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Role and Progress of Islaminc Banking in India, Ethiopia and Rest of the World-An Analysis

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Abstract
Islamic finance is growing at a galloping pace, with its estimated 15% to 20% annual growth rate considerably outstripping that seen in the conventional banking industry. At present, its operations are going on in more than 56 countries of the world. Present study motto is know that the current role and progress of non-interest banking in the world and what kind of financial products and services are providing to the customer and what kind of challenges are facing by these institutions. Based on the empirical study, researcher found that, Global Islamic banking assets with commercial banks are on course to exceed $3.4 trillion by 2018, fuelled by growing economic activity in core Islamic finance markets. Islamic financial institutions are working well and contributing the world also excellent, even though, there is a gap to fill in the form of providing more financial products and services and there is need to clear ambiguous feelings of customers to become closer.
Keywords: Islamic Banking, financial products and services, role and progress.

1. Introduction

In the second half of 20th century liberation of Muslim world from colonial powers almost completed and widespread renaissance of Islamic ideology took its path in Muslim societies whereby the masses started looking at the existing social systems through Islamic lenses and proposed modifications and developments. The Muslim thinkers and philosophers challenged the world's ruling economic and social systems and uncovered their weaknesses. Capitalism was examined and criticized in detail due to its magnitude and general acceptability in majority of leading societies of the world. Out of the four factors of production (as described in Capitalism) reward of three is fixed and all risk is born by the entrepreneur alone. In capitalism, capital is a factor of production and hence deserves the fixed reward in the form of interest --- a risk free reward.

As the bank is dealer of money; and reward for using money is interest according to capitalist system; so the prime source of revenue and cost of funds to conventional banks is charging interest through lending and accepting deposits for interest respectively. Interest is the major driver of operations of conventional banks although other valuable services including guarantees, funds transfers, safety of wealth, facilitation in international trade etc. are also provided for reward and form substantial part of income of banks. As the conventional banks are established under the principles of capitalism and transect business by charging interest, which is unacceptable (forbidden) in Islamic law, so Muslims left with no choice except to establish their own financial institutions under Islamic principles. The mile stone, in growth and popularity of Islamic Financial Institutions (IFIs), was the Conference of Foreign Ministers of Muslim countries (1973), where decision of establishment of Islamic Development Bank (IDB) was taken place. Islamic finance has shown tremendous growth in last three decades.

By the end of December 2008, in more than 50 countries approximately 300 institutions are operating and they manage funds of US$ 951 billion. Persian Gulf Area is the centre of Islamic finance with a share of 82% followed by South Asia and Fareast region 13% and balance from all over the world including Europe, North America and Africa (IFSL 2010). At present, Islamic finance operations are going on in more than 56 countries of the world.

Islamic finance is growing at a galloping pace, with its estimated 15% to 20% annual growth rate considerably outstripping that seen in the conventional banking industry. Global Islamic assets held by commercial banks stood at $1.3bn in 2011, but the industry's forecast growth of some 40% over two years will see this figure rise to $1.8bn in 2013, according to research by Ernst & Young.

Global Islamic banking assets with commercial banks are on course to exceed $3.4 trillion by 2018, fuelled by growing economic activity in core Islamic finance markets, according to specialists at Ernst and Young.

Its Global Islamic Banking Centre said across the six markets of Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey (QISMUT), the combined profits of Islamic banks broke the $10 billion mark for the first time at the end of 2013. If the current growth rate continues, the Islamic banking profit pool across QISMUT markets is set to exceed $25 billion by 2018. The profit numbers for Islamic banks are also very impressive, they are still, on average, 15-19 percentage points lower than traditional banks in these markets Ashar Nazim(2013).

1.1. What is Islamic Banking?

Islamic banking is banking based on Islamic law *(Shariah).* It follows the *Shariah,* called *fiqh muamalat* (Islamic rules on transactions). The rules and practices of *fiqh muamalat* came from the *Quran* and the *Sunnah,* and other secondary sources of Islamic law such as opinions collectively agreed among *Shariah* scholars *(ijma'),* analogy*(qiyas)* and personal reasoning *(ijtihad).*

The Holy Quran says that commerce and trade include the following three principles (i) Risk Taking (ghorm); (ii) Work and Effort (kasb) and (iii) Responsibility (Damam). Islamic law prohibits investing in businesses that are considered unlawful (haram) such as businesses that sell alcohol or pork; or businesses that produce media (such as gossip columns or pornography); or gambling industry etc. The products offered by the Islamic Banks are so tailor made that fulfil the above there principles of Islamic Law. The main areas where such banks concentrate are trading, leasing, hire-purchase, etc.

Islamic Banking System is defined as those banks that claim to follow *Shari'a* (Islamic law) in their business transactions, *Shari'a* requires these transactions to be in lawful (*Halal*) form and prohibits transactions that involving interest (*Riba*) (Maali, Casson, and Napier, 2006).

1.2. Objectives of the study

The main objective of this research is to analyze and identify the role and progress of Islamic banking in the world in general and specific objectives are:

- To analyze and identify the socio-economic challenges in Islamic banking.
- To investigate what kind financial products and services are available, role and their progress, in present conditions.
- To know particularly Islamic banking condition in India, Ethiopia and rest of the world.
- To present the summary based on the above empirical study.

1.3. Scope of the study

Based on the objectives the present study collected and analysed the information about Islamic banking, what kind of role and progress it has been playing in the world, in what way its financial products and services are available to the society and finally what kind of challenges it has been facing in the concurrent conditions.

1.4. Limitations of the study

During the study researcher found difficulty time limitation and getting more statistical information for analysis from various countries.

1.5. Sources of the data collection:

Most of the data has been collected from secondary sources only. With the support of research agencies', annual reports, published papers, research reports, working papers, unpublished thesis and so on.

2. Review of literature:

Evolution of Islamic Banks

Modern commercial banking is based on interest which is against the Sharia (Islamic law) hence for all the believers in Allah SWT (God) dealings with these institutions do not suit well. Over the time role assumed by the banking sector has become vital for the growth and development of economies and societies (a jointly shared goal of humanity). A common man who is believer of any revealed religion including Judaism, Christianity and Islam is very much in a state of confusion. On one hand is the very cherishing dream of development while on the other hand is faith. Furthermore there is a reasonable number of experts who think and propagate that prohibited riba means *Usury* (additional amount charged on consumption loans) and not *interest* (additional amount charged on production loans) being charged by modern commercial banks. In this section I will analyze the term Riba (interest) and finally present the modes of financing free of interest being used by IFIs to service the needs of customers.

In Arabic term 'Riba' is a synonym for the term 'interest' used in conventional banking operations. Riba means charging predetermined additional amount on a loan extended based on length of credit period. In the words of Imam Abubakr Al-Jassas (D.380 AH) "The riba of Jahiliyya is a loan given for stipulated period with a stipulated increase on the principal payable by the loanee." Charging of interest on loans had never got support in ethics.

Interest charging is forbidden by all revealed religions including Islam. According to Old Testament of The Bibleiii "Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury." [Deuteronomy 23:19]In the wholly Qura'n four verses are about Riba (interest) revealed on different occasions. The first verse is in Surah **Al-Rum** 30:39iv whereby displeasure of Allah is disclosed for interest based practices. The second verse is in Surah **An-Nisaa** 4:161 where interest charging was disclosed as sinful act of Jews. The third verse is part of Surah **Al-i-'Imran** 3:130 whereby prohibition of Riba (interest) was declared *"O those who believe do not eat up riba doubled and redoubled."* The last verse revealed is reported in Surah **Al-Baqarah** 2:275 whereby severe punishment is declared for those dealing in interest *"Those who take interest will not stand but as stands whom the demon has driven crazy by his touch. That is because they have* *said: 'Trading is but like riba'. And Allah has permitted trading and prohibited riba. So, whoever receives an advice from his Lord and stops, he is allowed what has passed, and his matter is up to Allah. And the ones who revert back, those are the people of Fire. There they remain forever"* (translation from Usmani, 1999).

Instructions are clear. No ambiguity is left. If a person believes in revelations then s/he should avoid charging interest and seek the pleasure of Allah (SWT).

It is the responsibility of all true believers in God (Jews, Christiansand Muslims) to give up interest based transactions from their personal lives immediately and input their energies collectively to design promote and implement a financial system free of interest. Certain quarters are of the view that Riba which is prohibited by revelations is the Usury (interest charged on consumption loans) and banking interest (interest charged on productive loans) is not covered by the term. This point was debated in detail during the Supreme Court (Pakistan) hearing and concluded that there was no difference between usury and interest as for prohibition is concerned. Extract from the decision follows *"It is thus clear that the permissibility of interest can neither be based on the financial position of the debtor, nor on the purpose for which money is borrowed, and therefore the distinction between consumption loans and productive loans in this respect is contrary to the well-established principles"* (Usmani, 1999 Para 72). The consensus view of Muslims about the meaning of Riba is presented here under. Islamic Fiqh Academy Indiav defines *"Riba (interest) is a very important term in the Islamic terminology showing disapproval and it refers to the instrument by which a loaner charges some amount lump sum or in installments over and above his principal amount from the loanee and thus increases his wealth manifold without participating in the business process of profit and loss"*.

Siddiqi, (2004) concluded that unanimous view of Muslims throughout history remained is--- any excess charge in a contract of loan is riba ---- and bank interest has no exception. Islamic Fiqh Academy (IFA) Jeddah of OIC representing the collective wisdom of Sharia experts is of the view that any increase stipulated in a contract of loan irrespective whether consumption loan or productive loan is Riba and prohibited by Allah (SWT). *"The equivalence of riba to interest has always been unanimously recognized in Muslim history by all schools of thought. In conformity with this consensus the Islamic Fiqh Academy of the Organization of the Islamic Conference (OIC) has recently issued a verdict in its Resolution No. 10(10/2) upholding the historical consensus on the prohibition of interest".* [Iqbal and Molyneux, p. 9; IFC/2000]vi.

While deciding the issue of banking interest as permitted or prohibited in Islam, Supreme Court (Pakistan) declared that *"Any additional amount over the principal in a contract of loan or debt is the riba prohibited by the Holy Qur'an in several verses"* (Usmani, 1999 Para 242).

Following conclusions are drawn from above citations; First Interest is prohibited by all revealed religions and charging of interest is Haram (unlawful) for Jews, Christians and Muslims. Second; as for prohibition of interest is concerned, there is no difference in commercial loans and consumption loans at all and bank interest is haram (unlawful). While it is clear from the above citations that dealing in interest is *Haram* (unlawful); and design of conventional banks is based on interest; important role of commercial banks cannot be rejected in the modern economy; so change in the philosophy and design of commercial banking is required to meet the religious obligation. Referring to the above citation it is concluded that what is prohibited through revelations is the predetermined charge on capital (risk free return) and not the profit on capital (involving risk). However, loss is to be shared according to capital contribution. Following the rule of substance over form one can conclude that the major difference between conventional and Islamic financing is Sharia based modes of financing.

The core concept of Islamic banking is to provide services to its customers free from interest, and the giving and taking of interest (*riba*) is prohibited in all transactions (Lewis and Algaoud, 2001).

Prohibition of interest (*riba*) makes Islamic banking system differ from conventional banking system. In other words, the main difference between Islamic and conventional banks is the use of money. In conventional banks, money is used as a commodity that is bought and sold through the interest's usage(Alkassim,2005).

Rejection of interest's usage raises the question of the alternatives of interest mechanism adopted in Islamic system. If dealing with interest rate is prohibited, how Islamic banking works? Here Profit-Loss Sharing System (PLS) takes the place as a method of resource allocation; it will be explained deeply in the following section.

Beside the absence of interest in all financial transactions, there are religious rules or principles should each Islamic financial institution(IFI) applies in investment behavior to achieve Islamic norms.

The following lines summarize these principles:

a. Interest (*Riba)* is prohibited in all transactions: free- interest is required in all investment as it is mentioned clearly in the Holy Qur'an. Accordingly, any predetermined payment above or over the actual amount of principle is prohibited legitimately. Therefore, the only loan that Islam accepts is *Qard al-hasan* (literally good loan) whereby the lender doesn't charge any interest or additional amount above the money lent (Kettell, 2007).

b. As it is mentioned earlier, money must be treated as a medium of exchange, a way of determining value of things, not making money from money. Accordingly, These rules are derived from *Shari'a* (Islamic law) Islamic finance will offer tangible physical assets that money will be granted. In Islam, money is considered to be potential capital not capital itself, meaning that money become capital only when it is invested in business (Ariff, 1988).

c. Risk sharing: since fixed interest is prohibited, suppliers of funds become investors instead of lenders; the provider of financial capital will share business risks in return for gaining profits.

d. Transparency in all transactions: a sale is invalid if the purchaser is not fully aware of products' quantity or quality. Thus, Islam has stressed that business transactions must be written to eliminate any ambiguity and reduce any potential might happen in future disagreement (Ismail, 2001).

e. *Maiser* (gambling) is also prohibited and transaction should be free of *Ghrar* (speculation or uncertainty) In business terms, *gharar* means to undertake a venture blindly without sufficient knowledge or to undertake an excessively risky transaction, although minor uncertainties can be permitted when there is some necessity (Lewis and Hassan, 2007).

f. All investments should be complied with legal products, meaning that all products should be useful not harmful as it is defined in Holy Qur'an (Lewis, 2001). For example, dealing with alcohol is not Islamically acceptable and should not be financed.

g. Levy (*Zakat*) should be paid by the banks to benefit society (Lewis and Hassan 2007). Finally, if these rules are applied concisely, banking system will be totally Islamic.

2.1. **History and Growth of Islamic Banking**

Pre 1950s, Muslims were able to establish a system without interest for mobilizing resources to finance productive activities and consumer needs, but Islamic finance remained dormant (Molyneux and Iqbal, 2005). When commercial banking emerged, very large majority of *Shari'a2* scholars objected banks mechanism due to reliance on interest rate.

From 1950s to 1960s, initial theoretical work in Islamic economics began. Islamic economists offered the first description of non-interest bank that is based on two-tire *Mudarabah* (profit-loss sharing contracts) or *Wakalah* (unrestricted investment account in which the Islamic bank earns a flat fee). Egypt and Malaysia took the initiatives to build non-interest financial institutions that really comply with Islamic economic principles (Greuning and Iqbal, 2008).

In 1970s, during oil revenues phase, Middle East saw a much rooming of small commercial banks competing for surplus funds. At the same time, the idea of non-interest theory grew to take a place. The first commercial bank was established in United Arab Emirates (UAE) in 1974 on private initiative, followed by Islamic Development Bank (IDB) establishment as an international financial institution in 1975 held in Jeddah, Saudi Arabia (Greuning and Iqbal, 2008).

In 1980s, this stage proved to be the beginning of rapid growth of Islamic finance industry. The major development was establishment of Islamic and Training Institute by IDB to continue research at the conceptual and theoretical level. Many countries such as Bahrain and Malaysia promote Islamic banking. In addition, banking systems were converted to be noninterest institutions in Iran, Pakistan, and Sudan. Above of that, western commercial banks helped Islamic banks to take a place by providing commodity and resell them at a markup amount. Consequently, these banks started offering Islamic Products through Islamic windows (Greuning and Iqbal, 2008).

Shari'a is Islamic religious law derived from the Holy Qur'an and the *Sunna*. While *Sunna* is a source of information concerning the practices of the Prophet Muhammad and his Companions, and is the second most authoritative source of Islamic law (Lewis and Hassan 2007).

The growth became steady in 1990s; the market attracted the attention of public lawmakers and institution interested in introducing innovative products. Accounting and Auditing Organization for Islamic Financial institution (AAOIFI) was established in Bahrain to highlight the special regulatory needs of Islamic financial institutions. Islamic insurance (*Takaful*) is introduced, Islamic equity Funds are also established (Greuning and Iqbal, 2008).

In the millennium, the Islamic financial services institution is formed to oversee corporate governance issues and make the regulations of the Islamic financial market. The banking industry has witnessed intensive competition in the market by offering innovative products and unique services. As a result, Islamic assets have grown between 15 per cent to 20 per cent annually for the past five years, which makes Islamic banking one of fastest-growing sector in the global financial services industry (Booz & Company 2008).

Though being as ages old practice, Islamic Banking (interest free banking) has been thought of as early as 1940s. The Muslim researchers had thought of interest free banking at a micro economic level when they were developing macro economics model The first of Islamic Econo Banki 1963 by Ahmad El Najjar as "Nasir Social Bank", the bank following profit sharing but interest-free commercial free co bank without any reference being made to Islam.

In 1974, "Islamic Development Bank" (IDB) Countries as an was inter set u government bank to promote Islamic Banking with the objective of providing development funds for Infrastructure development projects in developing or less developed countries . According to a survey, there are more than 350 listed and unlisted

Islamic Financial Institutions operating throughout the world. A regulatory agency in the name of *Accounting and Auditing Standards for Islamic Financial Institutions* (AAOIFI) had been established in 1991 by a group of big Islamic Financial Institutions to regulate the functioning of these banks. At present, Islamic Banks are managing more than US$ 1300 billion per annum.

3. Banking products and services

Muslim Jurists are of the view that reward for capital should be linked with the outcome of the underlying project if financing facility is being extended and/or reward should be obtained through trade involving sale and purchase. Hanif & Iqbal, (2010), categorized Islamic modes of financing objectively in two heads; Sharia compliant and Sharia based.

- **Sharia compliant products** mean the modes of financing where return of financier is predetermined and fixed but within Sharia constraints. The tools which are relatively harmonizing the operations of Islamic financial system with conventional banking includes Murabaha (cost plus profit sale), Ijara (a rental arrangement), Bai Salam (spot payment for future delivery), Bai Muajjal (sale on deferred payment), Istasna (order to manufacture) and Diminishing Musharaka (house financing) are all Sharia compliant products.
- **Sharia based transactions** means the financing modes adopted by IFIs on profit and loss sharing basis including Musharaka (partnership in capital) and Mudaraba (partnership of capital and skill). Under Sharia based modes of financing returns of financier are not fixed in advance rather it depends upon the outcome of the project.
- **Microfinance:** It is ideologically compatible with Islamic finance, capable of Shariah-compliancy, and possesses a sizeable potential market. Islamic microfinance tools can enhance security of tenure and contribute to transformation of lives of the poor. Already, several microfinance institutions (MFIs) such as FINCA Afghanistan have introduced Islamic-compliant financial instruments that accommodate sharia criteria.
- **Equity Funds:** Islamic investment equity funds market is one of the fastest-growing sectors within the Islamic financial system. Currently, there are approximately 100 Islamic equity funds worldwide. The total assets managed through these funds currently exceed US$5 billion and is growing by 12–15% per annum. With the continuous interest in the Islamic financial system, there are positive signs that more funds will be launched. Some Western majors have just joined the fray or are thinking of launching similar Islamic equity products. Most of the funds tend to target high net worth individuals and corporate institutions, with minimum investments ranging from US$50,000 to as high as US$1 million. Target markets for Islamic funds vary, some cater for their local markets, e.g., Malaysia and Gulf-based investment funds. Others clearly target the Middle East and Gulf regions, neglecting local markets and have been accused of failing to serve Muslim communities. Since the launch of Islamic equity funds in the early 1990s, there has been the establishment of credible equity benchmarks by Dow Jones Islamic market index (Dow Jones Indexes pioneered Islamic investment indexing in 1999) and the FTSE Global Islamic Index Series. However, The London Stock Exchange's markets are increasingly attractive to those wishing to invest or raise funds in a Shariah-compliant way.
- **Derivatives:** With help of Bahrain-based International Islamic Financial Market and New York-based International Swaps and Derivatives Association, global standards for Islamic derivatives were set in 2010. The "Hedging Master Agreement" provides a structure under which institutions can trade derivatives such as profit-rate and currency swaps.
- **Sukuk Bonds: '**Sukuk' is the Arabic name for financial certificates that are the Islamic equivalent of bonds. However, fixed-income, interest-bearing bonds are not permissible in Islam. Hence, Sukuk are securities that comply with the Islamic law (Shariah) and its investment principles, which prohibit the charging or paying of interest. Indeed, the one aspect of the Islamic finance industry that has enjoyed undisputed success is the sukuk market. The most significant industry trend in 2011 was the sukuk comeback and it has continued to go from strength to strength. It has been characterized not only by the pioneering development of new structures, but also several new entrants to the market, especially from non-traditional issuers, while US dollar-denominated sukuk issuance doubled from $9.5bn in 2011 to $18.4bn in 2012.

This helps to understand that most of the world renowned banks like HSBC, Royal Bank of Scotland, BNP Paribas and Deutsche Bank, Société Générale have all created separate desks to cater to Islamic structuring.

The average number of Islamic banking products per customer is just over two, whereas leading traditional banks have an average of five products per customer. Building consumer confidence through service excellence, especially when it comes to customers opening accounts and cross-selling can increase the market share of Islamic banks by 40% from these customers and another major opportunity for Islamic banks is to assist the SME sector with their cross-border business growth(Ashar to EY,2013).

4. Challenges of Islamic Banking:
Although Islamic banking faces multi challenges, however, out of them these are very important for its existence and success.

- First is Sharia compliance in its operations in an environment which is dominated by interest based practices even in Muslim societies.
- Second is perception of financial industry practitioners about its performance whether the system is able to serve the total needs of trade and industry.
- Third is the perception of a large majority of Muslims whether existing practice of Islamic banking is Sharia compliant or mere copy of conventional practices under the banner of Sharia.
- Fourth is number of banking products and services are less in Islamic banking than the conventional banking. Hence, it is not easy to induce more customer community.

5.Role and Progress Islamic Banking(RPIB):
A.Islamic Banking in India
There is a growing awareness about the benefits of Islamic Banking concepts among Indian financial sector also. It is being increasing felt that there is an enormous potential market for Islamic banking products in India, taking into account the large Muslim population base (approximately 170 million). As we know Islamic banking prohibits use of money for activities related to gambling and wine as well as prohibits interest-based lending. Islamic Banking can help India by providing long term funds for infrastructure development. India at present requires over $900 billion for creating new infrastructure facilities in different sectors of the country. According to M.Y.Khan, former Economic Advisor to Securities and Exchange Board of India (SEBI), Islamic Banks make use of the principle of *'Almudarib-udraib',* which means that these banks mobilise funds on the basis of profit sharing and extend the same to the users. Several Indian banks were shown inclination to undertake this form of interest free, but profit sharing. In the two-days conference organised by 'Indo-Arab Economic Cooperation Forum' in 2007, Rajya Sabha Deputy Chairman Rahman Khan expressed to the press reporters that Islamic Banking is a $ 700 to $ 800 billion market and is growing at a rate of 10% to 15% per annum to reach $2-3 trillion in forth coming decade. According to him, Islamic banking will provide financial alternatives to 170 million Indian Muslims who are second largest population after Indonesian Muslims, of which 70% to 80% who do not deposit money in banks because of religious beliefs. He quoted former Finance Minister P. Chidambaram and welcomed this new idea after meeting a delegation of Bankers. Minister of State for Finance, Palami Manickam said that Islamic banking addresses the concerns of the poor and helps in building a "more just adaptable socio-economic order". According to him Reserve Bank of India has already started negotiating with member banks to offer Islamic banking products to meet the emerging competition in this area. Sulaiman Al-Qimalas, Deputy Chairman and Managing Director of Bayt Al Mal, which is a major financial institution in Kuwait, showed interest in getting a license to start an Islamic banking division in India in collaboration with Indian partners. In this connection Reserve Bank of India also set up a Committee headed by Mr. Anand Sinha, Department of Banking Operations & Development, to look into the minute details pertaining to Islamic Banking.
Various Islamic Organisations like Jamat-e-Islami are taking an active interest in establishment of Islamic Banking operations in India. Its Maharashtra Chapter had recently organised a seminar on "Islamic Banking and India". On this seminar various Islamic scholars and former senior bankers were invited to share their thoughts on Islamic Banking. The University of Hyderabad, a Central University has introduced a Post-Graduate Degree Programme in Islamic Economics, Banking and Finance in association with the Institute of Islamic Banking and Finance (IIBF), Hyderabad. After Islamic banking, the Reserve Bank of India is also exploring Islamic insurance (takaful). In fact, the Life Insurance Corporation of India (LIC) started a new international joint venture company in the name of "Indo-Saudi Insurance Company" which will be the first insurance company to introduce Islamic Insurance (takaful). The Arabic world "takaful means "guaranteeing each other" or "joint guarantee" or "bearing each other's burden" whereby policyholders contribute a certain amount towards a common pool. Each member's contribution helps in providing assistance to the needy policyholders. This system, to a certain extent, resembles the chit funds operating under Madras Chit Fund Act in South India. The basic motto behind is bear each other's burden arising from uncertainty in future. In case of Indian Mutual Fund industry has already got activated and has started developing schemes based on Islamic Financial concepts as large number stocks in Indian stock market are satisfying the norms of Islamic Laws. In India, Information Technology sector solution providers are finding a new sector coming up for automation. Banking software providers would like to cash on the $300 billion Islamic banking market on an automation spree; Indian IT solution providers like Infosys, Infra-soft Technologies, I-flex, Polaris etc, are already on the way of to implement customized Islamic Banking software. The Arab National Bank has licensed the complete Finacle universal banking solution including Islamic Banking.

B. Islamic Banking in Ethiopia and Africa:

Ethiopia is one of the developing economies in African continent in recent times with around 93 million population. In this country financial markets and infrastructure areas are in well growing condition in recent times. It is looking like gateway to the African countries. Relating to interest-free banking previous attempts were very less, now it is in booming condition. Recently National Bank of Ethiopia (NBE) directive allowed banks to provide interest-free banking service using a separate window along with their other banking services. Oromia International Bank (OIB), a private financial institution, becomes the first to implement interest-free banking [Islamic banking] in Ethiopia. This bank was established October 25, 2008 and has 68 branches in Addis and all over the country and has set a target to open an additional 40 branches during the current fiscal year. It is having more than 4000 customer base and daily deposits are around two to two and half million birr per day on an average.

In case of Africa, Progress Report on the Islamic Development Bank (IDB) Group's **Special Program for the Development of Africa (SPDA)** for the year 1433H (2012G). The SPDA which had a five-year implementation timeframe (2008- 2012G) was aimed at scaling up IDB Group's interventions in Africa, to support their poverty reduction and economic growth endeavours. Through this programme IDB group contributed lot of amount for the development of education, road formation, bridges, irrigation, agricultural development, sanitation, primary health centers improvement activities, hospital constructions, electricity generation projects in 22 countries of Africa.

The SPDA had an ambitious total financing package of US$ 12 billion of which, the IDB Group earmarked US$ 4 billion as direct financing with US$ 8 billion from partners. After five years of implementation, IDB Group approvals exceeded the earmarked target by US $ 1 billion. Cumulatively, total approvals by the IDB Group amounted to US$5 billion for 480 operations and represent an "achievement rate" of 125%. Partners' contributions during the Program amounted to US$ 7 billion which brought the total cost of all the projects financed (including government contributions) to US$ 12 billion, just reaching the target. Even though partners' contributions did not meet the target (US$ 8 billion), however this was compensated for by the IDB Group approvals over its programed target as mentioned above.

C. Islamic Banking rest of the world:

- **Saudi Arabia**

Saudi Arabian banking sector has the largest market of Islamic finance in terms of assets' size. The largest Islamic bank in the world, Al-Rajhi Banking and Investment Corporation, is based in Saudi Arabia (Melatybt, 2008).

Most of Saudi banks emerging conventional business with *Shari'a*-compliant business, which makes it hard to realize how much *Shari'a*-compliant business banks are doing. All Saudi banks reporting results at the end of 2009, four banks (namely Al-Rajhi Bank, Aljazira Bank, Albilad Bank and Alinma Bank) represent that all their operations are conducted with compliance of Islamic principles. Thus, loans and advances of these banks (termed to financing or investments) are based on Islamic principles. The other banks are including a note regarding the size of Islamic product provided as a part of loans and advances note on the balance sheet.

- **Malaysia:**

The first Islamic bank was established in Malaysia in 1983. In 1993, commercial banks, merchant banks and finance companies begun to offer Islamic banking products and services under the Islamic Banking Scheme (IBS banks). The IBS banks have to separate the funds and activities of the Islamic banking transactions from the conventional banking. Currently, there are 19 banks(including 2 IIBs), representing about 34 per cent of total number of banks in Malaysia. Nearly, all conventional banks are having Islamic banking operations. As yet May, 2009, the total Islamic Banking Sector in Malaysia by asset size stands at RM203 billion (in USD 58 billion) and it is regulated by Securities Commission of Malaysia(SCM).

International Islamic Banks (IIBs) are qualified foreign or Malaysian financial institutions that conduct a wide range of international Islamic Banking business in international currencies other than Ringgit in Malaysia with residents and non-residents. Islamic banking business in international currencies include

- Commercial banking business;
- Investment banking business;
- Other banking businesses in Malaysia, as may be specified by the central bank, Bank Negara Malaysia (BNM).

These businesses include dealing in international currencies, deposit-taking, provision of finance,
Investment banking services, investment in securities and properties. All IIBs are governed and licensed under the Islamic Banking Act (IBA) and may be established either as a subsidiary or branch in Malaysia,100 % foreign equity- ownership allowed.

- **Turkey**

Interest-free banking was introduced to Turkey in 1985 via the establishment of two finance houses, following the government's special legislation on this banking, issued in December 1983. By the end of 1996, the establishment of Bank Asya took the total of these finance houses to six. One of the key players in the market is Bank Asya. Established on 10 October 1996 as a Turkish private finance house, Main objective of Bank Asya, which accepts supporting production by complying with the requirements of interest-free banking as the foundation principle, is to spread interest-free finance system to larger masses by using the latest opportunities of technology in accordance with customer-oriented service mentality. In this direction Bank Asya carries out its activities with **282 branches** (including Erbil Branch and our travelling branch), 2 national and 1000 foreign correspondent banks besides the head office units as of July 2013. Bank Asya, the first private finance house having ISO 9001 Quality Management System Certification, is in service with its organization and wide range of products meeting all needs and demands of its customers for retail, commercial and corporate banking. Bank Asya ranks among the top 15 banks in Turkey by asset size, with total assets reaching USD more than 3.1 billion as of year-end 2011, and market share of approximately 1.2% of the total banking market in Turkey. The bank is the largest among the four participation banks in Turkey, with a 30% market share. Bank Asya received the Business Continuity Management Systems Certificate from the British Standards Instituition Bank Asya has become the first Turkish organization to receive this certificate. Bank Asya has been selected “The Best Commercial Bank of 2011 in Turkey” Award by World Finance. Paksit and DIT Pratik have been released for customer usage.

Conclusion

Finally, it shall be in the interest of India to allow Islamic banks to operate and expand their network in the country along with traditional banks as their main focus is on social well being and wealth generation activities in the society. There is a hope that allows Interest-free banks in India will lead to further infra-cum-economic development along with our organised Indian banking system. Because, all people will get benefit on the basis of religious beliefs and further, Indian industries will grow by getting lot of foreign funds from IDB, Gulf region and can use these funds on win-win basis.

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