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Islamic Finance and Islamic Banking: Challenges in Modern Times

The modern secular economic system where interest (Riba) plays the central role has failed. The collapse of major economies, tempered with the international recession bears sufficient testimony to the fact that the root cause of all evil infecting any economic system is usury. In my own country and beloved continent, we may have gained political liberty and expunged our people from the shackles of repression, but this oppression has been overtaken by economic imperialism and the colonization of the economic activities by major financial institutions based on principles of usury.

The abolition of usury is the only way to resuscitate the ailing global economy. In several verses of the Holy Qur'an, Allah (swt) has mentioned the consequences of riba Allah (swt) says:

“That they took riba (usury), though they were forbidden and that they devoured men’s substance wrongfully – We have prepared for those among men who reject faith a grievous punishment.” (4:161)

“O ye who believe! Devour not usury doubled and multiplied; but fear Allah, that ye may (really) prosper.” (3:140)

“Those who devour usury will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: ‘Trade is like usury.’ But Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge). But those who repeat (the offence) are companions of the fire, they will abide therein (forever)” (2:275)

“O you who have attained faith! Remain conscious of God, and give up all outstanding gains from Usury, if you are (truly) believers” (2: 278)

Islam is a complete code of life which offers its own social, political and economic systems to guide human behavior in all spheres of life. History has recorded that the economic system of Islam, for the first time in the world had established social and economic justice during the period of al-Khilafah al-Rashidah. In an ideal Muslim society, socio-economic justice is considered as one of the most significant characteristics for the social, political, and economic well being in the realms of human interaction. Exploitation and any source of unjustified enrichment in Islam is prohibited.

Islam can be seen as a foundation for the inclusion of the ethical and moral dimensions of economics and markets. This coincides with an increasingly affluent Muslim middle class, a rise in oil-income, and a re-orientation towards cultural-religious values. As a consequence, over the last few decades increasing efforts have been undertaken to structure Shari’ah-compliant financial products, to develop and institutionalise Islamic capital markets and above all, to make Islamic finance acceptable to the mainstream.

Islamic finance is of the fastest growing segment in the international financial market. This phenomenon is both attractive and appealing. Islamic finance and Islamic banking acquires its core principles from the Quraan and the jurisprudential body of knowledge which is known as the *Shari'ah*. The objective of Islamic finance is to install a more equitable financial and economic order that is transaction-friendly, and organised around religious principles.

Islamic finance in its pristine form, simply cannot, and obviously has not been ignored by the major institutional building blocks of the conventional financial architecture. For example, the Financial Sector Assessment Programmes introduced by World Bank and IMF in 1999 acknowledge issues of Islamic banking (World Bank and IMF 2005). In 2004, IOSCO published its *Islamic Capital Market Fact Finding Report* which continues to remain a major reference work for policymakers and financial regulators.

However, emerging Islamic financial markets require developmental efforts that go beyond the expertise and core competencies of these organisations. Hence recent years have seen a proliferation in the creation of new organisations, institutions and initiatives of which the Bahrain-based International Islamic Financial Market (IIFM) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the Malaysia-based Islamic Financial Services Board (IFSB) are the most important.

The Real Potential of Islamic Banking and Finances

At least \$500 billion in assets around the world are managed in accordance with Shari'ah, or Islamic law, and the sector is growing at between 10% and

15% per annum. The reality is that there is now a definite global demand for Shari'ah compliant products. This demand is not confined to persons who subscribe to the Islamic faith. There is a definite interest amongst non Muslims as well.

Muslims must realize that one of the most important objectives of Islam is to realize greater justice in human society. This is not possible unless all human institutions, particularly the financial institutions, contribute positively towards this objective. The financial system must be seen to be promoting justice. This may be achieved by the financier who must share in the risk so as *not* to shift the entire burden of losses on the entrepreneur. And more importantly, financial assistance must be offered to the poor to help eliminate poverty, and create self-employment opportunities and, consequently help reduce inequalities of income and wealth.

Future of Islamic Financing

Islam has always and continues to kindle the light of faith in the human heart. It rises above the narrow outlook of the zealots and the whinges. Islam remains the best possible way to serve the suffering of the millions who remain deprived in our world. The followers of the Islamic faith maintain that the solution to rekindle the human heart and thereby attain the path of righteousness and justice is through the adherents of following our treasured religious beliefs.

There is no dichotomy in Islam between the temporal and the spiritual; the structure of Islam is essentially religio-political. Thus, Islam has always refused to recognise the artificial compartmentalisation of life into spiritual and temporal sectors. It has treated life as a totality and has considered no

aspect of human life too profane to remain within its jurisdiction. It has sought to reform, ennoble, spiritualise and enrich human life, and the whole of it. It is for this reason that Islam has always been not merely a religion in the commonly understood sense of the term but also an ethical ideal plus a certain kind of polity.

Islam requires us as the people who follow the Quraan and Shari'ah to weave the elements of equality, humanity and compassion within the fabric of our conduct and the formal structures of the law. It calls upon us to balance competing interests in a principled way and to promote the vision of a caring society based on good neighbourliness and shared concern. Islam like the culture of Ubuntu has the capacity to express compassion, justice, reciprocity, dignity, harmony and humanity in the interests of building, maintaining and strengthening the community. Ubuntu speaks of our inter-connectedness, our common humanity and the responsibility to each that flows from our connection. Similarly, Islam is based on a culture which places significant emphasis on the commonality and the interdependence of the members of the community. To my mind, the vision and mission statements of financial institutions offering Shari'ah compliant products should incorporate these values.

The growth of Islamic finance across personal and corporate sectors is certainly one of the most important trends reshaping the financial world today. This is essentially because Islamic banking provides a vital service for the Muslim community, which accounts for around 1.79 billion of the world's population.

However, in addition to fulfilling an existing need, Islamic financial products are also very dynamic and the interest being shown in this field is creating new market opportunities. One of these, is the number of non-Muslims

increasingly drawn to invest, save and insure with Shari 'ah -compliant financial companies.

Now that the usurious system of capitalism has failed, and its deficiencies have been unveiled, the world is looking for viable and ethical alternatives. Our generation has this important task to fulfil.

Conclusion.

In conclusion, development in Islamic finance and Islamic banking remains of great interest to us in South Africa and the rest of the world, and we look forward to the lively discussions on new product development and differentiation and on legal and regulatory issues that should emerge as the Islamic finance industry grows. As with conventional financing, Islamic financing will benefit from transparency, good governance and an internationally-accepted regulatory framework that will govern this important form of financing.

I hope that the present discussions will help inform these debates and contribute to the overall effort to raise awareness and promote action among key policy makers.

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