ISLAMIC BANKING AND CREDIT POLICIES IN THE SADAT ERA: THE SOCIAL ORIGINS OF ISLAMIC BANKING IN EGYPT*

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Introduction
In 1971 President Sadat charted a new course for the Egyptian economy, away from the socialism of the Nasser era and towards greater encouragement for the development of the private sector and investment by private individuals and companies, whether Egyptian or foreign. Starting gradually, the process of liberalisation gained momentum in the mid-70s. The most important landmark of the new policy came in 1974, when Law 43 of that year was enacted to give major incentives to both foreign and Egyptian private capital to invest in Egypt.

One of the most striking consequences of the Infitah, or open-door policy, was the sudden proliferation of banks, beginning in 1974. Previously, there had been in the Egyptian banking system only the four nationalised banks—the Bank Misr, the Bank of Alexandria, the Bank of Cairo, and the National Bank of Egypt—and a small number of specialised banks dealing with mortgages, co-operative credit, social security, and the like. In addition to these and operating administratively as foreign banks outside the nationalised banking system were the Arab African Bank and the Arab International Bank for Trade and Development. In a special category there was the new Nasser Social Bank, founded in 1971. Of course there was also the Central Bank of Egypt, which like central banks elsewhere, was the banker’s bank, controller of the volume of credit, custodian of the bulk of government funds, and the government’s agency and adviser in financial matters. After 1974 these organisations were quickly joined by dozens of new banks, which included several private banks as well as banks that were joint ventures between the nationalised Egyptian banks and foreign partners. In 1980, various new banks were being set up, and it was apparent that the Sadat government viewed the continued expansion and development of banking as an important component of Egypt’s economic transformation.

The facilitation of credit for the poor as an instrument of social policy
The result of using traditional banking criteria in Egypt, as elsewhere in the world, is that credit tends to be available to the wealthier and more successful applicants. The

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more business success one has behind one, the more collateral one can offer the lender; and the more respected one's name is, the more one is trusted by prospective lenders. The normal pattern of availability of credit means that the existing social structure is reinforced; the richer and better established one is, the more one is able to borrow to acquire more property, while the poorer one is, the more likely one is to find oneself blocked from obtaining the credit that would enable one to acquire the property that would allow one to move up the social structure. According to traditional banking criteria, lending to the poor is risky and unprofitable.

In Egypt this pattern is particularly pronounced, especially if compared to the relatively liberal régime of credit that prevails in a society like that of the United States, where the credit needs of the poor and the small businessman are catered to by many specialised public and private institutions. The scarcity of credit in Egypt is due partly to very conservative lending policies adopted by many banks but also to prevailing shortages of many commodities. Because many commodities are extremely scarce, sellers are typically in a position to demand of a buyer that he pay in cash immediately or even in advance. Egyptian officials responsible for setting credit policies have had little incentive to promote more liberal standards for lending, since they would simply result in expanding the demand for commodities that are already in insufficient supply.

In such a situation, to use credit policies to further upward mobility, governments would naturally propose setting up banks that would provide credit not according to traditional banking criteria but according to social criteria specifically designed to make credit available to segments of society that would ordinarily be least able to obtain it. A policy of encouraging or even requiring loans to the poor might be adopted by a government in the interests of effecting social change or for reasons such as winning the political support of the poor.

A government could implement such a policy in various ways. Conventional banks might be required to devote a certain percentage of their lending operations to loans for the poor, or special institutions might be set up to serve the credit needs of the poor. The government might choose to subsidise all or part of such lending activity.

The right of the poor to obtain credit from banks has been affected by the credit policies of the first two Islamic banks to be set up in Egypt after Sadat inaugurated his economic liberalisation policy: the Nasser Social Bank (NSB) and the Faisal Islamic Bank (FIB). As will be discussed, both these banks have as a part of their missions altering Egypt's social structure by providing credit to poor Egyptians who would not otherwise be able to obtain credit. Both banks also have links to the government that warrant the inference that they are being consciously used by the government as instruments of policies of demonstrating to the poor that they, too, can benefit from economic liberalisation and of trying to ease social tensions exacerbated by the widening gap between the very rich, who have profited under the new régime of free enterprise, and the poor, whose lot has in some respects worsened because of inflation, housing shortages, and other factors.

Informal sources of credit for the poor: are Islamic banks needed?
Since the poor in Egypt do not resort to banks but obtain credit through informal