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Increasing Scope of Islamic Banking and Finance

The Department of Economics, Aligarh Muslim University, deserves thanks and appreciation from all those who are eager to see the healthy tradition prevail. Its Board of Studies approved in this institution a post-graduate Diploma in Islamic Banking and Finance to impart the students knowledge of one of the latest development in banking and financial sectors. As we know, Islamic banking movement is not confined to Middle Eastern countries only. It has spread in many ASEAN and SAARC countries with whom we have very close relations. The interest-less Islamic banking and financial system attracted attention of even some Western countries and they have offered their premises for experiment of the system and provide facilities for research and teaching of Islamic economics. A few prestigious conventional banks such as American City Bank, ANZ Grindlay Bank etc., have opened their branches or extension counters that accept deposits on Islamic principles. During the last two decades, over 200 banking and financial institutions have begun to operate on interest free basis. The world wide Islamic banking sector is estimated to account for more than 200 billion dollars. In India scores of interest free credit and investment societies have already been formed having in total crores of rupees as their annual turnover. We feel that government's present Policy of openness, liberalisation and globalisation has much scope for the establishment of Islamic banking and financial houses with or without the collaboration of foreign countries.

It is expected that demand for specialists of Islamic banking and finance as consultants and advisors in future will arise. The present course will provide with an additional credit, qualification, and analytical ability especially to the students of Economics, Commerce and Business Administration. Apart from the traditional areas of replacement, they will find new avenues of employment in academic and professional spheres of Islamic banking and finance. This diploma will be a complementary and/or supplementary to their main course.

It may be noted that the subject of Islamic Banking and Finance is one of the most discussed topics of Islamic economics. It is also the most practised aspect of the discipline in different corners of the world. There is the maximum number of literature available on this area of the subject. The IMF has established a special cell for its study. Harvard University is having a data bank on Islamic Banking and finance. The Loughborough University (UK) has been organising each year an Intensive Orientation Course on Islamic Banking and Finance for the last many years. There are about one and half a dozen websites on Islamic banks from across the World. In India Xavier Institute of Management, Bhubaneswar, has started an International Training Programme in Islamic Banking and Finance through internet. The introduction of the proposed Diploma in Islamic Banking and Finance will be a significant event in the history of Islamic economics in this part of the subcontinent, *In Sha Allah*.

Abdul Azim Islahi

Aligarh Muslim University Approves Postgraduate Diploma in Islamic banking and Finance

Aligarh. The Board of Studies, Department of Economics, Aligarh Muslim University (AMU) in its meeting held on March 3, 1999, approved the proposal to introduce a Post-graduate diploma in Islamic Banking and Finance (PGDIBF). It may be noted that the Department has already introduced a Postgraduate study course on History of Islamic Economic Thought.

Diploma in Islamic Banking and Finance is one year part-time post-graduate course. The course will be started after passing through various concerned committees of AMU and it may take a year or so.

The main objective of the course is to provide students with good working knowledge of Islamic banking and finance that may help them:

1. To brighten their professional and academic careers having scarce knowledge of this discipline.
2. To be acquainted with the latest domestic and foreign banking and financial environment.
3. To develop analytical skills for preparation of policy and programme that may suit a vast majority of global inhabitants.
4. To carry further researches and field work in that growing branch of knowledge.

IAFIE and Its Bulletin to Go to Internet

The School of Islamic Business and Research (SIBER) has agreed to maintain a webpage on the IAFIE and its Bulletin. Thus, the Islamic Economics Bulletin will be soon available on internet.

Islamic Banking and Finance NET- SIBER

International Training Programme in Islamic banking and Finance, sponsored by Xavier Institute of Management, Bhubaneswar, has now blossomed into a Post Graduate Diploma in Islamic Finance. A virtual school has been setup on the Web as an independent organization for the purpose of offering this programme and for installing various other programmes in the discipline of Islamic Economics and Finance. The "Virtual" or on-line school has been named as The School of Islamic Business Education and Research

(SIBER) and functions from the Software Technology Park, Bhubaneswar. The websites of SIBER, Islamic Banking and Finance Net (<http://islamic-finance.net>) is now quite popular among Islamic bankers, students and academicians. SIBER now manages the only and naturally the largest on line discussion list in Islamic Economics and Finance upon the merger of its on line Discussion Forum with Islamic Economics and Finance Net work (IEF -NET) of Muslimsonline. Com (which is among the largest internet service providers to the Muslims community all over the globe. The Discussion List called Finance Net now has over 600 subscribers which is steadily increasing. Subscription is free. One may subscribe by sending an e-mail to : majordomo@muslimsonline.com with "subscribe finance-net" in the body of the message.

Letter to The Editor

Dear Sir,

With reference to a report on Al-Baraka Finance House-Aligarh, published in your Bulletin on January-February 1999, I would like to clarify few of the points which you wrongly mentioned in your report.

1. Al-Baraka India is a fully Indian entity having its branches only in India and totally run by the Indians, while your report says that it is an international Islamic financial institution.
2. The major engagement of Al-Baraka India is in *murabaha* financing where the general rate of profit is 2% per month excluding file charges etc., and in many cases this profit rate crosses even 50%, and with few exception of less than 24% flat. Any company with such a high rate of profit (financing cost) can't claim to be working for the down trodden or weaker section of the society which your report suggests. Moreover, most of the funds deployed in *murabaha* based financing is still not accepted by all the Ulama, while your report claims this to be in full conformity with Shariah.
3. Finally, you have mentioned a scheme "Safe Custody Services". As its name suggests, this is only a facility and cannot be invested in any scheme while your report says otherwise.

Yours

Shariq Nisar
Research Scholar
Department of Economics, A.M.U.

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Implementation and Performance of Interest Free Banking in Pakistan :

by Lobo Isobel

University of Notre Dame, 1998, 330pp.

Interest was eliminated from banking in Pakistan in its attempt to move its economy into conformity with Islamic religious beliefs. Interest-free banking coexisted with traditional banking from 1981 to 1985, and supplanted the latter effective July 1985.

The central bank, the Pakistan Banking Council, and commercial banks implemented and operationalised the new system, which differed in time frame and content from the Council of Islamic Ideology's blueprint. Implementation was gradual to avoid destabilization.

There are few empirical studies of an interest free banking system. This dissertation evaluates the success of interest free banking by examining and comparing the performance of interest free banking in Pakistan in terms of source and uses of funds, profitability, and rates of return on deposits and finance, in the pre-transitional, transitional, two groups the nationalized commercial banks and selected foreign banks. The process of implementing interest-free banking is also examined, and central bank policy is studied. The analysis is placed in a macro-economic perspective of the three periods and the legal framework of money and banking.

The law and practice of interest-free banking are characterized by cautiousness. Mark-up finance was liberally permitted and overwhelmingly adopted: Banking added a buy-back feature that is considered un-Islamic. Their profit and loss sharing finance is insignificant.

The selected foreign banks outperformed the nationalised commercial banks (NCBs). Their deposits grew at rising rates, rates for the interest free period was higher than for the interest based period, and twice the NCBs' higher than for the interest based period, and twice the NCBs' loan growth rate. Their profits increased at several times the growth rate of the NCBs' profits, and they paid mostly higher rates on their PLS deposits. Other indicators of profitability (such as return on assets and equity) were also better for these banks in the interest free period. The NCBs have large loan defaults and high personnel costs relative to deposits, and performed relatively worse in the interest-free period than in the interest based period.

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Call for papers

National Level Seminar on Islamic Economics -
Issues and Challenges

Dates : September 4-5, 1999

Venue : Dawat Nagar, Jamia Nagar, New Delhi.

A few suggested topics :

- * An Appraisal of the Development in Islamic Economics
- * Islamic Banking & Finance System and the Indian Economic Challenges
- * The Muslim Economic Situation : An Islamic Prescription
- * Globalization, Liberalization, Privatization : Credits and Debts

The organisers invite IAFIE's members, academics and finance professionals to attend this stimulating and enlightening seminar which promises to be an invaluable opportunity to interact with the issues related to the theory and practice of Islamic economics and finance.

Last date for submission of papers has been extended to May 31, 1999. The interested scholars are reminded to send their papers.

For any clarification please contact :

Seminar Convener

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