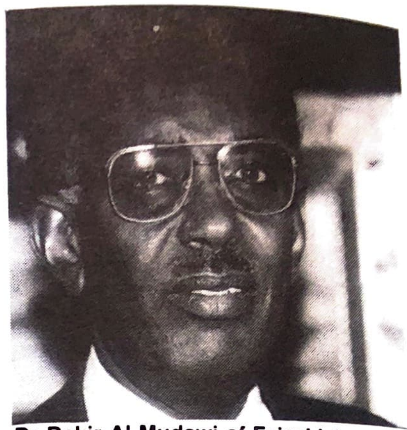
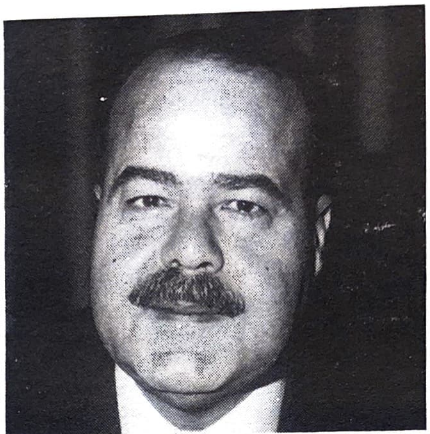
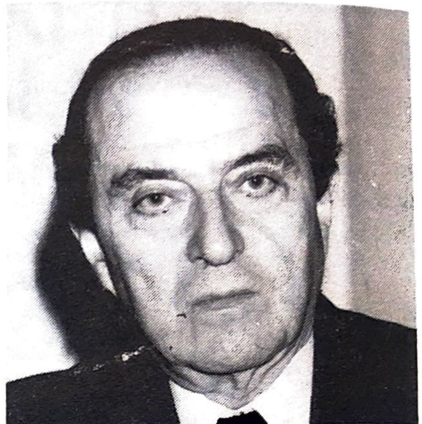
INSIGHT

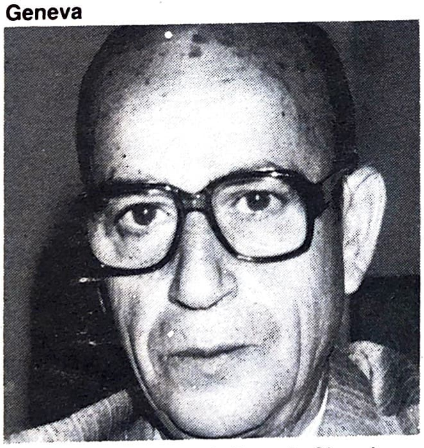

Waziri Ebrahim of GNPP, Nigeria


Dr Bakir Al Mudawi of Faisal Islamic Bank, Sudan


Dr Sami El Darwish, Chairman DMI, Geneva


Dr Mahmood El Helw, Chairman Faisal Islamic Bank, Egypt


Michel Habib-Delonche, Arab-French Chambre of Commerce


Baccar Touzani, Arab-French Chambre of Commerce


Haider Karembe, Africa Arabian Islamic Bank


Next on the band wagon?

Banking with Islam

Some of the modern-day Islamic banks are now nearly a decade old. In this time they have gone through periods of very high profitability and others of near bankruptcy. **M Iqbal Asaria** examines the theory and practice of Islamic banking and shows how the debate is slowly turning to an examination of the Islamic economic system as a whole

DISCUSSION of the nature of Islamic banking reflects closely the progress of the arguments on the nature of Muslim society as a whole. Thus, as little as two decades ago, a prime topic for discourse was the distinction between usury and interest. Much effort was devoted to showing how 'modern' rates of interest were fair and consequently not usurious. Interest-based banking was thus seen as perfectly allowable from the point of view of the Sha'riah. To be fair, Muslim governments were then busy removing the application of Islamic laws from the few areas like marriage, divorce and inheritance, where secularisation had not yet encroached. In the circumstances, the debate on usury was in a very real sense a considerable advance on this dismal scene.

Since then, we have come a long way. Not only have most Muslim jurists and economists come to the view that any interest is *riba*, many are actively trying to elaborate the concept of *riba* in its widest sense. People who talk of usurious and non-usurious rates of interest are few and far between and are not taken seriously by the majority of the Muslim economists and jurists.

If one looks at the development of Christianity, it is possible to identify the basis of present day capitalism in the successful wedge driven between usurious and non-usurious rates of interest. Thus the conscience of Christian morality was assuaged by banning usurious rates of interest – a stipulation which still persists in the banking statutes of many European countries. It would appear that the 70s provided a watershed for this critical debate amongst Muslim jurists and economists. Against a backdrop of resurgent Islam, the hurdle of banishing all forms of interest by categorically branding it as *riba* was successfully overcome. However, as Muhammad Akram Khan points out in his article, *Time is Money, or is it?* (see: Ideas section of this issue of *Inquiry*), much time and a great deal of rigorous effort will be needed to work out the concept of interest from the totality of Muslim economic thinking. Indeed, he warns that if care is not taken, the near-consensus reached on equating interest with *riba* may be sabotaged by notions related to the idea of the 'Time Value of Money' slipping in through the back door. Much hope for this critical breakthrough thus rests on the continuation of the quest for a reassertion of Islamic values throughout the Muslim world.

Today, in view of the global revival and resurgence of Islam, it is only to be expected that the theory of Islamic banking will increasingly become a part of the debate on the Islamic economy as a whole. Already the latest literature on the subject is showing distinct signs of this trend. Studies like Umar Chapra's *Towards a Just Monetary Order* (The Islamic Foundation, Leicester 1985) and Waqar Masood Khan's *Towards an Interest-Free Islamic Economic System* (The Islamic Foundation, Leicester 1985) concentrate more on the macroeconomic impact of an interest-free economic order rather than on the techniques and operations of individual Islamic banks. These and other studies have begun to question the institution of banking *per se*, and suggest modifications which would alter the nature of financial intermediation traditionally performed by banks. It is only a matter of time before institutions radically different from present day banks emerge to facilitate the kind of financial intermediation required in an Islamic economy. What then are the salient features of banks which render them unsuited to the needs of the Islamic economy?

Riba-banking, as it has developed in the West and then transported across the globe, is an institution whereby a large number of small depositors' funds are chanelled to a small number of big investors/industrialists. This intermediation is done by way of paying a fixed interest to the providers of funds and charging a higher – but still fixed – interest to the users of funds. The difference is the margin, or profit, of the bank. Three features of this structure are important to grasp. Firstly, entrenched interests find it almost effortless to perpetuate the status quo, since the banking system will provide them with all the capital they need at a fixed cost against the security of their capital base. Newer groups seeking to enter this fraternity would be handicapped by the lack of collateral security which they can offer. They will thus be at the mercy of the entrenched groups to provide the same. Secondly, the institution of interest allows this financial intermediation to be carried out without the bank getting involved in the business affairs of the capitalist. Only in the event of default does the bank take any interest in the management of the business. Finally, the granting of finance by the bank is not necessarily tide to any underlying real transaction. For all the bank is concerned, the money may be used to gamble or for spurious consumption. This last has important implications for consumer behaviour in a society.

Muslim jurists, on the other hand, have outlined instruments of financial intermediation which run counter to these fundamental banking practices. For instance, it would appear that the order of preference amongst the commonly available modes of financing is as follows: *mudarabah*, *musharaka*, *ijara*, and *murabaha*. Thus, according to the most widely accepted ideas about Islamic banking, the ideal bank would have a preponderance of *mudarabah* and *musharaka* contracts and only a sprinkling of *murabaha* contracts.

Mudarabah is an agreement between two or more persons whereby one or more of them provide finance, while the others provide entrepreneurship and management to carry on any business venture, whether trade, industry or service, with the objective of earning profits. The profit is shared by them in an agreed proportion. *The loss is borne only by the financiers in proportion to their share in total capital.*

Shirkah or *musharikah* as it is sometimes known, is a partnership between two or more persons whereby, unlike *mudarabah*, all of them have a share in finance as well as entrepreneurship and management, though not necessarily equally. This is akin to equity participation and both profits and losses are shared according to agreed proportions.

Ijara or *Bay al-Mu'ajjal* is sale against deferred payment, either in lump sum or in installments. This instrument yields similar facilities to leasing and hire-purchase contracts, with important qualifications which will be elaborated below.

Murabaha is now used to refer to a sale agreement whereby the seller purchases the goods desired by the buyer and sells them at an agreed marked-up price, the payment being settled within an agreed time-frame, either in installments or lump sum.

There are many other financial instruments, particularly in relation to agricultural transactions, which Islamic banks can utilise, but the above four will suffice for the purpose of highlighting the points at issues.

It is clear from the very definitions of the four operations that *mudarabah* and *shirkah* will involve the sharing of risk between the providers and users of capital. *Ijara* and *murabaha*, although not totally risk-free, are much more readily acceptable to people used to operated on *riba*-banking principles.

Because of the nature of the risk taken, the providers of capital or the manager of capital – the banks – cannot afford to take a back seat in *murabaha* and *musharika* contracts. They have to become more actively engaged in the management of the business, particularly as regard monitoring the progress of the venture. This is especially so in a *mudarabah* where any loss is exclusively borne by the providers of capital. Thereby the whole nature of the client–bank relationship is transformed.

Even in cases like *murabaha and ijara*, the bank can provide finance only if there is an underlying *real* transaction. Thus all financing and spurious consumption is excluded by definition.

The nature of the risk involved and the need for underlying real transactions makes the operations of an Islamic 'bank' qualitatively different from those of a *riba*-bank. And the involvement of banks in the monitoring of business profitability is a concept alien to capitalist ethics. It is thus that, as the Islamic banking movement progresses, more and more Muslim economists are coming to the conclusion that a novel institution will have to evolve to take care of the needs for financial intermediation in an Islamic society.

All are now agreed that Islamic banking cannot operate in a vacuum. The operating environment has a critical bearing on the proper functioning of an Islamic bank. Many more Muslim economists have developed the ideas first mooted by Sayyid Nawab Haider Naqvi in his study, *On Replacing the Institution of Interest in a Dynamic Islamic Economy* (Pakistan Institute of Development Economics, Islambad, 1981) and subsequently elaborated with his colleagues in *Principles of Islamic Economic Reform* (Pakistan Institute of Development Economics, Islamabad, 1984). In particular, the studies of Dr Umar Chapra and Waqar Masood Khan, noted above, offer differing viewpoints within the same operational framework.

With the introduction of 'total' interest-free banking in Pakistan and the root and branch Islamisation of the economy in Iran, these theoretical contributions will find a ready ground for experimentation and implementation. Pakistan is bedevilled by its foreign aid related economy and this will continue to cast a shadow on any attempt to usher in a comprehesive Islamic economic programme, as post-Numeiri Sudan is already finding to its cost. Iran is more fortunate. Not only does it not have any debt to worry about, the country has also gone through a momentous Islamic revolution and hence its people are more receptive to ideas of thorough-going change in the direction of conformity with Islamic principles.

Whilst it is too early to predict the outcome, given the favourable operating conditions, the Islamisation of the economy in Iran and the development of banking in such a context, is likely to change the shape of Islamic banking in the next decade. The beleaguered Islamic banks hemmed in by secular

Islamic Banks: Profits, Deposits and Dividends

Financial Institution	Date of Establ./ Opening	Year	Exchange Rate NC/US$	Capital		Reserves	Deposits		Total Assets	Profits Depos. Share		Dividend (%)	Depositors' Remuneration (%)
				author.	paid-up		unremunerated	remunerated		incl.	excl.		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Dubai Islamic Bank, Dubai	III/1975	1977	3.898	12.8	7.0	0.2	9.4	8.1	25.6	1.8*	1.2 ?	9.35	5.0-8.8
	X/1975	1978	3.838	12.8	12.4	3.2	11.2	19.3	47.2	2.2	1.2 ?	9.00	5.0-8.5
		1979	3.766	13.3	13.3	1.6	11.0	26.9	63.7	1.6	0.0	-	4.0-7.0
		1980	3.671	13.6	13.6	1.9	17.2	37.1	75.8	3.0	1.1	7.00	4.0-6.0
		1981	3.671	13.6	13.6	1.9	27.1	64.4	112.8	4.4	1.3	8.00	5.0-7.0
		1982	3.671	13.6	13.6	2.0	31.7	81.2	138.5	6.7	1.6	10.00	6.0-9.0
		1983	3.671	13.6	13.6	2.2	189.4		214.0	9.8	2.0	12.00	5.0-9.0
		1984	3.671	13.6	13.6	2.4	282.3		311.1	13.1	1.8		
Faisal Islamic Bank (Sudan), Khartoum	VIII/1977	1979	0.500	20.0	7.2	0.7	38.1	5.4	62.3	2.1	1.8	15.00	14.7
	V/1978	1980	0.500	20.0	8.9	1.1	82.9	16.1	134.7	5.2	3.3	20.00	16.0
		1981	0.901	55.5	11.3	1.4	69.1	44.5	153.6	11.4	6.5	25.00	15.90/14.80[a]
		1982	1.300	38.5	14.8	6.3	104.6	51.1	213.8	16.3	15.0	25.00	15.54/14.50[a]
		1983	1.300	76.9	44.3	57.7	136.7	61.0	339.4	18.3	11.3	18.00	10.00
		24.9.1984	1.300	76.9	44.9	57.4	160.5	51.9	344.1	3.8	0.9	12.00	5.00
Kuwait Finance House, Safat	III/1977	1978	0.272	36.8	9.0	0.4	38.8	38.5	95.2	1.9	1.4	10.00	6.00-9.00
	VIII/1978	1979	0.273	36.6	9.0	2.9	59.1	183.3	275.6	12.7	3.7	10.00	6.12-9.12
		1980	0.271	36.9	9.1	10.0	107.7	440.1	620.9	35.7	9.0	11.25	6.75-10.12
		1981	0.281	35.5	34.0	30.3	196.1	849.1	1247.7	89.0	21.5	(15.00)[b]	9.00-13.50
		1982	0.289	52.0	51.8	76.1	242.6	1396.1	1969.9	159.0	45.0	10.00[c]	8.00-12.00
		1983	0.293	64.0	63.8	56.2	271.8	2109.8	2727.1	125.3	4.0	20.00	5.00-7.75
		1984	0.304	61.7	61.5	52.9	227.4	2111.4	2782.1	(93.7)[d]	-	-	-
Faisal Islamic Bank of Egypt, Cairo	X/1977	1979		40.0	11.8	-	23.6		38.7	1.4	1.0 ?	8.60[e]	10.70
	VII/1979	1980		40.0	19.6	0.1	140.1		197.2	9.8	4.0	16.49[e]	12.03
		1981		40.0	21.2	0.5	469.2		560.3	32.4	3.8	16.10[e]	12.51
		1982		40.0	29.9	4.1	792.6		996.5	69.4	5.7	16.20[e]	11.55/10.15[f]
		1983		100.0	37.9	4.7	1216.7		1504.2	97.2	8.8	20.00[e]	10.10
		1984		100.0	40.0	5.5	1531.1		1861.9	123.8	7.9	16.52[e]	9.00
Jordan Islamic Bank for Finance and Development, Amman	XI/1978	1980	0.308	13.0	6.5	0.0	15.7	22.1	50.1	?	0.0	-	4.1-7.4
	IX/1979	1981	0.339	11.8	8.7	0.2	36.0	38.7	93.2	?	0.9	5.0	3.4-6.1
		1982	0.351	11.4	11.4	0.6	46.7	55.4	129.1	4.4	2.5	8.0	3.6-6.5
		1983	0.371	10.8	10.8	1.0	55.9	102.0	192.7	4.5	1.6	8.0	2.7-4.9
		1984	0.405	9.9	9.9	1.5	55.1	149.6	252.1	7.0	2.2	9.0	2.85-5.13

institutions and their attendant regulations, will get a much needed boost and a source to resolve some of their problems which only 'lenders of last resort' can handle. However, before that happy outcome is to hand, the theory has to be translated into reality and it is to the review of the last decade's practice of Islamic banking that we turn next.

It is vital to remember at the outset that most Islamic banks have evolved in an environment where they have sought to provide the services currently offered by *riba*-banks. Even in the case of Iran and Pakistan, the existing *riba*-based banking sysem is being adapted to perform similar functions under Islamically valid financial instruments. There is thus the classic problem of what social scientists call "the transition phase". The evils of the present system are well catalogued, the merits of the Islamic system are also adequately understood. Increasingly, the requirements for a successful operation of an Islamic economic and banking system are also being delineated. The problem remains of how to get from the present system to the Islamic one. There are conceptual problems in delineating the priorities in such a manner that movement is made towards the final objective. Thus, for instance, the elimination of *riba* may not be the first step to be taken in all instances in order to arrive at an Islamic economic system. Other parameters of the economy may have to be redressed before the question of *riba* is tackled. Once these conceptual priorities have been sorted out, the enormous problem of manpower motivation and training to run the new system begins. Only then the evolution of the system towards the desired Islamic solution can begin.

Fortunately, the Muslim masses seem more than prepared to give Islamic banking a fair chance of success. Most of the Islamic banks which operate in secular environments do so because of irresistable popular pressure. This is borne out by the enthusiastic welcome according to the introduction of Islamic banking in Pakistan, Sudan and Iran and also by the large number of depositors of such banks as the Faisal Islamic Bank of Egypt (over one million) and the Faisal Islamic Bank of Sudan (over two hundred thousand). Indeed. Egypt, in the past, has actually shut down Islamic banks in order to decimate the popular pressure for general Islamic reform which they used to generate. This being the case. the problem of implementation of Islamic bankings and economics are intellectual and conceptual.

The idea of harnessing Islamic financial instruments to perform the functions currently undertaken by *riba*-banks has given rise to some anomalies, at least in the short term.

Financial Institution	Date of Establ./ Opening	Year	Exchange Rate NC/US$	Capital		Reserves	Deposits		Total Assets	Profits Depos. Share		Dividend (%)	Depositors' Remuneration (%)
				author.	paid-up		unremunerated	remunerated		incl.	excl.		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Bahrain Islamic Bank, Manama	III/1979 XI/1979	1980 1981 1982 1983 1984	0.376 0.376 0.376 0.376 0.376	61.2 61.2 61.2 61.2 61.2	15.3 15.3 15.3 15.3 15.3	0.1 0.2 0.9 1.1 1.4	5.2 6.2 8.0 9.8 11.3	7.5 18.2 46.0 60.8 66.7	30.2 46.3 76.2 95.1 104.7	1.5 1.8 4.8 5.8 7.3	1.1 1.0 3.0 2.3 2.3	6.00 6.25 12.00 12.00 12.00	5.25-9.50 ? ? (6.0) ? (6.0) ?
Islamic International Bank for Investment and Development, Cairo	XI/1980 X/1981	1982 1983 1984		12.0 12.0 12.0	6.5 8.6 11.4	0.2 0.9 1.6	70.4 307.6 502.9		89.4 412.3 680.6	1.5 2.4 8.5[g]	? ? ?	? ? ?	? ? ?
Islamic Investment House, Amman	IX/1981 I/1982	1982 1983 1984	0.351 0.371 0.405	11.4 10.8 9.9	7.7 10.2 9.4	0.2 0.5 0.6	2.1 6.8 16.3	-	12.4 23.1 32.0	? ? ?	0.8 ? 0.7 0.7	? 7.0 ? 8.5	- 5.4-8.1 5.55-8.325
Massraf Faysal Al-Islami of Bahrain, Manama	VII/1982 XII/1982	1983 1984		20.0 20.0	20.0 20.0	1.5 4.2	1.5 (110.3[h]) 4.6 (224.8[h])		23.1 30.8	? ?	0.9 2.6	- -	? ?
Al Baraka International Ltd., London	1983 1983	1983/4 1984/5	0.693 0.804	144.3 124.3	7.2 6.2	- -	18.3 22.0		25.6 28.8	? ?	0.3 0.0	- -	? ?
Islamic Bank International of Denmark, Copenhagen	XI/1982 IV/1983	1983 1984	9.875 11.26	4.0 3.5	4.0 3.5	1.0 1.0	- -	7.5 9.5	21.0 30.2	(0.2) 0.6	0.1 0.1	- -	7.2[i] 8.2[i]
Bank Islam Malaysia, Kuala Lumpur	III/1983 VII/1983	1983/4 1984/5	2.425	206.2	32.9	4.8	99.5		134.2	?	-0.5	-	4.96-6.95
Islamic Bank of Qatar, Doha	?/1983 VII/1983	1984	3.640	54.9	13.7	2.13	43.9	33.4	101.6	1.8	0.7	-	4.325-7.785
Islami Bank Bangladesh, Dhaka	III/1983 VIII/1983	1983 1984	25.00 26.00	20.0 19.2	2.7 2.8	0.0 0.2	4.0 9.4	1.7 15.1	8.6 32.1	0.0 1.0	-0.1 0.3	- 4.41	0.70-1.00 4.95-14.13
Al Baraka Investment Company, London	X/1983 II/1984	1984	0.865	9.3	51.4		-	190.3	242.4	(6.7[j])	-0.7[k]	-	?
Albaraka Islamic Investment Bank, Manama	II/1984 VI/1984	1984		200.0	50.0	0.5	-	70.2	125.1	?	4.1	7.00	6.60/8.48
Beit Ettamwil Saudi Tounsi, Tunis	VI/1983	1984		?	25.0	(0.4)	(0.3)	(16.8)	47.3	?	1.5	?	?

As Professor Volker Nienhaus of the University of Bochum (West Germany) states in a recent paper, "It is commonplace in the academic literature on Islamic economics that the interest-free Islamic financial system would be both more efficient and just than the present day interest-based system. The reason is that the conventional creditor debtor relations would be replaced in the Islamic system by partnership relations where entrepreneurs and banks share the profits and losses.

However, if one looks at the practice of operating Islamic financial institutions, one does not find much profit and loss sharing. By far the best part of the earnings of most of the Islamic banks originate from leasing, mark-up trade and similar forms of financing which – in contract to profit and loss sharing – carry factually no risk for the bank and come economically very close to conventional interest-loans. Thus these is a marked discrepancy between the theory or ideals of Islamic banking, centred on profit and loss sharing (PLS) and the actual practice which shows a clear preference for transactions yielding set earnings for the banks. There are a number of more or less obvious macro-economic reasons for this discrepancy: among the factors militating against PLS are the uncertainty of the bank's future earnings in absolute terms, the danger of accumulating bad risks, the problem of indentifying and judging market opportunities from among the proposed entrepreneurial projects, problems of evaluation profit assessment, supervision of the partner's management of the financed enterprise, etc. In the light of problems such as these, several Islamic banks have in a sense imposed self-restrictions with regard to the amount of PLS financing they will undertake.

In the long run, this would mean a very serious limitation and defect of Islamic banking because it implies that the Islamic banks would only finance specific 'real' transactions like the purchase of raw materials or of machinery, but they have no suitable instruments to provide an enterprise with funds to be used at the discretion of the management, i.e. with free or unconditional liquidity." (See: Value Added Participation (VAP): A New Financing Instrument for Islamic Banks, discussion paper, Bochum, September 1985).

Indeed, most Islamic banks have shied away from *mudarabah* and *shirkah* and have concentrated on *ijara* and *murabaha*. This is also the case

Faisal Islamic Bank, Egypt

with the Islamic Development Bank set up by the Islamic Conference Organisation. Those which have ventured have had their fingers badly burnt and the accounts of the Dar al-Maal al-Islami. The Islamic Banking System International Holdings of Luxembourg and the Islamic Development Bank are replete with write downs of equity participation projects.

The operation of this tendency to fit round pegs into square holes is seen clearly in the case of Pakistan. The banks there have evolved an instrument which incorporates the benefits of both but leaves out the pitfalls of either. This is the PLS or profit or loss sharing scheme. This is not a true *mudarabah* in that the bank does not bear the losses exlusively as required by such a contract and it is not a *shirkah* (partnership) as the bank does not provide equity financing. It is a typical accommodation to accommodate the risk management ideas of bankers brought up in *riba*-banking tradition.

Careful analysis of the literature on Islamic banking will reveal that there is a plethora of such adaptations. The hope is that instead of ossifying and restricting their operations to leasing and mark-up type transactions, the Islamic banks will evolve new instruments and methods to incorporate the spirit of *mudarabah* and *shirkah* transactions. That this is the case was discerned at a recent conference on

Suggested reading:

Syed Nawab Haider Naqvi et al. *Principles of Islamic Economic Reform* (Pakistan Institute of Development Economics, Islamabad, 1984). This small study outlines the plan recommended to be followed for Islamising the Pakistan economy.

Waqar Masood Khan *Towards an Interest-Free Islamic Economic System* (The Islamic Foundation, Leicester, 1985). This is the latest contribution to the subject and delves into macro-economic implications of Islamic banking.

M Umer Chapra, *Towards a Just Monetary System* (The Islamic Foundation, Leicester, 1985). Again a thorough study of the requirements and implications at the macro level of the introduction of Islamic banking.

Sami Hassan Homoud, *Islamic Banking* (Arabian Information, London 1985). This is a PhD thesis submitted on the subject and details the legal and other issues facing the various types of financial instruments used by the Islamic banks. Unfortunately, the translation from the Arabic leaves much to be desired, and the text can get very difficult to understand in parts due to this.

Islamic Banking and Finance held in London (31 October – 1 November 1985, organised by Business Research International, 57/61 Mortimer Street, London W1N 7TD). Amongst the speakers were some raw Islamic bankers who talked of the 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 fall-out. There were also some dedicated and seasoned Islamic bankers who outlined the problems they were facing and the adaptations they were proposing to enhance the operational range of the Islamic banking environment. Encouraging presentations were also made by the Manager of the Islamic Bank International of Denmark, Mr Erik Trolle-Schultz, and Mr Bagkir Al Mudawi of the Faisal Islamic Bank of Sudan. Mr Schultz outlined his strategy for adapting to the banking laws of the EEC within an Islamic framework and Mr Mudawi did much to dispel the malicious propaganda against the operation of Islamic banking in the Sudan.

However, it was the presentation of Mr Tim Ingram of Grindlays Bank on the experience of a *riba*-bank working under the newly enforced Islamic banking laws in Pakistan that merited a great deal of interest. Mr Ingrams showed that at this stage in the transition in the case of Pakistan, the *riba*-banks, if they applied themselves enthusiastically to the problem, could operate with greater efficiency than some of the Islamic banks themselves. He also showed that by leaving out inter-bank loans and foreign transactions from the Islamic Banking Ordinance, Pakistan had in fact opted for very mild change in emphasis.

Malay Bank on Tabung Haji

Be that as it may, the table of Islamic banks and their results so ably summarised by Professor Volker Nienhaus in his paper during the conference (see box), shows the chequered history of the movement. One can see why the euphoria of three years ago has given way to more sober assessments of the prospects of Islamic banking. We have had chastening news from gold losses at Dar al-Maal al-Islami to property losses at the Kuwait Finance House. In a sense, both are not in the mainstream of Islamic banking, in that they rely on a small nubmer of big depositors for their source of funds. The mass-based banks like the Faisal Islamic Bank of Sudan, the Faisal Islamic Bank of Egypt and the Dubai Islami Bank, have a more solid track record.

As soon as results from Iran and Pakistan become more widely available, the study of Islamic banking will become a major activity in its own right. Pointers to watch will be the extent to which financial instruments evolve in the Islamic banking environment which reflect the true priorities of an Islamic economic system. Here much more conceptual input and rigorous criticism is needed to keep the Islamic bankers on their toes and force them to utilise their banking skills in the service of the Islamic economic system. ■