BOOK REVIEW

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Islamic Banking and Finance: New Perspectives on Profit Sharing and Risk

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This collection of ten papers, presented at the Fourth International Conference on Islamic Economics and Banking held at Loughborough University, UK on August 2000, has been reviewed by Prof. Rodney Wilson in *Islamic Economic Studies* (Vol. 10, No. 1, pp. 83-89). In this review I comment on just one of the essay- “Islamic financial institutions in India: their nature, problems and prospects” by Dr. M.I. Bagsiraj.

Bagsiraj begins with the claim that there are ‘over 300 Islamic Financial Institutions in India’. This is grossly exaggerated. One could barely count ten Islamic financial institutions in the country; the rests can at best be called Muslim financial institutions. These are mostly saving and loan societies set up to meet local needs for crediting. Further, he presents a case study of an institution that itself has never claimed to be Islamic. Remarkably, he shows how a major portion of the income of Muslim Fund Najibabad (p. 177) comes from interest based commercial bank.

Bagsiraj claims: ‘It is against great handicaps and constraints that various IFIs (Islamic Financial Institutions) are operating and gradually expanding their sphere of economic influence in India’ (p. 169). In fact opposite is true -- the IFIs have been shrinking faster then ever. One of the largest Islamic business houses, presented among the case studies, had been liquidated before the author presented this paper at the Loughborough conference, but the chose not to mention this in his study.

He states that ‘the enactment of Non Banking Finance Company Act in 1998 is posing a great many operational difficulties for IFIs in India. For the first time, they have come under greater scrutiny of the Reserve Bank of India’s prudential norms’ (p.169). But the fact is that this NBFC Act has been there in practice since 1963. Bagsiraj himself, at another place, mentions the imposition of NBFCs norms in the year 1997 (p. 187). More generally, the argument about the greater scrutiny of IFIs in India is also not true as in India IFIs are just like any other financial company in the country- the same laws apply to all of them.

In section four of the paper, on Muslim Funds and Islamic Welfare Societies, Bagsiraj says: ‘these are non profit institutions and are generally small in size. They mobilize interest free local savings and extend interest free loans usually against the security of gold ornaments’ (p. 174). In reality, many of these organization are profit seeking and are comparatively the largest Muslim financial institutions in the country. As for security, most of the Muslim Funds do offer loans against ornaments including gold, but they also impose a charge on their loans, giving it different name (cost of loan form, cost of security, or service charge). These charges are 1-2 percent lower than the charges imposed by the commercial banks in the country. The author acknowledges this when he says that charges on loans are arbitrarily fixed. (p. 174 and p. 176).

Bagsiraj claims (p. 174) ‘Overall, there may be more than 300 Muslim Funds and Islamic Welfare Societies functioning in India. Their total working capital, is estimated to be around one crore rupees’. This is contradicted later in the paper (p.187) where the author says: ‘The total working capital of IFIs of India is only about Rs. 300 crores’. Neither statement is supported by data or references. The claim that Patni Cooperative Credit Society Ltd. (p. 179) was the earliest effort to establish an Islamic financial institution is also without substance. (See, Hamidullah, Mohammad, *Maarif*, 53:3, 1944, p.p.211-6).

Several statements in section six are misleading. For example: ‘None of the IFCs of India was able to secure RBI registration until April 1999. This is because they did not fulfill the prudential norms set by the RBI’ (p. 182). This gives the impression that, prior to this, all the IFCs were unregistered. However, the fact is that the RBI prepared a new application format for Non Banking Finance Companies (NBFCs) in 1998 and asked all the NBFCs including the Islamic ones to re-apply on the new format. Since there were more than fifty thousand NBFCs functioning at that time, it took the RBI a long time to process the applications. The registration certificates to many IFIs including Al-Baraka/Al-Barr Finance House Ltd. and Barkat group itself are evidence that the reason for the delay was not as mentioned by the author. Section 6.1.3 (p. 185) says ‘The RBI has classified most of the IFCs in India as leasing companies’. If that is so, why did the RBI bother to classify non-registered IFCs? In reality this is again an unsubstantiated statement.

Barkat group never practiced *Murabahah* financing (See, *Islamic Economics Bulletin*, “The Future of Islamic Finance in India”, Vol. 12, No. 5) as section (6.1.1, p. 183) suggests.

In section seven Bagsiraj discusses the future prospects of IFIs in India. He maintains that ‘Al-Ameen Islamic Financial and Investment Corporations AIFIC, Barkat Leasing and Financial Services Ltd., (BLFSL), and Muslim Fund Najibabad (MFN), together have about 100 branches in different parts of the country’. This is again an exaggerated figure. He himself notes that Al-Ameen has 25 branches (p. 182), and MFN has 29 branches, (p. 174). If we had the 19 branches of the Barkat group, including the three in Mumbai, the total number of branches of these companies together 73, well short of 100.

Bagsiraj did a survey on awareness of IFIs in India, and presents the result at the end of the article. He covered 24 cities of twelve Indian states. Unfortunately the two states with the most concentrated Muslim population, namely Jammu and Kashmir and Assam were not included, whereas the two states, namely Haryana and Panjab with the least Muslim population in proportion to others were. This obviously puts a big question mark on the representative nature of the data.

Section eight makes for an impressive conclusion to the article, but it does not make up for its gross errors and omissions and misleading judgments: the author needs to thoroughly revise the work.

(Source: *Review of Islamic Economics*, No. 13, 2003, pp. 79-83)