CHAPTER - VII

EXPERIMENTS IN ISLAMIC BANKING - SAUDI ARABIA

Saudi Arabia's banking system consist of central and commercial banks. The Saudi Central Bank was created in April 1952 in Jeddah under the name Saudi Arabian Monetary Agency (SAMA) until then the country had no centralized monetary authority. Foreign commercial companies like Gellatly, Netherlands Trading Society, served as bankers to the states. SAMA's head office is in Riyadh; it has 10 branches, located in the town Abha, Buraidah, Dammam, Jazan, Jeddah, Mecca, Medina, Riyadh, Tabuk and Taief.

Saudi Arabia's banking sector is strictly controlled by the government. SAMA is also vested with special powers like (1) power to issue currency and stabilize fluctuations (2) to control the management of commercial banks. However, Islamic law, the shari'ah, denies two major attributes common to central banks. These are discounting bills at high rates to control bank credit, and open market operations (treasury bonds) to mop up excess liquidity. Deprived of these tools, SAMA strives to use powers vaguely termed "moral persuasion".
The banking control law promulgated in June 1966, established the rules other than that banks operation in Saudi Arabia must conform to the shari'ah, which regards interest payments as usuary. Thus, interest returns are replaced by "service fees". The "service fees" on credits from private banks vary between 7% and 8.5% depending on the type of loan. SAMA occasionally adjusts the rate taking into account general economic conditions, the needs of various sectors, and world money market developments. The "service fee" is lower on saving accounts and time deposits ranging between 2% and 4%. In 1980, time deposit came to 35.1% of demand deposits or 21.3% of total deposits compared with 14% and 12% respectively in 1976. In Saudi Arabia there has been considerable support for Islamic banking, even though the kingdom had

1 Although Saudi Arabia have a prohibition on all interest payments and receipts under their Islamic laws, nevertheless the service charges are permitted on bank loan, and in practice, as they are calculated on a percentage basis, they resemble interest in many respects. The service charges are fixed, however, and hence borrowers are not subject to the uncertainty as to the future cost of debt servicing which arises when interest rates vary. In Saudi Arabia most bank deposits are in current accounts which earn no income, but even deposits in saving accounts only earn a modest fixed return. See Rodney Wilson, 'Islamic Banking and Finance', The Middle East and North Africa, 34th Edition, (Europa Publications Limited, 1988), p.160.

no specifically Islamic banks untill recently. A member of the Saudi royal family, prince Muhammad al-Faisal Al-Saud has continued his pursuit in the expanding of Islamic banking. 3

The following institutions provide loan as interest-free:

1. The Public Investment Fund (PIF)

It is also known as the General Investment Fund. It was set up in 1971. This fund is responsible to the Ministry of Finance and National Economy. The Fund is supposed to promote the diversification of the economy mainly by lending interest-free to public corporation and by subscription to their bond issues. The PIF's most important consideration is the commercial viability of the project which must also be of some significance in the over all development of the country. Until early 1980, the PIF had

3 In June 1981, Muhammad Faisal Al-Sa'ud announced the establishment of a $1 bn investment holding company, Dar-al-Maal al-Islami (DMI). The purpose was to 'provide the opportunities to Muslim to perform their transactions in accordance with the Islamic shari'ah. The projected capitalization was the largest of any Islamic bank. In December 1982, Faisal announced that the initial private and public offerings had raised $310 million from 14,500 share-holders. He also negotiated with other Arab States to open additional banks; see Middle East Contemporary Survey, Vol. 7 (New York: Holmes & Meier Publishers, Inc. 1982-83), p. 247.
extended loans worth SR 16 billion to Saudia and Perromin alone, and had approved a request by the Saudi Arabian Basic Industries Corporation (SABIC). The PIF's equity acquisition totalled SR 7.2 billion at that time. In 1981, the PIF disbursed more than SR 10 billion to launch petrochemical, metallurgical and refining complexes in Jubail and Yanbu. The shares of the newly incorporated public corporations are to be sold subsequently to low income Saudi nationals. 4

(2) The Real Estate Development Fund (REDF)

It was set up in July 1974. This fund also grants interest-free loans for the construction of private houses or housing complexes. For the former, the credit covers up to 70% of costs and for the latter, 50%. If repayment proceeds regularly upon the maturity of each instalment, the beneficiary enjoys a 20% reduction of his debt; if the credit is rapid before the maturity, a further 10% reduction is applicable. In 1978, the REDF designed four types of medium (10 years) and long-term (25 years) housing loans for between SR 100,000 and SR 200,000. From mid 1975, when the first loan was granted, the REDF had extended over 200,000 long term credit worth some SR 40.5 billion

for the construction of private houses, and 7,500 medium term
loans totalling SR 1.8 billion for 1,500 apartment buildings.5

**SAMA**

Over the past few years, SAMA has taken measures to enforce regulation of the banking sector. To date, SAMA's approach has been fairly protective towards local commercial banks. Among recent developments in this vein has been a clamp-down on money lenders, whose activities previously fell outside the regulatory process and effectively undermined the operations of commercial banks.6 SAMA has also excluded foreign banks from Saudi riyal-syndicated lending within the Kingdom.

In February 1984, the agency experimented with a 90-day bill, which it termed a "banker's security deposit account". This issue was undersubscribed by the commercial banks but SAMA claimed

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6 Most Saudi citizens do not maintain accounts with the commercial banks in the Kingdom. Instead they resort to money lenders and money-changers for their financial requirements. Some of these 'informal' bankers offer a wide range of financial services, including the exchange of currency, the handling of overseas remittances, deposit facilities and loans. Interest is not earned on loans, which are often in kind rather than cash. For example, if a client needs some item of equipment, the money-lender will usually purchase it on behalf of the client and then either collect instalments from the client, or else enter a leasing arrangement. In either case the payments over a period will exceed the initial cost of the item, the difference representing the money-lenders profit; see Rodeny Wilson, 'Islamic Banking and Finance', in The Middle East and North Africa (Europa Publication Limited, 1988), p.161.
to be pleased with the response, officials stressed that the instrument was not for debt financing, but to provide domestic banks with an outlet for investment.

However, despite the government's commitment to balanced budget over the next five years, the possibility of deficit financing cannot be ruled out, given the short-fall in oil revenues clearly, government borrowing would open up more business opportunities for the domestic banks.\(^7\)

According to the ABF report 'Development of the Saudi commercial banking sector over the past ten years would seem at first right to offer little reason for disappointment. The 11 commercial banks had 524 branches by 1984, compared with only 76 in 1975. Total assets had risen seven-fold to SR 145,000 million ($39,720 million) while deposit had increased from SR 15,000 million ($4,104 million) to SR 109,000 million ($29,859 million). Between 1979-84, total foreign assets had grown to SR 67,000 million ($18,354 million) from SR 17,000 ($4,657 million).

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7 See "Arab Banking File" MEES, August 1985, p.4
There have, however, been some significant changes in the past two years, highlighting the harsher economic climate in which commercial banks must operate. According to the same report the banks are still profitable, but margins are declining. The two big, wholly Saudi owned banks, National Commercial Bank and Riyadh Bank - with combined assets of $25,200 million and over 280 branches - saw their pretax profit last year drop to 0.92 per cent and 1.92 per cent of assets respectively. And for the first time since 1979, the total assets of the country's commercial banks fell in 1984 as public expenditure dropped to its lowest level. The report further says: Chief among factors affecting commercial banks future performance will be the level of oil revenues. These will determine public spending and, in turn, the growth of the economy. In June 1985 oil production fell to as little as 2.5 million barrels a day (b/d) a quarter of 1981 output.

The fourth five-years development plan (1985-90) puts total government spending at SR1 million ($274,000 million) including military requirements - some SR 200,000 million ($55,000 million) less than was spent in the previous five years. This more modest level of expenditure will undoubtedly translate into a healthy

8 Ibid., p.4.
9 Ibid., p.5.
but relative low growth rate for the non-oil economy. During the first years of the third development plan (1980-85) non-oil gross domestic product (GDP) grew in real terms by 10 per cent a year for 1981 and 1982, and by 7.2 per cent in 1983. Despite the cutback in spending, provisional estimates put growth at 4.3 per cent for 1984. The fourth development plan target is 2.9 per cent a year for the non-oil economy, with overall averages growth for oil and non-oil sectors targeted at 4 per cent.¹⁰

A number of factors will influence the direction banks take. They are already wary of becoming too involved in the construction sector, with infrastructural development largely complete and the drop in public spending further restricting the number of contract awards. The fourth development plan targets construction growth at 2.8 per cent a year. Although opportunities will remain for banks in this sector, they must be well researched. Over-investment and cash flow problems have placed demands on the banks in the past, but as emphasis turns to boiling out contractors which have fallen into difficulties, and assisting with financial restructuring, there is a need for particular caution. Meanwhile, banking services are still required for the continuing construction activities in those favoured sectors - human a higher proportion of government money than other areas.¹¹

¹⁰ Ibid., p. 6
¹¹ See "Banking on The Middle East", The Middle East (London), December 1987, pp. 41-46.
Historically the commercial banks have been financial "gap-fillers" in Saudi Arabia: unable to compete with the cheap finance offered by state owned institutions such as the Saudi Industrial Development Fund (SIDF) and the Real Estate Development Fund, they have tended to concentrate on sector whose access to government subsidy is more limited. These have included international trade and certain areas of construction such as office building and housing for foreign workers.

Trade finance remain a major activity of the banks, but its relative importance may diminish in future years. Reduced government spending has led to a decline in importer that is likely to continue as import-substitution industries start-up. Given the risk and uncertainty often attached to domestic lending, and the absence of sufficient outlets for funds, the commercial banks have been attracted to investment overseas. This could be accentuated in future by the opening of still more foreign branches. Considerable private wealth continuous to be directly invested abroad, and the growing respectability and maturity of the Saudi banks should be an important factor in attracting more of this business.\(^{12}\) One Saudi Arabian money-lending and money-changing

\(^{12}\) One gap which the commercial banks have been reluctant to fill is that of small business finance. Saudi Arabia's non-oil economy is almost entirely composed of small-scale enterprises. But the needs of the modest entrepreneurs have yet to be accommodated. However, it is hoped that as small firms grow more accustomed to drawing up annual financial statement, commercial banks will find it easier to assess the viability of financing them, and will be attracted into the market (ABF, August 1985), p.4.
family, the Ar-Rajhis, have grown to become the third largest commercial financial institution in the kingdom, after the National Commercial and the Riyadh banks. Their assets exceed $180 million, and all of the business has been built up on the basis of riba free transactions. In 1983, there were pressures on the Ar-Rajhis to register as a commercial bank, as, unlike the other banks, they did not hold reserves with the Saudi Arabian monetary Agency and were completely unregulated. Rather than register as a conventional commercial bank, the Ar-Rajhis decided to seek Islamic banking status, as they claimed their business methods conformed to Quranic principles in any case. There were some hesitation on the part of the Saudi Arabian Monetary Agency, given the implication for the other banks, and the problems in acting as lender of the last resort for this type of financial institution. In the end, however, the Saudi Arabian Monetary Agency decided to license the Ar-Rajhis officially in 1985 as deposit takers and exchange dealers, largely in order to help safeguard the stability of the domestic financial system. Although the monetary agency is not obliged to act as lender of the last resort with respect to institutions such as the Ar-Rajhi, it is widely believed that it would if the need arose.  

13 Rodeny Wilson, 'Islamic Banking and Finance' op. cit., P. 161.
Islamic Development Bank:

The Islamic Development Bank (IDB), created in 1973, was inaugurated in 1975 and began its activities in October 1976. The purpose behind its establishment is to promote solidarity among the different Islamic countries. By the end of April 1978, 32 African and Asian countries had become member states. The bank's headquarters are in Jeddah.

Organisational Structure:

The board of governors is the bank's highest authority, it is assisted by a board of directors and its chairman, by one or several vice-presidents and by the administrative personnel. Each member state is represented on the board of governors by one governor and one deputy governor, the latter having voting power only in the absence of the governor. The president of the IDB is elected, for a 5-year term, from among the governors at the board's annual meeting. The board of directors is composed of ten members elected for 3 years, renewable by the board of governors, directors cannot be governors. The board of directors is responsible for the bank's operations and for executing the decisions of the board of governors.

Each member state is entitled to 500 votes plus one vote per equity share (110,000 Islamic dinars). The decisions are taken
by simple majority, with the exception of those involving the orientation of the bank's policy and objectives or the supervision of special funds.

Objectives and Operations:

The bank's objective is to promote the economic and social development of the Islamic peoples and communities in accordance with Islamic shari'ah. This means that it does not collect or pay interest; while its status provide for the repayment of its administrative expenses. The IDB is entitled to carry out the following operations: (1) participating the capital of member states' productive projects (2) investing in public or private sector projects (3) managing funds destined to serve Muslim communities in non-member states (4) supervising private funds (5) accepting deposits and obtaining funds by any other means (6) contributing to the development of the member state's foreign trade (7) granting technical assistance to member states (8) providing means for the training of the personnel working in the various projects financed by the bank (9) conducting the necessary studies for the economic and social development of member states. 14

Capital and Other Resources:

The bank's unit of account is the Islamic dinar (ID), it has an authorised capital of ID 2 billion divided into 200,000 shares it may be increased by a two-thirds majority of the board of governors initially set at 50%, the paid up capital has been reduced to 37.5% and is distributed as follows:

Operation:

The operations of the Islamic Development Bank are classified into four main categories:

1. Loans to the least developed countries to assist them to build or extend their infrastructures.
2. Financing in the form of equity participations.
3. Financing of the member countries foreign trade.
4. Technical assistance in the form of financing feasibility studies. 15

In the past ten years, between 1975/76 to 1984/85, the Islamic Development Bank has instituted multiple modes of financing in accordance with the Islamic shari'ah law.

15 For detail figures of countrywise operations by Islamic Development Bank; see appendix VI.
After the experiment stage, the bank successfully cooperate with various international and regional agencies and funds. In ten years, the IDB approved 575 projects valued at ID 4,858.99 million contributing to the socio-economic development of the Islamic conference Organization's (ICO) 43 member countries. Since countries needs increase more rapidly than available dunds, the IDB has formulated a five-year plan (1985/86 to 1990/91) which forecasts: (1) estimates for ID 270 million for 1985/86 and an annual growth of 10% (2) distribution of modes of financing for the same period as follows: loans; 30%; equity; 10%; leasing; 56%; technical assistance; 4% (3) an accrued diversification of modes of financing to mobilize resources through capital participation and Islamic certificates of deposit and investment, these two modes being in the process of formulation. Furthermore 1984/85 witnessed the readmission of Egypt to the IDB after a suspension of more than five years.

The Islamic Development Bank has completed the first decade of its development. During this period, its membership has increased to 43 countries. Having become operational in the very first year, it has carried out about 250 ordinary operations totalling nearly US $ 1.5 bn. The foreign trade financing made

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16 Figures for different modes of financing are available in Appendix VII.
available by it up to about US $4 bn. Additionally, it has undertaken about fifty operations from its special account which would add another $150 m approximately to the financing provided by the Bank since its inception. Its financing has taken the form of loans, equity investment, leasing, profit-sharing technical assistance and foreign trade operations. It has restored to three other types of operation known as Line of Equity, line of Leasing and Instalment Financing. Viewed from a sectoral standpoint, it has covered several sectors, such as industries and mining, transport and communications, agriculture and agro-based industries, utilities and social services. It has also financed some joint ventures and has sought to assist and build a close relationship with national Islamic banks and national development banks. It has provided over US $60 m for helping the Muslim communities in non-member countries. Its total capital resources have gone up from SDR 750 m to over SDR 2 bn. 17

In absolute term this is indeed, a highly impressive record. Yet, in the context of the wide ranging tasks assigned to it and the enormity of the resources needs of its member countries for development, this can be regarded at best as a good beginning. 18


18 Bank, as reflected by this decision to embark upon a comprehensive evaluation exercise. According to press report, he has appointed a high level panel for this purpose; see Questions for the IDB", Arabia (London) April 1986.
The Islamic Development Bank has approved a cumulative total of 579 projects valued at almost ID (Islamic Dinar) 5 bn. Financial operation can be categorized as ordinary (project financing and Technical Assistance). Foreign Trade and special Assistance Account. Technically sound and economically viable ventures are eligible for project financing. This could be in the form of a loan, interest-free loans are advanced to projects of an infrastructural nature such as roads, bridge, airport and so on. They could also be those with a marked impact on socio-economic development like schools, hospitals, rural facilities and low cost housing. Technical assistance is available to conduct feasibility studies and to process project ready for financing. Equity participation is possible in capital of agricultural and industrial projects. Funds can be provided also through lines of equity granted to national development financing institution. Leasing for items such as ships, locomotives, heavy machinery and equipment is also available ownership passes on the lessee after a fixed period. Lines of leasing, facilities are also available. Equity financing, until recently had been expanding, non-availability of viable projects in the pipe-line has been cited as a reason for the present relative decline.

19 'Islamic Development Bank', FMA (Beirut) 13 November 1985.

The Islamic Development Bank introduced a method known as "Instalment rate" in which ownership of the asset is transferred to the purchase immediately after delivery while the price is payable by instalments. Financing of projects having a quick and direct returns by means of participation is known as 'profit-sharing'.

The IDB has sought to invest funds not immediately needed, in short term investment, in member countries, to finance "foreign trade", since 1977. The 'Investment Deposit Scheme' has been introduced within the framework of financing foreign trade. Deposits are accepted from government institutions and individuals with a minimum of US $ 250,000.21

The Islamic Development Bank has been utilising net proceeds from its deposits to provide assistance under the "Special Assistance Amount". Its main objectives are:

I. Training and research aimed at guiding members to reorient their economic activities in conformity with the shari'ah.

21 Ibid., p. 66.
II. Provision of relief to members as well as Islamic communities in non-muslim countries effected by natural disasters.

III. Financial assistance to members for the promotion of Islamic causes.

A useful medium for the transfer of technology among members has been the 'Technical Cooperation Programme'. Its objectives are to mobilise technical ability of member countries by promoting cooperations and exchange of expertise, experience and information for their mutual benefit.

To foster socio-economic development among member and muslim communities world-wide, IDB has established relations with other institutions which have the same general goals. Close and active cooperation is maintained with secretariate General of the OIC, the states of economic and social research and training Centre for Islamic countries at Ankara, Turkey among others.

The Islamic Research and Training Institute (IRTI) was established in 1983 to explore the domain of research and training in Islamic economics. The IRTI organises and coordinates research

for developing models and methods for the application of shari'ah in economies, finance and banking and to enable member's activities in these fields to conform. It also provides training facilities to personnel engaged in development activities.

Out of the Bank's staff of 449 (30 at inception) 432 are from member countries and 17 from Muslim communities elsewhere. The technical staff includes highly qualified economists, financial analysts, accountants, lawyers, statisticians and engineers. To a great extent, dependence is placed on IDB's own professional staff for examining and appraising projects.23

The developing countries face a multitude of economic handles, chief among them are:

1. falling prices of commodities,
2. increasing protectionism of industrialized countries in the form of stiffer tariff and non-tariff barrier that adversely effect export,
3. Low level of external resources inflow,
4. violent fluctuations in exchange rate.

All of these factors are creating severe debt servicing problems for developing member countries. In addition, the effects

23 Ibid., p. 223.
of natural disaster such as the protracted drought in the Sahel and floods in Bangladesh contributed significantly towards constraining economic growth and development. In order to offset further deterioration and to counter the emerging dislocation the member countries have no choice but to work out practical scheme, facilities and arrangements for the generation of trade as well as diversions of their exports and imports in the direction of intra-trade and to intensify their efforts in favour of greater self-reliance and cooperation in various fields, at sub-regional and regional levels. At present, the level of intra-trade among member countries is depressingly low, inspite of the IDB's effort of the last ten years. Whereas the developed countries conduct 70 per cent of their trade among themselves, and even developing countries as a whole conduct 30 per cent of their trade among themselves for the member countries of the IDB.

In recognition of this fact, the IDB has been assigned by the OIC, and the task of setting up long-term financing facilities for promoting intra-trade through such schemes as Regional Export credit Guarantees. The dilemma faced by the IDB is that existing scheme of guaranteeing export credit were inconsistent with the shari'ah. The challenge of IDB is to device export guarantee insurance scheme in conformity with the shari'ah. The feasibility of a multilateral Islamic clearing Union is being
studied by the IDB. The Islamic world awaits the results of this study because of the significance of its potential impact on furthering economic growth in member countries.24

**Al-Rajhi Banking and Investment Corporation:**

Perhaps the biggest success for Islamic banking is the recent decision of the Saudia Arabia Monetary Agency (SAMA) to give a full banking licence to the Kingdom's famed and influential money changers, Al-Rajhi company for currency change and commerce (ARCCEC).

After four years of applications, SAMA has finally agreed to allow the four Al-Rajhi brothers, Saleh, Abdullah, Sulaiman and Muhammad, to convert their money changing firm into a banking company, the Al-Rajhi Investment company. The new bank, the Kingdom's 12th, will be half-owned by the public and a share flotation. SAMA has stipulated that Al-Rajhi must shed some SR 660 million worth of real estate, building materials and agricultural investments before going public. ARCCEC has assets with SR 16.6 bn ($4.2 bn.) at present.

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24 *The Islamic Development Bank: The first ten years*, *op. cit.*, p. 69.
Al-Rajhi has made it clear in its application that it will operate under Islamic banking profit-and-loss principles. Al-Rajhi has a network of over 230 branches in Saudi Arabia alone - more than both the National Commercial Bank and the Riyadh Bank, the top two in the Kingdom. Saudi banking sources predict that after one or two years of operation, the new Al-Rajhi investment company will surplus the two in terms of assets, deposits and branches. The potential for interest-free banking is vast, and depositors and investors who previously hoarded money at home would now go to Al-Rajhi. Already the Kingdom's other two Islamic banking giants, Sheikh Saleh Kamel; Al-Baraka group and prince Muhammad Al-Faisal's Dar al-Maal Al-Islami (DMI) group - both of whom have been denied full banking licences in Saudi Arabia in the past - are watching the Al-Rajhi developments keenly. A second local money changer also from the influential Al-Rajhi family, the Jeddah-based al-Rajhi commercial establishment for currency change has applied to SAMA to change its name in
advance of getting a banking licence. Al-Rajhi Banking and Investment Corporation (ARABIC) is now considered as the "greatest challenge to be faced by the Saudi banking system. ARABIC is now converting from a money changer into a full service Islamic bank. This new bank has some powerful advantages over its conventional rivals. Its capital of SR 750 million is larger than the four largest banks in the kingdom combined which have only SR 680 million capital between them. It has the largest number of branches of any

25 Recently, the Jeddah-based Al-Barakah banking group’s London subsidiary, Al-Baraka International Ltd. (ABIL) has been allowed by the Bank of England to change its name to Al-baraka International Bank Ltd. (AIB). This Islamic bank is now on par with banks such as Barclays Bank and City Trust Ltd., and can engage in retail banking and issue current accounts. For the growth of its trading activities, licences have been applied for in Egypt, Nigeria, Malaysia, Pakistan, North Yemen, Kuwait and Morocco. Al-Baraka has also been developing its trading activities through its three Paris-based Sabaha oil, Sabaha Textile and Sabaha Trading Companies. The group has also had talk with the Inter Arab Investment Guarantee Corporation and the Kuwait Finance House about setting up an export credit insurance company. At the end of last year, the Bahrain-based Al-Baraka Islamic Investment Bank launched its second investment fund, the Al-Ameen Company for financial securities. Earlier in 1987, Al-Baraka had set up the Al-Tawfeeq company for Investment Funds. The investment funds are seen as a precursor to the establishment of an Islamic capital market and they comprise morabaha (short-term) ijarah, (leasing medium term) and long-term project funds. However, there is bad news as well for the group. According to reliable Islamic banking sources, Al-Baraka is to pull out of two of its affiliates in western Europe, the Islamic International of Denmark (IBID) which is Europe’s first Islamic bank, and the Islamic Finance House in Luxembourg; see the full report, "Al-Baraka expands and contracts", The Middle East, (London) March 1988, p.40.
bank in the kingdom, its balance sheet is free of any bad and
doubtful debt, and it has a clearly defined identity as the only
Islamic bank in the country. Arabic share issue, and its
articles of incorporation, are different in several crucial
respects from established practice in the kingdom. The share
subscription is fully paid and available to individual and
corporate investors, whereas usually such subscription in Saudi
Arabia are partly paid and available to individual investors.

26 ARABIC has been created with many unique legal
characteristics. The 16-man board of directors needs a quorum of
11 and has eight Al-Rajhis sitting on it with one of the family
expected to hold the chair. The largest single share-holder is
shaikh Sulaiman bin Abd-al-Aziz al-Rajhi with 23.5% followed by
his three brothers, Shaikh Salih (17.5%), Shaikh' Abdullah (6.5%)
and Sheikh Mahmud (4.5%). All four site on the board together
with their sons, three of whom are listed as nominal share-holder
(with 100 shares a piece). Three other family members are among
the other 125 founding share-holders, each with a SR 0.3 million
stake, so that the total stock held by all members of the Al-Rajhi
family is SR 390.9 million, equivalent to 52.12% of the capital.
The remaining founding share-holders have been carefully selected by
the Al-Rajhis in order to reinforce the Islamic identity of the
bank as well as to represent the Saudi social order of the 132 name,
79 belonging to the central region of the country and 33 to the west.
The Eastern province is represented by 11 names, with the remaining
9 coming from the north and south of the country. The share holder's
list reads like a who's who of Saudi society, including the children
of prominent royal cabinet ministers, as well as of the amirs of
Mecca and Medina and son of the country's leading religious
authority. The founder of the al-Baraka group of Islamic banks-
shaikh Salih' Abdullah Kamil is included as a founding share-
holder; see, MEES (London), 20 June 1988.
Dr. Muhammad Ali al-Saqqaf, Director of Research and Publications at Jeddah's National Commercial Bank, says that while 'Arabic' may not "lead" in conventional sense it is left unclear on what terms the bank can borrow. He argues that ARABIC will be able to use its own shares as a guarantee for credit facilities, that it can act as a debt-collection agency, and, within the context of 'murabah' trade finance, can trade commodities on its own account, while the net-work of warehousing facilities envisaged by the articles makes al-Rajhi a major potential landowner unlike other banks.

He suggests that the creation of 'ARABIC' will lead to major structural changes in Saudi banking, since it is possible that other money changers in the kingdom may wish to follow suit.27

In both country of our study, there exists a dual economic structure; on the one hand, there is a fairly modern urban economy with institutions and administrative infrastructure similar to those of an average capitalist economy in the West. Government regulations over the spheres of productions and transactions are generally observed. In particular, the money market is dominated by officially endorsed institutions, amongst which are the recently born Islamic financial institution.

On the other hand, like in most developing countries the rural sector of the Muslim developing countries have features which can hardly be termed as conventional economies. The production and financial institutions are outside the formal and official network, and in the absence of effective government control, there is ample room for abuse by usurers and money lenders. The most clear example of such widespread abuse exists in the village of most Muslim countries eg. Pakistan, Bangladesh and Egypt etc.

Keeping in view the experiments of the Islamic financial institutions and investment companies, the question arises as to how far their performances are better than conventional banks. It is generally replied that it is a difficult task to assess their viability as these are newly established institutions. Various problems seem to be faced by these banks some of them appear to be insoluble. One problem that has not been tackled is as to how these banks will make transaction with foreign activities of Islamic banks, because they have to enter into contact with non-Islamic banks also and in this connections Islamic jurisprudence does not provide us any guidelines. As for the effects of Islamic banks an national economy are concern, it will surely depend on the nature of new financial instruments devised and the manner in which the system develops. Therefore at this stage of experiments, it is difficult to make any definite assessment of the prospects
of the financial success of Islamic banks. It appears that for an adequate solutions to all these problems, Islamic financial institutions have yet go through a lot of experiments.

Having in view the performance of these Islamic banks, the success would depend on how far successful they are in tackling in these problems. Some protagonists have come to the conclusion that for the success of these Islamic banks it is essential to change the social institutions in such a way that they become responsible to an effective transformation in social and individual economic conduct, and enhance social and economic justice. This process of institutional change, however, is by no means an easy one. Most importantly the economic conditions for the operation of entirely new institutions should exist, together with a strong will and power on the part of the government to see the proper operation of the new institutions such changes cannot simply be brought about by decree or force.

These are the challenging tasks on the implementation of which the success of Islamic banking system would be evaluated in future.