

Islam offers a more just banking system

By Wayne Visser

Previous articles on usury made mention of the rejection by Islam of financial interest or "riba". This is largely on the grounds of its negative distributive justice and equity effects. Out of this prohibition has developed perhaps the most sophisticated and complete theoretical system of interest-free political economy in the world.

One of Islamic banking's most avid evangelists is Adnan al Bahar, head of the International Investor (TII), a Kuwait-based Islamic investment bank. He is often called a dreamer by his fellow Gulf bankers, but this doesn't stop him from travelling the world promoting interest-free Islamic finance. Nor has it prevented the continued success of his company. So what is Islamic banking?

The specific methods for implementing Islamic banking have centred around an equity-based approaches. For example, "Mudarabah", is essentially a joint venture between the bank and a 'partner' with both contributing to the capital of the project and sharing the profit or loss. Another, "Musharakah", requires that all the capital for an investment is provided by the bank in return for a predetermined share of the profit or loss of the business undertaking.

The emphasis in the Islamic banking approach is, therefore, very much one of risk-sharing between lenders and borrowers. This stands in contrast to the Western principle of the borrower being required to pay fixed interest regardless of the success or failure of their business venture. In theory, then, it also avoids the downward spiral of the debt-trap which interest is liable to cause in cases of unforeseen personal, project or business hardship.

The first Islamic bank was established in the 1960s in Egypt and in the ensuing three decades, Islamic banking has grown into an industry with \$80 billion in deposits and 100 banks and finance houses. Much of this growth has been as a result of the comprehensive attempts by Iran, Pakistan and Sudan over past 10 years to restructure their national banking systems to bring them into accordance with Islamic law or the "Shari'ah".

In addition, increasing numbers of banks outside these countries, including in Western countries, have begun to offer parallel Islamic banking services. As recently as 1996, the UK joined these latter ranks, with Flemmings Merchant Bank offering the first Islamic banking service, the Oasis Fund, to British customers.

The claimed advantages of the Islamic banking approach to finance are that it results in:

- more just and equitable distribution of resources;
- more responsible and profitable lending due to the necessarily closer bank-client relationship; and
- less volatile business cycles; and more stable banking systems.

On the other hand, the Islamic banking industry has been criticised too:

- for its lack of uniformity and standardisation of products, accounting systems and endorsements by different "sharia" boards;
- various bad-debt complications;
 - *the information-gathering burden on potential consumers and banks themselves to ensure the security and profitability of their funds,
- as well the lack of an interest-rate mechanism to use as a macro-economic tool.

These limitations must naturally be viewed against the backdrop of Islamic banking as a young and emerging growth market. I am not aware of any major banks currently offering these services in South Africa, but perhaps it should be given serious consideration. Not only does SA have a substantial and economically influential Muslim population, but a wider society which is centrally concerned with the issue of equity and redistributive justice.

As research and experience continues to accumulate on Islamic banking, we may yet see an alternative to an interest-based economy emerging. The question at this stage is whether we are courageous enough to entertain the idea of a better system with non-Western origins?

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