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**UNDERSTANDING
MONETARY POLICY SERIES
NO 16**

NON-INTEREST (ISLAMIC) BANKING

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Central Bank of Nigeria

Mandate

- Ensure Monetary and Price Stability
- Issue Legal Tender Currency in Nigeria
- Maintain External Reserves to safeguard the international value of the Legal Tender Currency
- Promote a Sound Financial System in Nigeria
- Act as Banker and Provide Economic and Financial Advice to the Federal Government

Vision

“To be a people-focused Central Bank promoting confidence in the economy and enabling an improved standard of living”

Mission Statement

“To **ENSURE** Monetary, Price and Financial System Stability as a Catalyst for Inclusive Growth and Sustainable Economic Development.”

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Partnership
Accountability
Courage
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MONETARY POLICY DEPARTMENT

Mandate

To Facilitate the Conceptualization and Design of
Monetary Policy of the Central Bank of Nigeria

Vision

To be Efficient and Effective in Promoting the
Attainment and Sustenance of Monetary and
Price Stability Objective of the
Central Bank of Nigeria

Mission

To Provide a Dynamic Evidence-based
Analytical Framework for the Formulation and
Implementation of Monetary Policy for
Optimal Economic Growth

FOREWORD

The Understanding Monetary Policy Series is designed to support the communication of monetary policy by the Central Bank of Nigeria (CBN). The series therefore, explain the basic concepts/operations, required to effectively understand the monetary policy framework of the Bank.

Monetary policy remains a very vague subject area to the vast majority of people in spite of the abundance of literature on the subject, most of which tend to adopt a formal and rigorous professional approach, typical of macroeconomic analysis.

In this series, public policy makers, policy analysts, businessmen, politicians, public sector administrators and other professionals, who are keen to learn the basic concepts of monetary policy and some technical aspects of central banking, would be treated to a menu of key monetary policy subject areas that will enrich their knowledge base of the key issues.

In order to achieve the primary objective of the series therefore, our target audience include people with little or no knowledge of macroeconomics and the science of central banking and yet are keen to follow the debate on monetary policy issues, and have a vision to extract beneficial information from the process. Others include those whose discussions of the central bank makes them crucial stakeholders. The series will therefore, be useful not only to policy makers, businessmen, academicians and investors, but to a wide range of people from all walks of life.

As a central bank, we hope that this series will help improve the level of literacy on monetary policy and demystify the general idea surrounding monetary policy formulation. We welcome insights from the public as we look forward to delivering contents that directly address the requirements of our readers and to ensure that the series are constantly updated, widely read and readily available to stakeholders.

Hassan Mahmud, Ph.D

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UNDERSTANDING NON-INTEREST (ISLAMIC) BANKING ¹

Patricks Ogiji ²

Abstract

Against the backdrop of growing demand for the provision of Islamic financial services and products, this article explains some basic issues relating to the evolution and practice of Non-interest or Islamic banking in Nigeria, where the broad objective of Non-interest banking is to promote financial inclusion and deepen financial intermediation. With an annual growth rate of about 10 per cent globally, Islamic Financial Services continue to grow as a result of increased awareness, expanding demand for Islamic financial products and the abundant opportunities that Shariah-compliant financial assets provide within the global financial architecture. Though relatively small compared with its conventional counterpart, Islamic financial services are forecast to continue to enjoy this growth as the demand for Islamic finance increases, and as financial institutions, particularly non-Islamic banks become more innovative and competitive in the provision of Islamic financial instruments required to fulfill Shariah requirements. Already, some conventional banking and insurance institutions have created Islamic Banking windows within the conventional structure to enable investors to patronize Islamic financial products. As expected, the proliferation of Islamic finance has created challenging issues relating to how these Islamic financial institutions can adequately manage their liquidity outside of the conventional methods by ensuring that all instruments for liquidity management are Shariah-compliant. There is, therefore, an urgent need for institutions providing Islamic financial services to remain proactive in designing products that are Shariah-compliant and in responding to the dynamics of the global financial requirements to make Islamic finance more attractive and viable alternative to investors.

¹This publication is not a product of vigorous empirical research. It is designed specifically as an educational material for enlightenment on the monetary policy of the Bank. Consequently, the Central Bank of Nigeria (CBN) does not take responsibility for the accuracy of the contents of this publication as it does not represent the official views or position of the Bank on the subject matter.

²This publication was originally authored by **Patricks Ogiji** in 2013 (Principal Manager in the Monetary Policy Department, Central Bank of Nigeria) and revised/reviewed in 2021 by **Patricks Ogiji** (Assistant Director, Monetary Policy Department, Central Bank of Nigeria)

SECTION ONE

Introduction

Non-interest or Islamic banking is principally based on the principles of profit and loss sharing and the prohibition of interest (*receipt and payment*) as enshrined in Shariah or Islamic law. Non-interest (Islamic) banking in Nigeria is covered by BOFIA 1991 (as amended). Its establishment in Nigeria is principally driven by the desire to promote financial inclusion. However, prospective applicants for a Non-interest (Islamic) banking license are required to have a technical agreement with an established Islamic bank. The CBN re-issued a revised Framework/Guideline on non-interest banking in Nigeria. The Bank granted approval to Jaiz and Taj banks to operate as full-fledged Islamic banks, while Sterling Bank and Stanbic IBTC were to operate Islamic banking windows. It is expected that in the future, the introduction of Non-interest (Islamic) banking will create employment opportunities in projects like power, road, and railways through Islamic financing modes of *Sukuk, istisna*, etc.

Currently, there are over 435 Islamic financial institutions operating in 75 countries worldwide, including the United States, the United Kingdom, Singapore, Japan, Bahrain, etc. The attraction for non-interest (Islamic) banking is thus, expanding gradually. Within the Economic Community of West African States (ECOWAS) sub-region, guidelines for non-interest banking have been issued by regulatory authorities in Senegal and Gambia.

The overall objective of this series is to highlight some basic concepts of Non-interest or Islamic banking. Following the introduction, section II discusses the origin and features of Islamic Banking, while section III deliberates on the conceptual issues in non-interest (Islamic) banking. Section IV presents the linkage between non-interest (Islamic) banking and monetary policy. Section V outlines regulatory frameworks for non-interest banking while section VI provides the conclusion.

SECTION TWO

THE ORIGIN AND FEATURES OF NON-INTEREST (ISLAMIC) BANKING

2.1 The Origin of Non-Interest (Islamic) Banking

The history of modern Islamic finance could be traced to a small rural banking experiment in a remote village called Mit Ghamr in Egypt in 1963, where Islamic thinkers began to explore ways of organizing commercial banking on an interest-free basis. It, however, started formally in the Middle East in 1975. The following types of accounts were used:

- a) Savings accounts
- b) Investment accounts
- c) Zakat accounts

No interest was paid on the savings accounts, but withdrawals could be made on-demand. Small, short-term, interest-free loans for productive purposes could also be made. Funds in investment accounts were subject to restricted withdrawals and invested based on profit-sharing. The zakat account attracted the official amount of zakat.

The Mit Ghamr project was successful, as deposits increased between 1963 and 1966. The Bank was cautious, rejecting about 60 per cent of loan applications and the default ratio was zero in economically good times. Though, the Mit Ghamr project was eventually abandoned for political reasons, it demonstrated that commercial banking could be organised on a non-interest basis. The phenomenal growth in Islamic finance, especially in the last four decades of the evolution of the Non-interest (Islamic) banking industry, led to several Islamic banks that were established under heterogeneous social and economic environments. Presently, non-interest (Islamic) banking has reached a level where both local and international banks are offering a wide range of Non-interest (Islamic) banking products and services.

Non-interest (Islamic) banking is currently operational in Asia, Europe, and the Americas. The Islamic finance industry is currently about 1 per cent of the global financial industry, and non-interest (Islamic) banking is growing at an estimated annual rate of 10 per cent. The major Islamic finance centers are Malaysia, Bahrain and the United Arab Emirates UAE (Islamic Financial Services Board, IFSB, 2008).

The successful operation of these centers and growth of Islamic banking, has established that Non-interest (Islamic) banking is a viable and robust alternative to regular commercial banking. Islamic finance gained additional prominence when Western multinational banks, as well as medium and small conventional banks developed Non-interest (Islamic) banking windows. Islamic finance products developed from a simple cooperative model such as pilgrimage funds to the present financing modes of *Mudarabah*, *Musharakah*, *Istisna*, *Ijarah*, and *Sukuk*.

2.2 The Fundamental Features of Non-Interest (Islamic) Banking

The strength of the Islamic mode of finance in recent years has been sustained by the application of some fundamental Islamic principles. One key principle is the fact that Islamic transactions are asset-backed, an attribute that has increased patronage given the recent global financial crisis. Some of the fundamental features of Non-interest (Islamic) banking include:

- a. Prohibition against the payment and receipt of a fixed or pre-determined rate of interest. Instead, Non-interest (Islamic) banking allows for-profit and loss sharing (PLS) arrangement, where the rate of return on financial assets is not known and not fixed prior to the undertaking of the transaction.
- b. Demand deposits are guaranteed in capital value, although no returns are paid because deposits are assumed to have been placed for safekeeping.
- c. Investment deposits are not guaranteed in capital value and do not yield any fixed or guaranteed rate of return.
- d. It is required that all transactions must follow the Islamic mode of financing. This mode affects both the asset and liabilities on a bank's balance sheet. In all, there are two (2) modes of Islamic financing: The Core mode which is based on profit and loss (PLS) principles, and the Marginal mode which is not based on PLS principles.

For a transaction to conform to Islamic rules and norms, five (5) religious features, which are well documented in the literature, must be followed in investment behaviour (Lewis and Algaoud, 2001):

NON-INTEREST (ISLAMIC) BANKING

- i. Riba (interest) is prohibited in all transactions.
- ii. Business and investment are undertaken based on halal (legal, permitted) activities.
- iii. Maysir (gambling) is prohibited and transactions should be free from gharar (speculation or unreasonable uncertainty)
- iv. Zakat (alms) is to be paid by the bank to benefit society
- v. All activities should be in line with Islamic principles, with a special Shariah board to supervise and advise the bank on the propriety of transactions.

The two major sources of funding for non-interest (Islamic) banking are deposits and *Sukuk (bonds)*. Deposits collected in this market are granular (diversified) with short maturities, and there is a mismatch between the demand for deposits and asset maturity. This makes Sukuk an increasingly popular alternative funding source for Islamic banks.

Overall, the IFIs funding continuum remains imbalanced due to the limited supply of Shariah-compliant Short-term papers (CDs, CPs), limited access to subordinated debt, almost no Islamic hybrids issued so far, and the need for risk-free Sukuk for liquidity and repo.

SECTION THREE

THE CONCEPT OF NON-INTEREST (ISLAMIC) BANKING

3.1 Prohibition of Interest

Riba is a word in Arabic translated to mean the charging of any form of interest which is money earned by lending out money, itself. The prohibition on paying or receiving fixed interest is based on the Islamic tenet that money is only a medium of exchange and has no inherent value. Therefore, money should not be allowed to give rise to more money via fixed interest payments. Following the above view, the human effort, initiative, and risk involved in a productive venture are more important than the money. Interest can lead to injustice and exploitation in society. The Qur'an (2:279) characterizes it as unfair, as implied by the word *zulm* (oppression, exploitation), the opposite of *adl* (justice).

Islam's prohibition of interest and usury is not unprecedented. The early Jewish and Christian traditions also forbade *riba*. Even the renowned Greek philosopher, Aristotle, condemned the acquisition of wealth through the practice of charging interest on loans. He opined that money was intended to be a means of exchange; interest represents an increase in the money itself. Hence of all ways of getting wealth, this is the most contrary to nature." (Aristotle, *The Politics*, tr. Sinclair, pg. 46), Penguin.

3.2 Profit-and-Loss Sharing

Islam allows various practices that do not involve charging or paying interest; however, the Islamic financial system promotes participation in transaction-backed real assets, utilizing the funds at risk on a profit-and-loss sharing basis. The participatory modes used by Islamic banks are known as *Musharakah* and *Mudarabah*.

The concept of profit-and-loss sharing in an enterprise, as a basis of financial transactions, is a progressive one as it distinguishes good performance from bad and mediocre performances. This concept, therefore, encourages better resource management. The Islamic Sukuk system is like bonds of the capitalist or conventional financial system, but in Sukuk, money is invested in concrete projects and the share of profit is distributed to clients instead of interest earned.

3.3 The Concept of Lending in Non-Interest (Islamic) Banking

There is no real 'lending' in Islam since all 'lenders' obtain ownership interests in the assets that they finance or earn a profit-share or purely fee-based remuneration. For an Islamic bank to earn a return on the money lent, it is necessary to obtain equity or ownership and interest in a non-monetary asset. This requires the lender to also participate in the sharing of risk.

SECTION FOUR

Non-Interest (Islamic) Banking and Monetary Policy

In most jurisdictions, the framework of monetary policy has not been fully adapted to accommodate the operations and peculiarities of Islamic banking. In any case, the response of Islamic banks to monetary policy shocks is expected to be different from that of conventional banks, due to the nature of Islamic banks which only deal with interest-free instruments. Thus, analyzing the impact of monetary policy shocks on Islamic banks can be challenging. This section discusses the linkages between monetary policy shocks and Islamic banking, to identify the response of Islamic banks to monetary policy.

4.1 What is Monetary Policy?

Monetary policy defines the specific actions of the Central Bank to regulate the quantity and availability of credit in the economy, to achieve some predetermined macroeconomic goals. The goal of price stability is of paramount importance to all central banks, however, most central banks pursue other objectives such as reduction in unemployment and achievement of sustainable economic growth, among others.

4.2 Linkage Between Non-interest (Islamic) Banking and Monetary Policy

The fundamental point of departure between Non-interest (Islamic) banking and monetary policy is because monetary policy implementation primarily relies on the adjustment of the policy rate, to influence credit conditions in the economy. On the contrary, there is no bank lending in Non-interest (Islamic) banking. Thus, the goals of Islamic banks and conventional ones are inherently contradictory, necessitating the need for policy flexibility, especially in a loan-based economy.

What is then the link? The real issue is to determine the policies and regulations and actions that become necessary as steps are taken toward accommodating Non-interest (Islamic) banking into mainstream economic activities.

SECTION FIVE

Regulatory Framework for Non-Interest (Islamic) Banking

Like their conventional counterparts, Islamic banks also require prudential supervision to reduce risks to the soundness of the banking system. In terms of the risk element, insolvency risks cannot be ruled out in the case of asset and liabilities mismatch. Furthermore, economic losses could be incurred if the bank makes poor investment decisions. More so, unsound banks may also erode public confidence in the banking system.

5.1 Institutional Arrangements for Supervision

The Islamic Financial Services Board (IFSB), an international standard-setting organisation, is vested with the responsibility for ensuring the soundness and stability of the Islamic financial services industry. IFSB issues global prudential standards and guiding principles for the industry. The Islamic finance industry covers the banking, capital markets, and insurance sectors.

For hedge fund-related issues and ensuring best market practices, the International Islamic Financial Services (IIFS) subscribes to the International Organization of Securities Commissions (IOSCO) standard, which is recognized as the international standard for the securities market. For instance, IOSCO's regulatory standards on hedge funds aim at addressing regulatory issues of investor protection, which could arise, due to the increased involvement of retail investors in hedge funds.

5.2 Risk Management Systems in Non-Interest (Islamic) Banks

The Non-interest (Islamic) banking model has evolved into a one-tier *mudaraba* with multiple investment tools. On the liability side of Islamic banks, saving and investment deposits take the form of profit-sharing investment accounts. Investment accounts can be further classified as restricted and unrestricted, the former having restrictions on withdrawals before the maturity date.

The risks inherent in the instruments used are still being studied. Generally, Islamic banks can be expected to face two types of risks: risks that are similar to those faced by traditional financial intermediaries and those that are unique, owing to their compliance with Shariah. Furthermore, Islamic banks are constrained in using some risk mitigation instruments used by their conventional counterparts, as they are prohibited under Islamic commercial law. The asset and liability sides of Islamic banks have unique risk characteristics. Demand deposits or cheque/current accounts in Islamic banks take the nature of *qard hasan*

(interest-free loans) that are returned fully on-demand. On the asset side, banks use *Murabaha* (cost-plus or mark-up sale), installment sale (medium/long-term *Murabaha*), *bai-muajjal* (price-deferred sale), *istisnaa/salam* (object deferred sale or pre-paid sale), and *ijara* (leasing), and profit-sharing modes of financing (*musharaka* and *mudaraba*). These instruments, a unique feature of Islamic banks, change the nature of risks they face. Some of the key risks faced by Islamic banks are discussed below.

- **Credit risk:** the probable loss of income, as a result of the counterparty's delay in payment, in part or in full, as contractually agreed can undermine all Islamic modes of finance.
- **Liquidity risk:** Islamic banks are prone to serious liquidity risks. First, there is a *fiqh* restriction on the securitization of the existing assets of Islamic banks, which are predominantly debt in nature. Second, because of the slow development of financial instruments, Islamic banks are also unable to raise funds quickly from the markets.
- **Market risks:** This can be systematic, arising from macro sources, or unsystematic, being asset or instrument specific. For example, currency and equity price risks would fall under the systematic category, and the movement in the prices of the commodity or in which asset the bank is dealing will fall under specific market risk.
- **Mark-up risk:** Islamic financial institutions use a benchmark rate to price different financial instruments. E.g. the nature of a *Murabaha* is such that the mark-up is fixed for the duration of the contract. Consequently, if the benchmark rate changes, the mark-up rates on these fixed income contracts cannot be adjusted.
- **Commodity/asset price risk:** arises as a result of the bank holding Commodities or durable assets as in *salam*, *ijara*, and *mudaraba/musharaka*.
- **Others include operational risk, legal risk, and fiduciary risk.**

The nature of risks faced by Islamic banks is complex and difficult to mitigate, for several reasons. First, unlike the conventional banks, given the trading-based instruments and equity financing, there are significant market risks along with credit risks in the banking book of Islamic banks. Second, risks intermingle and change from one kind to another at different stages of a transaction. For example, trade-based contracts (*Murabaha*, *salam*, and *istisna*) and leasing are exposed to both credit and market risks. For example, during the transaction period of a *salam* contract, the bank is exposed to credit risk and after the contract, it is exposed to commodity price risk. Third, because of the rigidities and deficiencies in infrastructure, institutions, and instruments, the risks faced are

magnified and/or difficult to mitigate. For example, there are objections to the use of foreign exchange futures to hedge against foreign exchange risk and there are no shari'a-compatible short-term securities for liquidity risk management in most jurisdictions.

5.3 Supervisory Cooperation in the Islamic Financial Services Industry

i. International Islamic Liquidity Management (IILM) Corporation

The Corporation, which was established in 2010, aims to assist institutions offering Islamic financial services in addressing their liquidity management, in what was described as "an efficient and effective manner". The initiative is expected to facilitate greater investment flows for the Islamic financial services industry. The IILM is expected to issue high-quality Sharia-compliant financial instruments for both national implementation and cross-border activities. The establishment of the IILM in the Islamic financial services industry will support the ongoing efforts by central banks and the monetary authorities, to enhance the efficiency of institutions offering Islamic financing services in managing their liquidity.

ii. International Islamic Financial Market (IIFM)

The Agreement to establish the IIFM was signed in November 2001 by the Governors of the Central banks /Monetary Agencies of Malaysia, Bahrain, Indonesia, Sudan, and the President of the Islamic Development Bank. Its main objectives are: (1) to spur the establishment and development of an international financial market based on Shariah'a rules and principles; (2) address the issue of liquidity management in Islamic banks; (3) develop an active secondary market, and (4) create an environment that will encourage both Islamic and non-Islamic financial institutions to actively participate in the secondary market. The IIFM will act as the focal point for the harmonization of Shariah'a interpretations in the global financial market and bridge the gap between the different Shariah'a interpretations. This is being achieved through the endorsement of Islamic instruments developed by financial institutions, and well-known scholars, representing a wide spectrum of Shariah'a schools of thought. This will allow, for instance, products developed in Malaysia to be accepted in the Middle East, Indonesia, or any other country and vice versa.

SECTION SIX

Conclusion

The objective of this paper was to highlight the basic concepts of non-interest or Islamic banking. The broad objective of Non-interest banking in Nigeria is aimed at promoting financial inclusion and deepening financial intermediation. Non-interest or Islamic banking is based on the principle of profit and loss sharing and the prohibition of interest (*receipt and payment*). It was also identified that Non-interest (Islamic) banking in its current form is different from mainstream/conventional banking. There is, therefore, the need for authorities to refocus the supervisory and regulatory framework to accommodate this fast-evolving model of providing finance. The fundamental point of departure between non-interest (Islamic) banking and monetary policy is that monetary policy implementation primarily relies on the adjustment of the policy rate to influence aggregate demand in the economy, on the contrary, there is no bank lending involved in non-interest (Islamic) banking.

This article also noted the growing demand for the provision of Islamic financial services and products globally, attributed mainly to increased awareness, expanding demand for Islamic financial products and the abundant opportunities that Shariah-compliant financial assets provide within the global financial architecture. It is expected that Institutions providing Islamic Financial Services (IIFS), would continue to enjoy relative growth so far as the demand for Islamic finance remains high as these financial institutions, particularly, non-Islamic banks, become more innovative and competitive in the provision of Islamic financial instruments that fulfill all Shariah-compliant requirements. As an example, some conventional banking and insurance institutions and investment houses have created Islamic Banking windows within the conventional structures to enable investors to patronize Islamic financial products.

On the critical issues affecting Islamic finance, the proliferation of Islamic finance remains a major challenge as Islamic financial institutions still grapple with how best to manage liquidity within the constraints of conventional banking methods by ensuring that all liquidity management instruments are Shariah-compliant. We, therefore, recommend the urgent need for institutions providing Islamic financial services to remain proactive in designing Shariah-compliant products and in responding to the dynamics in the global financial space to make Islamic finance a more attractive and viable alternative for investors.

Glossary of Terms

Bai Wafa- Buy-back, sale, and repurchase a contract with the condition that when the seller pays back the price of goods sold, the buyer returns the goods to the seller.

Fiqh - Rulings and interpretations of Islamic jurists

Gharz-al-hassaneh - (benevolent loan): this is a non-commercial facility without any expectation of profit. gharz –al – hassaneh loans are usually made to small producers, farmers and small-scale businesses, and the people who are unable to find financial sources for their personal needs. The ability of banks to grant this loan depends on the gharz –al – hassaneh saving deposits

Ijarah (1) - letting on lease. It also refers to a contract of a land lease at a fixed rent payable in cash.

Ijarah (2) - A form of leasing contract in which there is a transfer of ownership of service (for use of an asset) for a specified period, for an agreed-upon lawful consideration.

IIFS - Institutions Offering Islamic Financial Services

IFI - Islamic Financial Institution. It may be a bank or any financial institution conducting business according to the Shari'ah principles.

IFS - Islamic Financial Services

Ijarah - Partnership or part ownership

Istisna - Istisna or Istisna'a is a contract of sale of specified items to be manufactured or constructed, with an obligation on the part of the manufacturer or builder (contractor) to deliver them to the customer upon completion

Jualah - (transaction based on commission); this is a project undertaken by the bank (or customer) to pay a specific sum in return for a service as specified in the contract. Jualah is one of the short-term facilities which may be granted for the expansion of production, commercial, and service activities. The service to be performed and the fee to be charged must be determined at the time of the contract.

Musharakah - A contract based on profit- and loss-sharing. A Musharakah (partnership): the law recognizes two different forms of partnership, namely civil and legal partnership. A civil partnership is a project-specific partnership for short and medium periods. It is defined as the mixing of capital from a bank with the capital from a partner or partners (in cash or kind) on a joint-ownership basis for the performance of a specific job. The second form, i.e. legal partnership, is a joint venture for a long duration. In this case, it provides a portion of the total equity of a newly established firm or purchases part of the shares of the existing companies.

Mudarabah (1) - An investment partnership with profit-loss-sharing implications. One or more partners as investors (Rab al Mal) provide 100% the capital to an

entrepreneur (the partner who provides entrepreneurship and management known as *Mudarib*) to undertake a business activity.

Mudarabah (2) - A form of business partnership contract in which one party brings capital and the other personal effort to undertake a business enterprise, as manager or entrepreneur.

Mudarabah Sukuk - it is a contract in which all the capital is provided by the Islamic bank while the business is managed by the other party. The profit is shared in pre-agreed ratios. Any loss incurred other than by negligence or violation of terms of the contract by the '*mudarib*', is borne by the Islamic bank.

Mudarib - The partner in *Mudarabah* providing entrepreneurship and management to a partner providing the capital. Profit is shared between the partners on a pre-agreed ratio; any loss is borne by the investing partner alone

Murabaha (1) - sale on mutually agreed profit. Technically a contract of sale in which the seller declares the purchase cost and profit. A contract of sale between a seller and a buyer; the seller sells certain specific goods to the buyer at a cost plus an agreed profit mark-up for the seller. The seller must disclose the cost of goods and the profit mark-up.

Murabaha (2) - Cost-plus financing - a contract sale between the financier or bank and its client for the sale of goods at a price which includes a profit margin agreed by both parties.

Non-interest (Islamic) banking - Financial services that comply with the requirements of the *Shari'ah*. While designed to meet the requirements of the *Shari'ah*, Non-interest (Islamic) banking is not restricted to Muslims

Salaf - (purchase with differed delivery): banks can purchase goods from productive enterprises to provide them with working capital. Thus, instead of lending money, the bank buys part of the future products at an agreed price which must not exceed the market price of the product at the time of the contract

Shariah - Islamic law or Islamic jurisprudence.

Shari'ah-compliant - Term used in Islamic finance to denote a financial product or activity that complies with the requirements of the *Shari'ah*.

Salam - Bai-Salam is one of the important Non-interest (Islamic) banking products. A *salam* transaction is the purchase of a commodity for deferred delivery in exchange for immediate payment. It is a type of sale in which the price, known as the *Salam* capital, is paid at the time of contracting while the delivery of the item to be sold, known as *al-Muslim fihi* (the subject matter of a *Salam* contract), is deferred.

Sukuk - Islamic bond.

Takaful - a form of insurance based on the Quranic principle of mutual assistance (*ta'awuni*).

Takaful al ta'awuni - Cooperative concept of risk-sharing and mutual self-help by

members of a group or scheme.

Wa'ad - A promise, such as is found in purchase and sale undertakings used in certain Islamic finance transactions; a promise to buy or sell certain goods in a certain quantity at a certain future time, at a certain price.

Wadia - Safekeeping of goods with a discount on the original stated cost.

Wadi'ah - a safekeeping agreement- In Non-interest (Islamic) banking, *wadiyah* refers to the deposited property.

Wakalah - A contract of agency in which one party appoints another party to perform a certain task on its behalf, usually for payment of a fee or commission.

Wakil - In a *wakala* contract, a representative (agent), acts on behalf of the principal/investor.

Working Capital - Technically means current assets and current liabilities. The term is commonly used synonymously with net working capital. The term is also often used to refer to all short-term funding needs for operations (excluding debt service and fixed assets).

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