Development of banking system in West Asian countries was the result of their trade relations with the western countries. Arab traders imported durable goods from the West and international companies invested in oil exploration and light manufacturing in the Arab region. This of course, required flow of payment in both ways which, in turn, led to the establishment of foreign banks in the Arab world. Initially, British and French banks were dominant and spread all over the Arab region, particularly after World War II. American banks came in later in the 1960s. At that time, there were no Arab banks in the western countries. Trade payments, expatriate remittances and corporate profits were therefore channelised in and out of the Arab world through foreign banks or through Arab banks with international correspondents. The Arab merchants stepped into international banking in the 1970s mainly because this decade witnessed a substantial expansion of Arab financial resources, particularly in Arab oil exporting countries of the Gulf Cooperation Council.

The availability of funds and absence of restrictions are two important considerations that have facilitated the entry
of Arab banking into international arena. Arab participation took various forms, starting in the late 1960s, Arab banks formed joint ventures with large European banks. Example of these include the French Arab Bank (FRAB) and the Union of Arab-French Banks. These arrangements reflected the prominence at the time, of Beirut based Arab banks and their strong ties with France. There was also a move towards London, where other joint ventures were formed, notably the Saudi International Bank.

By 1975, different arrangements evaluated in response to new opportunities. For the first time, the Arabs established their own banking consortia to cover new markets. For example, a large pan-Arab consortium established the Gulf International Bank in Bahrain. All the GCC governments and Iraq participated in the formation of this bank five years latter. The Arab banking corporation followed, and by then, Bahrain had become an important offshore market serving the whole region.1

Apart from its, this region is also known as a centre of Islamic banking. Some of the oldest and largest Islamic banks are

1 Jean – Francois Seznes, The Financial Markets of the Arabian Gulf, (Beckenham : Croom Helm Ltd. 1987), Ch.3.
located in the region, operating in an environment of Islamic ideas on banking and commercial activities. These Islamic banks have their specific features that differ from other banks. In particular, Islamic banks are by definition investors. This means that they cannot deposit their funds in other banking communities, like other commercial banks. This is a challenge that the Islamic banks face, especially when such traditional banks are working in a different atmosphere, working according to different rules than those that should govern Islamic banks.

In this chapter we will see the functions and performance of Islamic banks being experimented in Egypt and Saudi Arabia. Although the full scale operations of Islamic banking persist in Iran and Pakistan where experiments have attracted the attention of bankers and economists, we have selected the former two countries mainly due to the fact that the Islamic bank originated in Egypt and that Saudi Arabia has also played a key role in the development of Islamic banking system in Muslim countries.

**Islamic Banking in Egypt:**

In Egypt, Islamic banks emerged in response to a huge popular demand. As soon as the Islamic banks were set-up they were attracted by customers. In fact Egypt was the first country to introduce the Islamic bank. The Nasser Bank, opened in the
sixties as a pool of resources for the poor. It was supported by the state. It offered interest-free loans to the low-paid at favourable terms for social as well as commercial needs and acted more as a social security organization than a bank. In fact, there are various factors that have influenced the demand for the services of Islamic banks. Also the prevailing economic condition of Egypt has facilitated the move towards this direction. During some past years, Egyptian economy has been passing through hard times with current recession effecting the world economy. This in turn has effected the growth rate of Islamic banking.²

So far the future of Islamic bank is concerned, it is too early to give a final evaluation of Islamic banking in Egypt. In fact, even though, three decades have passed, the experiments are still at the early stage. Since Islamic banks adhere to the Shari'ah, the challenge has put additional pressures on Islamic bankers to explain their new practices not only to customers but to other finance houses. From their various annual reports it appears that they are very far from having exhausted their potentials. There is a conflict between Islamic and conventional banking in this respect. Islamic banking also has a socio-economic aspect, as it combines the object of profitability with the

importance of meeting certain social goals through the implementation of Zakah, a tax on profit and capital. Funds collected in this way are distributed according to certain criteria to the poor and needy, and their impact on society particularly in developing countries is moral, psychological and economic.\textsuperscript{3}

There are considerable amount of criticisms regarding the functions of Islamic banks in Egypt which would mobilise long-term funds. How the banking would affect the economy? What policy will it adopt? The Central operational methods of an Islamic banks guarantees two things: First, one must know the customers intimately and undertake projects in question. Secondly, one must study the project thoroughly to assess its viability.

Islamic banks facing problems in Egypt are generally of two types. The first problem arises from the banking control, procedures exercised by the central bank on all banks including Islamic banks with regard to monetary reserves and liquidity requirements. The second problem relates to the fact that in practice Islamic banks do not have a bank of banks. But despite all these defects, they have been found not only highly competitive

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\textsuperscript{3} "Islamic Banking in Egypt: the story so far", Arabia (London), February 1986, p.58.
as credit banks but also highly competitive as deposit banks.

The religious enthusiasm of all concerned seems to present a major force behind the success of the banks. Banks in Egypt are divided into commercial banks, business and investment banks, and specialised banks. There is no special category for Islamic banks. The Faisal Islamic Bank comes under commercial banks, while the Islamic international bank for investment and development is included in the business and investment bank category. There is

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4 The governor of Faisal Islamic Bank of Egypt El-Helws claims that the philosophy behind the Islamic banks make them capable of fulfilling the role of development banks, as they neither take interest nor regard collateral as a decisive element in dictating investment options. The central operational method of an Islamic bank guarantees two things: First, one must know the customer intimately and determine if he is the right person to undertake project in question, secondly, one must study the project thoroughly to assess its viability. Helws points out that if all banking system adopted this approach, two things would happen. First, all development projects would be studied thoroughly. This would enable the customer and the national economy to avoid the pitfalls of traditional financing. Traditional bankers may not be very strict regarding the viability of a project they finance if they are guaranteed a high rate of interest and collateral. Thus Islamic financing appears to be more suitable for third world countries. The experiment, however, is still in its early stages, and the talk about a totally Islamised banking system can only be theoretical at this stage; Ibid, p.58.
no Islamic bank in the specialized group, and the Nasser social bank is not included anywhere since it is not registered with the central bank.\footnote{5}{According to a recent report, the Islamic banks have been at the centre of a political row; A lot of pressure has been put to implement Islamic law and to over turn the Western banking system. The pressure has become so intense lately that normally moderate Mubarak regimes was forced to forsake democratic appearances. For full details, see "Islamic banking joins the Shari'ah Struggle in Egypt", Arabia (London), September 1985, pp. 56-66.}

The pressure is also coming from other direction. Citizens are now refusing to pay interest. Egypt is a country where majority lives in poor conditions. In this atmosphere calls raised by the Islamic trends are finding many attentive listeners. The pressure on the government to comply with the demand of the Islamist is mainly religious. At least two other Islamic banks are being set up and investment companies on Islamic principle are flourishing.

Abdel Aziz, former Egyptian prime-minister is known to have a wealth of experience in international finance. He has been closely involved with western banking system as well as playing an active role in the development of Islamic banking. He has also been investment auditor of Geneva-based Dar al-Maal.
al-Islami and Deputy chairman of Cairo-based Faisal Islamic Management, and is currently chairman of Egypt's Bank of Commerce and Development. He looks at the world inside potentials for Islamic banking. He says that the development of Islamic banking in Egypt cannot be studied in isolation from the whole concept of economic thought in Islam. Islamic bank cannot function apart from the economic order of the country in which the concept is implemented. They have to develop within an economic framework where they function side by side with other economic units, in trade, industry, agriculture, contracting and so on.

To make this possible, rulers must be drawn up for a financial and monetary system which central bank can adopt. Islamic banking cannot be run within a system of supervision and control which is built on creation of money supply, with capital and liquidity ratio which take into consideration.

In Egypt regulating of Islamic banks by central bank is missing. It is felt that, for Islamic banks to function, the central banks must develop new laws and regulations concerning their use of funds. In particular, central banks need to develop criteria of profit-sharing ratios between current deposit accounts, and recognition of zakah and regulations concerning its expenditure. In addition, some system may be developed for the participation of depositors in annual general meetings of financial
institutions, as they are really participants in risk taking or profit-loss sharing. There are many other functions to be revised and new criteria to be developed. According to a study all the countries in the Arab world, it is in Egypt that Islamic financial institutions have taken over the largest share - an estimated 30 per cent - of all privately held deposits. The government has been promising legislation to regulate their activities and provide some protection for their depositors, who have been lured by the 24 per cent return they offer. Deposits at regular banks can earn only 13 per cent. In March 1988 however, the government suddenly withdrew the draft law, which had been designed by the stock exchange authority. It would have granted depositors the status of preferred share-holders, giving them priority over other creditors in case of bankruptcy.6

However, Hedozy feels that cooperation between Islamic bank and western institution is rather vital. According to him, "since Islamic banks and financial institutions are developing fast in trade and investment, they could cooperate better with western institutions if these institutions changed the rules of the financial game to exclude interest. There has been an understanding

by some western banking, such as financing trade on a participation basis, which means sharing in the risk. Such a system is far more advanced in its judgement of economic feasibility than conventional interest bearing techniques, since it called for more sophisticated accounting and cost/benefit analysis.

Islamic banking operations do have to be kept separate in terms of their source and application for funds, but this does not preclude close working with conventional systems. One type of bank is wholly run on Islamic basis, but there is another that uses separate departments or branches for Islamic and conventional banking to ensure that funds are not mixed up. 7

In recent years, billions of Egyptian pounds have flooded into so-called Islamic investment companies providing investors with return of 20% or more. The government is frightened by their growing financial power and wants to bring them under closer control and security. The Islamic investment companies have become so successful that it is attracting the savings of millions of ordinary Egyptians and threatens to pass a serious challenge to the established banking system. 8 Though, these companies are


completely unregulated, but they have been able to attract more than $505 billion by offering return as high as 24 per cent. Egypt's commercial banks, with their low interest rates, have deposits totalling only $10.5 billion. These companies set up according to Islamic principle pay out profits to depositors which vary according to the success of investment made by the respective institutions. However, if the investment proves to be a failure, then the depositors lose money as well as the company or bank. The Islamic nature of such financing and banking has a strong appeal in Egypt where religious upsurge is a powerful force. The annual dividends of 20% or more (sometimes reaching 40%) have captured public attentions. They are now providing a real alternative to the traditional banking system and even to the existing Islamic banks.

These investment houses such as El-Rayyan, El-Sherif, El-Huda Misr and El-Saad, together with some 20 smaller firms have grown in power and importance far faster than the authorities have been able to respond. The precise nature and true extent of their speculation and investment is unknown, but some estimates put their wealth at round £12 bn ($5 bn.). By comparison, total commercial

Bank deposit at the end of the fiscal 1985/86 stood at EF 26.8 bn ($19.8 bn).\textsuperscript{10} According to the Economic Intelligence Unit report, Al-Rayyan is the more powerful of the two, mentioned above. It has perhaps $10 billion in deposits and business interests ranging from restaurants, tourism, meat packing and dairy products to consumer goods and property that are concentrated in Cairo and Alexandria. Another Egyptian Islamic investment company, Al-Saad, specializes in construction and small to medium sized manufacturing. It is stronger in the Delta region. It was feared that this merger, positioning the companies to blanket the country, was only a first step in creating a monolith that would devour the economy.\textsuperscript{11}

The legal position of both of the companies and their depositors is still unclear, and this is causing concern to both government and the companies themselves. Recently, a new law has been passed in the parliament which will make it necessary for the Islamic investment groups to form joint stock companies and

\textsuperscript{10} In 1986, El-Rayyan suffered a huge loss on its deposits after rumours circulated of a $100 m losses the bullion market. Anxious depositors reached the company headquarters, but everyone who wanted his cash was paid off. El-Rayyan denied the rumours and loudly proclaimed its financial health. See The Middle East, January 1988, p.23.

convert depositor's funds (which at present has no legal pro-
tection into shares. The companies will be obliged to publish
balance sheets, deposits funds with the Central Bank and get
official approval for money to be kept abroad.\textsuperscript{12} The phenomenal
success of the Islamic investment companies in Egypt can be
traced largely to the peculiarities of the Egyptian financial
system. Relatively few individuals places their savings in banks
and almost all personal transactions are carried out in cash.
The rural villager's, unfamiliarity with banks leads people to
keep their wealth largely in land on gold. Most villagers would
be far happier in entrusting their personal wealth to a respect-
able elders rather than an anonymous bank. To a great extent,
the investment firms owe their origins to such mistrust. These
companies, for the utilisation of funds, were initially set up by
money brokers engaged in repatriating the funds of Egyptian workers
abroad. Many of the labourers abroad were making excellent money
in the Gulf and most of them would never have dreamt of putting
of putting their savings into a bank. Even today, an estimated
2.2 million, Egyptians work overseas and their remittances make up
a large preparation of Egypt's foreign hard currency income.
Egyptian national residents in the country have been forbidden to

\textsuperscript{12} The Economic Intelligence Unit (EIU), \textit{Country Report
Egypt (EIU)}, No.1, 1988, p.10.
hold hard currency which had to be remitted to the banks at the
official exchange rate. Village expatriate were far more willing
to hand over their earnings to trusted intermediaries rather than
deal with the bank themselves; The brokers, in turn, exchanged
the hard currency and delivered the proceeds to the worker's
families.  

According to the Middle East Report, these companies are
floating in a legal limbo. Under the Egyptian law, only joint
stock companies are licenced to invest funds in the manner practiced
by El-Sharif, El-Rayyan and others. At the same time it is
technically illegal for institutions other than banks to collect
deposits and the authorities are worried that the finance houses
depositors have none of the legal protection offered to joint
stock company. These companies, writes an Egyptian economist, are
dangerous. No one knows how many people are involved, how much
money is invested and where the money is. The depositors themselves
have an uncertain legal status. They cannot be partners under
Egyptian law because they made no contribution to the capitali-
sation of the companies which are owned by individuals or other
groups of investors. But as depositors, they cannot deemed to be

13 See the report published in the Middle East, January, 1988, p.23.
creditor since they receive profit rather than interest. Partners or shares-holders have right to attend annual general meetings and review a company's activities, depositors have none of these rights, nor can they gain access to the books. They are depositors in the holding company and not its subsidiaries, and their legal relationship with investment companies is totally unidentified.¹⁴

Egyptian governments, it seems, do not favour these Islamic investment companies. The reason might be the revival of Islamic fundamentalism. As James Bedding writers: 'Earlier this year, just before the authorities instituted a free exchange rate, they were appalled by the apparent ability of the Islamic financial groups to manipulate the currency with their large cash reserves. Whatever the political gulf between the well-heeled entrepreneurs of the finance houses and the extremists who have taken pot shots at local politicians and foreign emissaries, the regime is wary of what it may provoke by confronting the Islamic investment companies head-on and upsetting religious susceptibilities.¹⁵

The investment companies advertising heavily on television project an image of a new kind of enterprise that is Islamic, moral

¹⁴ Ibid., p.24.

and highly successful. Its less than a third of depositor's money ends up in local projects. The rest is held liquid or invested in gold and international market, or used to finance import deals for the government. The El-Rayyan company is able to record massive profits, and the reason, as its chairman says, is due to the fact that only a relatively small proportion of deposits, (about 30%) is invested in long-term projects. Forty per cent is used for trading-speculation on international stock exchange, import deals on behalf of the government and gold store of some ££ 300,000. This leaves a massive 30% of holdings as liquid assets, which can explain how El-Rayyan was able to pay its depositors in last years loss on the company. A staggering 15% of deposit is held fully liquid for depositors need and 15% more is semi-liquid for instant investment.16

16 In a conversation with the Middle East, the Company's chairman Haqq Ahmad talked about the groups companies. In 1979, one of the three brothers, returned from work in Libya and invested his saving in trading. He was so successful that in 1982, three brothers founded a company, and now, after five years, they hold 16 subsidiary companies which are involved in every-thing from detergent production to jewellery retailing. According to Haqq Ahmad, the company never advertise, for saving. People come to them by recommendation. The 3000,000 depositors have contributed between ££ 2,25 bn and ££ 2,5 bn (approx. $ 1 bn.) an average investment of ££ 7,500; See The Middle East (London), January 1988, pp. 24.
El-Rayyan also has investment abroad. The corporation owns three subsidiaries in Geneva and United States, that deal in seeds, and another speculating companies in Geneva. They have already undertaken projects in Saudi Arabia and plans are being made for more in Jordan.

Under pressure from the Government, El-Rayyan is converting to a Joint Stock Company by asking depositors to convert their deposits into shares in a subsidiary El-Rayyan for financial dealing.

Case Study I: Nasser Social Bank:

The Nasser Social Bank (NSB) can be regarded as the first attempt at establishing an Islamic financial institution in Egypt and indeed the second in the modern Islamic world as a whole. The bank, however, is an extension of and has been founded on, what used to be Mit Ghamr Local Saving Banks, before the latter's name was changed to Nasser Social Bank with state funding in 1971. 17

The Bank was established in 1963 in a provincial capital, Mit Ghamr, a rural area in the Nile Delta. The driving force

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17 Much of this study is based on the field survey done by Ahmad Abdel-Fattah Ashker El, *The Islamic Business Enterprise*, (Croom Helm, 1987).
behind the establishment of the bank was Ahmed al-Naggar, an academic with practical experience in local saving banks in West
Germany. Notably, although the bank was run on the Islamic basis with the intention of applying the Shari'ah to its operations, such intention was not publicly pronounced by El-Naggar and the bank did not bear the name 'Islamic' in its description. That was meant, as al-Naggar explains, to avoid any possible misconception.
on the part of the government that the name might encourage the regrouping of Islamic political elements in the country, an idea which was not tolerated by the state. This gives an idea about the political climate of Egypt at that time, the changes in which later on proved to have played a significant role in the history of the bank and the development of Islamic banks in Egypt in general. Instead, the bank was declared as a local saving centre that was run on the no-interest basis to help small entrepreneurs avoid elements of exploitation implied in interest and to encourage saving and boost economic development in the area. That formula seemed to have been ideologically accepted by the country's leadership. The bank was regarded as a public sector institution and was accountable to the state, though it was given a degree of operational autonomy.

Based on the principles of the shari'ah, the Mit Ghamr bank's operations did not deal in interest paid or received. However, a borrower would have to have a deposit account with the bank showing regular savings for at least six months before he could be considered for credit facilities.

The bank's operations were mainly five: deposit accounts, loan accounts, equity participation, direct investment, and social services.
Deposit Accounts:

These are divided into saving accounts and investment accounts:

(1) Saving accounts: these did not bear any financial rewards, but did not incur any expenses to the depositors. There was a minimum amount for opening the account as well as for lodging funds in it, though the amount was almost negligible. Also, the account holder was allowed to withdraw funds from his account on demand.

The idea of introducing these accounts was two folds: to provide individuals with a 'safe-place' to keep their savings and, more importantly, to develop the habit of saving in individuals. Until 1967, the majority of saving accounts' holders were students, 54 per cent followed by blue collar workers, 14 per cent peasants, 11 per cent white collar workers, 10 per cent housewives, 5 per cent minors (under age), 2 per cent and miscellaneous, 4 per cent.

(2) Investment accounts: these were run on the basis of profit-and-loss sharing. The profit share depended on the amount deposited the period of deposit and the amount of profit achieved by the bank from investment operations. Withdrawals from these accounts where on a yearly basis and
the depositor could not withdraw on demand (except in special circumstances examined by the bank). Conceivably, the bank relied mainly on these funds in financing its investment operations. Until 1967, the depositors in these accounts were as follows: students, 26 per cent; white collar workers, 22 per cent; peasants, 16 per cent; blue collar workers, 13 per cent; minors 'under age), 13 per cent; housewives, 6 per cent. 19

Loan Accounts:

These were divided into two main types:

(1) Non-investment Loans: these were given (interest-free) to help overcome personal financial problems. However, for a borrower to qualify for the loan he had to have a saving account in the bank for a certain period. There was, therefore, financial motivation to deposit funds in saving accounts. Some borrowers pledged that the loan would not be used for investment purposes. Honesty, trust, personal contact, studying the regularity of deposits in saving accounts and the fear that a future loan application would not be accepted if it was found out that the loan was used for purposes other than that for which it was given, helped the system to operate.

19 The Islamic Business Enterprise, pp. 156.
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19 *The Islamic Business Enterprise*, pp. 156.
(2) Investment Loans: these were given for investment purposes on the basis of profit sharing and were paid back on maturity or in instalments. The period of loans ranged between one and five years. This method of finance suited small enterprise, entrepreneurs and craftsmen who had the skill but not the fund to set up their own businesses. Loans covered various activities, mostly of small size, such as the purchase of sewing machines, hand looms for weaving textiles, tools for improving irrigation and farm animals.

**Equity Participation:**

The Mit Ghamr Savings Bank also participated in enterprise capital as a joint owner, profit was shared between the bank and the entrepreneur in proportion to the amount of capital invested. Also, the bank was involved in the management and financial control of these enterprise, holding a title deed to the enterprise assets.

**Direct Investment:**

By the end of the second year of its establishment, the Mit Ghamr Bank had started to initiate enterprise on its own. The first of these was the establishment of a brick factory, a product, the demand for which was very high. The second project was the purchase of a private school which had been run by a foreign missionary team which decided to withdraw from operation. Other
projects followed a macaroni factory, a semi-mechanised bakery, a mechanised irrigation project, and a dairy. By 1967, total capital invested in these projects reached £.E. 67,000.²⁰

Social Services:

A special fund was established by the bank with a view to pooling Zakah revenues paid voluntarily by individuals to be used for the purpose of helping others socially and economically. The social aspect of the bank was emphasised on its establishment, which was seen to be in line with the bank's purpose of improving the economic conditions of the population in the area. Revenues of the fund were mainly Zakah paid by individuals as well as that due on the bank's operations and private donations. Expenses were represented mainly in giving financial help to the needy and interest-free loans to those who did not have savings accounts in the bank.

Before long, the Mit Ghamr Savings Bank prospered, and within five years it opened four more branches in different parts of the province. Also, the number of depositors in the bank as well as in its branches increased from 17,560 of £.E 41,000 in 1963-64 to 251,000 claiming about £.E 1,8m in 1966-67. The success of the bank was notable; problems of rural debt were reduced as

²⁰ Ibid., p. 157.
borrowers no longer had to depend on moneylenders, many of whom charged a high interest rate. The success of the bank was also commented upon in a Ford Foundation report in June 1967, which praised the bank for winning the personal support of a large number of farmers and villagers who regarded the bank as their own. In the beginning, the Naser Social Bank had started in a modest way with one room and a staff of twenty-five persons. The rural people in that region were religious and would not put their savings into any bank because of interest. Moreover, there was hardly any financial institution available to them. 21

The experiment of the Mit Ghamr Savings Bank suffered a setback, however, in the period from the second half of 1967 to 1971. Owing to the political atmosphere and to different political currents in the administration of the Egyptian government at that time, between left and right, the Mit Ghamr bank and its branches were put under the direct control of the state administration and

consequently lost their operational autonomy. The organization of Insurance, one of the state's organisations, took charge of the bank in the second half of 1967 and appointed members to execute the bank's operations - one from the National Bank of Egypt and the other from the Central Bank. The two banks, the National and the Central, were run on the interest basis. Conceivably, operational policies were changed and the basis of interest-free banking was abandoned. It was not until 1971 when Sadat came to office that the experiment of the Mit Ghamr Savings Bank was revived under the name Nasser Social Bank. The Nasser Social Bank took over the Mit Ghamr Savings Bank, benefiting from the latter's popular goodwill and honouring its outstanding financial commitments.

Unlike its predecessor, the Nasser Social Bank (NSB) was financially supported by the government. This helped the new institution to start operating on a much firmer financial base. Also, the bank was a public sector bank, was owned fully by the state and was under the full control of the government. The headquarters of the bank was in Cairo.

The principles of operation in the Nasser Social Bank are very similar to those of the Mit Ghamr Savings Bank, though its functions are wider. The Islamic principles are applied to the
bank's operations with no interest paid or received. Besides the activities referred to above, the new institution offers a full range of normal banking services, though foreign-exchange dealings are limited and clients are referred to other banks for such operations. Also, the NSB has a wide range of investment activities through equity participation. The Egyptian government registered this bank for its role in the economic development. This bank accepts deposits, participate in establishing and supporting projects with objectives to providing production requirements for craftsman, financing the comprehensive social insurance system and exerting all possible effort to reinitiate 22 Zakah ordinance.

The NSB operations have been successful. By 1979 it had 25 branches and its total deposits reached £E. 240m. Profits were increasing, reaching £E. 12m, about $17.3m, by 1978-79.

Furthermore, the social responsibility is one of its main objectives. Like its predecessor, the NSB has established a special fund, Zakah Fund, to spend on social purposes. The main revenues of the fund come from Zakah payments and donations, which

increased from £.E. 39,000 in 1972-73 to £.E. 2.8m in 1982-83. In collecting Zakah, the bank has established a number of committees, (reaching 2,000 by 1983) the main task of which is to administer the collection. The committees travel to different parts of the country for this purpose, to reach individuals rather than waiting for individuals to reach them. The number of beneficiaries increased from 5,000 in 1972-73 to 773,000 in 1982-83. Items of expenses are represented mainly in: establishing vocational training centres for art crafts and manual skills, establishing evening classes for students, contributing to mosque building and religious institutes, projects for studying the Qur'an, medical assistance, spectacles and hearing aids to the needy and other assistance in money. Government financial support to the social role of the bank is also very significant. To reinforce the bank's finance in this particular side of activities, public sector companies have to pay the NSB 2 per cent of their annual profit to be used for the purpose of establishing pension funds for those who do not enjoy pension schemes. Taking into account the broad base of public sector companies in Egypt this provides the bank with a significant source of finance.

The Mir Ghamr Savings Bank can be regarded as the first successful attempt at establishing Islamic financial institutions
in modern Islamic world. The bank gained high popularity and goodwill among Egyptians in general and local inhabitants in particular. Despite the hardships that faced the bank, it was a significant experiment for putting Islamic principles into practice, which signalled to Muslims that the sharia was still applicable to economic issues in the modern world. It is not surprising to know that the Mit Ghamr Savings Bank experiment was studied by many Muslim countries and was the pioneering example for the establishment of the Islamic Development Bank in 1975 and the other Islamic banks that followed. The significance of the Mit Ghamr Bank lay in the fact that it relied on the savings of small investors, managed to mobilise small savings of individuals of limited income, and succeeded in improving the standard of living of many in the area.

23 A western observer describes the significance of Mit Ghamr experiment in the following way:
"The majority of the population had never been dealing with the financial institutions .... Basically rural and religious they tended to distrust bankers operating in Western style and, what is more, there were few local branches they could patronise since a substantial part of their income was not spent immediately, but put aside for social events, emergencies and alike, this idle capital could not be used for productive investment. A pre-condition, however, for any change of behaviour from hoarding and "real asset saving" to "financial saving" was the creation of financial institutions which would not violate the religious principles of large segments of population...."; see T. Wholers - Scharf, Arab and Islamic Banks: New Business Partners for Developing Countries, (Paris: CECD, 1983), pp. 79-80, as cited by Ausaf Ahmad, op. cit., p.3.
The Nasser social bank is an example of government involvement in the establishment of an Islamic bank, and is a leading example in this field. No doubt, government financial support gives a bank the chance of having a substantial source of finance to rely on if the need arises. However, the problem with such support is that the government tends to put the bank under its own control, and unless the government's ideology is Islamic or Islamic flavoured, the public becomes suspicious of its main purpose and the bank ends up losing the trust of many of its clients.24

Case Study 2: The Faisal Islamic Bank of Egypt (FIBE)

The Faisal Islamic Bank of Egypt is like a joint stock company operating in strict compliance with the principles of the Islamic shari'ah. It was founded officially by law 48 for the year 1977, and was inaugurated on 5 July 1979.

The authorised capital of the bank is US $ 500 m, and the paid up capital is US $ 40 million. Fiftyone per cent of the capital is owned by Egyptians and 49 owned by Saudis and other Muslims.25

25 For the balance sheet of FIBE, see appendix-II
The main function of the bank is to finance investment projects through mudarabah, murabaha and Equity participation. Recently the bank has been concentrating on long-term financing, together with expanding its investment in small industries to help objectives of the Economic Five Year Plan, and to improve the distribution of income and wealth within the country.

Towards this objective, the Bank has established more than 32 companies covering various fields of production such as: livestock, production, industrial production, and medical care, housing and construction, investment trade, tourism, and many others. One aspect of the Faisal Islamic Bank is to establish and develop justice, equality, and prosperity amongs all members of society. To realise this, the zakah fund undertakes payments of the legitimately due zakah on the Bank's Funds, in addition to collecting Zakah on behalf of its clients for disbursement in legitimate channels defined in the Qur'an.

The main feature of Faisal Islamic Bank is that neither it charges nor gives interest. It offers to finance the different sectors in the form of musharakah, mudarabah and murabahas, in addition to investing in capital projects. It is also different from others when calculating the return on its different finance. No pre-set returns are calculated on musharakah and mudarabah.
deals. The two sides (the banks and clients) agree to share the net profits resulting from the joint venture. The procedures normally followed stipulates that the client (employer) deducts a certain percentage from the net profits, usually between 20 and 30 per cent, for administration fee. The remaining net profit is divided between the two parties, depending on each side's financial contribution to the venture. If, for example, the bank contributed 50 per cent towards the finance, its share of the net profit would be 50 per cent and so on.26

Over the last five years maximum profits have been exceeded 15 per cent per annum. During the first four month of the present Fiscal year (1405 H) the figure dropped to 12.6 per cent. "It is often said that financial costs in the banks are for higher than those in the commercial banks."27

26 "The risks and costs of non-riba", Arabia (London), July 1985, p.64.

27 Ibid., p.64: As Mohammad El-Helw Governor of Faisal Islamic Bank of Egypt points out that: 'The Confusion may have been the result of a misunderstanding of financing deals and operations in the Islamic banks, as well as of the way the profits are calculated in relation to finance cost. When for example, an Islamic banks accepts a customer entering a deal of wusharkah or mudarabah and offers the finance necessary for this kind of deals agreeing to have a 50 per cent shares of the profits, the bank's 50 per cent of the net profit is in no way the finance cost, for this figure is part of the new profit and not of the total value of financed offered.
As for murabaha deals, the bank (FIBE) and the client agree to the sale of the goods traded on a murabaha basis to which are added the bank's profits from the deal to the costs of buying the goods. There is no doubt that a client always compares this profit margin and the cost of financing available from other sources; he would never agree to the bank's making profits that exceed alternative financing costs from other sources.

The Islamic bank, moreover, is liable to be exposed to more risks than other banks. For example, an Islamic bank's liability starts from the very movement, the goods are transported from the site where these were bought, and only ends when the goods are actually delivered to the clients. Again, the clients may delay repayment of murabaha premiums (instalments) as a result of liquidity problems. This FIBS will have to put up with without any compensation for the period of delay, except for rare occasion when such a delay cannot be truly ascribed to liquidity problems, whereas other banks are not concerned with the risk of transportation, shipping, loading or unloading and so on, taxing the client by making him pay interest on his debited account irrespective of his circumstances.

28 The Islamic Business Enterprise, op. cit.
The return which the (FIBE) charges are the same whatever the currency used in the deal. Commercial banks, on the other hand, differentiate between finances in Egyptian pounds and those in US dollars, the latter always varying and being index-linked to the rates of interest on the International money market.

The Faisal Bank charges no commissions, fees, or expenses of the kinds charged by commercial banks. It has been noted that the greatest part of the commercial bank's finances are of the short-term kind aimed at financing trade and providing security to industrial companies' actual capital. Faisal Bank finance operations, on other hand, are limited to middle- and long-term operations extending, in the case of industrial and manufacturing companies, over a period of nine months to cover production lines. The finance period in this sector as well as in other production and services sectors such as housing, include a grace period sufficient to cover the time for construction, during which no premium or instalments are due.

It is quite clear that the modest figure below is a reflection of the fact that the Islamic bank does involve itself in all the risk to which its clients may be exposed, most important of which is the period for repayment which is expected to be much longer than agreed due to the market circumstances at present.
Finally, all the returns, revenues and profit effected by the Faisal Banks are distributed to investors. Investment accounts with the Faisal Bank now exceed on millions. Profits are distributed quarterly.29

Faisal Islamic Bank has been engaged in financial operations and to a suitable degree, investment activities are diversified. The bank has also shown a continuous growth in deposit as the table below shows:

**Total Deposits, FIBB 1979-84 (in US $ Million)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>23.6</td>
<td>140</td>
<td>469</td>
<td>792.5</td>
<td>1216.7</td>
<td>531</td>
</tr>
</tbody>
</table>

The only breakdown available from the years 1979-84 is the one for 1979, which suggest that the total deposits, the main part was due to investment accounts, amounting to about $ 16 million as 68 per cent of the total, there were current accounts of about

$7.2 million or 30.2 per cent of the total and the negligible amount of $33,408 as 1.5 per cent of the total was saving account. The growth in saving account has been negligible and sharp increase in total deposits follows very closely the growth of investment accounts.

According to El-Helw, governor of FIBE, most of the bank's financing is in Middle and long-term operations which accounts for more than 50 per cent of activities and in distribution of short-and medium-term financial operations, being 53 per cent (services including housing and transport), 32 per cent (industry) 8 per cent (commerce) and 7 per cent (agriculture). 30

However, lack of involvement in productive investment does not necessarily rule out financing related to manufacturing on a short-term basis. A better picture can be obtained on this by looking at the share of the bank's direct investment and equity participation in the projects in comparison with the total assets.

In 1983, out of total assets of $1504 million, only £86 million was direct or equity investment, that is no more than 5.7 per cent of total assets. By 1984 however, out of a total of

$ 1861 million, a mere $ 95.5 million was in the form of direct or equity investment, that is about 5 per cent of the total and a drop of 0.7 per cent over the previous year. The numbers of projects were 26 and 31 for 1983 and 1984 respectively, suggesting that short and perhaps medium term of trade of various forms are the major part of FIB's assets.

Finally, it would be interesting to find out how FIBE has been affected by the recession. This may be reflected in access of supply of funds relative to demand and as a proxy for this we have combined the figures for "cash in hand" and 'cash with banks and correspondents" to obtain the amount of idle cash available and it is shown in the below figure.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash</th>
<th>Domestic Employment of Fund</th>
<th>Foreign Employment of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>34.6</td>
<td>18</td>
<td>109</td>
</tr>
<tr>
<td>1981</td>
<td>191.5</td>
<td>71</td>
<td>219</td>
</tr>
<tr>
<td>1982</td>
<td>137</td>
<td>320</td>
<td>458.5</td>
</tr>
<tr>
<td>1983</td>
<td>179.6</td>
<td>607</td>
<td>652</td>
</tr>
<tr>
<td>1984</td>
<td>235</td>
<td>758</td>
<td>749</td>
</tr>
</tbody>
</table>
From the above table, it is clear that with the deepening of the recession, the magnitude of the problem has grown. Idle cash was $34.6 million in 1980 and $235 million in 1984, an increase of 579 per cent over the period.\(^31\)

Although the policy of investment abroad initially seemed a successful move, the gap between the home and foreign employment of funds has narrowed considerably since with nearly equal amounts on each side in 1984.\(^32\)

\(^31\) Ibid., p.64.

\(^32\) Both El Helw and Ahmad Amin Fuad, Chairman of the Cairo-based International Islamic Bank, argue that the recession has hit Islamic banks harder than traditional banks. El-Helw's arguments hinges on the assessment that most of the FIBE's clients are small and medium business. They are likely to be hit harder by the recession and do not have large reserves to fall back on. In any case the Islamic banks suffer when the business is bad regardless of the assets of the client, because its profit is calculated on the deal in question itself.

Fuad adds that Islamic banks are suffering because they have fewer options for investment than traditional banks and are hampered by the stiff regulations which have not yet been adopted to the operations of Islamic banks.

Both bank chiefs, however, say that they are satisfied with the performance of their institutions in spite of the adverse circumstances; see Arabia (London), November 1985, p.64.
Expenditure of the Fund:

The total amount of Zakah paid to individuals during the year 1405 amounted to £ E. 654,887 compared to £ E 60,446 during 1401H. An amount of £ E 784,214 was paid in money and other kind (as housing, clothes, foods and compensatory aids), to poor and needy students of University, higher institutes, Al-Azhar institutes and school during 1405 H in comparison to £ E 34,525 during 1401 H. And £ E 66,054 was paid out for the maintenance of mosques during 1405H compared to £ E3,200 during 1405H. £E 138,408 was paid to 37 registered private societies in 1401H. This compares with £ E 62,900 paid to six societies during 1401 H for social services to poor and needy individuals.

The sum of £ E 4,550 was paid out to 21 persons from 310 participants in the annual competition for the Memorisation of the Qur'an during 1405H.

The Fund has allocated £ E % 50,000 in its planned Estimates for 1406 H, to furnishing poor craftsmen, who are capable of working but lack capital, with production requisites and the equipments necessary for them to operate.

33 For the Zakah Fund revenues and expenditure of FIBE, see appendix III.
Zakah paid by individuals for the year 1405 H amounted to £E 114,421.

Donation received from persons during the year 1405 amounted to £E 38,440 in comparison to £E 11,748 during 1401 H.

Socio-investment accounts for the year 1405 H amounted to £E 410,876 (US $ 167,474) compared to US $ 10,000 during 1401H.

Resources of the Fund:

To fulfill the interaction between the economic and social dimensions, the Faisal Islamic Bank of Egypt established Zakah Fund. The aim of the Fund is to pay the due Zakah on the shareholder's fund of the bank as well as to collect Zakah on behalf of investment account holders. These funds are disbursed through Shari'ah.

The following is the brief statement of the Zakah development of the Zakah fund's resources and expenditure.

1. Zakah due on the Bank's fund (share-holders) for the year 1405 H amounted to £E $ 549,650 compared to £E 244,324 charged to the Fiscal year 1401 H.

34 Arabia (London), October 1986, p.45.
2. Zakah collected from clients (investment account holders) for the year 1405 amounted to £ E 602,507 compared to £ E 20,659 during 1401H. This increase reflects the client's confidence in the Bank to distribute their Zakah.35

In the matter of financial resources, the FIBE provides more credit than other banks. This is because of its special relationship with its depositors which is based on the profit and loss sharing basis. Since the depositors in the FIBE are not guaranteed either a fixed income or the repayment of his deposit, FIBE is in a position to transfer part of the risk involved to the depositor, while other banks do not. The high growth in the bank's deposits, compared with that of other commercial banks, can be related to two major factors: the religious factor which motivates Muslim savers to save in an Islamic bank, and the return factor, where the bank's rate is higher than the rate of interest in non-Islamic banks.

Case Study 3: Islamic International Bank for Investment and Development (IBID)

This bank was established in 1980 by ministerial decree in accordance with the Investment Law of Arab and Foreign Funds and Free Zones Law, no. 43 of 1974.36 It was registered with the

35 Ibid., p. 45.
36 All the subsequent figures on IBID are from Ahmad Abdel-Fattah Ashker El., The Islamic Business Enterprise (Croom Helm 1987).
Central Bank in November 1980. The Islamic International Bank for Investment and Development (IBID) was established in the form of a joint-stock public limited company. The liability of shareholders is limited to the amount of capital for which they have subscribed.

The general characteristics of shares are similar to those of the FIBE. Shares cannot be divided into fraction of shares, they have nominal values (par value), the nominal value per share must be in the range of £2.5.00 minimum and £2.1,000.00 maximum and at least 25 per cent of the shares should be offered to the public.

The authorised capital of the bank is $100m, divided into 10,000,000 shares of $10 per value per share. The issued capital was $12m until the first half of 1984, after which it was increased to $30m (according to the decision of the annual general meeting on 25 June 1984). The paid-up capital increased from $4.375m to $5.638m and $8.647m to 11.42m in 1981, 1982, 1983 and 1984 respectively. All the founders of the bank are Egyptians. Its initiative and capital is therefore entirely Egyptian, unlike that of the FIBE. The success of the FIBE and its effect in investors' willingness to invest in the new bank (IBID) cannot be ignored, however.
Similar to the FIBE, the bank has a board of directors, a religious supervisory board, and a general meeting. The characteristics of these boards are very similar to those of the FIBE.

The bank offers all banking operations in Egyptian and foreign currency as follows:

1. Opening all bank accounts and accepting all kinds of deposits.
2. Performing and undertaking all operations relating to securities, shares, and similar stocks in local, Arab, and international markets; creation and management of investment fund systems in various commercial, agricultural, real estate, industrial, and other activities.
3. Innovating solidarity and security funds to face any possibility of loss which may affect the bank's clients, in compliance with Islamic co-operative systems.
4. Issuing of Islamic promissory notes on behalf of third parties and the receipt of relevant subscription.
5. Providing technical, economic, financial, managerial, marketing, and consultancy services relevant to projects, and preparing feasibility studies.
(7) Financing and setting up all kinds of projects either for the bank’s own account or for the account of or in participation with other parties.

(8) Contributing to the creation, development and promotion of investment in all sectors of development by establishing new projects and/or expanding and upgrading existing projects.

(9) Carrying out all banking, trading, financial and investment operations based on partification or other forms consistent with the provision of the Shari'ah.  

Current Accounts:

The general features of current accounts in the IBID are similar to those of the FIBE. The accounts are not entitled to any return, they are on-demand accounts, they may be opened in different currencies, amounts may be transferred from them to any other accounts etc. Also, the client's religion is not a barrier.

37 Ibid., p.144. For the balance-sheet of IBID; see appendix IV.
Savings Accounts:

The general features of these accounts are similar to those of other accounts, also, a minimum amount is required to open the account: £E 300 or the equivalent in other convertible currencies. Savings accounts have some features of current accounts and some of investment accounts. Cheques is also allowed provided a minimum balance is maintained at £E 150 or equivalent in convertible currencies. 38

Savings accounts are entitled to a return based on the profit-sharing principle, calculated on the minimum monthly account balance. However, the striking feature of this return is that it is distributed at the direction of the board of directors which has the right to determine how much will be distributed, or indeed if there will be a distribution at all. The decision of the board in this respect depends upon how much profit is made in a year - higher profits are associated with higher returns. The return, which ranges between 3 and 6 per cent, is regarded as a 'gift' from the bank. Compared with investment accounts, savings accounts are less risky; the account fund cannot be reduced by any losses the bank may suffer. Therefore, this type of account suits the less adventurous investor. 39

38 Ibid., p. 145.
39 Ibid., p. 146
Investment-savings Accounts:

These accounts were introduced in order to encourage the investor to invest with the bank and meanwhile to give him access to his savings without being tied up in investment for a long period. They have the following characteristics:

(1) The client may freely withdraw from his account up to 40 per cent of the balance, 60 per cent of the balance remaining invested.

(2) The client is entitled to a profit-sharing return calculated on 60 per cent of the lowest monthly balance.

(3) The total return to the client from this account consists, therefore, of two parts: the first is a portion of the investment profit (on 60 per cent of the minimum monthly balance), and the second is a 'gift' portion determined at the discretion of the board of directors (similar to savings accounts) on 40 per cent of the minimum monthly balance. To qualify for the gift portion, the client should maintain the minimum balance stated in the section on savings accounts.

40 Ibid., p. 147.
Investment-savings accounts bear two types of risk, one higher than the other. The first concerns the 60 per cent portion of the account, which may be lost entirely or partly in case of a major loss on investments impairing the capital. The second concerns the 40 per cent portion, which can be virtually ignored, unless the bank goes bankrupt.41

Investment Accounts:

Investment accounts have the following characteristics:

(1) They are accepted in different currencies for a minimum initial amount of £-E 1000, or the equivalent in convertible currencies.

(2) Replenishment of accounts is accepted on the basis of 50 per cent of the above minimum.

(3) The periods of accounts are six months, one year.

(4) Deposits may not be withdrawn during the deposit period except for crucial conditions accepted by the bank management.

(5) Deposits are renewable automatically for the same period unless contrary advice is given in writing seven days prior to the maturity date.

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41 Ibid., p.
## Average Rate of Return on Investment Accounts

<table>
<thead>
<tr>
<th>Year</th>
<th>Average rate of interest %</th>
<th>FIBE rate of return %</th>
<th>IBID rate of return %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>8.5</td>
<td>12.5</td>
<td>13.1</td>
</tr>
<tr>
<td>1982</td>
<td>8.5</td>
<td>10.9</td>
<td>13.2</td>
</tr>
<tr>
<td>1983</td>
<td>9.0</td>
<td>10.1</td>
<td>13.0</td>
</tr>
<tr>
<td>1984</td>
<td>9.0</td>
<td>9.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>

(6) Depositors are entitled to a return on the profit-sharing basis, calculated monthly. However, they are appropriated to clients on a quarterly basis, except for six-months deposits, which are appropriated on maturity.

(7) Returns are credited to clients' current accounts in the same currency as the deposit, quarterly or bi-annually depending on the time deposit basis.  

In fact the IBID's rate is higher than that of the FIBE. The rate are shown in the figure which provides a comparison between the average rate of interest on deposits (in non-Islamic banks,) the average rate of return of the FIBE and that of the IBID.

42 Ibid., p. 147
In this respect, it seems that the IBID performs better than the FIBE.

Various factors can be said to have contributed to the growth of deposit funds in the IBID (which also applies to the FIBE):

(1) The desire of Muslims to invest their savings in accordance with Islamic principles, a feeling which is enhanced by the growing move of Islamic resurgence.

(2) The increase in the remittance of Egyptians working abroad, transferred to Islamic banks, though this is an important factor, it is but one. Remittance transferred is not the only source of deposits to Islamic banks, deposits originate also from local savings. Also, not all Egyptians working abroad are Muslims, and for those who are, not all of them are prepared to invest their savings in accounts with no fixed interest.

(3) Trust in the management of Islamic banks.

(4) The success of Islamic banks, which in its turn increases investors' trust in the efficiency of management and so on.\footnote{For more detailed account of Islamic banks' performance; see \textit{Islamic Business Enterprise}.}
Financial Facilities:

The IKBD provides financial facilities for various types of projects: agricultural, industrial and commercial. The facilities can be broadly classified into short term and medium and long-term operations.

Short-term Operations:

The basis of these operations, which is common to Islamic banks in general, is:

Murabaha: The bank supplies clients (willing to buy) with their requirements (equipment, means of transportation, raw materials, commodity requirements, etc.) taking the following factors into account.

(1) The bank makes enquiries about, buys, owns and then sells goods to the client.

(2) The bank as a buyer takes the full risk of the purchased goods.

(3) Once the goods are sold at a higher price (purchase price plus profit margin) under terms of payment mutually agreed upon with the client, the bank cannot calculate any further increase due to delay in repayment on instalments on maturity dates.
The interesting point here which characterises the IBID murabaha and makes it different from that of the FIBE is that the IBID does not calculate any further increase due to delay in repayment of instalments on maturity dates. From the FIBE case, that the bank is of the view that since the delay causes harm to the bank in terms of profit forgone, the bank is entitled to compensation calculated on the basis of the average annual rate of return realised on the bank's investment funds. The IBID's policy is more lenient and beneficial to clients who might not be able to pay on maturity. This policy does not necessarily encourage clients not to pay in time; clients take into account the effect of any delay in their payment on their 'historical record' with the bank and the impact of that on future operations. The policy, however, requires the IBID to be more selective in accepting clients for these operations than the FIBE, and it implies that a thorough scrutiny of clients' applications is highly necessary.

Musharaka (participation): The bank together with its clients, partly finances operations in the fields of import, export, internal trading, contracting etc. The client gets the return of his effort and expertise on the basis of a percentage of the profit which is estimated but not known in advance. The appropriation is calculated on the basis of the actual profit achieved.
**Mudaraba**: It is practically like Musharaka except that the bank finance the operation in full, while the client participates with his effort and expertise. Obviously, the client's history, conduct and expertise are essential for undertaking these operations. However, these operations tend to concentrate on small business which depend heavily on expertise with small capital, such as small art and craft workshops. The relative size of the operations in relation to Murabaha and Musharaka is very small, less than 10 per cent.

As for the degree of risk involved, it can be seen that the risk associated with mudaraba is the highest, followed by musharaka and murabaha respectively. This explains why mudaraba operations revolve on the small type of business that does not require large capital; the partner does not provide any capital.\(^4\)

Taking into account the recent origins of these Islamic banks, their performance are not insignificant. As for the deposits are concerned, these banks are quite competitive in acquiring deposits, particularly time and saving deposits. This shows that Islamic banking provides productive outlet for investable resources. The increase in the saving deposits indicates that investors appreciate this type of investment.

\(^4\) For the financial operations of IBID; see appendix V.
There is no special entity for Islamic banks in Egypt. Banks in Egypt are divided into commercial banks, business and investment banks and specialised banks. Their financial position is included in the total data with commercial, business and investment etc.

Whatever information available to us on the functioning of these financial institutions in Egypt, it appears that their existence is at individual level. This is a big drawback for their development. To make them successful, however, rules must be drawn up for a financial and monetary system which central bank can adopt. Central bank, in this connection, must develop new laws and regulations concerning their use of funds. The lack of adequate financial instruments, including trained banking staff, and moreover, the means for dealing with higher information and transaction cost to both depositors and banks. All these and many other problems are first to be resolved for the success of Islamic banking system.