



SECOND HARVARD UNIVERSITY FORUM ON ISLAMIC FINANCE
HARVARD LAW SCHOOL - OCTOBER 9-10, 1998

ISLAMIC FINANCE INTO THE 21ST CENTURY: A SHORT REPORT

The Second Annual Harvard University Forum on Islamic Finance held on October 9th and 10th, 1998 was quite an event. Held at Austin Hall, Harvard Law School, the conference was well attended by a gathering of around 250 people that included students, banking and legal practitioners, scholars and academics from all around the world. The conference was organized by Harvard Islamic Finance Information Program (HIFIP), with the assistance of the Islamic Legal Studies Program at Harvard Law School, and Harvard Islamic Society. The conference was sponsored by the Center for Middle Eastern Studies in association with various organizations and member institutions of HIFIP.

The topic for this year's Forum was "Islamic Finance in the 21st Century", with particular focus on a) Islamic Banking and Finance, b) Islamic Economic Development and, c) *Shari'a* (Jurisprudence) issues. The two days of sessions including 43 speakers (17 practitioners 11 practitioners/academics and 15 academics) was a effort to bring together both professionals and academics. Speakers presented their views, raised issues, identified areas of development, and provided solutions and ideas for the growth of Islamic finance. All in all the conference represented a good balance of those who are presently working and researching in the field of Islamic finance.

The sessions in the conference were divided up according to special topics, such as the Global Perspective of Islamic Finance, the *Shari'ah* Perspective on Islamic Financial Products, Legal Issues, Islamic Economics, Asset Securitization, Project Finance and Islamic Finance Information Technology. Presentations and papers in these sessions covered a wide array of subjects such as Accounting and Auditing Standards for Islamic Financial Institutions, *Shari'ah* Precautions in some Islamic Finance Contracts, *Shari'ah* Violations in Islamic Investment Agreements, Issues in Prudential Regulations and Supervision, Financial Engineering, Islamic Tradable Instruments, Islamic Investment Products, Integrating Islamic and Conventional Project Finance, Linking Ethics and Economics, Islamic Finance -the Micro Evolutionary Perspective, Monetary Policies and Economic Growth.

IFIP the conference resumed with an address from Samuel L. Hayes , Professor of Investment Banking at Harvard Business School and Chairperson of the Forum. Hayes highlighted the challenges faced by Islamic finance in today's environment, the issues that would need to be resolved and most importantly the key factors that would have to be addressed for Islamic finance to compete with conventional finance. After two days of lectures and panels, the Forum was brought to a close by Nazim Ali, HIFIP Director of Operations.

This year the Forum featured key note speakers for each major area i.e. Islamic finance, *Shari'ah* and Islamic economics. The key note speaker for the Islamic finance session was Adnan Al Bahar, Chairman of The International Investor, Kuwait. Al Bahar indicated the growth of Islamic finance in the Middle East and how Islamic finance was important in mobilizing local and regional savings and also important in providing capital in the Gulf region. He indicated that value systems are an important source of energy and if used positively they are crucial assets that make for a better world. Values enrich our approach to social and economic development, providing an understanding of the importance of culture which can be utilized as an asset rather than as a liability.

The keynote speaker on *shari'a*, Sheikh Nizam Yaquby, expressed his thoughts on Islamic finance in view of *shari'a* and indicated that the *shari'a* was focused more on authentication than standardization of Islamic contracts. This year's key note speaker for Islamic Economics was Umer Chapra, Senior Economic Advisor to the Saudi Arabian Monetary Agency. Chapra explained the role of individuals and that of the State and highlighted the important elements necessary to implement a just Islamic financial system. He pointed out the steps that can be taken by the

Muslim countries to Islamize their financial system which included elimination of interest, strengthening the government, minimization of macroeconomics imbalances, legal and institutional reforms.

The two *shari'a* sessions were clearly the most popular in the conference. This year the Forum was graced by the presence of the eminent *shari'a* scholars like Sheikh Abdul Rehman Bin Aqeel, Secretary, *Shari'a* Committee, Al-Rajhi Banking Corporation, Sheikh Nizam Yaquby, *Shari'a* Advisor, Bahrain and Sheikh Talal DeLorenzo, Director of Education, Islamic Saudi Academy, USA.

The first session was Chaired by Frank Vogel, Director of Islamic Legal Studies Program at Harvard Law School . In this session, Sheikh Bin Aqeel presented a paper on the “Shari’ah precautions in some Islamic Finance Contracts (Murabaha and Istisna)”. For the Murabaha contract, Sheikh Bin Aqeel emphasized that according to the *shari'a*, the Murabaha at the promise phase should not be committing, the bank should have the custody of the goods before signing the sale contract with the client, before signing the contract the bank should not seek any collateral that may make the client committed in any way towards the bank, it should not include and delay fines, etc. With regards to the *istisna* contract, he mentioned that it should be ensured that the goods subject to the contract are manufactured and not in their raw state i.e. that *istisna* contract is not applicable to grain, millet and crude oil. The *istisna* should mention only the technical specification of the manufactured items without connecting them to a certain factory or certain party. The paper authored by Mohammad Ali Elgari, Director, Center of Research in Islamic Economics, King Abdul Aziz University, Saudi Arabia focused on the *shari'a* violations in Islamic Investment Agreements. Waleed Ansari, Faculty member, School of Islamic and Social Sciences, Virginia presented a paper which he has co-authored with Taha J. Alalwani, President of School of Islamic and Social Sciences. The paper focused on the role of *ijtihad* in the regulation and correction of capital markets.

In the second session on *Shari'a* and Legal Issues, the practical and legal tax issues that would affect Islamic finance transaction in the US were discussed in detail by Isam Salah and Mr. Donald Knight Jr. partners at the US law firm King & Spalding . Gohar Bilal also explained some of the basic Islamic finance contracts that could be used in developing tradable Islamic instrument for the capital markets.

The session on “Islamic Banking: The Global Perspective” was primarily dominated by three of the largest financial institutions i.e. the Islamic Development Bank (IDB), Citibank (CB), and Hong Kong Shanghai Banking Corporations (HSBC). Representative of the three sessions were Munawar Iqbal, Chief of Islamic Banking and Finance, IDB; Shaukat Aziz, Executive Vice President, CB and Iqbal Ahmad Khan, Managing Director of Global Islamic Finance, HSBC. The three speakers highlighted the growing opportunities for large financial institutions in the field of Islamic finance which ranged from Islamic asset backed securities to the new investment products that are offered by these institutions. Speakers also identified a need to set up *shari'a* boards at a global or central bank level, and how it may expedite and perhaps assist in developing some standard guidelines for conducting Islamic finance transactions.

The two sessions of Islamic Economics focused on Islamic monetary policy and resource mobilization, profit and loss sharing in Islamic finance, the micro evolutionary perspective for the survival of Islamic finance, non formal and voluntary sector banking. Two of the prominent speakers in these sessions were M. A. Mannan, Chairman, Social Investment Bank, Bangladesh, Mahmoud El-Gamal, Chair Islamic Economics, Finance and Management, Rice University. El-Gamal presented an evolutionary game-theoretic model discussing the controversial issue of the durability of Islamic banking industry.

The remaining four sessions-- Asset Securitization, Capital Markets, Consumer Finance, and Project Finance had a practitioner emphasis. Overall, the conference provided a vital forum for the exchange of ideas and networking opportunities with top-tier practitioners and scholars in the areas of Islamic accounting, economics, finance and *shari'a*.