Financing Public Infrastructure Using Sovereign Sukuk

By

Salman Ahmed Shaikh

Abstract

Markets fail in the provision of public goods. Public goods are non-rival and non-exclusive. This creates the problem of free riding. Hence, public goods and infrastructure is often provided by governments. As discussed in endogenous growth models, the public infrastructure and capital goods can enable the private sector's production processes to experience increasing returns to scale. This can result in permanent source of economic growth in an economy. Given that public infrastructure is important for economic growth, the issue is how the government of Pakistan can mobilize enough resources to improve the public infrastructure and expand it. We argue that by way of sovereign Sukuk financing, it can achieve sufficient funds through which the public infrastructure can be provided in urban centers. The rationale for financing sovereign Sukuk rests on the fact that public infrastructure development leads to positive externalities. Provision of public infrastructure is circularly related to investment, tax base and tax collection. Improvement in public infrastructure induces investment in the economy that can help in increasing the tax base with the entry of firms and increase in employment creation. As a result, increase in tax base can boost the government's capacity to service sovereign Sukuk effectively. This can also help in reducing i) urban congestion, ii) urban crimes, iii) reduce prices of real estate, iv) widen the urban centers, v) generate employment in new urban centers, vi) facilitate closer migration to wide choice of urban centers, vii) create new growth nodes and production zones and viii) reduce ethnical conflicts that arise from ethnical diversity in congested urban centers.

The Concepts of Discounting and Time value of money in Islamic Capital budgeting Framework: A Theoretical study

By
Muhammad Abubakar Siddique
Memoona Rahim

Abstract:

The concept of discounting is a most important issue in the world of economics and finance from both conventional and Islamic perspective, because it relates to capital and interest. Islamic finance cannot depend on the conventional techniques of capital budgeting because of interest. Conventional capital budgeting techniques involve time value of money and discounting the future cash flows in this respect which is strictly prohibited in Islam. There are two aspects of discounting; evaluation tool and consideration. A few scholars have discussed the time value of money and discounting in different aspects but all studies ignored the role of discounting as an evaluation tool. They also did not distinguish the time value of money from the concept time value of commodity. The purpose of this study is to answer the question whether discounting as an evaluation tool is permissible in Islamic perspective or not? The study will also differentiate the time value of money from time value of commodity. The study also clarifies that there is no objection in taking time value of money just for sake of capital budgeting and what is prohibited is time value of money taken as consideration.

Capital Adequacy, Liquidity and Risk: Is Islamic Banking Too Expensive?

By
Camille Paldi

Abstract

This paper explores the risks involved in Islamic banking products. It argues that Islamic finance instruments pose a unique set of risks and costs, which must be taken into account when determining the amount of regulatory capital a bank must hold. Riskier products require higher capital charges; therefore, Islamic banking is more expensive than its conventional counterpart and requires more regulatory capital. In addition, the existing assets of Islamic banks are not as liquid as compared to conventional banks and due to slow development of financial instruments; Islamic banks are unable to quickly raise funds from the markets. One means of obtaining liquidity is through the securitization of Islamic financial contracts, which requires the establishment of an Islamic secondary market. This would increase liquidity and allow banks to start moving away from murabahah. Furthermore, since the existing lender of last resort (LLR) facility is based on interest, Islamic banks cannot utilize LLR facilities. Hence, illiquidity and liquidity risk are major problems for Islamic banking, which also makes it necessary for banks to hold more regulatory capital.

Nigeria Economic Meltdown: Islamic Banking As A Sustainable Trend

By

Wasiu Aminat Abidemi
Dr. Ibrahim Foudalmoula

ABSTRACT

Nigerian economy is facing the most severe financial crisis since the Great Depression of the last century of global economic meltdown and if this situation continues to deteriorate, Nigeria would be in great jeopardy. This paper seeks to assess the Economic meltdown in Nigeria Economy and investigates whether Islamic banking has the ability to withstand the challenges of the economic meltdown in the face of the current crisis facing the Country.

Islamic banking is one of the principles of Islamic economics system which cater for welfares' of the citizen of a particular country. This paper seeks to highlight the extremely useful contributions and confirms a lot of the economic benefits that Islamic banking can offer to Nigerian economy if its challenges is been taken care of.

The paper is both descriptive and exploring possibilities and constraints of inherited situations by applying critical thinking and analysis through the published literature in Islamic finance and does not include empirical investigation. The information used was extracted from both primary and secondary sources especially newspapers, magazines, and books. Some data were also accessed from Internet on global economic meltdown. Journals were also accessed through electronic means in libraries and the web.

The paper however suggests that for these economic benefits to be actualized and in order to think through how to prevent future financial collapses and make capital markets work more effectively, Central Bank of Nigeria (CBN) and the government respectively needs to address the regulatory and operational measure so that Nigeria could lay the foundation to become a leader in Africa in terms of economic growth.

Comparative Analysis of Performance of Islamic Vis a Vis Conventional Banking of Pakistan during Global Financial Crisis 2007-2010

By

Dr Ambreen Zeb

Abstract

This study aims to conduct a comparative analysis of performance of the impact of global financial crisis on Islamic and conventional banking in Pakistan during the period the 2007-2010.

Three performance indicators have been considered for this purpose namely Profitability, Liquidity & Soundness. This study covers a four year period from 2007 to 2010.Based on the performance of 2007 the impact has been analyzed by using financial ratios as analysis tool. The financial ratios like Return on Assets (ROA), Return on Equity (ROE), Loan to Asset Ratio(LAR), Loan to Deposit ratio (LDR), Assets Utilization(AU), Debt to Equity ratio(DER) and Income to Expense ratio(IER) are used to evaluate performance of sample banks. Primary data was also collected through survey by using a closed ended questionnaire.

The study explores two main findings (I) there seems no major variation in liquidity and profitability of both types of the commercial banks (II) the Islamic banks hold more liquid assets than conventional banking counterparts, which affected their liquidity.

*While analyzing, it was also concluded that cost of deposit on conventional side increased as compared to Islamic Banking and Non Performing Loans were increased after m*ulti year stability and control on healthy loans on conventional side.

Mutuality based Islamic Insurance

By

Abdul Azim Islahi

Abstract

Dr. Muhammad Hamidullah (1908-2003) on mutuality based Islamic Insurance is well-known for discovery, editing and bringing to light a number of rare and invaluable Islamic manuscripts. A significant aspect of his contribution is his pioneering writings on Islamic Economics. He authored more than a dozen essays related to Islamic economics. He is the first to use this term as early as 1936 in his work "Islam's Solution to the Basic Economic Problems – the Position of Labour". He is also a pioneer writer on mutuality-based Islamic insurance, now known as 'takāful'. After surveying the development of Islamic insurance, the present paper studies and evaluates Dr Hamidullah's contribution to mutuality-based insurance.

The Role of Religion in Islamic Bank Patronizing Behavior: A Survey in Mauritius

By

Muhamad Abduh Ph.D & Shaheen Ramjaun

Abstract

*Islamic banking in Mauritius is a very new industry introduced only in late 2007. Mauritius is a secular country with mostly people from Hinduism faith and only around twenty percent are Muslims. In such an environment, Islamic bankers would need to know whether the Mauritian population is willing to accept this new form of banking. This study attempts to investigate the willingness of the people of Mauritius to patronize Islamic banking and whether religion plays a significant role upon this issue. A survey was conducted and a logistic regression was carried out. The results show that Muslims are more willing to choose Islamic banking as an alternative. Interestingly, respondents perceived that Islamic banking is meant for everyone and not only for people of Islamic faith and these respondents have a higher likelihood to patro*nize Islamic banking than those who perceived otherwise.

Insights on Islamic Finance (Part - two)

By
Imran Hussain Minhas

Abstract:

Riba, the major driving force and key element in conventional banking, is one of those items which have been strictly forbidden and declared as Haram in Islam. The convention banking and finance system is not meant for the Muslims and Islamic societies. Practicing riba based banking and financial system is sinful and destructive for the Muslims for which the State and its Organs are primarily responsible. It is true that the modern economies cannot survive without a sound financial system but it is not necessary that it should be based on conventional banking practices and riba. Shariah compliant solution to the riba based conventional or modern financial system is not a dream now.

Potential of Halal Industry for Maghreb Countries

By

Mohd Ali Mohd Noor
Mohammed Rizki Moi

Abstract

The world halal market is a fast emerging sector that has received positive response. The potential of this market is being explored and such potential is not only associated with the total population of Muslims that constitutes 23 percent of the total world population but also takes into account the fact the non-Muslims countries domination on the trade of halal meat and processed food products and the demand of halal food. Halal products include both food and non-food items. This study aims to focus on the potential of halal industry in Maghreb countries namely Algeria, Libya, Mauritania, Morocco and Tunisia where majority of their Muslims population practices Maliki school of thought. Muslim population in these countries is nearly 100 percent that is a good indicator for a ready halal product market. Despite the huge number of Muslims population, their contribution to the world halal market, is rather scarce and insignificant. This study involves primary and secondary data which was analysed using the SWOT analysis to indicate the potential and the treatment for each country. The main finding implies that only four out of five Maghreb countries have potential to develop halal industry namely Algeria, Libya, Morocco and Tunisia on the ground that their net exports are positive. This study confirms that being the countries with majority Muslim population is the driving factor of the halal industry.