

An Analytical Review of Islamic Banking as Practiced in Iran (1998)

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To impartially evaluate the performance of Iran's banking system required a peculiar vision which was realized as a result of inspection of some banking instructions and the Iranian banking time series data coupled with the experience of the author in initiating the draft-law of Usury-Free Banking Operations committee in addition to him having the chance over a long period to do both research and teach Islamic banking. With no precedence in Iran, understanding the Law and putting it into practice with negligible training given to the bank staff was not, of course, an easy task.

Two years of grace period had, however, been given for transition from conventional to Islamic banking. Quite understandably, behind the scene were some pressure groups, both within and outside the banking system whose benefit could better be protected by debt-financing; hence trying hard to divert the equity-based principle outlined in the Law, to debt-financing. Two of the most attractive modes of contracts, among others, have been Installment Sales and Mudarabah, as evidenced by the data. Contrary to the nature of Mudarabah, a fixed rate of interest has customarily charged to the principal amount of the loan paid to the customers. Further statistical evidences show that for the last fourteen years a fixed guaranteed rate of interest had been paid to depositors, irrespective of the profitability of the projects financed by Iranian banks.

The final result is that the Law has not only been practiced in Iran but just the cosmetics of the Islamic modes of contract with no real Islamic substance.

Pre-requisite to suitably pave the way to implement the Law as to the training the banks personnel, as well as the public, appreciation of researches and appropriate change in university courses had not been fulfilled. More importantly, the blames has to be put on the banking authorities who, the author believes, most of them did not believe in and appreciate the Islamic banking.

No doubt that a multi-disciplinary change like Islamic banking could not be to be handled by the banking system alone. Other public institutions could make it easier for the Law to work, but bank authorities failed to ask for any cooperation from these institutions. Appropriate recommendations have been made to cover most, if not all, deficiencies. Noteworthy is to open a window, among others, to give chance to those interested in Islamic banking to use true Islamic modes of finance, as a pilot study.