JOURNEY TOWARDS ISLAMIC BANKING

Edited By
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INSTITUTE of ISLAMIC BANKING and INSURANCE
Journey Towards Islamic Banking

A collection of articles, talks and discussions by HRH Prince Muhammad Al-Faisal Al-Saud and Muazzam Ali on Islamic banking and finance.
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"Man is proud that he has made a new world; man is ashamed, for this new world has failed to make his soul happy."

His Royal Highness Prince Muhammad Al-Faisal Al-Saud

This statement was made by Prince Muhammad Al-Faisal during a speech given at the inaugural session of the International Islamic Conference at the Royal Albert Hall in London, April 1976.

The discourse constitutes the opening chapter of this book, which endeavours to bring together for the first time, a remarkable collection of talks and discussions given by Prince Faisal and Muazzam Ali, chairman of the Institute of Islamic Banking & Insurance, based in London.

The sentiment expressed in the above statement, sets the tone for the earnest desire expressed in these chapters of not only realising a workable Islamic banking system, but also of offering a realistic and viable alternative to Muslim and non-Muslim alike. The arduous journey towards this ultimate goal begins from the basic belief that the ideology of the Islamic financial system is based on divine truth.

This truth reminds us that the resources and riches of this life, while available for our use and benefit, are not our possessions, but merely given to us in trust by a greater divinity. As such we are accountable for those resources and responsible for the wise and careful use of them towards the greater benefit of society at large. Therefore the Islamic financial system is an entirely ethical financial system.

It is with this belief of purpose that these two eminent international figures have striven to introduce and develop an Islamic banking system, either through directly working in the
field; setting up academic and promotional organisations like the Institute; or through pleading the case for Islamic banking at various important venues, the pages of respected journals and even on television.

The following chapters are abridged versions of these articles, talks and discussions, in chronological order, with dates and venues given where they were available.

In these pages there is an in-depth discussion of what Islamic banking and finance has to offer, how it has developed thus far, the problems and set-backs it has encountered as a fledgling economic system, the attractions of an ethical banking system, and of course the way ahead and future prospects for this still very young financial system.

His Royal Highness Prince Muhammad Al-Faisal Al-Saud, founded the world-wide Dar Al-Maal Al-Islami (DMI) Group, based in Geneva, in 1981 and continues as its chairman, as well as being head of Faysal Islamic banks in various countries. He is also chairman of the International Association of Islamic Banks.

Born to the late King Faisal Al-Saud, Prince Faisal was educated in the Kingdom of Saudi Arabia and in the USA, graduating from Manlo University, California in 1964 with a Bachelor's degree in Economics and Business Management. He is the first member of the Saudi Royal family to receive a University degree from the West.

He worked at the Saudi Monetary Agency where he was involved with banking, business, economics and international finance which undoubtedly served to influence his future ambitions of establishing an Islamic economy.

A year later he initiated the use of desalination plants in a pioneering attempt to provide ample drinking water in the Kingdom, and promptly became known as the 'Prince of Water' for his efforts. From 1964 to 1977, he implemented an ambitious plan to set up desalination stations in different regions in the country, a project costing more than US$ 25 billion. In 1976 the prince was elected as 'Man of the Year' for solving the water problem by the General Assembly of NWSIA (USA).

Prince Faisal officially represented his country during this
period in meetings held at FAO, UNO and several international conferences. He made numerous official visits to the USA, France, England, Japan, Germany and Egypt. He also attended numerous Islamic Conferences concerning different subjects including education, construction of mosques, and other Islamic projects. This directly led to the establishment of “The Faith Institution” which has more than 40 affiliated schools in various Islamic States that deal with both normal and Islamic education.

Already harbouring a keen interest in the Islamic economic system, he found inspiration in the Islamic Development Bank established by his father, realising that the same concept could be developed in the public sector. After graduation, he undertook studies on Islamic economics with Muslim scholars from Saudi Arabia, Egypt and Pakistan. This led to his proposing the establishment of Islamic banks in Egypt and Sudan. In Egypt the President ratified new laws in order to establish Bank Faysal Al-Islami of Egypt as an Egyptian Joint Stock Company, and within four years this bank came to be regarded as a pioneer in the field of Islamic banking. A similar Bank was also established in Sudan, Bank Faysal Al-Islamic of Sudan.

He later set up the Islamic Investment Company of the Gulf in 1978, forming Dar Al-Maal Al-Islami three years later with an authorised capital of US$ 1,000 million and a paid up capital of US$ 320 million. The founding of DMI initiated a drive to establish Islamic Faysal Banks, Islamic Investment Companies, Islamic Takafol Companies, and other business enterprises throughout the world.

Muazzam Ali’s commitment to Islam began over 40 years ago when he set up a news service in Pakistan in order to project Islamic values into local politics and economics, through the country’s media. It was a time when conflicting ideologies were striving to subvert the loyalties of Muslims and the newly set up Islamic Republic. Standing up in the face of such powerful ideological differences was no easy task; nonetheless Ali continued to do so with single-minded devotion.

The price paid for this determination was self-imposed exile to the United Kingdom in 1973, but during this period he
continued his mission helped develop the Islamic Council of Europe, which went on to become a bastion of Islam in the EEC. His efforts did not go unnoticed, and soon after taking power, President Zia-ul-Haq invited him to be one of his advisers, first on Overseas Pakistanis, then later on Islamic Affairs and Information. When Zia-ul-Haq was nominated by other Islamic countries to address the United Nations, Ali spent over two months in New York, endeavouring to make the mission a successful one.

In 1981 when Prince Faisal set up Dar al-Maal al-Islami, Muazzam Ali joined him as Vice-Chairman of the Board of Supervisors. He has been associated with DMI and other allied groups ever since, and has organised 14 major international conferences on Islamic Banks, in Pakistan, the UK and other countries. He played a major role in setting up branches of the Faysal Islamic Bank of Bahrain, and later the Faysal Islamic Bank and Al-Faysal Investment Bank within Pakistan.

In order to further develop Islamic Banking, Ali recently set up the Institute of Islamic Banking and Insurance in London. The Institute has published an Encyclopaedia of Islamic Banking and Insurance, in addition to several other publications on the subject, including a monthly journal, New Horizon. It also runs a distance learning diploma course in Islamic banking and a high profile monthly lecture programme.

Muazzam Ali is also Vice-Chairman of the International Association of Islamic Banks and Takaful Luxembourg, as well as holding Chairmanship of the International Centre for Islamic Studies; the Islamic Arts Foundation; the London Centre for Pakistan Studies; and Pakistan Press International (PPI), of which he is also founder; he is also a Trustee of the World of Islam Festival Trust in London.

He was also Founder President of the UK Pakistan Chamber of Commerce & Industry (1982-1985); Deputy Secretary General, Islamic Council of Europe (1975-1983); and has represented Pakistan several times at the UN and other international conferences.
Part I

HRH Prince Muhammad Al-Faisal Al-Saud
I deem it a great honour and a privilege to be amongst you this evening. We are meeting on an historic occasion. It is for the first time in contemporary history that the West has begun to show some real interest in the world of Islam. The Islamic Council of Europe deserves to be congratulated for the pioneering initiative it has taken in focusing the attention of the western world on the real world of Islam - for the real world of Islam consists of its message, its ideals, values and principles and not merely certain manifestations of our culture, however beautiful and charming and overpowering they may be.

Islam's tremendous impact on world history is a fact beyond any shadow of doubt. That Islam has produced a glorious culture and made unique contributions in the fields of learning, education, art, science and technology are facts acknowledged by friends and foes alike. The interest that the West has now begun to show in these facets of Islamic history and culture deserves to be welcomed. But what is important at this critical juncture is that the real focus of attention should be on the message of Islam, on the vision of man and society that Islam gives, for all aspects of Islamic culture are but manifestations of this reality.

You have been kind enough to refer to my illustrious father, the late King Faisal Rahemahullah. He has set a noble example of sincere and dedicated service to the cause of Islam. We hope and pray that Allah will enable us to continue to work in the same direction with firm commitment and ever-increasing dedication.

I have come to this historic Conference and am speaking to you this evening from the deepest recesses of my heart simply in one capacity - that of a Muslim. I am an Arab and a Saudi and I
sincerely thank Allah for these blessings, but I am speaking to you neither as an Arab, nor as a Saudi, but simply as a Muslim - as a member of that universal community of faith, that knows no geographic boundaries or barriers of colour, race or language. Islam is neither of the East nor of the West; it is the Message of God, the Lord of the Universe, Lord of the East and Lord of the West, a message sent to the whole of mankind through all the Prophets of God, and finally through the Prophet Muhammad, who was sent as a mercy towards the universe. Islam addresses itself to man as such, whatever be his background, his country, his colour, his race or his language, and invites him to become conscious of his real position in the world, which is neither that of an abject slave nor that of an absolute master. He is the representative, the vicegerent, the deputy of God on earth; he is a custodian and a trustee of whatever lies within the bowels of the earth or over it.

What is the real challenge of the modern age? Without going into details, I would like to suggest that man is faced with a bewildering situation today: on the one hand he has achieved tremendous material progress - he has harnessed the forces of nature to his service and created a technological and industrial society unparalleled in its magnitude, grandeur and technical efficiency, but on the other hand, he has failed to control his own baser passions and build human relations on the foundations of love, sacrifice, trust, piety and service. The institution of family is disintegrating, social relations are at a low ebb, economic exploitation is rampant, political aggrandisement is the order of the day, international rivalries are on the increase, cultural tensions are splitting human society apart. And social injustice is tearing the very soul of man.

Man is proud that he has made a new world; man is ashamed, for this new world has failed to make his soul happy. After reaching the heights of technological progress, he finds his very existence is threatened by the forces of his own creation. He had learned to control his environment but not himself. He has lost direction and his sense of proportion.
If this is the challenge of the modern age, then the answer to it lies in rediscovering man’s mission in life, in rediscovering the principles of control in human affairs. In short, in rediscovering his relationship with God. There is nothing wrong with material progress as such, but once material progress becomes dissociated with moral progress and spiritual discipline, it loses its relationship with reality and is exposed to the danger of becoming an instrument of destruction. Man left alone swings to extremes - crass materialism or ascetic spiritualism. Divine guidance leads to the path of balance, the straight path, symbolised in the prayer that God has taught man to pray:

“Our Lord, Give us the best in this world and the best in the hereafter.”

Islam is Divine Guidance. God, in His infinite mercy, has not left man alone. He has endowed him with the guidance of the right path. This guidance was revealed through all the prophets of God, from Adam, through Noah, Abraham, Moses, and Jesus, to Muhammad (peace be upon them all). The message of Muhammad is not a new message; it is the message that man has again and again forgotten or changed and distorted. This message was presented by Muhammad (peace be upon him) in its original purity and in its divine perfection. This is Islam.

“Say: We believe in God and that which is revealed to us and which was revealed to Abraham, Ismail, Isaac, Jacob and the tribes, and which Moses and Jesus received, and which other prophets received from their Lord. We make no distinction between any of them and to Him we submit.” (Al-Quran II:136)

The Quran invites all those people who belong to the family of the Prophet Abraham to join hands for the achievement of the common goal of enabling mankind to live in peace with God by submitting to His will.

“Say: People of the Book let us rally to common terms to be binding on both us and you: that we shall worship none but God alone and associate nothing else with Him; nor shall any of us take others as lords in place of God. And if they turn away, then say: Bear witness that to Him we Submit.” (Al-Qur'an III:64)
Islam invites man to commit himself exclusively to his Creator, to harmonise his will with the Will of God and to recreate the world with this noble commitment.

"Say: My prayer and my devotions, life and death, are all for God, Lord of the universe; no partner has He, with that I am commanded and I am the first of the Muslims". (Al-Qur’an VI:162-163)

Islam stands for one loyalty only - man’s loyalty to God; loyalty to truth and virtue. It establishes the principle that all human beings are equal and it is unjust to discriminate between them on the basis of colour, race or territory. There is only one valid and universal principle of nobility - all those who are true to God, who fulfil their commitment to Truth, who prove trustworthy, who are pious and virtuous and heedful of God, are noble. And those who fail on this criterion are those who fall down.

"Mankind. We have created you male and female and set you up as nations and tribes so that you may know one another. The noblest among you in the sight of God are the most pious and heedful of you."
(Al Qur’an XLIX:13)

And the mission towards which Islam invites man is to harness all material and human resources for the promotion of virtue and justice and peace. Material progress, yes - but not for the sake of material progress but for the creation of a noble, serene and just society, and to seek man’s salvation in this world and in the hereafter.

"You are the best community which has been raised up for mankind. You command what is proper and forbid what is improper and you believe in God". (Al-Qur’an III:110)

I have said what I wanted to say. You are witness to that state of affairs with which man is confronted today. Please do not judge Islam in the light of the failings of the Muslims. We may not be the best specimens of Islam. But then Islam is not the property of any one group of human beings. It is the message of God and is meant for all human beings. I urge you to try to understand Islam in the light of the original teachings of the Quran and Sunnah. To this I invite all - Muslims and non-
Muslims. This Conference provide you with an opportunity to examine more closely what Islam has to offer to meet the challenge of the modern age. Technology has brought us to a stage at which man, in order to survive, needs an ideology which is based on truth, which is universally applicable and which provides an effective control mechanism, a moral and spiritual discipline for man. Let us examine the message of Islam with openness and without prejudice. If Islam has nothing to offer, why worry about it? But if it does have something life-giving to offer, then why deny it to ourselves?

This submission of mine is directed towards all human beings; if the Muslims respond to it they will become better Muslims and truer representatives of Islam, and if non-Muslims pay heed to it, new horizons can be opened before them, at least of better understanding of a faith that has influenced history over the last fourteen centuries - the religion of over eight hundred million fellow human beings today.

In the end I would like once again to thank the Islamic Council of Europe for the great opportunity it has provided to all of us to meet and particularly for me to be the guest on this occasion. I look forward to the Islamic Council of Europe playing an illustrious role in promoting the Islamic cause in Europe. I would also like especially to thank the Muslim Community in the United Kingdom, and our non-Muslim friends who have so enthusiastically participated in this conference. Your love and your interests have deeply impressed me and I hope and pray God will enable us all to play our rightful role in the promotion of truth, justice and peace in this trouble-afflicted world.

We conclude by saying Praise be to Allah. Lord of all the worlds.

His Royal Highness Prince Muhammad Al-Faisal, Chief Guest and Personal Representative of His Majesty King Khalid bin Abdul Aziz at the Inaugural Session of the International Islamic Conference at the Royal Albert Hall, London, Saturday 3rd April, 1976.
The Need for Collaboration

It is only logical that such an important seminar should take place in the Islamic Republic of Pakistan which under the inspiring leadership of President Mohammed Zia-ul-Haq has played a major role in establishing financial institutions based on the Qur’an and the Sunnah. I have no doubt that the day is not far off when all its Muslims citizens will be in a position to carry out their financial transactions in accordance with Islamic principles. I pray for the success of the efforts that have been launched in this direction.

The founder of Pakistan, Quaid-i-Azam Mohammed Ali Jinnah, had visualised that an adoption of the Islamic economic system was imperative for the development of the newly founded country. In 1948 he said:

"The adoption of western economic theory and practice will not help us in achieving our goal of creating happy and contented people. We must work our destiny in our own way and present to the world an economic system based on true Islamic concepts of equality of manhood and social justice."

In today’s world, we find tremendous urge amongst Muslims to adhere to the Islamic alternative to the prevailing economic system which has failed to solve the problems facing humankind. The economic system in Islam is based on its criterion of justice, equity, human dignity, freedom of enterprise, moderation and balanced relationships. It seeks to develop and harness the human and material resources of the society in a planned and harmonious manner, to satisfy the spiritual, material and social needs of all members of the community.

Islam's economic system has an explicit value framework.
Its basic concept is that absolute ownership of everything belongs to Allah alone. As such, whereas the possession and enjoyment of wealth by individuals is recognised and safeguarded, it is subject to the moral obligation that in wealth all sections of society have a right to share.

Part of the obligation is given legal form and is made effective through legal sanctions but the greater part is secured by voluntary effort. This supplementing of the legal obligation, which secures the irreducible minimum, with voluntary efforts runs through the entire fabric of the Islamic system.

Some of the principal features of the system may be summed up as under:

a) While permitting every individual the right to seek his economic well-being, Islam makes a clear distinction between what is Halal (lawful) and what is Haram (forbidden) in the pursuit of such economic activity. In very broad general terms, Islam forbids all forms of economic activities which are morally or socially injurious.

b) While acknowledging the individual's right to ownership over the wealth legitimately acquired, Islam lays on the individual the obligation to spend this wealth judiciously and not to hoard it, keep it idle or to squander it.

c) While allowing an individual to retain any surplus wealth, Islam seeks to reduce the margin of this surplus for the well-being of the community as a whole, in particular the destitute and deprived sections of it.

d) Making allowance for the ways of human nature and yet not yielding to the consequences of its worst propensities, Islam seeks to prevent the accumulation of wealth in a few hands, to the detriment of society as a whole, through its stringent laws of inheritance.

e) Viewed as a whole, the economic system envisaged by the Qur'an and established by the Sunnah of the Prophet aims at social justice without inhibiting individual enterprise beyond the point where it becomes not only collectively injurious but also individually self-destructive.
Concept of Participation

The Islamic financial system employs the concept of participation in the enterprise, utilising funds at risk, on a profit and loss basis. This by no means implies that investments with financial institutions are necessarily speculative. This can be excluded by careful investment policy, diversification of risk and prudent management methods by Islamic financial institutions. It is possible, naturally, that forms of investment in Islamic financial institutions can provide potential profit in proportion to the risks assumed in a manner to satisfy the differing demands of Muslims, in view of the requirements of contemporary life, within the guidelines of the Shari’a, which retains its validity everywhere and for all time.

The concept of profit and loss sharing as the basis of financial transactions is a progressive one and it distinguishes good performance from the bad and mediocre. This concept encourages better resource management in business by making operation results the focal point of decision-making by banks in extending their financial support. Islamic banks are structured to retain a clearly differentiated status between shareholders' capital and client deposits in order to ensure implementation of correct profit sharing according to Shari’a.

I am happy to note that steps to implement the Islamic financial system are proceeding satisfactorily in various parts of the Ummah. In this context, I would like to complement the International Association of Islamic Banks, the sponsor of this seminar, for its important role in promoting Islamic banking and the Islamic financial system. This will further the co-operation among Islamic financial institutions.

Growth of IAIB

The International Association of Islamic Banks has, since its establishment in 1977, grown into an important forum for Islamic financial institutions. The membership of the Association has grown to 28 and is spread all over the Islamic world - in Asia, the Arab world and Africa. The Association needs full support and assistance - moral and material - from both the public and
private sectors in order to enable it to fulfil its objectives.

I also take this opportunity to express my deep appreciation to the organisation of the Islamic Conference for lending solid support to the Islamic Banking movement and the International Association of Islamic Banks. The Islamic Conferences of Foreign Ministers, since their 9th meeting held in Dakar, Senegal in 1978 have adopted action-oriented resolutions each year, urging Member States to support the Association and to take the necessary measures for the establishment of Islamic banks in their countries.

Let me also seize the time to thank the supreme legal advisory body of the Association which has been playing its assigned role in ensuring the application of the Islamic Shari'a by the Member Banks of the Association.

The theme of our seminar includes such vital issues as appraisal of Islamic banking, evaluation of progress of Islamic banks and their organisational structures. I am confident that distinguished delegates will come up with positive recommendations on the critical issues concerning implementation of the Islamic financial system.

The Islamic financial system has the vitality of youth, but has to mature with experience. Institutions like Dar Al-Maal Al-Islami have taken bold initiatives in introducing the Halal financial system on an international scale.

The establishment of Islamic financial institutions in various countries would not have been possible without the assistance of the governments concerned. I hope that governments of Muslim countries will fulfil their Islamic obligation for the full introduction of the Islamic economic system in their countries.

In this connection, I wish to recall the decision of the Governors of Central Banks and monetary authorities of the Islamic countries to deliberate upon the vital issues relating to the promotion, regulations and supervision of Islamic banks. In this report, prepared in 1981 under the chairmanship of the Governor of the Saudi Monetary Agency, the Governors of the Islamic Central Banks highlighted the following points:

a) The establishment of Islamic banks would reflect the
sincere desire of the peoples of the Islamic world to apply the Islamic Shari'a in different walks of life.

b) The Islamic banks would help attract deposits and savings for directing towards productive investments, beneficial to the people and the economies of the Islamic countries.

c) Simultaneously with control and regulation, the Central Banks are required to provide support and assistance to the Islamic banks, so as to nurture their growth and development. It must be appreciated that Islamic banks will be at a considerable disadvantage in facing the competition with Riba banks because they will not have access to the money market and may even face hostility from Riba banks. It will be necessary to ensure that Islamic banks get the needed financial assistance from the Central Banks.

d) The Central Banks of Islamic countries should also foster the development of financial instruments which are interest-free, so as to enable the Islamic banks to meet statutory liquidity requirements as also to place excess liquidity to profitable use.

I am gratified to note that some states in Africa and Asia have already taken bold and judicious steps towards the implementation of the Governors' Recommendations, which were approved by the 12th Conference of the Foreign Ministers of the Organisation of Islamic Countries.

For those Muslim states which need further time to implement the Governors' Recommendations, I urge them to grant necessary executive exemption for the speedy implementation of Islamic financial institutions, pending adoption of necessary legislative measures.

Issues At Hand

Some of the impediments in the development of the Islamic financial system have been removed, but many other problems need resolution. Some of these issues are:

- Modalities for local financial institutions to make foreign investments and to maintain foreign currency assets subject to the usual requirements of repatriation.

- Due to the purely Islamic character of the Islamic financial
system, need for removal of restriction on the nationality of shareholders of Islamic banks located in their jurisdiction.

- Extending to the Islamic banks the same support as enjoyed by conventional Riba banks concerning financing and refinancing facilities.

- Facilitating investment of excess liquidity by the Central Banks in Islamic banks on a profit-sharing basis.

Extending to investment returns distributed by the Islamic banks to their depositors, privileges identical to those enjoyed by depositors of conventional banks, ie extending to such investment returns the same tax exemptions and incentives which are available to returns on deposits with, and borrowings from, conventional banks.

I am confident that these vital problems, whose resolution is imperative for the promotion of the Islamic financial system, will be examined carefully by the seminar.

In addition, I also hope that the participants in the seminar will benefit from the experience gained by Pakistan in building its financial institutions. The promulgation of the Mudaraba Ordinance by the Government of Pakistan in June, 1980 and the permission to Pakistani banks to accept deposits to be remunerated on the basis of participation in their profits are indeed important milestones and should provide the necessary inspiration to other Islamic countries.

In Asia, Malaysia is the other Islamic country which has decided to practise the Shari'a in the fields of banking and finance. It has legislated the Islamic Banking Act in 1982, which has facilitated licensing and regulating Islamic banking business in Malaysia.

Another shining example in this context is the decision taken by the Government of Sudan under the leadership of President Jafar Nimeriy to convert the existing economic and financial system of the country to the Islamic Shari'a system. This is another important milestone towards the promotion of the Islamic economic and financial order.

The Government of Turkey has also recently passed a decree enabling financial institutions to operate on a profit-sharing
basis. I hope that these encouraging examples will be followed by other Islamic countries as well.

The need for co-operation and collaboration between Islamic financial institutions is urgent as the Islamic economic system is passing through a critical stage of its development. This will be feasible only if we are prepared to lay aside considerations of temporary benefits and dedicate ourselves completely to the goal of establishing a viable international Islamic economic order to serve the Ummah.

Keynote Address,
at an International Seminar on Islamic banking in Islamabad, Pakistan, 1982
Your Royal Highness, since you are the moving spirit behind the concept of International Islamic Banking, and have established so many institutions which are running on Islamic economic principles, and are flourishing, I would like to ask you first, what motivated you to enter into this system, especially when, as one can see, the environment in which we are living is hardly conducive to this kind of experiment?

A. I think the motivation is quite clear for implementing the system of Islamic economics and it is because I am a Muslim. It is a question of application of the Islamic principles. We have to be very clear about it. You cannot be a half-way Muslim. You can only be a hundred per cent Muslim, or not at all; and it is a matter of belief.

That is the real motivation that started me on this, and I found that we as Muslims are living generally a sort of schizophrenic life. Well, we are the believers, we believe, and yet when it comes to our economic dealings, we think that here Islam is not applicable.

Since my background is of economics and business administration, I applied it to try and find solutions to the problem. To my surprise we found out that an Islamic system not only existed but also had the basic ingredients which were needed for an economic system. Not only that, but it also, in its basic philosophy, surpasses the secular system because today there exists only one system of economics, which is the capitalistic system.

The difference between East and West is the degree of capitalism. The system is the same. The other system is the
Islamic system which is based on totally different concepts. That is how I really started. And I am lucky to be among those who have actually begun the implementation and did not just sit around merely thinking and philosophising about it.

Q. Don't you think that there exists a resistance to it in our world of hard-boiled materialism? Those who have to invest the money are so attuned to the traditional Judaeo-Christian economic system because that is how it has evolved, particularly in the past Industrial Revolution period. In this system, the concept of money and the concept of profit and loss, dividend, consumption, demand and supply and all other activities have to be co-ordinated and managed with the instrument known as "interest", which actually controls the entire system. Don't you think that for implementing a new concept you have little or no resources available?

A. First I would like to take up the statement that it is a Judaeo-Christian system. It is not. It is a secular system which developed after the Reformation and the secularisation of Europe. It was the divorce of religion from life which happened in both Christianity and Judaism and which, fortunately, did not happen in Islam. Although there was always a danger of this also happening in Islam, and indeed the danger of allowing religion to be carelessly shoved aside is ever-present, we are still living within our religion, except for certain minor things which are the result of the influences of Communism and its predominant culture. What has developed in Europe was natural. They imposed their own ethics and their own philosophy of life on religion. But when we look at the Islamic system, it is very clear to me that most of our problems in what is called the 'Third World', stem from the fact that we are trying to raise a foreign system on a cultural base which is completely alien to the system. This is why we have these economic problems. Any system, if it does not fit into the philosophy of life of the people, will not succeed. Since we are Muslims we have to turn back to our own ethics and our own philosophies, which are based on the word of God. And things are very clear in it.

The Judaeo-Christian tradition was a sort of a moral code
only and did not deal with life as such. But Islam of course
presents a complete picture of life and it is, as they say, the ilm-
ud-Dunia, as it regulates the entire life of a Muslim and reaches
even his bedroom. The secular approach, or the Judeo-Christian
approach, were the traditions which emphasised the
individuality of man, while Islam emphasises the community
and this stems from the basic philosophy of Islam. Take, for
instance, the concept of property in Islam. Islam does not
recognise the ownership of things by human beings. God is the
owner of everything, including the human beings themselves.

The concept of ownership in Islam, as far as human beings
are concerned, is subsidiary. Man is the vicegerent of God. Thus
there is a sort of contractual relationship between him and the
Original Owner, who is God. And then that contractual
relationship imposes certain contractual obligations. That is
where the Shari‘a comes in. So when you compare all this to the
other system, which does not recognise the contractual
relationship between God and human beings, the human being is
the original owner and, therefore, he is the disposer of all wealth,
be it money or goods or whatever he chooses. However a
Muslim knows his contractual obligation is to God, and disposes
of things within the terms and conditions of the Original Owner,
that is, God. So the Muslim economist is constrained in a certain
framework of morality, whereas the secular economist has no
constraints at all.

So long as a thing is utilitarian in terms of profit or benefits
it is all right for him. In Islam, there is a certain constraint of
morality which is vital. Even if it is profitable or utilitarian, but
goes against a certain precept of the original contract, then it is
forbidden. So the Muslim economist is under greater constraint
in his society.

That does not mean that the Muslim economist is looking
for equalisation of income or equalisation of conditions, but
rather for the improvement of the general conditions, keeping in
view the variances in the economic system. For instance, we hear
all the time that men are created equal. Well God didn’t create all
men equal. There is a difference among individuals, and each
must have his reward, according to his abilities. So there will be rich people and there will be poor people; and there will be people who are in a middle-income group. Islam, recognising the variability of human conditions, also provides for equality of opportunity, so in Islam you find that emphasis is more on work, so you can achieve more and improve your condition.

I am not saying that if you work very hard you are going to be a millionaire right away. What I’m saying is if you work hard you are going to live better. Recognising that there will be poor people, Islam has prescribed compulsory generosity, the concept of Zakat. Zakat is a duty, so it is not up to you to pay or not to pay. Zakat is the right of the poor. You have to pay it.

In this Islamic system of economics there is a basic distinction, compared to the other system. It is how you look at things and treat them. There is a basic philosophical, ethical and moral difference between Islamic economics and classical economics.

Q. That perhaps makes the task more difficult, because the moral and ethical base of the society is so corroded?

A. I don’t think it is corroded. I think it has got a bit of dust over it. So you just have to clean away the dust, because basically Muslims should know how to clean up their morality. The only thing is that they have forgotten it a little bit. All that we have to do is to remind them about it.

Q. So how do you go about it? How do you dust the system? What are the outlines on which, for instance, you have organised your banking and investment system at the moment?

A. One of the reasons why the moral framework has become dusty is that we have not used it. We have been using the other system, and we have neglected our system and have placed it on the shelf, so it has become dusty. All I am doing, along with the others who are working in the same field, is to find the dusty object and start cleaning it and using it. Although it might seem difficult, it is not.

One of the problems is that our people have become so used to the idea of using the other system and forgetting ours that
admit that it is true. They feel a bit bad about it because it is they who have so far neglected it. It is, therefore, a psychological problem with them.

There is yet another thing: they have built certain vested interests, including their careers, associated with the old system. And now when we come and tell them to change and shift to the Islamic system it is difficult for them to accept this. So the difficulty with the people is not in adopting the system but rather in foregoing what they have been used to for such a long time, and going back to what they have ignored and forgotten. The difficulty is in the people's acceptance of the necessary re-evaluation of the system rather than in implementing it, because if you really care to look at the system it is actually clearer than the other systems.

For instance, if you look at the capitalist system, today all the thinkers of that system are not agreed on a clear definition of what capitalistic economics is. There is no clear and convincing definition of economics itself. While in Islam there is - and it is very clear. Another thing is that the Islamic economic system is more related to the issue that faces us, which is development, than to any other issue.

Let us, for instance, take the Islamic view of money. Islam considers money as a measure of value, or a store of value, while today the secular economy looks at money as a commodity. So after the basic difference of who is the owner, comes the question of money. Money in Islam is a measure of value. You cannot buy and sell a meter, you can only measure with it. So money becomes a measure with which you measure things. You can't buy and sell it. But in the other system, it no longer is a measure because its price fluctuates according to events, conditions and manipulations, like various other things in the economy, and this is the real problem. Now, if today the meter is 90 centimetres and tomorrow it is 100 centimetres, and the day after it is 120, how are you going to make a suit? A meter as you know is 100 centimetres all the time, so money as a measure of value should be equally consistent. The real value is in the object that this
money has to measure rather than in the money itself. And therefore, if Islamic economics is implemented generally, these aspects will have to be considered in relation to their legal and practical implications. For example, inflation will no longer be a problem because a meter cannot inflate.

This is what people really mix up today. They think of wealth in terms of money and have turned it into a commodity, while in reality wealth is not money. Wealth is things and money is just a measure. Today they don’t think of real commodities or real objects and they measure wealth in terms of money. That is the dislocation that we are observing today all over the world. There is not a single healthy economy in the whole world. It is not just the Third World which suffers from an unhealthy economy. It is the same everywhere.

Q. But when it comes to the implementation of the Islamic system, there are two concepts which I find among the people. Some people think that if you adopt a revolutionary method, you can just demolish your old economic order and replace it by the Islamic economic system, no matter what it is and howsoever difficult it may be. It is a matter of faith with you. It is a commitment that you have to implement it. At the same time, other people think that because the old order is so firmly rooted, it is better if you adopt an evolutionary process. In the evolutionary process, you find that you have the two systems working together, and in this co-existence of these systems you feel perhaps that the bad currency is driving out the good currency, which means that the haram is driving out the halal. Now in this situation there exists a dilemma. How do you visualise the change? Will it be through a revolutionary or an evolutionary process or in some other way?

A. I think I’m an evolutionist. It should be clear, I’m not a revolutionist. But there is haram and halal, and haram is clear and halal is also clear. Basically, the first question to be asked is what am I? And if my answer is that I am a Muslim, that at once implies a single clear act which is that I believe in God and I believe in the amr bi’lma’ruf and nehi an’l munkar which came down from God,
amr bi’lma’ruf and nehi an’il munkar which came down from God, and therefore I cannot argue the point whether this is good or bad when I know that according to the Commandment it is bad. So instead of discussing all the time whether it is bad or good, let us concentrate on the other aspect and say: ‘all right we know it is bad, so let us see how we can correct it’.

Unfortunately, a lot of the thinkers today are still arguing whether it is bad or good, haram or halal, which has already been clearly stated by God. It is a waste of everybody’s time, because the conclusion is known - it is haram. Since it is haram, how does the evolutionary method correct it? And this is what very few people are discussing.

They are still discussing whether it is haram or halal. They make the job more and more complicated and they say “Oh! It cannot be done”. No, they haven’t yet admitted that it is haram. And this is because of, what you have mentioned - the dominance of the other culture and its impact. It is a fact that for a long time they have been operating under the foreign system. But, the point is, we are wasting so much time talking about whether it is halal or haram when we know that it is haram. OK, let us talk about it. Since it is haram, how do we implement it? I am not advocating at all the complete destruction of the other system. On the contrary, that would be a disservice, because there is a structure which it has given, although it is mediaeval, but it is there. It is providing a function.

What I am saying is let us improve it: put the halal into it and take the haram out of it and, once we begin to think in these terms, the task becomes so much easier. And then there are people who say, “All right we agree with you but let’s wait till the system is completed and then start implementing it”.

You will never complete it this way. You must start implementing it as it comes along. It is a living process. Every time you advance you will need to change it again. So it is a living thing and has to be treated as such. You should never say you will wait until it is completed. Whatever part is complete and works, implement it. That is evolution. Evolution is not waiting until everything is finished; then you become a
revolutionary.

Q. There is an apprehension that people have: one is in the field of international banking and investment where you are dealing with the riba-oriented system. How would you be able to establish your new relationship and a long understanding and contractual obligations? Another difficulty perhaps would arise in the profit-and-loss-sharing system when the question of dividend would arise. Perhaps the difficulty would arise as to when and how and what would be the frequency. How would it work smoothly and with certainty in matters of calculation? Of course that is a matter of details and the systems analysts should be able to produce answers. Nevertheless, this is one of the aspects which worries bankers and others. Then there is also the fact that the management in the Mudaraba system is not required to share the loss, if any. Everyone has to share it except those who manage the business. How do you explain that?

A. Let me ask a question then. Are they paying the loss today? Let's just take two figures in a recent article published about the Third World and the debt situation in the last decade. On every $100 the Third World has borrowed, it has to pay back the $100 plus $50 with no participation, so nothing is coming to it. The other system is a participatory system. Even if it pays it will get its shares which are due to it. So that is one point. The other point is: If you find it difficult in dealing internationally, you may deal on the old basis. But at least start reforming internally. Once you start reforming it internally, it will have its impact internationally also. Let me tell you that we are already dealing internationally in our own institutions, Dar al-Mal and other banks. All the other banks are already dealing with us and they have to apply the Shari'a system and as they have accepted it, it is working very well. We are satisfied and they are satisfied. We are making profits and they are also making profits. We are providing the service. So I don’t really see the difficulty, because we have tested the market. We have gone into it. It just takes the will to do it. When you start with the other system, they say “Oh! We can’t do it”. I say let us start with this and gradually change.
Once there are enough people requiring a service, other people are going to provide the service. The trouble is we have not required the service. So what I say is let us require the service and the others will provide it. Let us create the demand.

A transcript of a wide ranging television interview, given in April, 1984
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Islam and the West
Towards a New International Economic Order

It is without doubt that today there is a resurgence of Islam in the world. It is, therefore incumbent upon us to analyse and study this newest ideological development. The importance of studying and understanding Islam is not only important for Muslims whose lives are dominated by it in all its aspects, but also for non-Muslims in that sooner or later it is going to affect them profoundly, and also that it offers certain new and original solutions to many of the problems of the world today. It offers a new and fresh departure as compared to the classical ideologies and systems that have become worn-out and stagnant.

Since the subject of our colloquium is Islam And The West: Towards A New International Economic Order, I would like to concentrate on one facet of what Islam offers, which is the economic sphere. As with any comprehensive ideology Islam offers a total approach to the human condition in all their endeavours in this world. It has one unique aspect which distinguishes it from all other ideologies in that it stems logically from one basic assumption, which is the singularity and unity of God, the omnipotent and permanent, who is the Creator of all and Disposer of all. Therefore in economics as well as in all other aspects of human endeavour the basic principle is that God is the Original and Absolute Owner of all, whether it be the human and natural resources or wealth. Under this assumption, which is stated universally in the Holy Qur’an, Islamic economics is distinguished from all other economic systems in that man has no primary rights of property since he himself is property.

From the above stems the concept, again stated clearly in the Qur’an, of Istikhlaf or vice-regency, which gives to man the role of
being the agent of God in this world in order to exploit it for his own benefit according to the dictates and conditions of its Original Owner, and for His objective - which is the path of God. If the idea of ownership of property does not exist, then how can there be an economic system? Islam’s answer is that it does exist, however the concept of ownership is different from that in any other system, and man’s role is that of an agent or manager.

Taking into view the definition in Islam of property rights, and the definition of the role of man in this world, we can reach a definition of economics in Islam or Islamic economics as follows:

It is the methodology of how man uses resources and means of production to satisfy his worldly needs, according to a predetermined God-given code in order to achieve the greatest equity.

The above definition of Islamic economics implies the following distinguishing characteristics of that system:

1. Man, being an agent and not an original owner, is not a free agent in his exploitation of resources and must use methods and means within a framework given to him in the satisfaction of his economic means.

2. The guiding principle of economic activity is the overall good of society and nature (environmental).

3. Individual man, being part of the overall fabric, must be given consideration for his well being.

4. Equitable reward must be given to man according to his effort (to all according to their efforts, and from all according to their abilities).

5. Certain activities in the exploitation of resources, having over-all detrimental effects, are proscribed.

The above basic implications, suggest that there are certain features in Islamic economics that make it environmental in its approach.

Islamic and Capitalist Systems

It may serve our purpose well at this juncture to compare the Islamic system of economics with the other systems applicable in the world today, namely the capitalist and socialist systems. In my view, however, the two systems, the capitalist
and socialist, are actually two applications of the same system; the difference is really in the definition of who is the capitalist. While generally in the west the capitalist is the individual, in the socialist camp the capitalist is the state or a segment of society. Therefore we are comparing only two different systems - the Islamic and the capitalist.

The first distinguishing difference between the two is that of the concept of property and ownership. While the Islamic system recognises no inherent property rights for the individual or state as the case may be, the capitalist system recognises that man has an inherent right to property. While the Islamic system assigns the term of agent to man, the capitalist system assigns him the role of original owner.

The second distinguishing difference is the restrictive definition of the role of man in one and the complete non-restriction of that role in the other. While in the Islamic system man, being an agent, has to abide by the conditions of the original contract between him and the original owner, God, in the capitalist system he, as the original owner, has total freedom of decision.

The third distinguishing difference between the two systems is in their approach to the exploitation of resources. While the capitalist system tends to exploit resources for profit, the Islamic system tends to co-operate with the environment. While the capitalist system tends to dominate its environment, the Islamic system tries to co-operate with it.

The fourth distinguishing difference between the two systems is in their different approaches to the motive of economic activity. While the capitalist system considers profit as the main motive to economic activity, the Islamic system, though recognising the profit motive as a measure of reward for effort, considers the general good of society as the motive for economic activity.

The fifth distinguishing difference between the two systems is their approach to the concept of competition. While the capitalist system stresses competition and therefore tends towards monopoly, the Islamic system stresses co-operation and
therefore tends towards true competition.

The sixth distinguishing difference between the two systems is their view of trade barriers. While the capitalist system in its competitive spirit tends to restrict trade for advantage, the Islamic system by definition is a free trade system, and looks at the whole world as one market.

The seventh distinguishing difference between the two systems is in their approach to multinationalism. While the capitalist system developed multinational forms for national competitive reasons, the Islamic system is multinational in essence. An added difference today between the two systems is in their concept of money. While the capitalist system views money as a means of exchange and a commodity, the Islamic system views it in the original way purely as a measure and store of value only.

**Islamic System as NIEO**

I have endeavoured above to state the philosophical and ideological base of Islamic economics and to compare its most salient features with that of the other economic system in application today. Now if I may, I would like to explore the implications of its adoption as a new international economic order for the world.

Without any doubt the world situation today is economically in a precarious situation. More that half the world population is threatened by economic collapse and even hunger. The whole third world is in desperate straits and many of the developed countries are facing major economic crises and dislocations. The world financial situation is out of balance. Inflation is rampant. Much of the world is actually facing hunger, and unemployment is chronic in all countries. Societies everywhere are caught in a quagmire of apathy or revolt. Because of the above situation the world is in constant tension and turmoil.

No two people disagree that the world economic situation today calls for a new departure that can address itself to the solution of the serious problems that face it today. The calls for a
new international economic order have been repeated often enough; however, nobody has come forward with any basic specific proposal. In this connection may I suggest that the new world economic order should be based on the Islamic model, since no other model suggests itself that is both inherently and philosophically different enough from what exists today to matter, and bring about the necessary basic changes needed to address the problems currently facing us. The capitalist system has worked quite well up to the very recent past. However, it is showing signs of inadequacy in facing the new challenges of the world situation today.

The modification of the capitalist system that the socialist reformers have instituted, although aimed at moderating the excessive abuses of capitalism, have proven a failure because they were essentially tinkering to modify certain details of application of the system, and thus did not address themselves to basic changes. With the new form of capitalism today serving all in a world of expanding economics and rapid national development, without displaying the basic problems inherent in the pure form of capitalist theory, the inherent shortcomings of the system were not apparent. However in a world brought together by the fruits of scientific and technological developments and their result of massive production capability, the world became one huge market that is no longer capable of absorbing the productive capacity existent in the world today, and thus the market became stagnant and the system could not cope with this new development because capitalism requires a constantly expanding market in order to work well. The result is that it became overloaded and could no longer provide the answers to the problems.

**Limits to Capitalist System**

Following are the reasons why in my opinion, the old tried system has reached its limits and can no longer cope with the situation:

1. The capitalist system with its inherent philosophy that profit is the motivating factor of any economic activity, cannot
cope with the situation today where the need is for a system that solves the social and environmental dislocations, but do not necessarily result in tangible calculable profit in terms of dollars and cents.

2. The tendency of the system towards the promotion of self-interest first makes it unable to adjust to the new requirement of the moment, where self-interest is not necessarily the best solution for the problems facing us today.

3. The basic tendency of the system toward the competitive advantage tends to concentrate economic power in the hands of the few and then encourages them toward domination and monopoly.

4. The basic thrust of self-interest and monopoly tends to make those having the means and the economic power adopt a narrow view of the problem.

5. The profit motivation tends to make the capitalist less sensitive to any other considerations, and tends to make of him a maximiser of profit in relation to input, and thus draws him toward adopting a short-term view.

6. The maximisation of profit in relation to input tends inversely to make the capitalist minimise input and thus to look for the easiest and most rapid form of investment.

7. Since profit is the motive, the tendency is to employ resources where they can bring most profits and where they are most needed.

8. Since profit is the motive then markets must be created for products artificially.

9. Since profit is the motive then demand must be stimulated for products artificially.

10. Since profit is the motive then means should be devised to facilitate its achievement that are not necessarily beneficial.

From the above we can conclude that under capitalism the economy performs quite well as long as there is an expanding market. However once the market stops expanding or stabilises, the systems begin to show signs of strain and stress. In addition we find that the capitalist system does not provide for the solution of the problems of those who do not have the means to
command purchasing power for goods and services. Today the capitalist system caters only for those areas of the world which have the financial and technological means; as for the rest of the world it has presented no workable solutions.

Salient Features of the Islamic System

On the other hand the Islamic economic system offers much of what could be a positive development towards a comprehensive solution to many of the problems plaguing the world economy today. Its inherent universal outlook would tend to eliminate the artificial barriers plaguing trade today and deals with the needs of man as such and not national entities or individuals. It's environmental outlook would tend to compel the protection of nature and eliminate waste. Its emphasis on the general social benefits rather than individual self-interest would tend to balance needs and resources equitably. Its universal outlook would tend to eliminate excessive competition and thus discourage any tendencies towards monopolistic practices and diffuse economic power.

Its stress on co-operation would tend to promote healthy commerce. Its stress on morality rather than legality would makes it more just. Its stress on need rather than profit as the motivating consideration would help balance supply and demand. It's treatment of money as simply a measure of value would counter the volatility of the money market. Its utilitarian outlook toward production and exploitation of resources would tend to encourage balanced economic growth and the elimination of inflation by balanced spending. Its balanced outlook towards need and utility would make it anti-inflationary. Its prohibition of Riba (interest) would tend to make it more equitable and discourage deficit or debt spending while encouraging productive investment and saving. And its unique feature of Zakat (compulsory charity) could bring about the elimination of poverty and need.

The above is an outline of the comparison between the two economic systems available in the world today and an attempt to point out the salient differences and features of the two as they
compare. It is a totally un-intellectual treatment based on observation and conviction. Of course, to enable the Islamic system to contribute its rewards, certain modifications to the legal framework and practices, as well as the modification of business practices and accounting, are required. It goes without saying that the criteria for risk analysis and feasibility studies should also be modified slightly. The above modifications should not constitute a major obstacle if we want to initiate a new international economic order, since they will in any case be required whatever new system is adopted.

I think that a serious study of the Islamic system should yield a new and rewarding result that could help in stimulating new departures in the area of economics, hitherto not explored for the simple reason that it has not been serviced and renovated for a long time. This is not the fault of the system but a failure of its adherents. While capitalism has received all the attention over hundreds of years by a vigorous and resurgent west, the Islamic economic system has been relegated to the dusty shelves of libraries and forgotten manuscripts, so that the world forgot that it was a comprehensive and well defined philosophy.

Therefore, it was thought that Islam had nothing to offer in the realm of economics and the scramble to adopt and adapt capitalism in its different forms was on. Thus we find that a system that is not well understood by many people was superimposed on societies that simply were not geared for it, either intellectually or professionally, resulting in the process of dislocation and disorientation that we see today, especially in the third world.

I choose the role of an advocate in my presentation not only because I am one by conviction, but also to draw the attention to a hidden intellectual resource that has gone begging for attention for a long time without any serious attempt to explore it. I am sure that if the intellectual attention that is needed is given to the study of the Islamic economic system, it can yield many benefits for Muslims and non-Muslims alike. A system should be analysed for its own merits and not only by its adherents and advocates.
I hope that the curiosity of intellects better than mine has been pricked by what I have presented here today and that any shortcomings of my treatment of the subject will be forgiven. May God, in his mercy, bless all with wisdom and show all the right path.

Questions and responses regarding DMI's Annual Report:

Q: Your Royal Highness, you have been in business now for four years and you have made a profit now for the first time. Have you reached this profit situation earlier than you expected or has it taken rather longer?

A: Well, I think that the profit situation is not such an important question. It's the building up of the system and the establishment of the institution itself. Our profitability of course always comes later than you expect, because one cannot always predict the problems that are going to occur prior to the institution of the work itself. However, our profitability now demonstrates the direction that we're going in, and I think in an institution like this one, which is really indirectly involved in the profit and loss mechanism, the fact that we are distributing profits in the fourth year, is a good indication because our profits come from the institutions that we establish. So it's coming second hand from those institutions, and it takes a long time. On the whole I would say it's pretty much what we expected.

Q: Even though the economic situation in the areas where you have been operating have been worse than you expected?

A: Well I think we're relatively insulated from that situation because we are a multi-national operation, and the fluctuations in the areas don't affect us as much as the local units. However they have an effect on us because our sources of funds - the major part of them - are in the areas that are affected by the downturn in the economic situation. So, in that regard, yes; but the other aspect of it is that we are presenting a new departure where people who are affected by the downturn might escape...
into our own instrumentalities. Only the future will tell.

Q. How have you found the problem of acceptability in the financial world in general? The traditional capitalist, interest-giving and bearing institutions - how have they accepted your presence in the international financial community?

A. Well, I think we've had no problem with the international financial community. Our problem has been in the local areas, which is a strange situation because you would expect that the localities that we operate in would understand our system better. But unfortunately it's a new system; a bit unfamiliar to those people and they just don't see how it works. In spite of the fact that we have been working in the market for quite a while. So, acceptability on the whole, as far as I'm concerned, has been good - taking into consideration that people are not used to the system.

Q. You have had legal problems, even in Saudi Arabia of course, in that you have had some difficulties in finding your way of doing business being institutionalised, as it were, into the Saudi banking system. Is that still a problem for you?

A. Well, we're not a Saudi institution. We have nothing to do with Saudi Arabia. Saudi Arabia is merely one of the markets that we operate in. We have no institutions there. We do some financing out there; however, if we're talking about legal situations, our institution is the most legal in Saudi Arabia... (laughter).

Q. The only one in accordance with the Shari'a?
A. Because it's the only institution which really implements the legal code of Saudi Arabia.

Q. What kind of impact do you think you've been able to make on the man-in-the-street - at least let us say the man-in-the-street who can make investments in the Islamic world in which you operate - does he feel that he is better able to contribute to the economic development of his country as a result?
A. Well, I think that from the small beginnings we have made - and I consider them small in relation to the potential - the action has been positive in this aspect, and to the point where it is giving us difficulties because the expectations from us are much bigger because they do - the public in general does - expect that we will do a much better job.

Q. Are you saying that they want you to give a better return on the capital they invest with you, than they would expect from a western style bank?

A. No. They would accept less; however, they would like to get more. But...er...so far it has been...and the situation still is, there is a very particular thinking that goes into this which may seem a little bit strange to a westerner. You see the people are willing to trade off their commercial gain to a moral gain. This is why we are more competitive in that sense.

Q. Are they able to see a precise connection between the sacrifice that they make and the moral improvement that their investment is able to bring about?

A. Well, I think they see that. However, this is not saying we have been giving them less. On average, the returns we have been giving them are about par with the other institutions. So, this question hasn’t arisen yet.

Q. You have had investments in western businesses which have nothing to do directly with Islam. Have you found any difficulties in making these investments and have you been able to raise funds from Western sources?

A. We haven’t had any Western investments...er investments in the western world, except if you consider the international currency markets and commodity markets. However, investments as such, as in projects and things like that, we haven’t had any of them except in the Islamic world. However, as I said, the international market has been more ready to accept us than the local markets in the Islamic world, precisely because it is more sophisticated, and therefore it can accommodate itself to our requirements.
Q. But have you in fact found any interest on the part of Western economic partners in investing in your projects.

A. Well, we haven’t… but we didn’t seek any. We have a problem employing the money that is pouring in as it is, so we don’t need outside sources. If we need it I don’t think we will have any difficulty because they do have an understanding of how we can operate.

Q. As you’ve been saying, you’re interested in more than just making money - there is a moral dimension to the system you are trying to erect and you are also, as I understand it, interested in the continuing projects for a new international economic order. In what way do your organisations contribute to changing the balance of world economic power?

A. (Laughs) Our organisations are such a minuscule thing compared to the world economic situation, and we are just at the beginning. But I do think the system itself upon which we are based, has pretty good solutions to some of the problems, and I think that it is a new idea for a new economic order. It takes development of course, I am not saying it should be adopted now, but it should be looked at and studied. Some of its principles, if the necessary framework is established, could provide a good response to some of the problems we have today in the economic situation all over the world. That doesn’t mean success is guaranteed. What I’m saying is that it should be tried.

Q. So where do you see yourself and your business in four years’ time?

A. Well that’s too soon…er…I think we will not be able to affect anything before twenty, thirty, or even fifty years.

*Interview by James Morgan*

*10 December, 1985*
Facing Up to Contemporary Needs

It is indeed a great personal pleasure for me to visit once again this beautiful capital city of the Islamic Republic of Pakistan and to be able to address this august assembly. I wish to express my personal thanks and appreciation to Your Excellency President Zia-ul-Haq for inaugurating this conference. Your Excellency’s untiring efforts and abiding commitment to the cause of the Umma is well known and your bold initiative to introduce Islamic banking in Pakistan has already begun to bear fruitful results and has drawn the attention of the international financial community to the distinctive role Islam can play in the economic and financial spheres. The Islamic banking movement which was initiated in the sixties has gained momentum in the following two decades and currently more than 50 Islamic banks, national and international, are operating within the Umma and outside.

The viability of the Islamic banks has been proved beyond a shadow of doubt and their working results have already demonstrated their strength. The growth of the Islamic financial system, however, calls for greater efforts to develop a worldwide network of modern and efficient financial institutions equipped with new methodologies and an extensive range of products and services. The future of Islamic banking depends, to a large extent, on their ability to adapt themselves to the changing business environment and build the necessary management depth to meet the challenge. The Islamic banks need to be strengthened, at national and international level, through the development of Islamic substitutes for conventional
products which do not conform with Shari’a laws. The funds deposited with the Islamic banks by their clients are mostly of a short and medium-term nature and thus cannot cater to the long-term financing requirements. It is therefore imperative for Islamic banks to mobilise funds on a long-term basis to widen their investment base and to undertake longer term financial operations within the framework of the Shari’a.

While the existing range of products of the Islamic financial institutions needs to be continuously revitalised, new medium and long-term products geared towards specific purposes should also be developed. The Islamic banks cannot wholly rely upon share capital, but have to identify and develop other means for raising resources in the market, to finance income-generating operations in the industrial field, including financing of export oriented industries in the Islamic countries.

One of the major drawbacks faced by the Islamic financial institutions is the lack of a financial market to trade their instruments. Development of an organised Islamic financial market will help to deal with all issuances of Islamic banks and other Islamic financial institutions. In this direction, the establishment of an organisation, jointly by the Islamic banks, to perform certain functions related to the shares and certificates issued by them, such as underwriting, floating, trading, etc. should be considered. This is an area which I consider to be worth serious examination by the distinguished participants of the seminar.

The Islamic banks, with a view to facing growing competition, will have to adapt their functioning in line with modern business practices, through improvement and expansion of the range of dealings in the banking sector. It is necessary for them to provide comprehensive banking and investment services to the clients and simultaneously they should take advantage of modern technological breakthroughs, in areas such as electronic communications, computerisation etc, and thus achieve productivity gains.

One of the most important challenges for Islamic banks remains management and operational expertise. The importance
of human resources in Islamic banks and investment companies is of highest priority. Islamic banking, in view of its comprehensive range of activities in the financial field, requires much greater expertise and sophistication than traditional banks. Future success of the Islamic banks in the sophisticated banking environment will depend on their ability to acquire and retain the right expertise and their ability to provide continuous training to upgrade the efficiency of the management and their supporting cadre. The future of Islamic banking will be brighter if it develops long-term strategic plans, invests in technology and human resources, and researches and develops a comprehensive relationship with its customers.

There is also a need of greater co-ordination and co-operation among Islamic banks to complement each other’s activities, through the consortium approach, for joint trading and project financing activities. It is heartening to note that the International Association of Islamic Banks is playing an increasing role in strengthening ties between Islamic banks and in helping them to affirm the Islamic character of their operations. The Association will continue to:

- Provide technical assistance and expertise to Islamic communities wishing to establish Islamic banks;
- Co-ordinate exchange of data and information among Islamic banks;
- Publicise Islamic banking and undertake studies and research in Islamic banking and related fields;
- Represent the common interests of Islamic banks in national and international forums.

While Islamic banking is practised in varying degrees by many Islamic countries, it can fully blossom only within an Islamic environment, particularly in respect of fiscal, legal and regulatory matters. The major hurdles faced today by the Islamic banking movement are the absence of a necessary legal framework and the lack of adequate infrastructure in Islamic banking and investment fields. Except for a few Islamic countries, including Pakistan, most of the member states of the Organisation of the Islamic Conference have yet to adapt
their legislations and regulatory measures to accommodate Islamic banks.

In this connection, I may recall that the Council of Governors of Central Banks and Monetary Authorities of the Islamic countries have already gone on record by declaring that simultaneously with control and regulation, the Central Banks should provide support and assistance to the Islamic banks to nurture their growth and development. The Islamic banks are at a considerable disadvantage in facing the competition with conventional banks, because they do not have access to the money market and they cannot resort to other banks when they face a difficult liquidity situation. The Central banks, especially in Islamic countries, should provide to the Islamic banks at least the same type of assistance provided to the conventional banks, but on a basis compatible with the Shari’a. As in the case of Pakistan, the regulatory authorities of other Islamic countries can also foster the development of Islamic financial instruments to help strengthen the operations of the Islamic banks. Another important aspect which needs to be underlined is that the Islamic banks should be given the same tax exemptions and incentives to their investment returns as are granted to the return on deposits with the conventional banks.

Now some words on the theme of the seminar: the Islamic bank’s role in the promotion of intra-Islamic trade. The balance of trade situation in most of the Islamic countries is currently showing a negative trend. Resulting from the continuous fall in the demand and price of oil and other primary commodities, the share of Islamic countries in world trade has continued to decline. Their world exports decreased from a peak of 15% in 1980 to around 7% in 1986. The proportion of trade among Islamic countries has also declined progressively from 10% in 1982 to about 7% in 1986. One of the important aspects of the trade structure of the Islamic countries is that their exports are highly concentrated on a few commodities which account for more than 80% of their total export earnings. Such a situation has led to a drastic fall in their export earnings due to a sharp decline in world commodity prices. At present, the Islamic countries do
not, unfortunately, have much economic complementarity.

To overcome such a situation, there is a need for sustained efforts to expand the export base of the Islamic countries by multiplying exportable commodities. This can be achieved through the establishment of export oriented joint venture industries which can process the agricultural goods and industrial raw materials produced by the Islamic countries. Recently, the Islamic Development Bank has taken an initiative for expansion of Intra-Islamic trade by the establishment of a long-term trade financing facility. While it is a step in the right direction, such a measure, however, needs to be complemented by efforts to increase the range and availability of exportable commodities of the Islamic countries. The funds created for long-term trade financing should, therefore, also be made available for the setting up of export oriented industries by the IDB member countries. The Governments of the Islamic countries should also facilitate movement of their goods and services through the creation of a trade information network, the establishment of a system of mutual trade preferences, an export credit guarantee scheme and clearing mechanisms.

While the roles of Governments are of utmost importance for the promotion of intra-Islamic trade, the private sector should also be increasingly involved in such endeavours. The flexibility and dynamism of the Private Sector can surely supplement the efforts of the public sector agencies. The trade financing requirements of the Islamic countries are enormous, and intergovernmental agencies like the Islamic Development Bank can only meet part of the need. In this context, the Islamic banks and financial institutions in the Private Sector, which have grown rapidly during the past decade in various parts of the Umma and outside, can play an important catalytic role for achieving the cherished goal of the establishment of an Islamic Common Market. These institutions are already undertaking trade financing activities and, in view of their national and international character and close contacts with entrepreneurs and traders, they are ideally placed to play an important role in the trade promotion activities of the Islamic countries.
The Islamic bank’s foreign trade financing operation strictly conforms to the Shari’a, as it involves the purchase of goods, their resale with mutually agreed profit margins and in some cases with deferred payment arrangements. Such operations can surely contribute to the promotion of intra-Islamic countries. Several Islamic banks have also joined hands in creating trade pools and entered into syndication arrangements to enable them to trade transactions of large volume. In addition, some of the Islamic banks have set up specialised companies to handle trading and financing activities.

Trading and trade financing operations being quite sophisticated and highly specialised in nature, the present seminar on Islamic banking and trade may address itself to various issues which would facilitate the trade financing activities of the Islamic banks, including:

- Modalities of co-operation among Islamic banks in trade financing;
- Determining commodities eligible for financing;
- Repayment period;
- Profit margin;
- Contracting and disbursement procedures.

The promotion of intra-Islamic trade has great importance and priority as an effective vehicle for the creation of the Islamic Common Market. There is considerable potential for developing and increasing the production of goods which can be traded between the Islamic countries and also between them and outside countries.

Address given at
Islamabad, Pakistan, 1986
Before I deal with the practical aspects of Islamic banking and its future prospects, let me first highlight the major objectives and the philosophical aspects of the Islamic economy. The principal objectives of the Islamic economic system are ensuring stability in the value of money, the economic well-being of the people with full employment, an optimum rate of economic growth and the promotion of distributive justice.

The Islamic system gives great importance to the stability in the value of money and money supply, which is closely tied to its possible contribution to production and growth. The Islamic code of life is based on integrity and equity in all business dealings and inflation is contrary to the objectives of an Islamic economy. We do not believe in wastage of scarce resources or rapid depletion of divine given assets, which would affect the welfare of our future generations.

Reduction of disparities in income through the improvement of the material well-being of poorer segment of the society is another major objective of Islamic economy. Islam has its own specific attitude on the subject, which is an alternative to the prevailing economic systems, i.e. capitalist and socialist systems. It provides satisfactory answers to the present day economic and social problems faced by the world economy. Islamic economics is an interrelated, self-contained course with a comprehensive entity, and it offers a new and fresh departure from the classical ideologies and systems which no longer fulfil or fully satisfy our needs, or provide appropriate solutions to our economic problems in vital areas like unemployment, inflation,
trade imbalance and mounting interest-riddled debt-burden.

Under the Islamic system, capital should not be left idle and is expected to be put to productive use and therefore hoarding goes against the spirit of Islam. Islam offers a total approach to the human condition in all endeavours in this world. Islamic economics is the methodology of how man utilises resources and means of production to satisfy his worldly needs according to a predetermined God-given code in order to achieve the greatest equity.

The Islamic system exhorts us to combine social development and a better attribution of financial resources. Through its proper application, the Islamic banking system can help transform people into productive elements in the society.

Before we speak about the future prospects of Islamic banking, we have to evaluate first the results achieved so far. Although the Islamic financial institutions, due to the short span of their development, ranging a little over ten years, cannot be fully judged for their success or failure, the remarkable growth of the Islamic banks during the past few years is an indicator of their viability and provides the yardstick of their success - both in mobilising and deploying resources for productive purposes.

Over 50 Islamic banks and investment companies located in Islamic countries and in the western financial centres have proved, through their successful operations, that they are capable of performing efficiently all banking, investment and trading operations, while at the same time conducting their operations in accordance with the Islamic laws.

It may also be noted that none of the Islamic banks has gone into liquidation and their financial situations are consistently improving. There has been phenomenal growth in assets, deposits and the capital of Islamic banks, and the total resources currently at their disposal exceeds 15 billion US dollars. The huge assets managed by the Islamic banks prove the point that the system is here to stay and the results produced by them so far confirm that they are in a position to meet the challenges of a changing financial environment and effectively compete with other institutions.
The investment objectives of the Islamic banks are directed towards developmental efforts. Their investments are made in two ways, namely:

i) Direct investment which implies that the bank would independently employ funds in profitable projects, providing a stable revenue;

ii) Investment in participation, implying the bank’s participation in the capital of a certain productive investment as a partner, sharing the possession, management and supervision of the project, as well as the profit or loss, in accordance with the proportions previously agreed upon with its partner.

The very fact that Islamic financial institutions have also established themselves and are operating successfully in several Western countries including the United Kingdom, side by side with the conventional institutions, proves the viability of the system and its acceptability by the conventional banks and the financial and monetary authorities in the West as a constructive partner.

Of course, the development of the Islamic financial system is not totally free from obstacles. In the absence of precedents and past experience, many difficulties had to be faced by the Islamic banks in the early stages of their operation. For example, one of the difficulties faced by the Islamic banks was the lack of an adequate number of financial instruments to conduct diversified business activities on Islamic principles. This is a major area which the Islamic banks are now addressing themselves to, so as to be able to fully meet the requirements of their clients and to implement the broad economic and social objectives of the Islamic system.

Another area of concern for the Islamic banks is that while enjoying success in the primary market level, the Islamic banks lack secondary markets. Efforts are, therefore, underway to create an Islamic financial market where the Islamic banks can find an open pool to invest their surplus funds or liquidate their medium and long-term investments.

Our Western friends participating in today’s conference may be wondering about the practical benefits which the traditional
banking system can derive through co-operation with the Islamic banks. In this context, let me categorically state that Islamic banks represent a link in the chain of the entire banking system. While developing and promoting inter-Islamic bank relationships, we cannot be oblivious to the need for co-operation with the traditional banking system. The Islamic banks have to deal with the conventional commercial banks on a day-to-day basis for such transactions as transfer of funds, trading in foreign exchange, clearing of checks, and confirming, advising and negotiating letters of credit. Correspondence relationships between Islamic and conventional banks have increased globally, but there exists ample scope for increasing such co-operation. Indeed, there are excellent possibilities of co-operation between the two systems by combining the concepts of Shari‘a-based investment and participation principles with the experiences of Western banks and the potential of Islamic countries.

Investment opportunities in the Islamic countries continue to be substantial. The Governments of these countries are providing all types of incentives to the private sector and foreign entrepreneurs for entering into joint venture deals in various segments of the economy - small and large. There is thus ample scope for co-operation, for promotion and financing of worthwhile investments in the Islamic countries in association with the Islamic banks, which are familiar with the laws and traditions of the Islamic countries.

The Islamic banking system has come of age and has become a fact of life in the Muslim countries and its track record has generated enough confidence among the Muslims to deposit their funds with the Islamic banks for investing on Islamic principles. Islamic banks can help conventional banks in identifying syndication, project and trade financing opportunities in Islamic countries and they can act as a conduit for traditional banks in Shari‘- based operations. Another specific area of co-operation between the Islamic banks and their traditional counterparts could be in the area of venture capital, which would help promote industrialisation and transfer of technology to the Islamic countries.
The Islamic banks are offering viable Islamic alternatives for almost all types of international financing. They thus extend their hand of co-operation and collaboration to the conventional banks for joint endeavours for equity participation in Islamic countries on a profit-and-loss-sharing basis - thus linking finance with entrepreneurship.

The future outlook of the Islamic financial system is bright. We are today at the threshold of the 21st century and the Islamic banks have to work hard for their development and to match the highly sophisticated and technologically-oriented modern banking system. Although times are harder and competition is growing more fierce, we can look towards the future of Islamic banking with hope and confidence. The emergence of an Islamic financial system, and a closer working relationship between Islamic and conventional financial institutions, will have beneficial and far-reaching implications for the development of new and dynamic structures of international economic co-operation.

Delivered at
the Islamic Banking Seminar, London,
22-23 June, 1988
Dar Al Mal Al-Islami (DMI) Group will hold its general assembly meeting next June in Istanbul, its Chairman Prince Muhammad Al-Faisal has announced. Describing it as a true manifestation of Islamic economy, which is safe, feasible and profitable, Prince Muhammad said the group, which was formed about 10 years ago, comprising 24 investment establishments and banks, now has total resources exceeding $2 billion, adding: “We have not so far this year distributed any dividends but may do so after the general assembly meeting which is held every year in a different Islamic country”.

Prince Muhammad stressed that the group was not after short-term profits but long-term investments and was aimed at establishing financial, commercial and investment corporations in various Islamic states to operate according to Islamic Shari’a rules and in line with the Islamic economic system. Prince Muhammad noted that the markets, particularly in the Middle East, lack the vision for long-term investments and are solely guided by mere short-term commercial gains. “If we concentrate on the sheer commercial phenomenon, we will never be able to realise giant establishments to cater to the needs of real development. Therefore, immediate profits should not be the rule of the game,” he added.

He described those who claim that the interest-free Islamic economy is not profitable as not well informed. “Experience has shown that Islamic establishments around the world are making profits. Some official foreign reports have shown that the performance of Islamic banks and establishments is far better
than that of usury banks," he said.

Prince Muhammad revealed that studies were currently under way to establish Faisal Islamic banks in two Islamic countries. He said the establishment of an Islamic investment company is also under consideration. "We will continue to establish more Islamic banks and financial establishments because this is the very essence behind the establishment of Dar Al-Mal Al Islami Group," he added.

Asked about recent reports which hinted at some problems at the Faisal Islamic Bank of Egypt, Prince Mohammad said that unfounded rumours led to unaccustomed cash withdrawals. He added that some of the depositors had unnecessarily panicked because of the bitter experience with some other financial houses which failed to repay money to depositors. So they began to withdraw their cash money from the bank at the rate of $12 million (seven million Egyptian pounds) a day. This continued for about two months and every one who asked for his deposits got them in less than 15 minutes.

"We depended on our own resources to provide cash and this in itself is proof of the strong position of the bank," Prince Muhammad said, adding that the situation has returned to normal and the bank distributed unprecedented dividends during the first quarter of this year. "We even distributed profits while hectic cash withdrawals were continuing," he added.

The prince blamed the press for unjustifiably comparing Islamic banks and the funds employment companies who could not pay back creditors." "Islamic banks are strong, have enough resources, under the Central Bank supervision, and are always making profits," he added. One expects all the banks and financial institutions around the world to face difficult economic conditions because of the "tilting balances of the world economy," the Prince said, but lamented that only the plight of the Islamic banks would be remembered.

Prince Muhammad said that the Islamic banks were targets for criticism and hostile attitudes because they represented a new experiment. Some people do not understand what the Islamic economy is all about, while others are biased, he added, pointing
out that any new experiment will have its opponents. He recalled that during the past decade the available funds at the Islamic banks and institutions amounted to more than $12 billion and said this was proof of their success and of their ability to collect and invest money.

Asked about the role of the International Association of Islamic Banks, Prince Muhammad, who is the federation’s chairman, said it represented a forum where 37 member Islamic banks will meet to discuss matters of mutual concern and co-ordinate stances. The association meets as a whole body twice a year, while its executive committee holds six meetings every year. Every Islamic bank has the right to join the association provided that it has an autonomous Shari’a supervisory board.

Prince Muhammad expressed happiness that the Dar Al-Mal Al Islami Group had proved the feasibility and soundness of the Islamic economy to the whole world. “We have shown the world that there is an Islamic economy with a philosophy which is quite different from the concept of the capitalist economy of the West and the East. The Islamic economy is the ideal solution to all future problems.” He particularly praised the performance of the Gulf Islamic Investment Company, a member of the group, and said that with its assets, consummate services, safe investments and tangible profits, the company is considered a hallmark for the group.

Prince Muhammad said many banks in Europe and America have opened units operating according to the concept of Islamic economy. “This is proof enough of the success of our experiment,” he added, recalling that the Swiss Bank Corporation, Chase Manhattan and others were among the banks who had opened such units. “If your competitor imitates what you are doing, then this is enough evidence of your success,” he concluded.

An interview given to
Sir James, you were right in saying in your introduction that there are many misconceptions in the minds of both the West and the East about each other, and the underlying principles of life and doing work, and the work ethic in their societies. I must compliment you and your organisation on the efforts you are making to bring clarity into the relationships between our two societies. Historically, the usual misconceptions that were existent during the last two centuries are still with us. As you remember, the last two centuries, and I mean the eighteenth and nineteenth centuries, were centuries of confrontation between the two societies. Today, in the twentieth century, that confrontation is no longer there. Today, we see that there are a lot of examples of co-operation between the two societies, hopefully for the good of mankind.

I have been asked to explain Islamic banking and the difference between it and the banking system in the West, and whether these two systems can work together. I must confess I am rather ill-prepared to do that, because on one side we have a developed system that has been aggressively adjusting and developing new methods for a few centuries, and on the other we have a system which has been dormant and neglected until now. So you will excuse me, and I beg your indulgence, in permitting me to be a little bit more general than specific, because I think that in order to understand the system, the most important thing is to understand the basic, underlying philosophy which governs its actions.

Basically, the Islamic system of economics has very little
variation between it and the economic system in the West. The difference is really in the basic philosophy but not in the implementation and the instrumentalities. As you mentioned before, basically, interest is the most glaring difference, and it concerns itself with one of the economic institutions in the system, which is banking. But an economic system is not only banks. It is a whole infrastructure of institutions that have developed over the years, based on concepts and theories.

The basic outlook of Islam on wealth - and wealth, after all, is the end result of business - is that man, being created as a vice-regent of God in this world, is required to adhere to a certain system of rules. And as a Mustalah - and I always find it difficult to translate that word into English because it has certain connotations that are hard to translate in the language - he has a duty to optimise his use of God's gifts that he has been given in this world as a trustee. So this concept has an implication, for instance, on the definition of ownership. The Islamic businessman, the Islamic individual, and the Muslim individual, is not a free agent in ownership.

The concept of owning, personally, is not there. Ownership - the corresponding concept in Islam - means that you are a trustee, whether it be of money, natural resources, or other attributes.

Therefore, the basic underlying concept is very important to understand when you are dealing with an Islamic environment in the business area. This concept, basic as it is, of course has implications on what is built upon it, whether they be institutions or individual transactions that are in the field. So this is very important, very essential, and I am afraid that not only is it not known in the West, but even the Muslims have forgotten it! But they are coming back to it now. Now, it is very difficult to get into explaining here the details of the little part that we are playing through Dar al-Mal or other organisations, which is the banking side. At the beginning, when we were starting our work, I was in London talking to some bankers and they were asking what was Islamic banking. After I had to explained to them what it is, one of them came up and said, "But this is not banking!"
I said: “But it depends on your definition of banking.”

Unfortunately, I think, in the West banking has been redefined into a very narrow concept. Essentially, banking in the West is mostly credit, and credit tied to a certain price index which is the interest rate. But to any economist, I think, and especially a Muslim economist, banking, has a much wider definition. Our definition of banking in our system, and I think that should also apply in the Western sense, is that it is a funnel of monetary resources between the people who have the money, and the people who use it. So, taking that definition into account, I think one can see more clearly what we are talking about when we say Islamic banking. We have also to be careful - a lot of our co-religionists are congratulating themselves because Islamic banks are beginning to be established and they think that we have done it all. May I remind them that banking is just a small part of a whole, which is an economic system with an underlying philosophy which has moral, legal and financial implications all over the world.

Also, as Sir James has mentioned, somehow, somewhere, and in here I fault mostly the Muslims themselves, Islam has become an obscure historical curiosity, like the Pharaohs or the old Greeks and so forth, and the thinking in the world has become that this is a curious, nice field for specialists to research, but it has no application in the modern world. Well, what is the modern world? We have to distinguish what we call ‘civilisation’ and what has wrongly become, in the minds of people and especially in the minds of the Muslims, the definition of civilisation, which is technology. Civilisation is a set of values, a set of beliefs; technology is a service to civilisation, to make life easier for people and to help them in getting through this life. So we as Muslims have been in awe of the West because of its development of technology. However, when we take things back to basics, and look at civilisation, we find that there is a contribution that Islam can make to the world, and we are convinced of it. So this is another point that has to be made if people are trying to work in an Islamic environment and understand it.
Islamic banking is essentially the collection of monetary resources, and their distribution for the activities that make up an economic system. As for interest, the Arabic word for it is 'riba', which can translate into interest or usury, and the two are the same. In the West, traditionally, usury has been defined as excessive charges of interest. In Islam, any charges, excessive or not, are considered usury. So we have to find another way of doing business and playing the role that is essential for economic development, because banks as channellers of funds between the saver and the entrepreneur, are an essential part of doing business today.

Therefore we have to find the mechanisms and the instrumentalities that can solve this problem in the Islamic world where you have the contradiction between the belief and the culture, and the requirements of modern business dealing. Here I would like to state that we have started an experiment. In the late 1960s, a few of us thought we could anticipate that there would be what is now called an 'Islamic resurgence', so we realised that these problems were going to be faced, and we started working towards developing new methodologies in order to meet the requirements of our new society, so as to avoid the possibilities of 'fundamentalism' and extremism, because if you have a situation where there is a contradiction between life and belief, the result will be either disappointment or violent reaction. We tried to anticipate this by channelling our efforts towards productive endeavour.

One of these is the Islamic banking system or idea. And we started the implementation of these. We went to the field immediately without any preparation before that, and consciously did so, because we needed to create the impetus that would invite the research and development of systems. Until today, I am sure, if you went to your library, you would find no references to the Islamic economic system or banking. There is a lack of research in the field. Very few people can really answer the questions that are in the minds of people, and especially of businessmen who want to do business, who want to understand and want to get on with the job. So we are in the process of
developing and promoting R&D, in order to develop the body of infrastructure that is needed for Islamic banking, as part of a whole Islamic economic system, and therefore we are really the guinea-pigs. We are just beginning to develop our piloting institutions. The past fifteen years have been, if we can talk in the sense of a product, in the laboratory stage. Our laboratory was the world. We are beginning to see some aspects of the final working models, which need some development. So when we talk about Islamic banking, it must be understood that it is still an experiment.

As for its being possible to work with it - yes. After all, our Example and our Prophet was a trader. He was a successful trader. So the concept that Islam frowns on business is a misconception and purely based on Western experience as Sir James has mentioned. In the Bible, business is not looked upon as a very meritorious activity, and therefore the West has tended to apply that to the Qur'an, while in the Qur'an you will find that there is a legal framework of basic concepts for business. And the difference between the Qur'an and the Bible is that the Bible is a value-system, and it deals with the spiritual, while the Qur'an is not only spiritual, but it also has the juridical side to it. We believe that this is the Word of God, but that it doesn’t differ from any other legal system in the sense that it tries to set parameters for the interaction of people with themselves and their environment to the good of all society. The only difference is that we claim a higher source, which is God.

This, I think, is most important to stress here. We could go into the details of how we do our Murabaha or Mudaraba or this and that, but I think if you don’t understand the underlying principles that govern these final product and the contracts that you will be signing with an Islamic banker, you will not be able to understand the contract itself. We need to develop the legal framework on which we operate. As you know, most of the Third World has a very primitive legal system; they haven’t been as fortunate as the West in developing it. We as Muslims - and you will find the Muslim world is a major part of the Third World - suffer the same problems as the Third World has, where you
don't have the legal infrastructure that is as developed as you are used to in the West, and therefore you have to develop your own way of dealing with the situation over there. But you must understand that the underlying force is the Islamic system in the Muslim world, so it is essential that you understand it. I am sorry I cannot go into details because I don't think there is time, but I will depend for more clarity and more explanation on my distinguished panellists who are much more knowledgeable than I am in the system and they will, in their discussions, probably give you more practical and immediate pointers on doing business in the Islamic world. I thought I would try to point out that it's not as easy as it looks. There has to be a real effort on both sides, whether it is the West or the Islamic world, to educate themselves in the practices and in the underlying principles on which those two societies operate. I hope I did not confuse you about this but I thought it might be more profitable to stress this side than the detailed instruments that we are using to do business, so that maybe it will be better understood by people when they are trying to do business in the Islamic world.

*Opening speech at the Middle East Association Conference: 'Islam and Business', 24th November, 1992.*
It is indeed a great pleasure and honour to be again addressing an assemblage on the subject of Islamic Banking and Economics in this country which was established on the Islamic principles as its basic foundation. We are meeting today after going through what I call the piloting stage of Islamic banking, which has taken us 10 years, and we feel that the time has come to sit down and re-evaluate, and discuss all the successes and failures that we have had.

All my brothers who have preceded me here have talked about successes, and this has been encouraging, but I am afraid we have also had failures. As with every new concept and any new idea, you cannot have 100% results. This is the point which we all have to take into consideration when we are evaluating the performance of this new experiment that we have been engaged in. Therefore, we should not congratulate ourselves that we have achieved our goal. We are at the beginning. We have not yet achieved our goal, but on the other hand, we should not feel let down if we see any failures. Because the failures, if they happened, were due to the fault of those implementing the system rather than to the system itself. That does not necessarily mean that the system itself is a failure. If there is any failure it is our failure.

Some people have always said, since the very beginning of our work, that we should have studied more before embarking on implementing the Islamic financial system. But you can keep
studying something and never be satisfied and therefore never achieve anything. We, and of course, I count myself in this collective ‘we', are high-risk-takers, and we plunged straight into implementation, hoping to create the demand for the development of theory. Consequently we stepped into a market dominated totally by a very powerful system which has been in existence in the world for many centuries; namely the capitalist system. And in this, I do not only mean Western capitalism, but also Eastern capitalism; for they are only two sides of the same coin. They are basically systems that take into account material considerations only. In the Western capitalist system, usually the capitalist is the individual or the private persons; in the Eastern capitalist system, called communism, it is usually the State in the name of the people, or rather the workers. But the system and its philosophy is essentially the same. The root is the same, therefore when we are comparing alternative systems of economics, there are really only two philosophies of economics; the capitalist and the Islamic.

The Islamic system of economics has a basic difference of outlook, of root and of philosophy compared to the capitalist system. Those differences are very simple to state but very difficult to appreciate. In the capitalist system and the Islamic system, the basic difference is in the definition of property and ownership. In the capitalist system, the owner is man and he disposes of what he owns without any consideration for others. In Islam it is different because the owner is God, and we as human beings, as creatures, we are only vicegerents. We have the benefit of use according to the Manual, which the Creator, the Real Owner has given us. So when we are talking about Islamic economics, it is a different breed of animal as compared to economics under the capitalist system. As we are seeing, both faces of capitalism are beginning to show cracks. In fact, one of them has collapsed and the second one is beginning to show the difficulties that are inherent in its philosophy because it neglects the essential thing, which is the purpose of man in this world.

Man under the capitalist system has become an instrument of production like a machine. In the Islamic system, he is above
being an instrument of production. And that in itself imposes on man certain ways of behaviour which must be taken into account, along with the gifts that have been given to him by God, the Creator. Therefore, we hear a lot about the obscurantism of the Islamic system. We hear that it is for the mosque only; and that it does not have anything to do with economics. We hear a lot about fundamentalism. Why? Because those who say these things are feeling the absence of what they lack, and therefore are acting to protect their own positions, or of those who have taken the wrong turn and are also trying to find their way. So in our attempts for the last 10 to 15 years, we have been concentrating on developing a small part of a big wall, which is the financial institutions, and especially in banking, hoping by that first to prove to ourselves as Muslims that we do have the answers, and secondly to resuscitate the system that was given to us by Allah.

We are not trying to re-invent the wheel here. What we are trying to do is to use it. I remember that somebody had asked me when we were beginning, “How did you think of this? Why all these sudden ideas?”. I told him it was very easy. I went to my library and took out the Qur’an and read it. The basics are there. The problem is that we as Muslims have never for the last few centuries serviced our system and implemented what it required from us. What we are trying to do here is to provide demand that can move our scholars, our managers, our educators to research and develop and polish the treasures that we have neglected and let dust obscure.

I hope you do not think that I am being too emotional here, but I think it is essential to clarify the motives behind our work and let us try and try again. We are going to have failures. That is not important here. Failure is also a positive step because it shows us where not to go. In developing the idea of Islamic economics, we must take into consideration the fact that Islamic banks are beginning to take over in many areas of the world. It is not really a big achievement. What we are looking for is a full infrastructure, because establishing banks, with the exception of the legal side, is not an accomplishment. We must develop the infrastructure, whether it be legal, theoretical, or instrumental,
whereby the system can operate in the market - and can compete. We know we have the perfect system, because it comes straight from the Creator. It cannot be anything less than perfect. But in implementing it, we have always to strive for perfection, and not simply take just one set and do it, and then say we have accomplished something. We have not. Islamic banking is one part of the whole system and needs the backup of an infrastructure of law, practice and instruments.

This is the challenge. After the experience we have had, we feel that this is the essence of the challenge and that we have to strive to use the leverage of the success of our experiment in the financial field, to achieve the development of the whole system. That is, I am convinced, the answer to the revival of not only the Islamic countries, but indeed the entire Third World. Also it will serve in reviving the failed economies of the Eastern and Western blocs, because their failure is coming.

So the alternative is with us to find, and it is coming from God. If we do not develop it, it means that we are not doing our job. I hope I can share this with you, because I am not a scholar, I am not an expert, but I only wanted to cover this point today, which is the basic philosophy.

*Keynote address delivered at a seminar on Islamic Economics, held in Lahore, Pakistan on 3rd April 1993*
I am happy to be able to participate in this important seminar on Islamic Banking which has gathered a number of eminent Islamic bankers, economists and other professionals from both Pakistan and abroad. I am particularly happy that this seminar is being held in this historical city of Lahore, a city rich with glorious Islamic monuments and heritage.

Pakistan has made tremendous contributions in pioneering thoughts and ideas on Islamic banking. The Islamic financial system embraced by Pakistan has reinforced the conviction, world-wide, that it can provide a solution to the problem of the equitable distribution of wealth of the nations of the world. It is gratifying to note that significant progress made by the Islamic banking system in Pakistan has contributed to the greater social and economic well being of the country.

In today’s world, after the collapse of communism, only two philosophies remain; one is the western philosophy and the other is the Islamic philosophy. These two philosophies are in competition in the world today. Being based on a God-given ideology, I have every confidence that our philosophy will ultimately prevail as it is based on faith. The Islamic system, first and foremost, assumes that morality is legality, while the other system assumes that legality is not necessarily always moral.

The Islamic concept is based on Tawhid, which frees mankind from the servitude of any creature and instead requires them to follow the Islamic norms in all activities of life, based on the principle of justice. The Islamic concept of brotherhood and social obligations involves interdependent utility and production functions.
Even in the Western world today, strategists, thinkers and philosophers are expressing doubts of the long-term viability of their conventional interest-bearing financial system and are reaching the conclusion that the system of participatory financing and equity practised under the Islamic economic system has greater merit and a better future. Let us therefore pray to Almighty Allah that He gives us wisdom to be able to implement the objectives laid out by the Islamic system with pragmatism, and without losing sight of the basic principles of our culture. Any deviation from this goal would only harm our noble cause for the establishment of an Islamic economic order.

In the present global economy, Islamic banking is no longer a theoretical concept but has become an established fact. The Islamic banking system has proved its beneficial role in uplifting the less privileged members of society and in the poverty alleviation programmes of several Islamic countries, which are contributing to the moral regeneration of the society so vitally needed, if we are to achieve a lasting solution to our economic and social problems.

The Islamic world is currently passing through a difficult yet dynamic period of history. With the resurgence of Islamic socio-economic concepts, serious discussions on economic and financial problems in the present day context is the prime need of the hour. The strength of the Islamic Umma can only be reinforced through the solution of its economic and social problems. In this context, the role of Islamic financial institutions, which have both economic and social dimensions, is quite vital.

I am happy to note that the present seminar will be dealing with specific important economic topics, rather than delving into generalisations. The issues chosen for the seminar are appropriate ones, such as mobilisation of funds within and outside the country, and how the Islamic financial system can fight inflation. This approach taken by the seminar organisers is therefore a pragmatic one and indicates that we are making efforts to tackle the practical and functional issues confronting the Umma. These two issues are paramount for the economic development of the Islamic countries.
The process of economic development involves mobilisation of adequate financial resources, their conversion into requisite factors and efficient deployment of those factors. Islamic financial institutions can play an important role in the mobilisation and channelling of such resources to appropriate sectors on Shari'a principles. As regards the other issue, in the current world-wide inflationary climate, the Islamic imperative of socio-economic justice should have suitable answer to containing the inflationary spiral which is adversely affecting economic growth.

I am confident that the distinguished participants in the present seminar will bring out appropriate findings on these and other topical issues and will provide appropriate guidelines for action, which will also add to the knowledge of all who are interested in bringing an Islamic sense of values and justice into our day-to-day life.

*Address delivered at a seminar on Islamic Economics, held in Lahore, Pakistan on 4th April 1993*
Part II

Muazzam Ali
Many in the West have long resigned themselves to the dogma that economics and finance must be independent of religion. To regard economics as autonomous is thought to be the only realistic attitude.

Islamic thinkers, however, have always regarded religion as paramount in all areas of life. Several eminent Islamic scholars, bankers and economists met their Western counterparts at an international symposium in Baden-Baden, West Germany, under the Chairmanship of HRH Prince Mohammed Al-Faisal Al-Saud, to demonstrate in detail, with fully realistic examples, how banking can not only be regulated by traditional religious principles, but must be so, if the world is not to fall even deeper into the chaos into which it has been sinking ever since the laissez faire principle was given priority over higher principles.

The Baden-Baden Symposium stresses that the practice of the West for a century or more of conducting its banking on what it calls 'positive' grounds is purely materialistic, and this has resulted in giving the concept of maximisation of profit precedence over all other considerations. As a result, we have seen the rich getting richer and the poor getting poorer because wealth itself, according to this way of thinking, is assured an increase from fixed interest without its owner taking any risk or responsibility. Moreover, bankers' assessments of entrepreneurial projects purely by their profit potential and without regard for social concerns, have resulted in the despoiling of the earth's resources as well as its atmosphere, and have thus been detrimental to the interests of humanity as a whole.

Islamic scholars, seeing this, feel it is imperative and urgent
to point a way back to sanity and harmony in society, and to show that this is only possible by following those principles which are neither more nor less than the fundamental Truth, as contained in all traditional religions. Dr Zakaria Al-Beri gives a brief introduction to the principles of trading and commerce to be found in the Qur'an, pointing out that charging interest, exploitation and fraud, are expressly forbidden, while all honest trading practices are allowed, since they are necessary for the well-being of the community.

In using the term 'Islamic thinkers', it must be made very clear that they are not living in ivory towers, but are very much concerned with the daily life of ordinary human beings. Islam has always emphasised justice for all in daily life, by institutionalising the flow of money from the rich to the poor in the form of a tax known as zakat. And a system of justice in monetary matters is needed in today’s society even more than in the past, since astuteness in making money is now the sole criterion of 'success' in the West and, as more of the world takes up the Western way of life, more and more virtuous people remain in poverty and without influence because they will not sacrifice justice, charity and honesty to the cause of getting rich. For this reason there is an urgent need for practical thinkers in the commercial world who can make decisions with justice in mind, basing themselves on guidelines set out so clearly in the Qur’an and - as several participants have pointed out - in previous Holy Books also.

That Islam, as a religion, deals with financial principles at all may come as a surprise to many. It is here that Dr Sabah Eldin Zaim shatters our ignorance. He shows that the main difference between Islamic and Western economics is that the Islamic system has an explicit value-framework based on human needs and ideals while the West claims to be value-neutral. Islamic economics, he says, has a wider scope than that of the West because it deals not only with how people behave but also how they should behave and, in addition, it has an integrated or Gestalt approach comprising axiological, deductive and inductive methods which interact, exemplifying that unity of thought.
which is primary in Islam and known as *Tawhid*. Dr Zaim goes on to say that Islam sees man as the representative of God, whose mission is to treat everything in life as instrumental in the achievement of higher objectives, and gives some indications of how man can fulfil this role in his economic function.

Turning to the practical side of banking and to approaches for co-operation between Islam and the West, Dr Ahmed El-Naggar emphasises that the Islamic economy and Islamic banking are neither against nor threatening the Western economy; neither are they a reason for conflict. Indeed, as he put it: "They are a call for co-operation since they always welcome the experience of the West without contravening the Islamic imperatives."

One of the prime needs admitted by both Islam and the West is to find ways of financing the developing countries, and here Dr Willi Engel, as Governor of the World Federation of Development Financing Institutes and Director of Kreditanstalt fur Wiederaufbau, explains the interest which these two organisations have in co-operating with Islamic banks on development projects in Africa, Asia and Latin America. The first-named organisation has three hundred development banks and intends in the next few years to integrate further regional associations covering the Near East, North America and Europe. The second organisation already has connections with other Arab lenders in long-term financing and is interested in further possibilities of co-operating with Islamic banks. Dr Engel challenges the advocates of Islamic banking to show that their concept of "participation" is not merely a form of dividend, one that would place a risk on the shoulders of small depositors.

Dr Mohammed Abdelmoneim elucidates the role of UNIDO in promoting industrialisation of developing countries and shows that growth in the Islamic countries is now outstripping that of the EEC, and that economic integration would generate an even greater momentum. He mentions the ways in which UNIDO is co-operating with Islamic banks and stresses the need for foreign investment based on participation in developing countries in the future.
Dr Horst Alback raises the question that while the future demands large investments involving high technological, economic and social risks, we are now seeing a dramatic decline in risk-bearing investment among Western investors. He details possible ways of approaching this problem and asks what effect their apparent preference for socially desirable, as against economically desirable projects, is likely to have on world markets.

Dr Traute Wohlers-Scharf refers to Islamic economics as a new approach, standing between the absolute freedom of the capitalist approach and the unacceptable submission of the human being to the collective required by the socialist approach. She analyses the economic policies underlying recycling of petro-capital, especially their role in north-south interaction; then she deals with the inter-nationalisation of Arab banks and their style of co-operation with the West in the last seven years. Finally, she highlights strategies for business-oriented international co-operation, in particular in regard to finance technology and development potential. She concludes that the existence of a world economy means that finance is no longer the only requirement for creating real assets and that imagination, foresight and courage are now essential.

Professor Norbert Szypershi speaks of the objectives and problems of investment participation, stressing the human aspects and trying to find an "ethics of participation." He asks why people are interested in participation at all and suggests that there are technical, moral and economic reasons. He looks into what might happen when different types of individuals - pioneers, bureaucrats and professional managers - try to work together and points out the need for a responsible, output-oriented attitude. He concludes that participation is for democratic people and would not suit authoritarians.

Dr Ibrahim Kamel, Vice-Chairman of the Islamic Investment Company, Geneva, speaks from the practical experience of having put Islamic principles into daily operation in actual banks. He mentions the incorporation of the Dar Al-Maal Al-Islami (the House of Islamic Funds), which intends to set up
investment companies in 20 countries. It plans to operate the *mudarabah* concept, and Dr Kamel describes the many areas this can cover. For instance, motor insurance, where the payer does not lose his money if he has no accidents, as he does in the West. He describes also the operation of the concepts of participation, *musharaka* and lease-purchase. Dr Kamel mentions plans for European and American Islamic banks, as well as one in the Arab Peninsula and one in the Far East.

From the whole of this symposium, the vision which emerges for the future is that of synthesis of Islamic principles with European operational expertise which holds the potential for a new world economic order, which can be put into practice for developing the poorer countries with their full participation.

As HRH Prince Mohammed Al-Faisal Al-Saud says in his address: “Our purpose in holding this meeting is to bring understanding between our people and the peoples of Europe. As you know, Islamic banking and finance is a new idea that is being introduced in our area of the world. The basic principles are not new. What is new is only their application, and here we have a great deal to learn from the European experience in management techniques, ways of evaluation and planning of projects and in the utilisation of technology and know-how. Therefore, the ingredients for co-operation are there. Our philosophy is based on the Qur’an, in which certain things are given; things which do not bear discussion because we cannot in any way adjust them. However, there is a wide area in which innovation, new approaches and methods can be applied. This symposium is the first of several, I hope, which will begin to discuss the possibilities of co-operation.”

*Introduction to Islamic Banks and Strategies of Economic Co-operation*
*London, 1982*
The growing interest in the science of Islamic banking was manifested when 54 bankers and professionals from 17 Islamic countries as well as a number of individuals from USA and the United Kingdom participated in an international seminar organised at the foremost seat of Islamic learning, the Al-Azhar University in Cairo, from August 29th to September 17th, 1981.

The Seminar, drawing inspiration from HRH Prince Muhammad al Faisal, who is the moving spirit behind the Islamic banking movement, was organised by the International Association of Islamic Banks with the co-operation of the Islamic Solidarity Fund. It was designed as an advanced course of training for those who might wish to enter the field and its aim was to yield factual material concerning the Islamic solution to the economic problems facing the world today. This material was gathered from the practical experience of those who had already attempted to apply Islamic principles of banking in various developing Muslim communities.

The basic difference between Islamic banking, and banking as practised in the West today, is the introduction of the concept of "interest" on which the viability of all banking in the West since the Middle Ages has rested. The new concept has arisen from the recognition that the Islamic Law (the Shari'a) lays down that fixed interest (riba) is forbidden by God as it leads to much evil and human suffering and eventually to the breakdown of society itself as more and more people incur debts they cannot repay while lenders get richer and richer without risk.

The Islamic idea is that those who lend money should participate in both the profits and losses of the borrowers
according to a proportion agreed beforehand by the parties to the contract. In this way, the loser in a business enterprise does not find himself left with a heavy debt as does he who has agreed to pay interest at a fixed rate. Neither does the bank profit by taking fixed interest from ill-conceived or inefficient projects in which it has had no responsibility - and which may have been anti-social.

However, Islamic banking is not to be seen only as a continuation of orthodox Western banking, though without the interest factor. Dr El Naggar said that when he first mentioned the idea of establishing interest-free banks, most people thought he meant merely changing some of the terminology and calling interest ‘profit’. But it was not, in fact, possible “to keep the existing general mechanism of banking operations while trying to eliminate the interest rate from it, because the element of interest is not an independent factor but an integral part of the machinery,” linked with Western ideology, and that doing away with interest “would produce an incoherent structure and would be an exercise in futility”. “The ideology of the usurious banks and that of Islamic banks is totally incompatible, and completely irreconcilable,” he said.

Once it is acknowledged that Islamic banking is a totally new concept, starting from injunctions laid down in the Qur’an and the Islamic Shari’a, it follows that the conversion of the banking systems of Islamic countries from non-Islamic structures to Islamic ones, requires an understanding of the essentials and theoretical ingredients of Islam. Thus the first part of the advanced course was devoted to discussions of these theories, how they were applied in practice to Islamic banking, and why such banking was the most effective and appropriate model, compared with its modern competitors, for the economic development of Islamic countries. These discussions necessarily ranged over social and behavioural features prevalent in the backward Muslim countries and various aspects such as capital formation, the human element, technology, socio-political factors and the interaction of all these elements.

A comprehensive paper on economic backwardness was provided by Dr Abdul Hamid El-Ghazali. He pointed out that
the most outstanding economic feature of backward countries was that productive resources including administrative, managerial and technological know-how, were not only lacking in quality, but those which existed were not always being used wisely. In addition, there were political and individual relationships and value judgements, and beyond all these, cyclical relations, which needed scientific study.

One interesting point brought out during discussion was that growth and development were not the same thing. It had to be borne in mind that growth was a simple and natural phenomenon, while development was a planned operation directed towards pre-determined goals. Growth could be an individual function but development was necessarily collective.

Mr Abdul Moghny Said presented a paper attempting to discuss the subject from an economist's academic understanding of social aspects and patterns of planning, including some undesirable patterns. He suggested that planning must harmonise that process of change, and realise a dynamic equilibrium which would avoid the present situation where the West could destroy tons of foodstuffs while other countries were still in poverty. He said that now, after a great deal of injustice had been done, Western leaders themselves were coming to see the necessity for bringing moral values into economic planning and that these moral values were, in effect, a reproduction of Islamic economic principles.

Dr Yousef Ibraheem Yousef, in his paper on the precepts guiding economic development according to Islam, pointed out that Islamic countries had fallen victim to alien ideologies and were divided into those adopting communism and those adopting capitalism. He felt that this did not represent a free choice by these countries; they had simply been persuaded to adopt one or another alien ideology by one of the major powers aiming for world domination. It was the most important segment of Muslim society, the educated and intellectual classes, which had surrendered to alien thought and the result was a conflict between the attitude of the Muslim masses and that of the administration. Harmony could only be developed by a scientific
programme of inculcation of Islamic values, individually and collectively, in all the members of society.

Dr Mahmud Abu Saud, a Director of the North American Trust, presented a fully documented paper on the subject of money, interest and partnership. Its particular value was its concern with the newly evolved concept of Islamic banks as vehicles in the process of the development of the Islamic economic system. Dr Saud referred to the role of money in the free economy, where it had a privileged status over all other commodities. He spoke about the various classifications of money among the economists and went on to define the concept of interest and to argue against the various definitions of interest which were usually accepted. His conclusion was that interest was a fiction. He then discussed the concept of *qirad* and its various interpretations and queried whether it could be used to eliminate interest from the present banking system. He went on to consider the traditional concept of *zakat* (charity) and how it could be enlarged to suit modern society.

Mr Mahmoud Al-Ansari, Assistant Secretary-General of the International Association of Islamic Banks, spoke on the evolution of Islamic banks, which he saw as having three phases: experimental, international and disseminative. He traced the various events which led from the proposal known as the Egyptian Study to the Islamic Bank Agreement of 1974 and to the eventual establishing of seven Islamic banks in various countries, with more in the planning stage.

Prince Muhammad Al-Faisal, in a paper on banking and insurance based on his deep practical experience, explained that the word ‘bank’ in Arabic meant ‘a place for spending’. He went on to say why Islam could not approve of existing banks and what were the characteristics, objectives and concepts of Islamic banks. There were, he said, four characteristics which distinguished them from Western banks, namely: no dealing in usury, investing for development, linking economic and social development and reviving the religious duty to the needy and poor. He then described the employment of the three resources of Islamic banks, which were savings, deposits and investment
accounts.

Dr Sami Hammoud of the Jordan Islamic Bank explained how his bank obtained deposits and its three means for financing: profit-and-loss participation; decreasing participation; and buying commodities for clients and selling their commodities to them on credit. Dr Abdel Sami Al-Misry, an expert in social solidarity, spoke of zakat as an important pillar of the Islamic economy and gave examples from certain Islamic banks regarding the collection and distribution of zakat funds.

The Faisal Islamic Bank had a Shari'a Supervisory Board whose purpose was to answer enquiries about both basic principles and day-to-day transactions. Some of these answers were made available to the participants of the advanced course. They included the subjects of: correspondent banks, profit and loss, co-operative insurance, profit-sharing, industrial contracts, transfers and drafts, joint venture financing, zakat collection, auditing of clients' accounts, insurance, right-of-replacement insurance, letters of guarantee, import and export, zakat on agricultural produce, surplus or deficit of collected money, and purchase-in-advance payment.

Dr Ahmed El Naggar described the basic characteristics of Islamic banks and showed how their structure had to be based on their responsibilities, which were entirely different from those of the usurious banks. Dealing with the operations of Islamic banks, he stressed the vital fact that their very existence would enable an ordinary Muslim to live his life in accordance with his Islamic ideals. The bank was "such an important and vital part of the society's organic structure, that once it was bound to Islamic imperatives, the door would be open for Islam to diffuse its intellectual and religious grandeur over the whole economic sphere." He then detailed the resources of the banks, which were savings, current accounts and investment deposits, and the employment of these funds, which were direct investment, participation-financing and interest-free loans.

Dr El-Naggar then gave a comprehensive account of the experiment carried out in Mit Ghamr, on the Nile Delta, in 1963, to explore the possibilities of mobilising local savings as a means
of socio-economic development in the area, without state interference. He described how the bank established "intimate communications and mutual trust" with the villagers to find out their needs and get their co-operation in establishing small industry in the area, thus avoiding migration to the cities.

The project had been based on three principles: the participation principle; the decentralisation principle; and the principle of consistency and integrity of bank accounts. The social aspect, he said was more important than the other aspects, and it had been necessary to create an atmosphere in which the intellectuals could interact with the villagers, educating them in concepts of thrift and other virtues. An unusual aspect was the success in enlisting savings from very small savers, a class of people never considered relevant by other financial institutions. This experiment was so successful that in 1967, four more branches were added to Mit Ghamr Bank, and eight other banks opened in other provinces and a demand arose from other places to establish such banks.

There were, however, challenges to be met in the future, of which the main ones were: the opposition of traditional banking; government ideology and the power of political systems; and the restrictions of central planning.

Finally, the main task now is to attract individuals inspired by the ideal of Islamic banks who can supply the continuous presence of a spirit of initiative, which could be passed from person to person by means of training programmes and exemplary leadership. Above all, these leaders must be true and faithful Muslims. Developing the required qualities of leadership will not be an easy task but it is an essential factor in the success of Islamic banking.

Introduction to
In Search of An Islamic Economic Model
Published, March 1983
Re-establishing Islamic Identity

The seminar of the International Association of Islamic Banks is unique in the sense that it is the first time that leaders of Islamic banks from three continents - Asia, Africa and Europe - have assembled in Islamabad to pool their resources of knowledge and experience for the development of banking in accordance with the Islamic concepts and principles. The fact that they are meeting here is evidence of their recognition of the active role of Pakistan in promoting and developing the Islamic banking system.

As we all know, Pakistan is committed to a total Islamisation of the society, the economy and the law. Islamic banking is one of the instruments for the promotion of the socio-economic concept of Islam. It is indeed a potent instrument of social change and an infallible means of ensuring economic ethics and balance in a society. But it cannot be considered in isolation and has to be seen in the totality of the Islamisation programme. For this reason it is imperative that we study Islamic economic concepts in depth and also implement them fully and ungrudgingly in all our financial dealings.

The reason why we in the world of Islam find it so difficult to bring about the desired change in the structure and the practice in conformity with principles of the Islamic Shari'a, is that, unfortunately, we have been indoctrinated and subjected so long, and so much, to intellectual domination by the West, that we are now virtually their prisoners. We have lost our own sense of identity. We do not have confidence in our own heritage. We are miserably subjugated. We must break these mental shackles before we start finding out our own answers to our problems. We
have to clearly recognise that besides the two operating systems in the world, namely, capitalism and socialism, there is another economic system: the Islamic economic system - a system based on justice, equity and human dignity. So far these have been abstract and highly profound concepts. We have received them through Divine guidance. It is now for the Muslim economists, bankers, systems experts and jurists to convert these concepts into concrete and operative instruments and laws. They have to be codified, fully tested, experimented with and put into practice.

It is necessary to recall here that until the nineteenth century when we finally succumbed to the western colonialism militarily, economically and politically, we had been living and prospering in the Muslim states under Islamic laws. Indeed, throughout our history, Islamic law remained the ideal blueprint for the Islamic society. It was under the Western influence that we lost our identity and replaced the Islamic law by the Western legal codes and the secular, political, economic and educational systems. The process has to be altered. In Pakistan we have already taken the decision to that effect at the State level. Thus, so far as this country is concerned, a major breakthrough has already been achieved.

It is a happy augury that during recent years Muslims from Indonesia to Morocco have shown a keen desire to re-establish their Islamic identity. The movement for establishing the Islamic banks is a manifestation of this desire.

As we all know, the pioneering role in this direction was that of the late King Faisal. His untimely and tragic death could have seriously jeopardised the efforts and programme in this connection, but for the fact that his illustrious son Prince Mohammed at once took it upon himself to keep the banner of the Islamic economic system flying. His dedication to the cause has been rewarding. Today, nearly 40 Islamic banks and financial institutions are functioning throughout the world. Even those Muslim countries which had been known for their secularism are now encouraging the operation of banks on the Islamic pattern.

In Pakistan the process of the Islamisation of banks was
initiated under the leadership of President General Mohammed Zia-ul-Haq. As many as five financial institutions are already working on and interest-free basis. Others are in the process of conversion and are at present practising the Islamic system along with the Western conventional system. The President has announced that the entire banking system will soon be converted to the Islamic system, which means that at long last a country which was created in the name of Islam will conform to its ideology in character and practice.

This seminar, as you know, has been organised by the International Association of Islamic Banks, which was set up seven years ago in order to strengthen the ties between the Islamic financial institutions, foster co-operation among them, co-ordinate their activities and monitor their operation so as to ensure their Islamic character. I take this opportunity to compliment the energetic Secretary General of the Association, Dr Ahmad el Naggar, whose selfless and untiring efforts have enabled the organisation to play a positive and constructive role in the promotion of Islamic banking. Among other things, the establishment of the International Islamic Institute of Banking and Economics in the Turkish Republic of Northern Cyprus for the training of personnel for Islamic banks is a result of his forward-looking approach and dynamism.

Welcome address at the
Institute Seminar on Islamic Banking,
Islamabad, 1984
To understand why Islam needs its own modes of financing, it is necessary to note that, unlike most other religions, Islam not only provides a complete code of conduct for the ethical aspects of human life, but extends its concepts of equity, justice and good conscience to cover the entire socio-economic spectrum, in both its individual and collective aspects.

The present resurgence of Islam is an indication of the failure of the major western models of society, such as secular democracy, territorial or linguistic nationalism, individualistic capitalism and totalitarian socialism, to provide any kind of socio-economic justice.

The primary purpose of Islam in the economic field is to prevent the exploitation of man by man. The major economic and financial systems which prevail in the world today exploit people in various ruthless ways. This has resulted in dividing human beings into ‘haves’ and ‘have-nots’, which is a clear sign of social and economic injustice.

The intelligentsia of the world have for some time now been searching for a system based on equity and natural justice; but, so far, have failed to come up with any practical new ideas and have found themselves reluctantly beginning to realise that the Islamic socio-economic system, based on divine principles, which has existed for fourteen centuries, is the only available answer.

The proof of this acceptance is, perhaps, the billions that are now being managed in an Islamic way by so many large western financial institutions.

The most fundamental principle of Islam for providing social justice is the prohibition of riba, that is, interest in all its
forms. The West, through its colonial, neo-colonial and other imperial measures, has for two centuries or more allowed the affluent few to exploit the financial resources of the many poor through a financial and banking system based on interest. The result of this is now seen in today's lingering economic recession, widespread unemployment and the riches enjoyed by those who add nothing to the welfare of people, but pander to immorality, causing further misery and breakdown of the social system.

The growing realisation of the injustice of this state of affairs has resulted in more than a hundred financial institutions throughout the world, including the West, wholly or partially practising various interest-free modes of financing.

Pakistan, the nation which won its independence on the basis of an Islamic identity, in order to defend its ideological frontiers and to share in the fruits of an Islamic economic system, was the first to dispense with the interest-based system and introduce various modes of Islamic financing into the banking sector.

This task was entrusted to the Council of Islamic Ideology, which was set up in 1962 under the constitutional provisions. The Council submitted its final recommendations to the Federal Government in 1980 and profit-and-loss-sharing (PLS) deposit accounts were introduced into the banks in 1981.

The conversion of credit into Islamic modes of financing was, however, scheduled to take place gradually and commenced on 1st January 1985 by eliminating interest from finances to the government, public sector corporations and government-owned or managed and private sector joint stock companies, culminating on 1st July 1985 in converting the entire deposits of the banks into PLS accounts and introducing the practice of financing on a mark-up basis instead of interest.

The State Bank of Pakistan first identified twelve modes of Islamic financing, which could be broadly classified into five categories, depending upon the nature of the transactions involved. These were:
1. Shared-risk financing
2. Selling at a profit
3. Renting of assets
4. Renting of services
5. Qard hasan
   We will take each category separately.

1. Shared-risk financing
   Under shared-risk financing, profits and losses are divided among the investors, that is, the bank, on the one hand, and the customer, who may be a natural or a legal person, on the other. The modes of financing in this class are:
   a) musharaka;
   b) equity participation and purchase of shares;
   c) Participation Term Certificates and Term Finance Certificates on short, medium and long-term bases;
   d) development charges for financing development of property.

   a) Musharaka is a purely Islamic name, which implies an arrangement of business or its financing based on the PLS concept, in which parties contribute their money, efforts or skills or a combination of all three. The profits of the venture may be shared in any agreed proportion, but the loss, if any, is borne by the parties in strict proportion to the capital contributed by each.

   b) Equity participation may be done by banks purchasing shares in the business and earning the dividend declared by the company from time to time.

   c) Participation Term Certificates and Term Finance Certificates are transferable financial instruments meant to replace the equity, debenture or bridge financing of the interest-based system. The present mechanism for sharing profits and losses on these financial instruments suffers from serious deficiencies from the perspective of the Islamic Shari'a. However, with experience, these are gradually being replaced by financial instruments which are strictly in accordance with the Islamic concept of business transactions.

2. Selling at a profit
   This system covers three types of purchase:
   a) The purchase by the bank of goods which it sells on to
customers at an appropriate mark-up in price, on a deferred payment basis, but without any levy of mark-up on mark-up being permitted.

b) The purchase of bills on a mark-down basis.

c) The purchase of movable or immovable property by banks from their clients, with or without a buy-back agreement.

The assumptions made for financing on mark-up/mark-down mechanisms are:

a) The goods sold to a customer at a mark-up price on a deferred payment basis belong to the bank, as no one other than the owner can sell goods.

b) The possession of goods sold by the bank to its customers may be real, or constructive, in the form of title to the goods.

c) The purchase of the goods by the bank and their sale to the customer is not notional but must be properly documented.

d) No mark-up on mark-up may be charged to the customer if he fails to make the deferred payment on the due date.

e) The mark-up in price must be made at the time the goods are sold, otherwise it becomes interest, which is prohibited.

Similarly, in the case of the purchase of movable or immovable property by the bank, the said property, goods or any other tangible item is owned by the client, who, to meet his liquidity requirements, sells it to the bank with a promise to buy it back from the bank at a future date. The bank agrees to resell the property, goods or other tangible items to its customer on a deferred payment basis, either in a lump sum or in instalments at a mark-up price. The difference between the purchase price and the subsequent sale price is the income of the bank.

3. Renting of assets

The renting of assets is a comparatively modern concept which has been embraced by financial institutions all over the world. This category of financing has the following three modes:

a) Leasing

b) Hire purchase

c) Rent sharing

Under leasing, the lessee acquires the right of use of the
asset without becoming its owner. The lessor, for an agreed period of time, with or without giving the option of purchase of the leased asset to the lessee, agrees to accept a rental and payment for the residual value of the asset. The terms and conditions of leasing can be tailored to suit the financing requirements of customers as regards the lease package, rental payments, tax accounting, etc.

In hire purchase financing, equipment, vehicles or consumer durables are purchased by the bank at the specific request of the customer. The equipment is then hired out to the customer on payment of the periodical instalments. The instalments are so arranged that the hire purchase price is amortised during the useful life of the equipment.

The agreed hire purchase price payable by the customer in instalments includes a fair return to the bank in addition to the original price of the equipment. The ownership of the equipment remains with the bank until it is transferred to the hirer against the payment of a specific nominal amount agreed at the time of executing the hire purchase agreement.

In rent sharing, the bank may provide the customer with part of the finance required by him for the construction or purchase of a property. The return on such financing takes the form of a proportionate share in the property, which share is obtained by investing in it part of the funds provided by the bank.

4. Renting of services

In the renting of services, two modes are prescribed:

a) Financing can be made to a customer by a bank without consideration of the cost of funds and/or a return thereon. However, the bank may recover the actual service charges involved in such financing.

b) The bank may sell its services to a customer against charges where no financing is involved. Such charges are usually recovered from the customer by way of commission.

5. Qard hasan

Qard hasan is a loan granted on compassionate grounds free of interest and/or service charges and is repayable as and
when the borrower is able to repay it. This mode of financing is highly appreciated in Islam and God has promised huge rewards for granting such financial assistance in deserving cases. Banks are already providing this type of financing to indigent persons for education, medical and surgical treatments, marriages, etc.

Although the various modes of Islamic financing have evolved on a purely non-interest basis, the mechanisms for conducting the transactions have been the subject of various observations by scholars and by the Federal Shari’a Court.

They have observed that the banking system alone cannot be fully Islamised unless the related federal and provincial laws are also brought into conformity with the injunctions of Islam. So far as the present mechanism for conducting Islamic modes of financing is concerned, it is rightly said that the use of a rate of mark-up, being predetermined, is unIslamic.

In the light of the Federal Shari’a Court’s decision and the requirements of the Shari’a Act, a Permanent Commission on the Islamisation of the Economy has been constituted and has submitted proposed systems for the elimination of elements in the economy which are at variance with Shari’a injunctions.

The Islamisation of the entire economic system, including the intricate system of credit which has been practised by the modern banking industry for so long, cannot be achieved overnight. However, the process has begun successfully and the valuable contributions being made by financial experts and Muslim scholars towards dispensing with the interest-based banking system will ultimately create a purely Islamic banking system, whereby the exploitation of man by man will be completely eliminated and the foundation stone for a true welfare state be laid.

Talk given at the
International Centre for Islamic Studies,
London, 1985
Generating an Increasing Rate of Interest

It is my privilege to welcome here today a galaxy of scholars, statesmen, economists and bankers who pioneered and developed the Islamic banking system and proved in the relatively short span of a decade that Islamic banking is both viable and practical - no longer just a dreamer's vision.

Today’s conference is historic in the sense that we have with us two outstanding personalities known for their total commitment to Islam, who have played a unique role in pioneering Islamic banking. The Muslim Ummah, you will agree with me, owes a debt of gratitude to President Mohammed Zia-ul-Haq and HRH Prince Muhammad Al-Faisal, whose commitment to Islam has won the admiration and respect of the Umma.

It was not an easy task. Our economists and bankers were afraid of treading a path about which they knew almost nothing. Naturally they came up with arguments and warnings against adopting a system which was not being practised anywhere else. Yet undeterred by these arguments and placing their faith in Allah and His Prophet, the two Mujahids went on with their mission. Their determination, dedication and perseverance was ultimately rewarded with success.

They can both take satisfaction from the fact that Islamic banking is today a live and pulsating reality. It is an integral part of the world financial scene.

It was not all smooth sailing for Islamic banking in the beginning; it had to face many hardships and satisfy many opponents. Old and deep, rooted prejudices had to be overcome. To prove its worth it had to evolve new methodologies, products
and accounting systems within the parameters of the Shari'a. A band of committed scholars, economists and bankers took upon themselves the task of developing the Islamic banking system. We salute them for their achievements and pray that Allah may further guide them in their noble mission.

Today Islamic banking is on the march not only in the Muslim world but in Europe, America and other non-Muslim countries as well.

It has evoked considerable interest in western economic circles. Indicative of this are the number of seminars and conferences that are periodically organised in Europe and New York, London, Paris, Geneva, Frankfurt, Stockholm and many other western cities. Recently a conference on Islamic banking was organised in Bangalore, India.

The IMF, the bastion of western banking, realising the growing popularity of the Islamic system, carried out two extensive surveys and came to the conclusion that this system is efficient and workable. The surveys dispelled apprehensions that the implementation of this system might prove difficult, and said it could be adopted without changing the effectiveness of official supervision of financial institutions.

The two surveys further pointed out that the Islamic PLS system was better able to absorb shocks and economic recessions than its western counterparts.

Impressed by the success of Islamic banking and aware of the growing desire among Muslims to switch over to this system, several western banks have established divisions within their organisations dealing especially in Islamic banking. Notable in this connection is Grindlays and Kleinwort Benson of the UK. Several other multinationals are also exploring the prospect of creating Islamic models.

The latest to join the European scene is the Taqwa Bank in Switzerland. The Union Bank of Switzerland which launched the Islamic investment pool this year, says its operations are doing well.

Recently a high level Japanese delegation from the Institute of Developing Economics, which is affiliated to the influential
Ministry of International Trade, toured the Middle East and Europe with the specific aim of learning about Islamic banking. Besides, with the switching over to the Islamic system of some countries, banking circles in the west are watching these activities with interest. There is a constant demand from western universities, banking organisations, the media and others for information on various aspects of Islamic banking. The day is not far off when Muslim banks working with modern expertise in accordance with the principles of the Shari'a, will prove to the world the vitality of this system.

The Western media which used to ignore, even ridicule, Islamic banking in the early stages is now keen to know more about the subject. Several leading publications regularly bring out special supplements highlighting various aspects of this system.

The appearance of the Banking and Trade Journal from London, devoted to Islamic banking, is a welcome step in this direction. The first comprehensive Directory of Islamic Banks and Financial Institutions, published by the International Centre for Islamic Studies in collaboration with British publisher Croome Helm, will be available next month.

It may also be of interest to note that some British universities are now awarding post-graduate degrees and doctorates in Islamic banking.

Before I conclude, I would like to acknowledge the valuable role played by the International Association of Islamic Banks in the promotion of Islamic banking. It has provided assistance and expertise to Islamic communities in the establishment of Islamic banks at national and international levels.

Under the chairmanship of His Royal Highness Prince Muhammed Faisal, the Association has acquired a reputation as an outstanding international organisation. We hope that under his guidance the association will gain further strength.

Welcome address at a conference organised by
The International Association of Islamic Banks,
Karachi, March 1988
By a strange coincidence, both Islamic banking and ethical investments in the West appeared on the world scene almost simultaneously, nearly a decade ago. There are remarkable similarities between the two value-oriented financial movements. However, the surfacing of the two movements at the same time is not an accident but the result of disillusionment with the prevailing economic systems - the communist and the capitalist systems.

The communists' economic system adopted by many countries with high hopes, proved to be a dismal failure. It not only failed to solve people’s problems but aggravated them - bringing hardship and misery to millions of people during the 70 years of its existence. Little surprise then, that it collapsed so easily.

Capitalism, the other dominant economic system, encourages the concentration of wealth in a few hands by its excessive emphasis on materialism. It tends to make the rich richer and the poor poorer. The system is characterised by the relentless and unfettered pursuit of profit.

Even in industrialised societies, the “unacceptable faces” of the capitalist system have begun to cause concern. An instance of how exploitative and cruel the unfettered capitalist economic system can be was recently highlighted by the British media when it reported the case of one David Taylor, a client of a major Western bank. David Taylor was a leukaemia patient. He had a bank overdraft which was growing at a frightening rate due to the bank’s hefty interest rate. Worried that the longer he lived the more of his life assurance money would be taken away by his
bank, leaving little or nothing for his family, David did not want to prolong his life. He realised that every additional day that he lived would mean less money for his wife and children.

It is not only the private individuals, like David Taylor, whose cases are highlighted by the media, who suffer. The harsh treatment of small businesses by the banks also keeps coming under attack by the media, the Church and political leaders.

But that is not all. Poor countries, groaning under the burden of high interest loans, are vehement in denouncing the capitalist system. In May this year, the then President Corey Aquino of the Philippines publicly condemned the system as a form of slavery. Criticising the highly oppressive nature of the modern unfettered capitalist system, she said that the poor nations were unable even to service the loans advanced to them by the mighty international banks and financial institutions, supposedly to help their economic development. The countries keep sinking deeper and deeper into poverty as all the foreign exchange earned by them is taken away, she added.

Concerned about this situation, the Pope recently criticised "unbridled capitalism". In a Papal document, His Holiness said: "Free economy should not lead to an idolatry of the market, or a culture in which having is more important than being."

Addressing a recent seminar organised by the Christian Ethical Group, the Bishop of Oxford, the Right Reverend Richard Harris, pointed out that for a considerable period of time finance and economics remained integral branches of theology and ethics.

He lamented the failure of the Christian Church to tackle the problem of usury in capitalist economics. He said that the Church had lost touch with the day-to-day moral issues of finance and economics. This, he said, had led to a detachment of ethics from financial and economic considerations. But there is no reason to assume that the world of finance and economics are autonomous from other aspects of life, so ethics must have something to say in these fields as in others. The Bishop further said that even those who are not Christians would accept that we all have a moral sense or conscience; an idea of right or wrong. It
is not sensible to suggest that this moral sense should be applied to some aspects of life and not to others. It, he stressed, should affect the market place as much as the kitchen.

It is interesting to note that other influential voices in the west are also beginning to be heard against the evils of the interest-based economic system. Others such as the Bishop of Birmingham and Chairman of the Church of England’s Board of Social Responsibility, Hugh Montefiore, last year dealt at length with the question of interest. Posing the question, “Is it ethical to charge interest on a loan?”, he said: “In the ancient world, interest was generally permitted, although Plato and Aristotle objected. Cato even compared it with homicide. Among the Jews, interest was equated with robbing the poor. The moral teaching of Jesus was absolute: “Love your enemies, and do good, lend, expecting nothing in return.” Canon law of the Middle Ages absolutely prohibited all lending on interest.

Should ethics and morality play a role in economics? This issue is also being seriously debated in Western financial circles.

The realisation that morality must guide financial dealings has resulted in an increase in the number of ethical investment organisations in the West. The Co-operative Bank of Britain has become the first British bank to screen potential corporate customers by ethical criteria. It surveyed 30,000 of its 1.5 million customers to ascertain their views. About 30 per cent of these responded and over 80 per cent of them said that it was a good idea for the bank to have an ethical policy.

Recent surveys conducted in Britain, USA and Europe revealed that investors are increasingly opting for ethical funds and are even switching their existing conventional investments to ethical investments. According to these surveys the ethical funds seemed to attract and hold money better than the average conventional investments.

According to an article in London’s Evening Standard (May 6, 1992): “Ethical funds - those that stay clear of companies profiting from ‘immoral’ business activities, like tobacco, armaments, pornography and so on, are the fastest growing sector of the stock market and are likely to receive a boost.”
Commenting on investment in ethical funds, Leo Coates of the Ethical Investors Group, independent financial advisers specialising in ethical funds, said: "It is not a fringe investment for loonies and Quakers. Ethical investments can make you both morally and financially happy. You don’t have to sacrifice performance for principle. The returns are average or above average. People now have a simple choice: make money from a ‘clean’ company or a ‘dirty’ one. Most ethical funds have been out-performing international equities as well as UK Growth Unit Trusts", (London Evening Standard May 6, 1992).

While ethical investments are capturing the West’s imagination, Islamic banking has already taken firm roots not only in the Muslim world but in other countries as well. Today, there are more than a hundred Islamic financial institutions, managing funds to the tune of several billion dollars and employing thousands of personnel. The countries in which Islamic financial institutions are already functioning include: Argentina, Bahrain, Bahamas, Bangladesh, China, Cyprus, Denmark, Egypt, Germany, Guinea, India, Indonesia, Iran, Jordan, Kuwait, Luxembourg, Malaysia, Mauritania, Morocco, Nigeria, Pakistan, Philippines, Qatar, Russia, Saudi Arabia, Senegal, South Africa, Sri Lanka, Sudan, Switzerland, Tunisia, Turkey, UAE and UK.

The Islamic banking system is firmly rooted in the ethical values of Islam and prohibits investments in business declared unlawful, such as dealing in interest, alcohol, drugs, gambling, pornography, etc.

It has been acclaimed not only for its ethical values but also as a sound and stable system. Some financial experts maintain that in times of recession an Islamic economic and banking system may well have a greater capacity to absorb shocks than its capitalist counterpart. It may be mentioned that, during the recent Gulf crisis, the Islamic banks suffered far less than the conventional banks. Indeed, whether it is in bank syndications, venture capital or trade finance, it is often the Islamic financial institutions that are showing the way and are destined to take off in a big way.
Some Western critics of Islamic banking have alleged that the system only highlights its negative aspects - that is, don’t do this and don’t do that. This is a fallacy. Islamic prohibitions are against those things which are considered the root cause of all evil.

Islamic banking is much more than refraining from charging interest. It is a system which aims at making a positive contribution to the fulfilment of the socio-economic objectives of an Islamic climate, and points to various directions in which banks may develop their activities. A few such sectors are environment, science and technology, medicare and employment.

The issue of preservation of the environment, which has caught the world’s attention only recently, was highlighted by Islam more than fourteen centuries ago. It says that anyone who plants a tree or cultivates a field from which a bird, an animal, or human being can eat will be blessed.

Preservation of the environment enjoyed such a great importance in Islam that its first Caliph, Abu Bakr, instructed his generals, going on a military mission, not to destroy vegetation or animal life even in enemy territory. How many people or countries in the present day can come up with such high standards of care for the environment? Needless to say, investments which help the preservation of the environment merit special attention.

Islam exhorts its followers to gain mastery over nature as all resources “in the heavens and on earth have been created for the benefit of mankind”. To gain mastery over nature it is necessary to attain maximum proficiency in the fields of science and technology. It is, therefore, incumbent on Muslims to invest in the development of science and technology. The impression in certain circles that Islam is against progress and the promotion of science and technology is based on ignorance.

Islam maintains that there is no malady for which Allah has not created a cure. It is, therefore, an Islamic duty and obligation to discover the cures through proper research, for the benefit of mankind. Investment in projects which aim to promote the
health and well-being of the people must, therefore, be given priority.

Islam lays great emphasis on the welfare of society. Economic development is an essential requirement of Islam and participation in its economic activities is obligatory on every Muslim. Islam urges Muslims to cater to the needs of their families and to be kind to their neighbours. The goal of a Muslim society should be to create an economic environment in which people find employment in accordance with their abilities. Projects that create employment are commendable.

These are only a few of the characteristics of the Islamic economic order picked at random to illustrate the point. I hope our scholars and economists will conduct intensive research in this connection and formulate policy guidelines for investments by Islamic banks.

Address at the Islamic Banking Conference in Lahore, Pakistan
December, 1992
The disintegration of the Soviet Union and the subsequent collapse of the Communist system has given a strong impetus towards a New World Order. The failure of communism has perhaps manifested itself most glaringly in the economic field. Communism was unable to solve the problems of the masses. On the contrary, it brought untold hardships to millions of people for over seventy long and tortuous years.

The other system which is dominating the world, of course, is the capitalist market system, which many criticise for its heavy materialistic approach and which tends to promote the accumulation of wealth in a few hands, making the rich richer and poor poorer. The basis of this system is a combination of unfettered profit-motive and interest.

A third system, ‘dormant’ for centuries for various reasons, has been re-emerging and evolving over the last two decades - the Islamic economic system, which combines the profit motive with a pivotal welfare ethic and in which the individual is obliged not only to strive for his own betterment but has a duty to contribute to the good of society as a whole. The financial principles of this system are based on an interest-free profit and loss (PLS) system, where risk is shared - between the lender and borrower - and in which the concept and value of money is different from that in the western system.

Even in the industrialised societies, the excesses of the free market system and the “unacceptable” faces of capitalism are causing concern among a number of groups. In the City of
London, there has, over the last few years emerged an “ethical investment group” of bankers and fund managers who invest clients’ funds according to Christian, Jewish and Buddhist principles of equity.

The Islamic economic and financial system, indeed, has rapidly expanded from those early days in 1976 when the Islamic Development Bank (IDB) was established thanks to the inspiration of the late King Faisal of Saudi Arabia. Later this month (February) in Tripoli, the IDB’s Board of Governors are set to treble the Bank’s capital to a staggering $6bn and to launch the IDB’s much awaited Export Credit Guarantees & Investment Insurance Scheme.

Pakistan, Iran and the Sudan are all experimenting with the Islamisation of their economies and banking systems - thus far with mixed results. Any new system has to face up to the entrenched culture of the existing ones - in this case the powerful riba-based banking and economic system. That is why even in Muslim countries there is resistance to Islamic banking, which is very often mischievously and deliberately linked with backwardness, anti-scientific and ultra-conservative sentiments.

On the contrary, as an in-house IMF paper suggested a few years ago, in times of recession an Islamic economic and banking system may very well have a greater capacity to absorb shocks than its western counterpart. During the Gulf Crisis, for example, Islamic banks suffered far less than their conventional counterparts. Indeed, whether it is in bank syndications, venture capital or trade finance, it is very often the Islamic financial institutions that are showing the way. The Al-Baraka Group from Saudi Arabia is the first foreign bank to open in Kazakhstan and has even ventured as far as South Africa. Both Al Baraka and the Geneva-based Dar Al Maal Al-Islami (DMI) are among the first foreign-owned banks to get the go-ahead to open in Pakistan following the deregulation of the banking system there. Both also have outlets in China, Europe, Africa and of course in the Middle East.

The prospects for the Islamic banking system are promising for this decade. However, no-one should be under any illusions
about the tasks and challenges that lie ahead. The Islamic economic and financial system is still evolving. It is inevitable that it will face resistance before it starts making the impact it so deserves. *New Horizon* hopes to contribute to this impact and as such will from now on almost exclusively focus on the development of Islamic banking, trade and insurance to keep you informed about the latest trends, instruments and issues.

*Published in New Horizon,*

*February 1992*
HRH Prince Mohammed al Faisal al Saud has made a significant contribution to the promotion of the Islamic economic system. The major thrust of his efforts in this direction was the pioneering movement for Islamic banking, which he launched over a decade ago with the establishment of Dar al-Maal Al-Islami (DMI).

The movement has been so successful that Islamic banks today exist in all parts of the world and are looked upon as a viable alternative system which has many things to offer. It is a tribute to Prince Mohammad’s vision, determination and commitment that Islamic banking is today a living reality. Unfortunately, it was, and to some extent it still is, difficult to convince Muslims that an Islamic economic order with its divine origin is capable of meeting the challenges of humanity. However the reasons for their mental reservations are not difficult to identify.

Muslims gained independence after remaining under the colonial rule of the West for over a century. The prolonged subjugation of Muslims had sapped their self-confidence and by skilful manipulation the foreign powers had convinced them, especially the elite through whom they ruled their colonies, that Western ideas and systems were far superior to those of Islam’s. Indeed, in due course that elite began to look at issues through the eyes of the colonial rulers and judge them against the touchstone of their ideas. They came to believe that there were only two viable economic systems: the capitalist and the socialist. It is only recently that Muslims began to become aware of the weaknesses and failings of these systems and to realise that the
third option, the Islamic option, is capable of not only solving their problems but also those of the world at large.

The capitalist encourages concentration of wealth in a few hands by its excessive emphasis on materialism. It tends to make the rich richer and the poor poorer. It is characterised by the relentless and unfettered pursuit of profit. There has always been simmering resentment among the European masses against this exploitative system. The ugly face of the capitalist system was exposed powerfully as early as four centuries ago by William Shakespeare in his play, *The Merchant of Venice*. The fact that this play has been translated into many languages and staged countless times in all parts of the world is a testimony to the dissatisfaction of people against the brutally exploitative nature of the capitalist system. Instances of how brutal the system is keep appearing in the media from time to time. Let me present two such cases which appeared in the British press in recent months. The first relates to one David Taylor, a client of a major Western bank in London. David Taylor was struck by leukaemia and had a bank overdraft which was growing at a frightening pace due to the bank’s hefty rate of interest. Worried that the longer he lived the more of his life assurance money would be taken away by his bank, leaving little or nothing for his family, David wanted to die an earlier death. He realised that every additional day that he lived would mean less money for his wife and children. Fortunately for him, David’s friends came to his rescue and paid his overdraft. But pensioner Jim Wallace, a father of six, was not so lucky. Like David, he too had a bank overdraft. Within a period of eight days, his bank wrote to him four stiff letters demanding prompt payment. Unable to cope with the bank’s threatening letters and pay the overdraft from his meagre pension, Jim committed suicide by drowning on 30th of January, 1993. His weeping widow moaned that the bank’s letters had killed her husband.

It is not only private individuals, like Jim and David, whose cases are highlighted by the media from time to time. The harsh and callous treatment of small businesses by their banks also keeps coming under attack by the media, the Church and
political leaders. Indeed, thinking people have begun to question whether it is morally right to charge interest on loans. In this connection, the Bishop of Birmingham, who is also Chairman of the Church of England’s Board of Social Responsibility, recently posed the question: “Is it ethical to charge interest on a loan?” Criticism is also beginning to be levelled against investments in harmful industries, like tobacco, alcohol, gambling and pornography etc, which are also forbidden under the Islamic system.

Disillusioned by the capitalist system, Karl Marx propounded the socialist philosophy in the hope that it would solve the people’s problems. The new system in reality perpetuated capitalism with the only difference that while in the former the individual was the capitalist, in the latter the state assumed that role. It had no moral element and concentrated excessively on materialism. Its features were inconsistent with human nature. It not only failed to solve the people’s problems but aggravated them, bringing hardship and misery to millions of people during the 70 years of its life. No wonder it collapsed like a bubble.

It is encouraging that the reservations which people had about the viability of interest-free banking are gradually disappearing. Even more encouraging is the fact that the West, which was quite sceptical about it, has begun to take it seriously and acknowledge its good features and considerable potential. Indeed, some traditional western banks have set up units operating on principles propounded by Islam. The changing attitude of the West is reflected in the numerous comments which have appeared in prestigious newspapers and magazines in recent months. The International Herald Tribune in its issue of 31st January this year (1993) quoted Mr Richard Duncan, Head of the Middle East banking and trade finance department at Kleinwort Benson Securities in London, as saying that Kleinwort Islamic equity investments had outperformed most stock market indices in recent years. The investment bank handled more than $4 billion in Islamic funds in 1991 and Mr Duncan expects figures for 1992 to show an increase. “The products are of interest to
non-Muslims as well as Muslims because people respect the morality of the investments” said Mr Duncan.

“There is certainly growing demand for Islamic investments. The demand is coming from everywhere: the Far East, the Middle East and around the world”, Mr Duncan added.

On December 8th, 1992, The Wall Street Journal published a lengthy article under the title, “New products tailored for the Islamic market poised to take off”. The tone of the article can be judged by a few lines that I quote. It said: “Bankers say the amount of money under Islamic management is increasing. No reliable measure of the current Islamic funds is available but estimates range from several billion dollars to about $50 billion”. The Wall Street Journal goes on to say that “The world’s Muslim communities have learned by experience, along with the rest of the world, that Western banks are hardly the fount of wisdom. This has provided Arab bankers with a new self-confidence in adapting traditional mores to modern finance, and a training institute for Islamic bankers is now drafting its syllabus and hopes to open its door to students in London next year”.

The training institute for Islamic bankers to which The Wall Street Journal made a reference in its article will start operation in London in May. Its objectives are:

a) Promotion of Islamic banking through conferences, seminars, lectures and publications. In this connection, the institute is already publishing a monthly magazine, under the title: New Horizon. The Institute is working on the publication of an Encyclopaedia of Islamic Banking and Insurance, which will be available in October this year.

b) The Institute has also completed arrangements to run a Diploma Course in Islamic banking and insurance, and will offer it to students within a couple of months. To enable the maximum number of students to benefit, the course will be run on the now well established and widely accepted principle of distance learning. This method enables people, including those holding jobs, to learn at their own pace in the convenience of their homes.

In Pakistan, the decision to introduce the third economic option - the Islamic option - was taken about a decade ago. In
spite of the many difficulties, a lot of progress has been made in that short period. In my opinion, what has been achieved is praiseworthy.

There is an understandable desire in some sections of the society to see the Islamisation of the whole economic system completed without further delay. They feel that the pace of Islamisation has been too slow. May I say that the re-establishment of the system is a major undertaking, necessitating research, systems design, establishment of controls, standardised operating procedures, design of tailor-made computer software, forms, documentation, etc; and undue haste and half-baked solutions can only land us in a mess which our critics would surely exploit to discredit the Islamic system. We must guard against this danger.

It is interesting that Islamic banking is generating greater interest in Asia. Already Islamic banks are functioning in many countries including Indonesia, Brunei, Malaysia, Thailand, Bangladesh, India, Sri Lanka, Pakistan, Iran, Turkey and Azerbaijan, and competing with the well developed Western banking systems there. There are indications that more Islamic banks will be established in many Asian countries.

Welcome address delivered at a seminar on Islamic economics held in London on April 1993
In the early years of Islamic banking, most efforts were through individual initiatives which were isolated and of a private nature. In the midst of the huge and extremely powerful operations of non-Islamic banking and financing outfits which dominate and control the world, they could hardly have created any significant dent. Nonetheless, the individual and private initiatives in the field of Islamic banking provided an excellent working example, on which the infrastructure of interest-free banking would subsequently be built. It was a case of small beginnings and large-scale undertakings.

Some of these modest-scale pioneering Islamic banks were established in Egypt in the 60s, and operated as rural social banks in the Nile Delta. The successful interest-free banking operation in these rural areas, where banking more or less did not exist as such until the introduction of these modest-scale Islamic banks, turned out to be an initiative well worth pursuing. It is interesting to note that an initiative in a remote corner of Egypt, of such a very small scale, could be linked so intimately and significantly with the latter-day promotion of Islamic economic and financial systems as we know them today.

The positive realisation of the Ummah’s responsibility towards creating an Islamic framework for an economic and financial system at state level owes itself to the late King Faisal bin Abdul Aziz Al-Saud of Saudi Arabia, on whose initiative the Organisation of Islamic Conference was established. Concrete efforts were made to initiate collective efforts towards uniting the
Muslims for common objectives. The elimination of riba and the creation of Islamic financial and economic institutions were among these objectives. It was the belief of His Majesty King Faisal that since the Qur'an prohibited riba, and laid down specific principles for an Islamic economic society, it was incumbent on every Muslim to obey these commandments and abide by these principles. He felt that the Islamic nations must evolve a structure which could have a blend of the Shari'a (Islamic law) and modern financial techniques in order to produce a new and viable financial alternative, free of what is prohibited in Islam and pursuing what is enjoined in it.

In December 1970, the Second Conference of OIC Foreign Ministers was held in Karachi, Pakistan. Egypt jointly sponsored a proposal which called for a study for the establishment of an international Islamic Bank for Trade and Development together with a Federation of Islamic Banks. Experts from 18 Islamic countries examined the proposal and prepared their report. It was recommended that the interest-based financial system should be replaced by a system of participation schemes, linked with profit-and-loss-sharing. As a beginning to that end it was decided that a Federation of Islamic Banks and an International Islamic Bank should be established.

The principles on which the proposed bank was to be established were:

a) to finance commercial transactions among Islamic countries;

b) to finance development and investment institutions as its affiliates;

c) to undertake the necessary transfers, clearing and settlement among the central institutions of the Islamic banks in Muslim countries as a beginning towards building up an integrated Islamic economy;

d) to provide central institutions of Muslim countries for short and long-term loans for their commercial and development needs;

e) to support the efforts of these central institutions in the Muslim countries in pursuing their objectives within the
framework of Islamic directives;
f) to administer and utilise the zakat funds; and
g) to administer the surplus liquid money of these central institutions of the Muslim countries.

The establishment of a specialised agency was also recommended. It was to be called the Investment and Development Body of Islamic Countries. Its main function was to pursue the following objectives:
a) investment of Islamic capital;
b) balancing the investment and development operations of the Muslim countries;
c) selection of suitable fields for investment and undertaking research in these areas;
d) extending technical advice and assistance for projects designated for regional investment in Islamic countries.

In addition to these recommendations it was proposed to establish a specialised agency as a consultative body in the field of Islamic economy and Islamic banks. The agency was named The Association of Islamic Banks. It was proposed that the Association should act as an Islamic advisory agency to deal with the problems of Islamic economics and banking. Its mandate included providing technical advice to the countries wishing to establish Islamic banks and financial institutions and encouraging and supporting the efforts of these countries in establishing such a banking system. The Association was to be organised in such a manner that it would be able to provide these countries with experts, knowledge and the exchange of experience.

In March 1973, at the Third Conference of OIC Foreign Ministers held in Benghazi in Libya, these proposals were further examined and it was decided that a financial and economic department should be set up, within the OIC Secretariat, to serve the Muslim world in undertaking research and giving advice on economic matters and the establishment of Islamic banks. This department was expected to act as the nucleus of a specialised agency in financial and economic fields of interest, serving the member states of the Organisation of Islamic Conference.
Consequently, a committee of experts representing the oil-producing Islamic countries met in Jeddah in July 1973 and adopted the principle of establishing an Islamic Bank. It was decided then to draft the bank’s charter, its rules and regulations.

The draft was submitted to a second meeting of experts which was held in May 1974. This was followed by the second Conference of OIC Finance Ministers in Jeddah, where the draft agreement was approved for the establishment of the Islamic Development Bank with an authorised capital of two billion Islamic dinars (equivalent of two billion SDRs). The member states of the Organisation of Islamic Conference became members of the bank. The operations of the Islamic Development Bank in about the last ten years in the field of international financing and development are now well known. Ever since its establishment it has been serving as a new window for financing and investment in the Islamic countries, especially those which are short of capital and where international credits are needed for development projects. The bank provides equity capital and interest-free loans for development operations and trade financing.

This new institution could have gained the status of being the strongest financial institution of the Ummah, capable of looking after the entire development needs of the Islamic nations, but its activities remained restricted because of the counter-productive political events which had been constantly distracting its energies and resources from the common goals and objectives of the Ummah. The progress of institutions which were established with positive programmes of action was thus retarded. Luckily, the Organisation of Islamic Conference and the Islamic Development Bank continue to exist and enjoy the support of the Ummah. It is, therefore, reasonable to hope that with a positive turn of events in future, they will gain the strength and competence to pursue their mission of successfully implementing their noble charter of forging unity among the Muslims, and transforming their institutional framework into a standardised Islamic institutional set-up, with viable and effective Islamic financial and economic instruments.
One of the important recommendations of the study group which was commissioned by the OIC Foreign Ministers was to create the Association of Islamic Banks in order to co-ordinate the mechanism, and to develop a close relationship between the Islamic banks and financial institutions. While fostering their inter-linked co-operation and combining their activities, the Association was assigned to promote riba-free banking internationally. His Royal Highness Prince Mohammad Al-Faisal Al Saud became the moving spirit for the execution and implementation of this noble mission of developing and spreading Islamic concepts and the promotion of Islamic financial institutions in various parts of the world. His efforts have been acknowledged as the most singular and pioneering movement in this field. The International Association of Islamic Banks was established under his Chairmanship in August 1977.

The Association has been functioning mainly to provide Islamic countries with technical assistance and the expertise necessary for the establishment of their own Islamic banks; promoting the activities of Islamic banks and fostering their growth; creating co-operation among Islamic banks in their operations and exchange of expertise; representing their common interest and carrying out training and research in the field of the Islamic financial system. The membership of this Association is open to all national Islamic banks and financial institutions which are riba-free. Considering that the Association is a central organisation open to all the Muslim countries, and available for participation by private and public institutions alike, it has the potential of becoming a singularly active and viable organisation for the pursuit of its objectives on a world-wide basis. It enjoys the recognition and authority conferred on it by the ninth Conference of OIC Foreign Ministers. It has been given an observer status at the OIC, and besides having been recognised by the Central Banks and Monetary Authorities of the Islamic countries, its status is accepted by all the major international organisations such as the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organisation (UNIDO), the Economic and Social
Council of the United Nations (ECOSOC), etc.

As a result of the initiatives which have been mentioned earlier, the Central Banks and the Monetary Authorities of several Islamic countries have become increasingly interested in Islamic financial institutions. Consequently, an expert committee to examine and prepare guidelines on the promotion, regulation and supervision of Islamic banks was set up. The committee examined specific issues and problems relating to the promotion of Islamic banking including: liquidity problems, access to the capital market, fiscal treatment of income from participation, maximum individual ownership in Islamic banks, minimum capital requirements, building up of reserves and several other related issues. In 1981, when the fourth meeting of the Central Bank Governors was held in Khartoum, Sudan, the report of the experts group was duly approved. A training system for the manpower requirements of the Islamic banks was evolved. For this purpose the International Institute for Islamic Banking and Economy was established in the Turkish Federated State of Cyprus in 1982.

Several Islamic financial institutions are at present functioning in various parts of the Muslim countries. Most of these institutions were established in the second half of the 70s and early 80s in Egypt, Sudan and the Gulf countries and owe themselves mostly to private initiatives. They can be identified in two categories. First are the Islamic Commercial Banks and the second are the Islamic Investment and International Holding Companies. The first category includes, among others, the Faisal Islamic Banks in Egypt and Sudan, the Kuwait Finance House, the Dubai Islamic Bank, the Jordan Islamic Bank for Finance and Investment, the Bahrain Islamic Bank, and the Islamic International Bank for Investment and Development, Egypt.

The second category, which is of the Islamic Investment Holding Companies having either a national or an international mandate, includes the Dar al Mal al Islami (Geneva), the Islamic Investment Company of the Gulf, the Islamic Investment Company (Bahamas), the Islamic Investment Company (Sudan), the Bahrain Islamic Investment Bank (Manama), and the Islamic
Investment House (Amman).

In addition to these there are the Massraf Faisal Islami in Bahrain, Senegal, Niger and Guinea. The Faisal Finance House of Turkey is the latest addition to the growing list of Islamic banks and investment companies. The objectives of these institutions include the undertaking of all financial operations required by Muslims in the framework of the principles and precepts of the Shari'a; the investment of funds within the Islamic context; the generation of Halal profits and the consolidation, promotion and co-operation of Islamic financial operations internationally. Much of this has been done as a private initiative. But it has inspired interest at state level as well. Several Islamic countries have since undertaken steps towards the introduction of Islamic banking and financial systems on an evolutionary basis. Worth noting are the efforts being made in Sudan, Malaysia, Pakistan, Turkey, the United Arab Emirates and Iran, where specific legislations have been introduced in the last four years to facilitate the operations of the Islamic financial institutions on a national scale.

The various Islamic financial institutions functioning today are carrying out a variety of banking, financing and investment operations on a competitive basis. Their banking systems handle current accounts, savings accounts, systematic savings accounts, fixed investment accounts and call investment accounts. Financing is being done in a variety of ways. On a short-term basis it is being carried out for trade acceptance and hire purchase. On a medium-term basis it covers loans, business development credits and lease financing. On the long-term basis it is extended to mortgages, equity financing and project financing. An international banking service is also available with these institutions for foreign exchange transactions, purchase and sale of currencies, purchase and sale of commodities, transfer of funds, export financing, letters of credit and letters of guarantee.

There are some other miscellaneous services which include safe deposit boxes, security safe-keeping services, management of private investment portfolios and trustee functions. It is thus evident that the financial and banking operations, within a short period of no more than seven years or so, have covered a fairly
wide field. Thus it can be hoped that, after the national initiatives taken by the various countries mature, the Islamic financial operations will bring into their fold practically all the aspects of business, commerce and investment known to the modern world.

To illustrate the process of how the funds originate for the Islamic financial operations, the Massraf Faisal Al Islami can be quoted as a typical example. Its main sources include demand deposits whose repayments are guaranteed and investment deposits which are held on a fiduciary basis. In this the operation of investment account deposits can be noted in particular. They are offered on a fixed term or a call basis and are due, as to principal and profit, 90 days, 180 days or one year after deposit. The call investment accounts are due seven days or 30 days after call. The MFI receives 80 per cent of the profits, if any, generated by the investment of assets held for investment accounts. All the funds of MFI are invested in the investment areas and forms approved by the Religious Supervisory Board in conformity with the Islamic laws and the Shari'a. Among the Islamic instruments which are being used at present, the most important are Mudaraba or financing participation, Musharaka or mutual financing participation, Qard Hasan or Islamic loan financing for commercial use, Ijara wa Iktina or lease purchase financing and Takofol or the Islamic alternative to contemporary insurance.

It is not necessary here to go into the detailed workings and technicalities of all these forms and financial instruments. They are already being accepted as the most familiar instruments in the field of Islamic finance and banking and sufficient information is available on them for those who may have a professional interest in learning about the methodology, the practice and the application of these instruments. Together, these instruments provide the Islamic alternative for the operation of a complete financial system and it is on these instruments that the future non-riba economic order, based on the principles of equity, fairness, justice and human consideration, is intended to be developed. It has to come through an evolutionary process. While various countries are making their own national efforts to
produce working machinery of their own, the principles and practices have to be standardised and will have to be made universally applicable. For this purpose a very close co-ordination and constant exchange of information and experience will have to be maintained between the countries and the private agencies involved in this evolutionary process. What is important and worth valuing is the fact that a number of countries have taken national decisions to evolve such a system. This expression of their national will was exactly what appeared to be the most unattainable task only about seven or eight years ago. Today it has already been expressed.

It has now entered the stage of implementation. It will soon reach, Inshallah, its destined state of perfection. Seven years is too short a period to see any perfectly viable financial and economic order appear on the ground. For the Islamic Economic Order, which has to be sound not only in its techniques, but also in its moral and ethical principles and practices, the period of evolution will be very much longer.

*Presented at a Seminar in London, 1994*
"In two decades of operation, Islamic banking has proven itself to be a major force in world finance and has demonstrated that it is able to compete on an equal footing with other more traditional forms of commercial banking". These were the encouraging remarks recently made by the Finance Minister of Dubai, Sheikh Hamdan Bin Rashid Al Maktoum.

In the years to come, the growth of Islamic banking looks set to continue and conferences on Islamic finance supplement this process through the sharing and exchange of ideas and experiences, enabling effective strategies to be developed.

Such conferences help pave the way for a greater understanding of the key issues facing Islamic banks and will help to ensure that Islamic banking continues to meet the challenges ahead and develop its position throughout the world market.

The quick succession in which two Islamic banking conferences have been held in the Gulf, one in Bahrain and one in Dubai, both addressed by Finance Ministers of the two countries, is an indication of the popularity of Islamic banking in the Gulf states.

We look forward to the day, and hope that it will be sooner than later, when a major Islamic Banking Conference will be held in Saudi Arabia with its Finance Minister addressing it. This would be in the fitness of things and in accordance with the Islamic credentials of Saudi Arabia as the cradle of Islam. Islamic Banking Conferences have in the past been held and addressed by Presidents, Prime Ministers and the Finance Ministers of Pakistan, Turkey, Iran, Bangladesh, Sudan, Malaysia, Guinea,
Nigeria, Niger, Senegal, Bahrain and the UAE. We very much look forward to Saudi Arabia playing its role in fulfilling its Islamic identity.

In recent years many conferences have been held on Islamic banking in different parts of the world. Generally, they have focused on the basic principles and guidelines of Islamic banking. While this concentration on theory has played an important role in introducing Islamic banking to a wider public, the last few years have seen a trend towards addressing the practical problems and challenges facing the Islamic system.

When the concept of Islamic banking with its ethical values was propagated over two decades ago, financial circles treated it as a utopian dream. They asked what ethics had to do with finance. However, attitudes have changed in the last few years and the value-neutral conventional banking has begun to trouble the conscience of an increasing number of people in the West. They are reluctant to hand their funds to banks and financial institutions that invest in companies engaged in unethical and socially harmful activities.

According to the London-based magazine *The Economist*, about ten per cent of the total of US investments are being managed according to ethical guidelines. In the UK, at least 22 funds do not invest in companies whose activities they consider unethical and morally questionable. There is a growing trend for conventional banking to move towards a value oriented system.

It must, however, be admitted that conventional banking has played a positive role in the economic development of the industrialised West. But despite its excellent record in the material field, it has not been able to meet the social and moral needs of the people. In contrast, Islamic banking is not only financially sound, but also looks after the social and moral needs of the people. Indeed, the aim of the Islamic economic order is to establish a society based on equity and justice. In the west the trend towards ethical banking is the result of people’s desire to combine moral and materialistic values.

In the history of every society and institution, there comes a time when it is impelled by circumstances to make way for a
better and more acceptable face. The fact that people are moving
towards morality in financial matters is an indication of the
winds of change and the hope is that this change will persuade
the conventional and Islamic systems to co-operate to give a
more human face to financial operations.

When the concept of interest-free banking was first raised in
the seventies, doubts were expressed about its viability by
bankers not only in the west but also by many in the Muslim
world. These doubts have now been laid to rest and the viability
of interest-free Islamic banking has been established beyond
doubt. Today, there are more than 150 Islamic banks and
investment companies around the world, and new Islamic
financial institutions are rapidly emerging. It is interesting to
note that realising the potential of Islamic banking, both in the
corporate and private sectors, a number of conventional banks
have set up in-house Islamic banking units, commonly known as
Islamic windows. Moreover, encouraged by the viability of
Islamic banking, Citibank International is reportedly in the
process of setting up a full-fledged Islamic bank in Bahrain next
year.

Studies and research conducted by economists, bankers and
scholars have shown that Islamic banking has a number of
features which has lent it universal appeal. The commonly held
view that Islamic banking is meant for Muslims only is incorrect.

Although Islamic banking is now a fact of life and here to
stay, a great deal of effort is needed to take it from its present
nascent stage to the level of development achieved by
conventional banking. In this connection, it is important that
Islamic banks are organised, staffed and managed to produce a
decent profit for their depositors and offer products and services
to meet the needs of increasingly sophisticated and demanding
clients.

An area that merits urgent action is education and training
to meet the acute shortage of people well versed in the principles
and practice of Islamic financial institutions. A step to promote
research and education in Islamic banking was taken in 1993 by
the setting up of the Institute of Islamic Banking and Insurance in
London. The Institute introduced a post-graduate Diploma Course in Islamic banking based on the distance learning method, so as to make it widely available. The course was received well and in a short period of time about 150 students from many countries enrolled in the course. Students include professional bankers and scholars from Europe, the Middle East, the Far East and the USA.

The Institute has also undertaken a number of research and publication programmes, besides holding conferences, seminars and lectures. In addition to educating people in the principles and practice of Islamic banking, Islamic banks also need personnel trained in fields such as management, computer sciences, information technology and systems design. Fortunately, there is no shortage of institutions, especially in the West, for the education and training of personnel in these disciplines, and Islamic banks should make full use of these institutions. Western banks dealing in Islamic finance are willing to extend their co-operation in this connection and Islamic banks should take full advantage of such co-operation.

There is a need also to educate the market, in which the Muslim world alone comprises of one billion people. The market in the Muslim world and in the West should be educated about how Islamic banks work, and what products and services they offer. Only after potential clients have been educated properly, will they be inclined to do business with Islamic banks. Excellent means are available these days to educate the general public. Full use should be made of the powerful means of mass communication to educate the market about Islamic banking.

Another area that merits priority action by Islamic banks is research and development. This activity is necessary to develop new products, services and innovations, as well as the means to continually upgrade the efficiency of Islamic banks. Unfortunately, this activity is almost non-existent in most Islamic banks. Another area of strategic importance that warrants priority action is a marketing strategy for an Islamic banking system to supplement the mass education programme for the potential market.
In conclusion, individual Islamic banks must have their own marketing strategies based on their missions, goals, resources, products and services and the social, cultural and economic features of their markets.

*Keynote address at the Conference on Islamic Banking & Finance held in Dubai in November, 1994*
I n order to give a better perspective of Islamic banking I will begin by briefly outlining its salient features and how it differs from conventional banking. My purpose in doing so is to highlight the many attractive features of Islamic banking which lend it a strong universal appeal. I suggest that these features, along with the general principles and approaches to the formulation of marketing strategies, can be used to develop a sound strategy for Islamic banks. I do not propose to go into the procedural matters, as these should be covered by the concerned specialists, keeping in view the latest developments and advances in the field of technology.

The two systems of banking, that is, Islamic and conventional, are based on different concepts. While Islamic banking is value-oriented, conventional banking is value-neutral. It is also important to note that Islamic banking is part and parcel of the overall Islamic economic order which aims to establish a society based on equity and justice.

As is well known, Islam rejects the institution of riba, or interest, and considers it as unjust and exploitative. It considers the charging and paying of interest as unacceptable. Leaving aside the religious perspective, a critical examination of the issue of interest will show that it is indeed unjust and gives rise to several undesirable and harmful effects.

In the interest-based banking system, the owner of the capital is assured of a pre-determined fixed return regardless of whether or not the borrower has made a profit on the borrowed money. Failure to do so can have very unpleasant and tragic consequences for the unfortunate borrower.
Another harmful effect of the interest-based banking system is that it widens the gap between the rich and the poor. This inevitably leads to social tensions, instability and economic problems. Take the case of a large interest-based international bank. Here, the number of depositors may run into millions but the number of borrowers a small percentage of it. The huge sums collected from the depositors at low rates of interest are lent to a few rich and influential people who make huge profits from the borrowed funds. But the depositors do not get a share in those profits. Similarly, the fat profits made by the banks are distributed amongst their shareholders and, once again, not shared with the depositors. Yet again, the wealthiest and most powerful capitalists operate through banks which are major stock holders in, and creditors of, large non-financial corporations. Also, the conventional banks do not lend so much to the poor, as to the rich members of the society. Nor do they lend the same amounts on the same terms to each. Thus, under the conventional banking system, the rich tend to get richer and the poor poorer and the wealth is concentrated in fewer hands. In short, the conventional banking system favours the rich and discriminates against the poor.

Once again, unlike Islamic banking, which must operate strictly within the ethical norms and values of Islam, the value-neutral conventional banks have no such constraints and do not hesitate to invest in socially harmful enterprises. In recent years, this aspect of conventional banking has begun to trouble the conscience of an increasing number of people in the West and they are refusing to deposit their funds in banks and financial institutions which invest in companies engaged in what they regard as unethical and socially harmful activities.

According to the September, 1994 issue of London-based magazine, The Economist, some $650 billion - about 10 per cent of the total US investment - is now managed according to ethical guidelines. In the UK also there are at least 22 funds which do not invest in companies whose activities they regard as unethical and morally questionable. Never-the-less, such banks are doing as well, and sometimes even better, than the value-neutral banks.
As Islamic banking strictly forbids all such activities it should appeal to this growing body of people in the West. As such, a marketing strategy for Islamic banks must target all the people, regardless of their religious beliefs.

The International Herald Tribune in a recent article published under the title: "Islamic Links Lead to More Profits", wrote: "Islamic banking deals, such as 'Ijaras' can provide returns up to 40 percent", Most experts in the field of Islamic banking believe that Islamic banking has the potential to produce greater returns on investments than the conventional banks. If some Islamic banks are not doing so, it is only because being so very young they are having teething troubles and once they have overcome them, they would be able to realise their full potential. This potential of Islamic banks to outperform the conventional banks should play an important part in a marketing strategy for Islamic banks.

Conventional banking is based on a creditor-debtor relationship. This is unfair as in such a relationship the creditor enjoys a leverage over the debtor. Compared to this, the participative Islamic system is fair and just, as parties to a transaction share in the profit and loss in mutually agreed proportions.

Interest-free Islamic banking is essentially an equity-based system. The depositor purchases equity in the bank, and the bank, in turn, has an equity position in the business of the borrower. In this system, profits and losses are shared between the bank and the economic agents. The depositor is not guaranteed any pre-determined return on his deposit but as a shareholder of the bank is entitled to a share of the profits earned by the bank. If the bank suffers a loss, the depositor shares in this as well. The bank has a similar relationship with the borrower with the difference that in case of loss it is absorbed by the bank; the borrower's loss being his time, labour and the profit he had hoped to make. The fact that the depositor in an Islamic bank is its shareholder and enjoys the rights and privileges of this position is an attractive feature of Islamic banking and should be projected in developing a strategy for Islamic banks. The just and
humane treatment of the borrower if he suffers a loss in spite of his best efforts, should also be emphasised in the marketing strategy for Islamic banks.

A number of eminent economists have suggested that an equity-based system is more stable than the traditional system. In 1930, Henry Simons argued that the traditional banking system was inherently unstable. He said that as a crisis develops and earnings fall, banks seek to contract loans to increase reserves. However, each bank can only do so at the expense of other banks and, in the process, some banks become insolvent and are forced to close. The banking failures in the US during the 1980s have revived interest in the proposals for equity-based banking. This attractive feature of Islamic banks must not be overlooked in any marketing strategy for Islamic banks.

While adherence to Islamic banks holds a powerful attraction for the people, it is natural for them to also expect a healthy profit on their investments. Similarly, the large and growing body of people in the West who, regardless of their religious beliefs, prefer to invest in financial institutions which do not deal with companies engaged in unethical and morally questionable activities, also expect a good return on their investments.

While a marketing strategy for Islamic banks must exploit their moral and ethical basis, they must also make every effort to make them at least as profitable, if not better, as conventional banks so that they can offer good returns to their clients. This requires well-designed and equipped organisations, highly competent and motivated staff, use of modern tools and techniques of management, and advanced technologies, etc etc. Islamic banks must also establish strong Research and Development Departments to develop new products and services to meet the needs of the existing and potential clients. Dissemination of knowledge about these features of Islamic banks would inspire confidence and attract clients.

Any marketing strategy for Islamic banks must also allay apprehensions which some people have about Islamic banking.

First, why should anybody invest in an Islamic banks when
it guarantees neither a profit nor the return of the capital? People who have this apprehension are unaware of the fact that equity-based investments most often give better profits than interest on deposits. That is why millions of people around the world have invested and continue to invest thousands of billions in equities which also do not guarantee a profit nor the return of the capital. A look at the equities listed and traded on the New York, Tokyo, London, Hong Kong stock exchanges should put the minds of such people at ease and remove any reservations they might have about investing in Islamic banks.

Second, can a system that forbids payment or receipt of interest be viable in a modern economy? Some people lacking an understanding of the Islamic system, argue that savings and investments would in time dry up if interest were not paid. Such people forget, or do not know that it is interest that is forbidden in Islam and not profit. In fact, Islam not only permits, but encourages people to engage in commerce and trade to earn profit. In any case, without entering into theoretical discussions, the viability of Islamic banking in modern economies has been proved beyond doubt by the successful operation of a large number of Islamic banks and financial institutions in different parts of the world. In addition, several prestigious western banks also, such as Citibank International, ANZ Grindlays, Kleinwort Benson, Standard Chartered Bank etc, have been managing sizeable funds profitably in accordance with Islamic principles. So successful have such operations been that the US-based Citibank International has decided to open a fully-fledged Islamic bank in Bahrain.

It goes without saying that in an organisation, financial or otherwise, the human factor is the most important by far. A corollary of this is that without quality manpower even an inherently good and sound idea or system, will not yield the results it is capable of yielding. In the case of Islamic banking there unfortunately is a shortage of people who have skills and qualifications to nurture and develop the fledging Islamic banking system into an attractive alternative to conventional banking. This shortage is not only an obstacle in the realisation of
the full potential of Islamic banking, but also in its expansion. A marketing strategy for Islamic banking must give this requirement the highest priority.

Lest I be misunderstood I wish to make it clear that in discussing the differences between Islamic banking and conventional banking it was never my intention to malign the latter. Conventional banking has played a major role in the economic development of the West and is still performing many useful functions but being interest-based and value-neutral, it is not able to fulfil the material and moral needs of the society. Islamic banking has features which, properly projected and practised, are bound to appeal to people of all religious faiths as well as to people without any religious faith.

To sum up, a marketing strategy for Islamic banks should focus on the following points:

a) Being ethical and value-oriented it is just and non-exploitative.

b) It is part of the overall economic order whose principle aim is to establish a society based on equity and justice.

c) It has the potential to produce profits higher than conventional banking.

d) Being equity based, it is inherently more stable than the conventional banks.

e) As share-holders the depositors have the same rights and privileges as shareholders in any company.

f) It tends to prevent the concentration of wealth in a few hands.

g) It is value-oriented and forbids investments in companies engaged in unethical and socially harmful activities.

h) A borrower who suffers a loss in his business despite his best efforts is treated with justice and humanity.

i) It does not favour the rich and discriminate against the poor.

j) It is fully viable in modern economics.

Islamic Banking came on the scene little more than two decades ago and few organisations, if any, have done as well as it has in such a short time.

Its guiding principles are based on the values, ethics and tenets of Islam. Accordingly, transactions financed by the Islamic Banking system are to be handled within the framework of the basic principles of Islam, which delineate the areas of permissible economic activity and the concomitant social obligations. Conventional banks and their regulatory authorities were at first sceptical of this value oriented system. It seemed to them, at that time, to be no more than the naive ideas of a few religious zealots. Nevertheless, by early 1990s Islamic banking had experienced a rapid expansion well beyond the confines of the Muslim countries into Europe and North America. There has been a spectacular growth in the assets managed through Islamic instruments which are now estimated to the tune of well over US$60 billion.

So what are its prospects for the 1990s? Far from resting on their laurels, Islamic bankers, economists and Shari‘a scholars are planning the continued development of Islamic banking in all its aspects. For instance, methods of accounting, which at present vary between different Islamic banks and different countries, will be harmonised for the better comparison of statistics and the development of international banking relationship; monetary management principles need to be agreed upon; moves are being made towards the establishment of a secondary Islamic market; an Islamic Banking culture will be discussed; the training of bank employees will be deepened and widened; and the general
public, who tend to think that Islamic banking is merely a matter of getting no interest on their savings, will be given more accurate information with a view to increasing the amount of small savings deposited. New financing instruments are being devised and present ones developed to lead banks away from their present dependence on leasing and into proper profit-and-loss (PLS) investments. The spread of Islamic banking in Europe will be given attention. These are just a few of the ways in which it is confidently expected that Islamic banking will develop in the 90s.

**Research into New Financial Products**

In order to develop Islamic Financial products successfully, the co-operation of Shari’ah scholars, bankers, economists and experienced businessmen is necessary. Where Islamic economics have an advantage over the conventional economists of the West is in the fact that the Islamic Shari’ah contributes an overall values system which is related to human needs and formulated into a legal structure that has proved its value over the centuries. When this is allied to the vision of economists and the practical experience of businessmen, it creates a system second to none. Western banking system has been suffering increasing crises and has become more and more out of touch with its customers’ real needs and has been subjected to criticisms for its lack of social ethics and concern for the community. This lack of social concern led to the ethical investment funds which are becoming popular in the West.

For these reasons, the development of Islamic banking products in the 90’s and onward can be expected to receive a welcome not only from Muslims but from people world-wide.

**PLS Instruments**

The trend is to move away from interest-based instruments and towards genuine PLS instruments. Up to now, there has been much criticism that Islamic banks and financial instruments have been relying too much on
Murabaha, the leasing of equipment and other assets on a cost-plus-mark-up basis, because it carries little risk. The spread of education, through publications and seminars, on PLS methods is expected to give bankers confidence in these instruments. It will be shown how the risks of equity investment can be avoided by investing in projects.

Pioneering products have been developed by many Islamic banks. The Faisal Islamic Bank of Bahrain (FIBB) has developed Murabaha syndication and the Bank Islam Malaysia (BIM) the Islamic debt securities and export credit refinancing scheme.

Harmonisation of Accounting Standards

Although, in principle, the auditing of Islamic banks should not differ very much from the auditing of conventional banks, the former do have to operate within the constraints of the Shari’ a, and of different jurisdictions and local statutory requirements. They therefore tend to differ in the presentation of their accounts. Some present managed funds as on-balance sheet, and others as off-balance sheet. They differ from conventional banks in that the Islamic bank acts as a trustee of deposited funds while a conventional bank makes its profit from the margin between the cost of its funds (interest to depositors) and the profits it makes on its transactions.

The important statistics that are needed to show the trends of different aspects of Islamic banking world-wide can only be abstracted from the banking accounts of different banks if their accounting methods are the same and their accounts comparable. Steps are therefore being taken to set up an accounting system that all Islamic banks can follow. A standard system available to all will also release much manpower now needed by different banks having to make daily accounting decisions themselves.

The Accounting and Auditing Organisation for Islamic Financial Institutions in conjunction with the Jeddah-based Islamic Development Bank (IDB) and the Bahrain Monetary Agency, is engaged in devising common accounting standards for Islamic banks.
International Developments

The Malaysian Central Bank, Bank Negara, at the beginning of 1994, launched an Islamic interbank system by which all cheques issued by Bank Islam Malaysia (BIM) and by all those conventional banks in Malaysia offering 'Islamic windows' are being cleared nationally under a computerised pool system. This is being seen by many bankers as a first step towards creating a secondary financial market.

Malaysia is also planning an Islamic capital market to promote its aim of setting up a dual banking system - the conventional operating side by side with the Islamic, but not overlapping. There is also news of the setting up of an ASEAN Islamic Economic and Banking Council and the possibility in 1995 of consolidating Islamic banking at a regional level using the Malay Model. Bank Negara and the BIM have also played a major part in setting up Islamic banks in Indonesia and Brunei.

Bank Rakyat, one of the largest co-operative banks of Malaysia, is converting to being a fully Islamic bank and has announced that a survey among its customers, who are mainly non-Muslims, has confirmed that they are not going to change banks just because of the conversion. This confirms that so long as an Islamic bank delivers attractive professional products and services, together with good returns on deposits and investments, it will appeal to both Muslims and non-Muslims alike.

Malay has also pioneered Islamic unit trusts, Islamic government securities and corporate bonds. An Islamic broking company will also be established.

The Jeddah-based Islamic Development Bank (IDB) continues with its objective of assisting the social, infrastructure and agricultural development of its member countries and allocated over $100m for this purpose in 1994. It is particularly interested in food security. The IDB aims to promote private sector project financing and encourage privatisation in Muslim states.

Sudan, Pakistan and Iran are, in principle, developing their Islamic banks. But the first has had a war economy for some time
and the second has been having political upheavals, so it remains to be seen what will happen when they settle down. In the case of Iran, there is not enough information available about its Islamic banking model to make any assessment at present.

The Al-Rajhi Banking and Investment Corporation (ARABIC) is making progress in Islamic leasing (ijara), especially in the area of aircraft and tankers. Al-Rajhi's corporate ethic, backed by an abundance of liquidity and the ethics of its principle backers, the Al-Rajhi brothers, is perhaps, the nearest to an ideal Islamic ethos, based on performance, justice and welfare consideration.

The Islamic bank Ltd in Johannesburg is developing a niche for financing houses. The Kuwait Finance House is progressing with syndications and expanding its international activities. Kuwait's first Islamic insurance company has been set up by the International Investor, an Islamic financial entity specialising in private banking services.

Bahrain, the Islamic banking centre of the Middle East, is planning a quarterly system for Islamic banks, taking into account the new capital adequacy guidelines issued by the Basle Committee and being finalised by the Financial Institutions Supervision Directorate of the Bahrain Monetary Agency (BMA).

**Development of Islamic Banking in the West**

London is already becoming a centre for Islamic banking where structured deals are being arranged by Citibank International, ANZ Grindlays, Kleinwort Benson and the Al-Rajhi Banking and Investment Corporation (ARABIC), the Dallah Albaraka Group and the United Bank of Kuwait (UBK) also have several investment companies in London.

The Institute of Islamic Banking and Insurance (IIBI) has started a series of monthly lectures by eminent speakers from foremost banks and financial institutions which are designed to increase awareness about the wide range of Islamic financial services. The IIBI aims to create a framework for successful cooperation between Islamic and conventional banks and to highlight the prospects and problems of the Islamic financial
system - It is expected that a continuing dialogue will be set up between Islamic bankers and their western counterparts. The IIBI also launched a series of informal luncheon meetings where Islamic and conventional bankers can meet and to which the media will also be invited.

The IIBI also offers a Diploma Course in Islamic Banking and Insurance which is comprehensively designed to be studied not only by bankers but by anyone who is interested in finding out more about Islamic finance systems. It is a distance learning course, so that everyone will have access to it, no matter how remote their home, as no attendance anywhere is required.

On the continent, not much interest has been shown yet in Islamic banking, except in Denmark. But with the EU’s ever-growing trade with the Islamic world and the ever-increasing Muslim population in Europe, there is cause to believe that there would be a good demand for the services of Islamic banks there.

‘Western bankers who initiate Islamic deals stress that they are not thereby ‘Islamic bankers’, but merely arrange and structure deals in ‘objective cooperation’ with Islamic investors and banks. Some of them have their own Shari’a advisors.

However, there is no real competition between Western and Islamic bankers. Any competition is rather between those western institutions who have developed multi-billion dollar Islamic trade finance departments.

Research In Islamic Financial Products

After two decades it is being recognised that it is time to reassess goals and methods and to decide where Islamic banking is going in the 21st century. At present, a majority of assets in Islamic banks’ balance sheets are made up of murabaha and trade financing, which are too similar to conventional methods and are used merely to evade risk. It is important to establish a distinct set of instruments for Islamic banking and to recognise that, unlike a conventional bank, an Islamic bank is not an intermediary but a direct investor of funds held in trust for its depositors.

Islamic financial instruments must become standardised to
increase the level of interbank cooperation, which would pave the way for syndication.

The securitisation of Islamic financing methods is very important because the ability to trade securities can provide needed liquidity. This also needs standardisation.

The Al-Amin Securities Company was launched in 1987 with the purpose of developing Islamic financial instruments based on securitisation of Islamic financing methods and investment funds.

Conferences

In the past, conferences on Islamic banking have tended to look at the more general and descriptive aspects of PLS. But now, in the 90's, the range of topics is getting wider and deeper and there is an increasing theoretical and applied approach.

The Singapore-based Centre for Management Technology (CMT) organised a conference in Kuala Lumpur in July 1994 to discuss such issues as accounting, taxation, research and development, Islamic stockbroking and unit trusts, securitisation, and syndication.

The Institute of Islamic banking and Insurance (IIBI) arranged a London conference on the development of accounting systems for Islamic banking. In Tehran there is an annual conference on Islamic banking, ranging from central banking issues to problems facing the development of an interest-free securities market in Iran and credit allocation policies.

Monetary Management

In Islamic teaching, the most important thing about money is that its value must be stable so that it can perform its three functions, namely, as a measure of value, a medium of exchange and a store of purchasing power. Any erosion in its real value has an adverse effect on socio-economic justice. Thus stability is a priority of Islamic monetary management.

Islam's value system regulates the demand for money by curbing wasteful uses of resources by means of the price mechanism and by prohibiting interest in favour of profit-and-
loss-sharing.

In an Islamic bank, financing is not something given just to anybody who happens to have sufficient collateral and enough income to service the debt. The criteria are that the project is economically and socially worthwhile and that the applicant has management ability. This means that, unlike in the West, even poor people have a chance to start up a worthwhile business. It also enables society to harness these abilities and recognise the contribution such people can make to output and employment needs.

This viewpoint can affect the public sector too, as Islamic bankers, dependent on good returns, have to take a greater interest in the feasibility and management efficiency of the projects they finance.

The levy of the *zakat* tax on assets discourages people from hoarding idle cash, so that they are more likely to invest it in productive enterprises. Moreover, as rates of profit do not fluctuate from day to day, as do the interest rates of conventional banking, PLS banking contributes to the stability of the economy.

These principles are the foundation of the Islamic monetary system, but much thought and continuous innovation is needed to determine how best to implement them in the modern world of the 1990's.

**An Islamic Banking Culture**

So far, the development of Islamic banking has necessarily tended to concentrate on the solutions to urgent practical problems, such as finding efficient alternatives to interest and so forth, but if it is to become a respected part of world economy it is becoming imperative that we create and portray a definite Islamic banking culture or banking personality.

Good banking is not only about good returns, but also about service, corporate ethics, politeness, helpfulness and a friendly image. Ethics demands adequate financial reporting and organisational transparency, while good service demands constant product improvement and cooperation.

It is comparatively easy to agree on such things as personal
behaviour and dress, but much thought must go into the acceptance of common terminology, instruments, accounting principles and the interpretation of Shari’a laws. In the West, there has evolved a consensus of opinion on the most important banking areas, such as accounting, lending policies, capital adequacy ratios and the like. Islamic banking is now, in the 90s, in the process of trying to match this.

Human Resource Development
The world market share of Islamic banks is still quite small and it is now being seen that much improvement might be achieved by enhancing the quality of their human resources. There are three important areas: training of employees on their current job, development for their future job and education related to the general growth of the individual and organisation.

When an organisation cares about the training, well-being and professional growth of employees, they gain a sense of belonging to the extent that they may go out of their way to help the organisation and this is very important for its success. Training is necessary in order to introduce new financial instruments geared to satisfy the needs of its clients to help in the changeover from murabaha to PLS modes of financing and to help decisions regarding efficient investment.

Training programmes might include credit management, project evaluation, information technology, Shari’a principles and, not least, courteous conduct towards customers. Universities could offer degrees in Islamic economics, Shari’a law particularly Fiqh al-Muamalat and modern banking practice. Each Islamic bank should itself set up a human resource division to organise all these things.

Islamic banks, if they are to survive into the next decade, cannot afford to ignore the development of human resources.

Conclusion
It is clear that the widespread development of Islamic banking theory and practice is going on all over the world. Numerous conferences have initiated the spread of information
and suggested projects which are being put into practice not only in Muslim countries but also in the West, where interest in Islamic banking continues.

The setting up of the Institute of Islamic Banking and Insurance in London has provided a focal point for publications, lectures and seminars which are attracting world-wide interest.

One of the most important consequences of the success of Islamic banking over the last two decades has been the realisation in the West that a strict conformance with ethics, and a concern for the welfare of the community is not entirely incompatible with financial viability. Western financial institutions have begun to take up the ideas of the Islamic financial system in no small way and cooperation between the two systems seems assured for the future.

Published in
Arab Banking and Finance,
Aims and objectives of the Institute of Islamic Banking and Insurance include:

Promotion of knowledge and understanding of Islamic Banking and Insurance.

Education of personnel in Islamic Banking and Insurance to fill the rapidly growing demand for qualified personnel by financial institutions. For this purpose, the institute runs a Diploma Course in Islamic Banking and Insurance on distance learning method.

Conducting research and development to develop new Islamic financial instrument and to tackle issues and problems relating Islamic Banking and insurance.

The Institute publishes a monthly magazine -The New Horizon- devoted to Islamic banking and insurance.

The institute's standing programmes include holding of meetings of Professionals using Islamic financial instrument, organising workshops to address various issues concerning Islamic banking and insurance.

The institute offers its membership to organisations and individuals who satisfy the prescribe conditions

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