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GLOBAL EVOLUTION OF ISLAMIC BANKING.

Dissertação apresentada ao Curso de Mestrado Profissional Executivo em Gestão Empresarial da Escola Brasileira de Administração Pública e de Empresas para obtenção do grau de Mestre em Administração.


ASSINATURA DOS MEMBROS DA BANCA EXAMINADORA

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GENERAL INTRODUCTION

Islam is a monotheistic belief with numbers of followers constantly growing for almost half a century, with more than a fifth of the global population representing its ideals. Indeed, the last fifty years, which mark the beginning of the fifteenth century of the Hijri era show a genuine willingness to return to fundamental Islamic values in many parts of the Muslim world.

However, despite the extent of Islam worldwide, the vast majority of non-Islamic societies are unaware about all of this belief. At best, their knowledge is limited to the major concepts, at worst, they contribute, through their ignorance, prejudice directed against it. In such a climate of hostility largely fueled by media pressure, it is therefore not surprising that the emergence of a new financial system in the Muslim world remained completely unknown to the Western public.

However, the evolution of this system is quite surprising: in thirty years of existence, it has gone from a system based locally in Egypt and some Gulf regions to a multinational industry holding to its credit a number of balance sheets more than 100 billion USD. Also surprising, when you consider that the essence of its existence is rooted in religious principles that have been established there over 1400 years. The majority of the principles on which the system is based on are simple morality and common sense, principles which form the basis of all religions, including Islam. Similarly, when religion and economy are linked, the question of ethics is inevitably raised.

To develop this work, we relied primarily on theories related to Islamic finance as well as various books related to the subject (monographs, journals, academic articles, etc.).

This first step concede the establishment of a defined academic framework allowing us to sit the issue of this work and secondly by supporting an empirical approach.

During all of this work we have tried to use a comparative approach highlighting the various facets of Islamic finance compared to conventional finance.

In the first chapter of this thesis, we tried to understand the theoretical foundations of the Islamic financial system.
In the second chapter we have tried to analyze the functioning of the Islamic financial system.

In the third chapter, we outlined the development of the Islamic financial system to know its history and its evolution and its current status and the problem faced by the Islamic financial system.

In the fourth chapter, we discussed the study of new Islamic products in Morocco, which has two advantages, first a theoretical interest, which will allow us to identify the content of these new products, and also a practical value, which is the proper marketing of these products.

CHAPTER 1: THE FOUNDATIONS OF ISLAMIC FINANCE

If the so-called "conventional" finance aims to link economic agents releasing a financing capacity and those who, conversely, have a need for funding with a view to the efficient allocation of financial resources; Islamic finance, meanwhile, admits a definition other efficiencies, including without limitation moral standards inherent in Islamic ethics.

In addition, finance cannot be regarded as an independent discipline. Present it as an integral part of a broader discipline - economics - just seems more effect. Address some elements of understanding on certain founders economic axioms of Islamic Finance seems, in fact, inevitable.

Like the liberal economy, essentially positivst and therefore totally neutral vis-à-vis any ethical or moral position, Islamic economy, based on a system of norms and values, wants normative.

1. Islamic law or "sharia"

1.1. Sources of the "Sharia"

In economics as in any other area of life of the Muslim, sharia is face legal reference and thus indicates the line. The four main sources of Sharia law are, in order of importance, the following:
• The **Holy Qur'an** (God’s words): It is the main source in terms of law. Anything taken from other legal sources (below) must be in full compliance with the Qur’an.

• The **Sunnah of Prophet Muhammad** (SAWS): This term encompasses all the teachings transmitted by the Prophet (SAWS) through his words, his actions, and tacit approval.

• The **Ijmaa**: In its technical dimension, *ijmaa* means the consensus of Muslim jurists on a point of law. In practice, the *ijmaa* serves as evidence if any part of the Qur’an or the Sunnah is dispositive on a case.

• The **qiyass**: The qiyass or ”Authenticated Analogy,” is to allocate, on the basis of a characteristic common underlying the legal rule to an existing case found in the texts of the Qur’an, the Sunnah and / or the Ijmaa a new case whose legal rule could not be clearly identified.

### 1.2. Objectives of the Shari’ah and their impact on the economy islamique

These objectives are simple to understand and are based on a few fundamental axioms, which are all related to each other. The first, and by far the most important is the principle of **Tawheed or Unity of God**. This fundamental concept in Islam implies that it is God who created man, who instilled on spirit and with his physical powers, sensory and intellectual. It’s created him the Universe was filled with phenomena of creatures and things, and has provided these laws that govern their existence. He gave them the power and energy and all subject to the man, his khalifa or vicegerent on earth.

We did not create heaven and earth and what is between them in vatin. This is the opinion of those who disbelieve. Woe to those who disbelieve for the fire (to expect).

This leads to the second axiom, that the essential role of the human being on earth. As manager on behalf of God (SWT) ordered it to study the phenomena, to discover and disseminate laws, in order to fulfill his mission on earth and improve his life in this world, so as to make it compatible with its status as a human being, in all that it entails as relationship with Lio yourself, with God, with the world and with others.

The word khalifa used in this context does not concern a particular individual, but of all humanity. Therefore, this notion of stewardship arises that fundamental unity and brotherhood
of humanity, together with the equally important concept of `adala, (that is to say justice). The establishment of justice and respect now represent the primary objectives of the law and God has placed them in the same degree as piety.

2. Principles of Islamic Economics

2.1. General presentation :

The Islamic economy can be defined as the branch of knowledge that contributes to human welfare by allowing allocation and distribution of scarce resources, in conformity with Islamic teachings without much limitation of personal freedom or create continuous macroeconomic and ecological imbalances. Can be defined as Islamic Economics and also as part of Islamic doctrine that encompasses all areas of life. She did not give a scientific nature, as does Marxism, but it is also not devoid of a doctrinal foundation nor a vision encompassing the principles of life and the universe, as in the case of capitalism.

It is based on a paradigm whose primary objective is the socio-economic justice (Quran 57: 25). This goal is rooted in the belief that human beings are the lieutenants of the One God, creator of the universe and all it contains. All resources available to them were "assigned" by God for their proper use for the good of all. They are thus accountable to Him in the Hereafter, and will be rewarded (or punished) for the way they acquire and use these resources.

Like the doctrine of the market, human well-being does not depend primarily in Islamic Economics, maximization of wealth and consumption. It requires a balanced satisfaction of material and spiritual needs. Neglect the spiritual needs or physical needs impede the realization of the true welfare and worsen the symptoms of anomie such as frustration, crime, alcoholism, drug abuse, divorce, mental illness or suicide, all reveal a lack of inner life satisfaction of individuals.

According to this paradigm, more is not necessarily better than less in all circumstances as stated in the conventional economy. In other words, the marginal utility is not supposed to be strictly positive. Mainly depends on how they acquired the additional wealth, the user of this wealth was and how he uses as well as the societal and ecological impact of this increase. Thus, more can be better than less, provided that the increase can be achieved without affecting the moral force of society, without increasing anomie, and without harming the ecological balance.
Under this paradigm, the ideal behavior is not synonymous with self-denial; it simply means the pursuit of personal interest within the constraint of social interest through the submission of claims to scarce resources to the filter of moral values transmitted by the Prophet Muhammad (SAWS). The Islamic Economics reckons indeed all individual behavior-oriented morality contributes to the achievement of socio-economic justice and social welfare, as the market system paradigm assumes that interested behavior serve the corporate interest.

However, while the traditional economy presupposes the predominance of interested behavior in all individuals, Islam does not assume the dominance of ideal behavior. Rather, it takes the realistic position that individuals normally act in a purely ideal or purely interested manner, while the behavior of most people tends to be somewhere between these two extremes. However, given that the ideal behavior is more favorable to the realization of normative goals, Islam tries to bring individual behavior as close as possible to the ideal. Thus, it rather does not by coercion and regimentation but trying to create an environment through a social structure based on moral values.

2.2. The three pillars of Islamic Economics

The general structure of Islamic Economics consists of three pillars that determine the doctrinal content and make it stand out from all other economic doctrines in their general lines. These pillars are:

- 1- The principle of dual ownership.
- 2. The principle of economic freedom within a limited framework.
- 3- The principle of social justice.

The Principle of Dual Ownership:

The Islamic Doctrine does not agree either with capitalism in its assertion that private property is the principle, nor with socialism when he considers socialist property as a general principle. She admits together the different forms of ownership when it adopts the principle of double property (property in various forms) instead of that of the single form of ownership that makes their capitalism and socialism.
The desire to earn a living, to live comfortably even have ornaments or decorations or to protect them from an uncertain future is never considered as an evil. The Quran says that its precepts are rather the means to succeed in this area without the barter to a failure in the afterlife.

**The Principle of Economic Freedom within a limited framework:**

The second pillar of Islamic Economics is granting individuals an economic freedom within the moral and ethical values pertaining to Islam.

**The Principle of Social Justice:**

The third pillar of Islamic economics is the principle of social justice, that Islam embodied by providing the distribution system of wealth in Islamic society, elements and safeguards to ensure the distribution the possibility of achieving justice social, and putting said system in harmony with the values on which it is based.

### 2.3. The Agrarian System

Agriculture is the earliest occupation of man: it is she who provides the essential food irreplaceable source of life. It is special to the companion, because the Bedouin life precede the sedentary life of cities. It is a rural occupation, that city dwellers do not practice or do not know, because the Bedouin society has existed before urban society and business cities have published after those fields. God is "the Creator, the Knower"

In view of the nature of the common land ownership, agrarian Muslim organization was built around IQTA called concessions. IQTA is a land to be allocated by the community leader to an individual or to a community in any part of the domain of the State.

The IQTA system varied according to the aim pursued and following the concession was temporary or hereditary, this system evolved by translating three forms of IQTA:

- IQTA Tamlik: the original form of IQTA. It’s a land grant in the public domain granted in full ownership to the Muslim conquerors. The latter must exploit the land while having the obligation to pay a fee called "achour"

- IQTA Istighlal: this form of concession appeared during the reign of the Abbasid. It is to give only a right of use to the recipient.
IQTA Wilaya: this form of concession appeared around the 11th century. It was justified on political grounds. These large areas granted to military leaders or governors in return for their military and political support.

2.4. Trade

With the word "trade" (Tijara) denotes the profit by the capital increase by buying cheap what sells very expensive. The food can be both slaves, grain, livestock or fabrics. The difference thus produced is the "benefit".

Indeed two types of trade existed namely internal trade and external trade:

- The external trade closely linked to urban development experienced by the Muslim empire characterized by its economic weight as imports consisted mainly of raw materials and slaves and exports of finished and semi finished products.
- Internal Trade has played a less important role than external trade. Present in the image of family subsistence economy which overlooked some goods subject to a relatively large exchange between the different regions of the empire. These are luxury goods and some basic products such as cereals, sugar, papyrus.

2.5. The roles of the Mint in Islamic Economics

As we have seen, the central idea that best defines Islamic Economics, distinguishing it from the secular paradigm of the market, is the consideration of ethical and moral values based on religion.

From a theoretical point of view, it follows certain differences between Islamic Economics and the conventional system. Among the most notable, identifying the roles of money in the economy.

Usually, as it was widely thought, three fundamental roles are given to money:

- **Unit of measure** (or account): Currency is a stallion with values in that it serves to express, and thus to compare the value or price of goods and services. This is recognized in Islamic Economics.
Global Evolution of Islamic banking

- **Intermediate trade:** By interposing itself in the exchange of goods, money overcomes the problem of barter. This function is also recognized.

- **Value reserve:** The currency can be kept as a purchasing power. This function is not recognized in Islamic Economics.

Recognize the currency values of the reserve function induces it is considered as a good in itself, can be preserved and having intrinsic utility. Islamic economics does not recognize money as a good in itself and therefore rejects any idea of interest, a special price of silver. This point is central in Islamic Finance. The prohibition of *Riba* (or interest) throws indeed the foundation for specificity of the Islamic financial system over the conventional system in which the building is fundamentally based on interest.

### 2.6. Focus on the prohibition of *Riba*

"*What we hate the more reason, it is the practice of lending at interest, because winning that withdraws money comes from itself and no longer meets the end who chaired its creation ... this way of making money is all the more contrary to nature *"*

Aristotle

It is accepted by Muslim jurists as *Riba* prohibited in Islam is not limited to wear but it includes any form of interest, some of the characteristics of the loan in question (consumption / production, high / low, short-term / long; etc.). The prohibition of *Riba* mainly due to the ban *Sharia* to fix, in advance, a positive rate remunerating the passage of time.

*Sharia* prohibits indeed any contractual premium on the amount of a loan of fungible goods (including currency). It also prohibits the removal from the lender of any benefit from the loan, unless the benefit is freely granted by the borrower after the loan repayment and without constituting a tacit or explicit condition.

The search for the reasons for the prohibition of interest has led to some interpretations, which are:

- Interest is banned because it is a contractual remuneration fixed in advance (fixed or benchmarked rates).
- Interest is payment for time that should not be traded.
• Interest is unfair because it corresponds to a pay guarantee the lender, while the risks are fully insured by the borrower.
• On the socio-economic, interest helps to increase inequalities.

3. Principles of Islamic Finance

3.1. General presentation:

Islam is not opposed but, on the contrary, encourages true profit as income of a company effort and capital invested. Only legitimation of money as a capital and the justification of the interest as an advantage for the simple fact of abstaining from consuming are rejected. The majority of transactions (sale and purchase) are permitted in Islam, bans being only exceptions. Thus we read in verse 275 in the second chapter of the Quran:

Those who practice usury will not stand (on the Day of Resurrection) except like the standing of, the touch of Satan upset it because they say: "Trade is just like interest". While God has permitted trade and forbidden interest.

So "God hath permitted trade" is the general rule with the sale sharking as a strict exception. Trade is, in fact, strongly encouraged in Islam, incitement found in the Qur’an:

... But be a trade (legal), you, by mutual consent ...

... And in the stories of the Prophet (SBSL)

"We asked the Prophet (SBSL): What are the best way for a man to generate income? "He said," Through his work, and by all legitimate sale ‘:. "

This first introduction is significant because it allows to establish the Islamic financial system as a system based on profit sharing and participation, and trade based on mutual agreement, on honesty and trust between stakeholders rather than only rejection interest.

Those who recite the Book accomplishment Salat (prayer), and spend, in secret and in public, out of what We have given them hope for a gain which will not perish.
God (SWT) encourages indeed Muslims as practicing their worship rites that spend their property for their livelihoods. Thus, the trade of an honest man never fail ultimately because in addition to enjoy the benefits, he is entitled to an eternal returned to his Lord (SWT)

The Prophet (SBSL) emphasizes the same way on honesty in business transactions and the merchant reward that integrates its commitments. "The truthful and honest merchant is with the Prophet, the truthful and the martyrs."

Thus, as the rejection of the interest that the presence of honesty, trust, integrity and sincerity in the transaction are conditions that make the admission an Islamic perspective

**3.2. The "Five Pillars" of Islamic Finance**

Islamic finance is based on five basic principles, often referred to as pillars of Islam Financial. The existence of contracts and therefore of specific products has Islamic Finance and the proscription of certain conventional methods derived from these pillars:

- **Prohibition of Riba:** Etymologically, the word riba (male Arabic name) comes from the Raba & Arba verb which means to increase and enhance a thing from itself.

It is interesting to note before giving a technical definition of riba that some legal experts believe that all transactions prohibited in Islam is part of riba.

From the legal point of view, we can define the riba as any benefit or surplus perceived by one of the contractors without consideration [3] acceptable and legitimate from the perspective of Islamic law, [4] as part of a loan (riba said al-nasi’a) or forward sales of currencies (the riba said al-nass’a) or unbalanced barter food similar (riba said al-fadl)

- **Prohibition of Gharar:** The term means Gharar randomness or blur an exchange or one of its components (nature of the property, price, description etc.). Gharar can be more broadly defined as selling goods, the existence and characteristics are not certain. We find repeatedly that prohibition in the sources of the Sharia, especially in the Sunnah. For example a include a statement of the Prophet Muhammad (saas): "The Messenger of God has forbidden to sell the scope of a camel before it will give birth. "(Reported by Al-Bukhari, Muslim).
In the same vein, we also note the prohibition of *Qimar* (bet) and *ayssir* (speculation). Their prohibition arises from the possibility for a Contracting losing its entire "set".

- **Prohibition of Haram**: The ban means that the Muslim can treat illicit goods judged by Sharia. In other words, the underlying any type of agreement must be Sharia compliant. Typically as part of a stake in the form of shares, a number of sectors whose activities are considered illegal are to be excluded from the investment universe (alcohol, pornography, banking sector "traditional" etc.).

- **Principle of "3P"**: Islamic Finance is often called "participatory" in that it encourages profit and bans interest. From the operation of contracts of participation, it has set up a system based on the sharing of profits and losses ("3P"). This system allows to combine financial capital to human capital. In other words, an investor will entrust his funds to a contractor with whom he will share the benefits in a predetermined proportion.

- **The "Asset Backing"**: The "Asset Backing" or backing has a tangible asset, appears as one of the principles that make Islamic finance a finance recognized for its potential in terms of stability and risk management. To require that all contracts should be linked to an activity "palpable" reassures particular regarding the disconnection issues in the financial sphere to the real economy.

Compliance with all the conditions induced by these founding pillars of Islamic Finance for the proposition that a financial product is "Sharia Compliant". Nevertheless, it seems clear that the good faith of the offeror is not sufficient to ensure product conformity Sharia. To overcome this problem has agency, this responsibility is given a *Sharia Board* that certifies the legality of the products offered.

### 3.3. The role of the Sharia Board

Muslim jurists have a profound influence on daily practice of Islamic Finance. Indeed, the need for continued consistency with the tenets of the *Sharia* requires different industry players to regularly call a "Council of Sharia," or *Sharia Board*. To monitor the compliance of products and methods with Islamic law, this committee plays a pivotal role in the life of the products.
"Sharia Compliant".

The product certification process will go through a number of questions that will guide the committee in this exercise. Typically:

- Are the terms of the transaction conform to Sharia?
- Is this the best investment for the customer?
- As a fund manager, is a transaction in which the banker is willing to invest his own money?

In the specific case of the supervision of the funds, it should be noted that the role of the Sharia Board is not limited to the screening of shares or other products, but also is to ensure compliance strategies and management methods. Typically, it is incorrect to state that a index fund, whose benchmark is certified by a Sharia Board is automatically "Sharia Compliant".

Finally, we should emphasize one of the recurring issues facing stakeholders of Islamic Finance in relation to the role of the Sharia Board. Indeed, there exists within the Muslim community different schools of thought which religious text analysis are more or less recognized based on the customer’s sensitivity. Thus, a call by a financial institution Malaysian Sharia Board for certification of a product will encounter difficulties to sell this product in the Gulf. Indeed, the Gulf countries, more legalistic, would tend to reject certain interpretations of Malaysian lawyers deemed too flexible. The nevertheless we see standardization efforts by institutions with vocation regulate this market such as AAOIFI.

**CHAPTER 2: OPERATION OF ISLAMIC FINANCIAL SYSTEM**

Islamic financing techniques are not new today. Indeed, they are inspired by the life of the prophet Mohammed, his words and deeds, and thus date back to the 7th century.

The system worked quite effectively during the heyday of Islamic civilization and subsequent centuries. According to Udovitch the Islamic financing (Madarabah, Musharakah) could mobilize the entire tank monetary resources of the medieval Muslim world to finance agriculture, crafts, industry and trade in long distance. These modes were used not only by Muslims but also by Jews and Christians to the extent that the producers interest loans and other
excessively usurious practices were not in common use. According Goitein, an offense against the Jewish law, Christian and Muslim interest was found only once in the text of a judgment in the documents of Geniza despite the fact that an incredible number of documents geniza deal of credit. Schatzmiller also concluded that the financial capital has been developed in the first period by a large number of money market funds and owners of precious metals without the supposed ban on riba, usury obstruction in any way whatsoever.

1. Financing participatory vs debt financing

1.1. Participation by funding methods 1.1.1.

Musharakah

a) Description of contract

The musharakah or Shirkah means the agreement in which two or more parties combine their financial, human and / or physics to develop a new commercial project or participate in an existing business. Their participation gives the right to the joint management of the project and compensation for their investment defined by a share of profits or losses resulting from the development of the project.

Originally, the musharakah exist in two distinct forms:

- al-Shirkah milk or non-contractual association;
- Shirkah al-uqood or contractual association.

The non-contractual association implies a condominium and appears when two or more persons are granted joint ownership of property without being explicitly entered in a formal participation agreement. This form of association is relatively rare these days, and derives mostly from an inheritance or a gift.

The contractual association, she considered a full participation, since in this case, both parties have expressed an explicit desire to enter into a contractual arrangement to share and, consequently, losses and profits. Profits are shared in a predetermined proportion while losses are limited to the capital invested by each partner.

b) Legal Rules
Several legal rules are established to ensure that these funding arrangements do not become an indirect way of charging interest, and an element of these contracts is left facing the uncertainty and chance:

The investment can be financial, human or physical. In each case, it must be clearly assessed in the contract;

The share of profits accruing to each partner must be known at the beginning of the contract and must be a proportion of all partners. The benefit accruing to each partner must be predetermined as a proportion or a percentage and not a fixed amount.

In principle, this share should be proportional to the share of associates in the capital. However, some lawyers allowing variations in the distribution of profits determined by mutual agreement between the partners;

For loss, each partner is liable according to its participation in the capital, and this rule cannot be altered by any condition.

When partners invest in the project an amount equal and share the same privileges and the same proportion of profit, musharakah is called mufawadah. If the associated differences have different rights and they have a proportion of separate profit, participation has an inan structure.

c) Contemporary Application

In the opinion of the majority of Muslim economists, the most appropriate application for funding from musharakah predominantly small scale in areas such as agriculture, for rural development projects. One benefit of this contract, according to many economists, is that it contributes greatly to the fight against rural poverty. This assertion was illustrated through a detailed 1994 study where author shows how a structure as the musharakah could help eradicate poverty among the community of Malay fisherman in general, and in particular Terengganu.

This study suggests that by combining their resources in terms of capital and experience in the field (in the fishing itself, and in the sale of their catch), the Terranganu fishermen could buy bigger boats and more large nets, fishing to go further, and minimize the role of the
intermediary in the current system, significantly eroding the revenues generated by the local fishing community.

The author proposes to integrate this secondary role in the project Msharakah. According to him "... the financing musharakah gave much hope to young people and poor farmers, especially in Sudan, through the aid granted to small farmers by the Sudanese Islamic Bank. It encourages them to work hard and cultivate their land. They become partners in a new system, sharing risks and profits with the bank. One of the biggest success of this project is to have stem the rural exodus. Therefore, musharakah has real potential in providing an answer to the most important development issues known in rural areas. "

Nevertheless, there are examples of the application of musharakah in other sectors as agriculture, although they are rare. Thus the Dubai Wire FZE, Kuwait Petoleum Coperation and Union Carbide have united to develop the project EQUATE (v.infa), a petrochemical plant, using the structures in contract musharakah, to answer the financial needs of the project.

1.1.2. Mudaraba

a) Description of contract

In mudaraba, one of the parties, the rabb al badly, provides the funds to the other party, called the mudarib, which engages in the management of an activity that can generate some profit. The ratio according to which profits are distributed is fixed and predetermined, and known in advance by both parties. Any losses caused by the normal process of the activity and not due to negligence on the part of mudarib are payable by the holder of the funds. Since human capital (labor representative and effor) in this arrangement has the same status as the financial capital (representing the monetary value against the work), the Contractor Agent will, if lost, lost his time, his effort and his work, but nothing more. However, having invested anything other than its human capital, mudarib not entitled to wages for the company’s management.

b) Legal Rule

- The capital invested in the contract must be a financial capital in the currency in circulation. If there is a physical capital, it must be clearly assessed in the contract, and with the agreement of both contracting parties;
The share of profits accruing to each party, the amount of capital invested and
the nature of the project should also be defined in detail in the contract;
• The nature of the project must comply with the requirements of Shariah

c) Contemporary Application

The Mudaraba contract is used by Islamic financial institutions as a substitute for me
issuance of conventional bonds. A prime example is the application in Pakistan TPC or
"Participation Term Certificates": "Banking and financial institution in Pakistan had developed
a new designation reserved for companies to replace debt financing based on interest. The PTCs
are transferable instruments based on the principle of 3P who are appointed to replace debt by
borrowing in local currency to medium and long term contracted by the industrial sector.
Instead of receiving interest, as is the case ready, shareholders of PTC share the profits
and losses of the companies involved. John Harrington of the University according to Hall in
New Jersey in the United States, suggested that the PTC could be used to finance the
construction of public buildings that would rent to the government. PTC holders would be
given the profits from the rent paid by the government of this kind would reduce the need for
public debt, providing an attractive gain investors’

1.2. Methods of Financing by Debt

Musharaka and Mudaraba cannot be applied in all circumstances, the Shariah has
specified other modes of transactions allowed, which are the cause rather operational modes
that financial transactions.

Therefore follows a non-exhaustive presentation of the main mechanisms currently used
by Islamic financial institutions.

1.2.1. Credit Sale or Murabaha

a) Description of contract

In this type of transaction, customers wishing to acquire property will charge the other party
to find him and buy him the property to a third party. Instead of claiming a credit directly to a
bank, the customer will see resell the property at the purchase price plus a certain profit
margin fixed in advance and settle the payment of the property referred either once at a specified time or by regular payments.

b) Legal Rule

There are several rules and possible extensions to that contract, but we will quote only the most relevant.

In step Purchase Agreement:

- The put option can contain several conditions accepted by both parties, concerning inter alia the place of delivery, the payment in advance to guarantee the performance of the transaction and the method of payment;
- It is possible to stipulate the binding nature of the promise to purchase, the effect of this stress is determined either by the satisfaction of promise, either through compensation for damage caused by his dismissal.

The first purchase of the property:

- The seller must be in possession of the property before selling it to his client;
- It can appoint a terce party, including the buyer to receive in its place.
- When selling murabaha:
  - The sale by murabaha can be reached at the last phase of the operation, that is to say after the first delivery of the property;
  - This step behind must observe the rules of transparency requirements as to good purchase price and the amount of the margin charged by the bank.

c) Contemporary Application

Before citing an example of contemporary use of murabaha, it is important to clear up any confusion between it and the classic credit sale. Indeed, this type of agreement is sometimes considered the same as that based on the payment of a fixed interest. When a person needs a certain amount of money to buy a good, she borrows from the bank and repays it after a delay on payment of fixed interest.

Muslim jurists have presented arguments against this type of allegation. First, the financing murabaha is not a loan but a sale. The money remains in the possession of the bank
that fits directly with the supplier. Second, the nature of the benefit is different: it does not make use of the money, but rather is the remuneration of the service that the bank provided to the customer, that is to say research and purchase good rates. Third, the amount of the profit margin is not bound by time, that is to say, it is fixed in advance and does not change during the duration of the granted payment period. It is therefore not linked to external economic variables such as interest rate of consumer credit depends on the behavior of the yield curve at the time the credit is granted.

However, not all Muslim scholars agree that time must be compensated in a trade, therefore, as to the interest rate; the margin will be even higher than the allotted time will be long. The condition is however that the margin is fixed at the outset and that it no longer varies.

The sale by murahaba is undoubtedly the most popular and most used contract by Islamic banking institutions. This popularity perfectly clear from the statistics kept by banks differences in their annual report. Thus we read in the 1999 annual report of ABC Islamic BANK that no less than 59.7% of its total assets come from financing Murabah, against only 8.1% for the arrangements by Mudaraba

1.2.2. Contract-locatio (leasing) or Ijar

a) Description of contract

Ijara in Islam resembles, in many respects, to lease or conventional leasing. The lease does not correspond to the sale of an object, but the sale of the usufruct of the object for a specified period. The ownership of the property remains in the possession of the leasing agency until the end of the contract, then the customer has the good against the payment of rent and at a rate specified at the beginning of the contract. Despite this similarity almost perfect, there are some rules to which the validity of the contract is subject that distinguish a contract classic leasing:

- In a typical lease contract, the tenant of the property must pay compensation equal to a percentage of the total amount if he missed one of his payments. This type of penalty is prohibited under Sharia since it corresponds to the payment of interest. If ness is desired by the delay in payment snacks bank, it must be determined at the beginning of the contract:
• Another important condition for the validity of the contract is that the institution which gives the property rental must retain ownership of the property for the duration of the contract.

According differences can still be raised, but these are the ones that most often ask problem. This first form of leasing is that without purchase option. Recently, Muslim jurists have developed a contract with a purchase option called Ijarah WA Iqtina. When the purchase option is enabled, the transfer of property and determining the residual value must be the subject of a second separate contract first.

As with other contracts, there are certain rules to which the validity of the contract is subject:

b) Legal Rules

• The subject of the contract must be valued. Items that have no usufruct can be rented;
• It is important that the property of the object remains in the hands of the one who gives the property rental, and only the usufruct is transmitted to the client. Therefore, an object that can be used without being consumed can be an Ijara contract. Among them include money, gasoline, food, ...;
• Since the property remains in the hands of the one who gives the property rental, all the responsibilities arising from the ownership will be borne by the latter, but the responsibilities RELATED ITEMS the use of the property are borne by the tenant customer.

c) Contemporary Application

The examples of using the Ijara contract are numerous. Among these include the acquisition by the Kuwait Airways aircraft as part of a transaction that has adopted the structures of an Ijara contract.

1.2.3. As-Salam sale

a) Description of contract
Selling as-salam is the sale of a property the delivery will be in the future as his payment is made in cash. In general, the sale of a non-existing property is prohibited because it involves the gharaq. However, to facilitate certain transactions, the exception was granted following the reading of the hadith follows:

When the Prophet (SBSL) arrived in Madinah, he found that the practice of the salam was widespread among its people for selling fruit, for periods ranging from one to three years. He said, "Whosoever a sale by salam, which specifies the goods by weight or volume and a predetermined term."

This sale is legal when the price is paid in full in cash, and the clearly defined in the contract object is issued on a date and at a specified place in advance. At the time of the Prophet (SBSL), these prepayment allowed farmers to buy seed necessary for the production of fruit.

b) Legal Rules

- The property that is the subject of such contracts must be detailed as precisely as possible, to avoid misunderstanding when delivered on the specified date;
- The object must be delivered on the agreed date. The likelihood of its existence must be high enough. Otherwise, if the existence of the property is subject to too uncertain and indeterminable events, it cannot be subject to this type of contract;
- The sale by salam cannot be done on an object that already exists because the damage and deterioration of the property cannot be assured before delivery.

c) Contemporary Application

Salam The contract is currently being used to replace the derivatives that are forbidden in Islam. Indeed, contracts such as futures, options ... are not accepted, since the price variable is not known to ‘advance and depends on futures circumstances. Salam contract is often used to fill the void left by the ban. The buyer is paying for something he will receive at a future date. We can therefore consider that the price here parallels the spot price applied in a futures contract. However, the price applied in the Salam may be lower than the spot price of a futures contract, as in a futures contract, nothing is exchanged before the contract expires, while Salam validity of a contract is subject to immediate payment of the amount fixed.

1.2.4. Mail Istisna’a
a) Description of contract

Istisna’a the contract is somehow a derivative of the sale by salam. The validity of this contract is granted by qiyas following the legality of the sale by salam. In this type of contract, the price of the property is paid gradually throughout its manufacture. This contract is mainly used in real estate, where the contractor is paid as and as he advances in the construction of the property.

b) Legal Rules

The goods which are the subject of this contract must be manufacturable goods. Can therefore be subject to this transaction the property the "manufacturing" is natural;

The property type, size, materials needed for its construction, the date and place of delivery must be clearly specified in the contract.

c) Contemporary Application

The expansion of the hospital Mowasat Medical Complex in Dubai was funded based on an istisna contract that was later converted into an Ijara contract to allow more investment funds.

1.2.5. Ready in Islam or Qard Hassan

a) Description of contract

The Shari’ah is two types of loans. The loan ‘Ariya is a loan for a certain use, which transfers the usufruct of a property temporarily and free to the borrower, while the ownership of the property loaned remains the lender. When the borrower does not see the value of the property, he returns it to the lender. The second type of loan, the qard, is the loan of fungible assets, that is to say of objects that can be estimated and replaced according to their weight, size or number. In this case, the borrower agrees to return the equivalent of what he received on deposit. To have that is most subject to qard is undoubtedly money, or any other exchange standard; thus corresponding to a transaction in which the customer gets cash from an institution, money that must be repaid at an agreed date and no interest charge.
The Qard Hassan is the only form of loan which is permitted in Islam, as other types of contracts cannot be considered loans in the strict sense. It is indeed the only transaction where a genuine transfer of money is made.

Some jurists allow the lender to charge the borrower contribution as costs arising from the provision of capital. An important condition that accompanies this cost recovery, to prevent it from being treated as interest, is that it does not correspond to a percentage of the total.

b) Contemporary Application

This interest-free loan is generally used by banks to help people in need of temporary status or temporary difficulty, for example, students.

It is also used in addition to one or more contracts. It can indeed happen that a contractor with whom the bank is engaged in a business relationship is in a critical situation. Therefore, by providing an interest free loan to the latter, the bank can save or revive a project and thus safeguard the interests of both parties.

2. The Banking System

After this brief overview of the different financing and investment instruments developed in accordance with the precepts of Shari’ah, the result will be aimed at studying the application of these precepts on the banking market structure initially and then on the financial markets in general.

2.1. The banks

In the conventional system, banks essentially act as directors of the economy and payment system as financial intermediaries between savers and investors. They will be required for the operation of the financial market imperfections. These shortcomings include imperfect divisibility of financial assets, the imperfection of the available information, transaction costs, research and acquisition of these assets, ...

Islamic banking differs from conventional banking in several points. First by its definition, it has a distinct philosophy, based on Islamic principles of social justice, fairness and balance. For this, it will integrate the laws, practices, procedures and instruments that will help to maintain and disp hink this justice and this justice. .
Secondly, Islamic banking differs from conventional bank in its role: instead of filling the only intermediary function, it will act as a direct investor. Indeed, since its operation is based on the principle of sharing losses and gains, and the risk is not at its sole expense, but it is supported both by the depositary, it cannot be content with a single lender-borrower relationship. Rather it is a true partnership that will emerge between the two parties, association where common issues are shared.

The following points will help us to better structure the gap between the functioning of these two institutions.

a) Key distinctions

- RISK SHARING

Islam does not allow the risk to be transferred, along with the capital. The risk is therefore shared between the fund holder (investor) on the one hand, the financial intermediary (bank) and the user of these funds (the contractor), on the other hand. In a conventional bank, all the risk is borne solely by the contractor. The project in which the money is invested succeed or fail, the fund holder is guaranteed sees a fixed amount, evidenced by the interest, independent of the amount of income generated by the project.

Islam considers this type of transaction as unfair, and requires the investor’s profit is proportional to that of the entrepreneur. If the result is positive, the benefits will be shared by a proportion determined in the contract. By cons, if the result is negative, the financial loss will be borne by the sole owner of capital, the contractor will be deemed to have lost his time and efforts.

- MORAL DIMENSION

Chapra as Mohsin insist that the functioning of Islamic banking cannot be reduced to the simple abolition of interest. Similarly, Mikharor distinguished "... the bank in line with the value system of Islam ... (and) ... the bank without interest as a mechanical concept that denotes a bank mode that seeks the elimination of interest rates ... ". Chapra and Mohsin considering a banking system, the nature, form and the operations can be radically different from those of a conventional bank. Besides the rejection of Riba: they consider it essential that Islamic banking primarily serve the public interest rather than private interest or that of a group of individuals.
Like any institution linked to an Islamic context, it has a social role

Let’s keep in line with the objectives of the Shari’ah that is social justice

(al’adalah al ijtima’iyyah) and human success (Falah al). It must not only explore the projects that would assure him the highest profitability but also those that meet the social and human requirements of these Maqasid. Its social role is reflected not only by his rejection of interest rates considered unfair to Muslims, but also through the promotion and support of projects that do not go against Islamic values or that are known to be detrimental to the interest of the community.

This social dimension of Islamic banking is directly reflected in a branch of its business, which has no counterpart in conventional banking: the fund management of the religious tax, the zakat

- DIVERSIFICATIO DUE AND SUMMER SERVICES

A final difference to note is the nature of the activity of an Islamic bank. This will not be limited to pure financial intermediary role. Thus we find in the range of services offered as collecting deposits as tax management, insurance, ...

This diversification is directly related to the concept behind an Islamic bank, since it cannot stand alone risk but that it delegates part to the depositary, it needs to diversify its activities to the maximum to try to offer its investors an income as high as that offered by conventional banks.

This de-specialization of banking, however, not unique to the Islamic system. This phenomenon is also emerging in the last Belgian banking landscape of those years. “The boundaries between the different financial professions as they cease to estompe1: The most striking trend in this regard is the development of bancassurance a ... similar developments marked the securities market ... (with) the law of 4 December 1990 ... the banks have had indirect access to the Exchange through holding shares in brokerage firms ...”).

- BANK-CLIENT RELATIONSHIP
The principle behind the functioning of Islamic banking will totally change the customer-bank relationship as it was previously defined in the conventional system. As the client becomes an investor and he almost shares the same risks as the bank, we can no longer talk of a neutral lender-borrower relationship but a true entrepreneur-investor relationship, similar to that found in direct investment operations.

That means that both parties will be directly involved and share the same interests and will be even more attentive to the quality of their partner. Thus, the customer’s creditworthiness will not be the decisive factor, but the bank will focus more on its quality as an entrepreneur and his motivation on ethics and productivity of the project. Similarly, the Muslim customer will not choose to deposit money in a bank instead of another by comparing the returns offered. Instead, it will select one that will allow him to invest his money so as profitable as beneficial for him and society.

Obviously, the Islamic bank does not hold the exclusivity of such a relationship. More and more, conventional banks are involved in risky operations, trying to reduce their credit-based activity. Similarly, Islamic banks will not always play the role of investor, but will take a more focused on the customer’s creditworthiness attitude, in using, for commercial transactions, products that are, like Murabaha, based on debt.

**b) Basic Structure: Mudaraba two-thirds**

Through TNT literature that abounds on this topic, Muslim economists have developed several models of an alternative banking system framed by the demands of a religious context.

In this context, Uzair 1955 and more recently, Siddiqi and Chapra have developed a form of Islamic banking structure based on what is called the *Mudaraba* two-thirds. The main objective of this model is to replace the grant of interest by sharing profit both on the assets of the bank’s liabilities. In Lille contractual relationship, the fund holders will be consistent with the banking firm to "lend" their money and share the profits generated by the bank’s activity. On the side of the assets, the bank agrees with entrepreneur-agent fundraising, entrepreneur who agrees to share his earnings with the bank in a predetermined percentage specified in the contract. The bank then meets all earnings generated by its activities and shares with the fund holders and shareholders under the terms of the agreement entered into with them. The profit that is generated by the deposits is no longer a fixed charge that is determined by market
fluctuations and economic conditions, but is a direct percentage of the total income of the bank. In other words, the bank will operate on the basis of a Mudaraba "two-thirds., in which it acts both as mudarib the side of savings and financing and as Rabb al wrong side of investment and the management of funds.

To better understand the activity of Islamic banks, we will distinguish the heritage side, represented by its liabilities, and the use of its resources, equivalent to his credit.

c) Funding Sources

Regarding domestic sources of financing, the bank will acquire its capital is based on a contract musharakah, is based on a contract Mudaraba. In the first case, the shareholders will be part of the bank’s management and will have a real power of decision. In the second case, management, separate from its shareholders, will be given the total fund management. The bank’s capital will be composed of some of the profits generated by its activities it has carried in reserve, as well as various reserves of the bank.

Regarding third parties funds, the bank will acquire its financial resources by acting as Mudarib. The liabilities of the balance sheet are divided into two types of accounts by Mikharor: current accounts and investment accounts.

Current accounts are short-term deposits that can be likened to those existing in the conventional system. However, although the nominal value of the capital is guaranteed, it generates no income or to the bank or the client. The bank will not use these funds and will keep a reserve of 100% as counterparty. Therefore, the bank will usually charge the customer for costs incurred by the management of these accounts.

It sometimes happens that some banks apply for these accounts fractional reserve: part of the deposit is kept liquid by the bank to meet the daily needs of its customers. The other is invested by the bank, and the entirety of the profits or losses resulting belong to the bank. Here also, the client deposit is guaranteed.

Investment accounts are the primary source of funds to the bank and they are rather comparable to shares in a company as savings deposits. In this case, the bank provides no guarantee on the nominal value; no fixed income will be paid. The fund holders will instead be considered (shareholders’ and the only contractual agreement between the bank and the
customer comes down to sharing of profits and losses generated by fund management. The
customer will be fully informed of the projects in which the bank will invest its money and
will be entitled to a predetermined share of the profits. Similarly, he will not expect any bank
regarding compensation caused losses, which will be materialized by a depreciation of the
nominal value of the original amount.

In an article in Asian trade journal, Ariff three main categories of accounts set up by the
bank: current accounts, savings accounts and investment accounts.

Current and investment accounts do not differ from the models proposed by Mikharor. The savings account will allow the bank to use the funds. Unlike investment
accounts, the initial capital will be guaranteed; which allows the holder to withdraw funds
when desired. These will be invested by the bank without the customer is on the concerted
nature of these investments. In return, the bank agrees to provide a portion of profits to a unit
determined in advance.

Finally, AAOIFI (Accounting and Auditing Organization for Islamic Financial
institutions will), Islamic accounting association, also provided a model of deposit accounts
for the bank and a tendency to standardize and adapt it to structure emerges through Islamic
banks. The difference of this model with those mentioned above mainly concerns the
investment accounts. These are shared between the restricted accounts and non-restricted
accounts.

When the customer decides to invest in a non-restricted account, it allows total freedom
to the bank how its funds will be reinvested. The bank will combine these funds with its own
resources or other foreign resources. The customer will, of course, entitled to a portion of
profits from investment decisions.

By investing in a restricted account, the client imposes a series of restrictions on how
the money will be reinvested. For example, it may prohibit the bank to mingle money with
other funds or invest in unsecured transactions.

d) Use of Resources

When the bank is authorized to use the funds made available, she will invest through
various Islamic financial techniques (v. Supra). When the lender has a right to control the
selection of the project, the instruments used will, usually, contracts of \textit{Mudaraba} and \textit{musharakah}. Indeed, in these cases, investment projects are assessed and identified a clear and precise manner, given the relatively high degree of risk. Similarly, these investment techniques are used when the bank has to deal with corporate borrowers such as companies or public bodies.

By cons, it would be from a practical point of view, very difficult to initiate such contracts for small-scale loans or the granting of consumer credit. In this case, these are techniques such as \textit{Murababa} or \textit{Ijara} are used.

Islamic banking still has an additional task that has no counterpart in the activity of conventional banking and that is the management of the Fund of the \textit{Zakat}.

\textbf{e) Management of Zakat}

A management fund \textit{Zakat} is generally provided in an Islamic bank structure. It has a dual role: it collects \textit{Zakat} its shareholders, account holders, employees and any other devotee who wants to use it as an intermediary for this obligation. The bank may charge a fee for managing the fund. She will do the calculation and puncture the amount required by Islamic law from the funds entrusted to him. In collaboration with other specialized agencies and often with the state, it will then take care of the reallocation of the amount so collected to the designated beneficiaries.

\textbf{f) Council of Shari’a}

Muslim scholars have a profound influence on daily practice of Islamic finance. The need to continue matching Ime with the precepts of the law requires Islamic banks the presence of a Council \textit{Cbari’a}, which monitors compliance of all banking transactions with Islamic law. This committee plays a pivotal role within the bank.

Philip Moore defines four questions that the committee is required to ask before any proposed transaction:

- Do the terms of the transaction are consistent with \textit{Shari’ah}? \textit{Is this} the best investment for the customer?
• Investment it generates added value for the customer and for the community or society in which the customer is active?

• As fund manager, is a transaction in which the banker, as an individual, would invest his own money?

If the answer to one question is negative, the transaction should theoretically be rejected, although the decision of the councilors is binding only when it concerns the legality of the transaction. In other cases, they cannot issue a mere opinion.

The role of this committee is essential not only for religious reasons but also for purely commercial considerations, given that customers of Islamic banks will have confidence in their operations only if Muslim scholars guarantee the accuracy thereof with their convictions.

2.2. Role of the Central Bank

By all accounts, the basic functions of a modern central bank would be equally important in the Islamic monetary system, although the mechanisms are different.

The objectives of the Central Bank should also comply with the normative goals adopted by any institution established in a religious context, including safeguarding the public interest and the search for well-being. In this context, its task will be the supervision of the banking system and the implementation of monetary policy of the state. She will also play the role of the state bank and will handle all monetary and financial transactions of the latter with foreign countries, ensuring its stability both internally and externally. Finally, it will be a bank for all other banks where they open an account and deposit a portion of their profits and reserves. The management of these funds will obviously be free from any interest and will be based on the application of the system PLS.

The banks will also finance their deficit, as a proportion of total loans they have granted 25%. Supervision and control of banks conducted by the Central Bank should be more difficult in an Islamic system than they are in the conventional system, given the higher degree of risk to which Islamic banks face. Therefore, a review depth must be made on the viability and feasibility of the projects in which the bank invests.

3. Financial Markets
Muslim economists stress the requirement of financial markets as primary, secondary and monetary. Indeed, these markets will allow, as is the case with the conventional system of "channel resources available to the financing needs, allow the negotiation of assets created, depending on the projects, heritage situations, expectations; and consequently to improve the allocation of resources, through a dissemination and use of information on asset holders (companies) and on the value of the assets themselves."

They are all the more necessary that they will help to offset the still limited range of Islamic financial products and investment opportunities that banks offer, and avoid excess liquidity is invested in conventional products do not comply with Islamic principles. Furthermore, the absence of market where the bank could acquire more funds, is yet again an obstacle to growth and that, therefore, all the Islamic banking system.

3.1. Primary market

The primary market is the market to which the company will move to find new financing. The aim of the market is to channel savings towards long-term investment and thus to provide the average diverse company to raise funds essential to the growth of its business. These investments are represented in the market for conventional capital primarily through bonds and shares.

The role of the primary market does not differ in substance from the one on the conventional financial markets: it will allow the acquisition of the necessary capital to develop larger scale projects. Only a filter will automatically to avoid trade and trade any financial product that could contradict Islamic guidelines.

Islam recognizes the concept of "limited liability" as defined for a company operating in a conventional context. Thus, the liability of shareholders of this company is limited to only their initial investment. This recognition implies the legitimacy of trade shares in Islam. Therefore, negotiation and transfer of property by a title symbolizing a share in the company is also permitted.

The issuance of shares is carried out based on the concept of Mudaraba. The rules pressuring an ordinary issue (prospectus, information, ...) are also applicable in an Islamic context. The nature thereof will be different, however, in some cases. For example, the
prospectus must indicate that the operation is based on the principle of *Mudaraba*, and distribution method.

Another important aspect which is prohibited in Islam is the issue of shares at a price of par during the time they are issued and purchased. Transactions during this period are in fact subject to the rules of the *Shari‘ah* governing monetary arrangements, which means they must be, initially sold at face value. This period is however provisional and the prospectus must also specify the date of the stock trading beginning. It is generally equivalent to · date the shares are listed on the secondary market. There, their prices will be freely subjected to the law of supply and demand.

The bonds are also important means of financing for non-Islamic businesses. They allow them to achieve long-term funding and at predetermined rates. In Islam, these instruments fall under the prohibition of *riba*. But this prohibition does not diminish the need for Islamic institutions find, as do the other, medium and long term funding from various sources.

In practice, many initiatives have been taken to fill the gap left by the ban. Among these include the issuance of bonds based on the *Qard Hassan*, thus providing no income but which are attached warrants, entitling holders to purchase shares of the issuing company at a fixed price for a fixed period.

The solution would also adequately transform Islamic instruments based on debt as *Murabaha* in a long-term financing instrument.

In such cases, investors would buy the equipment necessary for the company initially before resell it with a certain profit margin.

### 3.2. Secondary market

The existence of a secondary market is essential to the functioning of the primary market. Indeed, the Muslim economic agent also has a preference, to some degree, for liquidity, as in any other system. Thus, if allowed investors to sell their shares quickly and at a lower cost, this would encourage investment in longer-term instruments and higher risk.
Although the stock trades are quite legitimate in Islam, many of the practices that accompany it are not. For example, speculation, which is likened to gambling is completely prohibited; This will require taking strict measures to control compliance with this prohibition.

The concept of market efficiency is also reviewed. While it refers to the effective integration of information available on the market fluctuations in asset prices traded in conventional finance, there will be a lot more social connotation in a Muslim environment. The stock market in Islam will be efficient if and only if it contributes optimally to justice, equity and well-being in society.

3.3. Money market

The money market essentially allows institutions to find different methods to effectively adjust their liquidity positions. The instruments that are used in these cases are instruments whose risk level is relatively low, in the very short term, and a fairly high level of marketability.

Similarly, to facilitate the provision of necessary liquidity among financial intermediaries, an Islamic money market is required. In the system based on the interest, money market allows financial institutions to correct imperfect synchronization between payments and deposits. In this case, the money market can be likened to a temporary source of funding.

Therefore, Islamic financial institutions must develop products that meet the same characteristics and to enable them to reap the same benefits.

11 is still no real Islamic financial markets, despite some leaders in some countries. This is mainly due to the very recent development of Islamic banking and financial system. While the conventional capitalist system boasts an existence of more than a century, it was not until the 70s that circumstances have allowed the development of a system based on Islamic precepts.

CHAPTER 3: THE DEVELOPMENT OF ISLAMIC FINANCIAL SYSTEM

This chapter discusses the different ways that have been adopted and which allowed the implementation of all principles and financial techniques developed above, in response to various historical and economic circumstances of the second half of the 20th century both in the Muslim world that non-Muslim.
We begin with a retrospective overview of the development of different financial institutions meet the criteria of Islam and their evolution since the 70s in the private sector across the Muslim world. We also see how the restructuring of the whole banking system according to Islamic standards took place in countries like Pakistan, Iran and Sudan. We will also talk of Malaysia, which despite it did not Islamized his whole system, has a remarkable progress in the field. We then examine the integration of the Islamic system and principles in non-Muslim countries such as Britain or the United States, both in banks and through other bodies such as the financial markets. Later, we will begin with various cooperation emerging between the two systems. Finally, we conclude with the assessment of the current situation, both in terms of the problems that Islamic banks face as that of the opportunities they offer and the prospects for the future.

1. History and development of the Islamic financial system.

1.1. Evolution in the Muslim world

It is only since the Second World War and the beginning of the independence of Muslim countries that emerge a renaissance of Islamic finance. The end of colonialism and the resurgence of religious feeling have contributed to this phenomenon, but it is truly the huge revenues generated by the different oil booms that fueled and helped its growth.

However, to find the origin of this movement, we must go much further back in the mid-30s, when some ulamas (Muslim scholars) attempt an Islamic approach to the various socio-economic problems, which led to question the legitimacy of the application of interest in their economy. Thus, they differed in their thinking, the time of economists since their will lay not, as was the case previously, to change the Islamic injunctions to suit the Western financial practices. They wanted, however, reaffirm Islamic precepts, without giving any compromise, and convince the public of the need for a return to an economic system in accordance with the norms of Islam. Some bankers and economists Muslims answered the call but no attempts actually had a decisive impact. There are several examples dating back to that time in Malaysia in the mid 40’s and in Pakistan 50 years, through the development of rural cooperative providing credit without interest. In 1962, the Malaysian government placed at the disposal of its population the "Pilgrim’s Management Fund", which allowed the faithful to spare for the completion of the pilgrimage to Mecca. Despite the extent of the activities of these various
bodies remains limited, they represented unquestionably open to wider aspirations and some see this first draft of the first phase of the Islamization of the economic and financial system.

The emergence of theoretical discussions on the economy and Islamic finance has been materialized into reality in 1963 at Mit Ghamr in Egypt. This first bank essentially played the role of a savings bank based on the system of sharing profits and losses but not yet planned any religious purpose, avoiding in this way to be perceived as a manifestation of "Muslim fundamentalism" which then anathema to the political regime in place at that time. This experience continued until 1967, at which time more new branches were established throughout the country, given the growing success had known the application of a system in accordance with the Shari’a. Few after the cessation of the activity of this bank first appeared in 1971, the Nasser Social bank, which also operated without interest and in the statutes which will also appear any reference to Shariah

The early 70s was the scene of a real political and ideological change in the Arab-Muslim landscape. The economic and political independence face Western domination was increasingly marked, and allowed the population of these States to freely express and practice their faith. This religious revival is manifested at all levels of the population and in all fields, especially in that of the economy and finance. This leads us to the second phase in which the contours of an alternative banking system rejecting the interest and consistent with the objectives of Shariah were designed for various seminars and conferences held at this time

In 1975, a first step in the implementation of this system will be the constitution of the Islamic Development Bank, IDB, in Jeddah. IDB, considered the starting point of the growth of Islamic banks, is an intergovernmental bank providing the necessary funds for development projects in its 54 member countries. BIO provides services paid by cover the costs they generate and financial assistance to its member countries based on the profit sharing. The operations of the 81D contain no interest and make this time explicit reference to the principles of Shari’ah. In an interview to a Pakistani television program, Dr. Ahmad Muhammad Ali, President of BIO, tries to give an overview of the institution’s objectives: "...the main objectives behind the establishment of the Islamic Development Bank are to promote solidarity and to strengthen relations between the member countries Muslim ".He goes on to explain how the 81D operated until today to fulfill its role: "... the bank has financed a number of projects not only in member countries but also for Muslims living in countries non-members. .. The bank
has implemented various programs to promote direct investment between member countries instead of using divergent paths”.

Similarly, several Islamic banks, both in letter and in spirit, will appear in the 70s in the Middle East. And include the Dubai Islamic Bank (1975), the Faisal Islamic Bank of Sudan (1977), the Faisal Islamic Bank of Egypt (1977), the Islamic Bank of Bahrain (1979), to mention only these.

The countries of the Asia Pacific, although precursors of the Islamic financial system at that time were less likely to change, and it was not until the early 80s to see established Malaysia’s first Islamic bank in its own right, Bank Islam Malaysia Berhad (81MB). The movement was thus engaged, and the number of Islamic banks is increasing since.

Most Islamic banks are private initiatives, in which the government has no role or only a passive role. In this case, Islamic banks coexist with banks operating according to the conventional system, that is to say by practicing the interest. However, some Muslim countries, like Iran, Pakistan and Sudan have taken a different approach, that of gradual Islamization of all economic and financial system.

1.2. Evolution in the Western world

Here we enter what we call the third phase of development of the Islamic banking system, that is to say its integration in areas where the Muslim population is a minority and in Western countries.

1.2.1. Continental Europe

Except in the case of Britain, the movement of integration of Islamic banks in Europe is paradoxical. Indeed, it is in countries where the Muslim population is almost insignificant we find the main institutions operating in Europe. The integration movement of Islamic banks in Continental Europe is not yet a real success, and those that have been established so far are mainly for tax and legal benefits of their host country.

It was in 1978 that will appear the first Islamic institution in Europe, more precisely in Luxembourg. The “Islamic Banking System”, which will be later renamed the “Islamic Finance House Universal Holdings” will be devoted mainly to the acquisition by purchase, exchange,
underwriting, ... shares in companies both in Europe and in the rest of the world. This bank is also heavily involved in financing community projects (small supermarkets, butchers ...), mainly in Germany.

IBS Luxembourg will try to expand its presence to Denmark, where he will install a subsidiary in 1982. It will then be redeemed by the Dar al-Maal al Islami (DMI), before closing its doors in 1997.

Much later, in 1990, will establish Faisal Finance in Geneva, Switzerland, a subsidiary of Dar Al-Maal Al Islamic (DML). This institution primarily fulfill the role of an investment bank with all its implications. Another subsidiary of the DMI also open in Luxembourg, but this time as holding Soparfi kind (financial holding company), not in the status of a bank.

In the countries of continental Europe where the Muslim community is a non-negligible part of the population, such as Germany, France or Belgium, Islamic banks are nonexistent until now. The main argument to justify this deficiency is the presence of laws that oppose the establishment of such institutions.

In Belgium, several legal regulations are hampering the development of this initiative. At first, the Belgian banking legislation provides that all "the branches of credit institutions not covered by a member state of the European Union are subject to the same rules as credit institutions under Belgian law ... the Banking and Finance Commission may refuse approval ... to the branch of a country that is not part of the EU if it considers that the protection of investors ... requires the creation of a Belgian company dmit )." Islamic banks established abroad I, are generally groups of branches based in the Middle East, are subject to this rule.

One of the more restrictive rules is the deposit guarantee system managed by Institut I Rediscount and deposit guarantee. Through this system, all deposits are protected realized losses or bankruptcy of banks by their compulsory membership in this body. In the Islamic system, only the current account guarantees the initial capital. For cons, the capital invested in the investment accounts can be subject to impairment following the possible losses generated by the project financed.

Belgian banking legislation lists all activities that banks are allowed to practice. Among these, certain provisions common to both systems are found, such as the collection of deposits,
leasing, payment operations ... Moreover, commercial operations carried out under contracts of *Murabaha* are not covered by law and therefore cannot be applied in Belgium.

Finally, one of the last legal constraints it is still important to mention is the holding limit of associated rights and interests that a bank may hold. A Royal Decree provides for this purpose that "*each item does not exceed 15% of the equity of the credit institution and the total amount does not exceed 45% of equity of the institution.*" Since main business of an Islamic bank is investment of funds deposited by, among others, a contract *Mudaraba* which may take the form of participation in the capital of a company for the account of the bank, it is obvious that such standards will inevitably be exceeded.

In Germany, the only known initiative to this day is one that has been undertaken by the IFH in Luxembourg.

Apart from this project, especially Germany remains the seat of a certain reflection on the system. Several celebrities have shown a real interest I respect the Islamic banking system, although this interest is far short of the potential of an overall system perspective, rather than a specific application in Germany I

Another argument that is often cited to justify no Islamic banks in Continental Europe is the relative weight of the Muslim community in the least favored part of the population. Yet this argument would mean that "*... the Islamic banking system would be reserved only for the rich and Muslim businessmen, which is obviously contradict the principles of the Koran ...* ".

**1.2.2. Britain**

Britain is the only European country which so far authorized the establishment of an Islamic bank on its territory. Although I experience only lasted until 1993, I established the Al-Baraka Bank International Limited (*Abil*), subsidiary of Al-Baraka group, I is considered pioneering experience of Islamic banking in Europe. The closure of the bank in 1993 is mainly due to its inability to meet the requirements of the Central Bank of England. In a letter to Arab Bankers Association I in March 1994, Eddie George, governor of the Bank of England at that time.
Interrupting Albi I activity in Britain left a vacuum that was not filled until 1997, when the United Bank of Kuwait (UBK) based in London proposed a new real estate financing plan without interest. The Islamic Investment Banking

Unit (LBU), as is called this project mainly offers contracts of Murabaha and Ijam to allow the financing of the purchase of real estate to the British Muslims who do not want a loan at interest. It is important to note that the UBK had already launched the same type of service in Ireland in 1994. The IIBU Fund II PLC based in Dublin allows the investment of funds in a broad portfolio of equipment based on the principle of Ijara. on the other hand, the UBK was also already proposed the Healthcare Fund in December 1996, born from the association of the UBK and Kuwait Finance House, offering the possibility of a real estate financing Ijara.

Other attempts have been made in the meantime, but without much success. This was the case, for example, the El Medina Islamic Equity Fund launched in 1994, which selected one hundred companies in a basket of 500, in which Muslim investors could invest. The fund did not have the expected success, because of a lack of credibility and lack of adequate marketing plan, given the newness of the product.

Despite the limited success generated by the attempted establishment of an Islamic institution in England, London is undoubtedly the first Islamic financial center and also the hub of reflection and discussion on this subject and place of publication of various works published in English in the field. Therefore, Britain is the European country with the most advanced and most open with an actual establishment of the Islamic financial system. This will be illustrated when we discuss various cooperation between two systems. We shall see, indeed, how many UK banks have engaged in the provision of Islamic financial products.

1.2.3. United States

With over 6 million Muslims from all sources, the United States has a real market for the development of financial services in accordance with Islamic law. In addition, unlike the situation of Muslim immigrants living in Europe, the American Muslim community is not confined to what we might call the precarious class of people

In response to this finding, several initiatives have been launched on American soil. Among these include the Bank Lariba American Finance House, which is authorized to operate in more than 13 US states. Currently, Lariba Bank offers a variety of financial services.
including the Lease-to-Purchase for real estate, cars and medical equipment. It also offers various opportunities for funding and investment to small and medium enterprises.

Another institution that is also widely developed is the Amana Mutual Fund based in Washington. The fund allows investors to put their money in a diversified portfolio of stocks of companies whose business is in line with the principles of Shari’ah.

The list of institutions providing such services is still long. A final example might be the initiative launched by Omar Clark Fisher, a consultant at CIPO converted to Islam in 1980. He launched in 1992 the First Islamic Leasing Company, which after three years of existence, reached a portfolio of investment of over USD 6 million.

2. Current state of the Islamic financial system

2.1. Market size

The current size of the Islamic financial market is quite difficult to measure. The number of fully Islamic banking institutions was estimated at roughly 200 units in 1999 by the trade magazine Private Banker, whereas the President of the Abu Dhabi Islamic Bank, Al Nassiri already talking about an increase of 34 in 1983 194 Islamic banks in 1997.

According to the International Investimes Miraj, an Islamic investment funds based in Canada, Islamic financial institutions have at present investments totaling $ 140 billion in more than 40 countries, a figure that is growing at an annual rate from 15% to 20% 195, while Ibrahim Warde estimates the total assets of Islamic banks with more than $ 230 billion in more than 75 countries 196.

The last official census of Islamic banking institutions was conducted in 1996 by the International Association of Islamic Banks. Although the figures in this survey have inevitably increased in six years time, graphs and tables that emerge enable a relatively clear size idea and the current market structure.

The number of Islamic banks was then estimated at about 90, except the banks in Pakistan, Iran and Sudan where the entire banking system was Islamized. In 1996, the total value of the asset which was managed by the banks amounted to 28 billion USD while it is estimated in 1998 to roughly USD 50 billion.
The various tables presented below are taken directly from different surveys conducted in 1996 by I Association of Islamic Banks based in Jeddah, Saudi Arabia.

2.2. Analysis of market performance

2.2.1. Breakdown by region

The following table gives the distribution of Islamic banks around the world:

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of institutions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia South and South East</td>
<td>36</td>
<td>42.4</td>
</tr>
<tr>
<td>Gulf Cooperation Council Countries (GCC)</td>
<td>19</td>
<td>22.4</td>
</tr>
<tr>
<td>Other countries of the Middle East *</td>
<td>13</td>
<td>15.3</td>
</tr>
<tr>
<td>Africa</td>
<td>9</td>
<td>10.6</td>
</tr>
<tr>
<td>Europe and America</td>
<td>8</td>
<td>9.4</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>100</td>
</tr>
</tbody>
</table>

* This category includes Turkey.

These figures show that the largest number of Islamic financial institutions are in Asia, followed by the Gulf countries and other countries of the Middle East. Although these figures give us a first idea of the extent and distribution of Islamic financial market by region, they do not allow us to assess the weight of different parts on the market. A breakdown of the value of assets managed by region solves this problem.
With this last picture, it is easy to see that a large part of the Islamic banking business is conducted in the Middle East, the Gulf Countries. This region, in fact, over 84% of whole funds managed by Islamic banks and financial institutions.

### 2.2.2. Size Distribution

The size is an important variable in order to determine the effectiveness of a bank.

**Table 3: Islamic Financial Institutions by asset size**

<table>
<thead>
<tr>
<th>Assets (in millions of USD)</th>
<th>distribution frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-50</td>
<td>39</td>
</tr>
<tr>
<td>51-100</td>
<td>13</td>
</tr>
<tr>
<td>101-200</td>
<td>4</td>
</tr>
<tr>
<td>201-300</td>
<td>3</td>
</tr>
<tr>
<td>301-400</td>
<td>8</td>
</tr>
<tr>
<td>401-500</td>
<td>1</td>
</tr>
</tbody>
</table>
According to the data of this table, we can see that the majority of Islamic banks are below the effective threshold of USD 500 million. Only 10 banks out of 80 for which data are available publicly reach this threshold. The small size adopted by the majority of Islamic banks is often justified as a way to minimize "the risk through diversification of their asset portfolio".

Table 4: Islamic financial institutions by size of capital

<table>
<thead>
<tr>
<th>Capital (USD million)</th>
<th>Distribution frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-25</td>
<td>55</td>
</tr>
<tr>
<td>26-50</td>
<td>10</td>
</tr>
<tr>
<td>51-75</td>
<td>5</td>
</tr>
<tr>
<td>76-100</td>
<td>2</td>
</tr>
<tr>
<td>101-150</td>
<td>2</td>
</tr>
<tr>
<td>151-200</td>
<td>2</td>
</tr>
<tr>
<td>201-300</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
</tr>
</tbody>
</table>

This table allows us to see that only 8 institutions have reached this level of optimality.

Results that emerged from these tables, it can be concluded that only a small number of Islamic financial institutions has reached different levels of optimality. These are very encouraging results, in general, to charge the young age of most of these institutions. Moreover, it is common knowledge that a high level of capital facilitates the use of new funds since it reflects the interest of shareholders in the company.

2.2.3. Financing Analysis Mode
Now it is interesting to see what funding options are the most used by a sample of 10 Islamic banks. The banks included in the sample by the Association of Islamic Banks were selected according to two criteria: first, as a minimum size for that data can be statistically significant; second, depending on availability of required information. The ten banks included in the sample represent about 50% of the aggregate total assets of Islamic banks in 1996; which provides some representation to the sample.

Islamic Bank raises its funds using a contract *Mudaraba* and will use them through different funding options were also discussed in the previous chapter.

This chart shows the use of various modes of financing by the means of the different banks. This indicates the proportion of each type of financing in the bank’s activity. It is found that the *Murabaha* represents more than 70% and *Ijara* 5%. Therefore, financial instruments based on debt represents more than 75%, while profit sharing based instruments represent less than 14% of the total.

2.2.4. Sector Financing Analysis

Again, in order to examine what was the position of the financing sector in 1996, a sample of ten banks selected.

Graph 1: The sector funding position

From this graph it is clear that the majority of banks investing their funds in commercial activities with 42% of the total invested. The second area in which banks invest the most is that of real estate, with 13%. The industrial sector follows closely with 12% and agriculture comes last with only 2.4%.

The results obtained here are to be attributed to those obtained in the distribution of resources by financing. The *Murabaha* is, in fact, originally a commercial financing. These results can also be explained by the geographic distribution of banks. The majority of managed funds are in the Gulf region where agriculture is largely undeveloped.

After studying the various results of the Islamic banking industry in 1996, it is now possible to operate · the power to consider the various issues and opportunities facing the system.
3. Problems faced by Muslim financial system

3.1. Operational problems

3.1.1. Deficiency instruments based on the principle of 3P

In light of the data discussed above, the first problem to Islamic banks is the unpopularity of instruments based on profit sharing. All financial techniques splits in fact in two parts: those based on a fixed income capital and those based on the sharing of profits and losses (Madaraba and musharakah). While the first Muslim economists advocated the Musharaka and Mudaraba as the main methods of financing, they currently account for only 10 to 15% of the banking business.

Yet the theorists of Islamic finance have built their hopes on such instruments and compared their effects on the economy to those produced by direct investment. They also developed a series of arguments and theories that demonstrate the superiority of profit sharing on the granting of a fixed income. The use of this type of transaction has been recommended as a method of funding only when the sharing of risks and profits is not applicable. If this is not the case, the Muslim jurists and economists disapprove enforcement, banks maintaining this way the static with the conventional system, the insistence on the creditworthiness of the customer and maintaining the creditor / debtor relationship.

Several approaches are needed to understand the causes of this unpopularity. Starting from the banking perspective, the main obstacle to their development seems to boil down to risks and transaction costs that they generate.

There are, in fact, a fundamental difference between conventional banking and Islamic banking. The selection of a project requires feasibility studies and several technical and financial evaluations, assessments that require experienced analysts. The costs associated with these transactions are, moreover, in most cases much higher than those associated with the other type of financing. The conclusion of a contract Mudaraba requires further monitoring and constant control activity Mudarib, thereby detecting any error on his part, that error could cause a possible loss.
The bank also preferred contracts Murabaha or Ijara contracts based on profit sharing for the short-term perspective they offer. Banks favor the short term as they usually work on small reserves; so they should be able to quickly provide liquidity if the need is felt.

Starting from the customer’s perspective, contracts Musharaka and Mudaraba are rarely requested. The investment in a project is often a long-term investment, and a first phase of growth is required before you can glimpse the first significant profits. This long-term perspective also involves more risk, which is generally not an argument in favor of these contracts.

Therefore it is not surprising that the financing Murabaha and Ijarah represent over 75% of the overall activity of Islamic banks financing. This type of contract, in addition to being based on the short term, offers a high level of liquidity and low risk to investors. These benefits therefore have contributed to the strong popularity of these techniques, but this misuse currently some problems on Islamic financial scene: customer payment default risk and difficulty of marketability of these assets.

The danger caused by customer insolvency is illustrated as follows: even if it is possible to impose a higher price for the sale on credit compared to cash sale, once concluded the contract, a fixed debt born from the side of the buyer. If it fails to pay its debt, the banks cannot penalize it financially, it being likened to the RIBA.

It must nevertheless remain vigilant when the issue of client penalty is discussed. Muslim jurists agree on the legality of a financial penalty, but no bank can withdraw the benefit of it. The question of whether the bank uses this penalty to repair the damage suffered today remains an unresolved issue.

The other problem caused by overuse of these contracts based on the debt is their difficulty in transforming these financial modes negotiable financial instruments. Once a debt is created, it can in fact be transmitted to a third party, if not in its own value. The large size of these instruments on the Islamic financial market, it becomes very negotiable, and therefore represents one of the most important obstacles to the establishment of an Islamic secondary market.

3.1.2. Competition and product diversification
The spectacular growth rates prove, Islamic banks have enjoyed considerable success in mobilizing funds in the past. However, the current circumstances are not those of the 70s, and new elements threaten their prosperity. Growth rates continue to evolve but decreasingly and further efforts are required to try to stabilize these rates.

A first element that questions the future of Islamic banks is that these, after many armies monopolie "in their field, face now growing interest conventional banks in their market. Although it is difficult to establish a complete list of institutions that practice Islamic banking among their various activities, the fact remains that those who apply are public knowledge of the giants of the international banking scene. Their competition gradually introduced new realities that Islamic banks are not prepared.

Moreover, the competition seems at first glance, do not be totally negative. It is generally assumed to be a growth factor, promoting innovation, reducing costs and improving the quality of products and services for consumers. It is not recommended in one case: when firms are still in their development stage, stage where they should instead be protected from competition until they reach the necessary experience and qualities that this phenomenon does their ‘worst either. Islamic banks are only just emerging from this period they already face the experience and expertise of conventional banks in areas such as technical innovation, marketing strategy, diversification of portfolios...

Thus, the large multinational bank threatens the future of Islamic banks. Islamic banks therefore need to react quickly and to invest in further diversification of product offerings to meet the growing needs of their clients, given their income requirements, time and risk. So far, the tools used are confined to conventional financing methods that were developed centuries ago and met the requirements of that time. Although these tools remain fully effective today, the circumstances and the environment require Islamic banks to increase their efforts and investments in the field of innovation.

This innovation is all the more necessary that it is the lack of diversification in the products on offer which led the Islamic bank to act as an intermediary rather than a true investor. Research and development investments are therefore indispensable.

This idea may seem obvious, but it is nonetheless extremely difficult to implement, given the religious filter through which any new product must pass. A precondition for it to be
attractive to the major customers of the bank, the Muslims, is its adequacy to the rules of Islamic law. However, several techniques are available to Muslim jurists, as *qiyas*, *themasla*ha or the *istihsan*. This was the case, for example, the procedure for approval of the contract *Salam*. Recall that initially the selling an item that is not in possession of the seller is prohibited. However, in the case of contract *Salam*, the Prophet (SBSL) authorized such a transaction for the needs of people of his time, as far as protecting the interests of both parties is ensured.

Here too, new needs have emerged and the need for innovation is clearly felt. Conventional financial markets overflow with new products such as options, pension plans, credit cards, so ... the Islamic institutions cannot afford to stay in the background of the scene. Thus many conventional contracts have been improved or modified to meet contemporary needs. One example is the very model of Islamic banking structure, *Mudaraba* two-thirds. This model is based on an adaptation of the principle of *Mudarib udarib: which* entitles the *Mudarib* (the bank) to become itself *Rabb al mal* vis-à-vis its clients. This principle is also in use for the purposes of sub-contracts to other financial techniques. The innovation process is underway but requires significant investment in research and development. In order to optimize their investment in this area, banks have decided to centralize their efforts with the creation in 1992 of the Coordination Office of Academic and Research, which is located in the Saleh Kamel Center for Islamic Economics at Al Azhar University in Cairo, Egypt.

### 3.1.3. Diversity Advice Shari’ah

One of the biggest challenges of the Councils meet *Shariah* in their feature is the diversity of views of Muslim scholars. Although they are unanimous on the fundamentals, there is often more than one interpretation for a single subject. The Malaysian government has attempted to address this problem in the early development of its Islamic banking industry. Its central bank, Bank Negara, has its own religious council which determines the rules applicable to all active Islamic banks on its territory.

An attempt to centralize advice *Shari’ah* was initiated by various international seminars initiatives between lawyers and Muslim financial experts, seminars, the most famous is the OIC *Fiqh* Academy held regularly in Jeddah, Saudi Arabia.
The situation is far from ideal. Talks between lawyers and financiers are often meaningless, they use technical terms that vary not only from one discipline to another but also from one country or a school of thought to another. The real problem therefore is "... deficiency scholars who have mastered both, economic and financial Quranic teachings. In an interview with the author, Muazzam Ali IIBI of London estimated that n; was no more than 20 scientists worldwide who meet these conditions)).

That problem of consistency of the opinions often leads to conflicting opinions and conflicts of interest. In addition, the diversity of advice Shari‘ah significantly slows the development of the Islamic financial system, without which it cannot however run.

3.2. Institutional problems

Each system has its institutional requirements and the Islamic financial system is no exception. Like any system, it also requires the presence of control bodies and assistance that enable it to operate in the most favorable environment possible.

So far, Islamic financial institutions worldwide have always tried to take advantage of the institutional structure already established for the conventional system. However, they cannot be content with a structure based on different principles and often contradictory to its operation. The need for the establishment of institutions geared specifically to their needs and their nature is so keenly felt.

3.2.1. Need for regulation and control bodies

The lack of control authorities in the Islamic financial landscape is one of the most urgent problems, given the deficiencies engendered by this lack. Indeed, three reasons for this emergency: the difficulty of acquiring information available to investors and the lack of transparency, lack of assurance as to the feasibility and the future of the financial system, and improved monetary policies.

Information is essential to ensure the continuity of a financial system, and that transparency is a quality Islamic banking market would be a decoy. It is not uncommon, for example, the exact method of calculation of parts of profits on the various deposits to be kept confidential. Similarly, details on the use of funds by banks are rarely made public. This attitude on the part of the majority of Islamic banks jammed reliability of their business. A greater
transparency is required and it may be required by a supervisory authority that would force banks to disclose critical information to potential investors and thus increase the efficiency of financial markets.

The conventional banking industry is one of the most controlled and most regulated sectors. Although an instance as the Central Bank is present in all countries where there are Islamic institutions, the structure and operation thereof are too often modeled on that of the conventional system.

In recent years, efforts have been undertaken in some countries; well, Egypt and Jordan, the Islamic Banking Act was published, providing for specific rules to Islamic financial institutions and the relationships of these with the Central Bank. Other countries like Malaysia have enacted rules for the operations of Islamic banks parallel to those already present in conventional banks.

However, none of these initiatives will provide an assistance system complies with the rules of the Shari’ah. Thus, deposits of banks with the Central Bank are paid by interest expense, and it is the same for loans granted. Several solutions have already been proposed, but few applications. Thus, Chapra provides a common repository by Islamic banks under the control of central banks to provide assistance to another in case of liquidity problems, and on a cooperative basis.

Finally, another institution which will be set up soon is a Council for Shari’ah common to all banks and provides standardized rules common to each.

3.2.2. Need for a secondary market

A financial system requires that much of its work is based on the long term. In the conventional system, these activities are undertaken by the issuance of securities as long-term bonds and equities. This function is performed by the securities markets and the specialized agencies. In addition to the public, the most important sources of these long-term investments are investment banks, mutual funds, insurance companies and funds’ pension.

In the Islamic system, issuance of long-term obligations is not possible since it is based on interest. The need for equity market is therefore much higher. In addition, a latent lack of product standardization prevents Islamic banks to develop. This standardization would allow
banks to cooperate, as are methods based on interest were standardized. This standardization would promote syndication of many banking and the ability to securitize these products would stem the lack of marketability of these products allow the growth of a specific secondary market and encourage long-term investments.

Unfortunately, in most Muslim countries, the stock market is not really developed. Meanwhile, the number of specialized institutions is relatively negligible. Mutual funds and funds Mudaraba appeared but their number remains relatively small, and information on their performance almost nonexistent. Similarly, the number of Islamic insurance companies can take on the fingers of one hand.

This delay poses several problems to the Muslim system: first, it prevents to secure its future and longevity due to the glaring imbalance between the short term and the long term. On the other hand; it increases the already existing gap with the mainstream market where the number and performance of specialized agencies are relatively croissants

3.2.3. Lack of accounting standardization

While conventional banks have international accounting rules which are common and that the Central Bank publishes the consolidated annual accounts of banks after supervision, the Islamic financial system has a variety of accounting practices, practices that vary from institution to institution another, impeding any attempt to compare the accounting documents. Moreover, the concepts used in the development and balance of the income statement are rarely defined in a rigorous manner.

However, these armies, several initiatives have been taken to counteract this problem, and to the standardization of accounting practices. Given the magnitude and novelty of this initiative, a single paragraph would allow us to approach adequately

CHAPTER 4: ISLAMIC PRODUCTS

1. The introduction of new Islamic products in Morocco

The arrival in Morocco of banking techniques in accordance with the precepts of Islam is now a reality. Bank Al-Maghrib has finally announced the introduction of new banking
products Shari’a compliant dice October 2007, this was announced by the Wali of Bank Al-Maghreb Abdellatif Jouahri at a press conference in Rabat Tuesday, March 23, 2007.

The introduction of these products "Ijara"," Musharaka "and" Murabaha "," is expected to expand the range of banking services and contribute to a better deepening of the economy, "noted Mr. Wali in statement released by the MAP news agency.

He also emphasized that newly licensed financial products concerned only finance, not deposits. He said 53 percent of cash deposits in Moroccan banks were in the form of non-bearing deposits and that there was no reason for citizens preferring to conduct transactions without interest to have reservations about bank deposits. It should also be noted that the supply of these products, so that it is aligned with international standards, resulting in the signing of contracts established on the basis of rules set by "The Accounting and Auditing Organization for Islamic Financial institutions’ organization based in Bahrain, which has 130 members, representing 29 countries.

The introduction to Morocco, these three financing techniques that are among the most responded Islamic operations worldwide, has a share in an international context in which the presence of Islamic financing techniques in the market is more more heavy, more than 800 billion managed by the Sharia especially after the oil boom of the seventy years that has lead to greater availability of petrodollars and thereby creating the first major Islamic financing institution, and growth more than 25% over six years. Islamic finance, hitherto left to a few financial institutions in the Gulf of Pakistan or Malaysia, proves harbor enormous potential that interests increasingly Western notably in Great Britain "the Islamic Bank of Britain" and states STATES Jonce in which the Dow has created such an Islamic investment index. And secondly these techniques will meet domestic demand increasingly upward for this type of financing by the public as by investors from the Middle East, especially after a huge renaissance of Islam and values in Muslims worldwide.

The actual Islamic banking began with the creation of the Dubai Bank in 1975. It was a popular initiative that was followed by the establishment of the Islamic Development Bank in Jeddah, international business, grouping member countries Organization of the Islamic Conference.
Other Islamic banks were set up in the heart of the 70s such as the group "DAR AL AMAL AL ISLAMI", "AL BARAKA" the rhythm of creation will accelerate in many Arab countries namely KUWAIT, QATAR, Jordan ... we see also arise wickets of Islamic banking within conventional banks, including the US and Switzerland. Other countries such as Iran, and during the rise of Islamists to power, have fully adopted their institutions restructuring program in the Islamic sense by completely prohibiting the banks to collect or pay interest.

We find some Islamic banks in Morocco. However, these banks all appear under a special status. Indeed we find that the IDB: Islamic Development Bank, through this name we understand that these are not brought to bank finance (according to the Islamic system) that public projects generally large scale, however, even the capital of these banks is public. So we can ask ourselves the question why are there no banks could finance private projects to smaller sizes in Morocco?

The answer from Mr. Jouahari in an interview with the newspaper La Nouvelle Tribune 17/1/2007 "What response have you given to the request you addressed Islamic banks coming to settle in Morocco? As you know, the role of regulatory and supervisory bodies is to prevent situations, to put the decisions in their general context, inside and outside, without ending up back on the wall, be careful not dislocate the existing market. Therefore, our response to these arrests is clear. We cannot grant authorization without establishing clear and defined industrial project. But with GPBM, we have developed a range of banking products that meet the specifications and rules of Sharia."

These so-called alternative banking products are: "Ijara", "Musharaka" and "Murabaha". BAM has defined, in consultation with the Professional Association of Banks of Morocco (GPBM), a framework in which the supply of these products by the Moroccan credit institutions. The operation "Ijara" is defined as any contract whereby a credit institution shall, on a rental basis, a movable or immovable property available to a client.

The operation "Musharaka" is defined as any contract for the acquisition of shares by a credit institution in the capital of an existing company or establishment in order to make a profit. Both parties involved in losses in proportion to their participation and profits in a predetermined proportion.
The operation "Murabaha" is defined as any contract whereby a credit institution acquires, at the request of a client, a movable or immovable property in order to resell it means a profit margin agreed in advance. Regulation the customer is done in one or more installments, at a later date, not exceeding 48 months.

Among Moroccan banks that have such products, of course, is that Attijariwafa bank unveiled its first two formulas since October 8, 2007 in its branches. Baptized "Miftah Al Kheir" and "Miftah Al Fath," the two products are the declination of the concept of "Murabaha" and "Ijara wa Iqtinaa".

The first option is a contract whereby the Bank acquires, at the request of his client, a property used for residential or business to resell it immediately, for a profit margin known in advance. Payment by the customer is done in one or more installments over an agreed period with the bank, which can reach 25 years, and customer selling price is calculated based on the cost of the building that supports bank (rates, fees, taxes ...).

Miftah Al Kheir can cover the entire price of the building. The borrowing capacity of the borrower, however, is capped at 40% of its revenues. The product also offers the possibility of early repayment without penalty and resulting in the registration of a first mortgage for the bank and the subscription to a death and disability insurance policy whose premium is included in the monthly.

As for Miftah Al Fath, this is a contract under which Attjariwafa bank provides its customer a rental basis, a property, together with the client’s firm commitment to acquire the property at the end of contract. The product is aimed at both individuals and professionals and can also fund 100% of the property. The contract period varies between 10 and 20 years maximum.

From January 2010, VAT on alternative banking products such as Murabaha and Ijara will be 10 percent, against 20 percent who were previously applied.

The new rates of borrowing mean that alternative banking products Shariah-compliant will now be taxed at the same rate as traditional banking products and loans. Muslims who were reluctant to issue conventional loans can now use a number of alternative banking products without fear of breaking the rules of their religion.
Banks offer many alternatives. With contracts \textit{murabaha} , a bank or a credit institution buys goods with intent to sell it to the customer with a profit margin agreed in advance. Customers can also opt for a contract \textit{Ijara} , whereby a bank leases property to a customer with a purchase option at the end of the loan period in leasing. Businesses and SMEs can also benefit from contracts \textit{musharakah} by which a bank is helping to finance the new company in the hope of profit.

All services shall refrain from applying the traditional interest rate, to remain consistent with Islamic restrictions on profits from interest.

High VAT rates as an obstacle to alternative banking practices, said Monday in Rabat financial expert Othmane Mehdi, highlighting a lack of information on these services had also prevented their development.

"To succeed these so-called Islamic operations, we must rely on advertising to the target customer is abreast of developments," he added.

He acknowledges that some will question the "Islamic legality" of the products and will wonder whether the proposed financial arrangements are truly \textit{halal} .

2. The content of the new Islamic products

The new Islamic products are modes of financing that comes and respects the Islamic economic theory and they differ from traditional banking products at several points

2.1. Characteristics of new Islamic banking products compared to other traditional banking products:

To better understand the content of these new banking products, it is better to do a little comparison between these and other products assimilated traditional said:

"Ijara wa Iqtinaa" and the leasing contract: as we saw in the first part under "Ijara wa Iqtinaa" is very close to the leasing, on many points including:

1- It is in both cases of the acquisition of equipment for the benefit of a client’s financial resources do not allow it to deal with a particular investment.
2. It is also in both cases of a rental agreement, that is to say that the property remains the bank’s property who leases it to the customer for a specified period.

3. In the ta’jir as in leasing the customer the purchase of the property at the end of the option contract period for a nominal monetary unit.

4. In Islamic banking, as in conventional banks, this is one of the most expensive ways of financing

But like the points of convergence, there is a lot of points of differences that appear mainly in the principle of termination of the lease before its term. Indeed in the orthodoxy of Muslim law the beneficiary of ta’jir may terminate before the end of the last milking, unlike leasing, where the recipient is required to meet the deadline and it is only this Date that may either: raise the good purchase option, or refuse to exercise the purchase option, or agree on the residual base assignment of a new staggered rent in time. However the difference that the size is that "Ijara wa Iqtinaa" laying on the principle of profit while the leasing on the interest rates that are prohibited by Sharia.

- The Murabaha and -Buyer credit: Murabaha is often compared with the buyer credit are often used in the field of international trade. In the buyer credit the bank gives a buyer a loan of a certain amount it will reimburse for selected maturities. Both the buyer credit in Murabaha, there is the advantage for the supplier to be paid directly in cash.

However the buyer credit is a financial credit which focuses on the means of payment, whereas in Murabaha there is a commercial contract (sales) and term funding. Similarly in the buyer credit the bank’s foreign commercial contract, whereas in Murabaha the bank is an integral part.

Al Musharaka: the main distinction between al musharaka financing and other credits is the concept of risk. In al musharaka the bank will become associated with the customer, not only gains but also losses, whereas in the conventional credit it knows that the receipt of interest. Thus presented, alternative banking products will certainly contribute to the development experienced by Morocco in recent years.

2.2. The socio-economic contribution of alternative banking products in Morocco
By introducing Islamic banking products, Morocco wanted the latter contribute to national development, especially in social and economic level, and that way maintain social balance and economic the state should fight always to stabilize it.

2.2.1. Maintain social equilibrium:

Like many third world countries Morocco has a large habitat crisis than conventional loans, could not solve, and more, banks are even suspected to accentuate particular by speculation and by credits that do not meet the demands of a large number of customers, who have religious beliefs contrary to the principles on which these are based credit, especially interest rates prohibited by the precepts of Sharia (42% of those who refuse bank loans in Morocco is for religious reasons) according to a study by a specialized organization in the field.

So the introduction of these products will certainly encourage this category of citizen, to buy their own homes, by banking products as "Miftah Al Kheir" and "Miftah Al Fath" which meet their expectations, and that way we will at least partially overcome this scourge which can lead to social problems, threatens social stability of the country, including the slums that Morocco combats voraciously.

On the other hand the Islamic finance prohibits interest, it will prevent favoritism of capital relative to labor, and capital must therefore enjoy the holder and one who benefits from his work. And another side it aims to prevent the formation within the company holds a class of capital and another wretch who would work for the well being of the first, and that’s the purpose of that mucharaka will create a complementarity between these two classes for the good of the whole entire company.

Finally it is better to point out that accepting the marketing of these products, the Moroccan government will break the road against possible political use of these financing methods, especially by the Islamic opposition, and this way there will no change on the internal socio-political level. And besides it is the main cause that pushed the state to authorize the marketing of Islamic banking products.

2.2.2. Contribute to economic development

According to Omar al Katani Moroccan economic expert, alternative products will have a positive impact on the Moroccan economy, and it will appear in several areas: every first and
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according to a study by the Association of Mr. katani 6% of Moroccan companies refuse to establish relations with banks for religious reasons, and 20% want to change their modes of financing by another Muslim, so this is a big business party that now have what they had long sought for their development.

There is also the financial interest that these products; will certainly help in the banking process that Morocco continues past years, because on one hand the banks will have more products to present, and secondly they will target a new client, who ‘were neglected before.

It should also be noted that Islamic products will help many people who practice liberal professions, such as doctors, lawyers, notary’s crew for their offices, for Ijara and Murabaha, including those with religious convictions.

There ‘also has another interest of greater importance is the development of real estate industry because giving more credits comply with the precepts of Islam in will encourage many people to buy homes that that will affect the sector which is linked with several majors economic sectors.

Finally the economic value of these products lies also in the fact that this is a way that will attract more golf country investors, who will bring with them more currency and create thus more jobs. But however he remains whether these contributions are palpable on practice, or just mere theoretical speculation.

3. Analysis and assessment of the new Islamic banking products after their marketing in Morocco

This second part it will be devoted to the analysis of these products. This analysis aims to address the constraints and difficulties that these alternatives have faced "fiscal constraints; regulatory, political, organizational, commercial ...... "What cause the high cost of these products compared to other existing products in the financial market, and to give the study more scale we will attempt to present the necessary measures that will contribute to the success of these financing methods in Morocco.

3.1. Problem of high cost of new Islamic banking products
Halal products but too expensive.... This is the reflection made by the vis-à-vis customer’s new Islamic products, while we waited to cheaper products than traditional banks. This high cost is due to direct causes and indirect causes.

Direct causes: for Miftah Al Keir monthly payment is higher than for a conventional home loan, eg if the building costs 300000DH 8192DH must pay per month for a duration not exceeding 120mois, and therefore the Proceeds of this sale will be 980000DH which is huge. This is explained by the double transaction to do under the contract (purchase and resale of the bank to the customer, which will induce a lot of fresh ie notary fees, registration fees and land registration. ..) and also by the life insurance costs and fire.

For Miftah AL fath is the same, the monthly payment is too superior compared to conventional housing credit, because on one hand the duration is shorter, on the other hand the cost of the double transaction, and finally the customers bear the VAT on the entire monthly payment, not only on interest as in conventional loans.

Indirect causes: as we said it is only Attijari Wafa bank, who dared to market these products, while other banks are either reluctant or refusing of these products. For the first they expected to see the behavior of customers before going to market these new products, but after that first bad result they could not be adventurer, which help maintain this price increase, for lack of competitiveness between banks.

Furthermore it there’s the other causes that led these banks not to market these new modes of financing are:

- questionable political beliefs of all that is Islamic, especially after the rise in strength of the PJD, and the demands he made for the introduction of such financing.
- bank lobby’s pressure, which fears the success of these products, something that will certainly encourage the introduction of Islamic banks in Morocco.
- poor training of bank staff on Islamic finance.
- too modest marketing that did not help a good marketing of these banking products.
- not use religious figures to educate customers and banks on the importance of these alternative products
3.2. The impact of high cost

According to a bank Attijari Wafa Bank’s framework, only 72 application files for alternative products have been accepted, and a single file was refused, and that since their commercialization in October 2007. So the results are disappointing while we waited the otherwise, especially after the success of these products in other countries.

Also no other bank had the courage to compete Attijari Wafa bank in those products; they were discouraged at first by the blur of taxation applied to alternative products, according to a study by economist, and also by the low income generated after marketing. It there’s even rumors that talk about measures to withdraw them from the Moroccan market.

This high cost to generate widespread dissatisfaction within the society, it is called a heavy price for what is halal in Islam, pay more expensive to preserve his religious conviction, and it even has y’en speaking of plot seeks new Islamic products.

But despite all that Morocco, after introducing these new Islamic banking products does not seem to be discouraged as, on the contrary it intends to continue to encourage Islamic modes of financing which made the success of Islamic banks, especially in countries golf and Europe. But to do so it is necessary to take a certain number of provisions.

3.3. The measures necessary for true success of alternative products

So the new Islamic modes of financing, achieve their goal, we must take a certain number of appropriate measures to make them more competitive, and why not allow the entrance of Islamic banks in Morocco for better stewardship.

First Moroccan officials have a real desire to promote these new banking products, ignoring all sorts of contrary political conviction or adverse pressure from the banking lobby, because this is an issue that concerns all Moroccans who want to see their country in full development, and the general interest of course prevails in the private interest of a few minorities.

Then there must be an adequate tax regulations: first it is necessary that IS in Ijara wa iqtinaa be spread over the term of the contract, secondly the VAT applied to property
acquisitions to be reduced, in the end the tax registration taxes should not be paid twice, and providing appropriate tax mechanisms that situation.

In addition the state should encourage reluctant banks to use alternative products either through tax rewards, either by pressure and not just to serve their pressure, because that way we will create a competition between the bank which will certainly lower the price of those products. On the other hand it is necessary that the state encourages banks to send their staff to training stays in Islamic banks golf country, so they can have more competence in the matter.

We must also do awareness campaigns, especially by religious and economic personalities, in mosques and on TV without ignoring the other awareness tools such as newspapers and internet... This awareness campaigns should target both banks and individuals, to sensitize them on the importance of Islamic banking products, the Moroccan economy.

Finally, banks must take several technical measures such as the adaptation of these products with the demands of customers, and also to make a big marketing for better marketing of the new Islamic financing.

SURVEY: ISLAMIC VS CONVENTIONAL BANKING

Throughout the years, a lot of people changed their minds when it comes to their methods of banking, views and personal experiences. Given that the Islamic banking term has been growing at a steady pace in the past 20 years or so, it has been increasing its customer base as well all over the world, gradually more in the Middle East and South East Asia markets.

Nowadays, the majority of people in the Arab world, Asia and Europe, understand and acknowledge the differences between Islamic Banking and Conventional one. As part of my work experience in banking, I witnessed a new trend of Non-Muslims switching to Islamic banking or willing to change. My point is as mentioned before is that religion is not a necessity when it comes to banking.

On August 2016, I carried a survey that was forwarded to 50 random people from different backgrounds, religion, nationality and place of origin. I got the responses of only 34 individuals. The results were a bit similar especially given the age group and their profession. The questions listed targeted everyone from a specific educational background, most of them
were company employees and the minority were self employed. I tried to mix the samples as much as I can to add more diversity to the responses as well as personal exposure.

From a religion perspective, it was split between 70% Muslims and 30% Non-Muslims, showing a decent rate of Non-Muslims leaning towards Islamic banking because of the base it is built on, or the fact it doesn’t have any hidden fees, and they don’t charge interest, late payment charges and so on. We have to take into consideration that the clients I met from UK, USA or any other European country were curious as to how different is it from Conventional banking, and based on their previous negative experiences with hidden charges and compounded interest, and the miscommunication with their respective banks. Islamic banks are built on trust and religious basis, which makes it difficult to apply interest(Riba) or move away from the basics of Holy Quraan.

This was obvious when asked two specific questions, one has to do with the fact that Islamic banks do not involve in Riba (Interest), and instead of it use the method of profit loss sharing (partnership). Do you think is it better than Conventional banking? About 65% answered with a “yes”, while almost 22% answered “No” and the rest with no preference. The other question referred to the aspect that Islamic banks do not invest in industries with products and services involved in alcohol, Pork and Gambling. Do you think it is acceptable for welfare of society? 78% of the responses were for it, while 13% said “No” and the rest had no preference.

What surprised me was the last two questions in my survey, that had to do with the reasons for choosing either. When it comes to why they chose Islamic banks, the answers varied between the welfare of the society (45%), and some had a mix of religion and welfare. On the other hand, people go for conventional banking just for the fact it has been around for a while, and they already have an account established which became a routine for them.

**GENERAL CONCLUSION**

We arrived at the end of this memorandum dedicated to shed light on the Islamic financial system theory and its implications in practice. Facing a Western world where talk of God became taboo and where obedience to its laws is the aberration, it is amazing to see with what stubbornness and tenacity what economists and financial Muslims work to a viable adaptation of their system with their beliefs despite the unchanging nature of these.
The rules governing the Islamic financial system are clear and compelling: the absolute rejection of the interest as cost of money and the search for harmony between the individual and social well-being. For this purpose, an alternative system began to take shape in the early 40s to arrive, from the 70s to the emergence of a true Islamic banking market.

Currently, despite numerous internal difficulties and obstacles posed by its environment, the Islamic financial system has managed to take a first step that more decisive for the future: 30 years of co-existence with a system dominated by the application of rates interest. However, its future is not yet fully assured, and the challenges it faces are still numerous. Experience has shown us that the banking business is one of the most difficult business functions in practice a religiously acceptable manner.

The competitive environment in which Islamic banks operate often forced them to remain confined in a mimetic attitude of the conventional system; this attitude encourages them to promote short-term and low-risk instruments, attempting to offer their customers similar opportunities to those offered by conventional banks. These circumstances and other parallel, Islamic banks have removed from their original role of financial intermediaries based on the sharing of profits and losses as provided by Islamic doctrine.

Another challenge facing the Islamic financial system is the lack of coordination and collaboration between the different players. Although the beginnings of solutions are provided by organizations such as AAOIFI and IDB the path to a truly effective result is still long.

After about thirty years of existence, the Islamic financial system is currently in a phase of transition whose outcome will be crucial to its future. If it can overcome its difficulties, it probably will enter a new period of development and growth which will move from phenomenon to a permanent system and firmly established.

The outlook then open to it are numerous, among which the most important is undoubtedly its integration into Western economic environment, both American and European, which does not fail, given the importance of the Muslim community in these regions, opportunities.

The conduct of this study has finally allowed us to identify a number of themes treated too little and yet it is for students, researchers and professionals to explore; among :
The need to innovate, not replicate, on financial arrangements "Sharia Compliant" to provide investors with a wide range in terms of investment and investment products but also in terms of hedging instruments.

The need to imagine own performance measurement indicators to investments "Sharia Compliant". Indeed, we have noted, in previous sections, the question of the relevance of classical tools of performance measurement when addressed a Muslim investor.

The question of what we call the "Prime Sharia". Islamic Finance professionals indeed seem to take a stronger commitment to customer retail was the religious aspect of financial products is relatively customer corporate who seems to consider the religious aspect as a bonus relegated to the background facing the performance. In the case of the asset manager, what is the flexibility? Beyond what level of underperformance he feels risk of its customers move to a conventional product?

The need to highlight the deep ethics of Islamic Finance character is vital.

All the above observations suggests a bright future for Islamic Finance, on the professional level and through academic research.
Appendices- Islamic Banking Assets

Figure 3
Compared to conventional peers, most Islamic banks suffer a size disadvantage

Average size of assets
($ billion, 2010)

<table>
<thead>
<tr>
<th>Country</th>
<th>Islamic banks</th>
<th>Conventional banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSA</td>
<td>18</td>
<td>45</td>
</tr>
<tr>
<td>UAE</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Kuwait</td>
<td>15</td>
<td>29</td>
</tr>
<tr>
<td>Bahrain</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
<td>51</td>
</tr>
</tbody>
</table>

Note: Islamic assets of conventional banks are included within the size of "conventional banks" as they are simply another product offering by the conventional bank.

Sources: Country central bank websites; A.T. Kearney analysis

Sharia Compliant Banking Assets (USD Billion)
As of 12/16/11

<table>
<thead>
<tr>
<th>Country</th>
<th>Sharia Assets</th>
<th>Total Banking System Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Arab Emirates</td>
<td>109.5</td>
<td>109.5</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>62.8</td>
<td>62.8</td>
</tr>
<tr>
<td>Bahrain</td>
<td>22.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Qatar</td>
<td>20.6</td>
<td>20.6</td>
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<tr>
<td>Malaysia</td>
<td>11.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Egypt</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Kuwait</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Jordan</td>
<td>3.8</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Sharia Penetration

- 14% Sharia Assets
- 86% Total Banking System Assets
Global Evolution of Islamic banking

Figure A
Islamic banking has become a material part of the global financial services industry

Islamic banking assets breakdown
(100% = ~$1.100 billion)

Source: A.T. Kearney analysis

Islamic versus conventional banks
Islamic banks have a greater share of bank assets in the Gulf region than elsewhere. (average 1992-2006, percent of GDP)

Source: Bankscope, Financial Development and Structure Database; and authors’ calculations.

Islamic Banking: The Stakeholders

Islamic Banking: The Common Perception & the Future Prospects by A. J. Karmi
REFERENCE LIST


Global Evolution of Islamic banking


