THE GLOBAL ECONOMIC CHALLENGES AND ISLAMIC EQUITY FINANCE: AN ANALYSIS IN ITS IMPACT FROM 1975-2010

Dr.Showkat Hussain*

Abstract

The geo-economic challenges of the present century persistently influenced the realm of studies in Islam and reallocated Islamic economics with much wider dimensions. The researches in the Islamic equity finance revealed the option of inclusion of the equity models in the commercial sector. From 2005, its application and effective mechanism is becoming more competitive with its conventional counterpart with more than $1000bn. Altogether with the global assets and a healthy growth rate of 10-15% per annum (Rated 2010), Islamic banking and finance is being practiced in more than 78 countries with 550 Islamic financial institutions actively participating in the global commercial industry. The discipline has taken a new direction as the experts are involved to concentrate upon the subject along with fresh researches for the economic mobility. Muslim intellectuals and the financial experts delved deep into the socio-economic themes of *Quran* and *Sunnah* and approached the presidencies from *Fiqh al-Ma'amalat* (Financial jurisprudence) to reorient equity financing as per the current geo-economic challenges. The Islamic equity models have made a considerable growth and impact over the world economy since 2000. In 2004 the proportion of assets of the region was 29% of the world wide Islamic banking assets which grew to 50% in 2008 of the worldwide share. The present paper, therefore is an attempt to discuss and analyze the impact of Islamic finance viz a viz the current geo-economic challenges worldwide. The study will also highlight the efficacy of Islamic equity finance and the possibility of its future expansion in the corporate sector.

Key Words: *Islamic Equity Model (IEM), Products and Services, Shari'ah Complaint, Project financing, PLS Scheme, Shirkah (Partnership), Shari'ah Advisory Board*

* Faculty School of Humanities and Social Sciences, Depart of Islamic Studies, Islamic University of Science and Technology, Awantipora, Pulwama,,Kashmir,J&K,INDIA

1.1 Conceptual Background

The contemporary Muslim world, since 1990 is again in the process of transition. Due to certain socio-economic and political reasons, the religious discourse and its interpretation has been a crucial debate in the current circumstances.[1] In the given scenario, the Muslim intellectuals and scholars are in a constant search of derivations and inputs that could help in transforming institutions to restore their efficacy in different aspects of the socio-economic life. This process of reallocation has proved to be the '*fresh- breath*' to reorient the studies and researches in the contemporary Islam. Keeping in view the existing urgencies and the aforesaid background, Islamic economics and finance explored socio-economic and intellectual dynamism of Islam and brought certain new things to light in the given perspective.[2] Post 1990's, Islamic finance has become a trillion-dollar industry.[3] The market consensus and overall impact implies that Islamic finance has a bright future, owing to favorable demographics and rising incomes in the Muslim communities.[4] Despite skepticism regarding accommodation between Islamic and global finance, leading banks are buying Islamic bonds and forming subsidiaries specifically to conduct Islamic finance. Special laws have been enacted in non-Muslim financial centers – London, Singapore, and Hong Kong – to facilitate the operation of Islamic banks and associated financial institutions.[5]

The impact of Islamic equity finance since 2005 is much significant. Its share, especially to facilitate and shape the social economics is a living positive sign of growth in the current geo-economic situation. How should these developments be viewed from the perspective of Western finance and economic analysis? Does Islamic finance really constitute a viable alternative financial system? How Islamic equity models can perform and act as efficient mechanism in the corporate sector? These and similar other questions are expected.[6] Not so long ago, Islamic finance was superficially dubbed a zero-interest-rate system that would lead to inadequate and inefficient resource mobilization. Ironically, mainstream central bankers today routinely use precisely such policies when pursuing massive "*quantitative easing*."There are two central precepts of Islamic finance: (a) absolute prohibition on charging interest on financial transactions, and (b) high moral standards on the part of lenders and borrowers. Interestingly, the best economic rationale for a zero-interest-rate system is provided in John Maynard Keynes's *The General Theory*: "Provisions against usury are amongst the most ancient economic practices of which we have record….In a world, therefore, which no one reckoned to be safe, it was almost inevitable that the rate of interest, unless it was curbed by every instrument at the disposal of society, would rise too high to permit of an adequate inducement to invest.[7]"Importantly, although interest is prohibited under Islamic finance, profit is not; the latter is derived from various arrangements that combine finance and enterprise in Islam. In essence, this is a profit-sharing and risk-sharing system that is based entirely on equity finance models.[8] Islamic finance thus contrasts with the current dominant system based on interest-bearing debt, in which risks are theoretically transferred to debt holders, but in practice are socialized during crises.[9] Other things being equal, most economists will agree that debt finance leads to greater instability than equity finance. It follows from the second major tenet of Islamic finance that if people adhered strictly to its ethical requirements, there would be fewer moral-hazard problems in Islamic banking. Moral hazard exists in all systems in which the state ultimately absorbs the risks of private citizens. But, whether any particular system is efficient in avoiding moral hazard is a matter of practice, rather than of theory.[10] Islamic finance could prove to be a serious alternative to current models of derivative finance. Moreover, the basic tenets of Islamic finance force us to re-think the ethical basis of modern monetary arrangements, which have evolved into a global reserve-currency system founded on fiat money. In the past, gold had been the anchor of monetary stability and financial discipline, even if it was deflationary. The test of any alternative financial system depends ultimately on whether it is – or can be – more efficient, ethical, stable, and adaptable than the prevailing system. For now, there is no Islamic global reserve currency and no lender of last resort. But the Islamic world is the custodian of huge natural resources that back its trading and financial activities. As the Islamic world grows in stature and influence, Islamic finance will become a formidable competitor to the current financial system. The world would have much to gain if the two systems were to compete fairly and constructively to meet people's needs for different types of finance.[11] This trajectory of Islamic finance has compelled the conventional financial institutions to make a way for Islamic financing techniques and beginning to incorporate them, either in their lending practices or via separate Islamic departments (windows).The cost efficiency of Islamic finance is higher than conventional finance and development of new Islamic products and services is imperative.[12] The most profitable banks were found in Iran, Qatar and Saudi Arabia with Islamic financial centers often achieving higher levels than conventional Banks. Islamic banking and finance is growing so rapidly that it emerged as global phenomena and is gaining regulatory approval to operate alongside conventional western-style orientations.[13]

1.2 Islamic Equity Finance

Islamic Equity finance is absolutely identical with PLS and the *Shariah* complaint models.[14] The equity finance in Islam owes its origin in *Fiqh al M'amalat* (Economic jurisprudence) whereupon the relevant content from Quran and Sunnah has been interpreted and supported for the commercial discourse.[15] In the approved forms of *Ba'ih* (Trade and Sale) a number of options along with practicality and mechanism has been elaborated for socio-economic benefits.[16] The objective of Islamic banking system is to make a positive contribution to the fulfillment of economic growth and sustainable development of the society. [17]

As defined technically, an Islamic bank is a financial institution that identifies itself with the spirit of *Shari'ah*. The *Fiqh al-Maamalat* (economic/financial jurisprudence) as explored in the juristic literature tries to manifest public good (*Istehsan*) and *Maqasid al-Shariah* identical factors that determine the course of operations in the commercial activity. An Islamic bank does not normally lend money except interest-free loans which are termed as *Qard Hasanah* (Benevolent Loans) while loans on service charge, not exceeding the actual administrative cost of such loans, have also been permitted by Muslim jurists. To replace interest and its possibilities in finance, the ideal mode of financing under the Islamic banking system is *Mudharabah* "*Financing on Profit & Loss Sharing*" (PLS) basis that makes the depositors share holders. [18] *Qard Hasanah*, therefore is for the benefit of the weaker sections of the society at large. To safe-guard the interest of depositors/investors, these provisions and loans, as a matter of policy, do not constitute a significant source of financing by Islamic banks, However, if in any country, the Islamic System of *Zakat* is mandated to the Islamic banks, the requirements of *Qard Hasanah* would primarily utilized for the weaker sections of the society.[19]

However, the immensity of financing by Islamic banks has to be equity based. In this mechanism, the losses are shared by the financier along with the entrepreneur in the ratio of their respective capitals. The profits are, however, shared in an agreed ratio. The rates of returns in this system are thus replaced by ratios.[20] The Islamic financial experts, while designing an alternate to the existing interest-based system, realized that large scale resorting to PLS system of Islamic banking could pose serious risks and hazards to Islamic banks due to high growth of the conventional banking system. It is therefore, considered necessary to devise various other modes of financing in addition to *Mudaraba* & *Musharaka* based on PLS system and *Qard-Hasan*. These modes being the second line fixed return techniques include:

1.3 Equity Finance Models

i. Musharakah (Partnership)

ii. Mudharabah (Co-partnership)

iii. *Murabaha* (Cost-plus sale).

iv. *Bayah Mu'ajjal* (Deferred payment sale).

v. *Bay'ah Salam* (Purchase with deferred delivery).

vi. *Bay'ah Istisna* (Made to order).

vii. *Ijara* (Leasing).

viii. J*u'ala* (Loans with a service charge).[21]

The exploration of the above equity modes has proved their efficacy since 1975. From 2000, the institutions of repute again started fresh researches to identify financial activities within Islamic equity models. These models have been successfully operating to remove the injustices and have proved a well start to the achievement of socio-economic growth which Islam seeks to achieve. The fact however, remains that these modes bear pre-determined fixed rates wherein neither the operational losses are shared by the banks nor the returns charged are dependent on the operational result of the entrepreneur.[22] It is imperative that the Islamic financial system permits the entrepreneurs earn profit from the finances provided to them by banks, these must be shared with the banks. The banks, on the other hand, must share their profit with their depositors /investors instead of ensuring the minimal returns whatsoever. A large number of depositors would thus hopefully be able to get significantly higher rates of return from the banks leading to over-all prosperity. In addition to the above mentioned models, many other techniques, identified within *Shariah* complaint can also be professionalized.[23].

2.1 Relevance of Islamic Equity Finance

In the contemporary global scnerio, the efficacy of Islamic equity models is determined. The operations through *Bai'ah Murabaha* have been recognized in the corporate since 1990. As a financial contract in juristic connotations of Islam is referred to a particular kind of simple sale where profit over the actual cost is guaranteed.[24]. In view of the difficulties and risks visualized in adopting PLS system of Islamic banking on a large scale, in recent times, the *Murabaha*, for all practical purposes was transformed from the sale transaction to a mode of financing.[25] In this mode, the bank, at the request of its client, purchases the specified goods from a third party against payment.[26] Immediately on the transfer of ownership of the goods as also obtaining its physical or, in most cases, the constructive possession, the bank sells these goods to the client at cost plus an agreed fixed profit margin.[27] The client then takes physical possession of the goods and undertakes to pay the price to the bank either in installments or in lump sum, at an agreed later date. The instances are not lacking where customers of the bank and the seller of the goods are sister concerns. In yet many other cases, the customers of the bank purchase the commodities themselves as agents of the bank and then they repurchase the same commodity from the bank for a cost plus profit to be paid at a mutually agreed later date.[28] It is, however, felt that there would be no objection if an Islamic bank, in addition to its normal banking business, separately establishes a 'Merchant Banking Division' wherein various types of goods are purchased and then offered for sale to other prospective buyers at a profit. There are however, serious reservations to the wide spread use of *Murabaha* technique as a mode of finance where the bank purchases the commodity only after the customer has agreed in principle to purchase it from the bank at a profit - mark-up. It must therefore, be appreciated that under *Murabaha*, a trading transaction is being transformed into a mode of finance just to meet the *Shari'ah* requirements.[29]

While referring to alternate modes of financing based on *Murabaha* and *Ijara* (Leasing) the eminent scholar Justice Taqi Usmani observes that if designed to fulfill the *Shari'ah* requirements, these modes can be adopted as transitory measure. He however, cautions that ".... there should be a gap between purchasing the commodity and selling it to the customer and the risk of owning the commodity during the period should be borne with all its basic components and all its essential consequences''.[30] In actual practice, there is no gap as in many cases, the bank makes the payment almost simultaneously or even after the goods are delivered at the premises of the client. The bank thus does not in fact assume any risk including even the risk of the goods, during the short period, the bank is supposed to own and possess these goods. The bank however, gets a return at a pre-determined fixed rate, which is not dependent on the operational results of the entrepreneur.[31]

2.2 Equity Finance Assessments:

The Muslim scholars in the field have the following observations with regard to the equity finance operations:

Justice Taqi Usmani assesses Equity finance models and observes: -

a) Islamic banks are using the instrument of *Murabaha* and *Ijarah* within the framework of the conventional benchmarks where the net result does not differ much from interest-based transactions.

b) By not even gradually enhancing the financing on PLS basis, the basic philosophy of Islamic banking seems to be totally neglected by the Islamic banks.

c) The *Shari'ah* Scholars have allowed the use of fixed return financing techniques *Murabaha* & leasing etc only in those spheres where *Musharaka* cannot work.

d) When the common people realize that the net result in the transaction of the Islamic banks is the same as was in the transactions of conventional banks, they become skeptical towards the function of Islamic banks. It therefore, becomes very difficult to argue for the case of Islamic banking before the common people, especially before the non- Muslims who feel that it is nothing but a matter of twisting documents only.[32]

The global Muslim population is continuing to grow faster than the non-Muslim market. Recent estimates place the Muslim population at 1.57 Million-23% of the global population. There is also a large Muslim population in the Asia-Pacific region. China for instance has more Muslims than Syria, while Russia has more Muslims than Jordan and Libya combined. This translates to immense opportunities for *Shari'ah* compliant finance is as yet untested markets.[33] The potential for Islamic finance continue to enormous while the only impediment to its growth may be that the conventional (financial) regulatory structure is currently unable to support the introduction of Islamic financial products. Through the adoption of a progressive face as opposite to an overtly religious tone in countries such as Malaysia, the Islamic Finance Industry has continued to make inroad in the non-Muslim market. This may also be the approach adopted in countries such as India and certain African countries with large Muslim populations, where the projection of Islamic finance would be anathema to the political regime.[34]

Islamic banking and financial activities have gained momentum during the last three decades particularly in the areas of *Sukuk*, securitization in the framework of the Islamic finance industry, products for retail banking and investment instruments.[35]. Local currency instruments /*Sukuk* ,based on modes other than *Shirkah* (Partnership) have been issued since 1992 while as the *Shirkah* (partnership)-based instruments of investment like *Mudharabah* certificates and Participation Term Certificates (PTCs) have been in use since 1980.The first issue of dollar-dominated *Sukuk* of $600 million was offered in Malaysia in 2002 followed by n$400 million Solidarity Trust *Sukuk* of IDB in September 2003.[36] Since then , about 40 sovereign and corporate *Sukuk* issues have been offered in Bahrain, Malaysia, Saudi-Arabia, Qatar ,UAE, the UK, Germany , Pakistan, Indonesia, Philippines and many more countries.[37]

3.1 Impact of Islamic Finance in some Asian countries

Islamic equity finance has a brilliant interface in Asia being home of the most dynamic pack of economies in the world. The South-Asian economies have launched equity finance models to use it as an option for investments.[38] The energy rich Gulf States are looking to Asia for high return investments which will expand the Economic linkages between Middle East and Asia. In 2005-2006, the GCC announced investment projects in Asian infrastructure worth US$155bn, with capital flows between GCC and Asia amounting to US$15bn annually.[39] It could reach US$290bn by 2020 if the same growth rate is sustained. This infusion of capital from GCC to Asia accelerates the growth rate of South-East Asian Islamic Finance Industry over the past decades. As of 2006 the total Islamic finance market was worth US$500bn of which US$70bn were *Sukuk* (Islamic bonds) which grows to US$170bn in the recent years and the estimates of overall Islamic finance market is unto 4 trillion US$.[40]

3.2 Malaysia.

In Malaysia, Islamic finance field currently has more than 17 Islamic banks and *Takaful* (Islamic insurance) operators. Malaysia is the regional hub of Islamic economic activity.[41] May Bank is the largest Islamic Bank in Malaysia with $6.4 billion *Shari'ah* compliant assets, followed by Bank Islam Malaysia.[42] Other Malaysian banks include, HSBC Malaysia, EON Bank, OCBC, Malaysia, Standard Chartered Bank, CIMB Group, Affin Bank, Alliance Bank and Bank Negara Malaysia. According to Bank Negara Malaysia, it has world's largest Islamic Unit Trust Industry with 134 trust funds with a net asset of more than $5 billion and more than 86% of securities listed on "Bursa Malaysia" are *Shari'ah* compliant, at the end of 2007.[43] This represents a market capitalization (interest rate to calculate present value) of $213 billion, 64% of total market capitalization.[44] Bank Islam Malaysia, Berhad established in 1983, launched marketing of about 50 innovative and sophisticated Islamic banking products and services, comparable to those of their conventional counterparts.[45] Another bank which started its operation on same lines is Bank *Muamalat* Malaysia established in 1999. In 2007, Malaysia issued new licenses to select foreign Islamic financial institutions, such as the Kuwait Finance House, the Saudi-backed Al- Rajhi Bank and the Asian Finance Bank Berhad, Supported by shareholders representing Qatar Islamic Bank, RUSD Investment Bank of Saudi Arabia and the Global Investment House of Kuwait.[46]

The Bank Negara Malaysia-established the Malaysia International Islamic Financial Center (MIIFC) to extend Malaysia's reach as a global Islamic Finance Center. The bank, also decided to allow the existing banking institutions to offer Islamic banking services using their existing infrastructure and branches, and also established in-house national Shari�ah Advisory Council-aims to create a banking system parallel to the conventional counterpart. Malaysia's impact on the segments of Islamic financial institutions -product innovation, education and training, regulatory and legal expertise is the outcome of Malaysian government's leadership in making and placing it strategically at the nexus of capital flows between GCC and Asia.[47]

3.3 Pakistan.

In Pakistan, after the failure of the non- interest based (NIB) approach of 1980's (that was based on the prohibited Buy-Back stratagem), an innovative program of Islamic banking and finance parallel to the conventional system was launched in 2002- consisting of two types of institutes-(a) full-fledged Islamic banks and (b).the standard alone branches of conventional banks(Islamic banking branches, IBBs) offering Islamic financial services through 551 branches(as of sept.2009) in all major towns of the country.[48] The total assets, deposits and financing /investments of Islamic banks have been estimated at Rs 366 billion as compared to

276 billion in 2008 (5.3% of the total banks assets), 245billion (5.5%) and 226 billion as compared to 187 billion in 2008,(4.2%) respectively.[49] Due to the success trends of Islamic finance in Pakistan the Federal government planned to raise Rs 80bn. for the fiscal year 2010-2011 through a new three year Government of Pakistan (GOP) *Ijara Sukuk*.[50] Under this program of GOP the total value assets of *Ijara Sukuk* is estimated 191.43bn.[51]This was the second issue of *Ijara Sukuk* after the successful launch of the first three year GOP *Ijara Sukuk* . In September 2008.[52] Maintaining the positive ascendency of growth Islamic finance in Pakistan, also paves away for microfinance settlement through the joint venture of Al- Huda centre of Islamic banking and economics and *Asasah*, an NGO for the development of microfinance in the country.[53] Among various developmental programs for welfare of agricultural sector, Pakistan Central Bank is seeking to double Islamic banks assets in three years. This move of the bank is urging lenders from Persian Gulf to open branches in rural areas. The main objective of Islamic banking in this connection is to tap non- traditional sectors like agriculture, where they have comparative advantages over their conventional financial services.[54] Islamic finance in Pakistan is on the way of its development with establishment of Islamic financial institutions as well as windows for *Shariah* based financing made available by the conventional banks.[55]

3.4 India

India entered into the enterprise of Islamic Equity finance in about 1990. The Al-Baraka Group has been allowed to establish a Al-Barakat finance house in Mumbai in 1990 with an authorized capital of Rs 50 million, paid-up capital of Rs 30 million with Al-Barakat's share of 51% and rest in domestic Equity.[56] The Al-Barakat Finance House has been given license to operate as an investment bank with the limits set by the legal aid.[57] Indian banks are regulated by Indian banking Regulation Act. 1949, the reserve bank of India 1935, the Negotiable instruments Act and Cooperative societies Act. 1866. None of these admits the possibility of interest free banking. Under such circumstances no Islamic bank as such exists in India. However due to non-permissibility of interest in Islam, the Indian Muslim community made attempts to establish interest free avenues and their attempts can be observed in the following ways:

1. Interest free credit association

2. Interest free financial companies: - conduct business on the interest free basis. These are registered companies and operate in organized markets.

a) Al-Ameen Islamic Financial and investing corporation (AIFIC):-A premier Islamic financial institution in India with headquarters in Bangalore and Karnataka. It is the only financial institution India that functions under the supervision of *Shariah* supervisory Board. It has the Authorized Capital of Rs. 100million divided in to 10 million shares of Rs 10 each. Out of which 52.39000 equity shares of Rs 10 each have been issued, subscribed and paid-up. It has been registered under the Indian companies Act, 1956. It started its operations in 1986 and now it is recognized by the Reserve Bank of India, as a non-banking financial company.[57]

b) Al-Najib Milli Mutual Benefits Limited.

c) Barakat Financial Company.

d) Al-Falah Group of Companies.

3. Investment Funds.

In 2010, the Bombay Stock Exchange (BSE) launched India's first index of companies compliant with Islamic financial laws of *Shariah*, in order to bring the Muslim population of country into the main stream finance sector and also to attract investment from foreign *Shariah* abiding subsidiaries.[58] The index, is a conglomerate of several Indian market leaders from different sectors like telecommunication, IT services, construction companies etc with the association of '*Taqwa* Advisory and *Shariah* Investment Solutions (*TASIS*). It is the first *Shariah* - stock index created in India based on the strict guidelines of the local, domestic Indian Based *Shariah* Advisory Board.[59] About 200 interest free credit societies have been established by the Muslim community in India to mobilize financial resources and provide interest-free loans. Among such institutions some notable ones include, Muslim Fund in Najibabad (U.P India) and Bait-un- Nasr Urban Cooperative Society India.[60]

4.1 Europe, America & Australia

The history of Islamic finance in the West began in 1982 when the Jeddah –based Al-Baraka Investment Company set up the Al-Baraka Bank in London.[61] This bank offered services like current accounts, investment deposits, housing finance and investment management. The London based United Bank of Kuwait, set up its special Islamic banking unit in 1991, to cater the needs of its Middle-Eastern clients for Islamic trade-based investment and in 1995 it was re-named as Islamic Investment Banking Unit and later merged with AL-Ahli Bank to form a new entity, Al-Ahli United Bank.[62]

Islamic banking sector has gained foothold in the major cities of the United Kingdom, U.S.A and Western Europe with a non- banking Islamic finance service entities presently in operation.[63] Three Islamic leasing companies are currently operating in U.S.A and United Bank of Kuwait has recently begun to offer retail Islamic mortgages in the U.S.A. At the same time, U.S.A and foreign based multinationals, such as general electric, Exxon and Royal Dutch shell have all utilized Islamic financing in recent years. The Muslim community cooperative Australia (MCCA) established in 1989 operates from its head office in Bur wood, Victoria. It involves financial dealings and transactions on Islamic finance operations and no interest based transactions are involved. In 2003, a US $100 million Islamic equity fund was launched to invest in private Australian and New-Zealand companies compatible with *shariah.*[64]

London's conventional Banks provide, an extensive range of Islamic financing services, including investment banking ,project finance , Islamic trade finance, Leasing, private banking and mortgages. The London law also provides legal advice on carrying the Islamic financing techniques and has emerged as a global ancillary centre for Islamic financing.[65]. Islamic financing business in London is booked from Muslim countries mainly from Middle East and most of the services cater the international clients rather than the local Muslims. Although there are more than two million, Muslim inhabitants in the UK, the potential of the domestic market is not fully tapped. The Islamic banks in U.K are mainly concerned with providing investment banking, corporate finance and trade finance but the retail banking is still in the juvenile stage.[66] A significant development in Islamic finance in the UK was the establishment of Islamic Bank of Britain (IBB), started its operations in 2001, providing retail Islamic banking market, current, savings, treasury accounts and personal finance to the Britain Muslims.[67]. It started Islamic mortgage (*Ijarah*) market in 2005.[68] Other banks entering Islamic home finance in U.K were HSBC *Amanah* in 2004, *Al-Burraq*,(a subsidiary of Arab Banking Corporation), Lloyds TSB (2005), Citi Bank, Dresdner Kleinwort Benson, west Building Society, Norton Rose, Dawnay Day and Clifford Chance.[69] The number of Islamic financial institutions (investment banks, retail banks, *Takaful* operators, several corporate Finance Advisory firms, principal investment firms and asset management firms) in UK exceeds the total for the rest of Europe combined. International financial services London (IFSL) produces a report about the size of the global

Islamic finance industry and as per its report published in January 2010, UK has $19.4billion *Shariah* compliant financial assets placing UK at 8th position worldwide.[70]

Islamic banking and finance in the U.S.A is in its formative period, with few small and geographically dispersed institutions providing home, vehicle finance and small business funding.[71] As California has the largest Muslim population in the United States approximately 7 lakh (2005), it is the place where Islamic financial activities started initially, focusing on LARIBA (Loss Angeles Reliable Investment Bankers Association), the American Finance House based in Pasadena.[72] In Illinois, where an estimated 3.6% of the population is Muslim, the Devon bank, serves as a community based savings and financing institution. In addition, the Shape Financial Group also provides Islamic mortgage products in the mid-West through the University Bank of Ann Arbor, Michigan. The Guidance Financial Group in Virginia and HSBC Amana provides some Islamic Home purchase financing[73]. In November, 2008, the U.S Treasury Deptt. announced that it would convene on Islamic Finance Forum to teach Islamic Finance to U.S Banking regulatory agencies, congress and other parts of the Executive Branch in Washington DC Collaborating with the Harvard University Islamic Finance Project. The purpose of this forum is to help and inform the policy makers about Islamic financial services which are an increasingly important part of the global financial industry.[74]

In Australia Islamic Equity finance is in infancy. Here, the only two prominent Islamic financial institutions that offer *Shariah* financial products include Muslim Community Cooperative Australia (MCCA) and *Iskan* Finance.[75] The former was established in 1989 in Melbourne with capital of A $ 20,000 by some 10 members with a view to provide Islamic financial practice focusing on Muslim Community of Australia. In 1997, the membership of the institution reaches up to 1600 with capital increase over A $ 80, 00,000. In the mean time the MCCA expanded its operations to Sydney and New South Wales.[76] The MCCA has gained a well market reputation by offering specially designed, approved products under the oversight of the *Shariah* Advisory Board and has attained a descent response through its financing options and social responsibility. *Iskan* finance is another player in Islamic finance sector offering Islamic Mortgage (*Rahn*) and leasing (*Ijarah*) products.[77]

Conclusion

The Equity financing (*Shirkah)* is regarded as more just and close to Islamic principles than the debt based financing modes. In the contemporary times the Islamic Equity models have gained paramount significance even in the conventional finance institutions. Almost all of academic literature on Islamic Banking and Finance obtains its legitimacy and support by the mention of preferable equity modes of financing like *Mudarabah* and *Musharakah* and similar other finance instruments mentioned in the Islamic financial jurisprudence. With important functions and covenants in place, equity financing can be used and is used widely for investment and banking purposes throughout the globe. It is interesting to study the size of debt and equity market in developing countries. In South Asia, for instance, in Pakistan and Malaysia Corporate bond market hardly exists, whereas equity financing is more prevalent and widely used by the investors. Hence the position and impact of Islamic equity finance has become thrust of the concern both in academics as well as in the worldwide bank industry.

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