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Need For An Ethical Unit Trust

A few years back it was a widely circulated news item that a certain house of Birla had completely discarded the hotel business as they were against meat and wine. We have also read a few years ago that a huge amount of Gulf remittance was being used in construction of houses with no or few inhabitants and the rest was deposited in banks accruing vast amount of interest that remained unwithdrawn as the majority of depositors did not believe in taking interest.

There is still a large number of people who refrain from investment in Public Companies on various religious and ethical grounds. India is a country of religions. Respect of all religions, and coexistence is our greatest characteristic. Pious life and value based society is the goal of every religion, and the need of the hour in our country. Vices like gambling, intoxication, prostitution, fraud and cheating, deception in weight and measures, etc., are disapproved by all religions—Islam, Christianity, Hinduism, Buddhism, Jainism, Sikhism, etc. There is no doubt that religious precepts also play a very important role in consumption behaviour, economic decision making and choice of investment in projects. To quote one of the greatest Indian economists:

“The fact is that man does not live by bread alone, not even when the bread is covered by butter and smeared with jam. He needs something more to make living worthwhile.”

Very often one sacrifices an economically very profitable course of action which is in conflict of ones religious belief as it is clear from the two instances quoted above. Thus a huge amount of resources are wasted which need to be tapped with suitable strategy, proper planning and through provision of suitable avenues of investment.

One such scheme may be initiative of Ethical Unit Trust (EUT). By Ethical Unit Trust we mean a mutual fund that follows certain religio-ethical rules while it decides its investment portfolio. It should be noted that such a trust already exists in England and in some other Western countries. It specialises in seeking profits for investors while conforming to certain ethical criteria. When clients invest in it, they can be sure that none of the monies will be invested in companies which engage in the arms trade, gambling, interests, manufacture or/and distribution of either alcohol or tobacco. It combines ethical and equity investments successfully. The determination of whether an investment is ethical or unethical is made by the fund managers, based on information received from various professional bodies, social workers, religious leaders and other specially constituted committees of reference.

The concept and principle of EUT is not alien to contemporary Western markets. In India where we have a variety of mutual funds, addition of an EUT will be in order. At present the deteriorating condition of our society and moral decay is a matter of great concern for our swiftly vanishing first generation of Indian politics and social workers. EUT will be a step in the direction of promoting ethical values in our socio-economic life. The Indian Ethical Unit Trust must avoid, as a rule, investment in any socially or religiously undesirable products, such as environment polluting units, breweries, interest bearing instruments, hotels, animal food processing, etc. The best avenue of investment for EUT will be the equity based instruments in the core sector areas of steel, cement, power, fertilisers, petrochemicals, telecommunication, electronics, oil and gas, agrochemicals, textiles and various other allied industries, etc. The core sector is not only rewarding to investors but necessary for the development of an economy, a spirit that must be among those who believe in economic ethics.

A.A. Islahi

IAFIE'S Annual Meeting held

Aligarh, March 5, 1998: The annual meeting of founder members of IAFIE held here at the residence of DR. F.R. Faridi, The meeting was attended by Dr. F.R. Faridi, Dr. A.A. Islahi, Dr. Javed Ahmad Khan, Mr. Valeed Ansari, and Mr. Sabahuddin Azmi as a special invitee. The following points were resolved.

- * Dr. F.R. Faridi, and Dr. A.A. Islahi were reelected as President and Hon'y. Secretary respectively for another term.
- * Organization of an All India Essay writing Competition on Islamic economics was approved.
- * Establishment of publication division of the Association.
- * Expansion of IAFIE's activities by organizing lectures, symposia, summer classes, etc.

Hyderabad's Contribution to Islamic Economics

Hyderabad, Dec 29, 1997: In a select gathering of the teachers and students of economics, commerce and business administration at the commerce coaching centre, Mahdi Patnum. Dr. A.A. Islahi, the Hon'y Secretary delivered a lecture on nature and development of Islamic economics. He also highlighted the contribution of scholars associated with Hyderabad and appealed the audience to come forward and revive their tradition. The lecture was followed by a useful lively discussion. Mr. M. Irfanullah Khan accepted the life membership of the Association. Dr. Islahi came to the city to attend 80th annual conference of Indian Economic Association held at the Osmania University.

Islamic Chamber of Commerce and Industry (India) Formed

Mumbai, Dec. 29, 1997: At the invitation of All India Council of Muslim Economic Upliftment Ltd. (AICMEU), a number of businessmen and industrialists got together and discussed the problems faced by them and decided to form the Islamic chamber of commerce and industry. They also resolved to publish the 'Islamic guide to business' authored by Mr. A.S. Ghani.

AICMEU'S BAITULMAL DECLARES DIVIDENDS

AICMEU's Baitulmal Cooperative Credit Society Ltd. which works on Islamic principles has accepted investment

deposit from 635 members in the form of Recurring Investment Deposit (RID) and Investment Deposit Account. The total investment deposit accounted Rs. 45,09,402/- during the year 1996-97. The society advanced business capital/equipment on the basis of cost plus, lease finance and *Mudaraba* and declared a dividend of 15 percent on Investment deposits and 4 percent on RID accounts for the year 1996-97.

Training Program in Islamic Banking on Internet

Xavier Institute of Management, Bhubaneswar, has started an International Training Program in Islamic Banking and Finance to be offered through internet and e-mails. The program has an international advisory panel of academicians and professionals to ensure high class quality and state-of-the-art course materials. It supplements a Standard Master's Program in business administration, commerce and economics.

CALL FOR PAPERS**International Conference on 'Islamic Economics in the 21st Century'**

International Islamic University Malaysia (IIUM) and The Islamic Research & Training Institute (IRTI), Islamic Development Bank (IDB) are organizing an International Conference on 'Islamic Economics in the 21st Century' to be held at Kuala Lumpur, Malaysia from 26-30 April 1999. Scholars interested in contributing papers to the conference are requested to send their proposals for papers, falling under any of the following themes by 30 April 1998.

1. Growth and Development in the OIC Region
2. Critical Survey of Contemporary Writings on Islamic Economics
3. Banking and Finance
4. Islamic Zakah and Awqaf Institutions

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BOOKS :

1. **Ahmad, Syed Riyaz Ali, Nasir**, "Strategic issues in Islamic banking", Rawalpindi, Pakistan, Ferozsons Pvt. Ltd., 1995, 195 pp.
2. **Haque, Ziaul**, 'Riba: The Moral Economy of Usury, Interest and Profit'; Selangur, Malaysia, 1995, 178 pp.
3. **Kah, Monzer**, 'Instruments of Meeting Budget Deficit in Islamic Economy', Jeddah IRTI/IDB, 1997, 86 pp.
4. **Moore, Philip**, *Islamic finance : A Partnership for Growth*, London, Euromoney Publication, 1997.
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6. **Wilson, Rodney**, *Islamic Finance*, London, Financial Times Publication, 1997.

ARTICLES :

1. **Abbadi, Abdul-Salam, Al.**, 'Religious Teachings on the use of the Earth's Resources : A Muslim Perspective', 'Religion and the use of Earth's Resources, (Rome), the Pontifical Council for Interreligious dialogue, 1996, pp.13-42.
2. **Ansari, Pour**, 'The Illegality of Taking interest from Muslim countries, *Arab Law Quarterly* (London), 11:3, 1996, pp. 281-4.
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7. **Tahir, Syyid**, Islamic Perspectives on Economic Development, *The Pakistan Development Review* (Islamabad), 34:4, 1995 pp. 845-54.

Instruments of Meeting Budget Deficit in Islamic Economy, Monzer Kahf., Islamic Research and Training Institute Jeddah, (1997), 86 pp.

Budget deficit is the gap between public revenue and expenditures. It is usually bridged by increasing revenues, reducing expenditures, and by internal and external borrowing. Since there is only a limited scope either for reducing expenditure or for increasing the tax revenue, only public borrowing remains a viable alternative which have become a major feature of contemporary economies in both developed and developing countries.

The present study of Dr. Kahf sheds new lights on instruments for public resource mobilization that are based on Islamic principles of financing, rather than on principles of taxation. The author examines Islamic economics means of meeting needs that are usually met through public borrowing in conventional economics. The author has shown that several Islamic contracts may be used as a basis to evolve new instruments to mobilize resources for the public sector.

The paper consists of four sections followed by a useful bibliography. Section one discusses the principles of financing and public borrowing in Islam. The section reasoned that the prohibition of *riba* applies to the public sector as much as it applies to private individuals. Therefore, the same principles of financing which guide individual Islamic behaviour must also guide the behaviour of the public sector.

Section two focuses on the provision of public goods and alternative approaches that reduce the role of government and consequently the pressure on the budget in this regards. It also discusses alternative approaches to provision of social goods. These include provision of social goods on philanthropic basis by individuals and organization on profit basis by the private sector.

Section three examines different alternatives of borrowing available to government as Islamically permissible instruments and modes of finance. Instruments for public resource mobilization which can be developed on the basis of Islamic principles. Those include *murabaha* and *shirakah* based contracts, *ijarah* bonds, *salam* certification and *istesna* coupons etc.

The paper does not deal with the needs nor causes of budget deficit in an Islamic economy. It rather concentrate on suggesting instruments for meeting the deficit that are compatible with shariah i.e. it deals with an applied issues related to the application of shariah in the financial and economic activities of the Muslim countries. The paper, to a great extent may be of interest to all Muslim countries. Besides it contributes considerably to the fast growing discipline of Islamic economics.

INTERNATIONAL TRAINING PROGRAM (ITP)

in

ISLAMIC BANKING AND FINANCE, 1998

to be offered through internet.

The URL is : <http://www.ximb.stpbh.soft.net/faculty/obeid/if.htm>**Contents***Module I***Foundation of Islamic Finance**

Islamic finance: A System based on Islamic Ethics, Norms of Islamic financial Ethics, Shariah Maxims
 The Basic financial contracts and the relevant Shariah rules: Partnership (Modaraba, Musharaka), Leasing (Ijara), Insurance (Kafala), Deposits (Wadiyya), Debt Transfer (Hawala).
 Forms of Exchange (Bai): Bai-bi-thman-ajil, Bai-salam, Bai-istijrar, Bai-istisna, Murabaha, bai-sarf, Bai-al dayn.
 Islamic Financial Derivatives.

*Module II***Islamic Financial Products, Services and Markets**

Products and Services : Islamic Commercial Banking , Islamic Investment banking , Islamic Funds/Unit Trusts, Islamic Development banking, Islamic Insurance, Islamic Financial Engineering and Project Finance
 Markets: Islamic Money Market, Islamic Stock Market

*Module III***Management of Islamic Financial Institutions**

Accounting for Islamic Financial Institutions, Regulatory Framework for Islamic Financial Institutions: Capital Adequacy Norms, Asset-Liability Management: Risk Management; Credit Rating, Marketing of Islamic Financial Services, Strategic Management; Managing Service Quality.

The program advisory panel includes.

- * Dr. Rodney Wilson, Deptt. of Economics, University of Durham, U.K.
- * Dr. S. Nazim Ali, Director, Harvard Islamic Information Program, U.S.A.
- * Dr. Abdul Azim Islahi, Deptt. of Economics, Aligarh Muslim University, India.
- * Dr. Malcolm Harper, Carnifield School of Management, U.K.
- * Dr. Omar Zaid, University of Western Sydney, Australia.
- * Dr. Ahmad Al. Ashkar, University of Paisley, U.K.

The program begins on 21st August 1998 and would have a duration of eighteen weeks divided into three modules of six weeks each. Last date for registration: April 30, 1998. For further details regarding registration please contact:

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