ISLAMIC BANKS:

THE RISE OF A NEW POWER ALLIANCE OF WEALTH AND *SHARI'AH* SCHOLARSHIP

Monzer Kahf

MKAHF@AOL.COM

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BISMI ALLAH AL RAHMAN AL RAHIM

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1. Introduction

Although the founders of the Saving Houses in Egypt's countryside, 1963, were very much aloof of any political affiliation, the usually cited as the earliest experiment of Islamic Banking was an outlet through which many of the politically tagged as "Islamic revivalists" were able to exercise some activities that, they felt was in line with their political aspirations. The presence of such kind of, then, doomed "people's enemies" was known as the main undeclared reason behind closing these houses (1967) and rendering this innovative idea dormant for almost a decade.

In the mid 1970s the idea of Islamic banking was revived with the establishment of the Islamic Development Bank as an international financing institution and the Dubai Islamic bank in the United Arab Emirates as the first private-sector commercial Islamic bank.

The true story of a new political alliance came however on another and very much-uncalculated sphere: the ever continuously strengthening working relationships between the rich and wealthy on one hand and many *Shari'ah* scholars on the other hand. These relationships create a new power alliance between the economically powerful and a substantial segment of public opinion formulators in most Muslim countries. This new and still rising alliance is the focus of the present paper.

The main points that I will cover include:

- History of this new alliance and how it came into existence;
- Factors contributing to the need of each of the two sides of this alliance for the help and support of the other;
- The transformation of the lifestyle of allied *Shari'ah* scholars;
- The effect of the *Shari'ah* scholars on expanding the business of bankers through the creation of a new class of clientele and the resulting change that is taking shape in the structure of economic power in several Muslim societies as represented in the emergence of a new rich that results from transforming energetic intelligentsia into businessmen.

- The effect of the new socio-economic coherence on de-politicizing, or rather reducing the political stigma, of several layers of the "Islamic movement" and the resulting bridging of gaps between certain Muslim governments and substantial segments of their Islamic movement rivals. To put it in a general words that is more amenable to our discussion later in the paper, the creation of a new ground for the game between the Islamists and the governments in the countries of Islamic banks

2. Background

Islamic activists, writers, *Shari'ah* scholars and religious leaders have always talked about the prohibition of *Riba*. The majority of them have repeatedly expressed discontent with the western style banks that invaded the Muslim countries at the turn of the 19th/20th centuries. Several *Fatwas* were issued to the effect that the interest-based activities of these new banks are not compatible with the Islamic *Shari'ah*. Although there were a few fainted voices that distinguished between *Riba* and banks' interest, especially from the ranks of government appointed "official" *Muftis* and government "polished" *Ulama*, the overwhelming majority of *Shari'ah* scholars and Muslim masses viewed these invading banks as based on a prohibited activity.[1]

In the two decades from the early 1950s to the late 1960s of the 20th century, several writings by Muslim economists, bankers and financiers, *Shari'ah* scholars and Muslim thinkers/activists concentrated on the possibility of running financing institutions without interest, and on finding a *Shari'ah* compatible alternative formulation of the *Riba*-based activities of commercial banks.[2]

While these writings prepared the Muslim masses to crave for Islamic banks and later to celebrate their founders as religious heroes, the actual establishment of Islamic banks unexpectedly came in two areas of the Muslim world far away from each other. Islamic Banks were concurrently established in the countryside of Lower Egypt and in the metropolitan Kuala Lumpur in Malaysia.[3]

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[1] It must be noted that the practice of *Riba* is highly condemned in the *Qur'an* and the *Sunnah*. Muslim masses illiterate as they may be have overtime developed very bad social feeling against those who deal with *Riba* to the extend that neighbors and other community members would virtually boycott those who practice *Riba*-based lending, although the latter have always existed in the Muslim societies.

[2] The earliest of such writings go back to 1948 when Quraishi's Islam and the Theory of Interest was published in Karachi, then we got the Maududi's *al Riba*, the Sayyid Qutb's Social Justice in Islam. The publication that tackled the matter from the point of view of the practical running of the activities of a commercial bank was the article of Muhammad Uzair in 1956, it was followed by the late Muhammad Baqir al Sadr's al Bank al La-*Riba*wi in 1961.

[3] It is interesting to record that the Islamic Cooperative Parliamentary Block in Syria was preparing a draft act for eliminating interest from the whole banking system in Syria, where all banks were state-owned and

The Malaysian experience came in a manner that is very much different, in its tint and relations with the government, from the Egyptian experiment. While the political arena in Malaysia was being prepared for independence in the early 1950s, the newly emerging self-rule government supported the idea of establishing an investment institution that can cater to the needs of the Malays, who make the overwhelmingly Muslim and poor segment of the Malaysian society, Yet it is the Segment that constitute the aboriginal majority of the people of Malaysia. The Malays, being Muslims like to save for financing their hajj trip to makkah. The idea of financing hajj at that time was very attractive to the Malay population. They were mainly rural peasants living on coconuts and padi, many of them landless, but at the same time they were having an increasing portion of the political power, being majority in a country whose British-style bureaucracy creates out of their intelligentsia a new economic middle class.

A few years after Malaysia's independence in 1956, the **Pilgrims' Administration and Fund (Tabung Hajji)** took its final shape as a government sponsored and supervised financial institution that collects savings and invests them in accordance with *Shari'ah*. The Fund was enhanced by a legislative support that required almost all Malays who want to go for hajj to process their papers, including the passport, through the **Tabung Hajji** and since everybody felt that he/she has to go through this Fund anyway, why not saving with it too?! The Fund has an autonomous decision-making authority, with a government appointed management and a nominal honorary subordination to the prime minister's office. It was able to increase its share in the real estate, industrial, and agricultural sectors to a substantial amount. It had invented the ideas and procedures of Islamic financing, on its own, without any interaction with what was going on in the Middle East to the extent that Middle Eastern Islamic economists and bankers only discovered Tabung Hajji in 1981 when it was presented to the IDB by through the negotiation to establish the Islamic Bank of Malaysia.[4]

The Egyptian experiment in Islamic banking came about in 1963. It was started by the late Ahmed Al-Najjar who established a series of **Saving/Investment Houses** in a few small towns in the northern rural Egypt. This experiment is known in the literature as the experiment of "Meet Ghamr" after the name of the small town where the first of these houses was established. The Egyptian experiment emerged at a time when the government of Egypt and its ruling class were both ultra-sensitive toward any Islamic activity. The late Ahmad Al-Najjar and most influential people close to him were in fact at a considerable distance from any relation with the Muslim Brotherhood. He himself was very much far from being of any political affiliation or even aspiration, at least

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run since the nationalization sweep during the reign of Naser, when the coup of March 28, 1962 suspended the elected parliament that was later dissolved by the Baath regime created by the coup of March 8, 1963.

[4] In recognizing its effort in discovering a Malaysian style of Islamic banking Tabung Hajji was given the IDB prizes for Islamic Banking in 1990.

at that time,[5] although his religious background and perhaps his economic interests too go back to his mother-side uncle, the late Mohammad Abd Allah al Arabi, who was a renowned professor of Economics at the Egyptian universities and the first Arab economist to write on the Islamic economic system in his notes that used to be distributed to the students of his economics classes, both at the Cairo University and at the Institute of Higher Arab Studies of the Arab League in Cairo.

The experiment of the Saving/Investment Houses did not live long. All the houses were closed and liquidated in 1967, probably because Islamic revivalists and former Muslim Brotherhood members who found in these houses some sort of partial fulfillment of their aspirations, infested them as clients, depositors, and probably employees.[6] Although al Najjar extensively wrote about this experiment in Lower Egypt, he never published any numerical data about the size and averages of accumulated savings nor the types and distribution of its investment. He used to always emphasize the process of generating savings through local decision making and visible fruits of developmental use of these savings and the spirit of new energy the savings and investment activities these houses were able to create among poor peasants and small farmers. [7]

The success of the experiment itself and its ability to spread from one little town to another and to induce more savings among the lowest income strata of the Egyptian society, along with its ability to create and encourage small scale entrepreneurs, may have exercised certain pressure on the Egyptian government to fill the gap created by the extermination of these houses. Hence, in 1971 we got a government-sponsored Islamic bank, the Social Naser Bank, in Egypt.[8] This bank was, and still is, financed and owned by the government. In its establishment, the Egyptian government invoked some Islamic principles such as interest-free financing and *Zakah*. The act that established this bank required all public sector companies to donate 2.5% (a rate selected to ring a *Zakah* bell) of their profit to this bank in order to build and accumulate its capital and reserves. The bank was also charged with the responsibilities of accepting *Zakah* from all those who volunteer to pay and to distribute it to deserving categories as stipulated in *Shari'ah*. The Social Naser Bank played an important role in financing small entrepreneurs and in penetrating the low-income families, usually

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[5] Although his eighties' writings and lecturing invoked a vague notion of an overall social transformation and Islamization through the activities and functions of his style of Islamic banks.

[6] The main driving person behind these saving houses, the late Dr. A. al Najjar, was not politically colored and especially he has never been associated with the Muslim Brotherhood at any time. He remained on non-antagonistic relations with the Egyptian regime until his death in Cairo in the early 1990s. However, it is obvious that such a reason cannot be documented in published data and may never be documented in any future publication. The official governmental excuse will always remain a matter of violating procedures of registration and licensing and lack of ability to efficiently invest accumulated funds, etc.

[7] Ahmad Abdalaziz al Najjar, Manhaj al Nahdah al Islamiyyah Cairo 1985.

[8] There may be a political motive for the establishment of SNB. It came at a time when Sadat needed the support of the Islamists in the crackdown on the Naserites and the purge of the Arab Socialist Union, the government party Sadat inherited from Naser.

religious, with both its *Riba*-free financing as well as the activity of its huge *Zakah* department.

It is worth noticing that these two experiments, in the Far East and in the heart of the Muslim world, did not establish any worth mentioning working relationships either with the members of the Islamic movements and parties or with the Muslim religious scholars. They simply took the principle of the prohibition of *Riba* for granted and innovated formulas of financing and of rewarding savers without indulging in interest. None of these two experiments had a *Shari'ah* board or a religious experts committee to supervise the compliance of their contracts, procedures and policies with the rules of *Shari'ah*.

On the other hand the concept of Islamic banking in these two experiments was essentially developmental. It was tuned to collecting small savings from a large number of people and investing them either on the basis of direct investment via the establishment of industrial, agricultural and construction large-scale projects as was the case of Tabung hajji, or via the distribution of small investments to craftsmen and small local entrepreneurs as was the case of the Meet Ghamr-type houses. The emphasis on commercial banking and short-term placement did not occur to the founders of these early Islamic banks. The fact is that these two experiments did not have current accounts or checking facilities. The latter was introduced in Tabung Hajji in the mid 1980's. Hence both experiments did not satisfy the normal daily financing needs of regular businesses, especially import, export and domestic distribution trades.[9]

Around the mid 1970s, two new experiences came into being, each of them started on a large-scale banking concept; these are the Islamic Bank of Dubai and the Islamic Development Bank. In the early seventies of the twentieth century, and along with the rise in national earnings of several oil-exporting Middle Eastern countries that came as a result of the huge increase in oil prices after the third Middle Eastern war of Oct. 1973 and the Arab oil embargo that followed, the idea of establishing an international developmental bank for the Islamic Region started to float for two main reasons: 1) to enhance the Organization of Islamic Conference which was considered as a potential power base for some of the newly enriched countries, especially Saudi Arabia and Algeria; and 2) to serve as a buffer institution for distributing financial aids from the oil Muslim countries, especially the Gulf States, to their brethren in Africa and Asia.[10]

[9] It is interesting to note that even the theoretical writings never have any reference to *Murabahah* until Sami Hamoud's dissertation that was published in 1976. As for the *Ijarah* (leasing) and especially *Ijarah wa Iqtina'* (purchase/leasing) it only entered the theory of Islamic banking in the1990s. (See Monzer Kahf, *al Ijarah al Muntahiyah bi al Tamlik* [lease leading to ownership] presented to the 12th annual meeting of the OIC *Fiqh* Academy, held in Riyadh September 22-28, 2000.

[10] This is inspite of the fact that two of the gulf States, namely Kuwait and United Arab Emirates, have their own national institutions for foreign aids. The idea in international politics always call for multiplicity of

The call for the establishment of the Islamic Development Bank came from the heads of state of Saudi Arabia, Algeria, and Somalia with the three heads of state putting personal pressure for its establishment. When the articles of the agreement of IDB were put on paper in 1974 the signatories hailed a text that requires it to conduct its activities in accordance with the Islamic *Shari'ah*. This perhaps serves as a perfect manifestation of the theorem of Ijaz Kelani, of the Qaid-e-Azam University in Islamabad, that Muslim governments tend to be a lot more Islamic outside their own borders than within them, especially if we note that except for Malaysia and Egypt, none of the Muslim countries that signed the agreement of the IDB had at the time any Islamic bank and the three countries that called for its establishment did not allow any Islamic bank to operate on their territories until the mid 1980s!

Because of its underlying political structure, the Islamic Development Bank has not been able, at any point of time, to take leading initiatives in the expansion of Islamic banking in the world. However on several instances, it had supported national advocates and initiatives with very meager capital shareholding of a few Islamic banks in several of its member countries.[11]

In Dubai, a pious, sincere, and renowned businessman, who was on the one hand respected for his successful entrepreneurship and benevolent activities; and on the other hand he was also a close associate of the ruling family of Dubai, came forward in 1974 to establish and finance the Dubai Islamic Bank as the first commercial Islamic bank. His background and socio-political connections gave him a free hand to experiment the way he pleases, and he conducted the activities of his Islamic bank in accordance with his own understanding and style of both management and Islamic *Shari'ah*.

Both banks were born without any *Shari'ah* board nor any kind of formal *Shari'ah* counseling. They were left to invent on their own how the principle of the prohibition of *Riba* can be implemented in banking. It should be noted though, that the IDB had initially been intended as a bank for the *Ummah*, rather than an Islamic bank! At the time when the bank's articles of agreement were drafted in 1973 and 1974, it wasn't yet known in any clear way how would an Islamic bank function and there was no precedents nor procedures or manuals for *Shari'ah*-compatible large scale banking activities. The idea simply was that there is a need for an international banking institution to concentrate on financing government projects in the Muslim countries. It happened that this banking institution had a clause in its agreement to the effect that it must provide

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institutions that serve overlapping purposes because some day one vehicle may be more useful than the other.

[11] Over the 27 years of its existence the IDB has made small capital contributions in several national Islamic banks. It started in 1981 with the establishment of the Bahrain Islamic bank, with the blessing of the Bahraini government and a capital participation from its ministry of *Awqaf* and Religious Affairs. IDB is also a small shareholder in Islamic banks in Malaysia, Bangladesh, Algeria, Turkey and Gambia. All requests for these contributions came through the countries' official representatives with IDB and the contributions themselves make less that 10% of the paid up capital in each these few Islamic bank.

financing and mobilize resources in accordance with the Islamic *Shari'ah*.[12] This happened at a time when most government officials in the Muslim countries, including those who signed the articles of agreement of the IDB, secularly-trained as they were, had very little understanding of what Islamic banking is and how could banks operate without interest that is at least an unavoidable necessary evil. The IDB was created with no precedence as to how to draw its procedures and manuals, how to conduct its affairs in compatibility with the Islamic *Shari'ah,* or even what are the Islamic modes of financing that can be used in place of interest-based lending. In fact the IDB had to wait until 1976 to make its first *Murabahah* transaction, which was with the government of Algeria.[13]

The Islamic Development Bank and the Islamic Bank of Dubai, acting separately, started establishing sporadic relationships with several *Shari'ah* scholars by inviting them for consultation on their activities and transactions as well as through seeking *Fatwas* on specific questions and transactions. Yet, until today, the IDB did not have any formal *Shari'ah* supervisory board or committee, or an appointed *Shari'ah* council; and the Islamic Bank of Dubai did not have a *Shari'ah* committee until after a drastic change in its management that took place in the aftermath of a financial scandal in 1997, which called for a restructuring of the bank. The new bank management established, for the first time, a *Shari'ah* consultative committee in 1999.

In general, the activities of both banks did not diverge much from the Islamic *Shari'ah*, and in 1985 when the OIC *Fiqh* Academy responded to a list of questions submitted two years earlier, the IDB had to revise some of its standing policies to make them *Shari'ah*-compatible.[14]

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[12] Ahmad al Najjar was instrumental in adding that clause. He was a member in the committee that prepared the first draft of the articles of agreement.

[13] *Murabahah* was discovered by Sami Hamoud from Kitab al Umm of al Shafi'i. In 1976 Hamoud suggested it to IDB and Dubai Islamic Bank. He later applied it in the Jordan Islamic Bank (1978) and proposed it to the Kuwaiti Finance House (1979). Sami Hamoud was given the IDB prize in Islamic Banking in 1987 for his *Murabahah* mode of financing.

[14] Changes involve three main areas: 1) the Simple lending (*qard hasan*) provided by IDB to governmental non-profit Bodies such as Universities and some infrastructures that involve transfer of technology. These represented about 15% of IDB financing and they used to be conducted at 2.5% service charge to cover their administrative cost. The new policy suggested by the OIC *Fiqh* Academy calls for charging actual expenses, and if it were difficult to calculate expenses, then a percentage charge may be accepted provided it is calculated in way that brings it the closest possible to actual expenses. The method adopted was to charge a percentage of administrative expenses of financing, not including any cost of money, calculated on the basis of moving averages for the past five years. The new charge was below 1% for all such goodly loans given prior to 1987. Since then the administrative cost moving 5 years average increased to 1.27% in 1999. After implementation of the new policy, refund was made for extra charge made on previous loans. 2) A few corrections in the proposed *Ijarah* financing. This allowed the Bank to start its leasing program. Earlier the only mode of financing was *Murabahah*. 3) Minor changes in the conditions of agency in the *Murabahah* contract, tat is called in IDB Installment sale. Later on while establishing the IDB Islamic Banks Portfolio the Bank relied on another *Fiqh* Academy resolution on the sale of packaged assets that consists of debts and physical properties.

3. The Birth of an Alliance

The beginning of the new alliance between *Shari'ah* scholars and bankers had to wait until 1976 when the Faisal Islamic Bank of Egypt was established. The bank was the first to have a formal *Shari'ah* board consisting of selected *Ulama* from Egypt. This tradition continued with the establishment of the Jordan Islamic Bank (1978), the Sudanese Faisal Islamic Bank (1978), the Kuwaiti House of Finance (1979), and it went on with other Islamic banks throughout the Arab countries, Turkey, Bangladesh, and more recently, the private sector's Islamic banks in Pakistan.

Unlike the government-enacted transformation of the whole banking system in Pakistan in the mid 1980s, in Iran in the late 1980s and early 1990s, and later on in Sudan in the mid 1990s, the Islamic banks in most Arab countries, West Africa, Malaysia, Indonesia, Turkey, and Bangladesh came as a result of private initiatives in which driving forces were provided by a few visionary personalities like prince Mohammad Al-Faisal (son of the late Saudi king Faisal bin Abd al Aziz), Saleh Kamel of Saudi Arabia, Ahmed al Yasin of Kuwait, Sa'id Lutah of UEA, Sami Hamoud of Jordan, and Abd al Halim Isma'il of Malaysia. At the beginning, these private initiatives were influenced by intellectuals of the caliber of Ahmed al Najjar and Issa Abdu Ibrahim, both from Egypt.

But what may be called the Islamic capitalists (if the term can loosely be used) found their true allies in the *Shari'ah* scholars who were willing to work with them on the *Shari'ah* boards in each of these banks. For two years after the Dubai Islamic Bank began its operations the Islamic banking movement did not see any institutional progress. When Prince Muhammad al Faisal adopted the idea, he was able to give it a momentum that carried his stamp for more than two full decades and several new Islamic Banks spreading from Pakistan to Guinea. He remained in close association with Ahmad al Najjar until the collapse of Faisal Islamic Bank of Cypress in 1986 separated them forever. But the Prince knew from the beginning that his alliance with al Najjar does not buy him the confidence of prospective clients that he needed for the Egypt Islamic bank. He could not associate himself with the Islamic Brotherhood because of many reasons including the fact that it does not offer him contacts with the businesses in Egypt nor in other Muslim countries. And he found in the former Grand *Mufti* of Egypt a perfect ally who could grant him acceptance and legitimacy without any negative effect on his relation with the government and the prospects of issuance of a special law that he needed Sadat to do in order to permit the establishment and operation of the first Islamic Bank in Egypt.

Certainly, there are differences between countries. Except for Sudan and Turkey, the analysis of the preceding paragraph applies to all Muslim countries. Sudan had at that time rising businesses owned and run by associates of the Islamic movement, a la Turabi to the extent that formed a new middle class of businessmen that posed a real threat to the traditional business class that was associated with the traditionally political heavy weights: al Ansar of al Mahdi and al Khatmiyyah of al Mirghani, both were in disgrace because of their opposition to the regime of Nimairi. Led by Turabi the Islamists were collaborating with the government of Nimairi. Furthermore The Islamists of Sudan always kept close working relations with most of the *Ulama* and intermingled with them. The Prince did not have any trouble working with both the Islamists and the *Ulama* in establishing the first Islamic bank in Sudan that also required a special new law. Faisal Bank in Turkey came later, in the late 1980s and benefited from a lull in hostility between the Kemalists and Islamists during the Ozal presidency. The Turkish Faisal Bank gained the support of the Milli (or one may say Muslim) Chamber of Commerce and Industries as well as the Nursi-type *Ulama* together, they all were breathing certain degree of freedom before the election of 1998 that brought Erbekan to power and polarized the Turkish politics in a way that led to the fall of Erbekan and a subsequent menace to the Special Finance Houses. At about the same time while the Prince was working on his Egyptian Islamic bank, the discussion and efforts for the establishment of the Islamic Bank of Jordan were going on between Sami Hamoud, who needed both Islamic legitimacy and venture capital support. The legitimacy was sought in the ranks of the ministry of *Awqaf* and the General Office of *Fatwa*. Once more a former Grand *Mufti* of Jordan was recruited, while the money was provided by Saleh Kamel, who was a young business rival of the Prince with a Saudi royal family support too. A new Alliance started to emerge between *Ulama* and financiers-turned-bankers. This alliance continued to prosper for the coming quarter of a century.

If one attempts an exercise of mind reading on the Muslim Bankers in their efforts to seek the help of traditional *Ulama* one may find that the main reason leis in the fact that unlike the other Muslim intellectuals, the *Shari'ah* scholars have close contacts with average-minded businessmen and income earners, from whom the clientele of Islamic banks is to be derived. Most *Shari'ah* scholars have more daily contacts with Muslim masses than both Muslim economic and finance intelligentsia and Islamic movement activists.[15] Hence, the *Shari'ah* scholars were able to pave the ground for the acceptance of these newly established banks as Islamic, they gave them the credibility and legitimacy they direly needed. All that was in exchange of a declared commitment, on the part of bankers, to abide by the rules of *Shari'ah* not only regarding the prohibition of interest, that was practically the only issue around which Muslim professional intelligentsia hover for a long time, but also the detailed *Fiqh* of financial transactions related to sale, *Ijarah* or leasing, money exchange, debt contracts and other rules and principles that interfere with determining the *Shari'ah*

[15]It should be noted that except for Sudan and Turkey, the 20th century Islamic movement in almost all Muslim countries has always been on non-friendly terms with the *Ulama*. Since Hasan al Banna in Egypt and al Maududi in South Asia, the real raison d'etre of the Islamic movement was that *Ulama* failed in discharging of their responsibility in awakening the *Ummah*. At the same time their relations with governments have always been hectic. Al Banna declared in 1938 that a true test that the Muslim Brotherhood was on the right course would be visible expression of hostility from stooge governments and a corrupt *Ulama* class; and al Maududi was accused of apostasy more than once by traditional *Ulama* in Pakistan.

compatibility of a given transaction. Noticeably, these details are usually known and decreed by the *Shari'ah* scholars (*Fuqaha)* while Islamic economic and finance professionals usually have little acquaintance with them.

From that moment until today, the expansion and development of Islamic banking have always been associated with the involvement of well-known names in *Fiqh* and in the circles of professional *Shari'ah* scholars.

When the new species of international Islamic investment companies emerged in the mid 1990s, their managers were also lead to get *Shari'ah* scholars on board in order to gain acceptance and legitimacy that are indispensable in winning the hearts of their depositors. These IIIF are created to cater for the requirement of Muslim investors while being administered and managed by reputed western banks and houses of finance.

The many seminars, meetings, conferences, and symposia that ensued have been held in the four corners of the world. They contributed to by Islamic bankers, professional economists, finance and investment experts, and *Shari'ah* scholars have further enhanced this new alliance. These meetings gave opportunity to develop better working relationships between all these breeds together. For instance, we have the OIC *Fiqh* Academy that since its inception in 1983 has been bringing together intellectuals, practitioners, and *Shari'ah* scholars to discuss issues related to Islamic banking and finance. Also, Al-Barakah group, headed by Saleh Kamel, conducts a yearly seminar in which scores of economists and bankers meet with *Shari'ah* scholars on a yearly basis to discuss issues relating to the different aspects of financing contracts used in the Islamic banks.

4. Interaction Between *Shari'ah* Scholars and the New Muslim "Bourgeois": Factors and Effects

The new alliance between the *Shari'ah Ulama* and the Islamic "Bourgeois" is interesting as it creates a new power structure in the socio-political arena in most Muslim countries that affects both the short-run struggle for economic and political influence and the long-run weaving of the Islamic movement politics.

There are several factors that contributed to bringing a segment of the rich class and many *Ulama* to this new alliance. On the part of the financier and bankers, their alliance with the *Ulama* benefits them on several grounds. **First**, it is a main tool for convincing religious-minded masses especially potential depositors to come forward to deal with these new banks. This is especially important if we keep in mind the long history of suspicion and apprehension Muslims usually maintain towards the entire banking sector including central banking authorities, the secularist media where the new Islamic banks advertise and generally their own governments that authorized such banks.

Second, the new alliance is also used as leverage for breaking new grounds of clientele, those people who did not use the facilities of the banking system in the past because it relies on the forbidden interest. This alliance is also used in competing with the conventional banks and attempting to attract a good proportion of their depositors and finance users. A study conducted in the mid 1990s by the Department of Islamic Financing Services in the National Commercial Bank of Saudi Arabia indicates that more that one third of the clients of a conventional branch would be willing to shift to the Islamic financial services once they are convinced they are truly Islamic.[16]

Third, this alliance with the *Ulama* is also used as a tool for improving the public relations of the new bankers, something they need very much, especially in asserting their new stands, and power of argument toward the governments, the media, and the central banks as well as in their competition with conventional banks. This new alliance creates an image for the Islamic banks that relates them to the interests of general masses in their respective countries.[17]

Fourth, the alliance creates a kind of buffer that can be used in support of the main shareholders and professional managers of Islamic banks, who are usually drawn from conventional banks, in their dialogue with depositors, dormant shareholders, and users of finance. Further, the owners of Islamic banks can also rely on the *Shari'ah* boards in influencing their managers. *Shari'ah* boards may also be used to bail out the management in their relation with depositors and dormant shareholders as can be seen from the *Shari'ah* board report of 1998 of Bank al Taqwa.[18]

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[16] Said al Murtan, " Transformation to Islamic Banking: the Experience of the NCB" paper presented at the Seminar on Islamic Banking, Casablanca, April 1999.

[17] While Islamic banks received considerable image boost from the *Ulama*, the so-called Islamic investment companies found it irrelevant to hire any *Shari'ah* advisers. These companies draw their clientele from two categories of people: those who could be reached by direct and indirect (through the spread of words of mouth) personal contacts and those who have overwhelming lust for quick windfall profit to the extent that creates a blinding effect regarding potential risks. The earliest such company popped up in Saudi Arabia in the mid 1970s and it ended wiping up the savings of a large number of people while its owner/founder, al Ajhuri, resided in jail in Makkah for swindling the assets of thousands of middle class savers. The same experience was repeated in Egypt, and on a smaller scale in Syria, in the late 1980s. Abusing loopholes in the laws, several companies were established in Egypt under the name of Islamic investment companies. They were able to collect huge savings from the public and their main practice was to distribute high rate of return, actually derived from new savings deposited with them. They mainly counted on the pyramidal cumulative effect of new deposits, with very little actual investment projects mostly on paper to be used in their advertisements. Inspite of the fact that Islamic Banks and their associated *Ulama* as well as most Academic Islamic economists and financiers took very strong stands against these companies, some outspoken Islamic Activists in Egypt strongly defended them and attacked what they called "the government conspiracy" against the Islamic investment companies.

[18] The bank management flopped down in 1998. The bank's report at the end of the year showed a loss of over 23% of principal to both *Mudarabah* depositors and shareholders. The *Shari'ah* board exceeded its

From the point of view of the *Shari'ah* scholars, the *Ulama*, this new alliance brings them back to the forefront of the political scene at a time they needed this boost very much especially that most of them were left on the side by the rising Islamic activists movement.[19] This new alliance gives them a sense of achievement. Now, with this new role they are actually working to fulfill the implications of the Islamic *Fiqh* they've been learning and teaching all their lives. It improves their image among Muslim masses. It is, in a sense, a fulfillment of their life-long preaching that one should abide by the Islamic teachings in business transactions of which the prohibition of interest is a cornerstone, not only in prayers, fasting, pilgrimage and other forms of worship.

This alliance also gives the *Ulama* a new source of income that by far exceeds all what they were used to get all their lives. It gives them an opening to a new lifestyle that includes air travel, sometimes in private jets, staying in five-star hotels, being under the focus of media attention, one way or another, providing their opinions to people of high social and economic ranks, who come running for listening to their opinions, being commissioned to undertake paid-for *Fiqh* research and to find new solutions to problems the new breed of bankers face, etc. This new alliance also gives the *Ulama* new stands and positions in the social hierarchy, which are usually higher in the social ranking of the Muslim societies than they were used to. In some Islamic banks, *Shari'ah* scholars reached positions like vice presidents, even we find a *Shari'ah* scholar who serves as a deputy governor of a central bank in one of the Muslim countries.[20]

Bringing the *Ulama* back under the main lights of vividness in the Muslim society was itself a great achievement for them and a great fulfillment of their aspirations. They, in fact, became real celebrities in their respective countries, and even outside their borders.

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usual limit of authority in stating that the management did not violate the *Shari'ah* rules and went as far as stating that the board of directors and the management did the best and soundest finance and investment decisions and the loss was a result of the South-East Asian disaster as claimed by the management itself in its report. The fact was revealed in the year 2000 in a letter from the management indirectly indicating that in violation of well-established banking rules, regulations and wisdom, the management put most of its eggs in one basket, investing in one single project more than 60% of the bank's assets!

[19] It is interesting to note that In Islamic history *Ulama* played leading and very critical roles in advising rulers and defending the general public against rulers' atrocities and sometimes against outside aggression. The Islamic History is full of examples like Ibn Hanbal, al Nawawi, Ibn 'Abd al Salam, Ibn Taymiyyah, etc. In the past the *Awqaf* was the main source of finance education for Islamic as well as secular education. Starting from the day of Muhammad Ali in Egypt, the control on *Awqaf* was transferred to the government. The *Awqaf* Act of 1856 in the Ottoman Empire extended the government authority to *Awqaf* and made the *Ulama* government employees. That made them loose their leadership status and gradually they took a position on the peripheries of the political stage. Although the European invasion of the most of the Muslim land caused revolutionary reactions that were lead in several instances by *Ulama*, the majority of them remained invisible in a corner of forgetfulness. The 20th century Islamic movement was in part a reaction to this dormancy, though it took a turn in presenting itself as a substitute of existing regimes and rulers while the middle Ages' *Ulama* did not pose any real threat to their rulers.

[20] Both stories come from the Sudan's Bank al Tadamun and Central Bank.

The effect of the new alliance:

This new alliance resulted in several effects. **First**: it really enhanced Islamic *Shari'ah* research in several areas. According to the late Sheikh Mustafa al Zarka, the *Fiqh* research preceded other areas of Islamic studies in its revival since the beginning of the 20th century. Perhaps one can say that the last 3 decades of the century have a lot more of *Fiqh* research in the financial and economic areas than in any other area of *Fiqh*. Although there are no statistical data as to subject categorization of M. A. and Ph. D. dissertations in the Arab and Islamic countries' schools and departments of *Shari'ah*, nor of the research papers submitted to different seminars and conferences, there is sufficient information to assert this effect. Those who are acquainted with this field of study realize that the number of publications on financial and economic *Fiqh* exceeds by far publications on other *Fiqh* areas, and the number of seminars and conferences related to this area also by far exceeds the number on other *Fiqh* Areas.

Look for instance at the OIC *Fiqh* Academy for the first thirteen years of its activities, 1985-1997. Out of 97 resolutions it adopted 51 relate to financial and economic issues, 1 answers about thirty questions on several matters, that include financial, social, medical, and others, 20 resolutions relate to medical matters, 11 administrative that relate to the Academy's managerial issues and 14 are on different other matters such as conditions of animal slaughtering for food, the beginning of the lunar months for Ramadan and other Islamic festivities, Qadianism, Baha'ism, arbitration in contracts' interpretation and default, outcomes of traffic accidents, etc. I think this kind of distribution fairly reflects all the scientific *Fiqh* research in the last quarter of the twentieth century, especially when we take into account that several specialized seminars and workshops are held every year on the call of Islamic banks.

Second: this new alliance helps modernize the *Fiqh* opinions and rulings. It helps addressing contemporary transactions from a *Shari'ah* point of view. It has always been the contention of the Islamic banks' *Shari'ah* boards and allied *Ulama* that not simply lending for interest is prohibited. *Riba* itself mingles with several other contracts and Avoidance of interest-based lending alone is insufficient to make a bank Islamic. Furthermore, the *Ulama* also assert that there are other issues besides the prohibition of interest that need to be clearly studied and questioned from *Fiqh* point of view. Such issues include, Inter alia, the balance of the obligations and rights of the contract parties, the elimination of ambiguity and obscurity known in *Fiqh* under the titles of Gharar and Jahalah, the fulfillment of the implication of participation in *Musharakah* contracts, etc.

Hence Islamic banks have to abide by the whole package of Islamic *Fiqh* if they really want to earn their name and the Public support of the *Ulama*; without continuous *Ulama's scrutinization and* advice, many *Shari'ah* violations may go unnoticed by Islamic bankers and the bankers will find it difficult to engineer modes of operation and of financing that are compatible with *Shari'ah*. This required that *Fuqaha* sit with economists, bankers and financiers and learn the details of every single transaction and get acquainted with new terminology, procedures, and methods. All that for the sake of developing *Fiqhi* opinions on these issues that are new for *Fuqaha*, especially if we keep in mind that during all their academic training they were accustomed to living within the folds of the yellowish pages of dusty old books. Modernization of research in *Fiqh* has been taking on a long journey from letters of credit and letters of acceptance to foreign exchange hedging, to syndicated financing, to time-sharing, to management of investment funds, etc, with an ever expanding long list of new issues that are daily put on the desks of *Shari'ah* boards and subjected to *Shari'ah* securitization in seminars, workshops and conferences called for by and held under the auspices of Islamic bankers.

Third: this new alliance also resulted in bringing together, on common ground of Islamic banking and finance, some of the important segments of the rich strata in the Muslim societies (bankers and big businesses) and middle class people (lawyers, economists, depositors, bureaucrats, and small entrepreneurs who use a lot of the banks' financing) and even the poor and the economically misfortunate,[21] who benefit from the fringe activity of many Islamic banks in distribution of *Zakah*.[22] The social and political effects of this new social rapprochement are yet to be studied, but it has become normal for many poor and middle class people to defend and befriend Islamic bankers and their activities even in very poor countries like Yemen.

Fourth: this new alliance also brought in a real change in the life style of many allied *Ulama.* It bestowed a new income and new association, both exposed them to new life style that was hard to even imagine in the past. The *Ulama* that we knew in the 1950s with weather-affected dried-skin hands, and humble clothing, sitting in the cold teaching on the ground of mosques in Cairo, Damascus, Aleppo and Baghdad are now replaced with soft living *Ulama* who are used to expensive garments and the services of five-star hotel and fancy restaurants. This new life style of the Islamic Banks' *Ulama* resulted in certain change in view points. Many of them are now accused of being bankers' window dressing and of over-stretching the rules of *Shari'ah* to provide easy *Fatwas* to the new breed of bankers.

[21] Most *Ulama* come from the poor class. This is because of the structure of the education system in the Muslim countries. With the introduction of the western education system and its emphasis on learning science for living, both resources of the traditional Islamic education and the job opportunities became very slim. Sine the beginning of the twentieth century, *Shari'ah* teaching became the monopoly of the poor children whose parents cannot afford sending them to public or private schools, as most *Shari'ah* schools provide meager boarding facilities subsidized by charities and the remnants of *Awqaf*.

[22] Most Islamic banks take charge of distributing the *Zakah* due on the shareholders' equity, and some of them obtained the consent of their depositors to deduct and distribute their *Zakah*. This allowed some of the IB to create sizable *Zakah* distribution departments that keep relations with the poor and needy and with other local charitable agencies. This is very evident in Social Naser Bank, Faisal Bank of Egypt, Kuwait *Zakah* house and others.

This caused a reaction from most of the *Ulama* who are either not recruited by Islamic bankers or could not find opportunities to ride the wave of new research in the well paying finance *Fiqh*. Hence we find new grouping and new de-grouping in the socio-political stratification of the Muslim Societies that have Islamic Banks. Expectedly, except in the special cases that are discussed later, most Islamic movement activists take the side of non-allied *Ulama*. This may provide some explanation of the attacks on Islamic banks that surface sometimes in meetings and workshops sponsored by purely academic institutions.[23]

Fifth: it also contributed to the increase of social and economic coherence in these societies, through schemes that end with the finance users becoming owners of their productive assets including housing, as well as through micro financing programs which are always encouraged and supported by the *Ulama*.

In Sudan for instance, the Islamic Bank of Sudan-West set a successful program for small farmers and small craftsmen financing. This was followed by a similar program to finance micro industries by the Sudanese Faisal Islamic Bank.[24] In Jordan, the Islamic Jordan Bank was involved in a successful scheme to help Taxi drivers become owners on a declining *Musharakah* mode of finance. Also each of the Arafah Islamic Bank and the Islamic Bank of Bangladesh has its own Micro-financing Program, that although they still do not compare to Gramin Bank from the point of view of the amount of micro-financing they provide, they certainly charge a lot less mark up that the more than 22% per annum interest rate charged by Gramin Bank.[25]

In my studies of Islamic banking and finance, I did not come across any statistical analysis - not even raw data - of finance receivers of the Islamic banks on the basis of the amount provided and the business size of recipients and I think such a study will be very useful. But from my repeated visits to many Islamic banks, reading their reports and chatting with their officers and from the general information about the size and distribution of the credit markets and the share of Islamic banks in the respective markets in countries like Turkey, Bangladesh, Sudan Jordan, Tunisia, and Algeria, I think it is fair to expect that most of the Islamic banks' financing is channeled to middle and small sized entrepreneurs in these countries. I know from personal contacts and observation that in five of the six Islamic banks established in Sudan before the "Salvation

[23] There was a very critical (perhaps one must say accusative) paper at the Seminar on contemporary *Fiqh* and Islamic banks held by the School of *Shari'ah* of the University of Jordan in 1993. One also finds similar expressions in some of the annual meetings of the OIC *Fiqh* Academy

[24] Othman Babikr, Financing micro industries, the experience of the Sudanese Faisal Islamic Bank, IRTI, Jeddah 19997.

[25] Reports of the 1998 and 1999 of the three banks.

Coup" of 1989 financing has been instrumental in creating a new and rising class of non-traditional businessmen.[26]

Finally, it is interesting to look into the relationships or rather the effect of this new alliance on the relation between the Islamic revivalist movement and governments in the Muslim, especially Arab countries. First of all, keeping in mind that capital is always coward and does not like to enter in adversaries with governments especially in non-democratic systems that prevail in almost all the Muslim countries, the bankers have always been very sensitive in selecting the type of *Ulama* that are acceptable to both governments on the one hand and the general masses on the other hand, hence they were very particular in avoiding extremists on both sides. They did not ally themselves with the so-called government-sponsored *Ulama*, because that would make them loose credibility in the eyes of many of their expected or potential public. Yet, at the same time, they avoided those *Ulama* who are known as spokesmen of, or deeply allied with the Islamic revivalist movement in order to avoid creating any adversities with their mostly dictatorial and unpredictable governments.

Ever since the establishment of the first Islamic bank in Dubai, Islamic bankers relied on some kind of working relationship with the governments as if they've learned well the lesson of the Meet Ghamr experience. All other Islamic banks followed suit in either entering into some kind of partnership with their respective governments or keeping a close contact with the authorities while avoiding any relations, that may annoy their ruling class on employment level as well as on business level. Depending on the type of government of the host country, the Islamic banks' policies of selecting members of the boards of directors and main officers varied from keeping strict association with professional technocrats to presenting persons of known lack of commitment to Islamic teaching.[27]

At the same time, Islamic bankers did not shy from utilizing the services of "moderate" Islamic movement activists as long as the latter do not disturb the banks' tranquility with governments. Hence many moderate activists have found peaceful havens in the Islamic banks, especially in Egypt, Jordan, Bangladesh, and Indonesia.

Thus the Islamic banks and bankers actually helped, among several other factors, in the emergence of somehow non-hostile relationships between the

[26] Actually two more Islamic banks were established in 1988/89, The Islamic Bank of Sudan-North and the Bank of Workers, but they both didn't have much activities before the coup. It should be noted however that a few Islamic banks restrict a considerable part of their financing to very closed circles of main shareholders and their partners and associates. This is noticed in one Islamic bank in Sudan and one in Saudi Arabia.

[27] Although there is no statistical data to substantiate this assertion, a close look at the lists of CEOs of Dar al Mal's central office and affiliated banks and al Barakah Group's banks especially in Tunisia, Algeria, Mauritania, and Bangladesh support this claim.

moderate slice of the Islamic movement, mainly professional technocrats and open-minded *Ulama* on the one hand and their respective governments on the other hand. This is of special importance, as it came at a time when many elements within the Arab Islamic movements were calling for revising the movement's positions on relations with governments and on strategies of political change. Those reconciliatory reformists who abandoned the decades-raised banner of Sayyid Qutb "Take Islam all together or leave it" for a stage-wise implementation of *Shari'ah*, or gradual Islamization without attaching much of value to the theorem that it all starts with changing the political system.

Many of these reconciliatory reformists were in fact absorbed in Islamic banks and under the banner of allied *Ulama* without antagonizing their governments. Hence, in a sense, this new alliance helped reformulate the power positions and power distribution in these countries. If we take exception of Sudan, Turkey, Pakistan, and Iran, Islamic banks in other Muslim counties helped changing the map of power distribution and bring about a form of new power center, though still small, that consists of a segment of the *Ulama*, those who are involved in Islamization of the economic, finance, and banking transactions both on the research side as well as on the application side, a substantial slash of the Islamic movement, a new and rising Islamic rich class of bankers, entrepreneurs, and professional executives, and a good portion of the non-antagonistic (to the Islamists) secularist intelligentsia who are associated as professionals and bureaucrats.

5. Special Cases

The cases of Sudan, Turkey, Pakistan, and Iran should be given special consideration because of the uniqueness of each one of them.

In Sudan, the six local Islamic banks had, and are still having, an important role in shifting the economic power from the traditionally rich class to a new class of Islamist entrepreneurs, those who were essentially either members or associates of the Islamic movement. The *Ulama* played an important role in this association between bankers and rising new economic stars because of their close ties with the latter. Sudan had very few *Shari'ah* scholars outside the ranks of the Islamic movement. Even those *Ulama* who are not insiders in the movement have always maintained good relation with it.[28]The new power alliance took in Sudan an

[28] The historical reason for this lies in the fact that although Belal who was one of the most renowned disciples of the Prophet Muhammad, pbuh, was from Sudan (Eritrians say he was from their country) since the time of the great conquers in the middle of the seventh century, when al Sarh lead a Muslim army down from Egypt to close of Khartoum, no place in Sudan had ever become a center of Islamic learning. Islamic *Shari'ah* scholarship is new in Sudan; it only came about with the early birds of the contemporary Islamic movement. This is not to say that Sudan has been less religious that other Muslim countries. It has always

inseparable association with the Islamic movement itself. In other words, it only added an economic dimension under its fold.

It is interesting to see that this alliance created a new economic base for the Islamic Movement that consists of those recently rising businessmen, enriched *Ulama* and empowered new class of Islamist CEOs. This is what really shook the traditional socio-political structure of Sudan in the eighties and nineties and created a power base that extends from intellectuals to academicians to financiers and businessmen. Islamic banks provided the financing seeds that grew in the soil of Islamic activists, but at the same time bankers did in Sudan what they have done in every other Muslim country Create a spirit of moderation and reconciliation among the Islamists. Since 1989 the new regime of al Bashir, decided to spread the practice of Islamic banking modes to all the components of the country's banking sector,[29] that consisted of eight small to middle size private Islamic banks, two or three small private conventional banks and four big nationalized banks. A new overall *Shari'ah* board was created at the central bank level to oversee the *Shari'ah* compatibility of the transactions of all banks.

A test of the spirit of the new alliance came with the split between Turabi and Bashir, where we find that almost all the old guards of the movement sided with the political establishment of the government because they became reconciliatory, as a result of their long association with the Islamic bourgeois! Turabi was then left with only a bunch of frustrated university students!

As for Turkey, the four decades of harsh Kemalism was able to wipe out completely any Islamic activism outside the domain of influence of the *Ulama,* both *Sufists* and *Shari'ah* Scholars. Hence the new Islamic movement that is associated with the name of Necmedin Erbekan, under different party names, was from the beginning allied with the traditional

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been having small schools, Khalawi, of *Qur'an* and little *Fiqh* that dominate all its cities and countryside and became infesting huts of the Sufi orders of Khatmiyyah and Ansar that are the power bases of the two main political parties in Sudan, al *Ummah* and al Ittihadi.

[29] Banks in Sudan were all theoretically Islamized since 1983 with the famous set of laws of implementing the *Shari'ah* enacted by Nimairi. In reality, no clear applicable instructions were issued to either the nationalized banks or the few conventional private banks. There no inspection of fulfillment of this phase of Islamization and banks continued their activities the way they undertook them before these laws. After 1989 the revolutionized new management of nationalized banks that dominate about 80% of the market, and of the central bank took the laws of elimination of *Riba* in a serious way. In 1994 a new act that reorganized the whole banking system including the central bank was issued.

Ulama.[30]Therefore, Islamic banks in turkey, very recent as they are, did not have any noticeable effect in changing the power composition of *Ulama* and Islamists. I. B. allied *Ulama* are from species that believe in abiding by the rules of *Shari'ah* in all the aspects of one's life. In fact, there are little differences in the attitudes of traditional Turkish *Ulama* and the political Islamists, especially vis-à-vis the Neo-Kemalism and the anti-Islamic form of secularism adopted by the Turkish government. This is in spite of the presence of a powerful, but fragmented *Nursi* movement outside the influence of Erbekanism.

Interestingly, Kemalism helped creating a sort of unified stand between activists and non-activists Muslims because, unlike the undeclared secularism of governments in most Arab countries, Kemalism indiscriminately antagonized all breeds of Muslims. Three of the four Islamic banks in Turkey have Saudi and Kuwaiti links, and the fourth is essentially domestic.[31]All these special finance houses have good ties and standing membership with the strong Milli Chamber of Commerce and Industry that represents non-Kemalist national and Islamic businessmen. Although it is difficult to claim any direct association between the Erbekanism and the Turkish Islamic banks, they are altogether on the other side of Kemalism. This perhaps explains why after the fall of the Erbekan government in 1998, Neo-Kemalists turned to Islamic banks (the special finance houses) to celebrate their victory with a toast of liquidation!

In Pakistan, the Islamization of the banking sector came from above passing through the central bank, the Bank of Pakistan, with very little direct interaction between the *Ulama* and the bankers. Although on several occasions, the Islamic Ideology Council (IIC) was called in by the government itself to give opinions on banking questions and to suggest Islamic solutions, the Pakistani government gave the Bank of Pakistan a free hand in interpreting the opinions of the IIC, and in drawing the procedures of application of the Islamic modes of financing without any interference from the *Ulama* nor from members of the Islamic movement. The direct interaction between the *Ulama* of Pakistan and its bankers has to wait until a few private sectors' small banks were licensed in the late 1980s and early 1990s. Even the latest decision of the Supreme Court (taken in the summer of 2000) on the elimination of interest from all transactions of the government and the banking system, was left to the

[30] The Nursi movement, fragmented later in different groups, was also born under the folds of the *Ulama*. A few Nursis went along with political Islam and supported Erbekan while most of them supported other parties on the ground that time is not ripe for an Islamic political party.
[31] Each of al Barakah, Dar al Mal al Islami and the Kuwaiti Finance House has capital contribution in each of the first three banks; the fourth bank was founded in 1998 by local intellectuals and businessmen.

bankers and bureaucrats to implement without, necessarily, involving *Shari'ah* specialists; certainly the Islamists can always challenge any bureaucratic decision through the judiciary system.

In Iran, after the occupation of the American embassy in Tehran, the whole government fell in the hands of the *Mullas* and the Islamic Activists were left aside,[32] away from the main national developments. Hence, when the Islamization of the banking sector came about, it was carried out by the *Mullas themselves,* and the *Mullas*' government did not need to create any alliances. This may partially explain the general lack of trust the Islamic movement Activists have towards the transformation that took place in the Iranian banking system, as one Professor of Economics, who returned to Iran in the early 1980s with overwhelming enthusiasm to serve the Islamic Revolution and later fled overseas for his life and safety, sarcastically put it: "since our government is Islamic, any thing done by an Islamic government must surely be Islamic"!

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[32] I use the term Islamic Activists to mean the several Iranian groups that can be characterized as Modern or enlightened political Islamists in a way that fairly describe them as the counterpart of the Arab Muslim Brotherhood and/ or Hizb al Tahrir, the Turkish Erbekanists, and the sub-continent's Jamaat-e-Islami. They have two characters in common; they are mostly intellectuals with no formal *Mulla* training, and they are Islamic revivalists in a holistic sense with the political aspect of Islam overblown. They generally include disciples and followers of Revivalists like Ali Shariati, Mahmud Talaghani, Nawwab Safawi, Muhammad Behishti, etc. Most of the members of the Mahdi Bazagan's government were of this kind of people. Unfortunately, many of them are now either in Iran under government's disgrace or have fled to Europe and the USA.

Islamic Banks: The Rise of a New Power
Alliance of Wealth and *Shari'ah* Scholarship

Monzer Kahf

SYNOPSIS

Around the turn of the twentieth century, Western Banks entered the Muslim land. While the masses' and *Ulama'*s reaction was very unreceptive, the official government-sponsored *Fatwa* came from the *Mufti* of Empire in Istanbul considering a 15% interest rate permissible! Islamic banks that started in the second half of the century and witnessed a 10% rate of growth for almost 30 consecutive years were a by-product of the Islamic revivalist movement founded concurrently, under different organizational names, by Hasan al Banna in Egypt and Abu al A'la al Maududi in the Indo-Pakistani sub-continent. This movement came in the aftermath of the frustration of Jamal al din al Afaghani and Muhammad Abdu's attempts to "awaken the dormant" Ummah.

After the early experiments of Islamic banking in Egypt and Malaysia, Two big Islamic banks were established, IDB as a pan-Islamic inter-governmental bank and Dubai Islamic Bank as a private commercial bank. The beginning of the change of the socio-political power structure in the Muslim countries only came after inventing the Idea that "Islamic banks always need to have *Shari'ah* councils, boards or committees to supervise the compatibility of their transactions with the principles of Islam". This idea came about with the establishment in Egypt of the first Faisal Islamic Bank in 1976 by Prince Muhammad al Faisal.

The alliance between Islamic bankers and *Shari'ah* scholars has been deepening and growing with the growth of Islamic banks for quarter of a century. Factors that enhanced this alliance can simply be put in one sentence: that each party found in the other a direly needed partner. More interesting are the results of this alliance between wealth and Shari'ah scholarship in several Muslim countries.

The alliance revitalized a class of *Ulama* who was traditionally on the side of events in most Muslim countries, it gave them new role, listening allies and a sense of performance. It provides the new class of bankers and generally "Islamic bourgeois" reliable liaisons with Muslim Masses and it influenced the ideas-cum-composition of the political Islamists.

The paper consists of an introduction and four section that consecutively deal with the historical background of the Islamic banking movement, the birth of the alliance between bankers and *Shari'ah* scholars, the causes and effects of this alliance and the special case of developments that accompanied or resulted from the alliance in some Muslim countries.