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Zakah; Cleansing Your Assets

Cleansing one's assets is not yet known in the conventional financial planning. For the conventional concerns more with wealth creation, wealth accumulation, wealth protection, and wealth distribution. Wealth purification or cleansing assets is very fundamental concept in Islamic financial planning. In Islam, in fact, it has been acquired in various forms and occasion. Qur'an as primary source of Islamic way of life (shari'ah) states "*Of their goods, take alms, that so thou mightiest purify and sanctify them; and pray on their behalf. Verily thy prayers are a source of security for them; and God is One Who Heareth and knoweth*" (Qur'an 9:103).

First and foremost, the assets purification is through alms giving. In Arabic, it is called as Zakat or Sadaqa. Zakat means clean or purify. It purifies our wealth from the evil of this world and protects our soul from miserliness, selfishness and greed. It also cleans poverty in the society. Zakat also means growth. Thus who pays zakat, his wealth will grow. As Allah says "*The parable of those who spend their substances in the way of God is that of grain of corn: it groweth seven ears, and each ear hath a hundred grains. God giveth manifold increase to whom He pleaseth: and God careth for all and He knoweth all things*" (Qur'an 2:261).

In religious terminology of Islam two more terms also occur for zakat. They are alms (*sadaqa*) and spending in the name of Allah (*infaq fi Sabilillah*). The term of *Sadaqa* comes from the word (*sidq*), which means righteousness and sincerity in the giver, but also proves that he has these virtues in him. Similarly, *Infaq fi Sabilillah* means spending in the service of Allah. The ultimate objective of zakat is to win God's pleasure. Zakat has been called spending in the name of God as it is indicative of its real spirit.

So far as the Qur'an is concerned it uses all the three words in the same sense and connotation. Whatever is spent to please God is *Zakat* (poor due), *Sadaqa* (almsgiving), and *Infaq fi sabilillah* (expenditure in the service of God) at the same time. It is immaterial whether this expenditure relates to the legal tax (zakat) or voluntary alms. None of the words is meant to denote specific meaning of legal or voluntary alms and can be used alternately. It is for obvious reason that the attention of the Qur'an and sunnah is focused on the real objective and purpose and not on the legal aspects of the matter they are dealing with.

In Islamic jurisprudence *zakat* is the expenditure that is legal and compulsory while the terms almsgiving (*sadaqa*) and spending in the service of God (*infaq fi sabilillah*) are used exclusively for voluntary alms. As jurisprudence is another name for law such differentiation of the terms was but necessary for its own purpose. The case of the Qur'an and sunnah is very much different from jurisprudence and they have considered any discrimination in these terms unnecessary.

If we trash history back, zakat is not only the commandment of God to the last prophet and his followers but it was also enforced to all people before us. Ibrahim, Ismail and their followers were asked to perform the alms. God says: "*And We made them leaders, guiding (men) by our command, and We sent them revelation to do good deeds, to establish regular prayer, and to pay poor due*" (Qur'an 21:73). Ismail obeyed the command of his Lord and enjoined prayer and poor due payment on his people: "*He used to enjoin on his people prayer and poor due, and he was most acceptable in the sight of his Lord*" (Qur'an 19:55). The people of Israel were also commanded to observe the same principle: "*And be steadfast in prayer, give regular poor due, and bow down your heads with those who bow down in worship*" (Qur'an 2:43). When Prophet Musa went with seventy men to meet his Lord, he was told: "*That I shall ordain mercy for those who do right, and give regular poor due, and those who believe in Our Signs*" (Qur'an 7:156). Prophet Isa, who was a faithful servant of his Lord, received a similar commandment: "*And Allah has enjoined on me prayer and poor due as long as I live*" (Qur'an 19:31).

(L. Yulyadi Arnakim; http://islamic-world.net/economics/cleansing_your_asset.htm)

CALL FOR PAPERS

Second International Conference on Islamic Banking: Risk Management, Regulation and Supervision

The Bank Negara Malaysia, the Islamic Development Bank, Islamic Research and Training Institute, Jeddah and the Islamic Financial Services Board, Kuala Lumpur are jointly organizing the Second International Conference on Islamic Banking: Risk Management, Regulation and Supervision, to be held in Kuala Lumpur, during 7 – 8 February 2006.

Financial and banking stability has important implications for sustainable economic growth. The Islamic financial paradigm contains inherent features, which can simultaneously enhance financial stability and growth. But Islamic banking also has unique systemic risk characteristics. Hence by combining the premise of Islamic finance with the implementation of internationally accepted standards of best practices, a more efficient and stable financial system could be established. As Islamic banking is expanding fast in several countries, the systemic importance of Islamic banking for the stability of national, regional and global financial system is also increasing fast. Therefore, the objectives of the conference include: Taking stock of the relevance of Islamic banking for financial and banking stability, studying the unique risks of Islamic banking and facilitating the development of risk management culture in the Islamic banks by prudential regulation and effective supervision.

Empirical as well as theoretical papers are invited in the following and related areas:

FINANCIAL STABILITY; Factors effecting financial stability, role of paradigm and support institutions in ensuring financial stability, empirical works on the stability of Islamic banks vis-à-vis traditional banks during financial distress, Southeast Asian financial crisis and relative performance of Islamic financial institutions, early warning systems such as the balance-sheet approach and their suitability for emerging economies

ISLAMIC FINANCIAL ARCHITECTURE; An in-depth analysis of the challenges facing the infrastructure institutions of the Islamic finance industry (Shari'ah Supervisory Boards, Accounting and Auditing Organization for Islamic Financial Institutions, Islamic Financial Services Board, International Islamic Rating Agency, International Islamic Financial Market), interaction with the international financial architecture,

COMPARATIVE BANKING SYSTEMS; Comparing the paradigms of universal banking, Islamic banking and traditional banking and its implications for leveled playing field, cross-sector consolidation of activities and cross-sector risk transmission, implications for banking supervision,

UNIQUE RISKS OF ISLAMIC MODES OF FINANCE; Systemic risks, credit risks, market risks, fiduciary risks, liquidity risks etc., particularly stemming from the unique asset and liability structures of Islamic banks due to Shari'ah compliance, perception of banks and regulators regarding these risks, financial risks underlying Sukuk structures,

RISK MANAGEMENT INSTRUMENTS AND SYSTEMS; Case studies from Islamic banks, theoretical studies of risk management instruments and systems (risk reporting, internal rating systems, market and credit VaR, RAROC, collateral, loan loss provisioning, swaps and futures, credit derivatives, contractual risk mitigation etc),

UNRESOLVED FIQHI ISSUES IN ISLAMIC BANKING AND FINANCE; Fiqh appraisal of risk management instruments and developing alternatives or adapting instruments, treatment of defaults, operating vis-à-vis financial leases, asset securitization, importance of managing bank capital and its implications for business risk etc,

BASEL II AND ITS IMPLICATIONS FOR ISLAMIC BANKS; Capital requirements, credit risk weighting of assets (standardized and internal rating based approaches), treatment of leases, micro finance, project finance, operational risks, market risks, securitization and Islamic banking and market disciplines, and implications of supervisory review process,

CASE STUDIES IN REGULATION AND SUPERVISION OF ISLAMIC BANKS; Application of supervisory risk assessment tools (CAMELS etc), risk weighting of assets of Islamic banks, treatment of investment and current accounts, sources of capital, disclosure and transparency requirements, applications of international standards, financial reporting and disclosures, compliance with Core Principles etc, comparatives systems of effective Islamic banking supervision,

FINANCIAL INFRASTRUCTURES AND SUPPORT INSTITUTIONS; deposit insurance, legal framework, market microstructures, LLR facilities etc for strengthening the Islamic financial institutions.

All submissions shall preferably be electronic and in MS Word format. Submissions should be original contributions and will go through a rigorous evaluation process. Most selected papers will be revised. Selected papers will be the copyright of the conference organizers. One author of each selected paper will be provided by IRTI an economy class return ticket from his work place to Kuala Lumpur for paper presentation and local hospitality in Kuala Lumpur for the period of the conference.

Dates to watch:

Submission of Abstracts: May 15, 2005

Submission of Papers November 31, 2005

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Dr Mahmoud El Gamal To Advise US Treasury

The United States Treasury has appointed a leading participant in the International Islamic Finance Forum as its first scholar-in-residence on Islamic finance in a bid to boost US government understanding of the world's fastest growing finance sector. Dr Mahmoud El Gamal, an economics professor at Rice University in Texas, will serve as principal adviser to senior Treasury officials and liaise with international groups seeking to monitor and create standards for Islamic finance.

New Books and Articles

Books

1. AHMAD, Habib, *Role of Zakah and Awqaf in Poverty Alleviation* (Occasional Paper No.8), Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank,, 2004, 150pp.
2. HENRY, Clement M. and WILSON, Rodney, *The Politics of Islamic Finance*, New York: Edinburgh University Press, 2004, 284pp.
3. AHMAD, Habib, *Role of Zakah and Awqaf in Poverty Alleviation* (Occasional Paper No. 8), Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2004, 150pp.
4. ELIHIRIAGA, Adam B., *On the Design and Effects of Monetary Policy in an Islamic Framework: The Experience of Sudan* (Research Paper No. 64), Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2004, 54pp.
5. IQBAL, Munawar, and KHAN, Tariqullah, *Financing Public Expenditure: An Islamic Perspective* (Occasional Paper No.7), Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2004, 114pp.

Articles

1. AKHTAR, M. Ramazan, (Review Article), Munawar Iqbal (ed.), *Islamic Economic Institutions and the Elimination of Poverty* In: *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.11, No.2, 2004, pp. 87-92.
2. ALIZADEH, Parvin and HARPER, Barry, 'The Feminization of the Labour Force in Iran', In: A. Mohammadi (ed.), *Islam Encountering Globalization: Problems and Prospects*, London: Routledge Curzon, 2003, pp.180-96.
3. ALSHECH, Eli, 'Islamic Law, Practice and Legal Doctrine: Exempting the Poor from the Jizya Under the Ayyubis (1171-1250). *Islamic Law and Society* (Leoden, The Netherlands), Vol.10, No.3 2003, pp.348-75.
4. CHAPRA, M. Umer, (Comment) 'Stakeholders Model of Governance in Islamic Economic System', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.11, No.2, 2004, pp. 65-70.
5. DEURASEU, Nurdeen, 'Ihya al-Mawat (The Revival of the Dead Land) According to Islamic Law', *Islamic Culture* (Hyderabad, India), Vol.78, No.1, 2004, pp.91-103.
6. GARCIA, Valeriano, CIBILS, Vfretrs and MAINO, Rodolfo, 'Remedy for Banking Crisis: What Chicago and Islam Have in Common?' *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.11, No.2, 2004, pp.1-22.
7. HUSSEIN, Khalid, 'Ethical Investment: Empirical Evidence from FTSE Islamic Index', *Islamic Economic Studies* (Jeddah, Saudi Arabia), Vol.12, No.1, August 2004, pp.21-40.

Book Review

Islamic Financial Markets: Towards Greater Ethics & Efficiency

Author: Mohammad Obaidullah

Publisher: Institute of Objective Studies, 2004, pp. 215, Price Rs.200/-

From the 1990s onward, the shape of Islamic economics can be seen in the growth of equity-based Islamic financial market which is expanding rapidly in Muslim countries and also attracting the conventional financial institutions worldwide. The financial liberalization at the global level has provided further boost to Islamic equity funds, mutual funds industry whose business are accelerating in billions dollar. This has resulted into the creation of secondary market for Islamic investments that are screened by the international rating agencies.

However, the important aspect of this development is the academic involvement, where researchers and economists are presently engaged in innovating Islamic modes of finance in order to expand the greater investment opportunities in shariah compliant products. In this context, they are looking heavily on the conventional products that can be adapted to suit the Islamic investment.

Although Islamic capital market is evolving and changing Islamic transactions, structure and solutions are in the pipeline, it however still suffers from dearth of sophisticated corporate finance products. Dr. Obaidullah's book in this context is one of the earliest one and a very timely contribution on the theoretical aspects of Islamic finance. He has discussed at length on the norms of Islamic financial ethics and argued convincingly as how it can be more efficient compared to interest-based financial system prevalent worldwide but is inherently destabilizing.

Having his expertise in stock market, Dr. Obaidullah focuses more authoritatively on the equity market and its scope. His analysis of Islamic debt & money market provide insight on the Islamic modes of finance such as *bai bithaman, ijarah, bai-salam, bai-istisna, qard-hasan* which the author has discussed after having close contact with the Islamic finance professional, scholars and jurists. He is more accurate yet precise in analyzing the Islamic modes of finance and his deliberations on risk managements in an Islamic framework are much appealing and invites researches to explore the challenging issues facing the Islamic financing market.

Finally, the last chapter provide the analysis of foreign exchange market in an Islamic framework and focus on the Islamic system for currency exchange, the implicitly of alternative contractual mechanisms in the currency markets in the light of Islamic norms of ethics, such as prohibition of *riba, gharar and maysir*, taking into account the arguments in support and against the permissibility of some basic contracts involving currencies.

Islamic Financial Market thus a valuable book for those eager to understand the theoretical framework of the Islamic market, providing the details of ethical forms of Islamic modes of finance, its efficiency level as compare to the conventional financial market.

Stock Market a Growing Opportunity for Muslim Investors in India

With the expansion of Islamic finance at the global level, muslim investors in India are now eager to adopt their business and finance according to shariah principles. A number of Islamic investment companies are now wooing investors and are in the process of joint-ventures with similar institutions operating at the international market. Here, Mr. Ashraf Abdul-Haq Mohamedy, a young entrepreneur, managing Idafa Investments Pvt. Ltd, a stock broking firm affiliated with the Bombay Stock Exchange and National Stock Exchange, talks about the opportunities for muslim investors in India's capital markets. This interview was conducted by Irfan Shahid, a Mumbai based free lance journalist. (Editor)

What Idafa is all about?

Idafa (izaafaa) means increase by doubling or multiplying. As the name suggests, at Idafa Investments Pvt. Ltd. we guide people to wealth creation opportunities according to the Shariah way.

Share market is alleged to be a place where all kinds of un-islamic activities such as gambling and speculating etc take place. How do you avoid all these things?

I agree with you that speculation is a part and parcel of stock exchanges today. That is where Idafa plays a very important role. We educate our clients about the difference between an Investor and a Speculator.

An investor buys businesses on the stock exchange and generally takes a long term view on his investments whereas a speculator buys and sells "stock symbols" and would know nothing about the company's business performance. The primary requirement of an investor according to Shariah is that he invests to become a partner (shareek) in the company and a Partnership cannot be a morning to evening affair like day trading.

What is the modus operandi of Idafa?

Essentially we guide people to invest in Equity Shares of Companies involved in Halal Activities. So we screen companies sector wise and reject all companies dealing in Riba (Banking & Finance Companies), Alcohol, Gambling, Entertainment, Tobacco, etc. Moreover we apply certain financial parameters to check the financial health of the company and advice investors to put their money there.

We also promote a MF Scheme promoted by Tata Mutual Fund called the Tata Select Equity Fund, which is the only fund in India which works according to the abovementioned Shariah requirements.

In recent years many Islamic finance companies have miserably failed. Do you think in such an environment you will be able to win the trust of people?

In our line of business, people's trust could be won or lost in correlation to the movement of market indices. Today the investor trust is very high as the sensdex has crossed 6500 points and everything you touch turns into gold! That may not be the case two years from now.

That is essentially why we educate people about the nature of Equity Investments and inform them of the risks involved. The thumb rule, we inform our clients, is that only surplus money can be invested and that it is unthinkable to invest borrowed funds in equity shares. Before investing, a person has to take a fundamental view of the companies he is buying into.

Many people are eager for an Islamic investment option. Do you have any expansion plans?

Equity is an excellent form of investment available to Muslims. What could be better with dividends being Tax Free, no long term capital gains tax and only 10% in tax for short term capital gains. We would like to take this idea to as many people as possible and appoint representatives all over India to make this option available to muslims. We solicit enquiries from finance professionals who are interested in working on these lines.

We are also in the process of upgrading our website www.idafa.com to become a source of valuable information on Islamic Financial Sector, which happens to be one of the fastest growing industries globally. Going forward we will play an important role in offering Islamic Banking and Insurance products in India. Insha-Allah.

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