MUSLIM COMMUNITIES IN AUSTRALIA

EDITED BY
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The underlying principle of Islamic finance is that interest is prohibited in the Qur'an and therefore must play no part in the financial and economic activities of a Muslim. Until the 1970s, the idea that a model of financing and banking could be established on the basis of zero interest and profit and loss sharing (PLS) was questioned, even by Muslim scholars. In the decades prior to the 1970s, there were some suggestions that such a banking system might be feasible, and could be established relying on legal contracts developed in Islamic law. The first experiment in Islamic banking — the ‘Mit Ghamr project’ — occurred in Egypt in 1963 when an Islamic rural bank utilising principles of Islamic finance was established. Although Mit Ghamr was short-lived, surviving only until 1967 when the Egyptian Government brought it to a halt, it provided a practical basis on which Islamic banking and finance could be further developed.

By the 1970s, there was sufficient confidence in the idea of an Islamic bank for it to be floated at both international and national levels. As a result, there emerged in the Middle East a series of what later became known as Islamic banks: Islamic Development Bank, an international institution based in Saudi Arabia (1975); the Dubai Islamic Bank (1975); the Faisal Islamic Bank of Sudan (1977); the Faisal Islamic Bank of Egypt (1977); and the Bahrain Islamic Bank (1979). The experiment reached South-East Asia with the establishment of the Philippine Amanah Bank (PAR) in 1973. Islamic banking made its way to Malaysia in 1983, where it was not without antecedents. The first Islamic financial institution in Malaysia was the Muslim Pilgrims Savings
Corporation set up in 1963 to help people save for hajj (pilgrimage to Mecca). In 1969, this body evolved into the Pilgrims Management and Fund Board or the Tabung Haji as it is now popularly known.¹

Today, Islamic banking and finance as well as investment and insurance companies are functioning throughout both the Islamic and the non-Islamic worlds. From very humble beginnings in the 1960s, they have emerged as important managers of funds at the local and global level. In 1985 it was estimated that Islamic banks held deposits of US$5 billion; by the mid-1990s this figure had grown to US$60 billion. In 2000 the figure is reckoned at US$100 billion, excluding the economies of Iran, Pakistan and Sudan which are considered to be running on Islamic (interest-free) lines.

This is the global context in which an important Australian community-based financial service provider has made a successful entry: the Muslim Community Cooperative of Australia (MCCA). Although a relatively small player in Islamic finance and banking in world terms, the MCCA caters for the rapidly growing Muslim population of Australia (estimated to be about 300,000). Although specifically set up to meet the needs of Muslim customers, as with Islamic financial service providers elsewhere, its clientele includes non-Muslims who are interested in the services or the financial contracts and arrangements which the Islamic system provides.² Although in some cases, restrictions apply to ownership (shareholding), these do not normally affect deposits or investments. This discussion will focus on the Muslim Community Cooperative of Australia and, to some extent, on its offshoot, the Muslim Community Credit Union (MCCU), which commenced business in 2000.³

MUSLIM COMMUNITY COOPERATIVE OF AUSTRALIA (MCCA)

The MCCA is a community-based financial service provider established by people concerned about their daily lives as Muslims in a non-Muslim environment. The objective in establishing the MCCA was to provide access to an institution that would help them deal with financing and investing in an Islamically lawful (halal) way. The Cooperative’s declared primary objective was “to provide a comprehensive Islamic alternative for all financing needs of the Muslim community in Australia.”⁴ In the late 1980s, a number of Muslim students and professionals in Melbourne had begun to explore ways of setting up a cooperative that would be, in a sense, a precursor to a financial service provider. Their inspiration came from Muslims in the United States who were active in the Muslim Student Association (MSA) and in community activities. According to the Chief Executive Officer (CEO) of the MCCA, Mohamed Nasser Abdel-Hakim, the idea of an Islamic financial service provider in
Australia was received enthusiastically. The transition from idea to reality was more difficult, however, as there was no particular model to follow, nor were there detailed plans, management options or financial procedures for such a project to be based in Australia.

The MCCA project took almost one year to be planned and developed. Most of the meetings were held in Melbourne where the project had been initiated. Planners had to consider the financial structure of the institution, the financial instruments it would utilise, and how to encourage the Muslim community to contribute to and invest in the project. Registration of a Muslim cooperative, which had no precedent in Victoria, was a difficult process. The new institution had to conform to a variety of laws and regulations governing cooperatives and financial institutions. Assurances had to be given to the registration authority in Victoria with regard to the depositing and investing of funds and the viability of a financial institution that would not be operating on the conventional interest-based system. According to Nasser:

Unfamiliarity with the Islamic system caused legal difficulties because if you are not familiar with something, you need to be convinced before you can approve it. That was the position of the Government officials when we approached them. It took them much longer than any other conventional applicant but, alhamdulillah, we were able to present our case successfully, and eventually we got the approval.5

The MCCA finally achieved registration as a cooperative in February 1989 when it started its operations in the Melbourne suburb of Burwood. It retained its head office in Burwood until 2000. Initially there were only ten members, with a total capital of AU$22 300. At first, the Cooperative was staffed by volunteers. Today, it has its own full-time and part-time staff and a Board of Directors. The response of the Muslim community was very slow at first. Many Muslims were sceptical about the success of such a venture, but interest in the project gradually increased as the Cooperative showed itself to be viable. At this stage, the MCCA did not have the financial backing of the wealthy Muslims who had established Islamic banks in the Middle East and elsewhere. Its members used the resources available to them as individuals in Australia and then sought support from other members of the Australian Muslim community. Although this meant that the Cooperative had to be cautious and keep a close eye on profitability and efficiency, it enjoyed the satisfaction of becoming a true community-based project and an indigenous Australian Muslim initiative. As community confidence grew, the Board of Directors decided to set up a branch in Sydney. A steering committee consisting of five volunteer members of Sydney's Muslim community was formed to implement the expansion. A site for the new branch was purchased and the new branch started its operations on 17 March 1997.6
Although it had a rather humble beginning, the MCCA currently has assets of more than $20 million with close to 4000 investors. Following the liberalisation of the financial industry in the late 1990s, the MCCA also obtained a credit union license which allows it to offer banking services to its clients from the year 2000. Under the changed legal environment, the newly established credit union, the MCCU, can now provide banking services, which previously would not have been possible, given the restrictions on establishing any financial institution to provide banking services to the public.

KEY PRINCIPLES AND CONTRACTS OF ISLAMIC FINANCE

The principles on which the MCCA is based are essentially the same as those on which the international movement in Islamic banking is based. The most important is the Qur'anic prohibition on *riba* which, according to the majority of Muslims, is more or less equivalent to modern bank interest. Although the term *riba* incorporates other transactions as well, the Islamic banking literature has focused on interest as the main manifestation of *riba*. Thus, an Islamic financial service provider is required to find ways of providing financial/investment services to the Muslim community on a basis other than interest. This also means that the bank is not simply engaging in a business activity but is also involved in a religious activity, putting into practice the religious instructions or commandments given by Allah. All the operations of an Islamic financial institution, therefore, have to be free from interest.

There is some debate among Muslims about the precise definition of *riba*, and whether the term covers modern bank interest or not. However, Islamic bankers and economists have remained insistent that all forms of interest in practice today are, in fact, manifestations of *riba*, and therefore have no role in an Islamically acceptable financial system. In their view, this is because the prohibition of interest is based on clear Qur'anic instructions and on the *sunna* of the Prophet, according to which, *riba* is a social evil. Apart from complying with the prohibition on dealing with interest, Islamic banks have other responsibilities. For example, they must avoid transactions which involve excessive speculative risk and contracts in which a significant element of uncertainty exists such as gambling. In addition, Islamic financial institutions still have to follow the rulings provided by the Qur'an and *sunna* in relation to prohibited contracts.

Associated with the concept of zero-interest based financing is the belief that wealth creation must contribute to some form of ‘socially beneficial effort’. Lending at interest does not fit this description as it is considered a form of exploitation, whether the money is lent to a business or to a poor farmer. Many Muslim scholars consider that a
socially beneficial activity in this area necessarily involves some form of risk-taking or a productive initiative in which available funds can be utilised. The owner of excess funds should make that productive effort, without which any return is generally considered unacceptable.

In order to meet these objectives, Muslim scholars have devised contracts and developed principles for engaging in productive ventures, in which capital can be combined with the skill of entrepreneurs to lead to socially beneficial incremental returns. Risk plays an important role. The idea of putting money at no risk, while at the same time being entitled to a return, is emphatically rejected in Islamic law.\textsuperscript{13} The combination of effort, capital and risk justifies the return on the investment. Sharing of risk is also emphasised in the literature on Islamic finance — as profit is shared, so is risk. This is understood in Islamic finance as profit and loss sharing (PLS), in which the provider, as well as the user of the funds, will share in the outcome of the venture, be it positive or negative.\textsuperscript{14}

A range of different contracts have been devised based on this concept of PLS. One such contract is \textit{mudaraba}. This contract applies in a venture involving two parties in which one party provides capital and the other labour or skill. Their combined input leads to profit, which is shared between the capital provider and the labour provider. If there is any loss, it will be borne only by the provider of the capital. Although in practice, it is largely neglected in the investment activities of Islamic financial institutions, \textit{mudaraba} is supposed to be one of the two main contracts underpinning Islamic finance as argued by the theoreticians of Islamic banking in the 1950s and 1960s.\textsuperscript{15} Even today, discussions on Islamic banking generally begin with some reference to \textit{mudaraba}.

The second contract, based on the idea of profit and loss sharing in Islamic finance, is \textit{musharaka}, in which two or more parties provide capital in a joint venture and share in the profit or loss according to agreed terms. Not all parties need to participate in the management of the venture, but the profit has to be at an agreed ratio that, according to most Muslim jurists, does not have to correspond to the capital contribution ratio.\textsuperscript{16} Any loss resulting from \textit{musharaka} is to be borne by contributors strictly according to the ratio of capital contribution. There are various types of \textit{musharaka} in Islamic banking: (a) short-term commercial, which is generally for a specific, short-term venture; (b) long-term, such as a partnership in a venture on a long-term basis; and (c) decreasing \textit{musharaka}.

In addition, there are contracts which are, strictly speaking, not PLS-based. One such contract is \textit{murabaha}, which is used to acquire consumer goods such as household items and, in some cases, capital goods. Upon the request of the client, the institution buys a specified item and then sells it to the client at an agreed price, with transparent profits. Because of the predetermined nature of the return and its case
of application, and the fact that it is not a loan based on interest, Islamic banks have widely embraced this contract.\(^{17}\) As a result, it has become the cornerstone of banking business in terms of the utilisation of funds.\(^{18}\) Despite heated debate about its legality from an Islamic point of view and the criticism of some Muslims,\(^{19}\) this contract is generally considered to be Islamically acceptable, and its wide use in Islamic finance gives it some credibility.

*Ijara* (leasing) is another type of contract which has become popular in Islamic finance. Under Islamic banking, two basic modes of *ijara* are used: the operational lease and financial lease. Under an operational lease, the Islamic financial institution purchases an item (a piece of machinery, for example) and leases it to its client for a specified period, after which the asset is returned to the bank. Under a financial lease, the bank purchases an asset at the specific request of a client, who wishes to rent, and then purchase it. Upon completion of the contract, the financial institution transfers ownership of the asset to the lessee. Rental is based on the cost plus profit, taking into consideration the period of the contract.\(^{20}\)

APPLICATION OF ISLAMIC FINANCE IN THE MCCA

Unlike conventional practice in financial institutions, loans do not play a significant role in the business of the MCCA. The only loan offered is a *qard hasan* (a benevolent interest-free loan), which is intended for emergencies and thus constitutes only a very small part of its business. In fact, as suggested by Nasser, the MCCA’s CEO, the loans are considered to be a community-oriented non-profit service. Any amount borrowed will be paid back without any increase (interest). According to Nasser:

We operate this through donations to the *qard hasan* fund, which is a trust fund, like a *wagf* (endowment). You don’t even have to be a member of the Cooperative to receive this loan. Anyone who requires finance because of an emergency can apply and repay exactly what he or she borrows.\(^{21}\)

Since ‘loans’ do not play any significant role in the investment operations of the MCCA, it has to rely on the contracts of *mudaraba*, *musharaka*, *muraabaha* and *ijara* which form the ‘backbone’ of investment strategies in Islamic finance. Despite the emphasis on *mudaraba* in the literature on Islamic finance, like other Islamic financial institutions, the MCCA accords very little importance to *mudaraba* in its investment operations. The reason, echoed by most Islamic bankers, is the high-risk nature of the *mudaraba* contract. If the MCCA is the capital provider, producing 100 per cent of the finance for a venture, and the venture fails, the MCCA alone will bear the financial loss — thus the difficulty.
The two most commonly used contracts are murabaha and musharaka. Under murabaha, the MCCA may buy any commodity or property such as a house, a car or a computer, and sell it to the client at an agreed, fixed profit. Payment can be made by instalments. Musharaka is widely used, particularly because of the MCCA’s focus on real estate. Although theoretically, the MCCA can employ all the forms of musharaka used by other Islamic financial institutions, its most popular is what is referred to as musharaka mutanaqisa (diminishing partnership). This contract is used to finance a house or property, a taxi number plate, or anything that can grow in value. Under this partnership, both the MCCA and the client contribute capital in the venture, the purchase of a house for example, at an agreed ratio. Over the term of the agreement, the MCCA leases its equity to the client. On the date of settling the joint purchase, the MCCA cedes right of occupancy to the member and thus becomes a landlord for its share in the property. The client then pays rent on the MCCA’s share in the investment, gradually buying out that share. As the client’s equity increases, the rent is adjusted in the client’s favour. There are two options in this scheme: fixed rental option or rent review option. Under the fixed rental option, the MCCA sells its share to the client at cost, disregarding the increment in market value over the period of its shared ownership. Under the rent review option, both parties agree to review the rent on a regular basis, including annual reviews. Under this agreement, the MCCA reviews its equity in the property on an annual basis and the capital costs, such as rates and building insurance, will be paid jointly when due.\(^\text{22}\)

**DEPOSIT MOBILISATION**

Funds are invested (deposited) with the MCCA on a mudaraba basis; the depositor is the capital provider and the MCCA acts as a mudarib (manager of funds). The MCCA then invests these funds in various productive ventures. Any profit is shared by the investors and the MCCA. Although in practice, Islamic financial institutions have found that mudaraba is extremely risky, particularly when it is used in the institution’s investment operations, the contract has been extremely useful in formalising their relationship with depositor-investors. Since the mudaraba contract shifts the financial risk to the capital provider, in this case the depositor, the Islamic financial institution would not have to bear any losses, even if the loss resulted from its utilisation of the funds on the basis of its own decisions. The institution could theoretically pass on the loss to the depositors or investors. The MCCA, following the practice of other Islamic financial institutions, mobilises deposits on the basis of the mudaraba contract.

As a cooperative, the MCCA only receives deposits in the form of shares.\(^\text{23}\) Since its clients are primarily motivated by the religious
prohibition of interest, the MCCA is in a unique position in Australia. Its services, however, have to be coupled with a return on deposits (investments), as depositors still expect their funds to generate some positive return. For this reason, it is extremely important for the MCCA to consistently improve its performance over time, which it has done so far, in order to increase its client base. Since, as an Islamic financial service provider, it cannot provide a guaranteed return (as this would constitute riba), the MCCA has to rely on its past performance to attract more deposits. An average return of around 7 per cent was distributed as dividends to its members over the previous four-year period, which compares favourably with returns on similar investments elsewhere. Emphasising this point, Nasser says:

We can only attract deposits on the basis of our past performance because under the Islamic system you cannot guarantee any return. That is not permissible. This is an encouragement for those who say that this is in line with our religious principles. They do invest, although we do not guarantee any return, because they look at our past performance. We also urge anyone who is not comfortable not to invest. We always say to people that if you want to invest for the future of your children and future generations of Muslims in Australia, then we definitely need a financial institution that will benefit by pooling the funds of the Muslims. The return will be for the Muslim community. Regardless of any differences or disagreements within the Muslim community, the one thing that no one can deny is that if we all put our money into one pool then the benefit will return to us and to the generations to come. That is another attraction because each person will say 'I am investing for myself and for the future of my children'.

GROWTH OF THE MCCA

As the MCCA is the only Islamic financial service provider in Australia, its performance cannot be measured against similar operations. Any comparison with the existing banking sector will be misleading as the nature of the operation, its size and the market are significantly different. For this reason, any such comparison is avoided in this discussion. Instead, figures demonstrating the growth of the MCCA will be presented.

Table 1
Growth of the MCCA

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>2 866</td>
<td>3 872</td>
</tr>
<tr>
<td>Deposits (Share capital)</td>
<td>11 833 524</td>
<td>18 034 678</td>
</tr>
<tr>
<td>Total assets</td>
<td>11 834 000</td>
<td>18 035 000</td>
</tr>
</tbody>
</table>

MEMBERSHIP
The MCCCA had only 10 members when it was established in 1989. Over 10 years, this number increased to approximately 4000. During this period the institution experienced, on a consistent basis, a huge growth in relative terms. The growth rate from 1998 to 1999 alone was 35 per cent. This growth rate, although spectacular compared to the industry average of about 4.5 per cent, failed to match the previous year's figure of 54.9 per cent. The Annual Report 1998-1999 comments:

As the Cooperative continues to mature as an organisation, it is expected that the 50 per cent+ rates of growth achieved in the past would only be sustainable by a more focused marketing and awareness initiatives that would introduce Islamic finance to a much wider audience. As always, the Cooperative's comparative advantage in the niche market of Islamic finance remains a key factor in maintaining strong levels of growth.25

DEPOSITS
In line with the growth in membership, deposits also increased significantly. But as the Annual Report 1998-1999 states, a significant portion of this growth was associated with MCCCA's entry into the Sydney market. Although there were fewer members in Sydney, their share of deposits for the period was greater than a simple percentage would indicate. Despite the fact that the Sydney branch was only opened in 1997, at the end of the financial year ending 30 June 1999, the capital share of the Sydney branch was $7 346 329, or 40.7 per cent of the total capital of the MCCCA. This figure indicates the potential of the Sydney market. It should be borne in mind, however, that the vast majority of Australian Muslims live in Sydney. Yet another reason for the significant increase in business in Sydney could be the location of the branch in Lakemba, the demographic centre of Sydney's Muslim population. In contrast, the MCCCA's Melbourne office is located in an eastern suburb, somewhat distant from the heart of the Melbourne's Muslim community, which is largely based in the northern and inner city suburbs of Brunswick, Coburg, Preston and Broadmeadows.

Unlike many Islamic banks, the MCCCA does not differentiate between its capital and depositors' funds: the capital is the depositors' funds. Since it is a cooperative, all of its assets belong to the members and there is, therefore, no distinction between 'shareholders' and 'depositors'. However, the Credit Union model requires changes to the current policy in relation to deposits. Different options are offered to the depositors. Those who are interested only in the safekeeping of their deposits and do not wish to risk their funds or keep
funds for transaction purposes, will need access to current account deposits, which do not share in the profit and loss of the institution. Those who are interested in a return will have to place funds in savings or investment deposit accounts with restrictions on minimum balance and withdrawal. It is perhaps in anticipation of this, that the Credit Union (MCCU) has placed restrictions on the amount one can place in an investment deposit (for which a return is available). The MCCU specifies a minimum amount of $1000 for funds to be utilised as investment deposits, and an affordable minimum of $300 for savings deposits. This is particularly important as a large number of the Muslim population are still considered to be among the low-income groups in the community, both in Sydney and Melbourne.

ASSETS

In keeping with the Islamic principle that money should remain in circulation, the bulk of members' contributions are invested in the operations of the MCCA. The increase in the MCCA's assets reflects the healthy growth of the institution. The MCCA, as a cooperative, is exempt from the restrictions on reserve requirements imposed on banking institutions. It is therefore able to utilise most of its depositors' funds (or capital) in productive ventures. Given the nature of the business, a significant portion of the MCCA's funds, equivalent to 45 per cent of its total assets, is invested in real estate, mainly on the basis of *musharakah mutanaqisah*. In 1998, 44 per cent of the assets, and in 1999, 42 per cent, were employed in *murabaha*-based finance for household goods or other consumer products. Only 6 per cent of assets in 1998, and 3 per cent in 1999, were in short-term *murabaha* operations.

**Table 2**

<table>
<thead>
<tr>
<th>Type of Assets of the MCCA and the Percentage of each Asset Type 1998-99</th>
<th>Year 1998 (A$)</th>
<th>%</th>
<th>Year 1999 (A$)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in hand</td>
<td>230 000</td>
<td>2</td>
<td>1 463 000</td>
<td>8</td>
</tr>
<tr>
<td>Investment in commodity finance (murabaha)</td>
<td>5 225 000</td>
<td>44</td>
<td>7 567 000</td>
<td>42</td>
</tr>
<tr>
<td>Investment in property finance</td>
<td>5 347 000</td>
<td>45</td>
<td>8 133 000</td>
<td>45</td>
</tr>
<tr>
<td>Commercial finance (mudaraba)</td>
<td>730 000</td>
<td>6</td>
<td>506 000</td>
<td>3</td>
</tr>
<tr>
<td><em>Qard hasan</em> (interest-free loans) and other funds</td>
<td>302 000</td>
<td>3</td>
<td>366 000</td>
<td>2</td>
</tr>
<tr>
<td>Total assets</td>
<td>11 834 000</td>
<td>100</td>
<td>18 035 000</td>
<td>100</td>
</tr>
</tbody>
</table>

In view of the risky nature of the mudaraba contract, it is important to note that the MCCA is keeping its exposure to high risk to a minimum and is making an effort to minimise its operations in this area. Taking account of the ‘significant level of bad debts written off by the Cooperative during the financial year’, it is expected that the MCCA will continue in this direction. Only a very small percentage of assets are in interest-free loans. Perhaps as a result of a significant increase in its assets, the amount of cash-in-hand increased significantly from 2 per cent of total assets in 1998 to 8 per cent in 1999. This situation may put pressure on the profitability of the institution, if it continues over a long period. In some respects this parallels the experience of some other Islamic financial institutions where the absorptive capacity of the institution in times of high growth is restricted in the short-term.

STRENGTHS OF THE MCCA

NATURE OF DEPOSITS
It is important to note that the MCCA’s deposits are not considered as liabilities. Since the deposits are for investment, the contribution is considered to be part of the capital of the MCCA and is, strictly speaking, not ‘borrowings’. Since the institution does not borrow its funds, it has no creditors; its only liability is the annual dividend which is automatically credited to each member’s share account.

In the Cooperative environment, funds are invested in a pool fund and we distribute the dividend on a yearly basis after the accounts are audited. Under the credit union environment the dividend will be credited to their current accounts. In the Credit Union, members have to make clear their intention as to what their funds will be used for: will the funds be at call or do they want to invest their funds for a certain period of time? If it is in a current account it is not subject to investment. This will give us the opportunity to see which funds are available for investment.

ISLAMIC NATURE OF THE MCCA’S OPERATIONS
Since the MCCA is an Islamic financial service provider, all its transactions must be in line with Islamic law in addition to complying with Australian law (both Federal and State). The Islamic nature of its operations in the eyes of Muslim communities should be the most important element of its legitimacy. It is therefore extremely important to ensure that legitimacy remains intact and untarnished for the MCCA to grow and expand its operations. Like any other Islamic financial service provider, the MCCA has a Shari’a advisor who is an expert in Islamic law. In addition, the institution maintains contact with Shari’a experts outside Australia, consulting them as the need arises. Among such advisers is Yusuf al-Qaradawi, one of the most prominent scholars
who is listed on the Shari'a advisory board of a large number of Islamic financial institutions in the Middle East and elsewhere.

COMPETITIVENESS OF ITS PRODUCTS
MCCA clients represent a cross-section of the Muslim community in Australia: business people, professionals, self-employed, employees and even the unemployed. The CEO attributes the success of the Cooperative to the strength and attractiveness of the service it provides. If the products the MCCA offers are considerably more competitive and attractive, it is likely to gain the confidence of non-Muslims for whom the main interest will be the competitive nature of these products. To gain the confidence of the non-Muslim market, it will need to demonstrate the financial and economic benefits of its products compared to the interest-based products available elsewhere in the market. Emphasising the fairness of Islamic financial products, Nasser says:

The majority [of clients] are Muslims but we do have non-Muslims who have seen the strength of the system and are very attracted to the unique services we offer to people. Our service is a fair and equitable type of operation. Transactions are fair to both parties, for example, the housing contract, which is a diminishing partnership contract. As you pay for the house, you are purchasing the equity of the other party in the house, and if for any reason the house is sold, then the proceeds of the sale are distributed between the two parties, the partners. Under the conventional system, if I take a mortgage and I give you the money, I am a creditor. I am not a partner with you and I have the legal right to sell the property at any time if you don't maintain repayments or fail to fulfil your obligations for any reason, even if it is beyond your control. I have the liberty to sell at any price at a mortgage auction. Even if you had been paying the financial institution for a number of years, all of your investment could disappear. Under our system it will remain.28

SOCIAL RESPONSIBILITY
From the point of view of its founders, the MCCA should not be considered just another financial institution. Rather, it combines the features of a financial institution with a community-oriented developmental project. Since in Islam, business and daily life cannot be separated from religion, its financial institutions are based on the complementary interaction of business, religion and ethics. As a socially responsible institution, the MCCA has a duty towards the community and, in particular, towards its disadvantaged members.

There are many ways this institution acts in a socially responsible way. On the one hand, it provides the services the community needs in terms of investment and finance. At another level it provides assistance through special funds it manages, to help the disadvantaged. At a third
level, the institution collects donations from its members and others who are conscientious about giving zakat, so that charitable funds can be managed according to Islamic social objectives. According to Nasser, the CEO:

The strength of Islamic finance is that it cannot be divorced from other aspects of life. You have in Islam a financial system that complements the other social needs of people like social justice, fairness and equity. Islam does not say that ‘business is business and I don’t care about ethics and social justice’. That is completely unacceptable in Islam. Everything goes back to the pleasure of Allah, and anything that is for the pleasure of Allah must be good. If I do anything that pleases God, then, it is good socially, financially and in every other way. The opposite is also true: if you do something that is displeasing to God then it is harmful, not only financially but also socially, and we see that in practice. When you have a system that makes the rich richer and the poor poorer then you will find that the rate of crime is rising, divorce is increasing, social injustice is on the rise and as a result of that, you will find that people are not happy as they should be. 

Nasser explains the difference between conventional finance and Islamic finance, and stresses the advantage of Islamic finance in dealing with ‘social justice’ issues:

The basic difference is that, in Islam, finance and resources are there to serve people, not the other way around. That comes from our holy Book (Qur’\textsuperscript{an}); God has created everything for you, to serve you. The materialistic approach is that if I am going to benefit materially, it can be at your expense; in Islam, that is not acceptable. This ensures social justice. This is the basic difference. The focus is on serving people, uplifting the standard of people, which is good in all spheres of life. The conventional system is providing a service for people but the service that is offered is focusing only on one side of life and that side is financial. It does not concern itself with social justice. Although there may be ethics involved, it relates only to the financial aspect. That, I think, is the basic difference.

CHALLENGES

Despite the spectacular growth it has achieved, the MCCA faces a number of challenges for which appropriate policies will have to be developed and implemented.

INCREASING RESOURCES

The demand for the services of the MCCA is much greater than its deposits (investments), although this situation will change with the establishment of the MCCU, the credit union. Currently, clients have to wait several months before they can get finance to buy a house. According to Nasser:
We have a strong demand for our business but at the moment the capital is not enough to meet this demand. We hope that this will change when we become a credit union because we will have more funds coming in. We will have more backing from the special arrangements with the Credit Union Service Corporation that acts as the treasury for all the credit unions. They could provide us with additional funds at no interest in return for our placing of funds with them at no interest. There is a special arrangement that will help us if we need more capital from the market.  

MARKETING — GETTING THE MESSAGE ACROSS  
On the challenge of conveying the message of Islamic banking, Nasser points out that many educated Muslims understand the operations and aims of an Islamic financial institution. However, there is a need to reach all members of the Muslim and non-Muslim communities:

Every time we send out a news release ... many non-Muslims contact us and show their interest in getting some information so that they can benefit from our system. Because the concept is new in Australia and is not fully understood, even by many Muslims, we have a challenge. The challenge is to educate both non-Muslims and Muslims, to clarify how we differ from conventional banking. We are focussing on the young educated Muslims in whose hands the future of this organisation will be. 

TRAINING IN ISLAMIC FINANCE  
A major concern is the availability of training in Islamic banking and finance for the increasing numbers of MCCA staff. At this stage, it is not economical for the MCCA to set up and run a training department, and as a result, only on-the-job training is provided. Since Australia has not had a history of Islamic banking, educational institutions do not offer training in Islamic finance. According to Nasser:

Formal training is a very important part of our program but we need to improve on that by working hand in hand with the educational institutions that could offer Islamic finance courses. Where else can you get formal training in this specialised area? ... We do not have the resources to send our staff overseas to get training from similar financial institutions like the Islamic banks. We can only offer on-the-job training and literature that explains procedures to our staff. This is, of course, insufficient and I think that this is a universal challenge. Even Islamic banks in other countries do not have enough trained people because Islamic banking and finance is a relatively young movement.

DEVELOPING COMPETITIVE PRODUCTS AND KEEPING COSTS DOWN  
Many of the products offered by the MCCA, such as housing finance, are affected by the Australian regulatory and taxation environment.
The MCCA has to spend a considerable amount of time and resources to develop products which will not disadvantage its clients. One example, which highlights the difficulties involved, is in the area of housing finance. Under the "musharaka mutanaqisa" arrangement, the MCCA buys the house jointly with the client and the title is held under joint ownership. Upon purchase, the buyers (the MCCA and its client) have to pay stamp duty, a significant cost in the purchase of a house. When a house is purchased, for example through a bank, the title is held under the name of the client only. Stamp duty is paid once only. Under the MCCA arrangement, when the MCCA sells its share to the client, it is in fact, 'selling' the house to the client and, therefore, additional stamp duty will have to be paid. Additional costs, such as conveyancing, may also be involved. Until recently, this meant more expense for the buyer. However, at the time of writing, this problem has been resolved and the MCCA's housing finance is no longer at a disadvantage in relation to these costs.

PROSPECTS FOR ISLAMIC FINANCE IN AUSTRALIA

Islamic law allows a Muslim to do certain things when faced by necessity ("darurah") even if they are ordinarily prohibited. If there were no Islamic financial institutions in Australia, Muslims would have to use conventional banks. When a financial institution is established that can provide facilities in Islamically acceptable ways, it is believed that there is an obligation on the part of Muslims to avoid the institutions that engage in Islamically prohibited activities. This religious issue is a concern for many practising Muslims who believe that bank interest is prohibited. They believe that the Cooperative is an institution that they have a duty to support. An important element in the success of the MCCA, therefore, has been the preference on the part of Muslims to purchase property and consumer goods on a "halal" basis. In standard banking practice, houses can be bought and consumer goods obtained through interest-bearing loans, a practice prohibited in Islam. As well as addressing the religious ban on interest ("riba"), the Cooperative has been able to offer customers financial services made attractive by the absence of the burden of interest.

Given this religious dimension, in Nasser's view, the future of Islamic banking in Australia is bright. In neighbouring countries, such as Malaysia and Indonesia, Islamic banking is also gaining ground. Since there is extensive trade between Australia and these countries, it is likely that Islamic banking will expand even more in Australia. Australian Muslim communities outside Melbourne and Sydney are also keen to have access to Islamic financial institutions to meet their needs. The growth of the Muslim population in Australia, coupled with Australia's trade links with Muslim countries in South-East Asia...
and the Middle East, will play a significant role in expanding the Islamic banking sector in this country. According to Nasser:

... the development of the MCCA from a cooperative to a credit union should be seen as an important step in the consolidation of Islamic finance in Australia. The MCCA was granted a license to establish a credit union, with the result that the Muslim Community Credit Union (MCCU) was launched on 13 May 2000. Its services adhere to the following principles: (a) all functions and dealings are in accordance with the Islamic code of life; (b) transactions involving interest are completely excluded; and (c) it provides a recognised pool of funds for the Muslim community in Australia. These are considered important differences that set this credit union apart from other types of financial institution in Australia.37

The Credit Union is able to provide an even wider range of services than the Cooperative. As reported by the CEO in the Annual Report 1998–1999, ‘The establishment and benefit of the Credit Union ... will facilitate deposit taking, debit card and cheque account facilities’. More importantly, the MCCU enables its members to have access to their funds Australia-wide on a 24-hour basis. In addition, new forms of savings, such as Hajj Club savings account, and a range of other services, are being introduced. New services include:

- Current-account: a personal cheque account with access to funds through EFTPOS or ATM outlets Australia-wide; over-the-counter withdrawals of up to $1000 a day; automatic salary, pension and regular income deposit service; automatic payment facilities.
- Investment account: allowing pre-tax profit share dividends.
- Small business accounts: business cheque account and depositing services; no account keeping fees or deposit fees.

These new facilities will attract more depositors and investors since, in offering them, the Islamic financial institution can now match, to a large extent, any other financial institution in terms of accessibility to one’s funds and the range of services provided. More importantly, the Credit Union will be able to rely on financial arrangements with other institutions. Under reciprocal agreements these institutions will be able to place funds with the MCCU without interest on the understanding that the MCCU will place funds with them on similar terms. This gives the MCCU considerable flexibility in its planning, investment decisions.

CONCLUSION

The MCCA began as a very small operation as the result of the energy, dedication and commitment of a very small number of individuals in the Muslim community. Over the past ten years, it has grown sig-
nificantly from a volunteer organisation with a capital base of $22,000 to a quite significant institution with capital of approximately $20 million. Although insignificant in comparison with the major financial institutions in Australia, the MCCA has come to play an important community role.

With a total Muslim population of Australia of about 300,000, many of whom are based in Sydney and Melbourne, the market in which the MCCA is operating is relatively small. Furthermore, of those 300,000 Muslims, only a minority have so far become members of the MCCA. However, considering its yearly growth figures, there can be no doubt that the Cooperative has gained market confidence as a result of its consistent performance. By raising the public profile of the MCCA, the organisation should be able to increase its membership, particularly as Muslims become increasingly aware of the importance of a commitment to Islam and the need to put into practice Islamic rules and norms, including those related to economic behaviour.

With the relaxation of a number of rules related to banking services in Australia, the MCCA has been able not only to provide services which have not been traditionally available in Australia, but also to cater for the needs of the Muslim community in this important area. Trade links between Australia and South-East Asia, where there is an increasing awareness of Islamic finance, and the Middle East, where Islamic finance is extremely influential, will provide opportunities for Australia’s first Islamic financial service provider to strengthen its position as a future player on a much broader field.

NOTES
2 Interview with Mohamed Nasser Abdel-Hakim, Chief Executive Officer of the MCCA, 22 May 2000.
3 The data come largely from the MCCA’s publications, annual reports and an interview with MCCA CEO, Mohamed Nasser Abdel-Hakim, 22 May 2000.
5 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
6 Elsayed Kaadil, ‘Islamic Finance: The Australian Experience’.
7 The MCCA and the Muslim Community Credit Union (MCCU) will remain two separate institutions. Personal communication with Mohamed Nasser Abdel-Hakim, on 25 May 2000.
8 Qur’an, 2:275-80.
10 Abdullah Saeed, Islamic Banking and Interest, pp 49-50; Fazlur Rahman, ‘Riba and Interest’, Islamic Studies, March 1964, pp 1-43
21 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
22 Mohamed Wethliy Hussein, ‘Shared Equity and Rent (SER): An Islamic Finance Alternative to the Traditional Riba-Based Home Loan as Practised by MCCA Ltd’, [http://www.fsdnet.net/ass_fc1_260899.html](http://www.fsdnet.net/ass_fc1_260899.html), 17 September 2000.
23 Since the Credit Union started operation in 2000, it has been able to offer current accounts, savings accounts, term deposit and investment accounts. In addition, it has introduced a club account called the *Hajj* Savings Account.
24 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
27 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
28 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
29 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
30 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
31 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
32 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
33 The University of Melbourne has recently introduced a course in Islamic finance.
34 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
37 Interview with Mohamed Nasser Abdel-Hakim, 22 May 2000.
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