

Islamic Finance or Financing Islamism?

by Alex Alexiev

Islamic Finance or Financing Islamism?

by Alex Alexiev

Mr. Alexiev is Vice-President of Research at the Center for Security Policy. His principle focus is on the proliferation of Islamism and its consequences.

Imagine for a moment that we're back in the mid-1930s with the Nazis triumphant in Germany, a slew of fascist movements active throughout the continent and appeasement increasingly the policy du jour in much of what was left of democratic Europe. Imagine further that in that foreboding atmosphere, Berlin announced a new finance doctrine based on the immutable laws of national-socialist ideology and then proceeded to float the first Mein Kampf-compliant bond to the great acclaim of the financial markets. Indeed, in short order, Wall Street inaugurated a Nazi mutual fund and a Nazi funds index, as the world's banks traipsed over each other to offer Nazi finance products and the prime minister of Great Britain voiced his determination to make London the international center of Nazi finance. Surely a preposterous scenario? Or is it?

Now fast forward to the present and replace Nazi with Islamic and Mein Kampf with shari'a and the preposterous scenario becomes the reality of what has become known as Islamic finance today. And a large reality it is. The Islamic finance market is reported to have reached \$800 billion by mid-2007 and is growing at more than 15% per year.¹ Islamic bond issues, called *sukuk*, grew by 75% to \$24.5 billion in the first half of 2007 from 2006, as hundreds of banks worldwide competed to offer shari'a-compliant services and investment products. Nor is Islamic finance an exclusively Muslim affair. The international financial community has jumped into the fray with relish. Most large banks now offer some Islamic services and Deutsche Bank alone has issued close to a \$1 billion worth of *sukuk* bonds already. Not to be left behind, Wall Street features both an Islamic mutual fund and an Islamic index and more are in the works. And it's not just private business that's involved, as Western governments appear eager to join the rush as well. The German state of Saxony-Anhalt has already issued an Islamic bond and the United Kingdom is said to be seriously considering doing the same. No great surprise there either, given the fact that prime-minister Gordon Brown is already on record vowing "to make Britain the gateway to Islamic finance and trade."²

A reader not familiar with this shari'a would be likely to immediately question whether it is fair at all to compare the totalitarian ideology behind the putative Nazi finance scheme conjured above to Islamic finance, which purports to be a faith-ordained way of doing business morally superior to the usual capitalist practice. And even if shari'a were far from a paragon of democracy, one might ask, why should we be concerned about Islamic finance, if all it aimed to do, after all, was make money?

There clearly are many people and institutions involved in this phenomenon, especially among its Western practitioners, that are motivated solely by the promise of quick profits offered by the sea of petro-dollar liquidity sloshing around the Middle East at present.. However, for those who

invented the concept and are busily promoting it around the world, Islamic finance has very little to do with finance and everything to do with Islam. And not just any kind of Islam, but the most radical, fascist-like interpretation of the Islamic religion that has increasingly become the dominant idiom in the Muslim world. Whether it is called Islamism, Islamofascism, radical Islam or whatever, it is a hateful, millenarian ideology much like Nazism and communism, that ultimately hopes to destroy Western civilization by whatever means necessary³ Thus, far from being an innocent venture in free market capitalism, Islamic finance was conceived and is practiced as one of the key instruments of the militant Islamist movement in its struggle against the West. It behooves us to at least try to understand what Islamic finance is and what it's not. To do that several of the key concepts and principles invoked in Islamic finance need to be examined in some detail. First and foremost, this must include the doctrine of *shari'ah* itself, since every Islamic finance instrument and scheme must be shari'ah-compliant to be considered legitimate. Indeed, strict shari'a adherence is the sole criterion of whether or not a given financial transaction is Islamic. Secondly, one needs to analyze exactly what Islamic finance is, how it functions and how it differs or does not from conventional finance and, last but not most, we must examine and expose the methods and means through which Islamic finance serves extremism.

Shari'a: God's Sacred Law or Medieval Obscurantism Codified?

There are two things virtually all Islamic financial institutions and affiliated organizations have in common: their insistence that the industry must adhere strictly to the tenets of shari'a law and their conspicuous failure to explain to their customers what shari'a law actually calls for, apart from its prohibition of interest and obligation to alms giving.⁴ This is not a coincidence but a deliberate policy by the practitioners of Islamic finance for the simple reason that revealing the philosophy and detailed prescriptions of the obscurantist medieval doctrine called shari'a to potential investors and the wider audience beyond would almost certainly cause a backlash against the whole concept of Islamic finance and put its very legitimacy in question. This is potentially a huge problem for Western institutions offering Islamic financing because their failure to disclose what shari'a really advocates borders on willful if not fraudulent misrepresentation.

The more so, because Islamic finance without a doubt is part of a broader effort to legitimize shari'a as the cornerstone of the ideology of militant Islamism. Far from being concerned primarily with the Islamic legality of interest and or almsgiving, Islamic finance embraces and promotes shari'a as an instrument of Islamization. Even a cursory acquaintance with some of the objectives of Islamic banking as alluded to by various Islamic scholars makes this abundantly clear as in the couple of examples below:

“First and foremost, an Islamic organization must serve God. It must develop a distinctive corporate culture, the main purpose of which is to create a collective morality and spirituality which, when combined with the production of goods and services, sustains the growth and advancement of the Islamic way of life.”⁵

“Islamic banks have a major responsibility to shoulder All the staff of such banks and

customers dealing with them must be reformed Islamically and act within the framework of an Islamic formula, so that any person approaching of an Islamic bank should be given the impression that he is entering a sacred place to perform a religious ritual...”⁶

“Muslims who truly believe in their religion have a duty to prove, through their efforts in backing and supporting Islamic banks and financial institutions, that the Islamic economic system is an integral part of Islam and is indeed for all times...”⁷

Given its centrality in Islamic finance, any effort to understand it must first come to terms with shari’a and what exactly it prescribes. Islamic discourse of shari’a is more often than not unequivocal and limited to the acknowledgment that it is simply God-ordained sacred Islamic law that rules each and every aspect of a Muslim’s life. It is immutable, not subject to any change or interpretation and valid for all times and places. Since the rise of radical Islamism in the past few decades, shari’a has gained even more in importance and is now widely promoted by Islamist ideologues as the spiritual, socio-political and economic panacea for all ills, real or imagined, afflicting the Muslim community.

The reality of shari’a is quite different. Far from being God-ordained and sacred, shari’a is mostly a post-Quranic, man-made medieval doctrine that is almost completely at odds with modern norms of human rights, political freedoms and international relations. Moreover, it has been of little use to Muslims as a code of jurisprudence historically and is much less so in today’s world.

A detailed shari’a exegesis is beyond the scope of this paper, but a few of the key characteristics of the “sacred” Islamic law must be pointed out nonetheless. To begin with, the word shari’a is mentioned only once in the Quran, and not at all as a system of jurisprudence, but in its traditional meaning of the “right path.”⁸ There are some 80 verses (out of 6000) in the Quran that could be interpreted as providing legal prescriptions and virtually all of them deal with family law, inheritance, or punishments for criminal behavior. Thus, even in terms of the strict Islamic interpretation of the Quran as the revealed word of God, there is no doubt that, as one Islamic scholar has put it, “there exists no homogeneous, defined, and delimited legal body that we can call sharia.”⁹ What does exist is a post-Quranic, mostly man-made compilation of behavior prescriptions put together by Islamic scholars on the basis of Quranic dicta, the traditions and ostensible sayings of the Prophet Muhammad (Sunna and Hadith), as well as consensus of the jurists (ijma) and analogical reasoning (qiyas).

Several key factors in the making of shari’a doctrine are worth noting while discussing its “God-ordained” nature. It is a well-established fact that none of the four recognized Sunni schools of shari’a jurisprudence (madhahib) were completed until the second or third century of Islam.¹⁰ The existence of four different and widely accepted human interpretations of shari’a, of course, no matter how similar, hardly squares with the notion of shari’a as “God’s sacred law.”¹¹ Another even more important factor that has led to considerable divergence between shari’a rulings and some Quranic precepts is the principle of abrogation (naskh) which was widely practiced in putting together the shari’a code. Very simply, abrogation means that a later Quranic

verse invalidates an earlier verse or verses on the same subject whenever they contradict each other. Even though this principle has the rather blasphemous effect of invalidating the revealed word of God, it was recognized as valid by early Islamic jurists and, in fact, “constituted the cornerstone of their conception of sharia.”¹²

The practical effect of this technique in shari’a, for example, has been to invalidate numerous Meccan verses urging tolerance and peaceful coexistence with “people of the book” and, instead, incorporate the aggressive, intolerant attitudes toward the infidels advocated in the Medinan suras. This is a major reason why prominent Muslim reformers have argued forcefully that to reform Islam one must start with abrogating abrogation.¹³

Shari’a doctrine, though claiming to be derived from the Quran, is thus a politicized interpretation of the Muslim scriptures and other non-revealed sources and is, as a result, often considerably more radical than its sources. Below, as an illustration, are just a few examples of shari’a tenets on the subject of family law, human rights and jihad and religion that speak for themselves. They are taken from the authoritative shari’a compendium of the Shafii school of jurisprudence (madhhab), “The Reliance of The Traveler: The Classic Manual of Sacred Law, “known in Arabic as Umdat al-Salik by Ahmad ibn Naqib al-Masri.¹⁴

Shari’a on family law:

- A woman is eligible for only half of the inheritance of a man
- A virgin may be married against her will by her father or grand-father
- An Arab woman may not marry a non-Arab man
- A woman may not leave the house without her husband’s permission
- A Muslim man may marry four women, including Christians and Jews, a Muslim woman can only marry a Muslim
- Beating an insubordinate wife is permissible

Shari’a on Jihad and religion:

- Offensive, military jihad against non-Muslims is a religious obligation
- Apostasy from Islam is punishable by death without trial
- Non-Muslim subjects of a Muslim state are subject to discriminatory (dhimmi) laws
- It is permissible to bribe non-Muslims to convert them to Islam
- Lying to infidels in time of jihad is permissible

Shari’a on human rights:

- Homosexuals and lesbians must be killed
- Slavery is permitted and legitimate
- A Muslim man has unlimited sexual rights over slave women, whether they are married or not
- Female sexual mutilation (cliterectomy) is obligatory
- Adultery is punished by death by stoning
- A woman's testimony in court is worth only half of that of a man (and only in cases involving property)¹⁵

For people familiar with both the Quran and shari'a, which, unfortunately, most Muslims are not, some of the above examples show to what extent shari'a postulates diverge radically from the Quran. To cite just a couple of examples, unlike the Quran, shari'a mandates the death penalty for both apostasy from Islam and adultery and fornication. Similarly, shari'a makes the establishment of the Caliphate a Muslim communal obligation, while the Quran discusses neither the Caliphate nor an Islamic state at all. There is also no mandate in the Quran and, for that matter, in the Hadith, for the female sexual mutilation (cliterectomy) called for by shari'a - a truly barbaric practice that apologists for shari'a misleadingly belittle as female circumcision.

Undoubtedly, the reactionary, extremist nature of shari'a is the main reason why contemporary Islamic extremists have elevated it to core doctrine of their ideology and its practical implementation as the number one objective of the radical Islamic movement.¹⁶

Yet, its radical prescriptions and Arab-centric nature made shari'a historically impractical as a code of law in the rapidly expanding Muslim empires under the Umayyads, Abbasids and eventually the Ottomans. These empires not only incorporated vast numbers of non-Arabs and non-Muslims, but those populations often had more developed juridical, socio-economic and political traditions than the desert Arabs and would not have taken kindly to shari'a. As a result, while shari'a was almost always paid lip service to in Muslim history and some individual aspects of it, such as family law, were often enforced, shari'a as a complete system of Islamic jurisprudence was seldom if ever put into practice until the modern times examples of Saudi Arabia, Iran and Sudan and, most recently, Afghanistan under the Taliban.

Instead, parallel systems of dispensing justice like customary law (urf) and courts of grievance (mazalim courts) began operating early on largely independent of shari'a. With the founding of the Ottoman Empire in the 14th century, shari'a was pushed even further into the background and as of 1500, a mostly secular justice system called kanun (from the Greek word for law - canon) became the basis of jurisprudence in the Ottoman Empire, which incorporated most Muslim lands at the time.¹⁷ This continued until the mid-19th century when even the last vestiges of

shari'a were swept away to be replaced by a European-style civil justice code called mejele.

Islamic Finance: Myth and Reality of a Bogus Concept

As countless websites and publications by Islamic financial institutions presently assure us, Islamic finance derives its Islamic character from the strict observance of the ostensible Quranic prohibition of lending at interest, the imperative of almsgiving (zakat), avoidance of excessive uncertainty (gharar) and certain practices and products considered unlawful (haram) to Muslims such as gambling, drinking alcohol, eating pork etc. Of these the first is by far the most important as the *raison d'être* and key justification of Islamic finance.¹⁸ Yet, there is as much if not more evidence that the practice of *riba* declared un-Islamic in several verses in the Quran describes usury rather than interest as such.

Here is how Timur Kuran, the author of the best documented, book-length study of Islamic finance explains it: "What the Quran bans unambiguously is the pre-Islamic Arabian institution of *riba*, whereby a borrower saw his debt double following a default and redouble if he defaulted again. Because it tended to push defaulters into enslavement, *riba* had long been a source of communal friction."¹⁹

Kuran's interpretation, which has been shared by many Islamic scholars historically, though not by the current crop of radical Islamic clerics, seems to be buttressed by the key Quranic verse (Sura Al Imran 3:130) on the subject which reads: "O believers take not doubled and redoubled *riba* and fear God so that you may prosper," in one translation and "Believers, do not live on usury, doubling your wealth many times over. Have Fear of God, that you may prosper," in another. Additional evidence from the Quran that what was prohibited was usury comes from the elaborate instructions in Sura Al-Bakara 2:282 given to those contracting a debt to put it in writing and in front of witnesses with repayment dates clearly stated. Since it is not known that money was lent without interest in Arab society at the time of Muhammad, the transactions referenced in the above sura almost certainly involved interest.

Much more solid proof that interest lending was hardly illegitimate, than parsing Quranic verses, is provided by the historical experience of the Muslims. There is overwhelming evidence that throughout most of it, money lending at interest was widespread, popular and approved by both religious and political authorities.

Thus, the Ottoman Empire, whose economic history has been studied in greater detail than that of any other Muslim land, was characterized by both large-scale money lending (*sarrafi*) and consumption-oriented interest lending throughout its history. What's perhaps most interesting is empirical evidence that even Islamic religious organizations, such as the *wakif* (*waqf*) endowments, were themselves involved in lending money at interest. Research by the Turkish economist Sevket Pamuk and others, for instance, shows conclusively that these "cash *wakifs*" were lending their cash assets at 10% or more interest per annum as early as the 15th century and as late as the 18th century and using the interest proceeds to fulfill their religious obligations.²⁰ In the one known case when some *ulema* questioned the legitimacy of an Islamic institution

charging interest, the controversy was settled by the highest Ottoman Islamic authority in favor of interest.²¹

Both the practice of lending at interest and support for it from influential Islamic scholars has continued in the modern era with the most recent fatwa justifying interest issued by the mufti of Egypt, Sheikh Muhammad Sayyid Tantawi (currently head of Al-Azhar), in 1989. It is only in the past few decades with the dramatic rise of radical Islam and its growing ideological dominance that the pendulum has swung back with those opposing interest gaining the upper hand to the point where today opposition to interest is the one thing all Islamists and “Islamic” economists and financiers have in common.

To understand how this came about requires a short discussion of the invention of Islamic Economics and its offshoot Islamic finance as a concept. And invention is not an exaggeration for what happened when the radical Islamist ideologue Maulana Abul Ala Mawdudi took it upon himself in the 1940s to chart out a course for Muslim cultural and political reassertion in the face of what he saw as an onslaught of Westernization that ostensibly threatened Muslims with the loss of their religious identity.²² Mawdudi saw the solution to this existential threat in a return of the Muslims to authentic Islam. To do that, he advocated building a separate, self-sustained Islamic order with its own Islamic ideology, Islamic politics and Islamic economics that taken together would guarantee an Islamic way of life and ultimately the Islamic state as the first step toward establishing Muslim rule worldwide.

Calling for a return to Islam and the cultural separatism this entailed was, of course, nothing new and had been practiced by earlier Islamic scholars such as Muhammad Abduh, Jamal ad-Din al-Afghani, Sayyid Ahmad Khan, Rashid Rida and others, but none of them evinced the slightest interest in the Islamization of economics.²³

Mawdudi’s novel call for Muslim economic reassertion, was promptly taken up by others like the prominent Muslim Brotherhood ideologue Sayyid Qutb in the 1950s, who like Mawdudi, knew very little about economics, but saw clearly its utility in mobilizing support for the cause of Islamism.²⁴ Qutb’s contribution, if it is one, was to steer Islamic economics further in the direction of socialist, collectivist principles by urging the nationalization of natural resources and most infrastructure.²⁵ And so through the writings of Mawdudi, Qutb and a few others the concept of Islamic Economics became firmly established in Islamist discourse despite the obvious fact that there was no substance to it and that Islamic economics made no more sense logically than Christian physics or Buddhist biology. To the extent that neither Islamic economics nor Islamic finance had even been heard of, let alone practiced, before Mawdudi, this was a purely intellectual invention, yet one with disturbing future implications as we’re now observing.

The actual transition from the vague discourse on Islamic economics to actual Islamic financial institutions took place several decades later, which is yet another testimony that the concept of Islamic economics was indeed a fabricated one. The actual driving force behind the establishment of Islamic banking in the 1970s were two closely related developments. The first

one was the huge windfall profits that accrued to Saudi Arabia and other Gulf oil producers following the 1973 oil embargo and the dramatic spike in oil prices that followed it.²⁶ Suddenly endowed with unprecedented amounts of money, Saudi Arabia dramatically accelerated its drive to promote itself as the leading country of Islam and export its radical Wahhabi creed worldwide by using its new financial clout.²⁷ In the ten years following the embargo, Saudi funding of Islamic activities, couched as “overseas development aid” outside of its borders averaged \$4 billion per annum between 1975 and 1987, a truly unprecedented sum at the time.²⁸ By 2002, according to Saudi sources, Riyadh’s Islamic largesse had built a Wahhabi-controlled network of 1500 mosques, 210 Islamic centers, 202 Islamic colleges and 2000 Islamic schools in non-Muslim countries alone.²⁹

A first practical result of this drive was the founding of the Saudi-controlled multinational Islamic bank, the Islamic Development Bank (IDB) in 1975. The first private bank, the Islamic Bank of Dubai followed in 1975 and several others were opened before the decade of the 1970s was over.

The real takeoff of Islamic finance, however, took place in the 1980s prompted by the success of the Khomeini revolution in Iran in 1979, the ongoing Islamization of Pakistan under Zia ul-Haq in the 1980s and the imposition of shari’a jurisprudence in these two countries as well as in Sudan in the same period. The result was a veritable explosion of Islamic banks and affiliated institutions across the Muslim world. According to the International Monetary Fund (IMF), their number reached 300 in 2005, and more recent Arab sources estimate that there are 400 Islamic banks active in 75 countries with close to a trillion dollars under management in mid-2007.³⁰ This does not include the dozens of Western banks that are now offering various Islamic financial products and “Islamic windows” at their institutions. Moreover, there are good reasons to expect that the avalanche-like growth of Islamic finance will continue at least for the foreseeable future. First, with oil prices hovering around \$80/barrel presently, liquidity in the Gulf is growing at rates even exceeding those of the 1970s. Secondly, western governments and central banks not only do not appear disturbed by the phenomenon, but seem willing to welcome and facilitate it.³¹

What is Islamic Banking?

Faced with the reality of a burgeoning Islamic finance industry that pledges allegiance to the medieval obscurantism of shari’a, albeit without disclosing its substance, it is appropriate to look briefly into the mechanics of Islamic banking and what it entails.

Islamic financing, very simply, claims to be an effective and morally superior alternative to conventional finance by strictly following shari’a tenets which prohibit interest transactions, uncertainty and speculation (gharar), investment in a host of prohibited (haram) activities (such as gambling, prostitution, alcohol, finance, tourism, entertainment etc) and encouraging wealth redistribution and poverty alleviation through alms giving (zakat). Indeed, more than a few western institutions have gone overboard touting it as “ethical”, “socially-responsible” etc. To achieve that goal, Islamic finance claims to have developed a series of sophisticated, shari’a-

compliant financial instruments superior ethically and in terms of performance to conventional ones. These currently include alternatives to the entire gamut of traditional credit, investment, insurance and fixed income products, designated by exotic Arabic names like *murabaha*, *mudaraba*, *ijara*, *takaful*, *sukuk*, *musharaka* etc.

While there certainly are financial products in Western finance that do not involve interest transactions (venture capital, stock market investment), there are few if any that involve neither consideration of the time-value of money (interest) nor a significant degree of uncertainty and speculation. Since you cannot have either one according to shari'a, most Islamic banks and institutions routinely engage in various ploys, ruses and plain dishonesty to hide the fact that they engage in both.

For instance, the most popular Islamic financing transaction by far, called *murabaha*, involves a bank buying goods that a borrower needs to have financed, it then adds a service charge equivalent to what the interest would have been, and turns the bill over to the customer to be paid at a predetermined time in the future. Ostensibly, what makes the transaction Islamically legitimate, rather than a straight interest transaction, is the fact that the bank takes the risk of owning the goods for some period of time, even though that period could be and usually is but a second. Thus, *murabaha*, which makes up a very high percentage of all Islamic transactions currently is interest lending in everything but name.³²

The same is true with Islamic leasing (*ijara*), profit-and-loss transactions (*mudaraba* and *musharaka*) and most of the rest as described in detail elsewhere.³³ In another example, shari'a requires Muslims not only to shun any and all interest transactions but also the companies engaged in them. To the extent that there are few if any Western companies and, indeed, not many Muslim ones, that do not borrow money at interest or generate part of their revenue from interest income, it would be next to impossible to have a mutual fund that does not include such companies. Yet, numerous Islamic mutual funds do exist by simply looking the other way or, even more conveniently, by paying for a fatwa to declare them shari'a-compliant - an increasingly prevalent practice.³⁴ Other instruments and products claiming to be shari'a-compliant, don't even try to hide the fact that they're interest based.³⁵

What all of these ostensibly Islamic products have in common, apart from their disingenuous nature, is that they are all priced considerably higher than similar conventional ones, which may be their real attraction to Western banks. As one Islamic mortgage banker put it succinctly if cynically: "The price for getting into heaven is about 50 basis points."³⁶

To sum up, even a casual examination of the reality of Islamic finance today reveals it to be a bogus concept practiced by deceptive ploys and disingenuous means by practitioners that are or should be aware of that, but remain predictably silent. To those that pursue the objectives of the radical Islamist agenda, all the ruses and deceptive ploys of Islamic banking are well worth the progress they have made in promoting shari'a extremism by means of Islamic finance.

There have been other Muslims and Muslim economists, however, who have seen these

dishonest tactics for what they are and have denounced them in no uncertain terms. One Muslim economist, for instance, criticized Sharia finance for having “made a mockery of Islam,”³⁷ while another has described it as “a manifestation of the Muslim community’s moral degradation,” and a third believes that it is a “serious crime against Islam.”³⁸

The experience of Islamic banking to date shows without much doubt that there are many more in the former category than in the latter.

Islamic Finance in the Service of Extremism

Even if bogus as a discipline, Islamic finance would be of little consequence or concern if it were not organically tied to radical Islam and ultimately to terrorism. What makes reasons to be concerned particularly acute is the evidence that the current avalanche-like growth in petro-dollar liquidity in the Middle East is likely to continue and even accelerate for the foreseeable future.³⁹ It is thus not unrealistic to be concerned that if allowed to continue unabated, Islamic finance could not only acquire enough critical mass to start undermining Western capital markets, but is certain to create a massive, legitimate and institutionalized financial and political underpinning to Islamic extremism that has the stated objective of destroying Western civilization. It is therefore of primary importance to understand the means and methods through which Islamic finance seeks to serve the extremist agenda.

From the very beginning of Islamic banking in the mid-1970s, shari’a finance institutions have aided and abetted militant Islamism. From the first Islamic bank, the Islamic Development Bank (IDB), which transferred hundreds of millions of dollars to HAMAS to support suicide bombing, to the notorious terrorism financier Bank Al-Taqwa and the numerous Islamic banks and charities run by the “Golden Chain” group of Saudi billionaires funding Al-Qaeda and its likes, Islamic finance has been a life-support system for radical Islam worldwide as is well-known and amply documented elsewhere⁴⁰

What is not as well known is that even after the vast expansion of the Islamic finance industry in the past decade and large-scale Western involvement, it continues to be run ideologically and organizationally by people and institutions with well-established Islamist credentials and reputation. Thus, among the influential Islamic entities entitled to issue fatwas on shari’a matters and playing a key role in Islamic finance one can find the Fiqh Academy in Jeddah, an organ of the Organization of the Islamic Conference (OIC), the European Council for Fatwa and Research and the Fatwa Council of North America, all of whom have impeccable Wahhabi/Salafist credentials and extremist proclivities. The same is true about a number of newer organizations that have sprung up recently for the purpose of administering and coordinating Islamic financial institutions. These include the General Council of Islamic Banks and Financial Institutions (GCIBFI), the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI), the International Organization for Zakat (IOZ) and others. Many if not most of the individuals involved in leading positions in the management and promotion of Islamic finance are also well known Islamists, such as the chairman of GCIBFI and veteran Islamic financier Saleh Kamel, the

secretary general of IOZ, Ajeel Jassem al-Nashami and the well-known radical Islamic scholars Yusuf Qaradawi, Taha Jabir Al- Alwani, Muhammad Taqi Usmani and others. What is much less well-explored are the various strategies and tactics used by the Islamists to exploit Islamic finance for their purposes.

First and most important, though perhaps not most obvious, is the overriding Islamist objective of gradually legitimizing shari'a in the West. The ability to have shari'a recognized as legitimate Islamic law by Western governments and publics will be a huge step towards making it acceptable and gradually implementing it in Muslim communities in the West, in family law for instance. This, of course, is a long-standing objective of the Islamists dating back to Mawdudi, who aim to create parallel Muslim societies ruled by shari'a and progressively decoupled from the secular and democratic mainstream Western society.⁴¹

The constant mantra of shari'a-compliant money-making opportunities emanating nowadays from Western banks pushing Islamic financial products without bothering to explain to their clients what shari'a stands for, is just the kind of positive reinforcement that Islamists want and need. To put it simply, any Western institution that endorses shari'a-compliant products, ipso facto endorses the hateful Islamist ideology behind it, whether they know it or not. Shari'a is an integral doctrine and there is no such thing as selecting just a few convenient shari'a tenets and rejecting the rest. By endorsing shari'a, Western banks end up becoming what Lenin called useful idiots or worse to the Islamists. And it is a very thin line between that and outright complicity in the Islamist agenda.⁴²

And there is little doubt that Islamic finance has already scored major successes toward this objective. It is not clear, for example, that it would be easy for British Prime Minister Gordon Brown, who has argued that sharia is a great thing for the London financial industry to, at the same time, insist that shari'a would not be good for London Muslims, when the latter demand its implementation as a family law.

An additional and related byproduct of Islamic finance is the legitimization and financial support by Western institutions for the type of radical Islamic scholarship and indoctrination that has made Islamism the dominant idiom in much of the Muslim world, including the Muslim diaspora communities in the West. The need to certify shari'a-compliance of their Islamic products by "qualified shari'a scholars" has created demand for the services of experts that more often than not are the indoctrinated products of radical Wahhabi/Salafi shari'a faculties in Saudi Arabia and elsewhere, who generally hold views fundamentally inimical to the most basic values of Western civilization.

Even a cursory look at the names, affiliations and views of popular shari'a scholars, such as Sheikh Yusuf Qaradawi, Sheikh Muhammad Taqi Usmani, Sheikh Mohamed Ali Elgari, Faysal Mawlawi, Sheikh Nizam Yaquby, Suleyman al-Maniya and others, many of whom sit on the shari'a advisory boards of dozens of Islamic banks and get paid princely sums from each, would make it clear that most are hard line Islamists and, in at least some cases, open supporters of terrorism.⁴³

Mr. Qaradawi, a prominent Muslim Brotherhood ideologue who has repeatedly endorsed suicide bombings against civilians, for instance, is chairman of the shari'a boards of the two Qatari Islamic banks owned by the ruling families among many others.⁴⁴

In another example, Muhammad Taqi Usmani, a radical Deobandi cleric and a former shari'a court member from Pakistan, who sits on dozens of shari'a boards in the West, is a key executive in the Karachi Deobandi madrassa Darul Uloom, which has trained and continues to train thousands of Taliban and jihadist cadres. He was also instrumental in the Pakistani government decision to declare the Ahmadi Muslims apostates and thus complicit in the murder and suffering of countless innocent Muslims. He is further on record preaching that Muslims living in the West "must live in peace until strong enough to wage Jihad" against their fellow-citizens in order "to establish the supremacy of Islam."⁴⁵

The same is true about many of the trustees of various Islamic banking institutions. The Dow Jones Islamic Fund (IMANX), for example, is owned by the North American Islamic Trust (NAIT) - a Saudi-controlled non-profit institution that holds title to hundreds of American mosques - which was recently listed by the US Dept of Justice as an unindicted co-conspirator in a terrorism financing trial in Dallas, Texas. The Fund's president and chairman, Bassam Osman is also chairman of NAIT and former chairman of the Islamic Literacy Institute, an organization whose funds were seized by the US government in 1998 on account of its funding of Hamas, a designated terrorist entity.

That prominent Western banks and financial institutions do business and amply reward people like that is a sign of the extent to which Islamic finance has already become a Trojan horse of Islamism in the West, to say nothing of its profoundly disingenuous and unethical nature. It appears that it can only get worse as the shortage of such experts grows and institutions like Deutsche Bank now contemplate organizing and paying for the training of shari'a scholars in the West.

Zakat: Western Tithing for Terror?

Perhaps the greatest damage Islamic finance can do to the West in the long term has to do with the rather innocuous Quranic and shari'a mandate for Muslims on alms-giving known as zakat. The Quran obligates Muslims to donate roughly one-fortieth of their income or 2.5% each year to charity and most practicing Muslims do just that. Such charitable giving is considered a form of shari'a-mandated income redistribution and many Muslims believe that it can alleviate poverty and bring about a more just society.

There is, of course, nothing objectionable to charitable giving, but in this case, as in much else to do with shari'a the devil is in the detail. And the devil has to do with who has the right to receive zakat and who distributes it. According to the Quran, there are eight categories of deserving zakat beneficiaries with some of them well-defined and others less so. In the first category are the poor, the needy, the zakat collectors and those that are heavily indebted. The problem arises

with the second group which includes categories of recipients of zakat for freeing slaves or helping prisoners and their families, helping needy travelers or foreign students in need of funds and also new Muslims or “those whose hearts need to be reconciled” and those who strive in the way of Allah, as in Dawah (proselytism) or Jihad. All four of those have been interpreted by various Islamists and prominent Islamic finance functionaries like Dr. Ajeel Jaseem al-Nashami, secretary general of the International Organization for Zakat to fall under the category of “financial jihad “(*al-Jihad bi-al-Mal*).⁴⁶

Financial jihad through zakat, of course, is nothing particularly new and has been carried out for a long time. Zakat committees in Gaza have been a prime transfer mechanism of funds for Hamas, for instance, and the radical jihadist madrassas in Pakistan have been partly funded from zakat for decades. What’s new with Islamic finance is the sheer volume of potential zakat collections and a move afoot to centralize both collections and distribution under one central authority that almost certainly will be controlled by committed Islamists. Every bank offering Islamic products appears required to donate 2.5% of revenue generated from them to zakat and with some 400 banks in 75 countries and a trillion dollars in Islamic financing currently the potential zakat sums are staggering.⁴⁷

Perhaps aware of this potential, Sheikh Saleh Kamel, a Saudi multi-billionaire, owner of the oldest and largest Islamic banking group, Dallah al-Baraka, and an alleged terrorism financier widely considered the kingpin behind international Islamic finance has taken the initiative to centralize worldwide zakat collections and distribution, as well as set up a central fatwa issuing council on Islamic finance.⁴⁸ In this endeavor he has received the strong support of the radical Islamist Sheikh Yusuf Qaradawi and the influential World Forum for Muslim Scholars and several other organizations he controls.⁴⁹

Information available at the time of this writing (Sept. 07) indicates that this plan was approved by the Organization of the Islamic Conference (OIC) and is about to become a reality. Should a centralized Zakat fund of that magnitude controlled by zealous Islamists like Kamel and Qaradawi indeed materialize, financing for the worldwide Islamist movement will become essentially unlimited, legitimate and at least partly funded by the West.

Lenin was once reported to have said that the capitalists would gladly sell us the rope with which we’ll hang them. Were he alive today and observing Islamic finance, he might have added that they would not only sell us the rope, but would also help us raise the money for it and when the time came to hang them, they would find a properly qualified shari’a advisor to certify that the hanging is hundred percent shari’a-compliant.

¹ FACTBOX:Key Facts About Islamic finance, www.reuters.com/article/summitNews2/idUSL2147954200703

² Finance Minister Gordon Brown Speaks at the Islamic Finance and Trade Conference, Speech available at the British embassy website in Washington D.C., www.britainusa.com/sections/articles_show_nt1.asp?

³ The term Western as used in this paper does not connote a geographically-defined category, but the much broader community of countries and nations that embrace the basic western values of political pluralism and democracy, free market capitalism, separation of church and state and essential human rights.

⁴ Remarkably this is the case not only with most academic writing purporting to explain what Islamic finance is, but also with literature emanating from Western government agencies and international financial institutions. See, for instance, Clement M. Henry and Rodney Wilson eds., "The Politics of Islamic Finance," Edinburgh University Press, 2004; Mahmoud Amin El-Gamal, "Overview of Islamic finance," Occasional Paper #4, Office of International Affairs, Department of Treasury, World Bank, August 2006; Zamir Iqbal, "Islamic Capital Markets: Prospects and Challenges," Available in PDF form from the World Bank website.

⁵ Nasser M. Suleiman, Corporate Governance in Islamic Banking, available at www.al-bab.com/arab/econ/nsbanks.htm.

⁶ A.L. Janahi, Islamic Banking, Concept, Practice and Future, Bahrain Islamic Bank, Manama, 1995. P.42

⁷ Ibid. p.29

⁸ Sura 45:18 – "And now we have set you on the right path, follow it."

⁹ Bassam Tibi, The Challenge of Fundamentalism: Political Islam and the New World Disorder, University of California Press, 2002, p. 168.

¹⁰ The founders of the four schools (Hanafi, Maliki, Shafii and Hanbali) are Abu Hanifa (699-767), Malik ibn Anas (713-795), Muhammad ibn Idris Al-Shafii (767-821) and Ahmad ibn Hanbal (781-858).The "Golden Age" of Islam under Muhammad and the 'rightly-guided' Caliphs lasted from 622 (the year of the Hijra) to 661; the Umayyad Empire from 661 to 750 and Abbasid rule from 750 to 1030.

¹¹ The leading shari'a jurists of these schools lived under the Umayyad and Abbasid empires that are universally acknowledged by Muslim historians to have transformed the early Islamic rule of the "rightly guided caliphs" into an oppressive and corrupt hereditary tyranny and it is highly unlikely that they were not influenced in their interpretations by the political interests of the corrupt and all-powerful Caliph and the ruling aristocracy for whom the clerics usually worked. Here is how Sayyid Qutb, the radical Islamist ideologue, describes the Umayyad period in his "Social Justice in Islam" (Islamic Publications International, 2000), p.231:

"From Umayyad times all restrictions on the public treasury were removed, and it became a legitimate source of plunder for the kings, their courtiers and their sycophants. The bases of Islamic justice were destroyed, and the treasury became the perquisite of the ruling class, a source of profit for their followers, and a source of income to their hangers-on. The Caliphate became a monarchy, and a tyrannical monarchy at that, as the Messenger once said that it would in a sudden access of profound spiritual insight."

¹² Abdullahi Ahmed An-Naim, "Toward an Islamic Reformation," Syracuse University Press, 1990, p.58

¹³ See, for instance, the discussion of naskh in An-Naim's *Toward an Islamic Reformation*, op.cit. pp.57-68

¹⁴ The *Reliance of the Traveler* is one of the few shari'a compilations that is both authoritative (and certified as such by both Al-Azhar and radical Islamist scholars like Taha Jabir al-Alwani, president of the International Institute of Islamic Thought and the Fiqh Council of North America) and available in a good English translation.

¹⁵ These and many other shari'a tenets from *Reliance of the Traveller* are exhaustively documented in www.challenging-islam.org/submissions/shari'a.htm.

¹⁶ For the disastrous practical effects of shari'a imposition on human rights and political freedoms today see Paul Marshall ed. "Radical Islam Rules: The Worldwide Spread of Extreme Sharia Law," Rowman and Littlefield Publishers., 2005

¹⁷ It is interesting to note that Suleiman II, the Ottoman Sultan, during whose reign kanun was firmly established,

was known to the Europeans as Suleiman the Magnificent, but to his Ottoman subjects as Suleiman Kanuni (the Lawgiver).

¹⁸ Far from being an original Islamic concept, the prohibition of usury was a standard feature in virtually all civilizations and religions preceding Islam, including ancient Greece, Judaism, Hinduism, Buddhism, Christianity and Rome. See Wayne A.M. Visser and Alastair McIntosh, "A Short Review of the Historical Critique of Usury," in *Accounting, Business and Financial History*, 8:2, Routledge, London, July 1998, pp. 175-189.

¹⁹ Timur Kuran, "Islam and Mammon: The Economic Predicaments of Islamism," Princeton University Press, 2004. p. 14. Also see Prof. Kuran's earlier study "The Economic Impact of Islamic Fundamentalism," in Martyn E. Marty and R. Scott Appleby eds., *Fundamentalisms and the State*, The University of Chicago Press, 1993, pp. 302-341.

²⁰ Sevket Pamuk, *A Monetary History of the Ottoman Empire*, Cambridge Studies in Islamic Civilization, Cambridge 2001, p. 81

²¹ This controversy took place in the 16th century and was resolved in favor of the cash vakifs when a majority of the Ottoman ulema found interest lending beneficial to the community and the highest religious authority of the land, the sheikhulislam Ebusuud Efendi opined that the abolition of interest lending by the vakifs would lead to their collapse and harm the Muslim community. See Pamuk, op.cit. p. 82 and J.E.Mandaville, "Usurious Piety: The Cash Waqf Controversy in the Ottoman Empire," *International Journal of Middle East Studies*, #10/1979, pp. 289-308.

²² The best discussion of Mawdudi's contribution to Islamic Economics is in Kuran, op.cit. especially Chapter 4, *The Genesis of Islamic Economics*.

²³ Kuran, *Islam and Mammon*, p. 90.

²⁴ Qutb's economic ideas are developed in his book "Social Justice in Islam," especially Chapter 6, *Economic Theory of Islam*, pp. 127-167. Also see S.A. Ahmad, *Economics of Islam*, Lahore, 1958.

²⁵ Ibid. p. 306

²⁶ Saudi oil revenues are reported to have jumped from \$1.2 bln in 1970 to \$95 bln in 1980. William B. Quandt, *Saudi Arabia in the 1980s: Foreign Policy, Security and Oil*, Brookings Institution Press, 1981, p. 161.

²⁷ This was not a totally new development and many of the Wahhabi front organizations serving Saudi interests, like the Muslim World League (MWL) and the World Assembly of Muslim Youth (WAMY), as well as Saudi-sponsored Western outposts of radical Islam such as the Muslim Student Association (MSA) in the United States and its counterparts in Germany and Great Britain preceded this drive by a decade.

²⁸ See Alex Alexiev: *Wahhabism: State-Sponsored Extremism Worldwide*, testimony to the US Senate Subcommittee on Terrorism, Technology and Homeland Security, June 26, 2003, available online at http://kyl.senate.gov/legis_center/subdocs/sc062603_alexiev.pdf.

²⁹ Ibid. The original source is the Saudi English language government newspaper *Ain Al-Yaqeen*, March 1, 2002.

³⁰ "Islamic Finance Gears Up," in *Finance and Development*, Vol. 42, #4, December 2005, IMF, and *Arab News*, June 20, 2007

³¹ In January 2007, UK Treasury minister Ed Balls announced a number of regulatory measures designed to facilitate Islamic finance in Great Britain. "Today I'm able to set out the next stage in our reforms to ensure the tax and regulatory system will encourage the development of Sharia compliant products.... Today is an example of public and private sectors working together to fulfil our shared ambition of creating major international markets in Islamic finance with London as their center." *The Halal Journal*, Jan. 31, 2007.

www.halajournal.com/index.php?page=article&act=show&category.

³² This and other ruses widely used by today's Islamic financiers are hardly novel and some were used by Christian businessmen during the Middle Ages to conceal interest transactions during periods when the church had prohibited them. A fairly popular one was called *contractum trinius* (triple contract) which consisted of three separate transactions that individually did not involve interest, but taken together amounted to just that.

³³ For details see Kuran, *Islam and Mammon*, pp. 10-11

³⁴ Mahmoud el-Gamal, *Mutuality as an Antidote to Rent-Seeking Shari'a-Arbitrage in Islamic Finance*, Rice University, April 2005, www.nubank.com/islamic/mutuality.pdf. Fatwa fraud is nothing particularly new and is present in even the most prestigious of Islamic institutions. Recent investigations in the Darul Uloom Islamic seminary in Deoband, India, the most prestigious institution of its kind in South Asia, revealed that "Islamic legal rulings are not only for sale in India, but can be tailor-made to suit the purchaser's needs." See "Bungs for Fatwas" in http://commentisfree.guardian.co.uk/brian_whitekar/2006/09/bungs_for_fatwas.htm

³⁵ For instance, the sukuk bond issued by the German state of Saxony-Anhalt is openly based on the EURIBOR

(European Interbank Rate) interest rate.

³⁶ Richard Morais, "Don't Call it Interest," *Forbes*, 07.23.07 available in <http://members.forbes/2007/0723/122.html>.

³⁷ Prof Mahmoud A. El-Gamal citation

³⁸ Kuran, *Islam and Mammon*, p. 16 The bogus nature of Islamic financing has been subjected to a devastating critique also from the viewpoint of devout non-Islamist Muslims. The Turkish scholar Suleiman Uludag, for instance, who uses classical Islamic scholarship as a starting point of his critique has this to say: Those that insist on banning interest are ignorant of Islamic history and guilty of misinterpreting the Quran, which bans not interest but usury, or exorbitant interest. And those who appreciate the impossibility of doing business without interest and who, for this reason, tolerate various ruses are guilty, in addition, of promoting dishonesty and hypocrisy. This is a serious crime against Islam, a religion that stands for truthfulness. It is also a grave offense against God: even if interest were unlawful, it would be a lesser sin to deal in interest openly than to cloak it in practices aimed at deception. As cited in Kuran, p.16

³⁹ According to a new McKinsey study, the petro-dollar assets of oil producers grew from \$1.2-\$1.3 bln in 2000 to \$3.4-\$3.6 bln in 2006 and are projected to reach \$5.9 bln in 2012. They are already bigger than the combined assets of Asian central banks and more than twice the size of all hedge funds. At a price of \$70/barrel, oil producers have \$2 bln to invest per day. See "Financial Globalization's New Power Source," *Wall Street Journal*, October 4, 2007.

⁴⁰ See, for instance, J. Millard Burr and Robert O. Collins, *Alms for Jihad: Charity and Terrorism in the Islamic World*, Cambridge University press, 2006, Rachel Ehrenfeld, *Funding Evil*, Bonus Books, 2003, Johannes and Germana Dohnanyi, *Schmutzige Geschaefte und Heiliger Krieg*, Pendo Verlag, Zurich 2002 and Lucy Komisar, *Shareholders in the Bank of Terror*, Salon.com date?

⁴¹ An open expression of this agenda is the following statement from the Al Islam publication of the Muslim Brotherhood in Germany: "In the long run, Muslims cannot be satisfied with the acceptance of German family, estate and trial law... Muslims should aim at an agreement between Muslims and the German state with the goal of a separate jurisdiction for Muslims." Cited in Lorenzo Vidino, *Aims and Methods of Europe's Muslim Brotherhood*, *Current Trends in Islamist Ideology*, Vol. 4, Nov. 2006

⁴² For instance, the Swiss bank UBS includes the following description of shari'a on its website "The sharia is therefore an evolving body and permits Muslims to adapt the practice of the religion to the time and place they live." This statement, which presents sharia as a flexible legal doctrine capable of adaptation and modernization, is not just plain wrong; it appears to be deliberate disinformation about what shari'a represents. See www.ubs.com/1/2/wealth_mgmt_wv/islamic_finance.html, accessed 9/24/07.

⁴³ According to one source, these "rock star sharia scholars" may sit on 40 or 50 sharia boards each and receive \$20000 -\$30000 annually from each one. Richard C. Morais, "Don't Call It Interest." Available at www.sirajcapital.com/international.html.

⁴⁴ "Islamic Finance Moves into the Global Bulge Bracket," *Gulf States Newsletter*, Sept. 23, 2007. Available at www.zawya.com/story.cfm/sidZAWYA20070923054249.

⁴⁵ Andrew Norfolk, "Our Followers Must Live in Peace Until Strong Enough to Wage Jihad," *London Times*, Sept. 7, 2007.

⁴⁶ See www.palestine-info.info/arabic/palestoday/dailynews/2002/apr02/23_4/detail.htm and Lt Col Jonathan D. Halevi, *What drives Saudi Arabia to Persist in Terrorist Financing? Al-jihad bi-al-Mal- Financial Jihad Against the Infidels*. Jerusalem Center for Public Affairs #531, June 1, 2005

⁴⁷ There is at present virtually no available information on how much zakat is collected and how the funds are distributed except for figures indicating that Saudi Arabia alone generates some \$9 billion of it per annum.

⁴⁸ Kamel is chairman of the most influential Islamic banking institution, the General Council of Islamic Banks and Financial Institutions (GCIBFI) and president of the Islamic Chamber of Commerce and Industry (ICCI).

⁴⁹ See "Plans to Establish World Fund for Zakah", *Arab News*, Jeddah, Oct. 26, 2006 and "New Model for Future of Islamic Banking Planned," *Arab News*, June 20, 2007.