

brain storm

Sunday, June 9, 2013

Dr. Siddiqi is Playing the Role of the Guardian of the Soul of Islamic Finance

Dr. Siddiqi is Playing the Role of the Guardian of the Soul of Islamic Finance

<http://www.radianceweekly.com/82/1212/modius-operandi-exposed/2007-11-04/islamic-finance/story-detail/dr-siddiqi-is-playing-the-role-of-the-guardian-of-the-soul-of-islamic-finance.html>

By: DR. MABID ALI AL-JARHI

I consider this article (Future of Islamic Finance by Dr. M. Nejatullah Siddiqi, *Radiance Views weekly*, 28 October-3 November 2007, pp. 22-24) to be a continuation of Dr. Siddiqi's continuous strive to relate this modern Islamic experiment to the universal experience of mankind trying to find itself in a world which gives little time and no opportunity to anyone to check the morality of its deeds.

The Islamic experiment places an additional tier of regulatory authority to check the correctness of our financial actions, namely the Shari'ah Board, which is supposed to apply the true Shari'ah scale to our financial transactions. The aim is to act with a moral aim on the one hand, and remain efficient as well as sustainable on the other.

A direct consequence of an enlightened Islamic finance, which is correctly practised, is to build a lighthouse that leads ships full of tired and exhausted

Blog Archive

- ▶ 2015 (12)
- ▶ 2014 (9)
- ▼ 2013 (34)
 - ▶ September (4)
 - ▶ August (9)
 - ▶ July (7)
 - ▼ June (14)

الوفاق الممكن

تغريدات وتغريدات
(مضادة 1)

دعوة فتوحة لإنشاء
حزب شباب الثورة

ISLAMIC
ECONOMICS,
POVERTY &
WOMEN

الصكوك: قضايا فقهية
واققتصادية

Institutional
Tawarruq: a
Product of III
Repute

التورق المنظم منتج
سيئ السمعة

THE SEVEN
ADVANTAGE
S OF

people who have been fighting with angry waves (perhaps of their own making) to a safe landing. There are several positive results from such an experiment. Dr. Siddiqi has mentioned several of them, most important is that Islamic finance makes the real sector the dominant power in economies and pushes the financial sector to the background after reducing it down to size. However, the way he expressed some of them may require fine tuning.

The idea that Islamic finance drastically curtails debt financing echoes the pure-equity model propagated by early Islamic economists, who have considered equity to be good and debt to be bad. I consider this to be a passing stage of our thinking, as now the mixed model (debt plus equity) is the more realistic.

However, Islamic finance significantly modifies the nature of debt. First, it is not negotiable. Second, it is open to rescheduling at times of temporary insolvency at no extra costs (whatsoever). Third, delinquency is subject to penalty to be collected for charity. Such modifications rid economies from the bond market, with all its associated instability and contagion.

As to speculation, this is based on short-selling and long purchase (presumably in the stock and not in the bond market). Short selling violates the basic Shari'ah rule of "do not sell what you do not own." Lending shares or renting them to go around this is irrelevant. Long purchase requires finance. Interest-based finance would not be acceptable. Purchase on the margin is also non-Shari'ah compliant, even when the credit provider (the broker) claims to charge no interest. The reason is that interest is obtained indirectly through higher commission.

Dr. Siddiqi's expression of "financiers who have a better mix of interests and values" sounds overly optimistic. The presence of the Shari'ah supervisory Board is a design to force such a mix and not to rely on the good nature of financiers.

ISLAMIC FINANCE

Dr. Siddiqi is Playing the Role of the Guardian of...

Why the GCC countries aid Egypt?

التمويل الإسلامي
بحاجة إلى قيم
أخلاقية

العلاقة بين النكسة
وكمب ديفيد

الثورة والدعاوى
الفلولية

المشكلة المصرية بعد
زوال المملكة
العسكرية



About Me



 **Dr Mabid Al-Jarhi**

[View my complete profile](#)

I am glad he has brought up the problem of *Tawarruq*. This actually exposes the weaknesses of Shari'ah Board. I have previously mentioned that such a board is formed with little attention to the academic and practical qualifications of Shari'ah scholars. This to me represents a high degree of opportunism on the side of businesses that require Shari'ah supervision. Let us agree that Shari'ah scholars (like scholars in economics) must have a Ph.D. in Shari'ah (specifically, and not in Islamic studies). This should be the first step to standardisation.

Rating companies must give low rating to products of institutions whose Shari'ah Board members are (well-intentioned) impostors, with insufficient credentials in Shari'ah. Having one economist as a member of such boards is also a necessity as an expert, but not as a Shari'ah expert and never to be called Sheikh!

We economists must work patiently with Shari'ah scholars in order to explain to them how *Maqasid Al-Shari'ah* can be realised or inhibited through a certain pronouncement. We can tell better the consequences but we cannot set the rules.

Tawarruq is not the only ill. Other ills are present. The latest are some purposed hedge products based on two parallel (claimed not to be mutual) promises. Some, who are too enthusiastic, attempt to use the promise as a tool, instead of the contract, as the former is more flexible than the latter. They meanwhile forget that a contract between two parties is just like a combination of two self binding promises.

Finally I must say that I am glad that Dr. Siddiqi is playing the role of the guardian of the soul of Islamic finance. Such a guardian is badly needed, considering the state in which the world finds itself.

[Dr. Mabid Ali Al-Jarhi, born in 1938 in Egypt, is one of the top most Islamic economists today. He did Ph.D. in Economics from University of Southern California. He has served as Secretary-General of the Council of

Governors of Arab Central Banks at the Arab Monetary Fund, Abu Dhabi, and as Director, Islamic Research and Training Institute (IRTI), IDB. He is a long-time member of the American Economic Association, the Royal Economic Society, the European Economic Association, the Econometric Society and several other professional groups. He can be contacted at mabid.al.jarhi@gmail.com]

Posted by [Dr Mabid Al-Jarhi](#) at [Sunday, June 09, 2013](#)



No comments:

[Post a Comment](#)

[Newer Post](#)

[Home](#)

[Older Post](#)

Subscribe to: [Post Comments \(Atom\)](#)

Ethereal theme. Powered by [Blogger](#).

