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PERFORMANCE AUDITING FOR ISLAMIC BANKS

There are over one hundred and fifty Islamic financial institutions, handling billions of dollars and employing thousands of persons and providing financial services to Muslims and non-Muslims all over the world. The pace of development of these institutions is commendable. These institutions are busy in innovating new methods of business and experimenting with *shari'ah*-supported financial instruments. Despite that, there is a valid criticism on their current approach of concentrating mainly on those modes of finance which bring them a relatively risk-free fixed return such as *murabahah* and *ijara*. The original thinking that Islamic banking should be based on the concept of profit-loss sharing or *mudarabah* has attracted a very small percentage of the business of the Islamic banks. The Islamic banks feel hesitant to adopt profit-loss sharing as it involves monitoring of the client's performance very closely which is both expensive and cumbersome. They feel that the present state of accounting, integrity and moral training of their clients leaves much to be desired. In these circumstances, they would be invoking a very high risk. As a result, the Islamic banks have devoted most of their attention to those modes of finance, which bring them an assured return. Another criticism on Islamic banks is that they are very much like conventional banks so far as their role in the uplift of the society is concerned. The original rationale of the Islamic banks entailed a very active role for these institutions in promoting equitable distribution of wealth, industrialization, self-reliance and moral values in financial matters. But they have not paid much attention to these higher objectives. Instead they become indifferent to the end-use of funds, once they have provided the finance and remain concerned with their mark-up or return. This makes them very much similar to the conventional banks. The Islamic banks, in their turn content that they do not have enough means to play the proposed higher role. In the absence of sufficient data and analytical tools they are forced to depend on the conventional methods of control and management. The Islamic banks can adopt performance auditing in two areas:

- They can review their own performance against a broader criteria which covers physical, financial, social and *shari'ah* considerations. This will help them improve their efficiency and effectiveness and make them more competitive in the international market.
- They can use this technique to review the performance of their clients with relation to the planned outputs. The Islamic banks need not do this on their own. They can agree with their clients for arranging performance audits at the end of a fiscal period by practicing firms of auditors. Part of the cost of performance audits can also be borne by the investors. The report of auditors can focus on the fact that the client used the finances of the bank with due regard for economy, efficiency and effectiveness. Such an assurance from an independent auditor will be more satisfying to the savers whose funds the banks supplied to the entrepreneurs as well as to the banks themselves whose concern remains supreme about the proper utilization of funds. Performance audit of such business concerns who take money on the basis of profit-loss sharing or *mudarabah* will disclose their diseconomies and inefficiencies. At this stage, it will be possible for the banks to identify cases where the negligence was willful. In such cases, part of the losses can be transferred to such entrepreneurs. An arrangement of this sort will enable the Islamic banks to adopt *musharakah* and *mudarabah* on an increasing scale. This will also scale down criticism on the Islamic banks regarding the choice of the modes of financing.

Muhammad Akram Khan

IAFIE EXECUTIVE MEETS

Aligarh. The IAFIE executive met twice during the month of May 1999. In its first meeting held at the residence of Dr. Valeed Ahmad Ansari, the members congratulated the host for obtaining his Ph.D. degree and on his appointment as a Reader, in the Department of Business Administration, Aligarh Muslim University. The meeting executed the matters of the research scholars at the Department of Economics, A.M.U., Mr. Shariq Nisar and Mr. Abu Shariq to work as the convenor of Delhi Seminar and Joint editor of Bulletin respectively. The committee discussed and approved the proposal of the President of U.P. Rabita committee to hold a seminar on 'Economic Perspective of Zakah' with the collaboration of IAFIE. Dr. Valeed Ansari was assigned to take the task of representing IAFIE in preparing this seminar. It was also decided to hold meeting frequently for consultation and preparation for Delhi seminar.

The second meeting was held on May 25, at the residence of Dr. Javed Ahmad Khan in which follow up report was presented. Dr. Valeed Ahmad Ansari and Mr. Shariq Nisar were assigned to investigate various aspects related to publication of a Souvenir at the occasion of Delhi Seminar. The members were asked to intensify their efforts to make the forthcoming seminar a great success.

IMF and WB Organize an Inter-religious Dialogue

New Delhi. On behalf of International Monetary Fund and World Bank an Inter-religious dialogue was held here on May 5, 1999 to discuss the measures suggested in various religions for elimination of poverty, gender justice and views regarding various factors of production for developing of the economy. Representative of Islam, Buddhism, Christianity, Sikhism, and various Hindu Cults participated in this dialogue. On this occasion, Dr. F.R. Faridi, Dr. A.A. Islahi, Maulana Rafique Ahmad Qasmi and Mr. Mansoor Durrani presented the Islamic views on the issues which were highly appreciated. Swami Agniwaish conducted the meeting.

S.I.O. Organizes Training Camp of Economics Students

New Delhi. The student Islamic Organization of India (S.I.O.) organized here a 5-day training camp of economics students during May 27-31, which was attended by 23 students of economics and allied disciplines from all-over the country. The purpose of the camp was to provide an opportunity to be aware of the Islamic guidance in their discipline so that they are better equipped to serve the humanity. Some important areas concerned in this training camp included the comparative study of various economic systems, economic policies, financial institutions, interest-free banking, development of economics thought, etc. A special session was held on business problems in which Mr. Ahmad Rasheed Sherwani, Mr. Tafsir Ahmed, & Mr. Anjum Kaleem participated in the deliberation. The academic aspects of this camp was guided by Dr. F. R. Faridi, Dr. Abdul Azim Islahi, Mr. Abdul Salam, and Mr. Mansoor Durrani.

In his concluding address, Maulana Muhammad Serajul Hasan, the patron of S.I.O. appreciated the organization of the camp and programme and hoped that the student would work hard to establish the just economic system of Islam. The President of S.I.O., Mr. S. Sadatullah Hussaini also expressed similar ideas. The programme was successfully conducted by Mr. Shamshad Husain Falahi, the organizer of the camp.

Seminar On Awqaf

An International Seminar on "Awqaf Experience in South Asia" was held on May 8-10, at India International Centre, New Delhi. Jointly organized by Islamic Research and Training Institute, Islamic Development Bank, Kuwait Awqaf Public Foundation, Kuwait, and Institute of Objective Studies, New Delhi. Some of the important issues discussed in the seminar were: (1) Waqf in Islamic Jurisprudence, (2) Socio-Economics Role of Awqaf, (3) IDB effort to promotion of Awqaf, (4) Modern Management of Awqaf properties, (5) Awqaf Legislation in South Asia, (6) Awqaf situation in India, Pakistan, Bangladesh, Sri Lanka, Nepal, and Turkey. The inaugural address was read by Prof. Tahir Mahmood, Chairman, National Commission for Minorities, Government of India and the presidential remarks were given by Justice A.M. Ahmadi, former Chief Justice of Supreme Court of India.

Ph.D. Programme in Islamic Management at Islamiyah College, Vaniyambadi

At an impressive function conducted in Allama Iqbal Auditorium of Islamiyah College, Vaniyambadi, Br. Shahid Baqi, Managing Director, Zero-wait Computers Ltd. inaugurated Ph.D. programme in Islamic Business Management recognized by the University of Madras. Dr. Baqi highlighted the areas of researchers in the field of Islamic Business Management. Dr. S. Govindarajula, Head, Department of Commerce, welcomed the gathering. Dr. Ghalib Hussain, research supervisor of the programme explained the concept of Islamic Business Management. Two Ph.D. research scholars have been enrolled for the programme. The function was attended by a galaxy of scholars, mostly non-Muslims and local industrialists, and the programme was presided over by Br. P.Mohammad Yusuf, Managing Director of Telco, Vaniyambadi, Tamil Nadu.

"Credit of Islamic Credit Card" discussed

Under a 'shame Muzakarah' programme organized in the Institute of Objective Studies, Aligarh Chapter, a paper on "Credit of Credit Card in Islamic Financial System" was presented by Mr. Shariq Nisar, a research scholar in the Department of Economics, Aligarh Muslim University on April 19, 1999. Mr. Nisar highlighted the problems and prospects of credit cards in an interest-free Islamic financial system.

Jamaat's Campaign Against Interest

The Kerala zone (India) of Jamaat-e-Islami launched a 45-day successful campaign against interest based economy from April 15 to May 31. For details see the next issue.

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The Devil of Economic Fundamentalism

By Dr. Javed Jamil

Published by : Mission Publications, Qazi Street, Saharanpur - 247001 (U.P.) India. First Edition, January 1999, pp. 240.

If one wants to have a critical study of both the capitalism and the Socialistic economic system, this work would be an ideal one, for there is hardly any negative aspect of these two systems that the author has not touched upon. For this purpose, he has coined a new term of 'Economic Fundamentalism' that concerns with the naked capitalism in the context of contemporary socio-economic development around the globe. Likewise, the proponent of this system, according to author, are the economic fundamentalists - the believers both in capitalism and socialism.

This book in fact takes into account the history of capitalist economy and the author has some pinching comments on theories of capitalism that became popular at the beginning of 18th century. He makes a critical analysis of the issues such as Western rationalism, natural laws, individualism and liberalisation trends. But his basic focus is on the socio-economic development of 20th century Europe. The book provides some intelligent comments on industrial society though without adequate references which is considered to be necessary for any such work. What he tries to show is that under the name of liberalisation and democracy this economic 'fundamentalism' had very adverse impact on the Third World, especially on Muslim countries in the form of mafia, organized crime, of what he calls as "a paralysis of legal system". Further, 'economic fundamentalists' are those forces working against the Islamic believers, Muslim world at large, and effecting their Islamic way of living. His analysis of western economics is examined in the context of an economic system based on human values. He also observes this phenomenon on Indian economic scene, in the form of 'economic fundamentalists' grip on media, gutter journalism, advertising, market, fashion, status, consumerism, sex industry, TV and extending its links as far as to Babri Mosque, Shah Bano, Mandal Commission and the Private Channels. While going through the pages after pages, one finds mainly the negative aspects of capitalist economic development where author explains skillfully as how this 'economic fundamentalism' has distracted the attention of the common people from the real issues.

However, one finds that in his criticism of Western dominated society and economy, the author does not offer any example, incident, or the event for that matter. Moreover, he does not present any statistical figure to put his argument convincingly. He simply feels that Western economics is root of all evils. He is thus a keen observer of the selfish, materialist society, the society which he handles does not believe in 'simple living and high thinking' but the one of high living and little thinking'. Author puts all this blame on the economic fundamentalism, for its rejecting the role of religion, moral values, human conscience in shaping an ideal society. This is a major issue of concern and the author is successful in drawing the reader's attention towards its consequences.

CALL FOR PAPERS

NATIONAL LEVEL SEMINAR ON "ECONOMIC PERSPECTIVE OF ZAKAT"

Dates: November 13-14, 1999

Venue - Administrative Block Aligarh

Muslim University, Aligarh - 202 002

U.P. Rabita Committee, Indian Association for Islamic Economics and Aligarh Zakat Fund are jointly organising a national level seminar on "Economic Perspective of Zakat" at Aligarh during November 13-14, 1999. The scholars are invited to submit abstracts/outlines of their papers under the topics described below by July 31, 1999. The complete paper in English or Urdu must reach by October 15, 1999.

TOPIC

1. Theoretical Issues on Economics of Zakat:

- Zakat and Eradication of Poverty
- Zakat and Social security
- Zakat and Income Distribution
- Effect of Zakat on Aggregate Saving
- Effect of Zakat on Investment.
- Effect of Zakat on Consumption
- Zakat and Allocative Efficiency
- Zakat and Economic Growth
- Zakat and Its Impact on Employment

2. Jurido-Economic Issue of Zakat:

- Zakat and Its Heads of Expenditure.
- Nisab and Rates of Zakat.
- Coverage of Zakat.
- Conditions of Growth.
- Conditions of Tamlik.
- Individual or collective Zakah Administration.
- Centralized or Decentralized Zakat system.
- Innovation in Zakat Administration.
- Zakat Accounting and Calculations.
- Storage and Transportation of Zakat Proceeds.

3. Case Studies

- Aligarh Zakat Fund, Aligarh
- AICMEU's Baital Zakat, Bombay
- MESCO, Baitunnasr, Bombay
- Zakat Foundation of India, New Delhi
- Islamic Welfare Society, Bhatkal
- Collective Zakat Administration in various cities like, Bangalore, Lucknow, Chennai, Hyderabad and by various organizations like Jammah-e-Islami, Tablighi Jamat, Jamiatul Ulama etc.

IMPORTANT NOTE

Authors of accepted papers will be offered round trip sleeper class rail ticket to Aligarh, and boarding lodging for the seminar period. Other participants will be charged the registration fees according to the following:

Students Rs. 100/-, Non Student Rs. 200/-.

DATES TO WATCH:

Submission of abstract : July 31, 1999

Submission of paper : Oct. 15, 1999

Seminar Duration : Nov. 13-14, 1999

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Shariq Nisar's Tour of Metropolitan Cities

In order to release a souvenir on the occasion of IAFIE's seminar on "Islamic Economics: Issues and challenges", scheduled to be held on September 4-5, 1999, Mr. Shariq Nisar, the Convener of Delhi seminar is making a visit to some prominent scholars and Muslim entrepreneurs in the metropolitan cities like Delhi, Mumbai, Bangalore and Chennai, in the first week of July 1999. He will seek their co-operation to make this seminar a success.

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