manchester center for public theology

FAITHS AND FINANCE:

A PLACE FOR FAITH-BASED ECONOMICS

(a preliminary statement from Muslims and Christians in Manchester)

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1.0 INTRODUCTION

1.1 Why Faith & Economics?

Economics, as finance or money, increasingly touches all our lives as individuals, communities, and nations. We cannot easily live fulfilled lives without purchasing goods and services, or without credit, including for house purchases. We are aware, too, of the growing and disturbing impact on our lives of personal debt, and of the debt of the poorest nations. Such global agendas will increasingly impact on our local ones.

All these matters are of profound importance for us all as human beings, but particularly for those of us in faith communities and traditions, and not least, because there is a renewed faith interest in such agendas – both in terms of what our faiths understand about economics as finance, and how this leads to very practical involvements in financial affairs. And, most importantly and indeed creatively, these are all emerging as faith-based models of economics as both complementing and yet increasingly as challenging, or presenting alternatives to, traditional mainstream economics and finance.

These developments are particularly timely because of Government commitments to urban regeneration, social cohesion and more sustainable local communities, and especially as they affect more marginalised deprived people and neighbourhoods. For many faith communities are deeply embedded in such areas, and the Government is therefore increasingly acknowledging their role in promoting good local relationships, in building up the social capital of local communities. Such reports as Faith in England's Northwest: The contribution made by faith communities to civil society in the region (2003), and Faith in England's Northwest: Economic Impact Assessment (2005), acknowledge and quantify these substantial contributions. Recent attacks in London also suggest that the constructive contributions of Faiths to better community relations and sustainability, including through their collaboration in such projects as ours, have now an added significance.

1.2 The Project

A small group of Christians and Muslims has been meeting in Manchester to explore such matters. From the perspective of their different faith traditions, they have together produced this statement which begins to develop faith-based models for economic life, with particular reference to financial affairs. This statement begins a process of indicating a way of living and working which arises out of our reflections on our religious traditions, including our sacred writings. For these have focussed powerfully on the implications of our beliefs for all our lives, including how we deal with economics and money. The Bible and the Qur'an, and how faith communities have developed their understandings of such Divine Guidance, have inspired subsequent generations, including our own, to address such key matters as money and interest (usury or ribah), prices and wages. For example, in Islam, there is a deep overriding commitment to fairness as it engages with price stability, economic growth and employment, and distributive justice. For the Christian Churches, their latest collaborative (ecumenical) venture includes the report ‘Prosperity with a Purpose’, with its work on the role of market forces in promoting or damaging human well-being, how an inexorable drive for profit can harm civil society, and how can we ensure that growing prosperity, so necessary for freeing the billions in our world from poverty, does not unduly damage God’s created order as the environment. We are therefore aware that there is much common ground between the two traditions, as with others of good will.

We therefore believe that such faith-based understandings are important in themselves. Yet we are also aware of the importance of mainstream economics for contemporary life, and so we have sought to develop our understandings in a way that commands the respect (not necessarily the agreement) of mainstream economics. What follows are three particular contributions to this statement; the first and second are from the Christian and Muslim traditions and in the third a professional economist reflects on them.

2.0 CHRISTIAN RESPONSES TO MARGINALISATION AND FINANCIAL AFFAIRS

2.1 Christian Concern for Economic Justice

Many Christians in Britain in general and Greater Manchester in particular are concerned over the growing divisions in and between our communities and nations. They are aware of the central role of finance in such local and global contexts (essentially global localities), linked, for example, by the oppressive power of debt, rather than the constructive value of much debt. These connections have encouraged Christians to reflect on their religious traditions to address such agendas. In particular, they are inspired by their overriding belief in God's concern for all people and creation, and therefore for God's commitment to justice in this world and in the world to come. It is this underlying commitment to ethical values, set in the longer term perspective and goal of God's purposes, which provides the added value of faith's contributions to communities. For Christians are committed to the long term transformation of neighbourhoods because they are committed to personal transformation in God, and so to personal values like truthfulness, trust, and accountability; they are committed to material improvements because they are also committed to spiritual improvements. For personal and social regeneration are the two sides of the one coin of our transformation in God as persons in community. So we are committed as churches and Christians, working with others in society as other Faiths, Government, voluntary bodies, and business, to building up the social capital of communities, to good neighbourliness, but through our distinctive contribution of religious capital. For we are aware that contemporary research has suggested that more frequent churchgoing means people are more likely to volunteer to serve others in community associations, and are more likely to have altruistic attitudes. Central to these beliefs is the obligation to work for the effective participation of all who wish it in local, national and international life, and particularly therefore of the marginalised and deprived. None should be intentionally left out of such participation because none are outside God's love.

Examples drawn from Christian experience in Greater Manchester illustrate these concerns. They show how Christians are drawing inspiration and guidance from their religious traditions to transform experiences of marginalisation as they affect the debt of nations, the trade between nations, and divisions in our communities. Out of these examples, Christians are increasingly aware that their religious traditions, including their understanding of the Bible, are leading them to develop and promote ways of living which reflect their distinctive beliefs. These can be deeply critical of mainstream theories and practices, and indeed offer alternatives to them. Yet they can also offer points of collaboration with Others in community, government and internationally, likewise committed to seek the common good of all. Examples drawn from Christian belief and their implications for addressing marginalisation and financial affairs illustrate these concerns:

2.2 God's Jubilee and Debt Relief.

The campaign of Jubilee 2000, and its follow-ups, seek to release the poorest nations from the oppressive burden of unrepayable debt. It does this by interacting Christian beliefs with economic realities to change both for the better.

So, on the one hand, it focuses on proclaiming God's Jubilee, of the deliverance of people from the slavery of marginalisation through debt, informed by the Sacred scriptures or Writings, so foundational to Christian service and witness. For so it was recounted in the Bible's Old Testament. 'And you shall hallow the fiftieth year, and proclaim liberty throughout the land to all its inhabitants; it shall be a Jubilee for you' (Leviticus, 25: 10). And in the Bible's New Testament, Jesus, in his first address in the synagogue, interprets his ministry through that jubilee. 'The Spirit of the Lord is upon me, because he has anointed me to preach good news to the poor. He has sent me to proclaim release to the captives and recovering of sight to the blind, to set at liberty those who are oppressed to proclaim the acceptable year of the Lord' (Luke 4: 18-19).

Jubilee 2000

JUBILEE DEBT CAMPAIGN

Many in the 1980s began to recognise the crippling effects of debt on less developed countries; a crisis compounded by falls in commodity prices and very high interest rates. They formed the Debt Crisis Network (DCN) to co-ordinate lobbying of governments and financial institutions. In 1996 DCN invited a number of African leaders to tour Britain arguing for debt relief. This campaigning had some success, such as the Heavily Indebted Poorer Countries Initiative by the World Bank and the IMF. However, a broader campaign group was needed and people began to coalesce around the Jubilee 2000 banner. DCN became the Jubilee 2000 Campaign in 1997. One of the Campaign highlights was the organised lobbying of the 1998 G7 summit in Birmingham by 70 000 people. This included forming a 9 km human chain around the summit venue. Debt cancellation is now one of the three main aims of the Make Poverty History Campaign (along with trade justice and improved aid). Jubilee 2000 was succeeded by the Jubilee Debt Coalition. The role of the Christian Churches in the Jubilee campaign cannot be overstated: Tearfund, Christian Aid and Cafod have all been major contributors.

On the other hand, this inspiration from Christian tradition and faith experiences today was to respond to the marginalisation caused by the poorest nations' debt. Because it has become unrepayable, they struggle to simply pay the interest, and that is at immense cost to their economies, people and environment, and, conversely to the benefit of the richest nation creditors, who can receive in interest sums way beyond the original amount borrowed. The poorest nations, mostly in Sub-Saharan Africa, owed $127 billion in 1999. So Zambia, one of the poorest, spends 40% of its annual budget on debt servicing, to the richest nations and organisations, allowing only 7% for social services, health and education. To free even a modest part of that 40% could secure thousands of lives and enhance millions of people's basic ability to survive and live more fulfilled lives, if properly used. And this can be achieved by encouraging our government, working with other governments and international institutions like the World Bank, to pursue such debt relief and other supportive policies. We are aware that debt and credit are not of themselves injurious to human well-being, but in contemporary societies, play an essential and constructive role. So debts should be repaid, as a matter of justice and trust, not least to ensure the availability of further loans, and despite the difficulties of juxtaposing demands for cancellation of debts with demands they also be repaid. What we are addressing is the general agreement that the poorest nations on earth should not be massively overburdened by their substantial and essentially unrepayable debt. Like the Old Testament prophets, we are also aware that relationships between the richest and poorest nations are often also relations between the powerful and powerless, and that because of the sin which infects nations and organisations, the combination of all these factors leads to injustice. Equally clearly, we are often also aware that the marginalisation of these poorest nations is not exclusively a matter of injustice, but also of the self-inflicted wounds of bad governance, including personal and systemic corruption and theft. To argue for debt release should not be done at the expense of underwriting a poor nation's unjust actions and institutions. Yet while such conditions for debt relief are important, God's love is ultimately without condition, and so, in some cases, should the release of people from starvation, ignorance and ill-health. Manchester church groups play an important part in such local, national and international campaigns.

2.3 God's Bias for Inclusivity: Fair Trade

The churches of the Anglican diocese of Manchester have been developing and promoting such policies through reflecting on what God's purposes mean for a more inclusive church, society, and world, particularly in the face of marginalised people, communities and nations. It is a vision which springs from Christian reflections on the Bible, and its commitments to justice, and therefore particularly St Paul's reflections on what it means to be such a Church in such a world. For he sometimes shows us glimpses of an inclusive Church (and by implication of society) made up of many different parts or contributions, each equally and highly valued, and particularly the most vulnerable or marginalised, because 'those parts of the body that seem weaker are indispensable' (1 Corinthians 12: 22). It is this bias for the poor because of a bias to the whole which we in Manchester have therefore developed into a bias for inclusivity, that now guides much of our

Trade Justice

In developing countries small scale producers are often solely dependent upon a single product and fluctuations in the price of these commodities in international markets can have a devastating effect. Large falls in price can mean that it costs more to produce the crop than the farmer will receive! Fair Trade involves buying direct from the farmer and ensuring that the farmer receives a fair and worthwhile price for the goods which should be efficiently produced products to be designated as Fairtrade. This was established in 1992 CAFOD, Christian Aid, New Consumer, Oxfam, Traidcraft and the World Development Movement thinking and doing. For example: the diocesan churches are working towards becoming a Fair Trade diocese in our local church buying and selling policies, including using Fair Trade tea and coffee at church events. This links to our arguing, through the Manchester Centre for Public Theology and its national journal Crucible, for fair trade policies between nations. So we have strongly supported the World Trade Organisation's proposal of Special and Differential Treatment programmes to develop free but fair trade policies with particular support for the poorest nations. This has meant campaigning for the reduction of rich country tariffs and subsidies which are used to protect rich country farmers and industrial producers at the cost of reducing or even eliminating exports from poorer countries, thus holding back their development. Again, we recognise the confusion that accompanies a morally too simple commitment to fair trade, as though only richer nations abuse free and open trade at the expense of the poorer. The latter are often protectionist, and harmful of their own and everyone's well-being. Fair trade therefore reflects both the Christian commitment to free and open trade between nations and a concern to support those vulnerable people, communities and nations most damaged by such developments. This is a strong and clear recognition of the notion of a higher order of justice than that of the market. Earlier medieval Christian tradition similarly worked with notions of a just price and wage, and of a critique of usury.

2.3 God's Bias for Inclusivity: Fair churches and Communities

Differential Giving

Although in Manchester Diocese, there is often a subsidy from richer parishes to the poorer, it is recognised that these poorer parishes give disproportionately according to income. E.g. Churches in more deprived communities are more faithful contributors to the parish share. In 2001, 79.6% parishes in the most deprived wards paid in full or exceeded their annual quota. This compares with the figure for the Diocese, where 76.1% had paid in full or exceeded the quota.

The approach above links to a similar approach to local parish churches in the most marginalised communities in Greater Manchester, identified by the Government's Indices of Multiple Deprivation which target the poorest wards (adapted to parishes) in the conurbation. That is, the diocesan family of churches ensures that the weakest poorest churches receive special and differential treatment from diocesan policies and the strongest and richest churches to support their practical service in local communities (what we call more effective church in more effective communities). This is the policy of Becoming One Body, so recognising in Paul's New Testament language that our commitment to the inclusion of all in the Body of Christ as the church therefore means ensuring that the weakest, most marginalised, are able to effectively participate in the whole church. Importantly, this programme of promoting greater inclusion in church and society links with the vision of such local governments as Sheffield, with it closing the gap policies (between richest and poorest communities) and the United Nation's Development Programme's pro poor economic growth policies – all seeking to bend financial and other policies to deliver greater prosperity and human fulfilment for all people (including the marginalised) – what a recent report from the ecumenical movement of British Christian Churches has called 'Prosperity with a Purpose' , which we in Manchester are seeking to promote and develop.

2.4 Christian Involvement in Alternative Economic Models

> **Credit Union - Methodist Church**
> Credit Unions are co-operatives owned and controlled by their members to provide local, affordable financial services such as savings accounts and low cost loans. This church, located in an area of Manchester suffering from severe , deprivation offers a range of activities to serve the local community including an expansion of the local Credit Union, Wythenshawe Credit Union.

All these examples of Christian involvement in finance have strong roots in the Bible and later Christian tradition. Clearly, the commitment to a more just and efficient financial regime strongly connects finance with trade, business, and church life. Fair trade is an example of this. We have also been reminded of the long history of Christian involvement in business concerns which can stand as a critique of and alternative to mainstream free market capitalism, and particularly in Greater Manchester. For historically, the emergence of consumer and producer cooperatives was strongly rooted here, and greatly influenced local and national Christian involvement, including Christian socialism. They were deeply committed to cooperation between the working classes, because the Fatherhood of God required the brotherhood of men, and this encouraged the cooperation between brothers and the opposing of free market competition. The Cooperative Movement today, despite its major decline in Britain, now operates worldwide, and is the successor of such ethical convictions. A variety of local Christian groups in Britain still promote local cooperative or social enterprises, both producer and consumer, and now including such financial initiatives as Credit Unions. In addition, this commitment to more ethical economics is reflected in the Churches promoting ethical investments with regard to the managing of their funds and investments.

3.0 THE THEORY & PRACTICE OF ISLAMIC FINANCE

3.1 Historic Context

To understand the present context of the Islamic world and the Islamic economic system, it is useful to explore the layered and fraught histories of Muslim communities and cultures. Many Islamic nations were colonised and the Islamic socio-economic way-of-life was dismantled, disengaging Muslims from guidance provided by Islamic *Shari'ah* [1]. Islamic teaching was severely curtailed to religious education and the Islamic economic system was effectively rejected until present times.

Despite the removal of the Islamic financial system there are enough historic and religious sources to inform the contemporary revitalisation of communities with a more just socio-economic system. In recent times there has been a resurgence in the interest in Islamic Finance and globally, the Islamic Economy is estimated to be worth approximately $500 Billion[2].

However, before the details of Islamic modes of financing are discussed, it is necessary to clarify the basic principles governing Islamic Finance.

3.2 Belief In Divine Guidance

"*Have you considered what you till? Is it you yourselves who make it grow,*
or is it We who make it grow?"
The Holy Quran [56:63]

The core Islamic belief is that the universe is created and controlled by the One God. He created man and appointed him as His vicegerent on earth to fulfil certain obligations. This covenant with God governs every aspect of life. Obedience to God is required not only in worship, but also in economic activities, even though it is at the price of some benefits, because these apparent benefits may go against the collective interest of society.

These obligations are neither so exhaustive that they leave no role for human intellect to play, nor are they so ambiguous that they leave life at the whim of human perception and desire. Islam promotes a balanced approach to human life. On the one hand, it has left mankind the freedom where it can take decisions on the basis of reason. On the other hand, Islam has subjected human activities to a set of eternal principles which cannot be violated on the grounds of expediency.

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[1] *Islamic Law*
[2] BBC / Faisal Finance (the first Swiss Islamic bank)

The Islamic way of Life comprehends the reality that human reason, despite its vast capabilities, cannot claim to have unlimited power to realise all truth. There are numerous domains of human life where 'reason' is often confused with 'desires' and where unhealthy instincts, under the guise of rational arguments, misguide humanity to wrong and destructive decisions. Allah Almighty, the Creator of the universe, has provided guidance through prophetic revelations.

On the basis of this approach it is the firm belief of every Muslim that the commands given by the divine revelation to Muhammad (Peace be Upon Him), are to be followed in letter and spirit and cannot be violated or ignored on the basis of one's rational arguments or his inner desires.

3.3 Balancing Private Ownership with Society's Needs

"Seek the other world by means of what Allah has bestowed upon you,
and do not be negligent about your share in this world.
And do good as Allah has done good by you,
and do not seek to spread disorder on the earth."
The Holy Quran [28:77]

In the Islamic system balance is sought between private ownership and social responsibility. Islam seeks to ensure unbridled power is not given in making economic decisions. Muslims believe that if left unchecked, unhealthy human instincts may be exploited to make money through immoral and injurious products. Profit-seeking can create monopolies which paralyse market forces or, at least, hinder their natural operation. There are instances in the modern financial system that tweaks have been made as it is commonly agreed that exploitative economic activity is not in the interest of society, however, these tweaks are not entirely successful.

Islam recognises private ownership, profit motive and market forces, but Islam follows divine guidance on economic activities. These controls imposed by Islam cannot be removed by human authority. The prohibition of Rib'a[3], gambling[4], hoarding, dealing in unlawful goods or services, short sales and speculative transactions[5] are some examples of divine restrictions. These prohibitions

[3] Riba is the "Gain on lending" or gain on "like for like". Riba, synonymous with Interest, is considered as being absolutely forbidden in mainstream Islam.

[4]"Maisir" (Chance) Means a game of haphazard in all matters-particularly a game of chance by means of divinatory arrows. Maisir is of various categories. Some of these types of Maisir are seeking omen or fortune by divinatory arrows, chess, gambling, lottery etc.

[5]"Gharar" (Uncertainty) Technically it signifies the contract or transaction in which the object of contract or the commodity is not determined for both or either contracting party and thus the contract involves an element of risk and uncertainty. Examples are the sale of fish in the water which is uncaught or of a bird in the air or of a foetus in the womb. It is also applicable in cases where the gain of one partner in a business is guaranteed but that of the other remains uncertain. All transactions involving Gharar are unlawful in Islam.

combined together have the cumulative effect of maintaining balance, distributive justice and equality of opportunities.

3.4 Definition of Rib'a

"He who takes Usury for a loan of money acts unjustly for he sells what does not exist. It is wrong in itself to take a price (Usury) for the use of money lent"
Saint Thomas Aquinas (1274 AD)

The understanding of the term Rib'a lies at the heart of constructing an Islamic Economy. There are various Quranic quotes that mention Rib'a:

"Those who take Riba' (usury or interest) will not stand but as
stands the one whom the demon has driven crazy by his touch.
That is because they have said: 'Trading is but like Riba'.
And Allah has permitted trading, and prohibited Riba'.
So whoever receives an advice from his Lord and stops,
he is allowed what has passed, and his matter is up to Allah.
And the ones who revert back, those are the people of Fire.
There they remain for ever."
The Holy Quran [2: 275]

A key versus dealing with Rib'a is in Chapter 3, Verse 130. Here are various translations from the original Arabic:
"O believers! Do not live on usury (compound interest)
which is compounded over
and over again. Have fear of Allah so that you may prosper."
The Holy Quran [3:130]

Muslims regards Rib'a as a gain on lending and not usury so even a minute interest rate is unacceptable. Rib'a comes from an Arabic word that means to grow. In Islamic finance, Rib'a means to exchange one thing/commodity the condition preset that when it is returned the subject is increased.

For example if one borrows a tonne of rice, but a condition is made that a tonne and a half of rice must be returned then this is Rib'a. However, if a tonne of another commodity, e.g. oil were used, i.e. a tonne of oil for a tonne of rice then this is acceptable.

“And whatever Riba’ you give so that it may
increase in the wealth of the people,
it does not increase with Allah.”
The Holy Quran [30:39]

And according to Hadith sources, this is further reinforced.

"The bartering of gold for silver is Riba, (usury),
except if it is from hand to hand and equal in amount,
and wheat grain for wheat grain is usury except if it is form
hand to hand and equal in amount,
and dates for dates is usury except if it is from hand to hand
and equal in amount, and barley for barley is usury
except if it is from hand to hand and equal in amount."
Hadith: Sahih Al-Bukhari

“Allah has cursed the receiver and the giver of interest
and also the witness and the one who writes
down the transaction; they are all alike”
Tirmidhi Hadith

3.5 Spiritual Intervention Against Interest

According to Islamic thought, *money* itself has no intrinsic value, and forbids Muslims from profiting by lending it, without accepting a level of risk – in other words it is not permissible to charge interest in Islam. To make money from money is prohibited – wealth may only be generated through legitimate trade and investment. Any gain relating to this trading is shared between the person providing the capital and the person providing the expertise.

The taking of interest implies taking over somebody else's property without giving anything in exchange, because one who lends one pound and gets two back is being rewarded for an extra pound for nothing. Dependence on interest prevents people from working to earn money, since the person with the pound can earn an extra pound through interest, either in advance or at a later date, without working for it. The value of actual labour will be reduced in sight of this person and will not bother to take the trouble of running a business or risking his money in trade or industry. This will deprive people of benefits from money being invested and the reduction of employment, healthy trade and commerce which all needs capital at risk.

Interest requires the needy person to pay back more than he has borrowed thereby increasing the wealth of the rich lender and decreasing the wealth of the poor borrower. In desperate situations the lender can exploit the weakness of the poor, giving rise to feelings of envy and hatred among the poor towards the rich, and contempt and callousness among the rich toward the poor. Islam, in order to reduce the chances of exploitation, has outlawed interest from the outset.

Muslims have come to understand that Rib'a destroys the very fabric of human love, brotherhood, fellow-feeling and undermines the welfare and happiness of human society. Interest breeds meanness, selfishness, apathy and suffering of the weak. As a result the rich becomes richer and the poor becomes poorer, creating socio-economic classes in the society separated by wide gulfs.

3.6 Capital & Entrepreneur

Islam does not recognize capital and entrepreneur as two separate factors of production. Every person who contributes capital (in the form of money) to a commercial enterprise assumes the risk of loss and therefore is entitled to a proportionate share in the actual profit. In this manner capital has an intrinsic element of entrepreneurship as far as the business risk is concerned. Therefore, instead of a fixed return as interest, it derives profit. The more the profit of the business, the higher the return on capital. In this way the profits generated by the commercial activities are equitably distributed to all persons who have contributed capital to the enterprise, however little it may be. In the context of the modern practice, banks and financial institutions who provide capital to the commercial activities, out of the deposits made with them, the flow of the profits earned by society may be directed towards depositors in equitable proportions which would distribute wealth in a wider circle and hamper the concentration of wealth in the hands of the few.

3.7 Objectives of Monetary Policy in Islamic Economy

In their wealth there is a known **right** for those who ask for it and those who have need for it."

The Holy Quran (70:24-25)

There are three major objectives of monetary policy in an Islamic economy, which discards interest consistent with the Islamic ideals of social justice, equity, fairness and balance, namely:

<u>Stability in the Value of Money</u>

The stability in the value of money is accorded a high priority because of the unequivocal stress of Islam on honesty and fairness in all human dealings, and because of the negative impact of inflation on socio-economic justice and general welfare. But, rather than absolute, this objective would mean relative stability in the general price level. Absolute price stability is neither feasible nor desirable as it may conflict with the optimum growth and full employment objective of the monetary policy.

Economic Growth and Employment

While inflation is incompatible with the goals of an Islamic economy, prolonged recession and unemployment that cause human sufferings are also unacceptable. Monetary policy has, therefore, to aim at a high rate of economic growth with full employment and utilization of productive resources. However, maximization of economic growth per se and at all costs is not the objective of monetary policy in an Islamic economy. Material prosperity is to be attained within the framework of Islamic values. It should not be attained through the production of essential and morally - questionable goods and services. It should not lead to an excessive and overly-rapid use of Allah-given resources at the expense of future generations, and it should not be harmful to present or future generations by degenerating the moral and physical environment. Environmental degeneration with degradation and depletion of land, water and forest resources and serious air and water pollution are already matters of great concern around the world. Hence the concept of “sustainable development", which means meeting the needs of the present generation without compromising the needs of future generations. Economic development and sound environmental management are complementary aspects of the same agenda. Without adequate environmental protection, development will be undermined; without development, environmental protection will fail.

Distributive Justice

Monetary policy should be used actively to promote the goal of distributive justice and prevent concentration of wealth and economic power in an Islamic economy. However, too much concern with distributive justice in formulating and implementing monetary policy may adversely affect its overall efficiency and effectiveness in attaining the other goals of monetary policy. e.g. growth, employment and development. Reduction in income inequalities and necessary redistribution should be an important policy objective of an Islamic state and hence the domain, mainly, of its fiscal policy. Monetary policy can contribute to this objective.

3.8 Models of Islamic Finance

Financing in Islam is always based on liquid assets, which creates real assets and inventories. One of the most important characteristics of Islamic financing is that it is asset-backed.

The real and ideal instruments of financing in Shari'ah are *Musharakah*[6] and *Mudarabah*[7]. When a financier contributes money on the basis of these two instruments it is converted into assets having intrinsic utility. Profits are generated through the sale of these assets.

[6] *Partnership*
[7] *Profit sharing*

The other basic tools of Islamic finance are *Murabahah*[8], *Ijara*[9], *Istisana'a*[10] and *Bay' Salam*[11].

Musharakah is a partnership agreement, where all participants involved contribute towards financing the enterprise and respectively share profits according to a pre-agreed ratio. Losses however, are shared depending on the equity participation of each party. The difference between *Musharakah* arrangements and normal banking is any kind of profit sharing ratio can be set, but losses must be proportionate to the amount invested.

Ansar Housing Ltd offers a Home Finance Contract that operates on the basis of diminishing Partnership between the client and AHL. Both contribute towards the purchase price of a property selected by the client. This 'Partnership' acquires the title to the property and then rents it to the client who has the right to progressively buy AHL's entire share. On purchase of the final share, title is transferred to the client.

Until final transfer title remains with AHL, acting as the Partnership trustee. In the meantime, the Partnership's rental income is shared between the client and AHL on a pro-rata basis in accordance with the ratios of their shares. Share price is determined at the time of purchase by reference to the latest market value for the property. Capital gains and losses are apportioned according to the partnership ratios, in a way that accords closely with the opinions of the Hanafi, Shafi'i, Maliki and Hanbali schools of thought in Islam.

Mudarabah refers to an investment on the behalf of an investor by a more skilled person. It is a contract between two parties; one provides the funds and the other who provides the expertise. The division of any profits is agreed in advance. If no profit is made, the loss is borne by the customer and the bank takes no fee. This is often used for investment funds, with investors providing money to the Islamic bank, which it invests as taking a management fee.

Murabahah is a contract of sale with a special profit margin between the bank and its client. The seller purchases the goods desired by the buyer and sells them at an agreed mark-up price. The payment is settled within an agreed time frame, either in instalments or lump sum. The seller undertakes all management needed for the purchase and also bears the risk for the goods until they have been delivered to the buyer. Some Islamic banks use an agency arrangement, this is where the client acts as an agent for the bank and takes the delivery of the goods from the seller.

[8] *Cost-plus financing*
[9] *Leasing*
[10] *Commissioned manufacture*
[11] *Forward sale*

Ijara is a leasing contract whereby the bank buys the goods for a customer and then leases it back over a specific period, which is pre-agreed for a rental fee. The rental fee covers the cost of the goods and acts as a profit margin. The ownership remains with the bank, unless the agreement was the goods was to be purchased by the client at the end of the lease. The price would have been agreed upon beforehand and the rental fees already paid constitute part of the final purchasing price. In an Ijara lease, the bank is providing an asset, no capital, thus the return is in the form of rent rather than interest.

Istisana'a is a sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of Istisna' comes into existence. But it is necessary for the validity of Istisna' that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.

Lastly, ***Bay' Salam*** is a sale whereby the seller agrees to supply specific goods to a buyer at a future date in exchange of a price paid immediately.

Financing on the basis of *Salam* and *Istisna`* also creates real assets. The financier in the case of *Salam* receives real goods and can make profit by selling them in the market. In the case of *Istisana'a*, financing is effected through manufacturing real assets, as a reward of which the financier earns profit.

Financial leases and *Murabahah* are not originally modes of financing. However, in order to meet some needs they have been reshaped in a manner that they can be used as modes of financing, subject to certain conditions, in those sectors where *Musharaka*, *Mudarabah Salam* or *Istisna`* are not workable.

3.9 Practical Implications of Islamic finance

There are about two million Muslims in the United Kingdom and many want Shari'ah compliant banks and services. Islamic finance has recently moved into the mainstream. Global banks such as HSBC, Lloyds TSB, Citibank and many others are offering Shari'ah compliant services and observe the interest free Islamic models. Take HSBC for example they now offer an Islamic current accounts and mortgages. Last year Datamonitor reported: "demand for sharia-compliant mortgages was strong, and could yield up to £4.5bn in advances by 2006."

Deutsche Bank in Germany has joined forces with Ithmaar Bank of Bahrain and Abraaj Capital of Dubai to launch a £1bn Shari'ah compliant financial fund. The motive behind the fund is to boost education initiatives.

It is sometimes argued that Islamic banks and financial institutions have not brought any visible change to the economic set-up and that the claim of creating 'distributive justice' under the umbrella of Islamic banking is exaggerated.

Firstly, this criticism is unrealistic, because it does not take into account the fact that Islamic banks and financial institutions make up a very small proportion of the banking sector.
Secondly, these institutions are still in their infancy. They have to work under a large number of constraints; therefore, some of them have not been able to comply with all the requirements of Shari'ah in all their transactions.

Thirdly, governments, legal and taxation systems and the central banks of their respective countries do not normally support Islamic banks and financial institutions. Under these circumstances, they have been given certain concessions, on the grounds of need or necessity, which are not based on the original and ideal principles of Shari'ah.

Islam, being a practical way of life, has two sets of rules one based on the ideal objectives of Shari'ah, which is applicable in normal conditions, and the second based on abnormal situations. The real Islamic order is based on the former set of principles, while the latter is a concession which can be followed at times of need, but does not reflect the true picture of the real Islamic order.

Working under such constraints Islamic banks are reliant on the second set of rules, therefore, their activities bring change even in the limited circle of their operations. However, if the whole financing system were based on Islamic principles, it would have a discernible impact on the economy.

Islamic banking has grown in the recent years but only make up a small percentage of the global banking system. Further growth and development is dependent on the nature of innovations introduced in the financial market.

Islamic finance and banking provide a fairer and more ethical way to handle financial affairs, it promotes entrepreneurship and risk sharing and doesn't exploit the poor. Islamic financial systems will also enable clients to choose financial instruments that suit their business needs as well as their social values and religious beliefs.

3.10 Appendix I – Sources

Quranic Injunctions on Riba'

1. "And whatever *Riba'* you give so that it may increase in the wealth of the people, it does not increase with Allah." [30:39]

2. "those who believe do not eat up *Riba'* doubled and redoubled." [3:130]

3. "Those who take *Riba'* (usury or interest) will not stand but as stands the one whom the demon has driven crazy by his touch. That is because they have said: 'Trading is but like *Riba'*. And Allah has permitted trading, and prohibited *Riba*'. So whoever receives an advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah. And the ones who revert back, those are the people of Fire. There they remain for ever.

"Allah destroys *Riba'* and nourishes charities. And Allah does not like any sinful disbeliever. Surely those who believe and do good deeds establish *Salah* (prayer) and pay *Zakah* (charity), have their reward with their Lord, and there is no fear for them, nor shall they grieve.

"O those who believe fear Allah and give up what still remains of the *Riba'* if you are believers. But if you do not, then listen to the declaration of war from Allah and His Messenger. And if you repent, yours is your principal. Neither you wrong, nor be wronged. And if there be one misery, then deferment till ease. And if you leave it as alms is far better for you, if you really know. And be fearful of a day when you shall be returned to Allah, then everybody shall be paid, in full, what he has earned. And they shall not be wronged. [Verses 275-281]

Hadith Injunctions

"Allah has cursed the receiver and the giver of interest and also the witness and the one who writes down the transaction; they are all alike"

Tirmidhi Hadith

4.0 AN ECONOMIST'S UNDERSTANDING OF INTEREST

4.1 The Practice of Borrowing & Lending

Before attempting to assess or pass judgement on any such practice as the borrowing and lending of money at interest, one must first understand the practice. And one will not come to understand it properly if one's ideas about it are jumbled up with thoughts about other issues. Borrowing and lending does sometimes involve rich and powerful lenders and/or distressed or ill-informed borrowers; and there are such people as loan sharks. But inequalities of wealth and power, or the exploitation of someone's poverty or misunderstanding, should be discussed, and when necessary criticized, as such. These things are not necessarily involved when money is lent and borrowed and if one is to understand clearly the significance of lending and borrowing at interest one <u>must</u> first consider it when other complicating factors are absent. (Subsequently, of course, one can go on to understand lending and borrowing in the presence of those other factors; the suggestion is not that they should be forgotten, let alone denied.)

Consider then an act of lending/borrowing between two well-informed individuals, neither of them particularly rich or poor and neither of whom has any kind of power over the other. Each is perfectly free either to engage in the loan transaction or to refuse to engage in it. Although lending and borrowing normally take place in terms of money, of course, normal people are not interested in acquiring money for its own sake; it is a means for buying the things they are interested in. We therefore get a deeper insight into why people lend and borrow if we think about it first in terms of some useful commodity.

Suppose that I lend you 100 tons of rice today on condition that in one year's time you will give me 105 tons of rice (of the same quality). Why might you choose to accept this loan? It could be that, in the absence of this transaction, you would have at your disposal, say, 1000 tons of rice now and 1205 tons in one year's time. If you accept the loan you will have 1100 tons available now and 1100 tons (i.e., 1205 <u>minus</u> 105 tons) available a year hence. And it is entirely possible that you will <u>prefer</u> the time sequence (1100, 1100), in the presence of the loan, to the sequence (1000, 1205), in its absence. If so, you are made better off, in your own judgement, by borrowing from me at 5%. I have <u>not</u> gained at your expense; the transaction <u>benefits both of us</u>. I lend because I judge that it makes me better off and you borrow because you judge that it makes you better off. Neither has gained 'at the expense of' the other, for the exchange has been mutually beneficial and we are <u>both</u> made better off.

Note that the argument embodied in the above example does not assume that I am richer than you; you could be richer than I am. Nor does it depend on whether you will use the rice for consumption, for production purposes, or for both. Note also that while we have both been made better off by the loan, no-one has been harmed by it. Who will presume to tell us that in lending and borrowing we have acted unjustly?

Let us now dig a little deeper and ask why you might consider that the loan makes you better off, when you receive 100 tons but have to pay 105 tons a year later. If you use the rice in some profitable productive activity the answer may be rather obvious; you may make a net profit even after the payment of interest. Suppose then, to make the answer less obvious, that you consume all the rice. Are you paying 105 tons in return for only 100 tons of exactly the same thing? No, you are not – and if you were, you would not have taken the loan, for you are not that silly. You are paying 105 tons of rice <u>at a later date</u> for 100 tons of rice <u>at an earlier date</u> and you, like most other people, do care <u>when</u> something is available to you. In the example, you prefer to bring some of your consumption forward in time and you judge that 100 tons now is at least as valuable to you as 105 tons a year later. And indeed if you would have been prepared to borrow the 100 tons at, say, 6% or 7%, then you judge that 100 tons now is <u>more</u> valuable to you than 105 tons a year later; you have got yourself a bargain!

The fundamental, underlying mistake made by anyone who thinks that every borrower who pays interest is being unjustly treated is that they fail to grasp that people generally care about when something is available to them. It simply is not true that (otherwise identical) things are equally valuable when they are available at different dates. Failure to grasp this basic truth is the error of understanding that underpins supposedly ethical objections to the payment of interest.

We must now return to the fact that most lending and borrowing is carried out in terms of money. We shall refer below to some of the complications introduced by inflation, so let us suppose for now that the money price of rice is in fact constant over the period of the loan and that we both expected it to be so. What changes if we now express the whole example in terms of money, say £s? In substance, nothing at all. We merely have to multiply each quantity of rice mentioned above (100 tons, 105 tons, 1000 tons, etc.) by the <u>same</u> number (the price in £ per ton). The new example will differ only in the most superficial way from the original one; and the point of the example will remain the same. You will choose to borrow the money from me, at 5% interest, because in your own judgement you are made better off by doing so. Will I have gained 'at your expense'? Of course not. Will I have obtained 5% on my money loan whilst doing nothing for you? Certainly not; I have enabled you to do what you prefer to do but could not have done in the absence of the loan. I have rendered you a service.

The fundamental error made by those who suggest that anyone who lends money at interest 'gets something for nothing' is that they fail to recognize that the borrower may put a <u>higher</u> value on the commodity purchased now (with the money borrowed) than on what could have been purchased a year hence (with the money repaid including interest). Because people care when commodities are available to them, they care when money is available to them. It is a simple fallacy to assert that £1 today is identical in all respects to £1 a year hence. People value them differently. Hence to say that borrowers at interest are necessarily being cheated is not to rise to a higher ethical position; it is to fall into intellectual error.

As was noted above, if there is inflation then the relationships between real and monetary quantities become a little more complicated and this will now be considered briefly, both because it is important in itself and because it is highly relevant to a later section. Suppose first that we consider lending and borrowing in money terms with a zero nominal (i.e., money) rate of interest. I lend you £100, with which I could have bought ten meals at the current price of £10 per meal. By the time you repay me the £100, the price of a meal may have risen to £11.11, so that with the repaid money I can only buy nine meals. The nominal rate of interest may be zero but the real rate is minus 10% (ten meals have been reduced to nine). Conversely, if by the time of repayment the price of a meal has fallen to £9.09, I can the use the £100 to buy eleven meals. In this case the real rate of interest is +10% (ten meals have increased to eleven). It is thus vital to distinguish clearly between nominal, or money, rates of interest and real rates of interest, these latter being far more important for many purposes. If the nominal rate is not zero but positive, the real rate can still be negative – and will be if the rate of inflation is greater than the nominal rate of interest. The lender is then not even getting back the 'purchasing power' that was lent; people are not being serious when they assert that lenders always benefit 'at the expense of' borrowers.

To return to our main theme above, borrowing and lending at a positive real rate of interest can benefit both the lender and the borrower, whilst harming nobody. It is, when practised under the right conditions, a highly desirable practice which enables individuals to organize their consumption and investment in mutually beneficial ways. If borrowing and lending can sometimes become entangled in, for example, the exploitation of people's ignorance then it is that ignorance that needs to be eliminated, not the institution of lending and borrowing. (And similarly for any abuses of wealth and power). In and of itself, lending and borrowing at interest is desirable. It makes both parties better off than they otherwise would be.

Before turning to ask why it is that many Muslims nevertheless object to the payment of interest and advocate 'interest-free banking', it is essential to note clearly that such a stance is not 'the' Muslim view; it is merely one Muslim view, albeit currently the predominant view. The whole issue is a contested one and, as will be seen below, there are Muslims who both recognize the desirability of lending at interest and reject the common Muslim objections to it. Nothing said in the following section is in any way 'anti-Islamic'; to the contrary, everything said in the following section has been said and is being said by some Muslim authors.

4.2 Interest-free Banking

Any Muslim objecting to the payment or receipt of interest is likely to begin by suggesting that such payment or receipt is contrary to what is commanded in the Holy Qur'an. But this suggestion must be made with care. The Holy Qur'an most certainly prohibits, clearly and several times, the practice of riba. That is beyond dispute. But it does not explain what was meant by riba and from the early days this has been a problem. Caliph Umar, e.g., is said to have regretted greatly that the Prophet Muhammad died without having given an explanation. The central question for our purposes is, 'Does the ban on the practice of riba involve a prohibition of lending and borrowing at interest?' The majority interpretation has been that it does – but this interpretation has always had and still has its Muslim opponents. There is no Islamic consensus on this matter. Highly relevant here is that there was a practice according to which a debt not paid by the due date was doubled; and if not paid by the new settlement date was doubled again and so on. This draconian practice sometimes led to literal enslavement of the debtor, who was sold off in order that the lender could recoup his money. This inevitably generated enormous social bitterness and it is hardly surprising that the practice should be banned in the Holy Qur'an. If that and that alone was the intended meaning of the commandment against riba then the Holy Qur'an does not prohibit lending and borrowing at interest. Ibn Hanbal, the founder of the Hanbali school of Islamic jurisprudence, e.g., is said to have considered that 'debt doubling' (pre-Islamic riba, riba al-jahiliyyah) was the only practice certainly prohibited by the Qur'anic statements about riba and the same view is maintained by some Muslims today. (Note that the crucial verse 3.130 can be translated as, "those who believe do not eat up riba doubled and redoubled"). Neither in the past nor today has consensus ruled within the Islamic community as to whether interest as such is forbidden by the Holy Qur'an. Had there been such a consensus today it would have been impossible for the theological research institute of the Al-Azhar in Egypt, a leading centre of Sunni thought, to have ruled by an overwhelming majority, in November 2002, that fixed interest rate lending is permissible. That ruling has been strongly contested, of course, but the point remains. There is not an Islamic consensus about the propriety or impropriety of lending and borrowing at interest. At the root of this lack of consensus lies the fact that the Holy Qur'an does not clearly prohibit interest, it only clearly prohibits riba – and it is a merely human interpretation that this involves a ban on interest rather than simply a ban on 'debt doubling'.

Islamic tradition shows ample respect for the role of reasoning and of rational thought and some Muslims oppose interest not only on (disputable and disputed) scriptural grounds but also by means of argument. Unfortunately, the arguments commonly given are, as is pointed out by other Muslims, unimpressive. Thus it is asserted that lending and borrowing at interest must destroy brotherhood and friendship – but while that might well be true of 'debt-doubling', it is manifestly false – empirically false – of lending and borrowing, at relatively low real rates of interest, via 'the Halifax' for example. The assertion is simply untrue. It is also commonly said that the possibility of lending at interest must destroy the incentive to work – but this too is manifestly false empirically. Whilst there are a few people who live off interest and do no work, it is a simple fact that millions and millions of people both lend to ‘the Halifax’ and rely on work for most of their income. Again, it is repeatedly stated, or taken for granted, that lenders are always rich and borrowers poor and that the existence of interest increases inequality. Yet it is an elementary empirical fact in the UK (and other countries) that many millions of savers/lenders are <u>not</u> rich people but better paid manual workers or office workers who lend small amounts to ‘the Halifax’. Borrowers from ‘the Halifax’, however, will sometimes be rich people so that, indirectly, the poorer are lending to the richer. Thus not one of these three supposed arguments against lending at interest carries any weight at all; as various Muslim authors have pointed out very clearly.

Suppose nonetheless that the scriptural ban on <u>riba</u> is taken (questionably) to involve a ban on interest receiving or paying. Is everything then simple and clearcut? It is not, for it must now be decided whether it is the nominal rate of interest or the real rate of interest that must be zero. As noted above, whenever there is inflation, or indeed deflation, of the money prices of commodities, a zero money rate of interest <u>ensures</u> a non-zero real rate of interest. Which is more important, the money rate or the real rate? This is not merely a technical nicety; it both affects everyday life and creates a genuine difficulty for any Muslim who opposes interest. For it is always said that the Holy Qur’an must be obeyed both in the letter and in the spirit. Now the spirit of the commandment concerning <u>riba</u> is clearly that justice is to be pursued in economic relations. If the letter of the commandment is taken to mean – as it so often is – that a money loan is to be repaid exactly in money terms then, in the presence of inflation, obeying the letter will violate the spirit of the commandment. For the borrower fails to restore to the lender the real purchasing power relinquished by the lender when the loan was made – and that is unjust to the lender. Conversely, if the lender’s real purchasing power <u>is</u> to be returned then, in money terms, that can only be done by returning more money than was borrowed, i.e., by paying a positive money rate of interest. One <u>cannot</u> obey both the letter and the spirit; at best, one can only obey one or the other. In fact, it has often been ruled that the letter must be obeyed and the ‘indexation’ of loans has been judged unacceptable, thus inflicting injustice on lenders in inflationary situations. (This has not always prevented supposedly Islamic financial institutions from practising indexation when it suited them to do so.) All of this has, of course, been observed by Muslim authors.

Islam, it is important to note clearly, is not hostile to business, to enterprise, or to the financing of business; the objection of (conventional) Muslim thought is to the loan financing (fixed interest rate financing) of business. There is no objection to forms of finance in which the lender and the borrower share the risks of profit and of loss. By contrast, loan financing is said to be wrong because it places all the risk on the borrower. Even if one sets aside the fact that lenders can, of course, become the creditors of a bankrupt enterprise, it is not obvious why risk sharing is thought to be ethically superior. The business borrower may well be better informed about the business and its risks than are potential providers of finance, may have greater resources than some of them at least, and may be less afraid of taking risks than some of them. Why should would-be lenders and borrowers not be able to make various kinds of agreement amongst themselves, so as to match up their different, varied degrees of knowledge and readiness to take risks? Is it not unfair to those Muslims who would like to lend to business but who are risk-averse and not well-informed about business opportunities that they are currently told not to make fixed interest loans to firms? (These questions are naturally familiar to some Muslim commentators.)

The 'theory' of the opposition to interest is, then, both scripturally suspect and weak in reasoned support; which is why some Muslims reject that opposition. Is the 'practice' of interest-free banking nevertheless more impressive? The articles, websites and books of Muslim authors provide plenty of evidence that the answer is negative – the practice is as disappointing as the theory. Whilst the theory advocates Profit-and-Loss-Sharing as the basis of business financing, Islamic financial institutions have largely abandoned their PLS facilities. Major banks, e.g., the Islamic Development Bank, are said to put enormous amounts of money into fixed interest deposit accounts with other (including Western) banks. In practice, a major activity of Islamic banks is now murabaha financing, which is not fully Shari'a compliant. Moreover, when it is examined in detail how such financing is actually operated, it is found that very often it differs from straightforward loan financing at fixed interest only by verbal subterfuge that creates an 'Islamic' façade. (The claim that the façade is maintained only via hiyal, or legal stratagem, is a claim found in Muslim sources – as is the charge that such verbal subterfuge does not respect the Islamic demand for truthfulness and honesty.) A number of Western commercial banks have recently begun to operate 'Islamic windows'. In the judgement of some Muslim observers, this is because such banks have realised that they can thereby tap a large new market whilst making no significant changes to their conventional banking practices.

It perhaps bears repetition that nothing said here about either the theory or the practice of interest-free banking is 'anti-Islamic'; everything said here has been said by Muslim authors.

4.3 On the Christian View

1) It can be perfectly proper to write of 'the oppressive power of debt.' But if we are to inform and not persuade, we must not appear to deny the potentially creative power of credit. If the loans made to many developing countries had been properly used they would have led to the generation of more income than that needed merely to service the debt; they would thus have benefited the people, not harmed them. And who was responsible for the failure of the loans to do that? Seldom the lenders. Often the corrupt and criminal 'leaders' of the countries in

question. It would be disingenuous to imply that private, commercial lending institutions usually bear the major moral responsibility for indebtedness.

2) It is hardly self-evident that poor country debt relief will greatly benefit the people. It could simply make life easier for criminals as they add <u>further</u> billions to their Swiss bank accounts and/or increase their arms purchases. (We may hope that the poor will benefit – and attempts may be made to check abuses – but that is no reason to assert that the poor will obviously be made better off.)

3) The term ‘fair trade’ crops up all over the place but clear definition of what it means is harder to come by. To refer, for example, to fair prices for goods which should be efficiently produced, simply replaces the question 'What is meant by fair trade?' by the two questions, 'What is meant by fair price?' and 'what is the criterion for assessing efficiency in production?' Seductive slogans do not constitute a firm foundation for responsible policy making.

5.0 CONCLUSIONS

5.1 What Christians and Muslims and Economists Share, How they Differ and What they can do Together

In terms of faith-based involvements in society, Christians and Muslims share much, particularly:

- the centrality of faith traditions and faith communities (centred on Mosque and Church)
- a profound commitment to sacred writings (the Scriptures and the Qur'an) as foundational sources for guidance in individual and corporate life.
- the resultant primary commitment to the worship of God, and to the service of God through caring for our neighbour.
- the resultant centrality of ethics in these faith responses, especially focussed on justice particularly for the poor, and relating to the whole of life, including public life, and therefore including economic life.

Interestingly, there is a growing recognition, particularly by national, regional and local government, of the importance of faith-based economic initiatives. This is evidenced in, for example, the two reports: Faith in England's Northwest: The contribution made by faith communities to civil society in the region (2003), and Faith in England's Northwest: Economic Impact Assessment (2005). This Statement on finance is likewise a contribution to this growing body of evidence of faith-based involvements in society.

5.1 Convergencies and Divergencies

Whether we looked to wider societal debates, or to local involvements, we often found a connection between Islam and Christianity but also differences, as we did with economists.

At the more macro national level, for example, there emerged a basic level of substantial agreement between Muslim and Christian mainstreams. Most mainstream Christian opinion would support the strongly ethical and balanced argument in the Muslim statement for 'stability of money, economic growth and employment, and distributive justice' – essentially a strong social market (capitalist) economy, but informed by equally strong commitments to social justice. Although such balanced ethical judgements are shared with some non-religious concerned people, in our case they result from taking major insights of a religious tradition, including for Muslim and Christian traditions, the sovereignity of God over all human affairs and the resultant commitment to justice and stewardship. These are then related to key economic concerns like monetary, employment and distribution policies. At this point, there is much agreement between mainstream Muslim and Christian opinion. Differences between them emerge over other issues like interest. Christians continue to develop

Christian beliefs and economic affairs, in conversation with mainstream economists. They therefore, accept the function of interest in a modern economy, but subject to strong ethical constraints to protect people in general, and the poor in particular, from very excessive interest rates. It reflects, essentially, the <u>development</u> of Christian tradition in response to questions raised by the greatly changing contexts since the sixteenth and seventeenth centuries. The questions raised by economists over interest, including in our Statement, therefore remain ‘on the table’ for engagement by Muslims as part of an agenda for the development of Islamic traditions in relation to economic life (an issue of developing tradition *ijtihad*, making judgements on tradition based on rational thinking).

At the more <u>micro level</u>, where most Christian and Muslim finance projects are often located, we focussed on how the two faiths are trying to make finance available for those living in the more deprived communities of Greater Manchester. Again, there are very clear differences between them, faith-related, yet also strong shared faith and practical convictions.

5.2 The Christian Tradition’s Journey to Credit Unions: Convergencies and Divergencies, but Some Sharing with Muslims in Conclusions.

Essentially this journey moves:

- from the Biblical to the medieval tradition of the condemnation of usury.
- to the qualified acceptance of a <u>modest</u> rate of interest by the Reformed tradition in the sixteenth and seventeenth centuries. This rate was often enshrined in legislation. This change in Church policy and theology related to the Christian engagement with the new commercial forces, but was also concerned to protect the poor from exploitative rates of interest. These were roundly condemned.
- to today’s credit unions, often linked to local churches and Christians: these make finance available to the poor, who have no assets to support normal credit access; they require membership of a credit union, (a membership drawing from a common bond provided by a place of employment or other forms of association, or a neighbourhood) and modest saving in it – essentially promoting mutual self-help (unlike the Ansar example below, poor members retain their contributions). A very <u>modest</u> rate of interest is accepted.

5.3 Muslim Tradition: the Growth of Interest-Free Financing as Part of the Contemporary Resurgence of Islam.

This contemporary faith journey includes the following features:

- mainstream Muslim opinion is based on the unequivocal condemnation of interest. The 'exceptional circumstances' argument of Islam would not accept routine participation in credit unions by the poor as legitimate.
- Traditional Muslim interest free banking is unlikely to assist the poor because they have no assets/security.
- The poor are supported through zakat (financial tithe on those with resources, for distribution to the poor). Yet this could come under the criticism, directed also at Christian charity, that the poor require justice not charity, they need empowering out of dependency.
- Importantly, there is a system, Ansar Personal Loans Ltd (APL) which provides an Islamic alternative to Credit Unions:
  - APL is a registered, not-for-profit company, a subsidiary of ANSAR
  - members pay a minimum of £10 per month, which is non-refundable
  - membership requires no assets/security, which is vital for the poor
  - after one year, members can borrow up to £2,000, interest free
  - Repayment of the loan: a minimum of £100 per month, reduced in the light of such special circumstances as illness or unemployment)

5.4 Economist's View

He noted:

- the economist's acceptance of a positive real interest rate for the poor: for example if the lending arrangement is between poor people, equally well informed, then such an arrangement is not inherently unfair or unjust. Both borrowers and lenders can benefit from loans at interest.
- an economist's questioning of interpretations of ribah: whilst Muslim mainstream opinion condemns all interest, some commentators, including some Muslim economists, argue that the condemnation of ribah refers to excessive, exploitative (of the poor) interest. (Indeed, some doubt whether the bar on ribah refers to interest at all as opposed to debt-doubling on non-repayment). This could justify some Muslim recognition of credit unions and their modest fixed rate of interest.

5.5 What Christians and Muslims can do Together

Christians and Muslims can and should work together to strengthen the ethical voice in the vigorous policy debates bearing on poverty and development. They should always recognise that members of faith communities can hold different opinions on such matters, yet they should always seek to gain the respect of those from whom they differ.

They can and should therefore contribute to the major discussions over the conditions for debt relief, including good governance, and over fair trade and especially the obligations it places on richer nations to reduce their protectionist policies. They can play a valuable role, too, in working out the ethics and practicalities of directing more aid through NGOs, including faith-based ones, as well as through state organisations. They can also encourage the development of ethical investment to promote a more just society and world, certainly by faith communities, but also by other financial distributions to which they relate. In this connection, there is the major development of Muslim interest free financial instruments which also offer opportunities for involvement by Christians, members of other faiths, and secular members of society.

5.6 To summarise, we encourage Muslims and Christians:

- to add their considered and considerable weight to campaigns for the debt relief of the world's poorest nations.
- including by encouraging the development of good governance in the poorer developing economies, including drives to reduce corruption.
- to promote fair trade in the world by encouraging our government to campaign for the removal of trade protectionism by rich nations, but also by encouraging churches, mosques and families to use such Fair Trade products as coffee and tea.
- to examine further the possibilities of redistributing income from the richer to the poorer faith communities, as churches and mosques.
- to communicate to Churches and Christians, particularly in more deprived communities, the availability to non-Muslims of interest-free Islamic financial instruments:
  these include for house purchase
  - Islamic Bank
  - HSBC's Amanah Home Finance
  - Ansar Housing Ltd
- and for personal loans: Ansar Personal Loans Ltd.

6.0 Epilogue

Behind this Statement are nearly two years of careful conversations between some Christians and Muslims in the Greater Manchester area. Its foundation was a growing friendship and respect for each other. It has required much listening and learning from each other about our different faith traditions, including how we engage with those financial affairs which so shape all our lives in an increasingly globalised world. In this journey of discovery, we have certainly learned how we differ in some important matters, but we have also discovered how much we share. As the last section of the Statement has elaborated, this sharing is summarised as what Christians and Muslims can do together to promote a better society and world. In a world deeply divided by inequalities, ideologies and faiths, we most strongly believe that our journey together has been both of great value in its own right – we have all gained much as participants – but also maybe as a real symbol of the value of faith from which others may draw inspiration and guidance. Indeed, our hope is that faith communities, including Jewish, Hindu, Sikh, Buddhist and Confucian, will make their own distinctive and rich contributions to this search for more faithful economics and finance. Maybe an enlarged Statement could result. We are therefore very committed to taking our work together further forward, including also with communities, government and business. Our Statement is as modest and as bold as that. But working together for the common good of all is always like that.

This statement was initiated as a project of the Manchester Centre for Public Theology, a constituent Part of the Manchester Research Institute for Religion & Civil Society