

## ***International Investment and Islamic Financing***

*By:*  
*Jassim Ali Salem Alshamsi*

The future trend of banks focuses on Islamic banking, as a result of increasingly doubled banking profits earned by banks offering products (services) corresponding with Islamic Sharia more than those offered by traditional banks. These profits are the result of making use of customers attitude to go for Islamic banking, hence increasing the profit margin to be doubled.

Islamic banking professionals support their views by the fact that Islamic banking is increasingly growing at a range of 15% – 20% annually, and the volume of their industry all over the world reached around 260 billion dollars in 267 financial institution. GCC countries share is about 25% of this market. (Arab International Newspaper, Issue 10492, 21 August 2007).

In a report from the Information Centre of Abu Dhabi Chamber of Commerce & Industry, Islamic finance volume exceeded 750 billion dollars, while Islamic banks assets (All of them) exceeded 265 billion dollars, their investments exceeded 400 billion dollars and their deposits exceeded 200 billion dollars.

Various studies confirmed that Islamic banking system is distinct by the principle of consolidating cooperation of capital and expertise in the development field, hence the money owner gets fair profit which encourages Muslims to deposit and invest their monies with these institutions.

Islamic financing is also distinct in ensuring the principle of partnership and considering work as the source of earnings instead of considering the money as the only source of earnings, in addition to freeing people from the negative attitude as opposed to the depositor who deposits his money waiting the returns, also reforming the function of Capital to serve the society instead of being an independent entity.

The Islamic economic expert (Dr. Zaid Alramani) regards Islamic banks as not a renaming of reshaping or just the addition of the word "Islamic" to a bank's name, nor banks who do not use the principle of interest, but they are contractual institutions established to substantiate and support the Islamic economy in practicing thee function, and have the right to invest and make profit at the same time bear development responsibility towards societies.

Dr. Alramani's statement is supported by the IMF statement in its recently published document which contained the following: "Islamic Banks system is more effective and balanced than Western countries financial systems, especially in handling financial crisis". The economic scholar Tharwat Walers of the OFCD stated that "Islamic Banks are considered as banks of the few established genuine banks, and I believe that these banks system could have an effective role in developing and

flourishing the economy, particularly during prevailing crisis because their major target is directed towards productive investments".

This concept is also supported by the fact that there are major Western (European) financial institutions started to adopt, in some of their portfolios, the Islamic banking system to name, but not limited to, Swiss Banks Union, Kleinwort Nation. Islamic banks are operational in London, Luxemburg and Switzerland. It is anticipated that Amana Islamic Fund in USA get approval to establish an Islamic bank. Approval has been given to establish the first Islamic bank in the Ninkshia district in China.

A report anticipates that Dubai Financial Center plays a primary role in the growth and development of the Islamic banking industry in the forthcoming years. A report made by the Information Center of Abu Dhabi Chamber of Commerce & Industry indicates that the Islamic Banks sector in the UAE is remarkably growing and also that Dubai Financial Center promotes the Islamic banking solutions. Not to forget taking in consideration that Dubai is working to establish itself as a regional center and a base for Islamic banking industry and the financial environment.

The report adds that the framework and the financial support in Dubai International Financial Center plays a primary role in establishing the environment that leads to the development and growth of creative financial methods. (Middle East – Arab International Newspaper, issue 10402 22 July 2007.)

### **Islamic Economic System Philosophy:**

The philosophy of the Islamic economic system stands on the base of increasing the efficiency of capital markets since it creates a sort of balance among production factors. Additionally, Islamic banks function on the base of participation and interaction between the capital and work according to the Islamic speculation system or partnership leading to full possession, as this cooperation between capital and effort has its social, humanitarian and investment benefits as related to moving capital and its flow among various projects and urging others to work.

Islamic economy cares about activating its role in the production process. It has its role in the development of Islamic countries bearing in mind that Islamic banks replacing with its system the usurious loans operate in its majority in economically underdeveloped countries. This puts a heavy burden on their shoulders for employing the Islamic system to rescue these countries from retardation and dependence into progress and growth.

Islamic banks work on extending their customer sector base and pay attention to free profession owners, handicraftsmen and small merchants. As their functions are based on participation leading to full ownership through financing minor and intermediate projects.

Additionally, Islamic financial system rationalizes the production costs to make enticing profits, which result in increased buying power of the money, thereby

fighting inflation, and disseminates income and wealth among community members, contrary to the traditional economic system, which transfers wealth to one side of the community.

Islamic financial system opens wide horizons for economic thought in the world and rescue from exploitation, domination, extortion and extraction of wealth and capital by economic plans.

Islamic banks take in consideration the investment of their own monies and those deposited by others for making 'permissible' profit, common benefit to the society and financing projects.

The bank accepts money because of 'speculation contract' which means sharing profit between capital and work. This contract is signed between investors (investment account owners) and the bank "speculator" who announces the general acceptance of those monies for the purpose of investing them and sharing the profit in accordance with the contract conditions while the loss to be borne by the capital owner unless, in certain cases, when the bank intentionally commits a mistake (the speculator or investor) or deviating from the contract conditions. In such cases the bank bears the consequences.

Profit distribution in accordance with the contract with the investor is as follows:

- The bank, being a speculator or investor, manages the investment of others' monies against a set percentage of the profit materialized from the investment. This profit becomes due to the bank only if a profit is gained, otherwise, if no profit is gained, the bank loses its efforts and the investor loses the lost money.
- The bank also performs management of others' investments against a fixed amount or a percentage of the invested amount on the basis of "Agency Contract with pay". The agreed amount becomes due in either cases, profit or loss. (Accounting Concepts of Islamic Financial Institutions, paragraphs 8–10.

From the above it becomes obvious that Islamic banking has a philosophy completely different from the traditional banks philosophy, as these banks trade in money by selling and buying credit and making gains from the differences. They are based on usury, not on dealing with commodities or services, except current banking services free from any risks.

Islamic banks abide by the role of money, which is meant to facilitate the flow of commodities and services and avoid usury in both directions. Instead they perform partnership in monies (capital companies) or effort with capital (Sharia speculation) since from Sharia point of view profit may not become due without money (such as exchanges and capital companies) or effort (such as leasing, manufacturing companies or speculation) or security.

Part of the philosophy of Islamic banking is the expectation and bearing of risks while working hard to decrease them, while traditional banks do not take any risks, but only take benefit secured transactions in accordance with the origin and nature. Force Maejeure cannot be considered as risks. All risks are put on the borrowers shoulder enforcing a benefit from the loan. Borrower is obliged to settle the loan amount in spite of any circumstances, failing which the bank confiscates the bond as a profit irrespective of the outcomes of the business of the borrower.