

Role of Palestinian Islamic Banks in Financing Economic Development

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I. Introduction

Banks are one of the important bases of modern economic systems, they play an important role in the economies of countries. Palestine and other Muslim countries, have large populations that rejected traditional banks, so Islamic banks have the opportunity to serve as their financial mediators. The rejection of traditional banking is in short due to operation with interest, speculation, and investment in un-permissible trades in Islam. One of the reasons why Islamic banks have developed, is because they presented the alternative that satisfies conservative Muslim populations across the world, as well as non-Muslims that want to explore a new financial system, or do not trust the traditional financial system, or simply find Islamic banking as the better alternative. The Palestinian economic system includes four Islamic banks, two of which operate in Gaza and the West Bank, and the other two operate only in Gaza. Two of those banks are recognized by the Palestinian Authority (PA). However, all banks actually exist and have an effect on the local Palestinian economy, for that reason all Islamic banks will be addressed to point out their role in economic development. Additionally, the data provided by the Palestinian Monetary Authority (PMA) will also be utilized to have a different view on the role of Islamic banks in economic development in Palestine.

1. Why Islamic finance is important in Palestine

The importance of focusing on the Islamic finance industry in Palestine has a number of justifications that include the failure of the Palestinian government to achieve development and sustainability through the Palestinian financial system. Anne Le More and Sara Roy (2008, 1, 1999), describe how the Palestinian living conditions have been gradually deteriorating despite the high level of international support since Oslo 1945. The Palestinian leadership bears

responsibility for the deteriorating Palestinian living conditions notably because of non-transparency, and because of the nature of the authoritarian repressive administration (More 2008, 4).

Another important problem are the “Palestinian capitalists”. The governments of high risk countries, and those at conflict are generally repressive regimes that exercise “narrow development” that cause conflict because the elites (in the Palestinian case the ‘capitalists’) who use the wealth of the country to finance family business and private accumulations, this is made easy for them because the financial systems are weak (Addison, Billon and Murshed 2001, 3).

Abdel-Shafi describes the Palestinian economy as a “Myth”, and concludes with the importance of cooperating with civil society institutions and private financial institutions to direct funds where they are necessary (2015, 16, 25). The relevance of development to Islamic banks is represented in the fact that Islamic banks serve the purpose of financially including large numbers of Palestinians across the country, especially those that reject conventional financial institutions. They also exist as important financial institutions with large pools of savings, thus, a great investment ability.

2. The problem of financing economic development

In the aftermath of the OSLO agreement with the Palestinian Liberation Organization (PLO), and Israel that resulted in the creation of the PA, a number of banks were established including Islamic banks, but ever since 1993, no real development has existed (More 2008, Makhool 2002). One important problem is weak financing and investment in Palestine. Another problem is the Authoritarian PA, and the Israeli occupation and segregation of land. Another important problem is that all banking transactions go through Israel. Those problems directly affected developmental economic projects to be mainly small and labor intensive projects rather than large capital intensive projects that depend on modern technology. Additionally, large portions of the small projects are privately funded, and in some cases, entirely depend on self-funding.

3. Research goals

This paper aims to analyze the importance of the Islamic banks in employing deposits in economic development and investment in the most necessary sectors that help elevate the Palestinian economic condition. Sectors such as Industries

and agriculture are important to the Palestinians. This aim is derived from the essence of Islamic economics is which explained by Professor Asutay to be concerned with human justice and human-centered economic growth and development (2007, 189).

This paper explains the contribution of Islamic banks in Palestine to the development of the Palestinian economy while focusing on the years 2014 and 2015 to give an updated and clear picture. Additionally, exhibits the challenges faced by the Islamic banks operating in Palestine, as well as the opportunities associated with certain changes such as introducing legislation that favors Islamic finance institutions.

4. Research methodology and hypothesis

This paper is being guided under few hypotheses. First is that Palestinian Islamic banks have been able to collect savings increasingly over time. Second, the Palestinian Islamic banks slightly contributed to development in general, but were not able to contribute to long term and sustainable development in lively sectors such as industries and agriculture which have a direct social effect especially with regard to employment. Finally, The PA could play a positive role by simply regulating financial Islamic transactions, and strengthening the financial system which is weak and allows for financial corruption.

II . Overview of Islamic banks in Palestine

After the Oslo agreement between the Palestinian Liberation Organization (PLO) and Israel in the year 1993 and following the establishment of the Palestinian National Authority (PNA) in 1994 a number of financial institutions were established, and were mainly banks. A number of commercial, Islamic, and specialized banks formed the foundation for a banking system in Palestine. The development of financial institutions in Palestine that now goes beyond Banks, should have led to economic development over the past 22 years. However, the economic situation underlines that such economic development has not occurred.

The real efforts of establishing Islamic banks and later on Islamic finance institutions in an economic system that was built on Capitalism, and still operates in accordance with capitalism principles where Interest "*Riba*" is a

part of all transactions faced many challenges. Those challenges were difficult to overcome. Despite all that, the establishment of an Islamic finance and banking industry in Palestine was of the essence to serve the needs of the conservative Muslims that wish to live a life described as *Sharia* compliant, and such Muslims in Palestine represent the vast majority of the population. With the existence of Islamic banks and financial institutions in Palestine, they could provide financial solutions for Muslims that find themselves in critical financial situations.

Islamic banks in Palestine has continued to grow, which explains the worthiness of this industry even in Palestine. This also indicates that the market continually demands the services of Islamic banks and financial institutions. However, Islamic banks in Palestine find difficulties in coping with the capitalist system that governs the world financial relationships, and more importantly the capitalist system that governs the operations of the Palestinian government. They need to cope with capitalism while keeping all their transactions *sharia* compliant.

Under such difficult circumstances, Islamic financial institutions in Palestine would be found operating with accordance to some of the weaker jurisprudence scholarly views, not according to the consensus of Muslim scholars in certain financial matters. This is also true in many other countries where the Islamic finance and banking industry operates, and sometimes, some Islamic financial institutions weather in Palestine or in other countries would fall into some suspicions when executing certain Islamic financial transactions.

III. How Islamic banks fit in the Palestinian system?

In Palestine, there is still no regulatory procedures that govern Islamic banks transactions separately from the traditional transactions. The Palestinian Principal Law enforced in 2002 is based loosely on Islamic *Sharia*; however, the banking system is a combination of both conventional and Islamic modes. *Sharia* compliant financial transactions as all financial activities are governed under the same legislation, regulated by the Palestinian Monetary Authority (PMA), fall under the Law of Jordan of 1966 and the PMA Law of 1997.

Islamic finance institutions that operate in Palestine count-on the Muslim population's desire to live a *halal* life where investment, banking, and insurance

are all *sharia* compliant. One of the awareness sessions on the work of Islamic financial institutions in Palestine was titled “*Do you want to live a relieved life, your bank and insurance are Halal?*”, and in Islam, when the Islamic alternative is available, it has to be chosen over any other alternative. In Palestine, literacy rates are high, and the peoples understanding of Islamic teachings is also relatively high, which is partially a reason why Islamic financial institutions have a firm ground to stand on, indeed the industry has been growing over time, and growth opportunities remain open.

IV. The current role of Islamic banks in contributing to economic development

In order to clearly understand the role of Islamic banks in economic development, the size of Islamic banks in the Palestinian economy needs to be understood. To achieve this, the current status of all banks in Palestine is explained through showing the accumulation of deposits, the investment directions and priorities, and the size of credit facilities. After that show the economic development achieved by the existing financial system and the contributions made by Islamic banks.

1. The current status of all Banks in Palestine

The number of banks that operate in Palestine as of the year 2015 are 16 according to the PMA, this does not include the *Islamic National Bank* and the *Palestinian Production Bank* that operates in Gaza, and are not yet recognized by the PMA. Among the 16 banks are 2 Islamic banks; *Palestine Islamic Bank*, and the *Islamic Arab Bank*. There are 33 branches for both banks that spread in the most active cities in the West Bank and the Gaza Strip. Although the deposits in the Palestinian banks altogether reached **9.7 billion USD** up to the year 2015, (PMA 2015) they have failed to provide necessary facilities to finance investments – especially long term investments. Table (1) exhibits the percentage of annual change in credit facilities provided by all Palestinian banks including Islamic banks.

Table (2) explains the distribution of credit facility by type. those credit facilities are provided by all Palestinian banks combined from the year 2010 to the first quarter of 2016.

Table 1: Customer deposits in Palestinian banks (million US\$)

Year	Deposits	Credit facilities	% change in credit facilities
2010	6,802.4	2,885.9	--
2011	6,972.5	3,552.6	23
2012	7,484.1	4,199.3	18
2013	8,303.7	4,480.1	6.6
2014	8,934.5	4,895.1	9.2
2015	9,654.6	5,824.7	19
2016 1 st Q	10,054.7	6,137.3	5.3

Data Source: PMF, Quarterly Statistical Bulletin, 1st Quarter 2016, Issue 12 (PMA 2016)

Table 2: Distribution of credit facilities by type (million US\$)

Type of credit facility	2010	2011	2012	2013	2014	2015	2016
Loans	1,978.0	2,531.7	2,950.3	3,207.7	3,853.8	4,639.8	4,906.8
Overdrafts	900.4	1,010.3	1,238.1	1,258.5	1,021.0	1,155.4	1,200.1
Finance leasing	7.5	8.7	10.9	14	20.3	29.5	30.4
Total	2,885.9	3,550.7	4,199.3	4,480.1	4,895.1	5,824.7	6,137.3

Data Source: PMF, Quarterly Statistical Bulletin, 1st Quarter 2016, Issue 12 (PMA 2016)

Table (3) shows the distribution of credit facilities among the main economic private sectors in Palestine. The table shows that most facilities are directed to the real estate and construction sector as well as the local and foreign trade sector. Generally, investment in economic infrastructure that served development in the long run such as transportation is minimal. Additionally, providing facilities to agriculture and livestock economics sectors is also weak despite the fact that it contributed in economic development on the social level, and plays a good role in economic diversification and economic inclusion.

Table 3: Main sectoral distribution of credit facilities (million US\$)

Economic sector	2010	2011	2012	2013	2014	2015	2016
Real estate and construction	331.6	411.5	589.5	650.4	790.1	952.5	872.3
Land development	76.7	29.7	41.7	57.1	41	128.5	107.7
Mining and manufacturing	257.9	303.7	173.8	222.2	257.2	264.3	262.5
Local and foreign trade finance	392.2	489.6	503.2	612.3	744.6	941.9	855.5
Agricultural and livestock	45.3	33.7	35.1	38.3	46.5	73.3	73.2
Tourism, hotels and restaurants	47.9	50	57.9	58.9	59.9	72	74.7
Transportation	19	22.6	22.7	21.8	30.2	20.2	24.8
Business and consumer services	457.5	295.3	267.4	242	374.4	402	449.5

Data Source: PMF, Quarterly Statistical Bulletin, 1st Quarter 2016, Issue 12 (PMA 2016)

Foreign trade is basically consumer based, therefore, trade is a profitable and relatively safe sector to invest in. Real estate in Palestine, especially in Gaza is mostly on the rise, rarely do the values of real estate fall, which also makes it a profitable area of investment. However, this area has limited contribution to

economic development and elevation of unemployment. On the other hand, sectors such as agriculture and industries that have a much bigger effect on elevating unemployment and participating in economic development, are least invested in.

The accumulation of deposits in Islamic banks is much smaller than in traditional banks. The proportion of Islamic banking transactions is less than 9% of the total Banking sector in Palestine, and the estimated demand for Islamic banking services is 20% (PIF 2014). Within Islamic banks, *Murabaha*¹ is the form of financing mostly used because it is relatively short term, and contains low risk rates. 89% of the AIB financing is for *Murabaha* contracts, which is about 220 million USD, the remaining were for *Mudaraba*², *Ijara*³, *Istisna*⁴, and *Musharaka*⁵. (AIB 2014) The PIB gave 98% of financing to *Murabaha* contracts, and the remaining 2% were given for *Ijara* and *Istisnaa* contracts in the year 2013. (PIB 2013) As for the INB that only operates in Gaza, and is not recognized by the PA or the PMA, 60% of its financing is for *Murabaha*, *Musharaka*, and installment contract. (INB 2014)

2. Islamic banks contribution to development

Islamic banks that operate in Palestine are mainly two. Those two were established with the establishment of the PA. After that two other banks were established, however, were not recognized by the PA. the reasons are controversial, where the banks management point out political rivalry and conflict between the Palestinian political parties, and the PA, being governed by one of the rivals, represented by the PMA pint out legal and technical issues that relate to the inability of the banks to meet certain criteria. Table (4) shows the banks year of establishment, the number of branches, and the official status.

Table 4: Islamic banks that operate in Palestine - 2016

#	Bank Name	Number of branches	Year established	Official status
1	Palestine Islamic Bank	21	1995	Recognized
2	Islamic Arab Bank	11	1995	Recognized
3	Islamic National Bank	4	2008	Not recognized
4	Palestine Production Bank	1	2013	Not recognized

Data source: Palestine Islamic banks annual reports 2016

The Palestinian Islamic banks have with no doubt contributed to the development on many people's lives, and also have economic contributions even if only from the theoretical perspective. Deposits in Palestinian Islamic banks

have increased year after year, table (5) shows the increase from 2014 to 2015. Islamic banks rely heavily on individual deposits, managed under current accounts, in developing the bank and increasingly participate in local economic activities.

Table 5: Deposits in Islamic Banks (millions US\$)

Bank name	Deposits			
	Current accounts		General Investment deposits	
	2014	2015	2014	2015
Palestine Islamic Bank	134.4	154.9	55.2	47.2
Islamic Arab Bank	134.3	158.2	27.8	51.2
Islamic National Bank	29.7	31.7	--	--
Total	298.4	344.8	83	98.4

Data source: Palestine Islamic banks annual reports 2016

Most of the investment by Palestinian Islamic banks is local investment that is relatively safe and low risk. All the banks invest in real estate, a market with continually increasing prices as demand continually increase. This market could face some drops in the prices, but usually is for short periods of time. Other forms of investment are precisely three; investment in associate companies, investment in other Islamic banks, and investment with different partners using *Musharaka* as clear in table (6).

Table 6: Islamic Banks investments (million US\$)

Bank name	2014			2015		
	Real Estate Investments	General other Investment	Total	Real Estate Investments	General other Investment	Total
Palestine Islamic Bank	0.8	2.9*	3.7	0.8	4.8*	5.6
Islamic Arab Bank	15.3	9.2**	24.5	15.1	7.3**	22.4
Islamic National Bank	z	3.7***	15.5	12.9	3.7***	16.6
Total	27.9	15.8	43.7	28.8	14.8	44.6

Data source: Palestine Islamic banks annual reports 2016

- * investment in associate companies
- ** investment in other Islamic banks
- *** general financial investments and investment by "*Musharaka*"

V. Challenges faced by Islamic banks in Palestine

Islamic banks in Palestine operate under an unfavorable financial system that does not recognize the Islamic principles and addresses all financial matters

similarly under one law. Islamic banks being a minority try to find different mechanisms to avoid un-Islamic financial transactions. All banks in Palestine operate under the PMA, as a central bank, the PMA deals with Islamic banks with accordance to the unified system.

The limited facilities provided by Islamic financial institutions for investment in agriculture, industries, and general long term investment, especially in Gaza, could be related to the following few points that also represent challenges to Islamic banks that force them to invest safe and for short-term.

- Political economic stability: The lack of political, security, and economic stability have weakened investment opportunities.
- Geographic connectivity: The Israeli siege over the Gaza strip has disabled any kind of connection between Gaza and the West Bank, and between Gaza and the outside world.
- Lack of experience: The new Islamic banking experience in Palestine, and the absence of legislation that fits and organizes its relationship with commercial banks and the PMA taking into account the specificity and obligations of these banks that do not bind commercial banks.
- Public trust: The continuation of such status might have already shook the trust of the Palestinian public in the performance of Islamic financial institutions, which makes them grow weaker.

All the challenges previously mentioned led Islamic banks to direct the majority of their investment into direct credit financing. Investment in direct credit financing as shown in table (7), and further explained in table (8) is much more that investment in other economic activates as previously shown in table (6).

Table 7: Direct credit financing (million US\$)

Bank name	Direct credit financing	
	2014	2015
Palestine Islamic Bank	353	446.3
Islamic Arab Bank	247.1	311.4
Islamic National Bank	45.9	51.4
Total	646	809.1

Data source: Palestine Islamic banks annual reports 2016

Direct credit financing methods take many forms and extend to different periods of time. Table (8) exhibits the different types of direct Islamic financing methods used by Palestinian Islamic banks in 2014 and 2015. It is very clear from the table that the financing method “*Murabaha*” is the most used by all

Islamic banks in Palestine. In fact, it is the most uses and known on an international level.

Table 8: Direct credit financing methods and value (million US\$)

Method of investment	Palestine Islamic Bank		Islamic Arab Bank		Islamic National Bank	
	2014	2015	2014	2015	2014	2015
Murabaha	333.7	412.3	219.4	271.6	44.5	52.3
Mudarabah	5.6	7.3	7.6	8		
Musharakah	1.6	2.4	1.9	3.5		
Installment sale	--	--	--	--		
Ijarah ending with ownership	5.3	5	15	24.6	--	--
Istisnaa	4	5.8	2.8	3.4	--	--
Islamic credit card	0.022	9	--	--	--	--
Qard Hassan ⁶	2.1	2	--	--	--	--
Current exposed accounts	0.86	1.3	1	0.98	4.1	3
Musawamah Financing	2.2	4.4	--	--	--	--
(subtracted) others	2.382	3.3	0.6	0.68	2.7	3.9
Total	353	446.3	247.1	311.4	45.9	51.4

Data source: Palestine Islamic banks annual reports 2016

Reflecting from the exhibited numbers in table (8), all Islamic banks invest heavily in *Murabaha* financing, and minimally in other forms of financing. *Murabaha* financing represents about 87 – 96% of the total investment in direct credit financing by each bank in 2014 and 2015.

Islamic banks invest in different economic sectors directly or by providing credit financing to beneficiaries from those economic sectors. All Islamic banks directly invest in real estate, and provide financing through different Islamic financing methods as clear in table (8) for beneficiaries to build or develop new or existing economic projects in agriculture, truism, production industries, fishery, trade, and other private credit financing.

VI. Conclusion and recommendations

The paper pointed out that Islamic banks play an important role in economic development in Palestine. However, Islamic banks have a bigger potential to grow at a higher rate. The proportion of Islamic banking transactions is less than 9% of the total Banking sector in Palestine, and the estimated demand for Islamic banking services is 20%. (PIF 2014)

Deposits in Palestinian banks reached up to 10,054 million USD in the first quarter of 2016. Financing facilities reached to 6,137.3 million USD during the

first quarter of 2016, which accounts for 61% of total deposits. The paper finds that financing that targeted the main economic sectors such as agriculture and industries was minimal. Financing that targeted real estate and foreign trade was about 3 – 4 times more than financing for mining and manufacturing, and about 10 times more than financing for agriculture and livestock according to the estimates of the PMA during the first quarter of the year 2016.

With regard to Islamic banks, the paper concluded that the bank's total investment in real estate and few other investment activities reached 44.6 million USD where the Islamic Arab Bank had the bigger share of 22.4 million USD. The majority of the pooled deposits in Islamic banks were directed to direct credit financing which reached up to 809.1 million USD in the year 2015, where the Palestine Islamic Bank gave out 446.3 million \$, and the Islamic Arab Bank gave out 311.4 million USD, and the remaining 51.4 million USD were given by the Islamic National Bank.

Reflecting back to those numbers by Islamic banks, it would be safe to say that the role of Islamic banks in financing economic development in Palestine is very small. Some of the main reasons are the unstable economic and political situation in the Palestinian Territories, the Israeli siege on Gaza, and the Israeli geographical segregation and discriminatory policies in the West Bank. Other reasons concern the limited experience of Islamic banks in Palestine, and the absence of legislations that address the differences of Islamic banks from traditional banks. Finally, the public trust in Islamic banks is a key player in the success of Islamic banks, and must always be heavily accounted for.

All those difficulties lead all Islamic banks to invest heavily in the financing method *Murabaha*, as it is characterized with low risk, high and fast return, and guarantees a continuous short-term flow of money within the banks. The percentages of *Murabaha* financing ranged from 87% to 96% of Islamic banks total investment in direct credit financing.

Despite the low contribution of Palestinian banks in economic development, and the very low contribution of Islamic banks in economic development in Palestine, that should not be a reason to undermine the potential and future effect of those banks in development, and more effort should be put into resolving the challenges of the Islamic banks to enable them to operate in a better and more favorable legal and financial environment.

1. Recommendations for the PA, and the PMA

The Palestinian governments success in helping local Palestinian banks grow creates a local financial alternative for the government away from political international loans that lead to nothing but subordination. To achieve that the PA should consider the following:

- The economic, political, and security situation must be stabilized. Here comes the role of the Palestinian government, and the specialized authorities within to create a favorable environment in order for Islamic banks to consistently grow, and increasingly play a bigger role in economic development.
- The PA should regulate the relationship between the PMA and the traditional banks differently from the PMA relationship with Islamic banks.
- The PMA with management and Sharia councils in each of the Islamic banks cooperate to point out the needs of the banks and should introduce laws and regulate Islamic finance transactions, as well as empower and encourage this industry because it is capable of making a difference.

2. Recommendations for Islamic Banks

The existence of Islamic banks counts on including more and more of the conservative Palestinians in the local financial system, However, the is not a problem because the demand is already higher than what the Islamic banks are capable of offering. The demand of Islamic banking is two times more that the proportion of Islamic banking transactions from the total Banking transactions in Palestine.

The following are important recommendations for Islamic banks:

- Islamic banks should pay more attention to feasibility studies for projects that are likely to be financed, especially small projects run by less experienced beneficiaries.
- Additionally, Islamic banks should increasingly pay more attention to financing methods and projects that have the potential to create employment and sustainability.
- Short term debt financing methods such as *Murabaha* should be used less to allow for the use of trade based methods such as *Mudaraba* and *Musharaka*. Transactions and projects based on Islamic finance methods

such as *Musharaka and Mudaraba* that are applicable in the Palestinian economy have the potential to participate in solving the problem of unemployment, and strengthen small and medium contracting companies as well as craftsmen in different sectors.

Depositors have trust in the Islamic banks, and the key word for most people is “*Islamic*”. There is a trust-based relationship that must continue, and must increasingly be strengthened, especially with question marks on how different are Islamic banks from other conventional banks. Islamic banks must not lose the public trust to guarantee a consistent flow of deposits that enables the banks to have an increasing ability to invest more and have a stronger role in economic development. To keep the trust of clients, the following are important to consider”

- Strengthen *Shareia* monitoring councils in all Islamic banks by appointing *Shareia* scholars who are trusted by the Palestinian public.
- Employ professionals with an Islamic finance background that understand and believe in the value of Islamic banking, because part of the problems faced by Islamic banks was most employees come from a conventional banking background.
- Islamic banks should also activate their social role that includes supporting local organizations and providing financial services such as *Qard-Hassan* which is simply a loan with no interest or added charges usually given to needy people, and to be paid back over a certain period of time.

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- 1 *Mudaraba*: A pre-Islamic, Arabic type of financing, in which one individual provides start-up capital to another who will do the actual work (BusinessDictionary).
- 2 *Murabaha*: An Islamic type of financial transaction in which a person with property/an asset to sell will rent/lease it to another interested buyer at a fully disclosed rate of profit. This is similar to a rent-to-own situation in which the owner maintains full property rights over the asset until the buyer has paid off the note for the asset in full (BusinessDictionary).
- 3 *Ijara*: An exchange transaction applicable in Islamic regions. It is trading a specified asset available in for a payment where the ownership of the asset is not transferred. This is similar to a type of mortgage loan with no requirements for down payment, such as a rent-to-own arrangement in the United States (BusinessDictionary).
- 4 *Istisna*: is an order to produce or manufacture a product, where the payment is made up front.
- 5 *Musharaka*: Islamic principal that is applied to joint ventures where interest is not charged by the creditor of the loan, instead an agreement is made between the creditor and the buyer as to the share the creditor will get from the profit made from the venture. This also applies to any losses made in the business (BusinessDictionary).
- 6 Qard Hassan, is a loan with no interest, usually given to those in need, and it is paid back in small quotes

Abstract

Role of Palestinian Islamic Banks in Financing Economic Development

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Islamic banks theoretically play a role in financing economic development in Palestine. However, the practical role they play in financing economic development is very small, despite the larger available potential for growth. This paper analyzes the role of the Palestinian Islamic banks in financing economic development in Palestine especially in 2014 and 2015. To achieve this goal, the Palestinian bank's 2015 financial reports were utilized as well as the Palestinian Monetary Authorities (PMA) 2015 report on the Palestinian financial sector. This in addition to reviewing the latest literature to incorporate more views on Islamic banking.

Islamic banks have succeeded in collecting deposits continually, but were not successful in financing economic development. On the other hand, the demand on Islamic banking is two times more than the proportion of Islamic banking transactions from all banking transactions in Palestine. So Islamic banks still do not have the capacity to play a more noticeable role in financing economic development in Palestine, and have also failed to provide enough credit facilities which confirms their weak role in financing economic development.

The PMA should strengthen the financial system in Palestine, and introduce new law to regulate Islamic finance transactions separately from traditional banks transactions. This has the potential to ensure higher levels of security for Islamic banks, driving them to expand their operations. On the other hand, Islamic banks should focus on medium to long-term planning as well as use partnership based financing which allows them to play a bigger role in financing economic development in Palestine.

Keywords: Islamic banks, Islamic finance, Economic development, Palestinian economy