

ONE AND A MILLION

What you can do, starting right now, with \$1 or a million

Cash often speaks louder than words, and whatever your financial wherewithal, there is always an opportunity to make a difference. The following are some ideas that each of us can resolve to do with \$1, \$1,000, \$100,000, or \$1 million:

\$1

Send a letter to your bank asking them to introduce Islamic banking to their product range, and if you currently use an Islamic bank, ask them to send proof of their Shari'a compliancy, perhaps also requesting copies of the actual documentation they use in their car, home, and business finance transactions.

Educated consumers and qualified scholars, not bankers, drive demand for high-quality, Shari'a-compliant Islamic banking products. It is imperative that during the current Islamic banking boom, individuals and institutions begin to understand the basics of Islamic banking and learn to address some of the misconceptions about its authenticity.

Banks are highly customer-driven organizations that will do just about anything to safeguard their reputation and satisfy unmet demand. But while over three hundred Islamic banks operate worldwide, and dozens more open each year, the U.S. and the U.K. are home to but a handful of Islamic banks, and even these few usually only provide plain-vanilla home financings.



The following are some sample letters Ethica permits you to reprint for the sake of promoting awareness among the banking community:

SAMPLE LETTER TO A CONVENTIONAL BANK:

Dear Sir or Madam,

As a customer at Bank Conventional for some years now, I have wanted to do more than just hold a simple checking account. My home, car, and business financing requirements keep growing but, as a Muslim, I adhere to specific Islamic guidelines when making purchases, and your bank only offers interest-based alternatives.

Islamic banking is growing all over the world and a number of major non-Muslim banks have begun to offer Islamic products. Would Bank Conventional consider doing the same? A number of my friends and family members are also keen to join Bank Conventional if you were to introduce Islamic banking.

Just to give a few examples of some Islamic products at other banks:

Savings Accounts: *A number of Islamic banks offer savings accounts that provide monthly returns based on the equity principles of musharakah, or partnership financing.*

Car Leases: *The substance of an Islamic lease, or ijarah, is quite similar to a conventional lease for car financings except for specific conditions relating to ownership, risk distribution and penalty clauses.*

Home Financings: *The most common form of Islamic home financing is called a diminishing musharakah in which the bank and the buyer become joint partners in a property and the buyer purchases the bank's equity while paying rent for what remains of the equity.*

Asset Financings: *Growing numbers of Muslim businesses rely on a simple murabaha transaction to fulfill their short-term liquidity needs. In a murabaha, the customer selects an asset, for instance, machinery, which the bank buys on behalf of the customer and resells to the customer on a deferred basis at a profit, whether in installments or lump sum. This means that the sale of an asset takes place, creating a debt, rather than the sale of cash. If you would like, I am happy to send you more material describing Islamic banking. The principles of Islamic banking are very similar to those used in conventional equity-based banks and differ from interest-based banks primarily in matters of execution and ownership. The first and most important step in developing Islamic banking expertise is to contact a qualified Islamic scholar.*

I look forward to hearing your thoughts on the possibility of introducing Islamic banking at Bank Conventional in the near future.

Regards, etc.

SAMPLE LETTER TO AN ISLAMIC BANK:

Dear Sir or Madam,

As a customer at Bank Islamic, I am inquiring about Shari'a compliancy at your bank.

While I hold your bank in the highest regard, certain industry practices among less scrupulous banks motivate me to do some of my own research. Could you please give me specific responses to the following queries:

Transparency: *Does your Shari'a advisory board have total visibility on all the contracts you use? Do they see exactly the same documents the customer sees? If so, please give me specific proof that this is the case.*

Authenticity: *Do you use conventional contracts and simply replace the language with Islamic terminology or do you execute bona fide Islamic transactions? Kindly send me sample documents for each of your Islamic products.*

Qualification: *The leading experts in the industry follow the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and have extensive training in the field. What are the backgrounds of the members of your Shari'a advisory board?*

Additionally, I ask that you broaden your current product line. While I would like to continue to bank with Bank Islamic, my requirements keep increasing and currently you only offer (insert car, home, education, business, etc) financing. At the moment, I am in the market for (insert car, home, education, business, etc) financing.

Kindly address these concerns because, while I find it inconvenient to deal with Islamic banks abroad, I am willing to make the move if I am not satisfied with Shari'a compliancy at Bank Islamic.

I look forward to your earliest response.

Regards, etc.

\$1,000

This year diversify your zakat allocation to include debt relief for students. How often we find the budding scholar, the next big entrepreneur, or the talented writer, groaning under the burden of thousands of dollars of student loans, relinquishing his less pedestrian ambitions for something more sensible.

Provided one meets the conditions for a valid zakat payment, three additional points make the possibility of relieving debt burdens a practical reality: 1) one may pay zakat in advance, allowing for larger one-time payments to students; 2) the portion of the zakat payment made in advance may be paid in installments, giving the student the security of a future stream of cash without excessively burdening the one paying; 3) provided one makes the intention first, one may pay the zakat in the guise of a gift, avoiding the possible stigma attached to giving zakat to one's deserving relatives.

\$100,000

Still on the drawing boards at some Islamic banks, education finance is a Shari'a-compliant possibility we should continue to explore. Among the structures recently proposed is one from Mufti Muhammad Imran Usmani, one of the world's leading Shari'a advisors on Islamic banking, in which a service-based ijarah (Islamic lease) is used to finance an education.

In such an arrangement a financier, such as a bank or angel investor, partners with an educational institution. The financier pays the educational institution the cost of the education and concurrently creates an educational package sold at a premium that includes tuition, room, board, books, and other expenses. The student enrolls and repays the financier in installments or as a lump sum at some future date.

The package is priced attractively enough for both financier and student, while the educational institution only signs the documentation necessary to create the partnership with the financier. The financier might also negotiate a discount with the institution for multiple packages, and pass some of the savings on to the student.

Obviously, it would be ideal to simply give the money away, but this poses the usual problem: limited institutional interest. In order for education finance to interest banks, Islamic or otherwise, and thereby achieve the scale necessary to reach everyone, there must be profits. But unlike conventional interest-based loans that compound mercilessly year-in and year-out after the student graduates, Islam does not permit simple or compounded interest or rollovers: rescheduling a debt is permissible, increasing it is not.

The market for Shari'a-compliant education financings is substantial enough to potentially rival the home financing market, and do so while offering shorter tenures. It is now a matter of a handful of intrepid individuals creating the grassroots awareness, and the institutional leverage, for interest-free education finance to become a ground reality. Until then, with the assistance of a qualified Islamic scholar, individuals should consider approaching banks independently.

\$1 MILLION

Islamic venture capital. Three words rarely found together, and yet the very essence of venture capital is thoroughly Islamic. Sadly, the single largest economic “community” in the world, the Muslims, have almost zero institutional equity-based capital organized for start-up businesses. Today, a Muslim entrepreneur seeking to raise cash to bring a distinctly Islamic product to market has no one to turn to except family, friends or the local interest-based bank.

In a post-9/11 environment of highly regulated capital flows, American and British Muslims are flush with capital that otherwise would have left the country as donations, remittances, or investments. There is no better time to conduct a funding round among these Muslim investors to raise capital for a venture fund that targets high-growth Muslim businesses, or a “social” venture capital fund that seeks economic uplift in addition to profitability.

The typical venture capitalist, sometimes a handful of cash-rich bankers and often a former entrepreneur-turned-angel-investor with a keen eye for picking potentially profitable companies, provides seed capital to a high-growth business in return for an equity share in the company. Most of the fund’s capital invests in about a dozen companies, of which only about two or three are really expected to generate significant returns.

Gone perhaps are the go-go dotcom days of two kids, a garage and a pre-revenue, pre-product business plan, scoring a multi-billion dollar financing. But if the successes of Intel, Apple, and Netscape are anything to go by, not to mention the continued interest for post-product bricks-and-mortar companies, venture capital is still the single most attractive form of Islamically acceptable start-up financing.