

# The Battle for the If it Has

# Soul of Islamic Finance One

By Robert R. Bianchi



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The great paradox of Islamic finance is that the more it succeeds, the more we wonder what it really is and where it's going. After decades of asking, "Can it survive?" we now want to know, "Will it make any difference?"

**T**he rapid accumulation of wealth and power in Islamic enterprises highlights the urgency of assessing its wider implications, moral, social and political. What are the core ideals and guiding principles of Islamic finance? Which interests and constituencies should it serve? What political alliances and strategies is it pursuing regionally and globally?

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These issues are a far cry from the expert-driven discussions that have dominated the field in recent years: the nuts-and-bolts efforts to devise new products and transactions that could comply simultaneously with the Shariah and with tightening international banking standards. Debates over Islamic finance are becoming less technical and more social, less legal and more political. Above all, they are refocusing on basic ethical choices that no world religion can or should avoid - choices that concern not simply individual conscience, but also social justice, community identity and planetary survival.

Today more than ever, the fate of Islamic finance is too important to leave to closed circles of technocrats and lawyers, accountants and "Ulama." In the coming decades, most of the industry's core choices will be collective decisions requiring mass participation, open debate and frequent disagreement. The struggles of Islamic finance will inevitably interact with broader struggles to liberalize religious sentiments, economic systems and political regimes, and this in turn could transform relations between Muslims and non-Muslims for generations to come.

In business, religion and politics, the common threads are growing pressures for disclosure, tolerance and democratization. These pressures will force Islamic finance toward constant self-evaluation and reinvention. Indeed, the metamorphosis is already underway, spurred by a host of hybrid projects and experimental alliances with mass consumers, micro-lenders and ethical investors.

Islamic finance is coming out of its cocoon, sporting a novel appetite for eclecticism and cross-fertilization, as well as for partnership and convergence. Instead of rehashing the old debate about whether "Islamic economics" will replace world capitalism or reduplicate it, we are beginning to explore how Muslim and non-Muslim reformers can collaborate in fashioning a more humane global economy that offers greater justice and opportunity for everyone.

#### Moving to the Middle

The most sweeping changes stem from efforts to reach out to the vast middle classes in the Islamic world and to the Muslim diasporas of Western Europe and North America. After decades of "financial engineering" and new product development, Islamic bankers are poised to provide integrated financial services that cover the entire lifespan. Their repertoire includes educational loans, credit cards, auto finance, mortgages, commercial lending, insurance, individual investing and retirement planning. Penetrating mass retail markets will force Islamic finance to tailor its services to the special needs of local cultures and jurisdictions.

As Islamic bankers learn to listen more to their customers and regulators, they will loosen the grip of the religious and academic authorities that have guided the industry in the past. Self-conscious strategies of market segmentation will promote more diverse practices and standards. The futile quest for a unitary pan-Islamic model will give way to mutual recognition of alternate

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approaches and "full faith and credit" for contracts embodying either majority or minority rules. The genius of the Shariah has always been its common-law knack for adapting to different cultures and changing times. That flexibility and pluralism will be even more indispensable as the geographic and social scope of Islamic finance becomes more truly universal.

#### Good Things Come in Small Packages

The growing interest in micro-lending is a welcome antidote to Islamic finance's long predilection for multimillionaire clients and big-ticket projects in energy and infrastructure. When Muhammad Yunus won the Nobel Prize, hardly anyone saw the Grameen Bank as a faith-based enterprise or as the brainchild of an Islamic modernizer. The chasm between the populist origins of Islamic economics and the high-roller image of contemporary Islamic bankers could not have been more glaring. Lingered skepticism about the short-term profitability of micro-lending obscures the greater value of the political and moral support that Islamic finance must earn from ordinary people throughout Asia and Africa if it is to survive in its own heartland.

Islamic micro-lending will have to be much more than a sound business plan; it must also be a broad political initiative that anchors the industry in the lives of the masses. Business people and technocrats can never accomplish such a mission by themselves. They will have to cultivate a wide network of allies in international organizations, governments, political parties, social movements and community groups. Most Islamic banks already have such networks, but they need to become much more formal, inclusive and transparent. Islamic finance is determined to integrate with new regulatory regimes of the global economy, but it must devote equal efforts to integrate with all levels of its own societies.

#### The Ethical Edge

Compared to the vast potential of retail banking to the middle class and micro-lending to the poor, the field of ethical investing offers both lower risks and lower returns. In theory, Islamic banking is ethical investing par excellence. It has clear commonalities with the leading types of socially conscious investing in the West, especially in valuing the environment, social justice, public health, corporate governance and world peace. These are modest niche markets where synergies are easy to identify and exploit, but their likely political rewards, transcending nations and cultures, are tantalizing in a world that is weary from fear-mongering about the supposedly inevitable "clash of civilizations."

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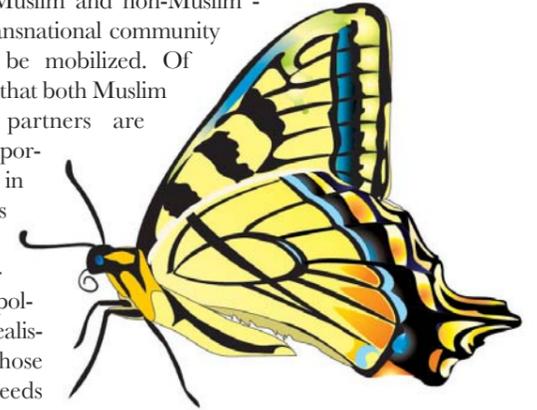
Ethical investors - Muslim and non-Muslim - make up a latent transnational community that is waiting to be mobilized. Of course, the beauty is that both Muslim and non-Muslim partners are already linked to important social networks in their own countries and abroad.

Typically they represent the most cosmopolitan, talented and idealistic social forces whose influence far exceeds their numbers and wealth. These "Investors without Borders" are blessed with a ready-made agenda and an experienced cadre of activists; they simply need a catalyst and a steering committee to become an organized reality.

#### Working Together

The most exciting frontier of Islamic finance arises from a new set of proposals for "mutuality" that aims at nothing less than re-conceiving the Ummah and its relations with the rest of humanity. Proponents of mutuality offer the best hope for returning Islamic finance to its original quest for of community, solidarity and equality. For them, Islamic finance is part of a larger experiment to build local cultures of trust that can rekindle the Ummah's historical identity and purpose. Mutuality comes in countless forms: trusts, cooperatives, endowments, worker-owned enterprises, barter agreements, publicly held funds and transparent corporations. The common denominator is a dispersion of wealth and power that undermines dominant monopolies and elites.

Islamic visions of mutuality are a natural evolution of the inherent idealism of Islamic economics. However, mutuality's relations with contemporary Islamic banking are filled with tension and suspicion. Today's industry leaders still see mutuality as either a rebellious vanguard or a romantic throwback, but not as a serious partner or rival. Nonetheless, the mutuality movement is bound to grow as Islamic finance reinvents itself in the coming years and current leaders are swept away. Mutuality is a powerful rallying point for critics



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who think that Islamic banking is indistinguishable from conventional capitalism, and it will become a constant prod demanding that the industry transform itself as well as its social environments.

#### **The Permanent Revolution in Islamic Finance**

As the core constituencies of Islamic finance expand, basic changes will also follow in who decides what is Islamic and in the criteria they use in making those judgments. The special authority of the financially literate "Ulama" will gradually give way to the standardized knowledge of technocrats, business professionals and lawyers. All experts, religious and secular, will eventually lose influence as power shifts to transnational regulators, organized interest groups and impersonal markets. Educated Muslims in divergent cultural and political settings will make up their own minds about the Islamic credentials of alternative products, heeding their consciences and pocket-books ahead of the self-interested religious and business leaders that are competing for their savings.

The dispersion of decision-making will also erode the authority of traditional texts and historical

practice. The future of Islamic finance will rely less on reinterpreting medieval jurisprudence and more on the bargaining of self-conscious social groups and their political representatives. Their compacts will rest on common understandings of Islam's eternal principles, not on hidebound rules and arcane categorizations whose rationales were forgotten centuries ago. In view of the rapidly changing balance of forces in most Muslim societies, those compacts will have to be renegotiated periodically, insuring that no version of Islamic finance will endure beyond a single generation.

The speedy rise of new classes and generations means that Islamic banking cannot pretend that it is a self-sufficient universe. Simultaneous revolutions in the global economy and the Ummah are forcing Islamic finance to engage mass audiences of Muslims and non-Muslims with ever more creative and interactive strategies. Some of the most promising strategies have already gained traction in an impressive set of parallel movements: integrated financial services for the middle class, micro-lending to the poor, ethical investing and mutuality. The key question for the near future is not whether these forces will gain acceptance, but how much of the existing industry will be demolished by their wake.●