In the Name of Allah, Most Merciful and Compassionate

Interest-based finance and global warming: Making the connection

It's always good to see people from so many countries at the webinars. Today we have about 224 attendees listening from the four corners of the world: Cameron, Australia, Ukraine, France and the US. We are glad to see that an issue of global importance attracts a global audience.

The format for today is going to be brief and it's going to give you the opportunity to ask questions. The presentation itself will endeavor to be 40 minutes and we'll follow that by live Q&A which can go as much as 40 minutes. We'll divide the talk into three sections called "Global Warming", "Interest-based Finance" and "Islamic Finance as a Greener Alternative". It's obviously a vast topic for something so critical, but we feel it needs to be discussed.

The basic theme is that interest compounds faster than nature's ability to cope with this growth, and the growth of the physical world—of food, people and natural resources—can never keep pace with money compounding on interest. If you only have 5 minutes, then you can log out now because that's the theme of tonight's talk. If you take nothing else from this webinar, then that's what we're trying to say: compounding interest cannot be a sustainable proposition.

We're sometimes asked, "How can we live in a world without interest?" We often answer, "How can we live in a world with interest?" We're seeing the results of what interest has done. It was probably harder to explain this in the '60s, '70s, and '80s, but we now see on an almost weekly basis some natural disaster or other that foretells other disasters at a much more severe pace.

This webinar is a starting point for this discussion. We clearly won't have all the answers; we are bankers after all. But we would like to start by asking the right questions and raising the issues. Last week I had compiled a reading list to add to this webinar at the end. There evidently is no research on this topic, but this is something to look forward to—as Muslims or humanitarians—as a starting point of a new age of awareness.

Islam is concerned with the well being of the society, and sometimes that well being is at the immediate expense of individual gratification. A single interest-based loan may seem harmless, but an entire economy based on interest may have devastating consequences. Anyone who is not a blind rabbit has seen the global financial crisis completely ravage the global economy.

Alcohol is a fitting example, because like interest, it also has some short-term benefits. A study recently appeared in the British medical journal "The Lancet". They found alcohol to be, quite surprisingly for many, the world's most dangerous drug. That was a surprise for many of us, and we understood why after we understood the study. The study was probably the first of its kind that looked at not just the effects of alcohol on the individual, but on the society as a whole. That's what Islam looks at: the effects of a particular human input on society as a whole. That’s why things that seem ostensibly benign are potentially devastating. We believe interest is just such a thing.

Most problems are not root problems; they are symptoms of root problems. Global warming is a symptom of a root problem: the problem of interest; and obviously many other things, but interest being a major contributing factor. The problem with interest is the unnatural demands it places on nature, on countries, and ultimately on Earth.

We acknowledge that interest is not the only cause. There is obviously human greed at play, and our ability to consume beyond what our Earth is able to provide. But what interest has done is enable a certain kind of greed and a certain kind of consumption that would not otherwise have been possible.

Now we come to global warming; what’s the connection? At first glance, one doesn’t really know what the connection is. But actually it is very much connected to interest, and we’ll try to show how.

The Inter-Governmental Panel on Climate Change (IPCC, a body formed by the UN when global warming first caught the public’s connection), the American Meteorological Society, the American Association for the Advancement of Science and pretty much every peer-reviewed scientific journal, says two things: global warming is real, and global warming is caused by human inputs to the environment. There is no controversy in Europe, studies show, and other parts of the world, but there does seem to be some controversy in places like the US, where certain quarters have an interest in ensuring that major corporations don’t have to spend unnecessary money to combat environmental degradation.

We address the controversy whether global warming is happening and is caused by humans, not by looking at forecasts, because any time you have a conversation with a detractor, they’d say that the forecasts aren’t really all there, or were wrong, or the methodology was flawed. Instead, we look at only historical, publicly available data. When there is any doubt on historical data, we’ll rely on multiple data sources.

The first chart shows ten different peer-reviewed reconstructions of global temperature change in the last 1000 years. The source for the compilation is the UK meteorological office. Nobody doubts these numbers; they are very much real

The second chart is from NASA and shows how global temperature rose from 1880 to the present decade. 1750 is regarded as a general rule of thumb for the pre-industrial age becoming the industrial age. By 1880, global warming is pretty much activated; really since the beginning of the industrial age, which was the beginning of modern-day interest-based banking. The last few decades are more telling, when loans and aggressive lending to poor countries really came into full swing—since the ‘70s onwards.

We're briefly going to touch on the technical side of global warming. Global warming is triggered by the extensive concentration of carbon dioxide in the atmosphere. Carbon dioxide is the by-product of burning fossil fuels. As more heat from the Sun is trapped in the planet, the atmosphere's temperature rises and so does the average temperature of the oceans. One proxy measure is that Arctic ice, which is measured at the end of the summer to get a constant, shrank from 10 million square miles to 4 million square miles between 1980 and 2007. The ability of the Earth to deflect sunlight is rapidly decreasing.

As more heat from the Sun is trapped in our planet, the atmosphere's temperature rises and so does the average temperature of the oceans. Ultimately there is a gradual melting of ice sheets and glaciers, and a rise in sea levels. The real problem isn't global warming; it's what happens as a result of global warming, which is global hunger, because we have less land on which to grow food. The problem is really hunger and lack of fresh water. We see a greater incidence of drought at sub-tropical latitudes and inability to grow food and access clean water.

There is an irony in a reality, which is that when something is everyone's problem, no one does anything about it. We're seeing precisely just that. As Muslims, we don't care about things for themselves; we don't care about the environment, global warming or interest for itself. We care about it because it has been made a religious obligation for us to care about. We care about it as a means to worship Allah. The results are in Allah's hands. We'll be judged as Muslims—and humans—on how we responded to the problems Allah gave us. The reality is that it is everyone's problem and we should do something about it, even if what we feel we are doing is seemingly inconsequential. The mere act of doing it is an act of worship in Islam.

We're briefly going to cover a part of our "Why Islamic Finance" video, which is part of our 7-day free course available on www.EthicaInstitute.com. The problem with interest is a problem known to us all, and is most telling when we quote an individual who has suffered at the hands of interest.

We begin by quoting President Obasanjo, who said these words after the G-8 Summit in Okinawa in 2000: "All that we have borrowed up to 1985 was around $5 billion. We have paid about $16 billion and we are told that we still owe about $28 billion. That $28 billion came about because of the injustice of the foreign creditors' interest rates. If you ask me what is the worst thing in the world, I would say it is compound interest."

We at Ethica would agree with him. It seems unbelievable but sadly it's typical. We'll show you how some countries have suffered something similar, and how they used the environment and their natural resources as a means to compensate.

For the sake of simplicity, we'll grow $5 billion to $44 billion between 1985 and 2000, and see what interest rate we get. $44 billion is the $16 billion they had paid and the $28 billion they owed. If we bring the rate to 15.6%, it comes very close to $44 billion. On the face of it, 15.6%

doesn't sound exorbitant. It doesn't seem unfair, and technically it is even legal according to international law. In fact, we personally know a bank that charges upwards of 30% interest rates. But every day, numerous countries find themselves in a similar predicament as Nigeria. We could, with enough research, provide a similar example for literally over 100 countries—similar in terms of their payments.

How does Islamic finance handle things differently? Using the $5 billion example, an Islamic bank could provide $5 billion of financing for infrastructure, literacy, health care or sanitation programs, to name a few. An Islamic bank could arrange for the $4 billion construction of a natural gas pipeline and deliver it to Nigeria for $5 billion using Istisna. An Islamic bank could take an equity stake in a highway project and share profits and losses using Musharakah and Mudarabah. As Islamic bank could purchase commodities and sell them at a premium using Murabaha. An Islamic bank could structure a project financing using Ijarah Sukuk. Istisna, Musharakah, Mudarabah, Murabaha and Ijarah Sukuk are all forms of trade, equity or lease-based transactions that are familiar to bankers. Islam permits legitimate profit within reason.

The next ten to fifteen minutes are the punch line of the entire webinar, so please listen carefully.

An Islamic bank cannot charge more than the initial financing premium. If the Islamic bank was owed $5 billion for the financing, that could never turn into $44 billion. Islamic finance creates a bottleneck by tying each transaction to a particular asset or service. Cash is used to buy, sell, lease or partner in a particular asset or service. Cash cannot be used to simply create more cash. When you tie something to an asset or service, you can't turn a factory into fifteen factories or a house into fifteen houses, except with a lot of time, effort, work, land, labor, capital and so on. But with cash, you can do it literally in the time it takes to disburse that cash to as many borrowers as you can find at various interest rates and risk levels. There needs to be a shift towards putting more risk on the financier, not just the one being financed.

We see the proof in the pudding. While many banks are defaulting in the conventional sector, Islamic banks are still strong. Yes, there is a Sukuk here and there that's having trouble, but that's largely related to expedient real estate transactions, not the structure of the transaction. This is an important distinction between Islamic and conventional finance.

Let's take a Murabaha transaction and compare it with interest. We choose Murabaha because it is simple to understand and explain, and is probably the most closely comparable to an interest-based transaction, except that the bank, in the case of a Murabaha, goes out either itself or through an agent to purchase an asset and sell it to the customer at a premium. It is not too different from what we experience on a day-to-day basis at a retail level. Something like Musharakah, which we are obviously interested in seeing more of, being an equity-based transaction, doesn't compare as easily to interest. I would call Murabaha one of the weakest links of the Islamic finance product classes. We take the example of any poor country borrowing $100 million over twenty years for a sustainable reforestation project. We'll compare Murabaha with a 10% markup to an interest-based soft loan at 5%.

With the Murabaha, the $100 million becomes $110 million , a simple markup that can be paid as a lump sum or in installments. With the interest-based loan, let's see what happens. For the sake of simplicity, we assume that the country is not able to repay until year 20, which is actually often the case although attempts are made to pay earlier. The interest really picks up speed in later years, so most of the momentum that the lender desires happens in later years. So $100 million grows to $110 million in year 2. This is at 5%, half the rate of what the Murabaha was marked-up at. In year 14, the debt has almost doubled. By year 20, the $100 million has turned into $265 million.

This is actually common, unfortunately. 5% is very much in line with what a lot of healthy credits are offered at by reconstruction agencies, for example the World Bank. It is appalling to see that $100 million can actually become $265 million, and you should take a moment to feel the full weight of how compounding interest really contrasts with the $110 million that the Islamic bank is owed. Even if it is a $120 million or $130 million, the number is much less than what is possible with interest.

Now how does this tie in with the environment? Tropical forest countries currently owe about 2/3rds of the developing world's debt. In Sub-Saharan Africa, for example, the total debt in 1980 was $84 billion. In 2001, it was $275 billion. That is despite refinancing, constant interventions by the World Bank and IMF and frantic development. We see the same elsewhere.

In Brazil, a major source of the Earth's health, in this case 40% of the world's oxygen, we aren't going to have rainforests at current rates within a century, which should be shocking to anybody. The pace of economic growth continues unabated. This is really only aggravated by things that necessitate this growth, such as logging, dam building, mining, cattle ranching. In case of Brazil, their massive debt burden is $216 billion as of the beginning of this year. The interest payments on this debt force further deforestation to meet payments.

Similarly in Ghana, one of Africa's most indebted countries, 60% of their forests have vanished since they began servicing their debt to the World Bank and the IMF. In Indonesia, the World Bank lent $500 million for a massive logging project, tearing down more of their natural forest. It turned out that $30 million was forgiven, though it would only cover a fraction of the interest payment on the $500 million loan. I am sure that is not their only loan.

According to the Friends of the Earth, the world's largest network of environmental organizations, interest-based projects financed by the World Bank will release over their lifetime 37.8 billion tons of carbon dioxide into the Earth's atmosphere. That is obviously a shocking number. Would this have happened without it, as we saw in the example earlier of $110 million to be repaid to the Islamic bank versus $265 million to be repaid to the conventional bank? We think not.

This same problem is familiar in many other countries that accumulate interest-based loans and yet play a critical role in the Earth's environment: Latin American countries, African countries and poor countries in Asia. Whether it is deforestation, overfishing, fossil fuel consumption, the pace at which industry must be driven to keep up with interest-based loans is not sustainable.

Coming to Islamic finance: The Vatican, we were happy to learn, said last year, "The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service."

All the Abrahamic traditions—Judaism, Christianity, Islam—and many other religious traditions, historically have banned interest. Certainly in this day and age, when we see the results of what interest is doing, we can actually see why.

How does that affect us in Islam? Recently, one of the scholars in Islam asked three leading muftis, one from Syria, one from Pakistan and one from Yemen, the following question: are we as individuals, responsible for the environment? The answer was not only yes, but that as individuals, we are obligated to do something about it. As Muslims, we are obligated to do something about the environment. It goes without saying that the Prophet (Allah bless him and grant him peace) would definitely have been a major advocate of environmental friendliness, not just for banks but for all corporations.

I've just been joined by Yusuf Jha, who is Senior Shariah Auditor at a major Abu Dhabi Islamic bank. Welcome, Yusuf. He's going to touch on fractional debt reserve banking and Islamic banking.

Yusuf Jha:

The context we're speaking in today is Islamic finance and its views with regards to interest and the environment. It's something that I think is extremely relevant because among Muslims and non-Muslims, many a time you may find people who look at things from a micro-perspective with regards to why interest is wrong—or whether it is wrong at all.

From a Muslim perspective, when you read the Quran, you see the extent that interest is considered wrong by the wording used with regards to it: it's described as literally waging war against God. Ostensibly, someone could think that if two people are engaging in mutual agreement in an interest-based transaction, what's the big deal? If anything, it's a huge deal. Just to illustrate that, it's often easy when you're on a high-cholesterol diet, eating sweets and fried food, to think that you're not actually going to get a stroke sometime soon, because it hasn't reached critical mass. Really, it's the fact that you've not been observant.

Similarly, if we just look at the fact that almost all major religious traditions across the board were very strict about the prohibition of usury. If we chart the history of usury, we will find that it was forbidden in Judaism, in the sense that it was prohibited primarily amongst Jews. We see that the Church itself went to the extent of reiterating the definition of the sin of usury as, "Receiving any interest on money." In the past, if a ruler did not punish anyone committing usury in his realm, he would be excommunicated, even if the ruler himself did not do it. The question that comes to mind is: this is not something that's unique to Islam. It's something across most religious communities. There were actually several steps by which the institution of interest or usury was made legitimate in Christianity - it was a gradual process.

The word interest itself comes from the word *interesse*, and literally means "in between is". The idea was that if a lender was to give something to the borrower, and the borrower was late in repaying the loan, then the lender had a right to get what was in between, i.e. in the period of delay. This was the first real advocacy for money on money. There is subsequently a whole process which finally culminated in a redefinition of interest through people like King Henry VIII in England. Interestingly enough, the Catholic Church didn't take that route. The first time the Catholic Church itself was questioned with regards to the original doctrine of interest was in 1822, and the clarification never quite came.

Amidst all this history on interest, Islam has somehow retained its prohibition of interest. Islam has a whole world view about a paradigm with regards to finance and the function of money. How would that be relevant to Muslims and non-Muslims? It would be relevant to everyone because the current paradigm that we're operating in is a mess. The world is basically based on a lot of people's forecasts and estimations. The paradigm of foreseeable growth is not in conformity with the sustainability of the Earth. This was something alluded to by various economists.

E. F. Schumacher in his book "Small is Beautiful" mentioned that anyone who thinks the way that economy functions today is bereft of a higher level of values is incorrect, because every economic paradigm is based on a higher degree of values, even if that value is no values, i.e. free market and the belief that markets somehow regulate themselves. He said that there is something known as "meta-economics", a higher degree of principles. He advocated, way back in the '70s, that for us to provide a separate paradigm, it would inevitably need to come from a religious framework, because the generality of people who would be taking an ethical perspective with regards to economics would generally come from a religious framework. He wrote this in his landmark chapter in his book "Buddhist Economics", and went on to say that Buddhism could be replaced by any of the major world religions, amongst which he mentioned Islam.

In terms of the current world we live in, the viability of a religious framework providing an alternative paradigm is basically, one would contend, the Islamic worldview. So how do Islam's injunctions on interest come to play on the broader level? The specific legalizing of interest, which, as I mentioned, followed a chart, allowed for the entire financial system to evolve: the system by which banks, acting as financial intermediaries, could lend at interest. In order to increase their activities, banks were allowed reserve ratios, what's referred to as the fractional reserve system. This fractional reserve system, coupled with the giving and taking of interest, has led to this systematic growth that we find. This growth is the direct reason for environmental damage, because the Earth is not able to sustain this growth.

Just to give some figures, the entire money supply in the UK banking system in 1971 has since been created on a yearly basis, i.e. there has been more money created on a yearly basis than the entire money supply that was used to sustain the economy from recorded history up to 1971. As a result, we have seen every summer getting hotter and every winter getting milder. We see that estimates are now saying that more than a million species worldwide would be driven to extinction by 2050. Half of the world's tropical and temperate forests are now gone. An estimated 90% of the large predator fish are now gone. It would not be an exaggeration to say that the world, as a result of interest-based financing, is in the midst of a dramatic environmental shift.

This has led to some noted scientists advocating that we are at the point of no return. For example, James Lovelock says that close to 80% of the human race will be wiped out by 2100. Likewise, other noted commentators such as James Gustave Speth, former administrator of the United Nations Development Program, has directly said that while we can do many things, the primary source of this growth that is attacking the sustainability of the world is the capitalist economy. He asks what he calls the big question: how can the operating instructions for the modern world economy be changed so that economic activity both protects and restores the natural world?

This is where Muslims and anyone who is interested in this question, would do well to look at the Islamic injunctions to do with interest, and the fact that interest has facilitated the modern banking practice of fractional reserve banking, that has led to this disproportional growth that has led to systemic economic cycles of boom and bust, that has led to wealth inequality of amazing proportions, whereby you could take the world's three richest people, and they would have more wealth than the combined GDPs of the 48 poorest countries of the world.

Atif Khan:

We hope you made the connection between interest-based finance and global warming. Just by virtue of taking your money out of interest-based banks, you prevent harm. As Muslims—or as humans—preventing harm takes precedence over seeking any kind of benefit. If you're starving, you won't be worried about the garnishing on the food. It's really important to get your money out of interest-based banks, transactions and products. In terms of financings and savings, start by first opening up an Islamic bank account. If there is not an Islamic bank where you live, try to send your money to an Islamic bank that you can access overseas. If that's not possible, ask your conventional bank why they don't have an Islamic subsidiary or haven't started up a separate Islamic bank.

In terms of what we can do, we should ask the Islamic finance scholars, if we are in a position to do so, to kindly develop a more refined fiqh, or Islamic jurisprudence, of the environment. At the moment, most of us are pawing in the dark. A little waste is makruh and a lot of waste is haram, but we have to operationalize and answer questions such as: if I can take a bus, should I take a bus? I took a bus to get here today. It took me an extra half an hour. Was that something merely recommended or was it obligatory, given the current situation? These are the kind of questions we have to ask ourselves: If it takes me twice the amount of time to go by bus, then am I permitted to take a car? As Muslims, we need a much more refined fiqh of the environment. We seek our guidance from the fuqaha (Islamic scholars), because we don't just make up our religion as we go along; we have the proper etiquette to ask those who know more than we do, as commanded in the Quran.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the world's leading standard-setting body for Islamic finance standards, needs to go beyond the basic prohibitions of no alcohol, pork, interest, weapons etc. and to ask more refined and sophisticated questions such as: Is a particular project bad for the environment? Does Somalia need a six-lane highway from one end of the country to another, for instance? We need more refined and sophisticated criteria by which to judge our transactions. God willing, one day we will see from AAOIFI a standard on the environment, answering the question: How bad does a project need to be in order for it to be non-Shariah compliant?

Touching on the first point we made, if you don't have an Islamic bank or other means of Islamic financing, write a letter to your jurisdiction, your local bank, your national bank or your government, requesting Islamic finance to come to your bank, city or country. In the last 12 months, we have travelled from Canada to Australia meeting governments. Even non-Muslim governments are actively pursuing an agenda of bringing Islamic finance into their countries. Seeing that there is a grass root demand for it is going to further expedite that process.

As Muslims and as humans, we can consume less. We need to eliminate the need for things to an extent possible. Do you need four cars? Do you need three cars? Sometimes getting the groceries on the bicycle might help. Eliminate the need for some things. Reduce when you can; reuse when you can; and recycle when you can. But remember one thing: the law of thermodynamics is that even a photo-voltaic cell for a solar panel requires an extraction and distribution process needing energy. Whenever you do something that is consumption-oriented, even if it is recycling, you consume fossil fuels. So this is an awareness-raising process we have to do. I'm speaking to everyone, especially myself. I am only just trying to implement these things, albeit slowly. It's obviously very difficult, but it's part of the challenge and reward of being a Muslim—and being a human in these wonderful times.

Recommended reading: there's very little to start off with and we hope there's more. We can offer this paltry list:

[1] Debt and the Environment: Converging Crises (Morris Miller, 1991)

[2] The Vanishing Face of Gaia (James Lovelock, 2010). That will give you one of the most prescient and timely views of where we're at, where we've been and where we are most likely headed, if nothing is done about it.

As you know, pre-industrial carbon dioxide in the atmosphere was 280 parts per million or less. Today it is 430. Scientists around the world are saying that once you go past 450, the damage becomes irreversible, as you pass a certain tipping point. So, we are at that point now where we need to ask the hard questions.

[3] The Economics of Global Warming (William Cline, 1992). This looks at present value discounting and interest as belligerents in the scheme of events.

[4] The Problem with Interest (Tarek El Diwany, 2003). The first chapter is excellent for anyone who has a desire to understand the more technical aspects of entropy, environment, the physical world, and interest and how it impacts on the environment.

[5] An Inconvenient Truth (Al Gore, 2006). A good primer and introduction for people who are new to environmental causes.

We'll close the presentation and start with questions. As bankers, try and keep your questions on banking.

Q&A:

Q: Can you explain the difference between the two ways that interest creates unsustainability: debt payments versus fractional reserve banking?

Q: How much is fiat money responsible for environmental degradation? Can reverting to a gold standard help?

Yusuf Jha:

A: The financial system we have in place creates an idea of constant growth that is not in proportion to the sustainability of the Earth. Because banks can lend money over and above what they have, each time they lend money outside, they simultaneously create a debt for depositors. It is almost as if they are creating money. There is an add-on effect by various banks constantly lending huge sums of money an amount over and above what they have to keep in their reserves. This is referred to as "bank money" or "broad money" as opposed to “narrow money”. So banks, through the process of fractional reserve, literally create money in the economy. When they create a loan, they charge interest on that loan. The point is, the interest that has now been created, doesn’t actually exist, because as money it doesn’t exist.

If we look at the history of fractional reserve banking, it originated with goldsmiths. Goldsmiths were given gold for safekeeping and they would give receipts out to cover the gold. They gradually realized that people were trading in the receipts as opposed to using gold. As a result, they would issue more receipts than the amount of gold they were keeping. Now if they were to spend those receipts they issued on themselves, the chances are those receipts may come back to them at a later date for use in gold. So they evolved this technique whereby they would lend the receipts out, and when the loans were paid off, they would cancel the receipts. This way, no one would know what they were doing. In effect, by lending these receipts out, they would create a charge on it as interest, and would pocket the interest. This is still used today. So by introducing interest on a loan through the modern banking system, a debt is created in society that doesn’t exist.

Now the question is: where is this money going to come from? As it doesn’t exist, where is it going to come? There are two options: either the bank will lend yet more money, or the bank has to have an additional supply of state money. What was originally proposed in the UK as the best solution and now seems to have become the orthodox solution, was proposed by John Maynard Keynes, is referred to as Keynesian solution. What he proposed was that banks would be facilitated by the central bank. The central bank’s role in averting monetary recession was to be a risk-free borrower for the banks. Banks, in situation of crises, would know that they could lend to the central bank with confidence, which would obviously reimburse at a later date. This begs the question: why would the central bank do that? The only reason is to sustain the system, because the central bank always has the ability to manufacture money for itself if it wanted to. The fact that it does sustain the system creates, what was in Keynes’s idea, a solution. It was a short-term solution, but it becomes a systemic crisis, because the pattern is that of constant monetary growth. The money supply and debt upon society continues to expand.

If we look at any traditional culture, we would see that debt was something that was disliked. If a system, such as the modern-day financial system, is allowed to operate in the manner it does, we will see that it is constantly increasing debt. Just to give an example, the UK money supply as of 1971, was GBP 31 billion. At that point, President Nixon, through the Bretton-Woods agreement, closed the gold window, which meant that things were not pegged to the dollar anymore and the dollar wasn’t pegged to gold. What we see today is an excess of GBP 1,700 billion pounds.

What are the implications of these last two figures? It means that every year since 1971,the banking system has created, on an average for its own use, an excess of GBP 44 billion. What that means is that per year, the entire money supply, which had until 1971 sustained our economy through recorded history and the two world wars, is basically being replicated on a yearly basis by this money creating system. We are wondering how the environment is going to sustain this. Is it any wonder that the poorest countries are the countries responsible for deforestation?

Atif Khan:

Q: Apart from the issues you discussed and the presentation, can Islamic financial institutions be encouraged to adopt green technology in their transactions?

A: The answer is obviously yes. Anybody can be asked to adopt green technology. The onus should be on Islamic financial institutions to lead the way.

Q: I am afraid that in the current Islamic banking industry, there is no screening of eco-friendliness of projects it finances. Is there any stipulation or practice, or are there any standards set in this perspective?

A: I touched on this in point five that we do need to have a sophistication of how Islamic finance and Islam in general interact with the environment, and how we as followers of Islam and humans should interact with the environment. Right now, it is really anything goes. Nobody really cares because air is free and water is free and we can do whatever we want. The case is actually quite different. It is a collective loss and a collective burden.

Yusuf Jha:

Islamic finance, as it stands now, is not actually providing the solution. This is important to say. When the Islamic scholars got together to try and decide how to provide an alternative, they discussed things in terms of a paradigm shift and discussed it from the top down. They realized that we cannot actually bring about an Islamic economy. We can't actually bring about this change, because it would need change in regulation and governmental change, for which the Muslim countries were not ready at the time, as they don't seem now.

So it was proposed to chart a course and get things started, and hopefully when we reach critical mass, we will be in a position to impact this change. They started a course. From the '70s, we only had one or two banks, in the '80s they had more banks, and then a series of products were developed. From that point onwards, they've been operating within the same paradigm as conventional financial institutions.

Just as conventional finance is based on the idea of debt proliferation and fractional reserve, the Islamic model of banking have a whole proliferation of products that basically emulate the same perspective. Islamic banks operate within the same fractional reserve system. They operate on a fiat currency basis. Currently standing, the only real difference is that there are ways in which we can say that Islamic banks are Islamic in terms of not outwardly engaging in riba.

Q: Would it be equivalent to stop giving my money to conventional banks to give it to Islamic parts of a conventional bank, e.g. HSBC Amanah?

A: We support HSBC Amanah because, having spoken to their scholars, we understand that the funds in HSBC Amanah are kept separate from the funds in HSBC conventional. In that case, your funds would not benefit the interest-based system. Obviously, to the extent possible, try to support full-fledged Islamic institutions to support the industry, but to answer your specific question, HSBC Amanah would be something that the scholars we spoke to support.

Q: Is Islamic economics similar to Austrian economics?

A: There are many movements which are touching on 100% reserve banking and commodity currency. This is consistent with the Islamic economic model.

Q: What's the difference between Murabaha and interest?

A: Commercial interest today is not simple interest; it's compounded interest. You'd be lucky if you get a simple interest loan from any bank. We discussed earlier that tying a transaction to a particular asset or service creates a bottleneck. With a Murabaha, you can't do it on a service, but you can do it on a particular asset. In a Murabaha, the bank purchases a particular asset, sells it to the customer and finances it over a period of time as installments. It has become very common, unfortunately. We say unfortunately because it has muscled aside equity-based transactions, not because it is impermissible. There is consensus that is permissible. When a bank is forced to purchase an asset, it is confined to one transaction; it is confined to using those funds for that one transaction; and it is confined to that one customer. For the duration of that transaction, that asset is pegged to that one customer and that one transaction. With interest, concurrently, you can lend to many people at once using the same cash, and sometimes without even lending the cash—numbers on a computer. In this case, it is something quite different. And the result is what we saw earlier: $100 million turned into $110 for a Murabaha at 10%, whereas with interest, at half the rate (5%), $100 million turned into $265 million.

Q: In the case of an Ijarah, what if the value of the asset depreciates and the lessee cannot pay as he is not financially sound?

A: This is specific to the transaction. The owner in an Ijarah is the lessor. The leased asset is owned by the lessor. The lessee pays for the usufruct, i.e. the right to use the asset for a particular given duration.

Q: How do you see IDB's role as an institution that is supposed to foster the economic development and social progress of Muslim communities within the principles of Shariah?

A: We believe the IDB's role is central.

Q: What about student loans where the interest is held off, supposing it is paid off before interest is incurred?

A: It is not permissible, because you are entering into a transaction that is in and of itself impermissible. It is an invalid transaction whether you pay it now or later.

Q: I am confused as to whether time value of money is or is not acceptable in Islamic banking.

A: Time value of money is a human reality. Everybody wants a certain amount of money now rather than later. People want $100 today rather than in fifty years. Whether we can charge for the provision of cash over that time is a different question, and the answer to that is no, we cannot, as that is interest. But if you say to somebody that you can have a car now for $10,000, or you can enter into a transaction where we will provide you with the car and you can pay us back. That paying us back will be over a period of installments—let's say over five years, where you pay an amount greater than $10,000. This is something that's permissible.

Q: Based on your presentation, Islamic finance provides a better solution to environmental preservation. Apparently in business and Shariah decisions, however, this aspect is generally neglected. Please comment.

Yusuf Jha:

A: The presentation has been speaking more in terms of what Islamic finance should be. In terms of what Islamic finance is, we can hold a whole set of questions and discussion about it. Even in terms of the current climate of Islamic finance, if we look at the social responsibility investment sector, which is considered the "green sector" or the "ethical finance sector", they usually adopt what they call screens based on environmental issues and so on. We can find similar screens existing within the Islamic finance industry when it comes to investing in certain companies and certain things that are harmful to people. We also find an additional screen—a financial screening based on companies that are excessively leveraged or whose financials may not be ethical. So in effect, Islamic finance is sort of "supra-ethical finance", because it not only screens at the level of the business, but it screens at the level of the use of the finance.

If there's anything I hope we've taken from this, it is that we can go out and make sure we are recycling and doing our bit for environmental preservation, but there is a huge paradigm or model that is taking us down a path that is going to crash against civilization as we know it. The momentum towards that path is being generated by the debt-based financial system. Any social, responsible and ethical investment that doesn't take into account interest is not looking at its objectives accurately. To be fair, the ethical investment sector has been picking up and has been touched upon by various people we alluded to—James Gustave Speth and E.F. Schumacher. E.F. Schumacher, a contemporary of Keynes, was asked what the solution was; his answer was, "Plant a tree." The point being that any real solution has to look at the model of economics that we have.

I think anyone listening to this should try and understand the nature of fractional reserve banking; understand why interest is prohibited, and then join cross-denominational movements—for example, there's a website called www.positivemoney.com. Recently a bill against fractional reserve banking was passed in the House of Lords by an MP. There are all sorts of movements across people who are not Muslim but who realize that the issues affecting us are systemic and are caused by the nature of banking as we know it. We've got something to add as Muslims that is relevant to everyone, and any ethical solution has to take that into account.

Atif Khan:

It's been a great hour and twelve minutes. We've tried to answer some of your questions; we are available to answer more of them on Facebook: you can catch us on www.facebook.com/EthicaInstitute. I would like to close with a special thank you to everybody who came. Usually people start leaving within the first few minutes, but we managed to keep everyone participating throughout. We are going to make the entire presentation with the recording and slides available to you shortly—stay tuned on Facebook. Also please look out and stay tuned for the "Ethica Community Learning Packet", which will include many things that will enable you, as individuals, to go out in your communities and provide people with more knowledge about Islamic finance. This will include speeches, FAQs with scripts that you can use to answer questions, module presentations and all kinds of things. We hope to continue to serve you in our own meager way. Please pray for us; we're just learning as we go along. We thank you again for your time. Those interested in training and certification can always go to www.EthicaInstitute.com. We look forward to seeing you and serving you.

Yusuf Jha:

I'd like to thank Ethica for inviting me and doing an event of this type; this is something much needed in the Islamic finance industry.