

Interest-free Banking: A New Vehicle in Mobilising the Economy of Muslim Countries

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INTRODUCTION

THE MODERN ISLAMIC CONCEPT OF BANKING was pioneered by the Mit Ghamr Local Savings Bank, which was established in 1963 in a provincial rural centre in the Nile delta of Egypt. Since then, more than 150 Islamic banks have been established throughout the world providing services similar to those offered by conventional banks. These institutions not only operate in many Muslim countries but have also gained a footing in some Western countries. Islamic Banking System International Holding, for example, was established in Luxembourg in 1978, becoming the first interest-free financial institution on Western soil, followed by Dar al-Mal al-Islami in Switzerland (1981) and Islamic Bank International in Denmark (1983). Currently many Western banks have established their own Islamic banking departments which provide interest-free services to Muslim and non-Muslim customers who prefer to use these kind of services for their personal or commercial transactions. It is estimated that the existing assets of Islamic banks world wide is about US\$ 80 billion with the annual growth of 15 percent [Siddiqui 1996].

With the exception of Iran, Pakistan and Sudan which have Islamised their entire financial system, Islamic banks in other countries operate side by side conventional banks. This dual-banking environment is considered as both a threat to and an opportunity for Islamic banks. The conventional banks have been in business in some countries long before the arrival of Islamic banks. These banks, therefore, have many competitive advantages, are able to provide a complete range of banking products and services, and have established a sense of loyalty among their customers. Islamic banks, on the other hand, are relatively new to customers and some of them even do not have a complete range of banking services for commercial customers. Similarly, not all Islamic banks receive support from the monetary authorities. The only advantage to Islamic banks is that they operate on a non-interest basis, enabling true believers in Islam to establish without qualms a banking relationship with them.

Notwithstanding the various obstacles they face, especially at the market penetration stage, Islamic banks seem to have overwhelming support from Muslim communities.

Currently, many of these banks have succeeded in establishing themselves as institutions able to fulfil the banking needs of Muslims by providing products and services in accordance with *Shariah* (Islamic laws). The push towards establishing a complete and comprehensive Islamic banking system is far from complete, however, and commitment to this objective varies from one Muslim country to another. While the Islamic banking system in some Muslim countries is moving forward, no major development is reported in other countries.

This article will highlight the role of Islamic banks in mobilising resources in selected Muslim countries. Islamic banks selected for this study are from Bangladesh, Jordan, Kuwait, Malaysia and Turkey. The selection of these banks is not only because of the availability of information, but each bank is considered to operate in a different kind of environment. The paper is divided into six sections. A concise outline of Islamic banking is given in the next section for the benefit of those who have no prior knowledge of this new concept of banking. Section three provides a brief history of the development of the Islamic banking system in countries selected for this study. The general outlook of selected Islamic banks in mobilising and allocating resources in their respective countries is elaborated in Section four. The role of these banks in resource mobilisation is discussed in Section five, and Section six details the resource allocations. Section seven offers some concluding remarks. The words in italics are the Arabic words widely used in the Islamic banking literature.

THE BASIC CONCEPTS OF ISLAMIC BANKING

In Islam, interest-earning is unlawful in all forms and for any purposes. This prohibition came from both the *Koran*, the Muslims Holy Book and the *Sunnab* (the sayings and actions of Prophet Muhammad, pbuh). Therefore, interest-based transactions available at conventional banks are strictly forbidden to Muslims. In view of this religious commandment, Islamic jurists have to look for a permissible form of rewards, charges and business relationships between the banks and those who provide funds and others who use the same.

Muslim jurists have suggested various *Shariah* principles to be adopted by Islamic banks in delivering their products and services to their customers. Among the most widely recommended principles are *mudaraba*, *musbaraka*, *murababa*, *bai mua'izzal*, *bai salam*, *ijara*, *ijara wa-iktina*, *qard hassan*, *wadiab*, and *rabn*. Beside these principles, there are many other isolated principles applicable to Islamic banking but the usage of these principles is limited to specific Muslim countries. Based on principles that are allowable by *Shariah*, Islamic banks are able to provide services and products compatible to the services and products of any conventional bank, except the element of interest. A brief explanation on these principles is given below.

Mudaraba

Mudaraba means 'profit sharing' or 'trust finance'. This is basically an agreement between two parties: a lender or an investor and an entrepreneur. In the agreement, the investor

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agrees to entrust money to the entrepreneur who will use it in the agreed manner. On a specified date the entrepreneur will return to the investor the principal and the pre-agreed share of profit. In the case of loss where this loss is a result of circumstances beyond the control of entrepreneur, the investor will bear all financial risk and the entrepreneur loses time and effort only.

Musbaraka

Literally, *musbaraka* means a joint-venture agreement between two parties to engage in a specific business activity with the aim of making profit. In this principle, both parties will provide the capital and the investor (a lender) may also participate in the management. As in the case of *mudaraba*, all parties agree through negotiation on the ratio of distribution of profits generated from the business. In the event of loss, all parties bear the loss in proportion to their share of the financing.

Murababa

Murababa or 'cost-plus financing' is basically the sale of goods at a price covering both cost related to purchase and profit to the seller. This transforms a traditional lending activity into a trade agreement, under which the lender buys goods wanted by the borrower for resale to the borrower at a higher price agreed upon by both parties. Under this principle, Islamic banks are no longer to share profits or losses, but assume the role of a normal business entity.

Bai mua'zzal

Bai mua'zzal or 'deferred payment sale' is a variant concept of *murababa* where the borrower is allowed to defer settlement of payment for a good purchased within a period; and in a manner, determined and agreed upon by both parties.

Bai salam

Bai salam or 'purchase with deferred delivery' is a contract between the bank and the customer, whereby the bank will advance to the customer an amount of money against the customer's promise to deliver goods at a later date as prescribed in the agreement reached by both parties.

Ijara

This is the *Shariah's* concept of leasing finance, whereby the bank purchases the asset required by the customer, and then leases the asset to the customer for a given period on certain terms pre-agreed by both parties.

Ijara wa-iktina

Ijara wa-iktina or 'lease purchase financing' refers to the contract whereby the bank purchases the asset for the purpose of leasing the same to the customer against an agreed rental, together with the customer's agreement to make payments which eventually lead to the transfer of ownership from bank to customer.

Qard hassan

This is a free-charge loan that obliges a borrower to repay to the lender the principal sum borrowed on maturity of the loan. The borrower, however has the discretion to reward the lender for his loan by paying any sum over and above the amount of the principal.

Wadi'ah

Wadi'ah or 'trusteeship' refers to an agreement between the owner of assets who places his assets under the custody of another party. The custodian must seek permission from the owner if he wants to make use at his own risk of the particular assets as long as these assets remain in the custodian's hands.

Rahn

Rahn means 'pledge' or 'pawn'. It is a contract of pledging assets and becomes binding when possession of the pledge has taken place. In this principle the ownership of the assets is not transferred to the pledgee. The transfer occurs only under certain conditions permitted by *Shariah*.

As in the case with deposit facilities at conventional banks, Islamic banks also offer three deposit facilities to their customers, namely, current, savings and investment account facilities. Current account holders are allowed to withdraw their funds at any time without notice. Islamic banks would usually guarantee the funds deposited into this kind of account and no returns are given to depositors as is the case in most conventional banks. Unlike savings account facilities at conventional banks, where depositors know the rate of return upon placement of their funds, rewards to savings account holders are dependant on the *Shariah* principles which are adopted by Islamic banks when offering this facility. Investment account facilities offered by Islamic banks are compatible to the fixed or time deposit facilities at conventional banks except that there is no pre-determined interest rate. Generally, there are three types of investment account facilities available at Islamic banks: investment accounts based on time (e.g. three months, six months, nine months, one year, etc.); investment accounts based on notice (notice must be given by customers prior to any withdrawal); and investment accounts or deposits for specific projects or purposes. All these investment account facilities are governed by the principle of *mudaraba*.

The savings and investment account holders are rewarded either at the end of deposited period or at the end of the bank's financial year. When *wadiab* or *qard hassan* are used, the returns are entirely at the discretion of the bank. In the case of *mudaraba*, returns are based on two factors: a profit-sharing ratio and the profit earned from the deployment of the deposited money.

Since the granting of loans on interest is strictly prohibited, the assistance to commercial customers is extended either in the form of profit sharing (*mudaraba* or *musbaraka*) or fixed charges activities (*murabaha*, *bai muazzal*, *bai salam*, *ijara*, and *ijara wa-iktina*). The principle of *qard hassan* is used on a limited scale. Other banking services, such as letters of credit, letters of guarantee, remittance services, travellers cheques, and safe-deposit boxes, are considered service activities. Hence, charging a fee or commission for rendering these services is allowable by *Shariah*. In some instances, there can be more than one principle used by Islamic banks for a single product. Letters of credit, for example, may involve *murabaha* and *bai muazzal*.

THE DEVELOPMENT OF ISLAMIC BANKING IN COUNTRIES SELECTED FOR THIS STUDY

Islamic banking in the countries selected for this study began at the end of the 1970s and the early 1980s, a boom period for interest-free banking in Muslim nations. The Kuwait Finance House (KFH) was established in 1977 followed by the Jordan Islamic Bank (JIB) a year later. Both the Islami Bank Bangladesh Limited (IBBL) and the Bank Islam Malaysia Berhad (BIMB) were incorporated and commenced business in 1983. In the case of Turkey, its Islamic banking history began in 1985 with the establishment of two Islamic banks, the Faisal Finance Institution (FFI) and Al Baraka Finance House (AFH). Prior to this date, however, there was an Islamic bank called Faisal Islamic Bank of Kibris (FIBK) which was established in 1982, but confined its operations to the Northern Cyprus region.

With the exception of Malaysia, in which the Islamic banking system continues to expand, the development of Islamic banking in other countries is moving at a slower pace. Although other Islamic financial institutions have been established in countries like Bangladesh, Jordan, and Kuwait, these new institutions are not fully-fledged entities which offer a complete range of banking products and services. Currently, IBBL, JIB and KFH are still enjoying their monopolistic status, whereas for FFI, it has to compete only with AFH.

In the case of Malaysia, although BIMB remains the only a fully-fledged commercial bank which operates on *Shariah*, the government has introduced many programs to enhance the development of Islamic banking. As stated in the Malaysian Central Bank's 1993 report, it is the country's long-term objective to create an Islamic banking system to function on a parallel basis with the conventional system [Bank Negara Malaysia 1993: 186]. In line with this objective the 'Interest-free Banking Scheme' was introduced in March 1993. This scheme allows other financial institutions in Malaysia to offer banking facilities similar to facilities available at BIMB. At the end of November 1995, there were 42 commercial banks and finance companies with 1406 branches participating in this scheme.

Islamic banking in Malaysia moved into a new era when the Islamic inter-bank money market was introduced on 3 January 1994. This market covers three aspects: the inter-bank trading in Islamic financial instruments; Islamic inter-bank investments; and an Islamic

inter-bank cheque clearing system [Bank Negara Malaysia 1994: 327-338]. Beside these new developments in the banking system, Islamic products have also been introduced in other financial sectors of the Malaysian economy. For example, there are currently six portfolio managers managing funds that operate in accordance to Shariah. Steps have also been taken by the Malaysian Securities Commission to introduce Islamic financial derivatives including warrants and options.

THE GENERAL OUTLOOK

Bangladesh, Jordan, Kuwait, Malaysia and Turkey are Muslim countries with a population of 117 million, 4 million, 2 million, 19 million, and 60 million respectively. Although Malaysia is considered as a Muslim country, half of its population are non-Muslims. In the case of Bangladesh, Jordan, Kuwait and Turkey, more than 95 per cent of their populations are Muslims.

Table 1 illustrates trends for the key financial items of Islamic banks in the currency of respective country for the period from 1985 to 1994. As indicated in Table 1, the figures for total deposits, total financing, total investments and total assets of all Islamic banks in 1994 were much higher compared to 1985's figures. The percentage of increase, however, varies among the items and from one bank to another. At FFI of Turkey, for example, total assets were TL 25,641 million in 1985 but had grown to TL 3,425,748 million at the end of 1994, that is, they increased by more than 12,000%. As for IBBL, JIB and BIMB, from 1985 to 1994, total assets were respectively increased by 516%, 349% and 438%. In contrast, at KFH total assets increased only at 59% compared to its total assets ten years ago.

The huge increase in all items for FFI has been caused by the high inflation experienced by Turkey. For the past ten years Turkey has experienced double and sometimes triple digit inflationary rate figures. Although KFH is the only bank growing at a lower rate, it holds more assets in terms of US dollars than the other four banks in this study. At the end of 1994, the total assets of KFH were equivalent to US \$ 4,271 million, followed by BIMB with US \$ 1,134 million. FFI is the smallest bank in comparison with IBBL, JIB, KFH, and BIMB, and at the end of 1993 this bank had assets equivalent to only US \$ 237 million.

RESOURCE MOBILISATION

Just like any conventional bank, Islamic banks mobilise resources by way of providing deposit facilities to customers. Except for FFI which offers two types of deposits facilities, i.e. special current accounts and PLS '*mudaraba*', other Islamic banks provide three types of deposit facilities to their customers, namely, current accounts, savings accounts and investment accounts. There are, however, some variations among the Islamic banks under review in providing deposit facilities to customers. The following points are worth noting:

1. Current accounts facilities are available at all banks. For KFH, these facilities are known as demand deposits. JIB provides both current and demand deposit facilities. While cheques can be drawn on the former, pass-books are used by the latter. Withdrawal of funds from the demand deposit accounts is to be made on the bank premises. Except:

for KFH which uses the *Shariah* principle of *qard hassan*, other banks use *wadi'ah* in dealing with these facilities.

2. There are some differences in the treatment of savings account facilities among Islamic banks. While BIMB treats its savings accounts as facilities by themselves, IBBL, JIB and KFH, consider these accounts as one of the facilities within the category of investment accounts. At KFH, however, savings accounts are divided into two, savings account with and without authorisation for investment. In the case of savings accounts without authorisation for investment, the operations of these accounts are similar to the operations of demand deposits at JIB of Jordan. Savings account facilities are not available at FFI of Turkey. Except for KFH which uses the principle of *qard hassan* for their savings account without authorisation facilities, the *Shariah* principle of *mudaraba* is adopted by IBBL and JIB. The principle of *al-wadi'ah yad dhamanah* (savings with guarantee) governs the savings account facilities of BIMB.

3. As mentioned in Section 2, there are three types of investment accounts: time, notice, and specific. Investment accounts based on time and notice are also known as general investment deposits. All investment account facilities are governed by the principle of *mudaraba*. In the case of specific investment deposits, the bank will inform the customer of the potential business opportunities or projects that the bank will undertake and customers will be given the opportunity to select the project that they wish to invest their funds in. The return on the deposited funds is based on the profitability of the project selected by the customer. Specific investment accounts facilities are available at JIB, KFH and BIMB. In the case of BIMB, instead of projects, its specific investment account facilities are provided only to the specific customers.

4. There are some variations in general investment account facilities among the Islamic banks selected for this study. JIB, for example, calls it the 'joint-investment account', whereas FFI of Turkey uses 'PLS-*mudaraba*' (PLS refers to profit-loss sharing). Both IBBL and JIB provide investment accounts based on time and investment accounts based on notice. KFH of Kuwait also used different terminology in representing their general investment accounts facilities. They divide these facilities into three components, namely, savings accounts, investment deposits for limited period and investment deposits for unlimited periods. Investment deposits for limited periods are also known as fixed time deposits for absolute investment. Both deposits are for a period not less than one year and no withdrawal is allowed before the maturity date. In the case of an unlimited period, notice for withdrawal must be given three month before the maturity date, and without such notice the deposits will be automatically renewed. Investment deposits for a limited period can be renewed on maturity.

The growth figures for current accounts, savings deposits and investment deposits are indicators which measure the ability of an Islamic bank in mobilising a country's resources. These figures for the years 1985 to 1994 are shown in Table 2. Among the salient features which are worth noting are the following observations:

1. The FFI of Turkey is the only bank which has experienced positive growth in each year for all types of deposits over the last ten years. Similarly, for JIB of Jordan, the only facility that experienced negative growth was the trust deposits facility and it happened in 1990 only. In the case of IBBL, although its demand deposit figures

fluctuated, its total deposits continuously moved in a positive direction. Deposit figures fluctuated for BIMB and KFH.

2. There is no common trend in terms of public acceptance of the deposit facilities provided by Islamic banks in the Middle East countries. For example, investment accounts are the most preferred accounts by depositors in Jordan, Malaysia and Turkey. However, customers in Bangladesh preferred to keep their money in savings accounts. Figures for KFH are not available for comparison purposes. In 1994 the compositions of deposits at IBBL were 10% for current accounts, 46% for savings accounts and 33% for investment accounts; for JIB and BIMB, the corresponding figures were 19%, 9% and 72%; and 17%, 15% and 50% respectively. For FFI, at the end of 1993 the figures were 9% for current accounts and 91% for investment accounts (These percentages are not included in the Table due to space limitations).

RESOURCE ALLOCATION

Islamic banks also play an important role in allocating resources in the economy. The funds collected from depositors are channelled back into the economy by Islamic banks through their financing and investment activities. Financing comprises all financial assistance extended under *Shariah* principles, whereas investment not only consists of investments in government securities, treasury bills and other securities issued on an interest-free basis, but also includes investments in subsidiaries and associate companies. In some cases, Islamic banks not only participate in domestic projects, but also are involved in investments in foreign countries. The commitment and ability of Islamic banks in allocating resources are measured by the growth figures of their financing and investment activities. These growth figures can also be used as an indicator that reflect business and investment opportunities available to these banks. The growth figures for financing and investment activities for the ten years between 1985 and 1994 are shown in Table 3. The following general conclusions can be drawn:

1. Except KFH and BIMB, the annual growth figures for financing activities at IBBL, JIB and FFI were moving in a positive direction. In the case of BIMB, the financing figures fluctuated without a single and clear direction. For KFH of Kuwait, positive growth for financing activities was evident from 1984 to 1989, but this upward trend was distorted by the Gulf War in 1990. As a result of that conflict, the financing activities of KFH declined by 51% from the previous financial year. Starting from 1992, however, the financing activities of KFH rebounded in a positive direction.

2. All banks have increased their financing portfolios compared to the 1985 figures. Contrary to these trends, some banks have adjusted their assets composition by reducing the percentage of funds allocated to financing activities. In the case of BIMB, for example, in 1985 total funds for financing activities were 63% of its total assets, but in 1993 the figures decreased to 35%. While IBBL, KFH and FFI have increased their financing activities from 46% to 66% for IBBL, from 30% to 47% for KFH and 38% to 68% for FFI, no material changes were recorded at JIB.

3. Contrary to the growth of financing activities, investment activities at all Islamic banks have oscillated for the last ten years. This phenomenon is due to the limited

investment opportunities. Investment activities are more concentrated in the real estate. KFH and IBBL have invested heavily in investment activities. For example, the portfolio of KFH in 1985 but decreased from 10.3% to 5.1% in 1994.

Since interest-free financing is a key feature of Islamic banking, among the *Shariah* principles, *mudharaba*, *murabahah* and *bai al-dayn* are the most commonly used.

The usage of these principles are as follows:

1. The *murabahah* principle is used by all Islamic banks under real estate financing. IBBL and KFH are the only banks that have adopted the principle of *mudharaba* in their annual reports. There is however no participation in *bai al-dayn*.

2. The *murabahah* principle is used by all Islamic banks. A huge portion of its total financing is allocated to other banks where the financing is based on the principle of *murabahah*. Similarly, for IBBL, where the total financing is based on the principle of *murabahah*.

3. Like other countries under Islamic banking, available in some countries concentrate on financing activities. For example, 63% of the total financing activities of KFH and BIMB are based on Islamic principles.

Islamic banks have equally distributed their financing activities as shown in Table 3.

investment opportunities available to Islamic banks. Except for FFI, where investment activities are mostly in the form of investments in foreign currencies, the investment activities of other banks mainly comprise investment in subsidiaries and investment in real estate. KFH and BIMB are the only two banks which have the opportunity to invest in Islamic securities issued by their respective governments. Except for KFH and BIMB which invested heavily in Islamic securities, other Islamic banks have reduced their commitment in investment activities compared to its position ten years ago. In the case of IBBL, for example, the percentage of funds allocated for investment activities was 3% in the year 1985 but decreased to 0.2% in 1994. Similarly, the percentage figure for FFI decreased from 10.3% to 5.4%. These percentage figures are based on total assets.

Since interest is unlawful, all activities are based on methods approved by *Shariah*. Among the *Shariah* principles most widely used by Islamic banks in financing activities are *mudaraba*, *musbaraka*, *murabaha*, *bai mua'zzal*, *ijara*, *ijara wa-iktina*, and *qard hassan*.

The usage of these principles by Islamic banks is shown in Table 4. The salient features are as follows:

1. There is a variation in the application of *Shariah* principles among the Islamic banks under review. The principle of *bai mua'zzal*, for example, was used only by two banks, IBBL and BIMB. Other banks, however, incorporate this principle within the principle of *murabaha*, sometimes known as *bai-murabaha*. Similarly, the principle of *bai al-dayn* is not commonly used by other banks except by JIB and BIMB. Nowhere in the annual reports of KFH is the usage of *mudaraba* and *musbaraka* indicated in its activities. There is however a statement indicating that KFH undertakes investment activities on a participation basis, thus these activities are within the ambit of *mudaraba* and *musharaka*.

2. The fee-based or mark-up principles get the most attention from all Islamic banks. A huge portion of funds is allocated for this principle. At KFH, for example, 97% of its total financing activities were governed by this principle. The corresponding figures for other banks were 95% for BIMB, 84% for IBBL, 77% for FFI and 53% for JIB. Principles that are based on the profit-sharing concept are not fully applied by all banks. The percentage of funds allocated for these types of financing by all banks under review was below the 5% level. Similarly, the principle of *qard hassan* received least attention by all banks. Except for IBBL, where the figure was at a 4% level, other banks allocated less than 1% of their total financing activities using this principle.

3. Like Islamic banks in other parts of the world, most of the Islamic banks in the countries under review are facing limited investment avenues. Islamic securities are not available in some countries. In the absence of these securities, Islamic banks tend to concentrate on financing activities. For example, FFI allocated 70% of its total funds for financing activities in 1993. For IBBL and JIB, the corresponding figures were 66% and 63%. The two banks where financing activities constituted less than half of total funds are KFH and BIMB. Since the governments of Kuwait and Malaysia are issuing bonds based on Islamic principles, KFH and BIMB use most of their funds buying these bonds.

Islamic banks finance all sectors within the economy. The funds however are not equally distributed among these sectors. The sectoral breakdown of financing activities is shown in Table 5. Since there is no standardisation among Islamic banks in classifying the

distribution of financing, it creates difficulties for comparative analysis. However, some general conclusions drawn from the Table 5 are given below.

1. Sectoral financing of Islamic banks varies and is in line with the economic environment of the respective country. IBBL concentrates on the commercial sector, KFH of Kuwait concentrates on banks and financial institutions and BIMB concentrates on concentration and real estate. There is no sectoral concentration for JIB and FFI.

2. Except for FFI, other banks seem less interested in financing the agricultural sector. At the end of 1993, 21% of total loans of FFI went to this sector. While KFH were uncommitted to this sector, total funds allocated by IBBL and JIB were less than 1% of their total outstanding loans.

CONCLUDING REMARKS

All sample banks in this study have achieved varying degrees of success, not only in providing Shariah-based banking services especially to their Muslim customers, but also in mobilising the financial resources of their countries. In the case of IBBL of Bangladesh, for example, the number of deposit accounts has increased from 38,322 at the end of 1985 to 339,600 at the end of 1994. Similar success stories are recorded in other countries. At JIB, from 1985 to 1994, the number of depositors increased from 80,000 to 440,000, whereas for FFI the number of accounts increased from 5,200 to 82,760 at the end of 1993. In the case of BIMB, there were nearly 400,000 depositors by the end of 1994.

Islamic banks can be regarded as one of the active players in mobilising their countries' resources. In Kuwait for example, about 20% of total deposits of banking system are deposited at KFH. An important role is also played by JIB of Jordan. At the end of 1994, 14% of Jordan's resources were placed at this bank. In the case of IBBL, BIMB, and FFI, these banks have a bright future in terms of mobilising their country's resources. At the end of 1994, about 3% of deposits in the Bangladeshi banking system were placed at IBBL, whereas for BIMB it holds some 2% of deposits placed in the Malaysian banking system. For FFI, at the end of 1993 the total deposits placed at this bank represented 1.1% of Turkey's total deposits.

Islamic banks also participate actively in developing the economy of their countries, not only by providing financial assistance to both commercial and personal customers but by promoting special schemes tailored to specific policies or needs of a certain group of customers. JIB of Jordan, for example, has developed a policy that gives priority to meeting the basic needs of Jordanian citizens. As result of this policy, loans amounting to JD 109 million were given to selected economic activities such as supplying building materials, vehicles, furniture and craftsmen's requirements and these loans had benefited 45,059 recipients.

The IBBL of Bangladesh is considered one of the outstanding Islamic banks in promoting social services. It is clearly stated in its annual report that it is their aim to introduce a welfare-oriented banking system and also to establish equity and justice in the field of all economic activities. This Bank has established a body called the 'Islami Bank Foundation' which provides financial assistance to the poor and needy through various programs. It also undertakes health care, relief and rehabilitation, education, humanitarian

programs and modern hospitals in the country.

Finally, the question. The relationships between 17,000 non-Muslims managed to for instance, is no sign that banks in other their distinct

programs and promoting religious activities. This foundation has also established a modern hospital in Dhaka and centres for the social and economic development of the country.

Finally, the ability of the Islamic banks to serve the banking needs of Muslims is beyond question. There is also evidence which indicates that non-Muslims are establishing banking relationships with Islamic banks. In the case of BIMB, for example, there were about 17,000 non-Muslim depositors at the end of 1993. Similarly, the Islamic banking system has managed to establish itself as an alternative to the conventional system. Pakistan and Iran, for instance, have both Islamised their entire banking system over a decade ago and there is no sign that this new system is causing chaos in the economy. To what extent Islamic banks in other countries will be able to function along side conventional banks and retain their distinctive, interest-free identities will be an interesting phenomenon to observe.

Table 1

The Figures for Selected Financial Items of Islamic Banks from 1985 to 1994 ('million)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
IBBL of Bangladesh (in Taka)										
Total deposits	1,564	2,231	2,457	2,825	3,456	4,463	5,672	6,704	8,261	10,227
Total financing	912	1,354	1,738	2,073	2,299	3,193	4,262	5,143	5,913	8,055
Total investments	58	58	59	59	59	59	21	21	21	21
Total assets	1,981	2,543	2,825	3,283	3,852	5,234	6,915	8,413	10,096	12,198
Total assets (US dollars)	61	83	91	102	119	146	179	216	253	303
JIB of Jordan (in JD)										
Total deposits	114	145	176	198	216	214	322	393	459	482
Total financing	81	109	125	140	163	163	209	260	329	371
Total investments	*	*	*	*	*	*	*	*	*	*
Total assets	127	162	197	223	242	245	357	435	528	570
Total assets (US dollars)	343	475	598	474	373	371	532	631	755	813
KFH of Kuwait (in KD)										
Total deposits	734	794	979	1,083	1,061	-	1,042	1,013	992	1,081
Total financing	246	297	390	422	488	-	239	348	463	614
Total investments	13	40	156	243	102	-	573	553	542	540
Total assets	804	862	1,057	1,173	1,132	-	1,108	1,141	1,156	1,282
Total assets (US dollars)	2,772	2,971	3,917	4,189	3,904	-	3,959	3,804	3,853	4,271
BIMB of Malaysia (in RM)										
Total deposits	410	567	809	1,022	1,229	1,221	1,178	1,320	1,612	2,548
Total financing	323	395	429	631	695	843	828	1,048	1,038	1,027
Total investments	72	136	315	432	508	397	337	432	595	1,600
Total assets	514	683	932	1,153	1,368	1,396	1,357	1,608	1,890	2,949
Total assets (US dollars)	212	262	374	424	507	517	499	616	700	1,134
FFI of Turkey (in TL)										
Total deposits	16,320	45,735	91,064	174,768	313,937	402,282	774,903	1,597,954	3,112,843	na
Total financing	9,762	43,940	75,189	153,806	233,674	380,403	548,524	800,556	2,325,837	na
Total investments	9,032	6,130	9,221	16,303	71,902	30,790	203,538	697,408	459,699	na
Total assets	25,641	60,378	119,994	225,209	423,118	530,246	964,498	1,826,343	3,425,748	na
Total assets (US dollars)	44	79	116	122	180	178	188	213	237	na

Notes: * Less than 0.5 million

na Figures are not available

Sources:

Annual reports of the respective banks, various issues.

Table 2
Growth in Deposits of Selected Islamic Banks (in percentages)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
IBBL of Bangladesh:										
Demand deposits	132.4	13.5	(32.12)	20.9	35.5	(15.8)	45.1	15.6	(1.7)	42.1
Savings deposits	146.4	62.4	22.9	20.5	19.9	39.1	19.1	25.5	24.8	25.8
Investment deposits	151.0	18.8	21.1	9.7	32.0	21.5	30.1	42.8	31.3	16.9
Total deposits	145.9	42.6	10.1	15.0	22.3	29.1	27.0	18.1	23.2	23.7
JIB of Jordan:										
Trust deposits	6.5	12.2	17.2	12.3	24.5	(11.4)	55.1	21.5	16.7	4.7
Savings deposits	18.1	27.6	22.0	na	na	na	na	na	9.6	4.4
Investment deposits	32.1	27.7	26.6	12.1	5.3	5.7	56.0	24.4	13.8	9.1
Total deposits	23.9	27.2	21.4	12.5	9.1	(0.9)	50.5	22.0	16.8	5.0
KFH of Kuwait:										
Demand deposits	78.5	8.2	(19.2)	33.0	(12.1)	-	(20.9)	20.7	14.1	na
Savings deposits	7.3	4.3	15.1	1.9	1.2	-	20.5	5.0	(11.7)	na
Investment deposits	(26.6)	3.6	21.8	13.9	8.4	-	(22.9)	(1.4)	15.6	na
Total deposits	0.3	8.2	23.3	10.6	(2.0)	-	(1.8)	(2.8)	(2.1)	9.0
BIMB of Malaysia:										
Demand deposits	na	na	na	na	(7.4)	51.1	13.0	18.7	33.3	26.0
Savings deposits	na	na	na	na	18.7	17.5	16.9	10.0	18.4	17.6
Investment deposits	na	na	na	na	25.8	(25.0)	(11.5)	(7.0)	7.1	110.6
Total deposits	69.9	38.25	42.7	26.3	20.3	(0.7)	(3.5)	12.1	22.1	58.1
FFI of Turkey:										
Current accounts	na	3.0	158.2	65.4	129.1	62.3	41.2	149.6	109.2	na
PLS <i>Modaraba</i>	na	211.0	95.7	93.9	76.4	25.3	98.2	102.8	93.4	na
Total deposits	na	180.2	99.1	91.9	79.6	28.1	92.6	106.2	94.8	na

Notes:

TD: Total deposits

* More than 1000%

Sources:

Annual reports of the respective banks, various issues.

Notes: * Less than 0.5 million
na Figures are not available

Sources:

Annual reports of the respective banks, various issues.

Table 3
Growth in Financing and Investment Activities of Islamic Banks in Selected Countries (in percentages)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
IBBL of Bangladesh:										
Financing	112.6	48.5	28.4	19.3	10.9	38.9	33.5	20.7	14.6	36.2
Investments	11.7	0.0	1.7	0.0	0.0	0.0	(64.2)	0.0	0.0	0.0
JIB of Jordan:										
Financing	18.2	34.6	14.7	12.0	16.4	0.0	28.2	24.4	26.5	12.8
Investments	0.0	6.0	0.9	(23.0)	0.8	(8.0)	(17.0)	0.0	6.3	0.0
KFH of Kuwait:										
Financing	3.5	20.7	31.3	8.2	15.6	-	(51.0)	45.6	33.0	32.6
Investments	(49.2)	207.7	290.0	55.8	(58.0)	-	461.8	(3.5)	(2.0)	(0.4)
BIMB of Malaysia:										
Financing	99.8	22.3	8.6	47.1	10.1	21.3	(1.8)	26.6	(0.6)	(1.1)
Investments	(2.1)	88.9	131.6	37.1	17.6	(21.7)	(15.1)	28.2	37.7	168.9
FTI of Turkey:										
Financing	na	350.1	71.1	104.6	51.9	62.8	44.2	45.9	190.5	na
Investments	na	(32.1)	50.4	76.8	331.0	(57.2)	561.1	242.6	(34.1)	na

Note:

* more than 1000%

Sources:

Annual reports of the respective banks, various issues.

Table 4
The Modes and Composition of Financing of Islamic Banks in Selected Middle East Countries

IBBL (1994)	%	JIB (1994)	%	KFH (1994)	%	BIMB (1994)	%	FFI (1993)	%
Musharaka	4	Mudaraba and musharaka	2			Mudaraba and musharaka	2	Musharaka	1
Murabaha and bai muazzal	71	Murabaha	53	Murabaha, Istisna and qard hassan	97	Murabaha and bai muazzal	86	Murabaha	61
Ijara	13	Bai al-dayn	12	Ijara	3	Bai al-dayn Ijara	* 9	Ijara	17
Qard hassan	4	Qard hassan	*			Qard hassan	*	Qard hassan	*
Others	8	Others	33			Others	2	Others	21
Total	100		100		100		100		100
% of total assets	66		63		48		35		70

Note: * less than 1%

Sources: IBBL's 1994 annual report; JIB's 1994 annual report; KFH's 1994 annual report; BIMB's 1994 annual report; and FFI's 1993 annual report.

Table 5
The Distribution of Financing by Sector of Islamic Banks in Selected Countries

IBBL (1994)	%	JIB(1994)	%	KFH(1994)	%	BIMB (1994)	%	FFI(1993)	%
Industrial	27	Industry and mining	7	Trading and manufacturing	26	Manufacturing	25	Metal	21
Real estate	2	Construction	30	Construction and real estate	15	Construction and real estate	17	Constructions	5
						Housing	22	Petro-chem and chemical	14
								Textile	13
Commercial	65			Bank and financial insts.	58	Finance and insurance	3	Paper-pulp	3
Transport	2	General trade	29			Commercial	7	Food	11
Agricultural	*	Transport	6					Machinery	10
Others	4	Agricultural	*					Agricultural	21
		Miscellaneous	28	Others	1			Others	2
Total	100		100		100		100		100

Note: Figures for KFHH comprise of the concentration of assets.

Sources: IBBL's 1994 annual report; JIB's 1994 annual report; KFHH's 1994 annual report; BIMB's 1994 annual report; and FFI's 1993 annual report.

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