ISLAM, ISLAMIC FINANCE, AND CHRISTIANITY

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ABSTRACT

Islam now claims 1.5 billion adherents around the world and up to 3 million Muslims in the United States. As Islam grows social institutions are developing that conform to Shariah law and principles. Among them are Islamic banks and Islamic financial products which are becoming recognized as legitimate options to conventional banks. Since economic and business systems around the world are increasingly integrated and businesspersons from the United States will most likely be interacting at some level with Muslims, it is important that U.S. businesspersons understand Islam and Islamic finance. To be salt and light and to interact in Christlike ways with Muslims, Christians need to know what Muslims believe, and especially what Muslims believe about Jesus.

In this paper the authors first describe Islam by giving its history and principal theological doctrines. Then several important features of Islamic finance and various financial products are described. Finally, there is a description of Christian missions to Muslims.

INTRODUCTION

Islam is one of the world's major religions with an estimated 1.5 billion adherents. Islam is a religious and cultural force that needs to be understood by all people of good will, and especially by businesspersons who work internationally. International businesspersons will need to understand how Islamic institutions work and how Islamic finance is conducted, since Islamic financial and banking practices differ in significant ways from conventional practices. As the world economy increasingly integrates, and as the roles of Muslims and Islamic countries become more important to international trade, it is imperative that business persons have a basic understanding of Islamic practices.

This paper has three principal goals. The first goal is to introduce Islam to the reader. Information about Islam as a religion, its beliefs, history, adherents, and practices will be presented. The second goal is to introduce Islamic finances and banking. A description of Islamic financial institutions will be given, as will background information from Islamic theology and jurisprudence that impacts financial practices. Several Islamic financial instruments will be described. The third goal is to describe some of the relationships between Islam and Christianity.

A note on use of Arabic words. The transliterations of words from Arabic into English create many variations on the same word, such as *Shariah* and *sharia*, or *Koran* and *Quaran*. It is the writers' intent that the first use of the word coming from Arabic will be italicized but left unitalicized thereafter. The exceptions are *Quaran*, *Allah*, and *Isa* which will always be italicized out of respect. Quotations from another writer will use that author's form.

ISLAM

The Religion

Islam developed in the sixth century of the Common Era (C.E.). Islam means "surrendering one's will to the will of Allah" (Invitation, 1999). *Allah* is the name for God in Arabic. The first leader of Islam was Muhammad (570-633 C.E.) who is viewed as the Messenger of *Allah* and the Messenger of Islam. Muhammad was born in the Arabian Peninsula. He gained influence as a businessperson and began to spread his ideas in his region. Muslims believe that Muhammad received from *Allah* through the angel Gabriel the message now written in the *Quaran*, the primary holy book in Islam. Muhammad began to gain adherents to his philosophy and theology and became the first proponent of the religion now known as Islam. A description of the expansion of Islam is given next.

History of Islam

The events and dates given in this section are taken from two principal sources. First is the chronology given by Karen Armstrong (2002, pp. xiii-xxxiv). The second is the University of Southern California—MSA Compendium of Muslim Texts which was taken from the WinAlim Islamic database (Chronology, n.d.). Taken together, these chronologies start in 545 C.E. and end with the start of the war against the Taliban in Afghanistan in 2001. The following account of Islamic history begins with the death of Muhammad.

Following the death of Muhammad in 633 there were four successive leaders, called Caliphs, of the Islamic world. Their area of influence was largely limited to the areas around the Middle East. In 637 Jerusalem and Syria came under the control of the Muslims. Expanding further, in 639 the Muslims conquered Khuzestan and advanced into Egypt. By 643 they conquered Azerbaijan and Tabaristana. By 659 Muslims had conquered Egypt and Cypress and had campaigned across North Africa (World, n.d., Sec. II, par. 1).

In 661 a new line of Caliphs came into power, the Umayyad Caliphs, who led for almost 100 years. By this time Damascus was the capital of Islam, and the religion had spread to Central Asia and to the borders of what is modern China to the east and to southern France to the west (World, n.d., Sec. II, par. 2). During this period the Muslims led campaigns against the Berbers in North Africa and conquered most of what is now Spain. By 725 they were again fighting in France in such cities as Nimes, Tours, and Avignon. They were defeated at the Battle of Avignon in 737.

The next group of Caliphs is called the Abbasids. In 763 the Abbasids moved the capital from Damascus to Baghdad. This caliphate lasted for about five centuries, but the Caliphs gradually lost power to military generals, many of whom were called "sultans" (World, n.d., Sec. II, par. 3). The Spanish Muslims captured the island of Corsica in 816 and Sardinia and Majorca in 818. In 839 the Muslims conquered Southern Italy and captured Messina. By 1000 Islam had spread into the Indian Peninsula, often fighting with the Hindus. The Punjab was conquered in 1019.

Not all battles were won by the Muslims. In 1091 the Normans conquered Sicily. It was during this time that the Europeans mounted their crusades to reclaim the Holy Land for Christianity. The first crusade was called in 1095, and Jerusalem fell to the crusaders in 1099.

The forces of Islam and Christianity fought in the Holy Land for nearly two hundred years, but Jerusalem itself was returned to Islam when the Kurdish general Salah ud Din captured it in 1187 (Armstrong, 2002, p. 93). The wars continued until the 9th crusade, which ended in disaster for the Christians in 1274.

In the meantime, one of the Umayyad leaders escaped to Spain at the time the Abbasids came into power. The Umayyads established a great Islamic tradition in Spain that lasted until 1492, when the Muslims were finally driven from Spain by Ferdinand and Isabella (World, n.d., Sec. II, par. 4). For more than 700 years Spain was the center of the world's most advanced civilization.

> Muslim Spain was the locus of not only a flowering of Islamic culture, but also

of one of the major flowerings of Jewish culture; the close relationship between the two cultures at the time can be seen in the number of works written by Jewish thinkers, one of the most famous of whom was Maimonides, in Arabic. Spain also became the most important center from which Islamic learning in the sciences, philosophy, and the arts was transmitted to the Christian West and had such a profound effect on later European history. (Nasr, 2003, p. 126).

By the end of the 13th century the Mongols were on the move. They invaded Syria in 1299 and ruled the eastern lands of Islam from India to the Sinai Desert. They eventually converted to Islam. The leader, Timor, started a new dynasty in 1360 that ruled that part of the Muslim world from 1369 to 1500 (World, n.d., Sec. II, par. 6).

The Mongols were replaced by the Ottoman Turks, who gradually came to power in the 15th century. The Ottoman Turks conquered Constantinople in 1453 and basically eliminated the Eastern Christian Empire, known as the Byzantine Empire. The Ottoman Turks gradually conquered Eastern Europe and most of North Africa. The most famous leader was Suleiman the Magnificent, who expanded the empire to Hungary and Austria. The Ottoman Turks remained in power until after World War I (World, n.d., Sec. II, par. 7).

To the east and south of the land of the Ottoman Turks was Persia. In 1502 the Safavids established a dynasty in Persia that lasted two centuries. Their rule ended in 1736 with an invasion from Afghanistan, which led to the independence of Afghanistan in the 19th century (World, n.d., Sec. II, par. 8).

Islam gradually extended into India. This expansion halted with the conquest of most of what is now modern India by Babur in 1525. He set up the Mogul empire which lasted, although with decreasing power because of the increase in British power, until 1857 (World, n.d., Sec. II, par. 9).

Islam began to spread in Sumatra, Java, and Indonesia in the 12th century. (World, n.d., Sec. II, par. 10).

Islam spread into the Malay world beginning as early as the seventh/thirteenth century, but especially from the eighth/fourteenth century through Sufi teachers, pious merchants, and a number of men from the family of the Prophet and ruling classes of the Hadramaut and the Persian Gulf who married members of Malay royal families and brought about a conversion to Islam from above. (Nasr, 2003, p. 142)

Indonesia is now the country with the largest Muslim population in the world.

By the year 1500 Islam had largely reached the lands that it now occupies. There was gradual expansion down the east coast of Africa and into the interior of northern Africa, and some gains for Islam in the Orient, but the profiles remain today much the same as in 1500. Part of the slowdown in expansion of Islam can be laid to the colonization of many parts of the world by the European empires. In that European outreach much of Africa was divided among Germany, Spain, Portugal, England, France and Italy. England gained control of greater India, while the Netherlands, Spain, England, and Portugal gained control of the island states in Asia.

In the 20th century, after the defeat of the Turks in World War I, much of the Middle East came under the control of European countries. Further east, the Soviet Empire slowed down Muslim expansion in Central Asia. The spread of Islam was essentially stopped in India in the 20th century with the portioning of the sub-continent into India, Pakistan, and Bangladesh. Today the Central Asian countries remain mostly Muslim, as are the lands of Indonesia, Malaysia, and the southern Philippines. There are now sizable Muslim populations in western China.

Also in the 20th century there was a sizable growth in the number of Muslims in the United

States. Many immigrants from the Middle East immigrated to the United States and brought Islam with them. In addition, there has been a significant growth in the number of African American converts to Islam. Many were attracted to the Nation of Islam, a variant on orthodox Islam, which was headed by Elijah Mohammad (Nation, 2008). Malcolm X was a well-known convert to the Nation of Islam, as was Mohammad Ali, the boxer. Over the years that movement has gradually moved toward orthodox Islam.

This brings us to 2010, when about 1.5 billion people around the world call themselves Muslims.

Religious Beliefs and Practices

Islam is viewed as the completion and perfection of earlier religions, especially Judaism and Christianity. The religion is based on the Muslim holy book, the *Quaran,* as well as the life, sayings, and actions of Muhammad.

The word "*Quaran*" means "the recital" (*Koran*, 1974, p. 9). The *Quaran* "consists of 114 chapters arranged from longest to shortest. Its length compares to that of the New Testament" (al-Qazwini, 1999, Chap. 5, par. 1).

The words of the *Quaran* are considered by most Muslims to have been dictated in the Arabic language to Muhammad by the angel Gabriel, and hence the words themselves are sacred. Some Muslims believe that only the Arabic words are sacred; translations cannot be sacred. Further, great care must be taken with the material on which the *Quaran* is printed, and Muslims wanting to read the *Quaran* must prepare for touching the *Quaran* with a ceremonial washing (Jordan, 2002, p. 86).

Earlier holy books from Judaism and Christianity which are recognized in the *Quaran* are the Book of Abraham, the Psalms, the Torah, and the Gospel of Jesus (Rahim, n.d., Chap. 1, Art. 3). Many of the stories of the Old Testament are repeated in the *Quaran*, often with slightly different details. Many heroes from the Old and New Testaments, such as Adam, Noah, Abraham, Ishmael, Isaac, Lot, Jacob, Joseph, Job, Moses, Aaron, David, Solomon, Jonah, John the Baptist, and Jesus are considered to be Prophets (Chap. 1, Art. 3). Jesus is given special honor, as is Mary, the Mother of Jesus. According to the search engine for the *Quaran* found in the University of Southern California-MSA Compendium of Muslim Texts (Muslim Texts), Moses is mentioned 176 times in the *Quaran*, Jesus is mentioned 28 times, and Mary is mentioned 31 times. The culmination of the prophetic line is Muhammad who has by revelation of *Allah* brought the final word of truth to humankind.

The principal Muslim beliefs and practices are well described in al-Qazwini (1999, Chaps. 2-3) and in (Cragg, 1969, pp. 46-48). First, Islam is a monotheistic religion. There is one God whose name in Arabic is *Allah*. *Allah* is the creator of all that exists. All people of all ages answer to *Allah*. None of the Prophets, not even Muhammad, are *Allah*. *Allah* is eternal.

There are many names of *Allah* which represent *Allah*'s attributes (a;-Qazwini, 1999, Chap. 3). Traditionally there are 99 such names which are recited, such as "The Merciful," "The Holy," "The Creator," "The Just," "The Glorious," "The Trustee," and "The Light."

A second principal belief is that *Allah* is just and abhors injustice. *Allah* is all-knowing and will reward justness and punish injustice. As al-Qazwini wrote (1999, Chap. 3, Sec. 2):

> Allah's justice embraces the entire universe. Whoever ponders over the existence of the universe and the order therein will not only observe the spread of Allah's justice over His entire creation but also each of its signs apparent in all aspects of nature—from the physical world to the biological world, and from the microcosmos to the macrocosmos. The justice of God is particularly visible in the fate and destiny of human beings, and in their freedom of choice.

A third principal belief deals with humankind's freedom to choose good and evil. Muslim opinion is divided on this issue, but the belief that man is indeed free seems to be more in line with the *Quaran*. In this view, humans are free to choose and do good or to choose and do evil (al-Qazwini, 1999, Chap. 3, Sec. 2).

A fourth principal belief is that there will be a Day of Resurrection and Judgment at which time *Allah* will raise people from the dead, reunite their souls with their bodies, and question them about their beliefs and actions. They will then receive *Allah*'s judgment and be assigned for eternity to Heaven (Paradise) or Hell. Paradise is often pictured as a garden with water, plants, and beautiful virgins. Hell is pictured as the place of fire. Both Heaven and Hell have gradations of bliss or punishment (al-Qazwini, 1999).

The purpose of life is to be tested. If one believes in *Allah* as prescribed by Islam, practices the faith, and does good, then one will be ushered into Paradise. If one has done evil, but sincerely repents, then *Allah* may forgive that person and still usher him or her into Paradise.

> Despite His ability to destroy mankind if he so willed, the main characteristics of Allah are forgiveness and mercifulness, and for this reason Muslims begin nearly every action, speech, or endeavor with the words, "In the name of Allah, the most Merciful, the most Compassionate." (al-Qazwini, 1999, Chap. 3, Sec. 5)

Repentance is a private matter. Further, if a brother or sister Muslim sins—a violaion of *Allah's* law—it is important for the knowing Muslim to hide that person's sin as much as possible to preserve their honor and to preserve the honor of Islam (al-Qazwini, 1999, Chap. 3, Sec. 5).

It is easy to become a Muslim. One repeats the formula "I testify that there is no God but Allah and that Muhammad is the Messenger of Allah" (al-Qazwini, 1999, Chap. 2, par. 12). "Practicing Islam requires learning the Islamic ideas, teachings and practices, and then adapting to them—a process that does require some sacrifice" (Chap. 2, par. 13). The first successor to Muhammad was Imam 'Ali, who said that "Islam is submission, submission is conviction, conviction is affirmation, affirmation is acknowledgement, acknowledgement is performance of obligations, and the performance of obligations is good deeds" (Chap. 2, par. 16).

Muslims have five obligations that represent the pillars of the Islamic faith. First, the Muslim must believe in *Allah* as the sole God and that Muhammad is *Allah*'s Messenger. Second is the requirement for prayer. Muslims are required to pray five times every day facing toward Mecca. Third, Muslims must observe the month of Ramadan by not eating food and drink during the daytime. Fourth, Muslims must give alms to those in need. Fifth, unless prohibited by health or finances, each Muslim must make a pilgrimage to Mecca at least once during his lifetime (Rahim, n.d., Chap. 2). [Note: Ramadan in 2010 was from August 11 to September 9. In 2011 it will be from July 31 to August 30. Muslims use a lunar calendar, which has fewer days each year than the solar year].

World Muslim Populations

Islam is one of the major religions of the world. At present it is the second largest in terms of adherents, after Christianity. Adherents to Islam may be found in substantial numbers on every continent except Antarctica. Muslim influence appears to be growing as Muslim numbers increase, as countries with significant Muslim populations become more important to the world's economies, and as Muslims seek improved status and recognition in the societies in which they find themselves.

The total number of Muslims in the world is estimated to be 1.5 billion, or 21 percent of the world's population (Adherents, 2007, p. 1). Using data given in the *CIA World Factbook 2011 (*CIA, 2011), Muslim populations can be estimated. The countries with the most Muslims are given in Table 1.

Three countries which are very important to the United States at the time of this writing are Saudi Arabia, Iraq, and Afghanistan. The first

Table 1

Largest Muslim Populations, 2010

Country	Number of Muslims (millions)
Indonesia	209
Pakistan	168
India	157
Bangladesh	141
Turkey	77.6
Nigeria	76.1
Egypt	72.4
Iran	65.7

Note: Data constructed from *CIA World Factbook 2011*

two of these countries have large reserves of oil. Saudi Arabia is a strategic partner of the United States and plays a central role in Islam. Iraq has been center stage since the first Gulf War, and now the United States is winding down a long-term struggle in Iraq after the overthrow of Saddam Hussein. At the time of this writing the U.S. has been engaged in Afghanistan in a war that is the longest war in U.S. history. Estimated Muslim populations for Saudi Arabia, Iraq, and Afghanistan in 2010 were 29.2, 28.8, and 28.8 million, respectively (CIA, 2011)

Determining the number of Muslims in the United States is quite difficult. The number given by the *World Almanac For Kids* is 5 million (World Almanac, 2008, p. 1). The Association of Religion Data Archives (ARDA) reports a much lower number following a study in 2000 of the 1209 known mosques in the United States. That study reported 1.6 million adherents, a number considerably lower than the 5 million reported above (ARDA, 2000, par. 38). The ARDA study also reported that "33% of Muslims in the United States are of South Asian ancestry, 30% are reported as African American (which would include Blacks from Africa or the Caribbean); and 25% are of Arab descent" (ARDA, 2008, par. 26).

A particularly authoritative study of Muslims in the United States was conducted by the Pew Research Center and published in May 2007. This 102 page study put the number of adult Muslims in the United States at 1.5 million, with a total Muslim population of 2.35 million (Pew, 2007, p. 3). The study further reports that "72% of Muslim Americans are foreign-born or have roots abroad" (p. 10). Most U.S. Muslims (65%) are first-generation immigrants" (p. 15). More than a third (37%) of all foreign-born Muslim Americans arrived from the Arab region" (p. 15).

"No single racial group constitutes a majority among the Muslim American population: 38% describe themselves as white, 26% black, 20% Asian, and 16% other or mixed race" (Pew, 2007, p. 17). "Within specific ethnic heritages, 64% of Muslims from the Arab region say they are white, while 20% say they are some other or mixed race" (p. 18).

Many people confuse Arabs with Muslims. Generally speaking, an Arab is a person who speaks Arabic. There are 22 countries which are considered Arabic (Arab, 2008, pp. 1-2). Iran, Iraq, Turkey, Pakistan, and Afghanistan, for example, are not Arab countries. An Arab may be an adherent of one of a wide number of religions. "Approximately 18 percent of the Muslims live in the Arab world, but the majority live in Asia and Africa" (al-Qazwini, 1999, Chap. 2, par. 11). Muslims may or may not speak Arabic, although they are certainly encouraged to learn enough Arabic to read the *Quaran*. A 2000 study showed that "only 23% of the Arab population in the United States is actually Muslim" (ARDA, 2008, par. 36).

The Sunni and Shia Division

Islam was unified so long as Muhammad was alive, but within decades after his death the Islamic world was divided into two major camps, Sunni Islam and Shia Islam. Only 15 percent of the world's Muslims belong to Shia Islam. They are known as Shi'ites. Shi'ites do constitute a majority in Iran and Iraq (Murphy, 2007).

The division arose over leadership of the Muslim world. The Shi'ites were led by 'Ali ibn Abu Talib, who was a cousin of Muhammad, the second person to accept Islam, and the husband of Muhammad's daughter, Fatima. "The term Shia or Shi'ite derives from a shortening of Shjiat Ali or partisans of Ali" (Amin, n.d., Sec. I, par. 3). The Shi'ites believe that leadership of the Islamic community should pass from Muhammad to direct descendents of Muhammad through Ali and Fatima (Amin, n.d., Sec. I, par. 4). Each of the legitimate successors carries the title of *Amin* or *Imam* or *Iman*, but in recent years the revered ones are called *Ayotallah*.

Ali was the first of the Amins recognized by the Shi'ites. Each Amin appointed his successor through twelve Amins, the last of which was Iman Muhammad al-Madhi (the Rightly-Guided One) who was appointed in 873 C.E. at age four and disappeared within days (Amin, n.d., par. 9). Shi'ites believe that this Iman is still alive. "The Twelfth Imam is still alive. He is in a state of occultation. He will reappear at a moment determined by Allah. He is the Awaited One who will spread justice throughout the world" (Amin, n.d., Sec. III, par. 9).

Following the disappearance of Iman Muhammad al-Madhi and the realization that he was not returning, a council of scholars elected a supreme Iman. The process has continued until this era. Probably the best known of the recent Ayatollahs is the Ayatollah Khomeni, who essentially took over the government of Iran after the fall of the Shah in 1979. Amin wrote that the position of the "Shia Imam has come to be imbued with Pope-like infallibility and the Shia religious hierarchy is not dissimilar in structure and religious power to that of the Catholic Church within Christianity" (Amin, n.d., Sec. I, par. 9). 'Their imams are believed to be inerrant interpreters of law and tradition" (Amin, n.d. Sec. I, par. 9). The leading Ayatollah at the time of this writing is Grand Ayotallah Ali Sistani of Iraq.

Most Shi'ites are Twelvers, that is, they recognize the first 12 Imans as being legitimate. Another group of Shi'ites are the Ismailis who recognize only the first seven Imans, so they are also called the Seveners (Rahman, 2007, Shia, Sec. III, par. 1). There is a third branch that recognizes only the first five Imans, called the Fiver Shias (Amin, n.d., par. 15). The Grand Ayatollah Ali Sistani is a Twelver.

"Shia Muslims believe that beneath the explicit and literal meaning of the Qur'an are other levels of meaning, which are known only to the imam, who can reveal them to chosen followers." "Shia Muslims pay the tax called zakat (originally levied by Muhammad to help the poor and later levied by Muslim states) to their religious leaders rather than to state authorities…As a result, some Shia leaders in Iran and Iraq have immense wealth and property" (Rahman, 2007, Shia, Sec. III, par. 1).

The great majority of the world's Muslims belong to Sunni Islam. This branch of Islam rejected the notion that leadership of Islam should come from descendents of Muhammad. "Sunni Muslims believe that Muhammad intended that the Muslim community choose a successor, or caliph, by consensus to lead the theocracy (earthly kingdom under divine rule) he had set up" (Rahman, 2007, Sunni, par. 1). "Sunni Islam, in contrast [to Shia Islam], more closely resembles the myriad independent churches of American Protestantism. Sunnis do not have a formal clergy, just scholars and jurists, who may offer non-binding opinions" (Amin, n.d., par. 9).

Most Sunni and Shi'ite Muslims around the world recognize the other principal group as legitimate followers of Islam. There have been attempts to reconcile differences and to bring more harmony in the world-wide Islamic tradition. However, this has not halted serious dissension and even warfare among Shia and Sunni groups, often not just because of the religious differences but also from ethnic, linguistic, and economic competition. A good illustration of one of these conflicts is the current situation in Iraq. Sadam Hussein was Sunni and Sunnis controlled most of the important positions in his government, even though Sunni Islam is a minority in Iraq. Currently the Shi'ites are dominant in Iraq and are trying to determine how the Sunnis can be brought back into the government.

Kharijis and Sufis

Another branch of Islam is the Kharijis, or Ibadi, branch. The Kharijis left mainline Islam, the Sunni branch, in 658 in protest against one of the early Caliphs who this group thought to be an inappropriate leader. They often used violence against persons who opposed them. However, "Other than in limited pockets of solidarity they had virtually ceased to exist as a militant sect by 750, and became regarded more as a nuisance strand of fringe intellect" (Jordan, 2002, p. 123).

The Kharijis view the *Quaran* as the principal book to be followed, but place less importance on other writings. They are quite strict and represent a fundamentalist group of Muslims. Today this group represents only about 1 percent of Muslims worldwide. They are most prominent in Oman, where they constitute about 43% of the population and are the largest Muslim group.

Still another branch is the Sufi movement. The word *sufi* means "wearer of wool" and refers to the rough clothing often worn by members of this group of Muslims. The Sufis are Muslims who want to get closer to *Allah* by living an ascetic life. It apparently has its origins in Iraq near the modern city of Basra between the 7th and 9th centuries C.E. It may have been influenced by the Christian monks who lived lives of deep asceticism (Jordan, 2002, p. 124).

Sufis often practice mysticism, and a principal goal is to live a holy life to become one with *Allah*. Sufis often flout the Shariah law, for they view that they have risen above the common Islamic law because they are in closer communion with *Allah*. Music and poetry are prized, and many philosophers have come from the Sufi sect (Jordan, 2002, p. 125).

There are many branches of Sufism. A relatively recent branch is the Babis, which originated in the nineteenth century. They believed that the hidden Iman would soon return and bring peace and justice. They led several rebellions and soon got into conflict with the mainstream Shi'ites. This branch still exists in Iran (Jordan, 2002, pp. 126-127). "Today Sufism is practiced mainly among older age groups of people living in isolated rural communities and is chiefly concentrated in Egypt and the Sudan" (p. 127).

One small but highly visible group of Sufis is the Whirling Dervishes. This group traces its roots to Jalal al-Din Rumi (1207-1273), a Sufi mystic. Rumi's

> spiritual and personal life veered from one emotional extreme to another; he sought ecstasy in dancing, singing, poetry, and music, and the members of the order that he founded are often called the Whirling Dervishes because of their stately, spinning, dance, which induces a state of transcendence. (Armstrong, 2002, p. 101)

Additional Sources of Doctrines/Practices

In addition to the *Quaran*, Muslims regard as binding the *Sunnah*, which is the collection of information as to what Muhammad "said, did, or permitted to do" (as-Siba'i, n.d., par. 6). 'The Sunan, or "traditions" of Muhammad, are now gathered in six books, though two of these are more specifically called the Sahihs, or "sincere books" (Halsall, 1998, par. 1). These sayings were gathered over a period of two centuries after Muhammad's death. "Hence, after the *Quaran,* the Prophet's sayings, and his actions are the most important sources of the Law and a fountainhead of Islamic life and thought" (Iqbal & Mirakhor, 2007, p. 15).

Warde qualified the recognized sources by introducing the word *hadith* in connection with the Sunnah. Warde wrote that "the first [hadith] actually refers to the words and deeds of the Prophet while the second [Sunnan] refers to the tradition or path established by those words and deeds" "[T]he Sunna consists of the practices and rulings deducted from such narratives [the hadith]" (Warde, 2000, p. 32).

Finally, there are the contributions of Islamic scholars over the centuries. Opinions promulgated by scholars are called *fatwas*. These four, the *Quaran*, Sunnah, hadiths, and fatwas constitute the body of rules called the *Shariah*. The Shariah is highly respected and is binding on all practicing Muslims. As stated by Iqbal and Mirakhor, "The Shariah rules are derived through a rigorous process of investigation and thinking across time and geographical regions" (Iqbal & Mirakhor, 2007, p. 15).

Unfortunately, Islam is not unified, as described above. There are two major groupings, the Sunni and the Shia, and several smaller groups. Further, each of these main groupings are divided into schools. Today there are five main schools, four from Sunni Islam and one from Shia Islam. The four from Sunni Islam are the *Maliki*, *Shafi'i*, *Hanafi*, and *Hanbali* schools. The one from Shia Islam is associated with the Twelvers and is called *Ja' fari* (Nasr, 2003, pp. 78-79).

Scholars from a particular tradition who have developed the fatwas from the *Quaran,* Sunnah, and Hadiths may have developed laws and rules that differ with those developed in another Islamic tradition. Hence, there is no one Shariah that is binding on all Muslims around the world. This makes it difficult for Muslims and non-Muslims alike to develop uniform approaches to dealing with Muslims in social, religious, and economic matters.

As described above, Shia Islam has the equivalent of a clergy who develop Shariah to deal with current situations not covered by the Quaran or the Sunnah. Sunni Islam has no equivalent of clergy, so "Sunni Islam relies upon two further sources. One is *Qiyas*, or analogy. By this, the legists argued from the intention of some specific rule of Qur'an or Sunnah, to cover some matter, arguable from, though not stated in, the original" (Cragg, 1969, p. 49). A fourth source is *'Ijma'*, or consensus. Founded on the conviction that the community as such would not long, or finally, "converge on an error," *Ijma'* in effect entrusted the enlargement of law to the collective fidelity' (Cragg, p. 49). Given these two additional sources for Sunnis, El-Gamal (2006, pp. 15-17) argued that Sunni Shariah jurisprudence is similar to common law, while Shia Shariah jurisprudence is more similar to civil law.

Some predominantly Muslim countries such as Iran have adopted Shariah law as their legal code. No Western country has adopted Shariah, although the Archbishop of Canterbury raised a storm in 2008 by suggesting that some aspects of Shariah law might be used in Britain (Gledhill & Webster, 2008). Some Muslim communities in the United States use Shariah law as a substitute for conventional law in settling disputes between Muslims.

ISLAMIC FINANCE

Some modern Islamic finance practices, particularly the controlling prohibition against charging interest, were also observed in the Christian world until recent times. For centuries Christian scholars argued whether the prohibition was against interest or against usury. Earlier Christian scholars in the Common Era tended to view the prohibition against interest in all forms, but gradually the Biblical literature on this topic came to be interpreted more as a prohibition against usury. Various financial processes, such as the *commenda* contract, were developed to provide financing of entrepreneurial ventures, without charging interest (Pryor, 1977). In medieval times Christians often borrowed money, with interest, from Jewish lenders. When Henry VIII broke from Rome he lifted in 1545 the prohibition against interest, but as late as 1750 Pope Benedict XIV issued the bull *Vix Pervenit* which prohibited all interest, not just usurious levels of interest. Since that time the Roman Catholic Church has dropped its opposition to charging interest, but the problem of interest remains central in Islam (Pollard, 2008).

Foundational Principles

The practice of Islamic finances is based on foundational principles of Islam. One is the principle of stewardship, which states that everything belongs to *Allah*, and humans are to protect the resources that have been entrusted to them and act as vice-regents for *Allah*. Muslims are not to gamble away the resources which they control. Another principle is the concept of justice, which starts with *Allah* as a just God who demands justice of all believers. *Allah* has established rules which will lead to a just society, one in which one person or group does not take advantage of another person or group. It would be offensive to *Allah*'s justice and to a just society if one person were to have guaranteed gains coming from an economic activity in which another person might suffer losses. "The underlying principle of Islamic finance is that there has to be a return that is commensurate with the risk involved. There must be risk sharing and an equal-risk reward opportunity rather than having a fixed, predetermined rate of interest" (Trammell, S. 2005, p. 19).

A third principle is that money is to be a means of exchange, but not a store of value. Muslims are not to make gains just from having money to lend; money must be used for a productive purpose, then gains may be legitimately obtained from that activity. Finally, there is the principle of alms. Giving a loan to another without charging interest is blessed by *Allah*, and it may be that if the borrower defaults on the loan that *Allah* will bless the lender if the loan is forgiven. This last point is driven home in the *Quaran* in 2:276: "If your debtor be in straits, grant him a delay until he can discharge his debt; but if you waive the sum as alms it will be better for you, if you but knew it" (*Koran*, 1974, p. 364). Several surrounding verses address the matter of alms in relation to debt.

Muslims can be involved in economic activity only if the activity is not repugnant to Islamic tradition. For example, work with breweries, casinos, and swine farms would be prohibited. In today's economy, however, it is often difficult to separate completely from such activities, so the concept of "core business" has been developed. A Muslim may not participate in an economic activity whose core business is prohibited by Shariah. The Five-Percent Rule is helpful here. "The 5 percent rules says that a core business is one that accounts for more than 5 percent of a company's revenue, or gross income" (Trammell, 2005, p.19).

Extent of Islamic Finances

As Islamic consciousness and influence rise, Muslims around the world are establishing institutions which are congruent with Muslim beliefs. Of particular interest is the growing number of Islamic banks. A 2005 article in *Business Week* stated that "From Jakarta to Jeddah, 265 Islamic banks and other financial institutions are now operating in some 40 countries, with total assets that top $262 billion, according to organizers of the International Islamic Finance Forum, a semi-annual industry conference" (Shameen, 2005, par. 3).

A 2007 article in *The Banker* identified the number of Islamic institutions, including banks and Islamic windows, as 525, in 46 countries. According to that report, the number of Shariah institutions was 362 and the number of Shariah windows was 163 (Timewell, & Divanna, 2007, p.3).

Listed in Table 2 are the top 20 Islamic banks ranked by Shariah-compliant assets as reported in *The Banker* (Kettel, 2010).

The same article in *The Banker* listed the top countries ranked by amount of Shariah-compliant assets as Saudi Arabia, Malaysia, Kuwait, and Brunei. Iran "claims that its financial institutions are 100% shariah compliant" (p. 6).

An example of a small bank in the United States that caters to an Islamic population in Michigan near the University of Michigan is University Islamic Financial of Ann Arbor. It advertises on its web site such services as Internet Banking, Home Finance, Lease to Own Services, and Marked Up Sales (University, 2008, p.1).

As noted above, conventional banks are beginning to pay attention to needs of Muslims. Iqbal and Mirakhor (2007) listed such banks as Citibank, the Hong Kong and Shanghai Banking Corporation, Union Bank of Switzerland, the American Express Bank, American Bank, ANX Grindlays, and Chase Manhattan as having established Islamic windows or subsidiaries.

Faoud Al-Salem of the Gulf University of Science and Technology in Kuwait in a 2008 paper gave information about the size of Islamic finance in terms of investments. He wrote that "the assets of Islamic banks are expected to grow at a rate of 24% per annum to $1.85 trillion by 2013, without including the so-called Islamic 'windows' and Islamic 'branches' of conventional banks, and excluding growth in investment in the Moslem-related Insurance industry." He said that current investments total $300 billion and are expected to grow at the rate of 15-20% annually (Al-Salem, 2008, p. 126).

Islamic Markets, Indices, and Ratings

Another reason why today's businessperson should be acquainted with Islam and Islamic financial practices is the growth of markets for dealing in Shariah-approved stocks, bonds, and financial instruments. Islamic bonds are known by the Arabic name *sukuk*, which will be described more fully below. According to Gordon Platt, "The market for sukuk, which are more akin to asset-backed securities than bonds, grew 75% in the first half of 2007 to reach $85 billion of outstanding issues" (Platt, 2007, p. 29).

Islamic funds are traded on many conventional stock markets. For example, the DJIM Turkey Exchange Traded Fund is traded on the Istanbul Stock Exchange. A few indices have been developed to facilitate the flow of information about securities rising from Shariah-compliant companies. Dow Jones has a bundle of indices known as the "Dow Jones Islamic Market Indexes," which "include nearly 70 Islamic indices that cover a variety of Shari'ah-compliant equities and fixed income securities across the globe" (Dow Jones,

Table 2

World's Largest Shariah-Compliant Banks

Rank	Institution	Country	Shariah-Compliant Assets US$Millions
1	Bank Melli Iran, Tehran	Iran	59,622
2	Al Rajhi	Saudi Arabia	49,381
3	Bank Saderat	Iran	43,067
4	Bank Mellat	Iran	41,651
5	Kuwait Finance House	Kuwait	40,003
6	Bank Tejarat	Iran	31,808
7	Bank Sepah	Iran	26,378
8	Dubai Islamic Bank	UAE	23,941
9	Parisian Bank	Iran	18,319
10	Bank Keshavarzi	Iran	16,675
11	HSBC	UK	16,537
12	National Commercial Bank	Saudi Arabia	16,135
13	Abu Dhabi Islamic Bank	UAE	15,832
14	Bank Rukyat	Malaysia	13,081
15	Saudi British Bank	Saudi Arabia	12,288
16	Al Baraka Banking Group	Bahrain	11,511
17	Bank Retail	Saudi Arabia	10,809
18	Maybank Islamic Berhad	Malaysia	10,667
19	Eghtsead Novin Bank	Iran	10,238
20	Qatar Islamic Bank	Qatar	9,215

Data taken from *The Banker*, November 2009 as reported in (Kettell, 2010).

2007, p.1). Dow Jones Islamic (2008, pp. 1-3) lists Dow Jones' current indices, including:

DJ Islamic Asia/Pacific Index
DJ Islamic Technology Index
DJ Islamic Market Titans 100 Index
DJ Islamic Market World Developed Markets Index

There are also developing a number of underwriters for Islamic Bonds and Loans. Timewell and Divanna (2007, p. 6) list the top five 2007 underwriters in terms of dollar volume as follows in Table 3:

Table 3

Top Five Islamic Bond Underwriters in 2007

Firm	Rank	Volume in $bn	Deal Count
Citi	1	4.54	15
HSBC	2	3.6	23
BNP Paribas Group	3	2.9	7
CIMB	4	2.9	35
Calyon	5	2.9	5

Note: Data from (Timewell and Divanna, 2007, p. 6)

Traditional rating services are starting to rate certain Islamic banks. For example, "Standard & Poor's Rating Services announced in late September [2007] that it would introduce stability ratings for Islamic banks with profit-sharing investment accounts, or PSIAs" (Platt, 2007, p. 30).

Research, Financial Organizations, Degrees, and Certifications

In recent years the scholarly study of economics and Islamic practices has grown dramatically. Many research and industry organizations have been established which guide the industry in the development of new Shariah-compliant financial services, in the review of current practices, in auditing institutions, and in attempts to develop services that would be accepted all over the Islamic world. Among such organizations are the Islamic Development Bank (Saudi Arabia), the Islamic Financial Services Board (Malaysia), the International Association of Islamic Banks (Saudi Arabia), the International Center for Research in Islamic Economics (Saudi Arabia), and the International Institute for Banking and Islamic Economics (Cyprus).

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), based in Bahrain, is developing and publishing Shariah standards for Islamic banks in both Arabic and English. As of August 2010 the AAOIFI had developed 26 accounting, five auditing, seven governance, two ethics, and 35 Shariah standards. Of particular interest are standards related to capital ratios, foreign currency transactions, disclosure of assets, and Islamic services provided by conventional banks. A complete set of standards may be purchased from the AAOIFI for less than $200 (AAOIFI, 2010).

The AAOIFI is the sponsoring organization for a professional certification program similar to the Certified Public Accountant certification available in the United States. The Certified Islamic Public Accounting (CIPA) program is now recognized by such banks and organizations of the Central Bank of Egypt and Deloitte & Touche (AAOIFI, 2010).

Universities are starting to recognize Islamic finance as an important topic for study. For example, the Universiti Tun Abdul Razak in Malaysia offers an MBA degree in Global Islamic Finance. Malaysia started the International Center for Education in Islamic Finance. The Center offers master's and doctoral degrees. The University of Indonesia offers a master's degree in Islamic Banking. The La Trobe University of Australia offers a master's degree in Islamic Banking and Finance. The Hong Kong University of Science and Technology offers an elective in Islamic finance in its MBA program.

Professional conferences related to Islamic banking practices are increasing in number. One such meeting is the Annual Conference on Islamic Banking and Finance, last held December 1-2, 2010 in Bahrain.

Shariah-Based Differences in Islamic Economic Activities

To illustrate the complexity of Islamic finance, and in order to demonstrate the need for businesspersons to learn more about Islamic finance and practices, a brief excursion into Islamic jurisprudence is warranted. To begin, the rules for conducting Islamic approved business are found in the Shariah. All the rules are grounded in the theological belief that "each and every activity of an economic agent implicitly and indirectly finds its roots in the greater scheme of things between man and Creator" (Iqbal & Mirakhor, 2007, p. 15). The form and substance of every economic activity such as lending money, buying and selling, contract law, insurance, buying on credit, use of mortgages, and money markets must all comply with general concepts of stewardship and justice as well as specific rules of the Shariah.

Most economic activities in Islamic financial institutions carry a name derived from Arabic language. This ties the activity to Shariah and emphasizes that the activity is Shariah compliant (El-Gamal, 2006, p. 18). Each Islamic financial institution has a Shariah board composed of financial and Islamic experts who rule on the compliance of the activities in which the institution engages. As described above, since different Islamic traditions have different Shariahs, what is permitted in one institution may not be permitted in another. Unfortunately, there are not many Muslims who are knowledgeable both about banking and Islam who can serve as experts. Thus, many such experts serve on multiple Shariah boards, which may lead to a conflict of interest (Iqbal & Mirakhor, 2007, p. 115).

Riba

Two main ways in which Islamic finance differs from conventional finance are in the prohibitions against *riba* and *gharar*. "Islamic finance is a prohibition-driven industry. In this regard, the instigating factor for prohibition-based contract invalidation can almost always be attributed to the two factors labeled *riba* and *gharar*" (El-Gamal, 2006, p. 46). Loosely speaking, riba may be identified as "interest." "[J]urists defined the forbidden *riba* generally as 'trading two goods of the same kind in different quantities, where the increase is not a proper compensation'" (p. 49). Gharar will be described below.

"Literally, the Arabic term *Riba* refers to excess, addition and surplus, while the associated verb implies 'to increase, to multiply, to exceed, to exact more than was due, or to practice usury'" (Iqbal & Mirakhor, 2007, p. 54). Like the Christian theologians and scholars over the years, the Islamic scholars have argued whether the prohibition is against interest at any level or just against excessive interest. The great majority of Islamic scholars accept that interest at any level is prohibited.

The prohibition against riba is stated or implied in several verses in the *Quaran*. Two such verses are:

> Those who devour usury will not stand except as stand [sic] one whom the Evil one by his touch Hath driven to madness. That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever). (*Quaran* Texts, n.d., Yusufali, trans., 2:275)
>
> That which ye lay out for increase through the property of (other) people, will have no increase with Allah: but that which ye lay out for charity, seeking the Countenance of Allah, (will increase): it is these who will get a recompense multiplied. (*Quaran* Texts, n.d., Yusufali, trans., 30.039)

Iqbal and Mirakhor gave another definition of riba as "the practice of charging financial interest or a premium in excess of the principal amount of a loan" (2007, p. 54). Also, "through the prohibition of Riba, Allah (swt) has prohibited paying or receiving more than the principal on the money lent as loan irrespective of whether the rate is simple or compounded" (p. 54). Whether the loan is money or some commodity, interest is prohibited whether paid in money or the commodity.

With these preliminary definitions of riba, we can now move to a formal definition, given by Iqbal and Mirakhor:

> According to the *Shariah, Riba* technically refers to the "premium" that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in the duration of loan. At least four characteristics define the prohibited interest rate: (1) it is positive and fixed *ex-ante*: (2) it is tied to the time period and the amount of the loan: (3) its payment is guaranteed regardless of the outcome or the purposes for which the principal was borrowed; and (4) the state apparatus sanctions and enforces its collection. (Iqbal & Mirakhor, 2007, p. 56)
>
> Ibrahim Warde gives an explanation for the prohibition against riba as follows:
> As for the ethical/economic justification for the prohibition of riba, it is three-pronged: riba is unfair, it is exploitative, and it is unproductive. Under a traditional interest-based relation between borrower and lender, the borrower alone either incurs the losses or reaps disproportionately high benefits. Conversely, the lender makes money irrespective of the outcome of the business venture. Islam prefers that the risk of loss be shared equitably between the two. In other words, rather than collecting a "fixed, predetermined" compensation in the form of interest, lenders should be entitled to share from any profits from a venture they have helped to finance. (Warde, 2000, p. 63)

In order to avoid riba, Islamic institutions have developed many alternatives that accomplish the desired result for the institution and client. For example, suppose person A desires to purchase a house from person B. Further, suppose A approaches Islamic bank C for funds to make the purchase. One approach might be: Bank C purchases the house from seller B. Buyer A purchases a portion of the house from the bank using his or her down payment. Now the bank and buyer A own the house jointly. Buyer A and bank C work out a payment schedule based on the price of the house plus the bank's mark-up, which may very well be based on market interest rates. As buyer A makes payment, A's percentage ownership of the house increases while the bank's decreases, until eventually A owns the house outright.

Gharar

"Although the word [gharar] itself is not mentioned in the Koran, etymologically related words, meaning deception or delusion are. It is however in a number of Hadiths that gharar is condemned" (Warde, 2000, p. 59).

Gharar comes in several forms, one of which is "the sale of probable items whose existence or characteristics are not certain, the risky nature of which makes the transaction akin to gambling" (El-Gamal, 2006, p. 58). "Generally speaking, gharar encompasses some forms of incomplete information and/or deception, as well as risk and uncertainty intrinsic to the objects of contract" (p. 58).

> In simple terms, Gharar stems from information problems and refers to any uncertainty created by the lack of information or control in a contract. Gharar can be thought of as ignorance in regard to an essential element in a transaction, such as the exact sale price, or the ability of the seller to actually deliver what is sold, etc. Existence of Gharar in a contract makes it null and void. (Iqbal & Mirakhor, 2007, p. 67)

El-Gamal quoted the *Encyclopedia of Islamic Jurisprudence* as listing "cheating (*tadlis*) and fraud (*ghubn*) as special cases of *gharar*" (2006,

p. 59). Gambling is another example of prohibited gharar. In gambling one pays a particular price for the possibility of making a gain that was not obtained by the buyer's use of the resources given to the buyer by *Allah*.

As Warde pointed out, *gharar* is not the same concept as risk. "Islam does not even advocate the avoidance of risk. Indeed, incurring commercial risk is approved, even encouraged, provided it is equitably shared. More accurately, gharar refers to aleatory transactions, that is, transactions conditioned on uncertain events" (Warde, 2000, p. 59).

The prohibition against gharar is very strong, but some schools of Islamic thought "tolerate gharar in case of need (haja) and when it cannot be averted except with great difficulty" (Warde, 2000, p. 59). As Warde further reported, Muslim commentators have established a gradation of the prohibition "according to the risk involved: pure speculation, uncertain outcome, unknowable future benefit, and inexactitude" (p. 60). Warde quoted observer Frank Vogel who wrote that:

> A possible interpretation of the gharar hadiths is that they bar only risks affecting the existence of the object as to which the parties transact, rather than just its price. In the hadiths, such arise either 1) because of the parties' lack of knowledge (jahl, ignorance) about that object; 2) because the object does not now exist; or 3) because the object evades the parties' control. Therefore the scholars might use one of these three characteristics to identify transactions inflected by the type of risk condemned as gharar. (Warde, 2000, p. 60).

Warde gave several examples of activities that are prohibited as gharar. Prohibited are: buying fish that are still in the sea, buying in advance the off-spring that is to come from the stud service of a horse, buying in advance what is in the womb of a cow, purchasing food before it has been weighed, and selling food before having possession of it (Warde, 2000, p. 60).

Another consequence of the prohibition against gharar is that gharar cannot be traded. Some believe that the prohibition covers derivatives now used widely in conventional financial markets, for these derivatives are used to transfer risk between and among the parties to the derivative. Further, conventional insurance, when viewed as a sale of safety, cannot be Shariah-compliant (El-Gamal, 2006, p. 61). "Thus, in both insurance and options, the price (insurance premium or option price) is certain, but its compensation (insurance payment or profit from exercising option) is uncertain, and hence the trade is forbidden based on *gharar*" (p. 62).

Another interpretation of the prohibition is that it prohibits unbundled risk and credit, but not bundled risk and credit. For example, one could buy a cow and its unborn calf, but not just the unborn calf. According to this interpretation, it would be acceptable to buy a warranty on a physical good as part of the sale price.

Having completed this brief explanation of riba and gharar, our attention now turns to seven Shariah-compliant economic activities, *mudarabah*, *musharakah, sukut*, *murabahah, ijara*, Islamic insurance, and credit cards. These descriptions will give the reader further insight into Islamic financial activities.

Mudarabah

A *mudarabah* is an agreement which brings together an agent with capital to invest (*rabbul-mal*) with another agent (*mudarib*) who has managerial skills to form a partnership to conduct a business enterprise. An agreement is made between the rabbul-mal and the mudarib as to sharing of profits. The rabbul-mal bears all losses unless there is negligence, malfeasance, or misconduct on the part of the mudarib (Iqbal & Mirakhor, 2007, p. xi). Normally the rabbul-mal is a silent partner and leaves the running of the business to the mudarib.

Mudarabah contracts are as old as Islam. Muhammad formed a partnership with his wife and acted as a mudarib for their joint enterprises. "Mudarabah partnerships performed an important economic function by combining the three most important factors of production—capital, labor, and entrepreneurship" (Iqbal & Mirakhor, 2007, p. 103).

The mudarabah may be limited or unlimited. That is to say, the two agents involved may agree that the business enterprise is limited to a particular industry, or limited to a particular geographic location. Alternatively, the rabbul-mal may let the mudarib conduct any legal or Shariah-compliant business.

The way profits are to be shared is determined at the beginning of the mudarabah. The division of profits is completely up to the partners and may not be changed unless by mutual agreement. Profits cannot be shared until the rabbul-mal has retrieved his original investment.

The partnership can be dissolved by either partner. However, the "contract is usually limited to a certain period of time at the end of which the profits are shared as agreed" (Iqbal & Mirakhor, 2008, p. 103).

Mudarabah partnerships can be formed by juridical persons as well as natural persons. Further, several agents may band together to be the rabbul-mal for the partnership. Also, these partnerships may be tiered. As can be seen, this type of partnership naturally flows into the work of an Islamic bank, where investors in the bank are the rabbul-mal and funds are provided to various mudarib for business purposes. Alternatively, the bank itself may serve as the mudarib and invest in businesses. Acting as mudarib, the bank

> should perform adequate screening and monitoring of potential projects worthy of good investment opportunities. In cases where the Islamic bank is acting as the *mudarib* and is investing in a business on the basis of *Mudarabah*, it may, in order to minimize its risk, ask for a guarantee, pledge or collateral of a property from the business. (Iqbal & Mirakhor, 2007, p. 105).

Musharakah

A *musharakah* agreement is similar to a mudarabah agreement. "It is in effect a joint-venture agreement whereby the bank enters into a partnership with a client in which both share the equity capital, and sometimes the management, of a project or deal" (Warde, 2000, p. 136). The financier may also be any natural or juridic person.

There are several types of musharakah contracts. In one type the equity ownership diminishes over time. In another type the ownership is not tied to any particular physical asset (Iqbal & Mirakhor, 2007, p. xii).

In recent years the use of musharakah contracts has increased significantly, for it appears that in practice musharakah contracts are quite suitable for long term financing. The government of Sudan has been in the forefront of shifting emphasis toward musharakah financing.

> Two objectives have guided [the Sudanese] Government policy in this regard. One objective has been to reduce what de facto was the continuation of interest-based lending through widespread use of synthetic *murabaha* [discussed below] contracts. Another aim has been to increase long-term finance. (Stiansen, 2004, p. 160)

Sukuk

Description

The word *Sukuk* is the "plural of the Arabic word *Suku* meaning certificate…" (Iqbal & Mirakhor, 2007, p. xiii). The word suku used in the singular refers to an Islamic bond security. Islamic bonds, or sukuk, have been issued since the 1970s, but not successfully until the Malaysian government issued government bonds in 1983.

> [T]he Malaysian government in the 1980s saw the value of bonds as a means of raising government finance, and raising funding for semi-state enterprises. They invented Islamic bonds that had exactly the same properties as their conventional

equivalents, but were backed by real assets and yielded a fixed return that was comparable to, but not solely determined by, market rates of interest. (Henry & Wilson, 2004, pp. 293-294)

In the 1990s rules were developed which allowed the growth and development of Islamic bonds in Malaysia and Bahrain. Since then this type of economic activity has grown dramatically, as demonstrated by the figures given earlier in this paper (Iqbal & Mirakhor, 2007, pp. 176-177).

As noted, government entities started the markets for sukuk. Iqbal & Mirakhor give a list of nine sukuk issued by government entities between 2002 and 2005. Five were from Muslim countries, one was from the World Bank, and three were listed as International (2007, p. 187). The British government is considering issuing Shariah-compliant debt, a suku, in order to "fund the growing budget deficit and take advantage of the Middle East's oil boom." "The Chancellor of the Exchequer is expected to update MPs on the progress of the plan in the budget next month [March 2008]" (UK Sukuk, 2008, p. 5).

With the success of government-sponsored sukuk, private corporations are starting to obtain financing through sukuk. Iqbal and Mirakhor listed nine sukuk for corporations issued between 2003 and 2006 (2007, p. 188). The sizes of the issues ranged from $134 million to $3.5 billion.

As described above in the discussion of riba, selling bonds purely on the basis of money alone would not be acceptable. However, it is possible to make gains off a real asset. "In other words, the *Shariah* accepts the validity of a financial asset that derives its return from the performance of an underlying real asset" (Iqbal & Mirakhor, 2007, p. 177). Thus, to introduce a Shariah-compliant bond, there must be an asset or bundle of assets to which the bond is tied. The buyer of the bond buys a share in the ownership of the asset and benefits from the gains or losses of that asset.

A suku becomes Shariah-compliant through the use of mudarabah, described above. In this instance the entity desiring to sell bonds forms a special purpose vehicle called a Special Purpose Mudarabah (SPM), which acquires assets from the seller to hold and from which proportional ownership is sold to sukuk buyers.

Illustration of Suku

The process for establishing a suku is well described in Iqbal & Mirakhor (2007, pp. 178-181). Let's begin with an entity E which desires to raise money. E creates an SPM as a separate legal entity and transfers assets to the SPM. The assets may be tangible such as a building, an automobile or a highway, or they may be intangible such as a patent or financial assets. These assets must all be Shariah-compliant. These transferred assets are taken off E's books. As a separate legal entity the SPM is protected from any financial difficulties into which E might fall. Now the SPM owes to E the value of the assets.

The SPM can now sell certificates of ownership, the suku, in the SPM. These certificates are all of equal value. The money coming from the sale of certificates is used to pay off SPM's debt to entity E. E now has the funds it wants, while the SPM owns the assets.

The SPM now leases or rents the assets back to E, which uses them in its productive work. The gains from the use of these assets are passed back to the SPM in the form of lease payments or rents; in turn, the SPM pays the investors, the holders of the suku. Here there is one significant difference between sukuk and conventional bonds. In conventional bonds the buyer of the bonds receives guaranteed coupon payments, regardless of the performance of the entity selling the bonds. With sukuk the periodic payments are dependent on the economic performance of the underlying asset.

For a fee an investment bank may get involved in the transaction. The bank may provide some oversight and some guarantee on performance. As Iqbal and Mirakhor point out (2007, p. 180), this gives the suku more validity and may make the suku of investment quality and provide opportunity for trade of the suku.

After the designated time for the suku has elapsed, the suku is dissolved. The SPM sells its assets back to entity E, and then uses the sale price to pay back the buyers of the suku.

What we have described above gives a generalized picture of the sukuk process. Iqbal and Mirakhor identified 10 variations on the theme, some of which are Shariah-compliant and some are not. A more detailed description of several of these variations was given in their discussion of sukuk (2007, pp. 181-185).

Murabahah

Murabahah refers to a particular type of contract which is used to purchase goods on credit. If economic person A, natural or juridic, desires to purchase a product from person B, A and B agree on a price. Person A then approaches a financier F, which may be a bank, for funds. A agrees to purchase from F the item at the price agreed upon with B, together with a mark-up to the price of the product. Person A and financier F agree on terms including the mark-up to the cost of the product and on a repayment schedule. Financier F then purchases the product from B, then allows A to use the product. A pays for the privilege by paying the financier either on installments or with a lump-sum payment at some time specific in the future. The product itself may serve as collateral for the transaction.

In some cases agent A may act as agent for the financier. It may be that the financier never takes physical possession of a tangible product; the product may pass directly from B to A, even though the legal corresponding sale moves through three entities, B to F to A. One of the questions discussed by the Shariah experts is how much time the financier must hold the product for the entire murabahah to be legitimate. One day? One hour? One second?

Iqbal and Mirakhor pointed out that in case of a default, "the financier only has recourse to the items financed and no further mark-up or penalty may be applied to the outstanding liability. As opposed to conventional loans where interest keeps accruing, no such accrual takes place in case of *Murabahah*" (2007, p. 89).

A murabahah contract is not a loan, for the financier actually purchases a good which is then used by the entrepreneur to conduct a business activity.

Ijara

An *ijara* agreement is used when a natural or juridical person wants to lease an asset from another person. The lessee receives possession, but not ownership, of the asset which is then used by the lessee in Shariah-approved activities to gain the usufruct arising from possession of the asset (Kettell, 2010).

There are several requirements to the first use of an ijara agreement to make the agreement Shariah-compliant. Among them are: (1) the activities engaged in by the lessee must not be *harem* (forbidden); (2) the contract terminates at a date certain; (3) assets which can be consumed cannot be leased, such as food, fuel, ammunition, and money; (4) the asset cannot be used for any purpose other than that described in the agreement; (5) the lessee must pay the lessor for any damage to the good caused by negligence or misuse; (6) the lessor may charge a rental fee for use of the asset, the amount of and method of payment for which must be specified in the agreement; (7) the rent begins on the day the lessee takes possession of the asset, and (8) the lease terminates on the day the asset loses its function, if such occurs (Kettell, 2010).

In an ijara agreement the lessor is responsible for maintaining the asset. If insurance coverage is desired, the lessor is responsible for providing for that insurance. The lessor may raise the rental amount to cover insurance costs, but that must be agreed to at the time the agreement is made. With respect to maintenance of the asset, by agreement, the lessor may transfer that responsibility to the lessee who will perform the maintenance for a fee.

As in all Shariah-compliant agreements, interest cannot be charged for late payments of due accounts. However, late-payment fees may be added if part of the original agreement. Similarly, a discount schedule may be agreed to for early payment of rentals (Kettell, 2010).

Islamic Insurance

For centuries insurance has been *verboten* to Muslims. Insurance was viewed as having elements of gambling, betting, and riba. Further, there was a great potential disparity between the premiums paid in and the receipts one might gain from an insurance policy. "Especially troublesome in the eyes of many Muslims was life insurance, perceived as gambling on matters of fate and divine will" (Warde, 2000, p. 147).

In recent years the prohibitions and the stigma associated with insurance have gradually diminished, even those stigmas associated with betting against *Allah*. Now it is even viewed by some as good planning and good risk mitigation, and taking care of one's heirs. "[M]ost Islamic bank groups have their insurance subsidiaries" (Warde, 2000, p. 147).

To make insurance acceptable, changes are typically made in the legal relationship between the premium payer and the insurance company. A mudarabah contract is usually used between the buyer of insurance and the company. This allows the buyers to "become partners in the insurance company and thus be entitled to a share in the profits and losses of the company" (Warde, 2000, p. 148). Warde (2000, p. 148) gave an example of one such approach to insurance:

> [T]he participant in a solidarity scheme pays in a specific amount in installments between his minimum age (20 years) and the age of 60. The maximum age for participation is 55 years. The participants' principal is invested in profitable but licit ventures and the profits are re-invested. If he dies before the age of 60, his legal heirs receive the paid-up principal to date, the accumulated profits to date, and in addition the amount which the deceased would have paid in had he lived to the age of 60. This latter amount is deducted from the Mudaraba [sic] profits of all other participants in the scheme, hence the term 'solidarity.' Otherwise, the participant is paid his principal and accumulated profits at the age of 60.

Credit Cards

For many years credit cards were not permitted for practicing Muslims. That has changed in recent years as Islamic banks are starting to issue such cards. Since riba cannot be charged, other arrangements have to be made. One such card has been issued by the Shamil Bank of Bahrain, called the Shamil Al-Ruben Mastercard. Holders of the card repay their borrowings by installment, but no interest is paid. "In contrast, the Visa cards offered by other Islamic banks are really debit rather than credit cards, with the whole amount deducted from the client's account at the time of the transaction" (Henry & Wilson, 2004, p. 294).

Critique of the Islamic System

Islamic finance is certainly alive and well in the Muslim world. As shown above, the number of Islamic financial institutions is growing, and the ability of Muslim institutions to serve the Muslim public is steadily increasing. There is no doubt that Islamic financial institutions will increasingly be accepted by the non-Muslim world and will be accepted as full partners in the world economic system. Nevertheless, there are several impediments that are hindering the growth of Islamic financial institutions and practices. Several of these will be described in this section.

First is the lack of agreement whether the *Quaran* is against interest or against usury. Although the majority opinion of Shariah scholars is that interest of any type is forbidden, there is a minority opinion that the better interpretation is that the *Quaran* is just against excessive interest.

One scholar who espoused this minority view is Muhammad Saleem, a Muslim and former President of the Park Avenue Bank of New York. In his book, *Islamic Banking—a $300 Billion Deception* (Saleem, 2005), Saleem argued from other religions, from economic conditions of 7th century Arabia, and from the *Quaran* itself, that riba means usury, not interest. He asserted that Islamic banks are deceptive and dishonest in their practices and actually do charge interest, but under a different name (p. 69).

The effort to update Muslim understanding of the *Quaran* is exemplified by a group of scholars working in Turkey. “With the backing of Turkey’s reform-minded government, the team of 80 Islamic academicians from around the world is preparing to release a revised collection of the Prophet Muhammad’s words and deeds, which guide Muslims on everything from brushing their teeth to reaching heaven” (Nissenbaum, 2008). Nissenbaum stated that this effort to get a new look at Islam is comparable to the Protestant Reformation.

Second is the lack of uniformity among Islamic institutions as to which financial vehicles are Shariah-compliant. As noted above, with each institution having its own Shariah board, different rules apply from bank to bank, and country to country. This leaves clients with the difficult task of having to navigate different rules as they work with different Islamic institutions (Pettifer, 2008).

Third, there is a lack of sufficiently trained Shariah scholars to serve on all the boards that are needed in Islamic institutions around the world (Hawser, 2008, p. 6). As reported in a *New York Times* article, “[T]he growth of Islamic banks in the Persian Gulf and beyond is straining the supply of such specialized scholars—something particularly troublesome as the banks bring to market increasingly complex financial products” (Wallin, 2005, p. C8).

The lack of uniform rules makes it difficult if not impossible to develop regulatory systems for Islamic institutions in a country (O’Neill, 2008). In turn, the lack of an Islamic regulatory system impedes trust in the system and increases client risk (Iqbal & Mirakhor, 2007, pp. 251-272). Further, the lack of uniform rules makes it difficult to establish performance benchmarks that apply across the industry (Henry, 2004). However, in countries with regulatory systems that apply to conventional institutions, the Islamic institutions have to meet the conventional regulatory requirements and Islamic rules, thus placing the Islamic institution in double jeopardy.

Fourth, there is the matter of cost. As can be seen from a description of several of the Islamic financial vehicles, more steps are often required to accomplish a given financial task. These extra steps take more time and cost more than completing the same task in conventional financial entities. This additional cost has been called the “Islamic premium.” While some Muslims may be willing to pay slightly more to be Shariah-compliant, the additional cost still is a hindrance to growth.

The fifth, and not the least, problem is that many of the steps in executing Shariah-compliant financial activities are viewed as a subterfuge to keep from paying riba. From the perspective of the client, the total cost of the service is almost exactly what they would pay if they had to pay interest. Thus, Islamic services often draw ridicule as being hypocritical.

The sixth difficulty is described by one Muslim writer who has serious problems with the current financial practice of Islamic institutions. He is Mahmoud Amin El-Gamal, Chair of Islamic Economics, Finance and Management at Rice University. El-Gamal argued that rulings in recent centuries have moved away from classical Muslim jurisprudence, and in doing so Koranic social goals are being missed. He argued that by “attempting to replicate the substance of contemporary financial practice using premodern contract forms, Islamic finance has arguably failed to serve the objectives of Islamic Law” (El-Gamal, 2006, p. xii). Much of El-Gamal’s book, *Islamic Finance*, developed this theme with an in-depth study showing how Islamic finance is often inefficient and misses the mark of Islamic theology and beneficial social practice.

Seventh, Islamic financial practices will not blossom until they are fully accepted in the United States. This problem was well described in an article by Neeta Thakur in the *International*

Financial Law Review in which sukuk and their acceptance in the United States are discussed. She wrote that “Issuance and demand for sukuk is burgeoning worldwide, but the US, the largest economy in the world, remains an exception.” Also, “For sukuk to become a global phenomenon, it must permeate the US” (Thakur, 2007).

Eighth and last, there is some opposition to the introduction of Islamic financial practices in the United States. This was illustrated by the call for signatures to a petition put out by a group called the Concerned Citizens of America, calling for people to boycott Shariah-compliant institutions. One noted concern is that funds will be used to “promote Jihad and support suicide bombing—potentially providing billions of dollars to be siphoned off for terrorism—thereby threatening to weaken our country and jeopardizing our security and democracy” (Randall, 2007).

While these criticisms draw a negative picture, not everything is dark. First, Islamic services are increasing in extent, so that almost any activity that can be done by a conventional bank can be done by a Muslim institution.

Second, more and more conventional services are being ruled as acceptable to Muslims or conventional services are being slightly modified to become acceptable. An example of the latter is the decision by many Shariah scholars that buyers can act as agents for a financial entity which provides needed funds and can take physical possession of goods bought on time without having the financial entity take physical possession of the good.

Third, younger Shariah scholars who are better trained in conventional financial services are entering the scene, and they are more willing to accept conventional approaches as Shariah-compliant (Henry & Wilson, 2004, p. 294).

Fourth, as the number of Islamic institutions grow, as more experience is gained, as information is exchanged around the world, and as transparency increases, more regulatory institutions and benchmark indices will come into existence that will increase the trust of the Muslim public which in turn will accelerate the growth of Islamic finance.

In sum, the future of Islamic finance is bright.

CHRISTIANITY AND ISLAM

To be salt and light and to interact in Christlike ways with Muslims, Christians need to know what Muslims believe and what Muslims believe about Jesus. Increasingly businesspersons will be interacting with Muslim businesspersons around the world and in the United States, and non-Muslim businesspersons must know how to work with Muslim financial activities.

In this section additional material is presented about Muslims, Arabs who are Christians, relationships between Christians and Muslims, and Christian missions to Muslims.

Jesus in the *Quaran*

As stated earlier in this paper, Jesus is viewed as one of the prophets of Islam. Jesus is given high honor in the *Quaran*. According to the search engine for the *Quaran* found in the University of Southern California-MSA Compendium of Muslim Texts (Muslim Texts), Jesus is mentioned 28 times.

One of the most important stories in the *Quaran* about the birth of Jesus is told in The Imrans, Chapter 3: 45:

> The angels said to Mary: ‘Allah bids you rejoice in a Word from Him. His name is the Messiah, Jesus the son of Mary. He shall be noble in this world and in the next, and shall be favoured by Allah. He shall preach to men in his cradle and in the prime of manhood, and shall lead a righteous life.’

Christianity and Islam

While Islam at its best respects Judaism and Christianity, actual relationships between most Muslims and Christians are not always good. Especially formative in these relationships was the Crusades that were preached in Christian Europe, which caused the deaths of hundreds of thousands of Muslims and Christians. The stories of the atrocities of the Christians against Muslims are told and retold to this day, poisoning each new generation with hatred for the sins committed against Muslims centuries ago.

Muslims in the United States

As reported above, determining the number of Muslims in the United States is quite difficult. Estimates range from a low of 2.35 million to a high of 5 million. The Association of Religion Data Archives (ARDA) reported that "33% of Muslims in the United States are of South Asian ancestry, 30% are reported as African American (which would include Blacks from Africa or the Caribbean); and 25% are of Arab descent" (ARDA, 2008, par. 26).

A Pew Research Center study (Pew, 2007) published in May 2007 stated that "72% of Muslim Americans are foreign-born or have roots abroad" (p. 10). Most U.S. Muslims (65%) are first-generation immigrants" (p. 15). More than a third (37%) of all foreign-born Muslim Americans arrived from the Arab region" (p. 15).

"No single racial group constitutes a majority among the Muslim American population: 38% describe themselves as white, 26% black, 20% Asian, and 16% other or mixed race" (Pew, 2007, p. 17). "Within specific ethnic heritages, 64% of Muslims from the Arab region say they are white, while 20% say they are some other or mixed race" (p. 18).

Missions to Muslims

A search of available literature indicates that there are multiple efforts going on among many Christian groups to evangelize Muslims around the world. Googling "Christian missions to Muslims" produces over 5000 websites that address some part of this topic. While most websites address efforts to contact and evangelize Muslims in Arabic Muslim countries, some address opportunities to evangelize Muslims in non-Arabic countries. In the United States, the Nation of Islam is the largest Islamic movement targeted by Christian efforts (Buckner, 1998).

One of the difficulties in evangelizing Muslims is their rejection of the account that Jesus died on a cross. Donald Irwin (1999), in his small booklet *What Christians Need to Know About Muslims*, stated, "Terms such as sin, salvation, cross, and Son of God have an entirely different meaning for the Muslim. The Muslim cannot understand the meaning of our salvation terminology as long as he denies that Jesus died on the Cross" (p 19). As with most people, a consistent Christian witness is the most powerful tool in ministering to Muslims.

John Travis, (a pseudonym), has been involved in planting congregations among Muslims in Asia. He suggested that guidelines be developed carefully that will encourage conversions without watering down the gospel. It seems that some methods of evangelization have included becoming Muslim, attending mosque, and saying prayers five times a day in order to gain the trust of Muslims in order to begin Bible studies among them (Travis, 2000). His admonition was that while Christians must contextualize the gospel in order for Muslims to hear the gospel in their context, syncretism should not be allowed to happen (Parshall, 1999).

Syncretism has been a problem for the Church whenever it has tried to convert persons to Christianity from the local religions. Many times the culture and religion are so intricately intertwined that it is difficult to know where belief ends and culture begins. The admonition of several church leaders, many of them with ties to Fuller Theological Seminary in Pasadena, CA is to take care when reaching out to Muslims (Parshall, 1999).

The need for Christian missions to the Islamic world is so great that several ministries have developed to accommodate the need. In the mid-1980s Fuller Theological Seminary hired Dr. Dudley J. Woodberry to become a professor in their School of Mission whose expertise and teaching was dedicated to the Islamic world.

Another ministry to Muslims is the Zwemer Institute of Muslim Studies in Columbia, SC. It was first founded in1979 in Pasadena CA and later incorporated into Columbia International University in SC (CIU).

Muslim Messianic Movement

The Muslim Messianic Movement by definition is contained within the Islamic tradition. It is an attempt on the part of Muslims to honor *Isa* (Jesus) as Lord while at the same time keeping the traditions and forms of Islamic life as normal as possible. In many cases, those around do not perceive that the individual is an *Isa* follower. (Travis, 2000). The following three concerns related to this type of lifestyle were articulated by respected missiologist Phil Parshall:

1) Deception in Christians posing as Muslims to reach Muslims (i.e.'C5 missionaries').

2) Danger in ongoing Mosque attendance past a transitional period for new believers since 'the mosque is pregnant with Islamic theology" and exalts Muhammad as a prophet.

3) Affirming the prophethood of Muhammad by recitation of the Muslim creed (shahada): "There is no god but God and Muhammad is his prophet." (Travis, 2000)

The messianic Muslim movement in many times and places is not unlike the Messianic Jewish movement of the first century in which Jewish believers in Jesus gathered in the temple and in homes with non-Messianic Jews as described in Acts 2:46-47 (Travis, 2000). It is not known if Muslims who are followers of *Isa* will eventually be asked to leave the mosque as happened to temple worshipers who were members of the early Christian church. However, Christians everywhere need to pray that Muslim evangelization be effective for Christ's sake.

CONCLUSION

Islam is growing, as is the influence of Islamic business practices. Businesspersons, Christian and otherwise, who work in global business need to understand the beliefs and practices of Islam. Further, they must understand the workings of Shariah-compliant institutions and be familiar with the principal financial vehicles Islamic institutions use to conduct business.

In this paper the authors have given a brief explanation of the religion of Islam and described several important Islamic financial tools. These descriptions give information that every business person working in international business should know. It is hoped this paper will influence the reader to read the *Quaran* and Islamic history, to become acquainted with rules of behavior and etiquette in Islamic countries, and to become familiar with Shariah law as it applies to business.

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