

BIYOKULULE

banker with intimate knowledge of Islamic banking practices explains:

"In *Murabaha* ... the central problem is that the banks keep their ownership periods very short. It may not account to more than a few seconds for a vast majority of transactions are closed simultaneously much in a way [of] a back-to-back letter of credit is handled by the banks. What is more, since their ownership period can be measured in seconds, the banks do not assume any operational risks, normally associated with trading activities.

"Indeed in practice the banks purchase the commodity or goods only after the customer has agreed in writing to purchase it from the bank at a profit. The bank does not assume any risk, including the risk of the goods. The bank however gets a pre-determined fixed rate. This is clearly interest, concealed in Islamic garb and therefore not conforming to the requirements of the Sharia, certainly the spirit of the Sharia."

Under *Ijara*, the bank purchases, for instance, a piece of equipment and leases it to a client at a predetermined rent. On the nature of this transaction, here again is Dr. Saleem:

"The rental rate reflects the cost of the equipment as well as the time value of money interest. The Islamic scholars have blessed this Sharia compliant because at least in theory there is some risk sharing because of the ownership of the equipment by the bank. However, in practice the Islamic banks require the equipment to be insured (with the insurance premiums to be paid by the client) and banks, like their counterparts in the West also require that the client put up some of the money -- in practice financing no more than about 90 per cent of the cost of the equipment."

About 60 per cent of the investment income of the Islami Bank of Bangladesh in 2008 came from *Murabaha*, and another 30 per cent from hire purchase/*Ijara*, according to its audit report. Globally, *Murabaha* and *Ijara* account for an overwhelming proportion, probably over 90 per cent of the business of Islamic banks. It should be clear by now that the bulk of the business of these banks is based on the principle of interest, no matter what name Islamic banks might bestow on it.

To sum up: Starting from a dubious premise -- that interest and not just usury is banned in the Koran -- and the Koranic preference for trade in goods rather than in money, Islamic bankers have devised a number of banking products that are said to conform to Islamic principles of shunning interest and accepting trade risk.

In practice, much of Islamic banking looks like an elaborate charade that presents products cloaked in Islamic garb having little to do with those principles. An army of Islamic scholars sits on well-paying sharia boards of Islamic banks around the world, or engages in lucrative consultancies, advising banks on sharia compliance of bank investments. They only contribute to the charade. Questions about the true Islamic credentials of Islamic banking remain.

Mahfuzur Rahman is a former United Nations economist and occasional contributor to The Daily Star. He has greatly benefited from discussions with Dr. Muhammad Saleem in writing the article. Responsibility for the conclusions is entirely the present author's.