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SOCIO ECONOMIC IMPACT OF ISLAMIC FINANCIAL INSTRUMENTS

Islamic banking is equity-oriented and the Islamic instruments of financing would ideally be based on profit and loss sharing. This would bring a fundamental change in role of Islamic banks and would convert them from creditors to partners. As a result, the return on their investment will no longer be a pre-determined fixed rate, but a variable depending on profits earned by the units. Since the return will be risk-related, the Islamic banks and financial institution will necessarily have to take a longer term view of investment proposals, analyse the elements of risk carefully and exercise extreme care in scrutinising the financing proposals from the technical, commercial and economic point of view before committing financial and technical resources to them. The Islamic instrument of finance based on profit and loss sharing would enable a banker to play a more effective promotional and catalytical role in the development process through identification, promotion financing and assistance in the implementation of projects.

The Islamic instruments of finance would also encourage the Islamic banker to participate directly in the success of the entrepreneur's business. As this would involve more direct involvement, Islamic banker would require more information about the business activities they finance and would be more likely to influence the business decisions of entrepreneurs. To some extent, this heightened involvement may discourage entrepreneurs who seek maximum freedom of management in the use of the funds they obtain from the financing institutions. On the other hand, the enhanced role of Islamic banks could be used to improve the skills of investors. Especially in small business and agriculture, banks could provide information and expertise that would increase the profitability of investment. They could also support entrepreneurs by providing technical and managerial assistance. Moreover, the Islamic banks, within the framework of profit and loss sharing, are entrepreneurs themselves who can influence the decision positively.

The *shariah-based* instruments of finance are expected to attract more saving because variable returns would enable the depositors to share in the improved fortunes of the investors. Also, in a society which is still predominantly rural, the financial instruments based on PLS systems will attract savings from individuals who are otherwise inhibited on religious ground. It will help accelerate the pace of capital formation and economic development by increasing the supply of risk capital.

The successful functioning of the *shariah-based* instruments of finance will undoubtedly depend vitally on the existence of a high degree of business morality and acumen. It would be imperative for business enterprises to maintain proper books of accounts so as to reveal the true working results of the enterprise. The prevailing practice of manipulating accounts for the purpose of concealing true operating result greatly hampers the development of Islamic instrument of finance. The effective uses of *Shariah-based* instruments of finance will naturally require that users of funds with unsatisfactory track record and doubtful entrepreneurial ability and with business propositions exposed to abnormal risks and inadequate personal stakes in the enterprises will have to be either rejected or given low rating.

It would be abundantly clear from the foregoing discussion that effective use of Islamic instruments based on profit and loss sharing would result in an optimal utilisation of resources. Needless to say, an adequate legal framework will have to be provided to enable the *Shariah-based* instruments of finance to develop and flourish.

D.M. Qureshi

Socio-Economic Policy of the Government and its Impact on Indian Muslims

In the era of globalization and privatization what is the likely impact of India's recent economic policy on the Muslims living in this country? This was one of the major themes of a one-Day seminar recently at the Kennedy House of the Aligarh Muslim University. Scholars here observed that policy-wise measures taken in India do not hold much promise for the social and economic upliftment of Muslims. Since the new economic policy strives for a free market ambience, the globalization of the economy with the multinational corporation may damage the equality and fairness, to all people living in the country.

The Muslim community in particular having a lower socio-economic strata may face the hardship caused by the economic reform. However, there were some optimistic aspects also during the discussion that since Muslims are very good artisan in different types of handicrafts, innovation in these areas may open new opportunity for them. It was also suggested that a policy of mutual cooperation between big and small industrialist among Muslim may be helpful in uplifting them in various trade and business in this new era of globalization and privatization. The participants also pointed out the lack of awareness that has been a big problem among Muslim industrialists, hence they lag behind in availing the institutional facilities provided by the government.

The seminar was organized by the Institute of objective Studies New Delhi, on the eve of its decennial ceremony being held all over India.

Islamic Economics Revolves on its Own Rationality : Dr. Faridi

In modern capitalistic economic framework where both the consumers and producers strives on the rationality of ourself interest without caring for the human values, the paradigm of Islamic economics keeps a balance between economic objectives and human values at the same times. These views were expressed by Dr. F.R. Faridi, the president of IAFIE in an exclusive interview to Bombay's Daily Inqilab (Urdu). Speaking on the contemporary economic situation, prospects of Islamic economics and on the role of Muslim in this country, Dr. Faridi said that, contrary to economic man, the Islamic man would consider various other factors while doing any profit making business. Moreover, Islamic concept of *Halal* and *Haram* leads the Islamic man to a different directions. Since Islam is tended for the welfare of mankind, any economic transaction on his part would be guided by the *Shariah*. The main consideration of an Islamic man would, of course, be the accountability of his life at the life-hereafter.

Dr. Faridi also pointed out the defects of market economy

for the weaker section of the society. He said that the globalization means the domination of multinationals and it also means that all those welfare activities and the subsidies provided to the downtrodden section of the society would be removed and this may raise the question of their survival.

Barkat Opens Branch at Aligarh

Aligarh: Barkat investment Group opened its 18th branch here on March 2 1997. The inaugural function was addressed among others by, Dr. A.A. Islahi, Hon'y Secretary IAFIE, Mr. Azfarul Haque Zaki, M.D. Al-Najeeb Group, Mr. Aminul Hasan Rizvi, Mr. A.W. Dalvi, and Mr. Kamal Farooqui, Director, Al. Ameen IFC Ltd. Mr. M.H. Khatkhatay, M.D. Barkat Group was also present.

Shariah Based Bank in Sri Lanka

Sri Lanka's first Islamic Shariah-based merchant bank, Amana Investments Ltd., with an issued capital of SLRS 150 million (US \$2.6 million), came into being recently.

Its Chairman, Osman Kassim has said that as per Shariah law, the bank would not lend money at an interest but invest in equity and share the profit. Profit making was not banned in Islamic law, he said.

The bank would take deposits from, and do business with, non-Muslims too. It would be listed in the Colombo Stock Exchange. The Bank is expected to get investments from Islamic countries like Indonesia, Malaysia, Brunei and those in the Gulf.

Mr. Kassim said that the world Islamic banking business was now worth US \$100 billion.

IDB's Assistance Scheme for Muslim Community in India

Islamic Development Bank has allocated US & 528,000 from its special account to finance four educational projects in three non-member countries. Two of these projects are in India and form part of the IDB's US \$ 30m five year programme for special assistance for Muslim community in India to finance their educational and health projects.

Islamic Banking Information Service

The Dallah Al Barkah Group is to establish an Islamic Banking information service on the Internet. The Internet site will provide different value-added information about the activities of the Group and Islamic banking economics. A section entitled *Cyber Fatwa*, which will allow visitors to ask questions on Islamic economics to be answered by experts from Dallah Al Barkah, will also be included.

NEW BOOKS & ARTICLES

BOOK REVIEW

BOOKS :

1. **Ahmad Ashkhar and Sirajul Haque**, (Eds), 'Institutional Frame work of Zakah-Its Dimensions and Implications' (Seminar Proceeding) (Jeddah), IRTI/IDB, 510 pp. (1995).
2. **Alam, M. Manzoor**, 'Perspectives on Islamic Economics' (New Delhi), Institute of Objective Studies, 1996, 206 pp.
3. **Beekun, Rafik Issa**, 'Islamic Business Ethics', (Herndon, USA), The international Institute of Islamic Thought (1996) 84 pp.
4. **Farouqi, Mahmood**, (ed.), 'Islamic Banking and Investment: Challenge and Opportunity', (London), Kegan Paul International, 1995, 300 pp.
5. **Junaid Sayed and Syed Anwar**, (eds.) 'Report on Meeting experts of Islamic Management centre' (Seminar Proceeding) (Jeddah), IRTI/IDB, 188 pp. (1995).
6. **Kennedy, Charles**, 'Islamization of Laws and Economy: Case Studies of Pakistan' (Islamabad, Pakistan), Institute of Policy Studies, 1996, 191 pp.
7. **Khan M. Fahim**, (ed.) 'Islamic Financial Institutions' (Seminar Proceeding) (Jeddah), IRTI/IDB, 266 pp. (1995).

ARTICLES :

1. **Afzal, Iqbal**, "Islamic Finance: Banking of Venture Capital" *Islamic Bankers*, (London), November 1996, pp. 16-17
2. **Ahmad, Khurshid**, "Some Thoughts on Muslim Economic Union", *Dawah Highlights*, (Islamabad Pakistan), Vol. 6, No. 6, 1995, pp. 5-7.
2. **Ahmad, EL-Tegani A.**, "Distribution of Profits in Islamic Banking: A Case Study of Faysal Islamic Bank of Sudan", (FIBS), *Journal of King Abdul Aziz University: Islamic Economics*, Vol. 7, 1995, pp. 15-32.
4. **Anjum .M. Iqbal**, "Internal Challenge of Islamic Economics to Capitalism and Communism" *Humanomics* (Cape Breton, Canada), Vol. 15 no. 1, 1996 pp. 53-90
5. **Banna, Gamal Al**, "Concept of Trade Unions In Islam", *Dawah Highlights*, (Islamabad), Vol. 6, No. 6, 1995, pp. 12-16.
6. **Bashir, A.H.M., and Ali Darrat**, "Resource Mobilization Under the Islamic Profit-Loss Sharing Scheme: A. Note", *Journal of King Abdul Aziz University: Islamic Economics*, Vol. 7, 1995, pp. 37-39.

AN INTRODUCTION TO ISLAMIC ECONOMICS

by. Muhammad Akram Khan

Published by the International Institute of Islamic Thought, and Institute of Policy Studies, Islamabad, Pakistan, 1994, 153 pp.

ISBN 1-56564 - 079-9HC

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That Islamic economics has become one of the most mature academic discipline in the last two and half decade should not be surprising. Its ample proof is that there is constant flow of useful and valuable literature on its different aspects and themes.

The book under review is a good introduction to the subject and the author is one of the pioneer of Islamic economics. He has already made a significant contribution on the various aspects of Islamic economics and his two bibliographies and one glossary on the subject have been acclaimed by the scholars.

Here, author provides a rather thorough and detailed discussion of the ideological, conceptual and aspects of Islamic economics. The book is divided into six chapters, two appendices and the list of figures. In chapter one he gives an overview of Islamic economics with the focus on the basic assumption, concept of money in Islamic economy, interest and inflation, consumer behaviour and Islamic principles of taxation and deficit financing. Chapter two discusses the nature of Islamic economics, its definition, resources, cooperation and participation. Chapter three deals with the methodology of Islamic economics with particular emphasis on the role of reason, process of theorizing, assumption of ideal Islamic economy. Chapter four is devoted to the practical aspect where the Islamic banks, Zakat, Insurance, Waqf and al-Hisbah are analysed. In chapter five, he explains the Islamic approach to contemporary problems like unemployment, inflation and economic development. Chapter six is on the direction of future researches and a search for interest-free international economic order. His appendices are on the liability of shareholders and discounting for project evaluation and the list of figures include the Holistic vision of Human Behaviour, General Theory of Islamic economy and Initial research endowment.

For several reasons it is interesting to read this book particularly where he argues that availability of interest-free finance would enable man to harness vast areas of land, eradicate unemployment and could obliterate fiscal deficit and help in calling a halt to inflation.

It is a truly impressive work and indispensable for any one interested in the basic philosophy of Islamic economics.

J. A. Khan

Ph.D Thesis Abstract

Depository Institutions: Reforms along the Lines of Islamic Banking Principles. Al-Osimi, Muhammad Saud Muhammad Ph.D., *University of Colorado at Boulder, 1993, 136 pp. Director: Don E. Roper.*

Depository institutions play an important role in today's economic activities. Debt contracts are the most commonly used tools of those institutions. This dissertation affirms that debt contracts are risky for economic stability, especially when the overall indebtedness that countries, banks, and individuals have reached is considered. In order to carry the dissertation theme, a fundamental reform in the depository institutions reform to supervisory and regulatory measures, albeit necessary, is not enough and might be dangerous. This dissertation investigates the possibility of the implementation of the main idea of Islamic banking as part of the needed reform for the depository institutions in the United States. Making the liability side of the depository institutions based on the principle of sharing equity instead of debt contract will, this dissertation claims, eliminate any need for deposit insurance.

Commercial banks and savings and loans were considered as representatives of depository institutions. The task of this dissertation was as follows. First a comprehensive review of the mainstream western economists' proposals for the needed reform in the depository institutions was presented in the second chapter. These proposals were classified into nine broad categories. The third chapter is an annotated bibliography of Islamic banking. That chapter familiarizes the reader with the entire field of Islamic banking and not only with the basic discussion of this dissertation. The fourth chapter is about mutual funds. In that chapter, the extraordinary dominance of the financial market by mutual funds was investigated. In the United States, mutual funds are the best

candidates for showing the practical side of having banking based on the Islamic principle. It was shown intuitively that mutual funds can be extended to cover other banking activities. The fifth chapter is devoted to the summary and conclusions of the dissertation.

CALL FOR PAPER

Islamic Economic studies (IES) is a bi-annual Journal and is being published by the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB). It is a refereed Journal and is included in the CD-ROM indexing and abstracting service of the Journal of Economic Literature. The Journal specializes in the fields of Islamic economics (IES) banking, and finance and the economic development of member countries of the IDB from an Islamic perspective.

The Editorial Board of IES has invited contributions from scholars working in the areas of its specialization. The original unpublished papers making some noticeable contribution to Islamic economics may be sent in English, Arabic or French. Two copies of the papers not exceeding 6000 words with an abstract of no more than 150 words should be sent to :

The Editor, Islamic Economic Studies
P. Box. 9201, Jeddah, 21413
Saudi Arabia

Workshop Postponed

Due to unavoidable circumstances the workshop on "INDIAN ECONOMY AND NEW ECONOMY POLICY" has been postponed. New dates will be communicated as soon as finalised. Inconvenience is regretted

Convenor

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