

Book Review

ECONOMIC FOUNDATIONS OF ISLAM

By Mr. Syed Ahmed Aly,

Reviewed by Dr. Aly R. Ansary

This book has been a recent addition to the University Library, Benghazi, authored by Mr. Syed Ahmed Aly B.Sc. (econ.) London, and F.R. Econs and who is now on the academic staff of the Libyan University, Faculty of Commerce.

The author joined the Patna University in 1941. He has toured the Middle East, Europe, Canada, U.S.A., moreover, he served with the International Commission in Laos and wrote an interesting "Economic Report on Laos"

To Mr. Syed Ali, Humanism and Islam are interchangeable. He felt the lack of a book about Islam that dealt fairly with the subject, based on the study of the Koran, its commentaries and reliable traditions. He has spared no effort, time or money to dig for the facts, his criteria being quality, authenticity and reasonableness of material. His aim is to present the pure Islamic thought in social and economic matters. He sees Islam as neither patterned after any economic norm, nor based on laissez-faire theory or totalitarianism. The author seeks to prove his theory that Islam can serve the purpose of a modern social and economic system.

He traces Islam through the ages since its dawn in the 7th Century. Chapter Two deals with the foundation of social and economic order, giving an account of its postulates, Chapter Three presents a resumé of the struggle for existence. Man is taught to adjust himself to nature

that policy. An outstanding example in this respect is the behaviour of the British bankers during and after the last world war.

III Profitability :

In his endeavour to realise the highest profitability the banker is hindered by the necessity for liquidity. He has therefore, to maintain a balanced combination of liquidity and profitability by investing his funds in different categories of investments with different degrees of liquidity at different rates of profitability.



The Banker should, therefore, make sure that a convenient and adequate source of repayment is available.

- c) The purpose for which the credit is supposed to be used :
The suitability of the credit purpose must be considered both from the technical point of view of the commercial banker and the credit policy of the country in general. As a rule the commercial bank credit is offered to meet other purposes than speculation or acquisition of fixed assets. There is no arbitrary list of credit purposes acceptable to the commercial banker. Each case has to be considered on its own merits.
- d) The security : Credits are not merely granted against adequate security. The factors which determine the credit-worthiness of the client are of much more importance. However, the security being the last resort in case of need should be adequate and easily realisable.

- 5. **Appraisal of the financial worthiness of the prospective borrower according to the financial statements submitted by him :** This test involves a comprehensive and comparative examination of the financial statements of the client. It is the practice of the conservative commercial bankers to approach these financial statements on a “going concern” and then on a “gone concern” basis.

II Suitability of the purpose of the credit to the credit policy of the country :

It is the duty of the commercial banker to check not only whether the purpose of the credit complies with the rule of safety but also whether this purpose is desirable from the point of view of the credit policy of the country in general. It is also his responsibility to abstain from granting those credits the purpose of which does not comply with

2. **Visiting and inspection of the business of the prospective borrower :** The visitor must be a senior member of the staff of the bank and should inspect both the technical and commercial aspects of the business. He should get enough information on the situation of premises of the business, the conditions of its plant and machinery, its stores, raw materials, work in progress and finished goods, the number and structure of the staff and the organisation of the commercial departments, especially the financial and costing accounts department.
3. **Appraisal of the credit-worthiness of the client and the economic conditions of his business :** This requires examination of the so-called four C's of the customers namely : Character, Capacity, Capital and Conditions, whereby the character and capacity of the prospective borrower are given greater importance.
4. **Consideration of the credit conditions affecting the safety of the credit operation :** These conditions are :-
 - a) The amount of the credit required : The banker should satisfy himself that the amount required is justified by the financial position of the client and is adequate for the financing of the intended purpose. He has to appraise the financial needs of his clients through the analysis of a budget to be furnished by the client.
 - b) The source of repayment : The source of repayment differs from one type of credit to another. The advances granted to meet a temporary shortage of the working capital are usually repaid out of the cash inflow resulting from the current assets. Bridge-over facilities such as lending pending the maturity of an insurance policy or the sale of a fixed asset are usually repaid out of capital resources. The long term credits which are a rarity in the commercial banking business are usually repaid out of the profits.

those advances which are offered as a temporary bridge-over for the working capital of the debtor. In granting credit facilities the commercial banker's freedom is limited by the liquidity and minimum reserves requirements. Being aware of the kind of credit he can grant and the limits within which he can act, the commercial banker follows traditional principles in carrying out the lending business.

These lending principles can be summed up as follows :

- I. Safety.
- II. Suitability of the lending purpose from the point of view of his country's credit policy; and
- III. Profitability.

The article lays stress on the first principle of safety and deals comprehensively with all the necessary checks the banker should undertake to convince himself of the safety of the credit operation. The main points to be considered in this respect are :

1. **Collection of information on the prospective borrower and his business :** This information can be obtained from different sources such as :-
 - a) the supporting documents submitted by the client whether upon opening an account, in course of his dealings with his banker or when applying for the credit facility.
 - b) Previous experience with the client.
 - c) Banks and other credit institutions.
 - d) The commercial milieu of the client.
 - e) Specialised information offices.
 - f) Official publications such as Protest and Bankruptcy lists.
 - g) Centers of credit risks.