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EGYPT

ISLAMIC BANKS' ROLE IN SOCIO-ECONOMIC DEVELOPMENT EXPANDED

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[Article by Ahmad Hassan and Dr Shawqi Shihatah: "Role of Islamic Banks in Social and Economic Development"]

[23 Dec 83 p 64-68]

[Text] The Islamic banks have developed a presence that has imposed itself on banking transactions in Egypt and the Arab and Islamic world. Even though this presence is only a few years old, these banks have attracted the interest of the masses of Muslim clients in all the Islamic countries in which this type of bank has been founded.

The Islamic banks have become a reality and have formed a new phenomenon imposing itself on the international banking system, which has been required to study this phenomenon and to deal with it because it represents a human volume, a volume of transactions and a greater volume of resources embodied in the deposits, accounts and partnerships in a large number of major projects.

The Islamic banks are founded on the basis of the thought and practice of the Shari'a. However, the newness of the system and the interpretation in thought and practice may raise some questions regarding implementation and its directions. Moreover, the presence of these banks in the Islamic countries makes it beneficial for them to establish contacts and cooperation among themselves to entrench Islamic thought and enrich its application. In every country where they are found, these banks have been established to perform their required role of developing the economy of the country concerned and of the Islamic countries generally according to the same intellectual bases derived from the honorable Islamic Shari'a. On the other hand, these banks have to prove their success to their clients by realizing the yield they expect from the investment of the monies that are deposited in these banks.

This is why the Faysal Islamic Bank of Egypt, the pioneer of this Islamic experiment, called for a plenary symposium on the role of the Islamic banks in economic and social development. The symposium was held last week in six sessions over a period of 3 days. During the sessions, nearly 20 studies of the various aspects of Islamic thought and Islamic application in the banking system and economic and social development were discussed. Seventeen organizations from Egypt and the Islamic countries took part in the symposium.

In view of the importance and vitality of the issues presented, whether in terms of their intellectual presentation or of the details of their application, a large number of people concerned with the issue attended the symposium, led by his eminence the grand imam, a number of their eminences the shaykhs and of ministers, bankers, financiers and economists from Egypt and from abroad. All participated in presenting questions to the researchers to enrich the symposium.

Considering the vital nature of the issues presented to entrench the Islamic concept and to clarify the Islamic Shari'a insofar as the Islamic transactions practiced by the Islamic banks are concerned, AL-MUSAWWAR was careful to record these studies and the discussions of them so as to present to Arab and Muslim readers material to satisfy their wish for a further understanding of the issue, in addition to clarifying a lot of points regarding the position of the banks and of the honorable Shari'a vis-a-vis the modern system of various banking transactions and economic relations.

The symposium was held under the chairmanship of His Highness Prince Muhammad al-Faysal Al Sa'ud, the chairman of the Board of Directors of the Faysal Islamic Bank of Egypt. The first session was opened by Dr Mustafa al-Sa'id, the minister of economy and foreign trade, on behalf of Prime Minister Dr Fu'ad Muhyi-al-Din. Dr Fu'ad al-Sarraf, the governor of the Faysal Islamic Bank of Egypt, moderated the session. The technical aspect of the session was supervised by Counselor Ahmad Hassan in his capacity as the symposium's general secretary.

The opening session was attended by His Eminence Shaykh Jad-al-Haqq 'Ali Jad-al-Haqq, the grand imam and shaykh of al-Azhar; Dr Salah Hamid, the minister of finance; Dr Kamal al-Janzuri, the minister of planning; His Eminence Shaykh Ibrahim al-Dasuqi, the minister of religious trusts; 'Abd-al-Latif Hamzah, the mufti of the republic; a number of former ministers; the presidents and managers of the Islamic and conventional banks; and a number of university professors interested in the symposium's topic, in addition to a number of professors participating in the studies and the symposium.

The first session began with a word of welcome delivered by Dr Fu'ad al-Sarraf who expressed his thanks to the government and the audience for their interest in the topic of the symposium and then reviewed the rise of the Islamic banks which "have been founded on distinctive fundamental mainstays." These banks operate in accordance with the basic rules of the magnanimous Islamic Shari'a. They do not charge or pay interest but conduct their transactions within the framework of the Shari'a. These transactions are subject to the control of the venerable Shari'a ulema to insure that they are pure and that their yield is sound.

The second mainstay on which the Islamic banks have been founded is, according to Dr al-Sarraf, that of exerting efforts to develop economically and socially the societies in which these banks are located, especially insofar as small producers are concerned. These banks attract small depositors and those savers and savings that do not deal with the conventional banks. Therefore, the Islamic banks do not compete with the conventional banks.

The third mainstay is the distribution of the alms tax imposed by the Shari'a to those deserving it and the effort to transform the beneficiaries into productive forces.

In reviewing the experiment of founding the Islamic banks, Dr al-Sarraf went on to add:

"The Islamic banks began as an idea in the mind of the late King Faysal Al Sa'ud who tried to crystallize the idea. The Egyptian Government was a fore-runner in underlining the idea, establishing the Nasir Social Bank on Islamic bases. The Faysal Islamic Bank was then established and the Islamic Investment and Development Bank was established recently.

"The pioneer experiment proceeded from Egypt, and numerous Islamic banks have now been founded in a number of Arab and Islamic countries, including Sudan, Kuwait, Qatar, Dubai, Jordan, Bahrain, West Africa, Pakistan, Malaysia and Bangladesh.

"The success of the experiment, especially the experiment of the Faysal Islamic Bank of Egypt, which is no more than 4 years old, has been a cause and a motive for the conventional banks to engage in similar experiments, setting up numerous branches which deal on the basis of Islamic transactions.

"The lofty idea was received with a feeling of satisfaction by the Egyptian and Islamic peoples. We have thus seen the Faysal Islamic Bank of Egypt deal with more than 618,000 clients within a period of 4 years and gather deposits which have amounted to \$1.22 billion. We have also seen the bank's commercial, economic and production activity in the local market exceed \$607 million whereas this activity did not exceed \$410 million in 1982, \$134 million in 1981 and \$61 million in 1980.

"Even though the activity is no more than 4 years old, the bank has not confined its role to the commercial activity to supply the production requirements and essential goods to the local market but has gone beyond to perform a vital and important role embodied in setting up 26 joint-stock companies in the spheres of medicine, chemical-manufacturing, agricultural and livestock development, foreign trade, packaging and distribution, domestic trade, real estate, banking and the sphere of Islamic financial establishments.

"The total capital of these companies amounted to \$601 million, to which the bank has contributed \$86 million. The bank offers the companies a transfer within the limit of \$68.5 million."

Projects Compatible with Egypt's Size

It is perhaps this success which motivated Prince Muhammed al-Faysal Al Sa'ud, the chairman of the Faysal Islamic Bank of Egypt's Board of Directors, to say in the bank's address, which he delivered to the opening ceremony:

"It pleases all of us that the Islamic banks, with success from the Almighty God, may He be praised, have surpassed the phase of establishments and of self-proving.

"At this time in which the Islamic banks have proven their success and have surpassed the phase of establishment, we wish to congratulate ourselves on beginning the fundamental phase, namely the phase of effective participation in development. Let me announce that the Faysal Islamic Bank of Egypt, along with a group of Islamic banks, has decided to carry out three projects which will, God willing, be a guiding light for the projects to be carried out by the Islamic banks and which will be of dimensions compatible with the size of this country."

At the outset of his address, His Highness Prince Muhammad al-Faysal Al Sa'ud expressed his happiness with the fact that this big Islamic meeting was held in this honorable country, Egypt, which has always been a bastion of Islam and which has its genuine history and genuine humanity.

Genuineness of Egyptian People

Dr Mustafa al-Sa'id, the minister of economy, welcomed in the address he delivered on behalf of Prime Minister Dr Fu'ad Muhyi-al-Din all the brothers from Egypt and from the various Arab and Islamic countries taking part in the symposium.

The minister said in his address:

"The soil of Arab Islamic Egypt has witnessed the first experiment in Islamic banks which deal according to a system based on the principle of the magnanimous Islamic Shari'a which rejects the system of usurious interest and which seeks to achieve economic and social development for the sons of the Arab and Islamic peoples. The Faysal Islamic Bank of Egypt was the first experiment in this sphere. This pioneer Egyptian experiment has proven its success and other Islamic banks have been founded and have spread in Egypt, in the various parts of the Arab homeland and in the Islamic countries."

The minister of economy added:

"The success of the Faysal Bank and the Islamic banks in Egypt would not have reached such a level had not the government and the people believed in the honorable principles on which these banks are founded. Moreover, the profound faith of this country, its deep rooted religious feelings and its political and social stability have had their impact on the accomplishments made by the Islamic banks, led by the Faysal Bank of Egypt."

Why This Symposium?

Considering that all this success has been achieved and that the experiment of establishing Islamic banks has been entrenched and has taken root, then what is the objective of this plenary symposium which has been organized by the Faysal Islamic Bank of Egypt and to which this bank has invited all the Islamic banks from various countries?

Dr Fu'ad al-Sarrāf, the governor of the Faysal Islamic Bank of Egypt, said:

"It is natural for these newborn banks, which operate under the canopy of banks that deal in interest, to face numerous problems and hindrances. They have encountered obstacles impeding their upsurge and their achievement of the goals of serving the national causes, not to mention numerous problems of application in internal dealings. This is what has motivated coordination and cooperation among these banks so that they may serve their clients and the societies in which they exist, both economically and socially, under the canopy of the rules that govern them currently. For these banks to reflect the bright image desired of them and to make certain that these banks play a positive role in developing societies, it was necessary to hold a symposium such as this one so that the researchers, the practitioners and the officials may present their invaluable views in this regard."

Answering the same question, Dr Mustafa al-Sa'id, the minister of economy, said in his address:

"The symposium represents an effort to become familiarized with the bases and principles, and even the philosophy, on which the Islamic banking system is founded and with the numerous problems faced by the application of these bases, principles and philosophies. It is an effort at familiarization with the spheres and methods of employing monies in the Islamic banks and with the spheres and means of banking cooperation between the Islamic banks, and it is an effort at familiarization with the way these banks perform their services and with the way to develop these services. The importance of this symposium and of the study and discussion topics with which it deals grows ever greater at a time when the need grows for enhancing the capability of those working in the banking apparatus, especially the Islamic banking apparatus, and for enhancing their awareness of the various issues that are raised by the foundation of Islamic banks in a world whose money markets are dominated by banks founded on bases and principles contrasting with the philosophy of the Islamic banks. Moreover, there is no doubt that the success attained by the Islamic banks, especially in Egypt--a success embodied fundamentally in these banks' increased ability to attract a large part of the savings in the form of deposits that are constantly and rapidly growing in volume--throws heavier responsibilities on the shoulders of the workers and managers of these banks because they have to look with a great degree of efficiency for real and successful investment opportunities. This will undoubtedly emerge through the opinions contributed--opinions which will ultimately participate in disseminating the thought of Islamic banking and the methods of its application."

Counselor Ahmad Hassan, the symposium secretary general, said:

"We have taken into consideration the definition of the issues and the determination of the studies concerning each problem facing the activities of the Islamic banks and the problems that may face their application or emerge through application. This is why the studies are varied. Special sessions have been set aside for each group of similar studies pertaining to a specific issue or problem so that they symposium may emerge with specific recommendations that solve numerous problems and act as an intellectual and practical guide for the activity of the Islamic banks. The

symposium has actually answered numerous questions and has proposed real alternatives and solutions to many problems of application. This is made evident by the recommendations issued by the symposium."

In its 6 sessions, the symposium heard 22 studies dealing with the various aspects of 6 main topics which I will present according to the order in which they were discussed:

The first topic was the "Islamic Banking System in Thought and Practice." The researchers devoted to this topic six full studies, including a study on the financial transactions in the Islamic banks by Dr Fu'ad al-Sarraf, the governor of the Faysal Bank, who chaired the session. Dr 'Abd-al-Hamid al-Ba'li, an adviser at the International Union of Islamic Banks; Dr Yusuf Qasim, a member of the Legal Control Committee of the Faysal Islamic Bank of Egypt; 'Abd-al-Sami' al-Misri, a member of the Islamic Economic Society; Dr 'Abidin Ahmad Salamah, assistant general manager of the Faysal Islamic Bank of Sudan; and Yasin al-Imam 'Umar, a member of the Board of Directors of the Faysal Islamic Bank of Sudan, also presented studies to this session.

The topic of the second session was the "Role of the Islamic Banks in Economic Development and Its Practical Applications." This session was chaired by Ahmad Amin Fu'ad, the chairman of the Board of Directors of the International Islamic Bank for Investment and Development. Dr Fu'ad al-Sarraf presented to this session a study entitled "The Islamic Banks' Methods of Economic Development." Other studies were presented by Dr 'Awf al-Kafrawi, a professor at the UAE University; by Dr Isma'il al-Shalabi, a professor at the law school of al-Zaqaziq University, on "Islamic Banks and Development"; and Samir Mustafa Mutawalli, the former first undersecretary of the Ministry of Social Insurance, on the "Branches of the Islamic Transactions, Their Pros and Cons."

The third topic was the "Role of the Islamic Banks in Social Development and Its Practical Applications." This session was chaired by His Eminence Shaykh Ibrahim al-Dasuqi, the minister of religious trusts. Three studies were discussed in this session. The first was presented by Ahmad 'Adil Kamal, the general manager of the Faysal Islamic Bank of Egypt; the second by Dr Mahmud al-Ansari, the assistant secretary general of the International Union of Islamic Banks; and the third by Muhammad 'Abd-al-Karim Zu'ayr, a member of the Legal Control Committee of the Dubai Islamic Bank.

The topic of the fourth session was "Development of the Banking Services of the Islamic Banks." The session was chaired by Muhammad 'Abd-al-Fattah Ibrahim, a former deputy prime minister for financial and economic affairs. This session discussed a number of studies, including a study by Dr Fu'ad al-Sarraf entitled "Transactions in the Money Markets within the Framework of the Rules of the Islamic Shari'a," a joint study by Dr Shawqi Isma'il and Baha' al-Din Sabir entitled "Development of the Banking Services of the Islamic Banks" and a third study by Dr 'Abd-al-Hamid al-Ghazali, the chairman of the Economy Department of Mecca University, entitled "Studying Economic Feasibility in the Islamic Bank."

The fifth session, chaired by Counselor Ahmad Thabit 'Uwaydah, the chairman of the State Council, discussed a number of studies on the topics of "Spheres and Methods of Banking Cooperation among Islamic Banks." A study was presented by Dr Shawqi Isma'il Shihatah under the same title, a second study entitled "An accounting Framework for Islamic Set-term Profit-sharing Contracts" was presented by Dr Mahmud al-Naghi, and a third study entitled "Accounting for Financial leasing by Islamic Banks" was presented by Dr Kawthar 'Abd-al-Fattah al-Abji.

The sixth and final session of this plenary symposium was held under the chairmanship of Counselor Mahmud Fahmi, the chairman of the Money Market, and dealt with the topic of "Methods of Employing Money in Islamic Banks." Three studies were presented to the session: a study by Dr Shawqi Isma'il Shihatah entitled "Money and Markets within the Framework of Islamic Thought," a joint study entitled "Methods of Employing Monies in Banks" by Dr 'Abdallah al-Jaziri and Muhammad Tuhami and a third study by Dr Husayn Shihatah, the professor at the UAE University, entitled "Criteria and Evaluation of Problem of Liquidity in Islamic Banks."

Experiment Becoming More Enriched Month after Month

It is perhaps necessary to begin with the first session which explains or answers many of the questions on people's minds. This session proceeded as follows:

Dr Fu'ad al-Sarraf: "In the name of God, the compassionate and the merciful, and peace and prayers be upon the Venerable Prophet and upon all his kinsmen and companions, this session has been devoted to the Islamic banking system in thought and practice so that those attending this session may discuss Islamic thought itself in banking activities and may subsequently deal with the means and methods of application in the period beginning with the foundation of the Islamic banks that are no more than 5 years old in terms of practical experience. These practical applications have begun and are expanding year after year. I would not probably be exaggerating if I said that the practical application is being enriched month after month, even day after day. There is no doubt that this thought and this application need leadership and a safety valve embodied in the legal control. This is why the thought and this application need leadership and a safety valve embodied in the legal control. This is why the thought and the application abide, even in its details, documents and contracts, by the constant legal control so that there may be no deviation from any of the principles of the Islamic Shari'a."

Dr Ni'mat Ahmad Fu'ad, after requesting permission to deliver a special word: "If every Muslim takes as a good omen the birth of the first Islamic International Bank standing behind the economies of the Islamic world, I believe that this event is the break of the dawn that brings the day behind it."

She then demanded what she has already urged in her books, namely the holding of a comprehensive Islamic scientific conference including all specializations aimed at employing Islamic monies in the developing Islamic countries, with this employment founded on a constant policy formulated by a permanent council

from all parts of the Islamic homeland and headquartered in one of the Islamic countries. Dr Ni'mat Fu'ad also demanded that attention be devoted to man because Islam came originally to build man.

Dr Fu'ad al-Sarraf: "I am not a jurisprudent but I have read in the field of jurisprudence and have studied at the hands of all the eminent ulema after spending a lifetime in finance and economics and going through a number of usurious banks until God led me to the right path.

"I say that Islam encompasses both religious and secular affairs. It reforms the individual and society. As a student and interpreter of finance and economy, I say that money in Islam belongs to God and that all people are entrusted with this money, meaning that the money passes from hand to hand. Man is required to safeguard, develop and invest this money for the good of society. This is Islam which calls for safeguarding money. If a man cannot safeguard his money well, the wise ruler is entitled to take away this money. Thus, money in Islam belongs to God and man is entrusted with it. But there is a condition demanded for this trust, namely that the individual entrusted employ the trust for the good of society itself.

"We know that some of the classical economic theories have the objectives of serving society. But Islam came before all these theories to employ money for the good of both the poor and the rich in society.

"I have said that the first point is 'money' and the second point is 'man.' God has honored man by enabling him to work with His will and guidance. In legal Islamic investment, there has to be money on the one hand and work on the other. He who cannot invest his money may resort to a man with experience, who does not have money, to increase his money. There may be a man with money and a man with experience who can increase his money and enrich Islamic society. Insofar as these two points are concerned, the Islamic banks act as both capital owner and limited partner because the Islamic banking apparatus is a technical apparatus that can move the money to the various spheres of investment and employment to serve Islamic society itself.

Benefits of Islamic Transactions

"The third point concerns the method according to which the investment is made between the capital owner and the individual with the experience. The various contracts established in the Islamic Shari'a do not stick to rigid deals because they include aspects that take into consideration man himself and the circumstances that confront investment and employment. If the worker does not fail his duty and does not disobey the instructions of the capital owner or of the people investing the money and if a loss is still incurred, then it is natural that the loss is shouldered by the capital owner himself. But if the limited partner [worker] fails his duty, then he is the one to shoulder the loss. Thus, the rights of each side are fully preserved.

"The fourth point is God's right to the monies themselves, i.e., the right to the alms tax, because Islamic applications in financial transactions take into consideration the right of the poor to care and welfare. This is what we call the 'social dimension' of the applications of the Shari'a. It is a

dimension that distinguishes the Islamic financial transactions so that they may not be the object of the malice or the envy of the needy. The alms tax is one of the most important pillars of Islamic transactions. The alms tax is not charity to the poor but a means to transform the poor into a productive element serving the good of society.

"These are the applications of the Islamic Shari'a. This is not socialism and not capitalism. It is Islam in its true sense."

Definition of Concept of Usury

His Eminence Shaykh Muhammad Khatir: "One of the hadiths of God's Prophet, may God's peace and prayers be upon him, says 'revenue comes from responsibility,' meaning that he who guarantees [assumes responsibility] for money gets his profit. This rule dots the i's and crosses the t's. Non-Islamic banks guarantee money and guarantee its owner a set profit tied to the capital and to time. But the Islamic bank tells you whatever profit God gives. Should there be a loss, it is incurred by the capital [owner] because it is a partnership, with one side contributing his money and the other his effort. The loss is a loss of money to the capital owner and a loss of effort to the other partner, unless this partner fails his duty of safeguarding the money or misuses the money. In this case, the party investing the money is required to shoulder the loss because money is a trust in the hands of the limited partner who acts as a trustee when he invests and as a partner when he makes a profit.

"This is Islam's view of money. Ownership of money belongs to God alone, and man is a vicar to money who invests this money. Therefore, money is not the tyrant and the ruler, as it is in capitalism, and is not withheld from individuals, as it is in communism. Islam works with money whose ownership belongs to God and whose benefit--figurative ownership--belongs to man, who has been given this money by God so that he may invest it for the service and development of society."

Fu'ad al-Sarraf: "Thanks for the correct concepts mentioned by His Eminence Shaykh Khatir from whom we learned a lot."

Dr 'Abd-al-Hamid al-Ba'li: "It is said that the Islamic banks have emerged as a sound and healthy phenomenon on the rugged path of developing the Islamic societies. In the scientific sense, a phenomenon reflects intrinsic strength and automatic instinctive development. But insofar as the Islamic bank is concerned, a phenomenon means natural suitability, with no alternative and no failure. As for the concept of the Islamic bank--even though there are numerous definitions regarding this entity which is new to the international arena--it is required that the ulema and the specialists exert efforts to provide the proper interpretation covering all aspects of the concept and excluding anything alien from this concept. To me, the concept of the Islamic bank means a financial banking establishment to gather "surplus monies" in the hands of individuals and invest them in accordance with the objectives of the Islamic Shari'a so that such a bank may act as the ideal vessel within which thought and application interact without exaggeration and without squandering. Here emerges the importance of the inevitable role of the Higher

Religious Interpretation and the Legal Control Committee as a voice of wisdom and caution and the role of the International Institute for Islamic Banks and Economy as a practical scientific authority concerned with the economic sciences and financial establishments with an Islamic identity. I want to draw attention to the need for utter conformity between thought and application."

Colonialism Introduced Usury

Dr Yusuf Qasim: "Catastrophes befell us when the West introduced into our countries loans and usurious interest, along with military occupation, colonization and positive laws. But with the onset of the 5th century of the Hegira, a ray of hope emerged with the foundation of the Islamic banks, which prohibit usury. It is a ray of hope with which the Islamic nation launches a new era, elevating the word of God and the Sunna of His Prophet. Prohibiting usury and banning usurious transactions have a great impact on economic development by virtue of the major role this ban plays in eliminating the phenomenon of inflation from which the entire world suffers. If we look at the Islamic banks at present, we find that there is a strong interest on the part of the faithful masses in their permissible investment, as we have seen in the case of the Faysal Islamic Bank of Egypt. This unprecedented interest in encouraging the Islamic Bank of Egypt and in depositing savings in it requires the bank officials and supervisors to be even more careful with the monies of Muslims and to invest them in what pleases God. There are numerous avenues of legitimate investment within the framework of prohibiting usury, monopoly and the hiking of prices so that Islamic society may achieve abundance and prosperity."

Islamic Economic Thought Began in Egypt

'Abd-al-Sami' al-Misri: "I would like first to correct a piece of historical information regarding the rise of Islamic economic thought which appeared clearly in the 1930's and was applied with the foundation of the Muslim Brotherhood firms in the 1940's. Moreover, Muhammad 'Ali Janah, the founder of the state of Pakistan, asked Cairo to supply him with specialists to set up a central bank in Pakistan on Islamic bases. The conditions developed in rapid succession and then the idea of "people's banks" came into existence and those banks were founded by Dr Ahmad al-Najjar. The Nasir Social Bank was then founded and was finally followed by the Faysal Islamic Bank of Egypt. The rest of the story is well known.

"Regarding our topic, it is well known that the operations of the commercial banks are founded on the interest rate. They pay the depositor a certain interest rate and charge the borrower a higher rate. The difference between the two rates represents the most important part of the revenues of these banks. This situation is tantamount to diverting money from its fundamental task because these operations mean that money has turned into a commodity with a price and that trading in this commodity leads to the accumulation of riches, with all the subsequent economic damage emanating from such accumulation. This is why Islam has dictated that money be put in the service of society or, in other words, that the national wealth be put in the service of the nation's members.

"Western economists believe that banks create money. This is a reality in the commercial banks, with the credit facilities they advance. But these banks contribute to inflation also. While the government tries to absorb the excess money by raising the interest rate as a patterned cure, we find these banks returning the money to the market with the credit they advance. It is as if they are thus fighting the policy of the government which tries to curb inflation.

"Islam provides a cure to the inflation problem by abolishing the interest on money and by applying the alms tax law."

Dr Fu'ad al-Sarraf: "The final study in this session will be presented by Dr 'Abidin Ahmad Salamah, the director of research at the Faysal Islamic Bank of Sudan, and is entitled "Islamic Banks and Islamization of the System in Sudan."

Dr 'Abidin Ahmad Salamah: "The benefit of the Islamic banking system is not confined to the Islamic world but extends to the entire world because Islam has not been revealed for the Muslims alone but to all mankind. The Islamic banks are moving nowadays in two directions. There is a direction that believes that Islamic banks should be opened one after another so that people may be convinced and so that the entire system may turn into an Islamic system and another direction that believes that the entire banking system should be Islamized. The Islamic banking system has economic benefits, including enhanced economic efficiency. Moreover, the abolition of usurious interest and the emergence of the Islamic alternative as a partnership system generates the benefit of distribution because the profits made by the establishments will be diverted to the savers. The partnership system also creates among Muslims a concern for the Islamic establishment and develops in Muslims the spirit of participation in its control. On the other hand, the Islamic system, which is not founded on usurious interest, encourages investment because usurious interest helps in the hoarding of money and does not stir in the capital owner the element of risk-taking and investment. There remains an important point concerning the nature of the relationship between the Islamic banks and the banks founded on credit and usurious interest. This point requires serious study so that many problems may be avoided."

Dr Fu'ad al-Sarraf: "The government is currently drafting a new credit bill. The minister of economy has agreed to devote in this new law a special chapter for Islamic banks to regulate the necessary relationship between the Islamic banks and the Central Bank--a law that is not in conflict with the state's wish to extend the control of the Central Bank over all the banks, including the Islamic banks. Thus, we are advancing on the path."

Number of Questions

A number of questions were raised by the audience on the role of the Islamic banks, especially of the Faysal Islamic Bank, on the capability of the bank workers, on the role of the bank vis-a-vis the Muslim family and Muslim child, on a proposal to set up a fund for charity loans and on the revival of the Islamic heritage. Answering these questions, Dr Fu'ad al-Sarraf said:

"The Faysal Bank has already formed a socio-cultural committee which works to revive the heritage and extend its activity to the education of the Muslim child and the intellectual and social welfare of the Muslim family through already existing schools and schools that will be established, God willing. This committee is also concerned with training and will extend its activities even to Islamic groups living outside Islamic society. We have actually advanced grants to numerous Muslims living in non-Islamic societies.

"Insofar as the workers of the Islamic Bank are concerned, they are a select group who believe in the religion and who are trained in banking work within the framework of the rules of the venerable Shari'a. We are exerting efforts to train more such workers at the Islamic Banks Institute.

"As for the charity loan, it already exists and is applied to the shareholders, the workers and the depositors in accordance with certain controls and regulations.

"After this definition of the rules of thought and application that must govern the work of the Islamic banks which have emerged to occupy a vast space in the banking work regulated within the framework of the venerable Islamic Shari'a and after this discussion of all aspects of the issue, it is necessary to embark on the issues of the Islamic banking operations and of engagement in financial and economic activity with an Islamic philosophy."

How do the Islamic banks deal in the money markets? How do they perform their banking services? How does the Islamic bank conduct its economic feasibility studies? What are the methods of employing monies in the Islamic banks? What is the assessment concerning the liquidity problem in the Islamic Bank? How do the Islamic banks cooperate with each other and conduct their transactions with one another? Generally, what is the role of the Islamic bank in economic development within the framework of the venerable Shari'a? We will publish in the next edition several studies and discussions of these issues.

[30 Dec 83 pp 69-73]

[Text] Once again, what is the Islamic banks' role in economic and social development?

In the previous edition of AL-MUSAWWAR, we stopped with a review of one side of the dialogue and discussion which took place in the first sessions of the symposium discussing this issue. All the discussions published were on the "Thought and Application of the Islamic Banking System."

Today, we will present the second part of the symposium, which concerns the role of the Islamic banks in economic development and its practical applications, their role in social development and its practical applications and the development of the banking services of the Islamic banks.

The Faysal Islamic Bank of Egypt called for a plenary symposium on the role of the Islamic banks in economic and social development. The symposium convened for 3 days under the chairmanship of His Highness Prince Muhammad al-Faysal Ab Sa'ud, the chairman of the bank's board of directors, and was opened by Dr Mustafa al-Sa'id, the minister of economy, on behalf of Prime Minister Dr Fu'ad Muhyi-al-Din. The symposium was moderated by Dr Muhammad Fu'ad al-Sarraf, the bank governor, and was attended by a large number of clergymen, current and former ministers, businessmen, economists and university professors. The symposium discussed 22 studies in 6 sessions which were chaired by a number of prominent businessmen and jurists. Counselor Ahmad Hassan was the symposium's general secretary.

The issue is that these banks apply the Islamic Shari'a and that their banking transactions differ from the transactions and methods of the conventional banks. These banks, which are no more than 4 years old, have been born gigantic and have spread to occupy such a prominent place in all the Arab and Islamic countries that the conventional banks have been forced to open tens of branches for Islamic-style transactions. The impact of this phenomenon has even extended beyond the Arab and Islamic borders, and we have seen some European banks give consideration to setting up branches that deal in accordance with the Islamic Shari'a so that they may not lose the Islamic banking market.

Let us move now to the second part of the symposium.

Ahmad Amin Fu'ad: "The topic of this session is one of the most serious topics being discussed by this symposium because it deals with the answer to an important question: How do we develop our Islamic nation's economy?"

"When speaking of development, it is natural for the role of the Islamic banks to emerge. These banks' pioneer role in application saddles them with a big responsibility because the role of the Islamic banks emanates from their being Islamic banks that comprehend the concept of Islam, Islam's view of money and the role of this money, both saved and invested, in development within the controls of the Shari'a which govern the role of this money in developing the Islamic societies. In this respect, the Islamic banks are proceeding to perform their role with utter seriousness."

Ahmad Amin Fu'ad then invited the researchers to present comprehensive summaries of their studies, adding that the door will be then open for discussion and dialogue so that the symposium may be enriched with the opinions and expertise of those engaged in the discussion, not with the purpose of faulting or bringing people to account but for the purpose of "correcting ourselves and our course."

On behalf of Dr 'Awf al-Kafrawi, Dr Husayn Shihatah presented a review and summary of his study on the 'Role of Islamic Banks in Economic Development.' In his study, Dr al-Kafrawi explains the concept of the Islamic banks and defines what an Islamic bank is. He also demonstrates how the Islamic banks are currently the evident application of the Islamic economic system and that they have provided the Islamic alternative to all the conventional banking

transactions so as to spare the Muslims anguish, to facilitate the exchange of data and to enhance capital's ability to increase production and accelerate development by developing savings awareness, by encouraging investment and discouraging hoarding, by creating numerous opportunities and formulas of economically and socially profitable investment, by supplying the financing needed and by establishing coordination and integration among the Islamic banks.

In the first part, the researcher [Dr al-Kafrawi] discusses the position of the Islamic banks vis-a-vis the money supply and attempts to attract deposits and the impact of this position on economic development. He demonstrates that creating credit money and increasing the deposits in usurious banks may lead at times to inflationary consequences harmful to the national economy. He also demonstrates in this part that the Islamic banks do not increase credit and deposits because they do not sell money and do not deal in usury. In this case, the state is the party that issues money, and herein lies the inflationary effect.

As for the Islamic banks' role in encouraging savings and investment, the researcher demonstrates in the second part of his study that these banks encourage small savers to deposit their savings in them. They also encourage big savers to channel their monies toward investment in development. Here emerges the role of the Islamic bank in absorbing surplus money from the hands of small savers who become more inclined toward consumption. This absorption of savings leads to a reduction of the inflation rates and to the alleviation of the development burden. Here, as in the third part, the Islamic banks contribute to the development plan so as to make it possible to dispense with borrowing from the international establishment in return for interest, thus alleviating the burden of foreign indebtedness.

The researcher devotes the fourth part to discussing the Islamic bank's currency policy and its impact on economic development. In the fifth and final part, Dr al-Kafrawi discusses the role of the alms money collected by the Islamic bank in social development, in combat poverty and in reducing the differences between the classes, thus helping social stability. He also discusses the role of the alms tax in encouraging the investment of money.

His Eminence Shaykh Muhammad Khatir: "The researcher has used the phrases 'creating money' in his study repeatedly. This phrase is improper because God is the creator. This phrase can be replaced by 'finding money.' The researcher also talked of developing the saving deposits and the investment deposits. I don't know what difference there is between the two. Moreover, the researcher has also spoken of social development. Development means intensifying the social situation. Should we intensify poverty? The word 'development' is correct in economics only."

Ahmad Amin Fu'ad: "Thank you, Your Eminence. We also have observations regarding your observations. But we will present them at the end of the studies to abide by the course which the discussions are following."

Dr Isma'il Shalabi: "The study I am presenting is no more than a brief reference to the strategy of the Islamic action for development through the collective action of the Islamic banks. We see the crises of the advanced world having their negative impact on the developing countries, including the Islamic countries seeking development. The Islamic countries, excluding the oil countries, are poor. In 1980, the debts of the developing Islamic countries amounted to \$70.5 billion, for which high interest rates are paid. The rich Islamic countries deposit their monies in foreign banks which then lend these monies to the developing countries at high interest rates. The poor Islamic countries have endeavored to attract foreign capital for investment in development through participation, and the Egyptian open-door economic policy came into existence. But regrettably, we find that the incoming capital is not compatible with what we had expected. Moreover, we find that the joint foreign banks benefit more than the national economy.

"It has been God's will to lead us to the Islamic path. The beginning came with the Islamic banks that steer clear of interest and that seek real investment through partnership. As long as we have been guided to the divine path in these banks, then the issue requires, in my opinion, a necessary pause so that we may ask: How do these Islamic banks operate without any common coordination or planning, i.e., how do they operate without a strategic plan at the level of the Islamic world?

"I believe that we are facing two problems: The first is the lack of technical cadres to carry out this work with a method and a philosophy that are new to society. The International Union of Islamic Banks in Cyprus has been able to develop some blossoms in this regard. The second problem is the lack of coordination among the Islamic banks to launch collective Islamic action that helps employ the big deposits and invest capital for development in the Islamic world within the framework of the Islamic Shari'a. This particular problem requires the setting up of a central Islamic bank to take charge of this strategy."

Samir Mutawalli: "This study is of particular significance because it deals with a serious issue concerning the branches of the non Islamic banks for Islamic transactions. Mustafa 'Ali Ahmad, the deputy director of research at the Faysal Islamic Bank of Egypt, has presented a comprehensive summary on this study. The researcher says that he does not intend to judge the extent of the soundness of these branches insofar as their practical adherence to the controls and practices which must govern the work of any Islamic bank is concerned. He says that he seeks to review the development in and the size of these units [branches], their rise, their impact, their efficiency, the reservations against them and the problems facing their future.

"The phenomenon of these branches for Islamic transactions has become widespread. The Bank of Egypt has set up six such branches, and so have other commercial banks, including the Nile Bank, the Commerce and Development Bank, the National Development Bank, the Gulf Bank of Egypt, the regional banks and their branches and a number of other commercial banks. It is my belief that the success attained by the Faysal Islamic Bank of Egypt, whose deposits have multiplied year after year, has been one of the strong reasons behind the spread of bank branches for Islamic transactions which have amounted to 35 branches covering 12 of the country's governorates.

Position of Transactions Branch

"The mother banks have been careful to set aside independent capital for these branches so that they may have separate financial liability. But the capital set aside for any branch stems from the mother bank. Regardless of whether set aside as a trust, as a charity loan or as capital, the money set aside for the branch comes from the funds of the mother bank which deals in interest. This is why a reservation is voiced regarding the starting point of these branches which lack a legal status. Such branches should offer their shares for general or closed subscription in order that they may start without any suspicion of illegitimacy.

"However, these Islamic branches have become a reality and some Arab countries have begun to turn to this Egyptian experiment. Therefore, the International Union of Islamic Banks is required to open the door for a serious joint study and for cooperation, coordination and integration with these branches."

Dr Fu'ad al-Sarraf: "The study under discussion is the 'Islamic Banks' Methods in Economic Development.' Dr Shawqi Isma'il Shihatah has presented a comprehensive summary of the study which deals with six issues pertaining to the topic:

"The importance of the major role of the financial banks and establishments in the sphere of economic development throughout the ages.

"The aspects of similarity and difference between the Islamic economy and the positive economy.

"The Islamic concept of the elements of production in the Islamic economy.

"The Islamic banks' methods of employing monies in search of economic development and production profits.

"Islamic thought's view of commerce on the path of economic development.

"Joint cooperation among the Islamic banks in economic development and in the building of major projects.

"It is indubitable that banks and financial establishments play a major and important role in economic development. But this role differs in the Islamic banks from the role of the conventional banks that follow the system of interest rates which govern the movement of their transactions, whereas the Islamic banks depend in all their resources on the deposits placed with them and work to develop these deposits in light of the rules of Islam and without the use of interest.

"It is true that there are points of similarity between the Islamic economy and the positive economy. But it is a similarity in general appearances only. However, they differ on many issues. For example, private ownership in Islam is stable, contrary to the positive economy where the views vary from school to school. Another example is that the positive economy is frequently exposed to the problem of 'scarcity' whereas Islam believes that the problem is not in scarcity but in the poor distribution of resources, whether internationally or locally.

"As for the elements of production in the positive economy, they consist of the environment, capital, work and organization. Meanwhile, Islam focuses on and underlines these elements in two points: capital and labor. Labor here is used in the broad sense which includes organization and management. Consequently, the capital fuses with the labor or the productive service so that a yield [profit] may be generated. Profit generated by capital without labor is an illicit usurious profit.

"The talk regarding the Islamic banks' methods of employing capital stems from the concept that Islam is concerned with economic development as much as it is concerned with religious duties and worship and that economic development is tied to social development. Ibn Khaldun, an Islamic thinker, was among the first to deal with this concept.

Methods of Employing Monies

"The employment [investment] of monies takes various forms, either with the knowledge of the Islamic bank itself or through profit-sharing, partnerships and limited partnerships or other forms permitted by the Shari'a. As a result, investment is recommended and focused in the sphere of the production of goods and services that meet man's basic needs within the framework of the permissible. It thus becomes necessary to give priority to the principle of society's needs and of the public interest before considering the profit.

"As for the point concerning Islamic thought's view of commerce, the modern systems define commerce as the exchange of benefits and services whereas Islam defines it as a social service for Muslims.

"We now come to the final point concerning cooperation among the Islamic banks with the aim of economic development. The researcher proposes the development of a financing strategy among the Islamic banks that plans to finance major projects and that formulates methods permissible by the Shari'a to achieve this end."

Ahmad Amin Fu'ad: "The studies presented have dealt with numerous points. Before embarking on these points, I would like to greet His Eminence Shaykh Muhammad Khatir for his observations that lead us to what is right. Islam has come as a complete system of life, dealing with all of life's material and spiritual aspects.

"Dr Sulayman Isma'il Shalabi has raised three important points, such as lack of coordination and plans among the Islamic banks. He has also pointed out the need for collective action and has come up with the idea of the Islamic central bank. But while discussing all this, we must realize that the Islamic banks are only a few years old. It is one of God's blessings to us that these Islamic banks have been born and have gained strength despite the challenges facing them. As for the idea of the Islamic central bank, it is not absent from our minds and it has been crystallized in the idea of the international Islamic bank, which is to perform the task of the central bank of all Islamic banks because a central bank requires that there be a single Islamic nation, that this bank not act in conflict with the sovereignty of each of the existing states and that it perform all the tasks of uniting and coordinating efforts among the Islamic banks.

"As for Dr Fu'ad al-Sarraf's statements concerning the characteristics of the Islamic economy, Dr al-Sarraf has explained a lot to us and has penetrated deeply into many dimensions of the Shari'a and the faith. Moreover, Dr Samir Mutawalli has put his finger on several points concerning the financial liability of the branches for Islamic transactions--points which must be given a lot of attention."

Dr 'Abd-al-Hamid al-Ba'li: "I have a lot to say about money in Islam because money in Islam has many meanings insofar as poverty and people's daily problems are concerned.

"Regarding what Dr Fu'ad al-Sarraf has raised in connection with the elements of production, their concept in the West and their concept in Islam, they are tied to the kind and nature of ownership is three-sided and is defined by the Islamic Shari'a."

Turning to Countryside

Shaykh Sayyid Ahmad: "You are speaking of Islamic economic development. But how [can this development be achieved] without a work strategy that defines the role of the Islamic banks in this development? How are the resources of the Islamic banks defined and how do we then develop the methods of the Islamic banks to serve development? We want a cooperative development, such as partnership and shareholding, and we want the Islamic banks to turn to developing the countryside."

Isma'il Siyam: "Islamic thought is old and new. If there are [good] ideas in the positive economy, we must not reject them but should let Islamic thought enrich them because we cannot abolish the thought on which pure science is founded.

"As for the branches for Islamic transactions, they were suggested in the symposium of the International Union of Islamic Banks, and we wish to put our hands in yours and subject them to legal [religious] control so that we may be able to complete our march."

Maj Gen 'Adil Ghunaym: "Some of the studies we are discussing are academic and some are applied. We want the academic to meet with the applied to serve the Islamic bank and to develop the Islamic economy."

Dr Husayn Shihatah: "The Islamic banks are operating in environments which have their ideological crises or philosophical crises. This is why the Islamic banks must devote attention to disseminating Islamic culture so that the intellectual environment may be purged of intellectual colonialism. Thus, the base of those dealing with the Islamic banks can be expanded and, subsequently, these banks can increase their services in the sphere of economic development and in achieving social justice."

Dr Yusuf 'Abd-al-Rahman: "Insofar as the concept of the central Islamic bank is concerned, bank issues currency basically as a manifestation of the state's sovereignty. Consequently, we cannot speak of establishing a central

Islamic bank unless a single Islamic nation comes into existence. The second point concerns the branches for Islamic transactions. I reject the idea of these branches because a branch is fundamentally controlled by the mother bank and the mother bank deals with interest rates, i.e., its monies are soiled with the illicit."

Ahmad Amin Fu'ad: "Insofar as the central Islamic Bank is concerned, such a bank cannot be established. But in accordance with the Shari'a rule 'what cannot be taken altogether should not be abandoned altogether.' What is sought currently is an Islamic bank that performs some of the tasks of a central bank, including coordination of the work of the Islamic banks and supporting them in times of need in accordance with the rules of the Islamic Shari'a. This is in addition to the other investment activities that can be performed by such a bank."

Dr Mahmud Lashin: "There is something that saddens me as a Muslim insofar as the workers and researchers of the Islamic banks are concerned. These banks have been infiltrated by some people who do not believe in the concept and who fight the system in a way similar to the way the Jews resorted to when they failed to fight Islam, namely by embracing Islam and creating factions and sects in it. We must devote attention to the cadres working in these banks."

Musa Ya'qub: "What have the Islamic banks achieved through their action in the societies where they exist and what is the situation insofar as economic and social development within the Islamic framework in these banks is concerned?"

"In fact, the Islamic banks have revived realities that were absent in modern economic activity, at least insofar as intrinsic development, which is embodied in gathering savings and spending them on a certain society, is concerned. This is a new path followed by the Islamic banks. I demand that the needed data be supplied to the researchers and the people so that they may know how to achieve and what is the goal of an Islamic bank."

These are studies presented and discussions held on the role of the Islamic bank in economic development. What is the Islamic bank's role in social development? Let us continue with the discussion that took place on this topic. This session was opened by Dr Fu'ad al-Sarraf and was chaired and moderated by His Eminence Shaykh Ibrahim al-Dasuqi, the minister of state for religious trusts.

Dr Fu'ad al-Sarraf: "His Eminence Shaykh Ibrahim al-Dasuqi, the minister of state for religious trusts, is honoring us by chairing this session. The Faysal Islamic Bank of Egypt would like to note for his eminence the sincere help he has extended, considering that he has participated throughout recent years and before assuming the ministerial post, as an important and effective member of the bank's Alms Tax Fund."

Shaykh Ibrahim al-Dasuqi: "This is a meeting with which God pleases the heart of every Muslim. This symposium is meeting to discuss one of the most serious issues concerning Muslims everywhere, namely the issue of money, which is the backbone of life, and Islam's position vis-a-vis money. Does money in Islam have a role in man's social life and has Islam regulated this role?"

"There has been an allegation that Islam is one thing and life another. They have also tried to turn Islam into legislation regulating man's relationship with God only. As for life, man shapes it the way he needs. Those who hold this opinion do Islam an injustice when they isolate it from life, keeping in mind that Islam has come to organize man's relationship with this life in a manner compatible with man's instinct and nature and with all that exists in this human environment, be it money or anything else. Islam founded states and has made the world happy with its legislation. Today, we are witnessing this blessed awakening which is announcing to the world that Islam is a religion that has not retreated from life but a religion that has come to make both life and this world happy with all the means permitted by God. Money is one of these means. Islam has organized the way man can acquire money and has instructed man to invest this money in ways approved by God's religion for the happiness of mankind.

"Here we are witnessing the rise of the Islamic banks and financial establishments to declare to the world that money has a social function. These Islamic banks and establishments are the practical embodiment of Islam's laws and teachings. Islam has never mentioned faith unless coupled with good deeds. Good deeds are what link man to man in this life with all it contains. Brother Ahmad 'Adil Kamal will now speak to us on this subject."

Ahmad 'Adil Kamal: "I would like first to present a short historical review of the development of banks in Egypt. Foreigners controlled the situation and exploited the banks to serve their interests and the interests of their countries until the Bank of Egypt was founded as a purely Egyptian bank. But despite this bank's commendable effort in the economic spheres, it has not devoted attention to the social aspect. The first Egyptian bank to be concerned with the social aspect, namely the Nasir Social Bank, was founded in Egypt in 1971. One of its objectives has been that of expanding the base of 'social insurance' [al-takaful al-ijtima'i]. This bank's resources are specified by a presidential decree.

Start of Experiment

"The Faysal Islamic Bank of Egypt was then founded as the first commercial bank concerned with the social aspect. Then the International Islamic Bank for Investment and Development came into existence and was followed by the conventional banks' branches for Islamic transactions, now totaling 35 branches. We are now seeing the Islamic banks rising and spreading in Egypt and the rest of the Islamic world, even beyond the Islamic world.

"We now come to the social objectives of the Islamic banks. I have already pointed out that the Nasir Social Bank was the first Egyptian bank to devote its attention to this aspect and to advance interest-free loans to producers and in-kind loans to small projects as well as social loans. This bank has set up an independent administration for the alms tax.

"Then came the Faysal Islamic Bank of Egypt and the first financial and banking establishment not dealing with interest and the first commercial bank concerned with the social aspect. This bank sets aside the alms tax and his

eminence the grand imam and the shaykh of al-Azhar and his eminence the minister of religious trusts make sure that the bank abides by collecting the tax alms and spending it in legitimate channels, as stipulated by article 3 of the law setting up the bank. This is insofar as the alms tax payable for the bank's capital and profits is concerned. But there are also taxes which the bank clients ask the bank to pay on their behalf, and these cannot be paid without the clients' permission. There are also donations that come to the bank so that the bank may put them at the disposal of its alms fund. Moreover, there are those who devote the revenues of their deposits to specific acts of charity legitimized by Islam such as spending on Muslims in some African countries or spending on orphans or on contests in Koran memorization. These are called 'charity accounts.'

"Insofar as social welfare is concerned, the bank advances 'charity loans' in specific cases, such as when a house is demolished or an occupant is evicted or in case of sickness or of students in higher studies or in cases of catastrophe.

"The bank offers another kind of social service in the sphere of Islamic education and culture. The bank has advanced a big charity loan to help set up special high-level Islamic schools that, in addition to teaching languages, are concerned with Islamic education. Because of the importance of Islamic education, the Faysal Bank has formed an Islamic Education and Culture Committee to act as the think tank that formulates for the bank an educational strategy centered on Islamic culture, on providing the Muslim with care from an early age, on financing academic grants to excelling students and on financing the Islamic book. The bank has given this committee a charity loan so that it may launch its activity.

"Thus, the Faysal Islamic Bank of Egypt has been founded as a financial establishment performing all banking operations, but in accordance with the Islamic Shari'a. At the same time, the bank places itself in the service of society through social development, which is the bank's second job.

"I conclude my summary by demanding that no bank or bank branch be allowed to gain the status of an Islamic bank unless it abides by the method of the Shari'a in gathering and employing money, unless it pays the alms tax for its capital and profits and spends this tax in legitimate channels and unless every such bank has a religious legal interpretation and control committee."

Dealing with Our Problems

Dr Mahmud al-Ansari: "In fact and out of experience, the rise of the Islamic banks is itself a call for dealing with the entire world's economic and social problems. It is a real start for dealing with the problems of inflation and for liberation from the Western systems. An Islamic bank is a financial, social and spiritual establishment. It is a financial establishment for gathering and employing monies within the framework of the Islamic Shari'a with the aim of making a profit that serves to build the society of solidarity and achieves fair distribution. Thus, the spiritual values are strengthened

through adherence to the Islamic code of ethics and morals because the Islamic bank is not just a financial middleman offering banking services. The Islamic bank abides primarily by the rules of Islam in thought and practice. This abidance leads to development.

"This is why a bank abiding by the Islamic Shari'a must strike a balance between the individual's interest and society's interest, stamping its economic activity with a spiritual quality and channeling its economic resources toward the production of goods and services that meet man's needs. This is also why it is required, in order that the bank's operations may be tied to this concept, that the people managing the affairs of these banks be selected carefully.

"In conclusion, I say that social development seeks to broaden the base of those who own. This can be done only through the Islamic bank which is concerned with man, with direct investment and with financing through partnership. However, a constant evaluation of the performance and the results is required. It is also required that the branches of Islamic banks spread at the level of the quarters and even down to the level of the villages."

Muhammad 'Abd-al-Hakim Zu'ayr: "My discussion will be on the methods of the Islamic banks in the social spheres and on their role in achieving social justice. I have heard disagreement over whether the issue is one of social welfare or social development. To avoid argument, I have called it social justice.

"To start with, the foundation of the Islamic bank which applies the Islamic Shari'a is a call for Islam. Consequently, the call for Islam is one of the tasks of the Islamic bank. The call for Islam will have thus moved from the world of libraries and studies [academia] to the world of transactions.

"Let me cite to you the experience of the Dubai Islamic Bank which stops work during prayer times and where religious lessons are given after each prayer session. The bank has set up a center to train its workers and has appointed female Muslim employees to deal with the bank's women clients. It is not necessary that we squeeze the Muslim woman amidst the columns of men and put her before the employees. The Dubai Bank has also organized symposiums and conferences at the universities and has issued AL-IQTISAD AL-ISLAMI magazine."

Yasin al-Imam 'Umar: "I have heard that meats are imported from countries that do not slaughter their livestock according to the Shari'a. Why don't the Islamic banks set up livestock breeding projects and slaughterhouses so that we may protect ourselves from the cheating of others?"

"I have also heard different concepts concerning social welfare and social justice. Is this the banks' job? If it is, then what is the state's job? Basically, we finance projects that give their priorities to social projects. If this is what is meant, then, yes, this is the Islamic bank's role."

The Sudanese brothers then engaged with brother Yasin in discussion and raised numerous questions, thus using all the time allocated for comments and the session ended with a word of thanks from Dr Fu'ad al-Sarraf.

The two wings of society's development are economic development and social development. This has been a fruitful session and we have heard profound studies and intelligent discussions. What remains is to find out how the Islamic bank performs the banking service and how it develops it. A long session was devoted to this purpose and was chaired by Muhammad 'Abd-al-Fattah Ibrahim, a former deputy prime minister for financial and economic affairs.

Dr Muhammad Fu'ad al-Sarraf: "This session will be chaired by Muhammad 'Abd-al-Fattah Ibrahim, the former deputy prime minister for financial and economic affairs, a former governor of the Central Bank and ex-minister of finance. He was also minister of social insurance and affairs, meaning that he has an understanding of both economic development and social development, even though our discussion here will be on the services of the Islamic banks and on how to develop them."

Muhammad 'Abd-al-Fattah Ibrahim: "I have now before me three studies. The first is submitted by Dr Muhammad Fu'ad al-Sarraf and pertains to 'transactions in the financial markets within the framework of the Islamic Shari'a.' Dr al-Sarraf has long experience in finance and economies inside and outside Egypt.

"The second study is submitted by Dr Shawqi Isma'il Shihatah, jointly with Baha' al-Din Ahmad Sabir, on 'Banking Services in the Islamic Banks and How to Develop Them.' The third study is on 'Studying Economic Feasibility in the Islamic Banks' and is submitted by Dr 'Abd-al-Hamid al-Ghazali and will be presented by Mustafa 'Ali Ahmad."

Dr Muhammad Fu'ad al-Sarraf: "Today's topic concerns transactions within the framework of the Islamic Shari'a. This issue does really need extensive clarification insofar as applying the Islamic Shari'a to the transactions in the Islamic markets is concerned. This study was presented previously to an international conference in Cairo on the money market to demonstrate to the symposium that the Islamic Shari'a does not have a system for transactions in securities or in the money markets. The study is no more than a set of proposals for setting up an 'Islamic financial market' that can contribute, through the banks and through money, to the economic and social development of the Islamic society.

Investment Controls

"The study consists of a number of points, beginning with the concept of the task of money in Islam. Money belongs to God and people are entrusted with it, investing it in whatever has permitted and channeling it fundamentally toward the development of the Islamic society in which we live. The investment of money for production has its controls in Islam so that the production may be that of goods that meet man's essential needs. On the other hand, Islam, as a creed, does not condone the withholding of money from circulation. The same rules prohibit leaving cultivable lands fallow and development lands without construction for the benefit of the members of Islamic society.

"Considering that the rules of Islam define the controls for investment development in society's need, then what are the Shari'a controls for investment? There are the Shari'a controls on which the transactions, whether in the money market or in the sale and purchase contracts, depend.

"As I have already noted, there are controls that govern legal Islamic transactions. If we speak of the 'Islamic alternatives to transactions in the money markets,' then these alternatives must also be conducted within the framework of the Islamic Shari'a. Let me cite examples of the Islamic alternatives:

"The share, as a paper representing a capital owner awaiting the outcome of the company's efforts in terms of profit or loss, is legal unless the company engages in activity violating the Islamic Shari'a, whether by turning out an undesirable product or borrowing on interest. As for the bond with which the companies borrow from the money market on a set interest rate, it is not acceptable by the Shari'a. So what is the Islamic alternative?

"It is my personal opinion, which is just the opinion of an interested researcher and not the opinion of the Faysal Bank, that there should be a 'paper' in accordance with which the capital owner goes into partnership with the laborer for a set period of time and which can be circulated in the same society or internationally, with this paper issued by a trustworthy managing party and under the canopy of the Islamic Shari'a. This establishment [managing party] is entrusted with investing the monies gathered by way of this 'paper' in its capacity as a limited partner, embarking on housing, agricultural, industrial or service projects. Let this establishment be the Faysal Bank or any other Islamic bank. It is a paper that is based on the Islamic Shari'a, that can be circulated and that earns a yield depending on the outcome of the activity within a certain period of time.

"Another alternative is for a bank or an investment firm to select a certain project, study its economic feasibility, make sure of its profitability and its sound implementation and the time for this implementation and then offer a 'paper' for financing this project after familiarizing people with it.

"Whether in the first or second alternative, the 'paper' can be consumed [presumably meaning redeemed] when the housing project is completed. The paper owner gets a return equalling the market value of the project. Thus, the paper holder, i.e., the capital owner, will have reaped a profit from the total sales.

"A question may be raised regarding the paper's position vis-a-vis the project share itself. What is the legal status of this paper? If the bond has priority over the share in the usurious system, then will this paper have priority over the share in the company's capital and in the profits? I present this paper and all these questions for discussion because discussion of these issues enriches our experiment."

Bill Discount Operations

Dr Shawqi Isma'il Shihatah: "The banking services offered by the Islamic banks include all the services offered by the conventional banks while abolishing or developing those services that are incompatible with the rules of the Islamic Shari'a, particularly the operation of discounting commercial securities or dealing with interest-bearing bonds.

"The second point concerns the development of the banking awareness among individuals to such an extent that we have seen the peasant dealing with banks in the villages.

"The third point concerns the development of information, public relations and an information service and their impact on the cultural dimension and on codes of behavior. The Islamic banks' role in this sphere is boundless.

"The fourth point concerns the discounting of bills. Whatever the justifications and interpretations offered to make this activity legitimate, it is a completely usurious activity and the Islamic bank refuses to deal with it or practice it. But, can the Islamic bank dispense with bills in its commercial activity? This is impossible. So what is the alternative to the bill-discounting activity which is prohibited by the Islamic Shari'a?

"The Islamic system is fully eager for the bill, as it is known since the emergence of Islam as an instrument of credit repayment, to perform its fundamental role in commercial activity. Moreover, the investment methods practiced by the Islamic bank, such as limited and open partnerships and profit sharing, lead to curtailing the need for bill discounting and to direct transactions between the parties concerned without the middlemanship of the bank in the borrowing and lending operations between the clients and the merchants. A bill holder can get cash flow for his operations without resorting to discounting his bill for a certain interest rate, thus avoiding a fall into what God has prohibited. But the use of a bill at its full face value is permissible. In the partnership operations, the bill can act as the client's share in the partnership's capital, or the bill can be included in a profit-sharing sale transaction on the basis of delaying payment of the installments in return for acquiring the goods desired and so forth."

'Isa Abu Tabl: "The idea projected by Dr Fu'ad al-Sarraf regarding the Islamic 'paper' requires a major conference to study all its financial, economic, legal, accounting and jurisprudential aspects.

"A second point: I demand that the current companies law be amended and that a special section be included in it for the Islamic banks and firms that do not deal in interest rates."

'Abd-al-Sami' al-Misri: "The proposal made by Dr Fu'ad al-Sarraf--the Islamic 'paper'--can solve the problem of short-term financing. We can set up an investment company that issues such a paper for the benefit of any company. Computations are then made at the end of the investment period, for example, and the capital [paper] holder gets a legitimate profit."

'Abd-al-'Azim Gharib: "The study presented to us by Dr Fu'ad al-Sarraf on the money market raises a proposal in my mind: Why don't the Islamic banks establish a major bank similar to the International Settlements Bank of Switzerland to do the settlements and to gather and combine some services between the Islamic banks?"

Dr Hasan Husni: "It is difficult to talk of Islamic securities without considering the money market in its scientific and realistic sense. Consequently, I can say that most of the activities of the Islamic banks are still tied fundamentally to currency market transactions and not to the capital market. The thing is that we must focus on development and investment so that if the activity extends to major projects, it will be possible to determine the types [not further identified] that can be used in the money market."

Dr Fu'ad al-Sarraf: "Financing the operations just mentioned is actually being studied by the Faysal Islamic Bank of Egypt. But the matter requires a serious and clear study when expanding in application so as to determine the bank's profit, the financier's profit and the profit of production in the companies and factories.

"As for the statement that the Islamic banks are still dealing in the currency market and not in the investment market, it is a statement that disregards the age of the Faysal Islamic Bank of Egypt, for example, which is no more than 4 years old. Despite this, the bank has participated in the establishment of 27 new companies to whose capital we have contributed \$90 million. This means we have surpassed the legal percentage of the partnership set for us by the Central Bank."

We stop here at these issues, which have been reported along with the studies and the discussions that took place of them, to move to the most serious issue, namely the issue of cooperation among the Islamic banks and the spheres and methods of this cooperation. We will then move to the issue that is constantly open to discussion, namely the issue of the methods of employing monies in the Islamic bank and of studying the economic feasibility of projects in the Islamic banks. Until the next edition.

[No 3091, 6 Jan 84 pp 64-68]

[Text] This is the third and final part of the article on the plenary symposium which discussed the "Role of the Islamic Banks in Economic and Social Development" and to which the Faysal Islamic Bank of Egypt had called. The symposium convened over a period of 3 days during which the symposium discussed the thought and application of the Islamic financial transactions and banking system in six profound studies. The symposium also discussed the practical applications of the role of the Islamic banks in economic development in four serious studies. Then there was a discussion of the practical applications of the role of Islamic banks in social development through a number of studies, considering that the Islamic banks exclusively perform the social role, in addition to the economic role, through the alms tax, the charity loans and so forth. The symposium then proceeded to the issue of the development of the banking services in the Islamic banks within the framework of the rules of the Islamic Shari'a. We have already reported on these discussions in the two previous editions of AL-MUSAWWAR.

In this third part, AL-MUSAWWAR presents the most serious and important discussions of the plenary symposium on the spheres and methods of banking cooperation between the Islamic banks. The session was chaired in part by Counselor Ahmad Thabit 'Uwaydah, the chairman of the State Council, and then by Counselor Mahmud Fahmi, the chairman of the Egyptian Securities Market Authority, when it discussed the issue of the methods of employing monies in the Islamic banks in light of the rules of the Islamic Shari'a. The previous sessions had been chaired in order by Dr Muhammad Fu'ad al-Sarraf, the governor of the Faysal Islamic Bank of Egypt; Ahmad Amin Fu'ad, the chairman of the Board of Directors of the Islamic Investment and Development Bank; His Eminence Shaykh Ibrahim al-Dasuqi, the minister of religious trusts; and Muhammad 'Abd-al-Fattah Ibrahim, a former deputy prime minister for financial and economic affairs. A large number of bankers, financiers, economists and university professors took part in the studies and the discussion. The symposium was convened under the chairmanship of His Highness Prince Muhammad al-Faysal Al Sa'ud, the chairman of the Board of Directors of the Faysal Islamic Bank of Egypt. In view of the importance of the symposium, it was opened by Dr Mustafa al-Sa'id, the minister of economy, on behalf of Prime Minister Dr Fu'ad Muhyi al-Din and was attended by Dr Salah Hamid, the minister of Finance, and Dr Kamal al-Janzuri, the minister of planning. It was also attended by a number of clergymen, including His Eminence Shaykh Jad-al-Haqq 'Ali Jad-al-Haqq, the grand imam and shaykh of al-Azhar; His Eminence Shaykh Ibrahim al-Dasuqi, the minister of religious trusts; His Eminence Shaykh 'Abd-al-Latif Hamzah, the mufti of the republic; and His Eminence Shaykh Muhammad Khatir, the chairman of the Legal [Religious] Control Committee of the Faysal Islamic Bank of Egypt and the ex-mufti of the republic. The sessions' chairmen and rapporteurs were introduced by Dr Fu'ad al-Sarraf who alone contributed three studies of the various issues discussed by the symposium. Counselor Ahmad Hassan acted as the symposium's general secretary.

Let us now proceed to the symposium's most important discussions on Islamic transactions in practice and the soundness of such transactions in light of the rules of the Shari'a--discussions characterized by vitality.

Counselor Ahmad Thabit 'Uwaydah: "I am honored to be participating in a symposium on the Islamic banks that have fulfilled a dear wish in the heart of every Muslim and in the mind of every Muslim seeking to invest his monies in accordance with the Islamic Shari'a. It is required that every Muslim support and assist these banks, and we are required to cooperate among ourselves to support them. The Islamic banks themselves are required to cooperate with each other to exchange assistance and expertise, whether in the sphere of investment, in conducting feasibility studies, in exchanging information or in participating in big projects." Counselor 'Uwaydah then invited the researchers to present their studies.

Dr Shawqi Isma'il Shihatah: "The emergence of the Islamic banks has been a good omen for the breaking of a new dawn of Islamic culture and civilization in the money and economic world. These banks can offer the Arab and Islamic World, even the entire world, a successful cure for the economic, social and moral problems that have emanated from dealing in usury with all its evils and corruption.

"The study I am presenting today of the methods of cooperation among the Islamic banks reviews a number of points:

"The sphere and methods of the economic feasibility studies: This aspect requires the establishment of special outfits within each of the Islamic banks, with the International Union of Islamic Banks represented in these outfits. This is in addition to setting up a central agency under the control of the General Secretariat of the Banks' Union to undertake the economic feasibility studies of major projects. There is no harm in enlisting the assistance of groups of consulting firms or of teams of experts for the purpose.

"The Islamic banks should cooperate in the sphere of banking and marketing data and in setting up a central data center that helps the decisionmakers in these banks to make the right decisions and to determine the alternatives to the system of the conventional banks. I hope that the Central Bank will deal with the Islamic banks in a manner compatible with the nature of the methods of these banks which are different from those of the conventional banks.

"These banks should cooperate in the sphere of major projects in the Islamic countries in order to support the national economies of these countries, especially in the infrastructure projects necessary for economic and social development and requiring medium- or long-term financing, after making sure of the economic feasibility of these projects. The Islamic banks can establish a fund, be it regional or international, to finance these major projects.

"They should cooperate in developing investment in all parts of the world. This makes it necessary to establish a communications network and a network of correspondents so that communication may be established among the Islamic banks in the various countries and may make it possible to recognize the investments opportunities with the purpose of serving the investors, of performing the act of the investors' legal agent and of organizing the process of subscription to projects and of managing projects and purchase and sale transactions in accordance with the rules of the Shari'a.

"They should cooperate in the sphere of leasing, purchasing and acquiring heavy equipment in the manner followed in Europe where the banks purchase such highly expensive and costly-to-maintain equipment and leave it to people implementing major projects, provided that the Islamic banks agree to set up numerous companies specialized in acquiring and leasing equipment.

"These banks should exchange the various experiences they undergo in order that they may disseminate Islamic economic thought in the Islamic countries. They should also devote attention to the sphere of information and should publish special leaflets and pamphlets and Islamic heritage books pertaining to the financial and economic aspects."

Competition and Integration

Dr 'Abd-al-Fattach Shawqi: "In order that we may have a clear vision, let us ask: Are the Islamic banks in competition or are they integrated? There is nothing wrong with competition. But in this phase of application of the Islamic economy, the Islamic banks must be integrated, especially since the deposits and monies flowing into these banks annually exceed the absorption channels [capacity] of the projects. This integration serves Islamic development. It also leads us to talk of the need of the central unity of data through a computer unit connected with all the Islamic banks. As for the establishment of a unit to study the feasibility of projects, there are small projects which can be studied by the individual bank and big projects that need a central agency to study their feasibility. I propose that the International Union of Islamic Banks make a survey of the Islamic world's needs and determine the countries that require development investments in a manner beneficial to the Muslim people. As for the question of the Islamic central bank, it is hoped that such a bank will encourage investment and divert monies from bank to bank. There has been initial approval for such a bank. This is a big step because the establishment of these banks will encourage economic development and the implementation of projects. It should also encourage long-term deposits and provide us with some sort of protection."

Dr Shawqi Shihatah: "Insofar as the issue of integration and competition between the Islamic banks is concerned, the fact is that there is integration and competition at the same time. Competition is legitimate and required because there are projects and there are investors wishing to earn a suitable profit and yield regulated by the Shari'a controls. Through such activities, the social role is performed. As for integration, all these banks are tied together by the International Union of Islamic Banks which was founded by a resolution by the Islamic countries. Regarding the foundation of a central Islamic bank, it is my opinion that a central bank is a government bank emanating from the state's authority and has the power to dictate. But in this case, groupings can be formed at the regional level, at the level of each separate state or at the international level to coordinate and channel the activities of these banks."

Set-Term Profit Sharing

Dr Mahmud al-Naghi: "The profit-sharing sale contracts are permitted by most legal authorities and there are no provisions prohibiting them. Moreover, the actual practices include models that have proven their benefit to both the Islamic bank and to the clients dealing with it in contracts of this type.

"As for the set-term profit-sharing sale contracts, they have their mainstays and their conditions which, if fulfilled, make the sale sound and valid. These mainstays and conditions are embodied in:

"Making known the original purchase price and costs until sale time.

"Making known the profit rate and setting this rate according to the original price.

"Noting or describing the risks involved in the sale.

"Showing the sale deadline.

"Showing the method of repayment of the sale price.

"The extent of adherence to implementing the contract.

"This is why I propose the following method for computing the Islamic profit-sharing contracts:

"Determining the purchase cost and other costs pertaining to the purchase deadline and to administrative expenses.

"Determining the profit margin.

"Determining the sale price and the relationship of this price with the change in the purchasing power of the currency unit involved and with fair price in Islam.

"Dealing with the accounting methods for payment of the sale price.

"The accounting impact of violating the contract terms.

"We can now raise the following question: What are the shortcomings of the accounting framework applied at present to the Islamic set-term profit-sharing contracts?"

Dr Kawthar al-Abji: "Leasing occupies a very important place in the advanced world by virtue of its realizing numerous benefits for both the lessor and the lessee. Its importance is also evident insofar as the Islamic bank is concerned because this bank can invest a considerable part of the resources available to it for the purchase of equipment and various assets with the purpose of leasing them. Such investment is irreproachable, and the yield emanating from it is irreproachable from the Shari'a viewpoint because the financing of leasing activity serves productive objectives. We must keep in mind the difference between lease-financing activity whereby the lessor retains the right of ownership upon termination of the contract period and the lease-sell activity whereby ownership of the asset transfers to the lessee at the end of the contract period. This kind of activity does not differ from the other legitimate activities of the Islamic bank insofar as the employment and investment of monies and concerned, such as the activities of financing by partnership, limited partnerships, profit-sharing contracts, direct trade, the purchase of the shares of Islamic companies or the foundation of independent Islamic companies.

"After reviewing the accounting system proposed for this activity in light of the rules of the Shari'a, this system is capable of ultimately finding out the value of the profit earned and of distributing it correctly among the parties involved in the financing and the contracts and the owners of investment deposits without violating any Shari'a rules."

Dr Yusuf Qasim: "Insofar as the profit-sharing sale contract is concerned, some jurists have permitted it but have set for the purpose six conditions as controls to prevent transforming the legitimate sale into an act of falling into the trap of prohibited usury. However, there is a seventh condition that must be added in order to distinguish between the permitted and the prohibited, namely that there be no difference between the original price and the postdated price so that this difference may not turn into usury which the Shari'a prohibits."

Isma'il Siyam: "Dr Shawqi Shihatah has raised in his study on cooperation between the Islamic banks the issue of competition between these banks. I support such competition, provided it is not transformed into an undesirable fight. But what is the position vis-a-vis the conventional banks branches for Islamic transactions? I believe that they are a step toward implementation of the Islamic teachings. Let us accept these branches within this framework. As for the Islamic central bank and for the concept that this bank represents a state authority, this does not mean that there should not be a strong authority that controls the Islamic banks and that is necessary for them."

Samir Nawfal: "Dr Shawqi Shihatah and Dr Mahmud al-Naghi have said in their studies that there is a difference between the immediate price and the postdated price and that the postdated price is fixed and is determined along with the immediate price. This means profit is regulated on the basis of time, which is in violation of the Shari'a, even though Dr Shawqi has pointed out that the real price and the accounting concept do not recognize standard prices, numerous as they are. If we adopt the standard prices, the conventional banks will tell us that their yield rate is lower than the rate of the change in prices and that, consequently, dealing with these banks is less burdensome than dealing with the Islamic banks."

"As for Dr Kawthar's study, though rich with scientific material, it depends on the science of accounting which revolves in the sphere of modern science. We also find that Dr Kawthar diverts the risks of lease financing to the lessee, even though Islam distributes the risks. Moreover, the accounting proposals she has submitted need Shari'a controls so that matters may not proceed in a non-Islamic direction."

Dr Ahmad Fu'ad: "I would like to explain an organizational point, namely that all the studies presented reflect the viewpoints of those representing them. If we are not satisfied with a study or a point, then this does not mean that we should prevent the presentation of such a point, else we will have prevented dialogue and prevented discussion. If we do this, then why have the symposium at all?"

"The study presented by Dr Shawqi Shihatah is excellent and is fit to constitute the topic of major studies. I suggest that the International Union of Islamic Banks study the recommendations of Dr Shawqi Shihatah which form a framework that can be considered a means for development. As for the study of Dr Mahmud al-Naghi containing the accounting framework in the profit-sharing contracts, the fact is that this framework is the subject of disagreement, is not finally decided and requires comprehensive review."

Islamic Central Bank

Dr Shawqi Shihatah: "I will answer some observations expressed by the gentlemen commenting on the studies presented:

"There is no disagreement over the issue of cooperation between the Islamic banks and of this cooperation coming under the law of legitimate competition. This cooperation requires data centers and feasibility study centers to handle big projects. In this way, the Islamic banks will cooperate for the economic development of the Islamic homeland.

"Regarding cooperation with the conventional banks' branches for Islamic transactions, we welcome such cooperation, provided that the head office of these banks express this wish to us in writing. We at the Faysal Islamic Bank of Egypt are prepared to put at their disposal all the religious legal opinions after they are reviewed by Shaykh Khatir.

"Regarding the issue of the Islamic central bank, what if in the case of the Faysal Islamic Bank of Egypt, which is subject by law to the Central Bank of Egypt, the Central Bank of Egypt sets certain conditions for deposits and the Islamic central bank sets different conditions? Which one should we follow? As I have said, such a situation is unsound. No central bank should be established without relying on state authority.

"Regarding Dr al-Naghi's study and the attempt to link the yield to time, it is my opinion that there is ambiguity here. Dr al-Naghi empowered me to modify his study and we have done so, explaining that what is meant by time are turnover cycles within a limited period of time. We also pointed out that the return for the lapse of time. In the final recommendations of the study, we have pointed out that time is tied to turnover cycles so as to eliminate ambiguity. Jurisprudents define trade in Islam as the turnover of money by mutual compensation with the aim of making a profit which is realized from the turnover, not from time, contrary to loans.

"As for what has been raised regarding money's purchasing power, i.e., the real value and not the numerical value, it suffices to point out what our master 'Umar ibn al-Khattab did in time of drought when he raised the minimum number of sheep liable to the alms tax from 40 to 100 head of sheep out of consideration for the real value at a certain time because what is important is the economic, not numerical, value. This is why the Shari'a has linked the real value with the numerical value.

"As for what Dr Ahmad Fu'as said regarding the establishment of Islamic companies, the Faysal Islamic Bank of Egypt has set up in 4 years a total of 36 Islamic companies with a capital of 601 million pounds, contributing 68 million pounds to this capital. All of these companies have been founded in accordance with the Islamic Shari'a. The bank has also contributed to the foundation of Islamic banks in other Islamic countries.

"The final point concerns the profit-sharing sale contract. This is a very specialized activity. The Islamic thought has defined what we call at present cost accounting. The justification for the presence of this type of accounting is the presence of the profit-sharing sale contracts and the need to

determine the relationship between the purchase price and the costs in order to find out the price of the commodity. This means that the agreed-upon profit rate is calculated on the basis of the total cost, including the purchase price and the manufacturing, marketing and administrative costs spent on the commodity. The jurists of al-Hanafiyah and Malikiyah schools of theology are in agreement on this point."

Dr Kawthar al-Abji: "I tell you that the science of accounting is a part of the economic science and that accounting is influenced by the economic system, be it socialist or capitalist. Consequently, what I have presented constitutes an introduction to the formulation of applied accounting concepts and systems in the Islamic economy, considering that the Islamic bank is an investment establishment that does not invest in the conventional manner and is not affected by profitability and liquidity the way commercial banks are. As for the opinions presented in connection with lease financing, which is a new system in the West, I have presented this system with the purpose of discussing how to implement it in Islam."

Thus ended the fifth session after a very lively discussion and the expression of numerous opinions on the spheres and methods of banking cooperation between the Islamic banks.

Then started the sixth session on the methods of the employment of monies in the Islamic banks. This session was headed by Counselor Mahmud Fahmi, the chairman of the Securities Market Authority. This last session was the longest, lasting several hours and discussing the most serious issues of the symposium generally.

Dr Fu'ad al-Sarraf: "This symposium was an idea which actually developed during the conference held by the Egyptian Securities Market Authority last March when a number of studies were presented on the financial system of Islam. Those participating in the conference asked that a symposium be organized to familiarize themselves with the Islamic system of transactions. Counselor Mahmud Fahmi, the Securities Market Authority chairman, was the man responsible for the first conference and here he is now heading this important session."

Counselor Mahmud Fahmi: "The securities Market Public Authority is extremely interested in the formulas and systems of Islamic economic development. These formulas and systems constituted one of the topics of the international money market conference which was organized by the Authority last March. The Fa'sal Islamic Bank of Egypt has responded with the convocation of this symposium, which has presented profound studies dealing with points that raised question marks in the Securities Market Authority. I hope that we will emerge from this symposium with some concepts on which agreement is reached in order to create an Islamic money market in Egypt. I now have four studies in front of me:

"Money and the Markets within the Framework of Islamic Thought.

"The Methods of Employing Monies in the Islamic Banks.

"The Criteria for Analyzing and Evaluating the Problem of Liquidity in the Islamic Banks.

"A View of the Islamic Financial Establishments under the Reality of the Contemporary Economy."

Task of Money

Dr Shawqi Isma'il Shihatah: "It is well known that the Arabs had an internal trade in the Peninsula and a foreign trade with both the East and the West. The Arab dinar continued to enjoy a prominent place in Europe throughout 5 centuries. This is why we find rules, controls and systems for the concept of money in Islamic thought which surpasses conventional thinking, which legally permits the beneficial use of money. Jurisprudents divide money into two parts: the monies sector and the supply sector. This is in contrast to the division of money into fixed assets and circulated assets, which include currency and goods. The Islamic division is more precise because it is founded on the basis of the task of money which, the jurisprudents are unanimous, is a means that does not grow by itself but by its being put to use in commerce and industry. Money in Islamic thought requires its owner to use it fruitfully so that it may produce a yield from which a 2.5 percent alms tax, dictated by the Shari'a, is deducted from both the capital and the profit. Let me make a comparison here between the alms tax and the revenue tax which amounts to 23 percent and escalates gradually to say that the real percentage in the alms tax amounts to 25 percent. For example, if the capital is 1,000 pounds and if this capital makes a profit of 100 pounds, then the alms tax amounts to 2.5 percent of the capital or 25 percent. If the profit is added, then the alms tax amounts to 27 percent.

"The Islamic banks have a social role. They have alms tax funds for the monies of the shareholders and account owners who entrust the banks to pay this tax. The Faysal Islamic Bank is exempt from taxes for a period of 5 years and yet it offers 27 percent in alms taxes because it adds the profit to the capital. This percentage is considered a part of the production costs.

"The situation insofar as currency is concerned has changed, with the currency changing into paper money with a gold value. Then there was a deviation from the gold rule. Then we come to the deposit monies which earn no interest in the Islamic banks but rather earn their yield from the activities in which the banks take part, such as partnership and limited-partnership activities and profit-sharing contracts, all of which lead to curtailing the inflationary tendencies.

"We now come to the second issue in the study, namely the issue of the markets. We find that the jurisprudents define commerce with extreme precision as the 'turnover of money with mutual compensation for the purpose of profit.' Let me explain here the connection between the turnover cycles and the immediate and postdated sale price and their relationship with time because the turnover must take time to earn profit. By the estimates of the jurisprudents, a 'year' is required as a condition for the payment of an alms tax on commerce--1 year being the estimated time for the achievement of growth. This means that growth requires time during which the turnover cycles occur and the profit, subject to the alms tax, is earned.

"We now ask: What is the concept and framework of the market in Islamic thought? The answer is that regardless of whether the market is a securities or contracts market, the transactions must take place within the bounds of the Shari'a and in freedom from all forms of usury. As Abu 'Ubayd ibn Salam has said, 'the Muslims' market is like the Muslims' prayer place.' Here is where we talk of the main controls for determining the profit margin in the Islamic money market:

"This profit margin must help the rapid turnover of capital.

"The profit margin must be compatible with the degree of risk because the most important element of the entire Islamic economy and commerce is the element of turnover and risk.

"The profit margin must be in line with the tradition in force.

"The profit margin may not contain prohibited usurious interest. The profit margin is also governed by a fair sale price that does not cheat the seller, buyer or consumer but rather guarantees fairness to all the parties involved. The ruler may, when necessary, set the profit margin.

"As for financing the investment projects and the state's investment budget--profit-oriented financing--it must take place through the systems of partnerships, limited partnerships and profit-sharing contracts which are permitted by the Shari'a, as was done by the treasury house in the days of the prophets and of al-Rashidun caliphs, may God be pleased with all of them."

Muhammad al-Tuhami: "There is a fundamental difference between the banking service offered by the conventional banks and that offered by the Islamic banks which do not embark on any project before ascertaining its legitimacy. The law setting up the Faysal Islamic Bank of Egypt permits the bank to engage in all banking activities in accordance with the dictates of the Islamic Shari'a. These activities are supervised by the bank's Legal [Religious] Control Committee. The resources of the bank's monies are embodied in its intrinsic resources, the investment accounts and the current accounts. The bank employs these monies according to the Islamic financing systems to enhance economic development and to make a profit for itself and for those who have accounts with it. This is done through partnerships, be they profitable or losing, and not through loans in return for interest. The Islamic bank has made a distinction between short-term, medium-term and long-term investments. It has formed the 'commercial partnership' outfit which is concerned with short-term financing and the 'investment partnership' outfit which is concerned with medium-term and long-term investment activities. The Islamic Bank examines thoroughly the projects in which it invests its monies, considering that it is a trustee and an agent of the depositors. It examines the reputation of its clients carefully and it finances only goods for which there is big demand, which are durable and which are not prohibited by the Shari'a. It also makes sure not to help clients hoard goods or speculate in prices.

"As for the Islamic financing systems, they include financing by partnership. This is known in Islam as the joint-liability companies, such as the contracting operations in whose financing the bank participates after ascertaining their soundness and the ability of the contractor to implement them. The bank also offers such operations all banking services when a contractor abandons an operation. The bank commits itself before the project owner to the sound implementation of the operation. There is also the financing by limited partnership which is a contract between two parties, one contributing his capital and the other his labor, with agreement on sharing the profits. There are two kinds of limited partnership: the absolute limited partnership which is not tied to a time or a place and the restricted limited partnership in which a partner becomes the liable party if he violates the terms of the partnership.

"As for the investment partnership outfit which is concerned with medium-term and long-term financing operations, the constitution of the Faysal Islamic Bank of Egypt permits it to invest a part of its monies and of the deposits it has on its own or under supervision to achieve a reasonable yield."

Problem of Liquidity

Dr Husayn Shiha. "It has become evident to me from my field studies that the Islamic banks suffer from the problem of surplus liquidity, with this surplus exceeding 50 percent in some banks in some years. This creates a serious problem, in contrast to the usurious bank which can deposit its surpluses in any other bank to earn a certain interest rate. This is why I urge those responsible for this symposium to organize a separate symposium to study the problem of liquidity in the Islamic banks.

"The seriousness of the problem is due to the fact that the Islamic Shari'a prohibits the hoarding and withholding of money. When liquidity becomes excessive in the Islamic bank, then this means that the bank has withheld the money and violated the Shari'a. Moreover, excessive liquidity harms the reputation of a bank which has failed to invest the Muslims' monies in activities producing economic and social benefits for the Muslim masses. In addition, excessive liquidity leads to reducing the total yield of the bank's activities.

"This is perhaps due to the fact that the network of Islamic banks is limited and that there is no integrated data [exchange] system between the Islamic banks. I am afraid that in their endeavors to solve the surplus liquidity problem, the Islamic banks will resort to methods that don't help economic growth, such as resorting to the securities market or the silver and gold market, with all the suspicions engulfing them.

"The Islamic banks also resort to putting interest-free deposits into usurious banks, with the deposits withdrawable whenever needed. This is harmful to the Islamic banks.

"To deal with this problem, I suggest that the Islamic banks conclude a common agreement to exchange surplus liquidity, as has happened between the Gulf banks, for the benefit of projects in any Islamic country. Moreover, there

are investment spheres upon which the Islamic banks have not yet embarked, such as long-range projects that absorb such liquidity. I also propose the foundation of an Islamic money market and the issuance of an Islamic paper [bond] that absorbs the liquidity of these banks. Let me point out also the subservience of the Islamic bank to the central bank and the requirement of a certain percentage for a legal reserve. We must make a distinction between the Islamic bank and the usurious bank. This is why the subservience of the Islamic banks to the laws of the central banks must be reexamined because it is unfair."

Yasin 'Umar al-Imam: "As a result of development, there has been a concentration [of money] and we have seen the major establishments control the economic decisionmaking, with disregard for the public's interest. The usurious financing has led to the explosive rise in the prices of goods and services. However, the foundation of the Islamic financial establishments heralds an alternative system that pleases mankind. Therefore, a strategy must be formulated to end the Western economic systems and replace them by the Islamic systems.

"I propose that the Islamic banks devote attention to the small and rural industries in order to create small production units that eliminate monopoly, help improve the local environment and reduce the reliance on the major industrial countries. Moreover, agriculture must be given top priority. To achieve agricultural development, the role of money and of land in the production process must be reexamined, giving labor a role greater than the role it has in the other production relationships."

His Eminence Shaykh Muhammad Khatir: "I object to calling auctions [al-muzayadat] and price-raising ventures mudarabah [limited-partnership company] because mudarabah is one of the Islamic companies.

"As for Dr Husayn Shihatah's accusation against the Islamic banks of depositing their monies in the usurious banks, I say that the Islamic banks deposit their monies with numerous banks as correspondents [agents] because the Islamic banks are not widespread and so that these other banks may serve the Islamic banks' clients.

"As for a person who leaves his land fallow, the land should be taken away from him. This happened during the Venerable Prophet's ear. This is my comment on the Sudanese friend's statement.

"As for our daughter Dr Kawthar, she has used Western terminology excessively, as in the case of the phrase 'investment deposit.' It is better to say 'investment account.'

"In this lively session, there were numerous discussions, opinions expressed and comments made on issues raised by the researchers and the observations made by their eminences Shaykh Muhammad Khatir and Shaykh Zaydan Abu al-Makarim, Mr al-Baqir, Sadiq Muhammad 'Ali, Samir Nawfal, Muhammad Yusuf Muhammad, Ibrahim al-Jabali, Dr Isma'il Shalabi, Yusuf 'Abd-al-Rahman, Shaykh Sayyid Ahmad, Yusuf Qasim, 'Abdallah al-Zakawi, Dr Ahmad Fu'ad 'Abd-al-Kahliq, Dr Kawthar 'Abd-al-Fattah al-Abji, Maj Gen 'Adil Ghunaym, 'Inayat al-Hakim,

Dr Husayn Shihatah, Yasin 'Umar al-Imam and Dr Shawqi Isma'il Shihatah, all of whom expressed their opinions, made invaluable observations, commented on observations made by others or presented studies which were subjects for discussion."

Thus ended the symposium sessions with all their studies and all the discussions that took place on those studies. The issues were crystallized in specific recommendations for which the final session was devoted. Muhammad Hamid Mahmud, the deputy chairman of the [Faysal Islamic] Bank; Dr Fu'ad al-Sarraf, the bank governor; His Eminence Shaykh Muhammad Khatir, the chairman of the bank's Legal [Religious] Control Committee; and Ahmad 'Adil Kamal, the bank general director, sat [on the dais] while Counselor Ahmad Hassan read the symposium's recommendations.

Dr Fu'ad al-Sarraf: "We thank God for the success of this symposium and I attribute this success to all the participants, whether they have participated with their studies, discussions or comments. These studies have covered the role of the Islamic banks in economic and social development as well as the means and instruments that lead to this goal. All these studies have their profound impact on the Islamic experience in the Islamic banking system which has not surpassed its childhood to reach its youth. I hope that the role of these banks will always remain youthful.

"Representatives from the fraternal Islamic countries of Sudan, Dubai, Qatar, the Kingdom of Saudi Arabia, Pakistan, Bangladesh, Jordan and Kuwait participated with us. Numerous organizations from the Islamic world also participated.

"Finally, I thank Prime Minister Dr Fu'ad Muhyi al-Din for deputizing Dr Mustafa al-Sa'id, the minister of economy, to open the symposium. I also thank the grand imam and shaykh of al-Azhar, his eminence the minister of religious trusts, his eminence the mufti of the republic, the ministers of finance and planning and all those who have participated with us in the symposium."

Muhammad Hamid Mahmud: "I am honored to thank on behalf of His Highness Prince Muhammad al-Faysal Al Sa'ud, the chairman of the Board of Directors of the Faysal Islamic Bank of Egypt, those who have participated with us in this lofty symposium. I implore God to give us success in reaching the goal of establishing the Islamic economy in all parts of this world in order to bring the Muslims prosperity and growth."

Fourteen Recommendations

Counselor Ahmad Hassan, the symposium general secretary, read the symposium's following recommendations to the participants:

The Islamic banking system is a complete system that has achieved a success that has exceeded all expectations and that has been able to attract certain segments of depositors who had never dealt with banks. Therefore, the positive legislation must provide this Islamic system with the opportunity to achieve its goals in serving the national economy.

The Islamic banking system seeks primarily to develop society and to produce a legitimate profit.

The Islamic banks complement and support each other and cooperate to perform their message in all spheres of joint investment, employment and banking services and in handling surplus money liquidity.

The Islamic banks are not competitors of the conventional banks.

The experiment of the conventional banks' branches for Islamic transactions, now that such branches have become a reality, is a step on the path and a confirmation of the success of the concept. Therefore, as blocks in the edifice of the Islamic banking activity, they must abide by the mainstays that insure the performance of their message within the framework of the rules of the Islamic Shari'a. The Islamic banks must help these branches attain this objective.

Attention should be devoted to attracting long-term investment deposits to the Islamic banks in order to enable these banks to participate effectively in long-range investment projects.

It is necessary to devote greater attention to the social and cultural dimension of the Islamic banks so that they may set up educational and cultural institutions and charitable hospitals in Islamic society.

It is necessary to innovate new investment methods compatible with the rules of the Islamic Shari'a, such as the sell-finance and lease-finance activities as well as other activities.

It is necessary to formulate a unified accounting system for the Islamic banks and to set up information and data centers in them to serve these banks.

It is necessary to deal with the expected liquidity surpluses in the Islamic banks as a result of the increasing interest in dealing with these banks and as a result of their geographic expansion and their attraction of a broad range of depositors. It is necessary to deal with these liquidity surpluses by proposing an Islamic paper that can be circulated in the same manner as the bond of the ordinary companies in order to set up an Islamic money market. Further economic and legal studies are required for this paper on which we may rely as a source for financing major long-range projects. The Islamic banks must also participate in setting up joint projects.

Considering that the human element represents the basis of Islamic banking activity, it is necessary to train this element at the Islamic and banking levels so that it may be able to shoulder the responsibility and keep pace with the spread of these banks.

The Islamic banks have achieved great success in attracting a large number of deposits that can be channeled toward developing the Islamic societies. However, these banks hope that the [official] banking control agencies will

understand their conditions and needs and will amend the legislation governing banks and credit to insure the success of the Islamic banks and to prepare them to serve society and to develop it economically and socially.

Efforts should be exerted to disseminate the system of investment accounts initiated by the Faysal Islamic Bank of Egypt, to familiarize the Muslim masses with these accounts and to attract to them resources that support the alms-tax resources in order to achieve social development. Efforts should also be made to discuss understanding, managing and investing orphans' funds.

Efforts should be made to unify the formulas and terms used in the Islamic banking system in order to achieve uniform names and terminology.

[Box in No 3089, 23 Dec 83 p 66: "Figures on Faysal Islamic Bank of Egypt"]

[Text] For the budget of 1403 of the Hegira [1983], compared to the previous year:

Volume of assets and discounts amounted to more than \$1,504,000,000, with a growth rate of 51 percent over the previous year.

The volume of regular accounts amounted to more than \$437 million, with a growth rate of 140 percent over the previous year.

The balance of the investment, saving and current accounts amounted to nearly \$1,217,000,000 with a growth rate of 53.5 percent over the preceding year.

The volume of financial investment, whether in partnerships, profit-sharing operations, limited partnerships or external investment, amounted to \$1,267,000,000, with a growth rate of 54.4 percent over the previous year.

The volume of local investments in current commercial and production activities, whether through partnership, profit sharing or limited partnership, amounted to \$607 million, with a growth rate of 90 percent over the previous year.

Regular accounts numbered nearly 618,000 accounts, with the total volume of deposits amounting to \$1.22 billion.

The total yield [profit] from the bank's activities amounted to nearly \$107 million, with a growth rate of 43.7 percent over the previous year.

[Box in No 3089, 23 Dec 83 p 67: "Three Questions and Three Answers from Prince Muhammad al-Faysal Al Sa'ud"]

[Text] In the wake of the opening session of the Islamic banks symposium, journalists met with Prince Muhammad al-Faysal Al Sa'ud, the chairman of the Board of Directors of the Faysal Islamic Bank and the symposium chairman, and raised numerous questions which the prince answered with extreme composure.

[Question] You have announced that the bank has set up three major projects in Egypt. What are these projects?

[Answer] Yes, this is true. But we have numerous options and have made various determinations on the sites inside Egypt. All I will say is that they are production projects that serve Egypt's economy.

[Question] Are these projects within the framework of the Egyptian state plan?

[Answer] Any project offering production serves to strengthen the Egyptian economy.

[Question] What is your opinion of the conventional banks' foundation of branches for Islamic transactions, keeping in mind that they are fundamentally banks that deal in interest?

[Answer] Any dealing on the basis of the Islamic Shari'a is desirable and we encourage it. What is important is that there is a beginning. Don't think that there is competition. What is important is good will. There is no harm in having all the banks embark on this beginning. There is no conflict with us in this regard.

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