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## On the Road to Islamic Economics

Islamic Economics is still in its early phases of development, yet the progress made in refining the discipline over the last decade can justifiably be described as a breakthrough. It was in response to the challenge of contemporary economic thought and of the socio-economic movements of our time that the Muslim thinkers began to examine their own position, from the ideological benchmark of Islam, and to articulate the Islamic approach to major economic problems and challenges. Independence of the Muslim countries from the colonial yoke and the Muslim people's urge to rebuild their societies in the image of Islam accelerated this process.

Initially the emphasis was on explaining the economic teachings of Islam and offering Islamic critique of the Western contemporary theory and policy. During this phase most of the work was done by the 'Ulama', the leftists and Muslim social thinkers and reformers. Gradually the Muslim economists and other professionals became involved in this challenging intellectual enterprise. Perhaps the First International Conference on Islamic Economics, held in Makka in February, 1976 under the inspiring chairmanship of Dr. Muhammad Omar Zubeir, the then President, of the King Abdul Aziz University, Jeddah, represents a watershed in the history of the evolution of contemporary Muslim thinking on Economics, representing the transition from economic teachings of Islam to the emergence of 'Islamic Economics'.

Ever since this conference a number of international conferences and seminars have been held, each making a significant contribution towards promoting the discipline and bringing in greater rigour and sophistication to analysis. Four international institutes have emerged to organise teaching and research in Islamic Economics, namely, International Centre for Research in Islamic Economics, Jeddah; the International Institute of Islamic Banking and Economics, Lefkosa, Kibris; Research and Training Institute, Islamic Development Bank, Jeddah; and the School of Economics, Islamic University, Islamabad. Around two dozen universities of the Muslim world are now engaged in teaching specialised courses in Islamic Economics, two of which (Islamic University, Islamabad and the University of Umm-ul-Qura, Makka) are developing fully-fledged Faculties of Economics, to undertake teaching of economics in all major branches from an Islamic perspective. These and many more developments during the last eight to ten years represent significant milestones of the road to Islamic Economics.

KHURSHID AHMAD

## NEWS ABOUT ISLAMIC ECONOMICS

### Al-Baraka Ushers in Islamic Banking in India

The Jeddah based Dallah Al-Baraka group has set up shop in India under the name Al-baraka Finance House Ltd. A deal was struck with the Housing Development Finance Corporation (HDFC) and Infrastructure Leasing and Financial Services, (ILFS) which believe that there are several areas in which they could complement Al-baraka. Rashid Omer, managing director of Al-baraka, concurs, saying that Al-baraka is very liquid. The group has earmarked US \$ 300 million for India, he says. According to the managing director of the Indian operations, the group believes that unless Al-baraka has a tie-up with strong local banks and sometimes, as in the case of Bangladesh, even the central bank, it would not be possible for it to consolidate and grow roots in the country.

The Indian outfit will have a Rs. 5 crores capital in which Albaraka will hold 40 percent of the equity and HDFC and ILFS together will take up 25 percent. The remaining 35 percent is being subscribed to buy an assortment of small shareholders including mutual funds and some corporate entities.

Al-baraka has obtained all government permission but is awaiting final clearance from the Reserve Bank of India. In fact, the company is bullish enough on India to invest Rs.20 crore in the equity capital, though its collaborators were reluctant to go beyond Rs. 5 crore. Al-baraka is negotiating with Indian Oil Corporation for financing of crude oil imports.

Dallah Al-baraka group was set up in 1969 and now this group employs 150,000 people across the world with a combined operations span four continents and 32 countries from the US to China.

The Indian operation's chairman will be Dr. Hassan Abdullah Kamel, vice chairman of the group.

(The Economic Times, New Delhi, August 11, 1991)

### Seminar on Islamic Economics

A two day seminar on "Some Aspects of Islamic Economics" is going to be held on December 14, 15, 1991, at Bijapur, (India.) The objectives of the seminar are to develop Islamic Economics as an independent discipline and to highlight distinctive features of Islamic Economics.

This seminar is being organized by the Economic Society, Anjuman Arts, Science & Commerce College, Bijapur, (India)

### AICMEU's Bait al-Zakat Report (90-91)

All India Council of Muslim Economic Upliftment Ltd, Bombay (AICMEU), is aimed to set up a country wide system of collecting and distributing zakat

without any distinction between persons within limits of the Shariah. (Islamic rules). Among its activities during the year 1990-91 included: Social Insurance; Rs. 62,000/- was spent for this purpose; a 27.55 percent of the total fund during the year; Housing Aid; (26 persons were given housing aid, Rs. 34,103/- a 15.13 percent of the total fund). Business Aid; (Rs. 13,100/- a 5.81 percent of the total fund); Debt Relief; (Rs. 9,600/- i. e. 4.26 percent of the total fund). Educational Scholarship (Rs. 21,485/- 9.53 percent), Educational Grant; (Rs. 70,000/- a 31.06 percent). Wayfarer; (Rs. 1,325/-) Casual Grants; (Rs. 11,970/- this works to be 5.32 percent of the total fund collected during the year).

### Islamic Financial Institutions in India

According to a survey conducted by Dr. Rahmatullah, president of the All India Council of Muslim Economic Upliftment Ltd, Bombay, there are around 500 small and large financial institutions operating in different parts of the country, and 161 organised institutions operating since the past five years. The majority of these organizations are run under the influence of Jamat-e Islami Hind, Jamiatul-Ulama-Hind and many other local organizations which have Islamic objectives. However, the percentage wise classification of these institutions and the categories to which they belong show that charitable societies and Trusts account for approximately 70 percent of interest free financial institutions in India. Co-operative Credit Societies account for 15 percent and an equal number of these institutions are operating as business companies. Although interest free financial institutions in India started in 50s but it could gain momentum only in 70s and 80's of the current century. Despite their commendable performance, the restrictions imposed by the laws of the land have crippling effect on them and prevent these institutions from developing into full fledged interest free banks in India, says the author.

### Extention Lectures on Islamic Economics

The Bangalore Chapter of Indian Association for Islamic Economics is going to organise a lectures series programme on the topic, 'Relevance of Islamic Economics in India', soon. Under the presidentship of Syed Tanvir Ahmad, this chapter has already embarked upon the various activities like introducing Islamic economics among educated people and organising symposium and lectures for the promotions of this new discipline.



Just Published

### Essays in Islamic Economic Analysis

Edited by : Dr. F.R. Faridi

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### Islam and the U.S Banking Crisis

While American attention was focused on the Islamic world, a domestic problem did not retreat: the long running S & L and loomong banking crisis.

The current Treasury proposal to address the issue is a start. But what is needed is a clear rethinking of what a bank can and cannot do, and some lessons can be learned from Islamic banking. Islam forbids the payment of interest. The question that Westerners then ask is how on earth anyone can run a financial system without the use of debt. The answer is a profit or loss system. Instead of the bank guarenteeing a fixed rate of return, interest, the lender and the borrower enter into an agreement that clearly spells out the way in which profits or losses are to be shared between the two parties from the ventrue to be financed.

Where Islamic banking departs from the normal practice of Western banking is in its treatment of risk. Under Islamic banking, risk is transferred to the lender, which can forces the lender to finance only those ventures that are sound and stay away from speculative ones. Thus, the emphasis is on productive investments. And, since the financing of any economic or business activity turns into an ownership stake, Islamic banks have an incentive to make the joint venture work. They become fully involved in the project, making sure that the money is spent wisely.

The theory of Islamic banking still holds promise for the West, in the area of debt finance. Under such a system, the banks balance sheets on the asset side would show the various equity positions they hold in different businesses, the value of which cary with general economic activity. On the liabilities side, deposits would not be like the regular deposits in Western banks but rather more like shares in a mutual fund. Depositors except for those maintaining regular transaction accounts would become shareholders, and their returns would vary with those of the bank. If the bank does well, the profits would be distributed proportionately

to the shareholders; If it does not, the losses would be equally shared. With such an arrangement, there is no need for deposit insurance and no likelihood of financial panics since both sides of the balance sheet would move in tandem. Imagine then what would have happened to the international debt crisis, the S&L crisis and the current problems palguing the U. S. banking industry had the lending been done on this basis. If depositors were shareholders, as opposed to uninterested parties whose deposits are insured by the federal government, you would get a certain amount of competition, since shareholders would shop for the bank with the highest profit levels. And in turn, banks would search for those productive and sound investments.

Financial institutions would be allowed to act as banks and mutual funds under one roof. Depositors could make standard deposits that are federally insured up to a reasonable limit or could open an insured mutual fund account. Allowing financial institutions to play in dual role would give a much larger sector of the U. S. population access to mutual funds. The exposure of the Federal Deposit Insurance Corpus fund would diminish as more depositors become more savvy and open accounts in the mutual funds side of the bank. It is tempting to conclude that an Islamic financial structure would not be conducive to risk taking and might stifle the entrepreneurial spirit for which America is prized. Perhaps. But it could also be argued that such a system would eliminate the financing of marginal projects from the start, and thus remove the likelihood of a major tightened credit even after gentle prodding by the Federal Reserve and even to some of their best customers.

Mohammed Akacem

*(The author is an associate professor of Economics at Metro State College of Denver U.S.A. and Middle East editor of Economic Forum, This article was earlier published in THE WALL STREET JOURNAL, May 9, 1991).* MOHD. AKACEM

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