamental items of the balance sheet of a typical interest free banking and also proper alternative arrangements in the light of the current challenges in the market. The paper also suggested the alternative charges to COT in line with the concept of "pay everybody according to his efforts and contribution".

Hajara Adeola examined the effect of ethical screening on performance of equities and the impact of incorporating lagged information variables into the evaluation of investment performance in her paper, *Ethical Rewards: An Examination of the Effect of Islamic Ethical Screens on the Financial Performance of Equities*. She argued that contrary to prejudices that Islamic ethical funds cannot perform successfully in the financial market, DJIM weekly data over the period, January 1996 – December, 1999 indicates that Islamic equity funds have performed successfully than even expected in the financial market.

Dr. Mamour Malick Jagne, shared his experience in the establishment of the Gambian Arab Islamic Bank in the Gambia. He illustrated the conception and establishment of the Bank and the success it has recorded since its establishment in 1997.

Dr. Muhammad Alhassan in his paper, *Overview of Ghana's Financial Sector* extensively examined the Ghanaian financial system largely from the point of view of its institutional setup and functions.

Dr. Muhammad Ahmad Arbouna, of the Kuwait Finance House, in his paper, *Shari'a Financial Engineering: the Mechanism of Combination of Contracts for Product Development in Islamic Banking and Finance* defined combination of contracts in Islamic Banking system and rationalizes the concept on two grounds; the need to avoid riba transaction and to meet financial needs of individuals simultaneously. The paper draws the distinction between *Ishtirat Aqd fi Aqd* (tying arrangement) and *Ijtima al Uqud* (combination of contract) relying on various sources of the Shari'a.

Dr. Sule Ahmad Gusau of the Usumanu Dan Fodiyo University, Nigeria presented a paper on *Islamic Banking: the Nigerian Experience*. His paper covered the theoretical and practical aspects of Islamic Banking in Nigeria. A major highlight of his paper included review of institutional and private efforts to bring the Islamic banking idea into a successful implementation in Nigeria. Another important feature of the paper was analyses of the activities of the Islamic banks functioning in the country.

DR. A. O. Abudu, through his paper, *Ghana Muslim Pilgrimage Service* called for the establishment of the Ghana Muslim Pilgrimage Service (GMPS), which would have three departments respectively for: (a) receiving deposits that automatically makes each depositor a shareholder, (b) investing these funds in ways consistent with Islamic principles and for the highest earnings possible; and (c) efficiently organizing less stressful and more dignified annual *Haj* for all Muslims.

The seminar in its final communiqué noted that the annual growth rate of the Global Islamic Banking and Finance Industry was a between record 15%-20%, and also noted that Ghana is presently left out of this highly productive opportunity for mobilizing resources and investment that is open to all regardless of their religious and philosophical affiliations. The seminar lamented that Ghanaian Muslims have been deprived of their right to order their economic lives in accordance with the teachings of Islam.

International Seminar on Islamic Banking and Finance, Ghana: A Report

An international seminar on Islamic Banking and Finance was organized by the Al Furqan Foundation during February 27 & 28 at the International Conference Center, Accra Ghana. A total of 16 papers on various topics related to Islamic Banking and Finance were presented at the seminar.

Welcoming participants to the seminar, the Executive Chairman of the Al Furqan Foundation, noted that Muslim society has never accorded legitimacy to the institution of interest. Throughout its history Muslim society managed its economy and carried on domestic and international trade without the institution of riba. Profit sharing and various kinds of participatory arrangements served as adequate bases for savings and investment and large capital sums were mobilized for mining, shipbuilding, textiles and other industries, as well as for maritime trade. The introduction of interest-based banking by colonial regimes during the nineteenth century failed to involve the bulk of the Muslim communities until the legal framework made it almost impossible for any business to thrive without such involvement. The Chairman informed that at present a total of 265 Islamic Financial Institutions with a collective capitalization in excess of US\$13 billion, with assets amounting to over US\$262 billion, investments over US\$400 billion, and deposits in excess of US\$202 billion are operating in the world.

Dr. Omar Hafiz of the IDB in his paper *Financial Stability of the Islamic Financial Industry* announced that Islamic Banking is preparing itself for a new phase of globalisation and competition. He cited several reasons why the Islamic Banking and Finance system has been spared of the prevailing major crises, which have bedeviled major conventional banking institutions across the world. He regarded the introduction of a facility or mechanism of financier of last resorts as necessary for the financial stability of Islamic Banking and the development of efficient domestic Islamic money markets.

Mr. Abdul Gafoor in his paper, *Riba-Free Retail Banking* (Transparent, Inflation-Protected, and Operating under Conventional Banking Laws), explained the essentiality of retail banking in a modern economy. After extensive examination, the author advocates for the establishment of a model riba-free retail banks.

Dr. Ahmed Adamu Mu'azu, in his keynote address, entitled, *Islamic Banking and Finance in Africa: Challenges and the way Forward* revealed that the interest system (Riba), which is the bedrock of conventional banking has continued to cripple a number of economies, especially in the third world. Describing the riba based economic system as unjust, exploitative, discriminatory unstable and crisis generating, the author illustrates its nature and effect thus: 'Between 1973 and 1993, a period of twenty years, third world debt grew by about 20% per annum, from 100 million to \$1.5 trillion. Of this \$1.5 trillion as at 1993, only \$400 million was actual borrowed money. The rest was runaway compound interest. If third world debt continues to compound at 20% per annum, then by year 2011, third world debt will be \$117 trillion'.

In his opening remarks, the Vice President of Ghana, H.E. Alh. Aliu Mahama observed that the determination to introduce Islamic elements into modern economics has been an important dimension of the global Islamic revival. He noted that the emergence of Islamic Banking remains one of the most dynamic concepts in the 20th century. Over the past two decades, Islamic Banking has continued to gain global acceptance as an important and viable financial system, which is providing venture capital, trade and agricultural financing, risk capital based upon some Islamic principles.

Mr. Abdullahi Alhassan of the International Commercial Bank, Accra in his paper, *Overview of Islamic Banking* said that Islamic Banking has emerged as a new reality in the international financial scene since 1970s. He noted that the emergence of Islamic Banking is often related to the revival of Islam and the desire of Muslims to live all aspects of their lives in accordance with the teaching of Islam.

Samirah Ibrahim in her paper, *The Challenges of Establishing an Islamic Banking System in a Secular Economy: Recommendations For Ghana*, discussed the challenges of establishing Islamic Banks in secular economies.

Mansur Noibi, in his paper, *Regulatory Consideration For An Emerging Islamic Banking Market Within The Context Of A Non-Islamic Financial Services Industry*, examined alternative methods of organizing regulatory framework for an emerging Islamic Banking market within the context of a non-Islamic Financial Services Industry. Making extensive reference to Nigeria, the paper focused on aspects, which are necessary for the effective regulation of Islamic Banking in a secular or multi-religious country like Ghana.

Contd. p.3

PRINTED MATTER



To, _____

If undelivered, Please return to:

The Editor,
Islamic Economics Bulletin
4/1914, Faridi House, S.S. Nagar
Aligarh, U.P.
India, 202002