

Funds and Means of Investing them in the Islamic Banks

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Abstract: Sources of the funds of the Islamic bank are the first starting point towards forming an investing policy of the bank. Therefore, these resources should be studied well so that we can decide the favorability extent of these resources to the different forms of investment. Thus, this research will touch upon the basic sources of funds in the Islamic banks. They are of two kinds: firstly, internal sources which are the rights of the ownership of the bank that include the capital, reserves and retained earnings. Secondly, external ones which are the deposits in the Islamic banks. They are one of the most important resources of the bank ever. They also are considered the main resource that the Islamic bank depends on in most of the investment operation. Then, the researcher moved to speak about the means of investing funds in the Islamic banks which are represented in establishing direct projects, establishing projects in conjunction with others, financing through partnership, financing through Muraabahah (i.e., selling an object while informing the purchaser of its original price and the profit he is getting in this deal), direct trading, sale of Salam (buying in advance), Mudaarabah (i.e., agreement in which a person gives an amount of money to another person in order to trade with it and the second takes a share in the profit, like a half or a third and the like), sale of Ta'jeeri (leasehold) and installment sale. Then, the objectives of investing funds in the Islamic banks have been pointed out. These objectives can be divided into two groups. Firstly, the group of the objectives of achieving the self benefit of the Islamic bank which are represented in the objective of profitability, the objective of safety and the objective of growth. Secondly, the group of the objectives of achieving the social benefit such as participating in the plans of development, providing the basic needs of society and achieving the social solidarity.

Key words: Sources, means and investment of the funds, Islamic banks, social benefit, basic needs, society

INTRODUCTION

Islamic banks are Islamic banking organizations that work on collecting funds and investing them according to the guidelines of the Islamic Sharee'ah (revealed laws) in a way that can serve the society of the Islamic solidarity, achieve the justice of distribution and put funds in the sound Islamic track. Islamic banks aim from investing funds to build the Muslim individual and society and thus their responsibility becomes have great importance in the society. Accordingly, interaction and conformity between them and society become of considerable necessity. Resources of the Islamic bank are the first starting point towards forming a policy of investing them. Therefore, these resources should be studied well whether they are present or expected so that the compatibility of these resources with the different forms of investment can be defined and determined.

Because the Islamic bank is interested in participating in the plans of development and taking care of the Islamic priorities, seeking to achieve favorable Islamic revenue rates, this put on its shoulder the responsibility of caring of the nature of their financial resources and acting on making a stable growth of them so that they may be able

to carry out the plans of investment that can attain the desired aims. This research entails touching upon the basic sources of funds in the Islamic banks. They are of two kinds, namely internal sources and external ones. The means of investing these funds in the Islamic banks will be discussed and pointing out the aims behind investing funds in the Islamic banks.

SOURCES OF THE FUNDS IN THE ISLAMIC BANKS

Sources of the funds in the Islamic banks are of two kinds, namely internal sources and external ones.

The internal sources of the funds: They are the rights of the ownership of the bank which include the capital, reserves and retained earnings:

Capital: Capital for the Islamic financial institutions and especially banks is the insurance (safety valve) that absorb the expected loses which may occur in the future. In addition, capital is the basic source of the funds to start the activity. Also, capital is the safety and protection and the source of trust for the depositors (Al-'Awadi and Rif'at As-Sayyid, 2009).

Reserves: They are the funds that are set aside from the benefits of the bank in a form of legal or special reserve in order to support the financial position of the bank. The basic laws of the banks include the bases of the legal reserve formation. Their formation often stop when they reach a specific ratio of the capital of the bank. Islamic banks forms different reserves categories required to support their financial positions, keep the safety of their capitals and maintain the stability of the values of their deposits and the balance of their earnings (Shihaatah, 1977).

Retained earnings: They refer to the portion of the net income which is retained by the corporation to reinvest them afterwards to support the financial position of the bank. This does not include the profits that are decided to be distributed and were not asked by some shareholders yet (Haady and Nabeel, 1985). When the Islamic bank retains some profits, this does not conflict with the rulings of the Islamic Sharee'ah because it (i.e., the bank) acts as a Mudaarib (speculator) with the money of the depositors. Therefore, the Islamic bank can withhold a specific part of the profits to face what it may experience of unusual conditions.

The external sources of the funds: Deposits in the Islamic banks are one of the most important resources of the bank ever. They also are considered the main resource that the Islamic bank depends on in most of the investment operation. According to the domain of the Islamic banks, deposit is an agreement according to it the depositor pays an amount of money to the bank in one of the different means of payment. This will create a call deposit or for a specific term decided by the agreement of the two parties. Amongst the main activities of the Islamic banks is mobilizing and attracting the savings from individuals through the systems of deposits that are in conformity with the Islamic guidelines (Al-Maghrabi *et al.*, 1990).

Deposits in the Islamic banks

Current accounts (call or demand deposit): They are the deposit that the customer has the right to call or demand them in anytime whether it is through using checks or orders of banking transfer for other customers. Banks do not pay any revenues for them because they do not have stable credit that may be zero in anytime. This does not give the bank the chance to include them in its plan of investment.

Therefore, Islamic banks depends on as a kind of encouraging the owners of these deposits, making no expenses for them. Furthermore, Islamic banks grants those who have current accounts presents from their net

profits which decided by the board of directors in the case if the banks made high level of profits (Al-Missri, 1988). Current accounts represent a great part of the resources of the Islamic banks and specifically from the whole deposits. Degree of benefiting from them in investment depends on the rate of their relative stability where the bank can be able to study these deposits concerning the rates of withdrawal and depositing within a specific period so that it may be possible to decide the stability level of these kind of deposits. Some banks classify these deposits to steady and unsteady according to their natures. Thus, they invest the steady part to use it in making profits.

Current accounts represent an important factor of the bank activity through providing the short-term financing and emergent and pressing financing reserves for those who have productive activities in society. Moreover, currents accounts represent one of the important elements of liquidity for the bank investment projects that can be need from time to another for short-term financing requirements.

Islamic bank can allow the owner of the current deposits to get Al-Quard Al-Hasan (interest free loan) that may exceed their current accounts according to the conditions that the bank board of directors decide. Also, they can benefit from the services of the Islamic bank.

Saving accounts: These deposits are distinguished by having little amounts of money and great number of the depositors. Therefore, Islamic banks seek to attract the surplus of the savings of the individuals and small customers through this form of saving currents. These accounts are of great importance to the Islamic bank. That is because they can be invested in long and middle term usages. Saving accounts are distinguished with entrusting the bank in investing them while the bank makes a minimum rate from the account to share the profits. Also, these deposits are distinguished with that investment can be done in them on the basis of the absolute Mudaarabah (which is an Islamic term that means that a person gives an amount of money to another person in order to trade with it and the second takes a share in the profit like one-fourth or half or a third and the like) by the Islamic bank.

Investing accounts: They are the deposits that their owners put in the bank so that their money can make profits and be increased. These deposits are of two kinds:

Entrusting (delegated) accounts: The customer will put a sum of money in the bank through opening an investing

account under his name and entrust the bank to invest this sum of money in any project that the banks may see suitable from the legal and Islamic Sharee'ah-based principles whether it is the local or foreign area. This account will be for different terms. The owner of this deposit cannot withdraw it wholly or even a part of it before the end of the appointed term for it. Investment through this deposit takes the ruling of the Sharee'ah-based Madaarabah.

Non-entrusting accounts: Non-entrusting accounts which the bank calls non-entrusting investing accounts. In this form of accounts, the customer chooses one of the projects that he wants to invest his money that he deposited in. He has the right to decide the term. In this form of investment, the customer deserves to take his share of the profits of the project he chose only. This form is called Madaarabah Muqayyadah (an agreement whereby the owner of the account or fund limits the management of its fund).

Investing accounts, in general are the category that is equal to the termed accounts in the banks other than the Islamic ones. Islamic banks that aim to encourage these forms of deposits hold different conditions concerning these deposits. That is because investing deposits, in the Islamic banks are the most important financing factor that feeds the investment operations of the Islamic banks. Order of investing deposit states the sum of money, lasting time of the deposit, entrusting (or non-entrusting) the bank in investing it in different forms of investment that the Islamic bank practices (Hasanayn, 1993).

Islamic banks often compete one another to attract this form of deposits. Amongst the examples that the Islamic banks do in this effect is that one of the Islamic banks divided the deposits it has into two categories:

Investing saving deposits: They are distinguished from the normal investing deposits with having a minimum that is smaller than that of the normal deposits and also the owner of the deposit can withdraw from it in anytime he pleases, providing that the remaining credit should not go down after withdrawal from the minimum of the deposit as it was decided by the bank.

Investing deposit: They are distinguished from the saving investing deposits through giving profits for them per month. Also, they are distinguished with the possibility of withdrawing them before their due time in the times of extreme emergency that the administration of the Islamic bank decides. Islamic banks try as much possible as they can not to deny the owner of the deposit who is obliged

to withdraw it wholly or a part of it before the its due date from the profits as a whole, noting that the profits of the investing deposits are undefined in the Islamic banks, however profits are determined according to the profits that the bank make achieve at the end of the fiscal year or its financial position whether it is every half or quarter of the year (1988).

RELATIONSHIP OF THE INVESTING DEPOSITS WITH THE NATURE OF THE ISLAMIC BANKS ACTIVITIES

Islamic banks make two different forms of the Islamic activities. They are: an activity related to accepting deposits and an activity related to investing funds in the different fields of investment. This is in addition to what the Islamic banks do such as embodiment of the Islamic principles and values in the practical reality of the life of individuals and establishing a practical Islamic society. The work of the Islamic banks is not confined to just collecting savings and making them available to the investors and businessmen as a tradition role of the Riba (usury, interest, etc.) based banks. Therefore, Islamic banks are not financial organization of mediation or banks in their limited narrow meanings but rather, they are tools to achieve the spiritual values that are related to Muslim individual, shining centers, educational school, a practical means of achieving a noble life for individuals of the Islamic nation and a supporting factor to the economics of the Islamic states. Therefore, Islamic banks are a good developmental mediator. They play a role that is different from that of the traditional Riba-based banks among the owner of funds in the Muslim society and the society itself or the environment that it works in (Suwaylim, 1987).

MEANS OF INVESTING FUNDS IN THE ISLAMIC BANKS

Process of investment of the resources of the Islamic banks bases on the principle of prohibiting the usurious interests. Therefore, they practice their investing activities of the resources away from the bases on which the activity of giving loans and credit depends in the non-Islamic banks.

Work in investing the resources of Islamic banks starts on the bases that making profit is not the sole aim while it is one of the basic aims because it is an important component that enables the banks to continue and attract new resources, especially the deposits of those who deal with the banks. As for the means that are available before the Islamic banks in investing funds, they are as follows:

Establishing direct projects: Where the banks with its special system invest the funds in some projects administrated by a special system in them that study these projects and make sure of their liability and effectiveness, carry out, administer and follow up them. These projects will remain under the complete ownership and authority of the bank as long as it keeps the capital.

Establishing projects in conjunction with others: Where the bank will in conjunction with others whether they are organizations or individual, establish a new project or buying a ready one that has an independent legal entity away from the entity of the bank. It often takes the form of the capital company. The role of the bank is defined in these projects according to the value of its contribution either by quota or shares and the extent of the bank participation in the actual administration of the company. This is one of the most common forms in many of the current Islamic banks. That is because it enjoys a complete legal protection for the funds of the Islamic bank.

Financing through partnership: It is when the bank has a share in the capital of the project. This will result in making the bank a partner in the ownership of this project as well as administrating and supervising it and also a partner in all results of profits and losses according to the agreed ratio. That is because the Islamic bank depends on the Islamic special perspective and teachings concerning transaction and thus its direct investment or partnership are subjected to the criteria of allowed and prohibited matters that Islam outlines.

Financing through Muraabahah: It means, i.e., selling an object while informing the purchaser of its original price and the profit he is getting in this deal. This form of the means of financing depends on the basis that it is one of the allowed forms of transaction in the religion of Islam. It means that the bank sells what it bought previously in its original price along with an excess of profit on it. This form is applied to the local and foreign trade.

Direct trading: This way is like the direct investment that is free from all religious prohibitions. Accordingly, banks represented in their experts who supposedly have complete knowledge of the conditions of the market and its needs, buy the commodities that the market needs and resell it in suitable prices thus providing keeping away from exploitation or monopoly.

Sale of salam (buying in advance): It is one of the ways of Islamic trade transaction. Its main idea bases on the fact

that an individual has the required money as a price of a commodity; however the seller does not have the required commodity. Accordingly, the buyer will pay the price in advance all at once or in different times, to the seller who should deliver him the required commodity in the agreed specifications and in the time and place defined by the contract, in addition to the different previous forms of employment and investment. There are many other ways such as, Sharee'ah-based Mudaarabah, common Mudaarabah, different forms mentioned in the Islamic Jurisprudence such as cooperative ('Inaan) partnership and sharecropping (Muzaara'ah and Musaaqaah) (Al-'Awadi and Rif'at As-Sayyid, 2009).

Mudaarabah: It refers to agreement in which a person gives an amount of money to another person in order to trade with it and the second takes a share in the profit like a half or a third and the like (Al-Hamshari). It is a contract between the owner of the funds who provides money and the Mudaarib (person, company, bank, etc.) who provides work. Thus, money will be like a trust in the hand of Al-Mudaarib and his conduct in it will be like the conduct of the agent. Mudaarab can be absolute or limited. Relationship between the Islamic banks and users of money is often governed by the relationship of the limited Mudaarabah. Also, the contracts of communal Mudaarabah are the form that organizes the relationship of the owners of investing accounts in the Islamic bank where the funds of depositors mix with each other.

Sale of Ta'jeeri (leasehold): It is a financing form combines both selling and hiring. This form is used in the capital equipments and housing units. According to this form, the bank will buy equipments or build the housing buildings and sell it in a specific value and make an agreement with the customer not to transfer the ownership to the buyer in return for exempting the buyer from paying the whole price all at one and when all installments are paid then the ownership will be transferred to the buyer.

Installment sale: Scholars of jurisprudence allowed it if the price with which the commodity will be sold in installments is the same of its current price. However, some scholars objecting increasing the price in the case of the deferred term considering this excess as Riba that Islam prohibits. But the majority of jurisprudence scholars allowed it so long as the sale was fulfilled through the acceptance of both the seller and the buyer (Al-Juzayri and Wat-Tuhaami, 1983).

OBJECTIVES OF INVESTING FUNDS IN THE ISLAMIC BANKS

Islamic banks as being Islamic financial institutions are found to instill and establish the principles and aims of the Islamic economical thought. So, it is naturally that the objectives of investing funds depend on the Islamic perspective. Therefore, objectives of investing funds in the Islamic banks can be divided into two groups of the objectives that the Islamic banks aim to realize in the general context of the Islamic Sharee'ah.

First group: The objectives of achieving the self benefit of the Islamic bank. The objective of profitability is the essence of this group and the banks aims to achieve it in the light of the balance between this aim, liquidity and risk. Also, there is a group of other objectives included under this group:

Objective of profitability: It is the most important objective ever and without it the Islamic banks will not be able to continue or persist, nor will they be able to attain their other objectives.

Objective of safety: The bank seeks to work in an atmosphere of safety and keeping away from risks.

Objective of growth: This is one of the most important objectives of the Islamic banks. It refers to the growth of the internal resources of the bank represented in the capital of the bank, retained earnings and reserves and also the growth of the external resources represented in the deposits in their different forms, growth of the share of the bank in the banking market, growth in all assets, growth in the volume of activity, growth in the number of the workers and operations.

Second group: The objectives of achieving the social benefit: They include many objectives:

Participating in the plans of development: Where the Islamic banks play an important role in the development process through what follows:

- Investing activities of the banks concerning establishing the projects that are included within the plan of development on the level of the state
- Developmental activities of the bank through financing the working and stable capital then separating in the way of incomplete partnership
- Enabling the Islamic banks from participating in improving the atmosphere of investment through preparing Islamic feasibility studies for the available projects of investment

- Taking part with the Islamic banks in acquiring different experiences through contacts either for the bank or taking part in a way that can upgrade efficiency in the field of investment

Providing the basic needs of society according to the Islamic top priorities: Islamic banks aim, in the activities of investment that they carry out to provide the basic needs of the Muslim society and take care of the projects that satisfy these needs.

Achieving the social solidarity: This objective can be attained through the following points:

- Achieving the greatest part of Zakaah (obligatory almsgiving) where this activity is a basic factor in the Islamic banks due to their solidarity nature. Therefore, the Islamic banks have to collect the greatest amount of Zakaah and spending it in the legal categories on which Zakaah may be spent
- Al-Quard Al-Hasan (interest free loan); it is one of the activities of the Islamic bank although it is not considered one of the sources of the Islamic profit
- Carrying out some of the other social activities such as making religious competitions, participating in developing and raising the Islamic awareness, taking part in disseminating the values and Islamic manners and the like of the beneficial social activities (Al-Hawaari, 1982)

CONCLUSION

At the end of the study, the researcher has reached several results. The most important of them are: the basic sources of funds in the Islamic banks are of two kinds namely; internal sources which are the rights of ownership of the bank which include the capital, reserves and retained earnings and external ones which are deposits in their several categories. Deposits in the Islamic banks are one of the most important resources of the bank ever. They are also considered the main resource that the Islamic bank depends on in most of the investment operation. Deposits in the Islamic banks are of several categories: Current accounts (call or demand deposit), saving accounts, investing accounts which are the deposits that their owners put in the bank so that their money can make profits and be increased. These deposits are of two kinds, namely; entrusting accounts and non-entrusting accounts. Relationship of the investing deposits with the nature of the Islamic banks activities is represented in performing two different forms of the

Islamic activities by the Islamic banks. They are: an activity related to accepting deposits and an activity related to investing funds in the different fields of investment. This is in addition to what the Islamic banks do such as embodiment of the Islamic principles and values in the practical reality of the life of individuals and establishing a practical Islamic society. Means of investing funds in the Islamic banks are establishing direct projects, establishing projects in conjunction with others, financing through partnership, financing through Muraabahah, direct trading, sale of Salam (buying in advance), Mudaarabah, sale of Ta'jeeri (leasehold) and installment sale. Objectives of investing funds in the Islamic banks can be divided into two groups of the objectives that the Islamic banks aim to realize in the general context of the Islamic Sharee'ah. They are the group of the objectives of achieving the self benefit of the Islamic bank and the group of the objectives of achieving the social benefit.

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