

Session I April 8, 2006: Concepts underlying Business and Islam

Comments

Professor Sultan Abou Ali

The topic of our session is: “Concepts underlying business in Islam.” And Professor El-Hodiri gave us a new dimension, that is emphasizing spiritual capital as a source of creating human capital which is necessary to enlarge and develop societies and consequently would develop more businesses. On the other hand, the way I understand Professor Gamal and his presentation, he limited us to the question of finance, not doing business in general. In this respect, Yahya Cheikh will talk to us about the legal aspects, and as he said yesterday, in doing business, the main concept is contract. You have to follow the general principle of justice, equality and so on. In addition to the fact that the subject of the contract should be legal, it should be acceptable from an Islamic point of view i.e. not trading in alcohol, doing riba, and so on and so forth.

I liked very much the presentation of Professor Gamal, and he made very useful suggestions. But let me just enlarge the scope of the discussion a little bit. Yesterday we had a contribution from a colleague from Pakistan Dr Samira and she was asking about the effect of colonization (cultural and mental colonization) of Islamic countries. I don't want to say that this is applicable here but what is happening actually (the talking about Islamic economics in general, and doing business in an Islamic prospective in particular) is something recent. It goes to something like 50 years. That's after the independence of Muslim countries from British and French colonization. They are trying to find identity and to make life conform to Islamic principles. If we limit our discussions on finance, people would take one of three courses of action:

Some people would say OK knowledge is knowledge and what we have here is human knowledge. Let us take it. If some names are not acceptable to us we just change the label and do the same thing. I think this option is wrong.

Some other people would say that what we have was not developed from an Islamic prospective, we reject it all. This is wrong also. Because knowledge is human, and you have to look into it.

The third and middle way is actually the option that early Muslim scholars adopted. They reviewed all knowledge and science and all that existed during the Greek period. They studied it and they accepted what they found correct, and rejected what they found contradictory to Islamic knowledge. And that's how we at the present time in the East or the West got the knowledge of what the science was at the Islamic period or the period prior to the Islamic riba. And this is how we should proceed. Gamal criticized rightly the bulk of what is practiced as Islamic finance, and I agree with most of what he said because there are things which are not correct. But let us look at the concepts in general and try to see what is wrong, what went wrong and what is the way out of that and we'll have a new architecture of Islamic finance. Actually when you have knowledge that is established, it is very difficult in any field of life to walk out of it outright and be

acceptable. But you have to try. What happens? Banking systems and financial intermediaries are not doing business on their own. There should be two parties in order to conclude a transaction. If you accept (and I think that Gamal accepts) as I do that the bulk of how people do business is built on sharing, on bearing risk, then the users of funds should accept the same level of risks as the sources of funds.

Some surveys have been carried out on Islamic banking and they ask the following question to some businessmen in countries like Saudi Arabia. We would like to do business with you on the basis of profit sharing. What does profit sharing mean? They asked. The answer: we provide you with the money, you do the business and we share the outcome, presumably the profit according to certain percentage. Ok the final analysis is this. Listen, I get the funds from the banks at 10%, you give me at 9.5%, if not I don't accept. So there are banks which are established, banks were there, and money has to be invested or utilized. So what would they do? I think for a lack of ingenuity, lack of knowledge or whatever, they tried to find the ruses and just give it a name. OK, if you don't have an alternative of what to do and you have to use this money and have half the stake, what shall you do. Today Dr Gamal proposed a new formula which is mutualization.

That's very good. But when you look at the industry here in the US, you find that mutualization is 15% of the financial sector, more or less. Why didn't it grow and become 60% or 70%? It's good to look into it, and we have to take also into consideration the size of business, and size of firms. Now firms and business will cost billions of dollars. Would mutualization, and having at each mosque mutual funds, would they be able to do this business? If not, we lose economies of scale. I think there is a wide scope for trying to find a new formula. And certainly what Dr Gamal has proposed is interesting. We need further research in the matter to see how to address business needs for finance. As for the general doing business and contract, and the general principles underlining these businesses, we talked about it yesterday and it was mentioned today too. That's what I had to say about Dr Gamal's speech.