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MONETARY MANAGEMENT IN ISLAM

Islam does not find interest to be an appropriate mechanism for the management of money demand in an efficient or equitable manner. Consequently, it tries to regulate money demand by a strategy that relies on a number of instruments, three of which are particularly important.

Firstly, since values and institutions play a crucial role in practically all aspects of human life, Islam does not have an anathema to value judgment. It is rather positively oriented towards them and tries to create an enabling environment for making these effective in actualizing an allocation and distribution of resources that is in conformity with its *maqasid*. It declares all resources to be a trust from God and makes their efficient and equitable use a major subject of human accountability on the Day of Judgment. While these values and institutions sanction money demand for need-fulfilment and productive investment they do not sanction it for unnecessary and unproductive spending. This, Islam tries to do even before the demand gets expressed in the market place.

Secondly, since values may be disregarded, it tries to reinforce them by a number of social, economic and political institutions. One of these is the price mechanism, which it upholds for greater efficiency in the use of resources. While the price mechanism may by itself not be able to bring about an allocation of resources that is in conformity with goal realization, it can undoubtedly make a positive contribution when reinforced by the value system.

Thirdly, since interest-based financial intermediation has the tendency to give an edge to conspicuous consumption, speculation, and unproductive investment, Islam prohibits interest and reorganizes financial intermediation on the basis of profit-and-loss sharing. The linking of the return to the ultimate outcome of the business financed would help ensure that financing does not become available to satisfy money demand for any purpose just because the borrower has an acceptable collateral to offer and sufficient income to service the debt. It would rather be available if the money demand is for a worthwhile project and is accompanied by the necessary ability to manage the project efficiently. Even a poor but competent entrepreneur may, thus, qualify if he has a worthwhile project. This may not only help minimize demand for wasteful and unproductive purposes but also enable the society to harness the pool of entrepreneurial ability from among the poor and to tap the rich contribution that such entrepreneurs can make to output, employment and need-fulfilment.

In addition to reducing the money demand for unproductive and speculative purposes, Islam tries to minimize the holding of idle cash balances by the levy of *zakah*. This would tend to induce savers to get into productive investment to save their net wealth from being eroded by *zakah*.

Since need-based consumption and productive investment tend to be more stable than conspicuous consumption and speculative investment, the demand for money may tend to be more stable in an Islamic economy. What may further reinforce this is that profit-sharing ratio between the entrepreneur and the financier may also not fluctuate from day to day or even month to month like the rate of interest, because it would tend to be determined by custom and considerations of justice, and remain contractually stable throughout the duration of the financing agreement. Since the ultimate outcome of business depends on a number of factors which do not change erratically, expectations about the rates of profit would also not fluctuate erratically. Therefore, equity-based financial intermediation is likely to be more conducive to economic stability than loan-based intermediation. This has been recognized by a number of prominent Western economists, including Henry Simons, Hyman Minsky and Joan Robinson.

Thus, the various elements of the Islamic economic system may not only help minimize the instability in the aggregate demand for money but also influence the different components of money demand in a way that would promote greater efficiency and equity in the use of money. The relatively greater stability in the demand for money in an Islamic economy may also introduce greater stability in the velocity of circulation of money.

Dr. M. Umar Chapara

IAFIE's New Chapter at Chennai

The Tamil Nadu Chapter of Indian Association for Islamic Economics (IAFIE) was formed on 14-5-97 at Chennai. A select gathering of Academics, Businessmen, Chartered Accountants and Bankers attended the inaugural meeting which was addressed by Prof. T. Abdur Rahman, New college, Chennai and Mr. Shabbir Ahmad of Bangalore Chapter of IAFIE. 15 persons have been enrolled as life/annual members. The Chapter plans to establish a reference library on Islamic economics.

Barkat Grants Scholarship For Study of Islamic Economics

Barkat investment Group has granted scholarships for the study of Islamic economics at Deptt. of Economics, Aligarh Muslim University, Aligarh.

An over all cash assistance of Rs 1000/- per annum per student has been extended to five students who offered the paper of Islamic Economics at post graduate level for books and fees. It has also granted a scholarship of Rs. 1000/- per month each year one student for research in Islamic economics.

AMU Student wins prize in Essay Competition

Mr. Mohsin Aziz an M.A. Student of Deptt. of Economics participated in 2nd Annual Essay competition on Islamic economics, Jointly held by The Islamic Foundation and Lough borough University of Technology, U.K.

Mr. Mohsin wrote on 'Is *zakat* a tax? Can an Islamic State levy taxes other than *zakat*' and won a consolation prize of £ 100.

National Commission For Islamization of Economy in Pakistan

Pakistan government has recently constituted a National commission for the Islamization of economy and asked the Federal *Shariat* Court for guidance on how to meet complex financial obligations.

A government spokesman said that the government had filed an application before the *Shariat* court seeking its guidance for enabling the government to fulfil its obligations in the light of *Qur'an* and *Sunnah*. The application has sought "authoritative answers and a workable solution which will prevent the government from being an international defaulter while remaining firmly within the framework of Islamic injunctions" the spokesman said.

(Reuter)

Islamic Banking Going Strong

Islamic banking and finance continues to gain increasing importance not only in Muslim countries, but in emerging markets in the west and elsewhere such as south Africa and South east Asia.

According to Harvard University's Islamic Finance Information Program survey, there are now 133 Islamic financial institutions in 24 countries worldwide, with total assets of \$ 166 billion, deposits of \$ 77 billion and capital of \$ 6 billion. The industry is growing in number and size by about 15% annually, the survey states.

The end users of Islamic finance these days are very diverse ranging from blue-chip corporations such as Shell, IBM, Xerox, GM, Alcatel to companies in the Muslim world and elsewhere.

Islamic Development Bank - 1996 Report

During 1995-96 the IDB approved, about 1,016.18 Islamic Dinar (US \$ 1.5 billion) for a total of 184 operations, an increase of about 7% compared with the level attained the previous year. Of the total, ID 344.41 million went for project financing and technical assistance and ID 664.41 million was approved for finance trade operations.

As for development sectors, the Bank committed 33% of its 1995-96 programme for public utilities, 20% for industry and mining.

Development projects were approved for 32 countries and a task force was established to look into the special needs of new member countries in the Commonwealth of Independent States (CIS) and Eastern Europe and to enhance opportunities for them to benefit from IDB financing.

The IDB has adopted a number of ways of financing the projects it supports such as leasing (accounted 41% of the total project financing in the year 1995-96), Instalment sale (35%), Loan financing (23%) and Equity participation (0.6%).

Conference on 'Innovations in Interest - Free Banking and Finance'

Istanbul, Turkey : 9th-11th June 1997,

Innovations in profit and loss-sharing (PLS) finance continue to appear in the interest-free banking market. This major conference examines innovations in interest-free banking and finance with a special focus on the Gulf, Malaysia and Turkey. The objective of the conference is to study the various aspects of interest-free banking and finance and its role in world economics and business. The conference is a unique and authoritative insight into global standing, current practices and future directions of the industry.

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FINANCING DEVELOPMENT IN ISLAM (ed.) M. A. Mannan
Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia, 424 pp.

While there is a growing concern in the Muslim world on the pattern of their economic development during the last two decades, the authorities and policy makers in the governments are still not clear that on which way to run their economies.

This is particularly the case of oil rich countries where the structure of their economies is dominated not by the factors of production but rather by the external flow of resources, making them still dependent upon foreign supplies to meet their basic needs. The massive amount of oil revenues accumulated during 1970s and 80s could not be utilized effectively. And it was bitterly experienced that their economic management and economic policies were heavily dependent on the public sector in which state's ideologies had the privileges of political consideration over the economic considerations and constraints. All these infact have now reinforced these regimes to adopt the economic liberalization and privatization programme to revive their economies in the directions of IMF and World Bank.

The present study, though concerned with the similar problems related to financing development in the Muslim world, provide the Islamic dimension on the issue. This book consists of 16 papers originally presented by renowned Islamic economists at the Third International Conference on Islamic Economics held in Kuala Lumpur, Malaysia in January 1992. The basic themes discussed in these papers are : Islamic strategies for financing development, domestic financing of development, financing development in selected Muslim countries and financing development in historical perspectives.

The contributors have put their arguments in highly academic manner suggesting the appropriate Islamic fiscal and monetary policy in order to find out the ways and means to float Islamic instruments for effective utilization of resources. The book also discusses the public borrowing in the early Islamic period demonstrating that at the time of Prophet-Mohammad it was a legitimate activity even from non-Muslim in case of need. However, no evidence has been shown from the record of early history of borrowing for financing economic development.

Some important questions raised in these papers are as what should be made to institutionalize Islamic socio-economic values, and how the Muslim governments should encourage the participatory financing and financing social securities services through the patronage of private foundation. There is a valid argument for a structural change in both expenditure and revenue of the government budget with much emphasis given to meet the government deficit out of conventional tax and non-tax revenues.

The book presents various models and options for financing development in Muslim countries stressing the need for curbing the wasteful expenditure and altering priorities for allocation of resources. There is also the suggestion for internationalizing the institutions of waqf by setting up a world Muslim Foundation to combat illiteracy and diseases.

Making a strong case for equity financing as a source of long-term finance, there is a good discussion that such finance being participatory in nature is also more equitable as risk are shared rather than being the entire burden on the enterprises. It also emphasizes the role of monetary agencies and shows how the central bank in Muslim countries can play its role in the process of creating secondary markets for Islamic financial institutions. Although it is gratifying to note that Islamic mode of finance is getting momentum, the major task before Muslim government is ahead-to make of its effective utilization in a macro-economic framework.

Letter to Editor

Sir,

As you know, the Institute of Islamic Banking and Insurance (IIBI, London) offers a distance learning diploma course in Islamic banking. You can also start at least a diploma course in Islamic banking either regular or by correspondence with the collaboration of Aligarh Muslim University, Institute of Objective Studies, Al-Barka and other institutions. I think this is one of the best ways to create an awareness about Islamic banking and eliminating riba from our society. Through these course you can get committed students who will serve this field and your Bulletin will get many pens from different corners of the country.

I am also very sure that many foreign students will join you specially those, who are in the field of commerce and economics because Islamic banking is booming in the Muslim world.

I felt as a member of IAFIE to share my ideas with you that is why I am writing, hoping that you will think in this matter for the benefit of this ummah.

K.A. KHIYAR, PUNE

**Orientation Course in Islamic Economics,
Banking And Finance**

The Islamic Foundation, U.K. is organising its 5th intensive orientation course in Islamic economics, Banking and Finance from 25th to 12th September 1997, in cooperation with Islamic Development Bank, Jeddah and Loughborough university of Technology, U.K., at its premises known as Mark field Conference centre.

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*History of Economic Thought in Islam. A Subject-Wise Survey by A.A. Islahi. A concise study of the origin and development of economic thought in Islam. 40 p.	Rs. 30	US\$ 5
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