THE INFLUENCE OF ISLAMIC BANKING ON AGRICULTURAL DEVELOPMENT IN SUDAN

by

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ABSTRACT

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Islamic banking is a relatively new and rapidly growing phenomenon, particularly in the Muslim world. Islamic banking prohibits all kinds of financial transactions based on interest. Its primary approach to financing is the mudaraba profit-loss contract, where the financing partner, the bank, and the entrepreneurial partner, the individual seeking investment capital, share profit as mutually agreed upon. In the case of loss from the business venture, the loss is absorbed by the bank. Because there is no collateral or interest involved in the mudaraba contract and because loss is absorbed by the financing partner, the bank, the mudaraba contract is becoming increasingly popular among poor rural agriculturalists in Sudan who seek capital to finance their agricultural activities. Consequently, the mudaraba contract is more accessible than conventional loans and is not as exploitive as loans originating from traditional village money lenders of Sudan who charge exhorbitant amounts of interest. The Islamic banking movement in Sudan represents a revolution in banking methodology and a major departure from conventionally accepted banking. It represents the foundation for a potential transformation of Sudan to a healthy, agriculturally-based, Islamic economy.
DEDICATION

This paper is dedicated to the memory of El-Hajj Malik El-Shabazz (Malcolm X), the great African-American orator and statesman, whose example convinced me of the efficacy of Islam and whose model remains a major inspiration in my pursuit of higher education.

This paper is also dedicated to the memory of Dr. Isma'il Raji al-Faruqi, the great Palestinian educator and scholar, who reminded the Muslim nation that agricultural self-sufficiency is the first prerequisite for the establishment of true political independence and is an indispensable pillar upon which the foundation of an authentic Islamic economy must rest.
In the Name of Allah, The Beneficent, The Merciful

([The Prophet] Joseph) said: "Set me
Over the store-houses [of grain]
Of the land [of Egypt]: I will
Indeed guard them,
As one that knows
(Their importance)."

Surat-u-Yusuf
Verse 55
THE GENEROUS QUR’AN
Abdullah Yusuf Ali
(translator)
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PART I: THE ISLAMIC REVOLUTION

The Islamic revolution in Iran in 1979 has finally focused the light on the general global Islamic resurgence that has, in reality, been going on for decades now. Indeed, Marvin Zonis of the Middle East Institute at the University of Chicago has characterized the Islamic resurgence as "...the single most impressive political ideology which has been proposed in the 20th century since the Bolshevik Revolution" (Hundley, 1987, pg. 10A). "Iran, in spite of its teething problems and the external threats to its existence, is a product as well as a pace-setter of this historic trend" (Naqvi, 1981, pg. 3). This global Islamic resurgence symbolizes the failure of the major Western models--Secular Democracy, Territorial or Linguistic Nationalism, Individualistic Capitalism and Totalitarian Socialism, to mention only the leading few--to take root in Muslim society and capture the imagination of the Muslim people (Naqvi, 1981, pg. 9).

What the global Islamic resurgence represents is a determined protracted effort on the part of the Muslim people to throw off the shackles of domination by the West. It must be made clear that the global Islamic resurgence is not merely "...an angry outburst against the West..." but it represents a reasoned, calculated rebellion against imposed Western political, economic,
and cultural models (Naqvi, 1981, pgs. 9-10; emphasis mine).

This reasoned, calculated rebellion is the result of the
tireless efforts of several Muslim scholars, scholars dedicated
to reawakening the Muslim intellectual consciousness from its
intellectual comatosis—brought on to a large extent by the brute
force of Western intellectual imperialism—to its long standing
heritage of the political, economic, scientific, educational, and
cultural accomplishments achieved during a time when Islam was
the leading world civilization, a civilization that originally
drew its political, scientific, economic, educational, and
cultural inspiration directly from The Holy Qur’an and the
teachings of the The Prophet Muhammad (pbuh) of Mecca in the
Arabian peninsula. The path of the present Islamic resurgence
has been paved by such intellectual giants as Mawlama Sayyid Abul
A’la Mawdudi of Pakistan, Hasan al-Banna and Sayyid Qutb of
Egypt, and Dr. Ali Shariati of Iran, just to name a few among
many. These men reminded us that Islam is, always has been, and
always will be a complete code for living.

The intellectual baton that these men carried with such
dignity and dedication of purpose has now been passed on to
contemporary Muslim scholars, social scientists and policy makers
in their respective areas of interest and specialization. This
group of scholars and intellectuals, in contradistinction to
those in the Muslim world who seek solutions almost exclusively
from the West or Karl Marx—the modernist and the Marxist
scholars and intellectuals—as well as the traditionalist
scholars who cannot see beyond the nostalgia of the glorious
Islamic past, have been accurately characterized by Ziauddin Sardar:

Deeply committed to Islam and appreciative of Muslim history and tradition, he [the emerging Muslim intellectual] is neither afraid of the West or Marx, nor does he regard them as a panacea for all ills. He is ready to see good in other systems of thought and action, and even ready to borrow those ideas which he can synthesize within the world-view of Islam. But his main concern is to develop a contemporary, integrated Islamic system of thought and action that presents a genuine alternative to the dominant system. The new intellectual can be seen teaching and discussing, at university campuses in Kuala Lumpur and Islamabad, Tehran and Damascus, Cairo and Khartoum, Rabat and Lagos, Aligarh and Ottawa, London and Chicago. Although this group is predominantly young, it is not exclusively so. After seeing what their thought and policies have done to Muslim societies in the last thirty years, some modernist scholars have shed their Western garments and begun to address themselves to the questions frequently raised by the new intellectuals. Similarly, a few Marxist Muslims, disillusioned with the confines of Marxist ideology and methodology, have joined the ranks of the emerging intellectuals. Even some traditional scholars are beginning to take
account of the new thinking. While most modernists and Marxist scholars find the discussion on Islamic economics, Islamic science and 'Islamization of knowledge' quite bewildering, for the emerging intellectuals it is the starting point for developing a truly contemporary Islamic intellectual tradition and hence laying the foundations for a true resurgence of Islam. Their style is uncompromisingly Islamic, even aggressive, intellectually bold and without a trace of apology" (1985, pgs. 323-324; emphasis mine).

Out of this group of emerging Muslim intellectuals and professionals has arisen the Muslim economist who [is] now [undertaking]...a reformulation of economic theory and policy in the light of Islamic values and principles....We are passing through a period of creative transition, moving from a simple expose on 'Economic Teachings of Islam' to an articulation of what can technically be described as 'Islamic Economics' (Naqvi, 1981, pg. 11).

Muhammad Arif calls this exciting new era in economics "The Seventh Scientific Revolution," the advent of the Shari'ah paradigm of Islamic Economics (1985, pgs. 94-95).
PART II: AXIOMATIC PRINCIPLES OF ISLAMIC ECONOMIC IDEOLOGY

Like any well grounded science, the Islamic economic system is based on a set of axioms. This ethical, axiomatic system which emanates directly from The Holy Qur'an is built around the concepts of Unity, Equilibrium, Free Will, and Responsibility (Naqvi, 1981). In defining the first of the four axioms, Naqvi, in his Ethics and Economics: An Islamic Synthesis, states:

Man's life on Earth in its entirety, resides eternally prefigured in the concept of Unity, which, in an absolute sense, relates only to God....In so far as man is theomorphic, he also reflects this Divine quality....In a deeper sense, the concept of Unity constitutes the vertical dimension of Islam....It integrates, along a vertical line, the political, economic, social, and religious aspects of man's life into a homogeneous whole,...Unity shows the interrelatedness of all that exists. In the Islamic view,...the Universe, life on earth and man all relate to an all-embracing unity wherein the perceptible and the imperceptible, material and spiritual potentialities coalesce to highlight the theomorphic character of man (1981, pgs. 48-49).

Naqvi goes on to state that the second axiom, Equilibrium,
constitutes the horizontal dimension of Islam. At the absolute level, it is the supreme attribute of God; in fact, its denial constitutes a denial of God Himself...Equilibrium, or social harmony, is not so much a static property in the sense of a plea for the status quo as [it is] a dynamic quality releasing powerful forces against evil....Within ourselves there is a world of errant desires and erupting ideas which must be contained and held together in correct proportions to produce a just human being....Equilibrium, as used here, carries with it definite normative underpinnings. On the plane of social existence, it denotes a binding moral commitment of individuals in any society to uphold a delicate balance in all aspects of their lives. Islam not only emphasizes the fact of Equilibrium but also insists on the quality of Equilibrium....In the Islamic view of social dynamics, the rise and fall of civilizations can be seen in terms of their 'distance' from the universal Equilibrium. It is easy to indulge in excesses; but to maintain a delicate equilibrium in human affairs stretches human ingenuity to the maximum, and brings out the best in men in terms of forebearance and self-control (1981, pgs. 49-51).

Freewill is the third ethical axiom in the Islamic economic system. Naqvi says:
Contrary to what has been propagated in non-Muslim circles man, in the Islamic perspective, is not chained to predestination in the literal sense. Having been given the faculty to choose, he has freedom either to become God-like by realizing his theomorphic character, or, using his free will, to deny God....The God-given freedom of man not only cannot be taken away from him, but must also be safeguarded through the creation of institutional safeguards that prevent its desecration by unnatural authoritarianism....The Islamic concept of freedom differs from that propounded by such Western social philosophers as Adam Smith, John Stuart Mill, and Quesnay. According to them, the individual’s (almost unlimited) right to private property provides a set of institutions which can make the maximum contribution to social good. However, Islam does not accord unqualified sanction to an individual’s right to private property, because all property belongs to God and man is only His trustee on earth. Hence, an individual does not have and exclusive ‘natural’ right to what he earns and has even less to what he can inherit. Furthermore, the roots of human freedom, according to Islam, cannot be traced to an uncertainty about who knows best, but flows naturally and serenely from a perspective of certainty: ‘Allah knoweth, ye know not’ (2:216, [The Holy Qur’an])

Lastly, Naqvi says:

Related to Free Will is the axiom of Responsibility. It sets limits to what man is free to do by making him responsible for all that he does....Unethical, unbridled individualism is also not allowed in Islam....Freedom must be counter-balanced by responsibility if only to satisfy the dictates of Nature’s Equilibrium....The Doctrine of Responsibility in fact constitutes a dynamic principle in relation to human behaviour. Man must evolve to reach perfection; but evolution is a negation of the status quo, and requires that no-one should be chained to his past or contained within the confines of his present....Fatalism implied in predestination, is no part of the Islamic message. Instead, Islam replaces a static outlook with a healthy dynamism. A free individual is not one who is insensitive to his environment but one who vibrates with life and is also life-giving, enlivening the environment by his presence (1981, pgs. 54-56).

Now, the essentials of Islamic economics are derived from the four ethical axioms just discussed. The Islamic economic system rests firmly on four basic hypotheses. First,
economic activity is indissolubly linked, through [axiomatic] Unity, with man's ethical environment. [Secondly, by virtue of axiomatic] Equilibrium...there must obtain a 'just' balance among the basic production, consumption and distribution relations. [Thirdly,...Free Will translated onto economic space, requires that individual economic freedom and state control be suitably combined to reflect the distinctive Islamic concept of human freedom. [Fourthly,...the axiom of Responsibility dictates a conscious policy of redistribution and resource transfers among various classes and groups of the society. It also implies a financial relationship between the lender and the borrower which takes explicit cognizance of the essentially risky nature of economic actions (Naqvi, 1981, pgs. 61-62).

Having stated the hypotheses that form the foundation for the Islamic economic system, it is now useful to view Islamic economics in its role as "The Seventh Scientific Revolution" in economics as has been alluded to earlier. According to Muhammad Arif, there have been six major paradigmatic transformations in economic leading to the present major paradigmatic transformation of Islamic economics. The first was the Physiocrates, a seventeenth and eighteenth century Mercantilist paradigm which advocated that the government should manage the economy to
increase the national wealth and power which is symbolized by the acquisition of ever increasing amounts of gold and silver (1985, pg. 92). The second scientific revolution, the classical paradigm, was ushered in by the publication of Adam Smith's Wealth of Nations in 1776. Smith argued in favor of "non-interventionism," i.e., the free market system. Out of the classical paradigm was to come "the first consistent model of capitalism based on the argument of the pursuit of self-interest by the individual in an exchange economy" (Arif, 1985, pg. 93). By 1870 "...the utility revolution equipped with marginalist tools transformed the classical paradigm" (Arif, 1985, pg. 93). This was the third scientific revolution, the neo-classical paradigm, which emphasized the microeconomic approach to the free market economy (Arif, 1985, pg. 93).

While the capitalists were developing and redefining their economic science, Karl Marx was approaching economic science from a different point of view. Marx, because of the widening gap between the rich and poor, disagreed with Adam Smith and his proteges that capitalism was a permanent state for society. He saw private ownership of property, a pillar of the capitalist approach, eventually dissipating. Marx was critical of the capitalistic emphasis on "self-interest" and apparent disregard for human "self-respect." He demonstrated the inherent instability of capitalism as it is subject to business cycles. He saw these and other weaknesses being ripe for the overthrow of capitalism and creation of the socialist state. Thus, was established the fourth scientific revolution, the Marxian
The great depression of the 1930's spelled trouble for the dominate position of the neo-classical approach in the West. The Keynesian paradigm, the fifth scientific revolution, rose to center stage. The Keynesian approach retained the basic pillars of capitalism—selfish individualism and private property—while innovating some marginal changes in the old neo-classical structure so as to overcome the business cycles. The Keynesian paradigm rejected the price auction approach which virtually ensured a certain percentage of perpetual unemployment in the economy. By assigning to the government the role of stabilizer in the economy through policy activism, the Keynesian approach provided a kind of safety valve against the destruction of capitalism forecasted by Marx (Arif, 1985, pg. 94).

By the 1950's, the neo-classical school pulled off a counter-revolution. This coup was led by a group of American economists. They attacked the Keynesian model on two fronts. First, the Keynesian fixed input ratio production function was abandoned in favor of the neo-classical steady growth theory. Secondly, the quantity theory was revised as a counter challenge to government policy activism. This sixth scientific revolution, the neo-classical counter-revolution, is considered the dominate mainstream approach to economics today (Arif, 1985, pg. 94).

The seventh scientific revolution, the Shari'ah paradigm of Islamic economics is now in progress (Arif, 1985, pg. 94). There is, happily, at the same time a budding recognition on the part of the wider academic community outside Islam that Islam does
indeed offer a unique approach to economics. Daniel Teferra in his *Economic Development and Nation Building in Ethiopia* makes a rather poignant point relative to this fact. In his critique on Marxist-Leninist theory, Teferra states:

> The neo-Marxist-Leninist theory rightly directs our attention to the historical process of development. But its historical process is not complete for it discusses the advent of capitalism only. As a result, it ignores non-capitalist expansion such as Islamic commerce and ideology that had impacted the [historical] Ethiopian development." (1986, pg. 19; emphasis mine).

The Islamic approach to economics represents a sharp, clear departure from the major secular schools. This is because of its inherent ethical, moral, and spiritual foundation. If the secular systems are characterized by the economic man—the embodiment of the limited perspective of maximization of profits and utility which implies the ever increasing aggrandizement of material wealth—as the rational approach, or the communist man—governed by the contending forces inherent in the concept of dialectal materialism—as the rational approach, then the Islamic system is characterized by the Muslim man, his rational approach being governed by not only ethical and moral constraints that desolves crass materialism, but also a rational approach governed by the spiritual or divine concept of *khalifa*, or vicegerency,
which imbibes the idea that the earth and all its resources are a sacred trust from Allah to man. The idea of khalifa emanating directly from The Holy Qur’an is central to the mentality of the Muslim man and the Islamic economic system.

The objective of khalifa in the Islamic system is to achieve fahah. In Islam, all human activity is directed toward the welfare of the Muslim community both in this life and in the hereafter (Siddiqi, 1979, pg. 3; emphasis mine). In this sense, the term “welfare” in the sense of Western economics refers strictly to material well being whereas fahah refers to material well being as the achievement of that well being which pleases Allah with the ultimate reward that such Allah-centered and directed activity will find its extension for deserving Muslims in the limitless hereafter. However mystical and amorphous the concept of fahah may seem to the Western mind, it nevertheless makes a world of sense to the Muslim mind and is a belief that governs the behavior of the average practicing Muslim. Thus fahah is simultaneously a this-worldly and other-worldly concept of welfare centered squarely on the directives of Allah as found in The Holy Qur’an and by natural extension, those directives of Muhammad, The Prophet of Allah, as found in the authentic ahadith literature. Geniune Islamic economic behavior is governed by the Muslim’s sense of fahah as manifested through his concept of khalifa. In Islam, then, economic activity must be morally and divinely directed, that moral and divine direction emanating from The Holy Qur’an and ahadith of The Prophet (pbuh) (Siddiqi, 1979, pg. 6).
Inspite of the efficacy of the Islamic economic system as herein outlined, there is no country in the Muslim world which employs it in its complete, comprehensive totality. The reasons for this unfortunate fact have been already discussed. The task of dismantling Western oriented economic institutions in Muslim countries and establishing Islamic ones in their place awaits the Islamic economist. Because Islamic governments must first be established in Muslim lands, the work ahead for the advocates of an Islamic economic order may take decades.
PART III: GENERAL PRINCIPLES OF THE MARKET IN ISLAM

Having discussed the axiomatic foundation of the Islamic economic system, it is now necessary to review the general principles of the market in Islam. By so doing, it will be possible to contrast some of the standard prevailing market practices, particularly those that are important to agriculture, to determine their efficacy relative to the Islamic economic paradigm. It will thereby be possible to ascertain some picture of the shape an Islamic economy might take.

From the point of view of Islamic law, the Islamic economy must operate on the free will of buyers and sellers. All production and consumption decisions are made by individuals and institutions on the basis of their respective judgements. The prices are determined by the freeflows of supply and demand except where a seller may be able to fix prices on the basis of cost plus markup due to imperfect market conditions. In general, the state does not intervene into market operation except where economic justice is at stake or where...[the] general public is facing hardship due to natural calamities or because of manipulations of the economically powerful segments of the market (Khan, 1987, pg. 2).
Again, from the point of view of Islamic law, certain market practices are forbidden such as withholding of food items at times of scarcity..., collusion to bid up prices..., sale by the town-dwellers on behalf of the farmers..., purchase from the farmers at lower prices keeping them ignorant about the market prices..., sale or purchase of an uncertain commodity..., and sale of something which one does not possess (Khan, 1987, pgs. 2-3).

The foregoing examples of legal prohibitions in the marketplace emanate from decrees made by The Prophet Muhammad (pbbuh) during his lifetime. These examples clearly point out that The Prophet Muhammad was diametrically opposed to "...those practices which cause market imperfections by disrupting the natural flows of supply and demand..." (Khan, 1987, pg. 3). The Prophet (pbbuh), consequently, was opposed to concentrated economic power, from whatever source, in interfering with the market process. This is because these economic power blocs "...interfere in the supply and demand flows to their selfish interests. Therefore, the general rule is that competition is encouraged and monopoly is discouraged in the Islamic framework" (Khan, 1987, pg. 3).

Under Islamic law, barter trade in the same commodity must be equal in quantity exchanged and the exchange should be simultaneous (Khan, 1987, pg. 3). If, on the other hand, the commodities being bartered are different, then the quantities may
vary but the exchange must be spot and simultaneous (Khan, 1987, pg. 3). The insistence that barter trade be spot and simultaneous originates from the decrees issued by The Prophet Muhammad (p.b.u.h.), for he was determined "...to forestall the entry of *riba* [i.e., usury or interest of any kind] through the back door..." (Khan, 1987, pg. 3).

Any business transaction in which a price is charged for the time over which the transaction is valid is regarded as a form of *riba* and is, therefore, prohibited under Islamic law. Given that The Prophet (p.b.u.h.) defined *riba* "...as price for extension in time given by the creditor to the debtor...," then by analogy the seller who "...charges a higher price for the credit sale than for the cash sale...is operating with the spirit of a creditor who is charging *riba* for extension [in time] in repayment" (Khan, 1987, pg. 3). Again, such transactions are prohibited in Islam.

In the market place under Islam, it is a fundamental principle "...that each transaction must involve physical transfer of the commodity or its ownership to the buyer [and] the seller must also own a commodity or property before he can resell it" (Khan, 1987, pg. 4). Thus paper transfers of a commodity or stock without actual delivery of said commodity or stock are prohibited under Islamic law (Khan, 1987, pg. 4).

As has been seen thus far, the acceptable form of a sales transaction is the spot trade, where there is a simultaneous exchange of price and commodity (Khan, 1987, pg. 4). However, under Islamic law, it is permissible "...to defer the price (*bai' al-mu'allasal*) or to defer the delivery of the commodity
(bai’al-salam or bai’al-istisna)..." but not both the delivery of the commodity and its price (Khan, 1987, pg. 4).

False advertising and false professional information are strictly prohibited in Islam (Khan, 1987, pg. 4). Any transaction in which the buyer discovers false information automatically gives the buyer the option to move to revoke the contract (Khan, 1987, pg. 4).

Profiteering, such as when the seller charges excessively high prices on agricultural commodities due to a shortage of supply that may result from drought or famine, is strictly prohibited under Islamic law. Cases of disclosed profiteering require, at the minimum, compensation by the seller to the buyer (Khan, 1987, pg. 4).

Islamic law stipulates that all "...sale transactions should be in absolute terms. A sale transaction which is reversible after the expiry of a certain period is not allowed as it is a contrivance to earn riba [i.e., interest]" (Khan, 1987, pg. 4).

A most essential feature of Islamic law, particularly in today’s money economy, is that money is only a medium of exchange and cannot be itself regarded as commodity. The point is that riba transactions presume money as a commodity. Any and all transactions in which money is regarded or treated as a commodity is strictly prohibited under Islamic law (Khan, 1987, pg. 4).

Having outlined some of the important fundamental principles of the market in Islam, it is, from the point of view of agriculture, the commodity market and commodity exchange which is of concern in the Islamic context. The commodity market is
different from the commodity exchange in that the commodity market is primarily concerned with the trading of commodities, in our case, agricultural commodities, for the present or "spot" delivery or for forward delivery. On the other hand, the commodity exchange is concerned with "...the purchase and sale of an enforceable contract to deliver a commodity at some future date" (Perkins, 1971, pg. 162).

Now, given that the spot market operates on the basis of cash and carry, it is, from the Islamic point of view "...the normal type of market" (Khan, 1987, pg. 5). As far as the forward market is concerned, agricultural commodities are sold in the present to be delivered in the future. The important particulars such as quantity, price, and time and place of delivery of the agricultural commodity concerned are decided at the time of completing the contract (Khan, 1987, pg. 5). On the due date of delivery stipulated by the contract, the seller delivers the commodity and the buyer pays the price contractually agreed upon (Khan, 1987, pg. 5).

As Khan points out, the significance and importance of the forward market in agriculture is that "...a forward market allows the farmers to plan their production and control their cost" (1987, plg. 5). To illustrate this fact and to also illustrate how a forward transaction would work in the Islamic framework, Khan offers the following example:

Suppose the defence department of a country needs one million uniforms for its army which would require about 6 million meters of cotton cloth. It is not possible
for any supplier to provide these uniforms from its ready stock. The supplier approaches the largest textile manufacturer. Looking at his present commitments, the manufacturer would require about twelve months to fabricate and deliver 6 million meters of cloth. In turn, the manufacturer would not be able to deliver the cloth in time if for certain reasons the raw cotton goes into short supply after six months from now, when he would need it. Therefore, to be on the safe side he enters into a firm commitment with wholesale dealers of raw cotton to start supplying after six months and continue its supply over a period of the next six months. The wholesale dealers enter into an agreement with farmers to supply raw cotton at the required future date. The price to the farmers is settled in advance. Looking at their cost and sale price the farmers can decide their acreage for cotton and make efforts to control their expenses (1987, pgs. 5-6).

The above illustrates a chain of several agreements the pivot of which is the cotton farmers' ability to supply cotton by a specified date at a specified price. Once the cotton farmers ascertain their production capabilities within the required time frame, they are able to enter into contractual agreements with cotton wholesalers. Secondly, the wholesalers are then able to supply the textile manufacturer according to an agreed upon schedule and thus enter a contract. Thirdly, the textile
manufacturer enters contractual agreement with the contractor-supplier. Lastly, the contractor-supplier has all the necessary information he needs to enter into a contract with the defense department for the finished cotton uniforms. The crucial fact to ascertain is that at each stage of the chain of contractual agreements just described, the object of sale has not yet been produced. However, at each of the four contract levels, the buyer will pay in advance a certain percentage of the total purchase price (Khan, 1987, pg. 6). Now, in the extant practices prevailing in forward markets, this advance percentage payment on goods which have not been produced is a standard practice. However, under "...the normal rules, a contract which deals in a non-existent commodity is void in the Islamic framework" (Khan, 1987, pg. 6; emphasis mine). However, Islamic jurisprudents long ago recognized the useful and beneficial role forward transactions can play and after thorough research into all relevant Islamic legal texts which, of course, includes The Holy Qur'an, they determined that forward transactions are not illegal within certain limits. First of all, under the Islamic bai' al-istisna, our contractor-supplier and defense department could enter into a contractual agreement. That is because under the bai' al-istisna rule, "...two parties can agree on the sale of a non-existent product if the supplier needs time to manufacture it" (Khan, 1987, pg. 6; emphasis mine). It is also permissible under bai' al-istisna to pay ahead of time a certain percentage of the sale price agreed upon between the two parties (Khan, 1987, pg. 6).
As pertains to the contractual agreements between the textile manufacturer and the wholesaler on the one hand and the wholesaler and the farmer on the other, their forward agreements are covered by Islamic ruling of bai' al-salam which states that between the contracting parties "...the sale price should be paid in advance in full" (Khan, 1987, pg. 6). There are two other important Islamic legal rulings relative to forward transactions. These are bai' al-mua'jjar and bai' al-istijrar. In the former, "...the delivery is made but the price is deferred" (Khan, 1987, pg. 6). In the latter, "...the price is paid in advance but the delivery is accepted in installments in the future" (Khan, 1987, pg. 6).

Generally speaking, there is virtually nothing objectionable in the practices of forward marketing as generally understood relative to the Islamic market practice. However, Islam's insistence that at least the price or date of delivery cannot be deferred and that contractual agreements are to be rendered in absolute terms and are not reversible after the date of expiration, virtually rules out mere "paper" transfers of commodities where actual delivery of said commodities does not take place and where price agreements are reversible. Such are the characteristics of the "futures" market, where the actual delivery of the commodities generally does not take place and where the price of the commodities is not absolute but is allowed to fluctuate according to market conditions until the contract is consummated. In further describing the futures market, Khan points out the following:
In the [futures market],...actual delivery hardly ever takes place. Not more than 1% of the contracts actually mature into physical delivery....The futures markets does not visualize physical delivery of any commodity. The non-delivery aspect of the market gradually evolved in response to the actions of certain large buyers who would continue buying large quantities of the same maturity. Ultimately, the sellers were "cornered" because of a shortage in the actual market. As a redress to this situation, the sellers were allowed to deliver the grade of the commodity other than the one agreed to. Thus the buyers were pressured to accept unwanted grades. To protect the buyers from this pressure, they were allowed to re-sell the futures contracts without getting delivery. Thus the forward contract led to manipulations by the buyers, which led to options for the sellers to vary the grade or place of delivery, which led to the buyers not accepting the delivery. Thus the vicious circle was completed.

The futures market is [supposedly] designed to keep prices in the spot market stable. But its real benefit is reaped by hedgers and speculators. The speculators are the professionals who assume the reverse position which the hedgers adopt. For each 'short' hedger there is a 'long' speculator and vice
versa. The speculators facilitate the hedgers to hedge. Thus they assume the risk which the hedgers want to shed. By small differences in the prices they make money for themselves (Khan, 1987, pg. 8; emphasis mine).

From the foregoing, it is clear that since in reality the commodity is non-existent, there is no physical transfer of the commodity and there is virtually no actual ownership of the commodity. Therefore, transactions in the futures market is diametrically opposed to Islamic law and has no place in the Islamic economic framework. Furthermore, Islamic law opposes the futures market because a number of intermediaries make money without adding any time, place or form utility to the commodity. Thus some people earn without giving anything in recompense...The situation is closely similar to the one in which a person claims riba [i.e., interest] without giving anything in recompense (Khan, 1987, pg. 9).

In any market, prices and supply levels are subject to unforeseen fluctuations. In the contemporary global economy, there are two sources of price-spyll supply fluctuation. First, there are those fluctuations caused by natural calamities and political events. Second, there are those fluctuations caused by the activities of speculators. Relative to the second source of,
fluctuation, this would almost be non-existent in an Islamic economy due to the absence of those economic structures such as futures markets that promote the activities of speculators. However, Khan suggests that protection against the first source of fluctuation can be realized by two types of remedies. One would be the holding of agricultural commodities by the state government. The other would be the establishment and proliferation of farmers' cooperatives (1987, pg. 12). Khan states that farmer's cooperatives could be the primary institutional arrangement to even out unforeseen fluctuations in the market. These cooperatives should hold buffer stocks which may be built up at crop time and released during the year as inventories in the market start dwindling. Thus they can play a vital role [in]...stabiliz[ing] prices (1987, pg. 12; emphasis mine).

Khan also sees the establishment of cooperatives as a way of "...diluting the economic power of strong [and wealthy] individuals who carry large stocks at crop timings and then manipulate prices later on,..." and as a way of obviating the necessity for the services of speculators whose activities are alleged to stabilize prices (1987, pg. 12; emphasis mine).

Just as the farmer's cooperatives would serve a valuable purpose in holding buffer stocks as a way of stabilizing prices,
they would also be a safeguard against the hoarding tendencies of wealthy merchants and middlemen. According to an authentic hadith reported "...on the authority of Ma'mar ibn 'Abdullah, The Holy Prophet, on him be peace, said: 'Only the misguided hoard'" (Ibn Taymiya, 1982, pg. 32). To elucidate this statement, Ibn Taymiya says the following:

The hoarder is one who buys up food which people need and keeps it in store with the intention of putting up the price. He is the oppressor of the buying public. Therefore, the authorities are entitled to compel people to sell their stocks for fair value (bi-qimah al-mithl) when they are urgently needed (1982, pg. 32; emphasis mine).

The usual market price is the fair price or fair value (al-qimah al-mithl). In an Islamic economy, it would be the Office of Al-Hisba that would maintain the fair market price. In the days when Islam was a world power, it was the government institution of al-hisba that regulated production and supply of goods and services in the marketplace in several ways (Khan, 1982, pg. 142). In a modern Islamic economy, the tendency would be to revive the institution of al-hisba and update it according to modern techniques and applications that do not contravene Islamic law. Thus, those who store up agricultural produce would not be allowed to hoard and would only be entitled to the prevailing fair market price when goods are released from storage. Thus
middlemen and speculators who sometimes make huge profits in capitalist economies from storage activities would be discouraged because their ability to drive prices up by holding on to produce would be greatly curtailed.

If the foregoing assessment of the significance and importance of farmers' cooperatives is correct, then there needs to be the appropriate government policy to allow for their establishment. As shall be shown in the case of the Sudan, cooperatives are very popular among rural agriculturalists and the government has shown some interest in their establishment. However, perhaps as important if not more important in the establishment of farmers' cooperatives is the necessary capital investment. In an Islamic economy, as in any other modern open economy, it is the banking institutions that are prime movers in capital investment. Although the concept of an Islamic economy remains hypothetical because of the lack of the political will to institute it in Muslims lands, happily the Islamic bank is a live and healthy reality. Before discussing their contribution to development in the Sudan, I shall first discuss the principles of mudaraba and Islamic banking.
PART IV: MUDARABA PROFIT-LOSS PRINCIPLES AND ISLAMIC BANKING

As the Muslim world continues to reawaken to its potentiality in reconstructing its society strictly according to the dictates of Islam, they find that they are beset with a dilemma: Islam prohibits interest in the strongest terms and aims at establishing an economy free not only from all forms of interest (riba) but also from what bears any resemblance to it, while the modern economy is based on interest to such an extent that it is difficult to visualise any set of economic relations where interest does not come in directly or indirectly. How to resolve this contradiction is the challenge that confronts all Muslims: intellectuals, bankers, industrialists, business[men], policy makers and ordinary consumers....Consequently, the real question the Muslim economists and bankers have to face squarely is how to eliminate interest and evolve new institutions and practices which would enable economic activities to flourish without resort to riba in any form (Ahmad, 1987, lpd. 7; emphasis mine).

The decade of the 1970's witnessed a direct response to the foregoing challenge: the establishment in several Muslim countries of the Islamic bank, an institution based on the Islamic economic concept known as mudaraba. Mudaraba is an interest free, profit-loss system (PLS) of investment. Although
the Islamic banking phenomenon is less than fifteen years old, the mudaraba approach to banking and finance has already shown its staying power in the real world of international banking and finance relations:

In an era of economic difficulties due to falling oil revenues, especially in the Arab Gulf states, Islamic banks on the whole have shown remarkable resilience, compared to their conventional counterparts. Two IMF staff papers published in recent months on the Islamic interest free profit-loss (PLS) system have pointed out that on the whole it seemed that the Islamic PLS system was better able to absorb the shocks of economic recession than their Western counterparts (Parker, 1987, pgs. 23-24; emphasis mine).

Even earlier in 1982, approximately five years before the publication of the two IMF staff papers just mentioned, Ingo Karsten pointed out in the IMF Survey the following: "If the [mudaraba] PLS system is introduced on an optional basis it appears likely that the enlargement of choice would have generally beneficial consequences, particularly for savings..." (Arabia, September, 1982, pg. 37). If these IMF testimonials to the Islamic mudaraba model are interesting, perhaps the actual integration of this model into an overseas operation of a Western bank may be of even more interest:
In Pakistan, for instance, Grindlays Bank's pioneering Islamic financing instrument has been oversubscribed 12 times and has attracted over one billion rupees ($58m), which makes it Pakistan's biggest public share issue by far....The instrument--'First Grindlays Modaraba'--is both a flotation and a trade or project finance mechanism akin to a trust financing operation. Subscribers to the Modaraba certificates entrust Grindlays to invest their money in interest-free instruments, projects or operations...Grindlays has been the first Western bank to come up with its own innovation and launch its first Islamic financial instrument (Parker, 1987, pg. 24; emphasis mine).

Interest taking of any kind as payment for use of capital funds is unequivocably prohibited in Islam and is condemned as a major sin:

The Holy Quran ordains the prohibition of 'interest' (Riba) at least five times in the second Surah [Chapter]. This prohibition of interest has been put as (i) Madness (Takhabbut), (ii) a thing God wants to 'destroy' (Mahq), (iii) a thing which if not abandoned deserves a 'war' (Harb) from God, (iv) a thing which is the antithesis of faith (Iman)...(v) a thing if persisted in...calls for permanent abode in hell (Khulud-fin-Nar) (Uzair, 1980, pg. 44).
Therefore, a Muslim feels completely obliged to seek an alternative in his monetary transactions involving borrowing and investing. The alternative as based on the Holy Qur'an and the hadith literature—the codified sayings and decrees of the Prophet Muhammad (p.b.u.h.)—is known as mudaraba. Mudaraba signifies giving somebody out of your capital a part to trade in provided that the profit is shared between both of you, or that an apportioned share of profits is allocated to him.... Accordingly, the active partner is called Darib, because he is the one who travels and trades. It is also possible that both capitalist and active partner are called Mudarab... as both share the profits with each other (Abu Saud, 1980, pg. 66).

The mudaraba transaction is more precisely defined as follows:

There should be (at least) two persons who, out of their free will, enter into an agreement by which one (or more) would contribute a fixed amount of disposable money to be delivered to the party who would trade with this subscribed capital for the benefit of the partnership (or association). Every party to the act must know for sure and without ambiguity his share in the expected profits and provided that this share is a percentage and not an
absolute fixed amount.

The mudaraba arrangement further stipulates that in case no profit is realised, the active partner would receive nothing for his efforts. If there is a loss, it would be deducted from the principal (i.e., the contributed capital). All expenses necessary for implementing the...[mudaraba] act are deductible before the distribution of any profits, even if such expenses exceed the total of gross profits" (Abu Saud, 1980, pg. 69).

Thus, the mudaraba PLS is precisely defined.

The Islamic bank would be the institution where the vast majority of mudaraba transactions take place, although there is nothing under Islamic law which prohibits privately transacted mudaraba agreements. The bank would be established according to the principle of shirkat-e-enan, which refers to the number of persons providing share capital which is to be jointly invested. These individuals can be called "shareholders." It is the group of shareholders in an Islamic bank who would finance enterprises and thus receive renumeration or profit on the basis of mudaraba in partnership with entrepreneurs seeking financing. The amount of capital invested by each shareholder according to the number of shares purchased may vary, with each shareholder being allowed to secure however many shares he so desires (Siddiqi, 1983, pg.
The shareholders collectively become the owners of the bank, each in proportion to the level of his assets in the total investment (Siddiqi, 1983, pg. 15). In line with proportionate ownership, the shareholders divide the bank's profits proportionately according to the size of their individual capital investments. Likewise, loss in any given year is the liability of the shareholders and must also be shared proportionately (Siddiqi, 1983, pg. 16).

Consent to acquire additional capital for the promotion or expansion of the bank would be necessary from each and every shareholder. In the case of a large number of shareholding partners, if so desired, decision making power could be delegated to a "Council of Representatives" who, in turn, would appoint and remove salaried managers for the purpose of conducting day-to-day routine business matters, among other responsibilities so delegated to the Council. Of course, in the case of a smaller group of shareholders, the business of appointing salaried managers could be done directly (Siddiqi, 1983, pgs. 16-17).

Every shareholding partner has the right at any time to withdraw from the partnership of the Islamic bank. He is entitled to his share-capital and any profit he has earned at the time of withdrawal. In the case of a partner's death, his share-capital plus his profit or minus his loss, if any, will revert to his legal heirs. The heir or heirs may be admitted to the banking partnership if their is no objection from the other partners (Siddiqi, 1983, pg. 17).

The collective capital of the shareholders becomes the basis
for profitability by way of mudaraba. When bank investment activity is limited to the shirkat-e-enan, i.e., the group of shareholding partners, the total banking investment at any given time must not exceed the total capital of the shareholding partnership (Siddiqi, 1983, pg. 21). That is to say, the bank’s "...financial liabilities [must]...not exceed the contributed [partnership] capital" (Siddiqi, 1983, pg. 21). However, where the bank’s activity is expanded to include the use of depositors’ money in mudaraba investment, the total liability of the bank’s investments is not to exceed the combined total of contributed partnership capital and the amount on deposit in mudaraba accounts (Siddiqi, 1983, pg. 22).

Generally speaking, capital provided by the bank for mudaraba investment will not authorise the bank as the financing partner "...to interfere in the routine transaction of the business" (Siddiqi, 1983, pg. 25). In spite of this,

the bank will be empowered to prevent the entrepreneur from taking such actions as may result in a loss due to failure to plan properly or other irregularities. The bank shall always be empowered to audit the accounts and acquire information regarding important decisions taken by the entrepreneur (Siddiqi, 1983, pg. 25).

Thus the bank has the option to intervene, particularly in a case where the entrepreneurial party is having difficulty reaching his projected profit margin or when financial loss may seem imminent.
and outside expertise, provided by or under the auspices of the bank, seems appropriate and necessary. Of course, in addition to mudaraba investment, they may desire to enter into an actual partnership and share in running the business enterprise.

As far as charged services of a general nature are concerned, there is no prohibition under Islamic law against their provision. Thus, the Islamic bank will provide such charged services as safe deposits; money transfers; delivery of commercial goods by air, sea or land; representation on behalf of clients of the sale or purchase of immovable property; consulting services relative to the purchase of machinery, raw materials, and other resources; and investment of client's capital in various commercial institutions on their behalf (Siddiqi, 1983, pgs. 19-20). It should be noted at this point that only one Muslim scholar has seen fit to define interest free Islamic banking in terms of common stock and mutual funds:

Abdul Hadi Ghanameh's 1968 paper on the subject [of Islamic banking] takes a line different from the one along which further thinking on the subject has developed. He relies on issue of common stock for long-term financing and use of mutual funds for short-term financing...." (Siddiqi, 1980, pg. 220).

Because Ghanameh has not yet published a more comprehensive work on his views, it remains unclear why he has chosen an approach for the organization of Islamic banks that deviates from the mudaraba approach that has now found general acceptance (Siddiqi,
Siddiqi outlines six basic scenarios to illustrate how profits are to be divided under mudaraba between the entrepreneurial party and the financing party which is the bank:

(1) the entrepreneur may transact the business with capital procured from the bank only, and with no other capital; (2) the entrepreneur may invest his own capital in the business in addition to capital procured from the bank; (3) the entrepreneur may invest personal capital loaned to him otherwise than by the bank; (4) the entrepreneur may invest additional capital from another party on the basis of mudaraba; (5) the entrepreneur may enter in (active) partnership with another entrepreneur whose capital is also invested in the business; (6) all the above conditions may apply at one time, namely, a business in which the personal capital of the entrepreneur, the capital provided by a partner, and the capital provided on the basis of mudaraba are invested together" (Siddiqi, 1983, pgs. 27-28).

In case 1 above, suppose the bank advances $100,000 to an entrepreneur under the condition that the bank will experience 50 percent of the profit over the life of the mudaraba contract. If the profit is $10,000, simple arithmetic reveals that the entrepreneur realizes $5,000 profit and returns $105,000 to the
bank, $5,000 profit plus the repayment of the $100,000 originally invested by the bank. If, on the other hand, the entrepreneur experiences a $10,000 loss, the initial investment capital provided by the bank is reduced to $90,000 which is repaid to the bank, the bank thus incurring a loss of $10,000 (Siddiqi, 1983, pg. 28).

In case 2 above, suppose the entrepreneur invests $100,000 along with $100,000 invested by the bank under the condition that the bank will experience 50 percent of the profit on its capital investment over the life of the mudaraba contract. Suppose there is $20,000 profit realized overall. What this means is that $10,000 has been earned on the bank's investment and $10,000 earned on the entrepreneur's investment. Now since the original mudaraba agreement stipulated that the bank and the entrepreneur would evenly split the profit on the bank's investment, the $10,000 earned on the bank's original investment is divided so that the bank earns $5,000 (50 percent of $10,000) and the entrepreneur earns $5,000 and the original $100,000 investment by the bank is returned to it by the entrepreneur; the entrepreneur earns $5,000 from the bank's invested capital plus $10,000 from his own investment of $100,000 which, of course, he has recouped. In the case of a loss of $20,000, the bank will bear one half and the entrepreneur the other half (Siddiqi, 1983, pgs. 28-29).

In case 3, the entrepreneur invests $200,000, $100,000 of which comes from a privately procured loan while the remaining $100,000 is procured from the bank as a mudaraba transaction. This situation works basically as it does in case 2 above except
that in the case of an overall loss, the entrepreneur would have
to somehow come up with the $10,000 he lost on the investment of
the $100,000 he originally borrowed privately in order to repay
the $100,000 in full to his lender (Siddiqi, 1983, pg. 29).

In case 4, the entrepreneur has $300,000 with which to
conduct business. He has procured $100,000 by mudaraba from a
private source, while another $100,000 is his own capital. He
procures the remaining $100,000 via mudaraba from the bank.
Suppose that just as in the case of the bank, the other investor
wishes to realize 50 percent of the profit earned on his
investment. Thus, if there is a total of $30,000 in profit
implying each $100,000 invested earns $10,000, then the bank
earns $5,000 (50 percent of the $10,000 earned on its
investment), the other investor earns $5,000 (50 percent of the
$10,000 earned on his investment), and the entrepreneur earns
$20,000—$5,000 each from the profit earned on the bank’s
investment and on that of the other investor, plus the $10,000
earned from the entrepreneur’s own capital. On the other hand,
suppose there is a loss of $30,000. This means the bank, the
entrepreneur, and the other investor each suffer a loss of
$10,000 apiece. Both the bank and the investor have returned to
them $90,000 each, which fact leaves the entrepreneur with
$90,000 of his own capital (Siddiqi, 1983, pg. 29).

In case 5, suppose the entrepreneur gets $100,000 on
mudaraba from the bank with which to do business and gets the
bank’s approval to enter into a partnership with a second
entrepreneur who has $100,000 to invest in the proposed business
venture. Again, assuming that the agreement between the bank and the first entrepreneur remains as in the previous example, a $20,000 profit, for example, will mean that the bank and the first entrepreneur will each earn $5,000, which is an even split of $10,000 earned on the $100,000 procured by mudaraba, while the second entrepreneur will earn the remaining $10,000, which represents the profit on his $100,000 which he invested as a partner to the first entrepreneur. If, on the other hand, there is a $20,000 loss, the bank will lose one half or $10,000 on its $100,000 investment, while the second entrepreneur would lose the remaining $10,000 on his investment.

In case 6, suppose that an entrepreneur invests $100,000 in a business run by his partner A who also invests $100,000. Now the entrepreneur wishes to bring in an additional $200,000 to be invested in the business. He does this by securing $100,000 from the bank on the basis of mudaraba and by securing the investment of another partner B who also has $100,000 to invest. The agreement is that the bank and partner B will share half the profits on their total capital investment, while the other half goes to the entrepreneur and partner A jointly. On the other hand, the original entrepreneur and his partner A who runs the business, share evenly the total profit of their joint venture. It should be clear that the total capital to run the business is $400,000. Suppose the business experiences a profit of $40,000 total. This means that each $100,000 invested earns $10,000. Together the bank and the partner B have earned $20,000 from their total capital of $200,000. However, according to the
original agreement, the bank and partner share equally one half of the $20,000 while they give the other half to the entrepreneur and his partner A. This means that the bank and partner B earn $5,000 each, while the original entrepreneur and the manager of the business, his partner A, earn $15,000 each—$5,000 each from one half the profit ($10,000) realized by the total investment of the bank and partner B, and $10,000 each from the profit ($20,000) realized by the total investment of the original entrepreneur and his partner A. Thus, jointly the bank and partner B have earned $10,000, while the joint earnings of the entrepreneur and his partner A earn $30,000. If, on the other hand, the total loss is $40,000, the loss is divided evenly among the four parties—the entrepreneur, partner A, partner B, and the bank (Siddiqi, 1983, pgs. 30-31).

Thus far, I have discussed at length how the Islamic bank through the investment of its initial capital might earn income on the basis of mudaraba and active partnership, whether it be in an agricultural, commercial, or industrial enterprise. Also, I have touched upon other income earning activities such as fees and commission or fixed charges for bank services. The discussion of mudaraba account and loan service which follows will shed light on how the Islamic bank raises additional capital through mudaraba deposit accounts.

The Islamic bank will be authorised to establish the mudaraba account to be made available to the general public. The depositor will put his money into an account which will be used by the bank to earn income according to the principle of
mudaraba. "The profit earned...will be distributed in such a way that the bank will get a specified portion of the profit according to an agreed ration and the rest will go to those who have deposited capital in a mudaraba account" (Siddiqi, 1983, pg. 39). Basically, the contract between the bank and the depositors who hold mudaraba accounts runs as follows:

1. The bank will invest [the depositors']...capital along with its own. The aggregate profit earned on the total capital will be divided over it. After such a division, an agreed percentage or fraction of the profit will be given to the bank and the rest will be transferred or given to the depositors.

2. If the bank suffers a loss, the loss will be spread over the entire capital of the business. The loss apportioned as a result of such calculation will be borne by each account-holder (depositor).

3. Total liability of an account-holder will not exceed his total deposits....

4. If the depositor wishes to continue the contract, the profit earned in the subsequent quarter will first be set against the past loss, then remaining profit, if any, will be divided among the parties according to an agreed ratio....

5. At the end of each quarter every depositor will be
informed about his profit or loss. He will have the right to dissolve the contract and withdraw his money settling his profit or loss account, or he may receive the installment of profit and agree that this distribution of profit is tentative and in the future, if there is a loss, it may be adjusted against this profit.

6. The depositor can demand his money whenever he likes. But for the account of profit or loss he must wait till the end of the current quarter unless the bank agrees that the preceding quarterly account can be made the basis for clearing the account....Money may be deposited in a mudaraba account without fixing a time-limit and/or for a fixed term, for example, three or six months, etc.

7. To meet the demands of the mudaraba account, the bank will, at the end of each quarter, settle the account of its whole business and determine the total profit or loss. Assessment of the account value in the case of those parties by whom capital is provided on the principles of mudaraba, will be accordingly settled with them.

8. New deposits in mudaraba accounts will be accepted normally at the beginning of every quarter....The controlling authority (i.e., the Central Bank) will exercise proper supervision to see that the
accounts are kept in such a way that none of the parties is deprived of his rights.... To safeguard the depositor against deception or misinformation or inadequate information, the Central Bank will frame modern.... rules and regulations, with the help of experts, keeping in mind the interests of all parties (Siddiqi, 1983, pgs. 39-41).

The determination of profit and loss among depositors holding mudaraba accounts is the same as it would be for the original shareholders investing in business activities as outlined above. Suppose there are ten shareholders who wish to set up an Islamic bank. They each decide to contribute $100,000 each, thus setting up a banking operation with a beginning capital sum of $1,000,000. The bank is authorized to offer to the general public the opportunity to deposit their money in mudaraba accounts. Within a short time, 10,000 depositors have invested their money in mudaraba accounts at an average of $500 per account, thus bringing the total on deposit to $5,000,000. The bank, as a result, has a total of $6,000,000 in operating capital available to it. The bank offers to give 75 percent of the total profit resulting from its mudaraba investment to the depositors holding mudaraba accounts, while the bank keeps 25 percent.

Now, let it be assumed that the bank invests its entire $5,000,000 working capital with various businessmen such that whatever profit is realized from these investments is shared
equally between the bank and the various entrepreneurs. At the end of the year, the accounts of the mudaraba investments the bank has made are prepared and it is found that some businesses experienced profit while others experienced loss. In such a situation, the result of the addition of the total loss and profit will be for the bank (1) an overall profit; (2) an overall loss; or (3) the bank breaks even.

To illustrate how the bank will pay off its depositors in the case where it has experienced an overall profit, suppose the bank has made over the year $300,000 in profit from those entrepreneurial parties to whom it has provided investment capital. This means that the bank receives $75,000 or 25 percent of the profit, while the depositors collectively earn $225,000 or 75 percent of the profit. Thus, for each $1.00 invested by depositors, they earn $0.05 profit:

$$\frac{225,000}{5,000,000} = 0.05$$

Thus, for every $100 invested, the depositor earns $5.00; for every $500, the depositor earns $25.00. As for the shareholders, each earns $7,500 on their $100,000 share.

Now, suppose that instead of a $300,000 profit, the bank experiences a $300,000 loss on the investments it has made with its share capital and the capital of the depositors. As a result, the bank shareholders absorb $75,000 of the loss, or $7,500 per shareholder, while the depositors must share $225,000 of the loss, or $5.00 for every $100 of their investment.
In the case of the bank breaking even, there is no profit or loss to distribute among the shareholders and depositors. Consequently, the shareholders and depositors will not experience any loss nor receive any profit.

To be sure, Siddiqi and others have discussed other kinds of accounts such as interest free loan accounts into which depositors can deposit their money and which money is thereby made available to the bank for investment purposes. However, it is generally agreed that it is the mudaraba accounts that will generate most of the capital for investment, for it is the principle tool by which the depositors can earn profit.

Finally, it should be noted that percentage share of profit between the bank and the entrepreneur should be mutually agreed upon before the mudaraba contract between the two parties is finalized. Where the entrepreneur feels that he is being forced to accept too small a percentage share of the profit by the bank, he will have recourse to arbitration by a third independent party.

Now, implications of Islamic banking in a Muslim society are clear. Very often, access to conventional commercial banks by the rural population is limited because there exists "...a minimum size of collateral below which no one gets credit from competitive [conventional] banks" (W. Khan, 1985, pgs. 78, 86). Of course, small farmers, who make up the bulk of the agricultural sectors of many Muslim countries with agrarian economies, are very poor and do not meet the minimum collateral requirements of the conventional banks. The small farmers, as a
consequence, fall victim to the village money-lender who, while not asking for collateral, does ask for exorbitant interest rates on loans advanced, thus helping to maintain the impoverished condition of the rural farmer (W. Khan, 1985, pg. 88). Because the Islamic bank requires no collateral nor charges interest as has been graphically shown, the conventional commercial banks and village money lenders could be circumvented. Thus, the Islamic bank has the potential to be "...extremely efficient and productive" (W. Khan, 1985, pg. 88). Further, the Islamic bank can participate in agricultural activity in several ways: (i) by supplying inputs to farmers, (ii) by financing the purchase of inputs, (iii) by providing liquidity at the crucial stage of harvesting, or (iv) by extending facilities which would help in achieving efficient marketing output (W. Khan, 1985, pg. 78; emphasis mine).

While W. Khan sees the participation of the Islamic bank in the agricultural sector as a complex affair, he nevertheless sees it as being highly rewarding, for

optimism is based on the fact that the bank by forming a partnership with several farmers can internalize a number of externalities which exist in small farm operations such as finding labour during harvesting.
the mark-up to the middle man for marketing which reduces formers' profit, high input cost, etc. Sharing in profits may also help improve the supervision of loans which is poor under the interest-based system* (W. Khan, 1985, pg. 78; emphasis mine).

Having discussed in general terms the concepts of Islamic banking, attention is now turned to the northeast African country of Sudan which has a predominately Muslim population and where the Islamic banking concept has found fertile ground. However, before dealing with the impact of Islamic banking, a few words must be said about agricultural development in Sudan in the post-colonial period.
PART V: AGRICULTURAL DEVELOPMENT IN SUDAN: THE "BREADBASKET STRATEGY"

Perhaps the major story in Sudan's agricultural development since independence from British colonial rule in 1956 has been the so-called "breadbasket strategy." The breadbasket strategy arose out of consideration of Sudan's considerable tract of agricultural land which includes some 40 million acres. It was concluded by concerned developers and agriculturalists that this large tract of arable land "...ought easily to feed a population of about 20 million, and in the 1970s it was thought that Sudan could be the 'breadbasket of the Arab World'" (Africa Events, January 1986, pg. 34). Consequently, Sudan embarked on a very ambitious development program in April of 1974 when the then president of the Sudan, Maj. Gen. Gaafar Nimeir announced in a speech Sudan's planned impending role as the "...granary and sugar supplier to the Arab world and beyond." (Kilner, 1974, pg. 647). The announcement aroused international attention among those concerned with development problems (Oesterdiekhoff & Wohlmuth, 1983, pg. 8). The basic approach was to adopt "...policies of export diversification mainly for regional Arab markets" (Oesterdiekhoff, et al., 1983, pg. 8). Nimeir's attempt to change the socio-economic environment and "...to initiate a steady growth by the diversification of exports and by economic integration on a regional level have proved to be not realistic" (Oesterdiekhoff, et al., 1983, pg. 8). Nevertheless, the breadbasket strategy has remained an influential model on the level of national policymaking, heavily determining "...sectoral
allocation priorities, mainly in agriculture...[whereas], the traditional sector of agriculture has received not explicit attention by the 'breadbasket strategy'' (Oesterdiekhoff, et al., 1983, pg. 9).

The Sudanese policymakers have a disparaging attitude toward the traditional agricultural and pastoral sectors of their economy:

The 'modern' sectors in Sudan comprise irrigated and mechanized agriculture, cattle ranches, industry and connected trade and transport. Their expansion is identified with development as such....[On the other hand, the] 'traditional' sectors are regarded to be remnants of pre-colonial times having a drag on economic, social, and political progress. According to this view, they do not contribute to development which is exclusively generated in the 'modern' sectors; on the contrary they waste resources by non-efficient activities. As the linkages between both parts are considered to be weak, the theory of the dualistic economy assumes more or less the existence of two economies and societies within the national boundaries of the country. The political result of this approach is the well-known one-sided privilege of 'modern' sectors with regards of the allocation funds...." (Oesterdiekhoff, et al., 1983, pg. 9).

So in the very first instance, because of the disparaging
attitude toward the traditional sectors, the policymakers of the breadbasket strategy chose to ignore certain historical and contemporary spatial and socioeconomic realities relative to traditional agriculture and pastoralism in their planning. By ignoring these realities, it seems that policymakers completely overlooked the fact that the traditional sector has historically been involved "...in the production of exportable goods which keeps the whole system running" (Oesterdiekhoff, et al., 1983, pg. 11).

As the breadbasket strategy, with its emphasis on investment in the so-called modern sector to the detriment of the traditional sector, proved to be a dismal failure, some of the Khartoum policymakers realized that the traditional sector could not be totally ignored. Thus, the breadbasket strategy eventually gave way to the Six Year Plan for Economic and Social Development and the Food Investment Strategy, both of which recognize "...the huge resources of the traditional agricultural sector and declares for their involvement into export production" (Oesterdiekhoff, et al., pg. 16). However, this new awakening did not include a realization on the part of policymakers for the necessity of investing in the traditional sector, although lip service was made in this direction:

The formulation of the principles and necessary strategies of the breadbasket strategy can be found in the documents of the Six Year Plan, the Food Investment Strategy and the Basic Programme....The Food
Investment Strategy (FIS), the Six Year Plan (SYP), and the Basic Programme (BP) lay emphasis on modern agricultural subsectors. Whilst the Government has decided to allocate most of the funds, reserved for agricultural development in the Six Year Plan, to the irrigated cultivation of export crops (cotton, groundnuts), the Food Investment Strategy and the Basic Programme have envisaged huge investment, mainly from Arab countries, in the subsectors of mechanized cereals production, large scale cattle husbandry and various agroindustrial branches. Concomitantly, the traditional subsector is to be penetrated by dispersed patches of market economy in order to exploit its export potential. Although the Six Year Plan claims for the governments' dedication to the development of traditional agriculture, a more equitable distribution in a social, regional, and sectoral sense, and an amendment of food provision, these objectives are not reflected in the allocation of public investments as outlined by this document. Including the expected private investments in agriculture, roughly 88% of all investments are prospected to benefit the modern sector (Oesterdiekhoff, et al., 1983 pgs. 18-19; emphasis mine).

Clearly, the foregoing implies that while policy eventually realized the potential economic contribution the traditional
agricultural sector could make and even though these documents, particularly the Six Year Plan for Economic and Social Development, contained wording promising more equitable treatment of traditional agriculturalists, it was, nevertheless, the attitude that the sector was one to be exploited, indeed "mined." Indeed, even the 12 percent of the budget the Six Year Plan set aside for the traditional sector was envisaged for the expansion of the modern sector, for "...a scrutiny of the investment programme for the traditional sector gives evidence to the fact that even the outlays headed 'Modernizing the Traditional Sector' are indeed destined for the expansion of modern cultivation practices which are for the most part inaccessible to the small peasants, as for example, establishing of modern ranches in the savannah region, mechanization of rainfed crop production, construction of modern abattoirs,..." (Oesterdiekho, et al., 1983, pg. 19).

Oesterdiekho and Wohlmuth point out several problems for the traditional sector arising from the Six Year Plan, the Food Investment Strategy, and the Basic Programme: (1) displacement of traditional agriculture by land-intensive mechanized farming; (2) the ecologically destructive consequences of mechanized cultivation, particularly in the savannah areas by a "...kind of cultivaiton which can be depicted as 'agricultural mining'..." where after a few years' cultivation "...the soil is exhausted and erosion becomes apparent;..." and (3) the suspension of objectives of social equality and economic security, particularly in respect of food procurement for the major part of the
population which is based in the traditional sector (Oesterdiekhoff, et al., 1983, pgs. 20-21). However, after the disastrous 1984-85 famine in Sudan, it is finally becoming clear among a growing number of Sudanese policymakers that ordinary farmers are better able, weather permitting, to grow crops [more] efficiently than large-scale agricultural schemes, and that former President Numiery’s neglect of smallholders and concentration on grandiose agricultural schemes did nothing to help the country face the recent disaster....Concentration on these schemes, it is now clear, meant that not enough was done to help smallholders with extension services and provision of inputs (Africa Events, January 1986, pg. 34).

Oesterdiekhoff and Wholmuth conclude that an alternative strategy is needed to the breadbasket-inspired policies for agricultural development in Sudan. This alternative strategy for reproduction has to be based on the first priority of sufficient and stable food production....The priority of food production over export and cash-crop production has several developmental advantages. Not only would productivity in agriculture increase because of the more active participation of the peasants in the production
process; they would not be as exposed to risks of fluctuating yields and exports as they are now. It would also be possible to use more adequate technologies than now (for conservation, cooking, transport, etc.) serving the basic needs of the population in the rural areas (Österdiekhoff, et al., 1983, pg. 30).

The main elements of an alternative approach to development would constitute the following:

1. The abandonment of "...the present steps to mechanize agriculture....Mechanization should be promoted only where a substitution by labor is not feasible or reasonable, as for example in the case of hard soils (black clay soils);"

2. Less bureaucratic involvement in development, particularly as it relates to traditional agriculture. Development "...'from the grassroots' should as far as possible rely on local resources rather than on government sources and services which entail always a direct interference of bureaucracy. This implies the establishment of cooperatives and other means of self-help;...The public corporations should continue their activities more and more to the coordination of regional development."
3. "Labour migration and cashcropping of the traditional agriculture should be considered only as subsidiary means of stabilizing employment and income. Migration is justified only insofar as spillovers are maximized by an appropriate training of migrant workers."

4. The indebtedness of peasants to rural traders who practice an exorbitantly usurious form of lending known as "sheil" remains "...a main factor responsible for the low standard of living of the peasants and the decreasing motivation to work. It has been proved already that the state cannot eradicate these forms of peasants' exploitation effectively. Therefore, cooperatives joining the functions of supply, marketing and credit have to be established."

5. Resources have to be released from export production and directed towards internal demand. In order to reduce the compulsion to export it is necessary first to calculate the "absolutely necessary" capacity for imports; this requires that the necessary imports of essential consumer goods and intermediary inputs have to be calculated first. The difference between the actual and the necessary imports may indicate the amount by which exports and foreign financing can be reduced in the longer run without interrupting
the overall reproduction process.

6. The expansion of "...the 'modern' agricultural sector can be abandoned. Even a selective reduction of export production within the irrigated subsectors should be possible. The reallocation of land to food production will immediately improve the supply situation of the rural population."

7. Industrial development should embark on a programme of decentralization in order to gain from the resulting advantages of transport. The transport sector has been a main bottleneck to development in the past. Such a programme of decentralization will also put the supplies in rural areas on a more secure basis and will also create incomes in...[rural] economic regions. Besides that, the small-scale design of production units on a local and regional level may give rise to the development of indigenous technologies.

8. Regional "poles of growth" could help to exploit specific advantages as given by the "natural endowment." In order to avoid that only merchants and bureaucracies benefit from these strategies, agricultural cooperatives should also process the raw products in the regional poles of growth. (Oesterdiekhoff, et al., 1983, pgs. 31-32; emphasis mine).
The proposed alternative plan for development is clearly far more sensitive to the historical and contemporary spatial and socioeconomic realities of Sudan, realities that clearly point to the necessity of formulating a development policy centered around the traditional sector as opposed to the "modern" sector. A careful analysis of the foregoing alternative strategy points to two fundamental factors: (1) the necessity for policymakers in Sudan to take a more self-reliant, autocratic approach to development, and (2) the necessity for policymakers in Sudan to "delink," that is, to relinquish those commercial and investment relationships "...in those areas from foreign actors and institutions where the repercussions on the national economy are most pronounced. This is mainly in trade, foreign investment and technology acquisition" (Oesterdiekhoff, et al., 1983, pg. 32). As will be shown in Part VI, Islamic banking in Sudan, by virtue of its accomplishments and latent potential, can continue to have a positive influence in the traditional agricultural sector as well as a significant influence on national policy that will lead to delinking and a more autocratic approach to the agriculturally based economy.
PART VI: THE ISLAMIC BANK IN SUDAN: A NEW APPROACH TO INVESTING IN THE AGRICULTURAL SECTOR

Earlier in this paper, it was pointed out that Islamic banks based on mudaraba have proliferated far and wide in the short span of 12 years. According to Mushtak Parker, the nascent Islamic banking system, now in its eleventh year, is continuing to attract attention not only in the Muslim world but also in the West. Some Islamic banks are even reporting contacts with East European countries and China....This interest in Islamic banking will gain strength considering that the funds within the system total between $25 billion-$30 billion (1987, pg. 23).

In fact, as of 1987 there were two Islamic financial institutions operating in The People’s Republic of China (Parker, 1987, pgs. 24-25). Even Japan has shown interest in Islamic banking in 1987 when a high-level Japanese delegation from the Institute of Developing Economics, which is affiliated to the influential Ministry of International Trade and Industry (MITI) in Tokyo, toured the Middle East and Europe with the specific aim of finding out as much as possible about Islamic banking (Parker, 1987, pg. 23).
Beginning in 1976, Islamic banks begin to spring up in the Bahamas (based in Geneva, Switzerland), Bangladesh, Bahrain, Denmark, Gabon, Great Britain, India, Jordan, Kuwait, Luxemburg, Malaysia, Pakistan, Qatar, Saudia Arabia, Senegal, Tunisia, Turkey, United Arab Emirates, Egypt, and Sudan (W. Khan, 1983, pgs. 90-91; Arabia, January, 1982, pg. 56; Arabia, September, 1982, pg. 33; Arabia, July, 1984, pgs. 53-54; Inquiry, December, 1985, pgs. 28-30; Arabia, September, 1986, pg. 47).

The history of modern Islamic banking in Egypt is most interesting, for the  
first formal attempt to put Islamic banking theory into practice took place in the Egyptian delta town of Mit Ghamar in 1962. The years 1963 through 1967 in Egypt saw the opening of eleven banks which attracted more than a million clients; however they were closed down by the government for political reasons (Wikhan, 1985, pgs. 90-91).

However, since that time, due to pressures from the Islamic movement in Egypt, Islamic banks have resumed operation.

In Sudan, Islamic banking began in 1978 with the establishment of the Faisal Islamic Bank, the Sudanese Islamic Bank and Investment Company, the Baraka Islamic Bank, the Islamic Bank for Western Sudan, the Islamic Cooperative Development Bank, and the Islamic Bank of the North (Arabia, November, 1985, pg. 50). These banks are very active and have proven their
attractiveness to those Muslims who want to obey the Islamic prohibition against all types of usurious transactions. For example, as of late 1983, Faisal Islamic Bank of Sudan had "...savings and deposits totalling US $263 million..." (Sudanov, December, 1983, pg. 23). A more recently organized bank, Islamic Bank of the North, attracted US $2,053,750 in promoters' shares in approximately a month (Sudanov, December, 1985, pg. 30). These banks are very active in all business and commercial sectors in Sudan. For example, Faisal Islamic Bank of Sudan (FIBS) has financed "...the importation of essential commodities including petroleum products, wheat flour, medicines and pesticides" (Sudanov, December, 1983, pg. 23). Funding from FIBS has made possible "...a fleet of tankers to distribute oil and chemical products from Port Sudan" and has provided the capital for a major housing project in west Khartoum (Sudanov, December 1983, pg. 23).

Islamic Bank of North (IBN) was organized in 1985 with the avowed objectives of "...investing in the fields of agriculture, commerce, industry, mining and estate activities..." (Sudanov, December, 1985, pg. 30). IBN intends to concentrate its activities in the northern region of Sudan where it says that the "...negligence of development projects over most of the region, and failure of governmental schemes, reduced the productive capacity and lowered the living standards of the population, although the region is potentially rich,..." (Sudanov, December, 1985, pg. 30). According to IBN's own research, the northern populace
has participated in many self-help projects. The participation of the public in self-help projects such as schools, health centres, police stations, etc., represents 90 percent of regional investment, while the rest was carried out by the government. "This ration indicates the public response to participation in investment and development, which encouraged the formation of IBN," explained Dr. Abdel Wahab (Sudanov, December, 1985, pg. 30).

IBN's decision to operate in the North is based on the fact that the "...region has the nation's highest yield of bean production, which could secure self-sufficiency to the whole of Sudan, without a government subsidy" (Sudanov, December, 1985, pg. 30; emphasis mine). Furthermore, the North's potential is not only limited agriculturally to its bean production. With the availability of cold storage through proper investment and appropriate marketing assistance, vegetable and fruit production could be greatly improved (Sudanov, December, 1985, pg. 30). IBN hopes to make enroads in these areas also.

Although the Islamic banking system in Sudan has shown interest in the development of the agricultural sector, many Sudanese I have talked with over the years feel that it has not been enough. This is because the private banks, whether Islamic or interest-based, have involved themselves "...in short term financing like trade and in the process...make huge profits"
(Sudanow, March, 1985, pg. 18). In fact, while public or state-
run banks have, on average, put up 29 percent of their lendable
investment capital for medium- and long-term development, the
private banks have, on average, put up less. For example, in
1982, Faisal Islamic Bank of Sudan put up only six percent of its
lendable money into medium- and long-term development (Sudanow,
March, 1985, pg. 18). To change the situation, the Sudanese
government in 1985 issued a new monetary policy which stipulates
that "...private banks operating in the country should earmark at
least 25 percent of their licensed ceilings...for financing
medium- and long-term development projects" (Sudanow, March,
1985, pg. 18). The decree, coming from the governor of Sudan's
central bank, the Bank of Sudan, said "...that the banks should
concentrate on financing agricultural and livestock exports, and
purchases of production inputs in the agricultural and industrial
sectors" (Sudanow, March, 1985, pg. 18; emphasis mine).

While this government decree may have been needed to spur on
most private banks to a greater commitment to medium- and long-
term development, particularly in the area of agriculture, there
is at least one private Islamic bank that did not need the
government's decree. This is the Islamic Cooperative Development
Bank (ICDB). As its name suggests, ICDB has a commitment to
development financing, an "...avowed intention to 'support,
promote and develop the emerging cooperative activities in the
country'" (Sudanow, March, 1985, pg. 22; emphasis mine). Only
one third of its investable capital is committed to short-term
investments in the areas of "...export, trade, industry,
transport and agriculture" (Sudanow, March 1985, pg. 22). But with ICBD even "short-term" does not have the same meaning as it does for many of the other financial institutions in Sudan, for whereas in most of the private banks, "short-term" tends to indicate a period of only three to six months, "short-term" for ICDB tends to imply "...a period of one to two years" (Sudanow, March 1985, pg. 22). In fact, the bulk of ICDB's investment capital has gone for truly long-term investment. For example, according to Taj el Sir Abdel Rahman Abdalla, director-general of ICDB.

the agreement which the bank entered into with the New Hafsa Flour Mill is [in Mr. Taj el Sir's words] "the longest long-term project any Islamic bank in Sudan has ever committed itself to." The agreement involves an extended LS 1.5 m[illion] loan [approximately US $1.15 million at 1984 exchange rates] repayable over ten years (SUDANOW, March, 1985, pg. 22).

ICDB is very much involved directly in agricultural production:

It has purchased two combine harvesters which it rents out to wheat farmers in the El Dueim area. The bank offered its facilities at a lower rate than that being charged by local merchants, forcing the merchants, eventually, to lower their own charges, thus generally
reducing the cost of wheat. The ICDB also helps farmers to buy their own agricultural machinery. The method of the bank is not to lend cash, but to buy the machinery and recover its costs through payments made by the farmer out of his profits, according to the Islamic principles of financing. If a farmer fails to repay his debt, the bank follows the simple expedient of confiscating the machinery in question. This method enables the bank to dispense with lengthy assessments of a client's credit worthiness prior to offering assistance,...The ICDB sees a future for itself in agricultural financing, and is already contemplating the establishment of a comprehensive servicing unit for farmers in the Gezira (Sudanow, March 1985, pg. 22).

Since ICDB opened its doors in 1982 it has amassed deposits totalling more than LS 24 million--approximately US $18.5 million at 1984 exchange rates--and has opened branch offices in Atbara, Donogola, New Halfa, Port Sudan, and Wad Medani (Sudanow, March, 1985, pg. 22). ICDB is hoping to establish three new companies that will handle imports, economic development and insurance (Sudanow, March, 1985, pg. 22).

ICDB is not only committed to Islamic banking principles but also deeply committed to the Islamic moral values from which they spring. This commitment is exemplified in ICDB's activities in Darfur. During the devastating 1984-85 drought there,
ICDB found itself supplying wheat and sugar to the value of LS 4 million...in order to alleviate the burden on the bankrupt regional government. The move was prompted by the bank's feeling that, as an Islamic institution, it had a duty towards those suffering in Darfur (Sudanow, March 1985, pg. 22; emphasis mine).

ICDB's sense of moral commitment arises out of the commitment it's general manager, Taj el Sir Abdal Rahman Abdalla, has made to infuse Islamic principles of morality and generosity called for in all kinds of economic pursuits. Taj el Sir points out that conventional, interest-based banking was introduced by colonialists, and as such, it was structured to serve primarily their parent countries...They were not interested in improving lives or bringing welfare to the natives of the country where they were operating, rather these banks were concerned to maximize their profits. In order to do this, they had to apply the rules of traditional banking: avoid high risk operations; charge high interest rates; concentrate on short-term finance to increase turnover; insist on having first class security before lending; locate their branch representation in rich areas; confine high ranking executive posts to their own national staff. After Independence, foreign banks in operation or newly
established national banks maintained the same system and concepts of finance (Sudanow, November, 1987, pg. 13).

Taj el Sir goes on to point out that the retention of conventional banking methods in the Sudan after Independence had the following dire consequences:

1. Banking activities were concentrated in rich areas while poor areas were neglected.
2. By insisting on obtaining securities before granting facilities, entrepreneurs were scared away from asking for loans because if their projects failed, the bank realized their securities—which might be a mortgage on the house in which they lived.
3. The poor received fixed small incomes from their savings by way of interest while the rich got the lion’s share from the revenue of the project after paying the fixed interest.
4. Projects and operations of a developmental nature of high risk and long duration were neglected or totally avoided because traditional [interest-based] lending applies the theory of marginal return. Only projects where marginal return is in excess of marginal cost are accepted for advances. This means that projects of importance to the
welfare of society with a meagre [financial] return are rejected and not financed.

5. The bank's preference to lend to traders encouraged entrepreneurs to concentrate their efforts on trade to the detriment of industry and agriculture.

6. Because lending by traditional methods is inflationary by its nature and because the Government in its efforts to curb inflation imposed ceiling limits for the total permissible bank loans, the bulk of savings remained idle and unproductive (Sudanow, November, 1987, pg. 13).

Taj el Sir goes on to point out that Islam abolishes the aforementioned evils inherent in the conventional financial system:

The main reason why Islam abolishes interest is that it entails oppression, exploitation and injustice. If Islam rejects a banking system based on interest, it certainly offers an alternative that is compatible with principles of Islam. The mechanism of interest rates is replace by joint venture, where participants share profit and loss pro rata. Islamic banks, being committed to Islamic teaching, structure themselves to foster economic welfare for the people [the] moral value [of] justice, co-operation, mercifulness,
righteousness, etc. . . . With this spirit of co-operation and brotherhood, Islamic banks extend their services to all needy and to all areas of need. [This] ideological nature creates the Islamic banker who is conscientious and aggressive in carrying out his duties, but at the same time prudent and discriminating. . . . The objective of an Islamic bank is social benefit maximisation and not mere profit maximisation as in the case of conventional banking (Sudanow, November, 1987, pgs. 13-14; emphasis mine).

Taj el Sir states categorically that for Sudan it is self-reliance and Islamic banking and not foreign aid and dependence that will lead Sudan out of its underdevelopment:

It has repeatedly been emphasized by all concerned that in order to improve our fate, we must rely on ourselves. No matter what aid we receive from abroad, we will continue evolving in the poverty cycle unless every citizen participates diligently and honestly in the development process by maximising his output. It is a big fallacy and great delusion to rely solely on the Government to achieve economic progress and growth. Islamic banking helps both the poor and rich to utilize fully their talent and energy (Sudanow, November, 1987, pg. 14).
Taj el Sir Abdel Rahman Abdalla and ICDB are developing a reputation for sincere commitment for Sudan’s development. ICDB "...has shown its willingness to become involved in the crucial field of agriculture. ...If its ambition of reaching the rural population is fulfilled, then...ICDB could do much to revolutionise the banking system in Sudan" (Sudanow, March 1985, pg. 22; emphasis mine).

In a real sense, ICDB serves the Cooperative Movement in Sudan as its virtual credit arm. The Cooperative Movement began about 51 years ago in 1933 when a small cooperative society was established at Wad Sulfab village in the Gezira. Since its beginning "...that nucleus has now developed into 6,000 cooperative societies involving about five million people" (Sudanow, September, 1985, pg. 14). "Because of its goal of improving the position of the economically disadvantaged, the Cooperative Movement has been recognized in the Sudanese constitution as second only to the public sector in its service to the people" (Sudanow, September, 1985, pg. 14). In 1982, the Cooperative Movement got a tremendous boost to its decades long efforts when the Cooperative Act was passed. This act specifies the hierarchical structure of cooperation from the lowest to highest levels. At the primary stage are the cooperative societies which operate at the village level, while at a more advanced stage are the local unions found at the district level, the cooperative unions at the provincial level, the
regional unions at the regional level, and finally the National Cooperative Union (Sudanow, September, 1985, pg. 14).

It is important to note that the Islamic Cooperative Development Bank actually grew out of the efforts of the Cooperative Movement (Sudanow, September, 1985, pg. 14). Therefore, ICDB is fundamentally a grassroots effort and achievement.

In collaboration with the cooperative sector which it serves, ICBD in 1985 was preparing to establish an import-export corporation which, in addition to providing hard currency and import requirements for the cooperatives, will exclude "...middlemen...which will lead to a reduction or at least a stabilisation of prices" (Sudanow, September 1985, pg. 14). This desire to proscribe the activity of middlemen in the agricultural sector has its precedent set during the time of The Holy Prophet (pbuh):

When the market price rose in the time of the Prophet, on him be peace, he rejected a request that he impose control. However, there was no suggestion that in that instance someone was refusing to sell food in his possession. Indeed the majority of food-sellers were importers who sold their wares on arrival in the market. But the Prophet, on him be peace, forbade the townsman to sell for the nomad--forbade him to act as his middleman--and said: "Leave people alone and God
will see that they provide for one another." He forbade the townsman who knows the market price to act as his agent, knowing full well the popular need for the commodity, he might raise the price to the customer. Therefore, he proscribed this particular agency [of the middleman], despite the permissibility of [this] agency in general, on account of the danger of price inflation (Ibn Taymiya, 1982, pg. 56; emphasis mine).

Under the government office of al-hisba, the market activities in Islam were controlled according to Islamic law up until the advent of Western colonialism. Under the al-hisba institution "...production and supply of goods and services [was regulated] in a number of ways" (Khan, 1982, pg. 142). Among the regulations enforced by the office of al-hisba was that "...middlemen, who did not add any utility to the products but only reaped margins from buyers and sellers, were disbanded" (Khan, 1982, pg. 143). It is clear that the Islamic attitude toward middlemen is one that tends to limit their activity to the point of prohibition under certain conditions, particularly when those conditions include the trade of agricultural goods.

ICDB is also implementing a plan to set up "service centers." The service centers will be supplied with the more expensive agricultural machinery—generally out of reach to the average Sudanese agriculturalist—so that members of the cooperatives can rent machinery as needed from the service centers (Sudanow,
September, 1985, pg. 14). As ICDB develops its agricultural financing and servicing unit, transaction costs will have to be taken into consideration for the purpose of efficient economic organization in this unit. Transaction costs are defined as the costs of running an economic system (Williamson, 1985, pg. 18). Furthermore, transaction costs "...are to be distinguished from production costs, which is the cost category with which neoclassical analysis has been preoccupied. Transaction costs are the economic equivalent of the friction in physical systems" (Williamson, 1985, pgs. 18-19). Quite clearly, the less friction there is in the system and the smoother, more efficient, and less costly the system operates. A. Allan Schmid distinguishes three varieties of transaction costs which are 1) contractual, 2) informational, and 3) policing (1987, pg. 95). Contractual costs are "...the costs of reaching agreement with another party, discretely or continuously as the case may be" while information costs are "...the costs of acquiring information about product (and input) price and quality now and in the future" (Schmid, 1987, pg. 95). "Lawyer fees, brokerage fees, and bargaining time..." are examples of contractual costs while "data costs, monitoring, control, and insurance..." constitute examples of information costs (Schmid, 1987, pg. 95). Policing costs are those costs used in detecting or determing the users of a good (Schmid, 1987, pg. 47). In the case of ICBD helping farmers to buy their own agricultural machinery according to Islamic principles of financing, several questions relative to transaction costs arise. For example, would it be more cost
efficient for ICDB to enter contractual agreement with several farmers at one time rather than individual contracts for each farmer desiring to purchase machinery? If so, how would a group contract effect information costs up or down vis-a-vis a contract-per-farmer approach? Of course, these are questions that arise relative to transaction costs as involve information on acquisition price of machinery and salvage price. It is these and other transaction costs that ICDB would necessarily consider in the process of maximizing efficiency of operation.

ICDB plans to provide three commercial refrigerators at Khartoum to help the agricultural cooperatives in preserving produce. The rationale behind such a move is that "...fruits and vegetables will be available throughout the year and that in turn will lead to price stability. In addition...the cooperatives will be in a [better] position to sell their produce in the international market" (Sudanow, September, 1985, pg. 14).

Also, the Islamic Cooperative Development Bank plans to contract for a cooperative housing project through the national housing department. The flats will be paid for by members of the cooperatives in installments and turned over to the payee when the last installment is completed (Sudanow, September, 1985, pg. 14).

School depositing societies, family production societies, and collective farms for agricultural graduates are yet other projects which ICDB is working to establish (Sudanow, September, 1985, pgs. 14-15). School depositing societies will apply a traditional concept, known as el-khata, to a modern need. El-
khata is the amount of contributions, mostly monetary, by many people at a time for the benefit of one person (Sudanow, September 1985, pg. 15). In the villages, el-khata takes place when an individual is going to leave the village for an important purpose for which he cannot afford solely out of his own resources and from which villagers expect some return or benefit in the future. Thus, the school depositing societies within the cooperatives will collect money for particular school requirements such as school canteen construction (Sudanow, September, 1985, pg. 15).

Family production societies are to be established by the Islamic Cooperative Development Bank and supplied with necessary machinery to enable women who have home economics training to utilize the machinery cooperatively. They will only have to purchase their necessary work requirements such as cloth if, for example, it is sewing machines provided by ICDB that are to be used (Sudanow, September, 1985, pg. 15).

A most interesting proposal that ICDB plans to implement is one whereby agricultural graduates will be provided employment on collective farms (Sudanow, September 1985, pg. 15f). The project is to be wholly financed by ICDB while the government is to make available the land (Sudanow, September, 1985, pg. 15).

The Cooperative Movement has plans to establish several other projects including a cooperative Information, Distribution and Printing Press Corporation as well as Regional Development Centers (Sudanow, September, 1985, pg. 15). The Information, Distribution, and Printing Press Corporation will be established
for the purposes of printing "...all Sudanese cooperative movement legal documents,...magazines, newspapers, and bulletins that pertain to cooperatives" (Sudanow, September, 1985, pg. 15). The Regional Development Centers will have as their main function to train "...cadres to hold leading positions in the cooperative movement..." among other training activities (Sudanow, September, 1985, pg. 15).
PART VII: ISLAMIC BANKING AND THE FUTURE OF THE AGRICULTURAL ECONOMY OF SUDAN

In the preceding section, a view has been given of the reality of Islamic banking in Sudan. From the sources available, an attempt has been made to draw a picture not only depicting the contribution Islamic banking has already made to economic development in Sudan but also a picture that would draw attention to the new direction in which the Islamic banking system will take Sudan in its economic development, particularly in its agricultural development.

Perhaps the picture remains largely out of focus. Indeed, the 11 short years in which the Islamic banking system has been extant in Sudan is precious little time to see this new system in crystal clear focus. Contributing, I think, to this lack of focus is the inadequacy of research on the Islamic banking system as it currently exists and operates in Sudan. For example, it might be useful to know the general profile of that sector of the populace who tends to be inclined to establish deposit accounts in an Islamic bank. Indeed, a virtual gold mine of facts, figures, and systems analysis awaits the interested and dedicated field researcher.

In recalling the comments in Part VI of Taj el Sir Abdurrahman Abdalla, the director general of the Islamic Cooperative Development Bank in Sudan, Taj el Sir’s analysis pointed out the negative impact on Sudan of the conventional banking system in contradistinction to the efficacy of the Islamic banking system. This analysis contains important elements worth reviewing.
In the process of discussing the two contrasting banking systems, Taj el Sir emphasizes the need for self-reliance in Sudanese development, echoing similar sentiments expressed by Oesterdiekhoff and Wohlmuth (see Part V). Taj el Sir’s call for a de-emphasis on foreign aid as the primary solution to Sudan’s economic woes echoes again Oesterdiekhoff and Wohlmuth who term this de-emphasis as "delinking" (see Part V). And through his historical analysis of the negative economic impact of colonialism and its conventional banking system, he has shown some sensitivity to the spatial and socio-economic realities of Sudan. But what stands out as unique in Taj el Sir’s analysis is his belief that Islamic banking will be a primary catalyst in the economic resurgence of Sudan. For Taj el Sir, a fundamental component of this economic resurgence will be the Cooperative Movement, particularly the rural farming cooperatives. This interface between Islamic banking and the rural cooperative movement, an interface which Taj el Sir helped to establish and continues to remain very active in, actualizes one of the major concerns articulated by Oesterdiekhoff and Wohlmuth that "...cooperatives joining the functions of supply, marketing and credit have to be established..." to help Sudan on the road to economic recovery and self-sufficiency (see Part V). For Taj el Sir, the Cooperative Movement provides the supply and marketing mechanism; Islamic banking is the credit arm of the Cooperative Movement.

As Taj el Sir, in his directing capacity for the Islamic Cooperative Development Bank, continues to work closely with the
Cooperative Movement, he will help to prove beyond doubt the efficacy of Islamic banking and financing methods in the Sudanese banking system. The potential for Taj el Sir and his ICDB to be at the vanguard of a movement that will "revolutionise the banking system in Sudan" as was pointed out in Part VI is quite real indeed.

A revolutionary movement of any kind—and indeed Islamic financing methods represent a direct assault on conventional methods—must become entrenched as well as gain impetus in accomplishing its goal. Indeed, ICDB in particular and the other Islamic banks in general have done well in 11 short years in planting strong roots in Sudanese economic life. But if the movement is to gain momentum, there must come forth sources of capital available for the establishment of more Islamic banks as well as for the expansion of existing ones.

Potentially, a source of capital does indeed exist. Currently, there are more than 1.5 million Sudanese working abroad earning salaries between US $500 and $5000 a month (Sudanow, February, 1985, pg. 20). This means that these expatriates command somewhere between US $0.75 billion and US $7.5 billion. In 1982 alone, expatriates sent approximately US $2 billion to Sudan, most of which was sent directly to family members (Sudanow, February, 1985, pg. 20). The point is that there exist a tremendous potential for Sudanese expatriates working abroad to invest in the Islamic banking movement. Indeed, at least one expatriate businessman, Idris el Agaz, convinced enough fellow Sudanese working abroad to establish
a conventional bank called Expatriates Bank (Sudanov, February, 1985, pg. 20). It is, I think, only a matter of time before similar efforts occur among Sudanese Muslims dedicated to Islamic banking and financing principles.

If a revolutionary movement is to be entrenched and gain momentum, it must also operate in an environment where it can be sustained. Here I have in mind the political climate, particularly at the national level. Often revolutionary movements that are well entrenched and gaining steady momentum can often affect the political climate negatively against it or positively in its favor, that is, in the direction of repression or one of acceptance or at least tolerance. The Islamic banking movement in its revolutionary quest to reshape the economic way of things has at least gained tolerance in Sudan. Indeed, Ahmad El-Kattaby points out that "...Islamic banks have in their own way contributed to the Islamic revival and created their own revolution. It is an indisputable fact that the process of [political] Islamisation in Sudan was given a strong push by the success of Islamiko banking there" (Arabia, November, 1985, pg. 48). Thus, El-Kattaby's comments substantiate the point that the Islamic banking revolution affected positively for its sake the broader political climate in which it seeks to survive.

Another important aspect to be considered about a revolutionary movement is the quality of its leadership. Ghassem Salehkhou, an executive director of the International Money Fund, in an address to a seminar on Islamic banking held in Teheran, Iran in June of 1986, has some pertinent words to define
the responsibilities and goals of the Muslim economists, the leaders of the revolutionary movement that is Islamic banking:

The Muslim economist then, must overcome both the enemy without and the enemy within. He must show that:

1. There is such a thing as an Islamic financial system sufficiently different from other systems to be considered as an alternative;
2. It can finance the efficient working of a modern economy;
3. That it will enhance rather than damage existing investments;
4. Finally, that once implemented it could interact with other financial systems (Arabia, September 1986, pg. 43).

Salehkhou goes on to point out that the internal challenge for the Muslim economist is to develop a programme for the study of Islamic finance which relies only on the Quran and the Sunnah [i.e., the practice and sayings of The Prophet Muhammad]....I do not suggest that Muslim economists should abandon the analytical tools developed by other systems, only that the framework for analysis must be provided by the Quran and the Sunnah (Arabia, September, 1986, pg. 43).
It is safe to say in light of the foregoing, that Taj el Sir fits the mold of the genuine Muslim economist in his work with the Islamic Cooperative Development Bank and the Cooperative Movement in Sudan. He seems to represent the vanguard of dynamic leadership in the Sudanese Islamic banking movement, possessing as he does a clear vision of historical and contemporary socio-economic conditions of Sudan.

The Muslim economist—and agricultural economist—has before him a tremendous task as he, in an interdisciplinary pursuit with other Muslim scientists and social scientists, strives to bring Muslim society back to a genuinely Islamic economic, political, and social civilization. Thus, it can be expected that Muslim economic and finance experts such as Taj el Sir of Sudan who have an uncomprising Islamic vision for economic and agricultural development will work with like-minded experts in other disciplines to reshape the Sudanese economy into a truly Islamic one. In the process, non-Islamic forms and principles of finance, development, and agricultural methods and organization will be increasingly evaluated in the light of Islam to determine what should be kept, discarded, or modified to fit Islamic principles and concepts.

As banks like the Islamic Cooperative Development Bank continue to expand and proliferate in Sudan, particularly through expatriate investment, and the political economy comes to more and more reflect and Islamic ideological orientation, there will come a time when the whole of the agricultural economy in Sudan will operate around Islamic forms of finance, particularly
mudaraba financing. Mudaraba profit-loss financing will become the most popular and widespread among the average Sudanese rural agricultural worker or farmer, virtually abolishing the exploitive shield system of rural finance. Agricultural cooperatives will be the most predominant form of agricultural organization. The present cooperative organizations will retain their present forms or adopt other cooperative forms or parts of other systems.

The rural cooperative system now extant in Sudan needs more field study. There comes to mind several unanswered questions. For example, are the cooperatives horizontally or vertically organized? What are the spatial relations among local cooperatives on an inter- and intra-regional basis? What is the government's actual role in encouraging or retarding their development? Without knowing the exact answers to these and other questions, one is only left to conjecture from available sources. Undeniably, more field research will have to be conducted relative to the Cooperative Movement in Sudan.

It seems to me that the desire in Sudan is to develop a cooperative movement that is wholistically integrataed and balanced on local, regional, and national levels. There also seems to be a particular concern to develop a cooperative movement that circumvents or eradicates the deleterious economic influence of middlemen, particularly those who trade in agricultural commodities. If these and other hunches are correct, it seems to me that the Cooperative Movement in Sudan wishes to establish or further refine a vertically integrated structure where the cooperatives control the production,
processing, transportation and marketing processes relative to their agricultural output. With this in mind, it might be useful for the field researcher to compare the picture he eventually develops relative to the extant cooperative structure and organization with other models. One such model is the Chayanov model which calls for rural agricultural cooperatives that are vertically integrated and operate according to differential optimums of land use.

A. V. Chayanov, a Russian social scientist contemporaneous with Lenin, articulated in 1925 a most comprehensive model for peasant and rural farmer organization in his The Theory of Peasant Economy. This model, which was based on a study spanning several years of the organization, production and marketing propensities of peasant farms and farmers, consists of three main components: rural cooperatives, differential optimums, and veratetical cooperation (Shanin, 1986, pg. 8). Having been impressed by the rural cooperative movement among peasants in Denmark, Chayanov became convinced of the efficacy of democratically structured cooperatives among peasants "...accentuating grass-roots democracy and a 'peasants are not stupid,' anti-paternalist and anti-bureaucratic view" (Shanin, 1986, pg. 8). It was Chayanov's hope "...that the [peasant] labor farm, strengthened by cooperative bodies, [would] be able to defend its positions against large scale, capitalist type farms as it did in former times" (Chayanov, 1986, pg. 256).

In addition to articulating the need for democratically struc...
Chayanov, through his studies and the studies of his close colleagues, became keenly aware that "...in different agrarian regions sub-branches of farming and at any given stage of technology, there are different optimal sizes of [peasant] enterprise and that the decrease as well as increase from these will make productivity decline" (Shanin, 1986, pg. 6). Thus the idea of differential optimums expressed the idea that optimal size of the peasant farm varied according to environmental and other factors and that any disruption in this optimal balance would result in a decrease in productivity. To this definition of differential optimum must be added "...the social context of peasant farming and especially the resulting availability of the family, kinsmen, and neighbor's aid and unwaged labor..." (Shanin, 1986, pg. 6).

The third component of his model for rural development is a type of vertical concentration of agricultural production, processing and transporting that is cooperative and run by peasants in contradistinction to vertical capitalist concentration where "...merchant capital penetrated and transformed peasant agriculture...taking over selectively its extraproductive elements and creaming off incomes (as in the U. S. context where 65 percent of farmers' income from sales was taken by railways, banks, trader, etc.)" (Shanin, 1986, pg. 8). While the primary function of rural farm cooperatives is for individual farmers and peasants to work cooperatively to reduce the cost of production, the concept of cooperative vertical concentration sought to go beyond the production stage and
organize the peasants in such a way as to have cooperative
control over credit, processing, transportation, and marketing
functions, thus reducing the cost of those same components
usually financed and owned by capitalists seeking as much profit
as possible. Chayanov envisioned that by organizing along a
cooperative vertical concentration mode, the peasant would
realize a profit more commiserate with his labor input.

Having discussed the Chayanov model in its general outline,
there is at least some hint to possible comparison between the
Sudanese cooperative model and that of Chayanov. There are some
indications that the Cooperative Movement of Sudan is moving in
the direction of cooperative vertical integration as called for
in the Chayanov model. And there is also some hint that Sudanese
rural cooperatives are democratically organized as Chayanov would
have it. However, the spatial concern of differential optimums
relative to farm vis-a-vis differences in environment is not so
clear relative to the Sudanese cooperative model. The Chayanov-
Sudanese cooperative comparison will be useful not only for
determining similarities and the differences, but also because of
the proven efficacy of the Chayanov model. Shanin points out
that it is the historical development of agriculture under the
communist regime of Hungary that offers the real proof of
Chayanov's ideas:

The last twenty years have seen a considerable amount
of soul-searching and policy change concerning
collectivized agriculture but nowhere more than in
Hungary. They first followed the Soviet "horizontal" pattern and after the 1956 revolution reorganized and tried it out again. What resulted was a decline or stagnation of agriculture and chronic shortages of food supplies (to which, before 1956, harsh repressions meted out to a resentful rural population should be added). Then Hungarian leadership demonstrated the courage of retreat, made a clean sweep and began in a totally new manner. Village-scale units were now combined with both multi-village and single family ones. Those deported from their villages were permitted to come back and often to direct cooperative production. External controls declined, compulsory sales were abolished, and "vertical" chains of mutually profitable production arrangements were set up and facilitated (e.g., a small holder buying fodder at a price satisfactory to him from the large-scale collective enterprise of which he is a member, to produce within his family unit meat which is then sold on a "free market" or under a contract). The agricultural results were dramatic, moving the country rapidly to the top of the European league where increase in agricultural production and incomes are concerned, not only resolving the problems of supplies but establishing Hungary as an exporter of food. The case of Hungarian agriculture and many other experiments with Collectivization, positive and
negative, in Europe as well as in Asia, Africa, and Latin America, acted as an important validation of Chayanov's suggestions for agricultural transformation, of his prognostication, and, up to a point, of his more general theoretical constructs and approaches (Chayanov, 1986, pg. 10; emphasis mine).

What lies ahead, then, for those researchers interested in the cooperative system in Sudan and the Islamic banks which will continue to interact financially and economically with the cooperative system is a thorough investigation of the rural agricultural movement as it now exists. From there, a comparative analysis with the Chayanov model and other models where appropriate might be helpful in planning the future direction of the cooperative system. Again, such an analysis from the point of view of Islam will necessarily be guided by Islamic law as it relates to economics, social structure, etc.

As the Islamic banking revolution gains momentum in influencing the transformation of the Sudanese economy, a more autocentric economy less dependent on foreign aid will emerge. As the economic power of the rural sector grows, it appears that its political power and influence will also be enhanced as a result of its organization through the cooperative system in Sudan. Islamic concepts of finance will push to be the major approach to finance at the national level until a national economy guided entirely in both the private and public sectors by Islamic principles of finance will emerge. But this ascendency
of an Islamic economic system will not bring any tendencies toward monopoly in the banking sector. Islam is opposed to monopolistic power of any kind. Under the office of al-hisba in Islamic society before the imposition of Western colonialism, the muhtasib, the government officer of the office of al-hisba, would check manipulation of prices, supplies and production, monopolistic collusions, cheating, fraud and any other form of inter-sectorial inequity. In brief, he had to intervene wherever the economic flows were manipulated by the economically powerful individual or groups to their selfish ends (Ibn Taymiya, 1982, pg. 140).

Thus, while Islamic banks would be allowed to concentrate enough economic power to become and remain viable institutions, their activities would not be allowed to exceed beyond that point of viability. The Sudanese transformation—and similar ones elsewhere—will no doubt give tremendous impetus to a more careful international review of Islamic financial principles. As a result, a major question at a future International Monetary Fund conference might very well be the following: "What are the major implications of the application of Islamic principles of finance in ameliorating problems relative to foreign debt?"

Time will tell if whether or not the future vision as developed herein will indeed manifest. The prospects are indeed excellent, for the emerging Muslim intellectual is busy in Sudan
and throughout the Muslim world reshaping the destiny of the international Muslim community.
References


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