

Corporate Finance in an Interest Free Economy: An Alternate Approach to Practiced Islamic Corporate Finance

By

Salman Ahmed Shaikh

Abstract

This paper suggests an alternate approach to corporate finance in an interest free economy by looking beyond practiced Islamic finance and suggesting alternatives for corporate finance in sourcing funds i.e. i) Ijara with embedded options, ii) limited liability partnership, iii) equity modes like Musharakah and Mudarabah iv) income bonds and v) convertible income bonds. It also suggests alternatives for corporate finance in using funds i.e. i) Islamic income funds, ii) Islamic REITs, iii) Treasury Bonds, iv) income bonds v) convertible income bonds, vi) foreign currency reserves, vii) making strategic expansion, and viii) equity investments in other companies. It also suggests methods of valuation by suggesting an alternate means of pricing capital in interest free economy and use of appropriate discount rate i.e. Nominal GDP growth rate in public finance and corporate finance in CAPM, dividend discount model, project valuation, calculating NPV, valuing income bonds and stocks. It also discusses how the problems of scarcity of capital will be solved and alternatives for insurance in an interest free economy.

Global Financial Crisis and its impacts on the Islamic Countries

By

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Abstract

The current research explore the impacts of financial crisis on the Islamic countries economies and how they sustained their economic growth under the global financial crisis. Data were collected from secondary sources, various Islamic and conventional banks, stock markets and past five years trend of the economy. It was revealed that conventional banks were affected by the financial crisis because their ROE and liquidity ratios were decreasing compare with Islamic banks they were less affected by the financial crisis.

Bank Specific and Macroeconomic Determinants of Islamic Banks' Profitability: Empirical Evidence from Malaysia

By

FADZLAN SUFIAN

ABSTRACT

The present paper attempts to provide empirical evidence on the factors that determines the profitability of Islamic banks in a developing economy. Specifically working within the Malaysian Islamic banking sector, the empirical analysis is confined to the two full-fledged domestic Islamic banks, three full fledged foreign Islamic banks, 11 domestic Islamic Banking Scheme banks, and four foreign Islamic Banking Scheme banks during the period of 2001 to 2007. The empirical findings suggest that overhead costs, capitalization, market share, and credit risk exhibits negative relationship with Malaysian Islamic banks' profitability. On the other hand, the empirical findings seem to suggest that the larger Islamic banks tend to be more profitable. During the period under study, we find that the impact of macroeconomic conditions has always been negative.

THE MOTIVATING FACTORS FOR THE VIABILITY OF ISLAMIC BANKING IN NIGERIA

By

DR ADEBAYO, Rafiu Ibrahim

Abstract

As if the abandoned stone is now the cornerstone of the house, Islamic banking system has become a popular alternative to the conventional banking system and its viability is no more a myth as it has been accepted and its successes have been acknowledged globally. In Nigeria, efforts are being made to join the long list of the countries which encourage the operation of the Islamic banking system. The Central Bank of Nigeria has taken a step at adopting an aspect of Islamic banking system by providing a blueprint on interest-free banking system. This step allows some conventional banks to introduce some interest-free products in their banking operation. This however is not the true spirit of Islamic banking system which in addition to interest-free products, encourages high real sector investment, low consumer lending and as well establishes a system of justice in human society via Profit-Loss Sharing (PLS) transaction principle. The lateness in establishing an Islamic bank in Nigeria is however worrisome as the country has within its reach all it takes to have one. This paper is therefore out to expose some enabling factors for the success of Islamic banks in Nigeria. This, in our view, will assist the stakeholders in the struggle for the establishment of an Islamic bank to be optimistic of their endeavours, while the doubting thomases who see it as a white elephant project will have a change of mind on it.

