



PROJECT PAPER

TITLE

"THE PROBLEMS AND PROSPECT  
OF  
BANK ISLAM MALAYSIA BERHAD."

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A project paper submitted to the Faculty of Economics, INTERNATIONAL ISLAMIC UNIVERSITY, in fulfilment of the requirements for Bachelor of Economics, MARCH, 1987.

Preliminary

This paper does not intend to criticize the Bank blindly. We know the reality that BIMB is a new bank, only 3 years of age. All new projects need a gestation period before they find themselves on the road to success. This applies to BIMB also. The net profit accumulated by BIMB in third year is happily accepted.

The criticism brought forward in this paper against BIMB, does not intend to ruin the Bank or to degrade the Bank, for heaven sake no malice intended. The criticism on the other hand, intends to expose the Bank to achieve a real status of an Islamic Bank. The Bank must not regard this as 'road-side' comments. The Bank, at least, must give attention to the comments.

The paper does not provide a more scientific and technical recommendations to the Bank. This is because we do not involve directly in the business of the Bank. This is the main weakness of the paper. However, it is hope that the paper will be fruitful especially to fresh student of Islamic economic relating to Islamic banking system with respect to its nature, principles and objectives.

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INTRODUCTION

1.1 Introductory

'Bank' is a comprehensive term for a number of institutions carrying on certain kinds of financial business. Banks function as financial intermediaries between savers and the ultimate users, the households and firms. Beside this, they offer a number of other services such as safe deposits, cheque facilities, easy transfers, overdrafts, guarantees and agency functions in respect of purchase and sale, payment and receipt, management and promotion etc.

Historically, banks have performed this function on the basis of fix interest payment. Interest forms the basis of the bank's dealings with the savers as well as with the entrepreneur to whom it advances money capital.

Islamic banking is based on two cardinal principles laid down in the Shari'ah: prohibition of interest<sup>1</sup> and its replacement by profit-sharing. Though its consequences are revolutionary, the change involved is simple. Instead of being promised a fixed return in the form of interest, depositors in savings or time deposits will be promised a definite share in the profits accruing on these deposits as a result of their investment by banks. The entrepreneurs seeking advances from the bank will promise the banks a share of the profits accruing to them. In case there are no profits the banks get back only what they gave. In case its end

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1. The verses of Al-Qur'an which prohibited interest : (2:275), (30:39), (2:276) and so on.

up in a loss, the loss is regarded as an erosion of equity and the banks get back what remains. The banks, in fact cease to be lenders and become partners in enterprise.

We do not propose however, to discuss in detail how the profit-sharing system will work. We have the limited purpose of presenting this introductory. We would like to tell the rationale of Islamic banking i.e the rationale of Bank Islam Malaysia Berhad.

Bank Islam Malaysia Berhad was established on 1st. March 1983 as a limited company under the companies Act 1965. It was established in order to allow the Muslims in Malaysia to invest and participate in the country's economic activities meaningfully; (in line with the Islamic Shari'ah), and also to give an opportunity for the Muslims to deposit their money and asset without involving the elements of interest which was prohibited in Islam.

The establishment of Bank Islam Malaysia Berhad was also regarded by some scholars in Malaysia as the opening step of the Islamization of Malaysian Economy as a whole and towards the establishment of Islamic State in Malaysia.

The bank's establishment also parallel with government policy i.e assimilation of Islamic norms in government services as well as other aspect of activities.

The Muslims in Malaysia welcomed the establishment of the bank because they like their counterparts elsewhere had for a long time had the desire to practice the rules of Shari'ah in the fields of banking and finance.

1.2 OBJECTIVE OF STUDY

Bank Islam Malaysia Berhad (BIMB) is a financial institution which is different from other financial institutions in Malaysia. All the financial institutions except BIMB carry out their operation according to the Western economic doctrines, whereas B.I.M.B. attempts to adopt Islamic doctrines as far as possible in operating its activities. BIMB main objective is to give an opportunity to Malaysian Muslims to participate in economic activities in the Islamic way and manner.

Since the development of B.I.M.B we are yet to see the extent to which the Board has played its role in achieving the national objectives and to uplift the economy of Malaysian Muslims. In essence, this investigation represents an attempt to examine the problems and difficulties of the Bank while executing its operations.

There were many doubtful feelings were brought forward upon the Bank on its operations. There were several unsatisfied voices saying that the Bank charges on deffered sales are much higher than other commercial banks. The Muslim acadamicians in Malaysia also have some doubt on the operations of the Bank especially in the case of Mudharabah and the determination of mark up on item purchased by bank on deffered sales. This is the problem of theoretical aspect and the implementation of this aspect into practical activities.

In view of the above situation, this study were made in order to examine the matter closely with the assistance and corporation from Bank Islam itself and the consultation with the respectable Muslim's academicians in Malaysia.

Furthermore since the Bank is operating according to Shari'ah principles in the secular environment, no doubt that the



Bank will faces one thousand and one kinds of problems which are unknown to the public. There are internal and external problems. The internal problems will be for example; shortage of staff, lack of expert in project financing, problem of entrepreneur honesty and so on. The external problems emerge outside the Bank environment. These problems include economic recession, public confidence in Bank, limited Islamic business can be undertake by bank, the constraints due to legal act i.e. policy measure and intervention by Government to direct bank's resources towards the financing of public sector expenditures and so on. All these problem will be discuss in detail in chapter 6 of this project paper.

Thus the study will try to analyze such problems and will try (hopefully) to come out with an acceptable suggestions and recommendations in order to overcome the problem or at least minimize it.

In short the aim of the study is to examine and analyze the problems of the Bank and from such analysis, it will represent an attempt to enhance the economic performance of B.I.M.B. programmes as a basis for assesing the possibilities of increasing the standard of living of the Muslims in Malaysia and also to carry out the Islamic economic activities as an act of worship in order to get the blessing from Al-Mighty Creator.

1.3

#### HYPOTHESIS

Within the framework of the objectives it is contended that :-

- (a) B.I.M.B.'S financial position could be said to have progressed. According to B.I.M.B. 1985 Annual Report,

the Bank made a profit of \$4.3 million before zakat and taxation for the financial year. After paying zakat of \$0.4 million and providing for taxation \$1.4 million, a sum of \$2.5 million was available for appropriation. Pursuant to the requirement of Islamic Banking Act 1983, \$0.6 million was transferred to the statutory reserves, leaving the balance of \$1.9 million. With accumulated loss brought forward of \$1.8 million, the Bank showed retained profit carried forward of \$0.1 million at the end of the financial year.

This indicate that, the Bank had managed to overcome some of its problems. Dr. Halim (The Managing Director of B.I.M.B) said in the New Strait Times, 26th. July, 1985;

"The initial problems the Bank faced in establishing its operations have been resolved so far. The most challenging obstacle encountered was to bring the concept of Islamic banking, which is very new even to Muslims, down to the grassroot level where BIMB has targetted its depositor base. These problems have mostly been overcome now and the entire framework is running smoothly".

(b) The bank now enters its phased of consolidation. After two years of operation, the Bank had been able to establish its organisational structure and that of the group, its modes of operation, its accounting procedures and its legal framework into their proper places. The staff have also gained valuable experience. The Muslim community and the general public within the country have begun to become familiar with and appreciate the Bank's corporate and its facilities and services.

Raja Tan Sri Mohar Raja Badiozaman - (The Chairman of Board of Directors of B.I.M.B) said in Berita Harian; date-

19th. April, 1986; that up to 13th. March, 1986; B.I.M.B had a total deposit of \$543.3 million. The number of depositors had increased up to 102357 depositors in savings account, current account and investment account. From that amount, the bank had finance \$408.7 million into various form of operations for economic projects.

This shows that the public confidence in Bank has increased and the Bank activities also increasing. Thus, we can say that the Bank has been successful in tackling some of its obstacles.

(c) The Bank will continue to expand, especially with regards to its branch network, to bring its facilities and services within reach of as many Muslims and the population of this country as possible.

The task ahead is not going to be easy. This is especially so as the country is expected to continue to face economic slowdown at least within the next one of two years. In this scenarios, the Bank has set its aim to consolidate and expand judiciously. The outlook is therefore one of slow but steady growth, to be achieved with caution and prudence.

#### 1.4 SCOPE OF THE STUDY

This study was strictly restricted to information from the BIMB. Head office. No BIMB branches in states were consulted. There were no studies on comparison were made with other Islamic Bank at international level, such as Iran Islamic Bank or Pakistan Islamic Bank. So the scope is limited only in Malaysia context. It is assumed that the information and data obtained at the BIMB Head Office are sufficient to give a good account of B.I.M.B. activities at both <sup>N</sup>ational and local levels.

1.5 METHODOLOGY

The investigation was carried out largely through personal interviews with B.I.M.B. officers particularly with certain B.I.M.B departments or division such as Service Division, Financial Division and Operation and Management Bodies. The interviews were carried out in order to get a deeper understanding about every aspect that are being investigated. The main information source is the B.I.M.B. Head Office in Tingkat 9 & 20, Menara Tun Razak, Jalan Raja Laut, Kuala Lumpur.

The main data, chart and some numerical table were obtained from the secondary sources such as Bank Negara Annual Report, B.I.M.B. annual report.

Beside this, some of the data and information were obtained from journals, bulletins, statistical reports, magazines and news papers as well. This mainly provided background information for the major analysis in the study.

The theory part of the study and its literature were obtained from library research in I.I.U. (International Islamic University). This includes books, articles and paper essays on Islamic economic, Islamic banking and finance.

There were no data processing and hypothesis were done in this study because the main aim of the study is not to investigate the financial analysis of the Bank rather to study the problems and difficulties of the Bank in its operation activities. However, some data on the financial position of the Bank, some numerical statistic and several charts (will be) are attached to this project paper.

1.6 LIMITATIONS

Some of the information required in this study were not obtained since the bank are bound by legal act, could not gave detailed informations. This information especially on the investment part of B.I.M.B. The Bank could not give a detailed particular on the business activities that they undertake, because it is a secret of the Bank.

There were also insufficient articles on B.I.M.B and this made inquiries more difficult. In other cases, up-to-date information were difficult to obtain or unobtainable due to time lag between information and data collection and its publication.

Even though these exists certain limitations to this study, it is hoped that the analyses and conclusion derived will provide valuable insights of B.I.M.B. operations and its role in the New Economic Policy (NEP) as well as services and benefits to the Muslims in Malaysia.

## CHAPTER 2

### LITERATURE REVIEW

The Islamic banking movement has aroused world-wide interest, and the operations of Islamic banks have been the subject of discussion in the number of conferences, seminars and symposium in recently years. A number of books and articles have also been published on the subject. These discussions and writings have focussed on a number of sensitive issues relating to growth and development of Islamic banking movements. This chapter will briefly concentrate on some of the writers view on the problem of Islamic bank. We shall divide the problem as the following:-

#### 2.1 OPERATIONAL PROBLEM

##### 2.1.1 Mudhārabah

M.N. Siddiqi has reported earlier,<sup>1</sup> that the idea of interest-free banks is based on the Islamic legal concepts of shirka (partnership) and Mudharaba (profit-sharing).

A bank is conceived, in the first instance, as a financial intermediary mobilising savings from the public on the basis of Mudharaba, and advancing capital to entrepreneur on the same basis. Profit accrues are shared by the bank and the entrepreneur according to their mutual agreement. Liability to loss attaches to the financier only, the working party bear no part.

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1. Muhammad Nejatullah Siddiqi: "Muslim Economic Thinking: A Survey of Contemporary Literature, The Islamic Foundation, U.K. 1981, pg. 28-37.

As shown by Muhammad Al-Araby<sup>2</sup> all schools of Islamic Law are unanimous on this point. It follows that the loss incurred by entrepreneur will be borne by the bank. The bank has, however, advanced capital to a large number of entrepreneurs, diversifying its investments as far as possible.<sup>3</sup> Losses incurred on individual advances are likely to get absorbed by some of the profits accruing to the bank from the successful entrepreneur, as long as this remain as positive quantity.<sup>4</sup> But what if the net revenue of the bank is a negative quantity? This will mean a loss to be distributed equally on share of capital and Mudāraba deposits.<sup>5</sup>

The possibility is merely theoretical, both on economic and empirical grounds. But according to the nature of Mudāraba contract, the depositors in Mudāraba accounts do stand liable to loss should its occur.

Islamic economists in search of a viable alternative to interest-base banking have felt uneasy about this conclusion. They have sought to absolve the depositors of this liability in different ways.

The bank may build loss compensating reserves, out of its earning in good times, to meet any net loss in bad times, so that depositors can always be sure of getting their deposits back in full, if not with any profit. Any deposit insurance scheme may be launched with the banking of the Central Bank and participation of all banks and their depositors. This is the approach of Siddiqi<sup>6</sup>

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2. Muhammad Abdullah al-Araby: "Contemporary Bank Transactions and Islam's Views These on Islamic Thought". July 1967 pg. 10-43.
  3. M.N. Siddiqi: Banking Without Interest, Lahore, 1973 pg. 45-47.
  4. Ibid pg. 45-47.
  5. Ibid pg. 45-47.
  6. Ibid pg. 47-19.

and Irshad Ahmad.<sup>7</sup>

As regards the loss incurred by an individual entrepreneur on capital obtained from the bank, it has already been noted above that this attaches to the bank. Some scholars seem to question this principle on 'practical grounds', but we have not come across any reasoned statement of their case.

Another important question on Mudāraba is about the duration of the contract of Mudhāraba,<sup>8</sup> because after the expiry of that period, the profit of the business has to be determined. Akram Khan<sup>9</sup> gives two possible answers; One is that the duration of the contract itself and at the expiry of that period, the profit/loss will be ascertained. The other is that the year be divided into quarters or halves. The contract may be renewed after the expiry of each period and the accounts updated accordingly.

Dr. Ziauddin Ahmad<sup>10</sup> has laid out some misgivings on the practice of Mudāraba, claimed by some Muslim - Western oriented economists. They have pointed out that Islamic banking cannot be practised on an economy wide basis because profit/loss sharing, which is the essence of Islamic Banking, is impracticable in cases where, on account of illiteracy or other factors i.e. written records of transactions and accounts are not maintained. It is further pointed out that Islamic banks cannot perform all the banking functions on a non-interest basis in a world which is dominated by interest based transactions.

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7. Shaikh Irshad Ahmad: Interest Free Banking, Orient Press of Pakistan, n.d.
  8. Muhammad Akram Khan : "Issues in Islamic Economic" Islamic Publication LTD. Lahore - Pakistan, 1983. pp 53.
  9. Ibid pp 53.
  10. A paper presented by Dr. Ziauddin Ahmad, Director General International Institute of Islamic Economics, Islamabad "Some Misgivings About Islamic Internal Free Banking" 1985, pp 2-3.



Dr. Sobri Solomon <sup>11</sup> reported further that those oppositors against Mudārabah claimed that Mudaraba is restricted to those who are honest whereby these people who possess such a good conduct are very rare and difficult to meet in this modern world.

A lot more misgivings have been express about the viability of an Islamic Banking system. Islamic bank working on the principles of Mudārabah will be exposed to huge losses leading to their failure and insolvency. Apprehensions have also been expressed that Islamic Banks will experience frequent default and loss in their earnings on account of concealment of correct income by their clients which will undermine their stability. <sup>12</sup>

The fact that a number of Islamic banks have been operating successfully for the last several years shows that the apprehensions expressed about the viability of Islamic banking have not turned out to be true in actual practice. However, since Islamic banking is comparatively a recent phenomenon and conduct of Islamic banking on an economy wide basis is confined at present to only few countries, the limited emphirical evidence available so far cannot suffice to put all the misgivings beyond all controversy. <sup>13</sup>

Dr. M. Umar Chapra <sup>14</sup> added some points on the conceptual of Mudharabah. He said, Mudaraba banking which is not only riba-free but at the sametime also social welfare oriented is no doubt a challenge to Muslim bankers. Initially such banks will face problems, but with inegenuity and creativeness it should not be difficult to solve these problems.

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11. Dr. Sobri Solomon, "Bank Islam". Persatuan Ulama Malaysia (PUM) 1984. pp 111-113.
  12. Dr. Ziauddin Ahmad, op. cit. pp 3.
  13. Ibid, pp 3.
  14. Dr. M. Umar Chapra, "Toward a Just Moneytory System" The Islamic Foundation - 1985, pp. 68.

### 2.1.2 Supplementary Operations

It is recognised that some difficulties may be encountered in the practical application of the principle of Mudārabah. To meet such situations, resort can be taken to certain other methods of financing while are not prohibited in Islam.

- (a) Bai Muajjal (cost-plus trade financing).
- (b) Ijara (lease or hire)
- (c) Ijara wa iqtina (Hise Purchased)
- (d) Bai-Salam <sup>15</sup>

The council of Islamic Ideology give qualified approach to the use of Bai Muajjal (mark up) as a financing device but cautioned against its indiscriminate and widely use in view of the danger attached to it of opening a back door for dealing on the basis of interest. <sup>16</sup>

The above techniques, through far simpler to operate compose to Mudārabah, cannot be commended for widespread use as they cannot be any material assistance in achieving the socio-economic objectives of an Islamic Economy. <sup>17</sup>

In the above perspective, a question has been raised whether keeping in view the Islamic socio-economic objectives, the Islamic banks should have a preference pattern with respect to various modes of financing which are permissible in Shari'ah. It has been forcefully

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- 15. For detail explanation on each activity, see "Issues in Islamic Banking" by M.N. Siddiqi. Islamic Foundation 1983 pp. 137-142. See also "Bank Islam Malaysia Berhad" booklet 1985.
  - 16. "Concept & Models of Islamic Banking": An Assessment - A paper presented by Dr. Ziauddin Ahmad at the seminar on Islamization of banking 27-29 November, 1984 at Karaci. pp. 14.
  - 17. For socio-economic objectives of Islamic economy, see M.U. Chapra, op cit, pp 34-44.

argued by a number of writers that the zeal substitute to interest in an Islamic Financial System is mode of profit/loss sharing along with Qard Hasanal while the other techniques like Murabaha, Bai Muajjal, Ijara and Ijara Wa Iqtisna cannot be of equal significance in achieving the sosio-economic objectives of an Islamic economy. This is the approached taken by Dr. M. Umar Chapra,<sup>18</sup> and M.A. Mannan.

However, some scholars disagree with the above view. The fact that replacement of interest by a technique like 'Mark up' does not represent any substantive change becomes apparent if one ponders over the philosophy behind the prohibition of interest. The interest system is disallowed by Islam because intrinsically it is a highly inequitable system. The feature that makes the interest system inequitable is that the provider of capital funds is assured a fixed return while all the risk is borne by the user of these capital funds. It is easy to see, therefore that mark up system, and for that matter all other devices which involve a fixed predetermined return on capital, are no real substitutes for interest. It has also been pointed out that Bai Muajjal/ Murabaha are trade-specific practices rather than financing techniques. Their use may therefore be all right for those engaged in trade as a profession.<sup>19</sup>

### 2.1.3 Short term Loans

Supply of short-term loans to business and the related problem of bills of exchange deserve special attention in an interest-free Banking. It is hardly possible to assess the profitability of

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18. Ibid pp 163-165.

19. For an articulation of this view, reference may be made to a paper entitled "Concept & Models of Islamic Banking: "An Assessment"" by Dr. Ziauddin Ahmad. November, 1984.

very short-term credit intended to meet the liquidity needs of business, hence profit-sharing cannot be the basis of such advances. Services charge can be recovered from the borrowers. Banks can use part of their demand deposits for providing such credit. Some writers have argued in favour of charging some profits on advances made for a month or more, calculated on the basis of the firm's annual rate of profit. In case of bills of exchange involving a period of about three months it could well be possible to calculate the specific rate of profit relevant to the capital advanced.<sup>20</sup>

More crucial, however, is the allocation of short term loans. How can the demand be adjusted to the limited supply available ?

Siddiqi<sup>21</sup> suggests that the normal demand for short-term loans may be estimated with reference to the volume of long-term investments and the extent of trade credit and then the loanable funds available may be allocated by the banks among borrowers on the basis of the following principles.<sup>22</sup>

- (a) Specific credit needs of a firm.
- (b) Social priority of any enterprise.
- (c) Nature of security offered against loan.
- (d) Whether the applicant has also obtained long-term advances from the bank for the same enterprise.
- (e) Annual, monthly or weekly average of the applicant's balance in current account with the bank.

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20. See; M.N. Siddiqi "Banking Without Interest" op cit. chapter 4.

21. Ibid. Chapter 4.

22. See, Afzal-ur-Rahman "Economic Doctrines of Islam" vol. 4 Islamic Publication, Lahore, Pakistan 1979. Chapter 5, no. 8. See also Dr. M.N. Siddiqi.; paper read at the Economic Conference organised by the Islamic Council of Europe in London in April, 1977.

#### 2.1.4 Consumer Credit

Consumer credit has been envisaged for Islamic Banks in relation to facilitate the purchase of durable goods by consumers who can pay for them only in easy instalments.

The issue of consumer credit is generally unresolved and no satisfactory procedure is available for some consumption loans. Uzair<sup>23</sup> has suggested that the bank should finance the supply side and share profits with sellers. He has also suggested that borrowers should be charged a service fee to meet administrative expenses.<sup>24</sup> Some scholars disagree with this proposal.<sup>25</sup> Since the bank is sharing profits with the sellers there is no justification for charging the borrowers a fee.

But there remains the problems of default by borrowers on such loans. In advanced nations finance charges are a reflection of the risk premium which is always adjusting to the rate of default on such loans.

In the new system this problem can be avoided in many cases by acquiring ownership of consumer durables during the loan repayment period. However, this problem cannot be eliminated altogether. Only in the long run can the bank/borrower relationship be strengthened through the build up of reputation. Stiff penalties may be a partial solution.<sup>26</sup>

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23. Muhammad Uzair "Interest Free Banking" Royal book Co. Karachi, 1978. pp 34.
  24. Muhammad Uzair "Some Conceptual and Practical Aspects of Interest-Free Banking" in Studies in Islamic Economics.
  25. See; M.N. Siddiqi "Issues in Islamic Banking" op cit. chapter 1, pg. 29.
  26. See Wagar Masood Khan "Towards an Interest-Free Islamic Economic System". The Islamic Foundation U.K. 1985. pg. 88.

### 2.1.5 Credit Creation

The issues of credit creation has been discussed in great detail during the seminar on 'Monetary and Fiscal Economics of Islam,' Makka, 1978, by many scholars i.e. Chapra, Ariff, Uzair and Muhammad Saqr. Unfortunately the papers presented in the seminar is not available at the time where this chapter were carried out.

However, other scholars i.e. Monzer Kahf has also discuss the topic.<sup>27</sup> He said, credit has to be created to meet the society's growing need for means of exchange. Kahf<sup>28</sup> insist however, that it must not be left to the commercial banks as it enables them to reap unjustified profits. Creation of money by commercial banks is bound to be inflationary as these banks are motivated by profits and not be public interest. The power to create credit should therefore, belong to the Central Bank which is moved by public interest.

Chapra<sup>29</sup> focuses attention on the difference between the return on or purchasing power of created money and the costs incurred in its creation, from society to commercial banks. The question arise is who should benefit from this credit creation? Chapra<sup>30</sup> then proceeds to suggest ways and means through which this can be arranged. One of these ways is to consider the total of derivatives deposits as Mudāraba advances by the Central Bank to the commercial banks. Part of the net income arising from derivatives deposits will thus pass on to the state to be used for social welfare.

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27. Monzer Kahf "Islamic Economy" The MSA, Plainfields, Indiana 1978. pp 73.

28. Ibid.

29. M.U. Chapra "Toward a Just Moneytory System" op cit pp 93-94; 190-193.

30. Ibid; pp 193-194, 200.

### 2.1.6 Liquidity

Liquidity is vital for the bank for it must be able to give its account holders cash on demand without delay.<sup>31</sup>

Afzal-ur-Rahman<sup>32</sup> suggests that the best way for the Islamic Bank to earn some profits from its liquid funds and maintain their liquidity as well, will be to buy Government industrial shores and shores of different industrial and commercial firms. This diversification of investment will ensure an over-all profit at all times. If there is a loss or no profit or some shores, it will be neutralised by profits on others. It is always the best policy to spreadout investment by buying various types of shores in the market to avoid the risk of loss.

## 2.2 MANAGEMENT, ENVIRONMENT AND CONCEPTUAL PROBLEMS

### 2.2.1 Environment Problem

Islamic banking is probably easier to be establish and operate in an Islamic framework. But for countries where an Islamic social and economic system is not operating, Islamic banking will be a new project - a project of study, appraisal and establishment of viability within the major constraints of :-

- (i) risk and uncertainties,
- (ii) international inflation and
- (iii) requirement of rapid development in the populours poor

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31. For detail concept of liquidity see, M.N. Siddiqi "Banking Without Interest" op cit; chpater 6.

32. Afzal-ur-Rahman op cit; pp 356.

developing countries in Asia and Africa. <sup>33</sup>

Banking and finance will be one subsystem to be so radically readjusted as an innovation in an environment of highly entrenched different traditions. The establishment of viability on Islamic Banking as a new subsystem will not only imply this specialized study of the area only; the interrelationships with other subsystems as such can hardly be ignored. It is in the latter considerations that the success of the new innovation of the subsystem of Islamic banking will depend. <sup>34</sup> This situation is called 'internal pressure'.

With the tremendous technical and scientific advancement, the geographical boundaries of a nation based on customs or traditions have become immaterial. The very survival of a nation, be it rich or poor, now depends on its relation with outside world. It is mean to say that a single nation for its own interest or for the interest of its people, must seek cooperation of other countries regardless of their faith and moral values. <sup>35</sup> Assuming this inter-dependence among nations, and we have to implement an interest-free banking particularly when we have financial involvement with other countries having different values. This is called the 'external pressure'.

Dr. M.A. Mannan added further that present concept of nationalism is certainly a retarding factor in the way of effective co-operation for the fullest utilisation of resources.

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33. Professor M. Raihan Sharif "Islamic Banking: Environment, Conception and Methodology" in "Thoughts on Islamic Banking". Islamic Economic Research Bureau. Dacca, Bangladesh. 1982 pp 57-58.
  34. *Ibdi*; pp 58.
  35. Dr. Ataul Haq "Interest-Free Banking" - Thoughts on Islamic Banking. op cit; pp 78-79.