

Islamic Banking is a part of the economic system and activities of a society that wants total fairness to its members through delivery of social justice, construction and development, employment for all etc. As such Islamic banking may be considered the engine in a vehicle but not the whole vehicle and thus Islamic banking principles extend beyond the fact that its banking activities prohibits interest as we all commonly know.

The principal differentiation factor of Islamic banking institutions rests with the fact that they are multi disciplined banking organizations acting as commercial and specialized banking institutions at the same time and that they are not credit provider since they are neither creditors nor debtors, and do not transact in interest give or take.

Islamic banks provide finance through a sharia compliant products such as Mudharaba, Musharka, Murabha, Istisna etc, on the principals of risk distribution and partnership in results be it profitable or loss making, hence such a relation with its clients is referred to as trading partnerships with depositors and investors alike, and not a debtor-creditor relationship as with conventional banks.

Some of the products developed and used in Islamic banks today are, as follows:

Mudharba: Is a partnership in profit whereby one party provides capital (rab al-maal) and the other party provides labor (mudharib). This definition in simple words exemplify the facts we discussed earlier which regulates the framework of finance to move the society and encourage development through a medium between rub al-maal and the mudharib being the mudahraba contract which in general principles is not binding, i.e. each of the contracting parties may terminate the contract unilaterally except in two cases:

- a) When the Mudharib has already commenced the business, in which case the mudharba contract becomes binding up to the date of actual or constructive liquidation
- b) When the contracting parties agree to determine the duration for which the contract will remain in operation. In this case, the contract cannot be terminated prior to the end of the designated duration, except by mutual agreement of the contracting parties.

The above conditions are designed to ensure commitment and that whatever the prevailing economic circumstances are; the development work of the mudharib is continued.

The above product is now the subject of development by many Islamic banks in the region, since it is seen as tool to facilitate and finance short term working capital requirements for construction projects and contracting companies executing such projects, and make use of the favorable economic conditions in the UAE, other GCC countries and the Middle East as a whole.

In any financial organization the development of products starts with an idea based on the demand for a product or service by the society or segments of the society, as such products or service developments in Islamic banks is generated by this demand and carried through by market research department which carries the task of designing the idea based on the market investigation and feed back, in many Islamic banks the market research department reports and shares its finding with the board of directors and the sharia board to process the idea into a product in conjunction with the risk assessment unit.

In the case of Mudharaba once the principal of the idea is developed and approved steps to translate the idea into a product in terms of IT and operations systems, contracts and products testing are authorized to streamline the work of such product prior to its mass flotation for corporate or retail use.

Other products that have been developed by Islamic banks and are being widely used across the region and further parts of the world are, in order of popularity:

- a) Murabha.
- b) Musharka
- c) Istisna
- d) Sallam
- e) Toaraeq

To conclude with product development the challenges presented by Iraq reconstruction efforts may present a voluble opportunity for Islamic and conventional banks alike to play a constructive role in facilitating the county's development through a useful fund raising instruments, such instrument from Islamic banking prospective and as a contributor to this large task, may be the investment sukuk option, which is a possibility that the authorities can consider.

Definition of Investment Sukuk: Investment Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets or services or (in the ownership of) the assets of particular projects or special investment activity, however this is true after receipt of the value of the sukuk, the closing of the subscription and the employment of the funds received for the purpose of which the sukuk were issued

Developments of such products require a comprehensive study into this option on the following basis:

- a) The authorities' initiation of such project and a task force to facilitate Iraq's reconstruction and developments.
- b) The governing rules of investment sukuk issued on the basis of a sharia nominated contract in accordance with rules of sharia that governs their issuance and trading.
- c) Use of the sukuk as a mean of integration for Iraq within its Islamic community and as a tool for assistance and involvement by the Islamic community for Iraq.

d) Promotion of unity as opposed to sectarian strife.

In this brief comments, I hope that some of the ideas and points of discussion being my contribution to this honorable forum and I wish you all success in achieving your objectives.