



“Do not devour one another’s property wrongfully, nor throw it before the judges in order to devour a portion of other’s property sinfully and knowingly”.
[Al-Baqarah: 188]



Prophet Muhammad (pbuh) has said that “The swearing (by the seller) may persuade the buyer to purchase the goods, but that will be deprived of Allah’s blessing.” (Sahih Bukhari, Book 34 on Sale and Trade, Hadith Number 40).

Inside This Issue

❖ Research Note	1
❖ Interview	4
❖ Book Review	9
❖ Research Paper in Focus	11
❖ Reflections	12
❖ Industry Insights	13
❖ Market News	15
❖ Economic Indicators	17
❖ Call for Papers	22

“There are small matters which are common to all members of the human race regardless of their faith and views. These common matters must be treated as value-neutral. Consequently, many of the minute instruments and premises of analysis fall in the latter category and should be considered value neutral for all practical analyses.”

Prof. Monzer Kahf (1996; Demand Side or Consumer Behaviour)

Research Note

Limitations of Methodological Framework of Economics

Salman Ahmed Shaikh

Mathematical tractability has restricted economic analysis of consumer behavior within a confined boundary of certain axioms. Often, these axioms are found to be empirically false. Even more importantly, these axioms and the analytical framework based on them are incapable of explaining economic choices in environment goods, public goods and social sphere. Studies in behavioral finance have also documented information processing incapacities and biases that challenge some of the rationality assumptions.

In traditional mainstream neoclassical consumer theory, the consumer is supposed to maximize a utility function subject to some budget constraint. To conduct maximization analysis, certain axioms are imposed on the consumer choice set that enable mathematical tractability and optimization analysis. These axioms can be summarized into the following: completeness, transitivity, invariance of preferences, convexity, continuity of the utility function and monotonicity or local non-satiation.

Apart from Economics, other social sciences are not always thrilled to restrict consumer behavior analysis within such a framework which is only used for mathematical tractability in economics. Some economists defend the neoclassical methods for analyzing consumer behavior by arguing that the false assumptions are not potent reasons to abandon the mainstream methods and analysis. It is the empirical validity of predictions with observed behavior which gives the mainstream tools and methodology ‘credibility’ and wide ‘acceptability’.

However, some opine that if consumer behavior does not conform to the set of axioms adopted in neoclassical theory, then one cannot make the leap from maximizing utility to constructing welfare measures of consumer surplus using Hicksian or Marshallian demand curves.

Nobel laureate Richard Thaler explains that since mainstream consumer behavior theory is based on a rational maximizing model, it describes how consumers should choose given the model and its assumptions; however, not necessarily describing how they do choose. Mainstream consumer behavior theory is normatively based and it only claims that it is also a descriptive theory.

But, in many cases, the mainstream consumer theory fails to predict the economic choices either because of rigid axioms or simplistic preference structure.

Another Nobel Laureate Amartya Sen explaining the shortcomings in the

structure in neoclassical approach comments as follows:

“A person is given one preference ordering, and as and when the need arises this is supposed to reflect his interests, represent his welfare, summarize his idea of what should be done, and describe his actual choices and behavior. Can one preference ordering do all these things? A person thus described may be “rational” in the limited sense of revealing no inconsistencies in his choice behavior, but if he has no use for these distinctions between quite different concepts, he must be a bit of a fool.”

Some economists correctly argue that monotonicity axiom is irrelevant in environment goods where the balance and coherence matters more than abundance. Health goods also require a balance for their effectiveness. Same is true when consumption is analyzed with respect to health effects. Moreover, just like the consumer choice implicitly maintains or should maintain a balance with regards to health effects of consumption, the mainstream consumer theory will be much better off by giving due importance to the balance with regards to ecology, biodiversity and intergenerational equity. This may require incorporating the attribute of ‘commitment’ in consumer theory, as emphasized by Amartya Sen.

Using an example from social choice, Amartya Sen states that even when individual voters have limited probability of affecting actions and

when the costs of casting votes could be substantial in particular circumstances, people still take the pain to cast votes to document their true preferences. Prof. Amartya Sen argues that if this desire reflects a sense of commitment, then the behavior in question would be at variance with the view of man in traditional economic theory.

Furthermore, 'Ultimatum Game' reflects the fact that people tend to look at their choice outcomes relatively. Prisoner's Dilemma highlights the fact that choices by each player in a self-centric way are not necessarily going to be best for them either individually or collectively.

On the other hand, there is another critique on the rational consumer theory that it is overly optimistic about the information processing capability of the consumer, as argued by Herbert Simon. He wrote:

"The capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behavior in the real world – or even for a reasonable approximation to such objective rationality."

Furthermore, recent evidence in behavioral finance and consumer psychology points to the fact that consumer information processing capabilities are limited and prone to error. Alias paradox (1953) and Ellsberg paradox (1961) are good examples of this phenomenon.

References

Sen, Amartya K. (1977), "A Critique of the Behavioral Foundations of Economic Theory", *Philosophy and Public Affairs*, 6(4), pp. 317 - 344.

Simon, Herbert (1957), "Models of Man", Wiley: New York

Thaler, Richard (1980), "Toward a Positive Theory of Consumer Choice", *Journal of Economic Behavior and Organization*, 1, pp. 39 - 60.

Allais, M. (1953), "Le comportement de l'homme rationnel devant le risque: critique des postulats et axiomes de l'école Américaine". *Econometrica*, 21 (4), pp. 503 - 546.

Ellsberg, Daniel (1961), "Risk, Ambiguity, and the Savage Axioms", *Quarterly Journal of Economics*, 75 (4), pp. 643-669.

In Conversation with Thought Leaders in Islamic Economics

Prof. Muhammad Kabir Hassan is a Professor of Finance in the Department of Economics and Finance in the University of New Orleans. He currently holds three endowed positions of Chairs-Hibernia Professor of Economics and Finance, Hancock Whitney Chair Professor in Business, and Bank One Professor in Business in the University of New Orleans. Professor Hassan is the winner of the 2016 Islamic Development Bank (IDB) Prize in Islamic Banking and Finance. Professor Hassan has done consulting work for the World Bank, International Monetary Fund, African Development Bank, Transparency International-Bangladesh (TIB), Islamic Development Bank, United Nations Development Program (UNDP), Government of Turkey and many private organizations. Professor Hassan has over 350 papers published as book chapters and in refereed academic journals. For his outstanding research and scholarly work, Prof. Dr. Hassan has been recognized with Lifetime Achievement Award by UNO Research Council in 2019. We got an opportunity to get his insights on Islamic economics and finance and hope that these insights will introduce new ways of thinking for young economists and social scientists aspiring to contribute in this field.



Q1: Your educational background in USA was in Economics and Finance. What made you interested in Islamic economics and Finance?

I have not graduated from a religious school. But, as a Muslim, I got basic education about Islam in my native country, Bangladesh. I migrated to USA at young age and completed my university education over here. I got education in both economics and finance. But, my interest was more in economics as it is a mother of all social sciences and finance is only a part of it.

I had this feeling that there should be a connection and bridge between secular and spiritual or faith based approach to looking at economics and economic issues. Living early years of my life in a Muslim majority country like Bangladesh and then having migrated to USA, I got exposure to different cultures and ways of looking at things.

One of the first books that I read in Islamic economics and finance literature was by Prof. Abdul Mannan, who was one of the pioneer scholars in the field from Bangladesh. I also got the chance to interact with Prof. Dr. Masudul Alam Chowdhury, who encouraged me to present a paper in Penang, Malaysia in one of the conferences.

I was open to diverse readings. In fact, one of the serious readings that got me interested in Islamic finance was by Mervyn Lewis. So, I had a general interest in economics and finance and had an early exposure to research literature in Islamic economics and finance. When I joined University of New Orleans, fortunately, there was no restriction on what research interests you may pursue. So, despite of the fact that in my university of employment, there is no program on Islamic

economics and finance, I was able to pursue my research interest in Islamic economics and finance without any hindrance.

Q2: After four and half decades of research in Islamic economics and Finance since mid-70s, what are the key success stories and outstanding issues which need attention of current breed of researchers?

Islamic economics has prescriptive focus and a normative vision based on Islamic worldview. Just like economics started with a political economy orientation, Islamic economics also blends philosophy, culture, institutions and issues of morality, justice, fairness and development.

Among the success stories, we can say that we have articulated our vision well and are able to explain Islamic worldview and teachings related to economics and finance. Some have done it using the technical jargon of economics and through analytical works employing mathematics. However, in terms of statistical and empirical methods, we chiefly rely on mainstream economics tools.

There is some uniqueness in datasets with the inclusion of some new variables, such as non-compliant income, dividend purification and differentiation between interest free and interest based leverage in

corporate finance and proportional levies and minimum exemption limits in public finance in the context of Zakat. In theoretical foundations, there is differentiation made between entrepreneurial capital that can earn risk based profit and money capital which cannot be compensated in intertemporal exchange without the transformation of money capital to physical capital together with ownership and risk transfers.

However, due to similar ways of financial reporting and economic statistics, many of the datasets are similar and sometimes it becomes a hindrance in research where there are limited and unsuitable proxies available for Islamic precepts.

Among the success stories, we can say that we have articulated our vision well and are able to explain Islamic worldview and teachings related to economics and finance. Some have done it using the technical jargon of economics and through analytical works employing mathematics.

Q3: On the methodological front, there are few (if any) distinct analytical

tools developed in Islamic economics. Empirical studies in Islamic Finance can very well be accommodated under mainstream economics. Then, is there a solid case of distinct analytical economic field based on culture and faith alone?

Some of the main currents in methodology of Islamic economics in contemporary literature include: circular economy approach, moral economy approach, institutional approach and pure transformative approach.

Circular economy approach borrows the idea from mainstream economics that resource utilization shall avoid waste and ensure recycling for sustainability. In its vision and aims, it is not a novel concept unique to Islamic economics, but some of the norms and institutions for achieving circular economy objectives are unique in Islamic economics.

Moral economy approach favors dualism in policy and institutional design of products and organizations whereby the moral aspect is imbued with the commercial or economic aspects. Again, it is similar in vision to social economics to lay more or equal emphasis on issues of morality, fairness and equity.

The institutional approach takes a more practical stance to develop products and structures to deliver those products through markets. Islamic banking and financial institutions have come about by the efforts in that direction.

The pure transformative approach almost disregards the notion of descriptive and positive analysis and lays complete focus on transformation. For making its case, it favors discarding all theoretical edifices of mainstream neoclassical economics and adopts a rather preaching style way of transformation of behaviour through Islamic-founded education.

All these approaches are neither entirely correct nor incorrect. But, the major lacking is in lack of vision,

direction and coordinated work. A serious review of literature in these approaches to describe intellectual and analytical progress will hardly be able to find much from the past and present literature.

Q4: There are various viewpoints in Islamic economics research. Practitioners think of Islamic economics as juristic application of Islamic precepts in financial markets. Earlier literature attempted to present Islamic economics as a third alternative to Capitalism and Communism as an economic system or framework. Often, these viewpoints come in apparent conflict where one focuses on Shari'ah Compliance and

the other focuses on excellence with regards to creating socioeconomic impact through original and distinct Islamic institutions. Are both approaches valid? Is

it time to give priority to one approach over the other?

It is indeed a valid concern. There shall be more coordination between the Shari'ah experts as well as the experts in economics, finance, law, taxation and marketing. Product development in Islamic finance has to ensure Shari'ah compliance, but it is a necessary and not a sufficient condition for success. The concerns of sustainability, distributive justice and equity are equally important.

Ideally, we should develop products which are based on original Islamic contracts rather than mimicking

Some of the main currents in methodology of Islamic economics in contemporary literature include: circular economy approach, moral economy approach, institutional approach and pure transformative approach.

conventional finance product by product. It is understandable that commercial financial institutions with smaller size and meager market share cannot be too flexible in a regulatory environment which is tough and at best neutral to Islamic finance. However, social finance is an important part of overall Islamic finance. There is need for more focus and investment in developing social finance institutions so that it can be shown that Islamic finance caters to all and that all the talk in Islamic economics about distributive justice, social welfare and equity is not just lip service or wishful thinking.

Q5: In recent times, special issues on Islamic economics and Finance were published by mainstream economics and finance journals. But, yet it seems that we could not develop and present Islamic economics as a distinct economic field. Either normative precepts are listed without mathematical or empirical analysis or empirical analysis of performance of IFIs is done. Do you agree with this concern?

The quality of research has not simultaneously improved unfortunately as much as is the proliferation of various research journals. Earlier, it could be said that Islamic economics does not have access to high quality Ivy League journals. But, despite having the opportunity to publish Islamic economics research exclusively in

special issues of top mainstream journals in recent years, there has been very limited research that can be considered as original and unique. Empirical papers take similar datasets and explore a narrow set of research questions again and again. Even more unfortunate is the quality of writing and compliance with academic norms, ethics and standards. We can work with small number of publications, but important point is that we have to come up with research that is analytical, rigorous and which contributes new knowledge rather than repetition of same description or empirical analysis of same datasets over and over again.

We can work with small number of publications, but important point is that we have to come up with research that is analytical, rigorous and which contributes new knowledge rather than repetition of same description or empirical analysis of same datasets over and over again

Q6: Markets exist in real world both in Muslim and non-Muslim societies. Mainstream economics tries to understand economic behaviour of agents in markets using self-interested

framework. Some Muslim economists treat self-interested behaviour as selfish pursuit. Some have an accommodative attitude towards these tools for descriptive analysis if adjustments are made in choice set and if non-economic resource allocation is kept outside the decision choice. What is your view on these two attitudes towards economic analysis in the context of Islamic economics?

I think we need to have more analytical studies. There is emphasis on transformation of behaviour in Islamic

economics, but it does not mean that ideal behaviour as we hypothesize or preach about will always perfectly reflect in reality. Therefore, we should avoid one-eyed focus on behaviour and choice from the lens of self-interested homo economicus.

At the same time, we need to avoid dogmatism and making an impression to the objective and neutral reader that Islamic economics is not more than a literature of saintly proverbs and idealism.

There are pitfalls in mainstream economics tools and methods. We should be wary of them, but also try to play our part in improving them. Our reluctance to use mathematics and empiricism shall not be absolute and based on dogmatism alone. We can use mathematics and empirics as language where appropriate and avoid them where they misfit.

There are pitfalls in mainstream economics tools and methods. We should be wary of them, but also try to play our part in improving them. Our reluctance to use mathematics and empiricism shall not be absolute and based on dogmatism alone. We can use mathematics and empirics as language where appropriate and avoid them where they misfit.

Q7: As an accomplished researcher and author, what advice would you give to young researchers who want to pursue research in Islamic economics and finance currently?

The young researchers need to take education seriously. In contributing to Islamic economics and finance, they shall be well grounded in economics and finance as well as in Islamic knowledge. Ideally, we need an

integrated curriculum that caters to this need. Right now, we have Madarsa based education which is producing Shari'ah experts who are not equally well versed in economics and finance. On the other hand, we have economics and finance experts who lack knowledge about Islamic sources of knowledge or can only read the translated and derived literature. Until such a curriculum is made, the researchers shall themselves try to engage in meticulous search of knowledge, especially in the knowledge

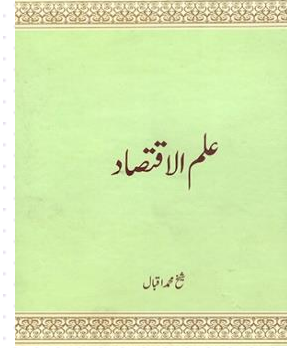
areas which they did not study formally. Secondly, there shall be strong and serious collaboration between economists and religious scholars so that they complement their strengths synergistically.

To the researchers, I will also advise that do not just go after quick and easy ways of publishing. More substantive and analytical work will

give them better recognition in the long term. Therefore, difficult topics which take time should not be avoided in quest of publishing quickly. There are many outstanding issues which require analytical research. Researchers shall not just pose empirical questions, but rather explain the Islamic economics perspective deftly using mathematics, simulation, and experiments, where applicable. And I advise the young scholars to be perseverant and patient!

Book Review

Title: IIm-ul-Iqtisad
Author: Allama Muhammad Iqbal
Publisher: Iqbal Academy Pakistan



Allama Iqbal's first published book was on economics. He wrote and published this book in 1904. He was not formally trained as an economist, but as a social thinker, his interest lied in social sciences as well. He may have read books on economics and attended lectures on economics during his stay in England.

This book of his is written in the style of a textbook. However, in certain places, he shares his own views and also applies the various concepts in economics to the context of United India and explains the implications for the economy of India.

Since Iqbal is not an economist himself, he uses the standard texts on economics available then and borrows some explanations from such texts. His style of writing is fluid. It seems that some parts were written to serve as teaching notes and then later on, they

were compiled together. In most pages of the book, he explains the standard economic concepts with examples. In this review, an attempt is made to focus primarily on his commentary and original thoughts.

In the beginning of the book, he shared a very profound thought that

overcoming poverty and deprivation will also depend on collective morality and moral consciousness in society. Policy and resources are not enough. Economists do not have the means to understand the origin of moral sense or the way morality in human consciousness can be transformed.

Before writing Wealth of Nations, Adam Smith wrote Theory of Moral Sentiment. Allama Iqbal in his book also suggests that economic choices and policy shall be well informed by morality. Moral considerations shall be primary focus and aspiration for higher ends shall emanate from moral

Overcoming poverty and deprivation will also depend on collective morality and moral consciousness in society. Policy and resources are not enough. Economists don't have the means to understand the origin of moral sense or the way morality in human consciousness can be transformed.

worldview rather than narrow self-interested view of homo economicus.

Allama Iqbal recognizes that wealth or valuable resources include both human capital (innate and acquired skills) as well as social capital (trustworthiness and cooperation). In economic growth literature, 'Resource drag' is a term used to signify the fact that having natural resources alone is not sufficient for long term growth. It is important to utilize them effectively and which requires investment in physical as well as human capital. This insight is part of rather recent economic literature in the last quarter of 20th century.

Allama Iqbal also emphasized on this point in his book which was written in early years of 20th century.

In discussion of epistemology and methodology of analysis in economics, a perennial question is that whether imposing normative view taking into account one trait of human psychology (selfishness) in consumer behaviour (deductive approach) a better approach or should broad based

observations about actual human behaviour and the cultural impacts on it is a better approach (inductive approach). Allama Iqbal shared his view on that methodological choice and preferred the second approach and cautioned against unnecessary simplification of human behaviour as it may lead to false analysis and prediction.

He also shared the view that economics shall remain concerned with economic choices. Choices under compulsion (compulsory military service) and love (sacrifice of mother) shall not be discussed in economics, unlike the view

Economics shall remain concerned with economic choices. Choices under compulsion (compulsory military service) and love (sacrifice of mother) shall not be discussed in economics, unlike the view of Gary Becker who favoured a broader ground for economics to cover.

of Gary Becker who favoured a broader ground for economics to cover. Iqbal's view is conducive for allowing both positive analysis of economic behaviour and yet leaves a space for influence of other stimulants, such as morality, values, spirituality

and culture without focusing on every aspect of human behaviour and choice within the self-interested framework.

Research Paper in Focus

Paper Title: Expanding the Frontiers of Economics: Some Insights from the Qur'anic Revelation

Author: Prof. Muhammad Akram Khan

Publisher: Turkish Journal of Islamic Economics, 6(1), 1 - 34.

The noted author is one of the pioneer contributors in the field of Islamic economics. He has written on methodology of Islamic economics from time to time. He is an objective thinker who had made critical evaluation of both mainstream economics as well as Islamic economics on some aspects.

In principle, he wants Islamic economics to be an analytical field. He expects that mainstream economics shall avoid bias against religion and should not undermine and disregard knowledge that comes from religious texts. Some knowledge that comes from religious sources dates back to centuries. However, such knowledge is still applicable today. Instead of arriving at same conclusions and reinventing the wheel, it is not unwise to pay heed toward the knowledge that emanates from religion.

He gave examples of knowledge on which there is now almost universal consensus and that such knowledge was part of religious texts since a long time ago, such as consensus on equality of human beings, accountability for all, respect for property rights, women rights, safety net for the poor, documentation of business dealings, government's responsibility toward the governed, restraint on economic power, and governance through consultation, for instance.

Indeed, such knowledge regarding morality, justice, fairness, transparency, responsibility, moderation, kindness and cooperation not only can influence behaviour, but also gives spiritual fulfillment and contentment as virtuous actions are promised deterministic rewards in life hereafter in the Islamic worldview.

The author critically evaluates 'Happiness Reports' and shows that many of the critical aspects of human happiness are covered in Islamic sources of knowledge. Religious knowledge, if practiced and observed, can help in achieving Falah both in this life and hereafter. Adding the spiritual dimension can further help in focusing on broader aspects of human personality. Despite material affluence, many developed countries still have thousands of people suffering from depression, anxiety, personality disorders and which lead to hundreds of people committing suicide despite having material affluence.

The concept of moderation, avoiding waste, responsible use of resource and considering oneself as custodian and steward of material resources rather than an ultimate owner who can consume resources at whatever rate and ways, are also critical aspects that can change and transform habits

towards a more responsible and cooperative lifestyle.

Socialism was a very enticing and attractive philosophy to achieve equity and reduce injustices and class conflicts. However, getting rid of private incentives in a faithless governance framework is a weak model to ensure that the ruling class does not become the new oppressors. It also undermines innovation, creativity and exertion of efforts in seeking knowledge and creating knowledge.

Capitalism, on the other hand, provides incentives for innovation and creativity, but it is unable to ensure broader access to capital from which basic necessities are to be met and investment is to be carried out in enterprises and human capital

development. Interest on money capital allows capitalists to not only preserve their wealth, but also get increase in it continuously without any regards to the productivity of that capital.

In this regard, religious knowledge which bans interest and introduces a broad based wealth tax, is conducive for encouraging investment and circulation of wealth while reducing unemployment and wealth inequality.

This paper is a good articulation by the author to introduce the economic contribution that religious knowledge can bring in terms of rules of behaviour and institutions which undermine and regulate the negative aspects in human personality and elicit positive and productive decisions.

Reflections

If an economy has 10 million people, then should the food be produced and distributed to the markets for all 10 million people? Many people would answer yes. It is because food is a basic necessity and everyone should be able to fulfill basic necessities.

However, markets serve demand and not needs. Markets serve products which are demanded. Demand in market economy is a desired quantity of goods and services for which there is purchasing power. A layperson may expect and wish that if a tradeoff is to be made between making luxury resorts and producing food to feed the hungry people, then the latter choice will be preferred. But the investment decisions

are not analyzed like that in market economy. If marginal revenue product is higher in producing luxuries than in producing necessities, investment will flow to the production of luxuries.

Thus, suppliers in market economy will serve luxurious products if there are willing buyers who have the purchasing power and the supplier can produce and supply these products profitably.

However, if there are poor people who cannot afford food to feed themselves, then they are not going to be served by the markets. Thus, economic choices and policymaking have an inherent moral content which cannot be ignored.



Industry Insights

Clarification of Some Misunderstandings about Islamic Banking

By Zubair Ahmed bin Naseem Ahmed

When a common person tries to form an opinion about Islamic banking, he hears cliché sayings about Islamic banking, such as ‘Currently, Islamic banking and finance are not truly Islamic’, ‘It is only changing of conventional terms into Islamic terms’ and ‘Islamic banking is an oxymoron as banking cannot be Islamic’. These are some common judgements passed around by critics regarding Islamic banking.

This brief article will discuss some points that will help in better understanding Islamic finance and Islamic banking in particular. It needs to be clarified that Islamic finance does not only consist of Islamic banking, but it is much bigger than that. Islamic banks are part of the Islamic finance industry. Even though Islamic banking is a very significant part of the current Islamic finance industry, there are other institutions as well in Islamic finance industry.

In terms of numbers, the Islamic banking sector constitutes 71.7% of the global Islamic financial Industry. Other sectors in Islamic financial industry include Sukuk (24.2% share), Islamic funds (2.8% share) and Takaful (Islamic Insurance) sector (1.3% share) (Source: Islamic Financial Stability Report, IFSB 2019).

In Pakistan, Modaraba companies also exist which work like investment companies by utilizing the capital injected by the investors in productive investments. Their investments can be in wide ranging activities, such as project financing, financial investments and providing financing solutions.

Thus, it is clear that a wide range of institutions, products and instruments are part of Islamic financial industry. After clarifying that Islamic banking is not the only sector or institution type in the Islamic financial industry, next, we attempt to clarify certain misunderstandings about financing modes used by Islamic banks. The basic foundation of financing modes used in Islamic banking is derived from Islamic jurisprudence.

First, it needs to be understood that Islamic bank is a financial intermediary. Being an intermediary in a supply chain is common in various types of industries, be they financial or non-financial institutions. Even in non-financial sector, the intermediary trades in assets which it does not require for end use. A wholesale merchant would trade in commodities and will sell to the retailer without being the end user of the commodities himself. In his trading operations, the wholesale merchant will try to efficiently manage inventories to reduce inventory storage cost and will

also take measures to manage risk, such as non-payment risk in credit sales.

Islamic bank also provides asset backed financing in the form of sale based modes of financing and lease based modes of financing. Besides that, Islamic banks also provide equity financing now in countries like Pakistan.

Acting as an intermediary in sale and lease based modes of financing, Islamic bank takes different roles in two different phases of the transaction. In the first leg, Islamic bank purchases the asset. In the second leg, Islamic bank either sells the asset or provides the usufruct of the asset to the client on lease basis. Since the client has a financial need of asset acquisition, Islamic bank facilitates asset acquisition by allowing the client to make payments usually with deferment of time.

On the deposit mobilization side, mostly, Islamic banks use Mudarabah for mobilizing investment deposits and Qard for mobilizing non-remunerative deposits, such as current account. Islamic banks cannot provide any extra benefits exclusively to the Qard providing depositors and cannot pass on the losses to them as well. Mudarabah is an Islamic finance mode in which one partner provides investment, i.e. Rabbul Mal and another partner (known as Mudarib) provides skills to carry out the business. Distribution of profit is done as per the pre-agreed profit sharing ratio. In case of loss in Mudarabah, the financial loss will be borne by Rabbul Mal, and Mudarib will suffer the loss of efforts. In the

context of the Islamic banking industry, saving account holders and term deposit account holders act as Rabbul Mal because they invest.

On the financing or asset side of Islamic banking, there are four types of Islamic finance modes which are used in practice: trade-based modes, lease-based modes, partnership-based modes, and fee-based modes. The trade-based modes consist of Murabaha (Trade with profit disclosure), Musawamah (Trade without profit disclosure), Istisna (Order to make an asset) and Salam (Deferred delivery trade of homogenous assets). Ijarah is the main lease-based mode, whereas Musharakah and Mudarabah are the partnership-based modes. Mudarabah has already been discussed above. Musharakah also has sub-types in Islamic banking, which include Shirkat-ul-Milk (Joint ownership of asset) and Shirkat-ul-Aqd (Business partnership). Diminishing Musharakah based financing involves joint ownership in the first step, then lease of the one-party share, and then its sale to the client who had the financial need of using asset in short term and acquiring it over a period of time in long term.

Taking the case of Pakistan, according to September 2020 Islamic Banking Bulletin issued by the State bank of Pakistan, the financing mix in Islamic banking include Diminishing Musharakah (34.5%), Running Musharaka (23.5%), Murabaha (13.3%), Istisna (7.9%), Ijarah (5.3%), Salam (1.5%) and Other modes of financing (13.9%) respectively (Islamic Banking Department - State Bank of Pakistan, 2020). Musawamah is not mentioned separately by the Islamic Banking Bulletin, but it is part

of the “other” mode, which altogether has a share of 13.9%.

Islamic finance modes, which are mostly used in financing side operations of Islamic banks, are the combination of prominent Islamic finance concepts and supporting Islamic concepts. For example, Murabaha financing mode in the Islamic banking industry includes Murabaha, which is a well-known Islamic finance concept, and it includes Wakalah (Agency) concept of Islamic finance as a supporting mode in most of the cases.

In most of the Islamic banking transactions, Islamic bank appoints the same client as its agent who requires finance for asset acquisition. For example, in Murabaha financing mode, the client acts as an agent to purchase

the asset on behalf of the bank before the actual Murabaha trade contract is executed between the bank and the client. In Istisna and Salam modes of finance, the client acts as an agent to sell the assets on behalf of Islamic bank after the Istisna and Salam transaction is executed and the risk and reward are transferred to the Islamic bank by physical or constructive possession. Sometimes, in Ijarah and Diminishing Musharakah, banks can also appoint the client as an agent to purchase the assets. Therefore, it can be seen that the Islamic finance modes used in Islamic banking are combinations of prominent Islamic finance concepts which are taken from the Islamic jurisprudence literature and the supportive Islamic concepts, such as the Wakalah (Agency) concept.

Market News

- ❖ Finsure paired up with Hejaz Financial Services to offer mortgage broking service to the Australian Muslims (Australian Broker, Mar 8).
- ❖ Islamic financial markets of the GCC, Malaysia, Indonesia and Turkey rose to 32.8% in September 2020, from 31.4% in 2019 (Khaleej Times, Feb 23).
- ❖ Islamic financing growth to outpace conventional lending in GCC, core Islamic markets in 2021 (Gulf News, Feb 27).
- ❖ Turkey’s Islamic finance assets to double in 5 years: Moody’s (Daily Sabah, Feb 16, 2021).
- ❖ Sukuk issuance is another victim of rising U.S. Treasury Yields (Bloomberg, Feb 26).
- ❖ GCC Sukuk issuance to moderate in 2021 with shrinking fiscal deficits (Gulf News, Feb 28).

- ❖ Gross long-term global sovereign Sukuk issuance will amount to \$96 billion in 2021, below the \$109 billion issued in 2020: Moody (Zawya, Mar 1).
- ❖ Beximco plans to sell Tk 30bn worth of Sukuk in Bangladesh (BDNews24, Mar 3).
- ❖ Growth in global Islamic funds under management will continue at an estimated annual rate of 4 to 5 percent in 2021 to 2022: Moody (Zawya, Feb 23).
- ❖ BIMB Investment launches Makmur myWakaf Fund in Malaysia (The Star, Mar 3).
- ❖ Islamic banks were more exposed to household financing than conventional banks (63% versus 57% of loans), increasing its share of banking system financing to 37% by end-2020 (Fitch Ratings, Feb 28).
- ❖ Suez Canal Bank selects Temenos to transform digital banking in Egypt (Africa News, Mar 5).
- ❖ HBL and Akhuwat ink strategic MoU to provide affordable housing to masses (Pakistan Today, Mar 3).
- ❖ 50 acres of Waqf land in Hafizpet encroached (Times of India, Feb 25).
- ❖ Total potential Zakat collectible in Indonesia is estimated to be around \$17 billion (Jakarta Post, Mar 6).



Economic and Financial Indicators

GDP Per Capita 2020 & GDP Growth Forecast (2021) in OIC Countries

Country	GDP Growth (2021)	GDP Per Capita (US\$ Current Prices)	Country	GDP Growth (2021)	GDP Per Capita (US\$ Current Prices)
Afghanistan	4	499	Lebanon	No Data	2,744
Albania	6.1	4,898	Libya	7.6	3,282
Algeria	3.2	3,331	Malaysia	7.8	10,192
Azerbaijan	2	4,124	Maldives	12.7	12,464
Bahrain	2.3	22,877	Mali	4	899
Bangladesh	4.4	1,887	Mauritania	2	1,791
Benin	5	1,258	Morocco	4.9	3,121
Bosnia	5	5,761	Mozambique	2.1	455
Brunei	3.2	23,116	Niger	6.9	536
Burkina Faso	3.9	768	Nigeria	1.7	2,149
Cameroon	3.4	1,493	Oman	-0.5	14,423
Chad	6.1	639	Pakistan	1	1,350
Comoros	2.9	1,336	Qatar	2.5	52,751
Ivory Coast	6.2	2,281	Saudi Arabia	3.1	19,587
Djibouti	7	3,074	Senegal	5.2	1,455
Egypt	2.8	3,561	Sierra Leone	2.7	518
Gabon	2.1	7,185	Sudan	0.8	735
Gambia	6	746	Suriname	1.5	4,200
Guinea	6.6	1,019	Tajikistan	6	834
Guinea-Bissau	3	766	Togo	3	690
Guyana	8.1	8,648	Tunisia	4	3,295
Indonesia	6.1	4,038	Turkey	5	7,715
Iran	3.2	7,256	Turkmenistan	4.6	8,074
Iraq	2.5	4,700	Uganda	4.9	915
Jordan	3.4	4,173	UAE	1.3	31,948
Kazakhstan	3	8,781	Uzbekistan	5	1,763
Kuwait	0.6	22,252	Gaza	8.2	2,894
Kyrgyz Rep.	9.8	1,147	Yemen	0.5	645

Source: IMF World Economic Outlook 2020

Overall & Relative Ranking of Selected OIC Countries on HDI

Country	HDI Value	HDI Rank	OIC Rank	Country	HDI Value	HDI Rank	OIC Rank
UAE	0.89	31	1	Guyana	0.682	122	29
Saudi Arabia	0.854	40	2	Iraq	0.674	123	30
Bahrain	0.852	42	3	Tajikistan	0.668	125	31
Qatar	0.848	45	4	Bangladesh	0.632	133	32
Brunei	0.838	47	5	Syria	0.567	151	33
Kazakhstan	0.825	51	6	Cameroon	0.563	153	34
Turkey	0.82	54	7	Pakistan	0.557	154	35
Oman	0.813	60	8	Comoros	0.554	156	36
Malaysia	0.81	62	9	Mauritania	0.546	157	37
Kuwait	0.806	64	10	Benin	0.545	158	38
Albania	0.795	69	11	Uganda	0.544	159	39
Iran	0.783	70	12	Nigeria	0.539	161	40
Bosnia	0.78	73	13	Ivory Coast	0.538	162	41
Azerbaijan	0.756	88	14	Djibouti	0.524	166	42
Algeria	0.748	91	15	Togo	0.515	167	43
Lebanon	0.744	92	16	Senegal	0.512	168	44
Maldives	0.74	95	17	Afghanistan	0.511	169	45
Tunisia	0.74	95	18	Sudan	0.51	170	46
Suriname	0.738	97	19	Gambia	0.496	172	47
Jordan	0.729	102	20	Guinea-Bissau	0.48	175	48
Libya	0.724	105	21	Guinea	0.477	178	49
Uzbekistan	0.72	106	22	Yemen	0.47	179	50
Indonesia	0.718	107	23	Mozambique	0.456	181	51
Turkmenistan	0.715	111	24	Burkina Faso	0.452	182	52
Egypt	0.707	116	25	Sierra Leone	0.452	182	53
Gabon	0.703	119	26	Mali	0.434	184	54
Kyrgyzstan	0.697	120	27	Chad	0.398	187	55
Morocco	0.686	121	28	Niger	0.394	189	56

Source: World Development Indicators 2019

Income Distribution in OIC Countries

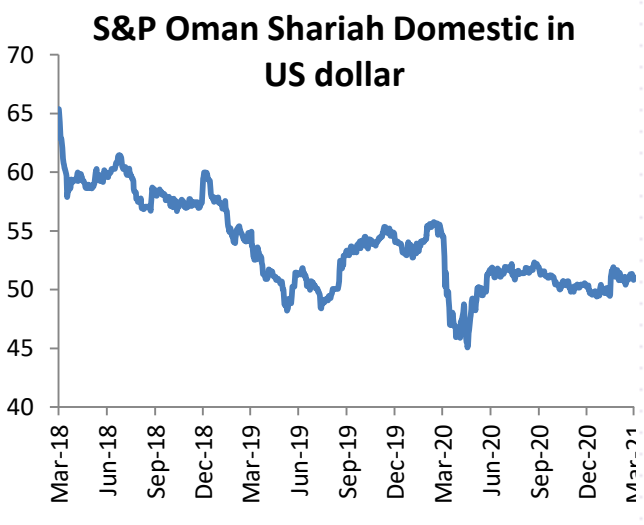
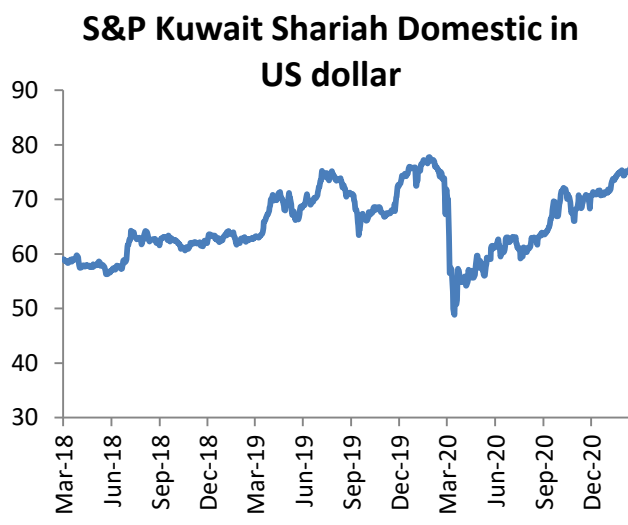
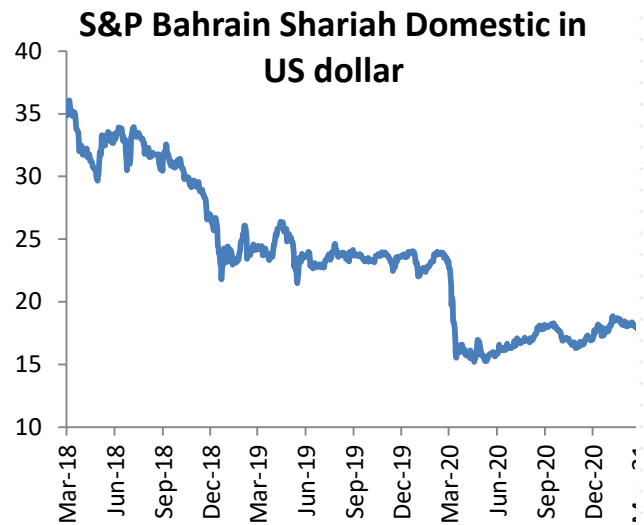
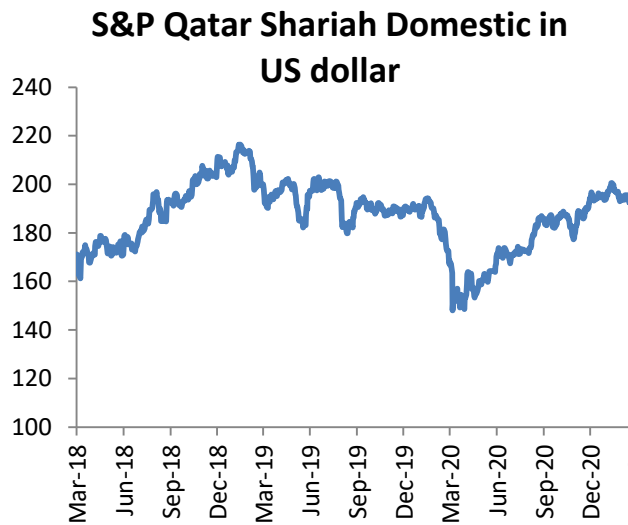
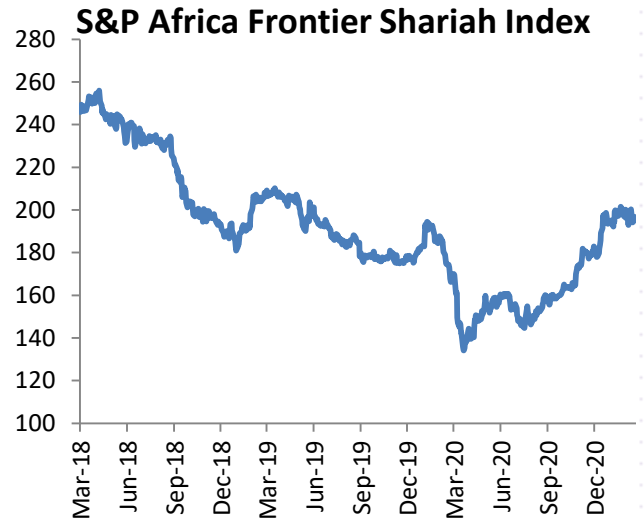
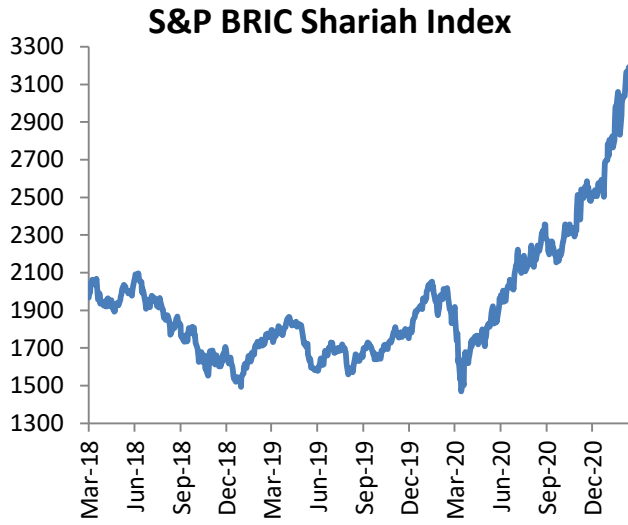
Country	Income Held By Top 20%	Income Held By Bottom 20%	Multiple
Indonesia	44.9	6.9	6.51
Turkey	48.5	5.8	8.36
Algeria	37.2	9.4	3.96
Benin	52.1	3.2	16.28
Bosnia and Herzegovina	40.7	7.5	5.43
Djibouti	47.6	5.4	8.81
Egypt	41	9	4.56
Gabon	44.4	6	7.40
Iraq	38.5	8.8	4.38
Kazakhstan	37.4	9.8	3.82
Lebanon	40	7.9	5.06
Malaysia	47.3	5.8	8.16
Mozambique	59.5	4.2	14.17
Nigeria	42.4	7.1	5.97
Pakistan	42.8	8.9	4.81
Senegal	46.9	6.1	7.69
Sudan	42.4	7.8	5.44
Tunisia	40.9	7.8	5.24
Yemen	44.7	7.3	6.12
United Arab Emirates	38.2	6.2	6.16
Uganda	49.8	6.1	8.16
Togo	48.6	5	9.72
Tajikistan	41.7	7.4	5.64
Niger	42.4	7.8	5.44
Morocco	47	6.7	7.01
Maldives	39.8	8.3	4.80
Kyrgyz Republic	37.8	9.9	3.82
Iran	47.3	5.9	8.02
Guinea	41.5	7.6	5.46
Gambia	43.6	7.4	5.89
Cote d'Ivoire	47.8	5.7	8.39
Comoros	50.4	4.5	11.20
Chad	48.8	4.9	9.96
Cameroon	51.7	4.5	11.49
Burkina Faso	44.3	8.3	5.34
Bangladesh	41.4	8.6	4.81
Sierra Leone	44.2	7.9	5.59
Mauritania	40.2	7.5	5.36

Source: World Development Indicators 2018

Islamic Banking Statistics

Country	CAR	Gross NPF	ROA	ROE	Net Profit Margin	Cost to Income
Bahrain (2019)	17.50	11.80	0.55	5.30	28.13	71.87
Bangladesh (2019)	11.50	5.26	1.16	24.15	32.58	47.68
Brunei (2020)	19.48	4.01	1.49	11.64	51.66	50.14
Egypt (2019)	18.20	5.76	2.86	32.30	60.10	26.26
Indonesia (2020)	20.36	3.43	1.72	16.57	23.35	76.65
Jordan (2019)		3.09	1.88	19.07	49.91	50.11
Kazakhstan (2019)	31.98	0.61	0.92	3.27	23.76	34.82
Kuwait (2019)	17.77	1.60	1.55	14.15	25.14	25.64
Malaysia (2019)	17.22	1.49	1.13	16.21	42.66	37.57
Nigeria (2020)	27.05	7.24	0.83	8.69	37.72	73.62
Oman (2020)	13.38	1.83	0.71	5.69	22.53	64.87
Pakistan (2020)	17.49	4.32	2.55	41.67	43.94	47.70
Palestine (2020)	15.64	3.04	0.74	7.85	19.19	72.01
Qatar (2019)	18.31	1.42	0.45	4.36	38.90	11.87
Saudi Arabia (2020)	19.44	1.41	2.10	15.82	46.95	53.08
Sudan (2019)		3.40	2.05	27.25	47.87	47.43
Turkey (2020)	18.85	4.00	1.25	15.20	20.00	36.20
UAE (2019)	17.93	5.03	1.26	9.34	23.82	76.18
UK (2018)	20.63	1.50	0.44	3.24	33.83	98.36

Source: Quarterly Average Values from IFSB Data



Call for Papers

Review of Financial Economics, Special Issue
The Impact of COVID-19 Pandemic on Islamic Financial Markets and Institutions
<http://mc.manuscriptcentral.com/rfe>

Journal of Risk and Financial Management, Special Issue
Islamic Banking and Shari'ah Governance
<https://mdpi.com/journal/jrfm>

Eurasian Economic Review
Special Issue on Islamic Economics and Finance
<https://www.springer.com/journal/40822/updates/17964266>

Call for Papers - Special Issue on Islamic Economics and Finance
Eurasian Economic Review, Due Date March 31, 2021
<https://www.springer.com/journal/40822/updates/17964266>

2nd International Graduate Student Symposium
Istanbul University Center for Islamic Economics and Finance
October 9-10, 2021, <https://islamiktisadi.istanbul.edu.tr/en>

7th International Islamic Monetary Economics and Finance Conference
Bank Indonesia Institute, Bank Indonesia, October 25 - 27, 2021
<https://jimf-bi.org/index.php/JIMF/announcement>

Other Resources on Islamic Economics Project Portal

- ❖ Research Articles
- ❖ Research Presentations
- ❖ Islamic Finance Calculators
- ❖ Course Outlines
- ❖ Academic Resources
- ❖ Data Resources Links
- ❖ Islamic Economics Journals List
- ❖ Qur'an and Hadith on Economics
- ❖ Book Reviews
- ❖ Frequently Asked Questions
- ❖ Topical Bibliographies
- ❖ Islamic Finance Education Providers
- ❖ Researchers Database in Islamic Economics
- ❖ Call for Papers
- ❖ Glossary of Islamic Finance
- ❖ Video Library



islamic_economics_project@gmail.com

www.islamic_economics_project.com

www.facebook.com/IEProject

pk.linkedin.com/company/islamic-economics-project

<https://twitter.com/iepresearch>