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Bankers Research Unit
Banking Structure and Sources of Finance in the Middle East
The Financial Times Business Publishing Ltd., London, 1983, 220 p.

and

Traute Wholers-Scharf
Arab and Islamic Banks: New Business Partners for Developing Countries
Development Centre, O.E.C.D., Paris, 1983, 222 p.

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The past decade has witnessed significant developments in the banking structure of the Arab World. The emergence of OPEC, the increase in oil revenues and accumulation of large reserves, led not only to an overall boom of economic activity in the petroleum exporting countries but also necessitated development of various financial and banking institutions. There was a need of new institutions to meet the requirements of accelerated financial transactions and to achieve the integration of national financial systems with the international monetary system. The development of various national banking institutions in the Arab World and establishment of several consortium banks was a response to this new situation.

Another significant development in the area has been the emergence of various Islamic Banks. The Islamic Banks differ from national and international commercial banking institutions in their ideological outlook, which involves serious implications for their business practices. During the last ten years, a number of Islamic banks have been successfully established and at present more than 30 Islamic Banks are functioning in different parts of the World.

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* The views expressed in this review do not necessarily represent the views of the institution where the reviewer is working.

A few years ago, any Western banker or economist would have quickly dismissed the idea of an interest-free bank branding it as unviable and as a demonstration of wishful thinking. However, after the successful operation of some of the Islamic banks, the Western world finds itself compelled to take serious notice of Islamic banking.

The two books under review here reflect the change in the attitude of Western bankers and intellectuals towards Islamic banking. The book entitled *Banking Structure and Sources of Finance in the Middle East* has been edited by the Banker Research Unit of the Financial Times Business Publishing Ltd. and provides general and economic information, basically in the form of a directory, about banking and financial institutions in eleven Middle Eastern countries including Saudi Arabia, Bahrain, Qatar, UAE, Oman, Kuwait, Iraq, Syria, Lebanon, Jordan, and Egypt. The scope of the directory has been kept quite large as various types of banking institutions such as commercial banks, central banks, investment banks, offshore banks, specialized financial institutions, and international aid funds, all have been included. Four Islamic banking institutions have also found place in this directory. These are: Islamic Development Bank, Jeddah; Nasser Social Bank, Cairo; Faisal Islamic Bank, Cairo and Islamic Bank International, Cairo.

The directory provides information about the structure of banking system, capital market, bond market, government funding agencies, private commercial banks, exchange controls etc. It also gives a historical account of development of the banking system in each country (which has also been occassionally skipped) and describes various social and legal constraints under which the banking system in each of these countries has to operate. All the information has been presented on a country-wise basis, thus each chapter of the book deals with a separate country. At the end of each chapter a list of banks operating in respective countries has been provided. This directory should be a useful source of information not only for bankers, financial analysts, and those who have commercial interests in the Middle East but also for the students of Arab and Islamic banking. One only wishes that more Islamic banks could have been included in the directory. Except the Islamic Development Bank, all Islamic banks mentioned in the directory are located in Egypt. The inclusion of important Islamic banks in Kuwait, Jordan, Bahrain, and Dubai would have added to the usefulness of this book.

The second book under review is entitled *Arab and Islamic Banks* written by Traute Wholers-Scharf and published by the Development Centre of the Organisation for Economic Cooperation and Development. This book is more analytical in nature and has been divided into three parts. The first part deals with the Arab Banking System; the second with the rise of Islamic banking and the third with the business-oriented cooperation with LDCs. The book has been appended with twelve annexes, but most of these provide statistical information on Arab Banks, Arab Occidental consortium banks, petro capital banks etc. Only one of the annexes deals with Islamic banking, providing profiles of Islamic financial institutions. The book also contains a comprehensive bibliographical guide which has added to its usefulness.

Wholers-Scharf refutes the idea that the rise of Islamic banking is a direct result of increase in oil prices. "The idea of interest-free banking and the first pilot banks predate Middle Eastern oil wealth by decades (p.11)". The capital structure of Islamic banks also reveals and supports this. Among the top 30 Arab banks ranked by equity, not a single Islamic bank appears. The authorized capital of most of Islamic banks ranges from 10-20 million dollars, occassionally rising to 40-50 million dollars, but that of Arab banks is in hundreds of millions of dollars. Hence, it is clear that Islamic banks have a very small, if at all, share of petro capital.

The author's evaluation of Islamic banking seems to be positive, sympathetic and honest in saying that "They (Islamic banks) have attracted hitherto untouched segments of the Muslim population which, for religious reasons, had stayed outside financial circuits. Islamic banks have generated sizable profits for their share holders and investment-account clients within a short time and none has so far closed down. This seems to indicate that the concept of interest-free finance can work in a modern context (p. 11-12)".

Part-II of the book which deals with the rise of Islamic banking has been divided into three sections: The Theoretical basis, Practical applications and Prospects for the eighties. The first section dealing with the theoretical basis is further subdivided into two subsections, one of them dealing with the underlying concepts of Islamic economics and banking. In this section, two distinctive features of Islamic economics, viz. prohibition of interest and imposition of *Zakah* have been briefly reviewed. The second subsection has been devoted to a review of institutional and intergovernmental efforts in the field of Islamic economics and banking. Particular mention has been made of the establishment of the Islamic Development Bank, the International Association of Islamic Banks, and the International Institute of Islamic Banking and Economics.

The rest of the chapter provides information about the evolution of existing Islamic banks and Islamic investment companies. The Islamic financial instruments of *Musharakah* and *Mudarabah* have been explained in one section and a separate section has. been devoted to Islamization of the entire banking sector in Pakistan. The last section gives the potentialities of cooperation between Islamic banks and other banking systems. In the author's opinion, the significance of Islamic banking for the LDCs is that it emphasizes productive investment. It may be of some relevance to industrialized countries also, mainly because entrepreneurs in the industrialized countries are short of risk capital; although loan capital is available at high interest rates.

Nevertheless, Wholers-Scharf seems to have committed some lapses. She states that there is widespread neglect of Western-style banking which operates on the basis of interest/Riba. In this connection, she is so specific that she claims that, "it has been estimated that some $80 b are sitting idle in Muslim countries. If Islamic banks could attract broader segments of the Muslim population, which have till now considered Western-style banking with distrust, it could mobilize this capital into productive outlets (p. 76)". While her assertion that Islamic banks could be instrumental in bringing out the capital - hidden for religious reasons - is unquestionable, the exact amount of hidden capital mentioned by her may be looked on with suspicion. Particularly so, when even it is not mentioned how this estimate was obtained or who `did' the estimation.

In her elaboration of Islamic economic principles the author is not very precise. About *Zakah* she writes, "It is levied on traded goods and revenues from business and real estates, but not on personal property like houses, furniture and jewellery. Computation is complex: as a rule, peasants pay anywhere from 5 to 10 percent on their produce, while the rest of the population contributes 2.5 percent of their revenues or on certain financial assets (p.76)". This is not the place to go into details of economics of *Zakah*, or its method of computation However, in order to put the record right it appears to be necessary to state that almost all major schools of Islamic jurisprudence agree that jewellery made of gold and silver is not totally exempted from *Zakah* although personal belongings such as clothing, utensils, furniture, and the house in which one lives are exempted. It has been stated that *peasants pay any where from 5 to 10 percent on their produce*. This gives the impression that *Zakah* rates are variable. But this is not the case at all. *Zakah* rates on agricultural produce are fixed and the peasants pay either 5 or 10 percent of their produce if the produce exceeds a prescribed minimum depending upon the nature of their land, viz. whether it is irrigated by well or by natural rainfall. The author has made a sweeping generalization by observing that "the rest of population contributes 2.5 percent of their revenues or on certain financial assets". This implies that laws of *Zakah* create a dichotomy between the peasants and non-peasants (rest of the population) in the sense that one group pays 5 to 10 percent of their produce and the other pays 2.5 percent. Nothing shall be farther from truth. The Islamic *Shari'ah* does not advocate any such dichotomy. In fact, *Zakah* rates are given for different items and in each case an exemption limit has been specified. It is based upon a classification of goods, and not upon the classification of people.

The author's treatment of Islamic banking, its techniques, its role and future is far more balanced and informed. Few would have any disagreement with the author for the suggestion that Islamic banks should concentrate on specific groups of entrepreneurs e.g. small and medium-sized innovative enterprises in the industrialized and developing countries. The author has concluded that "Islamic banks could mal e a useful contribution to economic growth and development, particularly in a situation of recession, stagflation and low growth levels, because the core of their operations is oriented towards productive investment (p.95)".

In short, the book provides a lucid account of the current scene of Islamic banking, although its main emphasis is on narration and description and not on analysis. Nevertheless, the book should be welcomed for its positive and unbiased approach. One hopes that more works of this type shall be forthcoming as Islamic banking makes further progress.