far more prosperity than any other economic system so far, and has done so through industry and trade, for which interest-based finance is the prime mover. And it has lifted people out of poverty -- the very phenomenon that led to the emphasis in the Koran on charity rather than lending in the first place.

On their part, Islamic banks make a concerted effort to anoint all their activities as trade rather than interest-based banking. This deserves a close look. How truly Islamic are their activities?

Islamic banks offer an array of banking products. The names given to these products are sometimes rather confusing, have overlapping meaning, and do not describe the product well. The following products account for the bulk of an Islamic banks business: *Al-wadia* (meaning, variously, to preserve, deposit, subtract, or forsake, according to one writer) is akin to non-interest bearing current account deposit in mainstream banks; *Mudaraba* (literally, to travel on business), operationally, profit-sharing ventures; *Musharaka* (literally partnership, which is necessarily also profit-sharing); *Bai Murabaha*, or simply *Murabaha*, literally to buy and sell at profit (a definition that can describe almost any business); and the more easily recognisable *Ijara*, or lease financing. All of these instruments, excepting *Al-wadia*, are geared to generating profit, which is permissible, and are not supposed to have anything to do with interest.

Islamic banks make a concerted effort to anoint all their activities as trade rather than interest-based banking.

Under *Mudaraba*, deposits are accepted by the bank and are then used by entrepreneurs for investment (such as in a trade venture). The depositor, who does not himself participate in any venture, is given a portion of the profit. The rate of profit, given out by the bank from the total fund of profits derived from all *Mudaraba* ventures intermediated by the bank, is not fixed and varies with circumstances.

However, the rate of profit a depositor receives also depends on the term of the deposit, that is, on the length of time the depositor keeps his money with the bank. The longer the term, the higher the rate of profit: a three-year deposit earns a higher rate of profit than a three-month deposit, for example.

It is useful to recall here the economic significance of interest. Interest is essentially compensation for current consumption deferred. Normally, the longer the period of deferral or waiting, the higher the rate of compensation is. This is reflected in long-term rates of interest being higher than short-term rates. Risks too increase with time and call for generally higher rates of interest on longer-term loans than on shorter-term funds.

There is a great deal of similarity with *Mudaraba* deposits here. The longer the period of waiting, the higher is the rate of "profit."

The rate of "profit" looks surprisingly like the rate of interest, except for the fact that the profit rate is not predetermined. Islamic banks proclaim that they "do not trade in money", as one author put it. But here is the bank accepting deposit (of money) from a depositor who does not trade, giving out profit (in money) at a rate that partly depends on the length of time the money deposited is kept in the bank, just as with mainstream banks. If the bank itself is not actually trading in money, it is providing the intermediation for the depositor to do so.

Musharaka is very similar to *Mudaraba*, except that the supplier of finance (the depositor) also takes part in the business venture. A relatively small proportion of Islamic banking business conforms to the strictly Islamic profit or loss sharing principle, such as *Mudaraba* or *Musharaka*. Only about 2 percent of Islami Bank of Bangladesh's investment income in 2008 came from these two instruments, according to its latest audit report.

Far more important are the Islamic banks' business conducted on the principle of predetermined profit. Under *Murabaha*, the most important investment vehicle used by Islamic banks is the bank's purchases goods of various descriptions on behalf of its client and selling them to him on a cost-plus profit basis. The rate of profit is predetermined, making the transaction risk-free for the bank, as is the period within which the client must make full payment on the goods purchased. For the bank to be seen as engaging in trade, rather than merely financing it, it must own the good before selling it to the client. The step between owning (by the bank), and selling (to the client) needs close scrutiny, however.

In an important book, provocatively entitled *Islamic Banking: A $300 Billion Deception*, Muhammad Saleem, a career mainstream international