

CONTRIBUTION OF ISLAMIC ECONOMIC MODELS TO THE ECONOMIC GROWTH IN SRI LANKA: WITH SPECIAL REFERENCE TO ISLAMIC BANKING UNIT OF BOC HEAD OFFICE SINCE 2012 TILL 2016

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Abstract

Islamic economic is based on a paradigm which has socio-economic justice as its primary objective (Qur'an, 57:25) and Islamic banks and financial institutions are use economic models to achieve their target based on Shariah law. The main objective of this study is to empirically analyze how the Islamic Economic Models contribute to the Economic growth in Sri Lanka. There are Murabaha, Mularabah, Musharakah, Ijara, Salam, and Istisna etc. Therefore, this study examines the impact of selected Islamic economic models and economic growth in Sri Lanka. This study follows quantitative method by employing cross sectional data context analysis. The data is collected from BOC bank through the period 2012-2016. The researcher applied statistical package for Micro soft Excel computer software package. This study is identified the how the Islamic model contribute to the economic growth in Sri Lanka. Findings indicate that there is a relationship between selected Islamic economic models and economic growth in Sri Lanka from the sample point of view. The study recommends for indicate that improving the infrastructure of Islamic economic models in Sri Lankan Banking system it's contribute to economic growth in our country.

Key words: Islamic economic, Islamic economic models, Sri Lanka, BOC head office- Islamic Banking unit.

Introduction

Economic system classified to Capitalism, Socialism or communism and mixed economic system. Capitalism is the economic system in which the means of production distributed to openly competing profit-seeking. Capitalism is not merely an economics system but a peculiar attitude of mind and behavior. Basically it spring out of the notion of the capitalist that he has earned his wealth by his own ability, skills, knowledge and wisdom.

Socialism or communism means an economics system in which the mean of production are owned by the state. A central directorate controls the production of goods and services. The directorate decides the nature, quantity and mood of production of goods. This distribution of goods is also directed by the central body. Socialists mainly share the belief that capitalism unfairly concentrates power and wealth among a small segment of society that controls capital and creates an unequal society. All socialists

advocate the creation of an egalitarian society, in which wealth and power are distributed more evenly, although there is considerable disagreement among socialists over how, and to what extent this could be achieved.

Mixed economic system an economic system combining private and state enterprise

But the other hand Islamic economic is the knowledge and application of injunctions and rules of the shariah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and society.

Islamic economic system implies a mood of satisfying the economics needs of the members of organized society in accordance with is injection of Quran and Sunnah. The method of spending production, distribution and exchange of wealth is determined by the tenor of these injections. In this system the economic activities of the members of the society are regulative by the certain values of which pity, justice, benevolence, cooperation, brotherhood and equality are especially important. The sources and origin of these values are the Holy Quran and Sunnah of Allh's Apostle (PBUH)> they are eternal and immutable. Consumers, products and traders are must abide these values. At one level, the state can also its powers to implements and enforce these values, however, Islam mostly ensure their implementations and daily affairs of life through its system of education and training and by creating a general climate of piety in Society.

The goal of Islamic banking and finance is to bring grater justice and strive to achieve social-economic development. Islamic financial system can serve as a tool to foster economic growth human wellbeing. Promoting risk sharing instead of debt-financing reduces poverty and inequalities which are the necessary objectives of that need to address by economic development policy makers.

Islamic modes of fiancé are designed to facilitate financing by the principles in Islamic Shariah, such as Murabahah, Musharakah, Ijara, Istisna, and Salam. In addition, financial intermediation is an important indicator of economic development as well as economic growth.

During the long journey of Islamic Finance in Sri Lanka, the massive numbers of Islamic Finance modules (products) have been launched targeting the rural population an economic growth. Government organization and non-government organization (NGOs) have contributed significantly to the development of Islamic finance activities in Sri Lanka.

Problem Statement

As we knew Islamic finance have grown rapidly in recent time, also there is general conception that Islamic banks and Islamic Financial Institutions are more stable during the last financial journey. However, there is no clear unanimity about that between Islamic Economic Models and Economic

Growth. So that this study examine how the Islamic economic models contribute to the economic growth in Sri Lanka.

Research Question

The research is based on following research question:

How to contribute to the Economic growth with the Islamic Economic Models used in BOC Head office?

Objective of Study

The study aims to find out how the Islamic Economic models contribute to the economic growth in Sri Lanka.

Type of study

BOC Head office is taken for the study. This study has been carried out with how the Islamic economic models contribute to the economic growth in Sri Lanka and identify the proper economic models. Researcher has carried out a pilot survey. Therefore, this research is an exploratory research design explore to the selected Islamic Economic Models for help to the economic growth in Sri Lanka and providing better understanding about it.

Methodology

This study follows quantitative method by employing cross sectional data context analysis. The data is collected from BOC bank through the period 2012-2016. The researcher applied statistical package for Micro soft Excel computer software package. Data is collected from banks annual reports and central banks annual reports.

Significant of the study

The study develops new simple model to describe the relation between Islamic economic models and real economy growth in Sri Lanka. Also the study fills the gab because there are no previous studies were conducted in the relation between Islamic modes of finance and real economic growth in banking industry in Sri Lanka.

Scope of the Study

This study is based on Islamic economic models contribute economic growth in Sri Lanka and it's carried out especially about BOC head office in Sri Lanka. Therefore it describes the relationship between Islamic economic models and economic growth in Sri Lanka. (With special reference to Islamic Banking unit in BOC head office in Sri Lanka since 2012-2016).

Literature Review

The research article on **“Impact of Islamic Modes of Finance on Economic Growth through Financial Stability”** (Bakhita, J Bus Fin Aff2017, 6:1 DOI: 10.4172/2167-0234.1000249)He said, the goal of Islamic banking and finance is to bring greater justice and strive to achieve socio-economic development. Islamic financial system can serve as a tool to foster economic growth and human well-being. Promoting risk-sharing instead of debt-financing, reduces poverty and inequalities which are the necessary objectives of that need to be addressed by economic development policy makers. Islamic banks handle fund from sever to investors through Islamic modes of finance. Islamic modes of finance are designed to facilitate financing by the principles in Islamic Sharia, such as Muḍārabah, Mushāraka, Ijarah, Istisna and Salam. In addition, financial intermediation is an important indicator of economic development as well as economic growth. The objective of this study is to determine the relationship between Islamic modes of finance and Islamic financial intermediation, and its relation to financial stability in Islamic banks. So that to choose the most successful mode that should be encouraged to apply in Islamic economy. However, the main goal of Islamic bank to enhance social justice and human being of the Muslim through successful financial intermediation that can lead to economic development, poverty alleviation, wealth distribution.

Economic development is actually comprised of economic thought and in this context economic development has been addressed by economic thinkers for centuries, where mainstream economists have often predominantly taken the lead over development theorists. Nevertheless, the recent increasing concern for the environment, societal culture, religion and institutions and their interrelationship with economic activities have led to the formation of a novel dimension to the development economics concept (Biswas, 2009). More importantly, modern development economics should exert more effort into shedding an insight into the different growth objectives and paths where it could relate economic paradigms to the changes in the world brought about by globalization and regionalism, and uniformity and national identity. Also, economic development subject is increasingly becoming a valid social science, where the study of traditional institutions, community life, religious and ethnic aspects is not only : “the The journal article on, **“Does The Modern Application of the Islamic financial system isthe new recommended architecture to promote growth and prevent the outbreak and spread of future crises?”,** International Journal of Scientific Research and Innovative Technology ISSN: 2313-3759 Vol. 2 No. 6; June 2015, Hacine Gherbi Elhachemia, Mohammad Azmi Othman” he said, significant but they form the core to the development of a novel social objective of economic growth and models dedicated to it (Piasecki & Wolnicki, 2004). In some Islamic discussions, important economic principles have been provided, particularly from an Islamic perspective where it is believed that every resource is provided by God and is entrusted to people. This shows the importance of making efficient use of resource to in order to bring about the most superior outcome, and that human beings should achieve God’s aim and facilitate the dissemination of good fortune and earth as well as the hereafter. This notion significantly affects wealth ownership and its generation and it motivates every

Muslim to get involved in economic activity and to enhance their confidence with the goal accomplishment. Metwally (1997) stated that moral law may be difficult to use but the trusteeship it carries goes against the principle of self-interest that exists in free market economy. Several methods of acknowledged production products are accepted in Islamic and these include private property and Islamic modes of finance helps to developing country economy. More specifically, Islam does not stress on strict private ownership right as the whole community has to gain some benefit from it. In other words, individuals cannot privately own a property if the government is inclined to own it for the public interests. To this end, community interest generally takes precedence over personal interests as elaborated by Shariah. Thus, in cases where the personal interest of an individual contradicts the state or community interests, the latter community's interest are satisfied and as such, the individual has to forgot this.

The journal article on “**Does Islamic Banking System Contributes to Economy Development**, Global Journal of Management and Business Research Volume 13 Issue 2 Version 1.0 Year 2013, M. Saleh Sarwer, Prof. Dr. Muhammad Ramzan & Waqar Ahmad” said, The relationship between economic growth in the broad sense, like increasing the size of financial services of banks and other financial intermediaries and financial transactions in capital markets and economic growth has long been a major developing economy. Islamic Banking has established itself as an emerging alternative to interest based banks, and has grown rapidly in the last two decades, both in Islamic countries and non-Muslims. Islamic banks have recorded high growth in size over 60 countries around the world, and bankers predict that the Islamic bank can control more than 50% of deposits in Islamic countries over the next decade (Ahmad, 2004). Today, the financial and banking system, especially in activities related to economic development, all countries can play an important role in economic activity. Indeed, an economic system and has a direct relationship between the level of overall growth and development. While a necessary condition for economic growth, investment is an important factor for economic development. Thus, investors can play an important role in financing economic development, giving credit to an economic system, particularly in banking. A sophisticated Islamic financial system and the enormous economic growth at the same time to withdraw our attention to examining whether the Islamic banking system that is currently used in Malaysia really contributes to long-term economic growth in Malaysia. For this, we will see the dynamic interactions between finance and growth through the application of models in which the financial system affects economic growth and economic growth arrests the financial system. When it is more developed in the financial sector, and that more funds can be used in the production, which was formed more than physical capital that can contribute positively to economic growth.

The journal article on, “**Islamic banking and economic Growth: Empirical Evidence from Malaysia**”, Journal of economic cooperation and development, 30, 2 (2009), 59-74, hafasFurqani and RatnaMulyany. He said, the link between financial development broadly as an increase in the volume

of financial services of banks and other financial intermediaries as well as financial transactions on capital markets and economic growth has long been a major subject in the field of development economics. The financial sector plays a growth promoting role if it is able to direct financial resources towards the sectors that demand those cost. When the financial sector is more developed, more financial resources can be allocated in to productive use, and more physical capital being forced which can contribute positively to economic growth. The Islamic financial system in Malaysia has evolved as a viable and competitive component on the overall financial system as a driver of economic growth and development. Malaysia has set up comprehensive Islamic financial infrastructure such as Islamic banking (1983), Islamic insurance (1984), Islamic capital market (1993), Islamic interbank money market (1994), Kuala Lumpur stock exchange (KLSE) Shariah index (1999) and in march a 2001, central bank of Malaysia (BNM).A well-developed Islamic financial system and a tremendous economic growth at the same time pull our attention to examine whether or not the Islamic banking system that currently applied in Malaysia really contribute in the long run to economic growth of Malaysia.

Findings

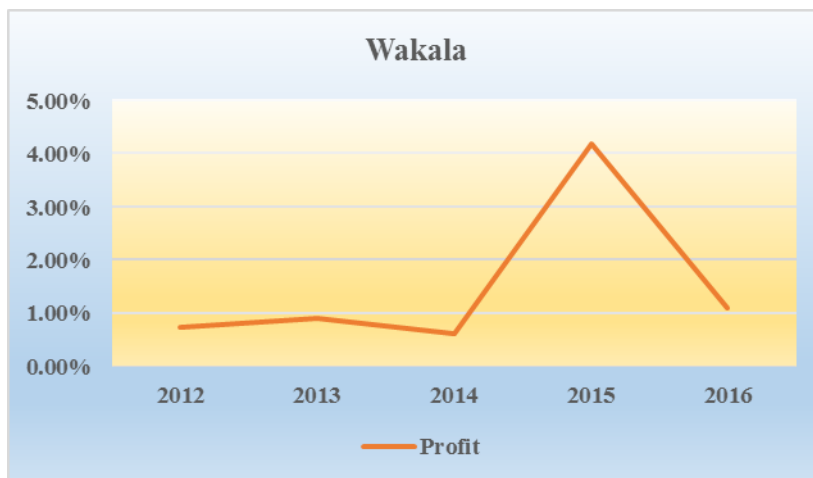
Analysis testing have been done to find out the impact of selected Islamic economic models and economic growth in Sri Lanka. Below the figure shows annually profit ratio about the selected products.



Murabahah	
Year	Profit
2012	0.17%
2013	0.09%
2014	0.07%
2015	0.16%
2016	0.17%



Ijara	
Year	Profit
2012	0.32%
2013	0.55%
2014	0.48%
2015	0.42%
2016	0.34%



Wakala	
Year	Profit
2012	0.75%
2013	0.91%
2014	0.62%
2015	4.19%
2016	1.10%

Conclusion and Recommendation

Successfully Islamic Finance modules contribute to economic Growth in Sri Lanka. These modules are offering right path to rise up their servicers to society.

Based on the analyses the researcher has recommended the some recommendations as suggestions to the consideration of the readers. Such as, banks supervisors and decision makers at Islamic Banks should encourage to develop the Islamic Fiancé modules and they want to perfect knowledge about to these product and the other hand know to reality to conventional market and consumers want and needs. I recommended to future researcher's should be made in actual reality on these product and servicers and give to clear knowledge to over consumers.

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