Moral Reflections on Economics
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"Establish Prayer and dispense the Purifying Alms (Zakat) and bow in worship with those who bow down".

[Al-Baqarah: 43]

"The Prophet (ﷺ) said, 'A time will come when one will not care how one gains one's money, legally or illegally'."
[Sahih Bukhari, Book on Sales and Trade, Hadith No. 2059]

"Western secular scientific cosmology gave us a creation story in which you have a non-living universe starting with a big bang running down forever afterwards through entropy and then life evolving as an endless uphill struggle against this entropic destruction in which you have to compete to succeed. Unfortunately, eventually, the whole universe washes away because entropy overpowers life. Now to me, that is the most depressing creation story that any culture has ever told. There is no life in it except a losing battle in competition."

Elisabet Sahtouris, Science and Spirituality in the Twenty First Century

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Research Note

Islamic View on Interest as Price of Capital

Salman Ahmed Shaikh

In modern mainstream economics, the definition of physical capital stock implies that it includes 'produced means of production'. Some examples of physical capital stock in contemporary businesses include equipment, tools, machinery, buildings, furniture, infrastructures, installations and production plants.

As per the definition of physical capital stock, it does not include money capital. However, since there is interest based banking operating everywhere, the opportunity cost of buying physical capital stock with money capital is considered to be the market interest rate forgone on an alternate interest based investment of money capital.

The cost of using physical capital stock in the production process is the real interest rate plus the depreciation rate. The real interest rate is the opportunity cost of using money capital in buying the physical capital good. If the interest rate on money capital investments is 10%, then, it is considered that the physical capital investment should yield at least 10% for it to be a comparatively better investment decision.

Else, if physical capital investment yields a lower return than the return expected on money capital investment, then a rational investor taking into account only the self-interest shall choose money capital investment over physical capital investment in the production process. The argument goes as follows.

If an entrepreneur has an option to invest $1,000 with a bank and earn 10% rate of interest on it, then the $1,000 invested in buying equipment for the production process should generate a minimum of 10% return for the justification of efficient allocation of resources.

Apart from the real interest rate, the other component in the user cost of capital is the depreciation rate. It is the rate per period at which there is wear and tear in the physical capital good when it is used in the production process for a period.

The user cost of capital per period as explained by Hall and Jorgenson can be expressed as follows:

$$UC=Pk\ (r+d) \qquad \text{--- (1)}$$

Where,

'UC' represents user cost of capital,
'Pk' represents the price of physical capital stock,
'r' represents the real rate of interest, and
'd' represents the rate of depreciation.

Even from the perspective of economics, there are several issues in interest based financial intermediation. It creates distributive inequity, concentration of wealth, limiting potential investments and as a result, it may give rise to unemployment, financial exclusion, rising income inequalities and even ecological imbalances when producers strive hard to pay off debts without considering the external social costs of their operations on the environment.

Since collateral based lending in interest based financial intermediation mostly entertains large scale businesses, they are able to gain scale advantage and beat the competition from the smaller entrepreneurs.

With a greater degree of pricing power in imperfect markets, the producers pass on the cost of capital to the consumers by raising the prices. This fuels inflation in the economy which is not driven by real variables or supply shocks. Rather, it is the result of providing risk free return to the money capital in the economy. Thus, the cost of interest is also by and large paid by the consumers.

In the interest based financial intermediation, the market interest rate becomes a benchmark return or hurdle rate of return. Social and environment friendly investment projects yielding a lower rate of return than the market rate of return remain unfunded as a result.

In addition to that, firms having an obligation to service debts with fixed payments regardless of their profitability are compelled to push growth in revenues. Often, this results in aggressive advertising and promoting consumerism to meet the cost of interest on borrowed funds.

If the demand remains sluggish, then the surplus output remains unsold and causes a recession in the economy leading to unemployment.

Furthermore, since interest is an additional cost in the production process, there is lesser chunk of cost budget available to invest in environmental-friendly technologies. Thus, firms squeeze budget by paying less to unskilled labour and overuse other resources which may cause environmental problems. Rather than internalizing the cost of damaging ecological imbalance, firms free ride on whatever leeway they obtain to use and overuse public goods and common property resources.

Finally, since the loans are usually provided to richer segments of the population who can furnish collateral and already have sufficient incomes to service the cost of debts, the gap in incomes between those who are able to access credit services and those who are not able to access credit services rises over time.

IEP Forum 1on FSC Riba Verdict

Participants

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Recently, Federal Shari'ah Court of Pakistan has given its judgement on the Riba case. The verdict reaffirmed the historic judgement on interest first given in 1991. But, the subsequent appeals process reopened the case. Concerns about jurisdiction further delayed the implementation of the historic judgement and delayed the case for several years. Now, finally, the verdict has come. The verdict has declared conventional banking interest to be Riba, which is prohibited in Islamic sources of knowledge categorically including Qur'an and Hadith. The

judgement has also asked the government to transform the economic system on interest free basis within a period of 5 years to fulfil the constitutional requirement as well as completing the required implementation of the judgement.

Islamic Economics Project is making a humble effort to collect the views of Shari'ah scholars, regulators, practitioners, lawyers and academic experts to deliberate on the future course of action and generate ideas and debate on how to make this transformation possible.

In this regard, we got the chance to get reaction and response from Mufti Dr. Irshad Ahmed Aijaz, Omar Mustafa Ansari and Prof. Tariqullah Khan. We hope that the views expressed and shared with relevant audience and stakeholders will generate practicable ideas and keep the momentum towards achieving the end goal of an economy that is in compliance with Shari'ah and is able to utilize the instruments and institutions in the Islamic economic teachings.

Question: What is your take on the decision by Federal Shari'ah Court of Pakistan on Riba?

Mufti Dr. Irshad Ahmed Aijaz: The decision is appropriate and need of the hour. It was constitutional requirement to transform the economy on interest free basis as soon as possible. Not only we could not implement this requirement of constitution, but could not take steps following the historic judgement on interest in 1991.

The delaying tactics by challenging the jurisdiction wasted a lot of time and did not exhibit seriousness and sincerity. We cannot change history. But, we must learn from it and now should not waste any more time.

The debate on what is Riba and whether conventional interest is Riba or not has now been settled by the judicial system. Since long, it has been settled academically. It should not be opened again as a delaying tactic. In addition to that, challenging the jurisdiction was also not appropriate in past. This often-used tactic should not be used as a way to delay the process of transformation.

Omar Mustafa Ansari: There is no disagreement on the correctness of the decision. It is a good decision and we welcome it. Though, it has come late and a lot of time had been wasted even after the issue about definition of Riba and conventional bank interest being Riba was settled in 1991. The current decision has reaffirmed the historic judgement of interest in 1991.

The decision is consistent with the constitutional requirement which clearly stipulate that Riba shall be eliminated from the whole economy by the state as soon as possible. The current decision is also in line with the aspirations shared by the founder of the country, Muhammad Ali Jinnah, who in his last public speech at the inauguration of State Bank of Pakistan urged that the institution shall conduct its operations taking full guidance from the Islamic sources of knowledge regarding the economic matters.

Prof. Dr. Tariqullah Khan: Though, the judgment has come late, but it is the right judgement. Interest in any form whether it is banking interest or interest in loan based contracts in other financial products is Riba for almost 99.99% scholars of Shari'ah. The issue was never in doubt in academia and mainstream scholarship.

Due to the unwarranted fear that how the economy would function without interest, the earlier verdict on prohibition of interest which came in 1991 was delayed. But, now, the Islamic alternatives have been developed and are being used globally. Islamic alternatives have shown resilience even when they had limited market share and were competing against conventional financial institutions with greater market share, experience and economies of scale. Islamic alternatives also have numerous social, economic and environmental benefits.

Islamic financial services are now being practiced worldwide as credible businesses. In Turkey, Islamic banking is positioned as participation banking. In Europe, Islamic banking is positioned as ethical banking. Islamic financial services are not only useful in corporate finance, but they are also useful to be used in public finance, development finance and green finance.

Pakistan will definitely benefit from the total abolition of the interest based system and it is the right time to introduce the Shari'ah compliant alternatives in the broader segments and functions of the economy.

Question: Do you think that it is possible to implement the verdict on transformation of economy on interest free basis in 5 years?

Mufti Dr. Irshad Ahmed Aijaz: Yes, the deadline is reasonable. Important thing is to take first step towards transformation and start the journey rather than waiting or trying to confront the verdict through appeals and challenging jurisdiction.

If steps are taken and most of the different functions of institutions in the economy are transformed on interest free basis, then even if few functions are transformed later, the deadline could be extended. But, extension should not be given or sought as a way to delay the implementation. It has often been seen that matters of public welfare are given less emphasis and priority. Therefore, having a timeline is important as it will urge action.

If, in future, any further extension in deadline is given, it has to be only for the functions which could not be transformed due to certain obstacles in which the government finds itself having less room to expedite transformation and conversion. For instance, we rely on external financing for balance of payment troubles and the lending countries or international development finance institutions may or may not readily accept the Islamic financing options. However, it must not be automatically assumed that they will not welcome the use of Islamic modes of financing since several non-Muslim majority regions have also used Sukuk in past and several non-Muslim majority countries have also given tax neutrality to Islamic finance contracts.

Having said that, any extension in future if deemed necessary, has to be evidence-based, targeted and not given as a way to delay the process of transformation indefinitely.

Omar Mustafa Ansari: If the timeframe of 3 or 5 years was given in 1991 after the historic judgement on interest came, it might have been more challenging. There was no full-fledged Islamic bank back then nor the asset management companies and insurance sector had major Islamic alternatives on ground.

But, things have changed by now. Islamic banking industry is touching 20% market share and even before this decision, the industry was buoyed towards reaching the target of 30% in next few years. As many as 80% of the conventional banks have Islamic banking windows and branches. So, they now have experience and initial portfolio. So, the conversion to Islamic finance is a portfolio revision issue for them rather than starting everything completely from scratch. There are full-fledged Takaful companies as well as insurance companies which have Takaful operations.

Even on the regulations side, we have dedicated Islamic banking department at State Bank of Pakistan. We have specific prudential guidelines for Islamic banks.

There is also no dearth of Islamic banking experts. Religious schools have contributed in training Shari'ah advisors. There is ample infrastructure to develop human resources. Pakistani diaspora is already working in GCC, South East Asia and Europe in Islamic finance in corporate financial sector, regulatory bodies, auditing firms, academic institutions and think tanks.

Many universities have full-fledged Bachelors and Masters level programs dedicated to Islamic finance. Training institutions like NIBAF and others are also playing their role in training human resource who have already completed their regular university education, but require Islamic banking education in short period through diploma and certifications.

We must also not forget that Islamic banking is now a global industry. We may have been one of the pioneer countries, but now there are many countries where the share of Islamic banking in overall banking is even more than what it is in Pakistan right now. Therefore, cross-border finance, cross-border Sukuk issuance and bilateral and multilateral finance with countries where Islamic banking is present should not be a problem.

Some exceptions may remain due to which the deadline may be extended for transformation of external sector finance. Pakistan faces recurring balance of payments crisis. Therefore, it cannot be completely independent in choice of mode of finance. However, government has also issued Sukuk in past which have been oversubscribed in the international market. There is also a need to work on enhancing export competitiveness and introducing reforms to promote ease of doing business so that rise in exports and foreign investment can enable us to avoid balance of payments crisis.

Prof. Dr. Tariqullah Khan: The timeframe of 5 years is more than sufficient. The reform of the banking, insurance and financial markets does not need that much time as there are practical models in applied side being employed in many countries like Malaysia. Those can be replicated to start with. Improvements should be undertaken as a continuous process through learning by doing.

Therefore, it is important to avoid status quo and complacency. There are Islamic financial institutions in Pakistan which are providing exclusive Shari'ah compliant and Riba-free financial services in banking, insurance, asset management and venture capital, to name a few prominent sectors. The issue in these sectors is not of starting something from scratch, but rather scaling up the already available set of financial services provided by Islamic financial institutions through an enabling environment. Now, as the interest based financial services are prohibited after this judgement, it can be expected that the transformation and conversion of the economy towards interest free foundation would accelerate and gain momentum.

Question: What are the measures which can be taken to showcase the full potential of Islamic finance?

Mufti Dr. Irshad Ahmed Aijaz: There are various measures which are required to be taken. It is important that the momentum and debate should move towards that. There are certain steps which need to be taken to reform the legal system and laws. Laws regulating financial institutions including banks and non-banking finance companies need to be amended accordingly in compliance to the judgement of Federal Shari'ah Court.

There is also need to be a national level policy and strategic vision. State Bank of Pakistan has given a strategic vision for Islamic banking industry. But, now we need to be even more ambitious rather than targeting slower organic growth to reach 30% share in few years. Since the whole economy is to be transformed, the verdict has to be taken into account while making fiscal policy and making budgetary allocations as well from now onwards.

The conversion of institutions on interest free basis can be pursued in a systematic way. The process of transformation need not be linear. Several steps can be pursued simultaneously. But, hierarchy of priorities can be set. First, the state owned enterprises need to be transformed in a way so that their operations including financing, credit sales and credit purchases should not have element of interest. The articles of association need to be revised as well to ensure commitment towards the use of interest free modes of financing and to avoid the element of interest in credit purchases and sales.

Conversion targets need to be given. There should also be periodic monitoring of milestones achieved. Unless that is done, it is feared that the momentum may not be maintained to achieve the transformation targets within 5 years.

As compared to 1990s, transformation of the financial system on interest free basis is easier. Conventional banks, Takaful companies and asset management companies all now have an experience and portfolio of Islamic banking and finance products and services. Conventional banks are operating Islamic banking windows. Insurance companies also have Takaful operations. Asset management companies also offer Islamic mutual funds. Thus, transformation towards interest free business segment is not that radical as it would be if conventional financial institutions had no presence and experience of Islamic finance.

Since the economy is targeted to be transformed on wholesome basis, the strategic direction of Islamic banking and finance can be revisited as well. For instance, movement towards more involved intermediary role for Islamic banks as trade intermediaries. Developing a distinct pricing benchmark for Islamic finance contracts and developing liquidity management instruments.

Coming to the economic transformation and economic policy, it is important to develop alternate fiscal policy tools for budgetary finance and to manage liquidity in the economy through monetary instruments. Likewise, the transformation of non-banking finance companies is also equally important to achieve wholesome economic transformation. Therefore, instead of having strategic vision confined to specific institutions, we need to have a national economic policy towards transformation of the economy and then specific policies and strategic vision shall be developed for each important stakeholder in the economy.

Omar Mustafa Ansari: It is pertinent to have a national level strategy. The constitution asks the state to eliminate Riba from the economy as soon as possible. Therefore, this goal should be taken by the state itself and should not be compromised by political instability.

A cabinet level committee shall be formed to develop plans and targets. Provincial level committee or task force is also required to coordinate matters in provinces. After 18th amendment, not everything is in the control of federal government. There are specific contracts and transactions between development finance institutions and provincial governments. Therefore, provinces also need to ensure that they take actions which are necessary to eliminate Riba in public finance and project financing.

In the banking sector, State Bank of Pakistan needs to ask conventional banks to develop conversion plans. These conversion plans need to be reviewed by experts to ascertain that the plan and targets can adequately be achieved within the timeframe. If banks are left on their own, they may not take proactive action. By asking them to develop conversion plans, they will not feel that something undoable is imposed on them and it will be possible to create flexibility yet urgency to keep the pace of transformation intact.

Educational institutions also have a role to play. The curriculum needs to be revised to include Islamic finance knowledge. Textbooks and reference books need to be developed. Training institutes also have a role to play in achieving human skills development in the area of Islamic finance. NIBAF is already playing a good role. ICMA, ICAP, CFA Society and ACCA Pakistan also need to be engaged to ensure enough coverage and exposure to Islamic finance in their members.

AAOIFI has contributed in developing specialized certifications for bankers, practitioners and Shari'ah auditors. It has also developed detailed governance standards which are now being increasingly followed globally as well as in Pakistan. Adopting more and more of these standards will also improve the governance and regulatory framework of Islamic banking and finance in the country in line with international best practices. Going forward, training for Islamic finance for lawyers, judges, bureaucrats and others will also be necessary to achieve the goal of eliminating Riba from the economy as soon as possible and to sensitize about Riba and how it can be avoided through approved Islamic finance contracts and alternatives.

Prof. Dr. Tariqullah Khan: There is need for co-ordinated and consistent efforts to achieve the goals which requires will and prudent policy to steer the transformation of economy. Islamic financial institutions shall aim to achieve zero-waste, zero-emissions and zero-financialization. In our long term strategic plans, we urge the government and Islamic finance to adopt the Circular Economy paradigm as it is consistent with Mizan (universal balance), prohibition of Israf (waste), Tabzir (extravagances and indulgences), Riba (commercialization of lending and financialization) and echo Maqasid of legislation and men's responsibilities in the role of stewardship.

We shall aim for not only Riba-free economy, but an economy that is in full sync with the ethos of Islamic teachings. If we are able to achieve that, we can show the true potential of Islamic finance and our value system.

We can also learn from international best practices, such as value-based intermediation system introduced by Malaysia. Out capital market instruments, such as Sukuk can be used to make genuine attempts to support green projects, initiatives, and businesses. On the other hand, regulators also need to set criteria for green businesses, whether SMEs or publicly listed companies for sustainability disclosures and how the businesses are contributing to restoring the ecosystem.

Using Islamic commercial and social finance, such as Waqf, we can contribute in supporting green SMEs, low-cost green energy housing, educational, sanitation and other critical services needed for green transition. Providing microfinance, low-cost housing and educational infrastructure in public private partnership between Government and Akhuwat is already showcasing a good example to scale.

Question: What are the important obstacles that can be encountered along the way of transformation process?

Mufti Dr. Irshad Ahmed Aijaz: Lack of political will and complacency. Political instability should also not become a hindrance to fulfil the judgement of court. It must be ensured that even if government changes, the process of transformation shall continue. Along the lines of national security policy, which is a state-oriented policy, we shall develop a national policy which is unhindered by political changes and instability.

We also need to have planning to deal with what if scenarios. We should avoid a chaotic scenario where the transformation is not complete and people start reneging on their debt commitments after the deadline is over. After all, the conventional finance institutions are also working with funds which are people's money contributed by shareholders and depositors. System should not be allowed to collapse abruptly because it may fuel the sentiment towards status quo, complacency and reversal. Therefore, prudent planning is necessary for seamless transition which should not result in any party benefiting from the situation unjustly.

Omar Mustafa Ansari: Political will of the government is key to determine the pace and direction of reforms. If political will is there, I see no major obstacle as to why at least the domestic economy and financial system cannot be transformed on Riba free basis in 3 years. Legal reforms are necessary to make them consistent with this judgement given by Federal Shari'ah court.

Resolve and will has to be shown by not only government, but other stakeholders as well, including regulators, private sector financial institutions, public sector organizations, private corporate sector and individual households from whose savings and investments, the financial institutions are majorly funded. If all show commitment, resolve and affirmative action to avoid Riba, then the goal of eliminating Riba can be achieved within the time frame.

Only other obstacle could be economic instability. Since we are facing balance of payment difficulties from time to time and our bargaining power in sourcing external finance is little, we may not be able to decide on our own to prefer a particular mode of finance. This may require efforts to develop different product structures suited for external sector finance. It would also require some prudent convincing, advocacy and awareness while negotiating with international development finance institutions. So, everything is possible provided there is will to change.

Prof. Dr. Tariqullah Khan: The external debt and funding debt servicing in future is an economic, political and governance challenge. This challenge will continue and the government has to find hard and innovative solutions. It requires much deeper reforms as well as time to replace interest from the external sector of the economy.

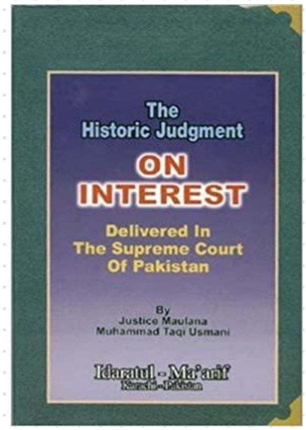
There is no solution except earning more foreign exchange and contain outflow of foreign exchange with improvement in competitiveness of local industry. Islamic finance can facilitate to serve financial needs, but the government has to manage its monetary, fiscal and balance of payment situation prudently.

Increase in exports and foreign direct investment together with robust remittances can help in increasing the inflow of foreign exchange. Substituting imports requires making domestic industries competitive, innovative and quality-conscious. Since the environmental concerns have also been given weight in ratings and economic exchanges nowadays, it is also important for our domestic firms to comply with quality and environmental standards in order to retain and gain more market access.

Therefore, the only challenge is for the government to get its house and macro economy in order. If it manages to control its fiscal deficit and endeavours to access market based public finance, then Islamic financial institutions have the liquidity and variety of product structures to support public finance and development finance. However, the government has to manage its twin deficits prudently.

Book Review

Title:	Historic Judgement on Interest
Reviewer:	Mufti Muhammad Taqi Usmani
Publisher:	Idara-e-Muarif-ul-Qur'an, 2007



This was an important book in the modern Islamic economics literature from an established and renowned Muslim scholar, Mufti Taqi Usmani.

The book summarizes answers to the arguments given by some people who hold the position that bank interest is Riba and hence it is not prohibited. The major arguments given include the following:

1. Riba was prohibited in very late stages of Prophet Muhammad's (PBUH) life and Prophet Muhammad (PBUH) could not explain its scope clearly (God forbid). Hence, the scope of Riba shall not be extended to anything not specifically identified by Prophet Muhammad (PBUH) Himself.

2. Mostly, debts were taken for personal needs. Interest based commercial loans were uncommon. In loans taken for personal needs, one is not earning from the amount of loan received. Hence, it seems justified that the needy person shall not be burdened with interest, especially if it is exorbitant and usurious.

3. The charging of interest upon failure of payment of maturity was prohibited, but the initial increase over the principal amount was not prohibited. Compounded interest may be considered as prohibited, but the simple interest seems to be allowed.

4. The wisdom behind prohibition as per Qur'an seems to be injustice. Therefore, if interest rate as price of capital is determined in market through competitive forces, it would not be allowed to become usurious. Corporations and industrialists which are provided with finance expect to earn money. The person or institution taking the loan expects to earn more than the interest to be paid. Hence, charging market determined interest should not be equated with interest on personal loans.

The respected author tactfully, logically and academically answers all these criticisms first in the light of right interpretation of Islamic sources of knowledge and then also explains the logic and wisdom behind Islamic prohibition of interest.

On argument 1, the author mentions that Riba had been prohibited in earlier nations and traditions as well, such as in Judaism and Christianity. Riba prohibition in Islamic faith verify the prohibition mentioned in earlier holy books. Among the four verses on prohibition of Riba, only the last verse was revealed in later years after Hijra. Prohibition and condemnation of Riba dates back to second year of Hijra.

The ambiguity in Riba was not about Riba on loans, but in some specific application of Riba in exchange. There is some difference of opinion on the specific details regarding Riba in exchange among the jurists, but there has been no ambiguity at all in Riba on loans. It was appreciated by both Muslims and non-Muslims as to what is Riba in loans. That is why, Qur'an while condemning Riba, does not define Riba since it was such a well-known phenomenon that no explanation was necessary.

Nonetheless, when Qur'an mentions that one can only take back the principal amount of loan, Riba is indirectly defined and that definition is what is reported in Ahadith and by earlier jurists too with consensus.

On argument 2, The respected author gives account of Qur'anic verses and Ahadith on the prohibition of Riba which leave no doubt on the prohibition of Riba and that this prohibition is absolute and not concerned with the purpose for which loan is taken or the rate of Riba in the loan contract.

Through careful analysis of Arab history, the respected author explains that most of the loan transactions in Arab at that time were done for commercial endeavours. Tribes used to take loans from other tribes for business purposes. Therefore, it is inconceivable that all loan transactions in Arab at that time were done for personal needs and that Riba prohibition only applies to high interest rate charged on emergency loans for personal needs.

The author rightly points out that sometimes personal loans for homes and cars are taken by wealthy people as compared to the small commercial microenterprise loans provided to the entrepreneurs. Therefore, there is no reason to assume that personal loans are always taken up by poor people who are unable to afford and commercial loans are always taken by wealthy people and institutions who are able to afford.

Hence, it cannot be argued that charging interest on consumer loans is incorrect while charging interest on commercial loans is allowed. There is no ambiguity left in guidance on this matter. It is not a matter of Ijtihad. There is no reason why such a difference is introduced which is not warranted in Islamic sources of knowledge.

The author mentions several Ahadith which reveal that lenders are asked not to take gifts like fruits, meat or take any service like riding the borrower's means of transport. Pious people used to even avoid standing in shelter setup by the borrower, lest it be considered a reciprocal benefit connected with the loan transaction. In the light of these guidelines, there is no room for any rate of interest on the premise that it is not exorbitant. Furthermore, in prohibiting Riba, Qur'an categorically only allows taking back principal amount.

On argument 3, the author rightly mentions that if excess in wrongdoing is prohibited, it does not mean that if the wrong act is not excessive, it will be allowed and tolerated. The author gives a very easy to understand example. Qur'an warns that one should not sell Qur'anic verses and message for a very short sum of money. It does not imply that the same can be done if huge sum of money is involved.

Therefore, the condemnation of compound interest shows the intensity of crime and does not imply that small amount of interest is tolerable. It is confirmed by the fact that several Ahadith categorically condemn taking even 1 dirham of Riba. Qur'an also allows taking principal amount of back meaning that anything asked over the principal amount of loan is prohibited.

On argument 4, the author explains that Islamic directives are based on clear basis (Illat), rather than wisdom (Hikmat) alone. Wisdom may not be visible in clear form in every matter and in clear terms. Some prohibitions may not affect the direct parties involved as much as they affect the collective society.

In describing economic rationale for the prohibition of Riba, the respected author highlight concentration of wealth which results in interest based banking system. A great number of small savers deposit their surplus savings with banks and banks use these funds to provide loans to small elite of large capitalists.

This way, wealth flows from many small savers to a small number of large capitalists. These capitalists earn exorbitant profits and insure their assets and operations. These large capitalists and corporations who are the primary beneficiaries of bank lending cover their cost of finance by raising output price if they have to. They insure themselves and the insurance claim is entertained by the insurance company from the insurance premiums of common people.

Thus, interest based banking system in a capitalistic economy results in concentration of wealth. It also has negative consequences on market competition. When access to finance is asymmetric, in most large scale and capital intensive businesses, large players are able to ward off competition. Asymmetric access to credit creates a strong barrier to entry and hence leading to market concentration and its associated imperfections and inefficiencies.

Research Paper in Focus

Paper Title: Estimation of Zakat Proceeds in Bangladesh: A Two-Approach Attempt
Author: Rashed Jahangir and Mehmet Bulut
Publisher: Journal of Islamic Monetary Economics and Finance, 8(1), 133 – 148.

This research study calculates potential Zakat proceeds collectible in Bangladesh by using both classical and contemporary or alternative Zakat calculation methods. The results reveal that the percentage of potential Zakat collectible amount to GDP is significant as the estimates range between 2.3% to as much as 3.8%.

It shows that Zakat collectible amount can assist government to spend in welfare of the poor through cash transfers, educational stipends and providing in-kind assistance through asset ownership, such as tools of trade, equipment and business capital. The Zakat proceeds can be provided to the micro borrowers to improve their purchasing power. Since poor people have high marginal propensity to consume, Zakat based resource transfer would increase spending and amplify the multiplier effect.

In calculation of Zakat, the authors use the alternative method employed in another paper "Welfare Potential of Zakat: : An Attempt to Estimate Economy wide Zakat Collection in Pakistan". This method is built upon as an improvement over the classical method employed in research study of Prof. Monzer Kahf and Dr. Naseem Shah Shirazi.

In a more recent application of alternative method published in Moral Reflections on Economics, Vol 2, Issue 3, further improvements are made to the methodology of estimation which makes it more robust.

It is difficult to obtain micro data on gold holdings from aggregate indicators. For this reason, we need to use proxy data.

The proxy data can employ demographic data, such as number of housing units in ownership with a minimum of three bedrooms. Through surveys, the average gold holding among this segment can be estimated. This average can be applied to the number of housing units in ownership with a minimum of three bedrooms to estimate the private gold holdings. This data can be multiplied with price to obtain value of gold holdings. Income and wealth distribution data can be employed to apply Zakat on this value owned in the top income or wealth quintile to obtain a conservative estimate of Zakat collectible on private gold holdings.

In another alternate method, the number of married couples can be used in place of number of housing units in ownership with a minimum of three bedrooms. Through surveys, the average gold holding among this segment can be estimated. Rest of the steps would follow the same procedure as in the first proxy.

For estimation of potential Zakat collectible in real estate, total aggregate real estate value data adjusted for income and wealth distribution can be used. If number of leased real estate can be identified, then Zakat on both rents and value of tradable real estate can be estimated.

Real estate platforms can be used to find average rental yield and per square foot price in real estate in different locations to estimate the value of real estate wealth from the micro-based approach.

It is very hard to compute the value of unsold inventory at a particular date. Wholesale and retail trade value in GDP is reported for each financial year. Assuming one-month inventory outstanding from the total annual value of production, we can estimate the Zakat base. Thus, we can assume average inventory turnover ratio of 12. We can apply 2.5% rate of Zakat on the estimated value of tradable inventory to come up with a potential figure of Zakat collectible on tradable inventory.

People also hold their wealth in bank accounts, mutual funds, stocks, annuities, and national saving scheme instruments. Among the individual heads related to financial investments, if only the wealth held by top 20% is assumed to be subject to Zakat where the payer has Nisab level value of wealth in excess of personal needs and debts, the total Zakatable base on each of the financial investment heads can be estimated. We can apply 2.5% rate of Zakat on the estimated aggregated value of financial investments held by top 20% wealth owners to come up with a potential figure of Zakat collectible on financial investments.

Most of the investments in shares in Pakistan are made by institutional investors who regularly trade shares in the market. Therefore, we can take the market capitalization and adjust it with respect to wealth distribution data from World Inequality Database as described before. We can apply 2.5% rate of Zakat on total market capitalization to obtain a conservative estimate of potential Zakat collectible on shares.

Livestock population data is available in Economic Surveys. Applying average market value on these livestock categories, we can estimate the aggregate value of livestock. If only the wealth held by top 20% is assumed to be subject to Zakat where the payer has Nisab level value of wealth in excess of needs and debts, the total Zakatable base on livestock can also be estimated.

The rates on livestock wealth differ depending on whether the animal is goat, cow or camel. However, as argued by Yusuf al Qaradawi, the average rate can safely be taken as 2.5% for a preliminary potential Zakat estimation exercise since it is not assessment of Zakat for a particular individual.

From Economic Survey data, cropped area that is depending on rain or irrigation for water supply can be identified. Assuming constant returns to scale on average, the Nisf Ushr (5%) and Ushr (10%) can be applied on the value of agricultural produce to estimate the potential of Ushr collectible in Pakistan.

In the classical understanding, only the production from land is subject to Ushr. Therefore, fish catch and poultry production is subject to Zakat if held for trade. Assuming inventory turnover ratio of 12, only 1-month production value can be assumed to be subject to Zakat from the total annual value of production. If 2.5% rate is applied on tradable inventory, the potential collection can be estimated on fish catch and poultry and dairy production.

Therefore, this newer version of alternate method is more detailed, micro-data based, in line with theory and robust. Using this, potential Zakat collectible can be estimated.

Such estimations show the potential and prowess of Islamic redistributive institutions. If administration and governance is improved to ensure effective collection and disbursement of Zakat, then the benefits of this pro-poor redistributive institution can reach to the masses.

Reflections

For the first time, astronomers have captured an image of the supermassive black hole at the center of our galaxy, known as Sagittarius A. Is it necessary to believe in something only after we are able to physically observe it?

Scientists like Prof. Stephen Hawking have accepted the fact that black holes exist even though this kind of a physical observation is possible only now. We, as humans cannot see an object which is just a mile away. Science had shown the vastness of observable universe. It will take trillions of years to get to the end of observable universe and we may still not get there as it is expanding at a faster rate.

Hence, it looks ludicrous to think that the Creator of this ever expanding universe shall be physically observable by humans who cannot see object of their size a mile away. It cannot be rationally put forwards as a condition for accepting God's existence. We, and the things manifested in the universe as an artefact of God are clear signs.

On the other hand, few days back, US Intelligence has shared declassified UFO videos. Loneliness greets us in space. Fermi's Paradox in physics wonders 'Where is everybody'. Why stars that were born long before our sun could not create any life. Our earth is not a separate corner in the universe; it has its composition of atoms coming from the same material that exists in the universe. Outside of earth, we have not found a liveable place where we could even just breathe naturally.

The verses of nature in universe also reflect truth on those who want to wonder why there is life at all and for what purpose. Scientific discoveries have added more substance to the verse 'Which of God's blessings will you forget'. Astrophysics has proved that there are too many features of blessings in various forms. Astrophysics has taken us near to the exact fraction of a second when God's command brought the Big Bang 13.7 billion years ago.

Big Bang can explain what happened afterward, but not what was before it, who was behind it and why did we come to exist in this world in the first place. We can force the question of purpose out of sight, but not out of significance and importance to a thinking mind.

Market News

- ❖ Federal Shariat Court Pakistan declares interest-based banking system against Shari'ah (Dawn, April 28).
- ❖ Pakistan default risk surges (The News, May 24).
- ❖ QFC and AIFC sign MoU to boost financial activities (The Peninsula, May 23).
- ❖ ADIB extends home finance facilities to retail buyers on Jubail Island (Zawya, May 23).
- ❖ Turkey, Bosnia to boost cooperation in participating banking (Hurriyet Daily News, May 20).
- ❖ The global Takaful Insurance market size is projected to reach USD million by 2028, from USD million in 2021, at a CAGR of % during 2022-2028 (Digital Journal, May 19).
- ❖ CBB Sukuk Al-Salam securities oversubscribed (Zawya, May 16, 2022).
- ❖ Risk-free benchmark rates 'key to Islamic banking' in Bahrain (Zawya, May 16).
- ❖ Total Sukuk issuances reached a total of $51.6 billion in Q1 2022 (Zawya, May 12).
- ❖ The share of Islamic banks in Turkey rose to 7.8%, 6.9% and 10.5% of end-2021 banking sector assets, financing and deposits (Fitch Ratings, May 12).
- ❖ Southeast Asia's Islamic Banking market set for 8% growth (Zawya, May 11).
- ❖ The life and family Takaful sector's new business has increased by 10% and 20%, respectively this year compared to 12% and 29% in the previous year in Malaysia (Malaysian Reserve, May 10).
- ❖ GCC takes lead in ESG Sukuk issuance, Saudi Arabia becomes largest market (Zawya, May 10).
- ❖ Bangko Sentral ng Pilipinas (BSP) to strengthen collaboration for Islamic banking (Manilla Bulletin, May 4).
- ❖ BNM released exposure draft on professionalism of insurance and Takaful agents (Asia Insurance Review (April 29, 2022).

Economic and Financial Indicators

Country	Net ODA % GNI	Debt Service % GNI	Difference	Country	Net ODA % GNI	Debt Service % GNI	Difference
Afghanistan	22.43	0.23	22.21	Maldives	1.43	8.25	(6.82)
Albania	0.19	7.85	(7.66)	Mali	11.18	1.46	9.71
Algeria	0.10	0.12	(0.02)	Mauritania	5.29	3.75	1.54
Azerbaijan	0.26	4.33	(4.07)	Morocco	0.64	4.57	(3.93)
Bangladesh	1.42	1.14	0.28	Mozambique	12.64	11.50	1.15
Benin	4.23	1.86	2.36	Niger	11.06	1.41	9.64
Bosnia	2.30	8.43	(6.13)	Nigeria	0.81	1.33	(0.52)
Burkina Faso	7.50	0.99	6.51	Pakistan	0.79	3.50	(2.71)
Chad	6.35	1.14	5.20	Senegal	6.37	5.58	0.79
Comoros	6.68	0.66	6.02	Sierra Leone	14.77	2.25	12.52
Cote d'Ivoire	2.11	4.10	(1.99)	Sudan	6.62	0.75	5.88
Djibouti	8.43	1.90	6.54	Syria	46.73	0.02	46.71
Egypt	0.60	3.38	(2.79)	Tajikistan	3.81	9.56	(5.75)
Guinea	4.52	0.95	3.56	Togo	5.68	1.39	4.30
Guinea-Bissau	8.20	1.36	6.84	Tunisia	2.45	8.01	(5.56)
Indonesia	(0.06)	6.55	(6.60)	Turkey	0.11	12.24	(12.13)
Iran	0.08	0.16	(0.08)	Turkmenistan	0.06	4.96	(4.90)
Jordan	6.28	7.13	(0.85)	Uganda	6.10	1.87	4.23
Kazakhstan	0.03	19.61	(19.57)	Uzbekistan	1.91	5.59	(3.68)
Kyrgyz Rep.	5.55	8.49	(2.94)	Yemen	36.98	0.52	36.46
Lebanon	2.97	41.58	(38.60)				

Source: World Development Indicators 2020

Islamic Banking Statistics Up to Q4-2020

Country	CAR	Gross NPF	ROA	ROE	Net Profit Margin	Cost to Income
Bahrain	17.80	8.30	0.40	4.50	13.80	53.20
Bangladesh	12.70	4	1	22.90	34.30	55.40
Brunei	19.20	4.80	1.70	13.60	56.50	45.20
Egypt	19.01	5.77	2.86	32.30	60.10	26.26
Indonesia	21.60	3.10	1.50	13	19.90	80.10
Jordan	22.80	2.20	1.70	17.20	49.40	50.60
Kazakhstan (2019Q3)	33.30	0.20	1.30	4.50	19.50	34.50
Kuwait	17.70	1.90	1	10.20	23	30.80
Malaysia	18	1.30	0.70	9.70	28.70	40.70
Nigeria	16.80	7.80	3.20	41.70	96.80	37.90
Oman	14.50	2.20	-0.80	-6.20	-23.40	69.90
Pakistan	16.60	4.10	2.40	39.20	43.60	49.50
Palestine	15.20	2.50	0.70	8.50	20.70	69.20
Qatar (2019Q1)	18.30	1.40	0.40	4.40	38.90	11.90
Saudi Arabia (2021Q1)	18.60	1.20	2.50	19.80	54.30	45.70
Sudan	11.50	3.50	3.50	67.70	51.20	49.70
Turkey	17.80	3.40	1.30	16.60	23.10	36.80
UAE	20.10	6.90	0.80	6.10	20.40	50

Source: IFSB Data

Call for Papers

Emerald Journal of Islamic Accounting and Business Research
Corporate Governance in Islamic Banking & Finance, Special Issue
https://www.emeraldgrouppublishing.com/calls-for-papers/corporate-governance-islamic-banking-finance

Journal of Risk and Financial Management
Special Issue "Islamic Finance II"
https://www.mdpi.com/jou

The 12-th Foundation of Islamic Finance Conference 2022 (12-th FIFC 2022)
1st - 2nd October 2022 (Web-based) and
8th - 9th October 2022 (Face-to-face in Istanbul, Turkey)
https://submit.confbay.com/conf/12-th_fifc_2022

The 8th International Islamic Monetary Economics and Finance Conference
5th – 6th October 2022, Online Webinar
https://submit.confbay.com/conf/iimefc2022

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