CONCLUSION

The abolition of *riba* and the imposition of *Zakah* as mentioned in Qur'an and Hadith are the cornerstones of Islamic banking and financial institutions. An Islamic bank must meet two basic requirements. First, it should be based on the Islamic *shari'ah*, and second, it must meet all the requirements of sound banking. Feasibility of a banking operation without the rate of interest is the basic issue faced by Muslim economists. However, it is right to say that to reject the rate of interest is one thing but to deny rate of interest to others who do not subscribe to the ideology is quite another. In a trading operation which is quite different from a loan operation, the Islamic Bank can be an active or sleeping partner into various forms of profit sharing joint-venture.

It is often claimed that Islamic banking can be more stable than the interest-based system, since in an Islamic banking system deposits are treated as shares, and any shock to a bank's asset position is immediately absorbed by a corresponding change in the value of shares held by the public in the bank which constitutes the bank's liabilities. Thus such a system has been found to be better suited to adjust to economic and financial shocks that can produce banking crisis.
From the various studies available to us, it seems that banking system based on profit and loss sharing rather than on interest, however, does not make any difference after just being branded as "Islamic". After all, the basic function of a bank is financial intermediation, and there is no prior reason to conclude that interest is the only proper instrument to do the job.

For the full application of this system, various unresolved issues may come in the practical handling of banking operations. Ingo Karsten has rightly pointed out the problems in granting short-term loan for industry and commerce as well as consumer credit. An analysis of the effects of this system on savers, banks and investors has revealed that the system's impact depends on the nature of the new financial instruments devised and the manner in which the system develops. "If this system is introduced on an optimal basis, it seems likely that the enlargement of choice will have generally beneficial consequences, particularly for savings. Furthermore, increased investment could result from the role played by Islamic banks in promotion of entrepreneurialship. A complete conversion to Islamic system, however, would require satisfactory handling of several issues that are yet unresolved, particularly those concerning the allocation and remuneration of short-term financing."
The Islamic banking is still at the stage of trial and error and that it has to compete with the highly developed western commercial banks. The achievements of many Islamic banks are quite impressive: They have been very successful in attracting funds from private depositors, and people in Muslim countries accept these new banks. After their establishment, however, these Islamic banks came in direct confrontation with already established Western commercial banks. They had thus to face, in this regard, tough competition. The experiments uptill now show that there are certain areas of employment of funds where the Islamic banks face strong competition with conventional banks, namely in the financing of trade, especially foreign trade, real estate and construction. It is still to be seen how the Islamic banks can achieve better results than the conventional banks. But the questions are generally asked, how for this concept is applicable to the contemporary economic situation? Can it be the alternative to the modern banking system? Will not the increased availability of risk capital be expected to lead to higher investment? Will not investment levels be expected to rise as the cost of a project entering into investor's profit calculations will be reduced and the payment for capital will be shifted from the cost to the residual income category?
It has been argued that a large society of present day can be hardly suitable for Islamic economists' ideal economy. In a large society, members may be tempted to violate the principle on which this system rests. One writer, in this regard, thinks that Islamic economists have so far neglected this aspect, without providing a single example of a large society that has resolved this problem through religious faith, they have simply assumed that in a society of religious Muslims, everything would work smoothly. The claim that depositor's risk of productive enterprises will give a tremendous boost to economic growth, and that, the higher employment opportunities can also be expected to increase. These phenomena are still to be observed. In a system based on profits and loss-sharing, it will be to the advantage of financial institutions to seek out those projects which promise the higher rate of profit.

On the contrary to this some writers have also expressed the apprehensions that, replacement of interest by profit/loss sharing may make the whole economic system highly unstable as disturbances originating in one part of the economy will be transmitted to the rest of the economy. In fact Islamic banks are located or doing business mostly in the finance-rich countries and they probably have not faced real problem of raising deposits. They
are individual banks working rather in isolation of the general banking system around them. The bank's operational activities are similar to those of investment companies with no or almost non-existing pure loan accounts. The strategy of these banks generally seems to be to look for project with quick return.

To help to understand the effects of Islamic financial system, we investigated the efficiency of this system. We observed that while the success of Islamic bank is encouraging, they still require greater assistance. Islamic banks need the support of government. Central bank should be more supportive in case Islamic banks are met with liquidity crisis.

Islamic banks in Saudi Arabia and Egypt during their relatively short period of experiences, have had to face two main tasks. The first being the evolution of a reasonably competent operation in the modern international banking world. Various Islamic banks have had varying degree of successes in this respect, though they may still have a long way to go to perfect their operations. The second task concerns the evolution of banking operations within an Islamic socio-economic framework. Here the need to transform the institutions towards fundamentally Islamic norms and ethics of business is very necessary. The implementation of these norms and ethics are
far beyond the capacity of any one bank alone. There is a need for a comprehensive interaction of many Islamic institutions in full-fledged Islamic environment. Even if the Islamic bank is functioning on the national level, its transaction with non-Islamic banks abroad would cause problems. For of course the Islamic economy cannot be a simple closed economy.