

SEMINARS, CONFERENCES, SYMPOSIA

**The Third International Conference
on Islamic Economics
Putra World Trade Centre, Kuala Lumpur, Malaysia
Rajab 23-25, 1412 (January 28-30, 1992)**

**Theme: FINANCING DEVELOPMENT FROM
THE ISLAMIC PERSPECTIVE**

The First International Conference on Islamic Economics, held in Mecca during February 1976, gave formal recognition to scholarly works expounding economic aspects in Islam under the rubric of 'Islamic Economics'. Since then economists, *shari'ah* scholars, and students of economics and banking have shown a great deal of interest in Islamic economics. The Second International Conference on Islamic Economics was held in Islamabad in March 1983, and the Third, the latest in the series, was held recently in Kuala Lumpur on 28-30 January, 1992 under the auspices of the International Islamic University (IIU), Malaysia, in collaboration with the Islamic Development Bank (IDB) and the International Association of Islamic Economics (IAIE). The theme of the conference was 'Financing development from the Islamic Perspective'.

Delegates for the conference, comprising eminent Islamic economists, *shari'ah* scholars and Islamic bankers, came from nineteen countries including Algeria, Bangladesh, Canada, Egypt, England, India, Indonesia, Iran, Jordan, Malaysia, Morocco, Pakistan, Saudi Arabia, the Sudan, Syria, Turkey, the United Arab Emirates, the United States of America, and Yemen.

In his welcome address, Dr AbdulHamid Ahmad AbuSulayman, Rector, International Islamic University, Malaysia, stressed that Islam provides an alternative economic system to the Western model and the reformed Western model, Marxism, which has collapsed.

The conference was inaugurated by Dato' Seri Anwar Ibrahim, Finance Minister, and concluded by Dato' Amar Dr. Sulaiman Hj. Daud, Education Minister. While recognizing the importance of implementing Islamic principles in areas like trade and finance, Dato' Sri Anwar Ibrahim felt that efforts to promote growth and generate wealth are more pressing. He

stressed the need for generating wealth for poverty eradication, which is a pivotal concern of Islamic economics.

Dato' Amar Dr. Sulaiman Hj. Daud stressed that institutions of higher learning should develop rigorous and meaningful analytical tools comparable with the Western models, without compromising the basic values of the Islamic economic system. He also urged Muslim countries to coordinate their economic policies and close ranks in the spirit of Muslim unity and universal brotherhood.

Professor Khurshid Ahmad, Faisal Laureate, delivered the keynote address. After discussing the development experiences of the last four decades, he stressed the need to revise the entire approach to development. The new development approach must be interdisciplinary, wherein ethical and moral aspects are well integrated based on a balanced role of state, and replacement of the debt financing by the profit sharing and risk sharing methods of finance.

Sixteen papers were presented in the conference. Aynul Hasan of Acadia University, Canada, presented a paper entitled, 'Is Equity-Financed Budget Deficit Stable in an Interest-Free Economy?' The stability of an interest-free system, wherein budget deficits are equity financed, was demonstrated in a fixed-price, closed-economy, macroeconomic model.

M. Fahim Khan of the Islamic Research and Training Institute (IRTI), IDB, presented 'A Simple Model of Income Determination: Growth and Economic Development on the Prospects of an Interest-Free Economy'. Using a simple IS-LM model, he concluded that an Islamic financial system would generate a macro framework that would lead the economy to full employment and, thereafter, toward further growth and development.

In his paper on 'Public Borrowing in Early Islamic History: A Review of the Records', Faisal Laureate, M. Nejatullah Siddiqi of the CRIE, reported seven cases of public borrowing by the Prophet (SAAS) and nine cases of public borrowing during the Abbasid caliphs. Interestingly, there was no public borrowing during the period of Khulafa Rashdun and the Ummayyad rule while the Abbasid borrowed even on interest.

Anas Zarqa of the Centre for Research in Islamic Economics (CRIE), King Abdul Aziz University, presented a paper on 'Shari'ah Compatible Shares: A Suggested Formula and Rationale'. Anas Zarqa has proposed Islamic preference shares relying on the fiqh provisions that allow 1) profit-sharing ratios to be different from the capital participation ratios; and 2) variable profit-sharing ratios linked with the level of realized profits.

Hatem El-Karanshawi of Al-Azhar University and the American University in Cairo presented a paper on 'Financing Economic Development from an Islamic Perspective'. The study delineated a framework for

channelling from the surplus Muslim countries funds, presently used in the international markets, to the deficit Muslim countries, using Islamic principles of finance. It was argued that adherence to Islamic development concepts, financial instruments and market principles would wipe out the structural discrepancies and reduce the absolute size of the financial gap among the Muslim countries.

Mohammad Akram Khan, Director General, Auditor General Department, Lahore, presented his paper on 'Long Term Finance in Islamic Countries: A Case Study of Pakistan'. He examined the Islamicity of long-term financial instruments applied in Pakistan, and suggested measures to render them compatible with Islamic financial norms.

Rodney Wilson of the University of Durham, England, in his paper on the 'Role of Equity Participation in Financing Economic Development', applauded equity financing conducted in a very moral manner under the principles of risk sharing and cooperation through participation. Equity financing is certainly preferable compared with debt financing, wherein conflict of interest often exists between the borrowers and the lenders. But, it was pointed out, the equity markets are also notorious for morally objectionable dealings, like speculation.

In his paper on the 'Role of Finance in Development: The Ottoman Experience', Ahmet Tabakoglu of the Economic Research Centre for Middle East and Islamic Countries, Marmara University, concluded that the Ottoman state between 11th and 15th centuries was founded on the principle of justice wherein the economic behaviour of Muslims was altruistic, the economy was supply-oriented, and state expenditures were adjusted to available revenues, aiming at the achievement of social welfare.

John R. Presley of Loughborough University of Technology, in his paper on 'Financing Economic Development in Islamic Economics: Attitudes towards Islamic Finance in Small Manufacturing Businesses in Saudi Arabia', presented the results of a survey conducted on the attitudes of business concerns towards Islamic financial instruments, particularly *musharakah* and *mudharabah*.

Munawar Iqbal, Secretary General of the IAIE presented a paper on 'The Causes of Fiscal Problems in Muslim Countries and Some Suggestions for Reform'. Drawing on the experience of Pakistan, the economic misery and growing budget deficits prevailing in Muslim countries were highlighted and structural changes in both the expenditure and revenue sides of the government budget were proposed to rectify the situation.

Zubair Hasan and Muhammad Arif, both from the IIU, presented a joint paper on the 'Basic Needs Fulfilment Guarantee in Islam and a Measure of its Financial Dimension in Selected Countries'. They favoured

measuring Basic Need Fulfilment in relative, rather than absolute, terms for making intertemporal and international comparisons.

Iraj Toutouchian of the Az-Zahara University, Tehran, presented a paper on 'Some Considerations on the size of the Public Sector in the Islamic Republic of Iran'. He demonstrated that the economic responsibilities of the government under the new Iranian constitution, as reflected in the general format and objectives of the economic system, comprising private, cooperative and public sectors, have certainly increased. The post revolution economic activities were reviewed to gauge their conformity with the new constitution.

The paper on 'Provision of Public Goods: The Role of the Voluntary (Waqf) Sector in Islamic History' by Abdul Azim Islahi of Aligarh University, was read by Abidin Salamah of the Sudanese Estate Bank, Khartoum. The paper contained an historical account of motives, purposes, kinds of waqf properties, management, supervision, problems, and regulation aspects of the waqf.

I.O. Taiwo of Ilorin University, Nigeria, in his paper on 'Efficiency of the Islamic Approach in External Debt-Management in North Africa and MiddleEast' applied an econometric model to analyse the roles of the terms of trade, cost of borrowing, debt maturity, the level of economic development and the degree of openness of the economy. Adoption of the Islamic approach for development was emphasised.

A paper on the 'Role of the Cash Waqfs (*Awqaf al-Nuqud*) for Modern Islamic Economies' was presented by Murat Cizacka of the Faculty of Economics and Administrative Sciences, Bogazici University, Istanbul. The study comprised a detailed statistical account of cash *waqfs* which numbered 1139 during 1520-1546 but declined to 527 by 1578-1596, despite the addition of 213 new *waqfs* during the same period. The causes of their disappearance were identified and it was recommended that cash *waqfs* be combined with venture capital in order to guarantee their permanency.

'The Survival and Development Strategies of the Minority of Nubian Muslims in Nairobi' by Mohammed S. Mukras of the University of Nairobi, Kenya, was read by Tahir Beg of the IIU. The paper, an econometric study of the socioeconomic characteristics of Nubian Muslims, stressed that, in order to increase in-house transfers for improving the well-being of the Nubian community, there is a need to strengthen its commitment to Islam, improve education, and gain access to the labour and capital markets.

Other important events that took place during the Third International Conference on Islamic Economics included two public lectures, three workshops, and three panel discussions. The public lectures on 'Islam and the International Debt Problem' and 'The Islamization of Economics' were delivered, respectively, by 'Umar Chapra and M. Nejatullah Siddiqi. The

workshops were conducted on 'Government Financing: Islamically Compatible Modes other than Taxation and Printing Money', 'An Interdisciplinary Approach to Comprehensive Development', and 'Financing Grass-Roots Level Development'.

The panel discussions were organized on 'The Development Experience of Muslim Countries', 'Development Financing: Experience of Islamic Financial Institutions', and '15 Years of Islamic Economics'. During the panel discussions Tan Sri Jaffar Hussein, Governor of the Central Bank of Malaysia, emphasised that Muslim countries which are now at the lower end of development and socioeconomic justice could change the situation for the better if they are united, committed and creative. He called on Islamic banks to mobilise funds effectively to stem the outflow of funds from Muslim to non-Muslim countries. He stressed the need to promote development financing for the production of goods for exports, as many Muslim countries are suffering from large deficits in their balance of payments, which made it difficult for them to finance their development plans. He also proposed that the institution of *zakah* be developed into an important tool for development financing among Muslim countries.

Ismail Muhd. Salleh of the Institute of Strategic International studies, Malaysia, reviewed the development experience of Malaysia during the last thirty years. He attributed the country's successful development to the government's pragmatic policies, which included a very high level of forced savings; restructuring the economy; prudent regulatory, fiscal, and monetary policies; and concentration on the building of physical and human infrastructure for the growth of manufacturing industries. All this had to be done at the expense of short term popularity, though.

This occasion was also utilised by the International Association of Islamic Economics to conduct its annual business, while the 'Meeting of the Coordination Committee of the Heads of Institutions involved in Teaching and Research in Islamic Economics' discussed the progress and plans of the participating institutions towards the promotion of Islamic economics.

Resolutions passed at the conference emphasized development efforts based on freedom, stability and justice, to help the 'majority of one billion Muslims (living) in a state of poverty, illiteracy and suffering which is destructive to Islamic living', even though Muslim countries are endowed with plenty of human and natural resources representing the potential needed for development. Toward this end, Muslim economists, *shari'ah* scholars, and other professionals were called upon to improve their work environment on the basis of *shura*. Governors of the Central banks in the Muslim world were called upon to promote and strengthen Islamic finance. Muslim

countries were called upon to use Islamic modes of financing in place of *riba*-based financing. The conference urged that the implementation of *zakah* be coordinated with other financing measures in order to achieve the socioeconomic goals of Islam.

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