



Islamic Development Bank
Islamic Research and Training Institute

DEVELOPMENT OF ISLAMIC

BANKING ACTIVITY : PROBLEMS AND PROSPECTS

IDB Prize Winners' Lecture Series

No. 12

ISLAMIC RESEARCH AND TRAINING INSTITUTE (IRTI)

Establishment of IRTI

The Islamic Research and Training Institute was established by the Board of Executive Directors of the Islamic Development Bank (IDB) in 1401H (1981). The Executive Directors thus implemented Resolution No.BG/14-99 which the Board of Governors of IDB adopted at its Third Annual Meeting held on 10 Rabi Thani 1399H (14 March 1979). The Institute became operational in 1403H (1983).

Purpose

The purpose of the Institute is to undertake research for enabling the economic, financial and banking activities in Muslim countries to conform to shari'ah, and to extend training facilities to personnel engaged in economic development activities in the Bank's member countries.

Functions

The functions of the institute are:

- (A) To organize and coordinate basic and applied research with a view to developing models and methods for the application of *Shari'ah* in the field of economics, finance and banking;
- (B) To provide for the training and development of professional personnel in Islamic Economics to meet the needs of research and shari'ah-observing agencies;
- (C) To train personnel engaged in development activities in the Bank's member countries;
- (D) To establish an information center to collect, systematize and disseminate information in fields related to its activities; and
- (E) To undertake any other activities which may advance its purpose.

Organization

The President of the IDB is also the President of the Institute. The IDB's Board of Executive Directors acts as its supreme policy-making body.

The Institute is headed by a Director responsible for its overall management and is selected by the IDB President in consultation with the Board of Executive Directors. The Institute consists of three technical divisions (Research, Training, information) and one division of Administrative and Financial Services.

Location

The institute is located within the headquarters of IDB in Jeddah, Saudi Arabia.

Address

Telephone: 6361400
Fax: 6378927/6366871
Telex: 601407 - 601137
Cable: BANKISLAMI - JEDDAH
P.O. Box 9201
Jeddah 21413
Saudi Arabia



**ISLAMIC DEVELOPMENT BANK
ISLAMIC RESEARCH AND TRAINING INSTITUTE**

**DEVELOPMENT OF ISLAMIC
BANKING ACTIVITY:
PROBLEMS AND PROSPECTS**

Lecture of Mr. Saleh Kamel at a party given in his honor
as Winner of the IDB Prize in Islamic Banking
Jeddah, 20 October 1997

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Bismillahirrahmanirraheem

*"Oh my Lord! So order me that I may be grateful for your favors,
that You have bestowed on me and on my parents, and that I
may work the righteousness that will please You"*

Praise be to Allah who has created the human being and
blessed him with His favors, and Peace and Blessings
be upon the noblest of His Creation, our Prophet Mohammed
Ibn-Abdallah, upon his Family and his Companions!

FOREWORD

The purpose of the Islamic Development Bank (IDB), as an international institution serving the Muslim *Ummah*, is to foster the economic development and social progress of member countries and Muslim communities in accordance with the principles of the *Shari'ah*.

In order to achieve its objective and to discharge the necessary obligations at an operational level, pertaining to research, training and dissemination of information, the IDB established the Islamic Research and Training Institute (IRTI) in 1401H (1981). IRTI became operational in 1403H (1982).

Besides undertaking research and training activities, IRTI has also embarked upon a number of programs aimed at activating and promoting Islamic economic activities throughout the world. These programs are aimed at encouraging external experience and mobilize the resources of the *Ummah* to promote Islamic Economics. Among these activities are the two IDB Prizes in Islamic Economics and Islamic Banking which are awarded in recognition of outstanding creative efforts in the fields of Islamic Economics and Islamic Banking as an incentive and encouragement.

The IDB Prize in Islamic Banking for 1416H (1995/96) was awarded to Mr. Saleh Abdullah Kamel, one of the pioneers of Islamic Banking, considering his prominent role as a leading businessman in the Islamic World with a strong belief in Islamic banks and Islamic investment activities, in the establishment of Islamic banks and financial institutions in several countries; in recognition of the services he has been — and is still rendering to strengthen Islamic Economics; in appreciation of his contribution in the establishment of a number of research institutions to develop knowledge and practices in Islamic banks on scientific principles, his contribution in the organization of a number of seminars and conferences and his sponsorship of cultural and academic projects which have a significant practical impact on the development of new financial instruments appropriate for contemporary banking transactions, his continued interest in Islamic banks and his permanent material, financial and intellectual support to them. On the occasion of his winning the IDB Prize, he was requested to deliver a lecture on a topic entitled "Development of Islamic Banking Activity: Problems and Prospects". IRTI is pleased to make this valuable lecture available to you as it is of interest to all research workers in the field of Islamic Banking and Islamic Economics.

In this lecture, Mr. Saleh Abdullah Kamel explores the origin of Islamic banks, pointing out that they represent the most important achievement of Islamic Economics because banks constitute the life-blood of economic

activity. They govern its course and influence its trends. Islamic banks have succeeded, by the Grace of God, in becoming useful models for the local economy, and an indicator of the interest which may be achieved if the remaining components of the Islamic Economics are applied. He explains how the development of new financial instruments, the creation of an active secondary market and the activation of the role of joint investment funds are processes which Islamic banks can greatly help to develop.

Mr. Saleh Abdullah Kamel proposes an amendment of the legal infrastructure of Islamic banks, showing that "the management of funds of third parties is a great responsibility which would best be assumed by partnership companies rather than fund-management companies, especially as the options for deposit and participation in investment accounts depend, to some extent, on the element of confidence in managers. Such confidence would be shaken if modifications and changes are made without getting the depositor and the partner involved in the process."

Through his profound knowledge of Islamic banks and financial institutions and his long experience with them, besides his being one of the pioneers in their establishment, Mr. Saleh Abdullah Kamel has the distinguished ability of explaining the problems and prospects of Islamic banks which have attracted the attention of Muslim and other scholars throughout the past quarter of the century.

It is hoped that the publication of this lecture would serve to promote an understanding of the role of Islamic banks and contribute towards their development.

Dr. Mabid Ali Al Jarhi
Director, IRTI

**Lecture of
Mr. Saleh Kamel**

Dear Colleagues,

Yesterday I was at the Arab Banks' Federation that gave a party in my honor to award me the Arab Banker's Prize. For me, this award had dimensions that went beyond my humble self, my contribution and my institutions. It is a tribute by a distinguished banking institution to the Islamic banking experiment and its activities which is spread over more than two decades, its contributions and achievements which cover the Arab and Islamic world and serve the human being everywhere.

Today, under the dome of this towering edifice which represents the adherence of our *Ummah* to its Islamic project and its keenness to materialize it, the dedication of our scholars and intellectuals to establish it on sound principles, and the concern of businessmen to support and develop it, I consider this honor given to me as a tribute to all those who have participated with their thoughts and wealth to promote this experiment which has completed two decades in terms of time, but which has a legacy of many more years in terms of achievements and efforts exerted.

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I highly appreciate this honor which I hope would be an incentive for further dedication, development and interest in Islamic banks. Let me tell you frankly that the honor which will fill me with greater pride and more profound satisfaction would be the day when the application in the original concept and basic duty of Islamic banks would grow into the development of the land, the curbing of unemployment and the enrichment of the poor..., the day when we would achieve all the noble objectives we originally promised to people.

Dear Brothers,

Gone are the days when people used to deny the existence of higher moral values governing economic activities. Today, we find these values in economic curricula throughout the world because they are human values which Allah Almighty has meant for humanity and the Prophets have referred to them since times immemorial. Shu'aib told his people: "Give just measure, and cause no loss (to others by fraud) and weigh with scales true and upright. And withhold not things justly due to men. His people, as other peoples do today, replied as follows: They said: "O Shu'aib! Does your (religion of) prayer command you that we leave off the worship which our fathers practiced, or that we leave off doing what we like with our property? Yusuf (peace be upon him) said that honesty and efficiency are the criteria for the guardianship of the funds. In this respect, the

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- Sura Al Shu'araa, Ayats 18-183.
 - Sura Mud, Ayat 87.

Jews made interest unlawful among themselves, and Jesus (peace be upon him) criticized interest, saying "when you lend to others, do it without anticipating anything extra in return".

Dear Brothers and Sisters,

I have repeatedly referred to the wrong concept that confines Islamic economics to Islamic banks. However, it must be admitted that Islamic banking represents the most important and greatest achievement of Islamic economics due to three main reasons, namely:

1. Banks are by themselves the life-blood of economic activities throughout the world, controlling their trends and orientations.
2. Islamic banks are nearly the only pattern among Islamic economic formulas that has been implemented and that enjoys some recognition which has enabled it to ensure its existence and continuity.
3. Islamic banks have succeeded, by the Grace of Allah, in becoming a useful example for the local economy and an indicator of interests, which may be achieved if the other components of Islamic economics are implemented.

In order to have a just and fair picture of what has been achieved, I would like to take you back 25 years from now when the interest system used to prevail in theory and practice, and it seemed impossible to conceive and operate in an interest-free banking system. Theoretical views about profit and loss sharing, direct investments and

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bearing of risks were considered as purely imaginative or at least unrealistic slogans. Today, we are going beyond the inevitability of interest and the inability of the Islamic banking system to ensure its existence and continuity and meet the requirements of dealers ... to the leading position occupied by the concept of partnership and risk-sharing and participation in core productive operations and achievement of the overall requirements of banks.

Moreover, the development of new financial instruments, the creation of an active secondary market and the activation of the role of joint investment funds are some of the activities which Islamic banks are efficiently trying to develop.

Distinguished Guests,

Up to May 1997, there were about 150 Islamic banks and financial institutions managing investments estimated at about US\$ 75.5 billion in Asia, Africa, Europe and the U.S., covering more than 27 countries.

Praise be to Allah that, after 20 years of explanations about the fundamentals of Islamic economics and some features about the implementation of *Zakah*, the financial markets and Islamic banks, I find a recent press report by the IMF stressing that "Islamic banking is *more* established than corresponding Western systems;

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it has proved its efficiency from the purely Islamic aspect." The experiment has become a phenomenon to which the world is showing appreciation and admiration. Although, it is a new phenomenon, and inspite of the difficulties it is facing, it has imposed itself upon the world banking system, not with the aim of facing and encountering it, but in order to implement it and act in accordance with it.

Distinguished Brothers,

I would not like to deal with the numerous advantages and achievements of Islamic banks. You have made these achievements and you know them better than me. Moreover, I would not like to disappoint you and turn this glorious day and this pleasant occasion into a platform of blame and criticism. Yet, what can I do with an instinct which is always looking forward to perfection and further achievements?

What has been achieved is indeed very great and wonderful, but was it not possible to do more? Here, we have to pause for a while for a self-analysis and self-criticism, curbing our desires and lust for self-glorification, with a promise of correcting mistakes and redressing the course of activities. This does not involve any blame for the experiment nor does it belittle its merits. Like all pioneering experiments, it should develop and not remain stagnant; shortcomings have to be remedied and not covered or denied. If I am raising some sensitive

See Mohsin Khan, Islamic Banking Activities: Theory Analysis, Research Paper, IMF, Vol. No. 33 (1-27).

issues, it is out of my conviction in the soundness of the structure of Islamic banking which draws its principles from divine sources which are infallible.

Distinguished Guests,

When we call for the application of Islamic principles in banking, we assume the responsibility of abiding by the requirements of such a call. We should not show any weakness in front of difficulties and problems which come across the actual Islamization of transactions.

We should not have recourse to justifications, maneuvers and permissible details; we should, as far as possible, hold fast to the main orders. In this respect, it is important to clearly show the difference between the results obtained from the application of the Islamic banking system and what results under riba-based banking activities.

Out of our full confidence in the divine sources of our economic approach, we have told people the impact of the implementation of Islamic economics on the *Ummah* shall be reflected on its move towards economic development, creation of the value added factor, increased exports, less imports, job creation, rehabilitation of the incapacitated and training of capable elements. But if we exaggerate in imitating conventional banks and keep away from bearing risks and if we prefer the sound investment of our funds, the advantages of Islamic banking will not appear in application and the gap between Islamic and conventional banking would become narrower. In this way we would have betrayed the trust of vice-regency

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which calls for the development of the land and material as well as moral upliftment of the Muslim *Ummah*.

Dear Partners,

I would like to tell you, in all frankness, that if I were to start all over again, I would not choose the bank as a framework for the application of Islamic teachings in the field of economy and investment. I would look for another framework which is fully in line with the *Shari 'ah* principles regulating investment. This is due to the fact that we have not been satisfied with taking only the name of the bank but also its basic concept, namely, that it is a financial intermediary. So, we have not been able to find for our financial institutions a concept and a pattern which goes beyond the issue of financial intermediary. This has led to the fact that the preferred investment patterns of Islamic banks have become a mix of a loan and an investment. It is a mix which has most of the characteristics of a *riba*-based loan and the flaws of the Western capitalist system. It fails to highlight the features of Islamic investment based on risk-sharing and real investment. It does not recognize the guarantee of the capital or its return.

The depth of the issue and its continuity is illustrated by the fact that the organizational charts of our banks which we have drawn from conventional banks do not pay any attention to portfolio management in terms of volume or allocations, so they can absorb all kinds of productive economic activities. We have satisfied ourselves with a small structure and we have

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prepared our papers in accordance with the nature of our routine operations which are very much similar to the documentary cycles of *riba*-based systems.

We have come to the result that - despite the hopes that the West pins on our experiment - we have not made any progress in highlighting the basic characteristics and salient features of Islamic banking and investment. We have been content with cleansing our activities of *riba* but we have not gone beyond the reality and impact of the *riba*-based banking system.

Dear Brothers,

The logical outcome of this wrong trend is the channeling of financing to the well-to-do and solvent people who possess all kinds of guarantees. We have put the burden of investment risks on the investor alone without the participation of the bank. In the provision of financing to a customer, we have not taken into consideration the economic feasibility of his project. We have simply ensured the strength of the guarantees. We have paid no attention to whether the trade financing has inflationary implications or not, or whether it disrupts the system of priorities and necessities or not. Thus, we have unknowingly stripped Islamic banking of its vital concepts and strategic objectives which go beyond the question of avoiding *riba* to active participation in the development of Muslim communities and increasing their productivity.

Distinguished Brothers,

The outcome of the ban on *riba* and the establishment of Islamic banks lie in the fact that Islam encourages the taking of risks (gain-making goes hand-in-hand with risk-taking).

Islam is not for dependence on a specific guaranteed return. The matter is not related to the time when the return is determined in terms of its being before or after liquidation of the operation, because there are two forms in Islamic banking as reflected in *Murabaha* and Leasing. The wisdom underlying this is clear, because development of the land which is the objective of economic activities in Islam is achieved only through the taking of the risks by way of vital productive projects which employ people, increase the supply of goods and services, and, thus, achieve economic prosperity.

In fact, the opposite of *riba* is not just to avoid it. Cleansing one's funds from *riba* means a reversion of what is wrong. However, the upholding of truth calls upon both parties involved in an operation to bear the risks and share the profits as well as the loss according to the gains and the risks. This is the equity that distinguishes modes of *Musharaka* from *riba*-based lending which is based on the assumption that the lender shall, under all circumstances, recover his principal with its interest whereas the other party shall bear all the liabilities and risks.

Lack of emphasis, from the theoretical aspect, on the rule that there is no gain without risks, neglecting it totally in most operations of the Islamic banks and expanded use of

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guaranteed patterns of principal and return has brought confusion among the public. This loophole may provide an opportunity for skeptics to sow the seeds of confusion and deceit among people and may even pave the way for using a number of apparently logical reasons to justify and make lawful bank interest. I strongly believe that if we continue along this line, Islamic banks will lose the theoretical as well as practical basis for their establishment and continuity.

Distinguished Brothers,

The competition to take over a large share of the financial market shall • be fierce and in order to achieve a credible success, we have to go beyond the ready-made packages and formulas within which we have confined ourselves for long. If we are to target people who are making savings, we should attract them under a new approach by striving to ensure and protect the interests of depositors in Islamic banks.

Islamic banks are dealing with depositors' funds in amounts reaching hundreds of millions, whereas shareholders' funds represent only a small proportion of these amounts. Yet, we find the shareholders exercising a control over the management of the bank, realizing a higher profit than the depositors. The depositor, who is the capital owner, does not have any power to hire or fire the *Mudarib*, nor does he have the power to orient him although this is a right which the provisions of Islamic *Fiqh* ensures to the capital owner.

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I think that this is due to a haziness in the definition of who is the *Mudarib*? Are they the shareholders, with a possibility of constantly changing the persons? Or is it the Board of Directors which is formed only by the shareholders and is also subject to change and replacement? Or is the *Mudarib* the Executive Management who is not required to furnish any guarantee by the Civil Law, even in the case of violations or shortcomings, as opposed to the provisions of *Mudaraba* in Islamic *Fiqh*? Or again, is he a moral entity of the bank? *Fiqh* scholars have divergent opinions about this and any definition would not solve the controversy around the rights of the various parties involved in an investment operation.

A reflection on this issue has led me to two specific proposals which I will put forward without going into details. They are:

First, creation of a control and orientation board by depositors.

Second, modification of the legal structure of Islamic banks from joint stock companies to partnerships.

With regard to depositors' interests, apart from the factors of fairness and honesty, there is - as I have mentioned - an important marketing dimension. Our objective is not to attract only committed depositors who are satisfied with a lower rate of profits out of their initial commitment - and this is a sacrifice which entails some sort of discomfort and unfairness - we are rather targeting people who make savings, even

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non-Muslims in every country, according to the rules of commercial competition. That is why new structures and modes which do not exist among , others should be developed, ensuring them that these modes would realize their interests and take into consideration their views. In this connection, I prepared earlier a project for financing and investment institutions and submitted it to a number of officials in the Islamic countries, including H. E. Muhammad Aba Al-Khail, the former Minister of Finance and National Economy. It comprised items concerning the composition of an organ for depositors and investment account holders, to protect their funds and interests and control the course of activities so as to serve the objectives of both shareholders and owners of external resources. It shall comprise customers whose resources would not be less than a specific percentage of the investment accounts and the fixed term of their funds would not be less than one full year. They shall elect a body to represent them in matters related to control and supervision. From among the members of the body, some shall be elected for representation in the board of directors. The full body shall have the right to attend discussions in the board of directors without having the right to vote. The body may discuss the general budget and the profit and loss account, besides taking note and giving views on issues of interest to depositors and investment account holders. All this shall of course be according to a well organized system defining the powers and maintaining confidentiality without causing any disruption of the work.

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Dear Brothers,

My proposal to amend the legal infrastructure of Islamic banks stems from my feeling that the management of funds of third parties is a great responsibility which would best be assumed by partnership companies rather than fund-management companies, especially as the options for deposit and participation in investment accounts depend, to some extent, on the element of confidence in managers. Such confidence would be shaken if modifications and changes are made without getting the depositor and the partner involved in the process.

I also believe that the idea of a joint-stock company with its limited responsibility regarding the capital of shareholders is not the fully appropriate framework for the protection of rights according to Islamic modes of transactions which require a guarantee that extends to personal funds even in *Mudaraba*, in cases of violations and shortcomings. Cases of bankruptcy and loss of rights that took place in conventional banks and capital investment companies confirm the necessity of an urgent study of the matter. In any case, I am thinking aloud with you, with a preference for partnership (*Tadamon*) companies as an ideal model for any legal form to govern the management of people's funds.

Dear Brothers and Sisters,

Statistics and eyewitnesses show that most Muslim peoples, communities and minorities live below the benchmark of poverty. It is a regrettable situation that relief and charitable

organizations as well as traditional subsistence programs have not been able to change or alleviate; it has rather grown worse until humiliation has become widespread, the communities have become spoiled and corrupted and Muslims have become a symbol of misery, disease and famine. This has become a great challenge which calls upon Islamic banks to urgently meet their commitments in terms of an effective social economic role, a role which should transcend writings in books and lectures to become something tangible which our poor Muslim peoples may feel in the fields, valleys, factories and workshops.

The world which is bowing down to one person, namely, Dr. Mohamed Yunus and to one bank, known as the Grameen Bank where the problem of poverty has been faced and tackled, is looking forward far more from over 100 Islamic financial institutions which are always talking about their social, moral and developmental role.

The call for the establishment of "Banks for the Poor" and which I prefer to call "Banks for Enriching the Poor" as a derivative of the practical meaning of the *Zakah* obligation, especially the share of the poor and the needy, is not related to donations and gifts nor to direct charity; it rather implies opportunities to wide layers of society to participate in production efforts and conversion of the poor into a basic part of the productive force of society through the establishment of small productive and commercial projects based on factors of production existing in each environment.

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To bring people who are not rich within the circle of those who earn and produce, the Islamic banks - should expand their activities in fields where others have taken an edge, namely, in productive family projects (cottage industries), rural development and financing to craftsmen and those having skills and know-how. They should reduce the number of guarantees and securities required so that the financing may go to many of the productive categories and classes that are not prosperous. Anyhow, I have in mind a project that has started imposing itself upon me after my participation in the recent IDB meetings in Conakry and after I visited a number of African countries. I hope the features of this project would be completed so that it may be materialized in the coming years.

Dear Brothers,

Without doubt there are good prospects for Islamic banks to develop themselves in terms of concepts and techniques. Among these are the growing Islamic awakening and the *Ummah's* trend to return to the Book of Allah and the *Sunnah* of His Prophet. This involves a greater commitment to sound and *Shari 'ah*- compatible financial transactions and the channeling of considerable financial resources to Islamic banking. - This calls for a full technical readiness to absorb these resources and to give the assurance to financiers that their funds would be properly invested in accordance with the *Shari 'ah*. Neglect for technical and *Shari 'ah* preparations would make them miss this opportunity and disappoint the masses who have found in the Islamic banks a successful *Shari 'ah* compatible mode of investment.

Similarly, the world is complaining about shortage and bottlenecks in real goods and resources. This is indeed a good opportunity for Islamic banks to make efforts to exploit the resources with which the Almighty has blessed this universe by effective modes of investment.

Among the positive aspects which may develop Islamic financial activities is an increased securitization of investments and their conversion into liquidities, besides more focus on the attraction of small savings and giving the opportunity to a major sector of the people to acquire Islamic financial instruments for the sake of investment, thus implying an increased availability of savings geared towards investment.

Moreover, tremendous developments in communications, technological inventions and the trend towards a liberalization of banking transactions impose upon us a new situation which we have to continue updating by paving the way for our Islamic banks to take advantage of the revolution in communications and new tools and equipment, the facilities of contacts throughout the world and the signs of the forthcoming competition, through the provision of distinguished modern services that go beyond the shabby forms of services that are presently rendered, and through efforts to target the larger base of customers in various parts of the world and constantly linking them directly to activities of the Islamic banks.

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Distinguished Brothers,

I have always been calling for a greater cooperation with the conventional banking sector because there is no *Shari 'ah* objection to that so long as it takes place in accordance with the principles of the *Shari 'ah*. I believe that further cooperation and coordination would cause no harm to the experiment if we put aside unjustified prejudice. Such cooperation would provide us with the opportunity of achieving the interests of Muslims through syndicated financing, besides cooperation in the provision of basic necessities and support to exports, a cooperation which Islamic banks need more than any other party because it does actually exist in many Islamic countries.

This issue is related to our positive attitude towards the creation by the major conventional banks of integrated Islamic branches in banks, because this concerns not only an anticipated competition, but viewed from a global aspect, it is a victory of the principle and an expansion of the base of Islamic banks. Through this process we are looking forward to a blending of established banking experience with noble Islamic concepts, so that we may develop our techniques, modes of investment and the level of services that we provide in our customer service departments.

Another very important issue relates to efforts that Islamic banks should exert to complete their legal framework, protect it and coordinate among themselves through strict adherence to its main principles and not tolerate any doubt about it.

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The rulings (*fatwas*) should be based on the main injunctions and not on exceptions and permissible details, on the interests of the community and not on those of the shareholders.

Distinguished Brothers,

Of course there are many difficulties and problems that come from outside the scope of the Islamic banks themselves. I would not like to go into details because you are living with them on a day-to-day basis. However, I would like to refer to a substantial problem which may be considered as the basis of all the ensuing problems, namely, the non-official recognition of Islamic economics and its mechanisms. Despite the existence of 800 million Muslims who have spontaneously and without partisanship or prejudice accepted Islam as a form of worship and behavior to rid themselves of their backward material and moral conditions, and no one can challenge them in their faith in the soundness of the principles on which this religion is based in the socio-economic organization of society. In spite of all this, we find our economists seeking various solutions to economic problems outside the scope and framework of Islamic economics.

It is in the framework of this major negative attitude that the problems of Islamic banks arise, due to a lack of systems defining procedures related to the establishment of Islamic banks, rules for control, investigation and maximum credit levels, problems related to liquidities and reserves, lack of a *Shari 'ah* mechanism to enable central banks to play their part in providing assistance by way of liquidities, preventing

Islamic banks from undertaking commercial activities, owning and either taking or giving on lease equipment and real estates - although these form part of the core activities of Islamic banks - the imposition of high taxes on the profits and returns of Islamic banks while exempting the capital and interests of conventional banks.

In any case, we hope that in the added value that we are providing to our communities, in cooperation and understanding with the relevant authorities and in the initiatives that we are presenting to those authorities regarding the organization of our relations with them, there are solutions to these problems or elements that can alleviate their acuteness and negative impact.

Dear Brothers,

I am really proud of this honor and I dearly prize it, but at the same time, it is tantamount to a responsibility and an assignment that I should continue the course I have adopted, that I should strive with all my efforts to develop and extend support aimed at enhancing Islamic banking, inject new blood to it and explore brighter and wider avenues for the development of the world, for the service of Islamic economies and humanity at large, so that the values of labor, production, cooperation and justice may prevail. These are the sterling values of Islamic economics to which I hope we will return for practical implementation so that we may catch up with the glorious and prosperous past of this *Ummah* in both material and moral terms.

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I would like to express my sincerest thanks and highest appreciation to all of you.

May Allah protect you, and guide **you** on the right path!

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh.

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Establishment of the Bank

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent by a Conference of Finance Ministers of Muslim countries held in Jeddah in Dhul Qa'da 1393H (December 1973). The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the Bank formally opened on 15 Shawwal 1395H (20 October 1975).

Purpose

The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Shari'ah.

Functions

The functions of the Bank are to participate in equity capital and grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms of economic and social development. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.

The Bank is authorized to accept deposits and to raise funds in any other manner. It is also charged with the responsibility of assisting in the promotion of foreign trade, especially in capital goods among member countries, providing technical assistance to member countries, extending training facilities for personnel engaged in development activities and undertaking research for enabling the economic, financial and banking activities in Muslim countries to conform to the *Shar'ah*.

Membership

The present membership of the Bank consists of **53** countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference and be willing to accept such terms and conditions as may be decided upon by the Board of Governors.

Capital

The authorized capital of the Bank is six billion Islamic Dinars. The value of the Islamic Dinar, which is a unit of account in the Bank, is equivalent to **one Special Drawing Right (SDR)** of the International Monetary Fund. The subscribed capital of the Bank is **3,654.78** million Islamic Dinars payable in freely convertible currency acceptable to the Bank.

Head Office

The Bank's headquarters is located in Jeddah, Saudi Arabia and it is authorized to establish agencies or branches elsewhere.

Financial Year

The Bank's financial year is the Lunar Hijra year.

Language

The official language of the Bank is Arabic, but English and French are additionally used as working languages.



**MR. SALIH ABDALLAH
KAMEL**

Date of Birth: 1941 - Kingdom of Saudi Arabia

Academic Qualifications: Bachelor of Commerce, University of Riyadh

Works & Contributions: He established the Dallah Al-Baraka Group in the Kingdom of Saudi Arabia, with the purpose of the optimum utilization of available material and human resources for the benefit of humanity. The mentioned Group has expanded its activities in the fields of banking, commerce, agriculture, industry and services to cover more than 32 countries. The Group endeavored through these activities to embody therein values and concepts of Islamic economy; Inter alia, the establishment of Centres specialized in Islamic economics research; Al-Baraka Annual Seminar on Islamic Economics; Ramadan Annual Symposium and Seminar; Islamic Economy Analytical Indices; The Quranic Verses Indexing and Classification Program; Islamic Economic Rules; The Computerized Encyclopedia of Economic *Fatwas* Carrying out Islamic Translations by means of modern techniques; Positive contributions in establishing the Islamic Banks Information Centre; Intra-Islamic Banks Research Coordination Centre; Participation in Sponsoring and organizing seminars aiming at development of new-mechanisms and realizing strategic objectives: printing and publication of books on Islamic economics and developing of new Islamic financial instruments.

Previous Occupations:

Financial Inspector, Ministry of Commerce

Financial representative and adviser, Ministry of Finance

Present Occupation: Chairman of Dallah Al-Barakah Group. He authored papers and research on economics and Islamic banking operations such as; Ideas and Questions about "Zakat" - The Concept of Viceregency (*Istikhlaf*) of Wealth and Land Inhabitation (*I'mar Al-Ardh*), Islamic Financial Instruments to Increase Demand, and other numerous religious publications. He also delivered a series of addresses, speeches and lectures in different countries. He has also established

1- Islamic Economics Research Centre, King Abdul Aziz University, Jeddah

2- Saleh Abdallah Kamel Centre for Islamic and Commercial Research & Studies - Al-Azhar University —Cairo.