Islamic Banking in Sudan: A Case Study of the Sudanese Islamic Bank.

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ABSTRACT

The purpose of this paper is to investigate Islamic banking in the Republic of Sudan by making a case study of the Sudanese Islamic Bank (SIB). SIB is examined as a model exhibiting Islamically appropriate instruments of financial intermediation in its interaction with the communities it serves.

Islamic banks, like all genuine Islamic institutions, are by definition founded upon and bounded by Islamic law, morals, and ethics. Thus, the Islamic prohibition against interest-based transactions of all kinds sets the Islamic bank as fundamentally different from its conventional counterpart, utilizing unique instruments of financial intermediation that are also defined by Islamic law.

The study places emphasis on the primacy of the ethical and moral requirement in Islam to approach financial intermediation from a socio-economic point of view that engenders sustainable development among the populace. Furthermore, the study emphasizes the inflation control mechanism inherent in Islamic modes of finance.

(Keywords: Islamic banking, Islamic microfinance, *mudaraba* [agency joint venture], *musharaka* [joint partnership], *riba* [interest, usury])

INTRODUCTION

The Republic of Sudan is a predominately Muslim country of northeast Africa. As such, it is a country where its people, by and large, have a respect for and belief in the teachings of Islam manifested in The Holy Qur'an and The Sunnah (practices and sayings) of the The Prophet Muhammad, may the peace and blessings of Allah be upon him. It is these two sources: The Qur'an and The Sunnah that form the foundational sources of Islamic law. It is the Islamic law that ideally governs all facets of life—cultural, social, political, and, economic. One of the most important laws of Islam in the economic realm is the prohibition of interest in financial transactions:

> In Islam, the charging of *riba*—interest and usury—in commercial and financial transactions is strictly prohibited by the command of Allah as revealed and recorded in the Holy Qur'an: The Holy Qur'an ordains the prohibition of "interest" (*Riba*) at least five times in the second *Surah* [--*Surat-ul-Baqara*, verses 275-279]. This prohibition of interest [and usury] has been put as (i) Madness (*Takhabbuta*), (ii) a thing God wants to "destroy" (*Mahq*), (iii) a thing which if not abandoned deserves a "war (*Harb*) from God, (iv) a thing which is the antithesis of faith (*Iman*)…(v) a thing if persisted in…calls for permanent abode in hell (*Khulud-fin-Nar*) (Uzair, 1980, p. 44).

Because of the gloomy description and dire consequences just outlined, the vast majority of the world's Muslims have taken Allah's word literally and have sought to avoid interest-based transactions as much as possible. However, Muslim scholars, in commenting on the verses in the Qur'an where Allah has decreed this prohibition, have sought to extract and establish the rationale behind the prohibition. They have generally stated that interest-taking impoverishes and retards equitable socioeconomic development. In the time of the Prophet Muhammad (may the peace and blessings of Allah be upon him) during the 6^{th} and 7^{th} centuries C.E., the moneylenders of Makka, the chief commercial center of the Arabian peninsula, were wealthy from the exorbitant rates of interest they charged the urban dwellers and inhabitants of the rural areas. This created an ever growing gap between rich and poor. The Qur'anic verses were then revealed that declared the inherent injustice involved in interest-taking and thus categorically prohibited it.

Today, the Muslim sees what is for him the living proof of the promised war outlined in the Holy Qur'an against those who deal in interest-based financial transactions. This is, of course, the global debt crisis. Those poor countries entangled in interest-based loans offered by the West through the International Monetary Fund (IMF) and the World Bank find themselves getting deeper and deeper into debt. The interest continues to mount uncontrollably; the poor countries are then forced to divert more and more of the national income to pay against this incurred national debt. As a result, the poor nations become more and more incapable of taking care of basic needs in their countries such as health care and education. National impoverishment increases and the citizens become more and more restless about their deteriorating economic condition. As a result, the global community is threatened with ever increasing instability, both political and economic, as the restless, downtrodden masses agitate for improvements in their lots, and as grassroots activists mobilize with massive protests and displays of civil disobedience against the official meetings of the IMF, the World Bank, and other international trade and financial organizations, organizations regarded as the perpetrators of the global debt crisis and world impoverishment. For the Muslim, the promised war of Allah, in the form of the ongoing global political and economic crisis, is very real indeed.

THE SUDANESE MODEL OF ISLAMIC FINANCIAL INTERMEDIATION

In the Sudan, Islamic banking began with the establishment of the Faisal Bank of Sudan in 1978. By the mid-1980s, several other Islamic banking institutions were established including the Sudanese Islamic Bank and Investment Company, the Baraka Islamic Bank, the Islamic Bank for Western Sudan, and the Islamic Bank of the North (*Arabia: The Islamic World Review,* November, 1985, p. 50). These banks were very active and successful in attracting Muslims desirous of obeying the Islamic prohibition against all types of interest-based transactions. For example, by 1983, Faisal Islamic Bank of Sudan had accumulated the equivalent of US $263 million in savings and other deposits (*Sudanow,* December, 1983, p. 23). In another example, the Islamic Bank of the North attracted the equivalent of US $2,053,750 in promoter's shares in approximately one month of its announced formation in 1985 (*Sudanow,* December, 1985, p. 30).

These banks have been very active in all business and commercial sectors in Sudan. For example, from the beginning of its establishment, Faisal Islamic Bank of Sudan (FIBS) financed not only the importation of essential commodities such as wheat flour, medicines, and petroleum products, but also funded the purchase of several tankers to export oil and chemical products from Port Sudan, and provided funding for a major housing project in West Khartoum (*Sudanow,* December, 1983, p. 23).

Another bank, the Islamic Bank of the North (IBN) was organized in 1985 with the avowed objectives of making significant capital investments in agriculture, commerce, industry, and mining activities (*Sudanow,* December, 1985, p. 30). IBN announced its intention to concentrate its activities in the northern region of Sudan where it says that the "negligence of development projects over most of the region, and failure of governmental schemes, reduced the productive capacity and lowered the living standards of the population, although the region is potentially rich" (*Sudanow,* December, 1985, p. 30).

Although the private Islamic banking system in Sudan had shown interest in the development of the agricultural sector, many Sudanese felt that Islamic banks had not done enough to help develop this vitally important sector of the economy. This is because the Islamic banks had involved themselves in making huge profits by concentrating on short-term financing of commercial trading activities (*Sudanow,* March, 1985, p. 18). Indeed, while public or state-run banks had, on average, put up 29 percent of their lendable investment capital for medium- and long-term development by 1985, the private Islamic banks had, on average, put up much less. For example, in 1982, FIBS put up only six percent of its lendable capital reserves for medium- and long-term development. To change this situation, the Sudanese government In 1985 issued a new monetary policy which stipulated that "private banks operating in the country should earmark at least 25 percent of their licensed ceilings…for financing medium- and long-term development projects….[Furthermore] the banks should concentrate on financing agricultural and livestock exports, and purchases of production inputs in the agricultural and industrial sectors" (*Sudnow,* March, 1985 p. 18).

Not all the Islamic banks needed the government's policy decree to assume a leadership approach promoting equitable distribution of finance capital for medium- and long-term development projects. An outstanding example is the Islamic Cooperative Development Bank (ICDB), established in 1982. In just two years, ICDB amassed deposits totaling more than 24 million Sudanese pounds (LS)—approximately US $18.5 million at 1984 exchange rates. Interestingly enough, only one third of its investable capital was committed to short-term investments (*Sudanow,* March 1985, p. 22). ICDB from the outset made a commitment to medium and long-term development financing, a commitment based on Islamic moral and ethical values.

Throughout the 1980s, ICBD developed a reputation for sincere commitment to Sudan's development. ICBD "has shown its willingness to become involved in the crucial field of agriculture….If its ambition of reaching the rural population is fulfilled, then…ICBD could do much to revolutionise the banking system in Sudan" (*Sudanow,* March, 1985, p. 22).

Perhaps another indicator that Islamic banking represents a genuine socioeconomic revolution in Sudan is the spatial dispersion of banking outlets. By 1991, Islamic banks in Sudan represented a far better spatial dispersion by state than did the interest-based conventional banks. It is also interesting to note that by 1991—a short span of only 13 years—the Islamic banks had eclipsed the conventional ones in the actual number of branch banks, the former having 175 branches, the latter having 172 branches (Al-Hashimi, 1992, p. 44).

The growth and development of the Islamic banking movement in Sudan is a manifestation of the moral and ethical proclivities of Sudanese society. These moral and ethical proclivities are solidly based on the teachings of Islam. As such, these proclivities are in direct opposition to capitalism. In capitalism the charging of interest in financial transactions is fundamentally an economic issue; in Islam it is fundamentally a moral issue. Interest in financial transactions is one of the defining attributes of capitalism; in Islam, interest-taking is so abhorrent that it has been defined in the Holy Qur'an as an aberration that is totally outside commerce and trade of all kinds. Thus, the Islamic position on interest and usury is the most important moral filter in an Islamic political economy. It calls for a fundamental development of economic organization that is diametrically opposed to the prevailing, interested-based global economy. It takes a great deal of courage and leadership to swim against the seemingly overpowering currents of today's international economic system.

The Sudan is one of three Islamic countries—the other two being Iran and Pakistan—which has systematically attempted to establish an Islamic political economy. It appears, however, that the Sudan has been the most successful of the three in establishing a nationwide Islamic financial system, a viable national financial system being a most important component of any political economy. As recently as June, 2002, Muhammad Taqi Usmani, a Pakistani national who is one of the highest ranking Muslim scholars in the world, has commented on the Sudanese progress at establishing interest-free Islamic finance:

> Under the prevailing conditions there is only one country in the world, and that is Sudan, which has implemented the interest-free system. Not only this, all banks and financial institution[s] of Sudan including the central bank, claim that they are operating…[an] interest-free system. They had formed a committee called "Heyath al-Raqabat al-Shari'ah" in the central bank. This committee is comprised of 'Ulama who monitor the functioning of [the] central [bank] and all other banks and financial institutions (Dhar-I-Mu'min, 2002, p. 4).

Although the effort in Sudan to establish an interest-free Islamic financial system has been fraught with many obstacles, both external and internal, the effort continues to experience success. That success is now being manifested in a new phase of the Sudanese Islamic banking movement. This new phase is the development of Islamic microfinance intermediation.

ISLAMIC MICROFINANCE IN SUDAN

The state policy to promote the establishment of microenterprise in order to mitigate poverty in Sudan was promulgated through the National Comprehensive Strategy (NCS), 1992-2002 (Ibrahim, 2003, p. 4). "A target to provide 2 million poor with the means of production was set at 200,000 poor families a year [over a 10 year period]. To achieve this target the Ministry of Social Planning established the Council of Co-Ordination of Productive Families and Environment Industries in 1993, which determines policies and programmes and mechanism[s] to finance productive families" (Ibrahim, p. 4).

In order to actualize policy, "small-credit for living-provision [and] home-based projects (such as leatherwork, cloth-making, tailoring, macaroon production and poultry production) especially for poor, widowed, divorced and deserted women in the displaced areas around the big cities" was provided (Ibrahim, p. 4). There were several other government initiatives as a result of the promulgation of NCS to combat poverty. These initiatives include "local social funds and local NGOs [non-governmental organizations], which are established to serve specific religious, social and economic goals" including the microfinancing of small enterprises (Ibrahim, p. 4). One such important initiative is the mobilization of the national *Zakat* Fund, which being a charitable tax mandated by Islamic law, has represented approximately one percent of the national income of Sudan. In 1995, the *Zakat* Fund contributed 29% of its collected funds to financing of microenterprises (Ibrahim, pp. 4-5).

According to Dr. Badr-El-Din A. Ibrahim, director of the Centre for Research and Consultancy at the Modern College of Business and Science in Oman, Islamic banks in Sudan "are rare examples of formal institutions which manage to utilise Islamic financing formulae to provide venture capital to small entrepreneurs" (2003, p. 5). Ibrahim describes these formulae with respect to their use as microfinance instruments:

> Instead of paying a premium by the borrower to the lender along with the principal amount as a condition for a loan, Islamic banks mix capital and skills and share the risk and the resultant profit or loss. Here it is only the profit sharing the risk and the resultant profit or loss. Here it is only the profit sharing ratio, not the rate of return itself that is predetermined. More than one major mode of finance has been in operation such as *Mudaraba*—agency joint venture/limited partnership; *Murabaha*—purchase or resale of debt/markup/deferred payment sales; and *Musharaka*—joint partnership, credit/partnership, which also take[s] another form, in which the bank can enter into partnership with the client on the basis of diminishing *Musharaka,* through which the full ownership of the business assets passes to the partner after a certain period (2003, p. 5).

Ibrahim goes on to point out that "Islamic financing modes are better suited for meeting the needs of small enterprises" than are conventional modes of financing (2003, p. 5). This is because "no strict security is demanded, as Islamic investment arrangements put great[er] emphasis on the transaction itself, rather than the creditworthiness of the partner. If the operation ends in loss the partner does not bear this loss alone. If he or she is unable to settle his or her bills, a grace period is given without any additional fees. Islamic financing does not require the partner [to] present securities against possible losses'' (Ibrahim, pp. 5-6).

Since the promulgation of NCS, the Sudanese government made several important initiatives to encourage the banking sector to take a more focused approach toward poverty alleviation by financing microenterprise through microfinance intermediation. In its early stages of existence, it was the Sudanese Islamic Bank that took the leadership role in developing microfinance intermediation that conforms to the highest moral standards of Islamic law.

AN OVERVIEW OF THE SUDANESE ISLAMIC BANK

The Sudanese Islamic Bank (SIB) was established as an interest-free institution of financial intermediation in 1983 with a nominal capital equivalent of US $20 million. By the end of 1990 the back had achieved a paid up capital equivalent of US $16 million. By the end of 1997, SIB had established 50 branches throughout the Sudan (El-Bhasri and Adam, 1997, pp. 13-14). After ten years of existence, SIB was the largest commercial bank in Sudan (Harper, 1994, p. 4).

The SIB's board of directors declared early on in the formation process that the preponderance of the bank's operations would take place according to the Islamic financial instruments of *musharaka* and *mudaraba*, the two forms of partnership financing most highly encouraged by Islamic law (El-Bhasri and Adam, 1997, p. 14).

These instruments, which are roughly equivalent to the venture capital process in conventional banking, spread the risk involved equitably among the partners involved. Under *mudaraba,* or trustee profit sharing, the financing partner, who is the supplier of capital, enters into contractual agreement with the entrepreneurial partner, who is the supplier of the entrepreneurial expertise. Both agree to share profits according to an agreed upon percentage. Under *musharaka,* or joint venture profit sharing, both the Islamic bank and the entrepreneur enter a contract with capital contributions. Furthermore:

> *musharaka,* is a form of joint venture between Islamic Banks and [entrepreneurs]…in which both partners contribute to capital in the form of fixed assets or operating expenses, and share profits and losses in specific ratios, fixed before the start of the operations. It also includes self-liquidating arrangements (diminishing *musharaka* or partnership) through which the full ownership of assets passes to the partner after a certain period. In this last form, the partner uses some of his profits systematically to buy a certain ratio of the bank's share in the fixed assets….To ensure compliance with the contract, the bank undertakes the general supervision and monitoring of the progress of the operations….Management of the project is a sole responsibility of the [entrepreneurial] partner….Losses due to negligence are to be borne by the [entrepreneurial] partner alone (Ibrahim, 1997, p. 3).

Of the two forms of Islamic partnership, *musharaka* is used more often as a tool of financial intermediation by SIB. In fact, by 1987, 61% of the bank's intermediation activity was based on *musharaka* (Harper, 1994, p. 4).

SIB AND MICROFINANCE INTERMEDIATION

SIB continued to expand its use of *musharaka* as it increased its socioeconomic responsibility in development through the investment in microenterprise. In further demonstrating its leadership in socioeconomic responsibility, SIB became "the first bank in Sudan to initiate and open family-specific branches in the urban residential areas to extend capital to small enterprises" (Ibrahim, 1997, p. 6). The first family-specific branch of SIB was opened in Omdurman in May of 1992. Since then, SIB has opened six additional family-specific branches (Ibrahim, p. 6). These six additional branches include one opened in the town of Wad Medani, 180 km south of the capital city of Khartoum, and a branch opened to cater to the Mulazmin and Bait-al-mal districts of Omdurman. The remaining four branches were opened in other parts of Khartoum and in the rural area (Ibrahim, p. 6).

To implement its policy of socioeconomic responsibility, SIB developed the concept of the "productive family." A productive family is defined in both social and economic terms. The following captures the essence of the productive family:

> The social structure of a productive family includes the extended family of men and women who have talents, experience and the will to pursue…economic activity both in production and service…for the purpose of providing goods and services for local inhabitants and increasing incomes to meet the…basic requirement[s] of the target group….The definition of the family economic activity includes production or services….The enterprises covered…are generally thought to show similar characteristics, such as ease of entry, labour-intensive; small-scale; reliance on indigenous resources; adaptive technology and skills acquired outside the formal school system (Ibrahim, 1997, p. 6).

The aims of the SIB in establishing the family-specific branches are intended to contribute to the realization of *maqasid as-Shari'ah*, that is, the socioeconomic goals of Islamic law. These aims include the following:

1. The consolidation of the sense of social justice and solidarity *takaful* among the members of society.
2. Participation in investment that benefits the local community.
3. Promoting banking awareness and help in developing the sense of saving and encouraging citizens to operate through banking channels.
4. The use of the largest possible portion of the [SIB] fund that is available for investments in income-generating activities (Ibrahim, 1997, p. 6).

With respect to the investment procedure employed by the prospective productive family, an application is completed outlining the proposed microenterprise project. The application is then handed over to the Investment and Family Affairs Section (IFAS) for evaluation. IFAS conducts a socioeconomic survey of the family. This survey includes the following elements:

1. The basic information about the family, including dates of birth of household members, social status, number of children, place of residence, annual income for members of the family, and so on.
2. The applicant's past transactions with the bank (if any), and his or her reputation and experience in the proposed project (if any).
3. The extent to which the application matches the credit (financing) policy of the Bank of Sudan and the investment policy of the SIB.
4. The technical, economic and social feasibility of the project.
5. The significance of the project as far as the branch investment priorities are concerned (Ibrahim, 1997, p. 7)

If the project is approved on the basis of *musharaka,* SIB opens a *musharaka* account specifying the share amount of each partner. Any withdrawals from the account are made in accordance with the stipulated plan outlined in the contract. Commodities are purchased according to the contract with funds withdrawn from the account; they are stored under the care and supervision of both partners. SIB conducts general supervision of the project on a routine basis with its staff. The IFAS staff maintains regular contact with its entrepreneurial partner to maximize the smooth flow of the project and to eliminate any problems before they get out of hand. At the end of the period of the *musharaka* partnership, which period is project-specific, the bank purchases any unsold products from the entrepreneurial partner and offers them for sell in the showrooms which have been opened for this purpose in each branch (Ibrahim, 1997, p. 7).

From the three original Productive Families Branches—Omdurman, Wed Medani, and Mulazmin-Bait-al-Mal—some idea of the deposit activity can be gleaned. For the most part, deposits maintained at these branches are in the form of current accounts and family savings accounts. By the end of December of 1994, deposits in the three branches reached LS 84 million (approximately US $159,000). Current accounts constituted 73% of total deposits by volume, while family savings accounts constituted the remaining 27% of total deposits by volume (Ibrahim, 1997, p. 7).

By the end of 1994, the three branches had financed over 500 projects which were mainly women's projects. Project financing normally did not exceed LS 500,000 (approximately US $930). Since their inception, these three branches have invested over LS 40 million in productive family projects (Ibrahim, 1997, p. 7). Several types of small-scale projects are financed including tailoring, food processing, shoe making, soap production, chalk manufacturing, cheese making, goat and poultry keeping, petty retail trade, "and some informal sector activities, such as tea and *kisra* (local bread) making" (Ibrahim, p. 8).

The SIB approach to Islamic microfinancing has brought about innovations in banking. According to Ibrahim:

> This new banking convention has reformulated the bank-client relationship with regard to regulatory control. Thanks to the nature of the *Musharaka* operations, bank-partner relations are much closer and more cordial than is possible under the conventional banking system. Moreover, in *Musharaka* the partner gains some advantage to his/her business such as obtaining good quality raw materials at reasonable prices; and also acquainting him/her with how to operate a business, dealing with a bank account, and maintaining proper business accounting records. The system also allows for flexibility in dealing with small investors, since the objective credibility of the applicant, well

> known through the field survey, is more important than the ability of the client to repay his debt. Thus, no court cases have been incurred through this method now. The failure cases are not related to the repayments of debts, but to other social and marketing/follow-up factors. The PFB [Productive Families Branches] experiment also widens the use of the branch buildings to marketing the products there and sometimes using them for production (Ibrahim, 2003, p. 9).

The use of *musharaka* has become a major tool of financial intermediation for SIB. In fact, it has become the leader in Sudan in using this tool as a major financing formula (Ibrahim, p. 10).

SIB AND INFLATION

SIB's use of *musharaka* as a financial intermediation method has been hailed as a breakthrough in the financing of microenterprise because it has proven to protect against the ravages of inflation (Harper, 1994, pp. 1-3). Ibrahim reports that *musharaka* financing has many advantages including the inflation fighting mechanism:

> *Musharaka* is a flexible, fair, easily understandable form of financing. It caters for both production and management….It is suitable mode of financing for both working and fixed capital. *In countries with high inflation, Musharaka preserves the real value of capital invested* [italics added]….*Musharaka* does not require strict collateral guarantees and does not leave the partner with a heavy burden of debts, post-dated cheques or any other kind of obligations. Personal acquaintance with the client, and his behavior, in addition to continual supervision and follow-up by the bank's management, are necessary requirements in the absence of conventional guarantees (2003, p. 6).

Dr. Malcolm Harper, emeritus professor of Enterprise Development at Cranfield University in the United Kingdom, offers further clarification of the inherent inflation fighting capacity of *musharaka* financing:

> In many poor countries, and particularly in some of the poorest, inflation is high and unpredictable. This means that loan funds are inevitably decapitalized in real terms even if institutions can maintain high recovery rates and operating costs are covered by interest charges. What is of interest is…the fundamental advantages of risk sharing and inflation protection which…[the *musharaka*] method offers, and which fixed-interest methods, under whatever name, fail to provide…
>
> Sudan was…suffering from hyper-inflation, but low double-digit inflation seems to be a fairly common feature in most economies, and even single-figure inflation erodes the value of an investment portfolio fairly quickly. *Partnership financing clearly overcomes this, since clients repay from today's earnings rather than yesterday's loans, and this serves the interests not only of the financing institutions, but also of whoever provides the finance which is invested* [italics added] (1997, pp. 1, 62-63).

Thus, *musharaka*—and by extension *mudaraba* because of its nearly identical structure—contribute positively to the sustainability of the microfinance enterprise by countering inflationary tendencies in the economy.

SUSTAINABILITY, OUTREACH, AND DEVELOPMENT

It is important to keep in mind three important pillars of viable microfinance. These are sustainability, outreach, and socioeconomic development. Sustainability refers to the ability of an institution to sustain its operations on the basis of its own business activity without external subsidy. Early on in the microfinance movement, microcredit was chiefly extended to the poor through the activity of non-government organizations (NGOs). Generally, it was the international NGOs operating in developing countries that were able to advance microcredit to the poor through their ability to attract significant donor contributions from abroad. However, in recent times, there has been a move towards a more commercial orientation in microfinance intermediation out of a desire to be more self-sustaining.

The move toward commercialization has not been without its red flags. Among academics and practitioners alike in the field of microfinance there has been the concern that a move toward commercialization would be a move away from broad-based outreach to the poor; only the poor capable of paying back loans would be of interest to the microfinance institution. Also, there has been a concern that the commercial microfinance institution would move away from the social services designed to empower the poor that are a part of many microcredit programs. In short, many worry that the microfinance movement might be derailed and subsumed under the neoliberal agenda of the present globalization movement. However, with proper leadership, planning, and organization there is no reason why the original lofty ideals of socioeconomic justice should have to be comprised when moving in the direction of self-supporting sustainability.

Indeed, the Sudanese Islamic Bank's microfinance program is an excellent example of a balance between self-supporting sustainability and organized activity working for and achieving socioeconomic development and justice through outreach to the poor. It was pointed out earlier how SIB had developed a self-sustaining microfinance program primarily through the use of *musharaka* and secondarily through the use of *mudaraba* as tools of financial intermediation. That self-sustaining effort was shown to be further enhanced by the inherent nature of these instruments to fight inflation.

With respect to outreach, SIB can remain intimately involved with the poor because Islamic financial intermediation does not require collateral or security, but as was pointed out earlier, places emphasis on the microenterprise transaction itself rather than the creditworthiness of the entrepreneurial partner. Furthermore, Islamic financial intermediation operates under a fundamentally different approach to risk aversion than does conventional, commercial intermediation. Under Islam, risk is to be shared by both the financing partner and entrepreneurial partner; in the conventional approach, the burden of the risk is placed more heavily on the entrepreneurial partner. Thus, the factors of placing emphasis on the microenterprise transaction and that of risk sharing are two factors that are conducive to outreach to all segments of the poor as far as Islamic microfinance intermediation is concerned.

With respect to development, SIB has kept this all important aspect of microfinance in focus by launching the innovative concept of productive families, as was discussed earlier. This approach was designed by SIB as a way of promoting investment that benefits local communities and encourages a sense of social justice as well. But perhaps most importantly of all, the productive families concept helps to keep families together in a way that consolidates their unity and thus creates family units that cannot help but lay fertile ground for improved community solidarity.

CONCLUSION

This study of the Sudanese Islamic Bank has shed some significant light on the ability to develop instruments of financial intermediation that are free from interest debt and at the same time are sustainable and built around the requirements of socioeconomic justice—all of which requirements are embodied in the Islamic economic mandate. Islamic financial intermediation has shown to be inherently inflation fighting, a significant factor in maintaining the viability of and attractiveness to Islamic banking as a business activity.

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