

THE CONCEPT OF 'MUDARABAH' AND ITS PRACTICE IN ISLAMIC FINANCIAL INSTITUTIONS IN SRI LANKA: AN EMPIRICAL STUDY

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Literature review

The Islamic banking system at a momentous pace since its inception three decades ago, the number of Islamic Financial Institution worldwide has risen to over 500 institutions in more than 75 countries. In Sri Lanka, could be traced back in 1997 with the establishment of Amana investment limited to operate interest free bank. As well as conventional bank also allowed after revising Act No 30 of 1988, as amended in 2005, allows both commercial banks and specialized banks to operate on a Shari' ah compliant basis. Presently MCB Bank, People's Leasing, LOLC Bank of Ceylon and the new entrants, NDB bank, HNB Samurdi Bank are the Central Bank of Sri Lanka regulated institutions offering Islamic financial services. Generally, Banks have performed an important role and have very successfully served the needs of people by channelizing the savings of the people where they needs. They have been in a position to offer the needed funds through banks credit to businessmen for investment purpose on the payment of interest but most important matter in Islamic economics is prohibition of usury (interest) which is the main source of income in conventional banking system. Islamic finance is fundamentally different from the