

Is Mit Ghamr A Role Model Or A Utopia?: New Findings

Mit Ghamr Bir Rol Model mi Yoksa Bir Ütopya mı? Yeni Bulgular

Abstract

Banking is an ancient institution with roots traced back to ancient temple banking. Due to the intrinsic role of interest in banking, Muslims largely avoided engaging with the industry until the 20th century. However, by the early 1900s, specific circumstances led to the emergence of the idea of establishing interest-free banks. The Mit Ghamr Savings Bank, founded in 1963 in Egypt, is recognized as the first example of interest-free Islamic banking in the world. Yet, detailed information about it remains limited more than half a century after its establishment. Initial studies on the Mit Ghamr Savings Bank provide only general insights into its operations and activities due to the scarcity of available information, including whether the Mit Ghamr Savings Bank offers any new insights into modern Islamic banking practices. Therefore, a more thorough examination of the bank's contemporary aspects is necessary. This study addresses this need by presenting additional information from previously unknown sources. The study aims to provide additional information about the Mit Ghamr Savings Bank and analyze this information using qualitative analysis techniques. The findings are discussed under ten subheadings, each focusing on a key characteristic of the Mit Ghamr Savings Bank compared to existing Islamic banking practices. The information reveals significant details about the bank's establishment, vision, activities, and impact. The study also highlights which aspects of the Mit Ghamr Savings Bank serve as a valuable model for contemporary Islamic banking and which aspects may be more challenging to replicate today.

JEL Classification: N2, N8, P4, P43

Keywords: Islamic bank, Mit Ghamr, Role model, Utopia, New Data

Öz

Bankacılık, bazı ekonomi tarihçilerinin köklerini antik çağdaki tapınak bankacılığına kadar götürdüğü eski bir kurumdur. Faizin bankacılığa ilişkin rolü nedeniyle Müslümanlar 20. yüzyıla kadar bu sektörle doğrudan ilgilenmekten büyük ölçüde kaçınılmışlardır. Ancak 1900'lerin başında, özel koşullar faizsiz bankalar kurma fikrinin ortaya çıkmasına neden oldu. Mısır'da 1963 yılında kurulan Mit Ghamr Tasarruf Bankası, dünyada faizsiz İslami bankacılığın ilk örneği olarak kabul edilmektedir. Ancak kuruluşundan buyana yarım asırdan fazla bir süre geçmesine rağmen bu banka hakkında detaylı bilgi hâlâ sınırlıdır. Mit Ghamr Tasarruf Bankası üzerine yapılan ilk çalışmalar, bankanın operasyonları ve faaliyetleri hakkında yalnızca genel bilgiler sunmaktadır. Mevcut bilgilerin azlığı nedeniyle, Mit Ghamr Tasarruf Bankası'nın modern İslami bankacılık uygulamaları için herhangi bir yeni anlayış sunup sunmadığı gibi birçok soru cevapsız kalmaktadır. Bu nedenle, bankanın çağdaş yönlerinin daha kapsamlı bir şekilde incelenmesi gerekmektedir. Bu çalışma, daha önce bilinmeyen kaynaklardan bazı ilave bilgiler sunarak bu ihtiyacı karşılamaktadır. Çalışma, Mit Ghamr Tasarruf Bankası hakkında ek bilgi sağlamayı ve bu bilgileri nitel analiz teknikleri kullanarak analiz etmeyi amaçlamaktadır. Bulgular, her biri Mit Ghamr Tasarruf Bankası'nın temel bir özelliğine odaklanan ve mevcut İslami bankacılık uygulamalarıyla karşılaştırılan on altı başlık altında tartışılmaktadır. Bilgiler, bankanın kuruluşu, vizyonu, faaliyetleri ve etkileri hakkında önemli ayrıntıları ortaya koymaktadır. Çalışma ayrıca Mit Ghamr Tasarruf Bankası'nın hangi yönlerinin çağdaş İslami bankacılık için değerli bir model teşkil ettiğini ve hangi yönlerinin günümüzde tekrarlanması daha zor olabileceğini de vurgulamaktadır.

JEL Sınıflandırması: N2, N8, P4, P43

Anahtar Kelimeler: İslami banka, Mit Ghamr, Rol model, Ütopya, Yeni Veri

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Atıf/Citation

Orhan, Z. H., & Kavakcı, S. (2024). Is Mit Ghamr A Role Model Or A Utopia? : New Findings. International Journal of Islamic Economics and Finance Studies, 10(2), 127-147. <https://doi.org/10.54427/ijsef.1520949>

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Introduction

Islamic banking is a type of banking that operates without interest. Islamic banks have a relatively recent history, with the first Islamic bank, the Mit Ghamr Savings Bank, established in 1963 in Egypt. The primacy of Mit Ghamr as the first Islamic bank is widely accepted, with only a few alternative claims, such as Wilson's (1983) suggestion that interest-free banking first appeared in rural areas of Pakistan in the 1950s. However, there is no concrete evidence to support these claims.

Recognizing Mit Ghamr as the first Islamic bank, Orhan (2018) posed a question in her paper: Can the Mit Ghamr Savings Bank serve as a role model for today's Islamic banks, or was it merely a utopian concept that cannot be replicated? Her paper concluded that in certain aspects, such as its focus on partnerships, Mit Ghamr Bank represented a utopian vision. However, it could also serve as a role model for contemporary Islamic banking, particularly in its use of a social service fund, as "social finance" is becoming increasingly popular today. Despite the importance of the Mit Ghamr Bank, there is yet to be detailed information about different aspects (such as its location, recruitment, the impact of politics, etc.), especially in English literature. The paper aims to fill in this gap.

This paper aims to explore whether Mit Ghamr Bank was indeed a utopia or whether it can serve as a model for today's Islamic banks by examining various aspects of the bank using additional information gathered from some sources.

A qualitative research method was used in this study. The literature on the subject was reviewed, and information about the Mit Ghamr Savings Bank was categorized under specific headings and analyzed comparatively. Details of the methodology will be provided in the next section.

The main finding can be summarized as follows: the Mit Ghamr bank is utopian in some aspects -partnership-based structure, dedication-based recruitment, etc.- and it can be a role model in some aspects -establishing savings Islamic banks and introducing social funds.

Due to the scarcity of information about Mit Ghamr, this study will contribute to the literature and provide insights into the relevance of the Mit Ghamr Savings Bank for today's Islamic banks.

The structure of the paper is as follows: the next section will share the details of the method, the second section will be about qualitative analysis with reference to the existing literature, and the paper ends with a conclusion section.

1. Method

Unlike the quantitative research methods used in the natural sciences, qualitative research focuses on individual human characteristics' unique and intricate nature. As a result, qualitative research values in-depth and original knowledge over generalizations, emphasizing the collection of detailed data from smaller study groups rather than large samples (Baltacı, 2019).

Qualitative analysis produces knowledge by categorizing data elements according to a predefined system or one derived from the data. This process involves breaking down or deconstructing the data, using common techniques such as content analysis, constant

comparison, and phenomenological thematic analysis. These techniques help researchers gain new insights from the data. Qualitative interpretation, on the other hand, is the outcome of analysis, where the researcher interprets or processes the data to create something new that is distinct from, yet accurate to, the original data. While analysis involves breaking down or reducing the data, interpretation extracts or creates something novel. Analysis allows the researcher to view the data from a new perspective, while interpretation creates something new that enables audiences to see the phenomena differently (Sandelowski, 1995). Due to the limited availability of data on the Mit Ghamr Savings Bank, quantitative studies were not feasible. Therefore, the information obtained was analyzed using qualitative research methods to investigate the relevance of the Mit Ghamr Savings Bank to contemporary Islamic banking practices.

A qualitative analysis can be conducted in two ways: within-study or between-study literature analysis. Both types are essential and should be included in all literature reviews, except in rare cases where a single study is purposefully selected and not compared to any other studies. Within-study literature analysis involves examining the content of a particular study, whereas between-study literature analysis involves comparing and contrasting information from two or more sources. While empirical study findings are the most common points of comparison, each component, or at least multiple components, of a study should be compared with corresponding components in other studies (Onwuegbuzie, Leech, & Collins, 2012). This article utilized cross-study literature analysis, a widely employed analytical method.

The qualitative analysis approach of the literature review was employed in this study to gather and categorize information about the Mit Ghamr Savings Bank from various sources. The collected information was then comparatively evaluated to assess its relevance to modern Islamic banking practices. A total of ten aspects were considered in this comparison.

2. Qualitative Analysis with Reference to the Existing Literature

In this section, the potential role of the Mit Ghamr Savings Bank as a model is explored through ten different aspects. Following this, its potential role as a model in each aspect will be discussed, taking into consideration the current state of Islamic banks worldwide.

2.1. Why the Place of Mit Ghamr?

The Mit Ghamr Savings Bank was established in a region called Mit Ghamr. At the time, the village had a population of 48,000 people, while the nearby town of Dondait had a population of 15,000 (Elizabeth Mayer, 1985). This data indicates that the bank was initially designed to serve around 65,000 people, though not all were eligible to use the bank, as the population included the elderly and young. Therefore, this number provides a general idea of its potential customer base.

There were two main reasons why Mit Ghamr was selected as the birthplace of the Mit Ghamr Savings Bank. Firstly, the region's mayor was neutral toward establishing the bank. Secondly, the location was central to the Nile Delta (Alonso, 2015; Ready, 1976).

What does this tell us today? It raises two important questions: whether the location is crucial and whether the size of the location is significant for establishing a bank. We can answer "partially yes" to the first question because the Mit Ghamr Bank initially opened in

just one location. Other branches, as Orhan (2018) listed, were opened later. However, today, Islamic banks can open multiple branches nationwide simultaneously. Therefore, the key decision today may involve choosing the best branch locations.

Modern decision-making processes for selecting bank branch locations involve various technical methods, such as analyzing population, GDP per capita, trade potential, income levels, and more (Başar, Kabak, & Topçu, 2015). One could ask whether opening Islamic bank branches requires additional variables. The literature appears to be silent on this issue, but surveys could be conducted in potential areas to assess the demand for Islamic banking. For example, in many European countries, foreigners in general, and Muslim populations in particular, tend to live in specific areas. Therefore, choosing these locations may be crucial to the success of planned Islamic bank branch openings.

The population size also affects the size of Islamic bank branches, and branch size directly impacts their efficiency. Further research could explore the efficiency of location decisions, which could serve as an example for other Islamic banks worldwide.

In conclusion, while Islamic banks today are not limited to opening in just one location as Mit Ghamr was, they should still focus on branch size and location to maximize their efficiency and success.

2.2. Why a Savings Bank?

As the name suggests, Mit Ghamr was an example of a “savings bank.” The bank's founder, El-Najjar¹, theorized that although individual deposits might be small, the total amount a rural savings bank could collect would be significant. The accumulated funds could then be used efficiently to finance projects that contribute to the local economy (Elizabeth Mayer, 1985). For these reasons, El-Najjar developed the “savings banking-based interest-free banking” concept in Egypt. His role model for this type of banking was Germany, where he had studied for his Ph.D. He observed savings banks in Germany and worked at a savings bank in Cologne called Alman Kreissparkasse Köln. This experience gave him first-hand knowledge. El-Najjar was particularly inspired by these savings banks being established for rural areas, as Egypt was primarily an agriculture-based society (Klöwer & Schönenbach, 2014). These visions demonstrate El-Najjar's entrepreneurial spirit and leadership qualities. He consulted with the following individuals from Cologne in establishing the bank: his close friend Günter Klöwer, former Minister of Finance of Afghanistan Heider Dawar, Cologne Office Chair of *Die Welt* Wolfgang Hohmeyer, and correspondent from the South, Martin Gester (Klöwer & Schönenbach, 2014).

In Egypt, finance and banking were of limited use to the general population. Instead, unofficial credit sources included relatives, pawn brokers, and usurers. One of El-Najjar's goals was to end the exploitation of small farmers and craftspeople by usurers. These groups could not obtain credit from banks due to the lack of necessary capital or collateral, forcing them to turn to usurers who charged higher interest rates than banks. El-Najjar aimed to

¹ Throughout this article, except the original references of the sources, the name of him is spelled as Ahmed El-Najjar.

provide credit to disadvantaged groups and encourage them to save (Klöwer & Schönenbach, 2014).

In the Mit Ghamr region, agricultural activity, handicrafts, and small industries were prevalent. The consumption and saving habits of people in Mit Ghamr also influenced the credits offered (Ez-Zerka & En-Neccâr, 2017). Ultimately, the bank was established based on local savings habits, farmers' attitudes toward saving and investing, their trust in financial institutions, and their ability to develop small industries collectively. The bank aimed to help farmers build close connections with bank officials based on mutual trust (El-Naggar, 1978). Therefore, the bank was not just for wealthy individuals and public institutions (Alagöz, 1981).

What does the Mit Ghamr model mean for today's Islamic banks? As far as we know, there is no equivalent to a "savings bank" in Islamic banking today. Instead, Islamic banks only offer savings accounts, despite the importance of savings, particularly for Muslim communities. Therefore, "savings Islamic banking" is significant. If saving becomes the primary focus of an Islamic bank, the bank can mobilize these resources for investments (El-Neccar, 1982). This approach would also allow underprivileged groups to benefit from Islamic banks, which is uncommon today.

2.3. Why Not Directly an "Islamic Bank"?

In today's terminology, Mit Ghamr would be considered an Islamic bank, as El-Najjar openly stated that the bank was intended to operate according to Islamic principles (Ez-Zerka, 1992). However, despite the term "savings bank" being part of its name, "Islamic" was not included. There was a key reason for this: some members of the government who opposed the concept of interest-free Islamic banking argued that the bank should function under standard Egyptian commercial banking laws (Mayer, 1985). As discussed in the following subsection, the government was hostile toward Islamically oriented-activities. To avoid conflicts, El-Najjar refrained from explicitly naming the bank an "Islamic bank." This event has implications for the history of Islamic banking; however, how a bank functions is arguably more important than its name. For example, the Adapazarı İslam Ticaret Bankası, established in 1913 during the Ottoman period, included the term "Islamic" in its name, yet it did not operate as an Islamic bank. The term "Islamic" merely indicated that the bank's founders were Muslims, as opposed to foreign powers, which dominated the establishment of earlier banks in the Ottoman Empire (Kutluata, 1970). According to one account, a Muslim trader was asked by the Ottoman Bank's Adapazarı branch to provide a Christian guarantor to receive credit. As a result, local traders in Adapazarı established the Adapazarı İslam Ticaret Bankası (Toprak, 2014).

Secondly, the debate over whether to call these institutions "Islamic banks" or using by another name continues today. Although "Islamic banking" is the dominant term globally, there are exceptions. One such exception is Türkiye. For reasons similar to the situation in

Egypt in the 1960s, it was decided in the 2000s² to refer to these institutions as “participation banks” in Türkiye. The so-called first interest-free bank in Türkiye, Devlet Sanayi İşçi Yatırım Bankası (DESİYAB), was legally challenged for referring to Shariah, as the bank had announced that it would share both profits and losses based on participation (Özdemir & Aslan, 2017).

Additionally, some critics in Türkiye argue that using the term “Islamic banking” is problematic because if these banks were to act improperly, it could reflect poorly on Islam (Hazıroğlu, 2018). However, we believe this argument is insufficient to avoid calling these banks Islamic. After all, Muslims identify as Muslims despite their faults.

In conclusion, while a bank's functioning is more important than its name, the name is still crucial today since an institution's public image is significant. Currently, most places worldwide do not face serious obstacles in calling interest-free banks "Islamic banks." "Shariah banking" could also be an option. However, there seems to be no need to change the name "Islamic Bank," given the widespread acceptance of the term globally. Merely calling these institutions “interest-free” is not sufficient, as these banks follow the Islamic prohibition on interest and adhere to other Islamic rules and regulations, particularly in economic matters.

2.4. The First Steps Toward the Establishment of the Bank

As in many countries, politics played a vital role in establishing and developing interest-free banking in Egypt (El Tiby, 2011). The significance of politics was evident even in the naming of the bank, as discussed in the previous subsection. Islamic finance was incompatible with the government's general political strategy (Galloux, 1999). Instead, the primary reference point for politics was socialism. Additionally, the powerful religious group, the Muslim Brotherhood, was accused of assassinating President Abdel Nasser, and the group faced significant pressure between 1955 and 1966. In this turmoil, El-Najjar managed to establish Mit Ghamr with the support of private initiatives rather than government backing (El Tiby, 2011). El-Najjar sought permission from the government to establish a savings bank in the region. Still, he acted cautiously to avoid drawing attention from the government bureaucracy (El-Najjar, 1976 via Elizabeth Mayer, 1985). El-Najjar noted that some government officials wanted more control and supervision of the bank. Ultimately, the bank was established as part of a special project and was not subject to Egyptian Banking Law or the Central Bank's regulations. The bank received permission from high-ranking government officials and operated without bureaucratic control. As a result, it gained semi-autonomous status and financial support from the government, totaling LE 496,000 (El-Najjar, 1976 via Mayer, 1985). As Orhan (2018) mentioned, this special status later led to the bank's closure. Türkiye experienced a similar issue with its early interest-free banking examples. The Special Finance Houses (SPHs) were established in the 1980s and initially did

² The interest-free banks in Türkiye were firstly called as Special Finance Houses (SFHs) in 1980s. Later on, due to several reasons, banking status was given them and they became Participation Banks in 2005.

not fall under Turkish Banking Law, primarily for political reasons. However, they had to be transformed into banks after İhlas Finans went bankrupt. These experiences highlight the importance of ensuring that Islamic banking today should have well-defined particular banking laws.

Despite the negative political climate, El-Najjar secured foreign support to establish the bank. He obtained funding from the German Federal government and the German Savings Banks Association (DSGV). These entities supported El-Najjar by promoting the bank as a “revolutionary institution and a promising beginning for financial development.” The bank was part of a German developmental aid project titled “Developing a Regional Savings Banking Sector in Egypt.” Additionally, the German government promised to provide the necessary technical equipment for the bank. This assistance included financing the education of 20 bankers and sending an advisory and support committee of three people, including El-Najjar himself (Klöwer & Schönenbach, 2014). El-Najjar received over 4 million marks from the German government and the Savings Banks Association (Klöwer & Schönenbach, 2014). His connection with Germany continued after he returned to Egypt, and he continued to receive support from his German advisors (Mayer, 1985).

When the bank was first established, Mit Ghamr's initial location was a minibus! A minibus was converted into a mobile bank branch, with essential items such as a recorder, accounting books, and office equipment. This minibus allowed the bank to reach people in the heart of the village. El-Najjar envisioned a decentralized system where responsibility lay with the villagers. He set up town halls where villagers could voice their concerns and receive responses. Older villagers suggested who might be eligible for credit. Imams also played a key role, as El-Najjar met with them and local farmers to explain his ideas (Klöwer & Schönenbach, 2014). At that time, imams and religious authorities promoted financial inclusion and literacy, a role primarily -even though it may not be entirely- fulfilled by Shariah advisory boards at Islamic banks today (Klöwer & Schönenbach, 2014). Therefore, it can be said that El-Najjar strategically used well-established traditions to build a strong system (Klöwer & Schönenbach, 2014).

The group that established Mit Ghamr engaged with local people at mosques and tea gardens, discussing their lives, ideas, and traditions. Listening to the community was seen as the first crucial step. The group met every evening to share their findings and analyze them. Later, El-Najjar personally visited local leaders, including Shaikhs, teachers, and imams, to ask for their support in promoting savings. Villagers were encouraged to contribute to the development of their community (Alonso, 2015). After these listening and meeting sessions, El-Najjar organized informative gatherings and theater performances. At these gatherings, which typically involved 100-150 people, an imam or a community leader would give a speech and express support for the initiative. The importance of saving was demonstrated through theatrical performances, and questions were posed to spark discussion. Community leaders opened savings accounts at the end of these meetings to become an example (Alonso, 2015). It was emphasized that the bank belonged to the community, that the local society was represented in banking activities, and that there would be social control over anyone who attempted to cheat or harm the system. As trust and familiarity grew among the local people, individuals began to feel more secure with one another (Alonso, 2015).

El-Najjar successfully opened the bank by leveraging his family connections and the support of high-ranking officials in the Ministry of Economics and the State Intelligence Agency (Klöwer & Schöenbach, 2014). However, as mentioned earlier, the bank was not registered with the central banking system.

The main conclusion we can draw from the early steps in establishing the Mit Ghamr Bank is the crucial role of governmental support. The lack of government backing has long been an issue for developing the Islamic banking sector in many countries, including Türkiye. Interviews with bankers, officials, and academics (Çürük, 2013) revealed that the lack of government support was one of the main obstacles to developing Turkish Islamic finance and banking. The same issue has been raised in European countries (Catak & Arslan, 2020) and even in countries like Indonesia (Iswanaji, 2018). Conversely, governmental support is recognized as a key factor in the success of Islamic banking, as seen in Nigeria (FitchRatings, 2022). Government support is often described as a “top-down approach.” However, while this top-down approach is important, the “bottom-up approach” should not be overlooked either. Indonesia provides a good example in this regard. In discussing the differences between the Islamic finance and banking sectors in Malaysia and Indonesia, Fitriasari (2012) notes that Malaysia exemplifies a top-down approach, while Indonesia demonstrates a bottom-up approach. While the bottom-up approach may pose challenges, it also presents opportunities. Although the bottom-up approach may not yield growth as significant as the top-down approach, as seen in Indonesia compared to Malaysia, it can provide alternative Islamic finance and banking schemes. Additionally, it helps to protect Islamic finance and banking from political fluctuations. The case of the Mit Ghamr Bank highlights the significance of this approach, as the collaboration of local people (a bottom-up approach) became a driving force due to the lack of governmental support.

Based on the experiences of Muslim societies, the best approach for developing Islamic banking would involve a mixture of top-down and bottom-up strategies, with the percentage of each approach varying depending on the circumstances of each country. Solely relying on government support without societal demand would leave the sector stagnant, while relying solely on societal support without government backing would hinder the sector’s growth.

2.5. The Recruitment of the Staff

After the bank was established, great care was taken in selecting its employees, who underwent intense interviews. Employee selection was particularly important to El-Najjar. El-Najjar and a psychology professor developed a psychological test for job applicants.³ El-Najjar specifically wanted the employees to be young and dynamic individuals. After placing an advertisement in newspapers, 462 applications were received, but only 20 (19 men and one woman) were selected (El-Neccar, 1982 via Alonso, 2015).

The successful applicants had a strong belief in the local savings banking project, highly valued its vision, and exhibited a strong sense of corporate spirit. These traits were crucial

³ Unfortunately this survey is not available.

in gaining the villagers' trust (Alonso, 2015). Initially, the local people were hesitant. However, after seeing that the workers shared similar values and moral principles, the bankers could earn their confidence by distinguishing themselves from conventional bank employees (Chachi, 2005; Wilson, 1983).

The main conclusion to be drawn from this experience is the importance of carefully selecting employees based on their sectoral knowledge, commitment to the industry, and adherence to Islamic ethics. Several studies in the literature today highlight this necessity. Beybur (2021) began with the initial conclusion of other studies regarding the positive relationship between the market share of Islamic finance and the specific, area-based knowledge of Islamic finance workers. Beybur (2021) conducted face-to-face interviews with 108 participation banking workers in the Diyarbakır province of Türkiye. His findings revealed that the workers had low awareness and a lack of positive attitudes toward the sector, negatively impacting its growth. Similar results were found by Bildirici Çalık (2021), who surveyed 257 workers from five participation banks across 36 branches in different regions of Türkiye. These findings emphasize that Islamic banks should focus on sector-based knowledge, awareness, and attitude when selecting employees. A lack of worker awareness and a poor attitude toward Islamic banking can easily result in customers losing interest and confidence in the sector.

While El-Najjar's charisma may make parts of the Mit Ghamr Bank's selection process seem utopian, as noted by Orhan (2018), the questions and the test/survey could serve as valuable examples for Islamic banks today.

2.6. The Aim and the Principles of the Bank

The three primary aims of the Mit Ghamr bank were as follows (Ez-Zerka & En-Neccâr, 2017):

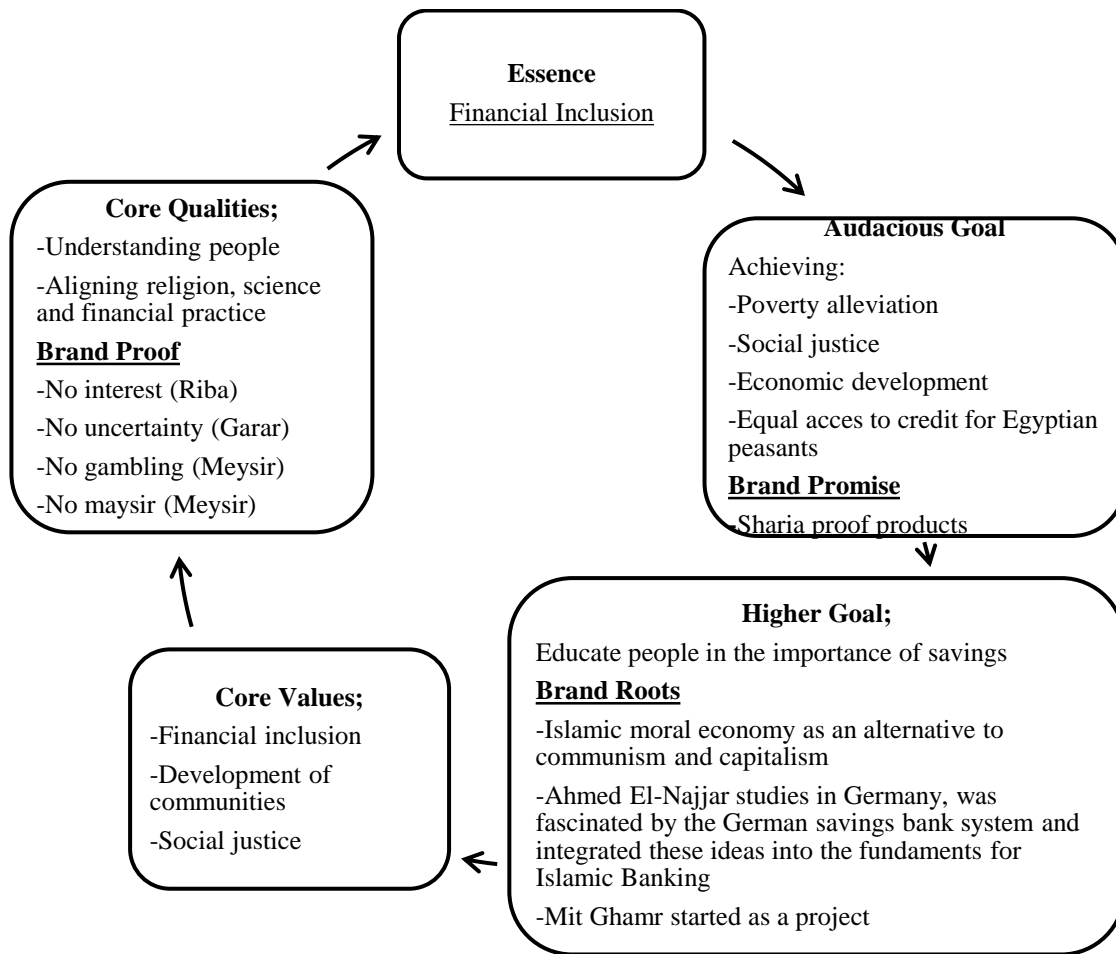
1. Savings education
2. Credit education
3. Overcoming obstacles to investment

The Mit Ghamr Bank did not aim to function as a commercial bank. Additionally, the bank's goals extended beyond profitability to include social outcomes. The social outcomes involved educating poor people about the benefits of saving, the importance of investment, and encouraging unbanked groups to make revenue-generating investments. To achieve these goals, the bank provided consultancy services or became partners in investment projects. Furthermore, it financed the acquisition of private property.

Mit Ghamr's aims might seem utopian in today's Islamic banking world, where profitability is typically announced as the primary goal. Employees are often under pressure to meet profitability targets, as seen in the case of performance requirements at Turkish participation banks.

The aims and principles of the Mit Ghamr Bank are illustrated in Figure 1.

Figure 1: The Aims and Main Principles of the Mit Ghamr Savings Bank



Source: (Alonso, 2015). Re-figured by the authors.

The three main principles of the bank were as follows (El-Naggar, 1978):

- Participation
- Decentralization
- Consistency and integrity of bank accounts

The bank's foundation relied on direct networks and relationships between the bank and the farmers, as El-Najjar's primary goal was to establish a bank based on mutual trust. Mutual trust also rendered interest rates obsolete by strengthening partnerships (especially *mudarabah*, a labor and capital partnership) upon which the bank was built. However, above all, the bank was designed to be interest-free by Islamic principles (Ez-Zerka & En-Neccâr, 2017). The aim was to involve the Muslim population in a vibrant capital collection (Ez-Zerka & En-Neccâr, 2017). Therefore, the founders focused on changing people's attitudes to facilitate capital collection and providing opportunities and tools to achieve the plan's goals (Ez-Zerka & En-Neccâr, 2017).

In addition to these core principles, the bank followed several functional principles. For instance, to be eligible for credit, an individual must maintain a savings account for at least six months (Ez-Zerka & En-Neccâr, 2017). The bank also emphasized management continuity and longevity. For this reason, 20 founders served as the bank's managers for 6 to 15 months, after which the local people were trained to take over these roles. Once

trained, the management was transferred to a local team, ensuring continuous local management and a sustainable working team (Ready, 1976 via Alonso, 2015). However, the Mit Ghamr example in terms of management seems difficult to replicate today, given the privately or government-owned structure of Islamic banks. As far as we know, no examples exist of society-owned or society-managed Islamic banks.

The principle of participation may explain why Turkish Islamic banks are referred to as participation banks, even though partnerships, particularly on the asset side, are no longer the primary focus. The third principle—consistency and integrity of bank accounts—remains relevant and desirable for modern Islamic banks. However, the second principle, decentralization, is challenging to achieve today due to the necessary connections between Islamic banks and governments, central banks, regulatory agencies, and banking laws.

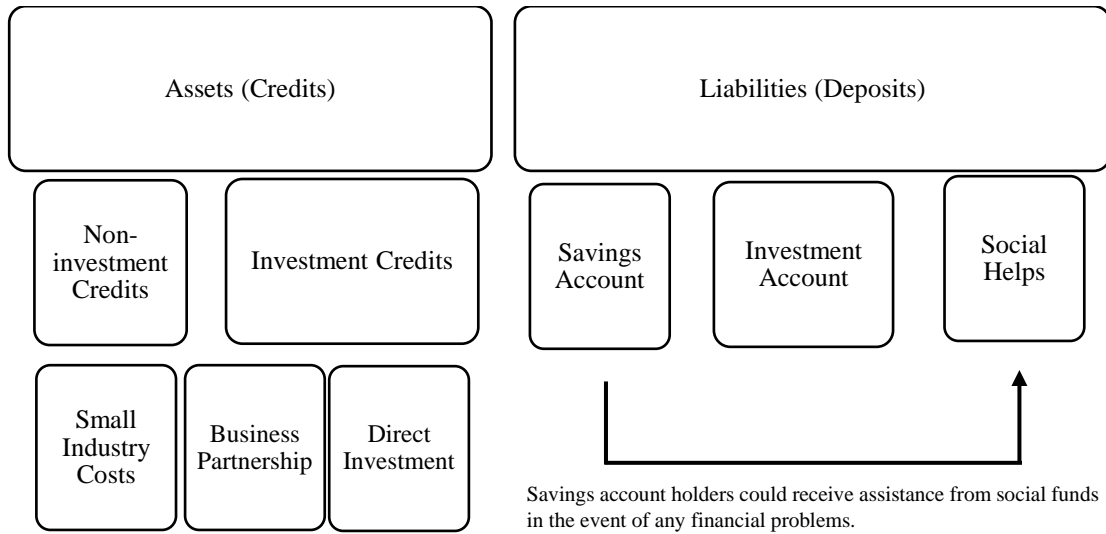
Today, Islamic banks continue to adhere to Islamic principles, with the interest-free nature of their operations taking center stage. The primary goal remains to provide interest-free and Islamically compliant savings and credit products. However, the specifics have changed. One of the main differences is the lack of dominance of partnerships on the asset side of Islamic banks. There are various reasons for this. The literature highlights several factors contributing to the preference for debt-based products over partnerships, including risk, lack of legal frameworks, and insufficient technical support. On the other hand, some argue that partnerships do not need to be a core principle of Islamic banking. In our view, more empirical studies are required to determine whether partnerships should be the foundation of Islamic banks today, considering factors such as efficiency, effectiveness, profitability, and cost.

The findings regarding the aims and principles align with those shared by Orhan (2018), who argues that the principles of decentralization and more specific goals, such as educating people or promoting social justice, have a utopian character. However, Mit Ghamr could be a role model if current Islamic banks, such as microfinance or savings institutions, are restructured.

2.2. Operations of the Mit Ghamr Bank

The easiest way to understand a bank's operations is to check its balance sheet. Figure 2 shows the general structure of the balance sheet, including the assets (credits) and liabilities (deposits) of Mit Ghamr Bank.

Figure 2. The General Structure of the Balance Sheet of Mit Ghamr Bank



Source: Prepared by the authors depending on the related literature.

Details of the items taking place in Figure 2 are explained below.

2.7.1. Savings and Deposits

Savings accounts, or deposits with today’s terminology, consisted of three sub-accounts.

2.7.1.1. Savings Account

Savings accounts ensured the welfare of small families by helping people and their families save enough money to secure their future. The minimum amount to be saved was 5 cents, a small sum that enabled many people to collaborate with the bank and develop regular saving habits. Depositors could deposit and withdraw money from the bank whenever they wished, with no upper limit (El-Naggar, 1978). Regular savers contributed to productive activities that could bring prosperity to their region and were eligible for short-term credits. The bank also guaranteed that savers could access a “social service fund” if they faced financial difficulties to protect them from falling into the hands of usurers (El-Naggar, 1978).

In summary, savings accounts were interest-free and offered several benefits to account holders. Firstly, account holders had the right to access credit. Additionally, if they encountered financial problems, they could receive assistance from the "social fund" (Alonso, 2015).

2.7.1.2 Investment Account

People who wanted to invest in profitable businesses and grow their savings kept their deposits in investment accounts. The funds collected in these accounts were either directly transferred to investment projects or indirectly used to finance local projects. The investment returns were distributed among account holders based on the amount of their deposits and the duration of their investments (El-Naggar, 1978). Investment accounts could be opened with at least one Egyptian cuneyh for at least one year. This allowed account holders to become partners in the bank’s investment revenues, depending on the amount they invested and the length of time their funds were held (Ez-Zerka & En-Neccâr, 2017).

The bank aimed to encourage small projects and local industries and, as well as opening new working areas to increase living standards, extend local markets, and create additional revenue sources. However, withdrawals from these accounts were restricted based on the performance of investment activities and liquidity requirements (El-Naggar, 1978).

2.7.1.3. Social Service Fund

In addition to being an interest-free bank, Mit Ghamr aimed to follow Islamic rules and regulations by establishing a social service fund to distribute *zakat* and *sadaqah* (charity) to those in need (Mayer, 1985). The fund was composed of voluntary contributions from the community. The money collected in the fund acted as insurance for bank customers in case of an accident or calamity (El-Naggar, 1978). The goals of the social service fund were as follows (Ez-Zerka & En-Neccâr, 2017):

- To facilitate the process for people who wanted to give their *zakat*
- To distribute the *zakat* to the appropriate recipients
- To help individuals who wanted to give to charity and ensure that their donations reached those in need
- To assist depositors who experienced a calamity

2.7.2. Credits/Loans

No interest was paid on deposits, and borrowers had to have a certain amount in a savings account for at least one year to obtain an interest-free loan. Since depositors and borrowers belonged to the same group, the financial motivation for bank customers to deposit funds increased. The credits were always interest-free and were typically in small amounts (El-Naggar, 1978). The credits were primarily used to finance agricultural needs and were generally for short periods, such as 1 to 3 years.

In addition to providing financial support, the bank organized educational workshops to help people manage their businesses and create high-quality products (Alonso, 2015).

The credits were divided into two types:

2.7.2.1. Non-Investment Type of Credit

Customers who received non-investment credit repaid their debts without any additional amount, meaning they did not pay any interest. The bank offered these credits to meet the personal financial needs of savings account holders (Ez-Zerka & En-Neccâr, 2017). Non-investment credit was not intended for investment purposes but to help account holders resolve their financial issues.

2.7.2.2. Investment or Partnership Credit

In this type of credit, the bank partnered with entrepreneurs or producers to share profits. The bank only required a personal guarantee and did not ask for material collateral. Despite this, all borrowers were able to repay their debts. According to the bank's founders, the main reason for the successful repayments was the close relationship between the bank and the community, who saw the bank as their own. This relationship also created social pressure on those who might attempt to cheat or misuse the bank's resources (Ez-Zerka & En-Neccâr, 2017). However, before granting these credits, the bank required that the technical and

economic viability of the projects be scientifically proven. The bank also provided all types of technical consultancy services free of charge, collaborating closely with borrowers (El-Naggar, 1978). The bank even assisted with raw material procurement. If multiple customers needed the same raw materials, the bank purchased them wholesale and distributed them to the borrowers as partial credits (Ez-Zerka & En-Neccâr, 2017).

The profit-sharing ratio for the bank ranged from 10% to 50% (El-Naggar, 1978). Investment credits were used to establish or improve small businesses in the Mit Ghamr region, to help locals become self-employed and increase their income. The bank also supported some entrepreneurs by providing technical equipment and skills. For instance, the bank financed the construction of a brick factory run by villagers who had requested credit. The borrowers earned money by working in the factory and eventually took ownership from the bank (Ready, 1967 via Mayer, 1985).

In summary, the bank undertook the following activities related to investment credits:

- Financing small businesses for their operational needs
- Forming partnerships
- Investing directly

When considering the operations of the Mit Ghamr Bank today, the uniqueness of its social service fund stands out. While modern Islamic banks have current accounts, savings accounts, and investment accounts similar to those at Mit Ghamr, social service funds are not common. This choice may be due to the modern focus on profitability rather than social outcomes. However, Islamic banks could adopt a similar account structure today, with adjustments based on their specific circumstances. Including a social service fund might reduce criticism of Islamic banks, and it is not an entirely utopian concept. Still, the feasibility of implementing such a fund requires thorough investigation, as there could be numerous challenges, from legal issues to human resource concerns.

Another issue is the concept of credit itself. The term "credit" has long been associated with loans and interest. Thus, when people hear the term, it often evokes the idea of an interest-based loan. This issue is connected to accounting systems. For instance, participation banks in Türkiye must follow the same accounting and reporting standards as conventional banks. As a result, participation banks have the term "credit" on their balance sheets, which, due to a lack of financial literacy, many people in Türkiye mistakenly equate with interest-based credit. Furthermore, the term "credit" in Turkish participation banks encompasses debt-based products like murabahah and partnerships -mudarabah and musharakah-, even though the latter are not debt-based. For clarity and image, changing the term "credit" in balance sheets may be necessary.

Regarding credits, the connection between a close relationship with the bank and low non-performing loans remains relevant today. An example is the microfinance institution İKSAR in Türkiye (Ülev, 2021). However, whether a bank can establish such close relationships with its customers in the modern era is questionable.

Another unique feature of the Mit Ghamr Bank was its approach to collateral. Today's Islamic banks rely on material collateral, but switching to non-material collateral, as in the Mit Ghamr example, seems utopian in today's more complex financial world, where asymmetric information is widespread. Missing social bonds can be another reason for the lack.

On the other hand, non-investment types of credit are not utopian and could still be used today. This approach was already proposed in Türkiye in the 1970s. Prof. Necmettin Erbakan suggested a similar system in his *Just Economic Order* model under the name “Credit against the vested right” (*Hakkı mükteşep karşılığı kredi*). However, further research is needed to determine how to model and implement it.

Another concept that could be replicated today is the direct investment of Islamic banks, as practiced by the Mit Ghamr Bank. However, this would require well-developed investment units and experts within Islamic banks. An alternative approach could be establishing separate Islamic investment units or dedicated Islamic investment banks.

2.8. Financial Performance of the Mit Ghamr

In Mit Ghamr’s first year, 17,560 accounts were opened (El-Naggar, 1978). According to another source, 25,000 accounts were opened, and more than half a million Deutsche Marks were collected (Klöwer & Schönenbach, 2014). By 1967, the number of customers had grown to 251,152 (El-Naggar, 1982 via Alonso, 2015).

To better understand this growth, a comparison with other Egyptian banks that operated during the same period can provide valuable insights. See Table 1 for further details.

Table 1. Comparison of Mit Ghamr Savings Bank and the Other Egyptian Banks, 1963-1967

Year	Total Deposit of the Egyptian Banks	%	Yearly Growth	Total Deposit of Mit Ghamr	%	Yearly Growth
1964	378,000,000	100	-	40,944	100	-
1965	396,000,000	105	5	191,235	467	367
1966	415,000,000	110	5	879,570	2148	360
1967	445,000,000	118	7	1,828,375	4466	108
Averages		6		278		
At Constant Prices						
1964	364,513,010	100	-	39,483	100	-
1965	332,214,760	91	-9	160,432	406	306
1966	319,722,650	88	-4	677,635	1716	322
1967	340,474,360	93	7	1,398,910	3543	106
Averages		-2		245		

Source: (Chachi, 2005; Orhan, 2018)

According to Table 1, Mit Ghamr’s growth rates seem quite strong compared to other banks. Additionally, over time, costs decreased due to the following reasons (Ez-Zerka & En-Neccâr, 2017):

1. The bank workers gained experience.
2. The efficiency of the workers improved over time.

Therefore, the role of the employees was crucial in reducing costs. However, Wilson (1983) did not share the same opinion, arguing that costs did not decrease over time. Without direct data, it is difficult to determine which view is correct.

Another significant outcome was that the payback rate for credits reached 100%. During the same period, the repayment rate for a typical rural bank was around 50% (Ez-Zerka & En-Neccâr, 2017). As previously mentioned, this high success rate was mainly due to the strong relationship between the bank and its customers.

Perhaps due to these impressive performance figures, demand increased, and four new branches were added to the bank in 1965. Later, four more branches were established. The number of savings banks grew to nine within three years. From 1963 to 1967⁴, the number of people with savings deposit accounts in all branches reached 357,637, and total deposits in all accounts amounted to 956,538 Egyptian Liras⁵ (El-Naggar, 1978).

For today's Islamic banks, neither growth rates nor costs are the primary focus; profitability is the main goal. Costs are already indirectly accounted for within profit calculations. Growth rates are generally important for the growth of the sector as a whole in a given country rather than for individual Islamic banks. The number of depositors is not prioritized to be shared today. However, the heavy focus on profitability is a contentious issue for Islamic banks. In response to such criticisms, some Islamic banks have started to share information about corporate social responsibility (CSR) or social impact. Various indexes have been developed to assess these aspects. For example, Asutay and Harningtyas (2015) developed a Maqasid al-Shari'ah Index to evaluate Islamic banks' social performance, including goals such as educating individuals, establishing justice, and promoting public interest. However, in many cases, the social aspect remains minimal.

One might argue whether Islamic banks should be socially oriented institutions. We believe expecting too much from Islamic banks is unrealistic if they are structured as commercial banks. Unless Islamic banks are the only institutions in society offering Islamically-oriented products, it is better not to expect significant social outcomes from them. We live in societies with various institutions, such as Islamic microfinance and Islamic social funds, better suited for delivering socio-economic results. Therefore, expecting socio-economic outcomes from such institutions rather than commercial banks is more realistic. This perspective can be further explored as Mohd Nor (2016) proposed establishing Islamic social banks. However, this does not mean Islamic commercial banks should not engage in socio-economic activities.

2.9. After the Closure

The possible reasons -political and economics- for the closure of the Mit Ghamr Bank were discussed by Orhan (2018). After its closure in 1967, it was handed over to the Egyptian National Bank (El Tiby, 2011). Four public banks took over the branches of the bank: Egyptian National Bank, Alexandria Bank, Bank Misr, and Banque du Caire. However, in all cases, the bank and its branches were transformed into conventional banks (Alonso, 2015). As a result of the government's policy of combating leftist groups and collaborating with Islamic ones, the Nasser Social Bank was established in 1971 (Lone, 2016). This bank, founded during Anwar Sadat's presidency, resembled Mit Ghamr Bank in its principles and customer relations. However, there were two main differences between them:

1. Nasser Social Bank was a public initiative established under the Ministry of Finance (Galloux, 1999).

⁴ These numbers were shared as 251,152 in some other sources (Chachi, 2005, p. 17), (Ez-Zerka & En-Neccâr, 2017, p. 148), (Orhan, 2018, p. 97).

⁵ These numbers were shared as 1,828,375 cüneyh (Chachi, 2005, p. 17), (Ez-Zerka & En-Neccâr, 2017, p. 148), (Orhan, 2018, p. 97).

2. The primary aims of Nasser Social Bank were "to expand the basis of social solidarity among citizens" and "to provide help to the needy." This focus explains the inclusion of the term "social" in the bank's name. *Mudarabah* was the basis of the bank's operations (Lone, 2016).

Another Islamic bank established after Mit Ghamr was the Faisal Islamic Bank of Egypt in 1979. Unlike its predecessor, this bank directly included the term "Islamic" in its name, making it the first in Egypt to do so. Faisal Islamic Bank provided credit to poor Egyptians and sought to transform the social structure. Both Nasser Social Bank and Faisal Islamic Bank were political institutions consciously established by the government to reduce social tensions among citizens (Mayer, 1985).

After the closure of Mit Ghamr, El-Najjar became the general secretary of the Organization of Islamic Cooperation (OIC). He also founded the International Institute for Islamic Banking and Economics (IIAIB) in Cyprus in 1982. Additionally, he partnered with King Faisal to establish the Cyprus Faisal Islamic Bank (Mayer, 1985).

We believe that the events following the closure of Mit Ghamr primarily reflect the influence of populist government policies. The Egyptian example demonstrates how governments can implement appeasement policies in response to unwanted or unexpected demands from society, as in the case of the demand for Islamic banking. In such instances, populist solutions are often intended merely to "save the day."

Secondly, El-Najjar's experiences after the closure of Mit Ghamr highlight an important detail: the significant role of King Faisal in the development of global Islamic finance. The need for globally recognized and influential figures remains crucial for the growth of the Islamic finance sector today. Like El-Najjar, King Faisal made substantial contributions to the early development of the Islamic finance sector, including establishing some of the world's first Islamic banks, such as the Faisal Islamic Bank of Sudan, in 1977.

2.10. Implications

When considering the aspects in which Mit Ghamr can serve as an example, establishing trust-based, close customer relationships aligns with customer-oriented banking today.

Modern Islamic banks can develop projects that incorporate local values. This collaboration could begin with designing a bank's logo, introducing new types of local deposits, or offering new forms of local credit, among other initiatives.

As for new partnership models, even though Islamic banks may not be able to entirely rely on partnerships today due to the challenges mentioned above, alternative approaches can be explored to integrate the principles of Islamic banking with partnership structures. Çakmakçı (2018) suggested a risk capital model based on partnerships through the stock exchange for small and medium-sized enterprises (SMEs). Kumaş and Elman (2016) emphasized the role of civil society organizations in implementing partnerships. Meanwhile, Emeç (2020) highlighted the opportunities financial technology (fintech) provides in facilitating partnerships. Some researchers propose using partnerships indirectly through other instruments, such as *sukuk* (Islamic bonds) (Saraç & Karabulut, 2021). Finally, establishing savings-focused Islamic banks could be feasible for today's Islamic banking industry.

In addition to these general implications, socio-economic considerations are also involved. Mit Ghamr could serve as a model for providing educational support, which could be targeted at different groups, such as youth or older people. However, it seems unlikely that an Islamic bank today could significantly impact migration, employment, or debt levels in a country or specific cities unless the entire banking system was converted to an Islamic one. Even then, the outcomes remain uncertain. Further empirical research is needed to assess the effects of a 100% Islamic banking system.

Conclusion

Orhan (2018) posed an important question: Is Mit Ghamr, the pioneering interest-free bank, a utopia or a role model for modern Islamic banks worldwide? We believe that Orhan's (2018) question is crucial for understanding the first interest-free bank in modern times and utilizing its experiences to benefit today's Islamic banks. In this paper, we have attempted to answer whether Mit Ghamr is a utopia or a role model by drawing on additional sources such as Ready (1976), El-Naggar (1978), Alagöz (1981), and Mayer (1985). These sources date earlier than the 1990s, marking a closer date to the experience of the Mit Ghamr than more recent studies. Still, the study can be extended even further with more first-hand sources that can be gathered from Egypt. Lastly, we have analyzed the bank across ten aspects, providing detailed discussions in each.

Our main findings are as follows: Regarding location, the area's size and the placement of branches are more important for today's Islamic banks. Size matters because of its connection to the population and the potential number of customers. In terms of location, we suggest two further research topics:

1. Do Islamic bank branches require different considerations when being established?
2. An analysis of the relationship between branch size and efficiency.

Concerning Mit Ghamr's role as a savings bank, it is crucial to explore alternative banking models, such as an "Islamic savings bank," as this model has the potential to uplift the lower strata of society.

Although the most important factor is how a bank operates rather than what it is called, there is no issue today with naming interest-free, Islamically-oriented banks as "Islamic banks." This naming distinguishes them from interest-free banks that do not adhere to Islamic principles, such as the JAK Bank in Sweden. In most cases, political or other reasons do not prevent institutions from being called Islamic banks.

Whether we like it or not, politics plays a significant role in supporting the Islamic finance sector. However, the sector should not be entirely dependent on political fluctuations. Alongside political support, grassroots (bottom-up) support is also essential.

The recruitment of workers for Islamic banks remains an important task today. Sector-specific knowledge and conventional education should be required when choosing employees.

Mit Ghamr can serve as a role model regarding aims and principles, particularly for establishing new banking models that incorporate social aspects. Exploring such models can be a subject for further research. Without changing the structure of current Islamic banks, the idea of a social service fund could still be considered, and studies on this topic could be

conducted. Another area for future research is the development of non-investment types of credit. Finally, further exploration should focus on developing alternative institutions beyond Islamic banks designed to achieve socio-economic impacts.

In sum, Mit Ghamr Savings Bank is utopian in some aspects, such as depending entirely on partnerships; however, it can be a good role model in some aspects, such as designing Islamic savings banks or introducing social funds on the liability side of Islamic banks. In addition, the experiences of the Mit Ghamr are still an excellent example of today's Islamic banking, such as the importance of politics, besides a bottom-up approach, careful staff recruitment, and the bank's location.

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