

Sources of Public Finance in an Islamic Economy

By

Salman Ahmed Shaikh

Abstract

Since interest is prohibited in Islam, the government in an Islamic economy cannot issue interest based T-Bills, T-Bonds and/or obtain interest based sovereign debt. Based on the literature review, it is argued that neither Prophet Muhammad (P.B.U.H) nor the pious Caliphates (rta) levied any taxes other than Zakah. Accordingly, this study explores the sources of revenue for a government in an Islamic economy. In discussing sources of tax revenue, it is maintained that Zakah is the only tax the government in an Islamic economy can levy. Nevertheless, the government can charge service/performance based fees, duties, charges etc in providing public goods. Furthermore, the profitable operations of state owned enterprises form an important part of non-tax revenues. It is also analyzed that how the non-profitable public institutions like police and courts will be funded. This study also discusses that how the government can finance its deficit keeping in view that interest is prohibited in Islam and Zakah rates are very low and Zakah base is very narrow as per common understanding. The study also gives brief insights into how much Zakah can be collected in Pakistan. Finally, it suggests that the nominal GDP growth linked rate of return can be used to benchmark domestic and external loans including those from IMF, WB and IDA etc.

Application of IAS-7 on Cash Flow Statements in the Financial Statements of Islamic Financial Institutions

By

Altaf Noor Ali, ACA

Abstract

Islamic Financial Institutions (IFIs) in Pakistan are required to present a cash flow statement as an integral part of its financial statements.

This write up brings on record insufficient direction in International Accounting Standard-7 (IAS-7) in the context of a financial institution generally. It goes on to record instances of deviations from stated standards observed and instances which appear to be misapplication and or misinterpretation of the Standard noted in the IFIs.

The Propagation Of Non-Interest Banking In Nigeria: An Appraisal Of The Ideological Risk

By

Abubakar S. ORISANKOKO,

Abstract

Apropos the propagation of Islamic banking in Nigeria, it is stated that in the Holy Quran appear commandments of Allah and there are Traditions of Prophet which condemn levying of interest in any financial deal and warns sinners of severe punishment Hereafter. On the basis of the above religious requirement, a whole edifice of rules, principles have been framed by Shariah for strict observance by Muslims. The Islamic banking therefore does not merely mean prohibition of interest but a whole code has to be implemented in practicing Islamic banking. However in Nigeria there are demands to drop the Islamic nomenclature and to call the system non-interest banking or divine banking because Bible also rules against interest.

The Muslims have reservations against these suggestions on the grounds:

- (i) Islamic banking is not merely meant to ban interest.*
- (ii) It has to implement all the Shariah rules in its working.*
- (iii) Under the two proposed changed names the entire practice of banking prescribed by Shariah will be continued but Islamic system will get no recognition for it and the Muslims most probably will start distancing themselves from such banks.*

The Foundation of the Islamic Financial System

By

Hossein Askari,

Zamir Iqbal and

Noureddine Krichene

Abstract

The entire foundation of Islamic financial system is based on the teachings of Islam which incorporate rules and principles as enunciated in the commandments of God in the Holy Quran and the tradition of Holy Prophet. A synopsis of basic principles of Islamic banking and the modes of financing in compliance with these principles had been given. One of the cardinal principles is prohibition of Riba in all its forms. The difference in working between Islamic system and conventional system in intermediation and other fields has been emphasized. In Islamic system trade is allowed in Halal Merchandise and disallowed in Haram goods. The article brands the present Islamic banking as not completely Islamic for which some examples have been quoted.

Money Creation And Control From Islamic Perspective

By

Prof. Dr. Zubair Hasan

Abstract

This paper deals with familiar facts in monetary economics from an unfamiliar angle. It argues that it is not factual to regard the legal tender money and bank credit as of different genus: they work in tandem to the same ends in an economy, conventional or Islamic. Also, it does not matter what serves as money – solid gold or flimsy paper – for keeping its value stable; only the blind would argue that staff is indispensable for walking. Money is just an instrument: it was never nor can ever be classified into Islamic and non-Islamic. What it does – good or bad – depends on how we use it. Money does not generate crises; its mismanagement does. It follows that the refuge the world is searching today from recurring financial crises does not lie in money substance: history testifies that national economies could not remain turmoil-free during the centuries of the yellow metal sway over the monetary scene. The paper concludes that it is the human factor that has been the source of good or evil for mankind including money matters. And the quality of human factor true religion can alone improve: morality without faith is rudderless.

Customers' perceptions about shari'ah compliance of Islamic banks in Malaysia

By

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Abstract

The main purpose of the paper is to examine the perception of the customers regarding the shari'ah compliance of Islamic banks in Malaysia. The study also attempts to assess the awareness of the Islamic banks' customers of the shari'ah compliance concept, as well as their exposure and perception of the current criticisms concerning shari'ah compliance of Islamic banks. The study employs qualitative approach to understand in detail the customers' perception and experiences about shari'ah compliance of Islamic banks. Semi structured interview is used with 10 Islamic banks' customers in Malaysia. The study also used phenomenological techniques to analyse the data. The findings revealed that the customers perceive that Islamic banks as they practice today are still not shari'ah compliant. However, they are optimistic about the achievement of full shari'ah compliance in the future. This research is the first to study the shari'ah compliance of Islamic banks in Malaysia from the customers' perspective, by using qualitative research approach. The findings of this study are of original importance, because they unveil the customers' experience in an area that has been severely looked at from the professional and experts' point of view only.