الجامعة الإسلامية العالمية ماليزيا
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
اونيۏرسيتي اسلام انتارابڠسا مليسيا

PROHIBITION OF INTEREST IN AN ISLAMIC ECONOMY : RATIONALE AND SOME CONSEQUENCES

BY

HUSSAINI IBRAHIM ALIERO

ADVISOR
DR. ZUBAIR HASAN
DEPARTMENT OF ECONOMICS

SUBMITTED TO THE GRADUATE COMMITTEE KULLIYYAH OF ECONOMICS AND MANAGEMENT, INTERNATIONAL ISLAMIC UNIVERSITY, MALAYSIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ECONOMICS.

FEBRUARY, 1992.

KULLIYYAH OF ECONOMICS AND MANAGEMENT
MASTER OF ECONOMICS PROGRAMME

SUBMISSION OF THE MASTER OF ECONOMICS

RESEARCH PAPER

This is certify that Bro./~~Sis~~ HUSSAIN IBRAHIM ALIERO
has written the Master of Economics research paper entitled:

PROHIBITION OF INTEREST IN AN ISLAMIC ECONOMY:
RATIONALE AND SOME CONSEQUENCES

under my supervision. The relevant comments made on the paper during its presentation have been incorporated in the present version of the paper to my full satisfaction.

I have pleasure in recommending that the graduate committee may approve the paper in partial fulfilment of the requirements for the degree of Master of Economics.

Name of Supervisor: DR. ZUBAIR HASAN

Date : MAY 22, 1992

(Signature)

ACKNOWLEDGEMENT

I would like to express my profound and sincere gratitude to Dr. Zubair Hasan, the Head of Department of Economics, International Islamic University, Malaysia. . His comments, criticisms and insistence for excellence served as an inspiration to work on this paper. May Allah reward him for his patience and untiring help throughout the various stages of writing this paper. However, for the remaining errors, the responsibility is only mine.

TABLE OF CONTENTS

INTRODUCTION

The recent Islamic resurgence, specially after the World War II, and the resultant interest in Islamic teachings among the Muslims the world over, has raised a number of questions on the the way Muslims ought to run their affairs. One of the many important issues relates to the interest based banking and economic system which is obviously considered opposed to the tenets and spirit of Islam. It is invariably suggested that Islamic interest-free economic system, based on profit-sharing, should replace the modern interest infested economic order. The suggestion has evoked criticism, and opposition from several quarters, in some cases even Muslim.

Muslim economists have, with rare exceptions, tried to provide the juridical clarity and support to the prohibition of interest in Islam. But more importantly, they have attempted to engage the proponents of the interest based economic system into a debate based on reason, as opposed to mere belief, about the efficacy and usefulness of such a system. They argue that interest based economic system perpetuates inequitable income distribution, fuels inflation, causes instability in the economy and obstructs rapid growth.[1] Prohibition of interest and replacing it by profit-sharing arrangements, they claim, will have greater economic stability, faster development, more of savings and capital formation, thus being promotive of both equity and growth.[2]

On the other hand, there are the critics of the suggestion who strike a pessemistic note about the efficacy of an interest-free economic system, and doubt if it can be shown convincingly that there can be a general equilibrium in an interest-free economy (i.e. savings will equal the demand for investment funds). In the absence of interest there will be no mechanism to ensure equlibrium. It cannot be shown, they argue, that the allocation of resources in an Interest-free economy would be better than in an interest based economy.[3] Doubt is also expressed if the Islamic

---

[1] See Muhammad Nejjatullahi Siddiqi, Issues in Islamic Banking Leicester : The Islamic Foundation 1983, p.69-84. Muhammad Uzair, Interest-free Banking, Karachi : Royal Book Company, 1978. Muhammad Anwar, Modelling Interest-free Economy International Institute of Islamic Thought 1987 p. 79-82. Ahmed El Naggar", The Impact of Interest-free Banking on the Economy" Journal of Islamic Banking and Finance, Vol.IV No.3 1987 p.36.
Ziauddin Ahmed, "Islamic Banking at the Cross Roads", Journal of Islamic Economics, I.I.U., Malaysia Vol.II No. 1 1987 p.29-30.

[2] See M.N.Siddiqi, op cit, p.85-94. Umar chapra, Towards a Just Monetary System, Leicester : The Islamic Foundation, 1985 p.107-132. Muhammad Anas Zarqa, "Discussion" in Muhammad Ariff, (ed.) Monetary and Fiscal Economics of Islam, Jeddah : International King Abdulaziz University 1982 p.98-100. Zubair Hasan, "The Theory of Profit : The Islami c view- point, " Journal of Research in Islamic Economics, Vol.I No.1 1983, p.10. Ahmed El-Naggar op.cit p.41-42.

[3] Muhammad Akram Khan, "A Survey of Critical Literature on Interest-free Banking " Journal of Islamic Banking and Finance, Vol.VI No.1 (Jan-Mar) 1989 p.47.

banks, which organised as they are on the pattern of medieval merchant banks, can help in industrialization of an economy.[4] Another reservation against interest-free economic system is that, it is not entirely clear as to what good can really come from eliminating interest and bringing in its place the profit and loss sharing (PLS) scheme.[5]

After reading the different views on the prohibition of interest, we feel that the arguments of the proponents of an interest-free economic system do lack in theoretical rigour and empirical evidence, but the arguments of the supporters of an interest based economic system are all the more unconvincing. The objective of this paper is to attempt an analysis of the rationale for and some of the consequences of the prohibition of interest in an Islamic economy. It is hoped that this study will provide a systematic logical analysis of the prohibition of interest around this objective. In the process we hope to clear some of the doubts concerning the feasibility of an economy completely devoid of interest.

Interest has a very wide ranging influence on the economic variables and raises issues that have moral and ethical dimensions apart from the questions of rationale. The moral and ethical dimension is well recognised and has been thoroughly discussed in religious books and in early

---

[4] Ibid, p.49.
[5] Capt. M.A.R. Beg PN (Rtd) "Interest-Islamic View-point" Journal of Islamic Banking and Finance, Vol.VI No.3 (July-Sept.) 1989, p.46.

economic writings. We take here this dimension as a point of departure and attempt to raise the discussion to a higher level so that we may communicate with the academic world at a common plane and convince secular scholars also of the efficacy of the abolition of interest in modern economics including the secular ones as well. In this endeavour, our focus will be a restricted one, concerned mainly with savings and investment, productivity, profitability, distributional equity and orderly economic growth.

It may not always be possible or easy to separate the rationale from the consequence of prohibition of interest in an economy. However, for the sake of convenience we will divide the paper into two main parts. The first part deals with the rationale of prohibition of interest. It centres around the questions concerning savings and investment, profitability and productivity. The second part deals with some consequences focusing on promotion of distributive justice, risk spread, stability and growth. This will be followed by a summary and some concluding remarks.

Before going into details, it is desirable to present the bare bones of a profit-sharing model we have in mind, to serve as the foundation of our argument. This will also save us from arguing in a vacuum. Most of the profit-sharing models advanced by different scholars are based on either mudarabah, shirkatul inan or both.[6] In the mudarabah

[6] M.N. Siddiqi, Banking Without Interest 4th ed., Lahore : Islamic Publication, 1981 p.1-40.

model one party suppplies capital and the other party the entreprise for a business venture. The profit realised at the end of the business is shared according to a pre-determined ratio agreed upon by the two parties. In the case of loss, the party supplying the capital will bear the whole of it while the entrepreneur will lose only his effort. In the musharaka model the contracting parties will supply capital and entreprise and the profit or loss will be shared according to the proportion of capital contributed by the different parties or according to the organizational arrangements. Broadly, these are the major profit-sharing models whether at the individual or at the institutional level. In addition to these models our analysis will take into consideration a model of profit sharing between employer or capitalist and the employees or workers in the modern mass production organizations. The model state that profit would be shared between capital and labour subject to a minimum wage constraint.[7] All these models taken together constitute the background for this paper.

[7] For details, see the pioneering work in the area by Zubair Hasan, first, in "The Theory of Profit : The Islamic Viewpoint." Journal of Research in Islamic Economics., Vol.1 No.1 1983, p.7-15. Second "Distributional Equity" in Islam in Munawar Iqbal (ed.) "Distributive justice and Need fulfilment in an Islamic Economy, Leicester : The Islamic Foundation, 1986. p.46-52 and the third, "Profit-Maximization : Secular versus Islamic" in Sayyid Tahir and et al, (eds) Readings in Microeconomics: An Islamic Perspective, Malaysia; Longman 1992, p.246-247.

PART 1

RATIONALITY ASPECTS

1.1 Savings and Investment

Savings and investment are two of the most important determinants of economic growth and development in an economy. There is an apprehension that prohibition of interest may reduce the level of savings and may thus retard economic growth and development. This apprehension stems from the classical economists' belief that savings are positively related to interest rate. The apprehension is rather misplaced and unfounded. First, the classical belief that savings are determined by interest is refuted by Keynes (1936 p.110-111). According to him aggregate saving is governed by aggregate income. A rise in the interest rate diminishes investment and income. This leads to a decrease in both saving and spending. Second, empirical evidence does not show any significant relationship between savings and interest rates, the results have at best been inconclusive.[8] Third, individuals and business firms save for different purposes irrespective of the level of interest rate. Finally, the bulk of saving in many countries is largely done by firms in the form of retained profits independent of interest rate.[9]

---

[8] Paul Anthony Samuelson, Economics, McGraw Hill International Book Company, 1980, p.560-561.
[9] Mark Blong, Economic theory Inretrospect 4th ed., London : Cambridge Unversity Press, 1987, p.195.

Given the above reasons prohibition of interest is unlikely to reduce the volume of savings. In fact in an interest-free Islamic economic system savings are likely to be promoted. First, in the profit sharing arrangement the return to capital will include 'reward for both savings and risk-taking' which means a high returns to financiers than in an interest based system. This means if higher returns or higher income determine the level of savings, people will save more in a share economy than in an interest based economic system. Secondly, profit-sharing in mass production between employer and the employees will on the average give higher income to the employees who constitute the majority of the population. This will, to some extent increase their savings as has been the experience of bonus system in Japan.[10] Finally Fahim Khan (1984, p.21) point out that adherence to the moderation in spending enjoined by Islam is likely to promote savings in an Islamic economy compared to a secular one.

The influence of interest on savings or investment though not significant cannot be denied. The fact is that investors borrow money from the savers through the financial market at a certain interest rate. When the expected rate of profits is high than the money lending rate, the investor borrow money for investment. On the other hand, when the expected profits is lower than the rate of interest, the

---

[10] G.C.Allen, Japan's Economic Policy, The Macmillan Press, 1986, p.137-8 and p. 201-2.

investors reduce borrowings and cut down the level of investment or in some cases suspend the investment causing wide spread reduction in the level of output of goods and services, employment, and the level of income retarding growth and development.

Keynes (1936, p.110, 144, 234 and 323) observed that the high level of interest rate reduces the level of investment, while a low interest rate stimulates investment. Keynes therefore, suggested that interest rates should be kept low to stimulate investment and growth. According to him "....... the scale of investment is promoted by a low rate of interest, provided that we do not attempt to stimulate it in this way beyond the point which corresponds to full employment. Thus it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment".[11]

---

[11] John Maynard Keynes, The General Theory of Employment, Interest and Money, paper back edition, London : The Macmillan Press, 1936, P.137. Other similar statements by Keynes are as follows : " .... I should guess that a properly run community equipped with modern technical resources, of which the population is not increasing rapidly, ought to be able to bring down the marginal efficiency of capital in equilibrium approximately to zero within a single generation, so that we should attain the conditions of a quasi-stationary community where change and progress would result only from changes in technique, taste, population and institutions, with the products of capital selling at a price proportioned to the labour, etc. embodied int hem on just the same principles as govern the prices of consumption-goods into which capital-changes enter in an insignificant degree." (p.200.)

"If I am right in supposing it to be comparatively easy to make capital-goods so abundant that the marginal efficiency of capital is zero, this may be the most sensible way of gradually getting rid of many of the objectionable features of capitalism." (p.221).

Although Keyness realised the negative influence of high interest on investment his advocacy for low rate is not of much help. This is because in the Keynesian theory, full employment is a rare phenomenon. When it exists, it is only temporary and short lived. This implies that the rate of interest will not generally be reduced enough to ensure lasting full employment. However, what is important in Keynes is that, interest is detrimental to investment and consequently to the growth of output, and employment.

Subsequent studies seem to be in agreement with Keynes's conclusion. Haque and Mirakhor (1987 p.157-8) hold the view that prohibition of interest is likely to change investment behaviour and the level of aggregage investment. The change is believed to be a positive one. This is because profit-sharing system balances the risk of the business between the financier and the investor. Thus in a risky business, the distress situation where by the investor requires a wider margin between his expectation of profit and the rate of interest at which he will think it worth his while to borrow, and the lender to require a wider margin between what he charges and the pure rate of interest in order to induce him to lend is effectively eliminated. Also the fixed cost for capital is no longer required to be met as part of the firms profit calculation. The result is that elimination of fixed cost will allow the marginal product of capital to be taken up to the point where maximum profit are obtained without the constraints of meeting a fixed cost on capital. Choudhury (1986 p.133) arrived at similar conclusion. According to him interest rate puts a limit to the marginal efficiency of capital, thereby leaving several inputs unemployed. This underemployment of resources lowers the rate of production. To maintain the profit levels, firms increase the prices and maintain the labour force at lower wages or cause unemployment.

Rittenberg (1991 p.162) has shown that both high and low interest rates are detrimental to investment and economic growth. In his analysis of the impact of interest rates on investment spending and economic growth in Turkey, he finds that real investment and real economic growth declined with liberalization of the economy which resulted in high real interest from 1981 to 1986. His result suggests that private non-housing investment is sensitive to interest rate changes. Both highly negative real interest rates and highly positive real interest rates appeared to have had a detrimental impact on the private non-housing investment. The result indicated that stabilization of the real deposit rate of interest at a low positive level will warrant maximum investment spending. Rittenberg concludes that his result do support the notion that interest rate policy may be a powerful tool and the setting of interest rates too high may be as detrimental to economic health as setting them too low.[12]

However the suggestion to stabilize real deposit rate of interest at a low positive level can only be possible if the government is to intervene in the financial market. But economic liberalization itself has ruled out government intervention. Also as pointed out by Friedman (1968 p.378) monetary policy could not fix the rate of interest. Furthermore since the financial institutions are more interested in the security and returns for their loans, it will be very difficult to persuade them to lower their interest rate especially in an inflationary situation, in which case investment spending will never be maximized as suggested by Rittenberg.

On the other hand in an interest-free scheme where both the financiers and the investors have a stake in the return to their investment, low returns may not deter them from investing as neither the investors nor the financiers will be better off or worse off, one at the cost of the other. In fact both can be worse off by not investing. In the profit-sharing system it is innovative entreprise that is likely to set constraints to investment rather than finance. This is because capital does not impose limit to investment such as in the interest based system. Thus innovative

---

[12] Libby Rittenberg, "Investment Spending and Interest Rate Policy : The Cause of Financial Liberalization in Turkey", Journal of Development Studies, Vol. XXVII, No.2, January 1991 p.164. For other similar conclusions see I.M.F. occational paper No. 22 Interest Rate Policies in Developing Countries, pp.10-11, and p.17-18.

entrepreneurs who are ready to develop new profitable investments will always raise funds for such venture.

1.2 Unemployment and Inflation

In the previous section we have discussed how interest rates affect the level of investment by setting a limit to the marginal efficiency of capital. In this section we shall discuss how interest rates cause unemployment and inflation and how they can be minimized by adopting a profit-sharing system.

Interest rate causes unemployment and inflation in several ways; when interest rate is high it makes cost of production also high causing fall in investment and in some cases closure of production units, resulting into retrenchment of workers by employers to reduce cost. Alternatively, the producers increase the prices of goods and services to cover the increased cost thereby causing inflation. On the other hand when interest rate is low the tendency is to switch to capital intensive method of production thereby causing technical unemployment due to replacement of labour by machinery. On the consumer side low interest rate encourages borrowing for consumption which usually increases the demand for goods and services resulting into demand-full inflation.

Until early 1970s it was believed by most of the economists that there is a trade-off between unemployment and inflation. However, subsequent findings have shown that both high unemployment and inflation can coexist. This gave rise to a new phenomenon known as stagflation.[13] That is a situation where high unemployment and inflation are positively related. This phenomenon has caused many economic problems in the industrialised countries.[14] Weitzman (1985 p.42) has confessed that all the mechanisms attempted in solving the problem of stagflation have failed.[15] He proposed profit-sharing and argued that, profit-sharing is the best form of policy for combating unemployment and inflation.[16] According to him "profit-sharing represents a way of building into the system the kind of natural resistence to unemployment and inflation that could really disarm stagflation at its source".[17] In

---

[13] See Thomas M. Humphrey, "Changing Views of the Philips Curve" in Thomans M.Havrilesky and John T.Boorman (eds) Current Issues in Monetary Theory and Policy, 2nd ed., Illinois : Harlan Daud-Son 1980, p.148-149.

[14] For a detail enumaration of the problems of stagflation, see John Cornwell (ed). After Stagflation, Oxford : Basil Blackwell 1984, p.86-87.

[15] According to Martin, "I believe we should seriously consider some new ideas about basic reform of the economic mechanism because our old ways of doing things are no longer adequate".

[16] "I want to argue that a superior form of government policy for combating unemployment and inflation is to encourage through exhortation and special tax privilages, the widespread use of profit-sharing. A profit sharing system has the potential to automatically contract contractionary or inflationary shocks while maintaining the advantages of decentralized decision making. And these desirable porperties are robustly preserved throughout a variety of economic environments. At the very least, widespread profit-sharing can be a valuable adjunct to traditional monetary and fiscal policies".

[17] Martin L. Wietzman, "Profit-Sharing as Macroeconomic Policy" American Economic Review, Vol. LXXV, No.2, 1985, p.42. Also see "The Share Economy Symposium : A Reply", by Martin in Journal of Comparative Economics, Vol X, No.4, 1986, 0.469-473. And American Economic Review, Vol. LXXV, No.5, 1985, p. 937-953.

addition to this, Weitzman listed other qualities of profit-sharing which are superior compared to other tools of macroeconomic policy. These include stability, decentralization, dynamism with a minimum of government discretionary policy.

The model proposed by Weitzman may not be totally acceptable to Islamic economists. For one thing, it does not rule out interest financing. However, what is important in the model for our purpose is the recognition of the failure of the traditional mechanisms in solving the problem of stagflation and the basic qualities of profit-sharing that have natural resistence to unemployment and inflation.

We have already referred to the profit-sharing models which are relevant to our argument. In such models interest being absent it cannot set any constraints to the level of investment and employment. Inflation of cost push nature is also unlikely since any increase in the prices of goods and services will be absorbed in the high wages enjoyed by the worker through the high profit enjoyed by the production units. Inflation of demand push nature is also mitigated except when caused by the natural factors. This is because output cannot be constrained by interest rates as in the case of interest based system.

1.3 Profitability and Productivity

One of the doubts expressed about profit-sharing is that it will not be profitable to the financiers compared with traditonal interest based system. This contention has been refuted. It has been argued that for the financiers as a group, profit-sharing is more profitable than traditional interest based system. According to Hasan (1985 P.25) A PLS System is likely to be more attractive for both the firms and the financiers. This is because according to him: "PLS System promises leverage benefits to the firms free of risk and a return higher than the rate of interest to the financiers, fluctuations in the rate of profit on equity under PLS finance are likely to be smaller than rate of profit on equity under interest finance and that PLS operations may have a smaller destabilizing potential for the economy as a whole compared to financing on interest".

Another factor that makes the profit-sharing more profitable than interest based system is that the burden of risks on the part of the investors has been reduced. This encourages entreprenuers to be more innovative and venture into high risk projects which are usually characterised by high profitability. Furthermore, the spirit of mutual cooperation and sense of ownership and responsibility promoted by profit-sharing results into efficient use of resources and increased output which in turn increases profit.

A number of empirical studies have shown that there is a significant relationship between profit-sharing and productivity of a firm.[18] Although all the studies were conducted in an environment where interest financing cannot be ruled out, the result showed that there is positive relationship between profit-sharing and productivity of the firms. James and Svejnar (1985 p.459) in an empirical study of Italian producer co-operatives, have come out with interesting conclusion which seem to agree with other findings in similar studies conducted in different countries. According to them "For producer co-operatives, profit-sharing participation and individual worker ownership of assets have a positive or .... at least a non-negative effect on productivity, and that collectively owned reserves have a negative effect on productivity".[19] These findings support the proposition that profit-sharing encourages co-operation, greater sense of belonging and responsibility among the co-partners. Consequently greater productivity and profitability is achieved.

[18] For the various references see Economica, Vol. LII p.460.
[19] Ibid, p.459.

PART II

SOME CONSEQUENCES

2.1 Promotion of Distributive Justice

One of the fundamental issues in secular economics is how to determine the share in the value product of each of the factors in an economy. It continues with the age old view that the share of a factor of production is determined by the value of the marginal product of that factor in a perfectly competitive market. But this is far from reality since the assumption of perfect competition can never be realised in uncertain dynamic world. Furthermore, it is very difficult, if not impossible, to separate the marginal products of the different factors employed in the production process. Meier (1989 p.518-519) observes that the method of determining the distribution of income in the secular economics is not just and tempering the market forces will interfere with the efficiency of the market system. Thus, there is a conflict between economic efficiency and social justice.

In secular economics there are two major sources of maldistribution of income : The first emanates from the functioning of interest system and the second arises from the production relationship between capitalists and the workers. Rushdi (1986 pp.223) observes that the institution of interest gives rise to two types of distributional problems. The first is related to the distribution of income between bankers and the public in general and savers in particular. This occurs because the savers are guaranteed a fixed return on their deposits. The implication is that savers will receive the fixed rate irrespective of the outcome of business. When the bank suffer a loss all the burden is pushed forward to the bank shareholders which may lead to the bankruptcy. On the other hand, when the bank enjoys higher profit the lenders will receive the fixed rate, as such they are deprived of the benefit of the higher profit realised by the banks, thus perpetuating income inequality. The second type of problem relates to credit creation by commercial banks. This occurs in a fractional reserve system, where banks receive interest simply by extending loans to their customers in the form of bank deposit. The return realised from this process is mainly appropriated by the bank shareholders, depriving the majority of the people the benefit of what is suppose to be a social prerogative.

Another interest related maldistribution of income arises from monetary policy. When the objective of the government is to promote investment spending, sometimes a deposits and loan rate ceiling lower than the market equilibrium level is imposed. This kind of policy tend to worsen the distribution of income in different ways. First, most of the economic rent goes to large borrowers rather than small savers. Second, capital-intensive production methods encouraged by low interest rates reduce demand for labour, thereby depriving them of the income from their toil.[20]

The prohibition of interest and replacing it by profit-sharing is likely to eliminate most of such problems. First of all, savers will share the profit or loss of the business. And since the net tendency in the economy as a whole is to make profit, rather than incur loss, it is presumed that the savers will be better off. Also the adverse effects of rising inflation because of the fixity of rate is effectively eliminated. Secondly, credit creation may not be a serious problem since loans are only advanced on real productive activities. Furthermore, monetary policies that are directed to interest rate will become redundant, thus ceiling on return on credit and deposit will not exist. Consequently maldistribution of income arising from such policies will not persist.

For a long time, and to the present day, many, if not all, of the secular and Islamic economists believe that fixed wages determined by market forces are equitable even when the wages fail to meet even the minimum needs of living.[21] Our contention is that this view cannot stand the

---

[20] See Maxwell, J.Dry, Money, Interest and Banking in Economic Development, London : The John Hopkins University Press 1986 p.424. And Umar Chapra, op.cit. p.115.
[21] See note in Zubair Hasan, "Profit Maximization: Secular versus islamic" in Sayyid Tahir and et.al (eds), Readings in Microeconomics An Islamic Perspective, p.247.

test of Islamic distributive justice, especially in mass production where the rate of wage increment generally lags behind the rate of increment in the profit of the firm. This causes inequitable distribution of income in favour of the capitalists, leaving the workers worseoff. This anomaly may be a major explanation why capitalism is characterised by overproduction as the labour cannot absorb the full output.

Profit sharing in mass production between the employers and employees will ensure distributive justice to a certain reasonable degree. The employees are likely to be betteroff rather than worseoff, since on the average profit dominates loss in an ex post sense. This kind of arrangement will help meet the Islamic demand for distributive justice in the production process.

2.2 Risk Spread

The most important consequence of the prohibition of interest in an Islamic economy is the total elimination of risk-free assets and its potentials to spread risk among the investors and financiers. This means all kinds of fixed return assets or interest bearing shares (with the exception of rentals) such as preference shares, debentures, commercial papers, treasury bills and undated consols will not exist. However, this does not means that the investment opportunity or bank portfolios are narrowed. According to