Journal of Sustainable Development in Africa (Volume 11, No.3, 2009)

ISSN: 1520-5509

Clarion University of Pennsylvania, Clarion, Pennsylvania

THE RELEVANCE OF ISLAMIC BANKING IN DEVELOPING ECONOMIES: A CASE OF ZIMBABWE

By: Kosmas Njanike

ABSTRACT

This study was carried out to establish the relevance of Islamic finance in developing economies. It strived to explore the background, issues and views of Islamic banking in relation to the financial system or structure in Zimbabwe's economy. The paper sought to assess the benefits of Islamic banking in developing economies and, to establish how it will solve the of interest rate regime dilemma facing Zimbabwe among other nations. Islamic finance would close the gap created by an ineffective interest rate regime between the surplus (savers) and deficit (borrowers) units currently in the economy. It was recommended that an Islamic financial system was not only theoretically viable, but had desirable characteristics that rendered it superior to a debt-based conventional system in Zimbabwe. The paper concluded that the crises we have been witnessing in the international system have set the stage for Islamic finance to demonstrate its viability as potentially a genuine alternative global financial system.

Keywords: Islamic Finance, Interest, Profit-and-Loss-Sharing (PLS)

INTRODUCTION

The Institute of Islamic Banking and Insurance London (IIBIL) refers to Islamic banking as a system of banking or banking activity that is consistent with Islamic Law (Sharia) principles and guided by Islamic economics. In particular, Islamic law inhibits usury, the collection and payment of interest, also commonly called Riba in Islamic discourse. Many of the principles which Islamic banking is based on have been commonly accepted all over the world, for centuries rather than decades. The outlawing of riba, a term that encompasses not only the concept of usury but also that of interest has seldom been recognized as applicable beyond the Islamic world, many of guiding principles have. The majority of these principles are based on simple morality and common sense, which form the basis of many religions, including Islam. The attractive features of the Islamic Banking system may go a long way into developing economies that have been subdued by high cost of capital or finance such as Zimbabwe. The universal nature of the principles is immediately apparent even at a cursory glance of non-Muslim literature. The background of this concept can be traced to the biblical era. Usury was prohibited in both the Old and New Testaments of the Bible, while Shakespeare and many other writings particularly those writing in the 19th century, have attacked the barbarity of practice. Much of the morality championed by Victorian writers such as Dickens ranging from the equitable distribution of wealth through to man's fundamental right to work is clearly present in modern Islamic society. Although the western media frequently suggest that Islamic banking in its present form is a recent phenomenon, in fact, the basic practices and principles date back to the early part of the seventh century. It is evident that Islamic finance was practiced predominantly in the Muslim world throughout the Middle Ages, fostering trade and business activities. In Spain and the Mediterranean and Baltic States, Islamic merchants became indispensable middlemen for trading activities. It is claimed that European financiers and businessmen later adopted many concepts, techniques, and instruments of Islamic finance. Disenchantment with the value neutral capitalist and socialist financial system led not only Muslims but also others to look for ethical values in their financial dealings and in the West some financial organizations have opted for ethical operations. In addition, Islamic law inhibits investing in businesses that are considered unlawful, or haraam (such as business that sell alcohol or pork, or businesses that produce media such as gossip columns or pornography, which are contrary to Islamic values. In the late 20th century, a number of Islamic banks were created, to cater for this particular banking market.

According to the Reserve Bank of Zimbabwe (RBZ) the adjustment and the realignment of the interest rate structure in Zimbabwe is designed to dissipate inflationary pressures and defend the currency, while ensuring consistency of returns between yields of different structures. In Zimbabwe the current interest rate regime is discouraging, with negative real interest rates prevailing on many investments (The Financial Gazzette, 2008). The macroeconomic environment remained volatile and was characterized by high interest rates, high inflation and shortages of foreign currency (RBZ Annual Report, 2006). The extent of financial disintermediation in the economy remains an issue of regulatory concern. RBZ maintained that balance sheets of most banking institutions remained inclined towards investments in the money market at the expense of traditional loans and advances to the corporate (productive) sector. The efforts by firms to expand or sustain production have been hampered by a number of challenges, which include among others: 1) punitive interest rates; and 2) lack of acceptable collateral. This paper seeks to establish how Islamic finance can close the financial gap prevailing in the Zimbabwe economy. In Islamic banking, interest (riba) is prohibited and most importantly, the project sponsored or financed becomes collateral.

The Islamic financial system employs the concept of participation in the enterprise, utilizing the funds at risk on a profit-and –loss-sharing (PLS) basis (Iqbal, 2001). This may imply that investments with financial institutions are necessarily speculative. This is mitigated by careful investment policy, diversification of risk and prudent management by Islamic financial institutions. It is possible, that investment in Islamic financial institutions can provide potential profit in proportion to the risk assumed to satisfy the differing demand of participants in the contemporary environment and within the guidelines of Shariah. The concept of PLS as a basis of financial transactions is a progressive one as it distinguishes good performance from the bad and the mediocre. This concept therefore encourages better resource management in an economy. Islamic banks are structured to retain a clearly differentiated status between shareholders' capital and clients' deposits in order to ensure correct PLS according to Islamic Law.

Islamic banking revolves around several well-established concepts, which are based on Islamic canons and adhere to the concepts of Islamic law. Since the concept of interest is forbidden in Islam, all banking activities must avoid interest. Instead of interest, the bank earns profit (mark-up) and fees on financing facilities that it extends to the customers. Also, depositors earn a share of the bank's profit as opposed to a predetermined interest.

This type of banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shariah, Known as Fiqh al-Muamalat (Islamic rules on transactions). Amongst the common Islamic concept used in Islamic banking are profit sharing (Mudharabah), safekeeping (Wadiah), joint venture (Musharakah), cost plus (Murabahah), and leasing (Ijarah) (Sarker, 1999).

Sarker (1999) stated that in an Islamic mortgage transaction, instead of loaning the buyer money to purchase the item, a bank might buy the item itself from the seller and resell it to the buyer at a profit, while allowing the buyer to pay the bank in installments. However, the fact that it is profit cannot be made explicit and therefore there are no additional penalties for late payment. In order to protect itself against default, the bank asks for strict collateral. The goods or land is registered to the name of the buyer from the start of the transaction. This arrangement is called Murabaha. Another approach is Ijara wa Iqtina, which is similar to real-estate leasing. Islamic banks handle loans for vehicles in a similar way that is selling the vehicle at a higher than market price to the debtor and then retaining ownership of the vehicle until the loan is paid.

There are several other approaches used in business deals. Islamic banks lend their money to companies by issuing floating rate interest loans. The floating rate of interest is pegged to the company’s individual rate of return. Thus the bank’s profit on the loan is equal to a certain percentage of the company’s profits. Once the principal amount of the loan is repaid, the profit-sharing arrangement is concluded. This practice is called Musharakah. Further, Mudarabah is venture capital funding of an entrepreneur who provides labor, while the bank provides financing so that both profit and risk are shared (Sarker, 1999). Such participatory arrangements between capital and labor reflect the Islamic view that the borrower must not bear all the risk/cost of a failure, resulting in a balanced distribution of income and not allowing lender to monopolise the economy.

Multiple interest rates have caused distortions of interest rates in Zimbabwe and its elimination may help significantly uplift the functionality of financial markets, promote business confidence through viability, and engender increased free enterprise. Monetary authorities have had a perennial problem of coming up with the proper interest rate structure in the economy. When the interest rate is less, saving is less than investment (Ederington and Lee, 1996). Depressed deposit rates are as low as 50% with lending rates averaging 1 200% as at 30 June 2008 (ZNCC, 2008). There is a shortage of saving in the economy and borrowers cannot find the loans they want but lenders are able to lend all the funds they have available at punitive rates. It is quite clear that two-tier (or more) interest rates cannot take the Zimbabwe economy forward (RBZ Monetary Statement, 2006). Changes in interest rates ultimately influence the real Gross Domestic Product (GDP) growth rate (Parkin, 1997). Parkin argued that the long-term interest rate is determined by saving and investment plans. There is also evidence of decline in real investment and contraction in the economy due to punitive interest rates (ZNCC, 2008). Islamic finance introduction in the economy will assist investors to get funds they demand and savers can lend all the funds they have available. The plans of savers and investors will be consistent with each other.

The research was motivated by the realization that over the last ten years there has been a massive contraction of the industry from primary to tertiary. The Gross Domestic Product (GDP) has declined resulting in a hyperinflationary environment with a number of firms closing (The Zimbabwe Independent). Among other reasons, the cost of capital or punitive interest rates was the main cause for unavailability of business. The paper was prompted by the global increase in inflation and interest rates that may result in firms operating below capacity due to prohibitive costs. Since Zimbabwe has had reduced influx of foreign capital, scrapping of interest rates may improve domestic resource mobilization hence production in the economy. Therefore there is need to address the issue of interest that directly affects the relationship of financial institutions, savers and investors. High inflation levels in Zimbabwe of 2.2 million per annum as at 30 June 2008 has marginalized a large part of the deposit market and reduced the demand for credit while causing volumes of reductions in savings. This paper seeks to provide insight on Islamic Finance to the fiscal and monetary authorities as an alternative or solution to the problems associated with interest rate regime. It therefore gives a background of Islamic finance and assesses the performance/benefits of Islamic banking in developing economies. The study establishes how Islamic finance will ease interest rate regime dilemma in developing economies.

Research Questions

This paper, thus, strives to answer the following research questions:

(i) What are the benefits derived from Islamic banking in developing economies?

(ii) Is Islamic banking the solution to interest rate regime problems in Zimbabwe?

CONCEPTUAL FRAMEWORK

The natural consequences of elimination of interest as alluded to earlier is the elimination of money market. In a non-interest system, credit is based on a Profit Loss Sharing Principle (Sarker, 1999). According to Sarker (1999) Islamic business contracts can be classified into three broad categories:

1) Business contracts on the basis of Direct Financial Accommodation or Uqud al- Ishtirak: Profit Sharing Principle, profit Loss Sharing Priciple, and Output Sharing Principle.

2) Business contacts on the basis of Indirect Financial Accommodation or Uqud al-Muawadhat: Mark-up based Principle, Lease based Principle and Advance Purchase Principle.
3) Other forms of permissible contracts are: Direct Investment, Finance on Development Charge, Rent-Sharing on the basis of construction/purchase of houses/flats, go downs, sheds etc on co-ownership basis, Investment Auctioning, Syndication and consortium Financing.

The major motive to use money is for transaction purposes, which underlies the structure of ordinary demand and supply schedules for goods and services (Samad and Hassan, 1999). Based upon the logical statement that "the speculative motive is derived from money's use as an asset, as a store of value", money can no longer possess the "store of value function" in an Islamic framework (Harcourt, 2004). Khan (2004) argued that removal of interest and all its derivatives (i.e., lending on interest, money market and speculation) from an economy will lead Islamic banks to finance investment projects through Profit and Loss Sharing (PLS). The criteria to be used by such banks are both profitability and feasibility of the projects. Hence, projects compete with each other on the bases of their Internal Rates of Return (IRR). However, the criterion used by a potential investor is IRR of a specific project. The role of the central bank in determining arrays of IRRs for different sectors and various activities is highly valuable in channeling resources into proper projects (Toutounchian, 2005).

Toutounchian (2005) stated that ranking IRRs in descending order, an investor would first choose the project with the highest IRR. However, the rule, which seems appropriate in choosing the amount to be invested, is "cut-off rate". The maximum amount one investor is willing to invest in a project is determined by the IRR of the next project whose value is almost equivalent to the chosen project, without it being "the opportunity cost" of capital. Harcourt (2004) argued that cut-off rate is mistakenly interpreted as opportunity cost. .In capitalist system, rate of interest is justifiably used as the opportunity cost of capital. It is well justified that interest rate is essentially determined independently from the rate of return in the real sector of the economy. However in the absence of interest, projects compete with each other to obtain finance from Islamic bank on the basis of their IRR because there is no other alternative (Makiyan, 2001). Comparison among various IRRs brings about the role of cut-off rate without anyone of them becoming opportunity cost of another project. Cut off rate functions as a signal to show an investor up to what point he should invest and where to stop and select another project (Dar and Presley, 2000). Interdependencies among various investment projects produce cut off rate the special character and function of which differ from those of interest rate.

After confirmation of their feasibility and profitability by Islamic bank's qualified personnel, projects become eligible to obtain finance; furthermore, the projects themselves become collateral for finance. Collateral as a requirement to the accessibility of a credit facility in conventional banking would be waived, as the projects themselves would become security to obtain finance (Haron and Ahmed, 2000). There are a lot of unemployed factors of production in Zimbabwe suitable to be utilized in investment, projects have to be financed by Islamic banks no matter how much money is required to finance them. This solves the problem of disintermediation created by unattractive deposit rates and punitive lending interest rates in the economy.

Islamic modes of contract can be classified into two broad categories: (1) those with variable return and (2) with fixed return (Sarker, 1999). Musharakah and Mudarabah contacts fall into the first classification and Instalment Sales, Hire-Purchase, Joalah, and the like into the second one. Musharakah (i.e. PLS) has well and rightly been recognized as the core of Islamic banking. In Mudarabah contract labor has no responsibility as to any loss that may occur provided that it had done its best. The second class of contracts may be defined as auxiliary contracts, which could be used in conjunction with and after the first category has been utilized. Risk is involved with the first type but the second is risk less, which is more appealing to Islamic banks.

According to Harcourt (2004) the primary function of banks is to deal with "money", one cannot speak about "banking" without referring to money. Interest and profit, although being clear concepts, have been subjected to many misunderstandings. Harcourt clarified that interest and profits are rewards to money and capital investment, respectively. In other words, capital investment produces profits and money produces interest. He described interest as a normative concept (basically discussed in schools of economic thoughts), which can neither be proved nor refuted by use of scientific tools of analysis. There is general apprehension about the applicability of profit and loss (interest free) banking in the economic system (Khan, 2001). The common question that is generally raised is how the financial system can operate without interest? The savers in the economy need reward for parting their savings to deficit units in the economy (Fry, 2005). According to classical school, interest rate represents the rate of exchange between present and future goods (Khan, 2001). Khan maintained that the rate of interest signifies the price of a loan of present money in return for a promise to repay future money. Since the interest is the price of credit, the factors determining interest rate are rather naturally analyzed in terms of demand and supply of loanable funds.

This school of thought uses productivity and thrift and interest rate as corner stone of theory of finance. Interest rate does every thing to encourage savings and stimulate demand for savings. This concept is apparently not compatible with the philosophy of profit and loss based on supply of savings and demand for it (Dar and Presley, 2000). Another equally important school founded by Keynes has shown some reservations for the above theory (Ahmed, 2003). Keynes insisted that savings and investment varied directly with the level of income and in turn they determine extent of aggregate demand and thereby level of income. Thus interest rate is not a factor in determining economic activity. It is the profit and loss that guides the economic process. Even in a monetary framework in free market economy, the banks or the lenders do not determine interest rate independently. They have to keep in mind demand for funds and supply of funds with them.

There is a view that finance is not a capital, it is only potential capital and requires the services of the entrepreneur to transform it into real assets for actual productive use (Ahmed, 2003). The lender has nothing to do with the conversion of money into capital and with using it productively. The whole risk is thus bond by the user of finance. In such a system, resource mobilsation or creation of liabilities by the Islamic banks on the one hand and utilization of these resources or financing of assets of other entities by Islamic banks on the other hand assumes importance. The bulk of liabities of Islamic banks can be decomposed into current and investment deposits. The banks guarantee the nominal value of current deposits.

In Malaysia, principle of A1 Wadiah (trusteeship) is used for mobilization of demand and saving deposits (Khan, 2001). These deposits do not receive any return as banks provide transaction facilities. Investment deposits are accepted on the basis of A1 Mudharabah (trustee profit sharing). In Malaysia, Pakistan and Iran profits are shared between the depositors get return on the basis of profits earned from the projects financed by their deposits. At the same time, the investment account holders or long-term depositors (Malaysia) bear part of the losses if the investment made by the banks is not profitable. On the assets side, different principles are used for different kinds of financial facilities offered to customers. For project financing, the principles of A1 Mudharabah or Musharakah (partnership or joint venture with profit sharing) are used. The former works in a manner used in the case of investment deposits. In this, bank provides the entire capital and the borrower, often an entrepreneur, provides the management services. The profit is shared accordingly to an agreed proportion wile the loss is borne by the bank alone. Under the model of Musharakah, the bank shares the cost of project with the entrepreneur based on an agreed proportion basis and both parties have the right to participate in the management of the projects.

Money as a potential capital is a legal (conventional) concept capable of being transformed into actual capital (Presley and Dar, 1999). Presley and Dar gave an example of Mudarabah contract, among others, in which as soon as one person's money is legally combined with another person's labor force, the nature and the function of money is changed into capital. Given that in an Islamic framework there is no reward to money lending (i.e interest being zero) yet capital (i. e., money's transformed version) is eligible for part of the profit earned (Ahmed, 2003). The profit from the project is distributed according to an agreed ratio, which is not necessarily the same as the share in the cost (Rahman, 2003). As the sharing of risk and loss is the fundamental principle in Islamic banking, model of banking system provides for accumulation by the banks for loss compensating balances during the phase of high profits as well as for deposit insurance, asset diversification and monitoring of projects to reduce the risk borne by the investment depositors (long term depositors) (Anouar, 2002).

In Malaysia, Islamic finance was first introduced 30 years ago and has gained widespread acceptance among Muslims as well as non-Muslims as a viable form of financial intermediation in the global financial system (Aziz, 2007). Khan (2001) argued that it is the obligation of the government to ensure that lagging minorities in India have the tools with which they can catch-up to the rest of the nation. One such tool is credit, and only with proper credit, that lagging minorities can catch-up and decrease the economic disparity between them and the majority (Khan, 2004). Khan maintained that the establishment of full-fledged banks practicing Islamic Finance is one-step towards decreasing the economic disparity between Indian Muslims and the rest of their countrymen. He argued that reform of the banking establishment in India is possible and could very well lead to many entrepreneurs having better access to the credit suitable for them. Siddiqui (2003) referring to the situation in India wrote:

“Interest-based loans go to those who are credit-worthy. They do not necessarily go to finance projects expected to be most productive (profitable)…a project of dubious prospects may pass if it comes from a party which has assets out of which the bank may recover the principal with interest. A most promising project may fail to receive finance if it comes from one who does not have other assets. Credit worthiness and not the expected profitability of the project to be financed allocate investible funds in the present system. This is inefficient.”

The sharing of risks, profits and losses lead to a more equitable outcome for all of society and this is what the structure of the Islamic banking system promotes (Iqbal, 2001). One might be concerned about moral hazard and the possibility of fraudulent understatement of profits. There are a few reasons to rest assured that fraud will not be any more rampant in an Islamic system than in the conventional system (Ibrahim, 2000). The first is that banks, when considering the expected profitability of a venture will surely consider the history of the entrepreneur. An entrepreneur with a history of loses and low-profits will be less likely to have his venture financed than one with a history of high profits. In addition, standardized audit and accounting procedures can help increase transparency between the entrepreneur’s enterprise(s) and the bank, which will decrease the chances of fraud (Rahman, 2003). The success of Islamic finance institutions in the Gulf region and Southeast Asia serve as evidence that moral hazard issues can be contained and deals with, and that that the system itself is sound (Khan, 2004). The emphasis on equity-bases finance and social justice set the Islamic system apart from the conventional banking system and helped propel its phenomenal growth. All over the world, in vastly different economic and social contexts, the Islamic financial system has proved to be entirely functional and stable (Ahmed, 2003).

Whether it is the Islamic banking or the realization of Keynes’ expectation to reach full employment, it is yet to be seen (Toutounchian, 2005). Making capital goods so abundant that the marginal efficiency of capital is zero, this may be most sensible way of gradually getting rid of many of the objectionable features of capitalism (Fry, 2005). Fry maintains that it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of the capital at which there is full employment.

DISCUSSION

Ethical investing is the only acceptable form of investment, and moral purchasing is encouraged. Based upon Keynes' criticism on the classical economists on ability to recognize speculative demand for money in the presence of interest (rate), it can easily be shown that interest is both necessary and sufficient condition for speculation. In other words there, there is a two-way relationship between interest and speculation. It is probably for this reason that he has also recognized commodities rates of interest in addition to money rate of interest that he was much concerned about. With the abolishment of interest, speculative motive of the demand for money, logically derived from interest would disappear. Speculation, which necessarily entails artificial risk in any market, be it money, bond, stocks, gold, commodities and so on, is not permissible in an Islamic setting. All these can be safely taken under the heading of "gambling". However, impermissibility of artificial risk may be grounded upon the fact that any income received by speculator will eventually bring about excess demand for goods and services (without the speculator having any share in productive activities). In Zimbabwe interest rate distortions have been brought about by government controls, and some of these controls have been abused and deliberately exploited for selfish reasons by those in political, economic and social positions of authority and influence. Speculative activities are rife in the economy and it aggravates the already ailing economy.

Western economists have always and justifiably been worried about unnecessary expansion of money supply the volume of which is hard to control by central banks (Dar and Presley, 2000). This is due to the fact that considerable portion of it (very difficult to determine if not impossible due to uncertainties involved in interest rates) goes to money whirlpool. If Islamic banks are prohibited to lend on interest nonetheless different modes of contract, as mentioned earlier, are available to them to finance specific needs of both firms and individuals upon their proper requests. In developing economies such as Zimbabwe this may result in better accessibility of capital by the productive sector and at reduced in cost.

According to the Institute of Islamic Banking and Insurance London (2007), Islamic investment equity funds market is one of the fastest growing sectors within the Islamic financial system. The total assets managed through these funds currently exceed USD5 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 thinking of launching similar Islamic equity products. Islamic banking is synonymous with full-reserve banking, with banks achieving a 100% reserve ratio (Harcourt, 2004). However, in practice, this is not always the case.

Despite these successes, this market has seen a record of poor marketing as emphasis is on products and not on addressing the needs of investors (Owen and Othman, 2001). Over the last few years, quite a number of funds have closed down. To support the orderly growth and development of Islamic finance, it is important that the necessary financial structure and regulatory framework is in place. In this regard, different boards can be formed to monitor its development in Zimbabwe and globally. The committee or board will also play an important role of developing the international prudential standards for Islamic banking and finance in the global financial system. This is aimed at ensuring the soundness and stability of the Islamic financial system. The development of such prudential standards in Islamic finance is crucial facilitating and supporting its development as a viable, competitive and sustainable mode of financial intermediation in the domestic and international financial system.

In addition to being focused on the prudential standards for Islamic finance, the board can also provide an important platform- through its regular series of seminars and conferences- to highlight and deliberate issues concerning the various aspects of Islamic banking and finance. In the Republic of South Africa (RSA) Islamic finance is doing fairly well as it coexist with the convectional banking system but there is need for aggressive marketing strategies for the economy to enjoy its full benefits. For the successful implementation of Islamic finance in Zimbabwe the monetary and fiscal authorities have to appreciate the concept and benefits attached to it in solving interest rate (regime) problems in the economy.

CONCLUSION

It can be argued that there are a lot of differences between Islamic and conventional banking systems both at micro and macro levels. These differences are in approach, in concepts, and in the resulting behavior. The benefits to Zimbabwe of opening itself to full-fledged Islamic Bank institutions or funds are significant and numerous enough that the opportunity cannot be neglected easily. Zimbabwe’s banking sector should be reformed to allow and encourage Islamic financial institutions to enter the market place.

Monitoring costs in Islamic banking are relatively higher in Islamic banking than conventional banking. However, potential benefits as to its effects on reducing unemployment and keeping prices constant over-shadow the cost. Most important, distribution, of income and wealth is expected to be more equitable than otherwise. Such a scheme of distribution guarantees sustained economic development.

There is need to research more on the implementation and feasibility of Islamic banking in a conventional (interest) banking structure. The adoption and measuring of customer service quality will be necessary to study before implementation. There will be need to find out the performance, problems and prospects in other countries with this type of banking.

With the problems facing the country Zimbabwe needs such a system as Islamic banking to bridge the gap between the surplus units and productive sector of the economy. Islamic funds will be made available to the productive sector at PLS instead of interest that has caused many firms to scale down or close operations. There will be need for a series of public lectures and seminars with the central bank' guidance. The objectives of these seminars and forums will be to promote the sharing of experiences and dialogue among the international financial community on the leading issues in Islamic finance. Renowned experts and practitioners in their respective fields will present sessions on different areas. These will serve as a catalyst to drive further innovations and developments in the financial (banking) system in the economy. Collaborative efforts in the development of Islamic finance will facilitate the further strengthening of financial linkages in Zimbabwe's economy, and thus increase savings and the potential for more balanced GDP growth.

REFERENCES

Ahmed, S. A. (2003). Global Need for a New Economic Concept: Islamic Economics. International Jornal of Islamic Financial Services. Vol. 1. No. 4. Jan-Mar.

Anouar, H. (2002). Profitability of Islamic Banks. International Journal of Islamic Financial Services. Vol 4. No. 2. Jul-Sep.

Aziz, Z. A. (2007). Bank Negara Malaysia. Govenor"s Speech at the Dinner announcing the IFSB Annual Meetings and Events and Global Islamic Finance Forum. Retrieved from http://www.bnm.gov.my/index.php on 19/09/07

Dar, H. A. and Presley, J. R. (2000). Lack of Profit and Loss Sharing in Islamic Banking: Management and Control Imbalances. International Journal of Islamic Financial Services. Vol. 2 No. 2. Jul-Sep.

Donsyah, M. (2003). Efficiency in Islamic Banking: An Empirical Analysis of 18 Banks. Presented on August 20.

Ederington, L. and Lee, J. H. (1996). The Impact of Macroeconomic News on Financial Markets. Journal of Corporate Finance 9 (1). pp. 41-49.

The Financial Gazette (March 13, 2008). Retrieved from http://www.fingaz.co.zw on 26/03/2008.

Fry, R. J. (2005). Money, Interest and Banking Economic Development. The John Hopkins University Press.

Harcourt, I. (2004). The Role of Central Banks in Islamic Banking. Retrieved from the World Wide Web from http://www.islamic-banking.com/banking/whatib.php on 19/09/07.

Haron, S. and Ahmed, N. (2000). The Effects of Conventional Interest Rates and Rate of Profit on Funds Deposited with Islamic Banking System in Malaysia. International Journal of Islamic Financial Services Vol. 1. No. 4. Jan-Mar.

Ibrahim, S. H. (2000). Nurtured by 'Kufr': The Western Philosophical Assumption Underlying Conventional (Anglo-American) Accounting. International Journal of Islamic Financial Services Vol. 2. No. 2. Jul-Sep.

Institute of Islamic Banking and Insurance London (2007). What is Islamic Banking? Retrieved from http://islamicbankingandfinance.com on 19/09/07.

Iqbal, Z. (2001). Profit and Loss Sharing Ratios: A Holistic Approach to Corporate Finance. International Journal of Islamic Financial Services Vol. 3. No. 2. Jul-Sep.

Khan, M. Y. (2001). Banking Regulations and Islamic Banks in India: Status and Issues. International Journal of Islamic Financial Services Vol. 2. No. 4. Jan-Mar.

Khan, O. (2004). A Proposed Introduction of Islamic Banks in India. International Journal of Islamic Financial Services Vol. 5 No. 4. January –March.

Makiyan, S. N. (2001). The Role of Rate of Return on Loans in Islamic Banking System in Iran. International Journal of Islamic Financial Services Vol. 3. No. 3. Oct-Dec.

Owen, L. and Othman, A. Q. (2001). Adopting and Measuring Customer Service Quality (SQ) in Islamic Banks: A Case Study in Kuwait Finance House. International Journal of Islamic Financial Services Vol. 3. No. 1. Apr-Jun.

Parkin, M. (1997). Macroeconomics. 3rd Edition. Addison-Wesley Longman Inc. New York. pp. 92-93.

Presley, R. and Dar, H. A. (1999). Islamic Finance: A Western Perspective. International Journal of Islamic Financial Services Vol. 1. No. 1. Apr-Jun.

Rahman, A. R. A. (2003). Accounting Regulatory Issues on Investments in Islamic Bonds. International Journal of Islamic Financial Services Vol. 4. No. 4.

Reserve Bank of Zimbabwe (RBZ) (2006). Annual Report. Bank Licensing, Supervision and Surveillance.

Reserve Bank of Zimbabwe (RBZ) (2006). The Monetary Policy Statement. 2006.

Samad, A. and Hassan, M. K. (1999). The Performance of Malaysian Islamic Bank During 1984-1997: An Exploratory Study. International Journal of Islamic Financial Services Vol. 5 No. 4.

Sarker, M. A. (1999). Islamic Business Contracts : Agency Problems and the Theory of the Islamic Firms. International Journal of Islamic Financial Services Vol.1 No. 1. Apr-Jun.

Siddiqui, M. (2003). Rationale of Islamic Banking in Indian Perspective. In Isalmic Banking IN India: Scopes and Challenges, ed. Khan, A. J. (New Delhi: Institute of Objectives Studies). pp 61.

Toutounchian, I. (2005). The Role of Central Banks in Islamic Banking. Retrieved from the World Wide Web from http://www.islamic-banking.com/banking/whatib.php on 19/09/07.

The Zimbabwe Independent. Retrieved from http://www.zimind.co.zw on 26/03/2008.

Zimbabwe National Chamber of Commerce (ZNCC) website www.zncc.co.zw/business%20Analysis.doc downloaded on 22/07/08.