

Role of Petrocapital Banks in Positive Recycling

A conference on the "Role of Petrocapital Banks in Positive Recycling" was held at the Development Centre of the OECD in Paris from 3-5 May, 1982. A minimum of forty participants from different disciplines like Islamic bankers, researchers, Arab and occidental commercial and investment bankers, to mention just few, attended the conference. Dr. Omar Z. Hafiz, Director of the International Centre for Research in Islamic Economic, attended the conference.

Highlights on Islamic banks and their importance in petrocapiatal countries prompted the conference to make it a topic of discussion. Basis and concepts of the discussion regarding Islamic banking were all drawn from English, French and German publications noting that Arabic and Urdu literature could not be included in the analysis due to linguistic difficulties.

A macroscopic view was given to the subject by drawing first on the economics of Islam which is based on "*Shari'ah*" i.e., (*Qur'an* and *Sunnah*). In a nutshell, Islamic economic system is described as the sum of Islamic economic principles which embody the Islamic ideology that organizes life by drawing upon its wealth of ideas which have been accumulated by Islamic moral, scientific, economic or historical ideas or analysis of the history of human societies. Therefore, the two fundamental principles in Islamic economics from which springs Islamic banking are: "Realism" and "Humanity".

Islamic banks operated within the framework of limited partnership (*musharaka*) and silent partnership (*mudaraba*). The rationale of Islamic banking at national and international levels was discussed by Islamic economists who believe that a change from interest charging banks to profit-sharing is based upon justice, efficiency, stability and growth. To bring to light the international status of Islamic banking, the conference noted that the present Western economic system worked on the whole successfully on the basis of interest, whereas Islamic principles in finance at international level have yet to prove themselves in an industrialized and competitive environment.

Islamic banking at international level aims at a change in the relationship between the finance community and industry. Doubts were therefore cast on whether Islamic banking is a concept, feasible at an international level, which, so far, has been dominated by occidental thinking and practice. What Islamic banks could do, the conference suggests, to surpass the competition, is the provision or addition of new services, develop new finance packages, new technologies and project possibilities. The creation of economic asset is more important than the shifting of funds from one continent to another. The approaches and concepts of Islamic banking at international level could allow them to join the group of occidental banks.

A comparative analysis on principles governing Islamic and occidental banks, with regard to basic considerations, sources and uses of funds, was given.

The conference traced the birth of Islamic banking. The idea had been looming before the 1940's but the first experiments took place in Pakistan and Egypt in the early 1970's as institutions to loan socially weak population groups without interest-rates.

The next spring-board of Islamic banking was the establishment of the inter-governmental Islamic Development Bank (IDB) in 1975 which is the backbone of all Islamic banks according to its various activities. Islamic banking gathered momentum from two facts:-

- i. the availability of important amounts of petrocapiatal in some Muslim countries (Saudi Arabia, the Gulf) etc.,
- ii. political changes towards Islamic governments e.g., Pakistan. Commercially oriented Islamic banks were grouped into:

Individual banks, banks of the Gulf group and banks of the Prince Mohammed Group. Much emphasis was laid on the Prince Mohammed Group banks with their *Dar-al-Maal Islami* which acts as a powerful umbrella for the whole group.

Traditional and new forms of instruments applied in Islamic finance were noted by the conference. "*Riba*" which means "increase in payment of original loan" is prohibited according to Islamic philosophy. In a further ramification of financial activities of Islamic banks, the conference referred to *mudaraba* contract which means profit-sharing between capital provider and user, applicable to banking, investment, solidarity, etc., *musharaka* contract which is also a profit-sharing scheme whereby the bank and customer provide capital. Supply of goods and equipment is also another sale/resale agreement with mark up known as *murabaha* contract. Islamic banks can also perform traditional banking operations like dealing in foreign currency and establishing subsidiary companies. Nevertheless, the most recent innovation according to the conference is the creation of "Islamic Participation and Loan Certificates". They are commonly called Participation Contract and Benevolent Loan respectively. Application of these financial instruments by Islamic banks have not yet been made in full swing in a uniform and consistent manner. Instead, a large concentration on trade and real estate transactions occupy the business scene of Islamic banks. Also worthy of note is the co-operation of the Islamic Development Bank with the occidental banks at operational level in the form of co-financing.

The Conference raised the following questions: Will the increasing number of Islamic banks bring about a growing impact of Islamic economics at national and international level? Will these institutions mobilize the billions hoarded in the Muslim world? Will they attract the petrosurplus from their governments? Could Islamic banks channel such substantial amounts into productive outlets?

The Conference concluded discussing this topic and noted that many Islamic banks will be established in all parts of the Muslim world and elsewhere because the existing Islamic banks have proven that profit and loss-sharing schemes can work and yield profits above the interest level of the countries concerned. Islamic banks could make a useful contribution to economic growth particularly in the present situation of recession, stagflation and zero-growth levels because the core of their operations is oriented towards productive investments. The available capital in the North is expensive because of the high interest-rates and this has acted as a brake to economic growth. With co-operation and development, Islamic banks could be a powerful muscle in the world economy.

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