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BOOK REVIEWS

The End of Poverty: Economic Possibilities for Our Time

By Jeffrey D. Sachs, Penguin Press, New York, 2005, pages 397 + xviii, US $ 27.95

Popularly known as a proponent of 'shock therapy', Jeffrey D Sachs is the Director of the Earth Institute at Columbia University and Special Advisor to the United Nations Secretary General Kofi Annan on the Millennium Development Goals (MDG). He is internationally renowned for his work as economic adviser to governments around the world.

Contrary to the image contrived from the title and the pre-conceived notions in our mind about how this task is insurmountably difficult to achieve in the near or distant future, the book lays out a straightforward strategy to end poverty which appeals to both logic and common sense. Instead of a miraculous magic formula, Sachs explains the nuances of the differences in the levels of economic development across the various countries of the world in order to establish the reasons for slow or stagnant economic growth in less developed countries, and his scheme to get them to reach the 'first rung of the ladder of economic development' in order to eradicate *extreme* poverty by the year 2025.

Extreme poverty, as opposed to moderate or relative poverty, refers to the inability of households to meet the basic needs for survival, with an income of $ 1 per day per person, according to the World Bank statistical standards.

In developing his argument, Sachs explains at length that "economic development is not a zero sum game; this game is one which everyone can win". He refers to Keynes' vision about the end of poverty by the end of the twentieth century in Britain and other industrialized countries, as detailed in the *Economic Possibilities for our Grandchildren* written in 1930 during the Great Depression. In a similar vein, Sachs argues that the developed world has the resources which enable it to act in the benefit of the developing world. He elaborates a strategy of *collective action* to show that extreme poverty can be ended in *our* time. He emphasizes that collective action, supplemented by effective government provision of health, education, infrastructure, as well as foreign assistance when needed, underpins economic success.

In a rather oddly remarkable way, the books reads like an economics textbook, where concepts are explained with the help of case studies of various countries around the globe. In serving as economic policy advisor to countries like Bolivia, Russia, Poland etc, Sachs leads us through the contributing factors of economic development with particular emphasis on climate, geography, disease and level of infrastructure, which have a significant impact on the speed of economic growth.

In discussing his strategy, Sachs draws the attention of the reader to the role that the United States has played in providing aid to the developing world. Sachs holds the view that the US has remained largely tight-fisted. To quote him from BBC's *Hard Talk,* "to the best of my knowledge, Bush has not even uttered the word Millennium Development Goals". Sachs says that it is time to honor George Bush's Monterrey Consensus commitment, made at the International Conference on Financing for Development, to give 0.7 % of the US National Income to official development assistance; more for development, less for military.

It is pointed out that ending global poverty by 2025 requires resolute efforts by both the rich countries as well as the poor, beginning with a "global compact" between the two, such that responsibilities are equally shared.

Sachs emphasizes that a strategy is needed not only for scaling up the investments that will end poverty, but also for a system of governance that would empower the poor while holding them accountable. Such a strategy would give impoverished countries around the world the tools for sustainable development by specifying the plans, systems and financing mechanisms required to achieve this goal effectively.

Sachs refers to the need for 'differential diagnosis' the purpose of which is to tailor economic strategies and aid provision according to the need and pace of development of each country, instead of following a 'one size fits all' approach as is usually done by the IMF and the World Bank. In doing so he specifies the role of the public and private sector in achieving a workable plan.

In his efforts to convince the developed world for collective action to reduce extreme poverty, he appeals to their conscience by pointing out that schools, clinics, roads, electricity, ports, soil nutrients, clean drinking water, and the like are basic necessities not only for a life of dignity and health, but also for a life of economic productivity.

One of the allegations against the less developed regions like Africa is that people are poor because they are lazy, because their countries have a poor governance system, and because of rampant corruption. Sachs lays to rest these misconceptions by explaining that this is only a small part of the reason why the poor are poor. He points out that "the biggest problem these days is not that poorly governed countries get too much help, but that well-governed countries get far too little". He also shows, by comparison with a number of countries at various stages of economic development, that on average, Africa's governance is typical of countries at the same level of income.

It should be noted however that when addressing these misconceptions and myths, he does not give a satisfactory explanation of whether there is a shortfall of morals in countries like Africa where AIDS is rampant by simply saying that "nothing sure" is known about the various possible contributory factors. This sounds a bit dismissive given that he has interacted with people in African countries at all levels and has extensive knowledge of the other factors as demonstrated by his discussion for instance on the reasons for the spread of malaria.

Moving on, Sachs highlights the fact that help will be needed not just for a few years, but for most (or all) of the period until 2025. He then raises the question as to whether the developed world can *afford* to help the poor countries, and emphasizes that given the technological progress made by these countries and the ensuing wealth, shows that the question isn't whether the rich can afford to help the poor, but whether they can afford *not to*.

One of the crucial features of Sach's strategy is addressing the issue of how much total official development assistance is needed to achieve the goal of ending extreme poverty. By tabulating country-wise assistance requirements, he shows that the MDG based Poverty Reduction Strategy can be financed within the bounds of the official development assistance that the donor countries have *already* promised. – which implies that no additional funding is needed if they simply deliver on their promises.

Sachs wraps up the book by discussing *Our generation's challenge* – according to him a world without extreme poverty can be realistically envisioned by the year 2025 if the developed world looks beyond their noses and makes a sincere attempt at meeting basic human needs on a global scale. A commendable sentiment indeed, the question is now whether it gets implemented in its true vein!

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Islamic Banking and Finance: Theory and Practice

By Muhammad Ayub, State Bank of Pakistan Press, Karachi, 2002, pages 300 + xxxv, Rs. 350

The practice of Islamic banking and finance has gained considerable importance during the last decade. The current popularity of this practice is perhaps the result of (re) awareness among Muslims about the Islamic economic and financial system; many a literate Muslims believe that Islamic financial system can be adopted as an alternative to the conventional financial system. Consequently, demand-driven Islamic banking made extraordinary progress in a number of Islamic financial institutions. Currently, there are about 250 Islamic banks encompassing both Muslim and non Muslim countries. The total assets of the industry are more than $250 billion with an annual growth of about 15 percent. As the role of Islamic finance grew in practice, more problems emerged; the major problem remained the compliance to Shariah on the one hand and efficiency and profitability on the other. Hence, to provide solution to these problems, efforts were needed to respond to these issues and problems.

The book '*Islamic Banking and Finance: Theory and Practice*' by Muhammad Ayub is one of the outcomes of the efforts that elaborate the issue significantly and provide solutions both in theoretical and practical perspective. The author has a sound background in Islamic Economics research along with the knowledge of conventional banking. He works with the State Bank of Pakistan (SBP), currently serving as a senior joint director and trainer in the National Institute of Banking and Finance, a subsidiary of the SBP. The book is a useful hand-book and serves its purpose, "to present an integrated set of information on the subject of Islamic finance and to discuss its contemporary applications," to a great extent. Though the book discuses some unresolved issues in Islamic finance, it mainly presents the consensus viewpoint about its features, avoiding detailed juristic discussions and differences of opinions.

Starting from the evolution of Islamic banking, the author describes the efforts that have been made to improve Islamic finance both at individual financial institution level and at country level. In addition, he briefly presents the performance of Islamic banking worldwide, though detailed facts and figures, necessary to evaluate performance, are not provided. This deficiency is attributed mainly to the lack of availability of centralized source of information on Islamic financial institutions. Additionally, problems, issues, and challenges faced by the Islamic banking along with specific issues related to Pakistan give vital insights. The useful glossary provided in the beginning of the book enables a reader to understand the terminologies, used specifically in Islamic finance, which are discussed in the subsequent chapters.

Moving toward the ‘Salient Features of Islamic Financial System’ the author argues that the philosophical foundations of the Islamic Financial Institutions (IFIs) are based mainly on Quran and Sunnah and they revolve around two main edicts: prohibition of *Riba*, the conventional interest, and the elimination of *Gharar*, which is basically any uncertainty about the good being transacted or its price or any other ambiguity in any economic activity that could incur losses to one of the parties involved. Likewise, Islam also prohibits dishonesty, fraud, coercive practices, gambling, and transactions in the goods and services prohibited in Islam. The author supports his view by quoting different verses of the holy Quran and Sayings of the Prophet Muhammad (peace and blessings of Allah be upon him) that ban interest.

The most important point for the readers, especially for non-Muslims, is why interest is prohibited. While answering this question the author explains “the logic as to why the religions including Islam have prohibited interest is that it exerts disastrous effects on the human society by reinforcing the tendency of wealth accumulation in fewer hands that ultimately leads to inequalities in income and wealth, unemployment, and economic chaos.” Besides, he also tries to prove the evils of interest through arguments from social and economic points of view, though they remain controversial among economists. Citing various studies by Muslim researchers that prove interest as unfavorable to investment and savings, the book opposes the contrary conventional view. However, had he supported his views through the work of conventional economists, it could have made his point more unbiased and strong. In fact, the underlying principle for prohibition of interest could have been discussed in more detail by exposing its detrimental social and economic effects through empirical evidences.

The author categorizes the modes of financing, as an alternative to interest, into those belonging to high risk and modes related to low risk category. The former mode is profit and loss sharing category as Musharakah (joint venture in which partners contribute in investment) and Mudarabah (in which one partner invests and other provides services), while the latter mode generates a fixed return like Murabaha (cost plus sale) and Ijarah (leasing). The author not only explains the modes in detail but also gives various natures of transactions and businesses based on these modes. Profit and loss sharing modes, according to him, are the most ideal alternative to interest both for the mobilization and investment of resources. On the other hand, low risk category modes are less preferred by Islam due to the similar outcomes as of interest. The book also presents the apprehension of the

Council of Islamic Ideology (CII) about fixed return modes, "that they could eventually be misused as a mean for opening a back door for interest." Islamic banking practices and the modes of financing in Iran and Malaysia helps in understanding the practical framework of Islamic banking.

'Islamic Capital Markets and Instruments' is of great importance to understand the very nature of the subject and the characteristics that distinguishes Islamic Capital market from conventional capital market. The existing structure of the financial markets is not in accordance with the principle of Shariah according to Islamic Fiqh Academy of OIC. The book presents the unanimous opinion of the Muslim scholars that the main difference between the Islamic and the conventional financial instruments is that Islamic financial instruments are asset backed. The author segregates the Islamic financial Instruments into two types: those yielding fixed profit (not interest) debt securities and those related to equity instruments that have a claim to have share in the net income and the assets of a business. Along side explaining the process of securitization of different instruments, he also states the Islamic modes which can be a base for the issue of any security like Murabaha, Salam (advance payment with deferred delivery of the good), Ijarah, Musharakah etc. Practical examples of Sudan and Malaysia in this field provide important guidance for policy makers and the concerned personnel of Islamic financial markets.

The author concludes, "providing Shariah compliant and feasible instruments for functioning of Islamic capital markets in competitive global financial environment is the real challenge facing scholars and practitioners of Islamic banking and finance." He considers that securitization process is relatively easy for individual institutions and is much difficult for the government budget deficit finance due to the shortage of real assets; but, this problem can best be solved and new avenues for backing the Sukuk can be found when the process of securitization starts.

The book develops operational guide lines and proposals for both asset and liability activities of a financial institution and suggests a complete scheme for Islamic banking. The author proposes the 'holding company' model for banking, in which the subsidiaries of the bank do the trade related banking, investment banking, and commercial banking. Similarly, unit trusts, investment banks, mutual funds will largely replace the investment based fund mobilization scheme. To be operative on Islamic basis the banking system needs restructuring on equity or profit/risk sharing basis for both the liabilities and asset side activities rather than on credit base; and this would decrease the credit creation capacity of the commercial banks. Participatory modes can be used for working capital and project financing along side transactions related to imports and exports.

His suggestion of the use of debt creating modes, that carry fixed return, mainly by banks' subsidiaries is the most appropriate and prevents Islamic banks from any kind of involvement in interest related operations. Similarly, his proposal about Takaful (insurance) of the assets and liabilities of the banks, reforming and redesigning the stock market and documentation of the economy are integral in Islamic banking and finance. The detailed discussion about the asset and liability side practices presents the vivid picture of the operations of an Islamic financial institution. Moreover, the expected risks to be faced by the Islamic banks vis-à-vis conventional bank risks and their implications are also pointed out.

The 'Analytical Framework and Unresolved Issues' concentrates mainly on the conceptual frame work covered by the paradigm vision of Islamic theory of finance. Viewpoints of renowned economists and Muslim scholars present the multiple dimensions of different issues like the role of interest and the financial intermediation, structure of Islamic banking, implications of Islamic modes of financing, monetary policy, and instruments. There is also some difference of opinions regarding transformation strategy of conventional banking system into the Islamic one. The author also focuses on some misconceptions about Islamic finance and tries to clarify them; for example, Islamic financing is only for Islamic societies, without interest there will be no investment, innovation, or development. Stances of Islamic scholars and economists on risk management by the Islamic banks provide handy guidance both for the commercial and central banks.

In the 'Developmental Role of Islamic Banks', the author proficiently describes the contribution that can be made by the various Islamic modes of financing in development process. The wide range of activities like agriculture financing, small and medium enterprise financing, consumer financing alongside funding big investment projects, would provide large scope for Islamic financing. The unique distributive and facilitating nature of the Islamic products can contribute extensively not only in the development of the economy but also in the reduction in poverty, unemployment, and income inequalities.

In explaining the rationale for the cooperation between conventional and Islamic financial institutions, the author emphasizes on the developmental role, which currently is meager, to enhance efficiency through strengthening cooperation between Islamic and conventional banks. Besides this, various techniques and models adopted by Islamic financial institutions is briefly discussed to clarify the nature and basis of relationship between the conventional and Islamic banks. Description of the essential features of Islamic banks as distinct from conventional banks is followed by the nature of cooperation of Islamic banks with respect to traditional central banks and commercial banks. The cooperation that presently exists between IDB and National Development Financial Institution of the OIC member countries is also discussed.

An overview of the two judgments Federal Shariat Court dated 14th November 1991 and the verdict by the Shariat Appellate Bench (SAB) given in Chapter 3 'Riba Put On Trial & Retrial' makes the reader understand the observations of the courts on different theoretical and practical points regarding interest issues. Similarly, the detailed analysis of the arguments and an academic pursuit of the views given by the counsels of the petitioners made in the SAB of the Supreme Court of Pakistan are presented in Chapter 10 keeping in view the principles of Shariah. By providing clarifications and answers to the continuous issues, the author did a very commendable job. These analyses, in addition, provide a lot of information about the issues related to interest and enable the reader to understand the difference between theoretical and practical aspects of the issue.

The appendix of the book adds review of interest-free financial system in Pakistan as well as its historical and constitutional perspective. In Pakistan, efforts regarding Islamic finance have been made as a constitutional and religious obligation; however, less emphasis is given on the development of Islamic financial market in a compatible way. While analyzing different schemes and products of Islamic banking the author also investigates the obstacles in the way of profit and loss sharing finance. In fact, the author simply reviews the so-called non-interest based financial system in Pakistan, but does not tells us as to why the Islamic banking experience failed in Pakistan in the last two decades of the previous century. Thus, this deficiency, from an otherwise thorough analysis, does not make us wiser in avoiding the same blunders in future that had been made in the name of Islamic banking and finance in the past and because of which Federal Shariat Court declared the system un-Islamic.

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Rural Development in South Asia

By Jitendra Kumar Sharma, Authorspress, Delhi, 2001, pages 338, Rs. 575

To achieve just and sustainable development, poverty reduction needs vigilant handling. Poverty is rampant in developing world, especially in the South Asian region. This part of the world has not only the largest number of poor people; it is also ranked the lowest, other only than sub-Saharan African countries, in UNDP Human Development index. In this scenario, rural development in South Asia becomes all the more important as the majority of the poor of this region live in rural areas. The book, *Rural Development in South Asia* by Jitendra Kumar Sharma, therefore is a welcome attempt.

The book is a detailed description of the challenges of rural development of South Asia and the region's policies and actions to face those challenges. Jitendra Kumar Sharma highlights the importance of rural development in the growth of any economy with special reference to South Asian Region by exploring various aspects of the phenomena of rural development. The author argues that low investment in human development, namely education and health, has had an adverse impact on the growth of South Asian region. However, in the decade of nineties, the author notes, governments of south Asian countries have started to focus on the improvement of social indicators thus realizing their importance in economic growth and development.

The book contains fifteen chapters, starting with detailed discussion about few of the elements used in the 1991 report of the Independent South Asian Commission on Poverty Alleviation. Other chapters contain discussions about various aspects of poverty especially the rural poverty like education, health and employment, their theoretical linkages with each other and with economic growth. Discussions also focus on policies opted in the South Asian region and weaknesses in various programs implemented and actions undertaken over the years.

Mr. Sharma not only provides general theories and discussions about rural development but also discusses poverty, income distribution, rural-urban migration, and human resource development in India, Bangladesh, and Sri-Lanka. For these specific analyses, he does not mention any criteria for selecting these three countries out of the whole South Asian Region. Nonetheless, reading suggests different criterions for this selection. India due to its larger size in relation to other countries of the region; Sri-Lanka due to its good performance as evidenced in relatively improved social indicators; and Bangladesh because of its paradoxical situation of poorest social indicators, yet largest network of community organizations working aggressively towards the welfare of the public.

Omission of Pakistan in these country specific analyses leaves, at least, something to be desired from the book. Not only that Pakistan is a major country in south Asia, it also carries intriguing paradox of high growth rates over the years but a very low performance on social indicators, especially in rural areas.

Mr. Sharma quotes examples from the world, especially from East Asia, to support his stances while favoring or opposing any theory or policy. The writer not only identifies the weaknesses in the policies of the government of developing countries, especially of South Asian Region, but also criticizes the industrialized world, international organizations, such as IMF and World Bank, for not addressing the issue of poverty in effective manner.

This book, as mentioned above, can best be described as a detailed information about the rural development in South Asia. It presents discussions about policy measures taken and problems in the implementation of various programs for the improvement of social sector of the region. However, it does not provide any specific policy measure or action program that can provide any guide-line to have some sort of alternative for already implemented programs.

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