

Islamic Banking in Palestine Challenges and Prospects

البنوك الإسلامية في فلسطين: تحديات وآفاق

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Abstract

This study aimed at investigating the challenges and prospects of Islamic banks operating in the Palestinian territories. The study starts by a historical background of Islamic banks. Four Islamic banks are now operating with 12 branches with total assets of about 261 million dollars as at the end of March 2001. The study shows the market share of Islamic banks of the banking market, Investments classification according to economic sectors. And challenges which face Islamic banks. The study ends with recommendations. These recommendations help these banks to prosper and grow.

ملخص

هدفت هذه الدراسة إلى تحليل للتحديات التي تواجه البنوك الإسلامية العاملة في فلسطين، والتوقعات المستقبلية لها. فأعطت الدراسة لمحة تاريخية عن تاريخ العمل المصرفي الإسلامي في فلسطين. حيث يعمل حالياً في فلسطين أربعة بنوك إسلامية، تملك اثني عشر فرعاً، بلغت موجوداتها حوالي ٢٦١ مليون دولاراً بنهاية آذار ٢٠٠١، كما بينت الدراسة حصة البنوك الإسلامية من السوق المصرفي الفلسطيني، والتي لم تتجاوز النصف بالمائة، وكيفية توزيع استثماراتها على القطاعات الاقتصادية المختلفة، حيث تركزت استثمارات البنوك الإسلامية في قطاع النقل والتجارة والانشاءات والصناعة. كما بينت الدراسة التحديات التي واجهتها هذه البنوك ومنها: أنها تعمل في ظل قانون البنوك الأردني لعام ١٩٦٦ والذي يخلو من بيان العلاقة بين سلطة النقد والبنوك الإسلامية، كما أنها مقيدة بالعمل حسب الشريعة الإسلامية، وعليها أن تتنافس مع بنوك لا تتقيد بالشريعة الإسلامية، وتعاني من مشكلة عدم الوعي بالعمل المصرفي الإسلامي، وتجد صعوبة في إيجاد بدائل استثمارية، الأمر الذي جعل معظم استثماراتها تتركز في مجال المراهبة بصورة رئيسية. وانتهت الدراسة ببعض التوصيات التي يمكن لها أن تساعد هذه البنوك لتنمو وتتطور، ومنها الحاجة إلى القيام بجهود تسويقية لتعريف موظفيها بالعمل المصرفي الإسلامي قبل تسويق ذلك للجمهور، وتعريف الجمهور بطبيعة عملها، وتوصي الدراسة بتعديل قانون البنوك ليأخذ بالاعتبار طبيعة البنوك الإسلامية، وتوصي الدراسة بأن تأخذ سلطة النقد الفلسطينية بالاعتبار عند إنشاء هيئة للرقابة على البنوك الإسلامية أن تتضمن خبرات في مجال البنوك والتمويل بالإضافة إلى الخبرات الشرعية، والتعامل مع البنوك الإسلامية فيما يتعلق بنسبة الاحتياطي النقدي والسيولة بصورة مختلفة عن تلك التي يتم التعامل بها مع البنوك التقليدية، وذلك بما يتلاءم مع طبيعة البنوك الإسلامية، وإيجاد وسيلة لرقابة المودعين على أعمال البنوك الإسلامية.

1. Introduction and Purpose of the Study

Banks are the backbone of the economic development of the country, whatever its economic system may be. A sound banking system helps to accelerate the economic development through its role, as an intermediary in the financial system between the units in surplus and the units in deficit.

In the last three decades, the world has seen the emergence of “Islamic economics”. Neinhaus(1986) defined Islamic economics as “the knowledge and application of injunctions and rules of Sharia”. This is a general Islamic law which prevents injustice in the acquisition and disposal of material resources in order to provide satisfaction of human beings, enabling them to perform their obligation to Allah and society.

Moslems are not free to do as they please; they have to abide by the ethical system of Islam in their way of life. Alassal and Abdelkarim(1977) defined Islam as: “a religion that provides an integrated way of life with prescribed codes for social, economic, cultural, civil and political aspects of the society.’ Thus, economic problems are viewed in the total framework of Islamic Ideology.

Banking services are vital and useful to any type of economy including Islamic economy(Uzair, 1977). Nevertheless, an Islamic economy requires the complete elimination of the concept of “Interest” from the banking system, and an Islamic economic system is impossible to be conceptualized without an Islamic banking system(Moutinho, and Jabr,1990). Thus, the study aims at analyzing the data about Islamic banks in Palestine in an attempt to discover some of the challenges facing these banks and the prospects of these banks.

2. Importance of the Study

The study can be considered as important due to the fact that these banks are newly established as other banks in Palestine, but the concept of Islamic banking is still ambiguous in the minds of many. This study is important because it gives the reader a historical background about the concept of Islamic banking, and how the theory of Islamic banking is put into practice. So this study attempts to discover the challenges facing the implementation of Islamic banking theory in Palestine. This study is expected to add to the literature about Islamic banking in Palestine.

3. Methodology of Research

In order to achieve the purpose of the study, the researcher used data analysis method. Published data from several resources were used to collect the data. Then data analysis is used.

4. History, of Islamic Banks

The Islamic-banking concept goes back to the early stages of Islam. Activities such as deposits, transfers, and money change go back to the time of Prophet Muhammad (Peace .Be upon .Him). He was called the "Trustee". Because people used to keep their deposits with Him. His followers (e.g.: Al Zubeir Ben Al A wwam) used to accept deposits and perform transfer of money. Others like Abdullah Ben Omar practiced money change. Special forms of checks were being used by Moslems in Halab (Syria) and Baghdad more than one year ago(Homoud, 1982). AlSarkhasi wrote about the concept of credit card in his book " Al Mabsoout" more than 1000 years ago(Jabr, 2001a .P. 206-207)

The first project to put Islamic banking theory into practice in these days began in Egypt in 1962. The 1970s could be described as the early years of establishment of Islamic banks. The number of Islamic banks exceeded more than 200 banks by the year 2000 scattered all over the world, with more than 175 billion dollars in assets. They grow at annual rate of 15 percent.(Jabr, 2001b. P.7). this success led many conventional banks to establish windows or branches for Islamic banking activities.

Islamic banks in the world nowadays can be classified into six categories. These are(Jabr, 2001b, pp. 7-9):

1. Islamic banks, which operate in a complete Islamic system like: Iran, Pakistan, and Sudan.
2. Islamic banks established by governments like The Islamic Development Bank in Jeddah.
3. Islamic Banks which operate in the Middle East. In which these countries allow both Islamic banks and conventional banks to operate.
4. Islamic Banks operate in non Islamic countries like Denmark Islamic Bank which was established in 1983. American Finance House which started operation on 1987 in California State, and now is operating in about seven states under the name: LARIBA (Los Angeles Reliable Investment Bankers Associates). In addition to many others.
5. Conventional banks, which opened branches for Islamic banking, like Cairo Amman Bank in Palestine.

6. Conventional banks own Islamic banks like The Arab bank, and bank of Jordan. Each of them owns an Islamic bank.

Islamic banks have to operate according to the following principles. These are: (Moutinho, Jabr, 1990)

1. The complete elimination of fixed interest in any form of their operation. The use of several forms of profit and loss sharing schemes as the backbone of their practices.
2. The use of other methods of financing such as leasing.
3. The rendering of all banking services refined from Riba (interest) on the basis of commission rates rather than on a fixed interest.

5. Islamic Banking in Palestine

Like many other Moslem countries, Palestine, interested in the establishment of Islamic banks. The first attempt was in 1990, when some of the businessmen based on an idea from the author of this paper applied to the Israeli Authorities to establish an Islamic Bank in Ramallah; the military governor response was that he is not ready to discuss the Idea. This led those business men to apply for the establishment of a Finance company without mentioning that it will operate on an Islamic basis. The result was the creation of Beit Elmal Al Philistini, which was licensed on 22/2/ 1994 as a shareholding company.

Banks in Palestine nowadays can be classified into Islamic banks and conventional banks:

Conventional Banks constitute about 82.7 percent of the banking system, and more than 88.3 percent of the total branches; while Islamic banks constitute about 17 percent of the total banks and branches. Table 1 shows the classification of these banks.

Table 1: Banking system in Palestine as at the end of May, 2000

Total Number of Branches	Total Number of banks	Conventional	Islamic	Type of Banks
48	9	6 with 39 branches	3 with 9 branches	National
71	11	10 with 68 branches	1 with 3 branches	Arab
4	3	3 with 4 branches	None	Foreign
115	23	19 with 103 branches	4 with 12 branches	Total

Source: Adapted from Palestinian Monetary Authority, *Statistical Bulletin*. Issue 22, May, 2000. P.3.

6. Performance of Islamic banks in Palestine

Table number 4 shows that 2 Islamic banks are currently operating in Palestine. Of which two are shareholding companies, and two are established by conventional banks.

Table 2: Islamic banks operating in Palestine

Established by	Capital	Date of Establishment	Name of Bank
Shareholding company	USD 10 million	15/5/1997	Palestinian Islamic bank
Bank of Jordan	USD 21 million	18/6/1995	Islamic Arab Bank
Cairo Amman Bank	JO.D.2.127 million	1995	Cairo Amman Bank (Islamic branches)
Beit Elmal, The Jordan Islamic Bank, Dallat El Baraka.	USD 20 million	1/12/1998	Al-Aqsa Islamic Bank

Table 4 shows that four Islamic banks, with 12 branches are currently operating in Palestine. Two of these are shareholding companies, and two have been established by conventional banks. Out of the 22 banks with 115 branches. I.e. less than 10 percent of the total bank branches operating in Palestine are branches of Islamic banks. Table 3 presents the consolidated balance sheet of Islamic banks' operating in Palestine. At the end of 1997, 1998, 1999, 2000, and 31st of March, 2001

Table 3: Islamic Banks in Palestine Balance Sheet as at the end of 1997, 1998, 1999, 2000, and 31 march 2001 In Millions of US

Item	1997	1998	1999	2000	31/3/2001
Cash	2.47	4.22	5.39	5.4	7.53
Balances with PMA	5.95	10.61	14.23	22.1	22.05
Balances With Banks In Palestine	19.54	13.33	12.24	24.4	27.6
Balances With Banks outside Palestine	28.29	47.17	73.67	111.28	103.4
Murabaha & other Investments	8.61	26.72	52.66	62.67	65.29
Investments in Securities	17.53	17.45	26.47	26.97	27.17
Other assets	0.45	10.55	5.17	6.48	7.46
Total assets = Total Liabilities	82.74	130.05	189.44	259.3	260.5
Deposits from the Palestinian Local Authority	0.00	0.41	0.46	0.60	0.30

Continue table (3)

Item	1997	1998	1999	2000	31/3/2001
Deposits (residents)	48.68	84.83	121.81	186.01	189.86
Deposits (PMA)	0.00	0.00	0.05	0.16	0.52
Banks' Deposits	10.52	0.00	1.46	24.82	24.60
Other liabilities	0.17	16.68	0.24	9.46	10.12
Capital and retained Earnings	23.3	28.14	45.89	38.25	35.10

Source: Palestinian Monetary Authority (PMA).

Table 3 shows that total assets of Islamic banks reached about 260 million dollars by the end of first quarter of 2001, which represents less than 5 percent of the total banks' assets operating in Palestine.

Islamic banks' paid in capital and retained earnings reached about USD 46 million by the end of 1999, compared with about USD 246 million for all banks, of which USD 174 million capital and retained earnings of branches of Jordanian banks. This means that Islamic banks' capital and retained earnings equal about 18.7 percent of the total banks' capital and retained earnings, and about 26.5 percent of that of branches of Jordanian banks. While the number of their branches are less than 10 percent of the total banks' branches, and about 10.8 percent of the Jordanian banks' branches.

1. The solvency ratio (capital and retained earnings) of Islamic banks reached 38 percent, while this ratio for all banks was 8.7 percent, and for Jordanian banks' branches 4.4 percent. This reflects the facts that Jordanian banks' branches are not keeping sufficient capital to protect deposits and this may be due to the fact that they depend upon their head offices in Amman. Moreover, another indication is that Islamic banks have impact on the solvency ratio of all banks.
2. Total deposits with Islamic banks represent 64.2 percent of the total assets, of which 11.3 percent banks' deposits. Deposits with branches of Jordanian banks represent 72.5 percent of their total assets. While, deposits with all banks constituted 73.3 percent of their total assets.
3. Credit facilities granted by Islamic banks were mainly in the form of Murabaha, and investments in securities. These represent about 41.6 percent of their total assets, of which Murabaha represented about 27 percent of the total assets. The same ratio of 27 percent was found of the credit facilities granted by all banks.

4. The ratio of credit facilities (Murabaha and other types of investments) to deposits was 43.2 percent, while this ratio for all banks was about 35 percent. This means that Islamic banks invest more as a percentage than other banks.
5. Balances with banks outside Palestine were about 39 percent of their assets, compared with about 56 percent for all banks. This reflects the inability of all banks whether Islamic or non-Islamic to explore opportunities of investment inside Palestine.
6. Islamic banks as well as all other banks maintain a very high liquidity ratio. I.e. liquid assets to total deposits. For Islamic banks this ratio attained 73.4 percent by the end of 1999, while it reached for all banks 75.8 percent.
7. Table 4 shows Islamic banks' indicators as a percentage of branches of Jordanian banks, and all banks.

Table 4: Comparison of some indicators between Islamic banks, branches of Jordanian banks, And all banks. By the end of 1999

All banks	Jordanian Banks	Islamic banks	Item
8.7	4.4	38	Solvency ratio %
73.3	72.5	64.2	Deposits/ Total Assets %
35	28.8	43.2	Credit facilities to total Deposits %
27	20.9	41.6	Credit Facilities to total assets %
56	70.8 *	39	Balances with banks outside Palestine to total Assets %
75.8	101	73.5	Liquidity ratio %
63.2	61	NA	Deposits in USD to total Deposits %
2758	3857.49	189.84	Total Assets in USD million
115	101	12	Number of branches
23	9	3+ a window of conventional Bank	Number of Banks

Source: calculated by the Author based on:

1. Palestinian Monetary Authority, *Statistical Bulletin*, Issue 22 May, 2000. PP. 3, 8-9, 18, 20.
2. 2- Central Bank of Jordan, *Thirty-Six Annual Report*, 1999. P.78.

7. Islamic Banks Role in Economic Development

Islamic banks in Palestine are newly established, they have not gained the necessary experience like other conventional banks. Islamic financial institutions began by the establishment of Beit El Mal Corporation in the early 1995 with a capital of JOD 10 million, at the time were the Islamic Palestinian Bank was in the process of establishing itself. This bank was licensed by the Palestinian Monetary Authority on 15 May 1997 with a capital of USD 10 million. Moreover, The Arab Islamic Bank had been established as a shareholding company in Jericho on 18 May 1995 with a capital of JOD 15 million. This capital was increased on 18 June 1997 to become USD 21 million. Meanwhile, Cairo Amman Bank has established several branches for Islamic banking transactions since 1995. Its head office supplied it with a deposit of JOD. 2127000 as a capital.

Lastly, Al-Aqsa bank was established on 1 December 1998 with a capital of USD 20 million. These banks did not start to operate until 1996, but proved to play a vital role in development in spite of being new in the country. They have to compete with very well-established banks, of which one, the Arab bank, has been in business for more than 70 years. These banks do not operate in a purely Islamic economic environment. Their activities include western –style banking activities, economic development and investment, they have to face tough competition from a superior number of conventional interest oriented banks in the profitable placement of funds. Islamic banks must be seen as profit centers, not charity institutions, although they assume the handling of social duties (Qasem 1986; Zuair 1982).

One of the main obstacles facing Islamic banks in Palestine is that Investment opportunities in Palestine are limited, and the present Palestinian market trends indicate that these banks have been experiencing tough competition. Indeed, from their inception they have had to face this environment of severe competition. They entered the market by devising new products and new methods of pricing. The new products are related to new types of investments, (i.e., Murabaha, Musharaka, and Mudaraba), and the new method of pricing is the profit and loss sharing principle (PLS), as well as the commission on the banking services, which is not based on the amount, involved but on the time devoted to render the service.

Islamic banks' assets in Palestine increased at a rapid rate they were about USD 28.4 million in by the end of 1996, reached USD. 82.7, 130, 189.8, 259.3, and 260.5 millions by the end of 1997, 1998, 1999, 2000 and 31st of March,

2001 respectively. As can be seen from table 5, Assets of Islamic banks in Palestine increased by about 5.75 times in a period of less than four years. While its capital and retained earnings only doubled. Deposits in 1996 reached USD 14.9 million increased till it reached USD 121.8 million by the end of 1999, and to USD 186 million by the end of 2000. I.e., by more than 7 times, and by about 1.5 times of that of 1997.

Their investments in Murabaha and other investments increased from USD 8.61 million by the end of 1997 to USD 52.66 million by the end of 1999. I.e., more than 5 times. Table 5 makes a comparison between the growth rates in the performance of Islamic banks, Jordanian banks, and of all banks in percentage terms from 1997 to 1999.

Table 5: Comparison between the relative growths of Islamic banks And Jordanian banks/ Performance from the end of 1997 till the end of 1999

All banks	Jordanian banks	Islamic banks	Item
	26 times	1.3 times	Assets
.37 times	21 times	1.5 times	Deposits
.62 times	.29 times	5.1 times	Credit facilities
.27 times	1.08 times	1.6 times	Balances with banks outside Palestine

All the above indicators show that Islamic banks' performance was very good compared to those of Jordanian banks, and of all banks. All their indicators increased at a higher rate than the equivalent rate of increase in Jordanian banks, and in all banks. This may be due to the fact that Islamic banks' share of the market is less than that of others. Thus, any percentage increase they experience will be larger than the increase in the percentage of banks with a substantial share of the market like the Jordanian banks.

Islamic banks' share of the market is still very small, but their performance shows that it is increasing year by year. This is evident from table 6.

Table 6: Islamic banks' share of the market, 1997, 1998, 1999

1999	1998	1997	Item
0.049	0.039	0.028	Total assets
0.043	0.035	0.023	Deposits
0.053	0.033	0.014	Credit facilities
10.37 percent	7.5 percent	18 Percent	Balances with banks in Palestine
0.037	0.028	0.018	Balances with banks outside Palestine

Table 6 shows that Islamic banks' share of the market is still very small, but is increasing year by year. It may be noticed that balances with banks in Palestine fluctuate from year to year. They constituted about 18 percent of the total balances in 1997, dropped to 7 percent in 1998, then increased again in 1999 to 10.4 percent. This reflects the difficulties of establishing Islamic banks. Most of them entered into operation in 1997, so, they had to maintain balances with conventional banks in Palestine, especially, as regards their paid in capital. Their balances subsequently dropped as their operations became more established, but increased again in 1999, when Al-Aqsa bank entered the market, and was required to keep its paid in capital with other conventional banks.

As regards the Islamic banks role in development, table 7 shows the classification of Murabaha and other investments according to economic sectors.

Table 7: Classifications of Murabaha & other investments According to Economic Sectors in 000 USD

Sector	1997	1998	1999	2000	31/3/2001
Agriculture	35.47	111.76	125.72	159.4	127.2
Industry & mining	158.46	2004.15	1053.06	2010.5	4999.3
Construction	1328.6	4090.89	9522.01	9642.3	9602.04
Commerce	6286.88	4823.39	9813.92	13700	13507.41
Transportation	414.00	5212.40	7800.3	15519.0	14802.23
Tourism	--	364.55	406.0	0	0
Services	--	160.00	12129.6	6838	4915.2
Financial services	-	-	53 51.98	4833.6	1833.57
Stocks	-	326.45	3131.93	3238.9	2949.53
Other	389.21	9617.60	3 326.25	9348.38	9935.43
Total	8612.14	26711.21	52658	65290.65	62671.91

Source: Palestinian Monetary Authority.

Table 7 shows that Islamic banks' total investment is still very low, the total figure did not amount to more than USD 65 million by the end of 2000, i.e., more than double that of 1998, which were USD 26.7 million and USD 8.6 million in 1997. Investments by Islamic banks were increasing at a rapid rate, Islamic banks did not invest in services, including financial services and tourism before 1998. And only very small amount, about 3 percent of total investment, was invested in these sectors in that year. Moreover, the

unclassified sector entitled "others" constitutes the main investment area, and represents about 36 percent of total investment in 1998. The sectors of main interest to Islamic banks in 1998 were transportation, commerce and construction. These sectors account for about 63 percent of total investment.

The year 1999 is a good measure of the role of Islamic banks in Palestine. In that year, one third of the total investment of Islamic banks was directed to the service sectors. 19 percent to commerce, 18 percent to construction, and 15 percent to transportation; 6 percent was invested in stocks of other companies, and 2 percent in industry and mining. The above table shows that a large amount of money was invested in industry by the beginning of the year 2001.

8. Challenges facing Islamic Banks in Palestine

Islamic banks face a number of challenges In Palestine, of which the following are examples:

1. Islamic banks in Palestine still operate under the banking Law of Jordan of 1966, and the Palestine Monetary Authority law of 1997. These two Laws did not have any article showing the relationship of Islamic banks and the monetary authorities, which mean that laws applied to conventional banks, are also applied to Islamic banks. In 1999, the Palestinian Monetary Authority prepared a draft for a Palestinian Banking Law. But this law did not pay enough attention to the relationship between Monetary Authority and Islamic banks. The same rules and regulations are applied on both Islamic banks and conventional banks.
2. Another challenge facing Islamic banks is that they are always bound by Islamic Sharia' in all their marketing mix efforts. They are not free to do what they wish. Therefore, conventional banks have an advantage over Islamic banks in that, the former can devise and offer banking services in addition to conventional services, while Islamic banks are not allowed to offer loans like conventional banks.
3. When were first established, Islamic banks' depositors rushed to deposit with them. This led to the accumulation of too much money at the beginning when opportunities of investment were still very few. Thus, idle money was created.
4. Empirical studies showed that a large percent of clients do not know about the services offered by Islamic banks. They do not know the meaning of Mudaraba, Murabaha, and Musharaka.

5. The majority of people are unaware of the difference between Islamic banks and conventional banks. Many believe that the difference is only in the name.
6. Although Islamic banks succeeded in attracting deposits, they were not able to channel those deposits into long term investment, and the majority was invested either in Murabaha, or in the investment portfolios of banks abroad.
7. In many cases, Islamic banks rejected the possibility of dealing with profitable transactions, either because the Sharia controller committee was unable to understand the transaction, or the bankers were not able to create alternatives to the transactions, owing to their shortage of experience in Islamic Sharia.
8. Most of the Islamic banks' investments were in the field of Murabaha, which depends mainly on sales on Installments. Islamic banks restricted their investment to Murabaha, which is a short-term instrument, and has proved to be an ideal tool to finance trade. This type of investment allowed Islamic banks to participate effectively in financing domestic as well as international trade, and is, moreover, a low-risk method of financing.
9. Other possibilities like Mudaraba and Musharaka were not made use of on a large scale, because top quality business firms resented having to give up part of their profit to their partner (Islamic bank). Moreover, Islamic banks in Palestine did not play a vital role in these areas of financing, because of the high risk involved in these two methods.
10. Existing bank laws do not permit banks to engage in business enterprises using depositors' funds consequently, new legislation is necessary to deal with the basic characteristics of Islamic banks.
11. Islamic banks reports show excess liquidity. This is not due to reduced demand for credit, but due to the inability of these banks to find clients willing to be funded under the new modes of financing. This problem is further complicated by the inability of Islamic banks to offer high liquid and guaranteed securities.
12. Conventional banks have a clear superiority as regards to the availability of technical resources and the utilization of advanced bank technology. Consequently, Islamic banks have to face tough competition from a large number of conventional banks in the profitable area of placement of funds.
13. Islamic banks have been obliged to recruit staff trained in traditional banking in order to sell the new services more aggressively.

14. Islamic banks are newly established in Palestine as a shareholding companies. The concept of corporation in Palestine is not clear in the minds of the boards of directors. They are still unable to separate ownership from management. This has led to the fact that it has been difficult for general managers of these banks to remain for a long period of time. Some have resigned very early before staying one year, and other banks are still unable to recruit a general manager. Only Cairo Amman Bank Islamic branches and The Arab Islamic bank have been able to recruit managers. This is due to the fact that managers of Islamic branches of Cairo Amman Bank were employees of that bank, and the same applies to the Arab Islamic Bank because it is an affiliate of Bank of Jordan. However Al-Aqsa Islamic Bank and the Palestinian Islamic Bank are facing this problem, because they are established as a Palestinian shareholding company.
15. Islamic banks should engage in devising new products

9. Conclusions and Recommendations

9.1. Conclusions

The banking sector in Palestine has experienced several difficult periods. Israeli Occupation closed all banks operating in the occupied territories in 1967, then Israeli banks' branches were allowed to operate in these territories, but failed to play a useful role in the development of the Palestinian economy. Several attempts were made to reopen the closed branches and to establish Palestinian banks. But they collapsed owing to Israeli restrictions. In the 1990s, closed bank branches started to reopen, and some Palestinian banks have been established, among them Islamic banks. Branches of Jordanian banks represents majority of banks operating in Palestine, they account for about 71.5 percent of the total assets of all banks operating in Palestine. They also have more than 60 percent of the total deposits.

Islamic banks still play a minor role in the Palestinian economy. Their assets represent less than half the percentage of total banks' assets, they account for about 10 percent of the total number of banks' branches.

Deposits with Islamic banks represent. Less than half a percent of all deposits with all banks, but increasing at a rapid rate.

Their main investments have been in the form of Murabaha. While, their investment methods have been of little importance. This is mainly due to the low risk involved in Murabaha.

Table 6 shows that Islamic banks' indicators are not less than those of other banks. In fact, many of these indicators are better than other banks. Examples are: the solvency ratio, the ratio of credit facilities to total deposits, and that of credit facilities to total assets. Indicators of Islamic banks show very good financial position.

In spite of the fact that Islamic banks are newly established, and there is a misunderstanding about the Islamic banking concept, their growth rate is much higher than other banks. This can be seen from table 7.

Islamic banks' credit facilities are mainly directed towards short -term financing, to services and commerce, and to financing the working capital of the construction sector, and transportation sectors as can be seen from table 9.

9.2: Recommendations

The above results show that Islamic banks are newly established in an economy, which is dominated by well-established conventional banks. The Islamic-banking concept is misunderstood among many of the banks' clients. The Islamic banks' share of the market is still low, but is expected to increase in the future. Based on the study results of the study, the following recommendations can be made:

1. More effort should be made by Islamic banks to market their products. Several promotional campaigns should be planned.
2. Internal marketing to their employees is of high priority. Since many of their employees do not know the difference between their products, and those of conventional banks. There is a misunderstanding of the concept of Murabaha.
3. Officials of these banks should play a vital role in educating the public about Islamic banking products.
4. The Palestinian Banking law should include articles dealing with Islamic banks, taking into consideration their nature, and field of specialization. Jordan banking Law of 2000 could be consulted in this regard.
5. The Sharia Control Committee of Islamic Banks, which is expected to be established by the Palestinian Monetary Authority, should include consultants in the field of finance and banking, in order not to give Fatwa based on a good understanding of some of the banking concepts.
6. Islamic banks should design training programs in the field of Islamic banking, and marketing, communication, among many other fields of management like human resource management.

7. Islamic banks should devise new products, sell them aggressively. In this regard, there is a need for new mechanism to make financial instruments issued by Islamic banks accepted in the financial markets.
8. The Palestinian Monetary authority (PMA) should encourage these banks by taking their nature into consideration. For this reason the legal cash reserve ratio required by all banks to be maintained with the PMA should be less for Islamic banks. For instance, the ratio could be applied to demand deposits only, because other types of deposits participate in the risk of investments.
9. There is a need to find a way for depositors who participate in the risk of investment to participate in the management activity of Islamic banks.

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