

## **New Frontiers of Islamic Banking in the 21<sup>st</sup> Century with Special Reference to Informal and Voluntary Sector Banking**

**M. A. Mannan\***

### **ABSTRACT**

This paper seeks to develop an understanding of as well as unfold some key issues involved in exploring the new frontiers of the Islamic banking paradigm in the 21<sup>st</sup> century, at both theoretical and operational levels, with special reference to informal and voluntary sector banking. In this context, it is relevant to provide a historical overview of the rediscovery of Islam in the contemporary period. As a case study, the operational thrust of the Social Investment Bank, a 21<sup>st</sup> century participatory three-sector banking model established on November 22, 1995 in Dhaka, Bangladesh, is reviewed to provide an empirical basis for an in-depth understanding of this alternative paradigm of Islamic banking. At the end, an Agenda for Action for Islamic banks, for at least the first quarter of the 21<sup>st</sup> century, is offered.

### **I. STATEMENT OF THE PROBLEM, HYPOTHESES, AND OBJECTIVES<sup>1</sup>**

Islamic banking and finance in the 21<sup>st</sup> century needs “discontinuous leaps”—changes in paradigm to clear the backlog of history. A paradigm that refers to a given set of premises, views, conventions, and beliefs will have to change to meet the requirements of new social puzzles and economic realities.<sup>1</sup> The serious theoretical works of Islamic economics, banking, and finance during the last forty years, the establishment of the Islamic Development Bank (IDB), and the number of Islamic banks and investment companies with interlocking relationships in both Muslim and non-Muslim countries in the last thirty years indeed constitute one of the major historic developments of our time. It is felt, however, that there is a profound and disturbing gap between this theory and the practice of Islamic banks on the ground, particularly when the intended object of Islamic reform is the feudal capitalist system found in many Muslim countries today. A thorough restructuring of the educational system through curricular change is needed as a long-term solution to this problem. In the mean time, humble attempts are being made to provide an example in social behavior on a voluntary basis and on both individual and community levels.

There is, however, a clear need for banks to perform a historical role in refurbishing the pattern, direction, and strategy of existing banking principles, policies and practices that are based largely on a neo-classical Western worldview. As a result, the Islamic corporate formal sector banking is perhaps gradually losing its distinctive character. It appears that it is getting submerged in the wave of the market economy. There is indeed a risk of destroying its distinctive character by marginalizing its social and ethical ingredients. This is not to suggest that the market mechanism is not acceptable in Islamic economics, banking, and finance.

Moreover, it is to be recognized that there is hardly any work done to understand the dynamics of Islamic non-corporate informal and semi formal finance and the role of social capital in developing Muslim countries. It can transfer power to the powerless. Recent studies showed that the non-corporate sector accounts for 30% to 70% of the labor force in some developing countries. Practically no attempt has been made so far to monetize Islamic voluntary sector banking and the consequent securitization of its capital market. We need Islamic banking for all by all. Informal and voluntary sector banking can help the mobilization and capitalization of social savings and investments, reinforce the basic values and ethics of a society, and stimulate civil society. Social capital is perpetual in nature indeed.

It is therefore felt that Islamic banking in the 21<sup>st</sup> century will face considerable challenges but can create great opportunities as well for both Muslim and non-Muslim countries if and only if it works to develop a participatory economy beyond the market. It needs to arrest the present trend toward the globalization of poverty coupled with rising corporate power, pervasive corruption, secularization, and the concentration of ownership and beneficiaries of Islamic banking and finance. It needs to redefine the role of Islamic formal corporate finance and rediscover the role of informal and semiformal finance through developing tailor-made credit packages for the empowerment of families of both the rich and the poor at the grass-root level. In sum, it needs to help the

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\* Mannan is Founder and Chairman of Social Investment Bank Ltd. in Dhaka, Bangladesh.

development of voluntary sector social banking for the mobilization and capitalization of social savings and investments.

At this stage, it is desirable to shed some light on the underlying assumptions on which this paper is based.

## II. SEVEN KEY CONCEPTUAL AND OPERATIONAL ASSUMPTIONS

### 1. Beyond Common Ideas: The Distinctiveness of the Islamic Response to the Economic Problem

This study is based on the fundamental assumptions that there are Islamic responses to socioeconomic problems and that the underlying assumptions on which the neo-classical or Marxist-radical paradigms are based are either inappropriate, inadequate, or incapable of explaining the Islamic concern in socioeconomic matters.<sup>2</sup> The fact is that in every system of thought, there are some assumptions and ideas in common with other systems of thought. It is through emphasis, de-emphasis, or rejection that an identity is established. Therefore, Islamic economics, banking, and finance will have its own hypothesis. In the course of scientific investigation, it may reject, accept, modify, or alter them irrespective of social and economic systems.

### 2. Beyond Positive Economics

The study of Islamic economic behavior as a distinct branch of knowledge owes its origin to the very ideology of Islam derived directly or indirectly not only from the Qur'an, *Hadith*, (sayings of the Prophet Muhammad (PBUH)) and *Sunna* (traditions of the Prophet), but also from *ijma'* (consensus based on agreed practice), *qiyas* (analogy), and *ijtihad* (fresh thinking) as sources of Islamic law. To Muslims, the Qur'an is "revealed knowledge"; it is given. While this "revealed knowledge" is beyond the scope of positive economics, acquired knowledge may be subject to test and critique.<sup>3</sup> This view of "Islamic man" is indispensable for the functioning of Islamic economics, banking, and finance within the framework of human situations at an earthly macro level and for a dual notion of accountability (i.e. life on earth and life hereafter) on the spiritual level.

### 3. Beyond the Market

The free market mechanism based on effective demand is linked to the affluent, making resources available to those who can buy them and not necessarily to those who need them. The market is moreover either inefficient, ineffective, or indifferent in providing for all aspects of basic needs with which the Islamic market is concerned. Thus neither perfect competition nor perfect cooperation models meet the goals of an Islamic economy. An optimal mix of "supervised" competition, induced and voluntary cooperation, and critical control may provide a better basis for Islamic economic analysis. There is in fact no rule for the optimal mix or tradeoff between the three C's (i.e., Cooperation, Competition, and Control).<sup>4</sup> This paper presupposes the existence of a vast non-corporate and voluntary sector in most of the Muslim states beyond market.

### 4. Beyond Corporate Power: Empowering the Powerless

The paper also presupposes the existence of corporate power. Despite their ostensible support for open economic competition, multinationals use elaborate strategies to retain their preeminent economic positions. They tend to obstruct the entry of the poor and inexperienced coming from nations having little or no link with this global elite and access to global finance. Most of all, they benefit from their participation in the global corporate elite and its networks of mutual obligation. Islamic finance and credit should transfer power to the powerless, cover those who remained uncovered.

### 5. Beyond the Integration of Distributive Considerations

The key thrust of economic development in Islam lies not in the integration of development and social justice via distribution, nor in viewing development with social justice as an adjustment, but in treating distributive considerations as the fundamental basis for the allocation of resources—both human and non-human—and their use and maintenance.<sup>5</sup> This emphasis is crucial to understanding the Islamic concept of banking, finance, and development.

### 6. Beyond the Replacement of Interest

The mere replacement of interest by profit sharing may not initiate the process of authentic Islamic banking and development in the 21<sup>st</sup> century. On the contrary, there is a real danger that the replacement of interest by the profit-sharing system may actually increase the level of economic exploitation of the poor by the rich. At the heart of Islamic banking, finance, and development lies a change in attitude from individualistic behavior in economic

transactions to an Islamic egalitarian group notion, reflected in the basic consumption behavior, production priorities, and distribution strategies.

### **7. Beyond the Form of Islamic Financial Modes**

The paper presupposes that it is not the form but the content and substance of all Islamic financial technique and contracts that matter most. All the modes of Islamic financing as practiced by Islamic banks should exhibit the interconnectedness of economic, social and ethical dimensions at their operational level. The crucial distinctiveness of Islamic banks' operations should lie not only in integrating economic, social, and moral dimensions in every transaction, but also in controlling their results and managing and directing their consequence to achieve their desired economic justice.

The above-mentioned seven crucial assumptions are not exhaustive, yet they can provide a framework for developing an understanding of Islamic economics, banking, and finance for the years to come. In addition, an in-depth understanding of the context and social setting for the operation of Islam and Islamic banking in the 21<sup>st</sup> century requires cognizance of rising expectations and the signs of a revival of the Muslim world.

## **III. REDISCOVERY OF ISLAM IN THE CONTEMPORARY PERIOD**

The rising expectations and signs of revival of the Muslim world should be studied objectively with reference to at least five basic historical facts: (a) the ideal Islamic system as developed in the early Islamic period; (b) the legacy of Islamic civilization; (c) historical decline and successive stages of several centuries of colonization of the vital areas of the Muslim world, resulting in the progressive neglect of the role of *ijtihad* (i.e., fresh thinking), an increasing susceptibility to juristic hairsplitting and legal frictions, and disregard for the life-giving spirit of Islamic socioeconomic values during this period; (d) the preservation of basic Islamic values and institutions at the grassroots level of Muslim societies and the emergence (return) of most Muslim states and institutions in recent times.

Without going into a detailed analysis of each of the five factors, it can be said in the first instance that any study of contemporary Muslim societies must be made with reference to the ideal Islamic economic and political system. This system was established under the guidance and leadership of Prophet Muhammad (PBUH) in Madinah in the early seventh century, and was then successfully developed and consolidated by the early Caliphs and Muslims rulers. This was also when cultures and backgrounds as different as Byzantine empire, Persian empire, North Africa, Central Asia, India, and Spain all entered the fold of Islamic empire, and the people of these different regions lived in relative peace and harmony.

Second, this consolidation of political authority laid the solid foundation of Islamic civilization and culture, the legacy of which may be viewed as a part of the common heritage of mankind. Some of the socioeconomic innovations and inventions from this legacy include:

1. Muslim traders' contributions to the development of international trade and commerce through the introduction of a host of goods and services to Europe such as sugarcane, oranges, cotton, rice, lemons, watermelons, apricots, peaches, and cucumbers, as well as irrigation in agriculture over a thousand years ago;
2. the evolution and introduction of custom duties and tolls in the seventh century during commerce with neighboring countries;
3. the evolution of banking in Baghdad in the middle of eighth century (and for the first time in history), allowing a merchant to write a check in one part of the Islamic world and having it cashed in a distant place;
4. the setting up of professionals and trade guides in various parts of the Islamic world to promote the specialization of skills;
5. the minting of coins (i.e. gold *dinar* and silver *dirham*) for facilitating the exchange of goods and services;
6. a network of roads, canals, and shipping in the open sea through the use of the compass;
7. the introduction of postal services in the mid-7<sup>th</sup> century, similar to the Pony Express used in the United States nearly 1200 years later;
8. the introduction of Arabic numerals (i.e., 1,2,3) to replace Roman numerals; and
9. Muslim doctors' use of herbs and plants to treat diseases and to help understand wide range of contagious and non-contagious diseases (as well as introducing five volumes of Ibn Sina to medical students in Europe, who used these as their text-books for over 500 years).

Furthermore, although the fundamental principles of Islamic economics and consequent Muslim economic behavior owe their origin to the ethical and the moral foundation of the Qur'an and the *Sunna*, the interpretation and reinterpretation of these principles by a number of Islamic scholars from the very beginning of Islam provides the operational basis of Islamic economics, banking, and finance. Muslim scholars such as Abu Yusuf (731-798), Yahya Ibn Adam (d. 818), al-Hariri (1054-1122), Tusi (1201-1274), Ibn Taymiyyah (1262-1328), Ibn Khaldun (1332-1406), Shah Waliullah (1702-1763), not to mention Abu Darr Ghifari (d. 654), Ibn Hazm (d. 1064), al-Ghazzali (1059-111), Farabi (d. 950), and many others contributed to the development of the science of economics. These Muslim scholars in general and Ibn Khaldun in particular can be regarded as precursors to mercantilists, physiocrats and classical (e.g. Adam Smith, Ricardo, Malthus) and neoclassical writers (e.g. Keynes) of modern economics. Their work governed a variety of subjects such as value, the division of labor, the price system and concept of "fair price," the forces of demand and supply, consumption and production, population growth, government expenditure and taxation, the role of the state, trade cycles, monopoly, price control, and household income and expenditure. These economic ideas have direct implications for contemporary Muslim society.

The fact is that this momentum of Islamic social and economic ethics and their creative values of new ideas, technology and institutions with the ability to alter the "status quo" received a serious setback with successive stages of several centuries of colonization and the cultural domination of vital areas of the Muslim world. Despite the fact that Muslim themselves must share their part of the responsibility for the loss of this Islamic momentum, the process of colonization indeed contributed to a great extent to bring about the de-Islamization of contemporary Muslim societies to varying degrees.

Nevertheless, the basic Islamic values and injunctions on economic behavior (i.e., payment of *zakat*), establishment of *awqaf*, granting benevolent loans without interest, implementation of the Islamic law of inheritance to ensure the equitable distribution of wealth, internalization of socioeconomic values arising out of Quranic verses emphasizing God's sovereignty over all the resources between heaven and earth, and many other popular phrases relating to socioeconomic issues) continued to guide succeeding Muslim generations, particularly at the grassroots level of Muslim societies. This aspect of the internalization of Islamic values among the masses of Muslim societies today needs to be understood for obtaining insights toward the sustainable development of Islamic banking and finance in the 21<sup>st</sup> century.

Lastly, events and trends such as the establishment of the Organization of Islamic Conference (OIC) with fifty-three Muslim states, the consequent establishment of IDB in which fifty-one Muslim countries are now members, the growing links of Muslim majority Central Asian Republics with the OIC, IDB and neighboring Islamic countries coupled with the resurgence of Islam there, the setting up of a number of local Islamic banks since the seventies with the objective of conducting their activities in conformity with the principles of Islamic values, the setting up of Islamic Chambers of Commerce, the creation of an Islamic Solidarity Fund of the OIC and the call for the establishment of an Islamic Common Market, Islamic Monetary System, and Islamic Dinar, etc., all confirm the hypothesis that a serious process of revival and rediscovering of Islamic has begun. It does not, however, follow that all contemporary Muslim countries or societies today are necessarily Islamic in the actual operation of their economies.

In this context, it must be recognized that the motivational properties of the economic premises of Islamic economics tend to be significantly different from either a market or command economy. As such, the common tools of economic analysis such as scarcity, choice, opportunity cost, marginal efficiency of capital, discount rate, profit, rent, wages, and a host of other concepts will have uncommon meanings in Islamic economics, banking, and finance. It is therefore extremely important to develop an understanding of the depth of the ethical and moral foundation to the economic premises of Islam today at the grassroots level. We must also understand the structure of vested interests of a group of local people who are foreigners in their own countries, linked to the global elite and its network of mutual obligations. It is equally important to take advantage of the revolution in information technology and to seize this great opportunity to initiate unprecedented forces of economic cooperation for sustainable economic development and social peace in the 21<sup>st</sup> century, given the relative advantage of Western knowledge and know-how in science and technology along with the strategic significance of the vast human and non-human resources in most contemporary Muslim societies. Any misstep will lead to a historic distortion of priorities and a misallocation of resources. This is what we should together try to avoid for a better and caring society. Understanding real people and putting real masses of people to work in a socially and culturally acceptable environment is the critical need of our time. This significant aspect of a *participatory economy* calls for urgent attention. This is where the roles of Islamic banking in general and the Social Investment Bank<sup>6</sup> in particular assume special significance.

#### **IV. DILEMMA OF ISLAMIC BANKING IN THE CORPORATE SECTOR: AN OVERVIEW**

Before discussing of the key issues involved in the operation of informal banking in non-corporate finance and voluntary sector banking in the mobilization of social savings and investments, it is desirable to shed some light on the operation of Islamic banks in the corporate sector in the contemporary period. As indicated earlier, the establishment of IDB and a number of local Islamic banks and investment companies help constitute a major historical development of the last quarter of 20<sup>th</sup> century. Even if their point of contact has been the feudal capitalist system found in many Muslim countries, the impact of these Islamic banks has been felt in Muslim as well as several Western countries. A number of Western conventional banks, including some multinational giants such as the World Bank and IMF, have taken serious note of Islamic financing techniques and gathered considerable experience in this area.

The comparative advantage of conventional Western Banks over Islamic banks in terms of their systems, management experience, and techniques of product innovation are expected to bring competition, resulting in the sharpening of the techniques and procedures of Islamic banking modes. In the process, profitability rather than profit constraint is gaining dominance in Islamic banks' operations. The Western conventional banks that have Islamic windows lack an understanding of the ethical and moral foundation of Islamic finance. The Islamic banks in the corporate sector are running the risk of being submerged in the wave of market economy and marginalizing the social and ethical elements of Islamic finance.

While this point of convergence may bring efficiency to their operations, it is expected to bring at least five dilemmas for Islamic banks in the corporate sector:

1. an increasing concentration of ownership and beneficiaries of Islamic banking and finance having links to the global elite and its network of reciprocal obligations;
2. the crucial neglect of the vast masses of people in Muslim countries incapable of entering the market;
3. an increasing trend toward the secularization of Islamic economics, banking, and finance;
4. the marginalization of the social, ethical, and moral ingredients of Islamic modes of financing; and
5. a developing barrier to the growth of perpetual social capital, which expresses the shared values of a society, reinforces them, and stimulates the growth of a caring society.

Each of the above five hypotheses is a good subject for empirical studies. It is worth discussing in some detail the frontiers of both informal and voluntary banking, which can complement existing Islamic banks and help solve some of the dilemmas for Islamic banks in the corporate sector.

#### **V. THE FRONTIERS OF ISLAMIC INFORMAL BANKING**

Generally, informal banking deals with informal finance in the non-corporate sector. The popular view of informal sector activities is that they are primarily those of petty traders, street hawkers, and shoeshine boys, and confined to employment on the periphery of main urban areas. On the contrary, informal activities are characterized by:

1. ease of entry;
2. reliance on indigenous resources;
3. family ownership of enterprises;
4. small scale of operation;
5. labor-intensive and adapted technology;
6. skills acquired outside the formal school system; and
7. unregulated and competitive markets.

An important characteristic of the formal sector is its relationship to government. Economic activities that are formally and officially recognized obtain the benefit of access to credit, foreign exchange concessions, work permits, and a formidable list of benefits that reduce the cost of capital in relation to that of labor. Partly because of its privileged access to resources, the formal sector is characterized by large enterprise sophisticated technology, high wage rates, high average profits, and foreign ownership.

The informal sector, on the other hand, is sometimes ignored, in some respects helped, and in others harassed by the authorities. Enterprises and individuals within it have no access to formal credit institutions. The evidence suggests that the bulk of employment in the informal sector is economically efficient and profitable,

though small in scale. This non-corporate sector, which covers small scale producers and enterprise traders, small farmers, and low and middle income groups, accounts for 30-70% of the labor force in some developing countries.

Changing the focus from top income groups to the working poor would result in new types of labor-intensive investments in both urban and rural areas. This should not only generate demand for the products of the informal sector but also encourage innovations in labor-intensive techniques in this sector. This is where Islamic banks must make conscious and planned intervention. The difference of wealth and income between urban and rural areas draws migrants toward urban concentrations but not to the spread of wealth.

A small farmer or entrepreneur having no access to an institutionalized source of credit establishes semi-permanent relations with suppliers and buyers, frequently at the expense of his profit. He becomes hesitant to innovate, particularly in agriculture, for he cannot afford failure. These characteristic behavioral responses are not inherent in the informal sector but adaptive responses to low income.

In this context, it becomes imperative for the Islamic bank to work in the non-corporate sector. There are number of approaches which have been tried elsewhere and can be adopted or adapted by Islamic banks. Two that will be discussed here are group lending schemes and rotating saving and credit associations.

### A. Group Lending Schemes

Group lending is one of the most popular forms of informal finance. The funds for group lending schemes can come from a commercial bank, a government development bank, or private institutions. The role of the group varies. The idea behind these schemes is that by joining together, small borrowers can reduce the costs of borrowing and improve their access to credit. The two most common means of providing group accountability are (a) joint and several liability and (b) limited liability.

Experience indicates that successful family empowerment credit programs or group lending schemes under the informal banking of Social Investment Bank Ltd. (SIBL, or the Bank) work well with groups that are homogeneous and jointly liable for defaults. The practice of denying credit to all group members in case of default is found to be the most effective and least costly way of enforcing joint liability. Group lending arrangements *without* collateral are less subject to the dangers of portfolio concentration because bank is diversifying its lending by serving a varied clientele in different areas under its family empowerment credit arrangement.

The Bank is also ensuring the joint liability of wife and husband in the case of lending to family or groups of families. This will humanize families and discourage internal immigration. Any attempt to decompose families through various credit and financing schemes is in its ultimate analysis bound to generate forces of family disintegration, internal migration, child delinquency, social alienation and social conflict. Any credit program that does not manage its socioeconomic consequences can not alleviate poverty.

The Bank has already introduced Rotating Family Savings, Credit Net and Group Installment Credit Scheme for any group of individuals. In light of this experience, SIBL is in the process of developing programs to assist agriculture cooperatives in providing tailor-made credit package to achieve their objectives in rural settings.

### B. Rotating Savings and Credit Associations

Rotating savings and credit associations (ROSCAs) are a popular form of informal finance. They have various aliases: *tanda* in Mexico, *pasanaku* in Bolivia, *san* in the Dominican republic, *syndicate* in Belize, *gamaiyah* in Egypt, *isusu* in Nigeria, *susu* in Ghana, *tontine* in Niger, *hagad* in Somalia, *zitique* in Mozambique, *arisan* in Indonesia, *paluwagan* in the Philippine, *chit* in India and Sri Lanka, *pia huey* in Thailand, *hui* in China, *kye* in Korea, and *ko* in Japan.

ROSCAs intermediate in the most basic way. A small number of individuals, typically six to forty, form a group and select a leader who periodically collects a given amount (a share) from each member. The total money collected (the fund) is then given in rotation to each member of the group. In some countries such as India and Cameroon, ROSCAs have evolved into formal banks. Three types of ROSCAs are found in many countries. In common ROSCAs, the leader receives no special consideration (other than possibly getting the first fund). Commission ROSCAs pay their leaders, who in return may assume liability for defaults. Promotional ROSCAs are used by merchants to sell goods, especially consumer durables.

Loans are interest free in most common and promotional ROSCAs. The popularity of ROSCAs among low- and middle-income groups shows that people like to save even under trying circumstances. The popularity of such arrangements shows the potential for pooling individual savings among small farmers or micro entrepreneurs. In England and elsewhere, building societies—which later became an important part of the formal financial system—often began as ROSCAs.

From the preceding discussion, it is evident that Islamic banks should chart a clear course and mode of intervention in the non-corporate sector, primarily by financing family empowerment credit programs through group lending schemes or by organizing ROSCA-type credit management.

Islamic banks' strategy should focus on supporting policy for the alleviation of poverty and the promotion of income-generating activities for the poor with micro-enterprises and small scale enterprises targeted at poor families in urban as well as rural areas. Such a strategy would provide the graduation of selected beneficiaries who have been regular clients of micro-credit schemes to upscale their business. It would also provide support to clients who, having benefited from ongoing skill development and training programs, are interested in starting new enterprises.

IDB expressed the wish to start a microcredit program on a three-year pilot basis. An IDB mission visited Bangladesh recently, and plans to work out the financial plans, terms and conditions, and possible mode of intervention by IDB in the micro-enterprise sector in Bangladesh in the near future. This is a move in the right direction.

## VI. MONETIZING THE ISLAMIC VOLUNTARY SECTOR

The real glory of the Islamic voluntary sector lies in the fact that it has a rich legacy, culture, and history. It is indeed an area where thousand flowers can bloom furthermore given the revolution in information technology. It is the right time for the globalization of the Islamic voluntary sector's activities. In this process, Islamic banks in the 21<sup>st</sup> century can play a very vital role in reactivating and institutionalizing the role of Islamic socioeconomic institutions and various voluntary and obligatory tools of income redistribution through innovative financial instruments and the management of funds such as *waqf* properties development bonds, cash *waqf* certificates, *zakat* certificates, *hajj* saving certificate, trust funds, and so on.

Despite the fact that many of the activities of the Islamic voluntary sector—including institutions such as *zakat*, *awqaf*, mosques, the *hajj*, and Islamic non-profit charitable trusts and foundations—do not come under the conventional calculation of GNP, these institutional activities need to be reviewed and analyzed in light of the challenges and change Muslim societies are facing today. There has been a great transformation in relationship of East and West resulting from (a) the emergence of a formidable economic block in Europe, (b) the collapse of communism, (c) the rise of Muslim republics in the Central Asia, d) the widening economic gap between North and South, and (e) the severe economic backwardness, under-development, and poverty of OIC countries despite their potentialities and vast resources, and (f) the rise of ethnic militancy and the growing threat to Muslim minorities in non-Muslim countries. In the wake of this transformation, there is perhaps an urgent need to restore these institutions of the voluntary sector to their true spirit and utilize them fully for promoting the moral, spiritual, social and economic welfare of Muslim societies—indeed, mankind as a whole. The crucial question before us is how to operationalize and institutionalize these activities of the voluntary sector so that they can be integrated into the mainstream of economic activity, resource mobilization, saving, and investment.

Viewed from this perspective, every Islamic bank should establish a *zakat* fund and actively explore the possibility of using this *zakat* fund in lawful *mudaraba* projects as a financial partner. *Zakat* revenue redistributes wealth into consumption flows for the poor, raises their productivity, reallocates *ex ante* saving by checking the tendency to hoard idle cash, and stimulates production through the intersectoral allocation of resources.

*Zakat* has a tremendous humanitarian potential and can generate the forces of altruistic behavior in a Muslim society. The need to educate people into accepting obligatory income sharing voluntarily is a critical need of our time.

Similarly, the *hajj* should be viewed as one of the significant socioeconomic institutions of Islam, an area where Islamic banks can work by managing *hajj* affairs. In this context, attempts will be made to analyze the activities of the Pilgrims Management and Fund Board of Malaysia, more popularly known as *Tabung Haji*, identifying the factors responsible for its success and drawing on its experience for other OIC members and the resulting policy implications.

The institution of *waqf*, too, is of great importance. It has historically played a significant role in furthering the cause of Islamic education, health, and research through the establishment of schools, hospitals, *madrasas*, mosques, and public libraries.

In the context of the 21<sup>st</sup> century, Islamic banks must work for the securitization of the Islamic voluntary sector. In this connection, Social Investment Bank Ltd. is in the process of organizing a Voluntary Capital Market Operation for the mobilization of necessary funds, and is in the process of developing the following financial instruments with different sets of rules in conformity with the *Shari'ah*:

1. *waqf* properties development bonds (specific and general)
2. cash *waqf* deposit certificates (specific and general)
3. family *waqf* certificates
4. mosque properties development bonds (specific and general)
5. mosque community shares
6. *qard hasana* certificates (specific and general)
7. *zakat/ushr* payment certificates
8. *hajj* saving certificates
9. non-Muslim trust properties development bonds (specific and general)
10. municipal properties development bonds (specific and general)

The value of all the bonds and the *qard hasana* certificate are guaranteed by the Bank against surrender of the instrument on maturity.

#### A. Cash *Waqf* Certificate Scheme

As a part of extending three-sector model banking services toward the achievement of the corporate objectives of Social Investment Bank Ltd., it has already introduced the Cash *Waqf* Certificate Scheme. This is part of the process of the first organization of voluntary sector capital market in the history of banking. It is intended to empower the family heritage of the rich for the benefit of society at large.

As we know, *waqf* generally means the permanent dedication of any property by a Muslim for any purpose recognized by Islamic law as religious, pious, or charitable. Generally, *waqf* is known to be related to the endowment of any property of a permanent nature.

A research study entitled “Structural Adjustments and the Islamic Voluntary Sector with Special Reference to *Waqf* in Bangladesh” (Mannan, 1995) and published by IDB showed that the concept of cash *waqf* has also appeared in Islamic history. Its use can be traced to the Ottoman era, and Turkey has one of the longest histories of *awqaf* administration. Egypt, which also has a long history of *awqaf* management, allowed bank credit as a subject of *waqf* endowment. The study showed that the cash *waqf* can be used as a financial instrument and a new product line in the banking sector.

The introduction of SIBL’s Cash *Waqf* Certificate Scheme is intended to monetize the Islamic voluntary sector for the first time in history for the mobilization and capitalization of social saving. It promises to be perhaps be the most effective and perpetual mode of deposit mobilization with use of its profit going toward perpetual social investment and benefits.

Its introduction is also highly suggestive in the context of the present fiscal system of Bangladesh, which is heavily dependent on indirect taxation (i.e., 85% of total tax revenue in 1995-1996). A great part of direct taxes can be privatized and converted to social assignment, and the Cash *Waqf* Certificate can substitute a substantial part of the income tax for financing social projects in education, health, and social welfare activities. All that is needed is political will: a new beginning can be made for a participatory economy and a caring society.

The guidelines governing the operation of the Cash *Waqf* Certificate are as follows:

1. Cash *awqaf* shall be accepted as endowment in conformity with the *Shari’ah*. The Bank will manage the *waqf* on behalf of the *waqif*.
2. *Awqaf* are done in perpetuity and the account shall be opened in the title given by the *waqif*.
3. The *waqif* will have the liberty to choose the purpose(s) to be served by the *waqf*, either from the list of thirty-two purposes identified by SIBL as given below or any other purpose(s) permitted by the *Shari’ah*.



**TABLE 1. THE PURPOSES OF *WAQF***

Category	Examples
Family Rehabilitation	<ol style="list-style-type: none"> <li>1. Improvement of the condition of the absolutely poor living below the poverty line</li> <li>2. Rehabilitation of the physically handicapped and disadvantaged</li> <li>3. Rehabilitation of beggars</li> <li>4. Rehabilitation of destitute women</li> <li>5. Uplift of urban slum dwellers</li> </ol>
Education and Culture	<ol style="list-style-type: none"> <li>1. Education of orphans (i.e., supplying books free of cost)</li> <li>2. Expansion and development of appropriate education for skill development</li> <li>3. Informal education facilities for children at home (i.e. mothers' educational programs, children's literature)</li> <li>4. Physical education and sports facilities</li> <li>5. Support of local culture and heritage and art promotion</li> <li>6. <i>Da'wah</i> activities</li> <li>7. Education of deserving students through scholarships</li> <li>8. Vocational education in general</li> <li>9. Education in a specific area</li> <li>10. <i>Madrassa/School/Colleges</i> of a particular area.</li> <li>11. Education of deserving descendants</li> <li>12. Any projects in the area of education, research, religious and social services in the memory of parents or ancestors.</li> <li>13. Establishment of an academic chair.</li> </ol>
Health and Sanitation	<ol style="list-style-type: none"> <li>1. Village health care and sanitation</li> <li>2. Supply of pure drinking water (to households, schools, mosques, slums, etc.)</li> <li>3. Establishment of hospitals, clinics, and health care programs, especially for the poor.</li> <li>4. Health research grants; research on particular diseases.</li> </ol>
Social Utility Service	<ol style="list-style-type: none"> <li>1. Settling disputes (e.g., village litigation)</li> <li>2. Legal aid to deserving women to establish their lawful rights.</li> <li>3. Assistance for arranging dowryless marriages to poor women.</li> <li>4. Maintenance of public roads and tree planting in villages</li> <li>5. Assistance to peace-loving non-Muslims to solve their problems</li> <li>6. Creation of social awareness to prohibit gambling and other social vices such as theft and other anti-social activities</li> <li>7. Construction, installation, and development of public utility services</li> <li>8. Maintenance of specific mosques with income generating projects</li> <li>9. Maintenance of specific graveyards with income generating projects</li> <li>10. Maintenance of specific <i>Eidga(s)</i> with income generating projects</li> </ol>

1. The cash *waqf* amount will earn profit at the highest rate offered by the Bank from time to time.
2. The *waqf* amount will remain intact and only the profit amount will be spent for the purpose(s) specified by the *waqif*. Unspent profit amount will automatically be added to the *waqf* amount and earn profit to grow over the time.

3. The *waqif* may also instruct the Bank to spend the entire profit amount for the purpose specified by him/her.
4. The *waqif* will have the opportunity to create cash *waqf* at a time. Otherwise he/she will declare the amount he/she intends to build up and will start with a minimum deposit of Tk. 1000/= (one thousand) only. The subsequent deposits shall also be made in thousand or in multiple of thousand.
5. The *waqif* shall also have the right to give standing instructions to the bank for the regular realization of cash *waqf* at a rate specified by him/her from any other a/c maintained with SIBL.
6. Cash *waqf* shall be accepted for a specified endowment, and a receipt voucher and certificate for the entire amount shall be issued as and when the declared amount is built.
7. The principles and rules of the Cash *Waqf* Account are subject to amendment and review from time to time.

## VII. ACHIEVING RESULTS ON THE GROUND: SOCIAL INVESTMENT BANK LTD. FOR ALL AND BY ALL

At this stage, it is important to give a brief review of the operations of Social Investment Bank in order to provide an empirical basis of understanding this alternative paradigm of Islamic banking in the 21<sup>st</sup> century.

Social Investment Bank Ltd. (SIBL) presents a concept of 21<sup>st</sup> century banking for all and by all, intended to cover all sections of Bangladeshi society. SIBL, which came into operation on November 22, 1995, is a participatory three-sector banking model in one: in the formal sector, it works as an *Islamic participatory commercial bank* with a humane approach to credit and banking on the basis of profit- and loss-sharing; it is *informal banking for the poor* in the non-corporate sector, dealing with informal finance and credit packages that empower and humanize poor families, create local income opportunities, and discourage internal migration; it is a *development bank* intended to monetize the voluntary sector, committed to financing the development and management of over 155,000 *awqaf*, mosque properties, as well as non-Muslim trust properties.

At the operational level, all three sectors' activities are mutually interdependent and collectively reinforcing. Contributions to the Social Fund and Social Assignment Schemes are linked to Social Entitlements, thereby making all these activities economically, socially and ethically transparent once they are operationalized.

SIBL has already established its Social Fund by mobilizing voluntary social saving and linking it to its entire formal, informal, and voluntary sector banking operations. Contrary to popular belief, SIBL has within a very short time been able to mobilize a surplus Social Fund for social investment purposes in family empowerment action programs and social education fellowship program in the health and social services sectors. A modest beginning has already been made; one step forward is the beginning of a journey of a thousand miles.

The Social Fund aims for the capitalization of social savings and the socialization of capital by varying the price of capital by target group. This social subsidy or social loan will generate further savings for investment purposes. The Social Fund pools together individual voluntary contributions for planned social investment and brings social meaning and transparency to financial and banking transactions, thereby linking social entailments to social assignments.

The operational thrust of these activities will eventually lead to the development of new school of negotiated and new participatory economics. It is expected to give birth to a triple revealed preference theory of social income, social distribution, and social peace for a caring society. This will also lead to writing a new social contract based on the assumptions that man is born with obligations, and that as such, his duties should define his rights. The fulfillment of his obligations may be deferred, though. It is here that financial/economic entitlements should be linked to social assignments. In this context, it is worth reproducing a table from SIBL's Second Annual Report:

**TABLE 2. SUMMARY OF THE INTERDEPENDENT AND MUTUALLY REINFORCING STRATEGIES OF THE SECTORAL OPERATIONS OF SOCIAL INVESTMENT BANK**

<b>Scope of Sectoral Operations</b>	Formal corporate sector	Informal/non-corporate sector	Voluntary/third sector
<b>Basic Objectives</b>	Humanize the formal sector	Socialize the informal sector	Monetize the voluntary sector
<b>Basic Strategies of Operations</b>	Provide corporate finance through the competitive market mechanism to the relatively richer section of society	Provide informal/non-corporate finance through custom-tailored microcredit packages to the urban and rural poor	Provide both corporate and non-corporate finance to develop the third sector of the economy
<b>Location of Operations</b>	Primarily urban	Both urban and rural	Both urban and rural
<b>Key Emphasis and Guidelines of Operations</b>	<ul style="list-style-type: none"> <li>• Triple preferences: economic, social, and moral preferences to be “transparent and revealed” in all operations</li> <li>• Link financial/economic entitlements to social assignments</li> <li>• Duties should define rights</li> </ul>	<ul style="list-style-type: none"> <li>• Triple preferences: economic, social, and moral preferences to be “transparent and revealed” in all operations</li> <li>• Link financial/economic entitlements to social assignments</li> <li>• Duties should define rights</li> </ul>	<ul style="list-style-type: none"> <li>• Triple preferences: economic, social, and moral preferences to be “transparent and revealed” in all operations</li> <li>• Link financial/economic entitlements to social assignments</li> <li>• Duties should define rights</li> </ul>
<b>Effect of Overall Operations</b>	Stronger family and family chain for a better future generation	Empowerment of the family by creating income opportunities for the poor	Re-empowerment of socioeconomic institutions for redistribution of income and human fulfillment
<b>Ultimate Goal of Overall Operations</b>	Participatory economy and sustainable social peace for a caring society	Participatory economy and sustainable social security for a caring society	Participatory economy and sustainable institutional development for a caring society

Indeed, Social Investment Bank Ltd. does represent a change in the paradigm of banking. To the best of our knowledge, this is the only commercial bank in Bangladesh that operates on the basis of this integrated three-sector model: formal, informal, and voluntary. This is the only bank in the country that starts with the very phrase “Targeting Poverty” in the objectives of its Memorandum of Association, aiming for a participatory economy for a caring society. Clearly, this Bank intends to operate far beyond the scope of market economics. Where market economy ends, participatory and negotiated economy begins. SIBL is committed to implementing the principles of participatory economy with a humane approach to credit and banking on an interest-free basis, with a view to empowering the family as the basic social unit. The real value addition of this Bank lies the power of its ideas.

## 2. Scope of Three-sector Operations: An Overview

In the formal corporate sector, this Bank would offer the most up-to-date banking services through various types of deposit and investment accounts, trade financing, letters of guarantee, letters of credit, collection of bills, domestic and international transfers, leasing of equipment and consumers' durables, hire purchase and installment sale for capital goods, investment in low-cost housing and management of real estate, and participatory investment in various industrial, agricultural, transport, educational and health projects.

In the informal non-corporate sector, it would be involved in opening and introducing various savings, microcredit investment, and custom-tailored group programs designed for small entrepreneurs, marginal farmers, landless laborers, unemployed educated youth, and semi-skilled labor.

In the voluntary, or third sector, it would be involved in the development and management of *waqf* and mosque properties, management of inheritance properties, joint-venture projects for management of *hajj* affairs, development and management of non-profit foundations, charitable trusts and organizations, and the development and management of funds involving the welfare of women and non-Muslim minorities.

In addition, social banking special services for Bangladeshi expatriates would include managing their foreign currency accounts, providing express home remittance services, and introducing Cooperative Investment Schemes and the Foreign Wage Earner's Rehabilitation Scheme.

## 3. Formal Banking with a Human Face

In the formal corporate sector, this Bank would offer the most up-to-date banking services through various types of deposit and investment accounts, trade financing, letters of guarantee, letters of credit, collection of bills, domestic and international transfers, leasing of equipment and consumers' durables, hire purchase and installment sale for capital goods, investment in low-cost housing and management of real estate, and participatory investment in various industrial, agricultural, transport, educational and health projects.

In the informal non-corporate sector, it would be involved in opening and introducing various savings, microcredit investment, and custom-tailored group programs designed for small entrepreneurs, marginal farmers, landless laborers, unemployed educated youth, and semi-skilled labor.

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In addition, social banking special services for Bangladeshi expatriates would include managing their foreign currency accounts, providing express home remittance services, and introducing Cooperative Investment Schemes and the Foreign Wage Earner's Rehabilitation Scheme.

## 4. Operations of Informal and Voluntary Sector Banking: Transferring Power to the Powerless under Microcredit and Microenterprise Family Empowerment Schemes

In line with its corporate objectives, Social Investment Bank is directing group-lending programs in urban and rural settings. At a grassroots village and local level, the Bank's program is directed toward landless laborers, marginal farmers, fishermen, small artisans (e.g., blacksmiths, carpenters, potters, and handicraft producers), the urban unemployed, small traders, small and rural industries, and small and medium-scale business enterprises.

In the case of informal and voluntary sector banking operations, it is the Bank that goes to the clients and organizes and motivates them into becoming viable income generating groups. In an effort to achieve the corporate objectives of SIBL, the Bank has started implementing (a) the Environmental Friendly Business Program with the small traders of Tokai (mainly street children of distressed parents), with recovery rate of 100%, (b) the Real Life Tokai Informal School of Management, and (c) empowering and humanizing family credit programs. This last project differs in approach from Grameen Bank and other NGOs in terms of (i) providing much cheaper credit, (ii) extending savings and deposit services, (iii) linking basic societal values to credit, and (vi) managing the consequences of credit in terms of reinforcing family values and social integration. A serious beginning has been made: more than 36% of the investment partners of SIBL are from the informal sector, indicating the Bank's commitment to reaching poor families at the grassroots level.

## 5. Overall Performance and Basic Facts of SIBL at a Glance

SIBL was opened on 22 November 1995 in Dhaka, Bangladesh. Initial losses were due primarily to preliminary overhead expenses, heavy capital expenditure, and depreciation. The Bank is now making good progress. It has been making a net profit since January 1998. The growth rate in the formal sector in terms of deposits stood at 54.54% in 1997; the expected growth rate of 1998 was to be over 100%. Considering our present

business position, we expect that the operational results of 1998 will offset past losses, and that dividends could be declared for 1998.

Banking with the poor (i.e., mainly with street children and poor families) through microcredit and microenterprise under our family empowerment credit programs is increasing very rapidly.

Last but not least, the *Shari'ah* Board of the Bank was also reconstituted and its bylaws have already been approved by the Board. It will provide scholarly guidance to the operations of the Bank in conformity with *Shari'ah*.

## VIII. COMMON AGENDA

It becomes abundantly clear that considerable in-house preparation by Islamic banks is needed in developing distinctly Islamic corporate, non-corporate, and voluntary sector financing. In the case of the corporate sector, the key thrust lies in the greater participation of local people both in terms of ownership and as beneficiaries of the Bank's investment. It means a greater network of mutual obligations among Islamic banks, and greater transparency in highlighting the social, ethical, and moral ingredients of various Islamic modes of financing. In the case of the non-corporate sector, the thrust lies in conscious planning and developing credit programs that reinforce family values and stimulate civil society. In the Islamic voluntary sector, the thrust lies in developing a social capital market for the mobilization and capitalization of perpetual social savings and investment. The composite thrust of these three sectors' financing lies in comprehensive participatory banking with a human face beyond the market for the benefit of Muslims and non-Muslims alike. Seen from this perspective, the following few proposals are put forward for appropriate intervention by Islamic banks in the 21<sup>st</sup> century.

### **1. Ensuring Family Empowerment Credit Programs for at Least 10 Million at the Grassroots Level of Muslim and Non-Muslim Countries in Every Decade**

The many current credit programs directed and organized by various NGOs at either toward women as opposed to men, or toward the poor as opposed to the rich, or to children as opposed to parents. These credit programs are expected to destroy family values and the basic foundation of our society. Each Islamic banks should voluntarily make its own allocation for such a credit program to be coordinated by a volunteer Islamic bank volunteer or by regional rotation among Islamic banks. Social Investment Bank Ltd. can act as a volunteer in this field.

### **2. Global Mobilization and Creation of a US\$1 Billion Fund by 2010 Through the Sale of Cash *Waqf* Certificates to Support Education, Health, and Research**

Throughout the history of Islam, *waqf* played a significant role in promoting education, health, arts and architecture, and research. The 21<sup>st</sup> century must rediscover Islamic philanthropy.

Turkey perhaps reached a peak during the Ottoman era, where *awqaf* properties were estimated to constitute three quarters of all arable land in 1925. In 1983, a Ministry of *Awqaf* was reestablished after its abolition in 1924. Recently, a *Waqf* Bank and Finance Corporation have been set up to mobilize *waqf* resources to finance various types of joint venture projects. One half of arable land in Algeria in the mid-nineteenth century was dedicated to *waqf*. Similarly: one third in Tunisia (1883), one seventh in Egypt (1935), and about 15% in Iran (1930) of all arable land was endowed to *awqaf*. The accumulation of such extensive land under *awqaf* prompted many countries to introduce reforms. In India, the statutory control of *awqaf* started with the passing of the Mausalman *Waqf* Act of 1923 during the pre-partition days. During the post-partition era, several acts were enacted and ordinances promulgated in Pakistan, which were adopted in Bangladesh as well.

Seen from this perspective, a US\$1 billion target for Cash *Waqf* Certificate sales should not be difficult to achieve given the rich Islamic legacy, culture, and history of endowments. Currently, Americans are perhaps the most generous people in the world. For example, Americans gave nearly US\$2 billion to international causes in 1997. Last year, according to figures by *Giving USA*, Americans donated US\$143 billion to non-profit organizations. Just over three-quarters of this came from living individuals (US\$109 billion); the rest from foundations (US\$13 billion), bequests (US\$13 billion), and companies (US\$8 billion). The non-profit portion of the US economy accounts for 8% of GDP, a figure that has more than doubled since 1960. It employs nearly 10% of the American work force—more than the federal and state governments combined.<sup>7</sup> Perhaps Muslim philanthropy in the 21<sup>st</sup> century can match American philanthropy in the 20<sup>th</sup>. What is needed in the coming years is to rediscover Islamic socioeconomic values and revive Islamic institutions.

### 3. Globalization of Islamic Voluntary Sector Activities

The creation of the Islamic Solidarity Fund and its *waqf* under the umbrella of the OIC is the right move. There is an urgent need to reinvigorate its activities. Instead of the fund merely extending charity, Islamic banks should in one form or other be involved in planning and implementing social investment programs. In this context, the successful experience of *Tabung Haji* of Malaysia needs to be disseminated in the various Muslim languages. IDB's Technical Assistance Program can be extended to those countries interested in establishing such organizations in their own countries. A one-day annual seminar and workshop on *Tabung Haji* in cooperation with the Government of Malaysia can be organized in which the heads and members of *haji* missions from different Islamic countries can be invited to attend. The private sectors of OIC member countries should also be encouraged to take initiative and set up a *Haji Management Bank* in their own country.

### 4. The Trading House of the Islamic *Umma* and the Islamic Dinar

It seems appropriate to suggest that under the umbrella of the OIC, a Trading House of the Islamic *Umma* be established in cooperation with the Kingdom of Saudi Arabia, under which each member country or Muslim community be given a permanent space to exhibit and sell their products. At the end of the pilgrimage, all pilgrims and other Muslims who came to *'umrah* during the whole year can make an arrangement for an optional visit. This House of the Islamic *Umma* can serve as one of the important building blocks for the eventual formation of an Islamic Common Market. Once established, this House can also provide scope for the exchange of information relating to investment in co-financing and joint venture projects among Islamic banks. These can eventually lead to the formation of an Islamic multinational corporation or an Islamic *umma* cooperative in various fields such as petrochemicals, textiles, leather, and electronics. Since the exchange of different currencies into local currency and vice versa are taking place throughout the *haji* and *'umrah* sessions of the year, attempts can be made for the further operationalization of the Islamic *dinar*.

### 5. Establishing the Three-Sector Model of Social Investment Bank Ltd. in other Countries

The model of Social Investment Bank Ltd. is flexible and can be implemented in other Muslim and non-Muslim countries for the alleviation of poverty, economic cooperation. Given appropriate examples of individual social behavior and successful experiments at the institutional level in Bangladesh, this can also effect the eventual evolution of interstate and intercommunity industrial relationships and markets within the framework of *commonwealths of communities* and *human societies*. This unique participatory, integrated, commercial, investment, and anti-poverty oriented Bank is a new experience in Bangladesh; it calls for the special support of the government and the political will of leaders and people from all spectrums of society committed to alleviate poverty and develop a better society.

Ideas that can change the course and direction of human endeavors and society may seem impossible to achieve at first. Such ideas die without institutions. Social Investment Bank Ltd. intends to provide an institutional framework for the implementation of such innovative ideas. A new beginning can be made for a participatory economy and a caring society. SIBL can volunteer to work on any assignment on the alleviation of poverty entrusted by this Forum.

### 6. Establishment of a World Social Bank in the Private Sector

There further appears to be an urgent need to establish a World Social Bank in the private sector for the global mobilization of social saving and investment that reinforces basic family and societal values and stimulates civil society at the grassroots level. As indicated earlier, the establishment of the Islamic Development Bank in the public sector is indeed an important event of our time. Since IDB must work through the governments of the member countries, however, it has great limitations. Its potential is great, but its impact is marginal.

Besides, a pervasive corruption that is the reflection of deep socioeconomic and moral decay is noticeable in some Muslim countries, Bangladesh included. The banking sector is not an exception to this condition. Poverty is purposefully used as a business in many developing countries like Bangladesh. It is unfortunate that the conventional branch banking based on the British model is aggravating poverty in the country. Never in history have so few exploited so many. According to a recent estimate, 40% of bank loans in Bangladesh are lying with 156 defaulters, and 75% of total bank loans were held back by 1800 persons. Similar examples can be cited for some other Muslim countries. The proposed World Social Bank of the Islamic *umma* must address the issues involving the globalization of poverty and the pervasive corruption in some Muslim countries. The private sector of the Islamic *umma* should move forward to create a fund for the establishment of this Bank. The headquarters of such a Bank could be located in one of the so-called least developed Muslim countries.

## **IX. CONCLUSION**

Islamic banking in the 21<sup>st</sup> century must play a more aggressive role. Islam means *peace*; Islamic banks have an enormous responsibility in mobilizing and allocating resources which contribute to the participatory economics of peace. The proposed common agenda for action is only indicative. Its suggestions are by no means exhaustive.

The key thrust of Islamic banks should be directed toward the development of an authentic participatory economy beyond market economics that empowers the families of both rich and poor in the context of their social settings. Understanding real people and putting real masses to work in a socially and culturally acceptable environment is the critical need of our time. This aspect of a participatory economy calls for urgent attention. This is where the operations of Islamic banks should assume their significance in the 21st century.

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<sup>1</sup> This paper is expected to add to Mannan's earlier following major works, which the author has revisited in writing this paper: *Islamic Economics: Theory and Practice* (Hodder and Stroughton: Kent, U.K., 1986); *The Making of Islamic Economic Society* (International Association of Islamic Banks: Cairo, 1984); *The Frontier of Islamic Economics* (Idarah-i-Adabiyat-Delhi: Delhi, 1984); *Economic Development and Social Peace in Islam* (Ta-Ha Publishers: London, 1989); *Understanding Islamic Finance: A Study of the Securities Market in an Islamic Framework* (Islamic Development Bank: Jeddah, 1993); *Structural Adjustment and Islamic Voluntary Sector with Special Reference to Awqaf in Bangladesh* (Islamic Development Bank: Jeddah, 1995). Here, the words "Islam" and "Muslim" are used interchangeably.

<sup>1</sup> Thomas Kuhn: *The Structure of Scientific Revolutions*, The University of Chicago Press, Chicago, USA (1964)

<sup>2</sup> M. A. Mannan, *The Making of Islamic Economic Society*, IAIB Press, 47 Qraba Str. Heliopolis, Cairo, Egypt 1984, pp-3-4

<sup>3</sup> M. A. Mannan, *Islamic Economics: Theory and Practice*, Revised Edition, Hodder and Stoughton Ltd., Mill Road, Dunton Green, Sevenoaks, Kent, UK, 1986, PP-5-9, 25-39

<sup>4</sup> M. A. Mannan, *The Frontiers of Islamic Economics*, Idarah-i Adabiyat-i, Delhi 2009, Qusimjan Street, Delhi-6, India 1984-P-1-16

<sup>5</sup> M. A. Mannan, *Economic Development and Social Peace in Islam*, Ta ha Publishers, 1, Wynne Road, London SW9 0BB, UK (1984) PP 1-16

<sup>6</sup> A three-sector unique model bank which began operations on November 22, 1995 in Dhaka, Bangladesh, whose operations will be reviewed later on

<sup>7</sup> *The Economist*, 30 May 1998.