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A STUDY INVESTIGATING THE REASONS WHY WESTERN CAPE MUSLIMS USE TRADITIONAL BANKING SERVICES AS OPPOSED TO PRESCRIBED ISLAMIC BANKING INSTRUMENTS

SURAYAH HARTLEY

1. Introduction

According to an article appearing in The New York Business Wire (2002) at a time when the words Islam and finance are likely to conjure an association with the laundering of terrorist money, the Muslim world has quietly embarked on a very different type of jihad: building a financial system where interest, a phenomenon as old as money itself, does not exist.

Fortune Magazine’s senior writer, Jerry Useem, investigated the Muslim financial system in his “Banking on Allah,” which appears in the June 10, 2002 issue of Fortune’s Spread across the Middle East and beyond, and asserts that there are “...more than 200 Islamic financial institutions: banks, mutual funds, mortgage companies, insurance companies; in short, an entire parallel economy in which Allah, not Alan Greenspan, has the final say.” He further asserts that “…industry growth has averaged 10% to 15% a year and sniffing opportunity, conventional banks like Citibank and HSBC have opened Islamic windows in the Gulf. While the industry’s market share is modest, approximately 10% in Bahrain, its very existence challenges the modern assumption that global capitalism flattens all before it.”

1 Islamic banking, like any other banking system, must be seen as an evolving system particularly as it has been

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accepted worldwide as an ethical and viable financial system. It was pioneered by the establishment of two conglomerates, namely:

- Dar Al-Maal Al-Islami (DMI) with its Head Office in Geneva, and,
- Al-Baraka with its Head Office in Jeddah

2. Defining Islamic Banking

Islamic banking is a system of finance based upon Islamic principles, the most important of which is the prohibition of interest. Islamic principles dictate that money may earn a return only by being employed productively rather than being allowed to feed on itself in financial markets. When an Islamic bank lends money, it shares the risks and rewards undertaken by the borrower. The bank’s rate of return depends on the financial success of its clients. Islamic Banks will not finance any project that conflicts with the moral value system of Islam. For example, they are not permitted to finance casinos, night clubs, wineries, pornography or any other enterprise known to be harmful to society.

3 It is not only Islam that has prohibited interest. Other major religions like Judaism, Christianity and Hinduism, whose followers constitute two thirds of the world’s population, have likewise done the same. The Bible disapproves of interest and does not recognise any distinction between usury and interest. Those who took interest were branded from as wicked, and could not, according to the Third Lateran Council (1179), be admitted to communion or receive a Christian burial. The

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Talmud compares the moneylender to a murderer and the Mishnah disqualifies him giving evidence in a court of law.

3. Usury in the Islamic Shari'ah (Islamic Law)

4 *Riba* means increase. The word is derived from the Arabic word *raba*, which means to grow or increase. The word is implied in the sense of an additional increase in an object over and above its original size or amount. As a technical term, it means usury and interest, and in general any unjustifiable increase of capital for which no compensation is given.

5 In the Pre-Islamic era, *riba* signified the increase of money in consideration for an extension of the term of maturity of a loan. The Pre-Islamic Arabs used to pay the money on loans and received a certain sum leaving the principal sum untouched. When the maturity date of the loan approached, they would claim the principal sum from the debtor and if it was not possible for the debtor to repay the loan, the creditor would increase the principal and extend maturity date. Thus, there were transactions with a fixed time limit and payment of interest, as well as speculations of all kinds that formed an essential element in the trading system of the Pre-Islamic era.

3.1 Quran's injunctions concerning *Riba*

6 The first verse that deals with *riba* in the Holy Quran is in Surah Al Rum (The Romans). The verse (verse 39), states “…that which ye lay out for increase through the property of

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5 Babikr (1999) International Centre for Research in Islamic Economics, King Abdul Aziz University, Jeddah and Institute of Policy Studies, Islamabad.

(other) people, will have no increase with Allah: But that which ye lay out for charity, seeking the countenance of Allah, will increase: It is these who will get a recompense multiplied.” According to exegetes of Quran, this verse was revealed in Mecca before the emigration (Hijra) to Madina, i.e. before the prohibition of riba for which the verse paved the way.

3.2 The Prophet Mohammed’s (pbuh) sayings on Riba

The Prophet Mohammed (pbuh) emphasized the extreme danger inherent in riba by using the strongest possible language in order to warn mankind and Muslims about it.

Abu Huraira, the Messenger of Allah said the following of riba: “...riba is of seventy different kinds the least grave being equivalent to a man marrying (i.e. having sexual intercourse with) his own mother.” As incest is a most serious wrongdoing, the gravity of riba must therefore be of an even greater magnitude.

3.3 Usury and Christianity

Until a few hundred years ago any extra amount demanded by the lender in addition to his capital was called usury. Early European philosophers such as Plato (427-347 BC) and Aristotle (384-322 BC) condemned the practice of taking usury. Aristotle compared money to “...a barren hen, which laid no eggs...” and held that “...a piece of money cannot beget another piece of money.” The Roman Empire, in its early stages, prohibited charging of usury.

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By the end of the thirteenth century several factors appeared which considerably undermined the influence of the Orthodox Church. Eventually, the reformist group, led by Luther (1483-1546) and Zwingli (1484-1531), agreed to the charging of interest on the plea of human weakness.

Thus, beginning in the mid-sixteenth century, the prohibition on usury (in the old sense) was legally removed in all Western countries. The environment, in which it took place, as evidenced by the above quote, is noteworthy as it led to the expansion of trade and the associated demand for credit. Borrowers were mainly the rich merchants, and they used the short-term credit for buying and selling goods. The moneylenders lent their own money and/or that of their wealthy clients. The borrowers knew how much they could make using a given amount of credit, and they paid the lenders a portion of this profit. This supplied the justification for demanding the extra amount.

But this justification for “limited interest” under a particular circumstance was, in the course of time, stretched out and applied in general. Support was forthcoming on other grounds too. For example, Sir Francis Bacon (1561-1626) advocated “…since of necessity men must give and take money on loan and since they are so hard of heart that they will not lend it, otherwise there is nothing for it, but that interest should be permitted.” He further stated that the “…new moderate form of usury (interest) was legal and moral…”, and that “…economic theories were developed with this limit and justification as the base.” Theories found their way into textbooks, more theories were developed, and interest became an integral part of economic practice. In practice, the theory was applied universally whether the original conditions, which justified the extra payment, existed or not. Practice reinforced theory and now that it has been incorporated into the foundations of
economics, it is difficult to think of any economic theory or activity without interest being an integral part of it.

In 1545 the legal maximum interest rate in England was fixed at ten percent per annum, but it did not remain fixed for long. It varied from time to time and from place to place, depending on the economic and political circumstances.” Eventually, the concept of maximum interest ceased to exist, and usury as a word went into disuse. Today it is common place and totally legal to charge and to pay interest. Although it oftentimes creates financial problems (particularly for the uneducated and the unsophisticated consumer), usury is accepted both in theory and practice.

4. The Emergence of Islamic Banking in South Africa

During 1989 the Islamic Bank was established in Cape Town. The issue of *riba* has long been a problem for Muslims worldwide and the establishment of the Islamic Bank was therefore widely accepted and supported by a large part of the Muslim community, business owners, and mosque committees as well as theological bodies. The bank was completely South African owned. After ten years of existence the bank started experiencing various problems which later resulted in the closure of the bank. Very little is known as to what the main causes for the closure were. Numerous people and community institutions lost monies they had invested with Islamic Bank. The researcher spent many months trying to locate people that could shed light on the demise of the bank, but was unsuccessful.

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Http://users.bart.nl/~abdul/article4.html
Accessed: 30 September 2004
Albaraka Bank pioneered Islamic Banking in South Africa. Albaraka Bank was registered in South Africa in 1989 in response to the need for a system of banking in line with Islamic economic principles. The Bank is jointly owned by South African investors and the Saudi Arabian-based Dallah Albaraka Group, which, as part of its highly diversified operations, has established one of the largest international Islamic banking groups in the world.

All of the bank’s products and services have been developed in a manner that promotes the understanding and adoption of Islamic economic principles and in this way contributed to the socio-economic development of the community. In the process the bank has been able to draw on the vast experience and expertise of the Dallah Albaraka Group, which has banks and finance houses throughout the world.

Albaraka Bank’s head office is in Durban with strategically located branches in Durban, Athlone (Cape Town), Fordsburg (Johannesburg), Laudium (Pretoria) and Lenasia (Johannesburg). The bank offers a comprehensive range of banking, investments and financing products.

Since inception in 1989, the Bank has made remarkable progress in all areas of its operations. Total assets have increased to almost R644 million in 2002. Albaraka Bank has over one hundred employees who are spread throughout their nationally represented branch offices. Over the past fifteen years Albaraka’s success is attributable to the community’s faith and confidence in the Bank’s ability to develop and implement a viable alternative to the interest-based banking system. Albaraka Bank’s impressive track record of growth is tangible proof of

the market's acceptance of an alternative system of banking.

4.1 Islamic Instruments of Investments & Finance.

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Description</th>
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<tbody>
<tr>
<td>Al-ajr</td>
<td>Refers to commission, fees or wages charged for services</td>
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<tr>
<td>Bai al-dayn</td>
<td>The sale of debt. To enable the sale to take place, the debt arising out of contract of exchanges, such as trade financing, or asset sale are securitised. These securities being the certificates of debts are evidence of the debts and the commitment of the debtor under the contract of exchanges entered into. Maturities of the securities range from one month to longer terms. Only securities evidencing bona fide commercial transactions can be traded.</td>
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<tr>
<td>Bai al-salam</td>
<td>Contract of sale of goods, where the price is paid in advance and the goods are delivered in the future.</td>
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<tr>
<td>Bai bithaman ajil</td>
<td>This contract refers to the sale of goods on a deferred payment basis. Equipment or goods (assets) requested by the client are bought by the bank, which subsequently sells the</td>
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<tr>
<td><strong>Ijara (Leasing)</strong></td>
<td>A contract under which a bank buys and leases out for rental fee equipment required by its clients. The duration of the lease and rental fees are agreed in advance. Ownership of the equipment remains in the hands of the bank. The contract is a classical Islamic financial one, now in increasing use worldwide.</td>
</tr>
<tr>
<td><strong>Ijara wá-iqtina (Lease/hire purchase)</strong></td>
<td>Very similar to ijara, except that there is a commitment from the client to buy the equipment at the end of the rental period. It is pre-agreed that at the end of the lease period the client will buy the equipment at an agreed price from the bank, with rental fees previously paid constituting part of the price.</td>
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<tr>
<td><strong>Istina</strong></td>
<td>A contract of acquisition of goods by specification or order, where the price is paid progressively in accordance with the progress of a job completion. This is practiced, for example, for purchase of homes to be constructed where the payments made to the developer or builder is according to the stage of work completed. In the case of <em>bai al salam</em>, the full payment, if made in advance to the seller, i.e. before delivery of the goods. In Islamic financing, the application of <em>bai al salam</em> and istinsa are as purchasing mechanism, whereas murabaha and bai bithaman ajil are for financing sales.</td>
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<td><strong>Murabaha (Cost-plus financing)</strong></td>
<td>This is a contract of sale between the bank and its client for the sale of goods at a price which includes a profit margin agreed by both parties. As a financing technique it involves the purchase of goods by the bank as requested by the client. The goods are sold to the client with a mark-up. Repayment, usually in instalments, is specified in the contract.</td>
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<tr>
<td><strong>Mudaraba (Trust financing)</strong></td>
<td>This is an agreement made</td>
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<tr>
<td><strong>Musharaka (Partnership financing)</strong></td>
<td>This Islamic financing technique involves a partnership between two parties who both provide capital towards the financing of a project. Both parties share profits on a pre-agreed ratio, but losses are shared on a basis of equity participation. Management of the project may be carried out by both the parties and just one party. This is a very flexible partnership arrangement where the sharing of the profits and the management can be negotiated and pre-agreed by all parties.</td>
</tr>
<tr>
<td><strong>Qard ul hasan (A benevolent)</strong></td>
<td>A profit free loan given either</td>
</tr>
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</table>

between two parties: one which provides 100 percent of the capital of the project and another party known as muddarib, who manages the project using his entrepreneurial skills. Profits arising from the project are distributed according to a predetermined ratio. Any losses accruing are borne by the provider of the capital. The provider of the capital has no control over the management of the project.
or good loan) for welfare purposes or for bridging short term funds requirements. The borrower is required to pay only the amount borrowed.

| Haj Investment Scheme (Pilgrimage) | A monthly savings scheme which allows investors the opportunity to save for Haj and earn a higher share of the profits than any other investment |

5. Profiles of the Western Cape Muslim community.

Demographic and Geographical Profile

The population of the Western Cape Province was 4,524,334 in 2001 according to Statistics South Africa – Census 2001. A breakdown of the population is found below in Table 1.

<table>
<thead>
<tr>
<th>Table 1. Population by Size</th>
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<tr>
<td></td>
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<tr>
<td>Non Muslim</td>
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<tr>
<td></td>
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<tr>
<td>Muslim</td>
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<tr>
<td>Total</td>
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Data Source: Statistics South Africa. Census 2001

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6. Primary Data that were solicited through the Semi-Structured Interviews

The following primary data were obtained as a result of the semi-structured interviews that were conducted with the various targeted respondents.

Results obtained from the Semi-Structured Interviews with the sample of 22 Muslims.

The questions posed to the 22 respondents from all walks of life as stated earlier in the paper are as follows:

- Are you aware of the various verses in the Quran and the sayings of Prophet Muhammed (pbuh) pertaining to the issue of usury/interest?

- Are you aware of the existence of Islamic approved banking services such as Albaraka Bank?

- When were you made aware and from what source did this information come from?

- Are you utilising Albaraka bank's service?

  - If yes, which products do you use?

  - If no, why not and which conventional bank are you utilising?

- What would you like to see happening to encourage you towards Islamic Banking?

- In your view, does the Muslim leadership do enough to raise the awareness of alternate banking instruments such as that offered by Albaraka Bank as well as the issue of interest/usury?

Analysis of the Individual Respondents' Responses

It must be noted that 100% of the interviewees were aware of both the Quranic verses as well as the sayings of the Prophet
Muhammed (pbbh). The researcher’s interpretation however is that whilst the interviewees were aware of the above the degree of the awareness as well as the understanding altered from person to person.

It must also be noted that 100% of the respondents are aware of the existence of Albaraka Bank and has known about them either since inception or for many years. This awareness came about via both radio, printed media as well as by word of mouth.

It must be noted that 36% of the twenty-two respondents utilise Albaraka products such as home loans, savings accounts, hajj (pilgrimage) accounts, investments accounts as well as children’s savings accounts. It must however be noted that while the above 36% respondents operate Albaraka accounts they have accounts at conventional banks too. Of the eight respondents operating Albaraka accounts:

- 38% utilize the children’s savings accounts
- 25% utilize the adult savings accounts
- 12% utilize the home loan account
- 15% utilize the investment account
- 12% utilize the hajj (pilgrimage) account.

All twenty-two respondents (100%) feel that Albaraka bank is not competitive enough and that their product offering is very limited. Issues such as non affordability for asset finance as well as stringent criteria for financial assistance was also mentioned by 18% of the respondents. 14% of the respondents feel that the bank is very selective in whom they grant financial assistance.

All respondents feel that the Islamic leadership in the Western Cape does not do enough to raise not only the awareness but also the understanding of the issue of Islamic banking and interest/usury.
Conclusions Made from the Individual Responses

A number of problems have been highlighted in the above findings. The respondent’s honesty in the research has assisted greatly in drawing the conclusion that Albaraka Bank as well as the respondents has a great responsibility in addressing the ignorance around the issue of Islamic banking and finance.

Recommendations regarding the Individual Responses

The researcher cannot dictate to the respondents what road they should choose to address the issue of educating themselves about Islamic banking and finance. Most of the respondents indicated to the researcher that they will attempt to increase their knowledge sooner rather than later.

Results obtained from the Semi – Structured Interview with the Muslim Judicial Council

The interview was conducted with the Deputy President of the Muslim Judicial Council Maulana I. Hendricks.

The questions posed to the Muslim Judicial Council were:

- Why do so many Muslims in the Western Cape not ascribe to the Islamic way of banking as offered by Albaraka Bank?

- Does the Muslim Judicial Council have a strategy in place to educate the Muslims in the Western Cape around the issue of Islamic financial instruments such as those offered by Albaraka Bank?

The interview yielded the following responses to the questions asked.

1. The reasons why so many Muslims in the Western Cape do not ascribe to the Islamic way of banking as offered by Albaraka Bank is due to the demise of Islamic bank a few years
ago. Many Muslims lost a great deal of money as did many of the Mosques in the Western Cape. So there exists a degree of trepidation amongst the people around this issue of Islamic banking. Many Muslims in the Western Cape also have very limited knowledge and understanding of Islamic Banking

2. Maulana Hendricks has admitted that have not done enough to increase not only the awareness of Islamic Banking but to increase the level of understanding amongst the masses.

3. The Muslim Judicial Council does not have a strategy in place to educate the Muslims in the Western Cape around the issue of Islamic financial instruments such as those offered by Albaraka Bank. This is largely due to the fact that very few of the Muslim clerics possess the necessary knowledge or qualification to address this issue. They do however recognize the need for a plan of action to be formulated.

Conclusions made from the MJC's Responses

It can be concluded that the Muslim Judicial Council has a very difficult task ahead of them as they are perceived by the Muslim community at large not to be doing enough about educating the masses. They do acknowledge that this is indeed the case.

Recommendations pertaining to the MJC

The researcher recommends that the Islamic leadership should work much closer with Albaraka Bank or any other institution that offers Islamic financial instruments. Wesbank has opened an “Islamic Window” and soon other conventional banks will adopt this strategy. Standard Bank has also shown some degree of interest by attending various Islamic Banking and finance seminars held in South Africa. The leadership should forge an alliance with the Islamic Educational Organisation of Southern Africa who manages 12 Islamic schools in the Western Cape. If Islamic banking and finance is offered as part of the school’s curriculum then the current youth will become more familiar
with this phenomena and ease into it by the time they are economically active.

Results obtained from the Semi – Structured Interview with the National Albaraka Bank

The interview was conducted with the National Marketing Manager of Albaraka Bank, Mr. Z. Mohammed.

The questions posed to Albaraka Bank were:

- What is the bank’s current market share?
- Which product or products are most popular?
- What marketing strategy does the bank employ?

_The interview yielded the following responses to the questions asked_.

1. Mr. Mohammed could not say what Albaraka bank’s market share in the Western Cape was but that in 2003 the bank had forty thousand depositors of which 25% was from the Western Cape Province. This figure equates to ten thousand depositors. He did however point out that there might be multiple accounts to one account holder’s name.

2. Mr. Mohammed said that the most popular product offering utilized in the Western Cape was the Hajj (Pilgrimage) Investment Scheme as well as the wills and estates.

3. Albaraka Bank promotes and markets its products via the community radios. I.e. The Voice of the Cape as well as Radio 786. They participate in community events such as Big Walks, Golf Days as well as school fundraisers. It is at these events that representatives from the bank would offer assistance and advice.
to the public concerning the products offered by Albaraka Bank. The bank also advertises in the community newspaper, The Muslim Views.

Conclusions as a result of the Interview with Albaraka Bank

It would appear from the above results that the bank does not have a strong or aggressive marketing strategy in place. It is interesting to note that the most popular product used in the Western Cape is the hajj scheme. An average hajj package is approximately twenty five thousand rand per individual. Muslims do not need much awareness about this product as they would utilise it out of a sense of “doing the right thing” or wanting their monies to be “clean” rather than responding to Albaraka’s marketing strategy.

Recommendations pertaining to Albaraka Bank

To address the challenges facing Albaraka Bank, a strategic marketing strategy should be employed. A proposed format is as follows:

Step.1 – A Situational Analysis

A situational analysis should be done in the form of a SWOT analysis. A SWOT analysis is a useful tool for analysing the banks overall situation. (SWOT stands for strengths, weaknesses, opportunities and threats.) This approach attempts to balance the internal strengths and weaknesses with the opportunities and threats of the external environment presents. This approach suggests that the major issues facing the bank can be isolated through careful analysis of each of the four elements.

Finally, it is the view of the researcher that should Albaraka Bank want to increase it’s competitiveness it will have to develop a strategy focused on intensive customer care.

7. Conclusion

The main goal of this study was to establish the reasons why so many Muslims in the Western Cape have not yet adopted the
Islamic way of banking. Twenty-two respondents participated in the research. Of these respondents 45% were female and 55% were males. They were advocates, academics, business owners, bankers, entrepreneurs and ordinary people across a wide spectrum of careers. Results from this study have shown that the Muslim community, Albaraka Bank and the Muslim Leadership must forge some kind of alliance or partnership to address the various challenges facing each one. The researcher’s point of view is one of great concern as the area of Islamic banking and finance has not received enough attention from academics, the ordinary man in the street as well as the Islamic leadership in South Africa. The rest of the Islamic world as well as Muslims in non-Islamic countries are aggressively addressing the issue of interest/usury and the impact it is having on the lives of Muslims globally. Western Cape Muslims as well as South African Muslims at large should educate themselves around this issue before they “miss the boat”.

8. Proposal regarding further Investigation

This study is of great relevance that the absence of any future studies will prove to be very detrimental to the progress of Islamic finance in the Western Cape as well as the rest of South Africa. Further studies are required as this not only affects normal banking but pension, provident funds as well as insurance and medical aid schemes. Researchers should have greater accessibility to financial data from Albaraka bank as that will give a better idea as to how many Muslims do in fact utilise the bank as well as the motivation behind the choice of Islamic banking rather than the conventional banking. This requires further studies which the researcher will want to pursue for doctoral study purposes in the near future.
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