CHAPTER III

ISLAMIC BANKING

A Historical Background:

The concept of public finance among Muslims goes back to the early Islamic period when Bayt-al Mal-Muslimin (the treasury of Muslims) played an important role in the affairs of the states. The supreme head of the central Bayt-al-Mal was the Caliph himself and his Amir (governor) both being responsible for the smooth running of all the departments under their control. The Caliph distributed the entire revenues according to his own will for purpose of general utility. The chief treasurer was authorised to control all forms of income and expenditure both of the centre and of the provinces. He kept aside the surplus to meet any future emergency and borrowed money to settle debts.

During the time of the Sasanids there lived a group of Christian minority in Madā'in and they were mostly engaged in money-changing business and dealt with Persian silver coins. They migrated to Kutah in the early days of Islam and played an important role in the development of banking organization in Iraq, which seems to have passed to other parts of the world.
especially Egypt and Spain, and later on to some parts of Europe. Under the Abbasid the sarraf used to collect gold and silver from people and in exchange give them coins equivalent to the value of the bullions, thus profiting themselves by the difference between the face and instinct value of gold and silver coins. The sarraf also assisted trade by lending money, receiving goods as agents and introducing certain media of credit.¹ In the time of the 'Abbasid Caliph al-Muktadir, (295-320/908-32) however, the Dijahbah² emerged as a banker in the modern sense, who, in addition to his functions as an administrator of deposits and as a remitter of funds from place to place, was called upon to advance huge sums to the Caliph and other court officials on credit terms with interest rates and securities. The Dijahbah were mostly Christian and Jews. By virtue of their vast resources and


² A term of Persian origin used during the Sasanid administration. It was used in the sense of a financial clerk, expert in matters of coins, skilled money examiner, treasury receiver, government cashier, money changer or collector.
commercial connections these Jews and merchants were instrumental in establishing the first state bank in Islamic history (302/913), through which the urgent financial needs of the state could be satisfied. They were given interest on their loans and securities in the form of the tax revenues of the province of Ahwaz. 3

The early economic history of the Arabs tells us that merchants used to employ not only their own capital, but they had entered into partnership agreements, or had received goods on mudharabah basis. Thus they combined their own resources with those of others or, conversely, made their own capital multiply in the hands of others, with the object of widening their business activities and spreading the risks. It has been said that the conditions governing trade compelled merchants to carry hard cash with them. When they were on vast distances, they developed the letter of credit. 4 Suftaja which allowed someone to have the necessary sum of money advance to an associate or

3 See The Encyclopaedia of Islam, p. 382.

4 Suftaja is the Arabicised form of the Persian word saftah meaning paper money as letter of credit. This was a pay order from one man or a bank to another on mutual understanding for a specified sum to be handed over to the bearer of the order by a certain date. Under the Abbasids and Fatimids, it was commonly used in commercial, governments and private transactions. See E.I., p. 382.
partner by a third party at some distance place: on a reciprocal basis, a procedure which implies the maintenance of regular accounts and correspondence. It was of course also possible to contract ordinary loans and make deposits, and private individuals and government alike made wide use of promissary notes to be used for payments. The state's finance was administered through local treasuries and a central treasury. A central treasury was established in the state's capital and was headed by a treasurer not the head of state. The central treasury had two functions: first to act as a local treasury to the area where it was situated, the capital and its provinces, and second, to act as an organiser among local treasuries. Those treasuries that had surpluses were to forward their surplus to the central treasury in order to meet the needs of the other local treasuries that had deficits, or to receive instructions from the capital treasury to transfer from their surpluses that could meet others' deficits. Some provinces were rich and some were poor, but expenditures were not to be tailored according to the provinces' surpluses. As for the insurance of currency, the central treasury

did not have any function of this kind, it was left to the state as a direct function of its own.  

The concept of profit-sharing system, however, is not confined to the Islamic period. The history tells us that in the pre-Islamic period, the method of business finance was in the form of partnership. The differences between partnership before and after the coming of Islam was a difference of sale rather than of principle. While the concept of allocating gains and risk of partners was still the same, partnership after the coming of Islam developed into a larger form so as to embrace a greater number of fund suppliers and entrepreneurs. Capital was divided into small shares which helped investors purchase the number of shares which could afford in accordance with their financial capacity and the degree of risk associated with the investment. This suggests that by the expansion of the state and its economic activities the partnership became a sort of Joint Stock enterprise. However, it can't be ruled out the possibility that interest-based lending might have existed in

Emergence of Islamic Banks:

The past two decades have witnessed an important development in the field of Islamic Banking. During the 1970s there was spectacular growth both in the number of Islamic banks and in the volume of their global activities. The emergence of substantial balance of payment surpluses in a number of oil exporting countries paved the way for the formation of giant multinational Islamic banks, and helped the spread of Islamic banking in other Muslim countries as well. At the time it was suggested by some financial analysts that this was a short-lived phenomenon, and that with the drying up of the petro-dollar of the oil exporting countries this would end with a sudden financial collapse. The subsequent events, however, have proved the contrary.

7 There are evidences to suggest that under a disguised form some tricks of fictitious transactions, such as selling and buying an article simultaneously at different selling and buying prices were practised, see Maxime, Rodinson Islam and Capitalism, tr. by Brian Pearce, "Suffolk: Allen Lane, 1974). The following example illustrates a widely practiced tricks. Person A sells an object to person B for Rs.110, to be paid after a year, but promptly buys it back for Rs.100, payable immediately. While technically no interest payment is involved, this double transaction is equivalent to a single transaction in which A lends Rs.100 to B for one year at 10 per cent.

The present phenomenon of Islamic banking is associated with the rise of the revivalist trend in the Muslim world. Muslims in the field of banking have been looking for legally permissible means of finance, saving and investment. This was the major motive behind the emergence of what is now termed 'Islamic banking'. A second reason is the economic deterioration of the Muslim world, especially in the field of production and project finance, a problem which is severely aggravated by the external debt. The oil-rich Muslim countries have their own 'ailments'. Following the serious oil crisis of the early seventies they were left with accumulated liquidity problems. Banks were needed to provide for the necessary organization of saving and investments. The idea of actually establishing Islamic banks ripened in the same decade. Thirdly, a genuine need on the part of Muslim communities to accentuate and reassert their economic identity moulded itself into political resurgence. The slogan raised included a demand for economic liberation and the application of Islamic principles as the main regulator of legal, economic and social behaviour. An alternative to western economic institution was eagerly sought especially for the third world. The movement for the establishment of Islamic Banks started in the early seventies. It is
said that the establishment of Islamic banks started with the accumulation of surplus oil reserve in the petroleum producing countries. This may not be regarded as the sole reason for the emergence of Islamic banks. Firstly, a few Islamic banks had already been established before 1973 when oil prices were increased and the 'so called' petro-dollars' started flowing in the Arab World. Secondly, Islamic banks are not confined to the Gulf region which has been the main recipient of petro-dollars. On the contrary, the Islamic banks have been established even in the countries which have had no share in the oil-price-hike prosperity. Egypt and Sudan, for instance, figure prominently among these countries as both of these have had not one but several Islamic Banks. Nevertheless, the view of linking the establishment of Islamic Banks with oil-price-hike-induced-prosperity cannot be totally ruled out.

Newly found prosperity in certain parts of the Islamic region must have helped in the growth of some Islamic Banks.9

As one writer has pointed out the development of Islamic Banking is a recent phenomenon although the idea to establish an interest-free bank goes back to as early as 1940s. However,

9 Cf., Ausaf Ahmad, Developments and Problems of Islamic Banks, (Jeddah : Islamic Research and Training Institute, 1987).
the conditions then were not ripe for actual establishment of an Islamic banks as not much thought had been given to technical details and actual operation of an Islamic Bank. In fact, the idea of an interest-free-bank remained a blue print for a long time.

A pioneering experiment of putting the principles of Islamic Banking into practice was conducted in Mit-Ghamr in Egypt from 1963 to 1967. The experiment combined the idea of German saving banks with the principle of rural banking. The bank had started in 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 banks because interest is forbidden in Islam. Moreover, there was hardly any financial institution available to them. Under these circumstances, the emphasis was given to educate the people about the use of banking.  

T.W. Scharf describes the significance of Mit Ghamr experiment in the following words:

"The majority of the population had never been dealing with the financial institutions. Because of this, capital

formation had been impaired. Basically, rural and religious, they tended to distrust bankers operating in western style and, what is more, there were few local branches they could patronize. Since a substantial part of their income was not spent immediately, but put aside for social events, emergency and the like, 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 principle of large segments of population. Only then could the rest majority of the population be integrated into the process of capital formation. 11

Thus, an attempt was made to integrate the rural population into financial system and the development nature of this experiment made it very prominent. 12

In the Mit Ghamr project, the experiment met unexpected success as saving deposits increased from 25 thousand Egyptian pounds to 125 thousand Egyptian pounds during 1963-1966. During


12 Volker Nienhaus, "A Western European looks at Islamic Banking", Middle East Business and Banking, Dec., 1982, P. 11.
the same period, investment deposits, increased 35,000 Egyptian pounds to 75,000 Egyptian pounds. It also reported that 'the bank functioned on a cautious basis, rejecting, on the average 60% of loan application in the first three years. The default ratio was zero in economically good time.'

Although Mit Ghamr project made good start, it had to be abandoned due to certain political factors. Its importance is only historical now. Nevertheless, it paved the way for other Islamic Banks.

The first Islamic Bank in the urban setting was established in Cairo. Nasser Social Bank, was established in 1971 and started its operation in 1972. The Bank is a public authority with an autonomous status. Its purpose is mainly social such as granting of interest-free loans for small project on a profit-sharing basis, assistance to poor and needy and loans to needy students for University and higher education. Because of these social functions Nasser Social Bank was granted exemption from the banking and credit law of 1957 in its

initial stages. The bank was originally under the Ministry of Treasury but it is now functioning under the Ministry of Social Affairs and Insurance. Its capital came from funds allocated by the President from extra budgetary resources, appropriation from the state budget and contribution of the Ministry of Awkaf etc. Uptill now, various reports on Islamic banking have come out. The general conclusion drawn regarding the experiments of these banks are rather optimistic.

Currently some western agencies and scholars too, have conducted research in this area, and they have verified that Islamic banks are successful from the standpoint of both owners and client.14 The records of Islamic banks show that these banks have proved profitable even though they have been offering depositors a higher yield than their interest paying rivals. However, this is not enough paint to prove the feasibility of these banks. As one author has pointed out "Before jumping to conclusions about the superiority of Islamic banking over traditional banking, one must consider that in the countries

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involved both the dividends of Islamic banks and the interest rates offered by traditional banks are controlled by monetary authorities who may well be under special orders to enhance the attractiveness of the Islamic banks.  

A related issue is whether the establishment of Islamic banks may, as some Muslim economists claim, have provided a stimulus to aggregate savings. While there exists no reliable data on the matter, the claim is certainly plausible. This is so because in countries where Islamic banks are in operation the stock market performs inadequately, and, because from the standpoint of the individual saver investor, *mudarbah* account, serve the same function as stocks. The author thinks that the bulk of the individuals who have switched to Islamic banks are probably relatively less risk-averse savers who would, if the economy were more developed, be holding stocks. He thinks, "If this conjecture

15 See for a critical analysis, Timur Kuran, "The Economic System in Contemporary Islamic Thought: Interpretation and Assessment", *International Journal of Middle East Studies*, Vol. 18, 1986, pp. 135-164. The author argues that since Islamic banks run under the *mudarbah* and characteristically, *mudarbah* accounts yield greater returns than interest-bearing accounts. Since *mudarbah* accounts are riskier, few people would be attracted to them they provided higher yields. But it does not follow that every one would become better off if all banks were force to offer any *mudarbah* accounts depositors with a strong preference for security, who currently choose to put their saving in regular accounts in spite of the higher expected earnings in *mudarbah* accounts, would become worse off if forced to hold a risky portfolio", p. 156.
is correct, one can infer that the establishment of Islamic banks has stimulated savings by introducing a new financial service. This does not mean, however, that savings could be increased further by abolishing the traditional banking system, for, as noted earlier, the highly risk-averse customers of traditional banks may not feel comfortable with mudarabah". 16

For a successful Islamic banking, various suggestions, at various conferences, have come out till now. In November 1985 London conference focussed on the different problems and prospects at present found in the Islamic banking institutions. A number of speakers referred to the existing murabaha types of purchase agreement in which the bank buys goods and sells them to the customer at a mark-up. One writer, for example, pointed out that murabaha accounts for around 80 per cent of Islamic banks assets. He said that 'this activity does not add much value to the existing trade financing by conventional banks. He argues

16 There is a considerable disappointment at the way Islamic banks are operating. Professor Volker Vienihaus of Bochum University, West Germany, points out the disparity between the theory and practice of Islamic banking. He says that 'theory is centred on profit- and loss participations, while the practice shows a preference for transactions bringing set earning for the bank. He has highlighted some of the obstacles confronting Islamic banker, such as a shortage of instruments for the supply of working capital and for very short term placements of funds, and problems owes lender of last resort facilities. See The Middle East (London) November 1987, pp. 36-37.
that it adds to the pressure on the foreign exchange resources of Islamic countries, and accelerate consumption by importing goods which are most non-producing. Murabaha is still considered by many scholars to be the negative side of Islamic banking.

Even during the second decade of its establishment, Islamic banking passed through severe criticism. Although it cannot be denied that the speed with which Islamic banking has spread in the past two decades has surprised many observers and confounded those who initially dismissed it as a passing phenomenon.

The record of Islamic banking so far has proved that there is a great demand from Muslims for the institution where they can deposit their money and borrow in accordance with Shari'ah principles. But impressive though the growth of Islamic banking may be, in terms of the number of institutions and the amount of capital at its disposal, serious doubts remain as whether it will achieve all its aims. 17

Islamic bankers face the challenge of finding ways in which their system can interact with the western system, dominated

by interest (riba). Muslim writers believe that Islamic banking is still in its infancy. It needs to develop a more professional organizational network and a wider client base, especially amongst Muslims. It needs to explain the Shari'ah principle of Islamic banking and finance more thoroughly and convincingly. However, despite its infancy, Islamic banking is not restricted to trade financing. Banks, in many of the Islamic countries offer most of the facilities including current account cheque books, and deposit account facilities, plus financial instruments ranging interest-free loan, venture capital, leasing and joint venture, partnership, all under Shari'ah principle. Islamic banking, as some western press, sometimes cast doubts over its existence, is not the 'religious scruples of mullahs', but a genuine expression of Muslim desire to invest their money according to their faith. However, the critics of Islamic banking point out that Islamic banking is being established to meet the religious scruples of Mullahs. They say that the Quranic divine threat has proved an adequate deterrent to interest-taking, as if Muslim were perfect beings. They also point out that an authoritative institution in Islamic banking is missing. In another article which appeared in the 1984 Newsweek reference was made to Turkey's decisions to
allow Islamic banks to be set up in the country. The article implied the establishment of Islamic banks is an isolation of Turkey's secular constitution, and accused the Ozal government of forgoing an alliance with Islamic world "that is far too holy". 18

Types of Islamic Banks:

The Islamic banks may be classified into different categories such as:

(i) Development Bank
(ii) Special purpose Islamic Banks
(iii) Islamic Commercial Banks
(iv) Ownership of the Islamic Banks

It is argued that the main purpose of development bank is to foster the process of social and economic development amongst its members. Usually its clients include various governments. The example of such an Islamic bank is the Islamic Development Bank.'

Some Islamic Banks have been created to fulfil some specific purpose as to serve some special classes of customers. Such banks may be termed special-purpose Islamic Banks and may further be classified as social banks, agricultural banks, industrial banks, etc. One example of such a specialized Bank
amongst the existing Islamic Bank is the Nasser social Bank of Egypt which was established in 1971 and started its operation in 1972. Nasser social Bank is a public authority with an autonomous status. The Bank performs certain traditional banking functions such as acceptance of deposits and promotion of saving habits but its main objectives are social, such as introduction of pension and insurance to certain class of people, the granting of financial assistance to persons facing hardship, the granting of interest-free loans to small industrial projects, leading to University and higher institute students etc.

The special purpose Islamic Banks offer a wide scope of their application in the Islamic countries. They have the potential of transforming the social and economic life in muslim countries. For example there, could be a chain of small Islamic saving Banks whose primary function may be to promote small savings. Those Islamic Banks go a long way in mobilising resource for economic development. Similarly Islamic Banks with specific purposes could be established for different sectors and regions. The case of Islamic Bank of western sudan may be cited as an example. The full potential of this type of Islamic banking is yet to be realized.
Islamic Commercial Banks:

The purpose of Islamic commercial Bank is to provide normal commercial banking services in accordance with the Shari'ah. The basic motive behind the operation of these institutions is to conduct only those business activities which are permissible in Shari'ah. These banks offer alternative banking service to those who like to avoid Riba-based banking. Amongst the existing Islamic banks, most are of this type.

Ownership of Islamic Banks:

On the basis of ownership Islamic Banks may be classified into international Islamic Banks, Government owned Islamic Banks, privately owned Islamic Banks, and co-operative Islamic Banks. Among the existing Islamic Banks, the Islamic Development Bank is an International Bank. The Nasser social Bank is a wholly government owned bank and most other banks are privately owned. 19

Functions of Islamic Banks:

The basic concept of modern Islamic banking is that since interest is forbidden in Islam but profit allowed, one should

19 Ausaf Ahmad, Development and Problems of Islamic Banks (Jeddah: Islamic Research and Training Institute, Islamic Development Bank, 1987).
develop investment in which one can be a full partner and therefore, obtain a share of the profit from the transaction.

To make matters easy to handle, the partners pool their funds in a partnership which in turn invest the pool in various projects. The partners are also therefore, the depositors. In most Islamic institutions the depositors have the right to leave their funds in the pool for the length of time they desire (as in a traditional bank:) but, naturally they can expect to receive a greater share of the profits the longer they leave their funds. The depositors in the normal course of business will come in or go out of the pool of funds. It is hoped that enough deposits will on the average remain sufficient to continue funding whatever project has been financed. The original capital of the financing members can make up the shortfalls in deposits if any. Since the depositors are partners they can not have any assurance that their investment will be profitable as far that matter safe. Indeed, it could even be lost.

The various Islamic financial institutions functioning today are carrying out a variety of banking, financing and investment operations on a competitive basis. Their banking system handles current accounts, saving accounts, fixed investments accounts and call investment accounts. Finance is being done in a variety of ways. On a short term basis it is being carried out
far trade acceptance and hire purchase. On medium term basis it covers loans, business development credits and lease financing, on the long term basis it is extended to mortgage, equity financing. International banking services are also available with these institutions for foreign exchange transactions, purchase and sale of currencies, purchase and sale of commodities, transfer of funds, export financing, letter of credits and letter of guarantees. There are some other services also which include safe deposit boxes, security safe keeping services, management of private investment portfolios and trustee functions.

The existing Islamic banks perform a number of functions. Some of these functions are normally performed by the commercial banks and some functions have been modified by Islamic banks because of the constraint that they have to operate in accordance with the Shari'ah. "Although there might be some difference in the performed functions amongst the Islamic bank, it would be difficult to provide a list of functions performed by each bank. The Muslim scholars have created out following important functions of Islamic banks.

i. Opening of accounts for individuals and companies and accepting cash deposits for safe custody and investment both in local and foreign currency.

ii. Giving credit and loans in conformity with Shari'ah.
iii. Purchase and sale of gold bullion.

iv. Purchase and sale of foreign exchange on the spot rate only.

v. Issue of guarantee.

vi. Providing short term financing against collateral in the form of commercial papers at agreed commercial yield without interest.

vii. Collecting and processing drafts, cheque, promissary notes, bills of lending etc. on commission.

viii. Purchase and sale of shares, certificate of investment financial papers and bonds without interest.

ix. Establishment and management of special funds for socially desirable purpose e.g. investment in trade, agriculture, industry or real estate.

x. Providing finance on the basis of mudarabah.

xi. Providing finance on the basis of Musharikah.

xii. Providing finance on the basis of decreasing participation.

xiii. Operating specified investment account.

xiv. Direct investment by the bank.
xv. Leasing of machines, equipments, apparatus and tools.

xvi. Sale and purchase of real estate.

xvii. Carrying out agency functions by appointing agents and working as agents.

xviii. Sale and purchase for others on a pre-agreed profit basis (Murabahah).

xx. To establish solidarity and security funds in order to cover deficit, in conformity with Islamic law of co-operation.

xxi. To provide technical, economic, financial, management and marketing consultancy services for the preparation of feasibilities studies of project.  

Some other functions of Islamic banks might include: financing and establishment of different kinds of projects on behalf of other companies, and on the basis of joint ventures to undertake the development, and promotion of investment in various sectors through the establishment of new projects or development

20 These functions of Islamic banks have been prepared by comparing the status of a number of banks. Since it is not based entirely on activities of any one bank, the name of banks are not cited; see, Ausaf Ahmad, Development and Problems of Islamic Banks, op. cit.
of existing projects, to mobilize financial resources from local and international money markets in accordance with Shari'ah. However, it is not necessary that each Islamic bank undertake all of the above functions. Working in divergent atmosphere, they may confine themselves to the function most appropriate to them. It must suffice to say, that in general Islamic banks undertake all banking services and all commercial and financial investment on the basis of techniques permissible by Islamic Shari'ah.  

The survey on Islamic banking by several scholars has brought out various dimensions, the problems and prospects. The experiments at such a primarily stage, however, can convince a modern economist to believe in the soundness of Islamic banking. One finding by Fahim Khan indicates that none of the Islamic banks has ever provided on interest-free consumption loan, and that the banks are exhibiting a marked preference for investing in "projects which give quick returns."  

21 Ibid., p.16.  
In their report prepared in 1981 under the chairmanship of the governor of the Saudi Monetary Agency, the Islamic Central Bank governors highlighted the following points:

1. The establishment of Islamic banks would reflect the sincere desire of the people of Islamic world to apply the Islamic Shari’ah in different walks of life.

2. The Islamic banks would help attract deposits and savings for directing them towards productive investments, beneficial to the people and economies of the Islamic countries.

3. Simultaneously, with control and regulation the central banks are required to provide support and assistance to the Islamic banks, so as to nurture their growth and development. It must be appreciated that Islamic banks will be at a considerable disadvantage in facing the competition with riba banks. It will be necessary to ensure that Islamic banks get the necessary financial assistance from the central banks.

4. The central banks of Islamic countries should also foster the development of financial instruments which are interest free, so as to enable the Islamic banks to meet statutory liquidity requirements as also to place excess liquidity to profitable use.  

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There is general consensus that banking is the most important sector of any financial system. In this regard, putting the emphasis on Islamic banking Mr. Muazzam Ali, who is adviser to the president of Pakistan on Islamic affairs and Vice-Chairman of the Dar al-Maal-al Islami (DMI) and of the International Association of Islamic Bank, says:

"Until the early part of the 20th century Islamic banking was more or less an abstract concept. Much of what was said and done in this field remained hypothetical. It was not possible for a very long time to initiate a programme of practical implementation of Islamic banking on a scale which could produce solution to economic problems confronting the contemporary world."

In December, 1970, when the second Islamic conference of Foreign Ministers was held in Karachi, Pakistan and Egypt jointly sponsored a proposal which called for a study for the establishment of an International Islamic bank of Trade and Development together with a Federation of Islamic Banks. Expert from 18 Islamic countries examined the proposal and prepared their report. It was recommended that the interest-based financial system should be replaced by a system of participation scheme linked with profit and loss sharing. It was decided that a Federation of Islamic

Banks and an International Islamic Bank should be established. The principle on which the proposed bank was to be established were:

1. to finance commercial transactions among Islamic countries,
2. to finance the development and investment institution as appropriate affiliates,
3. to undertake the necessary transfer, clearing, and settlement among the central institutions of the Islamic banks in Muslim countries as a beginning towards building up un-integrated Islamic economy,
4. to provide central institutions of Muslim countries in pursuing their objectives within the framework of Islamic directives,
5. to administer and utilize zakat funds,
6. to administer the surplus liquid money of these central institutions of the Muslim countries.  

As a general practice Islamic banks no longer deal with money or capital only but also with commodities, products and services; they are not only banks but traders too. It is also

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imaginable that a number of specialized investment companies will come into being offering their services to Islamic banks who could then dispense with their own specialized investment management. In other way, as Nienhaus thinks, these Islamic banks by and large, will become a kind of merchant banks instead of universal commercial banks. Therewith they would resume and continue as old banking tradition of medieval Islamic Near East that was broken not before the middle of the 19th century under the increasing influence of European ideas and power. The evolution of modern Islamic bank might result in financial institutions of a very similar character to those old "merchant-cum-banking enterprise."26

Islamic financial institutions have religious advisers or committees who give an opinion on the conformity of procedures with the Shari'ah. In practice there are constant arguments over the very tenets of Islamic banking and the translation of Shari'ah into modern financial practices. Finding acceptable outlet is a major challenge for Islamic institution. Not surprisingly, it is in the field of trade that Islamic banking has made most headway - the Arabian peninsula is historically a trading area and the Prophet was himself a trader.

Islamic banks are constantly trying to find way to diversify their activities without contravening the shari'ah. Dr. Ahmad al-Naggar, Secretary General of the International Association of Islamic Banks. He summarises the main philosophy behind the Islamic banking system and tries to show how it differs from commercial banks which may perhaps not be occupied by many economists. "On the ethical basis, he writes the Islamic banks are governed by the restraints of the divine system while the traditional banks are governed by none other than the logic of competitive market system. On the basis of aims and objective, the Islamic banks, with their dogmatic framework, are a part of a community working in harmony with the other part of the realization of the divine systems. Commercial banks, on the other hand, are an entirely linked to their community only for the realization of profit. In practice, the Islamic banks work in the employment of finances. Money to them is a means for the fulfilment of a function. Hence they use it in trading while the traditional banks work in buying and selling it. To them, money is a commodity in itself and not an intermediate means to procure a commodity. These differences between the Islamic banks and non-Islamic banks are bound to lead to differences in the mechanism of work, work procedures, means and methods even in the quality, specification, traits and ways of thinking of employees.27

Conventional banks are becoming increasingly interested in relationship with Islamic institution, and a number have set up units which specialise in providing investment and correspondent banking services. Islamic bankers have yet to show that they can develop from this success at the gross-roots level into breaking the mould of traditional banking on an international scale. A positive step might be the creation of an international Islamic banking society to enable Islamic financial institution to exchange information and get over their suspicions of one another. "It would be a pity if feuds are allowed to weaken the Islamic banking movement, for the world debt crisis is forcing a reevaluation of the western financial system and Islamic banking might be able to offer at least a partial alternative." In west, Islamic banking has been looked upon rather with appreciation, some recent seminars have also been held, for example, in London and Paris.

Professor Erik Trolle Schultz, who is the general manager of the Islamic Bank International of Denmark, says that traditional banking system is more than 100 years old and is well-documented. Islamic banking is only a decade old. Although there is a consensus as to what are correct procedure, these are in continuous flux of change. Risk sharing and PLS system form the basis of Islamic banking - in effect it rodes the rock of
riba banking that is the dominant role of the bank and its intermediation. This is what banking in the west fear most.29

Another western, Wrolers-Scharf says:

"Islamic banking is one of the most original and dynamic concepts to emerge from the south. Islamic bank could play a radical new role in the development of non-oil developing countries through providing risk capital, joint venture capital and trade financing on shari'ah principle.30

The current, major obstacles in the growth of Islamic banking as it is generally felt are, the short term liquidity management and the inability of Islamic banks to convert this to medium and long-term investment. And that, Islamic banks and institutions have hardly developed any new instruments of investment and financing. Further, the cooperation with the central banks in Islamic countries and other countries is still non-existent. Almost all the Islamic banks are working under

30 Actually these views were expressed in the above mentioned seminars where Muslim and western bankers, intellectuals and academics exchanged views on the future cooperation of Islamic banking. The seminar, under the aegis of the Islamic Development Bank and Franco-Arab Chamber of Commerce, attracted top French bankers and business men, see the detail in Arabia (London) June 1984, p.46.
special decrees and are thus obliged to operate under these rules and regulations. The dialogue between Islamic banks and central banks has not developed. Dr. Yones al Tamimi, who is a group co-ordinator of Al-Baraka Group, says in this regard:

"Our survival depends on co-operation.... Islamic banks have quite a few advantages over the traditional banks — for example, Islamic banks by definition are a combination of commercial, merchant and development banks. This is hardly to be seen in traditional banking. Islamic banks also have structural difficulties and differences".31

The main thrust of Islamic Banks are the specific aim of combining high investment returns with social responsibility. But how to achieve this objective? Islamic banking is also seen as an international banks, which means — it will cooperate with the local Islamic banks by offering international banking services — which of course includes interest-free loans, international investment, technology transfer, trade, commodity and currency trade, besides this — development funding — all based on Shari'ah principle. But how to utilize its collective investment talents and professional expertise to strive for goals. Uptil now, Islamic banks have been viewed sceptically in western banking circles.

But as the movement gains momentum and respectability, many top western bankers and financial institutions are reappraising their attitude and are now looking to work with Islamic banks. There is advantage of this contract in the Middle East, growing confidence and expertise, and the resources of its parent company. About the European banking, it is said, is still very conservative and perhaps it will also be watching the new banks performance closely. Although the main problems are those of interest and deposits, European banking also concern itself perhaps too rigorously with style and presentation. However, it will be interesting to see how long major banking centres — such as London, Zurich and Paris, which are extremely populous with Middle Eastern bankers, whether Islamic or not — resist the overtures of Islamic banks.

Now, most of the Islamic bankers have found in their experiences that competition with conventional bank will be healthy attitude, but cooperation between Islamic banks should be strengthened. One of the coordinator of Al-Barakah group in Jeddah

32 For example Denmark has become the first European country to grant a full banking licence to an Islamic bank. The Islamic Bank International of Denmark (IBID), a subsidiary of the luxemburg based Islamic banking system International Holding, was its official status from the Danish Central Bank in 1982; see a full report in Arabia March 1983, p.60.
Mr. Younes al Tamimi says that cooperation is a necessary condition. This might help banks deal with the problems of liquidity shortages and surplus, for which adequate instruments have not yet been developed.

Islamic bank is still weak, Tamimi views 'specially when direct trade relations between Islamic countries are limited, and are directed to and conducted by international financial centres', Tamimi also criticises the lack of attention to training.  

Investment and merchant banks could act as financial advisers, defining projects, analysing costs and benefits and advising on economic life of projects. In return they would receive findings and management fees. It is suggested that western banking system could cooperate with Islamic banks.

"One of the most important ways in which western and Islamic institutions could work together is in devising new banking instruments that conform with Islamic principles. Trading in

33 Some Islamic bankers have called for the creation of a Universal Islamic Bank, which would seek collective solution to some of the problems they face. For example, in a conference held in London in November 1985, some bankers had argued that there should be an Islamic financial cooperation rather than a bank, perhaps under the auspices of Islamic Development Bank. See Development And Problems of Islamic Banks, op. cit.
foreign exchange is at present restricted to spot transaction, with a prohibition or forward deals and swaps. Western banks could eventually reap the benefits of the expected huge foreign exchange activity. The careful analysis of the literature on Islamic banking reveals that strong opinion exists over the invention of new instruments and methods to incorporate the spirit of Mudarabah and Shirakah transaction. However, it is accepted that "Muslim Economists have been trying to present the interest-free economy in theoretical models but unless some successful working example is presented to both the businessmen and economists their logic, no matter how convincing, will remain doubtful.  

34 This problem was discussed at a conference on Islamic Banking and Finance held in London (31 October - 1 November) 1985, organised by the Business Research International, 57/61, Martime Street, London, WIN TTD). Among the speakers were some top Islamic bankers who talked of need for dressing riba banking in Islamic banking terminology so that the existing level of cooperation with western banks can be continued without much political fallout. There were also some dedicated and seasoned Islamic bankers who outlined the problems they were facing and the adoptions they were proposing to enhance the operational range of Islamic banking environment; see a full report by M. Iqbal 'Banking on Islam' Afkar Inquiry (London) vol.2, No.12, December 1985; pp. 32-37.

Financial Structure of Islamic Banks:

In the Islamic system, the banking finance has some of its own methods. For a long term finance loan may be obtained from the bank to finance a particular investment project or for an over-all investment in the company. Since the bank is not entitled to a fixed return, its return from the loan will be calculated as a share of the company's profit based on the relationship between the funds supplied, the loan, and other funds in the company. If the bank's loan is made to finance a particular project in the company, the bank's profit share is calculated on the basis of the profits achieved from this project. The bank's profit share in such a case is not necessarily tied up with profits (or losses) from types of investment projects in the company. In the case of losses, the company's reserves are used to absorb them first, and further extra losses are deducted from the amount of loan, the principal, and in proportion to other funds supplied. Bank loans have a fixed period at the end of which the principal, or what remains after deducting losses, is paid back to the bank.

Islamic banks differ greatly with usual commercial banks in their use of funds. They provide finance on the basis of financial transaction permitted by the Shari'ah. These financial practice include: *mudarabah, musharakah, Deferred sale, murabahah,*
ijarah, lease, purchasing financing and Qard Hasan. These financial operations are explained below.

*Mudarabah* is a business contract between two parties which own dis-similar resources. One party provides the capital and the other skill and dexterity of trade.

The capital provider shall not involve in actual and day to day operation of business but shall be free to stipulate such conditions as to ensure the best use of this funds. After the expiry of period, which may be in fact the termination of the project or till the return are obtained from the trade, the capital provider shall get back his principal amount along with a share of profit, the ratio of which being determined at the time of agreement, before the beginning of project. In the event of loans, which makes the capital provider eligible for a share in profit. The rational is that capital provider is exposing his capital to business risk and that makes entitled to a share in profit. This is in essence the principle of *Mudarabah*.

As it is said, the *Mudarabah* agreement is based on justice as it grants an equal position to both parties of the agreement. This is at least on three counts: firstly, both parties have an equal position in the determination of ratio in which profit shall be shared between them. Secondly, in case of loss, if the
provider of capital suffers reduction of his principal amount, the provider of labour is deprived of any reward of his labour, time and efforts. Thirdly, both the parties are treated equally if there is any violation of agreement. If the provider of labours violates any of the stipulated condition, does not work hard or is instrumental in causing loss in business due to negligence and the poor management etc; he will have to bear the responsibility for the safe return of whole amount in question. If, on the other hand, the provider of capital violates any of the stipulated conditions (e.g. he withdraws his money capital before the stipulated time as any other such thing) he will have to pay the investor a reward equivalent to what he would have earned in similar work. 36 In general, Muslim thinkers' view on mudarabah is that of a main component of profit-sharing system. In a recent conference, a co-ordinator of banking affairs of the Al-Baraka Group, Mr. Younes al-Tamimi said that mudarabah accounts for around 80 per cent of Islamic banks assets. According to him:

"the leading instrument of Islamic banking should be mudarabah, in which the banks provide capital to a project manager and shares in profits. In the case of loss, the bank bears the whole loss, while the manager losses only his efforts."

36 Ausaf Ahmad, Development and Problems of Islamic Banks, op. cit., Ch. 11.

Tamimi also referred to a third instrument, musharikah which he divided into two types. The first, equity financing should, in his view, have become one of the principal modes of Islamic banking, yet it accounts for less than five per cent of assets. Second, the provision of working capital is gaining ground and now accounts for about 10 per cent of asset. The use of lease is also increasing and absorbs five per cent of assets.⁵⁸

Musharakah:

Islamic banks also provide project finance on the basis of musharakah. One or two or more entrepreneurs approach the bank for finance and the bank along with other partners provides complete finance. All the partners, including the bank, have the right to participate in the management of project. Any one or all of them also have the right to abandon this right. The profit shall be distributed according to agreed ratios which need not be the same as capital proposition but loss shall have to be shared exactly in the same proportion in which different partners have provided finance. Murabaha or (Bai Muajjal).

'This is a procedure where a partner approaches the banks that certain items (be it commodity or otherwise) be bought for

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⁵⁸ Ibid., p.23.
him and he agrees to pay the bank. Later on, upon the fulfilment of the actual buying, an agreed percentage of profit. In order to avoid any riba element one of the banks provides that the agreement of the banks and the actual execution of buying do not contribute any legal obligation (according to Shari'ah) on the partner to buy. Hence the risk is still that of banks. Until the partner fulfils his original promise of 'rebuying' the commodity, the risk remains with the bank, which justifies the profit. There is, however, also the practice of financing a mark-up with the binding on buyer to buy the goods. This type of operation is most commonly being used in foreign trade and short-term transactions for purchasing raw materials etc for the industrial establishments. 39 This method has the advantage of simplicity; the provider of finance, which can be the bank, purchases assets, adds a mark-up to the purchase price and sells it to the entrepreneur. Although the method is in conformity with the Shari'ah, it is received with great caution by Islamic bodies. It is feared that the method might open the backdoor for dealing on a fixed interest basis; the mark-up which is determined by the bank might be a mere replacement for interest.

While banks are authorized to change a mark-up within the limits, they cannot charge mark-up on mark-up in the events of delays in repayment; mark-up in view as interest. 40

While liabilities of an Islamic bank are composed of either current account deposits, on which no profit is distributed by the bank, three broad categories of non-interest modes of financing have been allowed to guide bank's asset operation. First, there is financing by lending, that is, loans, not carrying any interest, on which the banks may recover a service charge, and also Qard Hasan (interest-free loans on compassionate grounds). Second, there is trade related financing, including mark-up, purchase of trade bills, lending on a buy-back basis, leasing, hire purchase, and financing for development of property on the basis of a development charge. Third, lending can take place under investment financing including musharakah (partnership) equity participation and purchase of shares, participation term certificate, mudarabah certificates and rent sharing.

The following primary financing instruments are now in use.

**Participation Term Certificate (PTCs)**

This instrument could be used to finance long term investment. These certificates are transferable corporate instruments with a maximum maturity of ten years and allow for temporary partnership or *musharakah*. In this way PTCs may be viewed as financial arrangement between a financial institution and the business entity on the basis of profit and loss sharing over the maturity period of the certificate. Funds under a typical PTC arrangement may be obtained either from a single financial institution, including the specialized credit institution. The business entity is expected to pay to the financial institution or bank, provisionally on a semiannual basis, an agreed percentage of anticipated profits with a provision for final adjustment at the end of the financial year. In the event of loss, the financial institution shall refund the share of profit that it had received on a provisional basis. However, the loss sustained by an entity in any accounting year will first be adjusted against the reserves of the company, and remaining loss, if any, shall be covered in the subsequent year by the two parties in agreed proportions. The financial institution is also permitted to convert up to 20 per cent of the principal amount of the PTCs into ordinary shares at par value,
so long as funds against PTCs are outstanding lending is secured by a legal mortgage on the fixed assets of the company. 41

**Leasing:**

The bank, in this case, purchases a physical capital/equipment and rents it to its client. This procedure can be converted into a reduced renting procedure whereby the customer, by paying every year an instalment of the value of equipment/physical capital, reduces the rent, till the whole equipment is owned by him and the rent is eliminated. To the lessor, leasing has the advantage of being less risky than other types of finance in that it provides him with a reasonable profit margin without having to follow the financial records of the lessee enterprise. The cost of insurance of leased assets has to be borne by the lessor in order to make the method acceptable to Islamic law. 42

Another method of banking finance is 'Investment and auctioning'. In this method, banks and financial institutions

41 Iqbal, Z., and A. Mirakhor, *Islamic Banking*, (Washington: International Monetary Fund, 1987); Occasional paper No.49.

from a consortium and formulate investment project which are auctioned and 'sold' to interested companies at the highest bidding price. In this project, the banks undertake the process of finance by guaranteeing the provision of the required plants and machinery at agreed specification and in accordance with a time schedule. The buyer, the interested investor who may be a company, may be required to finance the working capital; labour expertise and entrepreneurship are the investor's responsibility. This method is under criticism on the ground of legitimacy, and that the fixing of a minimum auction price by the bank's consortium, which may include a profit margin, implies the existence of interest which violates the Islamic principles. 43

**Hire Purchase:**

Under this method, banks and other financial institutions can provide funding for the purchase of fixed asset. In addition to the repayment of the original cost price, banks receive a share in the rental value of equipment calculated in proportion to the asset's outstanding share in the company's capital employed;

payments to the banks are made in instalment for a period mutually agreed upon at the end of which the title to the equipment is fully transferred to the hiring company.

Business Practices of Islamic Banks:

Keeping in line with the standard practice, business practice of Islamic banks may be classified into two main categories.

(i) Sources of Funds of Islamic Banks
(ii) Uses of Funds by Islamic Banks

(i) **Sources of Funds of Islamic Banks**:

Like commercial banks, Islamic banks also obtain funds by operating certain type of deposits accounts which are explained below:

(a) **Current Account**:

The Islamic banks usually accept deposits from individuals and companies for safe custody and for the convenience of customers. The bank requests the permission of customers to use their money so long as it remains with the banks at the bank's own capital. If any profits are generated by the use of money in the current account, they belong completely to the bank. The customers
are given the right of withdrawal for the part of or whole of their amount at any time without notice and the bank guarantees to honour all such requests. The banks provide cheque books and services usually connected with the current account. Thus, current account may be offered in the conventional banking owners of funds to do so.

(b) **Saving Accounts:**

Although all Islamic banks operate saving accounts, there are significant differences in their implementation and operation. In this respect, the theoretical formulation, which defines the saving deposits in the following way.

The bank accepts deposits from its customers looking for safe custody of their funds and a degree of convenience in their use together with the possibility of some profits in the form of saving accounts on the principle of Al-Wadiah. The Bank requests permission to use these funds so long as these funds remain with the bank. They can withdraw the balance at any time they so desire, and the Bank guarantee the refund of such balances. All the profits generated by the bank from the use of such funds belong:

44 In technical language of Islamic Jurisprudence, these deposits are Amanah and the banks do not have authority to use them unless they obtain the specific permission of the banking tradition. Customers are supposed to give their explicit approval to the bank to use their funds, without any return. The bank however, should guarantee payment of these funds on demand.
to the portion of the Bank. However, in contrast with current accounts the bank may at its absolute discretion reward the customers by returning a portion of the profits generated from the use of their funds from time to time. 45

It may be pointed out here that any return to money capital is Islamically justified only if it participates in the risk. If the saving depositors are guaranteed that amounts will be refunded in full, if and when they want them, they are not participation in the risks. Then how can a reward to saving depositors are not Islamically entitled to any return. If the bank refunds some portion of its profits generated from the use of saving deposits, it is absolutely at the discretion of the bank and it must be treated as gift. 46

**Saving Accounts:**

No return is expected in these accounts and customers may draw their funds any time without notice. The bank guarantees

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45 I have quoted this from Ausaf Ahmad's summary of Bank Islam Malaysia, *Berhad: Organization and Operation*, pp. 11-12.

46 Contrast to this, the Bahrain Islamic Bank calls it saving account with authorization to invest. The depositors put their money and provide the bank with an authorization to invest it. The depositors are allowed the right of withdrawal but profits are calculated on the minimum balance maintained for a month. See "Bahrain Islamic Bank, Goals and Function" (Arabia). The Jordan Islamic Bank has taken yet another way. It includes the saving accounts into the joint investment account. See *Jordan Islamic Bank: Annual Report, 1981*, p. 25; Quoted from Ausaf Ahmad, *op. cit.*
the return of fund from these accounts on demand. However, since the bank can only keep part of these funds in cash to meet demands and use the rest in other activities, it may also render this service without charge.

Investment Accounts:

The investment account in the Islamic banks is the counterpart of fixed deposits. These accounts are meant for those customers who are looking for investment opportunities. Usually, the period of account is specific by the banks. Most Islamic banks accept funds for a specific period ranging from one month to five years. Generally speaking, the depositors do not have right of withdrawal in this type of account. However, withdrawal may be allowed in exceptional circumstances in which case the depositors will have to forego their shares of profit for the withdrawal amount.

In some cases, investment accounts are accepted for the specified period only, which is decided by the mutual consent of the bank and depositors. The investment accounts are operated on the basis of mudarabah. In this case, the bank acts as the 'entrepreneur' mudarabah and the customer as the 'provider of
capital' (Rabbu al-mal). Both parties agree, interalia, on the proportion, in which profits are to be shared.47

These accounts reflect a departure from the conventional banking system. Customers will be encouraged to deposit their funds in investment accounts on the basis of a pre-determined profit-sharing ratio for a specified minimum period. The profit-sharing ratio is usually pre-determined according to the nature of deposits accounts, whether the distribution of profit is considered on a short or long-term basis. The long-term deposit accounts usually have higher profit-sharing ratio because they are more stable and the banks may use the funds for long-term investment. Although depositors (of short and long term) can demand their funds whenever they like, to share in the profits (or losses), they

47 The Bahrain Islamic Bank and Kuwait Finance House have worked out yet another system of investment accounts. The investments deposits are classified into two categories: (i) Limited period deposit (ii) Unlimited period deposit. The limited period investment deposits are accepted for a specified period which may be determined by the mutual consent of depositor and the bank. The contract terminates at the expiry of the period; but profits are distributed and accounted at the end of the financial year.

In the case of unlimited period investment deposits, the period is not specified. These deposits are automatically renewable unless 3 months notice is given. The profits are calculated and distributed at the end of the financial year. No withdrawal or increase are permitted in this kind of account but customers are allowed to open more than one account. See Development and Problems of Islamic Banks, op. cit.
must keep their money in the bank at least for the contracted period. So for example, no profit-share would be given for a six months deposit accounts if the depositors withdraw the funds after only five months. This feature exposes the bank to even higher liquidity risk if losses are expected, and to alleviate this risk the bank may require that notices be given before withdrawals are allowed.

(d) Special Investment Accounts:

Islamic banks also accept special deposits for investment either from individuals or from companies corporation, or even from governments. The purpose, terms, condition and mode of investments of these deposits may be decided by mutual consents. Investment in Islam is conducted in such a way as if reflects courage, tolerance and mercy, if it had to represent sincerely the humanistic views of Islam. That, however, should not violate the strict and serious principles of economy, that money should be invested in productive sectors and that investment should not run contrary to the well-being of the community. Money in the interest system remains uneffected and indifferent as to how it is used as long as the investor is certain that his money and profit will be paid back. Islamic investment that is based on profit, sharing does in fact, result in reducing the final cost.
of production that is because the cost, here, is free of interest. Goods produced under the Islamic system would be cheaper for the consumer than the same goods being produced under the interest system. The producer on the other hand, is not disadvantaged because he, in case of exporting, will find better chances for profit since his prices will be lower than his competitors. Thus the money supplier, the consumer, and the producers are profiting in an Islamic non-interest economic system. 48

Expansion of Islamic Banks:

Islamic banks are not confined to any specific geographical region. They are located in the Arab World as well as in the non-Arab World. These are Islamic banks in the capital surplus economies as well as labour-surplus economies. They are spread in poor as well as in rich countries. Thus, Islamic banks are well-diversified despite their small number. 49

There are eight Islamic banking Institutions which are located in non-Muslim countries. These countries are Switzerland,
Luxembourg, Denmark, Philippines, England, South Africa and Bahamas. All these countries have one Islamic banking Institution except England which has two. Arab world has 17 Islamic banks, other banks are located in the non-Arab Muslim countries. With the Arab world Sudan has the maximum number of Islamic banks; (4) while Bahrain and Egypt each have three Islamic Institutions. Thus, Islamic banks are spread over muslim and non-muslim countries. Two countries, Pakistan and Iran have not been included in this category as they have Islamised their economies and their banking system is operating fully under the Islamic principles. On the other hand, in Saudi Arabia, though the banking structure is still based on interest, but Al-Rajhi Banking and Investment Corporation is now converting from a money changer into a full service Islamic banks. It has the largest number of branches of any bank in the Kingdom, and

now considered as the biggest challenge to be faced by the Saudia banking system.\textsuperscript{51}

Thus, this brief account holds altogether that recent spread of Islamic banks is not merely a passing phenomenon. There is constant emphasis that the theory of Islamic banking should be understood within the general framework of money, finance and development.

\textsuperscript{51} See, MEES (London), 20 June 1988. The Islamic financial institutions which were first started in the Middle East, quickly tried to develop activities outside the Muslim world. Dar Al Mal Islami tried to obtain a licence to open in London and thus gain a certain degree of responsibility among the western financial markets. However, the application was turned down by the Central Bank of England. The governor of the Central Bank was quoted by Arab Banking and Finance in November 1984 as saying: Although Islamic banking tenets provided a perfectly acceptable mode of investments, they did not find within long-establishment, well understood definition of what constitutes banking in U.K. The article went on saying that 'the point he made was that western banking regulations insisted on capital based security for depositors. Moreover, deposits were not regarded as liabilities on an Islamic bank's balance-sheet. The depositors had to take part in all the risks and profits and losses of institutions. The governor of the Central Bank of England did not mention the question which had been raised in the financial community about the management and goals of the Dar-Al-Mal-group.
On the theoretical level, Islamic banking is faced by many problems that work together to hinder its realisation. Crucial among these problems is the fact that the implementation of Philosophy is far beyond the capacity of any one bank alone. There is a need for a comprehensive interaction of many Islamic institutions in fully fledged Islamic environment. Even if the Islamic bank is functioning on the national level, in a completely Islamic environment, its transactions with non-Islamic banks abroad would cause many headaches — for of course the Islamic economy cannot be a simple close one. To achieve this idea the Islamisation of the Islamic banks should go hand in hand with an over all Islamisation process. This is the only guarantee for the efficiency and viability of Islamic banking models.