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## Restructuring our Economic Systems

The capitalist Western countries are celebrating the fall of communism as if it was an empirical evidence of their own victory. The fact is, however, that communism was based on an emotional reaction against some evil consequences of the capitalist economy, specially, against the element of inequitable distribution of wealth. The failure of communism was not due to its justified criticism of the evils of capitalism. Rather it was caused by the inherent defects of the alternative system suggested by it. The capitalist economies still suffer from inequities in the distribution of wealth. There is still a large gap between the haves and the have-nots and 'poverty in the midst of plenty' is still the major problem of their economy. These are the real problems created by capitalism and unless they are satisfactorily solved, it may give birth to another reaction that may be more aggressive than communism.

The world, therefore, is badly in need of a Third Economic System. The Muslim Ummah can work out this system based on the Islamic norms. The economic principles taught by the Quran and Sunnah of the Prophet (Sall-Allahu alayhi wa sallam) are quite capable of solving the major economic problems faced by the world today. While they allow private ownership and market economy, they also provide a well considered system of distributive justice, which may eliminate the inequities and bring about a system in which profit motive works with the collective interest of the society. The basic fault of communism was that, frustrated with the inequity of capitalism, it assailed the very institutions of private ownership and market forces and developed a utopian idea of planned economy which was unnatural, artificial and oppressive. The denial of individual liberty curtailed the zeal for production and the wide powers of the state left the destiny of the people in the hands of the ruling class.

It was neither private ownership nor the institution of market forces that was the basic cause of injustice in the capitalist system. The basic factor for creating inequities in the capitalist countries was the absence of a criterion to differentiate between just and unjust earnings. The instruments of interest, gambling, speculative transactions and the tools of exploiting immoral desires of the consumers to secure huge profits were allowed, which tend to create monopolies and in turn paralyze the forces of demand and supply or at least obstruct their operation. It is thus ironical that the capitalist theory on the one hand asserts the principles of laissez-faire but, on the other, by allowing the aforesaid instruments, interferes with their natural function and stops the market forces from playing their due role by creating monopolies that impose their arbitrary decisions on the bulk of the common people.

The system of interest favors the rich industrialists who benefit from the wealth of the common people who deposit their savings in the bank, and after making huge profits do not allow the common people to share these profits except to the extent of a fixed rate of interest that is again taken back by them as it is charged to the cost of production. At macro level, it means that these rich people always use the money of depositors for their own benefit and in reality pay nothing to them because the interest payments are always added to the cost of production. Similarly, gambling is a major instrument for concentrating the wealth of thousands of men in a few hands and for promoting the disastrous motive of greed for the unearned income. The speculative transactions are also a major source of disturbing the natural market operations and contribute to the inequities in the distribution of wealth.

Islam not only allows the market forces but also provides mechanism to keep them operative with their natural force without their being hindered by monopolies. It applies two types of controls on the economic activities. First, it subjects the process of earning to certain divine injunctions, which clearly define the limits of halal and haram. These injunctions tend to prevent monopolies and curb the unjust and immoral earnings and commercial activities detrimental to the collective interest of the society. Second, the institution of zakat, sadaqat, and certain other financial obligations provide that even the halal income is again distributed to the persons who could not earn enough due to insufficient market opportunities. Through the twin controls, the wealth is kept under constant circulation and the chances of its concentration are almost eliminated.

*[Condensed from a talk by Justice Mufti Taqi Usmani, delivered at the International Conference of the World Muslim Congress]*

### Pioneering Study on Islamic Banking Industry Launched

The world's first research report designed to measure the competitiveness of the Islamic banking industry was launched in Manama, Bahrain. The Report is aimed at not only identifying but also raising the bar of financial performance and strategic excellence in the global Islamic banking and finance industry. It compared 10 Islamic banks from around the world on quantitative basis and the wider industry based on other qualitative measures.

It found that the Saudi-based Al Rajhi Banking and Investment Corporation was the most profitable bank based on return on equity with an average of 25% between 2000 and 2003. It was followed by Kuwait Finance House, with 22 % and Bahrain-based First Islamic Bank, with 19 %.

Whereas, measured by return on total assets earning, the First Islamic Bank was number one with an average of 7.8% for the years 2000 through 2003. This put them far ahead of their nearest rival Al Rajhi, with 3 %, and Kuwait Finance House 2.2%. The other institutions selected for the quantitative analysis were Abu Dhabi Islamic Bank, Bahrain-based Al Baraka Islamic Bank, Bank Islam Malaysia Berhad, Dubai Islamic Bank, Jordan Islamic Bank, Qatar Islamic Bank and Bahrain-based Shamil Bank. The report also compares the banks according to assets turnover, expense coverage, efficiency, quality of assets, capital adequacy and other measures.

### Schools of Fiqh and Differences in Financial Rulings

All the four well known schools of fiqh (within the Sunni Branch of Islam) often differ in their detailed fiqh rulings (Fatwas). They are equivalent to different legal schools within the same constitutional framework.

All Sharia Boards and the International Fiqh Academy of OIC, Jeddah, do not restrict their fatwas in financial transactions to the rulings of any particular school of fiqh. They have the capacity and authority to choose a prior fiqh ruling from one school or the other, or exercise fresh *ijtihad* (original juristic ruling) not bound by the prior fiqh rulings of any school. This gives rise to Multiplicity and Variance.

Multiplicity in fatwas, pro-variance in fatwas and in fiqh generally is ubiquitous. A Shariah Board may opt for a ruling contradicting that of an Academy, and needless to say, contradicting other Shariah Boards. All are deemed peers. Believe it or not it, top Muslim jurists old and new have maintained Multiplicity to be a singular advantage. Islamic fiqh is a pluralist not a monolithic body of knowledge.

To many practitioners of Islamic finance and to the public at large. Multiplicity of fatwas is frankly a potential source of confusion. More seriously, it is a hurdle to establishing common standards for the industry. On that other hand it is a big advantage in the industry to product innovators and financial engineers.

(An excerpt from Prof. M. Anas Zarqa, The International Investor Co. Kuwait, distributed at IBF.net)

### Bankers in the Gulf Region Plan Large Islamic Bank

A number of Islamic bankers in the Gulf region plan to establish a large Islamic bank with a capital of \$2 billion, according to Saleh Kamel, chairman of Dallah Al-Baraka and the Council of Islamic Banks and Financial Institutions.

Kamel did not say where the new bank would be based but he pointed out that many countries have expressed their readiness to host it. "The founders intend to establish the bank in a free economy, having a sound financial base," he told *Al-Eqtisadiyah*, a sister publication of *Arab News*.

It is not clear whether the new financial institution would act as an Islamic central bank. Kamel pointed out, however, that the absence of a central bank had restricted Islamic banks' lending and credit services. "The new bank will not compete with existing Islamic banks and attempt to attract their clients. In fact, it will support them," he explained. He said the Union of Islamic Banks had spent about \$100 million to clear the doubts of Western officials concerning Islamic banking.

(P.K. Abdul Ghafour, *Arab News*)

### Unified Standards for Islamic Banks Finalized

With the finalization of unified Shariah standards the global Islamic banking industry and financial institutions have entered into a new era of progress and development. The feat was achieved by the Accounting and Auditing Organisation for the Islamic Financial Institutions (AAOIFI), which till now has developed over 20 basic Shariah standards with the active participation of Islamic banks and financial institutions worldwide.

This is the second groundbreaking achievement for the Bahrain-based AAOIFI, the only organisation which enjoys the large backing the global Islamic banking industry for bringing diverse Shariah opinions to universally acceptable standards. This is the first time in the 34-year history of Islamic banking that all major players have jointly developed the Shari'ah standards that will be acceptable to them.

### Dow Jones to Launch Islamic Malaysian Index

The Dow Jones Islamic Index, one of the world's leading indexes, has announced that it will expand its Islamic market series by adding the Dow Jones-RHB Islamic Malaysia Index.

The new index scheduled to be launched in June 2005 will be developed jointly by Dow Jones Indexes and the Malaysian RHB Research Institute. The indexes will track Shariah compliant stocks from around the world, providing Islamic investors with comprehensive tools based on a truly global investing perspective. Excluded from these indexes are stocks that represent the following lines of business: alcohol, tobacco, pork-related products, weapons and entertainment. The new Islamic index will replace the existing RHB Islamic Index, the first Malaysian Islamic index established in May 1996. An established licensed investment adviser in Malaysia with a proven track record in equities research, RHB Research Institute is part of RHB Capital Group, a major financial-services group in Malaysia that provides both conventional and Islamic financial products and services in other countries like Singapore, Thailand and Brunei.

## New Books and Articles

## Book Review

## Books

1. ISLAM, Muhammad W., 'Al-Mal: The Concept of Property in Islamic Legal Thought', *Arab Law Quarterly* (London), 1999, pp.361-368.
2. MOHAMMAD, Obaidullah, *Islamic Financial Markets: Towards Greater Ethics & Efficiency*, New Delhi, India: Institute Of Objective Studies, 2004, pp.215.
3. NABHANI, Taquiddin, *The Economic System in Islam*, Lahore, Pakistan: Al-Khalifa Publications, 2000.
4. SIDDIQI, M. N., *Riba Bank Interest and Rationale of Its Prohibition*, Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2004, 162pp.
5. TAJI-FAROUKI, Suha and Basheer M. Nafi (eds.), *Islamic Thought in the Twentieth Century*, London: I.B Tauris, 2004.

## Articles:

1. ALISHECH, Eli, 'Islamic Law, Practice and Legal Doctrine: Exempting the Poor from the Jizya Under the Ayybids (1171-1250)', *Islamic Law and Society* (Leiden, The Netherlands), Vol.10, No.3, 2003, pp.348-75.
2. BAIG, Khalid, 'Seeking Halal Earning', *Journal of Islamic Banking and Finance* (Karachi, Pakistan), Vol. 20, No.3, 2003, pp.63-4.
3. CHANDRA, Satish, 'Jizya and the State in India During the Seventh Century', In: R.M. Eaton (ed.), *India's Islamic Traditions 711-1750*, Oxford, UK: Oxford University Press, 2003, pp.133-49.
4. DEURASEN, Nurdeen, 'Ihya al-Mawat (The Revival of the Dead Land) According to Islamic Law', *Islamic Culture* (Hyderabad, India), Vol.78, No.1, 2004, pp.91-103.
5. IQBAL, Zamir and MIRAKHOR, Abbas, 'Stakeholders Model of Governance in Islamic Economic System', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.11, No.2, 2004, pp.43-63.
6. KHAN, Javed Ahmad and NISAR, Shariq, 'Collateral (Al-Rahn) As Practiced by Muslim Funds of North India', *Journal of King Abdul Aziz University: Islamic Economics* (Jeddah, Saudi Arabia) Vol.17, No.1, 2004, pp.17-34.
7. NASRI, Rafic Yunus, 'Are All Forms of Interest Prohibited?', *Journal of King Abdul Aziz University: Islamic Economics* (Jeddah, Saudi Arabia) Vol.17, No.1, 2004, pp.37-41.
8. OMER, Spahic, 'The Role of the Madinah Market at the Time of the Prophet', *Al-Shajarah* (Kuala Lumpur, Malaysia), Vol.8, No.2, 2003, pp.213-238.

*Islamic Financial Institutions of India: Progress, Problems and Prospects*

By: M.I. Bagsiraj

Publisher: Scientific Publishing Centre, King Abdul Aziz University, Jeddah, Saudi Arabia, 2003.

Endeavors to establish interest free financial intermediary has been made in different countries at different times. Initially the purpose to establish such institution was avoidance of interest and providing cost free loans to the needy. In the beginning, we find individual level efforts at different parts of the world, some in the form of *Baitul Maals*, *Anjuman* (Associations), cooperatives, non-banking companies etc.

Whereas India's contribution in the theoretical development of Islamic economics and finance is well recognized, its contribution in the practice of Islamic finance has not received as much attention. This book is the first serious attempt in this direction to fill that gap. It is a comprehensive treatments on the Islamic financial institution in India as yet.

Comprising eight chapters and an introduction, author divides Islamic financial institutions in India into four groups; namely, financial association of persons; Islamic financial societies; Islamic cooperative credit societies and Islamic investment and financial companies. Then each of the group is discussed through five selective case studies by the author with special focus on their socio-economic performance and the problems and prospects of these institutions. At the end of these analyses, a consolidated and comparative analysis of Islamic financial institutions in India is done.

The last chapter is a detailed analysis of summery, conclusion and suggestions. First, for each category in particular than Islamic finance in India in general.

As far the classification of various types of institutions are concerned it could well be argued that the author has failed to identify the difference between Muslim financial institutions and Islamic financial institutions that is why he has taken several financial institutions in his study whose sole purpose is to accept interest free deposits from public then put it in commercial banks and earn interest. The period covered in the study is also much earlier than the year of publication of this book suggests. Survey of the awakening of Islamic finance in India is also not as much representative as it should have been had it covered some more states and areas of Muslim majority states like Assam, Jammu & Kashmir instead Haryana, Punjab etc. that represent quite less Muslim population and literacy.

The book is assisted by seventy tables, fourteen annexes and a dozen charts. Though the survey is heavily data loaded, the analytical part seems to have not touched on the current practical issues, such as problems of legal approval of these institutions, the lack of transparency and not adopting the security and Exchange Board of India's regulation in India's liberalized financial market.

### Opinion

Brother Hifzur Rab, a scientist by profession has been at the forefront among those striving for the return of gold dinar in Muslim countries. He has extensively written on the evils of paper currency. We reproduce here one of such letters that was circulated on ibf.net. (Editor)

**Respected Brothers,**

**Assalam-o-Alaikum wa Rahmatullah wa Barakatuh**

My views regarding major inadequacies of the so called Islamic banking and finance is as follows:

It is true that Islamic Economics uses profit sharing as the most potent tool of investment, however the so called Islamic banking and finance hardly invests anything on the basis of profit sharing. The Islamic economists ought to have analysed its causes and suggested practical solution. Instead it is wrongly claimed that the so called Islamic banking and finance is based on profit sharing and then various advantages that profit sharing mode of finance brings to the economy are wrongly associated with Islamic banking and finance. Majority of those who want to shun interest do not consider Islamic banking and finance to be free from interest and further it is less efficient. Accordingly, it has failed to provide much help for those who stand for justice and want to shun interest based finance.

My analysis shows that while existing commercial banking system is driven by interest, Islamic system is driven by Zakah. Do not we see that Islamic system declares war against Riba and for enforcement of Zakah. We have compounded the problems by wrongly considering Riba to be same as nominal interest.

Ar-riba is interest with respect to a *moatber* (reliable due to its stability) unit of account such as gold dinar or silver-dirham. Considering that quantity of wealth represented by fiat money is being reduced consistently and appreciably, dealings free from nominal interest are impractical because dealings free from nominal interest are impractical in an inflationary environment and all claims to the contrary are no more than baseless lies. While dealings free from riba are not only practical but also efficiency and justice enhancing. Unless this massive accounting error is corrected, truly Islamic system can not evolve and the so called Islamic banking and finance will continue to be a wolf (an agent for the interest based banking) in a sheep's (Islamic banking's) clothing. It can only add in transferring earning and wealth of the righteous to the usurious capitalists. Unless it is corrected truly Islamic banking and finance will remain impractical and the so called Islamic bankers will in reality continue to act as agents of the usurious system and thus presenting Islamic economic system as an impractical, inefficient and more exploitative system than the conventional system.

It is also to be noted that the existing fraud (consistently shrinking fiat money) and interest based system supports fraud and manipulation and tends to marginalize all that stands for justice. Islamic system does provide for alternative that allows its adherents to free themselves from injustice and fraud and to protect themselves from most of the losses due to prevalence of fraudulent economic procedures but there is no way it can help exploiters usurp more power and control than what they are presently enjoying. Therefore, it is not possible to develop an Islamic model that the interest seeking, speculating greedy capitalists found to be more helpful and adopt voluntarily. We ought to confine ourselves to provide alternatives to those who voluntarily shun injustice and exploitation.

May Allah (Subhanahu wa Tala) guide us to see interest as it really is and to form opinion on it according to its reality. (Aameen).

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