

The Politics Behind Islamic Finance

Introduction

By Clement M. Henry and Rodney J. A. Wilson

In the wake of the September 11, 2001, terrorist attacks on the United States, the UN Security Council passed a resolution targeting transnational sources of terrorist funds. At least one offshore Islamic bank was shut down, and American officials, ignorant about Islamic finance, viewed any "Islamic" bank with heightened suspicion. The Bush Administration targeted Al-Baraka in particular, confusing a Somalian funds transfer agency with the transnational Islamic banking group that has the same name, a generic Arabic term for "blessings." Most Islamic capital formation derives from legitimate business activity, however, and many governments in the MENA world tolerate and encourage the development of its distinctively Islamic financial practices. As the United States and multinational institutions such as the IMF encourage the governments of the Middle East to adopt policies of economic liberalization, a new type of capitalism may be emerging, not based on a Western Protestant ethic, but rather on Islamic values and beliefs. It is important to distinguish the financial phenomena associated with this development from money laundering and terrorism.

This book focuses on the emerging connections between "Islamic capital," broadly defined but with a focus on Islamic finance, and Islamist political movements in Middle Eastern and North African countries. Most of these opposition movements are at least as opposed to transnational terrorist networks as to the incumbent regimes in the region. The "Islamic" commerce that is expanding in much of the region also deserves the close attention in its own right of political analysts and policy-makers as well as economists. Islamic entrepreneurs and capitalists are largely self-defined, but operate through Islamic financial institutions or express their interests through other self-consciously Islamic forms of association. They accumulate or channel at least a salient part of their "Islamic" capital through these distinctively "Islamic" financial institutions, even if they also use conventional banks and stock exchanges. The Islamic banks are markers that serve to identify "Islamic" capital and to distinguish it from other capital that is allocated through conventional banks. In this book we also cast our net more widely, by including not only the funds deployed by distinctively Islamic financial institutions but also the assets of Muslim entrepreneurs who, as in Turkey, are affiliated with Islamically oriented business associations, or who, as in Egypt, were black market money-changers advertising themselves as "Islamic" despite their failure to be recognized by the formal Islamic financial sector.

By narrow as well as broad definitions Islamic capital is growing. If taken to mean the funds invested through the religiously (shari'a) acceptable instruments of Islamic banks and other financial institutions, this capital grew in the late 1990s at an annual 10 to 15 per cent and according to some estimates may be valued at over \$200 billion (Abdullah Kamel, Chairman, Saudi Dallah al-Baraka Group, to *Al-Hayat*, December 5, 1999; cf. Warde 2000: 6). It seems to be driven primarily by investors, notably in the GCC countries, who prefer gaining modest returns from Islamic banks to leaving their funds in the non-interest bearing accounts (or non-"commission" bearing ones, as the Saudis call them) of conventional banks.

The Islamic finance movement may also be party to a broader Islamist agenda. By "Islamist" here is meant a determination to transform the present state of the world or some aspect of it to accord more closely with the principles of Islam. Financial practices may be a very limited aspect - and rather less provocative for some MENA and Western audiences than beards or veils. Dress codes attract attention and, rightly or wrongly, are taken to express more radical, totalistic aspirations for social change than arcane financial practices. As Vogel and Hayes observe, however, "the surge in Islamic banking and finance is part of the much larger phenomenon of Islamic reassertion" (1998: 21). If Islamic finance can be demonstrated to meet the requirements of modern commerce, then Islam may regulate other aspects of modern life. The task of this book is to explore the political implications of the slow but steady accumulation of Islamic capital.

The world of Islamic finance appears to be far removed from politics, but its apparent marginality also protects it from political repression. In a number of illiberal states the financial field still enjoys a degree of autonomy that is not accorded to political parties, formal NGOs, and other bodies associated with official decision-making. Most, although not all, of the MENA states are illiberal, but they tend to be less closed financially than they are politically. Some of them tolerate Islamic banks as part of a strategy to legitimate themselves in the eyes of their religious publics.

The Islamic finance movement

Islamic bankers and economists would perhaps hesitate to call themselves a social movement but they appear to share a financial world view in which *riba* -- interest or usury -- is abolished while the time value of money as understood in contemporary financial theory is respected. Unconvinced Muslims as well as other critical outsiders observe that Islamic banks in reality keep interest but just call it by another name, such as commissions or profits (*ribha*). And indeed a principal form of credit extended by an Islamic bank, the *murabaha*, involves a simple markup on a sales price. The bank buys you a car for \$30,000 and you owe the bank \$33,000 a year from now, for example. This arrangement is perfectly acceptable from the standpoint of Islamic financial theory but looks to the outsider like a simple loan at 10% interest. Repaying by 5 yearly installments of \$7,913.92 would be equally acceptable and also implies an interest rate of 10%. Islamic bankers use financial calculators just like other bankers to compute present and future values of investments. Financial transactions modeled on the *murabaha* constitute well over half of the assets of Islamic banks. Contracts engaging clients to return fixed payments to Islamic banks apparently constitute from 80 to 95 per cent of the latter's credit facilities, or "investments" (Warde 2000: 133). Since any fixed return can be understood as implied interest, there seems little to differentiate Islamic from conventional banks. Indeed, as Ibrahim Warde observes, no definition of an Islamic bank is entirely satisfactory (2000: 5). He proposes a bank to be Islamic if run by Islamic principles and, one might add (at least in most cases), a Shari'a Board of religious supervisors to vet the bank's policies.

The movement is hardly monolithic. From its origins in the mid-1970s there were philosophic disagreements between one of its pioneers, an Egyptian, the late Dr. Ahmad al-Najjar, who sought wider financial participation among the poorer classes, and his Saudi sponsor, who was deploying substantial amounts of capital to compete with other commercial banks. Commercial forces may have eased out the idealists,

although some still question the Islamic legitimacy of the *murabaha*. The “purists,” who tend to be Islamic economists rather than the jurists who actually decide what is legally permissible, insist on replacing *murabaha* with the distinctively Islamic financial instruments of *mudaraba* and *musharaka*, both of which require profit-sharing. *Mudaraba* is a contract whereby the bank provides funds to an entrepreneur in return for a share of the profits, or all of the losses, whereas *musharaka* - participation - is more akin to equity financing. An Islamic bank can also be conceived as a *mudaraba* whereby the depositors invest in the bank - or entrepreneur *mudarrib* - that in turn funnels investments into other *mudaraba* or other Islamically acceptable placements. Profit-sharing with variable returns and risk-taking are the distinctive characteristics of the Islamic financier. The purists criticize existing Islamic financial institutions as deviating from an Islamic ideal of venture capitalism. They note that Islamic banks currently allocate less than 10 per cent of their credit facilities or investments to these distinctively Islamic profit-sharing instruments. Some argue that any contract offering a fixed return is just like a loan at a fixed interest rate and hence is not religiously acceptable.

The jurists, on the other hand, tend to think less theoretically and deductively than the economists. They reason case-by-case, on the basis of precedents and prior rulings in their respective juridical schools. The consensus is that *murabaha* is just as permissible as *mudaraba* or *musharaka*, as long the contract meets certain conditions. The critical one, in the above example of a *murabaha*, is that the bank actually has to own the car and sell it to the client, rather than merely advancing him or her funds to pay the car dealer. The Fiqh Academy in Jeddah went on record in 1988 against an "artificial" *murabaha* whereby the bank never really owns the car (Vogel and Hayes 1998: 143). Islamic banks are hence caught in a dilemma. Commercial banks in many countries, especially under those historically influenced by British or American banking practices, are supposed to restrict themselves to the financial business of taking deposits, lending them out, and trading only in financial instruments. Yet the Islamic jurists insist that they be involved in the trading of the range of goods financed by their portfolios of *murabaha*. Otherwise they would be engaging in the "ruse" of artificial *murabaha* that is now forbidden. At least one Islamic bank apparently takes these injunctions quite seriously. The Jordan Islamic Bank for Finance and Investment inaugurated a bonded warehouse in 1999, just as it was celebrating its twentieth anniversary (21st Annual Report, p. 14). Almost half (45.7%, p. 56) of its financing and investments then consisted of *murabaha* (while *mudaraba* and came to less than 3%).

Evidently the Islamic financial movement is attempting to adapt Islamic instruments originally designed for pre-industrial trade and handicrafts to a post-industrial global economy. Commercial banking already became a specialized industry in the nineteenth century, and European banking systems penetrated the MENA world as well. Driven by new technology and favorable deregulation by the United States and other industrialized countries, banking and finance became ever more specialized and relatively autonomous. In the latter half of the past century the growth in international financial assets has far outstripped that of any underlying investment and trade in goods and services. In this highly specialized world of international finance, with its dizzying rates of product innovation, conventional banks could not afford to build warehouses as well, even if commercial banking legislation permitted them to.

The movement may be at a serious competitive disadvantage with commercial banks, then, not least because of its lack of consensus on *murabaha* and many other matters. Each of the 186 or so Islamic banks (as indicated by the Directory of the International Institute of Islamic Banks) has an advisory committee of Islamic jurists, and they issue rulings that are not always mutually consistent. Conventional banks like Citibank that have opened Islamic windows also have their religious advisory committees. Standardization is a major problem. For the movement to survive in the competitive financial world of the 21st century, the banks must be able to develop new instruments for both short-term liquid placements and long-term investments. Innovators need to know what is legally acceptable, yet any innovation faces a wide spectrum of legal opinion. If options (a discretionary contract to buy a good at a future time and price) were to prove acceptable, for instance, then Islamic financial engineering could mimic virtually any instrument that a conventional financial institution can devise. Highly restrictive rulings, by contrast, could conceivably outlaw much of the bread and butter *murabaha* trade financing in which the banks presently engage and preclude any significant innovation.

This book cannot enter into the details of what might or might not be legal to various shari'a boards. Indeed, as Warde suggests, "legalistic concerns are only aspect, and probably not the most crucial one, of the real world of Islamic finance" (Warde 2000: 11). Eventually the financiers and their religious boards will make compromises with financial markets because these banks enjoy one major underlying competitive advantage, popular demand among pious Muslims for an alternative to interest-based savings accounts. Whether or not they build warehouses, the Islamic banks will no doubt muddle through despite inconsistent rulings and other obstacles to financial innovation. While few of them have become big enough "not to fail," the host governments will not let them. Accounting practices vary widely but the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), established in Algiers in 1990 and now based in Bahrain, finally issued its first set of standards in June 1998. In addition to the Fiqh Academy in Jeddah various other institutions are articulating a broad agenda for Islamic banking and finance.

First, at the core of the movement are two transnational groups that conduct their own dialogues: the Al-Baraka Group and the group of banks affiliated to Dar al-Mal al-Islami, a holding company controlled by Prince Mohammed Al Faisal, son of the late King Faisal. The Faisal group is also heavily represented in deliberations of the International Association of Islamic Banks, founded in 1977 under the auspices of the Islamic Bank for Development owned by the member states of the Islamic Conference. Outside the umbrella organization, Al-Baraka has held annual meetings since the mid-1980s to develop common understandings of proper banking practices among its affiliates. In addition many research institutions, in Europe and the United States as well as in the Muslim world, promote an academic discourse about Islamic financial institutions. In the United States the Harvard Islamic Finance Information Program, launched in 1995, has sponsored impressive publications and developed an important database. It also convenes annual conferences that contribute to the ongoing dialogues between academics and practitioners, including jurists, economists, bankers, and other notables.

The most significant guarantee of Islamic finance's future may be the large western multinationals that have opened Islamic windows for receiving deposits from their wealthy Gulf clients and for financing a variety of projects in the MENA world.

One of our contributors has suggested that the distinctive set of Islamic financial templates would survive and prosper in global financial markets even if existing Islamic banks stagnated or failed (Kahf 1999). The French, led by the Banque Nationale de Paris, have lately joined the many American and British presences headed by Citibank and Barclays. The World Bank's International Financial Corporation has encouraged co-financing infrastructure projects with Islamic investment houses. Prominent multinationals, including oil companies, have employed Islamic financial instruments in some project finance in the GCC states. Islamic finance, in short, is becoming respectable in international business circles, although, as noted earlier, the news seems not yet to have reached their corresponding political circles.

The growth of Islamic market segments

The Islamic banking movement includes both publicly and privately owned commercial banks. The Islamic Development Bank, founded in 1973 and owned by a consortium that by 1998 included 52 Muslim states, eventually assimilated some of the novel Islamic financial practices devised by the private sector. The first modern privately owned Islamic bank opened in Dubai in 1975. The Dubai Islamic Bank practiced interest-free banking but did not establish a religious supervisory council until 1998, when a manager embezzled funds and the bank needed a government rescue package. After 1979 Iran, Pakistan, and Sudan all "Islamized" their banking systems from above, but these bureaucratically induced changes are less interesting than the evolution of privately owned banks, including those in the Sudan that were "Islamic" before the official Islamization of the 1980s. In MENA countries where privately owned Islamic commercial banks compete with conventional public and privately owned ones, it is possible to compare their respective shares of commercial bank deposits.

Table 1 pieces together the progress of these privately owned banks in the MENA region, including Turkey, with the available data. For comparative purposes Malaysia is also included because its experience is often cited as exemplary in Islamic banking circles. The country's only exclusively Islamic Bank, Bank Islam Malaysia Berhad (BIMB), has mobilized almost 2 per cent of Malaysian sight and savings account deposits (measured by lines 24 and 25 of the IMF's *International Financial Statistics*) and presumably a much larger share of the Muslim population's deposits. Officially founded in 1983, the bank developed out of a fund originally established to finance the pilgrimage of Muslims to Mecca.

Table 1

Evolution of Islamic banks' share of commercial bank deposits by country, 1980-2001

	Year first established	1986	1996	1997	1998	1999	2000	2001
Algeria	1991		0.4%	0.5%	0.8%		1.0%	
Bahrain	1979	6.7%	9.8%					
Egypt	1977	9.7%	5.1%				5.7%	
			including Banque Misr's Islamic branches' deposits	8.1%			n.d.	
Iran		100.0%	100.0%	100.0%	100.0%			
Iraq								
Jordan (JIB)	1978	7.0%	8.4%	8.2%	8.0%	7.5%	6.9%	7.1%
			including Islamic International Arab Bank		8.9%	9.2%	9.4%	
Kuwait	1977	18.0%	16.2%	16.3%	15.5%			
Lebanon	1991		0.1%	0.0%	0.1%			
Libya								
Morocco								
Oman								
Qatar	1982	10.4%	17.8%	18.1%				
Saudi Arabia	1988		11.3%	11.1%	11.5%	12.3%	13.9%	
Sudan		17.0%			27.9%			
Syria								
Tunisia	1983	0.2%	0.6%		0.6%	0.7%	0.8%	
Turkey	1985	0.8%		3.6%	3.6%	3.7%	3.5%	1.8%
UAE	1975	3.2%	7.9%					
Yemen	1996			4%				
Malaysia	1983		1.6%	1.6%				
			including Islamic windows of conventional banks (rough estimate)	2%	2%			

Sources, IMF [International Financial Statistics](#), Harvard Islamic Finance Information Program, various annual reports of banks, editors' data sets.

A number of observations are in order. In theory all banks in the Sudan operate according to shari'a principles, but those that were consciously self-styled Islamic banks before the system was Islamized are specified in the table. They seem to have increased their market share at the expense of the newer converts. In Saudi Arabia, the spiritual center of the Islamic world, a single Islamic bank, Al Rajhi Banking and Investment Corporation (ARABIC) has captured well over 10 per cent of the market, but Table 1 does not include growing proportions of funds invested in the Islamic windows of other Saudi banks. In some of the smaller GCC states the Islamic sector is approaching 20 per cent. The GCC seems to be the principal area of growth, possibly to be joined by Jordan, where Arab Bank has opened a new totally

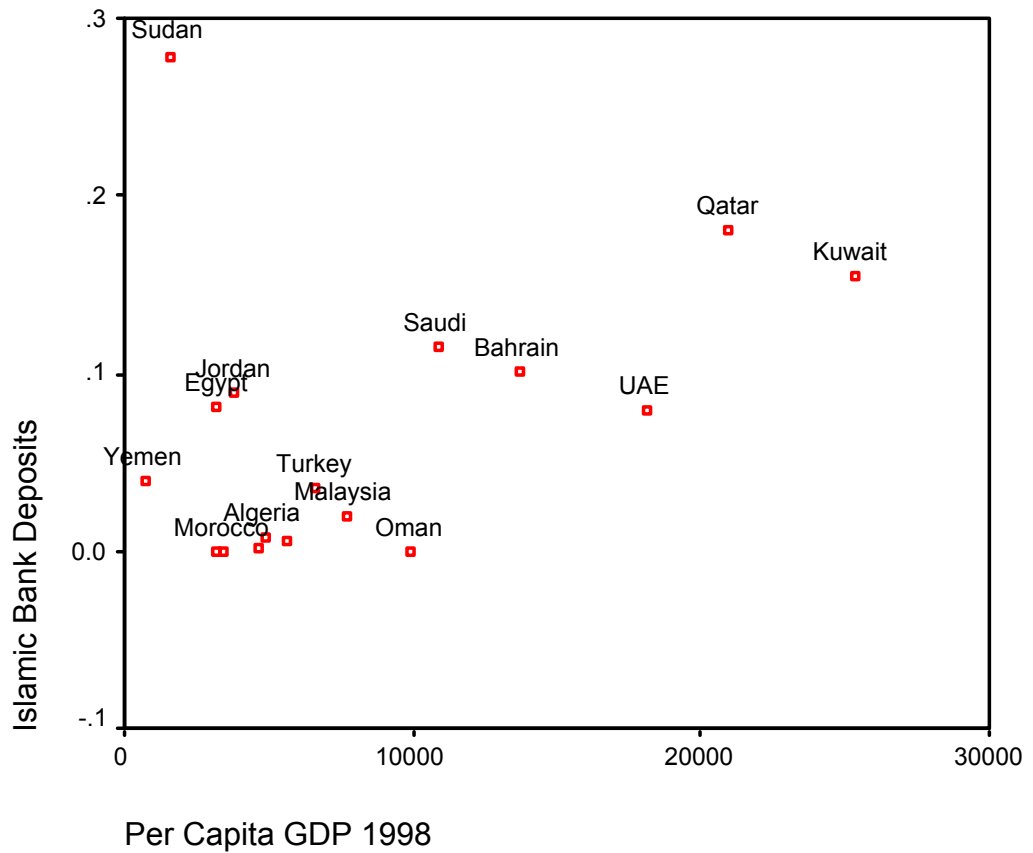
owned Islamic subsidiary, the Islamic International Arab Bank. Until this recent development - the bank opened for business in 1998 - the movement in Jordan appeared to have flattened out at less than 10 per cent of the market.

Egypt has apparently experienced a slight decline since Islamic banking reached its peak in 1986. Table 1 does not include the so-called Islamic fund management companies that used Islam as a marketing technique for money-changers who expanded their businesses to manage their clients' remittances. These companies were, with one or two exceptions (Sherif and possibly Saad; see Galloux 1999: 488-489), fly-by-night "investment" companies that simply funneled Egyptian workers remittances from the Gulf countries to hard currency accounts outside Egypt. They doubly harmed the officially recognized Islamic banks. They competed for deposits and slowed the growth of the official Islamic sector in the mid-1980s. Subsequently they discredited the entire idea of Islamic finance (even though they did little to practice it other than pay publicity fees to a few Islamic scholars) by going bust after 1987, when an agreement with the IMF to liberalize Egyptian foreign exchange rates destroyed their real competitive advantage. Meanwhile, however, the Egyptian government encouraged conventional banks, led by state-owned Banque Misr, to open Islamic finance windows to mobilize deposits from interest-averse Muslims. Table 1 includes only Banque Misr and possibly understates the total Islamic share of deposits by a percentage point or two. In the rest of the Arab world, however, Islamic finance remains marginal.

Islamic banks are altogether absent from Iraq, Libya, Morocco, Oman, and Syria, and they eke out a very marginal presence in Algeria, Lebanon and Tunisia. Conventional or Islamic, private sector banks no longer exist in Iran, but the situation may change. Some Iranian factions favor development of the private sector, and legislation authorizing the incorporation of private sector banks was passed in the spring of 2000. The most dynamic private Islamic banks outside the Arab world are found in Turkey. Three of the five private Turkish "special financial houses" are partly owned, respectively, by the Al-Baraka group, the Faisal group, and the Kuwait Finance House. A sixth bank, opened by the Ihlas Group in 1995, failed in 2001 with the bankruptcy of the holding company, explaining the sharp decline in the market share of this sector. In fifteen years these banks had not collectively achieved even 4 per cent of the market, but the remnants after the collapse of Ihlas in 2001 remain growth oriented. They are methodically extending their branches networks into the provinces as well as in Istanbul and Ankara, and they have officially been integrated into Turkey's commercial banking system.

Islamic banking has apparently developed the most, apart from the Sudan, in the wealthiest petroleum producing states. Indeed, it originated during that brief moment of apparently limitless prosperity, when oil prices quintupled between 1973 and 1974, as an ingenious way of recycling some extra petrodollars into pious activities. In the MENA per capita income appears to be a fair predictor of the penetration of these banks into commercial markets. Figure 1 graphs the Islamic shares of commercial bank deposits presented in Table 1 against per capita GDP in 1998. With the exception of the Sudan, the richest Gulf Cooperation Council states of Kuwait and Qatar lead the rest of the pack. Excluding the GCC, however, the relationship could run the other way, with the poor of Sudan, Yemen, Egypt, and Jordan outdoing wealthier states such as Tunisia, Turkey, Libya, and Malaysia. Obviously wealth is not the only factor that may be associated with Islamic finance.

Figure 1
Islamic share of commercial bank deposits by per capita GDP, circa 1998



Notes: Iraq and Syria cluster beside Morocco, having no Islamic banking. Lebanon and slightly wealthier Tunisia lie just under Algeria and have minuscule market shares.

Political opportunities and constraints

We focus in this book upon the politics conditioning and sometimes enveloping these Islamic financial institutions. Islamic banking may be better off in liberalized, less restricted commercial banking environments than in heavily state controlled ones. Further analysis will also suggest that Islamic banking is in greater need than conventional commercial banks of the liberalized climate advocated by international financial institutions - the so-called Washington Consensus. For in order to generate better earnings, the Islamic banks need to engage in more equity-like financing that requires clear standards of accountability and transparency. Since they will need to engage in more equity-like financing than conventional banks, they stand to benefit more from financial structural adjustment programs.

In some states, however, we see that Islamic banks carry a political handicap. Governments that declare war against political Islamists, such as Algeria and Tunisia, do not have thriving Islamic financial establishments. In most MENA countries the principal opposition to the incumbent regime is Islamist - even in Saudi Arabia where the dynasty poses as a purified Islamic regime. To the extent, then, that Islamic banks are confounded in the public eye with political Islamism, they may be better off in a more liberal political climate like Kuwait or Jordan. Most Islamic financial institutions in fact deny any political associations and try, just like conventional bankers, to appear to be above "politics." But just as the bankers of state-owned systems manage patronage machines for those in power, so Islamic bankers may find it difficult to avoid various political associations. In Kuwait the Kuwait Finance House enjoys close ties with certain government ministries and Islamist deputies in parliament. Our case studies will shed further light on the complex relationships between bankers and politicians.

This volume is divided into two parts. In Part I a set of thematic essays lays the groundwork for the country specific political analyses of Part II. Monzer Kahf interprets the rise of Islamic banks over the past three decades as an alliance between private Muslim financiers and religious scholars. The *ulama* were generally preferred over more politicized Islamists because of the moral authority that the former exercised over potential banking clientele. From the start, in other words, "Islamic" capital kept at a certain distance from political Islam. As Ibrahim Warde points out in his essay, however, the international and particularly the American authorities responsible for tracking down terrorist money have occasionally missed such fine distinctions.

The political implications of Islamic capital accumulation will obviously be conditioned by the progress of America's War On Terrorism and the impact of various wars upon the political stability of the region. But economic factors also matter. A principal disadvantage of most Islamic banks is that they cannot raise as much revenue from lucrative medium and long-term financing or treasury operations as conventional banks. Greater use of their equity-like instruments (*mudaraba* and *musharika*) would generate more revenue, but they presuppose the sorts of structural reform that international financial institutions have been trying, generally with only limited success, to promote in the MENA. Analytic findings may have important political implications, such as Islamic finance's greater need than conventional banks for economic liberalization. In this vein Tarik Yousef explains the prevalence of short-term financing instruments used by Islamic banks,

Ellis Goldberg carries the discussion further by exploring futures options in other Muslim contexts. He analyzes past Egyptian experiences with cotton futures and current experiences of oil-producing countries with their international markets. Were the "call" and "put" options of futures markets to become acceptable financial instruments, they could fill a crucial gap in the repertoire of Islamic finance. As matters stand, however, long-term Islamic finance largely depends on equity-like instruments. Clement Henry compares the financial performances of selected Islamic banks with comparable conventional ones to show why the Islamic banks may indeed be in greater need than conventional banks of structural adjustment and economic reform in the countries where they operate. Rodney Wilson completes our analytic section with the logical conclusion that, pending the necessary reforms, Islamic banks engage just as much, if not more than conventional banks, as conduits for Muslim

capital to invest overseas. He studies the “Islamic” mutual funds and other means of attracting mobile capital into Islamic financial institutions.

The steady accumulation of “Islamic” capital may nevertheless have significant political repercussions at home, just as local political environments also affect financial performances. If a political regime tolerates the existence of an Islamist political opposition, such a constituency can also offer the Islamic financiers a loyal and lucrative clientele. Conversely, Islamic financial interests may conceivably moderate Islamist political confrontations with incumbent regimes. Part II of this volume offers case studies of Islamic banking experiences in countries that serve to illustrate possible scenarios relating incumbent regimes to their respective Islamist oppositions and to Islamic financial institutions. Unfortunately Saudi Arabia could not be included because its internal politics have not been sufficiently studied. The scenarios to be explored are:

1. **Integration.** Islamic capital channeled through private sector Islamic banks builds up strong national business communities. The equity-like financing of Islamic banks is extended with the help of political monitors from Islamist parties who insist on probity and transparency in business operations. Greater proportions of equity financing make the Islamic banks more profitable with less risk than conventional banks. The business community, with much to lose in the event of conflict, moderates the oppositional activities of the political Islamists while giving them the necessary material support for autonomous political activity. Synergies between political Islamists and Islamic capitalists help the combined movements to achieve gradual acceptance in the political system, reinforcing trends toward greater political pluralism.
2. **Separation.** Islamic capital, like all capital, is "coward" and avoids any association with political Islam. Indeed, that is its strength: Islamic financial institutions enjoy relative operational autonomy because the political regime considers them politically harmless yet, ever in need of legitimacy, does not wish to appear opposed to experimentations with shari'a practices in financial matters as long as the banks stay out of politics. Separated and blocked from any natural constituency of Islamically-minded entrepreneurs, however, the Islamic banks are heavily dependent on state subsidies to survive the competition from conventional banks. The state represses the political Islamists and any potential Islamically-minded business allies while demonstrating its support for Islam by subsidizing the banks and possibly even creating new ones under direct state control.
3. **Uneasy coexistence.** Elements of the state that favor structural adjustment ally with their counterparts in the Islamic financial institutions. These are permitted access to Islamically-minded entrepreneurs, and the state encourages a relatively autonomous Islamist business community while repressing Islamist political parties. Neither integration nor separation but rather an uneasy coexistence characterizes the respective relationships of the political Islamists with the Islamic business community, on the one hand, and with the state, on the other.

Endre Stiansen leads off our case studies with the Sudan, the one country in which Islamic banks financed an Islamist political movement and helped it to seize power at least for a time – until the military leadership ousted Hassan Turabi from power in 1999. Kristin Smith follows with her study of Kuwait, another illustration of extremely close relations between an Islamic bank and an Islamist political movement. Whereas Sudan illustrates a pattern of mutual destruction, Kuwait highlights possible synergies between financiers and political clientele.

Mohammed Malley and Filiz Baskan then respectively deal with Jordan and Turkey, two more complex cases of indirect connections and interactions between Islamic financial institutions and Islamist political factions and parties. And, finally, Robert Parks and Samer Soliman discuss Tunisia and Egypt, respectively. Each country's regime represses its political Islamists, but the Egyptians treat Islamic banking with greater political sophistication than the Tunisians.

These case studies in turn enable Clement Henry and Rodney Wilson to draw further conclusions about the complex interrelationships between politics and finance within the Islamist movements of the MENA. We meanwhile gratefully acknowledge a number of prior meetings that facilitated our task. The coeditors of this volume first met "virtually" by collaborating in a special issue (July-August 1999) of the *Thunderbird Review of International Business* devoted to Islamic finance. Subsequently Henry hosted a colloquium, sponsored by the Government Department and the Center for Middle Eastern Studies at the University of Texas, that included Moncef Kahf, Tarik Yousef and Mohammed Malley. Kristin Smith subsequently joined Kahf and Malley in a panel chaired by Henry at the Middle East Studies Association in November 2001. Finally, most of the contributors to the present volume convened in Florence at the Robert Schuman Center for Advanced Studies of the European University Institute on 20-24 March 2002 in a workshop co-chaired by the present coeditors. We wish to thank the organizers of the Third Mediterranean Social and Political Research Meeting for affording us the opportunity to meet and exchange views as we prepared this book. We also thank the Government Department and Center for Middle Eastern Studies at the University of Texas for their early support of this project. We are especially grateful to the Middle East Center at University of Durham for its indispensable support in bringing the project to fruition.

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