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ISLAMIC BANKING THEORY AND PRACTICE: A SURVEY AND BIBLIOGRAPHY OF THE 1995-2005 LITERATURE

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This paper highlights salient features of the Islamic banking literature during 1995-2005 (*section 1*). It reports on major developments on the Islamic banking scene in selected Muslim and other countries (*section 2*). It briefly looks at performance of the banks on the Shari'ah benchmark (*section 3*). Last but not least, it identifies the direction for future research (*section 4*). The paper also gives a classified bibliography of the Islamic banking and finance literature produced during 1995-2005.

The Qur'an prohibits riba (*Aale 'Imarn* 3: 130 and *Al-Baqarah* 2: 275). It also threatens the believers with dire consequences for indulgence in riba-based transactions (*Al-Baqarah* 2: 278-279). Thus the quest for a riba-free system was high on the priority list for the Muslims since the end of colonialism after the World War II (1939-1945). Lack of clarity on blueprint of a riba-free financial system and pragmatic considerations delayed practical advances.

Islamic banking started in earnest in the 1970s with the joint efforts of resourceful individuals, professional bankers, Islamic economists and Shari'ah scholars. When the things started to move, there was still no consensus on the definition of riba. And, there was no well-defined working model of Islamic banking either. Even definition of riba remained a contentious matter until the end of the 20th century. After three decades 'Islamic banking' is now a well-recognized part of the

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international financial map. Islamic banking services are available in several Muslim and other countries.

Survey of Islamic banking is difficult for several reasons. Some of these are as follows:

1. Doctrinal debates on riba continued as late as the end of the 20th century.—The 23 December 1999 judgment of the Supreme on bank interest might be seen as the turning point.
2. Things evolved on the Islamic banking scene through a learning-by-doing process due to the absence of a working model. This, in turn, has the following implications:

   (i) It is difficult to separate a survey of the literature from an account of the circumstances in which the ideas developed.
   (ii) There are differences, sometimes unbridgeable, in the interpretation of the Shari'ah between scholars in the South-East Asian region and those in the rest of the Muslim world. The situation is the same in respect of the vocabulary of Islamic banking. Moreover, there is also diversity in practical implementation of agreed principles. All this means that at times the arguments run cross-purpose.
   (iii) Lack of consensus on the basic model implies that any advances made in the area at best remain tentative.
   (iv) Empirical work on the status of Islamic banking also remains premature, especially due to lack of agreement on the fundamentals of Islamic banking.

Notwithstanding these difficulties in surveying the literature on Islamic banking, an effort is made here to provide a useful basis for understanding what happened during 1995-2005, and what direction research and practical activity may take in the years to come.

This exercise has also the following critical significance. Among the Muslim countries, Iran and Sudan have committed themselves to a riba-free path to development. Brunei, Indonesia, Malaysia, Pakistan and various Gulf states have adopted a dual-banking system with Islamic banking running side-by-side with conventional banking. This is part of the strategy in these countries to gradually move to full-fledged Islamic banking in these countries. In the long term, development strategies in these and other Muslim countries are very likely to be affected by this paradigm shift. This survey, therefore, provides a unique opportunity to review the state of contemporary theory and practice of Islamic banking.

The survey is organized as follows. A snapshot of the literature is given in section 1. This is followed by a look at the Islamic banking experience of selected Muslim countries in section 2. The performance of Islamic banking is evaluated in section 3. Some possibilities for further research are identified in section 4. A bibliography of the literature produced during 1995-2005 is appended to this paper.

1. A Selected Survey of the Existing Literature

The presentation of the argument in this brief survey follows the classification scheme adopted for the articles, papers and monographs in the bibliography. The Islamic banking scene in selected Muslim countries is reviewed in the section 2.

As noted earlier, doctrinal debates on riba dominated the discussions for quite a while. The issue at the heart of the matter was whether bank interest was riba or not. The advocates of status quo differentiated between the bank interest and riba prohibited in the Qur'an and the Sunnah. The Shariat Appellate Bench of the Supreme Court of Pakistan gave its verdict on 23 December 1999 as follows:

> [A]ny amount, big or small, over the principal, in a contract of loan or debt is *riba* prohibited by the Holy Qur'an, regardless of whether the loan is taken for the purpose of consumption or for some production activity. The Holy Prophet (PBUH) has also termed the following transactions as riba:
>
> (i) A transaction of money for money of the same denomination where the quantity on both sides is not equal, either in a spot transaction or in a transaction based on deferred payment.
>
> (ii) A barter transaction between two weighable or measurable commodities of the same kind, where the quantity on both

sides is not equal, or where delivery from any one side is deferred.

(iii) A barter transaction between two different weighable or measurable commodities where delivery from one side is deferred.

These three categories are termed in the Islamic jurisprudence as riba al-Sunnah because their prohibition is established by the Sunnah of the Holy Prophet (PBUH). Along with the riba al-Qur'an, these are four types of transactions termed as 'riba' in the literature of Islamic fiqh based on the Holy Qur'an and Sunnah.

The Shariat Appellate Bench also observed:

> Out of these four transactions, the last two ones, mentioned above as (ii) and (iii) have not much relevance to the context of modern business, the barter business being a rare phenomenon in the modern trade. However, the riba al-Qur'an and transaction of money mentioned above as (i) are more relevant to modern business.

The above statement caused some ripples. But subsequent remanding of the case to the Federal Shariat Court of Pakistan for a fresh hearing and the Government of Pakistan formally adopting the policy of dual banking system—Islamic banking running side-by-side with interest-based banking—settled the direction of efforts from doctrinal matters to riba-free banking and finance (*see section 2*).

It is noteworthy while preoccupation with the definition of riba was dominant, in 1999 the International Institute of Islamic Economics, Islamabad advocated, with *IIIE's Blueprint of Islamic Financial System*, that the focus should be on the permissible forms of transactions and development of the Islamic alternatives. But this approach did not receive much needed attention among the scholars.

In addition to the definition of riba, effort has also gone into defining parameters for Islamic banking. Some notable points and the associated references placed in the parentheses are as follows:

1. It has been recognized that avoidance of gharar (the element of uncertainty in rights and responsibilities implied by contracts)

came to be recognized as next to the prohibition of riba for designing Islamic financial contracts (*Appendix, section 3.1.2*).

2. It is also recognized that move away from interest-based financial instruments would require that financial institutions come into the picture as trader, lessors and partners while not losing their identity as financial institutions (*Appendix, section 3.1.3*).
3. A parallel effort has also gone into attaching weight to philosophical and ethical considerations while defining the role function of banks and the practical options for Islamic banking (*Appendix, section 3.1.4*).

The above factors, together with the fact that Islamic banking did not start with a well-defined working model, created a lot of space for experimentation with the ideas. While there is still no unifying theory of Islamic banking that explains (i) the rationale for Islamic banking, (ii) nature and role of Islamic banks, (iii) the working of Islamic banking, (iv) differences between Islamic and conventional banks and (v) practical implications of Islamic banking, different writers have tried to explain following matters:

1. What an Islamic banking model might be (*Appendix, section 3.2.1*)?
2. What would be the financial instruments for the routine banking operations? What might be practical considerations in this regard (*Appendix, section 3.2*)?
3. How might deposit mobilization work (*Appendix, section 3.2.3*)?
4. What forms bank financing may take (*Appendix, section 3.2.4*)?
5. What other financial services Islamic banks might provide (*Appendix, section 3.2.5*)?
6. What might be the issues in the conversion of interest-based banks into Islamic banks (*Appendix, section 3.2.6*)?

It is noteworthy that the research debates during 1995-2005 are a continuation of the thinking in the past, especially since the late 1970s. Initially, Islamic banking was presented as “interest-free banking” or “Islamic interest-free banking”. But later on the idea was promoted as “riba-free banking”. And, now “Islamic banking” is the popular description. Thus, Islamic banking was initially seen as a dual-modarabah model with the banks mobilizing deposits as well as providing financing on profit/loss-sharing basis.[1] Pragmatic considerations soon necessitated that banks go beyond profit/loss-sharing arrangements. This is where the existing model of Islamic banking emerged.

While Islamic banks mobilize funds on interest-free or profit-sharing basis, they are seen as providing financing through murabahah (with the bank claiming a markup on trade financing), ijarah (lease financing), *ijarah muntahiya-bit-tamleek* (hire-purchase), modarabah or musharakah (partnership) basis. Of course, some variants of these financing modes are also on the cards. The doctrinal side of these financing arrangements has come under close scrutiny. Differences still remain. For example, satisfactory explanations for differences between hire-purchase and interest-based financial lease are yet to be explained. The South East Asian and the other Muslim scholars hold opposite positions on the issue of "trading of debt" or *bai' al-dayn*. Notwithstanding this, however, efforts have gone into resolving practical difficulties in the adoption of Islamic financial instruments by the banks. For example, the issues like design of optimal sharing contracts (based on modarabah, for instance) have been examined both at the conceptual and empirical planes.

During the 1995-2005, the main focus has been on Islamic financing. Practical issues in managing the deposit side, in the absence of interest, have little attention.

The performance of Islamic banks has come under scrutiny from both doctrinal and empirical angles. Questions are beginning to be raised about how Islamic the Islamic banking is. In particular, what is the material difference between the Islamic banks and the interest-based banks both on the deposit-mobilization and the financing sides? Notwithstanding this, however, considerable empirical work has been done on the evaluation of the performance of Islamic banks on the practical plane (*Appendix, section 3.3*).

[1] "Modarabah" is a partnership in which one party provides capital and the other effort, and both share the profits in pre-agreed rations. However, in the case of loss, financial loss falls on capital and the working partner suffers in terms of time spent and other personal expenses borne towards the working of the partnership.

Empirical studies have been done on, among other things, the structure of financing provided by Islamic banks through the various financing modes, profitability of Islamic banks, efficiency of Islamic banks vis-à-vis interest-based banks, profit rates offered by Islamic banks to their depositors and customer service quality.

There is significance amount of work done on Islamic banking, both on the theory and the practical sides, in different countries (*Appendix*, *section 3.4*). The countries covered include fourteen Muslim countries and four other countries with sizable Muslim populations. The former include Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Iran, Jordan, Kuwait, Malaysia, Nigeria, Pakistan, Sudan, Tunisia and Turkey. The other regions include India, Thailand, the UK, the USA and Canada. Comparative studies on the Islamic versus conventional banking have also attracted attention during the last ten years (*Appendix, section 3.5*).

The 1995-2005 period is significant because operational issues facing Islamic banking (*Appendix, section 3.6*) came up for discussion for the first time. The range of the issues explored spans the legal framework (*Appendix section 3.6.1*), financial reporting and accounting (*Appendix section 3.6.2*), governance matters (*Appendix section 3.6.3*) risk management by Islamic banks(*Appendix section 3.6.4*) and regulation and control of Islamic banks (*Appendix section 3.6.5*).

While a lot is yet to be done to set the Shari'ah foundation of Islamic banking straight, advances in Islamic finance crucially depend on development of Islamic money market and, in particular, financial instruments to meet the governments' budgetary needs. Work has already started on divisible and tradable financial instruments for Islamic banking (*Appendix section 3.7*), financial instruments for financing government expenditures (*Appendix section 3.8*) and Islamic securities markets (*Appendix section 3.9*). It is noteworthy that this work is extension of the work on financial instruments for routine banking operations. Malaysia pioneered the moves for development of Islamic money market, and Bahrain has followed the suit. Their efforts are supported by international interest-based banks as well. The effort has also received boost from issuance of the various kinds of sukuks (Islamic bonds) by Malaysia, Bahrain, Qatar, Kuwait, Pakistan and Sudan in recent years.

While the above developments are taking place on the Islamic banking scene, a new phenomenon of Islamic investment funds (*Appendix section 3.10*) has emerged on the scene of Islamic finance. These are equity funds for investment in Shari'ah-permitted stocks. This represents a significant step toward narrowing the difference between Islamic finance and traditional finance.

The issue of Islamic banking and economic development has also attracted attention during 1995-2005 (*Appendix section 3.11*). The number of studies is not large. Moreover, most of the work is of a preliminary nature. The various studies apply broad brush to highlight the relevance on Islamic banking for economic development purposes. Focused work with well-defined practical implications and solutions is needed along with identification of instruments for financing development effort by the various Muslim governments.

Last but not least, Islamic banking is now coming under close scrutiny (*Appendix section 3.12*). At the moment the challenges faced by Islamic banks are being identified. The chances are that in not too distant a future, the identity of Islamic banking as a separate financial entity may come under scrutiny.

In order to facilitate a quick reference to how research has gone into the area of Islamic banking during 1995-2005, the literature is reported in the Appendix to this paper as follows:

1. Sources of the Literature on Islamic Banking
    - 1.1 The Principal Source
    - 1.2 Journals
    - 1.3 Institutional Sources
    - 1.4 Central Banks and Securities & Exchange Commissions as an Information Source
    - 1.5 Islamic Banks as a Source of the Literature
    - 1.6 The Web as a Literature Source
    - 1.7 Availability of the Material
2. The Books
3. Articles, Papers and Monographs – Classified Subject-wise

2. Islamic Banking in Selected Muslim Countries

We look at Islamic banking in Pakistan, Malaysia, Bahrain, Sudan and Iran, four major players in Islamic banking in the Muslim world.

2.1 Pakistan

Serious thinking for Islamic banking goes back to the publication of the 1980 Report of the Council of Islamic Ideology on *Elimination of Interest from the Economy*. Separate interest-free counters started operating from January 1, 1981 in all branches of Pakistani banks for deposit mobilization. From July 1, 1984, all commercial banking in Pak Rupees was supposedly made interest-free with the introduction of 12 modes of interest-free financing approved by the State Bank of Pakistan (SBP). One of these 12 modes was buy-back financing. That is, the client was given financing through purchase of assets from him and its immediate resale to him at a marked-up price.[2] The Federal Shariat Court of Pakistan (FSC), in its November 1991 judgment, declared this practice against the Shari'ah. The issue remained dormant until December 1999 when the Shariat Appellate Bench of the Supreme Court of Pakistan rejected appeals against the said judgment of the FSC. Though Islamization efforts aided by judicial-activism received a set back in June 2002 with the remanding of the case to the FSC for a fresh hearing, the Government of Pakistan got the message. And, finally, Pakistan joined list of other Muslim countries that have formally opted by a dual banking system. The following policy measures have been taken in this regard:

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[2] This is Bai Al-Inah. The Prophet SAAWS cautioned against it, as it is a dubious arrangement to circumvent the prohibition of riba.

1. On 1st December 2001, SBP issued detailed criteria for **setting up of Scheduled Islamic Commercial Banks** based on Shari'ah principles in the private sector. The criteria required minimum paid-up capital of Rs. 1000 million for establishing an Islamic commercial bank, with at least 15% to be contributed by the sponsor directors who are also barred from selling their stakes for at least 3 years. In addition, the bank is to maintain of a minimum capital adequacy ratio of 8% based on risk weighted assets.—Under this scheme, Meezan Bank was licensed as first Islamic commercial bank in Jan 2002.

2. In November 2002, Section 23 of the Banking Companies Ordinance was amended to allow **the scheduled commercial banks to establish Islamic Banking Subsidiaries**. While the general requirements for this purpose are the same as those for establishing an Islamic commercial bank, the desirous banks are required to (i) put in 51% of the paid-up capital, (ii) have met Capital Adequacy guidelines and CAMELS rating of 1, 2 and 3 during the last three years on-site inspections.

3. On 1st of January 2003 SBP issued Eligibility Criteria, Licensing Requirements and other operational guidelines for **establishing Stand-Alone Branches for Islamic Banking by existing commercial banks**. Some of the important conditions are as follows:[3]

    (i) Establishment of an Islamic Banking Division at the Head Office, along with Shari'ah Advisor/Committee;
    (ii) Establishment of an Islamic Banking Fund with a minimum of Rs. 50 million or 8% of the risk weighted assets of the Islamic banking branches, whichever is higher;
    (iii) Development of detailed procedure manuals for the IBD and IBB operations, documents pertaining to deposit, investment and financing products relating to IBB operations

[3] It seems that SBP has adopted the BNM model in this regard.

(iv) Maintenance of separate book of accounts in respect of Islamic banking operations and proper records for all transactions for segregation of funds, and preparation of separate annual and quarterly financial statements for IBB operations

(v) Comprehensive internal audit, including internal Shari'ah review, of the IBB(s) and IBF at least once a year.

At present, Pakistan has one Islamic commercial bank (Meezan Bank), an Islamic investment bank (Al-Barakah Investment Bank). One Islamic investment bank (Faysal Investment Bank) has been succeeded by a commercial bank with Islamic banking on its cards. One commercial bank has established a stand-alone Islamic banking branch, and many others shall soon follow the suit.

Meezan bank, successor to Meezan Investment Bank, has a small network of branches in selected major cities. But with aggressive marketing, it has created a place for itself. Its total assets and total liabilities registered increases of 26.5% and 32.7%, respectively, during six months between Dec 31, 2002 and June 30, 2003. Net assets grew by 5.7% during the same period. At present, enjoys A+/A-1 rating from two independent rating agencies. This is an indication of demand for Islamic banking in Pakistan. It may be added here that only Islamabad branch of Al-Barakah Investment Bank achieved the target of one billion rupees in deposits in April 2002.[4]

In passing, it may be mentioned that in Pakistan advances toward riba-free financing started with the establishment of Modarabah Companies in the mid-1980s. These are finance companies providing financing in Shari'ah-compliant ways mainly out of their paid-up capital. There is a Modarabahs Religious Board at the government level, which prescribes financial instruments for these companies. But over-expansion, for tax reasons, and slow-moving real sector has hampered the growth of this sector.

[4] This is based on personal information. Data for Meezan Bank is deduced from its web page and from the press.

2.2 Malaysia

In 1983, the Government enacted the Islamic Baking Act 1983 and the Government Investment Act 1983.[5] The former empowered the Bank Negara Malaysia (BNM), central bank of Malaysia, to grant license to Islamic banks, to supervise and to regulate them. The latter cleared the way for the Government raising domestic financing through the issuance of Islamic financial instruments. These instruments were also to provide avenues for meeting the liquidity requirements by Islamic banks and also for parking any surplus funds.

In July 1983, the first Islamic bank, Bank Islam Malaysia Berhad (BIMB), was established. It was to develop Islamic financial instruments, under the guidance and supervision of its Shari'ah Advisory Council, and do Islamic banking.

In 1993, as part of the strategy to increase the number of Islamic banking players, BNM allowed conventional banking institutions to participate in the Islamic Banking Scheme, through Islamic banking windows. The prescribed requirements included (i) establishment of an Islamic Banking Division (incl. Shari'ah advisory) to supervise Islamic banking operations and an Islamic Banking Fund (from the concerned bank's own sources) to meet the expenses, (ii) separation of management, record-keeping and accounts of Islamic banking operations from those of the rest of the banking operations, and (iii) adoption of the Islamic banking modes developed by BIMB.

In May 1997, BNM set up the National Shari'ah Advisory Council for both Islamic banking and takaful (Islamic insurance).

In October 1997, monopoly of BIMB as the sole full-fledged Islamic bank ended with the establishment of a second Islamic bank: Bank Muamalat Malaysia Berhad (BMMB).

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[5] Unless stated otherwise, the points noted here are taken from "Development of Islamic Banking in Malaysia", presentation made at Bank Negara by its staff on 31 October 2001 on the eve of official visit of Advisor to Pakistani Finance Minister.

Alongside the above developments on the Islamic banking side, on 3rd of January 1994 Islamic Inter-Bank Money Market (IIMM) was established to provide ready source of short-term funding and investment outlets for Islamic banks and Islamic banking operations of other banks.

Around the mid-1990s steps were also taken to establish Islamic Capital and Equity Market in Malaysia. The securities traded in this market include Shar'ah-approved shares, Islamic debt securities and units of Shari'ah Trust Funds.

Two other initiatives with significant Malaysian input are establishment of International Islamic Financial Market and Islamic Financial Services Board (IFSB). The IFSB, based in Kuala Lumpur, is a representative body of central banks of several Muslim countries for streamlining internationally standards for Islamic banking and its supervision and regulation.

As of October 2001, achievements in Islamic banking in Malaysia were as follows:

1. There were 2 Islamic banks, 35 other banks and financial institutions participating in Islamic banking schemes, 2 takaful operators. Three foreign banks also provide full range of Islamic banking products, and are active players in IIMM.
2. Three Development Financial Institutions and the National Savings Bank offer Islamic banking products.
3. A mortgage corporation, Cagamas Berhad, was established to purchase and securitize Islamic housing mortgages.
4. There are organized Islamic Inter-bank Money Market and Islamic Capital and Stock Markets.
5. Supervision and regulation of Islamic banking operations by the BNM and avenues for monetary policy operations have been streamlined.
6. Malaysian Islamic banking effort is taking an international character.
7. The assets, deposits and financing for Islamic banking as a whole were in excess of 12 billion, 10 billion and 6 billion, respectively.

8. BNM has set 2010 as the target date for increasing market share of Islamic banking to 20%.

According to information available on official web sites of Bank Islam Malaysia Berhad (Estab. 1983) and Bank Muamalat Malaysia Berhad (Estab. 1997), some data of interest for us are as follows:

	Bank Islam Malaysia Bhd					**Bank Muamalat Malaysia Bhd**
	1998	1999	2000	2001	2002	2002
	Growth Rates (%)					
Profit before Zakah and Tax	(76.0)	316.0	(10.8)	31.9	17.4	(9.7)
Total Deposits	0.1	51.1	29.9	20.4	22.5	21.4
Total Financing	19.0	15.5	14.2	15.5	19.0	10.5
	Ratio Analysis (%)					
Capital Adequacy Ratio	29.4	24.7	20.0	16.1	14.7	N.A.
Earnings per Share	0.2 sen	9.1 sen	4.2	5.4 sen	6.0 sen	7.93 sen

2.3 Bahrain

Bahrain has emerged as an international centre for Islamic banking. Liberal policies of Bahrain Monetary Agency and hosting of Accounting and Auditing Organization for Islamic Banks (AAOIFI) by Bahrain have played important role in this regard.[6]

"Bahrain pursues a dual banking system, where Islamic banks operate side by side with their conventional counterparts.

[6] The points noted here are taken from *Islamic Banking & Finance in the Kingdom of Bahrain* (Manama: The Bahrain Monetary Agency, 2002). The page references apply to this publication.

The birth of Islamic banking services in Bahrain dates back to 1978 when Bahrain Islamic Bank was established. Islamic banking gained momentum in the early 1980s, with the issue of four new licenses, one of which was an offshore banking unit license, while the rest were investment banking licenses. . . The 1990s marked a turning point in the development of Islamic banks in Bahrain. The BMA, during the 1990s, issued a total o eight licenses to a diverse group of institutions to enable them to pursue Islamic banking services. As of mid-2002, the total number of Islamic banks operating in Bahrain has reached 26, of which four are full commercial banks, three are offshore banking units, six are investment banks with the remainder being a representative office, an investment advisor, an investment advisor and an Islamic Infrastructure Fund". (p.18)

As noted above, Bahrain's efforts have been greatly helped by work at AAOIFI toward developing accounting and auditing standards for Islamic banking.

The Islamic banking and finance industry in Bahrain consists of full-fledged Islamic banks (such as Bahrain Islamic Bank and Al-Baraka Islamic Bank), conventional banks offering Islamic financial products (such as Arabic Banking Corporation) and Islamic banking subsidiaries of multinational banks (such as Citi Islamic Investment Bank).

"The consolidated balance sheet of Islamic banks operating in Bahrain (excluding restricted accounts) shows total assets of US $2.65 billion at March 2002.[7] This compares with US $1.3 at the end of 1998. The consolidated total assets of Islamic banks have almost doubled in less than three years. Including the restricted accounts the total assets of Islamic banks operating in Bahrain reached US $8.4 billion by the end of 2001". (p.44)

Bahrain has adopted AAOIFI standards for Islamic banking, developed since 1991.

[7] Restricted investment accounts are accounted for off-balance sheet. (p.44)

2.4 Sudan

Foundations for Islamic banking were laid in 1978 with the establishment of Faisal Islamic Bank, with generous incentives provided by the then Sudanese Government. It success was followed by establishment of several other Islamic banks in the early 1980s. The Government of Sudan decided to switch the entire financial system to riba-free basis as of July 01, 1984.

Initially there was no proper legal framework, and the banks were not ready either for the changeover. But over the years, Sudan has made commendable advances—especially on the paradigm side. Unlike Malaysia and other Islamic countries where Islamic bankers quickly resorted to trade-based modes of financing, banks in Sudan started with placing singular emphasis on Musharakah financing.[8]

Of late, Sudan has one Islamic investment bank, 20 Islamic commercial banks (10 domestic banks in the private sector some of which also have foreign ownership, 7 Government-owned banks and 3 foreign banks) and 4 specialized banks.[9] The Bank of Sudan has developed Shari'ah-compliant supervisory and regulatory framework as well, though a lot more is yet to be done.

As far as possible, Sudan is running its financial system on profit-and-loss sharing basis.[10] But there are difficulties. The cost of monitoring of financing contracts is high and the investors do not have complete information on profitability of investment. There is no equivalent of inter-bank money market to enable the banks place overnight funds or borrow to satisfy temporary liquidity needs.

The profit and loss sharing modes of financing (Modarabah and Musharakah together) accounted for 34% of the total bank financing in

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[8] An example to this effect is Sudanese Islamic Bank whose financing instruments are explained quite well by Uthman Khaleefa in his article (*see footnote 1*).

[9] These data are available on the web site of Bank of Sudan.

[10] Information in this and the succeeding paragraph is taken from Muhammad Ayub, *Islamic Banking and Finance – Theory and Practice* (Karachi: State Bank of Pakistan, 2002), pp.128-131.

1996, and it declined to 28% in 1997. The more recent position, as per web site of the Bank of Sudan, is as follows:

Percentage of Flow of Credit by Mode of Finance								
	1999	2000	2001				2002	
	4th Q	4th Q	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q
Murabahah	45.1	29.1	39	44	37	38	34	30
Musharakah	29.3	52.0	41.4	35.2	21.1	26.9	37.9	25.8
Modarabah	9.8	1.7	3.2	1.8	9.9	4.8	0.2	2.5
Others	13.4	14.7	11.4	14.5	21.4	25.5	26.3	37.5

2.5 Iran

In Iran, all banks are nationalized. The Government of Iran introduced Law of Usury-Free Banking in 1983. Since then all banking operations are interest-free banks. The Iranian model is distinct due to some unique positions on Shari'ah matters taken by Iranian scholars.

2.6 Other Countries

Among the other countries, Islamic banking started in **Indonesia** with the establishment of Islamic Trust Company and an Afro-Asian Islamic business organization.[11] In 1983, the two largest Islamic organizations in Indonesia began to operate Islamic rural banks. The first Islamic commercial bank started operating in 1992. Major policy shift occurred with the introduction of new banking act on November 10, 1998. This act provides legal foundations for Islamic banking in Indonesia side by side with conventional banking. This act also provides basis for supervision and regulation of Islamic banking activities. A new act in 1999 also empowers the central bank to develop and apply a monetary control system to Islamic banks. Malauna Ibrahim reports that total assets under Islamic banking registered growth of 50% per annum within periods of 1999 to 2003.

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[11] Information on Islamic banking in Indonesia is taken from "Islamic Banking: An Indonesian Scene" by Maulana Ibrahim, Deputy Governor of Bank Indonesia. This paper was read at International Conference on Islamic Banking Risk Management, Regulation and Supervision -2003, held in Jakarta.

There also exist Islamic banks in Philippine and Brunei. The latter seems to be ready to take-off for Islamic banking like its ASEAN neighbors.

Bangladesh also has a dual banking system. There is legal cover available for Islamic banking. Islamic Bank Bangladesh started operations in 1983 with license from the Central Bank of Bangladesh. In 1999, there were four local Islamic banks (including an investment bank) and a foreign Islamic bank.

Various **UAE** states have Islamic banks working side by side with Islamic banks. In fact, Dubai Islamic Bank, established in 1975, is the first Islamic commercial bank in the world. **Kuwait**, **Qatar**, **Jordon** and **Turkey** also have significant Islamic banking presence. The same is the case with **Egypt** and **Saudi Arabia**. These countries do not separate laws, but have allowed Islamic banking to operate under their existing laws for conventional banks. None of these countries has any official policy or plan for a complete transformation of their and financial system.[12]

Western Europe, the **United States** and **Canada** are host to many Islamic financial institutions. Some of these are subsidiaries of conventional banks (such as HSBC Amanah Finance). Others provide Islamic financing services to Muslim minorities. An example is Islamic housing finance scheme in Canada that is successfully working for the last 20 years.

3. Bank Performance on the Shari'ah Benchmark

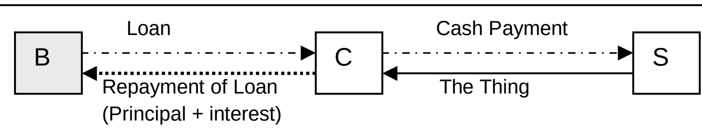
3.1 The Benchmark

Islamic banking started in the 1970s as a result of joint effort of resourceful individuals, professional bankers, Islamic economists and Shari'ah scholars. There was no initial working model. Prohibition of riba was seen as denial of predetermined and fixed return on loans. Clue to Islamic banking was traced to the permissibility of trading, mentioned

[12] To the extent of Egypt and Saudi Arabia, this point is explicitly mentioned in the 2002 Annual Report of the State Bank of Pakistan. As for the other countries, we presume the same to be the case in the absence of an know policy action for Islamic banking.

along side the prohibition of riba in ***Al-Baqarah* 2:275**. Thus Profit-and-Loss Sharing- (PLS-) based banking was seen as the Islamic response to the dominant interest-based banking.[13] Practical considerations soon forced Islamic bankers and their leading lights to turn to other options as well. Thus came in the picture murabahah and other trade-based alternatives along with leasing-based options. This paradigm-shift initially took place in the mid-eighties under the heading of "interest-free banking" with PLS-based banking still regarded as the first best. But soon Islamic banking came to be viewed as banking based on all transaction modes permitted in the Shari'ah. Subsequent refinements in Islamic banking practices have in fact thinned the demarcation line between Islamic banking and universal banking. This has led some scholars to think that Islamic banking is universal banking (Al-Jarhi, 2003). This conclusion, perhaps, needs reconsideration (*see below*).

Islamic banking draws its rationale from the fact that a third-party role for financial institutions exists whenever there is a financial gap that inhibits primary economic exchanges from taking place. This is also the genesis of modern banks. In the interest-based economic setup, banks perform their role by staying outside the real economic transaction between two parties. For example, if a cash-strapped person (C) wants to buy a thing from a supplier (S) who demands cash, bank provides an interest-based loan, and the process works as below:



Interest-based Solution: Bank as Lender

As against the above, an Islamic bank can play a meaningful role as follows:

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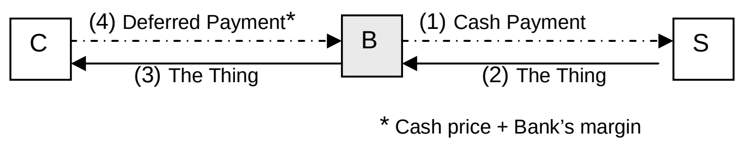
[13] See, for example, *Banking without Interest* (Leicester UK: Islamic Foundation, 1989) by Muhammad Nejatullah Siddiqi, originally published in 1969 in Urdu, and *Report on Elimination of Interest from the Economy* by the Council of Islamic Ideology of Pakistan, released in June 1980. This point is also manifest in Mohamed Uthman Khaleefa's paper "Islamic Banking in Sudan's Rural Sector", *Islamic Economic Studies*, 1(1), 1993, p.38.



Islamic Solution: Bank as Trader

In the above scheme, the bank enters into two trading transactions: one involving purchase of the thing from the supplier and the other its sale to the client. There is no Shari'ah problem if a bank goes into trading because what is permissible for an individual, that is also permissible of the bank—group of individuals. Against this backdrop, what matters for Shari'ah-admissibility is Shari'ah-compatibility of each one of the two (trading) transactions. Of course, an instrument can be designed around the above arrangement such that (i) practical involvement by the bank is negligible, (ii) financing cost for the bank is minimal, (iii) adequate covers are in place to ward against financial risks, and (iv) the bank remains a financial institution that practically handles financial side of the equation.

The above argument suggests that Islamic bank's role function will be different depending on the client's situation and needs. For example, Islamic bank came into the above picture as "trader". it may provide working capital financing through the salam (purchase on the basis of cash payment against future delivery) or istisna' (salam involving manufacturing) modes, and recover its financing by having standing arrangements with final buyers for things produced in the name of the bank against the financing. It may adopt the option of operating lease if the client is interested in leasing an asset. And, last but not least, it can provide financing on partnership basis—modarabah or musharakah.

The above is a brief introduction to the theory of Islamic banking, of course, with emphasis on the financing side.[14] Similarities with universal banking are superficial. Notwithstanding the areas of operation,

[14] Details are available in "Islamic Financial Paradigm", IDP Prize Lecture, delivered on behalf of International Institute of Islamic Economics, at Islamic Development Bank on 21 September 2001.

differences lie in the modes of transactions and their associated practical arrangements. For example, whereas an Islamic bank may charge a fixed markup in murabahah financing, the thing provided may not be repossessed, payment delays/defaults will not justify any compensatory claims, and the client may not claim rebates for early settlement. Of course, the bank can make recourse to some covers in order to protect its financing.

3.2 The Bank Performance

There are problems from the Shari'ah angle in the adaptation of the Islamic banking model. Some of these are as follows.

A. Murabahah Financing[15]:

Murabahah financing has not lived up to its billing. The theory of murabahah suggests that an Islamic bank will come in the picture as buyer from the supplier and, then, as seller to the client (*see above*). Initially, i.e. in the mid-eighties when the concept was introduced in Islamic banking, the idea was applied with the bank first seeking firm commitment by the client to purchase the thing acquired on his behalf, and then entering into purchase at its end. Lately, however, in most cases murabahah financing works as follows: (1) a financing facility is created in the name of the client, (2) the client makes necessary purchases, (3) the bank releases payments against invoices produced before it, (4) the client directly gets the delivery, and (5) "trading" is effected by signing a purchase-sale agreement between the client and the bank.[16] The bank does not verify and/or enter the item(s) purchased in its records. The murabahah agreement absolves the bank of any liabilities that might stem from any action at the client's end against the bank's interests. There is also the provision for financial penalty on payment defaults. On the face of it, the sum of penalty is not supposed to go to the bank, but auditing considerations imply that ultimately the bank's discretion will be involved in its disposition. In substance,

[15] It is noteworthy that there is no material difference between *bai' muajjal* (sale on deferred payment) and murabahah.

[16] In interest-based financing, banks release payments against cheques written by the client. And, of course, the fourth step of murabahah financing is absent.

therefore, murabahah financing transaction is nearly the same as interest-based loan financing.

B. Lease Financing:
The popular transaction mode is *ijarah wa iqtina* (hire-purchase) or *ijarah muntahi-bi-tamleek* (lease ending with ownership). Whereas the primary deal is for leasing, the thing is also sold to the client (through pre-specification of the asset and its final price for the client). Of course, the sale takes affect after settlement of all payment matters coinciding with payment of the last installment. This combination of leasing ("not selling") and sale ("selling") is at odds with the Shari'ah. Moreover, it is no different from financial lease previously rejected by Shari'ah scholars as a case of riba in disguise.

C. Other Modes of Bank Financing
Salam or istisna' financing is not popular in retail Islamic banking. And, except in Sudan, modarabah or musharakah financing never really got off the ground.

D. Deposit Mobilization
Most of the intellectual activity over the past few decades has been geared toward into developing Shari'ah-compliant alternatives for bank financing. The deposits side attracted little attention. A closer look at the matters reveals that the line of distinction between Islamic banks and their interest-based counterparts is thin. Depositors are attracted on the promise that they will get return out of riba-free financing, but the contract forms, the funds management practices, the accounting conventions, the profit-and-loss calculations and the methods of distribution of profits are not different from those in vogue among interest-based banks.

E. Bank Supervision
"Supervision" is traditionally aimed at promoting good banking practices and solvency of the banks, in particular from the depositors' point of view. But supervisory issues invariable overlap with regulatory matters, such as ensuring adequate liquidity at both individual bank and the economy levels. This factor needs to be kept in view while dilating on the issue of supervision.

In Malaysia, detailed guidelines are in place for Islamic banking operations. The Islamic banks and other financial institutions in respect of their Islamic banking operations, are required to observe the same prudential requirements, Statutory Reserve Requirements, Statutory Liquidity Requirements and Capital Adequacy Ratio as interest-based banks. In 1996, Bank Negara also introduced separate financial disclosure requirements for Islamic banking.

Government Investment issues (GIIs) serve as substitute for interest-based Malaysian Treasury Bills (MTB) for parking liquidity by players in the Islamic banking field. Originally, GIIs were issued on the principle of Qardul Hasan (goodly loan from security-holders on zero-interest basis) to the Government of Malaysia. Although the GII-holders are not entitled to a return, but the Government, at its discretion, regularly gives a return. Normally the rate of return is determined by a committee representing the Prime Minister's Department, the various Ministries and the BNM, in the light of economic conditions of the country, existing yield levels for similar other instruments and the inflation rate. Though GIIs do not have a secondary market, the BNM opened a window for banks to sell and purchase the papers with the central bank. The price is determined by BNM on the basis of "expected dividend".

In June 2001, basis for GII was changed from Qardul Hasan to Bai Al-Inah. This involved the sale and re-purchase of some Government Assets between the Government and the banks. This new GII is traded in the inter-band money market, and also serves as a monetary policy instrument.

In addition to the above, some short-term financial instruments in the Islamic Inter-bank Money Market are Bank Negara Negotiable Notes, Islamic Accepted Bills, Bankers Acceptance and Islamic Commercial Papers. And, among the long-term instruments, there are—in addition to GIIs—Sanadat Mudharabah Cagamas, Islamic Negotiable Instruments and Islamic Debt Securities. The list is indeed impressive, but independent Shari'ah-appraisal is warranted.

In Bahrain, BMA has developed and adopted since March 2002 Prudential Information and Regulatory framework for Islamic Banks

(PIRI) (p.64). It has adopted the principle of CAMEL[17] ratings for Islamic banks with some also AAOIFI's recommendations in the calculation of the various indices, in order to ensure good banking practices by Islamic banks.

The BMA, in line with the Basle Committee guidelines, has set Capital Adequacy Ratio for Islamic banks at 12%, and requires inclusion of 50% of the risk-weighted assets of Profit Sharing Investment Accounts in the denominator for calculation of the ratio. (p.64)

As for Asset Quality, Islamic banks are expected to kept asset of sound quality and also monitor any impairment in them. At its end, the BMA has also down criteria for the banking in their monitoring and control of large exposures. (p.65)

As for Management of Investment Accounts, the BMA has adopted AAOIFI's Financial Accounting Standard No. 11 ("*Provisions and Reserves*") that covers the provisions and reserve recognition measurement and disclosure matters for Islamic banks. Full disclosure of the bank's Profit Equalization and Investment Risk Reserve is required in accordance with requirement of the said standard. Islamic banks are also required to indicate profit allocation basis for making provisions and reserves. The banks are also not permitted to transfer funds from restricted investment accounts to corporate books (carrying self-financed assets and those financed by unrestricted investment accounts without the prior approval of the BMA (p. 65).

Developments in Sudan took place against the backdrop of a riba-free financial system since 1984. Some important instruments of monetary control are:[18]

1. Cash Reserve Requirements with no return given by the Central Bank of Sudan
2. Ratio of capital contribution to be made by the client for acquiring bank financing

[17] C = Capital Adequacy Ratio, A = Asset Quality, M= Management of Investment Accounts, E= Earnings Quality and Profit and Loss, L=Liquidity Management.

[18] The information about Sudan is drawn from Mohammad Ayoub, *Islamic Banking* (Karachi: State Bank of Pakistan), pages 129-131.

3. Minimum profit margin that banks ought to charge on Murabahah financing[19]
4. Central Bank Musharakah Certificates (CMCs)
   Under this arrangement, large assets of the Ministry of Finance, the Bank of Sudan, Nilain Bank and other public entities are securitized. Denomination of each certificate is 10 million Sudanese Dinars. There existed 3940 such certificates as of 30th April 1999. Holders of these certificates have legal claim to assets of the Bank of Sudan and Ministry of Finance etc. The investor in CMCs becomes a Musharik (partner) in a close-ended fund. Profits not distributed are re-capitalized in the fund, and the fair value of fund, posted monthly, reflects the face value of the fund plus retained profits. The CMCs are sold (or bought) through auction by the Central Bank. The CMCs can be traded in the secondary inter-bank market. The Central Bank stands ready to by the CMCs on demand for a daily posted price that reflects the last auction price (or published fail value, whichever is available) minus a fixed brokerage amount. CMC-holders get profit (or loss) from realized capital gains (or losses). The C
5. Government Musharakah Certificates (GMCs)
   The Government has a group of wholly or partially owned companies. Their assets are the basis for GMC. A close- or open-ended fund consisting of minority shares in Government-owned unlisted enterprises is established. The face value of the fund is established on date of issue. Musharakah papers are issued against the fund (with different maturity terms). Actual value is determined by the market, and rate of return is determined by the performance of the fund.
6. There is also a people's long-term fund of five years maturity on which no return is guaranteed, but the return is paid on the outcome of profit of specific projects.

Banks can also acquire funds from the Central Bank to meet temporary shortages. Temporary shortage for 15 days is met without much problem. The general Musharakah is basis for such funds, with the Central Bank's share in profits being 70%. In addition to this, restricted Musharakah is used to provide liquidity to the banks, on short-term

[19] In this way, no Shari'ah bar on maximum profit rate is avoided.

basis, for investment in a specific project and for agriculture and exports.[20]

In Pakistan, the State Bank of Pakistan is cognizant of the need for "an appropriate framework for regulating and supervising Islamic banks applying the principles of sound banking business".[21] But while detailed Prudential Regulations and various statutory reserve requirements are in place for commercial banks, the State Bank of Pakistan is working to evolve such a framework for Islamic banks. As to the direction of thinking at the SBP level, The 2002 Annual Report states: "It would require an innovative approach keeping in view the Shari'ah essentials of Islamic modes, accounting and auditing standards recommended by AAOIFI (Bahrain) and the international best practices.[22] In this context, recourse could be made to the experience of Bahrain Monetary Agency (BMA) that in addition to the application of rigorous regulatory and transparency standards, has pioneered a range of innovations designed to broaden the depth of Islamic financial markets and to provide Islamic institutes with wider opportunities to manage their liquidity and risk spectrum.

The problem of alternative liquidity management by banks and monetary management by the State Bank needs to be resolved. For this purpose, development of financial instruments on the basis of Musharakah, Modarabah, Leasing and Salam-related to a large spectrum of maturities, projects and issuing entities, whether government or provide, to cover needs of financial markers, would require resolute and common efforts by the State Bank, Islamic banks and the concerned research institutions" (p.195).

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[20] In Sudan, the Government does not borrow to finance its current expenditure. According to the law, the Government can borrow on interest-free basis from the Central Bank up to 25% of the estimated ordinary revenue for any year. The Government may also borrow from international donors, such as the IMF, on the basis of interest but only on ground of necessity that is to be vetted by a Shari'ah committee. Beyond a certain limit, Government borrowing has to be approved by the National Assembly.

[21] The points noted here are taken from *State Bank of Pakistan Annual Report FY02*, p.195, and Annexure-I to BPD Circular No. 01 of 2003. Both these are available at the website of State Bank of Pakistan.

[22] Apparently, the reference here is to the requirements prescribed by the Basel Committee.

Notwithstanding the above, some points relevant for supervision and regulation of Islamic banking are as follows:

1. Interest-based commercial banks are required to keep 15% of their deposits with the State Bank of Pakistan as reserves toward Statutory Liquidity Requirements, and they are given interest on it. The same for Islamic commercial bank are 6% of the deposits on which the bank does not get any return.—Technically speaking, the Islamic bank is compensated for loss of return by letting it invest the remaining 9% in stock market and other Islamic investments.
2. The Islamic commercial banks are also required to observe 5% Cash Reserve Requirements that already apply to interest-based commercial banks.
3. The State Bank has also entered into agreement with a chartered accountants firm to develop a manual for Shari'ah audit of Islamic bank. This audit will cover both deposit mobilization and financing.
4. In the case of Islamic Banking Branch(s) operations, the IBD of the concerned bank is required to open a separate current account—a non-interest-bearing account—with the State Bank and keep in this account 6% of their time and demand liabilities toward SLR and 5% toward TDL.

Last but not the least, we may add that Indonesia has also made impressive strides towards supervision and regulation of its Islamic banks. Other countries, such Bangladesh, are also following the same path.

4. Some Prospects for Future Research

The guiding considerations before us are as follows. One, to identify gaps where fruitful research possibilities exist in the domain of Islamic banking. Two, to see how such research will add significantly to information on current issues of relevance to policy and planning for development.

As noted earlier, Islamic banking started in the 1970s without an initial working model. The work started with joint effort of resourceful individuals, professional bankers, Islamic economists and Shari'ah scholars. Prohibition of riba was seen as denial of predetermined and fixed return on loans. Clue to Islamic banking was traced to the permissibility of trading, mentioned along side the prohibition of riba in ***Al-Baqarah*** **2:275**. Thus Profit-and-Loss Sharing- (PLS-) based banking was seen as the Islamic response to the dominant interest-based banking. Practical considerations soon forced Islamic bankers and their leading lights to turn to other options as well. Thus came in the picture murabahah and other trade-based alternatives along with leasing-based options. This paradigm-shift took place in the mid-eighties.

There is room for basic research on both juridical and practical issues in order to develop a comprehensive theory of Islamic banking. That can be a long-term project.

A few relevant studies are as follows:

1. A comparative study of the Islamic banking model in the various Muslim countries. The Malaysian model of Islamic bank is based on the precedence set by Bank Islam Malaysia Berhad. In Pakistan Islamic banks are given unlimited freedom in developing their financial instruments. Iran has highly centralized banking system supposed to be working on riba-free basis. Information about Sudan is not widely available, although Islamic banking has longest history in that country. A systematic inquiry is likely to help understand the implementation and growth of Islamic banking and to provide a good basis for future discourse.
2. Comparative studies on practical implementation of the different modes of financing both across different Islamic banks in a Muslim country and across the various Muslim countries that have adopted Islamic banking. For example, in principle murabahah means a bank coming into the picture as a "trader" to meet the needs of its client. However, the practical adaptation of this idea, mostly shrouded in secrecy, is not the same across all Islamic banks. Likewise, the hire-purchase arrangement adopted by Islamic banks is very close to financial lease in interest-based banking industry. A close look at

these and other matters is needed for standardization in and the future of Islamic banking.

3. Comparative study of deposits mobilization and management by Islamic and interest-based banks. An empirical study is needed to look into the following matters. The financial products offered by the two types of banks, mentioned above, and conceptual and practical differences between them, differences in deposit-management by the two types of banks and their accounting practices.
4. A comparative study of depositors who hold/held accounts with both interest-based and Islamic banks. The focus may be of factors determining the choices of such depositors and their actual experiences.
5. The legal framework and Islamic banking. It is quite surprisingly that Islamic banking has developed a significant presence is several Muslim countries with the claim that it represent a different way of banking, but the legal framework in the Muslim countries is the same. Of course, some legal cover is provided for Islamic banking. But, the laws, rules, regulations and procedures on the statue books in these countries are with framed with reference to interest-based banking. Some reverberations are already being felt in Malaysia, for example, where cases can gone for judicial arbitration. A study of compatibility of the legal system with needs of Islamic finance is urgently needed.
6. Shari'ah-compliant financial instruments for routing banking operations. Such a study can provide a basis for evaluation of the Islamic banking practices world-wide as well as remove an important hurdle in the future development of Islamic banking.
7. A model of microfinance based on the concepts of Islamic banking. What is needed is a model that can be adopted by NGOs and local and foreign donors for empowerment of the poor with fair degree of transparency. Of course, answers to issues like documentation and institutional networks to support such a model are need to be provided.
8. Shari'ah Manuals for Islamic banking. There exist fatawa (religious decrees) and works on vocabulary of Islamic banking. There is need to compile the Ahkam (the Shari'ah rulings) for Islamic banking along with the basis of such rulings and a standard work on the

vocabulary side. The latter is necessary in order to remove dual use of many of the terms by the practitioners of Islamic banking.

9. Divisible and tradable financial instruments for helping to meet well-defined development-related needs of Muslim countries. Such case-by-case studies can serve two purposes: on one hand the concerned Muslim countries may recognize the choices open to them and on the other hand the donor agencies can identify the options available to them in the years ahead.
10. A textbook on Islamic banking that may be taught undergraduate or graduate level in both Muslim and other countries.

In passing, it may be mentioned that the above topics have been indirectly touched by the various studies listed in the bibliography. The problem is that the existing works are of a fragmented nature: they do not take into account all the relevant issues in the discussion of their subjects. Moreover, the respected authors have used a broad brush while defining their responses to the various issues. It is now time for review and consolidation.

APPENDIX

A SELCETED BIBLIOGRAHPY

This bibliography covers only the literature produced in the English language. Moreover, brief annotation of only the books is provided.

1 Sources of the Literature on Islamic Banking

1.1 The Principal Source

The principal source of literature on Islamic banking during 1995-2005 has been international conferences and seminars on the subject. The premium events during this period were:

1. Seminar on the Mechanism and Development of Islamic Financial Instruments (11-13 August 1996) held in Dhaka, Bangladesh.
2. The Seminar on Islamic Economics Towards the 21st Century (August 1999) held at International Islamic University Malaysia.
3. Seminar on the Philosophy and Implementation of the Islamic Financial Instruments (13-15 June 2000), Central Bank of Iran, Tehran.
4. The 4th International Conference (13-15 August 2000) on Islamic Economic and Banking held at Loughborough University, Leicester UK.
5. Seminar on Regulation and Supervision of Islamic Banks: Current Status and Prospective Developments (24-26 April 2001) held in Khartoum under the auspices of Higher Institute for Banking and Financial Studies, Sudan.
6. Research Seminar on Non-Bank Financial Intermediaries: Islamic Alternatives (7-9 April 2003) organized by Islamic Banking and Finance Institute Malaysia.
7. International Seminar on Islamic Wealth Creation (7-9 July 2003) held at University of Durham, UK.
8. 1st International Conference (30 September-2 October 2003) on Islamic Banking: Risk Management, Regulation and Supervision organized by Bank Indonesia in Jakarta.

9. The 5th International Conference (7-9 October 2003) on Islamic Economics and Finance held at University of Bahrain, Bahrain.
10. International Seminar on Islamic Banking and Finance (5-7 January 2004) held at Universiti Brunei Darussalam.
11. Seminar on Developing Islamic Banking and Capital Markets: New Opportunities, New Market and New Frontier in Islamic Banking & Finance (25-26 August 2004) held at Kuala Lumpur.
12. The 6th International Conference on Islamic Economics and Finance (21-24 November 2005) at Bank Indonesia.

Apart from the above, another medium for intellectual activity was international symposia and training programs offered by various private sector training groups.

1.2 Journals

There are at least six journals that regularly produce literature on Islamic banking and finance. These are:

1. *Islamic Economic Studies*, a quarterly publication of the Islamic Research and Training Institute of the Islamic Development Bank, Jeddah.
2. *Journal of King Abdul Aziz University: Islamic Economics*, published biannually by the Centre for Research in Islamic Economics of King Abdul Aziz University, Jeddah.
3. *Journal of Economics and Management*, published biannually be the Kulliyyah of Economics & Management of the International Islamic University Malaysia.
4. *Review of Islamic Economics*, published by International Association for Islamic Economics (based in The Islamic Foundation, Leicester UK).
5. *Journal of Islamic Banking & Finance*, a quarterly journal of International Association of Islamic Banks (Asian Branch), Karachi.
6. *International Journal for Islamic Financial Services* published by the sponsors of IBF-Net (past issues available online).

In addition to the above, articles on Islamic banking and finance occasionally appear in the mainstream journals on Islamic economics, banking and finance. For example, *Journal of Money, Credit and Banking*.

1.3 Institutional Sources

Some of the institutions and other organizations producing the literature are as follows:

1. Islamic Research and Training Institute of the Islamic Development Bank, Jeddah.
2. Institute of Islamic Banking and Insurance, London UK.
3. The Islamic Foundation, Leicester UK.
4. Centre for Research in Islamic Economics, King Abdul Aziz University, Jeddah.
5. International Institute of Islamic Economics, Islamabad.
6. Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain.

The research wing of the International Monetary Fund also releases in-house research on Islamic banking and finance from time to time.

1.4 Central Banks and Securities & Exchange Commissions as Information Source

Some central banks of Muslim countries place rules for Islamic banking on their websites. In some of these cases, additional information is also provided by way of review of Islamic banking in the respective countries. The active central banks and securities commissions, in this regard, are:

1. Bahrain Monetary Agency
   — The BMA issues a monthly newsletter titled *Islamic Finance*.
2. Bank Negara Malaysia and Securities Commission of Malaysia
   — The Islamic Banking Act, *Guidelines on the Specimen Reports and Financial Statements for Licensed Islamic Banks*, Guidelines for Islamic Securities, List of approved Islamic securities and ratings of these securities are available on the websites of these two institutions
3. State Bank of Pakistan
   — The website of State Bank has a separate page for its Islamic Banking Department. Main circulars issued for Islamic

banking since the year 2000, criteria for establishing Islamic banks and Islamic windows and the financial instruments approved by the State Bank available on this website. In additional, annual reports of the State Bank also contain review of Islamic banking in Pakistan.

1.5 Islamic Banks as a Source of the Literature

Several Islamic banks (such as Al-Baraka Islamic Bank of Bahrain, Bank Islam Malaysia Berhad and Islamic Bank of Brunei Darussalam) have also played useful role in the dissemination of knowledge on the concepts of Islamic banking, their Shari'ah basis and working of the Islamic banks.

Some Islamic banks have even taken the initiative to print material of interest for Islamic bankers. For example, Islamic Bank of Brunei has published two volumes, one containing the Fatawa (the juridical edicts) governing Islamic banking in Brunei and another introducing Islamic banking in a question-answer format.

Last but not least, Annual Reports issued by the various Islamic banks from time to time are also a useful source of information on Islamic banking.

1.6 The Web as a Literature Source

Most of the Islamic banks have their own websites. These websites give information on the Islamic concepts used by the respective banks, their financial products and annual reports.—The actual financial instruments used by these banks, i.e. practical interpretation of the Islamic concepts by the banks, are not available.

Some institutions (such as the Islamic Research and Training Institute of the IDB, Jeddah and Centre for Research in Islamic Economics, Jeddah) has placed many of their publications on the internet.

Some individual authors like M. Kahf, for example, have their own websites.

There are some free-access domains. For example, IBF-Net allows limited free access to Islamic economics and banking literature in its archives.

Last but not least, painstaking search from hundreds of thousands of listings on Islamic banking and finance can yield useful information that can help in serious research.

1.7 Availability of the Literature

Availability of the literature is the major problem. There is also a publication lag in the release of the papers read at international conferences and seminars. Thus, some of the publications during 1995-2005 actually give the literature produced before 1995.

Lately, interest is increasing among several international publishers to release titles on Islamic banking and finance. For example, Macmillan, incl. its Palgrave-Macmillan affiliate, and Edward Elgar.

2. The Books

The number of books published during 1995-2005 is significant, though not large. Most of these are collections of conference/seminar papers.

The following list includes all the titles that are not specifically issued as a monograph or occasional paper like some of the publications coming from Islamic Research and Training Institute of the IDB, Jeddah.

AAOIFI (Accounting and Auditing Organization for Islamic Banks) (1999), *Statement on the Purpose and Calculation of the Capital Adequacy Ratio for Islamic Banks*, March, Manama, Bahrain: AAOIFI.

AAOIFI (2003), *Accounting, Auditing and Governance Standards for Islamic Financial Institutions*, 4th Edition, Manama, Bahrain: AAOIFI.

AAOIFI (2003), *Shari'ah Standards – 1424-5/2003-4*, Manama, Bahrain: AAOIFI.

Adam, N.J. and A. Thomas, *Islamic Bonds: Your Guide to Issuing, Structuring and Investing in Sukuk*, London: Euromoney Books.

Ahmad, A. and T. Khan (eds.) (1997), *Islamic Financial Instruments for Public Sector Resource Mobilization*, Jeddah: Islamic Research and Training Institute, IDB.—The collection of papers read at the 1996 seminar on Mechanism and Development of Islamic Financial Instruments held in Dhaka, Bangladesh. A variety of Islamic options for financing government operations are explored.

Ahmad, S.R. and N. Ali (eds.) (1995), *Strategic Issues in Islamic Banking*, Lahore: Ferozsons Ltd.—A collection of 11 articles published in the various issues of *The Banker*, a journal of the Bank of Punjab, during the early 1990s. The themes covered include the issue of indexation for inflation, conceptual matters in Islamic banking, the Modarabah companies in Pakistan and the practice of Islamic banking in Pakistan and Iran.

Ali, M. (1995), *Islamic Banking and Its Problems*, London: Institute of Islamic Banking and Insurance.

Al-Omar, F. and M.A. Haq (1996), *Islamic Banking, Theory, Practice and Challenges*, London: Zed Books.—This short book looks at the basics of Islamic banking.

Anwar, M. and M.A. Haneef (eds.) (2005), *Studies in Islamic Banking and Finance in the 21st Century: Theory and Practice*, Kuala Lumpur: International Islamic University Malaysia.

Archer, S. and R.A.A. Karim (eds.) (2002) *Islamic Finance: Innovation and Growth*, London: Euromoney Books and AAOIFI.—This is a collection of 14 essays by the experts covering virtually all aspects of Islamic banking and finance.

BMA (Bahrain Monetary Authority) (2002), *Islamic Banking & Finance in the Kingdom of Bahrain*, Manama: BMA.—An comprehensive yet concise introduction to Islamic banking in Bahrain. The coverage includes conceptual matters, Islamic banking in vogue and financial initiatives taken—such as issuance of sukuks, establishment of Liquidity Management Centre and International Islamic Financial Market—in order to establish Bahrain as hub for Islamic finance in the Middle East.

Buckmaster, D. (eds.) (1996), *Islamic Banking – An Overview*, London: Institute of Islamic Banking and Insurance.

DeLorenzo, Y.T. (1997), *A Compendium of Legal Opinions on the Operations of Islamic Banks: Ijarah, Sarf and Riba*, London: Institute of Islamic Banking and Insurance.

DeLorenzo, Y.T. (1997), *A Compendium of Legal Opinions on the Operations of Islamic Banks: Murabahah, Modarabah and Musharakah*, London: Institute of Islamic Banking and Insurance.

Henry, C.M. and R. Wilson (2004), *The Politics of Islamic Finance*, Edinburgh: Edinburgh University Press (Reprinted by Oxford University Press, Karachi – Pakistan, in 2005).— This volume has six essays on political economy of Islamic finance and six case studies. In the first six essays, important factors influencing the course of Islamic banking are looked into. In the other six, Islamic finance in Sudan, Kuwait, Jordon, Turkey, Tunisia and Egypt are covered.

IIBI (Institute of Islamic Banking and Insurance) (1995), *Encyclopaedia of Islamic Banking and Insurance*, London: IIBI.—This is a collection of essays by Islamic economists and bankers on various aspects of Islamic banking and finance.

IIBI (2000), Directory of Islamic Banking – 2000, London: IIBI.

IIIE (International Institute of Islamic Economics) (1999), *IIIE's Blueprint of Islamic Financial System*, Islamabad: IIIE.—This is the only work that touches on both doctrinal matters and working details of Islamic financial system in the modern times. The areas covered include the Ahkam on riba, review of the 1980 and 1992 reports of the Council of Islamic Ideology and the national Commission for Islamization of the Economy respectively, Shari'ah-compliant options for modern commercial banking, financing government transactions, international transactions, central banking and monetary management and strategy for the elimination of riba. The argument is presented in a point form due to this work being a report of the IIIE's faculty on the subject.

Iqbal, M. (ed.) (2003), *Islamic Banking and Finance: Current Developments in Theory and Practice*, Leicester: The Islamic Foundation, UK.—This work consists of eight of the papers read at the 4th International Conference on Islamic Economics and Banking held at Loughborough University in 2000. The theoretical papers cover issues in gharar, the effect of moral hazard on financial contracts and trading arrangements and regulation of stock market. The applied papers look into issues in debt management, state of Islamic banking and relative efficiency of an interest-free economy.

Iqbal, M., and A. Ahmad (eds.) (2005), *Islamic Finance and Economic Development*, London: Palgrave Macmillan.—This is a collection of eight papers read at the 5th International Conference on Islamic Economics and Finance held in Bahrain. Two general papers on role of Islamic finance in development. The rest are empirical studies in role of Islamic finance in economic growth and development and efficiency of Islamic banks.

Iqbal, M., and T. Khan (eds.) (2005), *Financial Engineering and Islamic Contracts*, London: Palgrave Macmillan.— This book consists of five papers read at the 5th International Conference on Islamic Economics and Finance held in Bahrain in 2003. The coverage includes discussion of selected fiqhi issues for designing financial contracts, in particular practical issues concerning futures contracts.

Iqbal, M., and D.T. Llewellyn (eds) (2002), *Islamic Banking and Finance: New Perspectives in Profit Sharing and Risk*, Cheltenham: Edward Elgar.— This is a selection of 11 the papers read at the 4th International Conference on Islamic Economics and Banking held at Loughborough University in 2000. The papers look into decision-making under uncertainty, incentive-compatible contracts, the effect of asymmetric information on Islamic financial contracts and Islamic banking contracts in selected countries.

Iqbal, M. and P. Molyneux (2004), *Thirty Years of Islamic Banking: History, Performance and Prospects*, London: Palgrave Macmillan.—This is a general treatise on theoretical foundations of Islamic banking, the Islamic banking model, history and growth of Islamic banks, performance and efficiency of Islamic banks and some of the challenges facing Islamic banking in the 21st Century.

Islamic Fiqh Academy (2000), *Resolutions and Recommendations of the Council of the Islamic Fiqh Academy, 1985-2000*, Jeddah: Islamic Research and Training Institute, IDB.—The Islamic Fiqh Academy was established by the OIC in 1975 in order to do collective Ijtehad on critical issues facing the Muslim Ummah. English translations of the resolutions and recommendations of the Academy during 1985-2000 are available in this book.

Khan, W.M. (2002), *Transition to a Riba-Free Economy*, Islamabad: Islamic Research Institute.—This book is based on the author's presentation before the Shariat Appellate Bench of the Supreme Court of Pakistan in 1999. The author touches on issues to be addressed in transition to a riba-free economy.

Khan, Z.A. (2001), *Islamic Banking and Its Operations*, London: Institute of Islamic Banking and Insurance.

Habib-ur-Rahman (2003), *Islamic Financial Instruments*, Peshawar: Sardar Khan Welfare Trust.—Contrary to the title, this work does not go beyond discussing some conceptual matters and a few modes of financing.

Khan, A.W. (n.d.), *Method for Starting Interest-Free Banking* (Available from the author: P.O. Box 62380, Riyadh 11585, Saudi Arabia).—This booklet is a collection of writings by an Islamic banking enthusiast who promotes the concept of time-multiple counter loans proposed by the late Shaikh Mahmud Ahmad.

Mahdi, M.A. (ed.) (1995), *Islamic Banking Modes for House Building Financing*, Seminar Proceeding Series No. 28, Jeddah: Islamic Research and Training Institute, IDB.

Malik, M.H. (1999), *Financing in Islam: An Operational Approach*, Islamabad: Malik Publication.—The discussion in this book is limited to conceptual issues in Islamic banking.

Molyneux, P., and M. Iqbal (2004), *Banking and Financial Systems in the Arab World*, London: Palgrave Macmillan.—This book mostly looks at the banking system in the Middle East. Islamic banking is touched in passing.

Mills, P.S. and J.R. Presley (1999), *Islamic Finance: Theory and Practice*, London: Macmillan.

Nyazee, I.A.K. (1995), *The Concept of Riba and Islamic Banking*, Islamabad: Niazi Publishing House.—The focus in the book is mostly on the subject of riba.

PIQS (Pakistan Institute for Quranic Shariah) (2001), *Riba: Commercial Interest and Usury*, Islamabad: PIQS.—This is a collection of short essays by scholars and others from different walks of life after the issuance of the Supreme Court of Pakistan's judgment on riba.

Presley, J.R. (1999), *Islamic Finance: Theory and Practice*, London: Macmillan.

Rosly, S.A. (2005), *Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking and Finance, Investments, Takaful and Financial Planning*. Bloomington, Indiana: Author House.—This is collection of writings of the author on Islamic banking and finance in Malaysia over a decade.

Shirazi, H. (1996), *Iran: Banking Laws and Regulation*, Tehran: Monetary and Banking Research Institute.—The is a very informative book on legal foundations of Islamic banking in Iran.

Siddiqi, A. (2000), *Anthology of Islamic Banking*, London: Institute of Islamic Banking and Insurance.—This book is a follow-up to the publication of Encloypaedia of Islamic Banking published by the Institute in 1995. Again, this is a collection of essays by experts on a wide range of topics, including Islamic economic system and Islamic banking and finance.

Siddiqi, M.N. (2004), *Riba, Bank Interest and the Rationale of its Prohibition*, Jeddah: Islamic Research and Training Institute, IDB.— The author recapitulates the established thinking on riba, and explores its implications for Islamic banking.

The Supreme Court of Pakistan (1999), *Supreme Court Judgments on Riba* (PLD 2000 SC 225, PLD 2000 SC 760, PLD 2000 SC 770), Lahore:

PLD Publishers.—This is the judgment of the Shariat Appellate Bench of the Supreme Court of Pakistan on the appeals filed against the 1991 landmark judgment of the Federal Shariat Court of Pakistan on riba (interest).

Usmani, I.A. (2002), *Meezan Bank's Guide to Islamic Banking*, Karachi: Darul Isha'at.— The author is Shari'ah Advisor of the Meezan Bank. This is a training manual prepared by the author for the bank staff.

Usmani, M.T. (1998), *Introduction to Islamic Finance,* Karachi: Idaratul Ma'arif.—This a collection of articles on fiqhi (juridical) aspects of various Islamic modes of financing, by an international known and leading Muslim jurist in Islamic finance.

Usmani, M.T. (2000), *The Historic Judgment on Interest: Delivered in the Supreme Court of Pakistan*, Karachi: Idaratul Maarif.—This is a part of the 1999 Judgment of the Supreme Court of Pakistan. This separate part was authored by M.T. Usmani who was a member of the full-bench hearing the appeals against the Federal Shariat Court on riba (interest) delivered in 1991.

Vogal, F.E. and S.L. Hayes (1998), *Islamic Law and Finance: Religion, Risk and Return*, The Hague: Kluwer Law International.—This book inquires into the doctrinal aspects of Islamic finance.

3. Articles, Papers and Monographs – Classified Subject-wise

3.1 The Conceptual Basis of Islamic Banking

3.1.1 Prohibition of Riba (Interest)

Ahmed, Q. (1995), "What is Riba?", *Journal of Islamic Banking & Finance*, 12(1), January-March, 7-49.

Al-Amin, H.A. (2000), *Shari'ah Ruling (Hukm) on Contemporary Banking Transactions with Interest*, Background Paper No. 7, Jeddah: Islamic Research & Training Institute, IDB, 56p.

Ayub, M. (1996), "What is Riba?", *Journal of Islamic Banking & Finance*, 13(1), January-March, 7-34.

Chapra, M.U. (2000), 'Why Has Islam Prohibited Interest? Rationale Behind the Prohibition of Interest in Islam', *Review of Islamic Economics, 9,* 5-20.

Chapra, M.U. (2004), "Shari'ah and Economic Basis of Prohibition of Interest". Paper read at the International Conference on Islamic Banking and Finance: Foundation and Contemporary Issues, Universiti Brunei Darussalam, January 5-7.

El-Gamal, M.A. (2004), "An Economic Explication of the Prohibition of Riba in Classical Islamic Jurisprudence", *Journal of Islamic Banking & Finance*, 21(3), July-September, 45-65.

Ghazi, M.A. (1995), "Inflation and Indexation: A Rejoinder", S.R. Ahmed and N. Ali (eds.), *Strategic Issues in Islamic Banking*, 119-130.

Hasanuzzaman, S.M. (2001), "Conceptual Foundation of Riba in the Qur'an, Hadith and Fiqh", *Journal of Islamic Banking & Finance*, 18(3&4), July-December, 17-25.

Iqbal, M.M. (2003), "A Broader Definition of Riba", *Journal of Islamic Banking & Finance*, 20(3), July-Sept, 7-31.

Khan, G.M. (1995), "Inflation and Indexation: What Does Islam Say?", S.R. Ahmed and N. Ali (eds.), *Strategic Issues in Islamic Banking*, 103-118.

Sechedina, A.A. (2005), "The Issue of Riba in Islamic Faith and Law", *Journal of Islamic Banking & Finance*, 22(3), July-Sept., 51-68.

Shahari, H. and Kamalzadeh (1995), "The Interest Rate and Islamic Banking", *Islamic Economic Studies*, Vol.3, No.1, 115-122.

3.1.2 Prohibition of Gharar

Al-Dhareer, S. (1997), *Al-Gharar in Contracts and its Effects on Contemporary Transactions*, Jeddah: Islamic Research and Training Institute, IDB.

3.1.3 Other Fiqhi (Islamic Juridical) Issues

Arbouna, M.B., "Principles of Options and Options in Contracts". Paper read at the International Conference on Islamic Banking and Finance: Foundation and Contemporary Issues, Universiti Brunei Darussalam, January 5-7.

IRTI (Islamic Research & Training Institute) (2000), *Resolutions and Recommendations of the Council of the Islamic Fiqh Academy 1985-2000*, Jeddah: IRTI, IDB, 269p.

Kamali, M.H. (2005), "Fiqhi Issues in Commodity Futures", in M. Iqbal and T. Khan (eds.), "*Financial Engineering and Islamic Contracts*, 22-57 (incl. comments by M.A. Zarqa and A.N.M.A. Al-Basel).

Muzaffar, M. (1995), "Ijarah: Financing on the Basis of Hire-Purchase and Leasing", IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 137-144.

Yaquby, S.N. (2002), "Islamic Banking and Its Operations: Shari'ah Requirements for Conventional Banks", *Journal of Islamic Banking & Finance*, 20(4), Oct.-Dec., 58-62.

Yaquby, S.N. (2005), "Shari'ah Requirement for Conventional Banks", *Journal of Islamic Banking & Finance*, 22(3), July-Sept., 45-50.

Zarqa, A. (1996), "Shari'ah Compatible Shares: A Suggested Formula and Rationale", in M.A. Mannan (ed.), *Financing Development in Islam*, 21-35.

3.1.4 Philosophical Foundations of Islamic Banking

DeLorenzo, Y.T. (2002), "The religious foundations of Islamic finance", in S. Archer and R.A.A. Karim (eds.), *Islamic Finance: Innovation and Growth*, 9-27.

Mirakhor, A. (1995), "Theory of an Islamic Financial System", in IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 31-49.

Siddiqi, M.N. (1995), "Islamic Economics and Finance", in IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 1-9.

Siddiqi, M.N. (2004), "Islamic Finance & Beyond: Premises and Promises of Islamic Economics, *Journal of Islamic Banking & Finance*, 21(1), Jan.-Mar., 59-67.

Uzair, M. (1996), "Socio-Economic Rationale for Interest-Free Financing and Certain Conceptual Issues", *Journal of Islamic Banking & Finance*, 13(1), January-March, 35-52.

Uzair, M. (1996), "Islamization of Banking, Economic Growth, Welfare, Moral and Allied Aspects", *Journal of Islamic Banking & Finance*, 13(2), April-June, 7-25.

3.2 The Theory and Models of Islamic Banking

3.2.1 General

Abdul-Ghafoor, A.L.M. (2003), "Meeting the Financial Needs of Muslims: A Comprehensive Scheme", *International Journal of Islamic Financial Services*, Vol.5, No.3,

Aggarwal, R.K., and T. Youssef (2000), "Islamic Banks and Investment Financing", *Journal of Money, Credit and Banking*, Vol. 32, 93-120.

Akacem, M., and L. Gilliam (2002), "Principles of Islamic Banking: Debt versus Equity Financing", *Middle East Policy*, Washington, Vol. 9, No. 1, 124-139.

Ariff, Mohammed (2004), "Islamic Banking", *Journal of Islamic Banking & Finance*, 21(1), Jan.-Mar., 31-58.

Ghafoor, A.L.M.A. (2004), "Islamic Banking", *Journal of Islamic Banking & Finance*, 21(1), Jan.-Mar., 4-30.

Hasanuzzaman, S.M. (1995), "Islamic Law and Finance", in IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 67-83.

Jarhi, M.A., and Iqbal, M. (2001), *Islamic Banking: FAQs*, Jeddah: Islamic Research and Training Institute, Occasional Paper No. 4.

Khan, M.S. (1995), "Islamic Interest-Free Banking", in IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 50-66.

Khan, Z.A. (1995), “Characteristics and Structure of an Islamic Bank”, IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 111-116.

3.2.2 Financial Instruments for Islamic Banking

AbalKhail, M. and J.R. Presley (2002), “How informal risk capital investors manage asymmetric information in profit/loss-sharing contracts”, in M. Iqbal and David T. Llewellyn (eds), *Islamic Banking and Finance: New Perspectives in Profit Sharing and Risk*, Cheltenham: Edward Elgar, 111-138.

Abdullah, A.A. (1995), “Forms OF Investment in Real Estate in Islamic Perspectives”, in M.A. Mahdi (ed.), *Islamic Banking Modes for House Building Financing*, 43-59 (incl. comments by A.S.A. Ghuddah).

Ahmad, A.R.Y. (2003), “Islamic Banking Modes of Finance: Proposals for Further Evolution”. Paper read at International Seminar on Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Ahmed, H. (2002), “Incentive-compatible profit-sharing contracts” a theoretical treatment”, in M. Iqbal and David T. Llewellyn (eds), *Islamic Banking and Finance: New Perspectives in Profit Sharing and Risk*, Cheltenham: Edward Elgar, 40-56.

Abdul-Majid, A.R. (2003), “Development of Liquidity Management Instruments: Challenges and Opportunities”. Paper read at International Conference on Islamic Banking: Risk Management, Regulation and Supervision (30 September – 2 October) Jakarta, Bank Indonesia.

Abdul-Rahman, Y. (1999), “Islamic Instruments for Managing Liquidity”, *International Journal of Islamic Financial Services*, Vol.1, No.1.

Ahmad, A. and T. Khan (eds.) (1997), *Islamic Financial Instruments for Public Sector Resource Mobilization*, Jeddah: Islamic Research and Training Institute.

Arbouna, M.B. (2003), “Combination of Contracts in Shari’ah: A Potential Mechanism for Product Development in Islamic Finance”. Paper read at International Conference on Islamic Banking: Risk Management, Regulation and Supervision (30 September – 2 October) Jakarta, Bank Indonesia.

Babikir, O.A. (2001), *Islamic Financial Instruments to Manage Short-term Excess Liquidity*, Research Paper No. 41, 2nd edn, Jeddah: Islamic Research and Training Institute.

Badawi, J. (2004), “Is there a Halal Mortgage?”, *Journal of Islamic Banking & Finance*, 21(4), October-December, 79-82.

Darrat, A.F. and M.S. Ebrahim (1996), “On the Design of Interest-Free Instruments”, *Journal of KAU: Islamic Econ.*, Vol. 8, 53-61.

Ghazi, M.A. (1999), “Mudarabah Financing An Appraisal”, *Journal of Islamic Banking & Financing*, 16(2), April-June, 26-42.

Hasanuzzaman, S.M. (2001), “What is Mudarabah”, *Journal of Islamic Banking & Finance*, 18(3&4), July-December, 65-82.

Hasanuzzaman, S.M. (2001), “What Shirka is”, *Journal of Islamic Banking & Finance*, 18(3&4), July-December, 91-109.

Karim, A.A. (2002), 'Incentive-compatible constraints for Islamic banking: some lessons from Bank Muamalat', in M. Iqbal and David T. Llewellyn (eds), *Islamic Banking and Finance: New Perspectives in Profit Sharing and Risk*, Cheltenham: Edward Elgar, 95-110.

Khadem, M.A.R.K. (2005), “Mudarabah: An Ancient Mode of Finance”, *Journal of Islamic Banking & Finance*, 22(4), Oct.-Dec., 34-45.

Khan, T. (1999-2000), “Islamic Quasi Equity (Debt) Instruments and the Challenges of Balance Sheet Hedging: An Exploratory Analysis”, *Islamic Economic Studies*, Vol.7, Nos.1&2, 1-32.

Noman, A.M. (2002), “Imperatives of Financial Innovation for Islamic Banks”, *International Journal of Islamic Financial Services*, Vol.4, No.3.

Othmani, M.T. (1995), “Methods of House Building Financing according to Shari’ah”, in M.A. Mahdi (ed.), *Islamic Banking Modes for House Building Financing*, 61-73.

Rosly, S.A. (2005), “*Bay’ al-Dayn* and Islamic Bond Issues in Malaysia” (incl. comments by Sami Hamoud) in Anwar and Haneef (eds.), *Studies in Islamic Banking and Finance in the 21st Century*, KL: IIUM, pp. 73-96 and 97-99.

Rosly, S.A. and H.H. Ismail (2005), “Potential Use of Salam Financing in Malaysia”, in M. Iqbal and T. Khan (eds.), *Financial Engineering and Islamic Contracts*, 123-145 (incl. comments by H.H. Hassan and A.R. Saati).

Rosly, S.A., M. Sanusi and N.M. Yasin (2000), “The Role of Khiyar Al-‘Ayb in Al-Bay’ Bithaman Ajil Financing”, *International Journal of Islamic Financial Services*, Vol.2, No.3, Oct.-Dec.

Sadr, K. (2000), “Islamic Financial Instruments: An Overview”. Paper read at the seminar on the Philosophy and Implementation of the Islamic Financial Instruments (13-15 June), organized by Central Bank of Iran, Tehran.

Salama, A.A. (1995), “Housing Finance in Islamic Countries”, Othmani, M.T. (1995), “Methods of House Building Financing according to Shari’ah”, in M.A. Mahdi (ed.), *Islamic Banking Modes for House Building Financing*, 27-45 (incl. comments by A. Ahmad).

Sarker, A.A. (1995), “Islamic Financial Instruments”, *Review of Islamic Economics*, Vol. 4, No. 1, pp. 1-16.

State Bank of Pakistan (2004), “Essentials of Islamic Modes of Financing Issued by the State Bank of Pakistan”, *Journal of Islamic Banking & Finance*, 21(3), July-September, 7-16.

Sundararajan, V. (2004), “Development of Competitive and Innovative Financial Products and Markets: Key Issues & Policy Implications”. Paper read at International Seminar on Challenges facing the Islamic Financial Services Industry, April 1-2, 2004, Bali Indonesia.

Suwailem, S.I. (2005), “Optimal Sharing Contracts: Properties and Evolution”, M. Iqbal and T. Khan (eds.), *Financial Engineering and Islamic Contracts*, 146-197 (incl. comments by Nadeem-ul-Haque and A.A. Karim).

3.2.3 Deposit Mobilization

Khan, T. (1995), “Demand for and Supply of Mark-up and PLS Funds in Islamic Banking: Some Alternative Explanations”, *Islamic Economic Studies*, Vol.3, No.1, 39-77.

Mohamed, I.H. (1995), “The Islamic Financial Market: Mobilizing and Utilizing Funds”, IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 129-136.

Tahir, S., “Unresolved Issues in Islamic Banking: Deposit Mobilization”. (2004), “Shari’ah and Economic Basis of Prohibition of Interest”. Paper read at the International Conference on Islamic Banking and Finance: Foundation and Contemporary Issues, Universiti Brunei Darussalam, January 5-7.

3.2.4 Bank Financing

Hussain, S.R. (2002), “Project Finance”, in S. Archer and R.A.A. Karim (eds.), *Islamic Finance: Innovation and Growth*, 143-150.

3.2.5 Other Financial Services

Cox, S. (2002), “Retail and private client services”, in S. Archer and R.A.A. Karim (eds.), *Islamic Finance: Innovation and Growth*, 127-142.

3.2.6 Conversion of Interest-Based Banks into Islamic Banks

Ahmad, Z. (1995), “Conversion of Interest-Based Banking to Islamic Interest-Free Banking”, IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 174-192.

3.3 The Performance of Islamic Banks

Ahmed, G. (2003), “The Performance of Islamic Financing Methods in Sudanese Banks, 1993-1999”. Paper read at International Seminar on Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Ahmed, M. (1999), "Variance Analysis of Practice of Bai-Murabaha Mode of Investment", *Journal of Islamic Banking & Financing*, 16(4), Oct.-Dec., 34-40.

Ahmad, N. and S. Haron (2002) "Perceptions of Malaysian Corporate Customers towards Islamic Banking Products & Services", *International Journal of Islamic Financial Services*, Vol.3, No.4.

Ali, S.S. (2004), "Strengthening Islamic Banks: Lessons to be drawn from Bank Financial Distress". Paper read at the International Conference on Islamic Banking and Finance: Foundation and Contemporary Issues, Universiti Brunei Darussalam, January 5-7 2004.

Alhabshi, S.M. (2005), "Financial Performance Measurement and Distribution Policy of Islamic Financial Institutions" (incl. comments by M. A. Khan) in Anwar and Haneef (eds.), *Studies in Islamic Banking and Finance in the 21st Century*, KL: IIUM, pp.205-204 and pp. 205-210.

Al-Sultan, W. (2005), "Financial Analysis of Performance of Islamic Banks in GCC Countries", *Journal of Islamic Banking & Finance*, 22(2), April-June, 51-65.

Anouar, H. (2002), "Profitability of Islamic Banks", *International Journal of Islamic Financial Services*, Vol.4, No.2.

Bashir, A. (1999), 'Risk and profitability measures in Islamic banks: The case of two Sudanese banks", *Islamic Economic Studies*, 6 (2), (May), 1-24.

Bashir, A. (2000), 'Determinants of profitability and rates of return margins in Islamic banks: Some Evidence from the Middle East', *Islamic Economic Studies*, Vol.11, No.1, 31-57.

Dar, H. (2003), "Evaluation of Efficiency of Islamic Banks". Paper read at International Seminar on Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Haron, S. (1998), "A Comparative Study of Islamic Banking Practices", *Journal of KAU: Islamic Econ.*, Vol. 10, 23-51.

Haron, S. and N.H. Ahmad (2000), "Conventional Banking Profitability Theories in Islamic Banking: Some Evidences", *Journal of Islamic Banking & Finance*, 17(1), Jan-Mar., 7-16.

Haron, S. and N. Ahmad (2000), "The Effect of Conventional Interest Rates and Rate of Profit on Funds Deposited with Islamic Banking System in Malaysia", *International Journal of Islamic Financial Services*, 1(4), Jan.-Mar., 1-9.

Haron, S. and B. Hisham (2003), "Perceptions of Islamic Banking Service Providers towards Their Products and Services". Paper read at

International Seminar on Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Haron, S. and B. Shanmugam (1995), “The Effect of Rates of Profit on Islamic Bank’s Deposits”, *Journal of Islamic Banking & Finance*, 12(2), April-June, 18-28.

Hassan, M.K. (2003), “Divided Signaling Hypothesis and Short-term Asset Concentration of Islamic Interest-Free Banking”, *Islamic Economic Studies*, Vo.11, No.1, 1-30.

Hassan, M.K. (2003), “Cost, Profit and X-Efficiency of Islamic Banks in Pakistan, Iran and Sudan”. Paper read at International Conference on Islamic Banking: Risk Management, Regulation and Supervision (30 September – 2 October) Jakarta, Bank Indonesia.

Hassan, M. K. and A.H. Bashir (2003), 'Determinants of Islamic banking profitability', paper presented at the ERF Tenth Annual Conference, Marrakesh, Morocco, 16-18 December.

Hassan, M.K. and A.H. Bashir (2003), “Determinants of Islamic Banking Profitability”. Paper read at International Seminar on Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Hussein, K. A. (2003), 'Operational Efficiency in Islamic Banking: The Sudanese Experience', *Islamic Development Bank Working Paper*, Islamic Development Bank, Jeddah.

Khalil, A.A.A., C. Rickwood and V. Murinde, “Evidence on agency-contractual problems in modarabah financing operations by Islamic banks”, in M. Iqbal and David T. Llewellyn (eds), *Islamic Banking and Finance: New Perspectives in Profit Sharing and Risk*, Cheltenham: Edward Elgar, 55-94.

Majid, M.A., N.G.M. Nor and S.F. Faizah (2005), 'Efficiency of Islamic Banks in Malaysia', in M. Iqbal and A. Ahmad (eds.), *Islamic Finance and Economic Development*, 94-115 (incl. comments by Z. Hasan and S.A. Siddiqui).

Mokhtar, M., P. Smith and S. Wolfe (2003), “Analysis of the Measurement and Management of Non-Performing Loans in Islamic Banks in Malaysia”. Paper read at International Conference on Islamic Banking: Risk Management, Regulation and Supervision (30 September – 2 October 2003) Jakarta, Bank Indonesia.

Kahf, M. (2004), “Factors of Success of Islamic Banks”. Paper read at the International Conference on Islamic Banking and Finance: Foundation and Contemporary Issues, Universiti Brunei Darussalam, January 5-7.

Muljawan, D. (2003), “An Analysis of Potential Systemic Costs in An Islamic Banking System”. Paper read at International Conference on

Islamic Banking: Risk Management, Regulation and Supervision (30 September – 2 October 2003) Jakarta, Bank Indonesia.

A.Q., and L. Owen (2001), "Adopting and Measuring Customer Service Quality (SQ) in Islamic Banks: A Case Study in Kuwait Finance House", *International Journal of Islamic Financial Services*, Vol.3, No.1, April-June.

Nor, N.G. (2003), "Efficiency of Islamic Banks in Malaysia". Paper read at the 5th International Conference on Islamic Economics and Finance: Sustainable Development and Islamic Finance in Muslim Countries (7-9 October) held at the University of Bahrain, Bahrain. (incl. comments by Z. Hasan and S. Siddiqui).

Othman, A.Q. and L. Owen (2001), "Adopting and Measuring Customer Service Quality (SQ) in Islamic Banks: A Study in Kuwait Finance House", *International Journal of Islamic Financial Services*, Vol.3 No.1, 1-26.

Othman, A.R.M. and L. Owen (2003), "Managing and Measuring Customer Service Quality in Islamic Banks: A Study of the Kuwait Finance House". Paper read at International Seminar on Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Saaid, A.E.E. (2003), "The X-efficiency of Sudanese Islamic Banks, 1989-1998". Paper read at International Seminar on Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Shihadeh, M.A., (2003), "Loan Provisioning in Islamic Banks (Jordan Islamic Bank: Case Study)". Paper read at International Conference on Islamic Banking: Risk Management, Regulation and Supervision (30 September – 2 October) Jakarta, Bank Indonesia.

Al-Suwailem, S. (1996), "*Financial Engineering for Islamic Banks" The Option Approach*" (Review of the book by H. Kotby, published by Institute of Middle Eastern Studies, Niigata-Ken, Japan, 1990), *Journal of KAU: Islamic Econ.*, Vol. 8, 65-73.

El-Tegani, A.A. (1995), "Distribution of Profits in Islamic Banking: A Case Study of Faysal Islamic Bank of Sudan (FIBS), *Journal of KAU: Islamic Econ.*, Vol. 7, 15-33.

Turen, S. (1995), "Performance and Risk Analysis of Islamic Banks: The Case of Bahrain Islamic Bank", *Journal of KAU: Islamic Econ.*, Vol. 7, 3-14.—Also Comments by Imtiaz Uddin Ahmad, *Journal of KAU: Islamic Econ.*, Vol. 10, 1998, 57-59.

Wilson, R. (2003), "Customer Service Quality and the Financial Performance of Islamic Banks". Paper read at International Seminar on

Wealth Creation: An Islamic Perspective (7-9 July) held at University of Durham, UK.

Yudistira, D. (2004), “Efficiency in Islamic Banking: An Empirical Analysis of 18 Banks”, *Islamic Economic Studies*, Vol.12, No.1, 1-19.

3.4 Country Studies

In addition to the articles and papers listed hereunder, some others in the preceding section are also relevant for the respective countries.

3.4.1 General Studies

Ahmad, A. (1995), “The Evolution of Islamic Banking”, in IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 15-30.

Akhtar, M.R. (2005), “Global Market Penetration by Islamic Banks”, *Journal of Islamic Banking & Finance*, 22(3), July-Sept., 26-44.

Cizakca, M. (1995), “Historical Background”, in IIBI (Institute of Islamic Banking and Insurance), *Encyclopaedia of Islamic Banking and Insurance*, 10-14.

Dar, H.A. and J.R. Presley (2000), “Lack of Profit Loss Sharing in Islamic Banking: Management and Control Imbalances”, *International Journal of Islamic Financial Services*, Vol.2, No.2, July-Sept.

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