

ISLAMIC BANKING AND THE GROWTH OF ETHICAL INVESTMENTS IN THE WEST

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By a strange coincidence Islamic Banking and ethical investments in the West appeared on the world scene, almost simultaneously nearly a decade ago. There are remarkable similarities between the two value oriented financial movements.

The surfacing of the two movements is not an accident but the result of disillusionment with the prevailing economic systems - the communist and the capitalist.

The communist economic system adopted by many countries with high hopes, proved to be a dismal failure. It not only failed to solve people's problems but aggravated them bringing hardship and misery to millions of

people during the 70 years of its life. No wonder it collapsed.

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

Here I would briefly describe West's march towards ethical investments and show how it is coming closer to the Islamic concept. Even in industrialised societies, the "unacceptable faces" of the capitalist system have begun to cause concern. An instance of how exploitative and cruel the unfettered capitalist economic system can be was recently highlighted by the British media by citing the case of one David Taylor, a client of a major Western bank. David Taylor was a leukaemia patient. He had a bank overdraft which was growing at a frightening rate due to the bank's heavy interest rate. Worried that the longer he lived the more of his life assurance money would be taken away by his bank, leaving little or nothing for his family, David wanted to die an earliest death. He realized that every additional day that he lived would mean less money for his wife and children.

It is not only the private individuals, like David Taylor, whose cases are highlighted by the media from time to time. The harsh treatment of small businesses by the banks also keep coming under attack by the media, the church and political leaders.

But that is not all. Poor countries groaning under the burden of high interest loans, are vehement in denouncing the system. In May, this year president Cory Aquino of the Philippines publicly condemned the system as a

form of slavery, criticizing the highly oppressive nature of the modern unfettered capitalist system. She said that the poor nations are unable even to service the loans advanced to them by the mighty international banks and financial institutions, supposedly to help their economic development. The countries keep sinking deeper and deeper into poverty as all the foreign exchange earned by them is taken away by the lending agencies as interest, she added.

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

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

He lamented failure of the Christian church to tackle the problem of usury in the capitalist economies. He said that the Church had lost touch with the day to day moral issues of finance and economics. This, he said, had led to a detachment of ethics for our finance and economics. But there is no reason to assume that the world of finance and economics are autonomous from all other aspects of life. So ethics must have something to say in these fields as in others. The Bishop further said that even those who are not Christians would accept that we all have a moral sense or conscience, an idea of right and wrong. It is not sensible to suggest that this moral sense should

be applied to some aspects of life and not to others. It, he stressed, should affect the market place as much as the kitchen.

It is interesting to note that influential voices in the West are beginning to be heard against the evils of the interest - based economic systems. For instance, the Bishop of Birmingham and Chairman of the Church of England's Board of Social Responsibility, Hugh Montegior, last year (1991) dealt at length with the question of interest and posed the question "Is it ethical to charge interest on a loan?"; he said: "In the ancient world interest was generally permitted, although Plato and Aristotle objected. Cato even compared it with homicide. Among the Jews, interest was equated with robbing the poor. The moral teaching of Jesus was absolute: "Love your enemies, and do good, lend, expecting nothing in return." Canon Law of the middle ages absolutely prohibited all lending on interest.

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

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

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

According to an article in London's Evening Standard (May 6, 1992): "Ethical funds - those that stay clear of companies profiting from "immoral" business activities, like tobacco, armaments, pornography and so on, are the fastest growing sector of the stock market and are likely to receive a boost.

Commenting on investment in ethical funds, Leo Coates of Ethical Investors Group, independent financial advisers specialising in ethical funds, said: "It is not a fringe investment for loonies and Quakers. Ethical investments can make you both morally and financially happy. You don't have to sacrifice performance for principle. The returns are average or above average. People now have a simple choice: make money from a "clean" company or a "dirty" one. Most ethical funds have been out - performing international equities as well as UK Growth Unit Trusts", (London Evening Standard May 6, 1992).

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

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

It has been acclaimed not only for its ethical values but also as a sound and stable system.

Some financial experts maintain that in times of recession an Islamic economic and banking systems may well have a greater capacity to absorb shocks than its capitalist counterpart. It may be mentioned in this connection, that, during the recent Gulf crisis, the Islamic banks suffered far less than the conventional banks. Indeed, whether it is in bank syndications, venture capital or trade finance, it is often the Islamic financial institutions that are showing the way and are destined to take off in a big way.

Some Western critics of Islamic banking have alleged that the system only highlight its negative aspects - that is don't do this and don't do that. It is a fallacious approach. Islamic prohibitions are against those things which are considered the root cause of all evil. The elements that poison the society have to be eliminated.

Islamic banking is much more than refraining from interest. It is a system which aims at making a positive contribution to the fulfilment of the socio-economic objectives of Islamic society.

Having created a clean financial climate Islam points to various directions in which banks may develop their activities.

A few such sectors are environment, science and technology, medicare and employment.

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

The preservation of environment enjoyed such great importance in Islam that its first Caliph, Abu Bakar, instructed his general, going on a military mission, not to destroy vegetation or animal life even in the enemy territory. How many people or countries in the present day can come up with such high standards of care for environment? Needless to say that investments which help the preservation of the environment merit special attention. Islam exhorts its followers to gain mastery over nature as all resources "in heavens and on earth have been created for the benefit of mankind". To gain mastery over nature it is necessary to attain maximum proficiency in the field of science and technology. It is, therefore, incumbent on Muslims to invest in the development of science and technology. The impression in certain circles that Islam is against progress and promotion of science and technology is based on ignorance.

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

Islam lays great emphasis on the welfare of society. Economic development is an essential requirement of Islam and participation in its

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

These are only a few of the characteristics of the Islamic economic order picked at random to illustrate the point.

I hope our scholars and economists shall conduct intensive research in this connection and formulate policy guidelines for investments by Islamic banks.

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