less than the 10–12% annually charged by landowners who hired out their land to tenant farmers (Pers. *zamīndār*). Yet the East India Company established its own bank in the late eighteenth century, which enhanced financial liquidity for local farmers and merchants alike beyond the abilities of the local banking "houses." Similar Western institutions entered much of the Islamic world in the same period. From the 1970s, "Islamic banking" sought to comply with traditional Islamic prohibitions on *ribā*.

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Phillip I. Ackerman-Lieberman

Banks and banking, modern

Banks arrived in the Muslim world in the nineteenth century, as a key initiative in the modernisation campaigns launched by Egypt and the Ottoman Empire. Although Muslim-governed societies had always benefited from credit markets, it was not until then that they were served by durable intermediaries authorised to accept deposits, make loans, transfer money, and provide various other financial services. Until the early nineteenth century credit suppliers were individuals or short-lived partnerships. Although the most successful moneylenders also made short-term loans to states, credit went mostly to individuals. Neither commercial banks nor investment banks existed, because Islamic law discouraged long-lasting financial partnerships by allowing a partner to withdraw at any time. Another obstacle to establishing banks was that Islamic law lacks a concept of corporation (Kuran, *The long divergence*, chaps. 3–8).

The closest thing to a bank within the Islamic legal system, although only under a controversial interpretation of the Ḥanafī school of law, is the cash *waqf*. Like a conventional *waqf* (a pious foundation), a cash *waqf* was established in perpetuity to benefit a designated constituency according to stipulations of the founder. It was managed—again, like a conventional *waqf*—by a single caretaker *(mutawallī)*, who was normally appointed for life. The key difference is that the capital of a cash *waqf* consisted of movable assets. Ubiquitous in the sixteenth century in the Balkans, Anatolia, and parts of Syria, it was opposed widely on doctrinal grounds even in these regions. Critics objected to the liquidity of the cash *waqf*'s capital. They also decried its reliance for income on interest-yielding loans, as opposed to rent. The controversy, which lasted several generations, was brought to an end by Ebüssuûd (Shaykh al-Islām Abū l-Suʿūd, d. 982/1574), chief *muftī (şeyhülislam)* of the Ottoman Empire from 952/1545 to 982/1574. Ebüssuûd issued a *fatwā* that legitimised the cash *waqf* on grounds that it is widely beneficial (Mandaville). The cash *waqf* maintained a presence in the Eastern Mediterranean up to the early twentieth century, when the bank supplanted it.

Like a bank, a cash *waqf* was meant to exist in perpetuity. Accordingly it could make long-term loans, or at least short-term loans that were expected to be renewed repeatedly. The cash *waqf* also enjoyed entity shielding, in that its assets were protected from personal creditors of the caretaker or other employees. Like an investment bank, it could respond to changing lending opportunities simply by altering the sectoral distribution of its loan portfolio. As with any bank, it pursued risk diversification by making multiple loans simultaneously. In other respects, it differed from a bank. The cash *waqf* did not pool deposits or pursue asset growth; a single individual provided its entire capital, which its caretaker was required only to preserve. Also, because it did not take deposits, it had no need for reserves.

In the first half of the nineteenth century, rapidly expanding global trade generated a need for commercial finance on a scale far beyond the capacity of most cash *waqf*s. The credit needs of states swelled, too, mainly because of the rising costs of warfare and urban administration. Several local attempts to found a bank were made, but they ended in failure. The consequent void was filled by foreign-owned banks operating, at least initially, under foreign laws. They included the New East Bank (Tehran, 1850), the Bank of Egypt (Alexandria, 1855), the Ottoman Bank (Istanbul, 1856, which became the Imperial Ottoman Bank in 1863), the Anglo-Egyptian Bank (Cairo, 1864), and the London and Baghdad Association (1864) (Issawi, 410–12; Clay, Origins; Clay, Western banking; Eldem, chaps. 1–2; Tschoegl). By the 1880s banks were being formed successfully with local capital. The most notable of the domestically owned banks in operation before World War II were Egypt's Bank Misr, Turkey's İş Bank, and Iran's Bank Melli, founded in 1920, 1924, and 1928 respectively. Some local banks were privately owned; others were mostly state-owned.

Once banks gained a presence in the financial markets of the Middle East, they spread rapidly across the region through the establishment of branches. The opening of new branch offices was stimulated by intense lobbying on the part of merchants, state officials, and other notables, who considered banking services critical to local economic development as well as to their own enrichment. Banks supplied loans at lower interest rates than either cash *waqf*s or individual moneylenders. They provided safe instruments for saving. They also cleared checks, facilitated financial transfers, and served as intermediaries for various other financial transactions.

Several interconnected legal developments contributed to the relative efficiency of banks over their traditional alternatives. Most of the early foreign banks and all of the banks of the twentieth century were established as corporations. As such, they enjoyed legal personhood, which is the capacity to sue and be sued like a natural person. This characteristic allowed them to cultivate a reputation that was independent of their employees and shareholders. Third parties could count on their existence over the long term. The size, scope, and complexity of their operations required them to use standardised accounting conventions borrowed from the West, which made their capabilities transparent. Beginning with Alexandria, Cairo, and Istanbul in the 1850s, specialised commercial courts were established. These new courts became increasingly proficient at adjudicating disputes involving banks.

The commercial courts of the region did not operate under Islamic law. Served by panels composed of Muslim, local non-Muslim, and foreign judges, they followed the French commercial code. Around the same time, other parts of the Muslim world, notably India, saw the emergence of new courts operating under a variant of English common law. All European-inspired courts met a common need, which was to support commercial and financial contracts involving modern methods of business. They could serve the growing numbers of large and perpetual business organisations. These organisations included banks.

The demand for banking was met by West Europeans because it is in Western Europe that banks first emerged, developed know-how, and accumulated capital. Through bankruptcies and runs on banks, the French and the British had learned how to use reserves and interbank loans to maintain solvency in the face of spikes in withdrawals. In transplanting Western commercial and financial codes, the Middle East thus instituted banking under a well-tested and state-of-the-art regulatory regime. The independent states established in the region after World Wars I and II maintained the pattern of basing commercial and financial laws more or less on Western legal systems. By then they could draw also on the experiences of their own modern commercial and financial institutions. Islamic courts, where they still existed, did not deal with banks, if they handled financial matters at all. The legal infrastructure for banking services was provided almost entirely by secular regulations and courts.

The first major banks of the Middle East, including the Bank of Egypt and the Ottoman Bank, initially lent primarily to cash-strapped states. But they also served businesses and individuals, and the share of their non-state lending grew over time as they opened more branches. The banks established in the region after the mid-1880s included financial intermediaries specialising in a single sector. The most prominent ones supported agriculture, mining, or foreign trade. Secular law schools supported the growing banking sectors through successive curricular reforms. Meanwhile, it remained possible to study Islamic financial rules through schools that provided training in Islamic law. However, knowledge of traditional Islamic finance no longer had practical value, except in economically primitive localities. Throughout the Muslim world, banking was considered a modern activity carried out under modern regulations.

This legal duality that made Islamic law seem generally out of date troubled some clerics, including Sayyid Abū l-ʿAlāʾ Mawdūdī (1903–79), an Indian theologian who founded Jamāʿāt-i Islāmī. Beginning in the late 1930s, Mawdūdī took to popularising the concept of "Islamic banking," a notion that had already been circulating in Indian theological circles. An Islamic bank was to offer all the services of a modern bank, except that its transactions would be free of interest (Kuran, *Islam and mammon*, chap. 4). Over the next few decades, Islamist theoreticians tried to root the concept in classical Islamic law, using the traditional sources of Sunnī jurisprudence, namely the Qurʾān, *ḥadīth* (reports of statements or actions of Muḥammad), *ijmāʿ* (consensus), and *ijtihād* (independent reasoning). But they failed to put Islamic banking into practice. It remained a purely intellectual construct until the first Arab oil boom of the 1970s (see Qureshi, and Siddiqi).

The first Islamic bank was inaugurated in Dubai in 1975, and hundreds of others have followed, all across the world. Islamic banking has become part of a global Islamic finance industry that also includes stocks, mutual funds, insurance, and bonds known as *sukūk*. The assets of the global Islamic finance industry totaled USD 200–300 billion in 2002 and USD 1.1–1.2 trillion in 2013. The latter estimate corresponds to 1 percent of global financial assets, but the shares are greater in predominantly Muslim countries. In 2012 Islamic banks held 3.8% of all bank assets in Egypt, 4.2% in Indonesia, 4.9% in Turkey, 5.7% in Pakistan, 16.7% in the United Arab Emirates, 18.9% in Malaysia, and 49% in Saudi Arabia (Ernst and Young). As these figures show, Islamic banks co-exist with conventional banks, which give and take interest openly and without apology. Iran is the only country whose banks are all formally Islamic. Most Muslims use conventional banking. As of 2012, it is estimated that only 10–12% of the world's Muslims have ever used an Islamic financial product (*Financial Times*, 7 October 2012).

The charter of an Islamic bank requires it to avoid interest. The bank is governed by a Sharīʿa board that passes judgement on what counts as interest. The members of these boards have training in Islamic law, but usually not in finance. That has been a source of tension between them and the banks' managers, who are more conscious of the costs of maintaining Sharīʿa compliance (El-Gamal). Nevertheless, the banks compete to place the most reputable Islamic scholars on their boards, with the result that in many countries a few prominent individuals sit on several bank boards at once. Many countries also have a national board that seeks to harmonise the various interpretations and to balance Sharīʿa compliance with the requirements of remaining competitive in the financial marketplace (Nethercott and Eisenberg, chaps. 3, 5; Wilson). However, there is no global standardisation defining the characteristics of an interest-free loan, bond, mortgage, or credit card. Substantial differences exist among the Islamic banks within any given country, and even broader differences across national borders.

Since 2001, the General Council for Islamic Banks and Financial Institutions, headquartered in Bahrain as an affiliate of the Organization of Islamic Cooperation, has worked toward harmonising the rules of the world's Islamic financial institutions. It confronts common challenges, tracks the development of national rules and regulations, disseminates concepts, and provides information about Islamic financial products. Several other organisations also work toward standardising Islamic finance conventions, more or less independently. They include the International Association of Islamic Banks, based in Jidda; the Accounting and Auditing Organization for Islamic Financial Institutions, founded in Algiers and now headquartered in Bahrain; and the Kuala Lumpur-based Islamic Financial Services

Board. In interpreting Sharīʿa compliance, the Islamic Financial Services Board is generally regarded as the most liberal of these standard-setting organisations. However, neither these international organisations nor the national boards have enforcement capabilities. The consequent lack of standardisation is a source of conflict over the meaning of Sharīʿa compliance. To minimise the likelihood of a dispute, contracts involving Islamic loans have come to include very detailed clauses so that courts rule only on the agreement between parties rather than on compliance with Islamic financial principles, which are subject to a wide range of interpretations (Shawamreh).

Islamic banks are supposed to avoid interest by substituting variable returns for fixed returns. The architects of Islamic banking consider such substitution Islamic on the grounds that it promotes brotherly risk sharing and prevents lenders from exploiting borrowers. Its doctrinal basis is Qurʾān 2:275, which allows trade but prohibits *ribā*, a pre-Islamic form of credit. As a matter of practice, Islamic banks give and take interest regularly, under labels such as fee, commission, or profit share. Also common are modern variants of mediaeval ruses used to cleanse an interest-bearing contract of interest, which function by decomposing contracts involving a charge for deferred payment into sets of practically equivalent contracts. The equivalence between Islamic and conventional banking contracts is reflected by the fact that payments given or received by Islamic banks are statistically identical to those that conventional banks pay or collect as interest.

The equivalence between Islamic and conventional banking contracts, and the stubborn persistence of this equivalence over several decades of Islamic banking, has been a source of annoyance among Islamic scholars. Some scholars have gone so far as to denounce existing Islamic banks as un-Islamic. The most prominent disagreement surfaced in Pakistan in 2008 with a collective *fatwā* issued by a group of Deobandī scholars. These scholars held that Pakistani Islamic banking deviates from Islamic legal forms (Ghias). An opposing group of critical Islamic scholars, numerically much larger, holds that Islamic banking follows traditional legal forms, such as *muḍāraba* (simple partnership) and *murābaḥa* (commodity financing), while violating the spirit of Islamic risk sharing.

Poor oversight by Islamic banking boards with a tenuous grasp of finance has led to numerous bank failures. A Ponzi scheme in Egypt caused more than a million customers to lose their deposits in 1988. Among the other Islamic banks that have collapsed because of lax governance, loans to insiders, or outright fraud are İhlas Finance in Turkey, the Islamic Bank of South Africa, the Dubai Islamic Bank, and Bank Islam Malaysia Berhad. These cases have added heat to debates over the optimal organisation of Islamic banking. As of 2013, three classes of regulatory regimes can be distinguished. Pakistan and Malaysia have opted to regulate their Islamic banks centrally, under distinctly Islamic rules. The Gulf Cooperation Council countries are leaving it to the banks themselves to improve their governance; although individual banks are expected to draw on the expertise of supranational Islamic organisations, government regulation of their activities is minimal. Finally, Turkey and the United Kingdom have subjected their Islamic banks to secular banking regulations, with only minor variations to address their special needs (Hasan).

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Timur Kuran

Basra

Basra (al-Baṣra), on the Shaṭṭ al-ʿArab, is Iraq's major port city. The mediaeval city was built on the site of a Persian settlement called, in Middle Persian, Vahishtabadh Ardashīr. In the eleventh/eighteenth century, a new city was built near the site of the ancient al-ʿUbulla.

1. Basra until the Mongol conquest

ʿUtba b. Ghazwān, a Companion of the Prophet, reportedly founded Basra as a military camp, on orders from the caliph ʿUmar b. al-Khaṭṭāb (r. 13–23/634–44), allowing Muslim troops to control the route from the Persian Gulf and launch campaigns to the east. Basran troops participated in the Battle of Nihāwand (21/642) and the conquest of Iṣṭakhr, Fārs, Khurāsān, and Sijistān (29/650). In 36/656, ʿAlī b. Abī Ṭālib (r. 35–40/656–61) defeated ʿĀʾisha (the widow of the prophet Muḥammad), Ṭalḥa, and al-Zubayr in the Battle of the Camel, near Basra. Basrans fought on the side of ʿAlī b. Abī Ṭālib, at the Battle of Ṣiffīn (37/657), although Basra remained largely Sunnī, unlike ʿAlid Kufa, and was home to many early Khārijīs, a group of Muslims who seceded when ʿAlī agreed to arbitration. (The Khārijīs opposed both ʿAlī and Muʿāwiya and rejected arbitration because they believed that sovereignty came from God and argued that any leader who was not just must be replaced.) In 41/662 the Umayyad caliph Muʿāwiya (r. 41–60/661–80) asserted Sufyānid power over Basra and, in 45/665, named Ziyād governor. Ziyād (d. 53/673) was a skilled and experienced administrator, who provided stability and quickly gained a reputation for just rule.