of modern democracy, pluralism, and human rights. In doing so, the author expounds the moderate and pluralist discourses of modern Islamic theorists and movements and contrasts them with the discourses of what he describes as the radical and rejectionist theorists and movements.

In sum, the book is essential reading for anyone interested in understanding the phenomenon of Islamic revival, usually referred to as ‘Islamic fundamentalism’ or, in academic discourse ‘Islamism’.

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An Introduction to Islamic Finance

Although the literature on Islamic banking is extensive, there are fewer legal studies and, until now, none in English by leading international Shari'a scholars who are actively involved in Islamic banking supervision. Muhammad Taqi Usmani’s book on Islamic finance is therefore of considerable interest, not only as an introduction to the subject, but also because it reflects the views of a member of the Supreme Court in Pakistan and a permanent member of the influential Fiqh Academy of the Organization of the Islamic Conference in Jeddah. Dr Usmani has also practical experience of Islamic finance as he chairs the Shari'a council of the Accounting and Auditing Organisation for Islamic financial institutions in Bahrain and serves on the shari'a boards of several banks offering Islamic asset management and financing facilities, including HSBC Amanah Finance and Saudi American Bank.

Usmani’s work is admirable for both its clarity and the sense of authority conveyed throughout the text, demonstrating the author’s conviction in what he is writing. Belief in divine guidance is stressed from the start, and the need for man to obey God’s commands in the economic and financial sphere as in all other aspects of life. However, this does not constrict human intellect in a narrow sense, as a very wide area of human activity is left to man’s rational judgement. Private ownership, market forces and profits are viewed as part of the natural order, and are seen as acceptable in Islam, but excess should be avoided, as is the case with interest, gambling, and speculative transactions that tend to concentrate wealth in the hands of a few. Under capitalism Usmani believes unhealthy human instincts are exploited to make money through immoral and injurious products. More controversially, he believes that under capitalism every authority beyond the ‘democratic’ rule is totally denied and that ‘trust in God’, despite it being affirmed on US dollar bills, is expelled from the socio-economic domain.

The distinctive feature of Islamic finance, according to Usmani, is that it is asset-based, whereas conventional banks deal only with money and monetary paper. Money in an Islamic economy has no intrinsic value; rather it is
only a medium of exchange. Financing in Islam is always based on non-liquid assets, its aim being to create real assets and inventories. Usmani sees *mushāraka* and *mudāraba* as the real and ideal types of Islamic financing, both of which imply partnerships and the sharing of profits. He points out the injustice of gearing in conventional bank financing, where the return to the bank and its depositors is fixed, even where a venture proves to be hugely profitable. This brings a windfall gain to the entrepreneur, who may have subscribed only a small proportion of the capital. Where a project does not prove profitable, and the business becomes insolvent, it is the bank and potentially its depositors who suffer most, while the entrepreneur will be liable only for the amount of equity invested in the business.

Usmani nevertheless considers that the principle of limited liability is acceptable under Islamic law, his conclusion being based on the discussion of the obligations of business partners in original sources of *fiqh*. Although the concept of a company as a judicial person has not been much dealt with by *fiqh* scholars, Usmani believes this is admissible under Islamic law, as corporate insolvency is analogous to the death of a debtor, whose creditors are entitled only to the value of any assets that can be realized and sold. Applying this reasoning to companies through *ijtihād*, the owners of a dead company that has ceased trading cannot be liable for more than the funds they have invested in the company and their personal property cannot be at risk. In identifying Islamic legal precedents, Usmani sees *waqf*, the Islamic charitable trusts, as having a distinctive judicial personality like a limited-liability company. Similarly *Bayt al-māl*, the exchequer of an Islamic state, has its own legal personality, as no one person has a right to its assets, which are subject to the beneficial rights of the entire community. Usmani recognizes that the principle of limited liability could be abused, however, if those who profit substantially from trade refuse to admit to their responsibilities in incurring debt that exceeds the assets of the business. For this reason he believes limited liability should apply only to large quoted companies where it would be unfair for the individual shareholders to be responsible for all the debts incurred by the management.

There is an extensive discussion of the rights and liabilities of those participating in *mushāraka* and *mudāraba* financing contracts. All partners have the right to take part in the management of a *mushāraka* company, but their remuneration as agents working for the joint venture is distinct from their returns as investors. Sleeping partners are permissible, but they are entitled only to an investment return rather than to remuneration for work undertaken. Unless stipulated in the initial agreement, any partner has the right to terminate a *mushāraka* agreement at any time, although a period of notice must be given to the other partners. To prevent a partner withdrawing from a *mushāraka* in its infancy, which may damage the longer-term financial interests of the other partners, Usmani believes it is permissible to draw up an initial agreement that allows a partner to sell his shareholding to the other partners, without the *mushāraka* lapsing. Usmani does not specify whether the partner withdrawing is entitled to the return of his entire initial
investment, but the presumption must be that this is not the case, implying in
effect a penalty for early exit, which might be just from the perspective of the
other partners, while making the *mushāraka* more financially viable.

Usmani favours innovation in *mushāraka* contracts to make them more
attractive as financing instruments. He suggests for example that they could
be securitized, which implies the development of a secondary market in
*mushāraka* certificates. This would overcome the problem of early exit, as the
holders of certificates could simply sell them at their market value to those
willing to buy into the *mushāraka*. In such circumstances the position of
*mushāraka* holders would be similar to shareholders in a quoted company,
although the *mushāraka* would be for a limited duration rather than in
perpetuity, and in the case of *mushāraka* the illiquid assets must amount to
over half of the total, so that the trading does not involve rights to monetary
instruments but rather real underlying assets.

The growing flexibility of Islamic financing instruments is illustrated by the
diminishing *mushāraka* contracts that have become increasingly popular in
recent years. Usmani provides three examples of how these can be used for
financing house purchases, taxis, and a tailoring business where finance is
required for premises and equipment. The basic principle is that the financier
puts up most of the initial funding for the assets acquired, but that the client
buys an increasing amount of the financier’s share in the assets through an
installment contract. At the same time the client pays the financier a rent for
the use of the assets, but this diminishes as the client’s ownership share
increases.

Usmani discusses *mudāraba* in detail, and contrasts it with *mushāraka*
by stressing the limited liability of investors in the former, but in return they have
no right to participate in the management of the business they are financing.
Under both *mudāraba* and *mushāraka* profits are shared, but only the *rabb
al-māl*, the financier, shares in any loss. Usmani asserts that only the *rabb
al-māl* can benefit from any capital gains accruing from an increase in the
value of the assets being financed. This, however, is not the case with invest-
ment deposits placed on a *mudāraba* basis with Islamic banks, as only the
shareholders can obtain capital gains, while the nominal value of deposits is
normally fixed, even though it cannot be guaranteed under Shari’a law. There
is relatively little discussion of depositor rights in Usmani’s work, but the
risks associated with *mushāraka* financing are dealt with fully, notably
agency risks and moral hazard, although these finance terms are not used.
These risks have implications for depositors, but Usmani believes they are
manageable, and it is clear from the discussion that he strongly supports the
greater use of *mushāraka*.

In practice, as Usmani knows well from his position as Shari’a advisor,
most Islamic banks use *murābaha*, a mark-up method of financing trade,
which involves relatively little risk for a bank. Usmani clarifies much of the
confusion concerning the acceptability of *murābaha* by emphasizing that it is
a sale contract rather than a loan, and the transaction being financed must
involve a real commodity. The financier must own the commodity, and it is
this legal responsibility that justifies the financier’s mark-up. Where direct purchase by the financier for resale is not feasible—perhaps because resale might negate a product guarantee or warranty—it is permissible for the bank to appoint the client as its agent to purchase the commodity, but in this case it is still the bank that assumes responsibility for any risks involving the commodity.

Critics of murābaha often assert that the contract resembles a loan, as the mark-ups used are usually a fixed percentage over LIBOR, the London Inter-Bank Offer Rate, which represents an interest-rate benchmark. Usmani defends this practice of using LIBOR, as the crucial difference between murābaha and an interest-based loan is not the cost, but rather the nature of the contract itself. As long as it is a sale contract it is hālāl, regardless of the percentage mark-up. Usmani is no apologist for murābaha however, and he makes it clear that he would prefer to see greater use made of longer-term contracts instead; but he is realistic about the continuing use of short-term financing in prevailing market conditions where conventional financing still dominates, and Islamic finance must be competitive to grow and prosper. As conventional banks have penalties for default, Usmani believes these may also be justified for Islamic banks, although the bank should not profit from any penalty charges, rather the defaulter should be obliged to pay a charitable donation.

Usmani’s work also includes a comprehensive discussion of ijāra or leasing contracts, which he believes can be legitimately securitized, unlike the contract of murābaha. Salām, a sale contract where the price is paid in full in advance, is contrasted with istisnā’, where payments are made in instalments, usually to cover the cost of input supplies until a good being manufactured can be sold. The brief discussion of Islamic investment funds is also instructive, but most of the focus of the book is on banking rather than fund management. Usmani urges Islamic banks to develop their own culture, as ultimately it is the value system that matters. Overall, what is impressive about the book is the grasp of modern finance that Usmani displays, his pragmatism, and the clarity of the solutions offered which he believes to be Shari’a-compliant.

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Gold for the Sultan: Western Bankers and Ottoman Finance, 1856–1881

This book covers a crucial period in the history of the later Ottoman empire, when the Ottoman state sank ever further into financial difficulties, descending finally into bankruptcy. Clay sets out to address the question, ‘what part did foreign banks and bankers play in the Ottoman bankruptcy, or, to put it another way, what was the nature of their