

**In the Name of God, Most Gracious,
Most Merciful**

**INTERNATIONAL SYMPOSIUM "ISLAMIC BANKS
AND ECONOMIC CO-OPERATION"**

Islamic and Non-Islamic Banks

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(1) Foreword :

In their capacity as savings and resources accumulating institutions, there is no distinction between the Islamic and non-Islamic Banks.

The difference lies in the methods adopted by each of them in investing these savings and resources. Out of this single diversity stem several others.

Probably the prime contradiction between the two banking systems is that the Islamic banks, according to the teachings of Islam, cannot give interest-seeking loans, and consequently are compelled to invest their accumulated funds, either independently or in association with others.

(2) Existing Banking Systems :

The chief function of the existing banks is to lend the money of the haves, mainly from call deposits and current accounts, to the have-nots for consumptive or investment purposes. Such loans are usually given for usurious interests which have extremely adverse effects on the economy, as well as on the society at large.

The present banks, therefore, are only playing the role of a broker between the following two parties.

- 1— The affluent, which entrusts them with its riches without, in most cases, getting any profit; and
- 2— The needy, which pays exorbitant usury for such loans.

As such, banks are an exploitative intermediary to both parties and the time has come now to unveil their ugly face, their ruinous role to the economy and community, and to guide their operations pursuant to the teachings of Islam which strictly forbid usurious transactions and keep a first-rate punishment for them. Consequently, such banks would have no alternative but to invest their monies in areas other than crediting.

(3) Aspects of Investment

However, closing the door of usurious lending and leaving the banks the only choice of investing their money, would not turn these banks into full-fledged Islamic institutions.

Islam does not only ask for virtuous pure profit but, to the same extent, caters for the good of the whole community. That is why an Islamic bank would set-up a bakery even if the anticipated return is only marginal; whereas the non-Islamic bank would choose financing a perfumery, though that would satisfy the needs of only a luxurious minority. The sole inducement for investment for a non-Islamic bank being whether the feasibility study made for a certain project confirms high revenue.

It is obvious then that the Islamic bank is bound by the teachings of Islam to render priority to the investments needed by the community, even if the profit is limited. Thus, the role of the Islamic bank in the economic development becomes evident.

(4) Social Development & Social Security :

Some of the existing banks are probably restricting their investments to the areas most needed by the community, such

as housing, food industries, textiles, etc. But they are still quite remote from being full-fledged Islamic banks. That is, the Islamic bank, in addition to the usual taxes, annually allocates 2.5 % of the invested capital or 5 % (five per cent) of its clear profit as tithes (called ZAKAT in Islam) to be paid in kind or money, or in services (as deemed fit) to the needy people in the bank quarter or area.

This shows clearly the mandatory function of the Islamic bank in achieving the social development and social security policies; a function which evidently distinguishes it from the non-Islamic bank.

(5) What about Lending :

Prohibiting usurious lending by Islam does not automatically mean that no loaning is to be made. It is admitted that loans are indispensable to all, whether for consuming or investing ends.

Therefore, all banks must be required by law to assign a certain percentage — adjustable to the community's needs — of their funds to be extended as INTEREST-FREE loans, except for their administrative expenses.

(6) Conclusion :

Even after the conversion of to-day's non-Islamic banks into co-operative intermediaries rather than exploitative brokers, the Islamic bank, its employees character : that is the devotional spirituality that characterizes all its transactions.

In the province of Islamic banking, all are committed to the commandments of God Almighty, wanting His grace, seeking straight and justice, foresaking exploitation and deceit, thereby maintaining satisfaction and good-will among all the parties of a transaction, and eventually making happiness and peace prevail within the community and worldwide.