PHILOSOPHY AND PRACTICE OF ISLAMIC ECONOMICS AND FINANCE

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This article is for those who are uninitiated about Islamic economics and finance. It contains the following sections:

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I. INTRODUCTION

To gain understanding of Islamic economics and finance, one has to firstly understand what Islam connotes. In a very comprehensive sense, Islam is the way of life ordained by the Creator for mankind through all of His Prophets (peace be upon them). This way of life gained its finality with the message of Prophet Muhammad (peace be upon him). A Muslim is one who submits to the Will of the Creator. Islam is rooted in belief in an unseen system.[1]

1. Belief in the unseen system

A Muslim believes in an unseen system that includes:

- Allah and His manifold attributes
- The Angels on whom He has entrusted various functions
- The Books He revealed
- Prophets or Messengers He sent
- The Day of Judgment
- Fate: Good and evil as ordained by Allah
- Eternal life after death

All of Man's actions should be guided by the belief that he has been created by Allah Who will cause him to die and will resurrect him after death and hold him accountable for all his deeds -- done openly or secretly, individually or collectively. So it is a belief in the Unseen. Life does not end here. For a Muslim, life continues into the eternal Hereafter. This belief influences all spheres of a Muslim's life – private, public, individual, collective, family, social, economic, as well as the political sphere. Reward and punishment does not end in this life, but the real reward and the real punishment are in the eternal life to come.

2. Religion and economics

Michel Mayer, in "*Instructions Morales et Religieuses, lére lesson,*" defines religion as "the set of beliefs and precepts which must guide us in our conduct toward God, other people and toward ourselves."[2] Religion has also been termed as "a chart of conduct."[3] These and other definitions of religion imply that it encompasses human behavior in all its facets and aspects.

As we know, economics is the study of human behavior in relation to how scarce resources should be allocated for producing goods and services and distributed for consumption. That is to say, economics deals with a subset of religion. Thus, religion will have its say on how man deals with his economic activities.[4] As one author puts it, "Every religion has its own 'Economic Ten Commandments'."[5]

In the Holy Qur'an, Allah mentions about teachings of earlier Prophets - teachings that had to do with economic affairs of men; this underscores that economic behavior is a concern of religion.

A primary focus of religion is justice and equity. Through economic exploitation injustice and inequity can reign supreme. It is therefore logical that religion will have economic commandments to rein in the possibility of economic exploitation.

II. PHILOSOPHY OF ISLAMIC ECONOMICS

1. Islam and economics

(i) A verse in the Qur'an states:

"Woe to those who deal in fraud – those who, when they have to receive by measure from men, exact full measure, but when they have to give by measure or weight to men, give less than due. Do they not think that they will be called to account on a Mighty Day, a Day when (all) mankind will stand before the Lord of the Worlds?"[6]

This and other related verses condemned economic behavior that prevailed fourteen centuries ago at the time of Prophet Muhammad (peace be upon him) and provide a glimpse of the economic system to be divinely ordained soon thereafter. Economic behavior is tied to accountability before the Almighty on the Day of Judgment.

(ii) Economic activities help man in fulfilling his responsibilities on earth.[7]

- Piety is not a positive function of economic unproductivity.
- The more pious one is, the more productive he should be.
- The more economically productive he is, the better he should be, provided life is kept balanced.

One way of getting an appreciation of the Islamic concept of economics and finance would be to understand from the Islamic perspective the concepts of success, wealth and goods, permissible consumption, motives of production, objectives of production, the goals of the firm, the right of ownership, responsibility and freedom, cooperation versus competition, government involvement in the market. After presenting these concepts, we will outline the Islamic economy's 'Rules of the Game'. Thereafter, we will sketch out Islamic finance, highlight major financial products and contracts, briefly evaluate performance of financial institutions, and highlight problems and challenges before concluding.

2. Concept of success

In Islam, success does not consist of acquisition of wealth but it is associated with moral values. M.N. Siddiqi writes: "Success lies in being virtuous. The more one's behavior is in accord with moral standard's and the higher the level of his goodness, the more successful he is…. Throughout his life, in each and every phase of existence, at every step, the Islamic individual is endeavoring to act in harmony with moral values."[8]

Being on high moral grounds does not imply withdrawal from or negativism toward life and the community. M.N. Siddiqi further writes: "No level of material progress and economic development is in itself antagonistic to moral and spiritual progress. As a matter of fact all such progress, if it is properly achieved and maintained, is an aid to healthy morality and true spirituality."[9]

Islam regards a certain standard of material provision and striving for it as indispensable. It ordains society to guarantee such provision to each individual in all circumstances. It calls for a balanced life. The way to Islamic spiritualism passes directly through the hustle and bustle of practical life. It is not a separate life cut off from everything. It is a particular way of living.[10] Economic pursuit is a virtue if it is balanced and intended for serving humanity.

Success is not confined in dimension to this world. Life consists of life before death and life after death. The success or failure in the life hereafter will depend on how man fares on the Day of Judgment in terms of fulfilling his responsibilities in this world. As Monzer Kahf points out, this concept has twofold implications for consumer behavior.[11] Firstly, a choice of action has outcome in this life as well as in the hereafter. So, the utility derived from a choice is the total of the present values of these two outcomes. Secondly, many alternative uses of our income have positive utility in the Islamic framework, but may have zero or negative utility in the materialistic framework. Examples of such uses are interest-free loans, giving to the poor and the needy, spending for the welfare of future generations, improvement of community life that may not directly benefit the individual, and promoting the good and forbidding the evil. Including such alternatives that have benefit only in the hereafter expands the scope of alternative uses of our incomes.

To achieve success, a Muslim "has to expend some of his time in the remembrance of God, he has to contribute some of his energies to the propagation of truth and goodness," and has to spend of "his time and effort for the improvement of the spiritual, moral and economic life of the community."[12] This implies that a Muslim cannot limit his time and energies to performing those acts that will benefit him only in this life. One of his eyes should be focussed on this life, the other to the next life. The criterion for judging whether he should engage in a certain act is if it will benefit him in his life as well as in the next. He will do what is good or useful because Allah will reward him: grant him peace and success in this life, as well as in the next. Prophet Muhammad (peace be upon him) is reported to have said something which is relevant in this respect: "If one sees the end of the world coming while he has in his hand a little plant and he is able to plant it in the ground, he should do it. Allah will reward him."[13]

Success for a Muslim implies success not only in this life, but also in the eternal life to come. Success in both can be achieved via the same set of actions.

3. Concept of wealth and goods

Islam considers wealth and goods as bounties from the Creator bestowed on mankind. Prophet Muhammad (peace be upon him) is reported to have said: "Poverty is almost equivalent to denying Islam."[14] He taught Muslims to pray to be saved from incapability and laziness, fear and avarice, poverty, disbelief and misbehavior.

Islam considers consumer goods as useful beneficial consumable materials whose utilization renders the material, moral and spiritual betterment of the consumer. Goods that do not have any goodness and do not help improve human beings are not goods nor can they be considered as the property and assets of Muslims. Prohibited materials are not considered as goods in Islam. In conventional economics, anything has economic utility if it can be exchanged in the market; in Islam, goods must be morally useful as well as exchangeable in the market in order to possess economic utility.

In referring to consumable goods, the Qur'an uses terms which attribute to them moral and ethical values.[15] Consumer goods are thus tied with values: they have to be good, pure and wholesome. Goods that are bad, impure and unwholesome are not goods in Islam.

4. Consumption in Islam

Allah's bounties belong to all mankind. Even if some of the bounties may be under the possession of a particular people, it does not mean they only will utilize the bounties. Those who may not happen to have enough to meet their basic necessities deserve their share.

Consumption of good things is considered an act of virtue since that would constitute obeying Allah's commandment.[16]

Overconsumption (via extravagance or profligacy) is condemned.[17] Consumption above the moderate level is condemned (a moderate level would be between miserliness and extravagance).

Islam seeks to change the values and habits of people. It also provides the legislative framework so that the values can be nurtured and sustained through the creation of an ideal society.

5. <u>Motives of production</u>

One of the ideological objectives of the Islamic society is the extraction of every particle of usefulness from the entire universe. To realize this objective, both ethical teachings as well as legislation are available.

To discourage laziness and idleness and to promote productivity, certain legislative means are prescribed by Islam. Al-Sadr summarizes twenty clauses that seek to discourage idleness or non-utilization of resources.[18]

1. The government will take land away from the private owner if he does not till it and abstains from cultivating and using it. The state will not pay any compensation and will dispose of the land to the best of its judgement.
2. Acquisition of ownerless land does not establish the right to ownership of it; what does is the proper utilization of it. Colonization of land is a source of ownership in Islam under four conditions :
    a. Non-existence of any previous claim of ownership.
    b. Continuous productive use of it.
    c. The non-use of others' labor, even if it is paid for in the process of colonization.
    d. The non-violation of the principle of equal opportunity.
3. No privately owned natural resources are to be left unused. Non-use of them results in the invalidation of the private claim on them.
4. Public land may be given to private bodies only in accordance with their capability of utilization.
5. All kinds of non-productive intermediary activities are prohibited, such as leasing a piece of land at certain rate and renting it at a higher rate.
6. Interest ('riba') is prohibited as being a guaranteed source of income to those who are not actually involved in the productive activity.[19]

7. Economically non-productive activities such as gambling, or the practice of magic, or sorcery are prohibited.
8. Hoarding of money or other mobile assets is discouraged by the imposition of a 2.5% yearly tax on it.
9. The use of alcohol, drugs, and all means of wantonness, which affect the sensibility of a person and his ability to carry on serious productive activities, are prohibited.
10. Legislation, which leads to continuous and slow fragmentation of concentrated wealth, is to be enacted.
11. Speculation ('gharar') is restricted and mere speculative transactions in both the finance market and the commodity market are prohibited.[20]
12. Inheritance laws are to be used as a stimulus to productive activities; the inability imposed by Islam on anyone to select his own legal heirs or reduce their number is a means toward attacking the concentration of wealth.
13. Social insurance is prescribed in relation to both the guaranteed standard of living and the guaranteed payment of debts.
14. Unwillingness to work and voluntary idleness makes an individual ineligible for social insurance.
15. Luxury in private consumption is highly discouraged; this makes investment-biased spending more attractive.
16. It is a collective duty of the Islamic community to make available every useful branch of knowledge and industry.
17. It is the collective duty of members of the Islamic community to participate in the leading industries and fields of knowledge in the world.
18. The state has a leading role to play in production in relation to planning and public enterprise.
19. The state is allowed to obtain resources and redistribute them in order to maximize the realization of the normative objectives of the society.
20. The state enters the field of economic activity as a central planner and supervisor.

In addition to discouraging idleness and non-utilization of resources, these clauses prohibit non-productive activities and acts of wantonness, and encourage pursuit of industry and knowledge. The important role of the state is also highlighted.

6. Objectives of production

Production is viewed as man's effort to improve (a) his material condition, (b) his morals, and (c) means of attaining his goals in the Hereafter. This has three important implications:[21]

- Products and industrial activities that deprive man of his moral values as established in the Qur'an are prohibited.[22]
- The human aspect of production is of paramount importance. An important economic objective of the society is the distribution of the benefits of production among the greatest number of people and in the most equitable manner.
- Economic problem is not one of scarcity but caused by human laziness and neglect in the extraction of the full benefits of Allah's gifts – which include human and natural resources. The Qur'an terms this laziness and neglect as 'oppression' or 'cruelty'.[23]

Muslims are required to participate in economically productive activities.[24] Economic activity "is not to be confined to producing enough to meet one's personal needs only. Muslims are expected to produce more because they cannot participate in the process of purification through providing security to others (zakaat or alms tax) unless they produce more than what they themselves consume."[25]

7. The goals of the firm

Whereas profit maximization is the oft stated goal of the firm in the capitalist system, in the Islamic economy it may be stated as maximization of utility.[26] It is from the point of view of the entrepreneur as well as the owner of capital. Siddiqi mentions several goals of the economic enterprise in Islam, which are:[27]

- the fulfillment of one's own needs in moderation;
- meeting the needs of one's family;
- provision for future contingencies;
- provision for posterity;
- social service and contribution to the cause of Allah.

He has quoted many references from the Qur'an and the sayings of Prophet Muhammad (peace be upon him) in support of each of these objectives. These are not only to be the goal of the firm but also of individual economic activity.

Thus, in the Islamic context, the concept of profit maximization has to be adapted given the Islamic notion of success whose horizon extends beyond this mortal world. Monzer Kahf writes: "…profit maximization can be used as a fair criterion if we look at it as constrained not only by cost but also by a minimum level of good guaranteed both by ethical values and legislation. Within this context, the process of maximizing profit on behalf of the firm should not violate 'the rules of the game' of the Islamic economy."[28]

Monzer Kahf highlights two main differences in this context between the constraints on business behavior in a capitalist society and in an Islamic society:[29]

- the degree of interference of law is indisputably greater in the Islamic society;
- the lack of any effective control on non-legislated ethics in a capitalistic society as compared with the 'Hisba' Agency (controller of markets) in the Islamic society.

8. <u>The right of ownership</u>

Right of ownership has a particular connotation in Islam. Monzer Kahf points out the major characteristics of the right of property in Islamic economics.[30]

1. Property is a trust, the true owner being Allah Himself. Man's right to dispose of worldly goods is in the capacity of a vicegerent and a trustee. His rights have limits prescribed by Allah; these rights which are to be exercised toward the ends He has defined.
2. Even the limited rights of ownership can neither be devoid of purpose or an end in them, in view of the purposive nature of man's life. Wealth is a means to the end of living a life in accordance with Allah's guidance and of earning the reward in the Hereafter.
3. The purposive nature of property rights coupled with the idea of the oneness of mankind requires that the bounties of nature and worldly goods be accessible to all men, and that they do not become the monopoly of the few. As all human beings are members of one family, man should handle the wealth bestowed upon the family of mankind as a whole as the members of an individual family do.
4. The object of the right of property is the opportunity of economic utilization. If this opportunity is not attended to or the utilization is diverted to non-economic purposes as defined earlier, the right will be reduced (to the limit of zero) in proportion to the 'oppression' committed.
5. Private ownership is not a right granted by society; rather it is intimately related to the principle that man is the trustee of Allah.
6. The right of ownership is limited in time by the life of the owner. The owner does not have any authority over his wealth after his death.

9. <u>Freedom and responsibility</u>

Islam upholds the principle of individual responsibility. It is emphasized in numerous verses of the Qur'an and sayings of Prophet Muhammad (peace be upon him).[31]

- Everyone will be judged singly and alone on the Day of Judgment; this applies even to the Prophets and their dearest relations.
- Islam discards the concept of Original Sin. No one is responsible for other's mistakes, and there is no baptism and no chosen people.
- Every individual has a direct relationship with Allah. There are no intermediaries.
- Every individual has the full right and responsibility to consult the sources of Islam (the Qur'an and the *Sunnah*[32]) for himself.

The writings of Ibn Taymiyah – a 14th century Islamic scholar – contain among many other aspects, implications of the doctrine of economic freedom in Islam in relation to the market. Some of these are:[33]

- People are free to enter and exit the market.
- An adequate level of information about the market forces and commodities is to be ensured.
- Monopolistic elements should be eliminated from the market. Coalitions of professional men, whether they were groups of sellers or buyers, are not to be allowed. The Muhtasib (controller) should interfere and determine the price of the equivalent whenever monopolistic elements appeared in the market.
- Within this freedom, he recognized the effects of demand and supply on prices.

The Qur'an has warned against any deviation from the honest practice of economic freedom such as false oaths, misleading information, incorrect weights, and ill will.

10. <u>Cooperation versus competition</u>

Muslim scholars view the Islamic economy as a free one; however its freedom is expressed more in cooperation than in competition.[34] Not surprisingly, cooperation is a general theme of the social fabric of Islam. Working for the welfare of others is considered the most promising way of extending one's usefulness and thereby serving and pleasing Allah.

The Qur'an repeatedly emphasizes cooperative endeavors for the purpose of doing good. Whether it was in spiritual, economic or social affairs, Prophet Muhammad (peace be upon him) urged cooperation among Muslims as the bedrock of the Islamic society.

11. <u>Government involvement in the market</u>

Government involvement in the market is on a continuous and stable basis. The Government is viewed as co-existing in the market together with other economic units on a permanent basis. Its role is that of a planner, supervisor and producer as well as a consumer.[35]

The government's role as supervisor of the economic life and the market system calls for intervention when the mechanism fails to function efficiently. A second type of control is to be administered by an independent agency – al-Hisba (controller of markets) – which is to ensure adherence to 'the rules of the game' discussed next.

12. 'Rules of the Game'

The Islamic economy's 'rules of the game' include the set of social, political, religious, moral and legal commandments and rules to which a given society should be committed.[36] These ground-rules will bring to focus the relationship of man to his Creator, purposive and exalted nature of man's life, importance of work, importance of serving others, and equality in human dignity.

1. The whole universe, including man, belongs to Allah who has complete sovereignty over His creation. Man is undoubtedly the highest order of being among all that Allah has created, and everything is placed at man's disposal. He is authorized to use all this as a vicegerent or steward on behalf of Allah and to extract as many benefits and utilities from these as he can.
2. Allah has ordained such limits on man's behavior as will benefit him without sacrificing the rights of others. He has imposed certain obligations on human beings. Their performance is to be supervised and ensured by the community as a whole.
3. All human beings are Allah's dependents. The more caring a person is to Allah's dependents the more beloved he is by Him. Everyone is personally responsible for the improvement of the community; the individual is ultimately responsible for any failure of the community's cooperative and collective effort.
4. The status of vicegerent or steward of Allah is general for all mankind; no particular individual or nation enjoys specific privilege regarding the vicegerency. This does not mean, however, that human beings necessarily are or should be equal in the benefits they extract from the universe. They are equal only in opportunity; each one derives as much benefits as is within his capacity. Individuals are created with different capabilities so that they are instinctively disposed to live together, work together, and utilize each other's skills. But this does not imply or grant any superiority to the employer over the employee in relation to his worth as a human being or his status before the law.
5. Individuals are equal in their human dignity. No differentiation can be made or claimed on the basis of color, race, nationality, religion, sex or age.
6. Islam does not consider the existence of socio-economic classes as contradictory to the general principle of equality as well as to the principle of brotherhood.

7. Work is considered a virtue and idleness a vice. The best worship is work, and work is at the same time both a right and a duty. It is the obligation of the society to provide job opportunities. Monasticism and asceticism are prohibited. Prophet Muhammad (peace be upon him) is reported as saying that those who provide food and other necessities to the one who spends all his time engaged in worship without attempting to earn a livelihood are better than him.
8. Life is a dynamic process toward improvement. Life in this world is a race against time. In the limited time, a great deal needs to be achieved. Striving to be better and striving for perfection are goals in this process.
9. A minimum level of goodness is clearly defined. The performance of this level is controlled by social institutions, which ultimately impose it by the power of the law. For doing good, a Muslim is urged to go beyond the minimum level.

These ground-rules are to be considered as guidelines for formulating and implementing macro-economic policies and carrying out micro-economic activities.

13. The goals of Islamic economics

Some of the goals of a capitalist economy would be: high employment, economic growth, price stability, interest-rate stability, stability of financial markets. In the absence of interest-bearing debt, Islamic economics will not have interest-rate stability as a goal. The other goals would also be goals of an Islamic economy. In addition, an Islamic economy would aim to achieve:

- Justice
- Distributive justice
- Prevention of income inequalities
- Redistribution of wealth (charity)
- Prohibition of extravagance and excesses
- Welfare
- Literacy
- Human development

It may thus be termed as charitable, welfare oriented, distributively just economics.

14. Basic principles of Islamic economics

Thus, the basic principles of Islamic economic system may be enunciated as follows:

a) It is rooted in social justice.

b) It grants multifold property rights.
c) It operates in a regime of economic freedom tampered by government intervention as and when necessary for ensuring efficient functioning of markets.

The principles incorporate elements of capitalist and socialist ideologies and hence Islamic economics is not incompatible with modern economics. From inception Islam legitimized private property, business enterprise and profit making. It is interesting to note that Islam was spread in many parts of the world by proselytizing merchants.[37]

15. The Islamic assumptions of man

Islam considers man to be just, socially responsible, and altruistic. Conventional economists would claim that Islam does not have a realistic view of human behavior. By the same token, the conventional economic assumptions of perfect markets, market equilibrium and efficiency in transactions (perfect knowledge) could be viewed as striving for some heavenly ideal.[38] Conventional economists' prescriptions based on assumptions of perfect competition, perfect information and perfect rationality stands at striking odds with the stark reality of real world.

In terms of economic behavior, Islam stresses on honesty and fairness (honesty in trade, full disclosure and fair competition), and prohibits wrongful behavior (false oaths, denying men their dues, making mischief, amassing wealth and worshipping it, extravagance and excesses).[39] These ideas though over fourteen hundred years old, are not far removed from contemporary approaches that seek to infuse morality and ethics in business practices.

Adherent of Islamic ethics has been compared to subscriber of 'Protestant ethic': an entrepreneur who works hard for material gain and is spiritually pure will be rewarded here on earth in the form of shared profits and social recognition.[40]

One author has contrasted capitalism with Islamic system as follows:[41]

- Capitalism considers human beings as being selfish; Islam considers human beings as being selfish as well as altruistic.
- Under capitalism, materialism is the supreme value; Islam holds that materialism should be controlled.
- Capitalism advocates absolute private ownership; Islam prescribes private ownership within a moral framework.

The two systems differ in that one adds an ethical and social dimension. Warde (2000a) maintains that the Islamic system is not fundamentally different from 'Keynesian' approaches incorporating socio-economics, institutionalism and other means to curb excesses of market via state intervention, and also not far removed from ideals of Christian, Jewish or secular thinkers attempting to inject ethical norms to free-market economics.[42] Joan Robinson considered an economic system as being ‘a set of rules, an ideology to justify them, and a conscience in the individual which makes him strive to carry them out’.[43] For an economic system to be capable of ensuring greatest good should be tampered by an ethical and moral framework.

16. <u>Relevance of Islamic economics</u>

A germane question is: How relevant and workable is Islamic economics – a development which dates back to over a thousand years – to today’s world?

Since its inception, Islamic economics has undergone adaptation and change. This was possible because Islamic principles and guidelines on political and economic matters are broad, and in some cases ambiguous. Islam does not provide explicit blueprint; hence a wide spectrum of interpretations can be accommodated.

Three principles allow for departures from existing norms: local custom, public interest and necessity. Islamic laws can thus be accommodated to societal developments and allow for innovations and exceptions – if properly justified.

We also need to note that the Islamic world is very diverse. It comprises of variety of societies, cultures, histories and politics over vast stretches of Asia and Africa. A system that has survived fourteen centuries, and has found accommodation and adaptation in diverse cultures and polities has a high degree of flexibility and survivability. This is the source of its relevance to present and future times. Islam has been able to survive the test of time. It is flexible enough to be adaptable to a wide variety of geographical settings and ideal to the extent that it can be adjusted to human imperfections.

Recently, Danish authorities authorized the establishment of Islamic Bank International, which would operate Islamically without being accorded any special concessions or exceptions. This reflects compatibility of Islamic banks in a modern world order. The compatibility of Islamic finance is also reflected in the establishment of interest-free savings and investment programs by about a dozen leading American and European banks.[44]

17. <u>Precursor of modern finance</u>

Islam anticipated modern economics and finance. It contributed to modern finance through:

- its perspective on private property[45]
- emphasis on written contracts[46]
- favorable view of business endeavors and profit making[47]

- Some Islamic business organizational forms that were adopted in European legal codes[48]

The Arab numbering system was a great convenience over the Roman numbering system. Mathematical discoveries by Muslim mathematicians contributed to modern economics and finance centuries later. In addition, Greek and Roman works and discoveries were preserved and vastly improved upon by Muslims and passed on to form the foundation of modern western thought and civilization. Specifically, many Muslim contributions proved critical to later advances in probabilities, statistics and risk analysis and modern financial tools.[49] The words hazard,[50] algebra,[51] and algorithm[52] are few examples of how Arab influence infused Arabic words into the English language.

Innovative financial instruments of the classical Islamic world which anticipate later conventional instruments were in common use.[53]

About six hundred years ago, Ibn Khaldun (1332-1406) wrote about supply and demand, capital formation, trade cycles, and theory of value. At about the same time, Ibn Taymiyah wrote about free markets, free flow of information, monopoly, and demand and supply. This was before the era of major discoveries, rise of capitalism and the on-set of industrial revolution, and about four hundred years before Adam Smith.

III. ISLAMIC FINANCE

1. What is Islamic finance?

Islamic financial institutions[54] are those that are based in their objectives and operations, on Qur'anic principles like:

- quest for justice
- avoidance of interest[55]
- avoidance of 'gharar' (speculation)[56]
- focus on religiously permissible operations
- other ethical goals.

Two broad aspects of Islamic finance are:

- risk-sharing philosophy
- promotion of economic and social development.[57]

The difference between conventional and Islamic finance may also be stated thus: Conventional finance seeks profit maximization within a given regulatory framework; Islamic finance is guided by other religiously inspired goals.[58]

2. **Major characteristics of Islamic finance and banking**[59]

Ahmad (1999) dwells on five characteristics of Islamic finance and banking:

- Firstly, Islamic finance stands for equity sharing and stake–taking.
- Secondly, Islam wants all monetary and business dealings of the economy to move from a debt-based relationship to an equity-based and stake-taking relationship. This is a revolutionary change and demands of all the actors within the economy to participate in the productive system and not become a rentier class.
- Thirdly, Islamic approach is rooted in an ethical framework. It is a movement from purely pecuniary and hedonistic profit-taking to a gainful economy that is characterized by ethical norms and social commitments. A framework of *halaal* (permissible and desirable) and *haraam* (prohibited and undesirable) governs all economic activity. The moral filter plays a crucial role in this system and it operates at different levels:
    - the conscience of the entrepreneur and the firm;
    - the social climate of society;
    - the legal framework;
    - the supervisory and guiding role of the government.

  An activity which would be treated in the capitalistic system as productive because it is supposed to be satisfying *some* demand (e.g., pornography, gambling, prostitution, promotion of alcohol) would be unacceptable in the Islamic framework. So ethical and social dimensions are integral to the Islamic economic approach. In evaluating a project, questions to be raised are:
    - What are the objectives for which money is being acquired?
    - Would that benefit individuals, the society and the humanity?
    - Would it lead to establishment of a just, honorable, sustainable society, or result in exploitation, moral degeneration, social tensions and inequities?

  These questions are as relevant to decision-making as the financial profitability and economic viability of a project. This aspect would be integral to the system and not a peripheral exercise.
- Fourthly, Islamic finance and banking is entrepreneur-friendly. It is directed not towards mere financial expansion, but towards physical expansion of economic production and services. Money does not beget money. It is expected to finance talent, innovative spirit, new ideas, skills and opportunities. It is expected to result in greater decentralized economic activity and more equitable distribution of resources and wealth in the society. Conventional banking operates on the principle of financial collateral, with the result that

concentration of wealth, income and power takes place on a vast scale. The more money you have more you can get. The emphasis shifts from viability of a project to the financial worth of the borrower. In Islamic banking, collateral is relevant but not overly. Instead, trustworthiness of the person and viability and usefulness of the project become more important. This fundamental shift in emphasis has the potential to make the small saver, investor, trader and producer more important. Thus, it is community oriented and talent and entrepreneur-friendly.

- Fifthly, the Islamic system is non-inflationary. This is a very important and fundamental characteristic of Islamic banking. Among other factors, the vast power of bankers to create credit is at the root of inflationary pressures.

So an Islamic finance and banking system is an equity sharing, ethical, humanitarian, justice-oriented socio-economic system.

3. Role of money?[60]

To understand Islamic finance we need to understand Islamic concept of money.

- In an Islamic system money is primarily and exclusively a measure of value, a means of exchange and a standard for deferred payment.
    - Money is not regarded as a commodity in itself, to be bought and sold to beget money.
    - Money has to operate through some real economic activity or service. It is a facilitator and an intermediary, not an active self-contained agent in itself.
    - It is capital that is productive, not money per se. It is a means towards production, through creative entrepreneurial efforts. It aids in creating value-added through physical expansion of the economy.
    - Real economic progress consists of expansion of the physical and human aggregates of the economy via creation of assets, products and services, and not merely in the form of fiduciary financial expansion.

This then is the role of money in an Islamic system.

In his 1980 book, Ludwig Von Mises, a well-known economist of the last century, exhaustively deals with the role of money and opines with the Keynesian theory that money is neither consumption good nor a production good, but a media of exchange.[61]

In January of 1933, the Southampton Chamber of Commerce formed an “Economic Crisis Committee”. The report of the 10-member committee discussed the root causes of the Great Depression. One of the recommendations read as follows: “In order to ensure that money performs its true function of operating as a means of exchange and distribution, it is desirable that it should cease to be traded as a commodity."[62] The scale and magnitude in which money would be traded as a commodity in later years could hardly have been envisioned in 1933.

4. <u>Prohibition of interest</u>

As in conventional finance, Islam recognizes the two methods through which financial cooperation takes place: direct investment in real assets and indirect investment via financial intermediaries. However, one fundamental difference is that whether it is direct or indirect investment Islam does not recognize a fixed predetermined return on invested capital, loanable funds or credits.

- Islam holds that capital is productive, as it leads to greater value-added; hence it is entitled to a share from what it is instrumental in producing. There has to be a reward for capital -- a just and reasonable reward.
- But Islam challenges the notion that capital or money or loanable funds will have an assured reward without sharing the risks of enterprise or project. It has to be a variable return based on actual performance of the enterprise.
- Reward and risk must go together.
- Interest is prohibited in all forms, whether it is simple or compound, low rate or high rate, personal or institutional, private or public, consumption loan or productive investment.
- The rewards of investing should be shared on the basis of sharing the risk. Otherwise it is exploitation and oppression, for one or the other, the lender or the borrower. (If an entrepreneur borrows at 10% interest cost and invests to earn say 20%, he still pays 10% interest on the borrowed portion; this is unjust for the lender. If on the other hand, the entrepreneur suffers loss on the investment, he still has to pay 10% interest on the borrowed portion; this is unjust for the entrepreneur.)

Nine hundred years ago, Imam Al-Ghazzali, a celebrated Muslim thinker and philosopher wrote: "Riba (interest) is prohibited because it prevents people from undertaking real economic activities. This is because when a person having money is allowed to earn more money on the basis of interest, either in spot or in deferred transactions, it becomes easy for him to earn without bothering himself to take pains in real economic activities. This leads to hampering the real interests of humanity, because the interests of the humanity cannot be safeguarded without real trade skills, industry and construction."[63]

Interestingly, all major religious and ethical systems of the world have prohibited interest. Originally, Judaism,[64] Christianity,[65] Buddhism as well as Hinduism forbade interest. In addition, philosophers of the stature of Confucius, Socrates, Plato, Aristotle and all major medieval thinkers and theologians stood against interest and regarded it as a form of exploitation and tyranny. Aristotle advanced the most powerful argument about the 'barrenness' of money and concluded: it should be a means of exchange and should not be allowed to multiply.[66] The scholastic tradition among Christian theologians subscribed to the Aristotelian view that money was a 'barren commodity': it does not beget money. The canon held 'pricing of time' unlawful since 'time belongs to God'. Money lenders do not produce as the farmers and the craftsman do.[67] All three major religions preached that the rich should help the poor at least through interest-free loans if not by donating money.[68]

Only during the last couple of centuries interest has been legitimized. As a first step, the term 'usury' was replaced by 'interest'.[69]

Vogel and Hayes (1998) identify five reasons for the prohibition of various interest-based transactions.[70] These include:

- mathematical equivalency
- avoiding commercial exploitation
- minimizing commerce in currency and foodstuffs
- linking lawfulness of gains to risk taking
- using money and markets to allocate and moderate risks.

5. **Some disturbing trends**[71]

Ahmad (1999) contends that in spite of some positive contributions that have been made by the conventional banking and financial system towards the promotion of economic development and global capitalism, a balance sheet of achievements and failures reveal its failures outweigh and out-number.

Ahmad (1999) writes that review of the economic theory and practice, particularly during the 19th and 20th centuries, reveal some very disturbing trends. He mentions some of the more important ones:

- A systematic effort has been waged 'to drive a wedge between economics and ethics'. He notes: "In a craze for making it a 'positive science', it was delinked from values and socio-ethical norms on which the human society and civilization are based. Consequently over the years economics became neutral towards values."

- All religious and moral systems were man-centered: their ultimate objective being human well being and establishment of justice. ‘Wealth’ and ‘well-being’ were almost synonymous. But in the modern times ‘wealth’ and ‘well-being’ did not carry the same connotation. Efficiency became the new buzzword. Ahmad (1999) asserts: “People-centeredness was replaced by wealth-centeredness. ‘Growth’ became the rallying cry. ‘Consumption must grow’, ‘production must grow’, ‘money must grow’ became the new targets, irrespective of its consequences for ecology, conservation, distributive justice, grassroots well-being, and needs of society and prosperity. Delinking of economics, investments and markets from justice and well-being lies at the root of the crisis of contemporary economies, local, national and global.”[72]
- The economy has been monetized; a debt-based economy has been created at national and global levels. Ahmad (1999) contends that a debt-based economy “is bound to serve primarily and predominantly the interests of only certain sections of the society, particularly the rentier classes. This system, over the years, leads to transfer of money, wealth and resources, from the many towards the few.”
- Ahmad (1999) finally underscores the delinking that has taken place between the physical economy and the monetary economy: the process of real asset-creation and value-addition in the economy on one hand, and the monetary and financial expansion on the other.[73] Susan Strange, as another example, has described the financial economy as the erratic world of ‘casino capitalism’ that is disconnected from the textbook world of finance.[74]
- So money has become a commodity and an object in its own right rather than functioning simply as a medium and a measure, What Ahmad (1999) writes further is common knowledge: “The balloon of the financial economy is expanding at an alarming pace, via speculation, while the real economy is only crawling at an uneasy pace. According to a recent study in foreign exchange markets financial derivatives are being exchanged at a rate of $1.2 trillion per day that is almost 50 times more than the daily physical international trade in goods and services.”[75]

John Gray (1998) writes that around 95 percent of the transactions in the foreign exchange markets are speculative in nature, many using complex derivatives. He then claims as many would agree that “this virtual financial economy has a terrible potential for disrupting the underlying real economy as seen in the collapse in 1995 of Barings, Britain’s oldest bank.”[76] The virtual financial economy is believed to have precipitated the Asian meltdown of 1997 if not caused it.

James Robertson (1990) writes on the role of interest and the need for an interest-free economy as follows:[77]

"The pervasive role of interest in the economic system results in the systematic transfer of money from those who have less to those who have more. Again, this transfer of resources from poor to rich has been made shockingly clear by the Third World debt crisis. But it applies universally. It is partly because those who have more money to lend, get more in interest than those who have less; it is partly because those who have less, often have to borrow more; and it is partly because the cost of interest repayments now forms a substantial element in the cost of all goods and services, and the necessary goods and services looms much larger in the finances of the poor than of the rich".

"When we look at the money system that way and when we begin to think about how it should be redesigned to carry out its functions fairly and efficiently as part of an enabling and conserving economy, the arguments for an interest-free, inflation-free money system for the twenty-first century seem to be very strong".

James Robertson (1998) writes:[78]

"Today's money and finance system is unfair, ecologically destructive and economically inefficient. The money-must-grow imperative drives production (and thus consumption) to higher than necessary levels. It skews economic effort towards money out of money, and against providing real services and goods.

"The transfer of revenue from poor people to rich people, from poor places to rich places, and from poor countries to rich countries by the money and finance system is systematic…One cause of the transfer of wealth from poor to rich is the way interest payments and receipts work through the economy. Dividing people into ten sections of equal size, a German study suggested that the effect of interest is that the richest section receives far more than it pays, the second richest receives a little more, and other eight receive less.[79] The result is a substantial transfer of money from the poorest majority to the rich minority.

"The transfer of money from poorer to richer localities takes place through the automatic working of the national and international banking and financial networks… Third World debt in the 1980s and 1990s illustrate some of the causes and effects of systematic transfer of wealth from poorer to richer countries. International interest rates rose and so did the cost of imported know-how and technologies, while international commodity prices fell. Through no fault of their own, indebted Third World countries found themselves with escalating debts, resulting from higher interest rates and composite prices to be paid, and reduced foreign exchange. (Out of the $1,200 billion owed by the Third World to the First World in 1990, only $400 billion constituted original borrowing. The rest consisted of accrued interest and capital liabilities.)

"The money-must grow imperative is ecologically destructive… (It) also results in a massive world-wide diversion of effort away from providing useful goods and services, into making money out of money….People are increasingly experiencing the workings of the money, banking and finance system as unreal, incomprehensible, unaccountable, irresponsible, exploitative and out of control. Why should they lose their houses and their jobs as a result of financial decisions taken in distant parts of the world? Why should the national and international money and finance system involve the systematic transfer of wealth from poor people to rich people, and from poor countries to rich countries?... Even the financier George Soros has said that "the untrammeled intensification of laissez-faire capitalism and the extension of market values into all areas of life is endangering our open and democratic society. The main enemy of the open society, I believe, is no longer the Communist but the Capitalist threat."[80]

In short, Robertson claims that "the effects of interest include transferring money from poor to rich, accelerating resource extraction and environmental damage, and diverting effort to making money out of money". Then he asks: "Why was the process of issuing new money into the economy (i.e., credit creation) been delegated by governments to the banks, allowing them to profit from issuing it in the form of interest-bearing loans to their customers? Should governments not issue it directly themselves, as a component of a citizen's income? Would it be desirable and possible to limit the role of interest more drastically than that, for example by converting debt into equity throughout the economy? This would be in line with Islamic teaching, and with earlier Christian teaching, that usury is sin."

Even if many are not critical of the destabilizing role of interest in the economy and the alarming role of banks in money creation, the fearsome role of financial derivatives has convinced many that a disaster is in the making. Money has become a mysterious tool to beget more money; the process does not commensurately increase the flow of useful goods and services in the economy, neither does it add real value to the economy. A 1998 paper put the value of derivatives at about $65 trillion and the combined GDP of some 188 countries of the world is about $30 trillion; almost 80% of the trade in financial speculation is in the hands of some two dozen big banks.[81] After about four years, the notional value of financial derivatives was estimated to be $192 trillion – a growth of about three times in four years.[82] That indeed is a frightening prospect for the world as also noted by Warren Buffet, the influential investor, who warned that derivatives were "financial weapons of mass destruction" and that they were "potentially lethal" to the economic system.[83].

The Islamic system aims to eliminate the interest-debt regime, rid the banks of their money creation role, and eradicate speculative use of derivatives. These measures will curb the financial system's fiduciary expansion that leads to a bubble economy. A bubble economy has to burst sooner or later.

After studying the effects of debt on the developed and developing countries, Tomlinson (1993) advocates for conversion of debt into equity. Among the many benefits he foresees are:[84]

- The banking and monetary system will not collapse; hence, savings will not disappear.
- Value of money will stabilize; hence, savings will retain their value.
- Nature of savings will change from just units of money to units of money and shares.
- People will be motivated to take longer-term view in investing.
- People will be freed from the enslavement of debt.
- People and nations will be freed from the stresses of economic and business cycles.

Rowbothan (1998) has enthusiastically endorsed the views of Tomlinson as being "one of the most unusual and original contributions to the monetary debate."[85]

Warburton (1999) has also advocated for an equity-based financial system and has discussed the theories of Fisher, Minsky, Presley and Mills in this regard.[86]

Equity-based banking and finance system is thus proposed even by non-Muslim economists as an antidote to the injustice, instability and shocks created by the debt-based financial system. Philip Moore in his 1997 study on Islamic finance writes that the shift in trend from debt-based to equity-based system is "by no means confined to the Islamic world and which is increasingly being championed globally."[87]

The source of benefit of interest-bearing debt is the interest deductibility of taxes. When interest is tax deductible, the government subsidizes owners for the use of debt, which reduces tax liability. This in turn has the potential to magnify upwards the return on shareholders' equity, specially in good economic times. But in recessionary times, debt has the potential to magnify downwards (negatively) the return on shareholders' equity.[88]

The destabilizing contribution of debt in recessionary times is well-known.[89] During periods of recession, business failures increase. When indebted companies fail to earn enough to make interest payments on their debt, they file for bankruptcy protection. Many of these companies subsequently fail. Even if a company that has filed for bankruptcy protection does not subsequently fail, during the period it is under the protection, it has to suffer costs of financial distress.[90] Such costs include costs of reorganizing, management and employee time lost worrying about future prospects, employees leaving the company because of future uncertainty, loss of customer and supplier goodwill, lawyer fees, etc. These costs can be significant and they erode shareholder value.

6. Benefits of Islamic economic and financing system

Khan (1999) has elaborated on some of the benefits of the Islamic financial system.[91]

Entrepreneurs' (finance receiver's) benefits

The entrepreneur feels comfortable with this financing since the finance provider does not require a guaranteed repayment of principal and a fixed return regardless of profit or loss from the business. This is especially helpful in case of new ventures when the risk is higher.

Finance provider's benefits

The finance provider will have to exercise more care in selecting projects to invest in. This extra effort should enable the provider to select attractive projects on average. The expected returns will be more than what would be earned under interest based regime since the returns are from the profits of the enterprise.

Benefits for the banking system

Banks will share the profits of their clients on the assets side. They can pay their depositors (on the liability side) on the same basis.

Under profit-and-loss sharing (PLS) capital would be made to flow where there is more profit. Under interest based system primary concern is credit worthiness of the client rather than the profitability of the project; hence capital may not be as efficiently allocated as under PLS system.

The banking system based on PLS is likely to be more stable since it will be in the interest of the banks to diversify their investments.

Benefit for the economy

The chances of hitting a financial crisis will be lower in an economy that has a PLS based banking than the economy that has an interest based system.

- Interest rate effect is absent.

- If factors, like exogenous increases in demand for credit or reduction in money supply create increased pressure on bank funds, the bank, operating under PLS-principle will have more projects to select from; chances of adverse selection will decline and the profits of the bank will increase. As a result, the demand for lending will increase -- an affect opposite to what may happen if exogenous demand for credit increases in an interest based banking system. The increase in credit demand for example may lead to the following chain effect:
    - increase in interest rates which will push the good credit borrowers back
    - increased chances of adverse selection for banks
    - decrease in lending leading to decrease in aggregate activity in the economy.

Societal benefits

The interest based banking system collects small savings from a large number of savers and passes them on to fewer members of the society. In other words, it is geared towards promoting income and wealth inequalities.

PLS system is compelled to spread its investment as much as possible. This spreading coupled with the search for more profitable projects (rather than creditworthy clients) is likely to gear banks' investments to relatively smaller enterprises.

7. So what is Islamic economics and finance?

One author describes Islamic economics as "…the study of human *falah* (well-being) achieved by organizing the resources of the earth on the basis of cooperation and participation."[92] Here well-being does not imply merely individual well-being but that of the community.

Many times has the Islamic economic system been equated to an interest-free system although it is just one important aspect of the system. It is much more than that. As Ahmad (1999) eloquently puts it, "Islam aims at establishing a just economic order, based on clearly spelled out economic rights and concept of property, contracts, work and distribution of income and wealth. It stipulates a framework of values and disvalues, desirables and undesirables, and hedges the market mechanism with a moral filter so as to ensure efficiency and equity in the processes of allocation of resources."[93]

In a state regime which falls somewhere in the broad spectrum of *Laissez-faire* type and the socialist totalitarian type, Islam grants to the government limited scope for intervention to achieve specific objectives like the stabilization of prices, protection of the value of money, prevention of income inequalities, redistribution of wealth, prohibition of extravagance and excesses, promotion of literacy and human development. It does not imply financial institutions would be charities or welfare institutions. But stability, equity and welfare considerations are as important as efficiency, optimality and profitability. Ahmad (1999) continues: "Definitely there would be trade-offs. As such the objective is to achieve a balance between efficiency and equity, between profitability and welfare, and between expansion and stability…Ethics and social objectives are central to Islamic banking – and that is why Islamic banking is not mere interest-free banking. It is much more than that. It represents a new and vastly different vision of the whole economy."[94]

8. Evolution of modern Islamic finance

From the 7th century onwards, Muslims established and developed a thriving economy based on Islamic injunctions. At least until the 13th century, Islamic financial instruments were more advanced than what was available in the West. However, sometime from the 15th century, as the West experienced the golden age of great discoveries, Muslims succumbed to stagnation.

As the Muslim world stagnated, the West went through the ages of renaissance, reformation, scientific discoveries, and industrialization. In this period, the Muslim world was as if in a stupor; it hardly noticed the great transformation the world around it underwent. Armed with industrialization, and the need to colonize to extract raw materials and secure cheap labor, the West advanced and Muslims lost the game. The Muslim decline reached its trough after the 1st World War with the fall of the Ottoman Empire with its base in Turkey.

The Western advance in fact started in earnest in the 18th century. Muslims constituted a significant proportion of what now is termed as the Third World. The relative share of the Third World in world manufacturing output in 1800 was 68% as contrasted to Europe's 28% and the per capita level of industrialization was nearly comparable.[95] The advance of Western colonialism continued. Whereas in 1800 Europe controlled 35% of the land surface of the world, in 1878 it extended to 67%, and in 1914 it reached 84%. Europe imposed a new economic system. The system was the offspring of the marriage of capitalism and imperialism.[96] It embraced interest and delinked values and socio-ethical norms from the economic system.

It was only in the 1940s that some pioneering Muslim scholars initiated work on developing Islamic response to capitalism and socialism. That sparked concrete developments. Ahmad (1999) summarizes the developments that took place in five directions.[97]

- At the academic level, professional economists and bankers have tried to build on the foundations laid down by the scholars and intellectuals towards the end of colonial rule.

- At the institutional level, dedicated efforts have been made to establish interest-free financial, investment and banking institutions.
- At universities, research institutions, international professional organizations (including some Western universities) academic, training and research programs in different areas of Islamic economics, finance and banking have been developed.
- At the state level, steps were taken to transform the financial system from interest to interest-free basis. Pakistan, Iran, Sudan and Malaysia saw concrete developments in this regard.
- At the global level, the establishment of the Islamic Development Bank in Saudi Arabia and its research institution, Islamic Research and Training Institute, has enabled the establishment of a financial infrastructure within the Muslim World.

9. Evolution of institutions and instruments[98]

Phase One: Conceptualization

Spurred by the writings of Muslim scholars towards the end of colonial rule, in the sixties and the early seventies books, articles and publications were written on the need for an alternative to the interest-based economic system.

Phase Two: The evolution of Islamic banking

The second half of the seventies saw the rise of Islamic banks. These early Islamic banks evolved around the concepts of Musharakah (partnership financing), Mudarabah (special partnership) and the social role of Islamic banks.

Phase Three: The evolution of Islamic financing and investment vehicles

The eighties saw the Islamic banks involve themselves in economic activities. During this phase, various forms of financing and investment vehicles were developed. These are:

- Islamic financing methods:
    - Murabaha: installment sale
    - Ijarah: leasing
    - Salaam and Istisnaa: pre-production finance
- Islamic investment methods:
    - Musharakah (partnership): investment comes from all partners
    - Mudarabah (special partnership): investment is the sole responsibility of a partner, management that of the other

- Quasi (investment/finance) diminishing musharakah (partnership)

This phase also saw the evolution of other basic forms of Islamic financial institutions: insurance, re-insurance, and leasing companies.

Phase Four: Development of products and standards

The late eighties and the nineties saw the evolution of and development of:

- new financial products;
- standardization in issues relating to Shariah (Islamic jurisprudence);
- accounting and audit standards with the establishment of Accounting and Audit Organization of Islamic Financial Institutions;
- more specialized forms of Islamic financial institutions started to evolve particularly in the areas of investment management and investment banking.

Islamic finance and banking was no more in the experimentation stage. Renowned Western financial institutions established subsidiaries and divisions in Islamic banking.

10. <u>Important events</u>

Along with the conceptualization stage (in the forties and fifties), few pioneering experiments took place in the forties, fifties and sixties. These experiments helped shape the modern era of Islamic banking in the seventies. The oil boom created the needed impetus. The fall of oil prices in the eighties, and the subsequent changes of the global economics and politics transformed Islamic finance. At one point in its journey it was considered by many to be a passing fad. That no longer is the widely held view. Islamic finance is a reality.

The following events stand out as milestones:

a) **Indian subcontinent:** Loan cooperatives were started in the 1940s motivated by European mutual loan experiments, and spurred by religious ideals.

b) **Pakistan:** Very elementary efforts were made in Pakistan in the 1950s, both in cooperative as well as commercial sectors. Rural landlords created a short-lived interest-free credit network.

c) **Egypt:** In Egypt three pioneering experiments were made. The first was the establishment of Mit-Ghamr Bank in the Nile Delta (1963-1967) combining the idea of German savings bank with the principles of rural financing within the framework of Islamic values. At its peak the bank had close to two million Egyptian pounds. Though its charter made no reference to religion, it neither paid nor received interest. It earned profit by engaging in trade directly or in partnership, and by financing based on profit-and-loss sharing. This was followed by the establishment of Nasr Social Bank (1971-1976) which sought to help the weaker sections of the society. It also did not officially subscribe to religion, but its operations were based on profit-and-loss sharing and collection and distribution of zakaat (almsgiving). In the field of Islamic money management, the Al-Sharif Company established in the 1960s was a pioneer.

d) **Malaysia:** In Malaysia a major event was the establishment of Tabung Haji in 1963 -- a specialized financial institution which mobilized savings to enable Muslims to participate in investments, industry, commerce and plantation in accordance with Islamic principles and also to provide protection, control and welfare of Muslims while on pilgrimage to Makkah.

e) **IDB:** The establishment of the inter-governmental Islamic Development Bank in 1975 stands out as a landmark event in the emergence of contemporary Islamic finance and banking. This institution has been established to promote the creation of Islamic financial institutions by direct participation, training and advice. Forty-four countries were founding members of the bank.

f) **Dubai:** Dubai Islamic Development Bank – the first modern non-governmental Islamic bank -- was also established in 1975.

g) **First Conference on Islamic economics:** Held in Makkah in 1976, this was the first high level conference to exclusively discuss issues relating to Islamic economics.

h) **An emerging stream of Islamic banks followed:** 3 in 1977, 2 in 1978, 2 in 1979, 1 in 1980, 4 in 1981, 3 in 1982, 10 in 1983, 5 in 1984 and 1 in 1985. By 1985 there were 35 Islamic banks. According to a survey by the International Association for Islamic Banks the number of Islamic banks, financial and investment institutions was over 200 in 1999. Their deposits were over $80 billion, their assets around $200 billion and they were operating in some 75 countries of the world,[99] including a number of non-Muslim countries.[100]

i) **Full Islamicization** of the banking system was launched in 1979 by Pakistan. Similar programs were undertaken by Sudan in 1982 and by Iran in 1983.

j) **Creation of transnational groups:** A significant development is the emergence of what can be described as transnational groups like the Dar al-Maal-Islami – DMI (1981) and al-Barakah-Dallah Group. With a targeted capitalization of $1 billion, the DMI has been termed the most ambitious Islamic finance project ever.

k) **Western interest-based banks** begin to take interest in interest-free banking. Around a dozen leading European and American banks and finance houses are now operating interest-free savings and investment programs.[101]

l) **Dow Jones, Inc.** has developed the Dow Jones Islamic Market (DJIM) family of indexes to help investors to invest according to Islamic guidelines.[102]

m) **Shariah compliant equity funds** have been created -- over a hundred of them.[103]

n) **Interest-free principle** is being extended to the fields of insurance ('takaful'), leasing ('ijarah') and real estate finance. New Islamic financial instruments are being developed and used successfully.

Around the middle of the last century Islamic finance and banking was a mere dream and a theory; it is a reality now -- though at a budding stage -- an emerging, evolving, and burgeoning reality.

11. Three major models

Ahmad (1999) notes that in establishing Islamic financial institutions three models have been followed: private sector initiatives, state-sponsored initiatives, and mix of the two. Muslims are experimenting with these three models.

1. In the private sector, banks, financial institutions, investment companies, leasing companies and mutual funds are trying to operate without interest. Private investors and entrepreneurs primarily own them.

2. At least three countries have tried to initiate state-sponsored process of elimination of interest from the entire banking system. Rather than establishing interest-free banks at the outset, the strategy was to initially establish 'interest-free counters' within the system, and then extend the interest-free system to the whole banking sector so as to operate on new principles under the protection of state policy and central bank guidelines. The objective is to finally cleanse the whole economy of interest.

3. Malaysia has introduced model which is a mix of the two. It has a totally interest-free Islamic banking system with a distinct law and identity. It also has provision through which any conventional bank can also open interest-free counters. In this system the interest-free and the interest-based banking streams co-exist and compete with each other.

12. Government influence

National politics and government policy play important roles in determining the development of Islamic financial practices in a particular country. Government postures fall into several categories:

- Total allegiance: Those that have transformed their entire internal financial systems to an Islamic form (Iran, Pakistan and Sudan);
- Divided allegiance: Those that embrace Islamic banking as a national policy while supporting dual banking tracks (Bahrain, Brunei, Kuwait, Malaysia, Turkey, United Arab Emirates);
- Neutral: Those that neither support nor oppose Islamic banking within their jurisdictions (Egypt, Yemen, Singapore, and possibly Indonesia); and
- Inimical: Those that actively discourage a separate Islamic banking presence (Saudi Arabia and Oman).

IV. FINANCIAL PRODUCTS AND CONTRACTS

1. Islamic financial contracts

Some innovative contracts with modern applications include:[104]

Murabahah: Seller agrees to sell a specific commodity on a certain profit added to cost; both, cost and profit are expressly conveyed to the purchaser.

Musawamah: Seller sells for a lump-sum price without any reference to the cost.

Bai' Mu'ajjal: A sale in which the parties agree that the payment of price shall be deferred but the due date of payment is fixed unambiguously.

Salaam: A contract by which fungible goods are purchased for delivery at a later date with full payment made in advance; the contract cannot be cancelled unilaterally.

Istisna: A commission manufacture contract in which a manufacturer undertakes to manufacture a specified commodity with material from the manufacturer; advance payment is not necessary and the contract can be cancelled before the manufacturer starts the work.

Ijarah: A sale of usufruct covering both the hiring of persons and the leasing of property.

Arbun: An option contract by which a buyer makes a non-refundable deposit against the price reserving the right to confirm or rescind the sale.

Vogel and Hayes (1998), Warde (2000) and Usmani (2000) identify and raise issues that are involved in the use some of these contracts which are grounds for research.[105]

2. Nature of financial contracts

A set of four principles that are derived on the basis of induction from a great many scholars include:

- the non-binding character of many basic contracts
- a dual scheme for allocating risk of loss
- the prohibition of sale of debt for debt, and
- the non-binding nature of the promise.

Of these four principles, the last two are considered important in their implications for the development of the principles for modern Islamic finance and banking.[106]

3. Comparison of Islamic financing with conventional mode

We can get a comparison of conventional and Islamic financing options through a couple of examples.

(a) When a business needs long-term financing:

Conventional financing would use a mix of long term debt and equity capital.

Islamic approach has a few options.

Passive partners contract for a certain share of the profits, with another share going to the entrepreneurs who manage the business.

Another alternative is leasing. A lease does not involve the formal interest or a partnership stake.

(b) When inventory financing is required:

Under conventional financing, short-term inventory finance is obtained by purchasing it through credit from a commercial bank involving interest, or alternatively, through supplier financing.

Under Islamic approach, an Islamic business can purchase the inventory on credit, which will be supplied either by the inventory supplier or a bank for a cost plus fair mark-up.

V. PROMISE AND PERFORMANCE

As we have noted, Islamic banks were the first mass-oriented Islamic financial institutions to be established. Other types of financial institutions followed generating great expectations. How does the performance of Islamic financial institutions stack against the expectations?

It is estimated that the assets of Islamic financial institutions have grown more than forty-fold since 1982 to about $230 billion and in recent years the growth rate has been about 20% a year.[107] In 1998, Vogel and Hayes provided a growth rate figure of 15 percent per year for the preceding five years. Islamic finance has undoubtedly come of age and is likely to grow at brisk pace in the future.

1. <u>Past performance</u>

Ibrahim Warde (2000b) makes a critical evaluation of the performance of Islamic finance based on four dimensions: product innovation, economic benefits, ethics and elimination of interest.[108]

<u>Product innovation</u>: The rationale behind the creation of modern Islamic finance was to create an innovative system, based on risk sharing that would bring social and economic benefits to the Islamic world. In the early years of Islamic banking, most institutions, with virtually no experience, embarked on partnership finance. The result was disappointing. But rather than learning from experience, most institutions have decided to steer clear from Mudarabah and Musharakah (forms of partnership financing).

The vast majority of operations are now in trade finance, mark-up operations (with slim profit margins) and leasing. Such modes of financing do not bring significant social and economic benefits to the community, and tend to mirror conventional finance. These were considered to be stopgap operations that allow banks to generate income while building resources and experience in partnership finance. Despite double-digit growth rates, the relative share of profit-and-loss sharing (PLS) operations now account for about 5% of the operations of Islamic financial institutions.

<u>Economic benefits</u>: Islamic finance was supposed to yield a wide range of economic benefits – mobilization of savings, productive investment, job creation and economic development. They have to take into account social and developmental factors, unlike conventional banks. Judging from the change (or lack thereof) in the level of economic development in those countries that have actively promoted Islamic finance (principally Pakistan, Iran and Sudan), Warde (2000b) finds that promised economic benefits have largely failed to materialize.

<u>Ethics</u>: Scandals and other problems have plagued a number of institutions, raising serious ethical and religious issues.[109]

<u>Elimination of interest</u>: Islamic financial institutions have not been able to devise a truly interest-free system. However, faced with competitive pressures and thinning margins, most conventional financial institutions have been increasingly charging fee and commission (for up to as much as half of their revenues) rather than interest. Also, the banks have been increasingly offering derivative and other noninterest bearing products. So although Islamic banks have not innovated much in the area of interest-free finance, they have not been too stifled within an interest-based environment.

Though they have not fully fulfilled their original promise from the standpoint of economics and ethics, they can still fulfill, given that they can learn from past mistakes. They can still provide much-needed ethical framework as well as alternative to the excesses of contemporary finance.

Most of the problems encountered have been attributed to unavoidable growing pains – and to the youth of the industry.[110]

Any evaluation should firstly note that modern Islamic finance and banking has been around only since 1975 and has operated in the midst of:

- a weakened moral fiber after two centuries of colonization
- an antagonistic legal framework
- a tax system that is biased towards the interest system, and almost inimical to a profit-sharing system.

It also has to be considered that for the most part the practice of Islamic finance is forced to co-exist within the interest dominated environment and use the infrastructure that has not been designed for their operation. Infrastructure geared towards promoting competing philosophy puts Islamic finance at significant disadvantage. Development of appropriate infrastructure is vital.

2. The future

The boom in oil revenues was a big catalyst in the initial growth if Islamic banking. The slump in oil prices in the mid-1980s the industry faced gloom. It goes to the credit of the industry that it kept growing in spite of that. A number of factors have aided in this growth. Taken together, these factors should continue to aid in the future.

Arguably, the most important factor sustaining the industry has been the resurgence of Islam. Reasons suggested for this revival includes reaction to socialism, materialism and consumerism; indignation at corruption and oppression in Muslim countries; and hopelessness bred by unemployment and poverty. Economic problems multiplied the hopelessness. Declining oil prices caused migrant workers to suffer job losses and return back to impoverished home countries. Governments facing fiscal problems launched austerity measures which fueled the discontent. Islamic movements availed the opportunity to fill in the vacuum. These factors provided reasons to different groups of people to return to Islam.[111]

Secondly, as mentioned earlier, the industry had to face lower competition from interest-related products offered by conventional banks.

Thirdly, Islam stands for private property, free markets and fair competition, and values contracts. These values prompted economic liberals to form common cause alliance with the proponents of Islamic economic system after the fall of communism.[112]

Fourthly, risk-sharing arrangements like venture capital financing have seen sharp increase.[113] Such arrangements create partners rather than interest-based lenders.

Fifthly, deregulation has spurred financial innovation which has enabled creation of specially tailored Islamic products.[114] Warde (2000a) writes: "In the wide array of available derivatives or mutual funds, there is a product for every need, religious or otherwise."[115]

Sixthly, we can cite the renewed interest in ethics in business.[116] It bodes well for Islam which not only holds economic enterprise positively, but also prescribes strict ethical framework to govern such enterprise.

Seventhly, wherever they blossomed, Islamic financial institutions have been astute in working hand-in-hand with established political, economic and regulatory power-structure.[117] They have followed similar strategy in their international operations working in cooperation with conventional system.[118] Lacking expertise and experience, Islamic banks relied on their conventional counterparts and established joint ventures, and management and technical cooperation.[119]

If the perceived antagonistic attitude of certain quarters in the West towards Islam persists, that would possibly alienate a significant segment of the Muslim population and create an environment of growth for Islamic finance. On the other hand, if we see greater understanding between the West and Islam that would obviously be good for the industry since that would mean the growth of recent years would continue.

Warde (2000a) mentions five recent phenomena that seek to bring convergence between Islamic and conventional finance.[120]

An increasing number of Islamic banks are opening Islamic subsidiaries and/or windows offering Islamic products.

Financial institutions from outside the Muslim world are establishing Islamic subsidiaries or offering Islamic products.

Islamic institutions are increasingly offering sophisticated and diverse Islamic products to non-Muslims on the basis of the merit of the products rather than their being 'Islamic'.

To cater to the needs of local Muslim population, a growing number of Islamic banks have been established outside the Muslim world.

Much research on Islamic finance is being conducted in cooperation between conventional and Islamic institutions, in many instances outside the Muslim world.

These and other developments should create greater cooperation between conventional and Islamic finance.

VI. PROBLEMS AND CHALLENGES

1. Economic theory of Islam

An 'Economic Theory of Islam' applicable for modern times is yet to be developed. What exist are writings on problems of underdevelopment, maldistribution of wealth, distorted consumption, etc. What is needed is a general theory of Islamic economy that preserves its relevance to all stages of economic development and political circumstances.

2. Shariah Boards (Islamic legal advisers)

Many Islamic financial institutions have an advisory board consisting of Islamic jurists. Such boards review the acceptability of financial products offered by the respective institutions. The existence of such boards lends credibility to the institutions.

However, board m embers are qualified more in Islamic jurisprudence rather than in economics, finance or accounting. The boards tend to stick to rulings of earlier Islamic scholars whose great eminence transcends down the centuries. But those rulings were given centuries ago when the financial landscape was vastly simpler. The immeasurably more complex world in which we live requires not only understanding of the intricate landscape, but also the stature and vision to revise earlier rulings as long as it is permissible by Islamic legal principles.

It has been claimed that board members are too close with management. They are paid a fee for their services and they have interest in being retained. One suggested solution is that the International Association of Islamic Banks could form its own Shariah Board which will oversee the operations of different member banks and be paid by the association from its membership fees.[121]

Coordination and homogenization are complicated by the disagreements among Shariah boards as to what activities are permissible, and by rivalries between countries and institutions. There is need for coherence, if not uniformity, to avoid an "anything goes" attitude, and also to create a secondary Islamic market.[122]

3. Appropriate infrastructure

To create appropriate infrastructure, the following recommendations deem consideration:

- Create a secondary market capable of providing acceptable liquidity for investors. Developing doctrines to govern the creation and regulation of such markets is the initial challenge.
- Form Islamic investment opportunities' information centers which may eventually serve as intermediary for investors to deploy their funds on equity or PLS basis.
- Establish Islamic corporate trusts to look at the interests of investors in Islamic bonds and fixed income securities. The trust would be similar to the conventional corporate trustee which acts as watchdog for bondholders.
- Set up entrepreneurs and human capital development centers.
- Set up research and training institutes to (a) determine needs and modalities of Islamic institutions that need to be created, (b) train personnel to meet manpower needs, (c) research on Islamic financial products, (d) research on effectively promoting Islamic finance among potential investors and entrepreneurs.
- Establish deposit insurance schemes to lower risk and uncertainty.

4. Investing cash reserves

Creation of few instruments would enable Islamic banks to earn some return on their large cash reserves on which they do not earn a return. Recommendations in this regard are:

- Islamic certificates of deposit that could be traded among Islamic banks. These certificates would not yield a fixed rate of return, and their value could not be guaranteed. But they could be converted into cash on demand and they would (usually) be profitable.
- Issuance of debt instruments by the governments of Muslim countries that could be legally held and traded under Islamic law.
- Establishing interbank relationship by creating a fund with a mixture of Murabahah (mark-up) and Ijarah (lease) instruments; units of the fund can even be used for overnight transactions.

5. Documentation of practices of financial institutions

The principles of Islamic finance and the methods of financing involved are well known. The documentation on actual practice is inadequate and usually unpublished. In recent years, a number of studies have appeared on the workings of particular Islamic financial institutions, but most deal with the broad developments of the banks under focus, and look at their operations in general terms. Only in 2000, a practical guide to Islamic financial instruments was published and that even is not extensive.[123]

Also, considerable divergence in Islamic financial practice that exist between institutions in the same line of business needs to be streamlined.

6. Need for operational standards

Research on Islamic finance offers little guidance to financial institutions. More discussion of operational standards is needed on issues like:[124]

- What are criteria for deciding when Mudarabah (equity sharing) is preferable to Musharakah (profit sharing)? Each bank has its own guidelines, but there are no internationally accepted guidelines.
- What considerations should be taken into account in deciding about the scale and timing of Musharakah finance? How are the profit shares determined?
- Should there be standard methods for assessing the contribution of entrepreneurship vis-à-vis that of risk capital?
- How long should be the credit period of Murabahah trade credit?
- Is a relationship between time and mark-up permissible, or should the mark-up be solely determined by risk?
- The calculation of the mark-up is also an issue. Should it be calculated on cost-plus basis, or should it be demand-related so that a pricing mechanism is used to determine who gets access to Murabahah?

7. Strategic and competitive issues

Warde (2000b) mentions some strategic and competitive issues:[125]

- The Islamic financial institutions face stiff competition from conventional institutions.
- They are too fragmented; industry-wide norms are absent.
- They are inhibited by lack of qualified personnel with skills appropriate to a conventional institution coupled with religious training.
- They need to sharpen their marketing skills to attract and retain customers.

8. Islamic moral hazard

One could identify an “Islamic moral hazard” in that the introduction of religion in finance can foster unscrupulous behavior. In the past, scandals and unethical lapses have plagued Islamic banks. Religion can attract the wrong elements while lowering the guard of bankers and regulators.[126]

9. Political crossfire

At national and international levels, Islamic institutions have been embroiled in a political heat. They have been suspected of having a political agenda or serving as a conduit for "Islamic terrorism". Such suspicions, even if unfounded, can hamper their operations and growth.

10. Ignoring economic philosophy

Islamic economic philosophy aims at eliminating interest and establishing distributive justice free from all sorts of exploitation. This basic philosophy seems to have been totally neglected[127] To translate this philosophy into reality, the use of Musharakah (partnership investing) needs to be expanded. Islamic financial institutions should show enterprising spirit by funding projects of a longer-term nature where the social profitability of the investment is higher than the private profitability.

11. Accounting and auditing

There is need to upgrade the auditing of accounts of financial institutions to determine their legitimate operating expenses and the monitoring of the cases of bank default or other deviation from the norm. Greater transparency in financial reporting and accounting, with a form of Islamic GAAP is needed.

Towards the end of 2002, central banks of eight Muslim countries have agreed to institute a common regulator that will secure improved accountability and transparency. Though Islamic financing is a small segment of the markets of these countries, it is growing, and this development in standardization would aid further growth.

12. Transactional arrangements

Cumbersome transactional arrangements need to be simplified.

13. Communication

Conventional bankers and individuals in non-Islamic societies are ignorant of the realities of Islam, Islamic societies and Islamic finance. No single organization is charged with the presentation and development of relationships between Islamic and conventional financial systems. Concerted and consistent efforts need to be made to promote and present Islamic finance clearly and coherently.

14. **Equity requirements**

To satisfy equity requirements, the difference between the rate of return on bank deposits and that on bank advances should be as small as possible – making due allowance for the banks operating expenses, as determined by authorized auditors.

15. **Innovations in Islamic financial products**

One important limitation of Islamic finance is a limited set of approved instruments. This hampers in creation of portfolios with desired risk/reward profiles. Islamic financial institutions do not have many options in creating portfolios to suit the risk preferences of different classes of savers.

Warde (2000b) recommends that new instruments developed by conventional financiers be analyzed based on their compatibility with the spirit of Islam.[128]

Vogel and Hayes (1998) suggest various innovative products:[129]

- Ownership in transit based on Murabahah (mark-up sale): In this, Islamic banks coordinate their efforts through a single facility to share in Murabahah type financing of international trade.
- Cooperative non-bank factoring firm: This is set up on Musharakah (partnership) basis with private investors. It purchases goods from clients at a discount and resells them at full invoice on credit to customers.
- Parallel Salaam contracts: These contracts are traded with the Islamic clearinghouse that makes a market in the retail salaam contracts. (Salaam is a sale in which buyer makes full advance payment for future receipt of goods).
- The default penalty option: This contract will create the equivalent of a call option.
- Lease pools: These are organized Musharakah (partnership) with Islamic banks. Leases with common characteristics are pooled for liquidity.
- Staged lease or lease pools.
- Convertible lease: It is similar to a convertible bond.
- Back to back Istisna contracts: These are designed to provide for a company's need to avoid paying full cost up front for an expensive made to order product.
- Options in Istisna contracts: Designed to cancel an order of new equipment that will take some time to produce.

- Istisna contracts from manufacturing streams: To obtain financing for goods in process or to order without having to pay entire costs up front.
- Fungible manufactures and options to find buyers for excess capacity or to lock in goods at attractive prices and also be able to escape from commitment if circumstances change.
- Jiala (reward): To give employees incentives to meet specific performance goals (similar to employee stock options plan).

Muslim economists have devised Islamic versions of bonds and notes, which need to be evaluated. Potential for developing Islamic futures markets needs to be pursued.

VII. CONCLUSION

In 1990, Rodney Wilson wrote: "The growth of Islamic banks in the last two decades has been extremely impressive, and there is little doubt that, with their large customer base, Islamic financial institutions are here to stay, and are not merely a passing phenomenon."[130] Islamic finance has several advantages: religious appeal, resurgence of Islam, the fast growth of Muslim population, greater familiarity of and comfort of international Islamic financial institutions with Muslim world. Also, the industry is developing specialization and sophistication in several lines of business.

Research is needed in the challenging areas of finance:[131]

- Developing an economic theory of Islam
- Determining needs and modalities of a system of Islamic infrastructure that ought to be established
- Creating operational standards on unresolved issues with respect to existing modes of financing
- Documenting existing practices of financial institutions
- Sharpening communication and marketing of Islamic finance system and products.
- Formulating Islamic GAAP
- Upgrading auditing of accounts
- Simplifying transactional arrangements
- Devising acceptable innovative financial products

Contemporary Islamic legal scholars have shown much capacity for development already in permitting Islamic finance to emerge to its present form.

Vogel and Hayes (1998) write: "We uncovered no insurmountable legal or financial obstacle to the long-term success of Islamic finance. Islamic law possesses rich resources, many still unstapled, for flexibility and development."[132]

Modern Islamic economics and finance has traveled a long way in three decades. A lot has been achieved, but a great deal remains to be done -- a great many challenges lie ahead. But given religious inclination of Muslims and the adaptability of Islamic legal scholars, the future remains bright. The alternative to Islamic financial institutions for many Muslims is not conventional banking but a void, with savings hoarded as idle cash.

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[1] Islam means 'peace'. But a section of the media has conjured it as a religion rooted in aggression, intolerance and hatred. A negative image about Islam in the mind of the reader may cause any good in Islamic economics and finance to be lost. For the reader uninitiated about what Islam has to say on war, aggression and righteousness, I have included Appendixes 1 and 2. Some who may claim to be Muslims may commit acts that are grossly contrary to the teachings and spirit of Islam, as some Christians may commit acts that are contrary to the teachings of Jesus Christ (peace be upon him). That does not mean Islam or Christianity sanction these acts in any way.
[2] Muhammad Abdullah Draz. *Al-Din*. Kuwait: Dar al-Qalam, 1970, Second Edition, p. 36.
[3] *Ibid.*, p. 31.
[4] The Bible has over 2,000 references to debt, saving and charitable giving. The Talmud contains detailed rulings on various aspects of business behavior.
[5] Monzer Kahf. *The Islamic Economy – Analytical Study of the Functioning of the Islamic Economic System*. The Muslim students Association of the United States and Canada, Plainfield, Indiana, 1978, p. 4.
[6] The Holy Qur'an: 83:1-6: "Woe to *Al-Mutaffifun* (those who give less in measure and weight), Those who, when they have to receive by measure from men, demand full measure, And when they have to give by measure or weight to (other) men, give less than due, Do they not think that they will be resurrected (for reckoning), On a Great Day?, The Day when (all) mankind will stand before the Lord of the *'Alamamin* (mankind, jinn and all that exists)?"
[7] Monzer Kahf, p. 5.
[8] M.N. Siddiqi. *Some Aspects of the Islamic Economy.* Delhi: Markazi Maktaba Islami, 1972, pp. 15-16.
[9] *Ibid.*, p. 17.
[10] *Ibid*., p. 19.
[11] Monzer Kahf, p. 19.
[12] Siddiqi, pp. 19-20.
[13] Hassan al-Banna. *Majmu'at Rasa'il al-Iman al-Shahid*. Beirut: Dar al-Andalus, 1965, p. 15.
[14] Mustafa al-Sibai. *Ishtirakiat al-Islam.* Damascus: Dar al-Matbu'at Al-Arabiyah, Second Edition, 1960, p. 132.
[15] Terms used in the Qur'an to refer to consumable goods have been translated by Islamic scholars as: "good and pure things", "clean and pure things", "good and wholesome things", "sustenance of the best", etc.
[16] In Chapter 2, verse 168 of the Qur'an, Allah says: "O people, eat of what is on earth, lawful and good."
[17] Extravagance is overspending in lawful matters such as food, clothing, shelter, etc. Profligacy is spending in prohibited purposes such as bribery, alcohol, etc.
[18] Muhammad Baqer al-Sadr. *Iqtisaduna.* Beirut: Dar al-Fikr, 1968, pp. 576-86. Collected from Monzer Kahf, *op. cit*., p. 30-31.

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[19] The term 'riba' literally means increase. Warde defines it as "any unlawful gain derived from quantitative inequality of the countervalues. Interest or usury (i.e., reimbursing more than the principal advanced) would then be only one form of riba." See Ibrahim Warde, *Islamic Finance in the Global Economy*, Edinburgh: Edinburgh University Press, 2000a, p. 58.
[20] The Arabic word 'gharar" connotes deception, delusion, peril, risk, hazard, etc. In financial context it is translated as uncertainty, risk or speculation. However, Maxime Rodinson notes: "Any gain that may result from chance, from undetermined causes, is here prohibited." See Maxime Rodinson, *Islam and Capitalism*, London: Penguin, 1978, p. 16. Warde (p. 59-60) writes: "…gharar should not be used interchangeably with the broad concept of risk. Gharar is prohibited yet it would be nonsensical to prohibit risk. Islam does not even advocate the avoidance of risk…More accurately, gharar refers to aleatory transactions, that is, transactions conditioned on uncertain events."
[21] Monzer Kahf, p. 31.
[22] A stark example is prostitution.
[23] The Holy Qur'an: 14:32-34: "Allah is He Who has created the heavens and the earth and sends down water (rain) from the sky, and thereby brought forth fruits as provision for you; and He has made the ships to be of service to you, that they may sail through the sea by His Command; and He has made rivers (also) to be of service to you, And He has made rivers (also) to be of service to you, And He has made the sun and the moon, both constantly pursuing their courses, to be of service to you; and He has made the night and the day, to be of service to you."
[24] Chapter 62: 10 of the Holy Qur'an roughly translates as: "But when the prayer is ended, disperse abroad in the land, and seek Allah's grace, and remember Allah much, so that you may be successful."
[25] Khalid M. Ishaque. *The Islamic Approach to Economic Development*, in John L. Esposito (ed.), *Voices of Resurgent Islam*, Oxford University Press, 1983, p. 271.
[26] Monzer Kahf, p. 32
[27] M.N Siddiqi. *The Economic Enterprise in Islam.* Lahore: Islamic Publications, pp. 11-34.
[28] Monzer Kahf, p. 33.
[29] Monzer Kahf, p. 33.
[30] Monzer Kahf, p. 37-38.
[31] Monzer Kahf, p. 43-44.
[32] These are reports on the actions and sayings of Prophet Muhammad (peace be upon him).
[33] Monzer Kahf. *The Economic Views of Ibn Taymiyah.* Unpublished paper, 1976.
[34] Monzer Kahf, *The Islamic Economy*, pp. 46-47.
[35] See Monzer Kahf, p. 48-52 for detailed discussion on the role of the government.
[36] The rules are compiled by Monzer Kahf from writings of various scholars; see Monzer Kahf, *op. cit*., p. 52-56.
[37] For example, Muslim traders were the instrumental in spreading Islam spread in Indonesia – the largest Muslim country in the world, in Malaysia, in China. No outside Muslim army invaded these regions.
[38] Rodney Wilson. *Economics, Ethics and Religion: Jewish, Christian and Muslim Economic Thought.* New York University Press, 1997, p. 45.
[39] See the Holy Qur'an:
17:35: "And give full measure when you measure, and weigh with a balance that is both of them attain old age in your life, say not to them a word of disrespect, nor shout at them but address them in terms of honor."
26:181-183: "Give full measure, and cause no loss (to others)."
104:2-4: "Who has gathered wealth and counted it, He thinks that his wealth will make him last forever, Nay! Verily, He will be thrown into the crushing Fire."
6:41: "Nay! To Him Alone you would call, and if He wills, He would remove that (distress) for which you call upon Him, and you would forget at that time whatever partners you joined (with Him in worship)!"
7:31: "O Children of Adam! Take your adornment (by wearing your clean clothes), while praying and going around (the *Tawaf* of) the *Ka'bah*, and eat and drink but waste not by extravagance, certainly He (Allah) likes not *Al-Musrifun* (those who waste by extravagance)."
17:26: "And give to the kinsman his due and to the *Miskin* (poor) and to the wayfarer. But spend not wastefully (your wealth) in the manner of a spendthrift. [*Tafsir. At-Tabari (Verse 9:60)*].
[40] Karen Pfeifer. *Is There an Islamic Economics?* in Joel Beinin and Joe Stark, *Political Islam: Essays from Middle East Report,* University of California Press, 1997, p. 163.

[41] Muhammad Akram Khan. *An Introduction to Islamic Economics.* Islamabad: International Institute of Islamic Thought and Institute for Policy Studies, 1994, p. 26.
[42] Warde, p. 46.
[43] Joan Robinson. *Economic Philosophy.* London: C. A. Watts, 1962, p. 13.
[44] Included in this group are such names as Citicorp, Goldman Sachs, Standard Chartered Grindlays, ABN Amro, Kleinwort Benson.
[45] From the beginning, Islam legitimized private property, business enterprise and profit making.
[46] The Holy Qur'an commands that any contract or agreement be put down in writing.
[47] From the beginning, commerce forms an important aspect of Islamic tradition. It was centuries before Christianity stopped looking at business as being a degrading occupation.
[48] An example is *commenda* partnership.
[49] The works of Omar Khayyam (1050-1130) – poet, philosopher and mathematician – formed the basis of concepts developed by 17th century French mathematician Blaise Pascal, one of the fathers of theory of choice, chance and probability.
[50] The word hazard comes from al-zahr which means dice.
[51] The word algebra comes from al-jabr which means assemblage of broken parts.
[52] The word algorithm (rules for computing) comes from al-Khawarizmi – a renowned mathematician of the 9th century.
[53] At least until the 13th century, Islamic financial instruments were more advanced than what was available in the West.
[54] Institutions include banks, mutual funds, securities firms, insurance companies, and other non-bank financial institutions spread in over 70 countries as of 1999.
[55] For definition of interest ('riba'), see footnote 17.
[56] Islamic concept of gharar (speculation) is explained in a previous footnote.
[57] This is to be achieved through specific set of business practices.
[58] Warde, Chapter 2.
[59] For materials in this section the author relied heavily on Khurshid Ahmad. *Islamic Finance and Banking: The Challenge of the 21st Century*, in Imtiaz Ahmad (ed.), *Islamic Banking and Finance: The Concept, The Practice and The Challenge*, Islamic Society of North America Conference and Programs Series 2, Plainfield, Indiana, 1999, pp. 14-16.
[60] For materials in this section author is heavily indebted to Ahmad, *op. cit.*, pp. 12-14.
[61] Ludwig Von Mises. *The Theory of Money and Credit.* Indianapolis: Liberty Classics, 1980, p. 102.
[62] The Report of Economic Crisis Committee, Southhampton Chamber of Commerce, 1933, Part 3, (iii) Para 2, as quoted in M. Taqi Usmani, *The Historic Judgment On Interest Delivered in the Supreme Court of Pakistan*, Karachi: Idaratul-Ma'arif, 2000, p. 95.
[63] Al-Ghazzali. *Ihya-ul-Uloom.*
[64] The Jewish tradition in general forbade interest (Leviticus 25:36); however, interest for money lent to non-Jews is allowed (Deuteronomy 19: 19-20).
[65] The Christian religious books do not specifically mention interest; however, profit making and economic pursuits are degraded (see Luke 16:13, Luke 18:22, Luke 18:24-25). As in Judaism and Islam, Christian gospel lenders are encouraged to forgive parts of their loans to the poor (Luke 6:34-35). In Christian Middle Ages moneylenders were considered sinners. The ban on usury was reiterated repeatedly.
[66] Warde, p. 64. Warde also mentions about the moral qualms about money in ancient times. Hamurabi code (1800 BC) placed limits on interest rates and banned compound interest. The Romans allowed interest but regulated interest rates.
[67] John Noonan. *The Scholastic Analysis of Usury.* Harvard University Press, 1957.
[68] J. Pierre V. Benoit. *United States Interest Rates and the Interest Rate Dilemma for the Developing World.* Quorum Books, 1986, pp. 34-55.
[69] For an overview of how interest was legitimized by Christianity, read Ibrahim Warde, *Islamic Finance in the Global Economy*, Edinburgh: Edinburgh University Press, 2000a, pp. 64-68.
[70] Frank E. Vogel and Samuel L. Hayes, III. *Islamic Law and Finance: Religion, Risk and Return.* The Hague: Kluwer Law International, 1998.
[71] This section is heavily based on Ahmad, *op. cit.*, pp. 16-26.
[72] Ahmad, p. 20.
[73] Ahmad, p. 20.

[74] Susan Strange. *Casino Capitalism.* Oxford: Basil Blackwell, 1986.
[75] Ahmad, p. 20-21.
[76] John Gray. *False Dawn: The Delusions of Capitalism.* London: Grunte Books, 1998, p. 62.
[77] James Robertson. *Future Wealth: A New Economics for the 21st Century*. London: Cassell Publications, 1990, pp. 130-131.
[78] James Robertson. *Transforming Economic Life: A Millennial Challenge*. Devon: Green Books, 1998, pp. 51-54.
[79] M. Kennedy. *Interest and Inflation Free Money: Creating an Exchange Medium that Works for Everybody and Protects the Earth*. Philadelphia: New Society, 1995.
[80] George Soros states this in "Capital Crimes", Atlantic Monthly, January, 1997. He also talks about similar threat in *The Crisis of Global Capitalism*, London: Little Brown & Co., 1998. After vigorous critique of 'Market Fundamentalism' he advocates for regulation of financial flows.
[81] Ahmad, p. 27. This paper was published in 1999, but was presented in a conference held on July 17-18. 1998.
[82] As of the third quarter of 2002 the notional value of financial derivative contracts monitored by Bank of International Settlements (BIS) was an astounding $192 trillion. See BIS Quarterly Review, International banking and financial markets developments, December 2002, Bank of International Settlements, Basel, Switzerland. Also, see www.bis.org.
[83] See FORTUNE, March 3, 2003.
[84] John Tomlinson. *Honest Money: A Challenge to Banking.* Helix, 1993, pp. 115-118.
[85] Michael Rowbothan. *The Grip of Death: A Study of Modern Money.* Jon Carpenter, 1998, p. 330.
[86] Peter Warburton. *Debt and Delusion: Central Bank Follies that Threaten Economic disaster.* Allen Lane, 1999, p. 224-225.
[87] Philip Moore. *Islamic Finance: A Partnership for Growth.* Euromoney Publishers, 1997, p. 73.
[88] For numerical example, see Hamid (2000), p. 89-90.
[89] See, for example, Hamid (2000), p. 90.
[90] Such costs include costs of reorganizing, management and employee time lost worrying about future prospects, employees leaving the company because of future uncertainty, loss of customer and supplier goodwill, lawyer fees, etc.
[91] M. Fahim Khan. *Islamic Capital Market: Need for Institutional Development,* in Imtiaz Ahmad (ed.), *Islamic Banking and Finance: The Concept, The Practice and The Challenge*, Islamic Society of North America Conference and Programs Series 2, Plainfield, IN, 1999.
[92] Khan, p. 33.
[93] Ahmad, p. 31.
[94] Ahmad, p. 31.
[95] Paul Kennedy. *The Rise and Fall of Great Powers.* New York: Random House, 1987, p. 149.
[96] Ahmad, p. 8.
[97] Ahmad, p. 9.
[98] See Saleh J. Malakaih, *Islamic Banking: Trends & Prospects*, in Imtiaz Ahmad (ed.), *Islamic Banking and Finance: The Concept, The Practice and The Challenge*, Islamic Society of North America Conference and Programs Series 2, Plainfield, Indiana, 1999.
[99] Muslims are a majority in some 50 countries in Asia and Africa.
[100] Nearly all the statistics are from Ahmad, *op. cit.*, p. 10.
[101] Few examples are Citicorp, Goldman Sachs, Standard Chartered Grindlays, ABN Amro, Kleinwort Benson.
[102] Included in the family of 31 indexes are the broad DJ Islamic Market Index, the DJ Islamic Market US Index, the DJ Islamic Market Technology Index, the DJ Islamic Market Extra Liquid Index, the DJ Canadian Index, the DJ Islamic Market UK Index, the DJ Market Europe Index, the DJ Islamic Market Asia/Pacific Index.
[103] These funds are considered to meet the requirements of Shariah (Islamic jurisprudence) as it pertains to equity investments. One Shariah Board advising a mutual fund company has approved investment in companies that meet the following criteria: (a) Economic activity: Does not deal in impermissible products/services (e.g., alcohol, pork, gambling, interest based financial institutions, etc.), (b) Debt/asset ratio: 30% or less is allowed, (c) Interest income received: 5% or less is acceptable, (d) Cash/receivables ratio: should not exceed 49% of total assets. Other Shariah Boards have established similar criteria.

[104] With respect to Islamic financial instruments and contracts, this paper does a cursory job. For detailed coverage of these aspects and issues related to them, please see Vogel and Hayes (1998) -- Chapter 7, Usmani (2000), and Warde (2000a).
[105] Muhammad Taqi Usmani. *An Introduction to Islamic Finance*. Karachi: Idaratul Ma'arif, 2000.
[106] See Vogel and Hayes, Chapter 5.
[107] See Warde, p. 1.
[108] Ibrahim Warde. *Islamic Finance: A Quarter Century Assessment.* Unpublished paper, 2000b.

[109] Among the notable examples are the failure of Islamic Money Management companies in Egypt in 1988, and the collapse of Bank of Credit and Commerce International (BCCI) in 1991.
[110] Warde (2000b), p. 5.
[111] Warde (2000a), p. 105.
[112] Warde (2000a), p. 98.
[113] Warde (2000a), p. 102.
[114] Warde (2000a), p. 102.
[115] Warde (2000a), p. 103.
[116] Examples are numerous. See, for example, Daniel M. Hausman and Michael S. McPherson, "Taking ethics seriously: economics and contemporary moral philosophy", *Journal of Economic Literature*, Vol. 31 No. 2, 1993, pp. 671-731.
[117] See Clement M. Henry, *The Mediterranean Debt Crescent: Money and Power in Algeria, Egypt, Morocco, Tunisia and Turkey*, Gainesville: University Press of Florida, 1996, p. 125.
[118] As Warde (2000a, p. 107) notes, in their international operations, Islamic banks operate more out of London, Geneva, or the Bahamas than out of Jeddah, Karachi or Cairo. He also notes that the statute of the Islamic Development Bank provides for coordination and collaboration with International Monetary Fund and other international organizations.
[119] To highlight the willingness of Muslims in general to work in collaboration with the West, Warde (2000a, p. 107) notes that in the 1991 Gulf War most Muslim states were part of the U.S.-led coalition.
[120] Warde (2000a), p. 87-88.
[121] However, a majority of the financial institutions do not belong to the International Association of Islamic Banks.
[122] Warde, *Islamic Finance: A Quarter Century Assessment*, p. 7.
[123] Usmani (2000).
[124] See Vogel and Hayes, *op. cit.*
[125] Warde, *Ibid.*, pp. 7-9.
[126] Warde, *Ibid.*, pp. 20.
[127] Usmani, pp. 239-240.
[128] Warde, *Ibid.*, pp. 19.
[129] Vogel and Hayes, Chapter 10.
[130] Rodney Wilson. *Introduction*, in Rodney Wilson (ed.), *Islamic Financial Markets*, Routledge, 1990, p. 3.
[131] Appendix 3 at the end lists some organizations that have supported research and conferences in Islamic finance and banking. Some of these organizations may be willing to support future research.
[132] Vogel and Hayes, *op. cit.*

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www.islampub.com/books/econom.html
www.soundvision.com

There are other sites as well

Appendix 1

QURANIC VERSES ON WAR, AGGRESSION, RIGHTEOUSNESS, JUSTICE, COMPASSION

The Arabic word 'Islam' means 'peace'. But it has been conjured as a religion rooted in aggression, intolerance and hatred. A negative image about Islam in the mind of the reader may cause any good in Islamic economics and finance to be lost. For the reader uninitiated about what Islam has to say on sanctity of human life, war and aggression, righteousness and compassion, justice and humility, Appendixes 1 and 2 are included.

(A) SANCTITY OF HUMAN LIFE

1. Chapter: Al-Maida 5:32

"We ordained for children of Israel that if anyone slew a person unless it be for murder or for spreading mischief in the land it would be as if he slew the whole people, and if anyone saved a life it would be as if he saved a whole people…"
Interpretation:

To kill or to seek an individual because he represents an ideal is to kill all who uphold the ideal. On the other hand, to save an individual's life in the same circumstance is to save a whole community.

2. Al-Anaam 6:151

"Say: Come, I will rehearse what Allah hath (really) prohibited you from: Join not anything as equal with Him, be good to your parents, kill not your children on a plea of want, We provide sustenance for you and for them, come not neigh to shameful deeds whether open or secret, take not life which Allah hath made sacred except by way of justice and law."

Interpretation:

"Justice and law" go hand in hand with: right, truth, what is becoming, etc. It is not only that human life is sacred, but also that all life is sacred. Even in killing animals for food, a dedicatory formula "in the name of Allah" has to be employed, to make it lawful. Prophet Muhammad (peace be upon him) even prohibited the uprooting of plants when the leaves are green (meaning when the plant is live).

Prophet Muhammad (peace be upon him) prohibited (even during war) specifically killing of children, killing of women, killing of the elderly, killing of an enemy who surrenders.

3. Al-Israa 17:33

"Nor take life which Allah has made sacred except for just cause. And if anyone is slain wrongfully We have given his heir authority (to demand Qisas or to forgive): but let him not exceed bounds in the matter of taking life: for he is helped (by the Law)".

Interpretation:

Under the strict limitations laid down, a life may be taken for a life. The heir is given the right to demand the life; but he must not exceed due bounds, because he is helped by the Law.

(B) AGGRESSION

One has to understand that when Prophet Muhammad (peace be upon him) started preaching towards the obedience of One Creator, he immediately faced opposition and persecution. His followers were in most cases ruthlessly persecuted. This continued and intensified. The verses of the Qur'an in relation to battle and fighting have to be seen in this backdrop. From the very inception, the Muslims hardly got respite from hostilities and aggression.

1. The verses of the Qur'an were revealed over 23 years as situations evolved in the personal, familial, social and communal lives of Muslims. The Qur'an did not permit the Muslims to fight back for the first 14 years or so of their suffering and ordeal. After that, a time came when permission was given to fight when Muslims faced attack and aggression, and their lives and properties were in grave danger. Possibly the first verse in this regard is:

"To those against whom war is made, permission is given (to fight) because they are wronged..." (22:39)

2. Critics like to quote **out of context** such verses as:

Al-Nisaa 4:89

"…slay them wherever you find them."

They leave out the part that precedes: **"But if they turn renegades, seize them and** slay them wherever you find them.**"** This verse is in regard to the 'hypocrites' who deserted the Muslims at the second battle that non-Muslims waged marching all the way from Makkah to attack the Muslims. It nearly caused a disaster for the Muslims. One group of Muslims wanted to put the deserters to the sword, another wanted to leave them alone. The actual policy pursued avoided both extremes, and they were given a chance of making good. The above verse says that if they deserted the Muslim community again after coming back to the fold of Islam, they were to be treated as enemies, with the additional penalty of desertion which is enforced by all nations engaged in war. It was in a particular context that a verse like this was revealed. It is not a blank check and a blanket command to slay all non-Muslims.

In the February 11 issue of Newsweek, Kenneth L. Woodward writes (pages 50-59): "Even so, compared with the few and much quoted verses that call for jihad against the infidels, the Qur'an places far more emphasis on acts of justice, mercy and compassion." And the calls to fight are primarily for self-defense as explained below.

Also, critics do not include the exhortations to peace, which in almost every case follow passages as the previous one.

Al-Nisaa 4:90

"…Thus, if they withdraw from you, and do not make war on you, and offer you peace, God does not allow you to harm them."

3. In the Quran, therefore the only permissible war is one of self-defense. Muslim may not begin hostilities.

Al-Bakarah 2:190

“Fight in the way of Allah against those who fight against you, but begin not hostilities; Lo! Allah loveth not aggressors.”

4. Al-Maida 5:45 *(with reference to Torah – teachings of Prophet Jesus and Muhammad (peace be upon them)).*

“And We ordained for them in that (Torah): A life for a life, an eye for an eye, a nose for a nose, and a tooth for a tooth, and a similar retribution for wounds; But he who shall forego it out of charity will atone thereby fore some of his past sins. And they who do not judge in accordance with what God has revealed – they are the wrong-doers.”

(C) NO COMPULSION IN RELIGION

Islam did not impose itself by the sword. In a statement in which the Arabic is extremely emphatic, the Qur’an insists:

Al Bakarah 2:256

“There is no compulsion in religion…”

(D) RESPECT FOR OTHERS

1. Constantly Muslims are enjoined to respect Jews and Christians, the “People of the Book” who worship the same God (29:46 ***Al-Ankabut***).

2. In words quoted by Muhammad (peace be upon him) in one of his last public sermons, God tells all human beings: **“O mankind! We created you from a single (pair) of a male and a female, and made you into nations and tribes so that you may know one another”** (***49:13***) – not to conquer, convert, subjugate, revile or slaughter but to reach out towards others with intelligence and understanding.

(E) RIGHTEOUSNESS AND COMPASSION IN ISLAM

On righteousness and compassion the Qur’an states:

“It is not righteousness that you turn your face towards East or West; but it is righteousness to believe in Allah, and the last Day, and the Angels, and the Book, and the Messengers; to give your wealth in spite of love for it, to your kinsfolk, to orphans, to the needy, to the wayfarer, to those who ask, and to free the captives; to be steadfast in prayer, and practice regular charity; to fulfill the contracts which you have made; and to be firm and patient in pain (or suffering) and adversity, and throughout all periods of panic. Such are the people of truth, the God-fearing.” (2:177)

Righteousness consists not just in meeting obligations towards the Creator, but also in being kind and compassionate to fellow human beings, and meeting obligations towards them. Prophet Muhammad (peace be upon him) is reported to have said: **"All creatures are Allah's family; and Allah loves them most who treat His family well and kindly."** He is reported to have said: "Show mercy to those on earth. He who is in Heaven will show mercy to you." He is also reported to have said: "Allah will not show mercy on him who does not show mercy."

This emphasis on compassion manifests itself forcefully in his saying: "He is not a believer who eats his fill when his neighbor is hungry." He also said in this regard to the effect: "The one from whose harmful conduct his neighbor is not safe cannot be a true believer." And these sayings hold whether the neighbor is a Muslim or non-Muslim. **Islam enjoins obligations towards neighbors regardless of their religious beliefs.**

Prophet Muhammad (peace be upon him) taught Muslim's to nurture and show compassion to all of Allah's creations – even to animals, and even to insignificant insects and ants if they are harmless. He said something to the effect: "Fear Allah regarding the animals who cannot speak. Ride on them when they are healthy, and eat of them when they are healthy."

(F) JUSTICE AND EVIDENCE

The Qur'an speaks about justice in these terms:

"O you who believe, stand out firmly for justice as witnesses to Allah, even though it be against yourselves, or your parents, or your kith and kin, and whether it be against rich or poor, for Allah can protect both. Follow not the lusts of your hearts lest you swerve and if you distort justice or decline to do justice, verily Allah is well-acquainted with all that you do." (4:135)

"O you who believe, stand out firmly for Allah as witnesses to fair dealing and let not the enmity and hatred of others to you make you avoid justice and depart from justice. Be just; justice is next to piety." (5:8)

"(They are righteous) who stand firm in their evidence." (60:33)

(G) HUMILITY

Islam enjoins humility on the part of Muslims. As Islam means surrender to the Will of Allah, a Muslim must necessarily be humble, as reflected in the following verse:

"And the servants of the Most Gracious (Allah) are those who walk on the earth in humility, and when the ignorants address them (with bad words) they say, 'Peace' (or mild words of gentleness)." (25:63)

Appendix 2

PROPHET MUHAMMAD (peace be upon him) ON CONDUCT IN WAR

“Do not use frauds nor deceptions”, said Prophet Muhammad to his soldiers.

“Do not kill children. When you fight against the army of an enemy in his own territory, do not oppress the peaceful inhabitants of the country”.

“Spare weak women. Have pity on suckling infants and the sick”.

“Do not destroy the houses, do not overrun the fields.”

“Do not devastate the orchards; do not cut down the date palm trees.”

Such are the words, never heard before, words which resounded in the 7the century from the courtyard of the Mosque of Medina.

- Quoted from Raymand Leronge by Mian Abid Ahmad, “The Glory of Muhammad (peace be upon him)”, Lahore (Pakistan): Time Publishers, 1993.

Appendix 3

FUNDING ORGANIZATIONS

Organizations that have sponsored conference and/or supported research in Islamic finance/banking are:

1. A'ayan Leasing and Investment Company (www.aayan.com), Safat, Kuwait
2. ABC Islamic Bank, Manama, Bahrain
3. Abu Dhabi Islamic Bank, Abu Dhabi, United Arab Emirates
4. Albaraka Investment & Development Company, Jeddah, Saudi Arabia
5. Al Baraka Islamic Bank, Manama, Bahrain
6. Al Batha Group, Sharjah, United Arab Emirates
7. American Finance House – LARIBA, Pasadena, California
8. Azzad Asset Management, McLean, Virginia
9. Bank Aljazira, Jeddah, Saudi Arabia.
10. Citi Islamic Investment Bank (Citicorp), Manama, Bahrain
11. Crescent Capital Management, Chicago, Illinois
12. Dar Al-Maal Al-Islami Trust, Geneva, Switzerland
13. Dubai Islamic Bank, Dubai, United Arab Emirates
14. Faisal Finance Institution, Istanbul, Turkey
15. Faisal Islamic Bank of Egypt, Cairo, Egypt
16. First Islamic Investment Bank, Manama, Bahrain
17. Goldman Sachs
18. Guidance Financial Group (www.guidancefinancialgroup.com)
19. HSBC Amanah Finance, Dubai, United Arab Emirates
20. HSBC Bank USA, Buffalo, New York
21. HSBC Investment Bank, London, England
22. iHilal.com (Middle East) FZ –LLC, Dubai, United Arab Emirates
23. Islamic Investment Company of the Gulf
24. Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia
25. King & Spalding, Atlanta, Georgia
26. Kuwait Finance House, Safat, Kuwait
27. National Commercial Bank, Jeddah, Saudi Arabia
28. Oasis Global Management Company, Cape Town, South Africa
29. Parsoli UK Limited, London, United Kingdom
30. Path Solutions, Safat, Kuwait
31. Rice University, Houston, Texas
32. Saudi Economic and Development Company, Jeddah, Saudi Arabia
33. SEDCO Services, Inc., Jeddah, Saudi Arabia
34. Shamil Bank of Bahrain, Manama, Bahrain
35. The International Investor, Safat, Kuwait
36. Universiti Brunei Darussalam, Bandar Seri Begawan, Brunei Darussalam
37. Wafra Investment Advisory Group, New York, New York
38. Wellington Management Company, Boston, Massachusetts