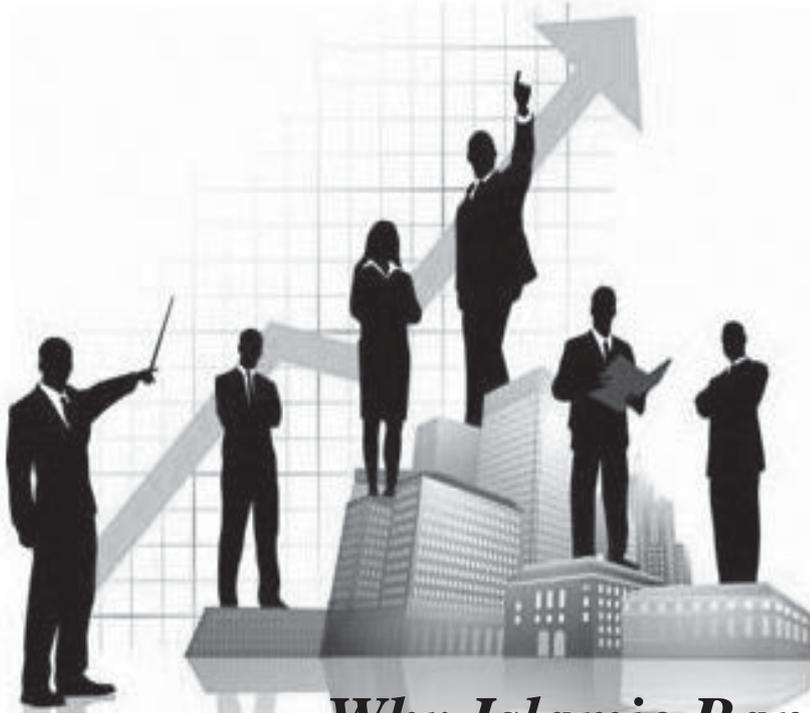


# Islamic Economics Bulletin

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## *Why Islamic Banking?*

### **Al-Barakah Financial Services**

A brave new venture in Islamic Finance by Kerala Government

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## WELCOME BACK ISLAMIC ECONOMICS BULLETIN!

Islamic finance industry has grown by leaps and bounds in various countries. Unfortunately that has not been the case in India except in the academic field where India managed to keep her presence felt on the Islamic finance world map. *Islamic Economics Bulletin* was one such humble contribution which began publishing from 1991 and continued regularly till 2005. The bi-monthly Bulletin though small (four pages) and not so impressive compared to the slick modern publications, was still eagerly awaited in reputed universities, institutions and community circles in India. The Bulletin's four pages were structured in a manner that made it useful for a variety of users from industry and academia. In 2005 when I decided to move out from academics to Islamic Finance industry I had expected my friends to keep the candle of Islamic Economics Bulletin shining. Unfortunately, that did not happen and Islamic Economics Bulletin closed. It was sad news not only for the Indian Association for Islamic Economics (IAFIE) and its founders who took great pride in the publication of the Bulletin but also for the large number of its readers who had developed a strong liking for it. Nothing could be done to revive the Bulletin as the industry was growing too fast and the professionals coming out too few.

Fortunately at this juncture the Kerala Chapter of IAFIE has decided to shoulder the responsibilities of the Bulletin. It is a matter of great satisfaction and happiness that the first issue of the revived Bulletin is now in your hands. I am privileged to be invited by the new management to contribute first editorial of the revived Bulletin. Insha Allah in future too I will do my bit in helping the management restore the Bulletin to its erstwhile premier status.

In north India there is a saying "if you are not able to accomplish a job satisfactorily give it to a Keralite"; nothing could be truer than this as regards Islamic finance. In the late 1990s when Islamic finance companies all over India were reeling under a severe crisis, some committed people in Kerala decided to launch Alternative Investments and Credit Ltd (AICL) and today AICL is a role model for Islamic NBFCs in India, not only for its spectacular success during a difficult period but also for its exemplary commitment to shariah. Similarly, in the academic field too it was Kerala based Al-Jamia Al-Islamia which realizing the acute need for trained professionals in Islamic finance, launched India's first class-based PG Diploma in Islamic Economics and Finance. Till today Al-Jamia remains India's only Islamic seminary which focuses on imparting its student's knowledge of Arabic, Shariah, Economics, Finance, Accounts and English. It is a matter of great satisfaction and pride that some of Al-Jamia's students have reached high level positions in reputed Islamic banks. When I look back I feel honored to have formally inaugurated the course some six years ago.

The state of Kerala added another prestigious feather to its Islamic finance cap when recently its government decided to launch Al-Barakah Financial Services Ltd, an Islamic finance company. This is another first of its type in India where a state government has taken the initiative in starting an Islamic finance company. No doubt a few disgruntled elements could not digest this proactive and well-intentioned measure of the state government. But we have a strong hope and trust that Insha Allah people of Kerala will overcome all the hurdles and show the way to the rest of India in their true Kerala spirit and style.

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*Editor*

## THE MESSAGE OF ISLAMIC BANKING

*Mohammed Palath*

Banks are the financial intermediaries; helping to mobilize the capital and to generate economic profit. For the fulfillment of this objective; conventional banks charging interest from financing business institutions and personal loans. For making profit these institutions are using all means and modes irrespective of its consequences or impacts in the society. Islamic Banks emerged to generate profit in line with the Islamic economic rulings. It raises funds and uses it in a constructive and productive manner to serve the society. Thus Islamic banks are promoting development within the Shariah frame work. This is represented by the general principle upon which Islamic banking is based on shariah which refuses to separate between religious and worldly matter.

Now the Islamic banking and the variety of services and investment activities and subsequent annual growth of profit calls for an assessment study to redirect the industry to be the best. Courses of activity are necessary to prove its social responsibility and constant development in line with its constructive role.

The objective of constant development from an Islamic perspective emerges from the desire to meet the Shariah objective in the life of mankind. The goals of development derived from those objectives call for the application of the concept of human success, happiness and decent life in this world and hereafter. These objectives may be translated in physical reality in the form of achieving the physical as well as spiritual need of the people in a harmonized and well balanced manner. To make such harmony possible for all people, the Islamic Economic concepts and principle are therefore based on the human dignity, brotherhood, knowledge, values and socio-economic justice.

In the Words of **Dr Ahmad Al Nejjar**; people hurried to embrace Islamic Banking due to the following reasons.

- 1) Compatibility of these banks with their faith and traditions, rather reinforcing them.
- 2) Providing new investment and financing modes.

- 3) The positiveness of Islamic Banking and its desirable interaction with the socio economic aspects.
- 4) The social responsibility of these banks and their active participation in providing solutions to the problems of the country.
- 5) Providing finance to all those who have Expertise, Efforts and Skills.
- 6) Extending Interest free loans to who regarded to be promising as a productive element.
- 7) The erection of investment projects that serve the environment and provide job opportunities to employ the idle labour force.

The responsibility of Islamic Bank's in societies therefore should not confine solely to generating economic profit through the banking operations and investment activities. Putting aside the social profit or return; that will leave a positive track in the form of welfare of those communities and social stability of their residents. The social message of Islamic Banking therefore implies taking part in demonstrating practically the concept of social responsibility for the sake of providing a cooperative society in which the element of human being is obvious, preventing the exploitation of material and injustice of man to his fellow, a society that will minimize the social differences amongst the different classes in the society, helping to structure the practical scope of developing the earth and meeting the meaning of viceroy in it.

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## **Al-Barakah Financial Services A brave new venture in Islamic Finance by Kerala Government**

*Abdurahman -(PGDIEF)*

Kerala is the state which has over two million people working outside the country, of them close to 90% are employed in the gulf countries. The Islamic banking and finance in gulf countries have come of age. Keralites in gulf countries have enough knowledge about interest free finance through their gulf experience.

In September 22 -2009 the state government of Kerala decided to start an Islamic financial institution, headquartered at Cochin. The NBFC, Al-Baraka financial services, being promoted by the Kerala state industrial development co-operation (KSIDC), will be the first of its kind in the state. The company would be constituted within the next two months; it would become fully operational only by June next. The RBI rules are not allowed to perform the Islamic banking activities in India, so the company will not perform the general banking activities(it will not receive deposits and pay interest),instead of this, company provides loans on the basis of shariah law, any organization can receive this debts. Private equity fund, venture capital fund, leasing operation, investments are included in Al-Baraka's activities.

### Paid-up capital

The organization will register a company with 1000 crore Rs of authorized capital. The KSIDC will have 11% shareholding in the company. The initial paid up capital would be rs.10 crore. As much as 51% of the equity in the venture will be held by the promoters, while the remaining 49% will be issued to the public.

### Scope.

Some Islamic financial institutions have already been working in Kerala; but it is the first attempt to start a shariah complaint financial institution with a large amount of capital. It is expected that the Islamic financial institutions would help to find out fund for new projects and existing business organizations in the trade and commerce sectors in the form of interest -free debts. High rate of interest in conventional financial markets help to increase the scope of Islamic financial institution. It induces to enter new investment groups in the state when the fulfillment of funding needs through the Islamic financial institutions. The public can't get the benefit of the services of the Islamic financial institution till the permission of RBI.

### Response

The proposal has received an overwhelming response from overseas investors, mainly from the non-resident Indians in the gulf countries, and now the government is in a dilemma as to pick the best among them. While the concept of interest is fundamental to the business of banking, shariah banking eschews it in its entirety. Neither the investor nor the lender gets interest but get compensated through a form of profit sharing. Keeping in line with shariah principles the institutions would advance interest free loans to expatriates to float their own enterprises. The fund will also be used to implement welfare measures for them.

While the institutions adhering to Islamic banking principles are not exactly new to India, the initiative being promoted by KSIDC would be quite distinctive in terms of size, scale of the investment committed and the state government's promotion. The feasibility study about Al-Barakah was conducted by Ernst and Young consultancy for KSIDC in Kerala.

*The NBFC promoted by KSIDC will be the first of its kind in the state and would become operational by June 2010.*

# DUBAI WORLD AND IT'S CRISIS

*Anees. K.A*

Dubai world is Dubai's flag bearer in global investments. Dubai world's investment spans for strategic growth areas of 21<sup>st</sup> Century. Commerce namely, transport and logistics, dry docks and maritime, urban development and investment and financial services. It is one of the topmost financial holding companies in the world.

Dubai's crisis exploded on Wednesday, 25<sup>th</sup> November 2009 when the emirate, known for opulent lifestyles and the world's tallest building, said it would delay payment on debt issued by Dubai world, triggering panic among investors and driving global markets down. It asked for 6 months time for the repayment of the Dubai world's debt which is around \$59 billion (around 2, 74,350 crores Indian rupees)

Main projects of the Dubai world were not based on a productive project instead it was luxury and real estate project. Dubai world's portfolio comprises some of the world's best known companies and no. of outstanding projects. They are;

1. DP world- one of the largest marine terminal operators in the world.
2. Dry docks world and Dubai maritime operators in the world- to turn Dubai into a major ship building and maritime hub.
3. Economic zones which would operate several free zones around the world including Jefse and Techno park in Dubai.
4. Nakheel the property developed behind iconic projects such as The Palm Island.
5. Limitless the international real estate master planner with current development projects in various parts of the world.

6. Leisure corp.- a global sports and leisure investment group.

7. Dubai world Africa- portfolio investments in the African continent

8. Isthimar world- groups investments arm that has a global footprint in finance , capital, leisure, aviation and other various business ventures

The time limit of sukuk (Islamic bond), around \$350 crore (around 16100 crore Indian rupees) will end on Monday 14<sup>th</sup> December. At stake is the \$ 59 billion in debt held by Dubai world, the holding company and Nakheel, its property arm known for building. Palm shipped islands for wealthy celebrities .Besides this in the name of restructuring the companies under Dubai world, they are purchasing bond of \$ 1000 crore from UAE central bank.

Alia moubayed a senior economist at Barclay's capital in London and author of the Dubai debt problem report said that "challenges Dubai is facing are considerable."

"The sources of financing, however at this stage are .....the extent of Abu-Dhabi support that is likely to come through" she told Al-jazeera.

Moubayed said resolving the crisis would also depend on the "ability of the Dubai government to come up with a clean plan in terms of what it wants to do to restructure its institution and debt related to that".

Brain Caplen editor of "the banker" magazine said that Dubai's debt default was far smaller than the losses seen in the wake of the US sub-prime mortgage crisis in 2007."They said that European banks hold about \$ 40 billion worth of exposure to Dubai –about half the total

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debts of the emirate. But I think you have to put that in context". He said.

"But I think that when the debt has settled it will be possible for Dubai to put together a credible restructuring plan and slowly, it will be able to go back to its strategy which I think it is the right one –to diversify away from oil towards tourism and financial and trading center. These are the strengths". Caplen added.

Anyway, Abdul Rahman Al saleh, the director general of the department of the finance of Dubai said that Dubai will not default debt. He said, "It was inaccurate, it was unnecessary blind panic, it was a misunderstanding of the status of Dubai, which in deed is a centre of trade and economic activity, it was lack of knowledge of how much debt was the subject of the announcement and how it related to the government debt".

"Dubai has become a land of economic opportunities and in a very short time attracted international attention and investments. Brand Dubai has been built for decades on the basis of being a global business centre, perfectly located and commercially astute ". He said. ●

### **The World's Largest Gathering of Islamic Finance Leaders**

The global footprint of Islamic finance continues to expand and exciting new growth opportunities are emerging in key geographies. The **UK Pavilion** initiative is a key part of the *World Comes to WIBC* campaign, which will this year offer an even more dynamic platform to capture and explore new growth markets for Islamic banking and finance at the 16th Annual World Islamic Banking Conference (WIBC 2009) held in Bahrain on the 6th, 7th and 8th of December 2009.

**UK Trade & Investment (UKTI)**, the official trade arm of the British government, will lead a high-powered delegation of decision-makers representing key banks and institutions in the UK who will come in full force again this year to showcase their capabilities at the 16th Anniversary WIBC. This is the 3rd year that WIBC will feature the UK Pavilion and each year it grows in size and prominence.

### **Zeti Akhtar honored**

NEWYORK: Zeti Akhtar Aziz, governor of bank Negara Malaysia, the central bank and the widely –respected and most senior central banker in world finance, was named with five others as the "the world's best central bankers in 2009" by New York based Global Finance Magazine.

### **Gulf petrochemical industry to consider finance of new projects through sukuk**

As other finance options become increasingly difficult to tap, the Gulf petrochemical industry could increase reliance on the sukuk, to finance its high-capacity new projects. As other options of long-term credit financing have faded, the sukuk seems to be the most viable among the financing alternatives for petrochemical projects in the region.

An announcement at the Gulf Petrochemicals and Chemicals Association (GPCA) meet emphasizes that the region will expand its petrochemical production capacity by 10 mln tons in 2010, doubling its existing 63 mln ton capacity to 115 mln tons by 2015.

Petrochemical industries, particularly the ones with federal support, in the Gulf have in the past resorted to issuing the Shariah-compliant Islamic bonds to finance costly projects.

The sukuk market in is currently valued at over US\$100 bln and it is projected to reach US\$150 bln by 2010. In 2006, 80 sukuk issues raised US\$18.15 bln globally, with a large share of this issuance occurring in the Gulf.

### ***Marvellous start for VIth batch***

*Santapuram: The 6th batch of Post Graduate Diploma in Islamic Economics and Finance (PGDIEF) had a kick start at Al Jamia campus, inagurated by Mohammed Palath, Executive Secretary of IAFIE*

# Why Islamic Banking?

K.A.Mohammed Mansoor (PGDIEF)

Islam is a divine ideology which is built on moral virtues, abiding values and stands for establishing justice and ethics in prevailing social structure. Islam communicates with all walks of human life and suggests its rules and laws. When the human society sticks to these rules, it stands to gain not only God's satisfaction and salvation, but also justice and ethics that fulfils their life. This is the feature of this divine system. When it neglects these rules it causes several outbursts in man's daily dealings and it becomes impossible to find a permanent solution. And this precise evaluation can only seek a solution for the problems that the man faces in his family, society, finance and politics.

Nowadays the financial crisis and its reasons are very much discussed and bandied about all over the world. Enterprises of interest-free investment and system of Islamic banks are viewed as a substitute and it only provides the hope. Recently Kerala Government formed an investment enterprise named 'AL-BARAKA' which is also as a result of this trend. Practicing Islamic bank in isolation will not solve our problem. Islam is a holistic vision and it has to be accepted and observed thus then only we can find a way out of these knotty issues.

*In human life wealth and economic structure have cardinal importance and it is also an acceptable fact in the Holy Qura'n. And Qura'n introduces the economic structure or the basis of human existence.*

In human life wealth and economic structure have cardinal importance and it is also an acceptable fact in the Holy Qura'n. And Qura'n introduces the economic structure or the basis of human existence.

**ولا توتوا السفهاء أموالكم التي جعل الله لكم قياماً (سورة النساء : ٥)**

(To those weak of understanding make not over your property which God hath made a means of support for you)

So that centuries before Qura'n has dealt with the financial stage in a very tough manner.

**وَيْلٌ لِلْمُطَفِّئِينَ، الَّذِينَ إِذَا اكْتَالُوا عَلَى النَّاسِ يَسْتَوْفُونَ،**

**وَإِذَا كَالَهُمْ أَوْ وَزَنُوهُمْ يَخْسَرُونَ (سورة المطففين ١-٣)**

(Woe to those that deal in fraud, those who, when they have to receive by measure From men, exact full measure, But when they have To give by measure or weight to men, give less than due)

Because it is very difficult to form a flow less social set-up; when deterioration happens in the basement. So for demolishing this decay and for introducing the divine ideology ALLAH sent 'Shuhaib' (pbuh) towards 'Madyan' people. We can see him saying to his society that, "It means that corruption and exploitation leads to financial anarchism and it pollutes the dealings in life. And this overthrow the social structure or it curbs the growth of the productive and social civilization".

**وأوفو الكيل والميزان ولا تبخسوا الناس أشياءهم ولا تفسدوا في الأرض بعد إصلاحها ذلكم خير لكم إن كنتم مؤمنين (سورة الأعراف ٨٥)**

(Give just Measure and weight, nor withhold from the people the things that are their due; and do no mischief on the earth after it has been set in order)

It is also the reason of warning of destruction on earth when the narration of precision on weighing and measuring took place. So the demolishing of the decay that prevails in the financial arena and introducing the face of humanity in the divine ideology in front of society is the part of the path of the messengers. Both enterprise of interest-free investment and Islamic banks have also the same inspiration and have the same soul of the divine teachings.

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*For admission notice, refer leading national & local dailies during the months of June & July ( Post declaration of degree results)*

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