Business School

WORKING PAPER SERIES

Working Paper

2014-093

Islamic finance: a review of the literature

Jean-Yves MOISSERON
Bruno-Laurent MOSCHETTO
Frédéric TEULON

http://www.ipag.fr/fr/accueil/la-recherche/publications-WP.html

IPAG Business School
184, Boulevard Saint-Germain
75006 Paris
France

Islamic finance: a review of the literature

Jean-Yves MOISSERON, Institut de Recherche sur le Développement (IRD), France
Bruno-Laurent MOSCHETTO, University of Valenciennes, France
Frédéric TEULON, Ipag Business School, France

ABSTRACT
In recent years, a number of Islamic banks have been created to cater to the growing demand, driven by globalization and the vast wealth of some Muslim states in the Middle East and Southeast Asia, and Islamic finance has moved from a niche position to become a mainstream component of the global banking system. Islamic banking refers to a financial system which is consistent with principles of Islamic law (or 'sharia') and guided by Islamic ethics. A large amount of research has been undertaken into this subject. This paper presents islamic finance's role in the new world order.
Keywords : Islamic finance, Islamic banks.

INTRODUCTION

The history of Islamic thought is an ocean, which has produced many interpretations, many theories, debates, and controversies. Islamic thought is very rich and was able to address the problems met by Islamic societies. We want to insist on one point in particular. Islamic thought always mirrored the challenges Islamic societies had to face. Islamic thought has been clearly connected to the contemporary problems Muslims intellectuals had to deal with. This point is important because it shapes the possibilities for present-day Islamic thought to address the Crisis of Capitalism.
This article presents the major themes addressed by literature on Islamic finance and its ability to adapt to changes in the outside world: section 1 distinguiches several phases of the islamic thought's history, section 2 presents definitions and theoretical foundations, section 3 major financial operations, section 4 deals with Islamic banks, section 5 focuses on the banking and financial regulation and section 6 describes the future prospects.

HISTORY

Let's go back first to the different phases of the Islamic thought's history.

The first phase

In the first phase during the 19th century, the crucial question was: How to reform traditional Islamic societies to compete or resist the Western cultural and material domination ?
As noticed in Abdel Rahman el Jabarti, who were describing the invasion of Napoleon in Egypt, The West was not a dominant power by the technology only but also by a vision of the World (Al-Jabarti, 1975). It means a set of fundamental assessments, which underpin capitalism. Many Muslim intellectuals understood that reforms would need a change in the general vision or ways to apprehend reality. Old vocabulary which insists on "otherness" of the West (for ex. *Al ifranj, rum, kafir,* could not longer serve to understand the transformation. New conceptions and new vocabulary were necessary. For example, the very term *ummah* which refers to the community of Muslims was not relevant describing either the emerging nations (Egyptian, Syrian,;) nor the very concept of society. Islamic thought had to describe "societies" functioning in its inner logic. Changing a society needs to view it as a social device and to understand its logic. So many questions arose. For example, one of the

question was: How to change property structure in order to foster efficiency? How to introduce a part of private property especially in rural societies in order to improve the production but at the same time respect the rulings of sharia and the idea that land is a resource given by God as a trust?
Another important problem was concerning the educational system. It was clear that the innovative transformations needed new skills and competences. But Education had to be also a bulwark against all the dangers of the rationales behind the capitalist transformation. This would counteract the disintegrative tendencies of modernity. It is interesting to see that both property and educational issues participated in the construction of the individual as a central category of thinking and also in practice. It means that Jabarty's thought is elaborating on one of the main characteristic of modernity, i.e. individualism.
If some intellectuals were very attached to the tradition and mainly worried by the compliance of new rules with the *Sharria*, many others considered that the development of Muslims countries and the material well being of Muslims would be the main criterion for reforming the society. It is the case for example of Jamal Ed-dine al Afghani (1838-1897). In some case the benefit of the Muslim community as a whole was considered as much important as the strict respect of the rulings of *Sharia*. So the first phase of Islamic thought during the nineteen-century was mainly devoted to create a new set of concepts and even a new vocabulary to adapt the traditional Islamic society and to challenge the intrusion of the West.

The second phase

The second phase, at the end of the 19th Century took place in the emancipation process of the Arab world. The question was: How to imagine an alternative and portray an Islamic society in the wave of decolonisation. The opportunity was given not only imagine but implement an Islamic society in practice independent from the Western Power.
The first fear during that period focused on the disintegration of moral values embedded in the development of capitalism and the pressure for accumulation and commodification. Sayyid Qutb wrote for example after visiting the United States:
"Americans are like machines swirling round madly, aimlessly into the unknown...That they produce a lot there is no doubt. But to what aim is this mad rush? For the mere aim of gaining and production. The human has no place if their life is neglected… Their life is an everlasting windmill, which grinds all in its way: men, things, place and time…."[1]
This quotation indicates, that the idealistic Islamic society would then present a set of characteristics very different from materialistic-oriented capitalism. Values as social solidarity, cooperation, redistribution, attention to the poor had to restraint from the excess of a set of values shaped by individual interest and lack of concern to the community.
Of course, the State appeared as the main institution, which could at the same time undertake deep changes in the organisation (property, education), resists with military means, destroys the old social order based on traditional authorities and finally organises a welfare state. The State appeared to be able to shape a society, which conforms to Islamic values, and respond people demands. That is why endeavours to define an Islamic socialism articulated with the welfare state were so pregnant.
The solution advocated by many writers was to establish a "true Islamic socialism" based on brotherhood and collaboration modelled on the example of the Prophet Muhammad. Contrary to the western socialism, solidarity in an Islamic state would be based on the acceptance for all individuals of their position in the society. Solidarity means that everyone can pretend a place in the society but following the order decided by God. Islamic socialism is far from egalitarian thought of the Western socialisms and must understood in the framework of a conservative society. It could then appear as a

[1] Sayyid Qutb, « Humanity needs us, (in English, tr. M. Hafez, Al-muslimum 3/2 (December 1953, pp. 3-4, quotated in Tripp C., *Islam and the Moral Economy, The Challenge of Capitalism*, Cambridge University Press, 2006, p. 230. The present article has a debt toward the very detailed work of Charles Tripp who presented the evolution of Muslim Thought in

“third way”: “which strikes a perfect balance between the claims of the individual and the community-moderating the extremes of capitalism and communism, respectively”[2].
For Mohammed Abdu Islamic socialism would prevent from the excesses of both capitalism and western socialism. Islamic socialism tries to affirm Islamic values of share and redistribution but avoided at the same time the secular models implemented in the communist countries. Islamic socialism appeared as a third way but it turns more to an Arab socialism that was clearly secular and more and more reluctant to use the Islamic rhetoric except for cosmetic reasons.

The third phase : islamic economics

By the early 70s, it was obvious that the kind of Welfare state promised by centralised states based on nationalist ideology was disappointing. It didn’t reach a level of development that would bridge the gap with Western countries. State control of the economy led to a fall in productivity, unemployment and inability to raise the technological level. On the contrary conflicts and defeats with Israel demonstrate how weak Arab countries were. But from an Islamic point of view, the project of Islamic socialism turns to a nationalist socialism and authoritarian populism. The price Islamic values had to pay to accept secular-oriented states was much too high.
That is why a new body of ideas appeared in the 50s with the notion of “Islamic economics”. It was the device to develop an alternative order, founded on Islamic principles, which would not depend on a socialist state but rather on individual entrepreneurship. The aim was to insist both on Islamic ethic and at the same time on efficiency and material progress. The figure of the “Islamic business man” emerged as a model of success: a person that could at the same time be successful in his material life, doing business and also be successful in his spiritual life. One may also consider that material success were the sign of a divine agreement. This has been remarquably illustrated by Patrick Heanni in his describtion of new Islamic predicators as Amr Khaled in Egypt (Haenni, 2005).
But this focus on individual entrepreneurship relies on the importance of accepting the rules of sharia. That is why a large effort of interpretation of the traditional laws on trade, finance, property, and interest occurred at that time. The problem was, how to prevent growing economic transaction from unleashing force of human nature that would lead to acquisitiveness. That is why the main topic became the Sharia compliance. The new deal was: to make money and business is acceptable only if rules that guaranty the halal lawfulness or the legality of the transactions are respected.
It means that “Islamic economy” reconcile what was previously antithetic: What was not acceptable until the 50s for Islamic intellectuals was the fact that material private interests were the driving force of human behaviours. This ideology that began with Adam Smith was revolutionary at his time and strongly criticised even in Europe. It was the same for the Islamic thought for a long time. That is why “Islamic economics “represents a turning point in the 70s. It makes compatible was not compatible previously. This must be linked with the raising revenues allowed by the oil price rise in the 70s. First of all, it balanced the power between some of the Arab countries and the West. But it fuelled also the need for an organised banking system, which will be able to manage the petro dollars. It is why the Islamic Finance became a predominant issue in the Islamic economics.
The history of Islamic finance begins with the emergence of Islam in the 8th century and its very rapid dissemination from China to the Morocco. This history has been recorded in the Koran and the Sunna, in the corpus episodes of the life of the Prophet Muhammad, as they have been related and transcribed, defining a number of precepts. With the expansion of Islam on vast territories, and the increase of trading around the Mediterranean from the 10th century, Muslim traders have made an important contribution to the creation of banking operations. In so doing they inspired the development of the finance sector in the Italian peninsula at the end of the Middle Ages (Chachi, 2005), even if there was a pre-Islamic finance: commercial relations between the Assyrian Empire and Egypt, credit operations around the Mediterranean, etc. (Udovitch, 1975). This immersion in the past seems

[2] (Tripp, 2006) p.98

to be a necessary step to understand the specifics of Islamic finance. Inspired initially by common principles amongst other religions, including the question of the prohibition of usury, after the Middle Ages the Islamic finance remained on the side lines of the capitalist financial development. But, for the last 30 years, it has been emerging again, based on teachings bequeathed by a still living tradition and arises as an alternative to the conventional banking and financial system.

Many countries today have a dual banking system in which there are Islamic banks alongside traditional banks. The creation of the Dubai Islamic Bank in 1975 was followed by the appearance of many banking institutions that operate on the principles of Islam (Cox, 2002). This development of Islamic finance is in connection with the recycling of petrodollars used in the beginning of the 1970s, with the resurgence of pan-Arabism (Egypt) and Wahhabism (Saudi Arabia). Some countries, like Pakistan and the Iran have even attempted to apply interest-free financial systems to fully comply with the precepts of the charria with all the problems and challenges that this represents (Zaher & Hassan, 2011)

Over the past three decades the number of Islamic banks has significantly increased with a strong presence in Maghreb and the Persian Gulf countries. According to the *Global Islamic Finance Report* (2010), there are more than six hundred banks of this type, present in nearly fifty countries.

First considered an "exotic segment" reserved for Muslims, Islamic finance has become a type of organization that can no longer be ignored (Jouini & Pastré, 2008). In Western countries, far from representing an alternative to the current financial capitalism, it is more a response from conventional banks so as to mobilize future local savings of Muslims and to attract sovereign funds issued from oil surpluses of Gulf countries (Wilson, 1999). Matthews & al. (2003) point out the important potential of the Islamic mortgage market in the United Kingdom (the centre of Islamic finance in Europe). As London is aspiring to become the first Islamic financial centre in Europe, France is also trying, with some difficulty to position itself in this field/sector. Moreover, it may be noted that the Islamic economic law is much closer to the French law than to that of the Anglo-Saxons. This is especially true for the protection conditions of contracting parties in case of a strong imbalance and abuse of one of the parties.

For some countries in the Maghreb and Mashriq region, Islamic finance can become an important component in the financing of national economies. However countries such as Algeria or Tunisia lack executives and bankers that can master instruments conforming to the principle of Islam.

Therefore Islamic finance is directed towards:

- To Muslims who want to be in accordance with their religion. Let’s remind ourselves that the world has 1.6 billion Muslims living mainly in Asia (Indonesia, Pakistan, Turkey, Malaysia…), in the Maghreb (Algeria, Morocco…) and in the Mashriq countries (Egypt, Iraq, Jordan…) ;
- To those who are looking for a financial system based on ethical criteria;
- To entrepreneurs in developing countries that cannot find in the conventional financial system the means to fund their investment projects.

DEFINITIONS AND THEORETICAL FOUNDATIONS

Islam is a monotheistic and Abrahamic religion that is part of the inheritance of Judaism and Christianity. The Koran is impregnated with a number of Biblical stories and the Muslim creed requires the acceptance of previous Scriptures (the Torah and the Gospel). The revelation of the single God as received by Mohammed is in line with that received by Abraham, Moses and Jesus, recognized as prophets in the Islamic religion as the authentic bearers of a tradition that Islam is wanting to complete. Muslims recognize themselves as also being of the same lineage of Ishmael (son of Abraham).

Islamic finance is inspired by the religion and is based on sacred texts. It is therefore specific (tables 1 and 2). This refers back to the question of faith but articulates around the rationality within practical and ethical considerations. It is a financial system that is often claiming its specificity on the basis of equity, solidarity and stability (Siddiqi, 1967). Yet, many principles or tools are basically not far away from conventional financial system. From this a series of questions arise in the literature which refers to the question of similarities and differences between both, Islamic and conventional financial systems (Ben Bouheni Faten,) 2001.

Islamic finance is often defined by a central characteristic: the prohibition of lending at interest. This financial system meets old concerns leading to usury condemnations (Blitz & Long, 1965 ;) (Visser & McIntosh, 1988) that are not specific to Islam. The conviction of the chrematistic is based for Aristotle on the irrationality of loans with interests. But we can find this prohibition in the Bible, specifically in the Pentateuch, in exodus (Chapter 22, verse 25) and Leviticus (Chapter 25, verse 34 to 46). But unlike Islam, other monotheistic religions have abandoned this principle with the development of capitalism. The Jewish prohibition of interest was lifted for debtors that did not belong to their community. If in the 14^{th} century, excommunication was the punishment for those who engaged in loans with interest, canon law finally allowed the principle of interest in 1830. Even still today remains laws in a number of countries which limit interest rates. This is the case in Canada as their criminal code stipulates that it is illegal to lend money with an annual interest rate higher than 60% (Martens, 2001). Traces of this moral condemnation (regarding interest rates) still remain in France within the judicial bankruptcy procedures, which prioritises the repayment of debts, where interest is due.

The quoted texts by Muslim legislators do not really lift the ambiguity between the concept of usury and that of interest. The Arabic word *riba'* which comes from the verb *raba':* increase, seems very general. But it is known that the Prophet Mohammed condemned in particular what is today called the *riba' el-jahiliyyah* (the *riba'* of the age of ignorance) a practice that doubles the amount of interest by doubling the loan period in case of any payment delay. This practice was putting debtors already in difficulty or in even greater difficulty. There are therefore discussions in the interpretation which may be made of this prohibition, with fairly contrasting or controversial opinions even within the most legitimate and the most qualified Islamic representatives. We can refer ourselves to the disclaimer made in 2003 by the Institute of Islamic Jurisprudence of the Qatar in a legal opinion issued by the Islamic Institute of al-Azhar in 2002. It shows how the same texts can be interpreted differently (Gamal, 2003). Omar Farouq (2009) has every reason to ask himself if the sacred texts rather have the definition of *riba'* or if it leads on to an enigma.

The difficulty increases even more in difference between uses and definitions. The study of forty years of Islamic finance shows nevertheless that there is a gap between the principles dictated by the Sharia and banking practices (Siddiqi, 2006). The history of Islamic finance indicates innovation where the aim was to lift the prohibition of interest in a number of ways.

Muslim ethics in financial matters emanate from the sacred texts and their interpretation:

- Koran (Holy Book);
- Sunna (the interpretation of the acts, the words and the life of the Prophet);
- Fiqh (jurisprudence).

For some authors, this ethic is not part of the usual perspective of economic science (Abdul-Rauf, 1979; Khan & Mirakhor, 1994) although moral considerations were a constant in the classical political economy. Despite all of this, Muslim economy is a paradigm in its own right (Presley & Sessions, 1994) and poses the question of the relationship between religion, human and economy (Sauer, 2002). This moral economy is rooted in morality and common sense that form the basis of many religions (Memon, 2007). It states that the economy must be a means to achieve a level of collective wellbeing and that the financial system should be at the service of the economy and not the other way around. This situation is meeting a rise of criticism which is based on the irrationality of a worldwide economical approach to finance, as well as ethical concerns expressed outside the Muslim contexts.

More profoundly, this ethic also takes its source in the belief that all human beings are the servants of a single God who is the creator of the universe, that they are all brothers, and that any resources assigned to them are intended to be used in a fair manner and for the well-being of all. As a last resort, humans are the representatives of God on Earth and they must consider the universe as a resource and a benefit that must be preserved. Ultimately, humans are not the owners, (the ultimate owner being God) but the repository of resources.

This ethic manifests itself in the financial system through three major principles (Hasan-uz-Zaman, 1997):

- Prohibition of interest, the riba' (Sied & al., 1999; Chapra, 2000; El-Gamal, 2003). Islamic banks are not authorized to offer fixed interest and /or predetermined rates on deposits and they are not allowed to charge interest on loans. From this fact, the perception of a predetermined fixed rate, completely disconnected from the actual performance of the underlying asset, is not lawful. The interest is replaced by a sharing of profits and losses (Profit and Loss Sharing principle, PLS), which reduces the antagonism between the providers of capital and those who thrive of it by their work and expertise. The lender and the borrower must agree to share the risk, the losses and profits. Every fund holder must be exposed to the risk of loss to legitimate his gain. The two parties must engage in a transaction that is fair and have to exercise activities that go towards public wellbeing. The moral dimension of this prohibition is essential and is rooted in sacred texts or the principles of Islamic law: the Koran, the Sunnah, theijma (consensus) and the qiyas (the principle of analogy) (Saeed, 1995). Note that Islam is not opposed to profits as a counterpart for the entrepreneurial effort and to the commitment of capital in productive operations (in fact, the search for this type of profit is even encouraged);
- The ban of *garhar*, of *maysir*, of uncertainty and of chance, which gives rise to speculation. The calculated risk of an investment is permitted, but not the speculation, hence the constraint of combining all funding to tangible assets (the asset-backed principle). Example: an investment can be financed by an Islamic obligation secured by a building, which will result in a cash flow of rental income generating a compensation for the creditor, but the securitization of the transaction is prohibited. However, there remains a certain ambiguity about where exactly begins uncertainty and chance.
- The prohibition of financing of activities regarded as illegal, *haram*, by Islamic law, such as games of chance (no casinos), prostitution, the production of weapons or alcohol, swine industries... It is the responsibility of fund owners to know how their money will be used. This exclusion principle is also found in ethical finance in favor of sustainable development and in socially responsible investments.
- The truth and sincerity in transactions. It is prohibited to conceal manufacturing defects or to lie on the nature of the goods or their origin. In general, any transaction must be beneficial to both parties and must not induce a dependency, a nuisance, or be obtained by the weakness of one of the parties. Women and orphans are particularly protected. If it is possible to sign the

contract before witnesses, the respect of one's word is also essential. The warning texts of the Koran to those trafficking for example scales are many. It is constantly reminded that God is omniscient and any deception will be sanctioned in the beyond or below.
The principles of respect alter the classical scheme of banking intermediation (El–Hawary, Grais & al., 2007). Islamic banking intermediation naturally presents specificities with regards to mobilization of funds, which in turn modifies the passive structure of a balance sheet compared to conventional banks (Jobs, 2007). There are two types of accounts: UPSIA (Unrestricted Profit Sharing Investment Accounts) and RPSIA (Restricted Profit Sharing Investment Accounts). In the first type, the applicants authorize the Islamic Bank to invest the funds as they see fit without setting any restriction with regards to the place, the where about, the how and to what purposes funds will be invested. In the second, the applicants impose certain restrictions, including how and to what purposes the funds can be used.
Islamic finance is therefore a paradigm as such with its ethical principles, its system of law and interpretation that allow some adaptation to modernity. It is also based on specific instruments and financial operations that are developed with time but that are now multiplying.

THE MAIN FINANCIAL TRANSACTIONS

Certain Islamic financial transactions are old (they exist since the Prophet's time) others have emerged with the establishment of Islamic banks in the 70's (Causse, 2010). Islamic finance does not impose any ethnic or religious discrimination in investment decisions. This gives a central role to case laws, to the extent that there is no single or universally accepted definition of *sharia compliant* products (complying with the Koranic law).
There are more than ten types of investments proposed by Islamic banks. It's possible to distinguish two categories of financing techniques: those that are based on a participatory financing *(Mudhâraba* and *Musharaka)* and those based on an asset (*Murabaha, Ijara* and *Ijara wa Iktina*).
It is possible to apply to Islamic financial transactions, assumptions usually used in an economic analysis: rationality of agents, contract optimization, asymmetric information, reciprocity in the exchange… (Metwally, 1985; Mirakhor & Ul-Haque, 1986; Bashir, 1996). Beyond these religious constraints, Islamic finance can offer equivalent financial products and derivatives, but within a smaller product range (Kamali, 1999; Honohan, 2001). The Bank's point of view as well as the entrepreneur's seeking to finance an investment project can be formalized as follows (Nienhaus, 1983):

$P^{Int} = R - CT - I$ [Conventional finance]

with

P^{int}: the contractor's profit in a loan system based on the payment of interest.
R: total income (revenues=CA)
CT: total cost except the payment of interests
I: the cost of the interest

$P^{PLS} = R\text{-}CT - p$ [Islamic finance]

with

P^{PLS}: the contractor profit in a PLS system
p: profit shared with the Bank

p = α (R-CT), "α" the ratio that defines the sharing of profits (this coefficient gives the value of the part which is attributed to the Bank).

The distinguishing aspect of Islamic banking is that the bank shares the uncertainty in the value of (R - CT). Therefore, the reference for the Bank:

α [β(R - CT)], with β the likelihood of profit equal to R - CT.

If I = p: the two systems of financing are equivalent.
If I > p: customers turn away from conventional finance
If I < p: customers turn away from Islamic finance

The microeconomic analysis could be criticized on the basis of a preference for Islamic finance which would limit the scope of the latter hypothesis if I < p. Indeed, Muslims wishing to absolutely invest their money on *halal* media could accept Islamic finance even if it was less lucrative than the conventional finance. This is what Metawa and Almosawy (1988) show. But several studies tend to show that the argument of profitability is a common pattern in the decision to invest in Islamic media (Haron and Ahmed, 2000). It is clear that the remuneration offered in Egypt by Islamic banks are more interesting than those of conventional banks. This is especially true in countries which have less developed banking system and that can experience high inflation rates poorly compensated by traditional banks.
Islamic Banks classify investment projects in order of decreasing profitability. It begins financing the most cost-effective projects and it stops at the marginal level of project (the one that is most profitable for the Bank, an amount equal to the opportunity costs of funds).
In the history of Islamic finance, financial institutions have gradually developed many instruments. A distinction should be made between participatory operations which are at the heart of Islamic finance, and commercial operations which have been put in place by Islamic banks to be used in a non-Islamic environment (table 1).

Table 1
Operations at the heart of Islamic finance

Participatory operations	Operations without counterparts	Commercial operations
Moudharaba (Profit participation. A partner provides the funds - Rab al mal - and the other - Moudharib - the experience, the expertise and the management. The profit is shared between the two players on a basis agreed upon in advance, but capital losses are assumed by the provider of the capital **Mousharaka**	**Qard al Hassan** (A loan of goodwill/benevolence that will be reimbursed on a due date without paying interest)	**Mourabaha** (Sales agreement with an increased price of profit margins known and agreed upon between the buyer and seller) **Salam** (Agreement where the price is paid at the signing whereas the delivery of the property is handed over on a later date fixed in advance. To be consistent with the principles of the Shariah, this formula must be based on two separate agreements)

(Capital participation. Several partners fund a business, share profits according to a previously defined rate while losses are divided amongst themselves according to the level of their participation in the capital. Company management is entrusted either to all partners, or to part or only one of them)	**Ijara** (Rental/sale. A financial institution purchases equipment or a property and leases it to another officer who will conduct periodic payments throughout leasing period. The first agreement commits the Bank to buy goods from the supplier in return for a cash advance while setting the date of delivery according to the needs of its client. The second agreement is for the resale of the goods)

In the spirit of Islamic finance, participatory operations are the most compliant. Moudharaba or the Mousharaka are very close to the model of partnerships limited by shares which were and are still widely used. These participatory operations establish a link between the capital holders and entrepreneurs that join-up for productive or commercial activities developed in the interest of all. This allows the mobilization of resources that in time will create wealth in the society without it being limited by the absence of custodians of capital while preserving the power of managers: *moudharib* or in other words, the silent partner/backer. Moreover, the hoarding or the sterilization of funds is not allowed. Those who are in this situation are therefore invited to build this wealth by giving it as pious charity (*sadaqa*) or by participating in economic operations. However this type of operation is costly in information and time for banks. The fact that the depositors' funds are invested directly in real assets requires an appropriate commitment from the bank; expertise in different economic sectors is vital.

These constraints explain that what has been considerably developed in Islamic finance including through the increase of petrodollars, are commercial operations, including the Mourabaha. But what if this form of loan, while matching to a real estate is still of Islamic finance? Indeed, in the Mourabaha operation, the bank purchases a property on the order of a client with the promise that it will be redeemed from the bank with a time difference. The redemption price is higher than the initial price and it is fixed in advance by contract and represents the profit margin of the Bank. These margins are usually calculated on the basis of a referenced interest rate, most often LIBOR (London Inter-Bank offered Rate) or the Treasury Bund rate and contingent on the marking/grading of the client (Zaher and Hassan, 2011). As described above, the difference with a conventional loan is unclear, if not through the greater complexity of the operation. This operation does not distinguished itself from a ruse known in Islamic finance that is widely known under the name *bay' el ' inah*. Through this method, Banks could buy a cloth (or any object) from the debtor with cash and promise to purchase the same object at the same terms. The debtor commits to buying the merchandise at a higher price intergrating a margin. The cloth purely plays a symbolic role that is often forgotten in the contract. This has lead to people being suspicious about the Islamic character of Islamic finance. The problem is that this type of operation has become the dominant in Islamic finance (Gamal, 2003).

These different instruments can be implemented by individuals or economic agents that have not made banking their main line of work. This is often how forms of direct finance have been developed in an Islamic environment. But since half a century, first of all in a timid way and then becoming more and more important, true Islamic banks have been appearing.

THE ROLE OF ISLAMIC BANKS IN THE NEW FINANCIAL ORDER

The mechanism of Islamic banks is particular (Aggarwal & Yousef, 2000; Archer & Karim, 2006) since the applicants are not the bank's creditors, nor are they the shareholders or the stakeholders whose deposits are paid in the form of a participation through the bank's profits. They are stock companies whose balance sheet consists of shareholders' equity, deposits and loans based on the sharing of profits and losses (Dar & al., 2004). The most obvious difference is that the applicant in an Islamic Bank does not know a priori the amount of his future earnings. Since the applicants are not allowed law wise to receive a fixed interest rate, and that they will share the profits with the bank or bear losses on their deposits, funds should theoretically be regarded as the equity (Archer & Karim 2009). If we place ourselves in this perspective, we can indeed wonder if Islamic banks must be regarded rather as financial institutions or banks. In fact, Islamic banks have the ability to give out loans, knowing that these credits do not generate any interest. Therefore, they have a power of creating money, the level of which can be as equally as important as the circulation area of private money. From this point of view, Islamic banks perform the same functions as in the conventional system and can therefore be considered as second-tier banks which will have to finance their interbank debt with funds from the Central Bank. Therefore it is not inconsistent to believe that the same prudential criteria of conventional banks are followed by Islamic banks (Zangeneh & Salam). Some authors think that we need to be more severe because of the relative novelty of this type of instrument. Others rather think that the common prudential rules are not necessary because of the need for the Islamic Bank to be much more cautious on their transactions due to the articulation between financial and real assets. But this argument can be turned because the Islamic Bank in contrast to the conventional Bank may also carry the risk of credit applicants.
The consequence of the ethical and religious Islamic finance dimension is the existence of an original supervision organ, the *Sharia* committee, which their constitution and in mission still needs to be defined (Ould Sass, 2010). The presence of this committee explains the duality of the governance and possible bank strategies to different stakeholders.

Table 2
Main differences between a conventional banking system and an Islamic system

	Conventional system	Islamic system
The currency	Through trade and keeps the value	Through trade. Money is not in itself an asset.
Nature of operations	Total separation between the depositors and the banks.	Islamic banks give depositors the possibility to know what use is made of their money, at the same time

		provide them with the opportunity to decide on their preferred investments.
Logic of transactions	Transactions are based on financial assets.	Transactions are based on real assets.
Remuneration	Gathering funds from applicants by paying interest.	Partnership, sharing of profits and losses between the banks and depositors. Islamic finance does not allow a fixed remuneration by the mere lapse of time.

Much of the literature on Islamic finance is of a comparative nature. This is due to the fact that the question of identity or of the financial specificity of the Islamic banks is constantly questioned. Are Islamic banks, different or not? Does Islamic finance differentiate itself from conventional finance? This effort of clarification is sometimes underlined by a normative will to prove the superiority of one system compared to the other. Committed authors preferences are not always implicit. The vast majority of these comparative studies focus on the banking activity in a country (comparison between traditional finance and Islamic finance) but only some of those studies cover the banking sector in a panel of country's where the Islamic banks are present : Asarpota & Kader (2007) compare conventional and Islamic banks in the United Arab Emirates over the period of 2000-2004, Hassan & Samad (2000) and Bakar & Rosly (2003) toke an interest in Malaysia, Ahmed and Hassan (2007) compare banks of Bangladesh, Naceur & Kandil (2009) present the case of Egyptian banks and Baldwin (1990) that of the Turkish banks. Other studies involve comparisons between countries: Malaysia and Bahrain (Cook & al. 2005), the Persian Gulf countries (Olson & Zoubi, 2008). The coexistence of both types of banks poses the question of the criteria's used consumers to make their choices between the financial services offered by one and the other system. In addition, it leads to a comparison of performances between the two systems. Thus, Samad (2004) analysis the situation of the Bahrain over the period 1991-2001; He came to the conclusion that there is no major differences in performance in terms of profitability and liquidity. However, there are significant differences in the distribution of loans.

The lack of interest perception modifies the profitability of banks. Empirical researches on the comparison of Islamic banks against classical banks using financial ratios are numerous: Metwally (1997), Iqbal (2001), Hassoune (2002), Olson & Zoubi (2008), Sraïri (2008). This includes the study of Bashir (2003) which presents the factors influencing the cost-effectiveness of Islamic banks in eight countries (Bahrain, Egypt, UAE, Kuwait, Jordan, Qatar, Sudan and Turkey) over the period of 1993-1998.

The empirical results of these studies are substantially different depending on the country, because, Islamic and conventional banks must deal with of environmental macroeconomics, legal and regulatory, to financial markets, political as well as fiscal environments and monetary differences (Khan & Mirakhor, 1987; Dermirguc–Kunt & Huizinga, 1999).

Sudin (1996) studied how the banks characteristics affect their performance in eight countries of the Middle East. He found that the market share is inversely proportional to the profitability (contrary to what the theory postulated for traditional banks). He brings forward two reasons to explain this situation. The first is that Islamic banks are known to have limited investment opportunities; although Islamic banks are able to expand their market shares, they are still incapable of converting these funds into productive assets. The second is that Islamic banks tend to focus on short-term funding (normally, this type of investment generates less

income). The results show also that Islamic banks in a competitive market are better managed than those that operate on monopolistic markets.
These Islamic banks operate in an environment which is not always Islamic. This is true even for Iran or Pakistan who must adapt to the international environment dominated by financial instruments with interests. Therefore this brings up the question of regulatory authorities both internal in external.

REGULATORY AUTHORITIES

The specificities of Islamic banks that have been highlighted induce features in the regulation of the financial systems that integrate a more or less a large part of Islamic financial institutions. This goes from conventional systems that marginally adapt their legislation to allow the development of an Islamic financial embryo; this is the case of London; to countries that have more or less completely changed their banking system such as Pakistan, Iran or Sudan. Intermediary cases exist such as Persian Gulf countries or Malaysia that are familiar with dual systems. However, the role of the Central Bank is the same everywhere in the world. The Central Bank's mission is:

- To adjust the money supply to avoid fluctuations in inflation and employment;
- To facilitate the mobilization of savings and optimal allocation of resources;
- To regulate the activity of commercial banks;
- To ensure a role of lender as a last resort;
- To apply the government's exchange rate policy.

Monetary policy seeks to regulate the distribution of loans either through price mechanisms, or by public restrictions. In an Islamic environment, this regulation may be difficult because of:

- The use of interest rates is prohibited in principle. This prohibition is sometimes discussed for the monetary market because it especially concerns the relations between the Central Bank and second-tier banks. It is true however that the use of a refinance rate affects all banking operations and ultimately the situation of the banks' clients. Therefore, the Central Bank cannot use discount rates to refinance banks using a tool that impacts the money markets in general. This instrument is essential in the "closed" financial systems which are largely based on open financial markets. But many Muslim countries still know administered banking systems akin to "economies of debt". In this type of governance, it is more efficient to use instruments that control in a more direct manner, like mandatory reserves or even the supervision of loans. All these instruments are usable (Khan & Mirakhor, 1994) from an Islamic point of view.
- Some operations are acceptable for some of the Islamic banks, but not for others, due to the differences of opinion between the Islamic lawyers on the admissibility of different contracts (El-Gamal, 1999). It is therefore important to distinguish the relevant aspects of Islamic law that can govern the sale and resale of commercial securities and public bills of exchange, and those which are accepted in practice. It is also important to see the effectiveness of these operations in the execution of an open market policy;

In Western countries, Islamic finance does not benefit from the common law exemption regime. Islamic banks remain poorly developed and are not in a net debtor situation towards the Central Bank or the banking system. Therefore they remain outside the usual refinancing process even if they are subject to common monetary regulations.

In many Muslim countries, Islamic banks operate in an environment where competitive banks predominate, but in some cases such as Egypt or Turkey, they are governed by a special legislation (Salam & Zengeneh, 1993). Islamic banks have committees (*shariah boards*) in which sit specialists in Islamic law, that decide on the conformity of the financial products with Islam.

Literature emphasizes the fact that a global Islamic control system is missing as well as a more precise standardization of operations. Numerous publications focus on the institutions created to develop, standardize and regulate the profession and IDB (Islamic Development Bank), is the leading agency in the Islamic financial system created in 1975 in the wake of the first oil crisis.
Regulatory difficulties are related to the heterogeneity of Islamic finance and the lack of precise data on the risks associated with different operations or products. These risks do not disappear with Islamic finance and they can be just as important as in conventional finance (Honohan, 2001). One of the questions is whether Islamic finance should develop its own accounting standards or align itself with international practices (Gambling & Karim, 1986). Another issue is that of Islamic Corporate Governance principles: respect of rights of ownership, truthful and correct accounting practices, transparency… (Dar & al., 2004; Bhatti & Bhatti, 2010).
In Western countries, financial agreements are established on the basis of the legal rules of each nation. If the ethical principles of Islam can be taken into account in the creation of financial products, they can in no way substitute the law in effect (Jouni & Pastré, 2008). In the French case, there is a regulatory framework favorable to the growth of Islamic finance (bearing in mind that Roman law is closer to the Islamic law than the Anglo-Saxon law). It is possible to find connections between Islamic principles and the French legal system (table 3).

Table 3
Similarities between Sharia law and French law

Islamic system	Conventional system
Prohibition of riba	Prohibition of usury
Prohibition of investments in certain sectors	Protection of public order and morality.
Endorsement of any funding to a tangible asset.	FCC shares representative of a co-ownership on underlying claims. Mortgage.
Non-penalty for borrowers: absence of penalties for delays or failures (except in the case of bad faith).	Grace period and "penal clause".

Source: from Jouni & Pastré, 2008.

Because of their specificity, Islamic banks require a particular regulatory environment. The prohibition of interest removes from the Central Bank, one the most powerful instruments in terms of monetary regulation, notably for "closed" financial systems. The insertion of Islamic banks in the international financial system is a challenge for the future.

THE WORLD FINANCIAL CRISIS

It would be a mistake to think that the history of Islamic thought was disconnected from the course of the history as a Whole. Islamic intellectuals always tried to address the problems of their time.

To sum up, in the first period, the problem was to resist to the choc the West operated on traditional economies. All reforms tried at first to implement Western technologies without importing the ideology behind it. To resist and to compete was the point. In the second phase, as we noticed, the problem was to imagine a new future in the new countries liberated from the Western domination. It was clear that welfare state was the main answer as only a strong state could solve the problems of the transformation of the society and mainly through reforms in the property system and also the foundation of a new educational system.

But this period of time is connected with the Keynesian turn that occurred after 1929. Everywhere in the world, Capitalism was under the supervision of strong states that controlled the economy. Islamic socialism was connected with the spirit of the time. The period of the emergence of Islamic thought is also connected with the neo-liberal turn in the 80's. It begins with the assessment that the State can't be the solution. Freeing private sector from regulation, limiting tax pressure, was in the same mood as the new Islamic interest for private entrepreneurs. The huge interest in finance is also related to the development of Finance after the 80's.

These short elements are enough to demonstrate how Islamic thoughts is related to the general course of the ideas and the global dynamics of the World economy. Islamic thought is very modern in that sense and was always the mirror of the time.

One can noticed that Islamic thought (I.e. understand the Islamic knowledge theories, controversies which are very rich) was not really heard outside the closed circle of Islamic issues[3]. It is true that Islamic finance cross the boarder of Muslims preoccupations especially concerning the global financial Crisis (Chapra, 2008) but our intuition is that the Heritage of Islam could be much more than that and strongly participate to the present debate on the global Crisis. The question is then Why Moral Islamic Economics doesn't participate much more in the debates about sustainable development though a few but old work were made?(Ahmad, Hashim & Al Hachim, 1997; Denny, 1988).

One may think that Islam has not much to say on the Crisis of Capitalism because the corpus underpinning the Islamic thought: The Coran and the *Sunnah* were established long before the development of capitalism. Islamic economy would be then adapted to Pre-capitalist societies. Zakat may be useful to undeveloped society and prohibition of Riba may be convenient only with traditional economy based mainly on trade. One can stand that Islamic thought is not convenient for developed capitalism and for modern societies. The history of Islamic economics proves the contrary.

But from the inner point of view of Islam, Islam is said as the last revelation, the last religion. The understanding of the present Crisis must the be connected with the Islamic eschatology. I don't want to insist but the Modern world was described in the hadith relative to the end of the time. And we may find in these hadith the very characteristic of the present time: greediness, exclusive interest for material life, poverty, and abundance of money….

From another point of you, we can notice that the Capital became a kind of divinity. As Karl Marx demonstrated, the Capital creates many illusions: commodities seem to have inner property to

[3] In this study for example, no mention is made of the islamic microfinance even though it gives answers to the issues developped in the paper : (Roy Mersland, Bert D'Espallier, & Magne Supphellen, n.d.) 2012, unpublished.

exchange; and this was denounced by Marx as the "fetishism of the commodity"; Profit appears as a property of the Capital to create value. It is the form under which hides the surplus value. To resume Capitalism creates the illusion that the Capital can generates Capital. "Money can generate money". But, says Marx, it is an illusion that hide an extortion of the surplus value from the working force by the capitalists. But even without going so far, the money that generates money was strongly condemned by Aristotle when he stressed the difference between "economy" and "chrematistic".
This illusion now is a very common topic. For everybody, it seems very natural that Money is a Capital and that it can create Money. Everybody is invited to make its money yield a profit. It is expected that an amount of money should naturally generate money. It looks like a kind of magic power. It is a divinity that seems to have by itself the power to create something. We can add that the Capital as Gold is something that is worshipped. From an Islamic point of you, it is a kind of idol, a golden Calf. As can be said in Arabic, it is a *taghu*t, a *ilah*.
From this perspective it is easy to understand why the prohibition of interest and the risk sharing is so important in Islam. The one who perceives interest does not take any risk. It means that he doesn't support any uncertainty for the future. As this uncertainty depends on God's will, the interest holder behaves as if he wanted to escape from the will of God. But obeying God and be submitted to His will is the very essence of Islam. The one who perceive interest is taking the symbolic place of God and refuse to accept divine Will. It is a very a kind of hidden *shirk* (i.e. to deify anything except God) and it is considered as the greatest sin.
If Capital is a divinity, if the interest holder associates himself to God by escaping His will, it is very understandable that prohibition of interest remains a strong pillar of Islamic economy. The first pillar of Islam is the *chahada*, the testimony that there is god except God: *La ilaha illallah*.

FUTURE PROSPECTS

How Islam could play a role in the debates around the big Transformation we need?
We have entered a new period of time that can be labelled "post-industrial capitalism". This new period is difficult to figure out, or to define because we are in a transition period. Many authors try to design new paradigms. For example: rent-capitalism, or cognitive-capitalism, post-fordist capitalism. Other authors insist on the need for an alternative model. It seems obvious that the free market neither the Welfare State cannot challenge sustainable development issues. The new challenges can only be address by an international governance including a large set of organisations from individuals to International organisations: civil societies, NGO, enterprises, foundations, political parties, administrative local or global organisations, Forum, i.e. a new multi-level governance that must be created.
About the problem of sustainable development, climate change, of ethical finance many and many initiatives, forum NGO's are launched. There are thousand of discussions on new initiatives. For example in France, there was an Initiative for a so-called "positive economy" launched by Planet Finance, the NGO of Jacques Attali in 2012. This movement insists on social and environmental responsibilities. The slogan is: "an Economy where profit is a mean and not the end".
It is indeed an Islamic slogan. But the people participating in this Forum don't know this fit precisely with an Islamic approach of the Economy. Most of the new forum on global governance, Climate change or needs for a new ethic in Capitalism, think that Christianity or Jewish tradition have something to say about these topics. But they hardly consider that Islam is relevant.
We can estimate that the Islamic finance market is now worth 750 Million dollars and that this market should reach 1300 Million dollars by 2020 (Jouni & Pastré, 2008). It is therefore a booming market and in full growth which must be integrated into the financial analysis. It will continue to grow in the future based on the enrichment of oil producers and also due to the fact that more in more Muslims turn to *halal* products. This is true for food and this is true for finance.

We will therefore see financial instruments being developed to finance the acquisition of real estate but also a retail bank, notably oriented towards transferring funds to countries of the southern parts of the Mediterranean.
In the current context of globalization and financial crisis, Islamic banks have been spared the lack of commitment in speculative products. Virtue here appears to have paid off and many authors are now indicating that Islamic finance is gaining a foothold, or even the solution to the international financial crisis. Without going to these excessive considerations, several issues arise: what lessons should be drawn from the crisis at the dawn of Islamic finance? Can Islamic finance become globalized (Kahf, 1999; Tahir, 2005)? Can the gap between conventional and Islamic banks be filled? In general, is the Islamic finance a model of ethical finance that would inspire the global financial model, which would no longer service a system that has become uncontrollable and that by its excesses, affect both growth opportunities and social equality through the brutality it creates.
Islamic banks seem to be better placed than classical banks to absorb external shocks (Hassan & Zaher, 2001) and generate financial stability (Cihak & Hesse, 2008). The PLS system reduces the financial leverage and accordingly the risk level borne by an Islamic Bank (in the case of a financial crisis, the lower the leverage, the more likely it is that the Bank will not be able to cope with deadlines for reduced repayments). Islamic finance with its own constraints reconnects financial transactions to real operations and limits the excesses of bubbles or financial hypertrophy.
Nevertheless, Islamic finance is certainly not the single solution. In the future, Islamic banks could be faced with- beyond the operational inherent risks in any financial institution - risks of opposite nature (Causse, 2010):

- Risks of communitarianism, therefore these banks would only have as Muslim clients
- Risks of a loss of identity. In a context of banking activity trivialization, Muslims may no longer recognize these banks as entities that respect the principles of the Shariah.

Islamic finance is relatively young and its future remains to be written. We are now at a turning point that should be addressed strategically (Al-Omar & Iqbal, 2000). One of the important questions is to find out if there isn't a contradiction between the hypothesized boom of this religious finance and the secularization of the Muslim world (Courbage & Todd, 2007). Another perspective, less explored, is the one which refers to the internal cleavage of Islam, the one which separates the Shiite from the Sunnite tradition, and its impact on the political and financial organization of Muslim countries. In terms of academic research, other point of views such as technical, normative and performative, should come out.
Many scientific articles on Islamic finance are, voluntarily or not, focused on techniques. It is good to remind us of the tools used in Islamic finance but they are now sufficiently known to only be subjected to short reminders. Many papers, from Muslim researchers themselves are sometimes supporters. It is not prohibited in a scientific paper to express preferences, they need to be supervised and demonstrated as objectively as possible. There are more and more articles whose purpose is to demonstrate the superiority of Islamic finance, thus the multiplication of work on the performance aspect. This brings up on many occasions the question of the identity of Islamic financial? On the other hand; there is a lack of down to earth studies, investigations including more qualitative which analyze the uses and the concrete practices of Islamic finance outside quantitative studies which are based on existing data bases.
It is by winning through objectivity, enriched analysis, that Islamic finance will become a scientific object in its own right.

CONCLUSION

We have shown in the first section that the Global Crisis of Capitalism is very connected with important topics of the traditional Islamic Thought. In the second section we made obvious that the different phases of the Islamic Though were always a mirror of the spirit of the time, and connected with the contemporary challenges Islamic societies had to face. That is the case for the last period of time when "Islamic economics" focused mainly on banks, banking systems and finance. Why Islamic Thought doesn't participate enough in the global discussions on an alternative model became clear.
Three reasons can explain this situation. First of all: "Islamic economics" developed in the last forty years is closely linked with the neo-liberal turn of Capitalism in the 80's, based on huge oil revenue. But this time is over. We are entering a new post neo-liberal phase and whose problems are sustainable development and social responsibility based on new forms of governance. A new Islamic thought should then emerge around the concept of "Islamic governance". Second: the huge recent development of Islamic economics focused on *sharia compliance*. It means how to comply Capitalism with Islam but without contesting the fundamental assumptions that undermine Capitalism. The problem now is not to adapt Islam to Capitalism. The Problem is to transform Capitalism and find an alternative system and Islamic thought has a lot to say on that issue. Last reason. Islamic Economics focused mainly on Islamic societies and Islamic problems. It was interesting when the World economy was split in different regions. But Islamic world is now integrated in the World system. And so Islam might have something to say to the World as a Whole.
The impact of the current financial crisis on the islamic finance less marked that on conventional finance. During turbulent times socially responsible investments and ethical finance are required to reassure investors and stabilize financial markets.

REFERENCES

Définition of islamic finance and theoretical

Abdul-Rauf Muhammad, 1979, *The Islamic Doctrine of Economics and Contemporary Economic Thought*, American Enterprise Institute for Public Policy Research, Washington, DC, 1-21.
Causse Geneviève, 2010, *Le système financier islamique : nature et perspective de développement*, La Revue du Financier, n°182.
Hasan-uz-Zaman Syed, 1997, *Defining Islamic Economics*, Journal of Islamic Banking and Finance, 14, 12-22.
Metwally Mokhtar, 1985, *The Role of Exchange in an Islamic Economy*, Journal of Research in Islamic Economics, n°1, 21-30.
Nienhaus Volker, 1986, *Islamic Economics, Finance and Banking: Theory and Practice*, Journal of Economics, Banking and Finance, 3, 36-54.
Presley John, & Sessions John, 1994, *Islamic Economics: The Emergence of a New Paradigm*, The Economic Journal, 104, 584-596.
Pryor Frederic, 1985, *The Islamic Economic System*, Journal of Comparative Economics, 9, 197-223.
Sauer James, 2002, *Metaphysics and Economy, the Problem of Interest : a Comparison of the Practice and Ethics of Interest in Islamic and Christian Cultures*, International Journal of Social Economics, 29, 97-118.
Siddiqi Faiz-ul-Aqtab, 1967, *Studies in Islamic History*, Jamiyatal Publications.
Syed Hussain, Ali Jafri, & Lawrence S. Margolis, 1999, *The Treatment of Usury in the Holy Scriptures*, Thunderbird International Business Review, 41 (4), 371-379.

Historical development

Al-Jabarti, A.R. (1975). Tarikh Muddat al-Faransis bi-Misr, History of The Period of the French in Egypt (EJ Brill.). Leiden.
Al-Saati Abdul-Rahim, 2003, *The Permissible Gharar (Risk) in Classical Islamic Jurisprudence*, Islamic Economics, 16 (2), 3-19.

Chachi Abdelkader, 2005, Origin and Development of Commercial and Islamic Banking Operations, Islamic Economics, 18 (2), 3-25.
Haenni, P. (2005). L'islam de marché: l'autre révolution conservatrice. Paris: Seuil.
Sabzwari Mohammed Ahmed, 1984, *Economic and Fiscal System during the Life of Holy Prophet*, Journal of Islamic Banking and Finance, 1, 7-25.
Siddiqi Nejatullah Mohammad, 1995, *An Overview of Public Borrowing in Early Islamic History*, Review of Islamic Economics, 2, 61-78.
Udovitch Abraham, 1975, Reflections on the Institution of Credit and Banking in the Medieval Islamic Near East, Studia Islamica, 41, 5-21.

The main monetary and financial transactions

Bashir Abdel Hammed, 1996, *Profit-sharing Contracts and Investments under Asymmetric Information,* Research in Middle East, vol.1, 173-186.
Blitz Rudolph, & Long Millard, 1965, *The Economics of Usury Regulation*, Journal of Political Economy, 73 (6), 608-619.
Chapra Umer, 2000, *Why has Islam Prohibited Interest ? Rationale behind the Prohibition of Interest*, Review of Islamic Economics, 9, 5-20.
Cox Stella, 2002, *Islamic Asset Management: An Expanding Sector*, Review of Islamic Economics, 11, 27-5.
Dar Humayon, Muljawan Dadang, & Hall Maximilian, 2004, *A Capital Adequacy Framework for Islamic Banks : the Need to Reconcile Depositors' Risk Aversion with Managers' Risk taking*, Applied Financial Economics, 14, 429-441.
El-Gamal Mahmoud, 2003, *Interest and the Paradox of Contemporary Islamic Law and Finance,* Fordham International Law Journal, 27 (1), 108-149.
El-Gamal Mahmoud, 2008, *Incoherence of Contract-Based Islamic Financial Jurisprudence in the Age of Financial Engineering,* Wisconsin International Law Journal, 25 (4), 605-623.
Jobst Andreas, 2007, *The Economics of Islamic Finance and Securitization*, Journal of Structured Finance, 13, 6-27.
Kamali Mohammad Hashim, 1999, *The Permissibility and Potential of Developing Islamic Derivatives as Financial Instruments*, Journal of Economics and Management, 7, 73-86.
Khan Mohsin & Mirakhor Abbas, 1994, *Monetary Management in an Islamic Economy*, Islamic Economics, 6, 3-22.
Matthews Robin, Siddiqui Aftab, & Tlemsani Issam, 2003, *Recent Development in the Market for Islamic Mortgages: Theory and Practice*, Review of Islamic Economics, 14, 49-65.
Mirakhor Abbas, & Ul-Haque Nadeem, 1986, *Optimum Profit-Sharing contracts and Investment in an interest-free Economy*, IMF Working Papers, n°12.
Nienhaus Volker, 1983, *Profitability of PLS Banks Competing with Interest Banks : Problems and Prospects*, Journal of Islamic Economics, vol. 1, 31-39.
Saeed Abdullah, 1995, *The Moral Context of the Prohibition of Riba in Islam Revisited*, American Journal of Islamic Social Sciences, 12, 4, 496-517.
Visser Wayne, & McIntosh Alastair, 1988, *A Short Review of the Historical Critique of Usury*, Accounting, Business and Financial History, 8, 175-189.

Islamic banks

Aggarwal Rajesh, & Yousef Tarik, 2000, *Islamic Banks and Investment Financing*, Journal of Money, Credit and Banking, 32, 93-120.
Archer Simon, & Karim Rifaat Ahmed, 2006, *On capital structure, Risk Sharing and Capital adequacy in Islamic Banks*, International Journal of Theorical and Applied Finance, **9**(3), 269-280.
Archer Simon, & Karim Rifaat Ahmed, 2009, *Profit Sharing Investment Accounts in Islamic Banks: Regulatory Problems and Possible Solutions*, Journal of Banking and Regulations, 10 (4), 300-306.
Baldwin David, 1990, *Turkey: Islamic Banking in a Secularist Country*, in Rodney Wilson (ed.), *Islamic Financial Markets,* Routledge, 33-58.
Bhatti Maria, & Bhatti Ishaq, 2010, *Legality of Corporate Governance in Islamic Finance*, Journal of Asian Politics and Policy, 2, 25-38.
Hassoune Anouar, 2002, *Islamic Banks Profitability in an Interest Rate Cycle*, International Journal of Islamic Financial Services, 4, 1-13.

Makiyan Nezamuddin, 2008, *Risk Management and Challenges in Islamic Banks*, Journal of Islamic Economics, Banking and Finance, 4 (3), 45-54.

Naceur Samy Ben, & Kandil Magda, 2009, *The Impact of Capital Requirements on Banks' Cost of Intermediation and Performance: the Case of Egypt*, Journal of Economics and Business, 61(1), 70-89.

Sudin Haron, 1996, *Competition and other external determinants of the profitability of islamic banks*, Islamic Economics Studies, 4 (1), 49-64.

Comparing conventional and islamic banks

Ahmad Ausaf, & Hassan Kabir, 2007, *Regulation and Performance of Islamic Banking in Bangladesh*, Thunderbird International Business Review, 49 (2), 251-277.

Asarpota Anju, & Kader Janbota, 2007, *Comparative Financial Performance of Islamic Banks vis-à-vis Conventional Banks in the UAE*, The first annual student research symposium, United Arab Emirates university.

Al-Sultan Waleed, Metwally Mokhtar, & Roudaki Jamal, 2005, *Financial Analysis of Performance of Islamic Banks in GCC Countries*, Journal of Islamic Banking and Finance, 22(2), 51-65.

Bakar Abu, & Rosly Saiful, 2003, *Performance of Islamic and mainstream banks in Malaysia*, International Journal of Social Economics, 30 (12), 1249-1265.

Bashir Abdel Hammed, 2003, *Determinants of Islamic banking profitability: some evidence from the Middle East*, Islamic Economic Studies, 11 (1), 31-57.

Cook Bradley, Gardner Norman, & Samad Abdus, 2005, *Islamic Banking and Finance in Theory and Practice : the Experience of Malaysia and Barhain*, The American Journal of Islamic Social Science, 22(2), 69-86.

Demirguc-Kunt Asli, & Huizinga Harry, 1999, *Determinant of Commercial Bank Interest Margins and Profitability: some International Evidence*, Journal of Money, Credit and Banking, 13, 379-408.

Hassan Kabir, & Samad Abdus, 2000, *The performance of Malaysian Islamic Bank During 1984-1997: An Exploratory Study*, Thoughts on Economics, 10 (1), 7-26.

Haron S et N Ahmad, 2000, *The Effects of conventional Interest Rate and Rate of Profit on Funds Deposited with Islamic Banking System in Malaysia*, International Journal of Islamic Financial Services 1(4), 3-9

Iqbal Munawar, 2001, *Islamic and Conventional Banking in the Nineties: A Comparative Study*, Islamic Economic Studies, 8, 1-27.

Metawa, S.A et M. Almosawy, 1988, *Banking Behaviour of Islamic Bank Custumer: Perspectives and Implications*, International Journal of Bank Marketing 16(7), 299-313

Metwally Mokhtar, 1997, *Differences between the financial characteristics of interest-free banks and conventional banks*, European Business Review, 97 (2), 92-98.

Olson Dennis, & Zoubi Taisier, 2008, *Using accounting ratios to distinguish between Islamic and conventional banks in the GCC region*, The International Journal of Accounting, 43 (1), 45-65.

Samad, Abdus, 2004, *Performance of interest free islamic banks vis à vis interest based conventional banks of Bahrain*, IIUM Journal of Economics and Management, 12 (2), 1-14.

Srairi Samir, 2008, *A comparison of the profitability of Islamic and conventional banks: the case of GCC countries*, Bankers, Markets and Investors, 98, 16-24.

Régulation, monetary policy and governance of islamic financial instituions

Denny, F.M. (1988). Islam and Ecology: A Bestowed Trust Inviting Balanced Stewardship. *Earth Ethics*.

Gambling Trevor & Karim Rifaat, 1986, *Islamic and "Social Accounting"*, Journal of Business Finance and Accounting, 13(1), 39-50.

El-Gamal Mahmoud, 1999, *Involving Islamic Banks in Central Bank Open Market Operations*, Thunderbird International Business Review, 41, 501-521.

El-Hawary Dahlia, Grais Wafik, & Iqbal Zamir, 2007, *Diversity in the regulation of Islamic Financial Institutions*, The Quarterly Review of Economics and Finance, 46 (5), 778-800.

Honohan Patrick, 2001, *Islamic Financial Intermediation: Economic and Prudential Considerations*, World Bank Research Paper, July.

Iqhal Zaidi, & Mirakhor Abbas, 1991, *Stabilization and Growth in an Open Islamic Economy*, Review of Islamic Economics, 1(2), 1-20.

Ould Sass Mohamed, 2010, *Les Comités de la Charia : historique, constitution et pouvoir*, La Revue du Financier, n°182.

Salam Ahmad, & Zengeneh Hamid, 1993, *Central Banking in an Interest-Free Banking System*, Islamic Economics, 5, 25-35.

Uzair Mohammed, 1982, *Central Banking Operations in an Interest-Free Banking System*, in Arif Mohammad (ed.) *Monetary and fiscal Economics of Islam*, International Centre for Research in Islamic Economics, 211-236.
.

Looking ahead

Ahmad, A. and Hashim, M.H.A. and Al Hachim, G. (1997). Islam and the environmental crisis. *Ta-Ha Publishers*

Al-Omar Fuad Abdullah, & Iqbal Munawar, 2000, *Some Strategic Suggestions for Islamic Banking in 21st Century*, Review of Islamic Economics, 9, 37-56.

Ariss Rima Turk, 2010, *Competitive conditions in Islamic and conventional banking: A global perspective*, Review of Financial Economics, 19 (3), 101-108.

Cihak Martin, & Hesse Heiko, 2008, *Islamic Banks and Financial Stability: An Empirical Analysis*, IMF Working Paper n°08/16, Janvier.

Chapra, M. U. (2008). The global financial crisis: can Islamic finance help minimize the severity and frequency of such a crisis in the future? In *A Paper Presented at the Forum on the Global Financial Crisis at the Islamic Development Bank On* (Vol. 25).

Courbage Youssef, & Todd Emmanuel, 2007, *Le rendez-vous des civilisations*, Le Seuil.

El-Moussawi Chawki, & Obeid Hassan, 2010, *Evaluating the Productive Efficiency of Islamic Banking in GCC: A non Parametric Approach,* International Research Journal for Finance and Economics, 53, 178-190.

Kahf Monzer, 1999, *Islamic Banks at the Threshold of the Third Millennium*, Thunderbird International Business Review, 41(4), 445-460.

Jouini Elyès, & Pastré Olivier, 2008, *Enjeux en opportunités du développement de la finance islamique*, Rapport Paris Europlace.

Memon Noor Ahmed, 2007, *Islamic Banking: Present and Future Challenges*, Journal of Management and Social Sciences, 3(1), 1-10.

Tahir Sayyid, 2005, *Future of Islamic Banking*, Journal of Islamic Banking and Finance, 22(4), 21-33.

Wilson Rodney, 1999, *Challenges and Opportunities for Islamic Banking and Finance in the West: The United Kingdom Experience*, Thunderbird International Business Review, 41, 421-444.

Summaries of literatureand collective works of reference

Ahmad Ausaf, & Awan Kazim 1992, *Lectures on Islamic Economics*, BID.

Hassan Kabir, & Zaher, Tarek, 2001, *A Comparative Literature Survey of Islamic Finance and Banking*, Financial Markets, Institutions & Instruments, 10 (4), 155-199.

Islamic Economic Research Center. (2009). *Issues in the International Financial Crisis from an Islamic Perspective*. King Abdulaziz University, Jeddah.

Khan Mohsin, & Mirakhor Abbas, 1987, *Theorical Studies in Islamic Banking and Finance*, The Institute for Research in Islamic Studies.

Polanyi, K. (2005). *The great transformation the political and economic origins of our time*. Princeton.

Siddiqi Nejatullah Mohammad, 2006, *Islamic Banking and Finance in Theory and Practice : a Survey and State of the Art*, Islamic Economic Studies, vol. 13, 1-48.

Tahir Sayyid, 2007, *Islamic Banking Theory and Practice : a Survey and Bibliography of the 1995-2005 Literature*, Journal of Economic Cooperation, 28 (1), 1-72.