

# **Report and Findings of the 2<sup>nd</sup> International Conference on Islamic Business (ICIB - 2012)**

## **Managing *Sharī'ah* Conforming Businesses:**

### **Prospects, Practices and Personnel**

**(February, 27, 28 - 29, 2012)**

The first International Conference on Islamic Business organized by the Riphah Centre of Islamic Business (RCIB) of the Riphah International University (RIU) in February 2011 (ICIB-2011) aimed at discussing the state of Islamic business and finance and how and in what way the same could contribute to the stability of and provide opportunities to the national and global economies. The conference registered a great success in terms of speakers' stature, papers quality, delegates' participation and overall arrangements. The findings of the conference have been published in the first issue of the RCIB Journal of Islamic Business and Management.

The second conference (ICIB-2012) was planned to discuss the prospects, practices of *Sharī'ah* conforming businesses and personnel required for the same. As in the case of the 1<sup>st</sup> conference, ICIB-2012 was organized with support from:

- i) Islamic Development Bank (IDB) through Islamic Research & Training Institute (IRTI), Jeddah
- ii) State Bank of Pakistan (through its) Islamic Banking Department (IBD) & National Institute of Banking and Finance (NIBAF)

ICIB 2012 provided a vigorous opportunity for dialogue and discussions between researchers, academics, policymakers, corporate leaders, business managers, practitioners of Islamic banking and finance and the research scholars. It was the second successful event organized by the RCIB in succession in which nine working sessions were held on various topics to address the problems, challenges and potential for managing the modern day businesses in *Sharī'ah* conforming way. Two pre-conference workshops on Islamic banking and *Takāful* were also held on February 27, 2012. In the workshops, eight presentations were made on various aspects of Islamic finance and *Takāful*. List of the Papers / Presentations is given in the **Annexure** to this report.

The Conference was attended by economists, research scholars, CEOs of Islamic banks, financial institutions and the business, industry and corporate sectors, educationists, legal practitioners, trainers and heads of human resource departments, Islamic business and finance executives, officials of the securities & exchange commission, journalists, Islamic banking regulators, *Shari'ah* scholars, students of universities and business schools and the managers of companies.

In the inaugural session held on Tuesday (February 28, 2012), Dr. Abdelkader Chachi, Economist Researcher at IRTI (IDB), Prof. Dr. Anis Ahmad, Vice Chancellor RIU, Mr. Hassan M. Khan, Pro. Chancellor RIU, and Mr. Amer Aziz, Managing Director, NIBAF (SBP) delivered welcome addresses. The Director RCIB Mr. Khurram Khan thanked the participants and scholars from the world over for attending the conference as keynote speakers. He lauded the efforts of the secretary of the conference Mr. Muhammad Ayub and other organizers for their hard work to make the event a success. The '*Journal of Islamic Business and Management*' of the RCIB was launched in the inaugural session.

The Governor of the State Bank of Pakistan Mr. Yaseen Anwar was the Chief Guest at the inaugural session. Senator Prof. Khurshid Ahmad, Chairman of the Institute of Policy Studies Islamabad (IPS) and Dato' Seri Anwar Ibrahim, Former Deputy Prime Minister, Malaysia delivered the keynote addresses on the occasion.

In addition to Keynote addresses made in the inaugural session, 30 presentations were made on almost all areas of Islamic business, banking and finance. It covered, financial regimes, financial inclusion, money and monetary policy, the crises and fallacies of capitalistic economic model and potential of Islamic risk-sharing and value based models co-operative, *Takāful* models and procedures, policy issues in transforming the systems to the *Shari'ah* compliant structures, Islamic banking principles and practices with case studies, liquidity and risk management by Islamic banks, strengthening *Shari'ah* compliance in Islamic Finance Institutions (IFIs), business and work ethics for various disciplines, product development, *Awqaf* as a Key to Socio-Economic Development of the Muslim *Ummah*, application of Islamic *Hijri* Calendar Monthly Time Series, and *Halal* food business and sustainable *Halal* food supply chain. Questions / answer session were followed by a number of presentations. Some speakers / authors from Italy, Malaysia and Indonesia could not reach due to some logistics and allied problems. Two presentations were made via Skype from Sidney and Amsterdam.

## **Inaugural Address by Mr. Yaseen Anwar, Governor, State Bank of Pakistan**

The Governor appreciated the RIU for its efforts in arranging programs that bring together distinguished speakers from around the globe enabling the local audience to benefit from incisive work in Islamic Finance. “As in the case of the Islamic finance conference of the last year, I am pleased to be here again amongst prominent practitioners, *Sharī'ah* scholars and academics”. He congratulated the sponsors namely Islamic Development Bank (IDB), Islamic Institute of Research and Training (IRTI) and his colleagues at the State Bank and NIBAF for making the stimulating event possible. Support and participation visible in the conference demonstrates the commitment and determination of all stakeholders towards ensuring sustainable growth of the Islamic financial industry. The wide range of themes selected for the conference covering prevalent market practices, business opportunities, and social aspects of Islamic finance are interesting for Pakistan as well as for the overall industry.

The Islamic banking industry in Pakistan has grown at a fast pace, maintaining an average growth rate of 30 percent over the past six years. Its asset base has reached Rs. 641 billion which constitute almost 8 percent of the overall banking industry while deposits representing 8.5 percent of the banking system's deposits. The Islamic banking network has spread all across the country at a significant pace with total number of branches reaching 886. Given the well sustained growth, the industry is all set to double its market share over the next five years.

Notwithstanding this optimism, the industry is still facing challenges and constraints that need to be addressed to sustain the growth momentum.

Modern Islamic banking has spread over the last four decades and the industry now has systemic importance in the global financial order. The debate has now moved away from the existence and sustainability of Islamic finance to discussions about its penetration levels in various parts of the world. Given its relatively short history the industry has over US Dollar I trillion assets with presence in over 75 countries across the globe. This widespread growth has not only been a result of activities of pure Islamic financial institutions but also has contributions of conventional institutions that eyed Islamic finance as a profitable economic opportunity. Moreover, resilience of Islamic financial institutions during the financial crisis has lent them more credence than their interest based conventional counterparts.

A great deal has been written and talked about in favor of Islamic financial institutions weathering the financial crisis; however I would like to draw attention of the audience to the concerns about these institutions that surfaced during the second round effects of the crisis.

We live in a globalised world where locally centered actions have cross border implications; the Islamic financial industry is not an exception to this. Some have suggested that prohibition on speculative activities kept Islamic financial institutions away from most of derivative based products that created havoc in the financial world, while others viewed asset backed transactions and risk sharing mechanism to be the strength of Islamic financial institutions. While adherence to Islamic principles provides strength to these institutions, they do not shield them from the risks associated with negligence in due diligence, toxic assets or in extreme cases fallout of adverse developments in the real economy. A closer look at the second round impacts of the recent financial crisis shows that Islamic financial institutions did take some hits as a result of the downturn in property markets (real estate). The inherent risk sharing mechanism though has helped the industry steer through this turbulent period, but economic anxiety during these times has pointed towards the need for better risk management practices and due diligence on part of Islamic financial institutions.

One of the key challenges facing the industry is that of preference of 'Form' over 'Substance' in current practices of the industry. I have discussed this at other forums and would like to emphasize again that Islamic banks at global as well as at the domestic level are working in the shadow of conventional finance i.e. adoption of conventional products that have been tailored to legally comply with *Shari'ah* principles. While the argument of reinventing the wheel is valid to an extent, it takes away the opportunity of offering something unique from Islamic finance. Refinement of routine business and innovation both remain critical as the industry expands. Problems of moral hazard, adverse selection are of serious nature and remain a major hurdle in using participatory modes of financing, however their absence deprives the industry from attaining one of its desired socio economic goals of ensuring equitable distribution of wealth. State Bank of Pakistan is aware of the issue and is working on a framework in consultation with the industry to encourage participatory mode based financing.

Avenues missed out by conventional financial institutions are a great opportunity for Islamic banks who, given their risk sharing model, can finance projects that are technically viable. In case of Pakistan,

Agriculture and SME are sectors of paramount importance in terms of their contribution to GDP, employment generation and overall development of the country; however, these remain largely ignored despite their huge potential and financing appetite. For example, Agriculture comprises 21% of GDP and 45% of the work force; Pakistan is also the fifth largest milk producer in the world but does not export any dairy products as does New Zealand. This indicates huge opportunities for *Shari'ah* compliant business by Islamic banks. Reaching out to such sectors will not only be beneficial for Islamic financial industry but will also contribute to economic welfare of the society. Realizing the significance of *Shari'ah* compliant agriculture financing, the State Bank is working rigorously with the industry to develop standardized products and has issued a model *Salam* based product recently to facilitate financing in this sector.

Over the years the world has realized that growth is beneficial only if it is inclusive and access to finance plays a vital role in economic development. Financial exclusion is of two types: Voluntary and involuntary and Islamic banks can focus on both. Voluntary financial exclusion on the basis of faith sensitivity can be minimized by increasing access and awareness. In Pakistan, SBP is incentivizing and facilitating Islamic banks to expand to 2nd and 3rd tier cities. SBP has revised the definition of rural and underserved areas, according to which any district having less than 10 Islamic Banking Branches (IBBs) will be termed as underserved with respect to Islamic banking facilities. Islamic banks need to be more aggressive in increasing their network to these areas as more than 70 percent of their presence is still concentrated in around 12 cities.

While focusing on involuntary exclusion, Islamic microfinance can be effective in serving the underserved and the deprived population. This side of Islamic finance is in its very early stage even at the global level and requires more effort. In order to encourage existing Islamic banking players and incentivizing new entrants, SBP has not only allowed the establishment of full-fledged Islamic micro Finance banks and permitted full fledged Islamic banks and Islamic windows to offer Islamic micro finance services, but also issued guidelines for Islamic microfinance business.

Much discussion about issues confronting the industry revolves around asset liability mismatch due to lack of investment avenues and its adverse impact on portfolio of Islamic banks. Limited *Shari'ah* compliant instruments and avenues make it difficult for Islamic banks to efficiently place their excess liquidity that negatively affects their deposit

mobilization ability. To this end the development of  $\pi uk-k$  has been instrumental; frequent  $\pi uk-k$  issuance in Pakistan since October 2010 has resulted in improving profits of the industry.

However the absence of a secondary market and Lender of Last Resort facility in many countries, including Pakistan, further creates barriers for Islamic financial institutions in managing their operations effectively.

Acknowledging the dire need of an Islamic Money Market, SBP is focused on developing a comprehensive solution that would provide Islamic interbank money market, Islamic Interbank Offered Rate (IIBOR) as a benchmark for pricing of various Islamic banking products, the development of *Sharī'ah* Complaint portfolio at SBP to offer as a placement facility to Islamic banks and the provision of lender of last resort facility. This mechanism may also help the government bridge their financing needs.

The growth of any industry is subject to the overall global environment and so the architecture of the Islamic banking industry needs to be agile enough to adjust to ever changing requirements. Investment in human resource, technology and research and development can be key building blocks for such an architecture. We are encouraging Islamic banks to use sophisticated technologies to be more efficient and have provided them leverage for product development.

Shortage of trained and certified experts in Islamic finance is limiting the ability of Islamic banks to expand their outreach. A large majority of the people working in Islamic finance industry comes from the conventional side and does not have adequate understanding of Islamic finance which affects their ability in dealing and convincing their current and potential clientele. Given its importance, SBP is helping the industry in developing the desired human resource. We offer regular Islamic Banking courses to domestic and international participants through our training subsidiary NIBAF. We also offer customized training for professionals and experts as well as cross country official visits. We are also collaborating with many International and domestic well reputed research and training institutes and universities for developing and conducting Islamic banking courses, degree programs and trainings. We have recently launched a customized program for front line managers for their capacity building with special focus on handling client queries. Moreover, for raising awareness we have also launched a mass awareness campaign and have conducted targeted workshops, public seminars and conferences in various parts of the country.

The discussion on the challenges facing the Islamic banking industry would be incomplete without mentioning issues related to standardization, legislation and governance. While some scholars view difference of opinion as a blessing, lack of standardization has slowed the growth of the industry. If the industry wishes to expand, it is imperative to adopt best practices and ensure high standards of international corporate governance which will be complemented in this case with *Shari'ah* governance. On the legislation front, regulations should be dynamic enough to facilitate the growth of the industry while protecting the interest of all stakeholders and I can assure you that the State Bank of Pakistan remains committed to these objectives.

Despite the issues that I have discussed here today I am optimistic about the future of the Islamic financial industry both globally and in Pakistan. Though these obstacles may slow down the pace of growth, the commitment of all stake holders will help in overcoming the challenges.

#### **Keynote Address by Senator Prof. Khurshid Ahmad:**

While expressing gratitude to the RIU for organizing the 2nd International Conference, Prof. Khurshid Ahmad expressed hope that it would prove to be a milestone in promoting new thinking on the issues that confront Pakistan and the Muslim *Ummah*.

He began with a personal note to focus on a historical fact that no dominant power had been able to continue its dominance indefinitely. History is a grave yard of some thirty six civilizations.

He recalled his participation in the struggle for freedom from the British rule. His school days were characterized by domination of the British Empire, yet we all witnessed Great Britain's withdrawal not only from India but also its demise as a world power and its shrinking into a pack of small islands in the footsteps of Europe. Then we saw the growth and domination of socialism as a movement and emergence of the Soviet Union as a world power. Yet 1980's and early 1990's saw its disintegration, symbolized by the fall of the Berlin wall and resulting in the emergence of a dozen independent states in Central Asia and East Europe.

The 1990's were characterized by euphoria about economic and political liberalism and even resonated with wild claims about "the final victory of capitalism and liberalism." And now a series of global financial crises since September 2007 have exposed the feet of clay of what became

to be characterized as “Market Fundamentalism.” The capitalistic system is faced today with existential threats!

It was claimed that the crisis (2008) could be overcome simply with some reforms on regulatory mechanisms and an increased role of the state. But the crisis sees no end; it is increasingly becoming deeper and global. Starting from the collapse of house-mortgage pyramid, it invaded all sectors of banking and finance, now it has engulfed the entire economy in a number of developed countries. During the span of the current year this crisis has begun to shake the very fabric of states, like Greece, Spain and Italy and threaten the entire Euro zone. It is in this context that we are discussing the role that Islamic economics can play in addressing some of the problems humanity faces today.

Prof. Khurshid Ahmad emphasized that the crisis was not only of economy and economics, but also of the society and the civilization based on capitalism. The ‘Occupy Wall Street Movement’ is testimony to the fact that the efficiency premise of the market economy has fallen to pieces. The one percent affluent of the world are actually controlling, managing and exploiting the rest of the 99 percent of human beings. He emphasized that the capitalist system and the conventional economics as a discipline as its intellectual linchpin, have failed because of what he described as six major delinks — the root causes of the current economic and financial crisis.

1. First and foremost — economics as a discipline and economic policy-making at individual and collective levels have suffered from what can be described as a delink between *vision* and *analysis*. This has assumed devastating proportions during the last century, particularly so after the Second World War. American economist Robert Heilbroner has focused on this aspect in his book — *The Crisis of Vision in Modern Economic Thought*. (Newyork, Cambridge University Press, 1996). The result is that while analyzing the issues, we mostly derive results on the basis of models, which are mostly delinked from the vision, producing sophistications in respect of the means, instruments and methodologies while losing sight of the ends. This fundamental flaw from which the entire capitalistic approach to economics suffers, can be traced to the other delinks that we want to point out. Taken together they are at the root of the present day crisis of capitalism and the plight of mankind.



2. Second — another major delink that permeates the entire fabric of the Western civilization and is affecting human life and society in all dimensions is the delink between the *ethics and morality* and the *economy and society*. In the name of secularization, the unity of life has been disrupted by making irrelevant all that made life worth living, i.e. religion, spirituality, ethics and morality. Divorce between ethical values and economics has led the entire development of economics and the processes of economy into a flawed direction. The paradigm of positive sciences was superimposed on social sciences and on that pretext a value free approach has been adopted to life, economy and society.
3. The third delink relates to a virtual claim of exclusiveness of the economics realm and the claim about decisiveness of the economic factor in determining *all* aspects of human life and decision-making. The result was that economic factors began to be treated as the *determining factors* throughout the length and breadth of human life. This has led to the misconception that economics alone could resolve all problems. This distortion of the vision has invariably created unrealistic situation for the mankind.
4. The fourth delink is between the *society* and the *economy*. *Society*, for all practical purposes has been reduced to the *economy* and the economy to *market mechanism*. The entire decision-making process now rests on self-interest, profit motive and the forces of supply and demand. It is they, to the virtual exclusion of all other factors and values that determine the character, direction and dimension of the entire realm of production, exchange and consumption in society.
5. The fifth delink is between *efficiency* and *equity*. Efficient allocation of resources is important but when it is delinked from consideration of equity and social justice it destroys the very concept of a healthy and progressive society. It was a blunder to think that justice could be achieved only through some kind of a trickledown effect of development.
6. The sixth and the latest delink is between the *real economy* and the *financial economy*. This has assumed devastating proportions in the last three decades. Finance had always been a major means to facilitate economic activity, i.e., production

of goods and services and for generation of resources for the mankind. But, now finance has become an objective in itself. It is acting to a predominant extent as an effective tool of minting more and more money for the players in the finance market, irrespective of the intermediation role that had been its hallmark in history i.e. — to enhance the flow of goods and services that lead to the well being of the mankind. This delink, among others, is a major cause of the current crisis.

In view of these fundamental flaws in the dominant paradigm of capitalism, Prof. Khurshid Ahmad observed that unless there is a fundamental change of paradigm, and not just changes within the paradigm, things may not change for the better. There is a lesson in this for the Islamic financial institutions as well. We are not just carving out a space for ourselves within the dominant system. Our aim is the transformation of the system and not some peripheral changes within conventional banking.

He underlined that even in the West, the crises of the last four years in particular is making people rethink about the whole field of economics, economic policy, dynamics of finance and the entire economic system. Joseph Stiglitz, Nobel Laureate in Economics, in his recent book 'Freefall: Free Markets and the Sinking of the Global Economy' (London: Allen Lanes, 2012) has emphasized that reform of economy is not possible without reforming economics as a discipline and a source of policy-making. Another Nobel Laureate Robert Fogel had expressed earlier the urgent need to address the issues of "spiritual inequity" if humanity was to move towards a truly egalitarian society (The Fourth Great Awakening and Future of the Egalitarianism. (University of Chicago Press 2000). Roger Bootle has challenged the free market premise and emphasized the need for searching alternatives to capitalism. (See: Trouble with Markets: Saving Capitalism from Itself, London Nicholas Barkley, 2009). Michael Sandal has shook the intellectual world with a challenging book "What Money Can't Buy: The Moral Limits of Market" (London Allen Lane, 2012). Marvin Brown has also challenged the entire premise of conventional economics and made a plea for a new approach to economics (See: Civilizing the Economy: A New Economics of Provision; Cambridge University Press, 2010). There is an unending flow of literature in this direction. This is the time to rethink dominant concepts and approaches in economics as a social discipline and help humanity which is searching for a new paradigm.

This is the global context in which we have to understand our position and our role. Efforts at partial reforms like austerity and increased role of regulatory bodies are not delivering. Even the British Prime Minister and the Leader of the Opposition are debating whether without fundamental changes in capitalism the West can come out of its present quagmire. The idea of a “Socially Responsible Capitalism” is at the heart of the debate. But can capitalism, with its fundamental attributes unchanged, become socially responsible? That is the big question. Can the ruling one percent do justice to the interests of the 99 percent, without a total transformation of attitudes, vision, values and goals? This is the time to openly affirm that the real need of the hour is to rethink the very foundations of the dominant economic system, and of the economic discipline with a view to recast the total vision of economy and society. It is here that the role of Islam and the Muslim *Ummah* becomes relevant, provided we do our duty with integrity and diligence and set our own house in order.

There is no doubt that we are witnessing a new awakening in the Muslim *Ummah*. But again the problem is that it is divided within itself; they also lack clarity of vision and commitment to follow a clear path. Yet hope is there which can be realized only if Islamic social and economic order, with its set of values and principles, seeking the establishment of a faith based civilization, is adopted in right earnest. The Islamic economic system is not autonomous; it is part of the Islamic faith and social order having its own unique foundations and a clear vision of man, society, economy and future. Some of the key concepts of this social order are summed up below:

- The first and most important foundation is the concept of *Tawhid* which not only means firm faith in Allah (SWT) and commitment to derive guidance and inspiration from His Commands, but also pursuit of a comprehensive moral and spiritual approach to all aspects of human life and society, individual and collective, personal and institutional. From *Tawhid* emanates the universal values and the entire ethical framework for development of a just and stable society.
- Second is the concept of *Hidayah* — a framework of *Halal* and *Haram*, of differentiation between the right and wrong, the just and unjust. Every form of human activity is to take place within the network of clearly defined rights and liabilities of each and every individual, man and woman,

and of groups, communities and nations in the human society.

- Third is the concept of *Istikhlaf* that is the role of man as Allah's vicegerent and representative to fulfill His Will on the earth. This makes life-fulfillment not life-denial as the mission of man in the world.
- Fourth is the concept of *Tazkiyyah*, (purification and growth) – not only a spiritual and moral concept for purification and character-building of individual but also as the basis for collective life and operations.
- Fifth is the concepts of *Adal wal Ihsan* (Justice and beneficence) — The entire approach of wealth creation is directed to serve as a means for human well-being and not just for enrichment of the few. Justice in all aspects of human life is the hallmark of an Islamic system. Justice means giving everyone what is one's due. *Ihsan* is more than that — it means sacrifice and giving to others even more than what is their rightful claim. This is a very difficult approach to life and all its problems.
- Finally, all this leads to the next key concept i.e. *Falah* (welfare and well-being). — Wealth creation is a process which must be directed towards well being of all human beings and establishment of a just society at all levels, national and global. *Falah* is not merely in the sense of material aspects of life or of this world. It includes moral, spiritual and societal well-being. And it has a dimension beyond this world. That brings us to the inalienable concept of *Aakhirah* that is accountability and final success in the life-to-come.

As regards the efforts spread over the last forty years aiming at application of some of the Islamic concepts to the fields of finance, banking and *Takāful*, Prof. Khurshid Ahmad acknowledged them as positive, even path-breaking developments. Although they are only first steps in the direction of establishing an Islamic economic order, they do represent a creative, healthy and promise-bearing effort. Islamic banking is no longer a theoretical proposition; it is now an emerging reality with over four hundred financial institutions operating in a large number of countries of the world and with an asset base approaching a trillion dollars. IMF, World Bank and other international organizations are taking

note of these institutions as promising players in the global economy. Recognizing these positive developments Prof. Khurshid Ahmad, however, cautioned that the real challenge lies in making Islamic banks truly Islamic in all their operations, and harnessing their resources to play a critical role in bringing about that fundamental transformation in the economy which Islam wants in order to establish a just economic order.

Concluding his submissions, Prof. Khurshid Ahmad said that Islamic economics does not merely mean the elimination of *Riba* and introduction of *Zakah*. Both are extremely important, but Islamic economics is much more than that and represents a new paradigm — a value based approach to address all the problems humanity is facing. We have to move from a debt-based economy to an equity-based one and to re-integrate the financial sector to the real economy. We have to redress all the delinks discussed earlier and this would call for a truly holistic and more integrated approach. It is a difficult task, but that is what is needed. Financial Institutions and all their products and instruments must serve as facilitators for investment and production of goods and services that are useful and cater for the real needs of mankind. This means efforts to be directed towards creation of wealth that results not only in higher production, but also leads to equitable distribution, poverty-elimination, employment-generation and prosperity for all members of human society. One can see that globally the balance of power is bound to shift in the coming years. But for us the real question is how much role we can play in this changing world and what space we can carve out for ourselves as Pakistanis and as part of the Muslim *Ummah* in the future. That would very much depend on how well we organize our own economies and societies. Opportunities are galore. Every crisis is also an opportunity. But much depends on how we seize those opportunities and try to fill the vacuum.

This would very much depend on our sincere efforts to develop and project the true Islamic vision, acquire requisite expertise, put up hard work and use the resources at the optimal level to achieve our objectives of integration and cooperation within the Muslim countries by translating what is potential into reality. The vision of D-8 i.e. eight developing Muslim countries as a nucleus for a wider Islamic Economic Union deserves to be revived and pursued with sustained devotion. We can work for reintegration of the *Ummah* and emerge as a new pole of power only if serious efforts are made in that direction — efforts that are idealistic but also realistic, made with clarity of vision and effective resource mobilization and development. The unity of the *Ummah*, and

transformation of our economies and societies in accordance with Islamic ideal of Godliness, moral excellence and social justice, is the only way to face the challenge that confronts us and humanity.

*Falah* is our goal. But *Falah* in Islam is a revolutionary concept. *Falah* is not limited to well-being in this world but also success in *Aakhirah*. That is why our ultimate goal should be *Falah* in this world as a stepping stone to *Falah* in the ultimate world.

**Keynote Address by Dato' Seri Anwar Ibrahim, Former Deputy Prime Minister, Malaysia:**

Dato' Seri Anwar Ibrahim spoke on the crises and fallacies of capitalistic economic model and how Islamic countries could avoid the crises and realize the *Maqāsid-al-sharī'ah*. In his view the value-free and greed based capitalistic model of economy and finance is the root cause of the problems being faced globally. More serious issue is that economic policy makers are not following even the conventional wisdom. The American and the European economies have become the source of global problems because of materialistic approach based on greed and aversion to business risk. Allama Iqbal, the national poet of Pakistan, criticized, about a century ago, the Capitalism and Socialism / Communism, because of materialism ingrained in their philosophies and operating procedures. We have to deal with the challenges within our society and the countries. The “*occupy wall-street*” movement is not only challenging the capitalism, but also creating new phenomena about life. Systems in vogue support the rich and the element of corruption in every walk of life, use of ‘power’ enriching the few and creating imbalance within even Islamic societies.

Dato' Seri Anwar stressed that as Muslims, we must observe the business virtues and the values, in addition to equity and sympathetic feelings for the fellow beings. The real challenge we face is of good governance and accountability. The Western as also the Muslim economies are based on greed and corruption. The lack of accountability, negation of justice and poor governance have lead to problems like unemployment, poverty, corruption and ultimately to human miseries. Islam gave much importance to these values according to which taking other's wealth without free consent and permission is considered as sin and its penalty is cutting the hands. By following the moral and ethical values and the good governance principles we can resolve the economic problems caused by the unbridled working of capitalism. Mere growth rate, irrespective of other socio-economic fundamentals is of little value. The World Bank and the IMF do not base their policies on ground

realities. They have been pushing the emerging economies for free market policies and opening up their markets irrespective of economic conditions in the respective countries.

The father of modern economics, Adam Smith (1723-1790) made at least 17 references in "*Wealth of Nations*" to equity in which he indicated the general principles of justice and law in the economic realm. In addition to that, his valuable work, "*Theory of Moral Sentiments*" examines the process by which individuals adopt moral standards through which they judge actions by others and themselves. This book explains how individuals can overcome the selfish impulses of the commercial realm. Thus, he suggested a moral system to provide a general framework for the economic domain. It is exactly what Islam and Islamic economics prescribe, but our present leaders have not done what Adam Smith did to incorporate values in economic behavior in detail. Further, the issue of moral standards has to be linked with *Maqāsid-al-sharī'ah* which must be realized by any program or move to promote any branch of Islamic social sciences. But unfortunately, Islamic banks or other Islamic business institutions are taking care for *Sharī'ah* compliance only in letter without giving any weightage to *'Adl and Ihsan* or equity. In other words, they are catering only for their business needs and not for the needs of the *Ummah*, the masses and the humanity. There is evidence that we are continuing with the same philosophies that have created the problems. An Islamic bank should not be simply another bank; it should be a bank that works within *Maqāsid-al-sharī'ah*. He referred to the Holy Quran and *Hadith* of the Holy Prophet (pbuh) and emphasized the need for actualization and the sense of accountability at all levels.

### **Presentations on Islamic Banking in Pakistan**

The first regular session of the ICIB-2012 with Mr. Justice (R) Khalil-ur-Rehman Khan in chair discussed the Islamic banking experience in Pakistan. Presentations were made by Mr. Irfan Siddiqui, CEO Meezan Bank Limited (MBL), Mr. Jawad Majid Khan, Country Head Silk Bank, Mr. Atif Hanif, Regional Head, HBL Islamic and finally by Mr. Justice (R) Khalil-ur-Rehman Khan who concluded the session while skillfully discussing the implications of policy shift from Islamization of Pakistan's entire economy to the parallel functioning of conventional and Islamic banking and financial system.

Mr. Irfan Siddiqui underlined that MBL was operating to offer Islamic banking as banking of first choice. Starting from January 31, 2002 MBL, with around 300 branches, MBL is providing Islamic banking services in



all areas of the country. All major areas of banking and finance including consumer and corporate banking, micro and SME financing, investment banking and fund management. Besides huge portfolio of consumer and corporate financing, MBL has arranged syndication,  $\mu$ uk<sup>1k</sup> & project financing of over US \$ 1 billion.

Mr. Jawad Majid Khan and Mr. Atif Hanif discussed the plans that Silk Bank and HBL Islamic have prepared to offer Islamic banking services in Pakistan through stand alone branches.

### **Justice (R) Khalil-ur-Rehman:**

#### **Implications of Policy Shift from Islamization of Entire Economy to the Parallel Functioning of Conventional and Islamic System**

Mr. Justice (R) Khalil-ur-Rehman discussed the issues with regard to total transformation of the interest based system to Islamic principles (as envisaged in the Constitution of Pakistan), compared with parallel and side-by-side functioning of conventional and Islamic Systems, as in vogue in Pakistan. As pleaded in the apex court, monetary policy planners of Pakistan believed that the capitalistic market economy could not be done away with and the best that could be done to satisfy the proponents of Islamic Financial System was to allow the Islamic system to run parallel and in competition with the conventional financial system. They assert that *'the financial system cannot be evolved in isolation from the world and that too in deviation from prevailing political, economic and moral values and norms in the society. The switch over would have to be pursued gradually keeping in view the positive response of the society to Islamic modes of financing and the cost of transactions and of monitoring'*. The learned Judge (R) emphasized that the gradual transformation should consist of well designed three phases for implementing interest-free financing system in replacement of the old interest-based system.

The approach for gradual implementation was accepted by the *Shariat* Appellate Bench of the Supreme Court of Pakistan in its judgment of December, 1999. But the Judgment was set aside in review and the case was remanded to the Federal *Shariat* Court for further consideration in the year 2002, where the remand matter has not yet come up for hearing since 2002 till date. The Finance Ministry and the State Bank of Pakistan had very forcefully pleaded in the affidavits filed during the hearing of the Review Petition before the *Shariat* Appellate Bench that the capitalistic market economy could not be done away with and the best that could be done to satisfy the proponents of Islamic financial system is to allow the



Islamic system to run parallel and in competition with the conventional financial system. While the Court, the Council of Islamic Ideology and even the IDB had recommended gradual transformation, the authorities responsible for application focused their efforts on parallel functioning. He urged the audience to note the difference between gradual transformation and parallel functioning of the systems.

With regard to the money and monetary policy for an Islamic economy, he emphasized that stability in the real value of money is vitally important not only for the continued long-term growth of an economy but also for social justice and economic welfare. He reiterated that trading in money encourages counterfeiting, people losing confidence in any currency, which in turn discourages long-term contracts and results in injustice to people with fixed incomes. Like blood in the human body, too much or too little money creates a dangerous condition in the economy in the form of inflation or deflation. But the State has failed to fulfill its responsibility in this regard. The “*Fiscal Responsibility and Debt Limitation Act 2005*” required the revenue deficit of GoP to become nil by 30th June 2008 and the ‘Total Public Debt’ not to exceed 60 percent of GDP after 30th June 2013. Against this, former requirement had already been breached and the likelihood of latter also looks difficult as Total Public Debt was 62.1 percent as on 30th June 2010. He observed that Islamic State has to be responsible to play a positive role in guiding and regulating the economy so as to ensure fulfillment of the objectives of *Shari’ah* without unduly sacrificing individual freedom or compromising social welfare. The essential functions of an Islamic State with respect to economy include the following:

- a) Eradicate poverty, creating conditions for full employment and stable growth;
- b) Promoting stability in the real value of money;
- c) Maintaining law and order;
- d) Ensuring social and economic justice;
- e) Arranging social security and foster equitable distribution of income and wealth;
- f) Harmonizing international relations and ensuring national defence.

The laws in Pakistan on the above aspects need to be made comprehensive and also to be implemented in letter and spirit. Effort to eliminate only *Riba* from banking system, in isolation, would be more

harmful than helpful due to intricate inter-dependence of different vital economic sectors. The efficient course will be to first identify and strengthen the existing critical economic sectors falling under *Sharī'ah*.

In the subsequent sessions during two days, papers were presented to cover the following main areas:

- 1) Financial Inclusion in Islamic Finance Perspective
- 2) “Regime Uncertainty: Interest rate based debt financing system”.
- 3) *Riba*, interest and the trade profit;
- 4) Conventional economics in Islam’s perspective;
- 5) Islamic banking and the concept of narrow banking for resolving the crises
- 6) Central bank as a facilitator for liquidity management and investments by Islamic banks
- 7) *Sharī'ah* governance and internal *Sharī'ah* compliance in Islamic Banks
- 8) Potential, Issues and Challenges in Family *Takāful*
- 9) *Awqaf* as a key to Socio-economic development in Muslim Societies
- 10) Islamic business education and the challenges of 21<sup>st</sup> Century
- 11) Islamic work and business ethics and their social and economic impacts
- 12) *Hijri* Calendar Monthly Time Series for application to Consumer Price Index

A brief account of the discussions held on the above areas is given below:

**Dr. Zamir Iqbal and Dr. Abbas Mirakhor: Financial Inclusion in Islamic Finance Perspective:**

Dr. Zamir Iqbal presented the paper, co-authored with Dr. Abbas Mirakhor, on financial inclusion. Despite substantial development of financial assets and instruments, 2.7 billion people (70% of the adult population) in emerging markets still have no access to basic financial services, and a great part of them come from countries with predominantly Muslim population. The authors emphasized that enhancing access to finance can make critical contributions to the economic development. Making basic financial services available to all members of the society

should be the goal in order to build an inclusive financial system. Conventional finance has developed mechanisms as micro-finance, SME finance and micro-insurance to enhance financial inclusion. Conventional techniques have been partially successful in enhancing the access and are not without challenges.

The paper provides Islam's perspective on financial inclusion. In this perspective, property is not a means of exclusion but inclusion in which the rights of those who are less able in the income and wealth are redeemed from those who are more able. Islamic finance, based on the concept of risk-sharing offers set of financial instruments promoting risk-sharing rather than risk-transfer in the financial system. Islam also advocates redistributive risk-sharing instruments such as *Zakah*, *Sadaqat*, *Qard-al-hassan*, etc, through which the economically more able segment of the society shares the risks facing the less able segment of the population. Such instruments of wealth redistribution are used to redeem the rights of the less able in the income and wealth of the more able. These are not instruments of charity, altruism or beneficence, but are instruments of redemption of rights and repayment of obligations. In addition, the inheritance rules tend to enhance access to resources to present and future generations of inheritors by way of distribution of wealth.

The authors argued that conventional modes of financial inclusion could be replicated through instruments of Islamic finance allowing risk sharing and risk diversification. However, even after availability of micro-finance and SME financing, financial exclusion may not be fully overcome. Therefore, one needs to utilize, Islam's instruments of redistribution where mandated levies, such as *Zakah*, provides means through which the idiosyncratic risks of the poor are shared by the rich as an act of redemption of the former's property rights in the income and wealth of the latter. Other recommended levies, beyond those mandated, such as *Sadaqat* and *Qardh Hassan*, too play the same role. They help reduce the poor's income-consumption correlation. In other words, the poor are not forced to rely on their low (or no) level income to maintain a decent level of subsistence living for themselves and their families.

The paper argues that institutionalizing the redistributive instruments as indicated above would require enabling environment, sound legal framework, and transparent collection and the distribution. Applications of financial engineering remaining within the limits set by the fundamental Islamic principles may lead to innovative ways to develop hybrids of risk-

sharing and redistributive instruments to enhance access to finance to promote economic development.

### **Mr. Mughees Shaukat and Dr. Abbas Mirakhor: Regime Uncertainty under interest rate based debt financing system**

Mr. Mughees Shaukat presented the paper, co-authored with Dr. Abbas Mirakhor, on regime uncertainty in the interest rate based debt financing system. The authors argued that the debt based conventional financial system is complex and breeds uncertainty. The global economy is suffering from a crisis of confidence, structural imbalances and subdued growth prospects. It has led to a growing sense of uncertainty that extends to the stability and sustainability of the international economic and interest-based debt financial regime. The continuing adverse economic and social consequence of the 2007/2008 crisis, as well as the failure of significant policy actions to elicit the desired response provide evidence that the global financial system nurtures complexity and ‘Regime Uncertainty’ that was also a major cause of the intensity and the duration of the ‘Great Depression’.

Mr. Mughees discussed contributions to the theory of complexity by well-known authors like Alan Turin, Edward Lorenz, Benoit Mandelbrot and Nasim Nicholas Talib, the author of famous “Black Swans”. There may be events with very low probability of occurrence but may have significantly large impacts; quite reminiscent of the ‘Butterfly effect’. The uncertainties in the global economy have lead to events and situation the effects of which could lead to chaotic global economy and contagion-riddled events of sovereign default. Hence, the survival of the interest based debt regime is becoming increasingly untenable. The authors argued that Islamic finance, with its core characteristic of risk sharing, might well be a viable alternative to the present interest based debt financing regime.

While discussing the Islamic alternative, the authors argued that Islamic financial system would be more stable than the conventional dominant system which is based on risk transfer and risk shifting. The sources of possible stability are the operational characteristics that remove major sources of volatility and instability. Among these characteristics are the following:

- Transparency, trust and faithfulness to terms and conditions of the contracts;

- Close relationship between finance and the real sector activities such that the rate of return to the latter determines that of the former;
- Asset/liability risk and value matching with coordinated maturity structure;
- Limitations on credit expansion and leverage - tied closely to the expected rate of growth of the real economy.

### ***Riba*, interest, trade profit and Perception of finance professionals about Islamic Banking:**

Prof. Dr. Ismail ÖZSOY, Dr. Zohra Jabeen, Dr. Muhammad Zaid Malik and Mr. Muhammad Hanif made presentations on the subject.

**Dr. Ismail ÖZSOY** presented a Paper on “Comparison of bank interest and *Murabaha* profit”. After defining interest and profit he asserted that banks’ interest based loans and Islamic banks’ *Murabaha* distinctively differ from each other and that *Murabaha* is a real trade mode to generate permissible profit margin for Islamic banks. This difference has been accepted by the Holy Quran itself (*Al-Baqara*, 2/275). An unavoidable deviation mostly occurs between the interest rates and the realized outcome. Therefore, interest can be identified with an absolute injustice for either side of the transaction; no matter whatever the interest rate -high or low, and whatever it is called -interest or usury. It is sometimes payer and sometimes receiver of interest who is exposed to this injustice and/or financial loss.

In Islamic finance, on the contrary, financial transactions need to be tightly linked to the dealing in goods and services; thus, any monetary or financial transaction necessarily corresponds to a commodity or service. While this process produces real economic value, it does not result in economic bubbles leading to severe bursts and devastating crises. In Islamic banks the income is earned through real economic activities and is divided on the principle of profit and loss sharing.

In *Murabaha*, commodity-for-money transactions take place. Profit in any trade including *Murabaha* is a positive income earned together with the community, that is to say, it is earned in return for addition to the total revenue of the community. This contribution is equally and justly shared between the parties. The fund providers are the partners in Islamic banking. *Murabaha* transaction is legitimate because the bank first acquires the asset and assumes certain risks in the process between purchase and onward sale. It increases the time value of commodity

thanks to the immediate delivery to the customer on credit, who otherwise could get it months or years later with his regular savings. Hence, the additional payment made by client, which makes up the profit of the bank, is in return for the increase in the value of this commodity thanks to its immediate usage. Further, by way of this transaction, the relevant commodity is produced right now and is added to the national income; otherwise its production would be postponed to a later time when the client's savings are enough to buy it.

Dr. ÖZSOY concluded that while there is not any direct and balanced link between the interest income and the result of the business at which the loan amounts are used, there exists a direct and balanced connection between the profit of *Murabaha* and the increase in the economic value of the commodity due to this contract. As against the interest based loans that distort the balance in the economic relations, *Murabaha* maintains the balance and the stability in the social relations is cleared of bubbles that mankind suffers now and then. *Murabaha* is definitely an acceptable mode of finance, even if it makes up the whole of the Islamic banking transactions. It is a trade permitted by Quran, not loan with interest, forbidden.

**Dr. Muhammad Zaid Malik** presented a paper on “Creation of Money and Credit and the Problem with Interest in Present Day Economics” The paper is actually based on ‘The Problem with Interest’ a book by a well-known author on Islamic banking, Mr. Tarek El Diwani. The paper argued that all the evils of present day economics and finance that are hidden behind the valueless paper money are caused by the institution of interest. It suggested the system of profit and risk sharing through which the economy may get its natural strength on national and international levels. He discussed the evolution of banking system and the creation of money and credit in it. The problem started with the system of cash reserve ratio instead of full backing for financing on the basis of interest. If money is used to make both political and monetary profits at the cost of the people, it cannot simultaneously fulfill its intended role as medium of exchange and lubricant of economic life. “An individual can be arrested for ‘manufacturing’ money in his own home but the commercial banking system is given the full protection of the law in doing what amounts to the same thing. There is no justice in this”, he argued.

The author proposes to adopt the gold standard. The Islamic banking and finance system should rely upon profit-sharing and the eradication of fractional reserve banking. It allows investment and other financial activities to continue in line with the demands of both modern life and the

principles of Islam. In conjunction with a precious metal currency standard, Islamic system of finance would form the basis of a fair and stable wealth creating economy. If interest based system is replaced with the Islam's risk sharing system, economic efforts would be directed towards wealth creation and away from wealth transfer to the rich. The entrepreneur would share its profit with the financier according to mutual good fortune, not an arbitrary rate of interest. The practice of leverage would largely disappear and small scale enterprises and businesses would be encouraged to benefit of the human society as a whole.

### **Prof. Dr. Asad Zaman: Conventional Economics in Islam's perspective**

Prof. Dr. Asad Zaman presented a Paper on Islam verses Economics. The learned scholar contended that real solution to the problems of human beings is simple living and spending for fulfillment of needs of the deprived and the needy in all societies. The conventional economics is based on the science of scarcity, consumer sovereignty and accumulation of wealth / love of money as a possession. Economists have completely mistaken the nature of human beings and the nature of economic problems that we face. Based on the wrong idea that people always know what is best for them, economists fail to differentiate between needs and wants whether they are genuine or contrived, while the reality is that wants can never be fulfilled.

Economics tends to maximize profit and consumption by the individuals without any care of the impact on other fellow beings and the human society as a whole. The author has provided empirical (both cross-sectional and time series) evidence to prove that even growth does not remove scarcity. It has led to massive increase in inequalities, with the rich getting richer and the poor getting poorer. This has happened both within countries and also globally, across countries. All this does not fit in the framework of Islam in which development refers to spiritual development of the human beings.

Islamic teachings related to economic affairs contain far greater wisdom than what is currently being taught at vast majority of economics departments in leading universities throughout the world. The idea that man can do whatever he wants with his property is forcefully rejected by Quranic teachings. Brotherhood, mutual cooperation and sense of accountability to Allah (SWT) are part and parcel of the Islamic way of life. The main institutions in this system are *Zakah*, *Waqf*, *Takāful* and *Shirkah*. "Deceived by the apparent prosperity of the West, we seek



advice from western experts to learn how to progress like them”, he lamented. Islamic economics is transformative – we must apply the teachings of Islam and make attempt to change the world in the directions indicated by the Quran.

Presentation by the learned author was impressive as a whole. Some liked very much. To most of the participants, the title of the paper should have been “*Islam versus Modern Economics*” not “*Islamic versus Economics*” because economics *per se* is part and parcel not only of human life, but also of *Deen*. To some others, it was a good sermon that no Muslim denies, but the paper does not keep in view the ground realities of life, economics, economic agents and the economies.

### **Mr. Munir Ahmed: Islamic Banking and the Concept of Narrow Banking for Resolving the Crises**

Mr. Munir Ahmed, former Chief Manager of the SBP Lahore, spoke on the topic of “Islamic Version of Narrow Banking”. According to him, ‘Narrow Banking’ is currently the much discussed about topic in the Western banking and financial world which means limiting the role and scope of working of banks so as to save the real sector from the destruction caused by the finance ridden banking business.

The idea of Narrow Banking dates back to the banking crisis of Great Depression of 1930s when a group of economist, mostly, affiliated with the University of Chicago, proposed reform in banking structure– known as Narrow Banking. They advocated equity-based financial system thereby separating creation of money from creation of credit. It meant 100 per cent reserve backing of bank deposits thus limiting banks to invest in safe assets like Government securities. It influenced the policy makers of Glass Steagall Act of 1933 to separate commercial banks from investment banks. Later on, American economists like Irving Fisher, Frank Knight and Milton Friedman also supported this idea but it could never be considered seriously for implementation because the interest-based banking system had gained too much strength and popularity in the later part of the 20th century particularly after the demise of Communism in the Eighties. Rather, the Glass Steagall Act was repealed in 1999 in the name of financial liberalization which opened gates for banks to take full panoply of risky assets in the 21st century ultimately creating a meltdown in 2008, much worse than the Great Depression of 1930s.

According to the author, opinion about adequacy or otherwise of the concept of Narrow Banking is divided. One group aims to improve the regulation and supervision of the banking system while maintaining the



existing status quo, while the other urges to completely change the complexion of the current banking business by drastically limiting their role. He emphasized that the main argument in the favour of Narrow Banking relates to the “Casino Effect” which gradually creeps into the current banking structure ultimately converting every credit boom into a credit bust. Western people have also lost their faith in the viability and validity of the current banking system believing that it ultimately gets converted into gambling which destroys the real sector after every 40 or 50 years. The sub-prime mortgage crisis of 2008 is a classic example; banks provided huge sums of money to sub-prime borrowers. In order to trap the sub-prime borrowers they were asked to pay “interest only” for the initial period. It resulted in the “Casino Effect” to cause irreparable harm to the global finance. It has become a way of life in the West. There is a general outcry for ring fencing the existing banking and financial business to prevent frequent banking collapses. But, playing with money of others without any restrictions is like a Free Fall Financial Fun for Western bankers and financiers, which they do not want to leave at any cost. That is why, the above idea is highly debatable and not likely to be implemented fully.

Islamic model of narrow banking is based on five pillars/ring fences strong enough to take away “Casino Effect” from the banking business. Islamic economic doctrine provides a complete framework for economic enterprise thereby ensuring a socio-economic and ethical balance in the society. Owing to prohibition of lending on interest and artificial sale/purchase of goods and services, real sector dominates while economic growth depends upon the robustness and dynamism of the real sector, not the financial sector. After the collapse of Communism in 1980s, the economic leadership of the entire world was entrusted to the Capitalism taking it as the sole economic system to provide economic prosperity around the globe. There is need to take away the speculative and synthetic business from the working of banks and this is possible by following the principles of Islamic economics, business and finance in letter and spirit. Interest-based narrow banks working under capitalism would remain vulnerable to “Casino Effect”.

### **Mr. Sajjad Zaheer: The Transmission of Monetary Policy through Conventional and Islamic Banks**

The paper on the subject was contributed by M/s Sajjad Zaheer from the University of Amsterdam, Steven Ongena, CentER-Tilburg University and Sweder J.G. van Wijnbergen, University of Amsterdam, The Netherlands. It was presented by Mr. Sajjad Zaheer through Skype.

The authors have investigated the differences in banks' responses to monetary policy shocks across bank size, liquidity, and type, i.e., conventional versus Islamic, in Pakistan between 2002: Quarter III to 2010:Quarter 1. According to the study, Islamic banks are equivalent to small banks in terms of asset size and as Islamic banks use the conventional interest rate as a key benchmark, one can expect that the bank lending channel will also operate through Islamic banks. They have defined large bank as a bank with more than two hundred billion PKR (around 2.5 billion US dollar) in assets. According to this definition there are six large banks, representing around sixty percent of all banking assets. They have labeled the remaining banks as small banks. By assets, all Islamic banks are small banks.

The difference of philosophy and principles of Islamic finance may make the transmission of monetary policy shocks through the Islamic segment of the banking sector more potent than in the case of conventional banks. The contractual and motivational features on both their liability and asset sides may allow Islamic banks to shield themselves from monetary policy shocks. Consequently, whether Islamic banks transmit monetary policy differently than conventional banks is an empirical question the paper aims to address.

Pakistan may be one of the few countries in the world where both well-developed conventional and Islamic banking sectors have co-existed for a considerable period, formally since 2002 when Islamic banking was re-introduced in Pakistan. Out of 40 banks that grant business loans, six are Islamic. The growing inflow of remittances and FDI after 9/11 caused an appreciation in the local currency, the PKR, against most other currencies. The purchase of dollars by the SBP caused the money supply to expand, despite attempts to sterilize the increase in money supply through the open market sales of government securities. The interest rate on government securities dropped to as low as 1.27 percent due mainly to the excess liquidity. The monetary policy started to tighten after 2005 in response to inflation, inexorably following the relentless monetary expansion during the preceding years.

Islamic banks seek funding through transaction deposits (like current accounts deposits) and investment accounts. Their financing is mainly based on the KIBOR which is largely determined by the rate on short-term government securities such as the three-month Treasury bill, which is set in fortnightly auctions. As the fixed return modes cover a large part of the total financing provided by the Islamic banks, for the estimation of the

strength of a lending channel, the 3-month Treasury bill rate can be used as an indicator of the monetary policy stance.

Tight monetary policy decreases the loan growth of small banks but may actually increase credit granted by large banks in the short run. They found that following a monetary contraction, small banks with liquid balance sheets cut their lending less than other small banks. In contrast large banks maintain their lending irrespective of their liquidity positions. Islamic banks, though similar in size to small banks, respond to monetary policy shocks as large banks. However, if there are (1)  $\pi uk-k$  issuance that can be used as a monetary policy indicator for Islamic banks, (2) more investment opportunities available for Islamic banks, (3) an efficient Islamic interbank market, and (4) a competitive Islamic banking industry, then the credit channel through Islamic banks may start gaining in potency to the extent that some Islamic banks remain small and hence face funding constraints.

### **Mr. Saleemullah: Central Bank as a facilitator for Liquidity Management and Investments by Islamic Banks**

Mr. Saleemullah, Director of the Islamic Banking Department of the State Bank of Pakistan made presentation on liquidity management framework that the Central Bank intends to introduce for facilitating Islamic Banking Institutions (IBIs) in Pakistan.

Liquidity management has been more challenging for Islamic financial institutions compared to their conventional counter parts due to lack of *Shari'ah* compliant investment instruments. The growth in financing and investment avenues for IBIs has been significantly lower than growth of their deposit base largely due to difficult business and economic environment/conditions, their relatively lower risk appetite and limited product suitcase available to them. As almost all IBIs have liquidity surplus, the opportunities for placement within the industry have also been very limited. IBIs have been using commodity *Murabaha* to place surplus funds with conventional banks. Such placements have been controversial and are a major source of reputational risk for the Islamic banking industry in the country.

The SBP as central bank is in the process of developing a comprehensive liquidity management framework (LMF) for Islamic banks which provides mechanism and measures for development of interbank Islamic money market, *Mudaraba* based placement facility with the central bank and the (alternative to) '*Lender of Last Resort*' facility. IBIs having surplus liquidity which might not be placed in the interbank

Islamic money market would be allowed to place the liquidity with the SBP on *Mudaraba* basis. SBP will remunerate these deposits based on the earnings of its *Shari'ah* compliant investment portfolio. Similarly IBIs will also be allowed to withdraw from their placements when need arises.

In order to facilitate development and functioning of a vibrant Islamic money market, he proposed the following mechanism:

- a) The IBIs will place their excess liquidity with others IBIs only and placement with or exposure on conventional banks and financial institutions through any mode including Commodity and  $\text{ṭukḥ}$  *Murabaha* will not be permissible;
- b) The placements between the IBIs will be based on clean placement limits or other agreed arrangements between the IBIs;
- c) The IBDs of conventional banks will access the interbank Islamic money market to meet their short term funding needs. The IBDs however, can obtain funds from their head offices for maturities of one year and above.
- d) SBP will also facilitate the industry efforts for developing standardized contracts and achieving *Shari'ah* harmonization;

The above suggested arrangement will also translate into development of Islamic Interbank Offer Rate (IIBOR) that would represent the weighted average expected rate of return by IBIs on the placements in the interbank Islamic money market. To develop the *Shari'ah* compliant portfolio, SBP will have to maintain a portfolio of *Shari'ah* complaint investments to allow IBIs to place surplus liquidity with it that could not be placed in the interbank Islamic money market. The portfolio may be built by:

- (i) SBP subscribing to GOP  $\text{ṭukḥ}$  to be issued exclusively for SBP
- (ii) SBP acquiring GOP  $\text{ṭukḥ}$  issued for IBIs to the extent the same is undersubscribed  
(Both above options will also involve simultaneous retirement of treasury bills of an equivalent amount to neutralize any impact on market liquidity – leading to transformation of a portion of conventional public debt into *Shari'ah* compliant investments).
- (iii) Outright purchases from IBIs to meet IBIs' emergency liquidity needs

The initial size of the  $\text{ṭukḥ}$ , to be issued exclusively for SBP (option (i) above), envisaged based on the expected liquidity surpluses in the

interbank Islamic money market is Rs.250-300 billion, which is 20-25 percent of the MTBs presently outstanding in SBP books. SBP will undertake the structuring and the documentation work and the *Shari'ah* approval will be sought from its *Shari'ah* Board.

The Pakistan Domestic  $\pi uk-k$  (PDSC-the fully owned SPV of MoF/GOP) will issue the  $\pi uk-k$  for raising funds from SBP and will use these funds to buy the assets from GOP. PDSC as the trustee will hold the assets and then lease back the same to GOP for its own use or that of its nominee for agreed maturity of the  $\pi uk-k$ . The rental to be paid semiannually by GOP to SBP will be benchmarked against the latest weighted average yield of 6 months MTBs. On maturity the GOP will repurchase the asset from PDSC as per the purchase undertaking given by GOP at the time of the  $\pi uk-k$  issuance and will use these proceeds to pay off the  $\pi uk-k$  holder (SBP). A new GOP *Ijarah*  $\pi uk-k$  issue could be made based on the latest valuation of the same underlying asset or some other suitable asset as the case may be to be subscribed exclusively by SBP. SBP may also take up any GOP  $\pi uk-k$  issue to the extent the same is undersubscribed by the market. This will also require simultaneous retirement of conventional MTBs to neutralize any impact on market liquidity. Besides, SBP may also purchase GOP  $\pi uk-k$  from IBIs facing serious liquidity shortages.

The *Mudaraba* based placements by IBIs will be remunerated based on the operating performance of SBP *Shari'ah* compliant investment portfolio. In case of liquidity shortages, the IBIs will first access the interbank Islamic money market to meet their temporary liquidity needs. In case they are unable to obtain the desired liquidity from the market, they may partly or fully withdraw their placements with SBP.

Mr. Saleemullah also discussed the placement and the withdrawal mechanism which is almost similar to the procedure of normal savings accounts of depositors being maintained by IBIs. In other words, SBP will be working as an Islamic bank for IBIs which would be off and on depositing and withdrawing funds from their savings accounts with SBP (as alternative to LORL), while the SBP will be managing a pool of *Shari'ah* compliant investments and assets to remunerate such placements. The placements may even be made just for one day or overnight and will be SLR eligible. Profit distribution will be made on the basis of 'Profit Sharing Ratio' (PSR) between SBP & IBIs and *Mudarib* share while the profit will be calculated on daily basis and will be linked to performance of the pool. This will be managed through suitably fixing the *Mudarib*

share. To discourage the banks using the placement facility more frequently, the ratio for effective return on the placements will be 2-3 percentage points below the IIBOR. The SBP Islamic finance portfolio and operations will have separate books of accounts and financial statements to be consolidated in the SBP financial statements.

### ***Sharī'ah* Issues, *Sharī'ah* Compliance, Governance and internal *Sharī'ah* Compliance in Islamic Banks**

Presentations on the subject were made by Dr. Imran Ashraf Usmani, Dr. Muhammad Qaseem, Dr. Muhammad Tahir Mansoori and Mr. Omar Mustafa Ansari.

**Dr Imran Usmani** observed that the main purpose of establishing a strong *Sharī'ah* control system for IFIs is to ensure that the objective of *Sharī'ah* compliance of their business operations is achieved leading to fulfillment of the ultimate *Maqāsid-al-sharī'ah* i.e. promoting justice, fairness and safeguarding the human beings and their belongings. All stakeholders like Islamic banks, regulators, *Sharī'ah* scholars, auditors, savers and the fund users have to play their role in ensuring the *Sharī'ah* compliance. *Sharī'ah* control systems means creating environment within the institution that supports *Sharī'ah* compliance through introduction of proper reward & punishment system. It also involves development and implementation of proper procedure and flow of business transactions, including particularly:

- (i) Correct evaluation of client's need by the bank
- (ii) Offering suitable relevant product to the client
- (iii) Proper *Sharī'ah* related risk assessment
- (iv) Development of client/industry related transactional process flow
- (v) Continuous support to client during execution of transaction(s)
- (vi) Post facto *Sharī'ah* audit followed by rectification (where possible) and / or purification of Income
- (vii) Continuous improvement in systems through implementation of new *Sharī'ah* compliance guidelines based on experience and related best practices.
- (viii) Focus on *Sharī'ah* related training & development of the staff with focus on *Sharī'ah* issues.

Regulators may also need to establish infrastructure that supports *Sharī'ah* compliance and introduce proper *Sharī'ah* risk management system that gives proper flexibility. It must not leave the controls to be developed by

the market players and introduce reasonable control while maintaining the balance. The IFIs' customers may be provided education and orientation with regard to the principles and processes of Islamic finance products. Joint efforts of the *Shari'ah* Scholars coupled with operations training of the staff and input from Audit/Compliance experts would definitely pave the way for the establishment of a practical and effective *Shari'ah* compliance mechanism.

**Dr. Muhammad Qaseem** discussed the issue whether Islamic banking is confined to *Musharaka* and *Mudaraba*. There are people who are against Islamic banking in any form, while there are others who accept the idea in principle, but they claim that Islamic banking can be carried out only on the basis of *Mudaraba* and *Musharaka*. Dr. Qaseem analyzed the arguments of the latter group, which, *inter alia*, include: i) Sale Modes are not *Shari'ah* compliant; ii) *Musharaka* and *Mudaraba* lead to real economic activity and equitable distribution of wealth, and iii) Islam does not allow creation of debt, which is what sales on deferred payment lead to. He concluded that there is no *Shari'ah* ground for such a claim. For the purpose of analysis, he posed the following questions:

- (i) Why should one enter into only investment contracts?
- (ii) Is *Musharaka* or *Mudaraba* with every one possible and prudent? Shall every one accept you as a partner?
- (iii) Different people have different capabilities and skills;
- (iv) Should a fruit seller sell textile products and other goods also, or should he even deal in all kinds of fruit?
- (v) If this argument is correct, then it shouldn't be Islamic to trade in one particular item only
- (vi) A vendor may cater to others' needs within his capacity
- (vii) Islamic banks are trade and investment houses, not investment companies only.

While observing that *Musharaka* and *Mudaraba* can lead to equitable profit distribution only if the profit calculation and distribution formula is realistic and commensurate with the level of risk, he identified the following reasons for limited exposures of IBIs to *Shirkah* based business on assets side:

- (i) The nature of banking and bank: an intermediary and not entrepreneur;



- (ii) Bankers are averse to high risk; regulators also do not allow exposure to high risks;
- (iii) In many cases, regulations effectively treat IBIs like conventional banks (deposits as liabilities, pricing, financial statement);
- (iv) No one is willing to test new products due to taxation, accounting policy, risk level and legal issues;
- (v) Clients demand products which produce commercial results similar to those of conventional products with no taxation, pricing or accounting implications;
- (vi) In case of breach or negligence, burden of proof is on the *Rabb ul Mal* and in that case also *Mudarib* is liable for the capital only;
- (vii) Judiciary is not in position to dispense speedy justice, nor understands the nature of Islamic contracts;
- (viii) Taxation and trust issues: client would not disclose real profit, depriving bank from its real share of profit;
- (ix) More risk, but no proportionate reward (same pricing) due mainly to the parallel functioning of the interest based and Islamic system.

Dr. Qaseem argued that each *Sharī'ah* product serves a specific purpose, and as such Islamic banks need both sale-based modes of finance as well as investment modes of finance. Islam as a comprehensive religion offers solutions for every situation, with every contract fulfilling any genuine need. *Mudaraba* and *Musharaka* are for those who have skills but do not have enough funds or those who would like to work against a share in profit rather than a salary. But the question is: Do only *Musharaka* and *Mudaraba* lead to real economic activities? Certainly no! *Ijarah* and sales like *Murabaha*, *Salam*, *Istisna* also lead to real economic activities. Further, sale for supply of goods and assets to various markets and segments of a society is part and parcel of the production process. One may launch a *Mudaraba* company for any specific sector(s) or sale like *Salam* business like a *Mudaraba* company for cotton trading.

He further examined the practical issues impeding growth of the *Shirkah* based investment modes and suggested various solutions to increase the volume of such transactions. He also discussed the risks involved in application of *Shirkah* based modes and suggested the following to possibly mitigate the risks:

- (i) Raising trust level and dealing with selective customers;



- (ii) Submission of professional feasibility studies for the projects;
- (iii) Burden of proof may be on the client if the result is lower than the feasibility projections; if not proved, client may indemnify the bank;
- (iv) There should be efforts for gradual exposure, allowing IBIs to take some risks for PLS based financing gradually
- (v) New regulations to treat deposits as real *Mudaraba* deposits and to regulate *Mudaraba* and *Musharaka*
- (vi) Special Banking courts, and special courts for Islamic banks
- (vii) Tax exemption for five years in case the entrepreneurs avail of the *Shirkah* based financing from Islamic banks;
- (viii) Establishment of Investment Departments in IBIs with expertise in some of the main trade and investment activities
- (ix) Proportionate reward/ return to the bank - commensurate with the business risk taken; should not be tied to any interest rate benchmark
- (x) Management of *Musharaka* can be given to a third party, or an independent party may be made as a supervisor/consultant
- (xi) Restricted *Mudaraba* should be used and key and policy decisions should not be made without consultation with *Rabb al Mal*
- (xii) Periodic accounts of the project should be submitted to the bank
- (xiii) Cash flow should be controlled through opening an account for the project in the bank, no other account should be used for the project
- (xiv) Adequate securities should be obtained to protect the interest of the bank against misconduct, negligence and breach of the contract;

**Dr. Muhammad Tahir Mansoori** presented a paper on the crucial issue of the need for and use of *Ijtihad* as a tool to find solutions in the context of modern Islamic banking and finance and achieving the *Maqāsid-al-sharī'ah*. Many Muslim scholars, Arab and non-Arab, have stressed the need to revive the process of *Ijtihad*, or the interpretation of Islamic law and recognize it as an Islamic science to enable Muslims of the 21st century to preserve their faith and apply the true tenets of Islam to their present-day needs. However, to confront the new challenges and energize the process of *Ijtihad*, Muslim states need to encourage the competent scholars to conduct *Sharī'ah* studies, reform the educational system and

upgrade academic Muslim councils. Only then can a more educated interpretation be adopted to effectively serve the needs of the contemporary Muslim society.

Dr. Mansoori lamented that the religious scholars terminated the practice of "*Ijtihad*" 500 years ago and adopted a more conservative and negative stance toward innovation and adaptation. When the door of "*Ijtihad*" was closed, a consensus was established that there would be no more independent reasoning in religious law and that all Muslims should follow the interpretation of the doctrine by the scholars of that era once and for all. But, we live in a very different world today with different economic tools and patterns, and Muslims need to find solutions to contemporary problems that did not exist in the past. Thoughtful religious scholars today assert that "*Ijtihad*" should remain an essential part of the Muslim tradition even if others disagree. The rigid interpretations of Islamic law by jurists of the past belonging to different juristic schools may no longer provide suitable solutions to the challenges facing the Muslim world today.

During the 8th and 9th centuries (AH), the science of "*Ijtihad*" was developed by progressive religious scholars who were keen to understand and apply Islamic rulings to changing realities. After that there were not many capable scholars willing to apply the *Sharī'ah* rules to emerging social, economic and scientific developments. However, today we are finally witnessing concerted efforts to revive "*Ijtihad*" and address some of the challenges of the 21st century. For example, the economic and social reality of contemporary life has created many complicated problems for Muslims living in the United States. They had financial and social difficulties and needed direction from any Muslim religious authority. Ultimately the Councils of Muslim Scholars in Europe and the United States decreed that it was permissible for Muslims residing in the West to buy houses with mortgages and to pay interest on the loans. Although this was contrary to *Sharī'ah* law that forbids charging and paying interest, the Muslim scholars gave their consent declaring that it was a necessary rule for Muslims to meet their financial and social needs in the West. Meanwhile, Muslim countries are working hard to train more *Sharī'ah* experts who are needed to define *Sharī'ah*-compliant rules and support Islamic finance.

However, Muslims should be wary of people with limited education who have reopened the doors to "*Ijtihad*" and also of the scholars who have taken a more rigid direction. There is a need for more trained scholars for juristic deduction so as to draw more accurate and logical

conclusions. No one should be allowed to give a ruling without an understanding of the events surrounding a Qur'anic revelation or derive laws in matters with no explicit judgment in the texts, or matters which cannot be defined or explained. Shatbi has stipulated two conditions for *Ijtihad* namely a thorough understanding of the higher objectives of law and the ability to draw inferences. We also need to establish a stricter code to identify or accept a *Hadith* as authentic.

Reforming the Muslim educational system is also important. Students should be exposed to the four schools of thought to make them inclined to accept the stance that is nearest to the Holy Quran and *Sunnah* as also amicably resolves the present days' problems. Muslim scholars in the past used to say, "*This is my opinion, and I could be wrong; and this is someone else's opinion, and he could be right.*" The 'blind followers' must understand that no one has absolute authority on the truth.

Another need of the hour is empowering academic Muslim councils and upgrading the qualifications of their members. There are currently several national and international councils of jurisprudence for interpretation of the *Sharī'ah* rules. However, they must work together collaboratively to be more effective. They should include both men and women who are professionals from all fields of life. Such councils should rise to the expectations of Muslims, make judgments and formulate legislation on issues related to the status and responsibilities of women, Muslim lifestyles, Islamic economies, the situation of Muslims in non-Muslim societies, the relation between the Muslims and the West and so on.

According to Dr. Mansoori, there is controversy in the modern Islamic jurisprudence as to consider *Maqāsid* in *Fatwa* and legal reasoning. He observed that *Maqāsid* had never been neglected in legal reasoning in classical jurisprudence and analyzed as to how the institution of *Ijtihad* has affected the development of Islamic finance. He discussed this aspect in the modern jurisprudence for i) Use of *Tawarruq*, ii) Modern rulings on paper currency note, exchange of monetary units or even *Salam* in currencies, iii) Fixed rate of return in *Mudarabah* and *Hiba* to depositors, iv) Disposal of *Salam* commodities; and v) *Sharī'ah* screens for permissible stocks. He indicated a number of *Sharī'ah* violations in this regard and observed that *Maqāsid* have not been kept in view while issuing *Fatawa* in this regard.

**Mr. Omar Mustafa Ansari** presented a Paper on *Sharī'ah* governance and internal *Sharī'ah* compliance in Islamic Banks. He observed in the

outset that Islamic finance is, and should be meant as, a derivative of Islam, not *Fiqh*. Like Islam which means surrendering one's ego, will, thoughts, actions, and the conduct of life, to the guidance of Allah Almighty, Islamic finance should mean doing business in line with *Sharī'ah*, in all its aspects be it the legal contracts or the operations and dealings. However, the IFIs, throughout the world, are focusing more, or rather "mere" on *Sharī'ah* compliance in letter with regard to the permissibility of the transaction. In most of the cases, even in letter compliance is limited to the bunch of papers, and cannot be evidenced in the operations and execution processes. This is resulting in a situation that Islamic finance is rather turning into a tool of just mimicking or replicating the conventional financing and investment transactions, taking shelter in the garb of various provisions or, at times "loopholes" available in *Fiqh*, instead of focusing on the core and essence of the Islamic principles of business and dealings.

Mr. Omar, a well respected *Sharī'ah* auditor, practicing accountant and advisor associated with an audit firm of repute, addressed all core issues relating to governance and internal controls for the purpose of not only *Sharī'ah* compliance in the design and execution of transactions, but also with regard to some additional fiduciary responsibilities as working partners and under agency relationships with various stakeholders, employee relations in line with *Sharī'ah* and above-all, the devout behaviour in every activity and business that an IFI might carry out. The main topics covered by him, keeping in view the respective standards issued by AAOIFI and IFSB and the directives issued by the SBP, included the concept and common models of corporate governance, suitable model of corporate governance for Islamic finance and the differences that it must have, *Sharī'ah* governance mechanism and areas; role, responsibilities and reports of *Sharī'ah* advisors and *Sharī'ah* boards, independence of *Sharī'ah* boards / advisors, internal and external *Sharī'ah* audits, *Sharī'ah* ratings and establishing control frameworks for effective *Sharī'ah* compliance.

### **Islamic Banking Development and Review of Islamic Banking Practices in Pakistan**

Prof. Dr. Khawaja Amjad Saeed, Mr. Muhammad Hanif and Dr. Zohra Jabeen made presentations on Islamic banking practices and Islamic banking expertise in Pakistan. M/s Furqan Ahmad and Ahmed Ali made presentation on the challenges in product development in Islamic banking.

**Prof. Dr. Khawaja Amjad Saeed** reviewed the process of Islamic banking vis-a-vis conventional banking in Pakistan. While it is the constitutional responsibility of the State (GoP) to eliminate *Riba* as early as possible, practical efforts were made during 1980s to introduce 12 Non-Interest Based (NIB) modes of financing. However, 1990s was lost in battle in courts till the NIB system was declared un-Islamic by the superior courts. The first decade of 21st century has also seen a slow progress. Conventional and Islamic Banking are both operating in parallel. Such a situation also exists in Malaysia and Indonesia with the hope that conventional banking will be tapered off for over a period of time and will be replaced by Islamic banking. State Bank of Pakistan is playing a positive and steady role in the introduction of Islamic banking in Pakistan.

The paper presented a quantitative analysis of the comparison of conventional banks and Islamic banks in Pakistan by presenting various indicators e.g. branch network of stand alone branches, financing, products offered, innovations introduced, sectoral analysis of financing, non-performing loans, investment strategies followed, total assets and comparative study of deposits, investment and financing and various other performance indicators.

Islamic banking branch network exists in 73 out of total about 100 districts in the country. There is need to widen the network of branches in every district, tehsil and union council of each Province of Pakistan, particularly in rural areas so that those who are desirous of opening their accounts and also undertaking their operations in Islamic Banking modes can really benefit out of it. He highlighted an interesting point that 64% of Islamic banks investments had been made in Federal Government Securities (ٹوک-ٹک). This represents risk free principal with assured and guaranteed rate of return. Only 1% was invested in equity shares, may be, for the reason that currently trading on Stock Exchanges in Pakistan is slow, available floats of blue chips are small and except for a few, shares prices show declining trends. He observed that highly specialized and magnificently qualified professionals are needed to guide IBIs to help develop their investment strategies.

While forecasting the HR needs of Islamic banking, he observed that 15,000 people are needed in the country in next five years. Universities in Pakistan must respond to this challenge. Curricula must be changed in management education. High Education Commission should provide motivation in this respect for universities to positively respond.

According to the author, one may possibly conclude that Islamic banks are performing better compared to conventional banks in Pakistan. He suggested an investment and financing portfolio for Islamic banks focusing on the agriculture sector, micro finance, SME and housing finance. He urged the policy makers to stay committed for promoting Islamic banking and for elimination of interest ultimately from the Pakistan's economy

**Dr. Zohra Jabeen** presented results of a survey on awareness of Islamic banks' personnel about *Murabaha* financing steps. The study used a questionnaire-based survey of the employees of Islamic banks' branches based in Peshawar. The banks included Bank Islami Ltd, Meezan Bank Ltd, Dawood Islamic Bank Ltd and Dubai Islamic Bank Ltd.

*Murabaha* as a credit sale has been extensively used in the Islamic financial institutions (IFIs) to meet the requirements of the business's day to day needs. Deferred *Murabaha* financing is not the same as loan financing of commercial financial institutions. There is a certain sequence of steps to be followed in order to steer clear of loan financing. For IFIs to utilize deferred *Murabaha* tool in their financing activities, the awareness about these steps is utterly necessary for their personnel handling deferred *Murabaha*. The study highlights the awareness by using descriptive statistical tools. It shares some interesting results which have important implications for the Islamic Financial industry in general and Islamic banks in particular.

The survey results show that quite a number of Islamic bankers have very low level of knowledge about *Murabaha* rules and process. For example, 12% of the respondents answered that *Murabaha* price is not predetermined while 4% did not respond even. While *Murabaha* documents cannot be signed simultaneously as each of the document should be signed at specific situation and at different point of time, only 58% of employees responded correctly while the rest said that all the documents related to *Murabaha* could be signed simultaneously. Similarly, by including some other aspects of *Murabaha*, the author concluded that in *Murabaha* application, carelessness as well as lack of knowledge can prove to be harmful for the individual IFIs as well as the Islamic financial industry. This survey may be considered as a step in direction of assessing the correct application of the practical products of Islamic banking, and in giving an impartial view of the state of affairs, in order to improve the efficiency and knowledge base of the Islamic financial industry.

**Mr. Muhammad Hanif** presented results of a structured study on perception of key finance professionals about Islamic banking practices in Pakistan. Although a marvelous growth has been witnessed since 2003, however, it is not as per potential, given the above 90% Muslim population. Conventional banking and faith cannot go side by side for Muslims (and also for Christians and Jews) according to the revelations. For a Muslim majority society, it should be an opportunity to save the faith as well as achieve development; then why Islamic banking is only 7% of market share? There could be three possible reasons for this: i) The system is unable to run the economy; ii) People are secular and do not accept religious interference in worldly matter, or iii) people perceive that it is not Islamic banking and deception is being committed under the banner of Islam?

Information was collected through questionnaire from about 100 professionals - all well qualified in finance (mostly professionals and in some cases Universities' teachers). The study compiled very useful information and concluded the following:

- (i) Although market correctly perceives the theoretical frame work of Islamic financial system, the practice of IFIs working in Pakistan is not above board and there are many doubts in this regard.
- (ii) A large number (44%) are of the view that there is no difference in commercial and Islamic banking which should be alarming for policy makers.
- (iii) Majority endorsed the parallel working of Islamic and conventional banking; and 75% of respondents were confident about the bright future of Islamic financial system in Pakistan.
- (iv) A small number (27%) perceive failure of interest free economy in modern business frame work.

For promotion and purposeful application of Islamic financial system, the survey participants urged the policy makers and practitioners to pursue a plan of actions covering general awareness among masses; positive role of regulator; participation of all factions of society; increasing use of profit and loss sharing modes; Sharia compliance in operations; capacity building of human resource practicing Islamic financial system and general uplift in ethics of society.



**Challenges in Product Development:** The presentation on product development, originally to be made by Mr. Furqan Ahmad of Abu Dhabi Islamic Bank was made by Mr. Ahmed Ali of Meezan Bank as the former could not manage to come due to some logistics problem. Effective product development creates synergy between the customers and the IFI's and thus assists the IFI's in better understanding the needs of its customers. A satisfied customer is often a repeat customer and a great source of referrals. Product Development is an integral component in the quest to serve the customer. The main challenges in this regard include:

- Education, awareness, training & R&D services
- In a big picture, Skill Set of product development team and utilization of tools;
- To move from a *Sharī'ah* confirming Business to a *Sharī'ah* based business;
- *Sharī'ah* issues and availability of the structures and collaterals
- The Alignment of business sense with *Sharī'ah* Board
- Mind set of the management ... Is it Business oriented & *Sharī'ah* focused
- IT infrastructure
- Product structuring issues

The biggest challenge for Product development in Islamic Finance is to strike a balance between commercial effectiveness of the offering, its merit on the *Sharī'ah* compliance scale and the ability to capitalize on its inherent innovation. For instance, the savings pattern, preferences and risk profile for a young bachelor investor is very different from that of a relatively old retired couple, and yet *Sharī'ah* compliance and commercial effectiveness is a common expectation from the product. Hence, meeting the expectations of the customers is the real challenge. As a step further, the onus is on this young industry to deliver over and above the expectations and overcome these challenges.

Mr. Ahmed Ali indicated the current areas of research which include:

- *Sharī'ah* Compliant Islamic finance window at SBP
- Islamic Long Term Finance Facility for Exporters with SBP
- Islamic Rate Benchmark (IIBOR) for the Industry



- Bai *Salam* for the farmers (initiated by the Govt. of the Punjab)
- Short term  $\text{ٲuk}^{\text{H}}$  as an alternative for T-bills
- Focus on *Musharakah* based transactions
- Islamic micro finance products

Potential customers love to take products and services which meet their requirements, and designing a single product that fits everyone's requirement is never easy and realistically not possible. While concluding, he recommended the following:

- Islamic banking is a globally accepted reality and an ethically & economically better way of banking.
- Islamic alternatives of banking products can be effectively developed for all types of genuine needs of the businesses
- There is a need for more focused research and innovative product development. *Sharī'ah* scholars, bankers and professionals need to coordinate more frequently to find solutions.

### **Potential, Issues and Challenges in Family *Takāful***

Mufti Ismatullah and Mr. Atiquzzafar Khan made presentations on the system of *Takāful* with special reference to Family *Takāful*.

**Mufti Ismatullah**, *Sharī'ah* Advisor of the Pak Qatar Family *Takāful*, discussed the distinguishing features of *Takāful* from the conventional insurance. While the conventional insurance is a contract of *Mu'awaza* because the premium paid by policy holder is treated as price - defined in the words, "The price you pay" for the Policy, *Takāful* is a contract of *Tabarr'u* in which policy holders jointly take care of each others losses. It is based on the principles of brotherhood, mutual co-operation and help for others. Shareholders firstly create a *Waqf* Pool and manage it as *Wakeel*; people are invited to become the members of the Pool by giving some donation to this pool and get cover against the defined risks and losses.

Other features of *Takāful* as indicated by Mufti Ismatullah include: i) Contributions paid to the *Waqf* belongs to the *Waqf* and the participants, not to the Company, so all investment profits also return to the Pool and not to the Operator. ii) the participants can have a share in the surplus; iii) the company (Operator) serves in the capacity of a *Wakeel* not as an owner of the business; iv) A *Sharī'ah* Board supervises the investment activities of the *Takāful* companies.

**Mr. Atiquzzafar Khan** discussed and analyzed the Family *Takāful* as being applied in Pakistan. Insurance penetration and density in Pakistan is at the lowest level as compared to other countries across the world. Penetration of *Takāful* practices is even more difficult and challenging for the operators. Out of 5 Companies registered with SECP, Pak-Qatar Family *Takāful* and Dawood Family *Takāful* are offering family Takful. *Sharī'ah* scholars in Pakistan were having some reservations regarding *Mudarabah* and *Wakalah* models which are being practiced in Far-East and Gulf regions respectively. Despite the fact that SECP *Takāful* rules, 2005 do not specify any particular model, all *Takāful* companies in Pakistan are running their business using *Waqf-Wakalah* model recommended by the *Darul 'Uloom*, Karachi based *Sharī'ah* scholars.

The author provided a brief introduction of Family *Takāful* and reviewed the concept and practice under *Waqf-Wakalah* model with special reference to Pakistan. A *Waqf* pool is created by the operator who serves as a *Wakeel* (agent) and charges a “*Wakalah* fee” for it. This fee is paid upfront from the *Waqf* fund. The operator also invests the funds available in *Waqf* pool in *Sharī'ah* compliant businesses for profits. Since the operator is *Mudarib* and *Waqf* fund is *Rabb ul Maal*, any profit made from the investments are shared between them according to pre defined ratio. At the end of every year, after having paid all the claims and meeting all expenses, any surplus remaining in the *Waqf* fund may be distributed among the participants as per the recommendation of the *Sharī'ah* board. In case of death of any participant, his/ her nominee receives (on behalf of heirs) as compensation whatever is available in the ‘Participant Investment Account’ (PIA), an amount equal to the remaining installments to be paid till the maturity and any surplus distributed by the company among the participants. He discussed the products of Family *Takāful* companies in detail and highlighted the differences between theory and practice of Family *Takāful* and issues faced by *Takāful* institutions in Pakistan. Last section contains major findings and some suggestions for the growth of this industry.

### **Dr. Abdelkader Chachi: *Awqaf* as a key to Socio-economic development in Muslim Societies**

Dr. Abdelkader Chachi, economist and researcher at IRTI, observed that Islamic institutions like *Zakah* and *Awqaf* are important economic tools that, if implemented properly, will not only eradicate poverty from Islamic societies but reduce government spending, reduce the need for taxes and contribute towards better socio-economic justice and development. In the past, they contributed greatly to the advancement of knowledge, the

establishment of hospitals, orphanages, schools, universities, etc., and led to a great civilization that spread from Indonesia to Andalusia. Particularly, *Awqaf* was the main institution working for welfare of Muslims as well as non-Muslims living in Muslim societies. It even took care of ill and stray animals.

Giving history of *Waqf* from the time of the Holy Prophet, he argued that if revived and reactivated, *Awqaf* can contribute significantly in solving many of the socio-economic problems of Muslim, in the due course of time. "Historians confirm that more than a third of agricultural lands and almost half of the buildings in Algeria, Egypt, Morocco, Iraq, Palestine, Syria and Turkey were *Awqaf* properties. Three-quarters (3/4) of the whole arable land in the former Ottoman Empire belonged to *Waqfs*. In Algeria, under French occupation, *Waqf* comprised half (1/2) of the lands of the country in the middle of the nineteenth century. In Tunisia, *Waqf* comprised one third (1/3) of the land over that period. In Egypt in 1949, about one-eighth (1/8) of the agricultural land belonged to this category.

Due to a variety of reasons including, *inter alia*, the legacy of colonisation of Muslim countries, the *Awqaf* institution declined. Slowly, it became limited to the establishment of mosques and religious schools only. For effective revival, we need to i) institutionalizing the redistributive instruments of *Zakah* and *Awqaf*; ii) enacting the laws and bylaws to regulate it; iii) Clearing the misunderstanding about it and spreading awareness about its importance; iv) Encouraging Muslims to establish *Awqaf* and v) Facilitating its registration, administration and good governance. He concluded that if encouraged and implemented properly, *Zakah* and *Awqaf* can play a major role in reducing unemployment and poverty and contributing to the enhancement of the standard of life of people while reducing reliance on taxation.

### **Prof. Iqbal Hashmi: The Code of Governance in Limited Liability Companies: Manipulations and the Way Forward**

Prof. Iqbal Hashmi, a senior lawyer taking up cases of the corporate sector, identified the governance issues and loopholes in the limited liability companies and recommended some measures to strengthen their governance and safeguard interests of the common shareholders. The Concept of Limited Liability Company with the provision of joint ownership of a large number of investors and proportionate income sharing, has been accepted by the *Shari'ah* scholars in general and, if properly managed, could be a tool for equitable distribution of wealth and

provide an equal opportunity of earning. However, the decent concept has been at times polluted by exploiters and its objective derailed. He underlined how the earliest of limited liability company, the East India Company was polluted with bad intentions, bribery and corruption. "The United East India Company was incorporated for trading in the East with a capital of over \$ 500,000, and in 1602, it was furnished with a Charter which empowered the company to make war, conclude treaties, acquire territories and build fortresses..... It had been the practice, and even habit of the Company, to give bribes to great men; that previous to the revolution, their annual expense, under that head, had scarcely ever exceeded 1200 ; that since the revolution it had gradually increased; and that in the year 1693; it had amounted to nearly 90,000 . The Duke of Leeds, who was charged with having received a bribe of 5000, was impeached by the Commons".

The author added that the corruption is rampant in the corporate sector the world over and observed that the real need is that of effective application of various provisions of corporate laws and safeguarding the minority share holders. He also recommended amendments in certain laws or provisions of law, namely, Companies Ordinance 1984, SECP Rules and Article 199 of the Constitution.

### **Professor Dr. Sabirin Bin Ja'afar: Business Ethics in Financial Dealings**

Professor Dr. Sabirin Bin Ja'afar from Malaysia presented a paper on "Business ethics in financial dealings from Western and Islamic perspectives". The importance of ethics is undeniably a crucial aspect to maintain the stability of any corporation and the success of any business. Giving history of ethics in Western economics (particularly to Adam Smith) and Islam, he indicated a large number of areas where good ethics deliver many benefits for the human society in every field of life. Islam taught individuals not to separate themselves from the ethics which govern all aspects of life.

Corporate failures due to behaviour of the personnel are not uncommon in the business world. The scandal engulfing big corporations like Enron and many others is largely due the ethical behaviours of individuals in conduct. The paper explored ethics from Western and Islamic perspectives and attempted to provide guidelines to be used by personnel in conduct of their corporation or business. For example, for the Lawyers, the list of ethics could include: i) **Lawyer's Duty to the Court** comprising truthfulness in court, responsibility for the client's conduct,

honouring an undertaking to the court, respect for the court, and responsibility to assist in the administration of justice; and ii) **The Lawyer's Duty to his Client**, comprising duty to be honest, diligence and competence, confidentiality, in case of conflicts of interest, and safekeeping of clients' monies and trust monies.

Ethical guidelines from Islamic perspectives in business conduct relate to: keeping in view the matter of *Halal* and *Haram* in business transactions, clear and proper marketing strategy, exploitation of one's ignorance of market conditions, fairness, honesty, avoiding *Riba* and *Gharar*, trickery, fraud cheating and swearing; keeping promise, payment of *Zakat*; fixing prices arbitrarily, withholding foodstuff (*Ihtikar*), rule against caveat emptor, giving short measures and dealing in stolen goods.

The focus of ethical guidelines from Islamic perspective that stress to the importance of producing goods and services instead of merely lending on interest can produce financial stability and harmony in the society.

### **Mr. Tayyab Waqas AMJED: Developing *Halal* food Industry**

Doctoral Scholar, Tayyab Waqas AMJED from Macquarie Graduate School of Management, Australia presented a paper on "Recipe for entrance into *Halal* Food Industry: A three-pronged strategy focusing on *Halal* certification, organizational structure and production framework" through Skype. Food is a prerequisite for existence of mankind. Supply of safe and healthy food has always been a challenge in food industry, which increases the criticality of the Food Supply Chain. Recently ethnic food sector, especially *Halal* food, has emerged as a promising domain for food manufacturers. However, lack of research, questionable reputation of suppliers and absence of global *Halal* standards has hindered the entry of many food manufacturers in the *Halal* industry. This research study employs semi-structured interviews and open-ended questionnaire survey, done in France and Pakistan; with market gurus, consultants, scholars, practitioners, and French companies. It presents a roadmap in the form of *Halal* production framework providing guidelines for *Halal* certification, proposing changes in internal organizational structure and advocating establishment of *Halal* System, as core requirements for the production of *Halal* food.

The study presents the gist of viewpoints of market experts, practitioners, academic world and religious scholars. It addresses the chronic issue of entrance into *Halal* food industry by entrepreneurs, SMEs and giant food manufacturers in a simplified and clear manner. The *Halal*

food production framework encapsulates the entire discussion in a nutshell and is easier to understand and comprehend. For food companies owned by non-Muslim, *Halal* might simply be a trend that must be translated into monetary benefits in both short and long term. But for Muslims, efforts for acquiring *Halal* standards, in order to assure *Shari'ah* compliant operations and products, should not only be a means of getting worldly gains but eternal blessing of Allah (SWT). It should be considered a foremost duty, mandatory obligation and a part of faith, rather than just a method of earning more profit.

**Dr. Mohd Fauzi bin Abu-Hussin** presented a case study on the role of higher education institutions in developing *Halal* industry in Malaysia.

The Malaysian economic development strategy in vogue has given emphasis to its *Halal* industry due to its significant contribution to all facets of economic growth. Up to now, it contributed around 2 percent of its GDP and is expected to grow to 5.8% by 2020. Although, the number is small, the *Halal* products' development is considered as a big potential for the industry since the global *Halal* trade is less than 10 % of global trade. Few measures have been taken, which include the development of *Halal* hub, *Halal* standard certification, and *Halal* Research and Development. The participation to enhance and develop *Halal* industry in Malaysia comes from all sectors. This includes, government, private as well educational institutions. Apart from the government and private sector's roles which are considered as major players, educational sector also plays a vital role in enhancing this new business paradigm.

The author investigated the role of the educational sector, in particular, of higher education institutions to the development of the *Halal* food industry. He found that their participation has been in various aspects which comprise training, research, and products innovation. It reveals that Malaysia's commitment in enhancing this new agenda for Muslim businesses is not merely implemented by the government and private initiatives but also supported by the academic institutions.

### **Professor Amanullah Khan and Dr. Khurram Shahzad: Work Outcomes of Islamic Work Ethics: Evidence from Pakistan**

Professor Amanullah Khan and Dr. Khurram Shahzad of RIU presented a study on "Work Outcomes of Islamic Work Ethics" taking evidence from Pakistan's society. Failure of corporations like WorldCom and Enron has led organizations and business schools to incorporate and emphasize work ethics. It is well documented in the literature that work ethics of employees influence important work outcomes but most of such studies

have used Protestant Work Ethics (PWE). There is little evidence overall and especially in context of Pakistan that how Islamic Work Ethics (IWE) affect different work outcomes.

This study examines the impact of Islamic work ethics on job satisfaction, organizational commitment, organizational citizenship behavior, job performance and turnover intention. Data was collected from 113 employees working in Islamic banks of Pakistan through a self administered questionnaire consisting of standardized scales. Correlation and regression analysis were carried out to test the hypotheses of study. It was found that Islamic work ethics positively affect job satisfaction, organizational citizenship behavior and job performance while it has no significant relationship with organizational commitment and turnover intention. Limitations and practical implication of the study along with directions for future research have also been discussed. Following was the scale of Islamic Work Ethics included in the survey form:

1. Laziness is a vice
2. Dedication to work is a virtue
3. Good work benefits both one's self and others
4. Justice and generosity in the work place are necessary conditions for society's welfare
5. Producing more than enough to meet one's needs contributes to the prosperity of society as a whole
6. One should carry work out to the best of one's ability
7. Work is not an end in itself but a means to foster personal growth and social relations
8. Life has no meaning without Work
9. More leisure time is good for society
10. Human relations should be emphasized and encouraged
11. Work enables man to control nature
12. Creative work is a source of happiness and accomplishment
13. Any person who works is more likely to get ahead in life
14. Work gives one the chance to be independent
15. A successful person is the one who meets deadlines at Work
16. One should constantly work hard to meet responsibilities



17. The value of work is delivered from the accompanying intention rather than its result

### **M/s Khurram Khan & Muhammad Abbas: Impact of Islamic Work Ethics and Job Satisfaction on Job Involvement and Turnover Intentions**

The paper by the co-authors is actually a follow up investigation of a previous study by them on job satisfaction and job involvement. A survey was conducted by the author(s) among medical staff of teaching hospital of Riphah International University, Islamabad. The study found some inconclusive evidence regarding the relationship between job satisfaction and job involvement. It indicated that job involvement had a significant impact on medical doctors' satisfaction working at the teaching hospitals. The study, however, highlighted another interesting aspect that higher level of job involvement is instrumental in eliminating, or at least considerably reducing, the negative outcomes, normally associated with job dissatisfaction like absenteeism, turn over, and physical & mental health problems. This finding may be important for a professional manager who may be confronted with such negative outcomes. The phenomenon shows that the doctors under study have registered a high level of job commitments whereas their job satisfaction is relatively low. There are, therefore, other factors at play which are inducing the doctors not to indulge in absenteeism, turn over etc., despite their relative dissatisfaction with the job. To understand this phenomenon in more detail the authors conducted more interviews and another follow up survey among 182 employees (including most of the doctors surveyed in the previous study).

Based on the findings of the previous research and the follow-up interviews, the current study investigated the impact of Islamic work ethics, a concept rooted in Qur'an and Sunnah, on job involvement and turnover intentions. They also studied the effect of job satisfaction on the outcomes and examined the value added impact of Islamic Work Ethics beyond job satisfaction in predicting the outcomes. The results revealed that job satisfaction and Islamic work ethics were positively related to job involvement and negatively related to turnover intention. Moreover, Islamic work ethics explained additional value added impact on job involvement and turnover intentions beyond the effects of job satisfaction.

**Mr. Riaz Riazuddin: *Hijri* Calendar Monthly Time Series for application to Consumer Price Index**

Mr. Riaz Riazuddin, Chief Economic Advisor of the State Bank of Pakistan presented a simple method of constructing time series, which currently are compiled and analysed in accordance with Gregorian calendar, in accordance with *Hijri* calendar from an already compiled Gregorian time series. Seasonal analysis of *Hijri* time series for CPI in Pakistan provides new insights of price behavior that depends both on Gregorian and *Hijri* seasonality. A spliced series of monthly CPI from January 1976 to December 2008 spanning 33 Gregorian years (396 Gregorian months) is used to capture a full cycle of 34 *Hijri* years (408 *Hijri* months). Method presented is general and can be used to construct and analyse any variable of interest. The author proposed that statistical agencies and central banks of Islamic countries should also compile data according to *Hijri* Calendar, in addition to existing compilation according to Gregorian calendar. This will add to a better understanding of socioeconomic behaviours in Islamic countries (Paper has been included in JIBM's Issue in hand).

## ANNEXURE

## ICIB - 2012

On

*Managing Sharī'ah Conforming Businesses:  
Prospects, Practices and Personnel*

February, 28 &amp; 29, 2012

## ACTIVITY SCHEDULE

<b>DAY 1: FEBRUARY 28, 2012</b>		
08:30-09:00	Registration	
<b>SESSION- 1 INAUGURATION AND KEYNOTE ADDRESSES</b>		
09:00-09:08	Recitation from the Holy Quran	Mr. Zulqarnain Haider
09: 08-09:20	Welcome Address	Prof. Dr. Anis Ahmad
09:20-09:30	Address by Pro Chancellor RIU	Mr. Hassan M. Khan
09: 30-09:35	Welcome address by IRTI Representative	Dr. Abdelkader Chachi
09:35-09:40	Welcome address by MD, NIBAF	Mr. Amer Aziz
09:40-10:05	Keynote address on “Global Economic problems and the role of Islamic <i>Ummah</i> ”	Prof. Khurshid Ahmad
10:05- 10:40	Keynote Address on “The Crisis and Fallacies of Capitalistic Economic Model	Dato' Seri Anwar Ibrahim
10:40-11:00	Address by the Chief Guest	Mr. Yaseen Anwar, Governor, SBP
11:00-11:30	<b>TEA BREAK</b>	
<b>SESSION- 2 ISLAMIC BANKING EXPERIENCE IN PAKISTAN</b>		
11:30-11:40	Speech by Country Head, Silk Bank	Mr. Jawad Majid Khan
11:40-11:50	Speech by the representative of Habib Bank Limited, Islamic	Mr. Atif Hanif
11:50-12:00	Speech by CEO Meezan Bank Limited	Mr. Irfan Siddiqi
12:00-12:20	Implications of Policy Shift from Islamization of Entire Economy to	Justice (R) Khalil-ur-Rehman Khan

	the Parallel Functioning of Conventional and Islamic Banking & Financial System	
12:20-12:30	Question answer and closing remarks by the session chair	
<b>SESSION 3 - FINANCIAL REGIMES AND SOCIO-ECONOMIC DEVELOPMENT</b>		
12:30-12:50	Financial inclusion: Islamic Finance Perspective	Dr. Zamir Iqbal & Dr. Abbas Mirakhor
12:50-13:05	Regime Uncertainty of Interest rate based Financial System	Dr. Abbas Mirakhor and Mughees Shaukat
13:05-13:20	Islamic Version of Narrow Banking--- An Analysis	Mr. Munir Ahmed
13:20-13:30	Question answer and closing remarks by the session chair	
13:30-14:30	<b><i>PRAYER &amp; LUNCH BREAK</i></b>	
<b>SESSION 4 – SHARĪAH COMPLIANCE, GOVERNANCE AND INTERNAL CONTROL</b>		
14:30-14:50	Strengthening <i>Sharī'ah</i> Compliance Mechanisms and Controls for Islamic Banking	Dr. Imran Ashraf Usmani
14:50-15:10	Should Islamic banking be confined to <i>Musharaka</i> and <i>Mudaraba</i> ?	Dr. Muhammad Qaseem
15:10-15:30	<i>Maqāsid-al-sharī'ah</i> : A paradigm for <i>Ijtehad</i> till modern Islamic Finance	Dr. Muhammad Tahir Mansoori
15:30-15:50	<i>Takāful</i> as an <i>Aqd-e-Ghair Muawadhah</i> : How it is different from Insurance	Mufti Ismatullah
15:50-16:00	Family <i>Takāful</i> - Issues and Challenges	Mr. Atiquzzafar Khan
16:00-16:30	<i>Sharī'ah</i> governance and internal <i>Sharī'ah</i> compliance in Islamic Banks – An Auditor's Perspective	Mr. Omar Mustafa Ansari
16:30-17:00	<b><i>TEA &amp; PRAYERS BREAK</i></b>	
<b>SESSION 5 – INSTITUTIONAL FRAMEWORK FOR ISLAMIC BUSINESS AND FINANCE</b>		
17:00-17:20	<i>Awqaf</i> as a Key to Socio-Economic Development in Muslim Societies	Dr. Abdelkader Chachi

17:20-17:40	Construction and Seasonal Adjustment of Islamic <i>Hijri</i> Calendar Monthly Time Series: An Application to Consumer Price Index (CPI) in Pakistan	Mr. Riaz Riazuddin
17:40-18:00	Compliance of the Code of Governance in Limited Liability Companies: Manipulations and the Way forward	Prof. Iqbal Hashmi

## DAY 2: FEBRUARY 29, 2012

### SESSION 6 – ISLAMIC BANKING: OPERATIONS AND REVIEW

09:00-09:05	Recitation from the Holy Quran	
09:05-9:30	A Comparison of Bank Interest and <i>Murabaha</i> Profit	Dr. İsmail ÖZSOY
9: 30-9:55	Islamic Banking in Pakistan: A Review of Conventional and Islamic Banking	Prof. Dr. Khawaja Amjad Saeed
9:55-10:15	<i>Awqaf</i> as a Key to Socio-Economic Development in Muslim Societies	Dr. Abdelkader Chachi
10:15-10:35	Creation of Money and Credit and the Problem with Interest in Present Day Economies	Dr. Muhammad Zaid Malik
10:35-11:00	Ethics in Business and Financial Dealings from Western and Islamic Perspectives	Dr. Sabirin Ja'afar and Dr. Nazimah Hussin
11:00-11:30	<b>TEA BREAK</b>	
<b>SESSION 7 – MONETARY POLICY AND CENTRAL BANKING</b>		
11:30-11:55	Central bank as a facilitator for Liquidity management by Islamic banks	Mr. Saleemullah
11:55-12:20	<i>Murabaha</i> And Its Awareness In Islamic Financial Institutions	Dr. Zohra Jabeen and Gohar Rehman
12:20-12:40	Facing the Challenges for Product Development in Islamic Finance	Mr. Furqan Ahmad (Mr. Ahmed` Ali)
12:40-	Perceptions of Finance	Mr. Muhammad Hanif

13:00	Professionals about Islamic Banking	
13:00-14:00	<b><i>PRAYER &amp; LUNCH BREAK</i></b>	
<b>SESSION 8 – ISLAMIC WORK AND BUSINESS ETHICS, HUMAN RESOURCE AND BUSINESS MANAGEMENT</b>		
14:00-14:15	Moderating Effect of Islamic Work Ethics on the Relationship between Job Involvement and Job Satisfaction	Mr. Khurram Khan & Mr. Muhammad Abbas
14:15-14:30	Work Outcomes of Islamic Work Ethics (IWE): Evidence from Pakistan	Prof. M. Amanullah Khan & Dr. Khurram Shahzad
14:30-14:50	Conventional Economics in Islam's Perspective	Dr. Asad Zaman
14:50-15:00	Question answer and closing remarks by the session chair	
<b>SESSION 9 – SUSTAINABLE BUSINESS ENTERPRISES AND <i>HALAL</i> CERTIFICATION</b>		
15:00-15:20	Development of <i>Halal</i> Business Industry: The roles of Higher Education Institutions in Malaysia	Dr. Mohd Fauzi bin ABU-HUSSIN
15:20-15:40	Sustainable <i>Halal</i> Food Supply Chain: Supplier Selection Framework, Customer Satisfaction and Firm Performance	Dr. Tayyab Waqas Amjed Through Skype
15:40-16:35	'Uboodiyah Model of Business Management	Sheikh Hashim Ahmad
16:35-16:45	<b>VOTE OF THANKS BY MR. MUHAMMAD AYUB</b>	
16:45	<b><i>TEA &amp; 'ASR PRAYER – END OF THE EVENT</i></b>	

