Report on the 4th International Conference on Islamic Business (ICIB - 2016)

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The 4th international conference on Islamic business by the Riphah international University discussed the theme: *Islamic Economics, Finance, Entrepreneurial Development, and Public Policy for Socio-economic Well-being*. Initially, the 4th Conference was planned to be held at Madinah al-Munawarah. MoU was signed with the "Madinah Institute of Learning and Entrepreneurship (MILE)". But, due to some unavoidable circumstances and consequent Visa related administrative issues, all organizers including Riphah University, MILE and the M/o Planning, Government of Pakistan, agreed to change the venue from Madinah al-Munawarah to Islamabad. Accordingly, the Conference was held at the Quaid-e-Azam Auditorium, Faisal Masjid Campus of the International Islamic University Islamabad (IIUI) on February, 21 & 22, 2016.

A pre-conference workshop was held on 20th February, 2016 on "*Financing and Investment on the basis of Contractual mushārakah (shirkah al-‘aqd)*" in which five presentations were made by Mr. Muhammad Ayub, Secretary General of the ICIB, Mr. Amer Khalil ur Rehman, Chief Executive Officer, Bakhtar Bank Afghanistan, Mufti Aziz ur Rehman, Manager-Sharī‘ah at Mawarid Finance, UAE, Mr. Ahmed Ali Siddiqui, Executive Vice President, Meezan Bank and Mr. Muhammad Asad, Chief Investment Officer, Al Meezan Investment Management Limited. Very well attended and highly interactive workshop discussed the new kind of contractual partnership namely running *mushārakah* originally conceived by Mufti Muhammad Taqi Usmani in his book, "*An Introduction to Islamic Finance*" in 2000 and developed and practiced by the Meezan Bank in Pakistan for working capital finance as alternative to conventional Overdraft (OD) since 2008. While Mr. Ahmed Ali explained very skilfully the concept and the procedure of the product being used mainly for financing to the corporate sector, the participants tried to critically examine its features. Renowned scholars including Dr. Yousri

Ahmed, Dr. M. Tahir Mansoori and a number of other participants expressed serious concerns about the product in which Meezan bank was charging fixed return like the case of OD and forfeiting its right to get profit over and above the OD related target rate. Dr. Akram Laldin, Executive Director of ISRA, while concluding the Workshop, expressed the hope that with mutual discussions and dialogue, the issues will be resolved.

In the heavily attended inaugural session of Conference held in the morning on 21st February, 2016 the messages of the "Patron-in-Chief" of the ICIB 2016, Prof. Ahsan Iqbal, Federal Minister of Planning, that of renowned Islamic economist Prof. Khurshid Ahmad and Chairman, SECP, Mr. Zafar Hijazi were read. Mr. Saeed Ahmad, Deputy Governor SBP and Justice (R) Khalilur Rahman delivered keynote addresses. Prof. Dr. Anis Ahmed, Vice Chancellor of the Riphah International University acknowledged and appreciated the support provided by the IIUI, the State Bank of Pakistan (SBP) and other institutions for organizing the conference. They paid gratitude to the academia and the management of International Shariah Research Academy for Islamic Finance (ISRA) and Islamic Research and Training Institute (IRTI) for their academic contributions and support that added value to the research oriented event. Dr. Ahmad Yousif A. Al-Draiweesh, President IIUI, also made a welcome speech and appreciated the speakers and the delegates of the Conference.

In the following pages, we give Communiqué of the ICIB-4, Messages of the Dignitaries and the speeches by the Keynote speakers in the inaugural session, and main points, findings, recommendations and suggestions given by the paper presenters / scholars participating in the Conference.

Communiqué of the 4th ICIB-2016

The 4th International Conference on Islamic Business held at Islamabad on February 21 and 22, 2016 concluded successfully, *al ḥamdolillah*. It was held in collaboration with the International Islamic University, Islamabad and with support from the Ministry of Planning, Development and Reforms, Government of Pakistan, the Higher Education Commission, Pakistan, the State Bank of Pakistan, the Securities and exchange Commission of Pakistan, the Madina Institute of Learning and Entrepreneurship (MILE), Saudi Arabia, Islamic Research and Training Institute (IRTI) of IDB Group, Jeddah, BNM's International Shariah Research Academy (ISRA), Malaysia and a number of Islamic banks and other institutions. The theme of the Conference was: *Islamic Economics,* *Finance, Entrepreneurial Development, and Public Policy for Socio-economic Well-being*.

The messages of the “Patron-in-Chief” of the ICIB 2016, Prof. Ahsan Iqbal, Federal Minister of Planning, that of Renowned Islamic economist Prof. Khurshid Ahmad and Chairman, SECP, Mr. Zafar Hijazi were read, while the Deputy Governor SBP Mr. Saeed Ahmad and Justice (R) Khalilur Rahman delivered keynote addresses.

As indicated by the “Patron-in-Chief” of the Conference, in his message, the Conference theme was in line with the vision of the Father of the Pakistan’s Nation, that is making Pakistan a prosperous country governed with justice, equity and responsibility, and also with the Pakistan’s ‘**Vision 2025’**.

In the light of the messages, keynote addresses, and the papers presented and discussions held thereon, following is the communiqué of the Conference:

1) Islamic finance has become a global feature for which the Conference delegates thank Allah (SWT) and compliment all those who have been involved in this noble effort. It was considered, however, that we are still far away from the real objective to move towards a model that is truly just and directed towards fulfilling the major objectives of the Sharī‘ah.

2) We have to give priority to reconstructing the society and economy on the basis of our own values, interests and resources.

3) While Islamic finance has emerged at global level and by now the Islamic banking has crossed the milestone of forty years, its acceptance level is still very low due mainly to the reason that people consider it as replication of the conventional finance.

4) The policy makers in Islamic finance and the Sharī‘ah scholars involved need to ponder seriously on the point as to why conversion to Islamic finance is so slow even in Muslim majority countries; it needs different approach and business structures to avail of the huge potential.

5) The controversy about the interpretation of *ribā*, particularly as the case of Pakistan, must be resolved – meaning that interest in all its forms including bank interest must be accepted as *ribā* followed by a program to get rid of it. The State and the regulatory authorities need to spell out before the Federal Sharī‘at Court (Pakistan) that they believe in prohibition of ‘interest’. The conference delegates appreciate the announcement by the Deputy Governor, State Bank of Pakistan, Mr Saeed Ahmad in his keynote address that the State Baking is formally taking this

viewpoint in the Sharīʻat Court. The Secretary Finance, Government of Pakistan, Dr. Waqar Masoud Khan also reiterated, in his address, the Government support for promotion of Islamic finance

6) The Islamic Finance Institutions (IFIs) have yet to implement the principles of participatory financing and investment in its true spirit. They need to change their model to undertake real business and to focus on real sectors and sub sectors.

7) There is a need to formulate a comprehensive and integrated financial system free from interest and gambling based features to be compliant with Sharīʻah rules for business growth, with a social development strategy which heightens the involvement of all stakeholders through institutionalizing the equitable distribution of wealth, ethical and halal and ethics based financial system along with programs to reduce poverty, and to develop human capital.

8) Institution of Waqf may be developed not only for social welfare but also as a business model with feature of socio economic development.

9) The conference delegates appreciate the Govt. of Pakistan, the State Bank of Pakistan, and the SECP that they are doing efforts and have expressed their resolve for introduction of Islamic banking and finance and for strengthening the system by providing suitable frameworks. However, much more is to be done by focusing on approach of socio-economic development. We need to move towards the goal of a Just Socio-Economic Order to ensure the Real Well-Being of all Human Beings as succinctly and beautifully put by the Qur'ān in two terms i.e. "*ʻadl-wa-iḥsān* (justice and beneficiaries) and *falāḥ* (well-being and welfare". We have to make this transition, at the levels of vision and goal-setting, policy planning and effective implementation.

10) The Conference proposes a new paradigm of economy and developmental strategy that should simultaneously focus on following four dimensions:

a) Optimal utilization and development of resources that Allah (SWT) has endowed to man and its physical environment.

b) The equitable use of resources and distribution in a manner that ensures promotion and organization of all human relationship on the basis of *ʻadl* (justice) and *iḥsān* (beneficence), resulting in *falāḥ* (well-being).

c) Balanced and sustained development avoiding waste and misuse of resources, elimination of *zakāh* (injustice) and exploitation of other humans, achieving financial and price stability and seeking inter-personal, inter-regional, inter-sectoral and inter-temporal equity.

d) A fair degree of self-reliance, including collective self-reliance of the *Ummah*, envisioning a global system based on genuine pluralism, making it possible for all nations and cultures to co-exist, cooperate and compete in order to establish and promote a Just World Order.

e) For achieving the above objectives, the strategies should be characterized with an INTEGRATED approach to development in moral, spiritual and material dimensions, motivation, and pursing policies to ensure justice including just wage, equitable sharing of income and wealth, necessary transfer payment and implementation of law of inheritance.

11) In order to equitably distribute fruits of economic growth, it is indeed essential to have a clear conception of social development strategy which institutionalizes and provides adequate resources for meeting the needs of poor people, mitigating their vulnerability, exclusion and isolation, and facilitating access to social justice.

12) In the area of Islamic banking and finance, the public sector financing may be separated from the core banking. For this purpose, the 'holding company model' may be adopted to finance all business sectors and sub-sectors in the economy by the subsidiaries of respective banks that will be doing different activities like trade related banking, investment banking, commercial banking, etc. Treasury functions may be undertaken by the each Parent Company for investments of its equity. Detailed operations could be discussed by the experts prior to adoption of such system.

13) The contract documents used currently by the Islamic banks might be mandated for the NIB banks, instead of 32 documents implemented in Pakistan in 1980s. This way, the system, to the extent of core banking, would be transformed as required by Pakistan’s Constitution. BCD Circular No. 13 of 20th June 1984 be taken back, in addition to adoption of the unique profit distribution and pool management system introduced by the SBP vide IBD Circular No. 03 dated November 19, 2012 by all banks in Pakistan.

14) Trading Companies may maintain inventory on the basis of which ‘Tradable Inventory Certificates’ could be issued and traded. Short and medium term liquidity management can be done through these certificates.

15) Transformation of the public debt system requires serious deliberations and re-organization focusing on balanced budgeting by the

government and the PSEs in a phased plan and exploring interest free alternatives of public sector financing.

16) The banks may be asked to remit certain part, say 50 %, of the Current Accounts balances (on which they pay nothing to the depositor) to the government as a loan with or without service charge. In addition to that the general public may be provided facility to maintain Current Accounts with Savings Centres, all branches of the Public sector banks, some newly created savings banks that may provide C/A facility with anytime withdrawal facility as interest free loan to the Government.

17) The external financing may be in the form of direct investment in infrastructure and productions sectors, equity based portfolio investments and other international level transfers; these are the real solutions.

18) The Sharī'ah scholars have to play crucial role with regard to the products as alternative to the conventional products. Sharī'ah scholars and the Islamic finance professionals may delve into the Sharī'ah and the real business needs to find answers to the current Islamic banking issues and lead the industry on the right path of developing Sharī'ah based products to do *ḥalāl* business and hedge business risk.

19) The Conference delegates appreciate the support and role of all institutions, academicians and professionals for holding the event. May Allah Almighty reward them with *aḥsan al-Jazā'* in this world and the Hereafter. Ameen.

Message by Mr. Ahsan Iqbal, Federal Minister for Planning, Development and Reform, Government of Pakistan

Bismillah-al-Rahman-al-Rahim,

It gives me great pleasure to extend my sincere congratulation on the auspicious and momentous occasion of the 4th International Conference on Islamic Business organized by Riphah International University in collaboration with Planning Commission, Madinah Institute of Leadership and Entrepreneurship, Islamic Shariah Research Academy (ISRA) of Bank Negara Malaysia, The Higher education commission of Pakistan and others.

In all sincerity I accepted to be the Patron of the Conference and was hopeful to attend the inaugural session. But due to a change in my schedule I have to be out of country. I am sorry to miss this important conference. However, I welcome our gussets and research paper presenters from within the country and overseas.

The theme of the conference addresses the socio-economic development of *Ummah* in terms of Economic growth, Finance, Entrepreneurial Development and Public Policy. It has great relevance in the present scenario of the Muslim world.

I must appreciate the leadership role played by Riphah International University, as a pioneer academic institution in taking up a number of initiatives on the subject and in becoming a Centre of Excellence for Islamic Business and management sciences in the country.

I find the University's vision and mission fully in accord with the vision of the Quaid, who in his inaugural address of the State Bank of Pakistan asked it to come up with an authentic Islamic economic solution as a substitute to the cancer of capitalism. It is important to remind ourselves of his very pertinent views which are as relevant today as they were seventy years ago on July 1, 1948:

> "I shall watch with keenness the work your Research organization, in evolving banking practices compatible with the Islamic ideals of social and economic life. The economic system of the West has created almost insolvable problems for humanity and to many of us it appears that only a miracle can save it from disaster that is now facing the world ... The adoption of western economic theory and practice will not help us in achieving our goal of creating a happy and contended people. We must work our destiny in our own way and prove to the world an economic system based on true Islamic concept of equality of mankind and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it, and secure the welfare, happiness and prosperity of mankind".

Islamic banking and its allied industry and businesses have flourished by manifold in the last decade in the country in pursuance of Government of Pakistan's Policy for promotion of Islamic banking and finance. Banks and financial institutions were facilitated to do business in line with Islamic principles and the international practice as in the most of the Muslim countries Islamic commercial banks are operating parallel to the conventional banks. The growth of Islamic banking and financial system in the country has been around 30% in the last few years, which is above the average global growth rate of Islamic banking and finance. It is a matter of immense pleasure that Pakistan, in the ranking of 50 countries world-wide, comes after eight countries, namely Iran, Malaysia, Saudi Arabia, Bahrain, Kuwait, United Arab Emirates (UAE), Indonesia and Sudan in developing, promoting and advocating Islamic banking and finance. We must not forget that the first comprehensive scheme of banking and financial system was prepared in Pakistan by the Panel of Economists and Bankers, subsequently approved by the Council of Islamic Ideology Pakistan in the form of its well-known Report on elimination of *ribā* from the economy given in 1980. Efforts to establish first Islamic bank in any Muslim country in early years by a Pakistani Banker Mr. Irshad are also remarkable. The country is now associated with the leading International Islamic Financial Institutions like the Islamic Development Bank, Jeddah and its research arm IRTI, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), and the International Islamic Financial Market (IIFM) and thus playing an active role in developing prudential and Sharīʻah standards and Sharīʻah-compliance framework for Islamic business and banking industry.

With regard to the fiscal strategy of the country there is a need to formulate a comprehensive and integrated financial system addressing the *ribā* (usury, interest) and risk-related to Sharīʻah compliance and Sharīʻah rules for business growth. 1973 unanimous Constitution of the Islamic Republic of Pakistan, *inter alia*, directs to eliminate *ribā* as soon as possible. No doubt, all the succeeding governments in the country made their efforts to get rid of interest-based financial system, but for one reason or the other, the interest-based system is still in vogue. The present Muslim League leadership has also taken some concrete steps to accelerate the Islamisation process. I am happy to note that both the regulators of the financial system namely the State Bank of Pakistan and the SECP are making concerted efforts to develop Islamic banking and finance on sustainable basis. The State Bank has chalked out a 5-year strategic plan (2014-2018) to attain the objective.

However the financial system of Pakistan as well as the *Ummah* has been linked with the global socio-economic development. I am confident and we all agree that social progress is critical for economic development, which is based on equity and justice, where people and society are at peace with themselves. In order to equitably distribute fruits of economic growth, it is indeed essential to have a clear conception of social development strategy which institutionalizes and provides adequate resources for meeting the needs of poor people, mitigating their vulnerability, exclusion and isolation, and access to social justice.

Although some of the Islamic countries have addressed the social iniquities relating to poverty, education, child mortality, water and sanitation etc in terms of the Millennium Development Goals (MDGs), now being replaced by Sustainable Development Goals (SDGs), but a number of Islamic countries are still away from achieving the socio-economic targets and thus classified by the UN as low human development countries. The challenge of sustaining a higher trajectory of economic growth requires implementing a social development strategy which heightens the involvement of all stakeholders through institutionalizing the equitable distribution of wealth, ethical and *ḥalāl* and ethics based financial system along with programs to reduce poverty, and to develop human capital. In this era of globalization, pursuing such a social development strategy becomes challenging as the global economic growth not only provides an environment and opportunities for faster economic growth and social progress, but also significantly raises the risk of marginalization for those who fail to integrate into the global economy.

I am pleased to share that Government of Pakistan’s seven pillars of Vision-2025 that are compatible to SDGs are based on the imperatives of embracing change and transformation, to create new opportunities based on our innate strengths. The Vision is addressing the imbalance between economic development and social development, and pursuing policies for improving the socioeconomic indicators of the country. Further in accordance with the framework of the Vision 2025, the Govt. of Pakistan has designed and implemented the National Financial Inclusion Strategy (NFIS) which works toward enhancing access to credit for SMEs and focuses on financial inclusion and deepening. It aims to provide broad based access of financial services by increasing the masses’ access to credit, formal savings, *Takāful* /insurance, and payments etc. Further, with the game-changing China-Pakistan Economic Corridor (CPEC) now becoming a brick-and-mortar reality, economic agents will be linked to economic centres with great resources and will yield job creation opportunities and help in the socio-economic development of the country.

Finally, let me reiterate that our focus has to be on alleviating poverty and promoting development of our societies where people can enjoy a future based on our own Islamic culture and values. I congratulate the academic leadership of the Riphah International University for their Pro-active approach in addressing contemporary challenges in the management of global economic, financial and educational uses.

I pray that the 4th ICIB achieves its objectives and leads to concrete solutions for the future social and economic development of the *ummah*.

Keynote Address by Mr. Saeed Ahmad, Deputy Governor, State Bank of Pakistan

The contemporary global Islamic finance Industry is one of the most dynamic areas of financial services today with an increasing presence in both Muslim and non-Muslim countries alike. The financial and economic meltdown caused by the financial crisis 2007-08 has led to a greater search for an alternative system capable of sustaining and absorbing shocks and volatility of today's activities in financial markets. This has attracted attention to innate strengths of the Sharī'ah compliant financial system which is entirely based on real economic activities and has no space for gambling, speculation and typical leveraging in financial dealing. However, despite all the positive developments during the last four decades there exist many critical issues that need to be addressed to sustain the growth momentum of the industry on long term basis.

One such area is developing and structuring Islamic finance products and strengthen practices in such a way that socio-economic objectives are effectively achieved and Islamic financial institutions are able to provide efficient financial intermediation between the resource surplus and resource deficient units in economies[1].

It is encouraging to see that Riphah International University has arranged the fourth international conference with product innovation, *maqā╖id al*-Sharī'ah, and financial inclusion as being central themes. As the Islamic finance industry is maturing to the next level, it is highly important to increase its outreach to the strategic sectors like agriculture, SMEs, affordable and low cost housing, and micro finance. It also requires being more active in branchless banking and W-Wallet to advance the objective of enhancing financial inclusion.

Events like this are highly important given the evolving phase of Islamic finance industry. It is heartening to see the participation by learned scholars and experts. This gives high expectation that concrete proposals and novel ideas and strategies will be forthcoming to address the issues and challenges faced by the Islamic finance industry. I wish Riphah University all the best for making this a successful event.

[1] In response to the Address by Justice Khalilurrahman regarding the *ribā* case being taken up by the Federal Shariat Court, the Deputy Governor informed that the State Bank has resubmitted its reply to the Court that clearly states that there is no difference between *ribā* and interest, it is one and the same thing. He has also talked to many government officials and the government and the State Bank are on the same page regarding this issue.

Message by Prof. Khurshid Ahmad, Chairman, Institute of Policy Studies on '*Priorities in Public Policy in an Islamic State'*

I am grateful to the Riphah University for inviting me to give a Key-Note Address to its 4th International Conference on Islamic Business. I am presently in the U.K. for treatment and as such unable to physically participate in this Conference. However, while wishing you every success I am trying to join you intellectually and spiritually through this short message.

The theme for this Conference —*Islamic Economics, Finance and Public Policy for the Ummah's Socio-Economic Well-being*; is very important and timely. I have been invited to share my thought on *Priorities in Public Policy in an Islamic State*. Priorities can be set only on the basis of two fundamental considerations. First, a clear vision of our own objectives, goals and destiny; and, secondly, a realistic assessment of the national, regional and global geo-strategic contexts in which we operate, as also of the human and material resources we can harness.

The organizers have very ably stated the goal of this exercise in three words: **Ummah's Socio-Economic Wellbeing.** This rightly focuses on the central challenge that we, as Muslims, nay, the entire humanity, faces today.

The need to move from a capitalistic concept of corporate development towards the goal of a Just Socio-Economic Order to ensure the Real WELL-BEING of all HUMAN BEINGS. This has been succinctly and beautifully put by the Qur'ān in two terms i.e. "*'adl-wa-iḥsān* (justice and beneficiaries) and *falāḥ* (well-being and welfare. The need of the hour is to make this transition, at the levels of vision and goal-setting, policy planning and effective implementation.

There are at least four aspects of the current geo-strategic context which deserve serious reflection:

1) First the global financial and economic crisis which began in 2008 continues even today to plague the economy worldwide. Billions of human beings in the developed as well as the developing economies are suffering. Efforts to overcome the crisis, despite all the bail-outs, fiscal retrenchments, quantitative easing by central banks, austerity programmes and the likes have not been able to turn the corner. Speaking in Davos on the occasion of its recent 45th Capitalist Summit (Jan, 2016) billionaire speculator turned intellectual, George Soros warned that the world stands at the threshold of a new crisis which, could be triggered of by slowdown in China. Other warning signals are coming from high private and public debts; mounting budgetary deficits; higher savings and lower investments; insufficient and faltering

aggregate demands, both nationally and globally; huge and escalating income and wealth, disparities; low job creation and increasing rates of unemployment, particularly in the youth; and, devastating ecological consequences of over-demanding developmental crusades.

In the pursuit of the objective of capitalism, colonialism and neo-liberalism the dangers of a new recession are beginning to cast the shadow on the horizon. Former Finance Minister of Greece, Yassis Varauvfakis, has warned ―that more than $4 trillion of savings are slashing around in Western financial institutions refusing to be invested in productive activities. (The Guardian London, 29 Jan; 2016). Nobel Laureate Joseph Stiglates laments ―Seven years after the global financial crisis erupted in 2008, the world economy continued to stumble in 2015.

According to the United Nations Report, *"World Economic Situation and Prospects 2016*", since the crisis an estimated 44 million people are unemployed in developed countries, about 12 million more than in 2007, while inflation has reached its lowest level since the crisis. (The Guardian 8, Feb; 2016). The plight of the common man in the developing world is more horrendous. In a world where over two billion persons are living below poverty line and some 800 million below the dire poverty line, only 62 multi-billionaires own as much wealth as is owned by the poorest 3.6 billion (Oxfam Report 2016). This is all the more alarming because even while the world in the grip of this crisis the rich are getting richer. According to the said Oxfam Report, the number of super billionaires who owned almost 50 per cent of the world resources stood at 388 in 2010. It shrinks to 80 in 2014 and now at the end of 2015 it stands at 62 only. According to other reports only 1% of world population controls and manages as much as is at the disposal of the remaining 99%. This has given rise to protest movements like 1% vs. 99% and Occupy Wall Street, which are gaining momentum in the Western World.

This state of affairs cannot continue for long. Market mechanism has its strong positives, but exclusive reliance at the dictates of the market is turning out to be a recipe for this issue. Blind imitation and enforced compliance of capitalist dictates of the Western World are at root of the plight of the Muslim World, as also of the rest of the Third World. It is only through a total liberation from Change of the development of the capitalist West that we can pursue the path leading towards a Just Socio-Economic Order resulting in wide spread human well-being.

2) The second aspect of the geo-strategic context relates to the political, economic, moral and ideological predicament of the Muslim Ummah. Despite being endowed with best of the human and material resources and being the repositories of the Final Guidance from Allah (SWT), the Ummah‘s own house is in serious disorder. I firmly believe that every crisis is also an opportunity. We must always be confident about the future, but for that our

response should always be realistic based on correct understanding of the new crisis keeping in view our strength and weaknesses so as to develop effective strategies, policies and programmes to address the real challenges with vision, integrity and competence. We have to give priority to setting our own house in order and to reconstructing society and economy on the basis of our own values, interests and resources. Self-reliance should be our rallying point. The shrinking global economy, the exploitative character of the global economics and political system and the persistent downward trend in oil and other commodity prices should be an eye-opener. The real priority must be development of the real economy, focusing on the production sector, ensuring ever expanding flow of goods and services, and rediscovering the role of the finance and monetary institutions as effective intermediaries in this process as against that of becoming a virtual world of their own ballooning through over-the-counter derivative and such other products without in effect generating the flow of good, services and jobs. The galloping distance between the real economy and financial and fiduciary economy is driving us and the rest of the world into a disastrous direction. The Muslim World should make every effort to redress their situation.

3) This brings us to the third aspect towards which I would like to invite your attention. The emergence of Islamic economics and finance during the last quarter of the 20^{th} century as an alternate basis for organization of economy has been a historic development. Serious and innovative efforts have been made at the theoretical as well operational levels during the last over fifty years. The Islamic finance and banking industry, according to the latest Global Survey has crossed the $ 2 trillion mark. This is an achievement on which we thank Allah (SWT) and compliment all those who have been involved in this noble effort. But we must be self-critical.

There is no room for complacency. It is my humble submission that while we have made a very positive beginning, we are still groping around the borders. The real objective was and is that we move towards a banking and financial system that leads to justice and well-being in society — justice for those who supply capital (depositor and investors and also recipients of the capital (borrowers and investees). The objective is to get rid of the psyche of obsession with return *per se* and systematic move to a participatory relationship wherein the focus is on promoting real economic activity, developing a sharing economy based on production and financial and distributive justice.

Sharīʻah-compliance represented a good beginning. It was pragmatic to start with. But to remain engrossed in it and be content with a framework which looks like a replica of conventional banking with marginal changes remains problematic. Not to move effectively towards a model of banking that is truly just and is directed towards fulfilling the major objectives of the

Sharī'ah is raising concerns which must be addressed. Any delay or failure in this respect would have serious consequences for the evolution of the system in the right direction, winning the confidence of the people and producing results that lead to economic prosperity and distributive justice in the society. I know this is an uphill task but it is a challenge we must squarely face. It calls for a total change of the mindset, followed by efforts that are comprehensive and multidimensional relating to all areas of life, education, communication, motivation, law, taxation system and economic, monetary and fiscal policies of the government.

Change in the attitude and behavior of consumers, entrepreneurs and investors is also a part of this effort. In short, all stake holders and actors in society would have to play their role towards the establishment of a value oriented, need conscious and justice and well-being based economic system. Islamization of the financial sector would be fruitful if it is part of an all-embracing process of Islamization of economy and society. This is the task we have to accomplish; to be content with fringe successes and half-way houses can derail the whole process.

4) Lastly, I want to invite you to review in depth the positives and negatives of the economic policies and practices in Pakistan. It deserves to be admitted that the development paradigm followed during the last seven decades is the one developed in the Western capitalistic world and transplanted in the developing world with modifications that serves the interests of the western powers and perpetuates dependence of these countries on the western governments and institutions. No real departure was made from this model despite all that was done in the form of socialism's tainted populist rhetoric of the Bhutto era and the pseudo-Islamic trappings added to the fringes of economic policy and institutions during the Zia regime. The economic system, unfortunately, remains capitalistic, exploitative, and insensitive to the real needs of the people, divisive and disregardful of demands of social justice and self-reliance. What is needed is a total change of the paradigm and not merely shifts within the paradigm. You cannot graft a human face on the body of a monster, and expect it to behave like a good human being.

Hence, it is time to undertake a critical and honest review of the positives and negatives of the economic policies and practices pursued in Pakistan. We cannot afford to ignore revisiting the whole spectrum of policies and institutional frameworks that go to make up our economic landscape today. We must undertake a review of what we have achieved, where we have failed, what lies at the root of our people's frustrations, and spell out in clear terms through popular discussion, research and dialogue between all the stake holders how to restructure our policies, plans and programs to achieve balanced, integrated, inclusive, equitable and welfare oriented development bringing growth and prosperity to all section of society and all parts of the country.

I would like to conclude by submitting that the proposed new paradigm of economy and developmental strategy should simultaneously focus on 4 dimensions. [Some part omitted to avoid repition; may be seen in the Communiqué; points no. 10]

Development strategies aimed at achieving the objectives should be characterized by the following:

a) An INTEGRATED approach to development, moral, spiritual and material;
b) Development targets — expansion of production through innovative and judicious effort — with a view to ensure need fulfilment and well-being for all and to establish a strong, viable and growth-oriented economy;
c) *Ḥayāt-e-Ṭayyebāh* (good society) as a stepping stone to successful life in *akhirah* (life after death). In a word *falāḥ* well-being here and in the hereafter;
d) Motivation - moral incentives along with material rewards and deterrence. Self-interest with social and moral responsibility and a system of transparent accountability;
e) Moral filter and socially agreeable filter mechanisms at all levels of consumption, production and decision-making as a supplement to, and where necessary, a corrective of the market mechanism;
f) Man-centered and well-being focused approach. Production/consumption mix to be useful, fruitful, waste-avoiding, and environment friendly;
g) Property as a trust-right to private ownership and profit motive with moral and social responsibility;
h) Financial restructuring, ensuring total *ribā* elimination and reduction in concentration of wealth;
i) Distributive justice including just wage, equitable sharing of income and wealth, necessary transfer payment and implementation of law of inheritance;
j) Positive and goal-oriented role of government;
k) Reorganization of the entire economy, and not merely reforms of the financial sector; and finally
l) Self-reliance and collective self-reliance of the *Ummah* through economic cooperation and integration – to face the challenges of globalization and optimally avail of its opportunities.

Keynote Address: Mr. Justice (R) Khalil-Ur-Rehman Khan, Former Head, Shariah Appellate Bench, Supreme Court of Pakistan,

Making Islamic Finance a Way to Salvation

The Islamic Finance emerged at global level in the last decade of the 20th Century and developed fast with the dawn of 21st Century; and by now the Islamic banking has crossed the milestone of forty years since the Dubai Islamic Bank and the Islamic Development Bank were established in 1975. The age of 40 years is considered as age of maturity, age of *rushd* رُشد but Islamic Finance is still in the age of infancy.

The policy makers in Islamic Finance need to ponder seriously on the point as to why conversion to Islamic finance is so slow even in Muslim majority countries like Indonesia, Bangladesh, Pakistan, and the GCC countries. Turkey and Indonesia that represent key growth markets have set the target of reaching 15% Participation Banks' share in banking assets by 2023. Pakistan aspires to reach the 15% mark by 2019. According to the State Bank of Pakistan, in next 40 years Islamic banking will reach up to 50% of the conventional Banking.

The reasons of slow conversion of conventional banking to Islamic banking are not difficult to seek. These are;

a) Lack of political Will on the part of the Government.

b) Lack of interest of Regulatory Bodies to provide congenial environment.

c) The Monetary Polices & Framework of the Regulatory Bodies are promotive of the Conventional Banking as such the level playing field has not been provided to the Islamic Banking.

d) Lack of resources and allocation or meagre resources and incentives for conversion.

In addition to above ambiguity on taxation and accounting standards is also a factor responsible for impeding the progress.

The finance mangers, the regulators and particularly the Sharī'ah Boards / scholars may keep in view that replication of the conventional products will create problems for Islamic banks – both credibility and business related because they cannot use conventional risk management models and techniques.

Objective for introducing Islamic finance has to be realization of the goal - value creation by channeling the community's funds towards production and exchange of goods and services, and closing all uses of finance that inflate the financing relative to real production and exchange activities.

Bernardo Vizcaino (2015) of Zawya, Thomson Reuters, observed in a blog that despite success there are doubts over whether Islamic finance is living up to all of its principles as, *"it was launched not merely to make money, but to promote Muslim values such as equity, risk-sharing and social inclusion*".

Reference to objectives for introducing Islamic Finance and their realization essentially places emphasis on "social inclusion" which essentially falls under *maqā╖id al*-Sharī'ah. The corporate social responsibility under Islamic Financial System underlines the elimination of poverty and stability of society. One of the tools provided by the Islamic system is the employment & establishment of *waqf* institution. Development of *awqāf* will be effective in making our community free of hunger, illiteracy and extreme poverty. The takeover of the *waqf* properties by the Administrator general and the legal scheme in vogue presently should undergo a change to promote private *awqāf* under the management of members of community itself. The legislation recently promulgated by the Turkish Government should be a case in point to revive private *waqf*. This institution of *awqāf* has served as a powerful institution to fight extreme poverty in Islamic history for about 1000 years. The first victim of Britishers after takeover of the Suez Canal was to abolish the *awqāf* System in Egypt which was providing healthcare and other social services to the public in the private sector. This Institution was destroyed during the colonial rule of the Muslim World. Let us revive this institution at community level, Mosque level or locality throughout Pakistan and use it to eliminate hunger, illiteracy and extreme poverty and show the World that word of ALLAH is the uppermost' (*wakalimatu Allahi hiya al-'ulya.*)

The problems, pit falls and the deficiencies being pointed out in the working of Islamic Finance needs to be noticed. According to a recent IMF Working Paper (Hussain M., et al; IMF WP/15/120, 2015), there are only "few significant differences in business orientation, asset quality, efficiency, or stability" between what conventional and Islamic banks are offering. Currently, IFIs are doing exactly what conventional counterparts are doing –earning money on money and crowding out the commodities and production sectors. Emphasis on form over substance has led to abuse of Sharī'ah principles to justify the contracts which undermine the objectives of the Sharī'ah. There is problem of credibility because IBIs use equivalents of almost all conventional finance products for financing, and liquidity and risk management- from 'over draft' to the most toxic derivatives like swaps, to compete with the conventional banks in profitability.

The last two decades of the 20th Century were marked with explosive development of finance at global level due to creation of interest based money, short selling and the financial derivatives. A famous example of short selling is that of George Soros who caused huge loss to the Bank of England in 1992, where he shorted $10 billion worth of Pounds for one day gain of over $1 billion. As a result, we saw that more the developed financial system in a country, the more severe have been the crises and income inequality there.

As indicated by A.A. Jobst, an IMF economist, financial derivatives never involved delivery; then how Sharī'ah scholars allow them and how Islamic financial institutions could be expected to abide by the rules suggested by Sharī'ah scholars while they use them simply to get competitive returns as their conventional counterparts do. This was the reason that *tawarruq*, though legally allowed, was prohibited by the Jeddah and the Makkah based Islamic *Fiqh* Councils as its practice with requisite conditions was not possible due to the bankers approach to get money on money.

Hence, Islamic finance that is theoretically resilient to shocks, practically may be prone to risk and crises. These deficiencies have been pointed out so that the policy makers and the managers of the Islamic financial system may keep an eye on these deficiencies and provide corrective actions. Otherwise, huge potential is there, "the real potential captive market is six times bigger, but requires a different banking model……[EY, 2016]; different approach and business structures are required to avail of the potential.

Islamic banks need to become role model for the global finance by adopting 100% reserve banking, with complete disclosure for just and equitable distribution of profits, resources and wealth among all members of the societies.

To be innovative for proper linkage between the real and the finance sectors of the economy – to discipline the finance – there has to be an international agenda to solve the problems facing global as also national economies and finance. Different strategies could be applied for different jurisdictions. For countries like Pakistan following model is suggested:

1) The controversy about the interpretation of *ribā*, must be resolved – interest is *ribā* in the light of decision of Jaddah and Makkah based *Fiqh* councils, Pakistan's Council of Islamic Ideology and *fatwá* of religious authorities around the world. The decision of the Shariat Appellate Bench of Supreme Court of Pakistan on "*ribā*" should be accepted as valid and final as regards the definition and meaning of the term "*ribā*" and thus

accepted that the Bank Interest is "*ribā*". Islamic Banking in Pakistan is being carried out by the Islamic Banks on this very basis.

2) The State and the regulatory authorities need to spell out before the Federal Sharī'at Court that they believe in prohibition of 'interest'.

3) They need to change the structure of the financial institutions and business procedures and resort to phasing approach for coverage of different sectors and subsectors;

4) Dealing with financing public debt – State's financing may be separated from the core banking and finance - the 'holding company model' may be adopted to finance all business sectors and sub-sectors in the economy by the fully owned subsidiaries of the banks that will be doing different activities like trade related banking, investment banking, commercial banking, etc;

5) Trading Companies may maintain inventory on the basis of which 'Tradable Inventory Certificated' could be issued and traded for short and medium term liquidity management;

6) Treasury functions may be undertaken by the each Parent Company for investments of its equity. Detailed operations could be discussed by the experts prior to adoption of such system.

7) 'Prevention is always better than a cure'! : Transformation of the public debt system requires serious deliberations and re-organisation focusing on balanced budgeting by the government and the PSEs in a phased plan and exploring interest free alternatives of public sector financing.

8) The 'non-interest based banking' (NIB) system introduced in Pakistan during 1980-85, declared un-Islamic by the Federal Sharī'at Court, is still being offered as is evident from various SBP Circulars with regard to 'PLS' deposits, returns thereon based on Principles of Sharī'ah (BPD Circular 20 of 2003) and the use of the phrase 'mark-up' in place on interest by the conventional banks.

9) BCD Circular No. 13 of 20th June 1984 be taken back, in addition to adoption of the profit distribution and pool management system introduced by the SBP vide IBD Circular No. 03 dated November 19, 2012, The contract documents used currently by the IBIs might be mandated for the NIB banks, instead of 32 documents implemented in 1980 – the system would be transformed as required by our Constitution.

10) The banks may be asked to remit certain part, say 50 %, of the Current Accounts balance (on which they pay nothing to the depositor) to the government with or without service charge; private banks, doing business with the funds provided by the society, are socially bound to serve the

society, and remitting a part of the current account deposits in the form of repayable loan to the State; it is a kind of social service.

11) General public may be provided facility to maintain Current Accounts with Savings Centres, all branches of the Public sector banks (NBP, Bank of Punjab, Bank of Khyber, Sind Bank, Women bank, ZTBL, Khushhali bank), some newly created savings banks, with as minimum personnel as possible, may provide C/A facility with anytime withdrawal facility as be interest free loan to the Government.

12) **External Finance:** Accepted that transforming the external finance to interest free bases is bigger challenge than the domestic debt; but It must be kept in view that debt based international financing provided generally with certain conditions, has not enabled any country to come out of poverty or bring stability. Rather, the economies that avoided the IMF's emergency loan packages, referred to as structural adjustment programs (SAPs), were able to control short term crises with their own will and efforts. The problems in developing economies worsen by currency speculation added by kick-backs, corruption and international politics. Rather than providing remedy against the causes and resolving the problems faced by the recipient economies, the SAPs or other donors' packages render the recipient economies vulnerable forever.

Some people are suggesting naming Islamic Banking as Green Banking, Ethical Banking or Responsible Banking to make it acceptable to Non-Muslims or those who are opposed to Islamic thought, culture and viewpoint. With change of the name the very base of the Islamic Financial System that is Qur'ān and *Sunnah* will be lost with the passage of time and it will then be the rudderless ship lost in the wilderness away from its destined path. It is necessary to stick to the base firmly so as to remain on the chartered path and to achieve the *maqāṣid al*-Sharī'ah to the benefit of the Muslims and human beings and to gain *razā* of Allah SWT. Islamic Financial Institutions (IFIs) can serve as role model for this change at global level that has to be supplemented by rigorous regulations to restrict all types of financial institutions to create money without any genuine basis.

While Sharī'ah encourages proper measures for safeguarding the resources and wealth of the societies as also of individuals, it draws a clear line between *ḥalāl* and *ḥarām* and recommends avoiding doubtful things and activities

For this, the Sharī'ah scholars associated with IFIs and the Islamic finance professionals may delve into the Sharī'ah and the real business needs to find answers to the current Islamic banking issues and lead the industry on the right path of developing Sharī'ah based products to do *ḥalāl* business and hedge business risk.

Mr. Zafar Hijazi, Chairman SECP

The SECP Chairman, Mr. Zafar Hijazi highlighted in his message the initiatives that the SECP has taken to promote Islamic finance in Pakistan. In order to regulate and oversee Sharī'ah compliance in capital market, SECP established a dedicated Islamic finance Department in February 2015, which carries out functions for creating the infrastructure for Sharī'ah compliant product development, market awareness/ development and international liaison and networking. A Sharī'ah Board has also been constituted at the SECP that comprises Justice (R) Khalil ur Rehamn as Chairman, and Mufti Muneeb ur Rehman and Dr. Tahir Mansoori as members. SECP has taken the membership of the IFSB, KL, Malaysia. Four Sharī'ah standards issued by AAIFOI have been adopted. Pakistan's first Real Estate Investment Trust under the name 'REIT' successfully completed its initial public offering in June 2015 with the fund size of 22.237 billion rupees offering its 25% units to the public. The all share Islamic Index has been launched in Pakistan. All share traded at the Pakistan Stock Exchange that are subject to Sharī'ah screening are included in the Index. The capital market of Pakistan has potential for the phenomenal growth and there has been a remarkable increase since the Islamic mutual funds in year 2015. SECP is in the process of devising an approach for regulating and supervising the Islamic capital market activities with the given governance framework for Sharī'ah compliance for *Takāful*, *Muḍārabas*, Islamic Mutual funds, Islamic pension funds, Islam REITs and other Islamic financial institutions, Sharī'ah compliant non-financial companies, Islamic products and instruments.

Paper Presentations in the Regular Sessions in ICIB-2016

About 150 abstracts were accepted by the Technical Committee from all over the world. After proper scrutiny by the Committee, forty papers were selected on which presentations / speeches were made on areas including:

a) *Maqāṣid al-*Sharī'ah and Islamic finance
b) Divine sources and principles and approach to universal values in Divine economics;
c) Ethics, justice and human welfare in Islamic perspective
d) Islamic economics and finance as a source of socio-economic development - economics and finance in co-operative framework
e) Money, monetary policy and potential of Islamic finance
f) Potential and challenges in Islamic banking practices

On the above areas, ten regular sessions were conducted in both days of the ICIB. Due to the time constraint, four parallel sessions were also conducted separate from the main sessions in the Auditorium. The speakers of the Conference included: Prof. Dr. Abdelrahman Yousri, Dr. Akram Laldin, Dr. M. Fahim Khan who presented the paper by Prof. Anas Zarqa, Dr. Waqar Masood Khan, Secretary Finance, Govt. of Pakistan, Dr. Mughees Shaukat, Dr. Nasim Shah Shirazi, Dr. Salman Syed Ali, Dr. Zamir Iqbal, Dr. M. Ishaq Bhatti, Dr. Asad Zaman, Dr. Muhammad Qaseem, Dr. Zulkifli Hasan; Dr. Sajjad Zahir, Dr. Tariq Majeed. Dr. M. Tahir Mansoori, Dr. Syed Nisar Hussain Hamdani, Dr. Zahid Bukhari, Dr. Mirajul Haq, Dr. Muhammad Hanif, Dr. Muhammad Aqib Ali, Dr. Muhammad Khaleequzzaman, Dr. Muhammad Zaid Malik, Mufti Aziz ur Rehman, Mr. Elvis Deumic (from Qatar), Mr. Amer Khalil ur Rehman, Mr. Omar Javaid, Mr. Muhammad Ayub, Ms. Camille Paldi, Ms. Ankasha Arif, Ms. Asma Faiz, Mr. Bilal Rasool, Mr. Ahmed Ali Siddiqui, Mr. Mahmood Shah Khan, Mr. Muhammad Akhtar, Mr. Iqbal Hashmi, Mr. Agha Ali Javed of Pakistan's National Rural Support Program (NRSP), Ms.Warda Rasool, Syeda Hameeda Batool Gillani, Mr. Sami-ud-Din and Dr. Kamran Azam (co-authors), Ms. Sabiha Rehman and Mr. Muhammad Burhan (co-authors). The list of the papers / presenations along with the names of the authors / presenters can be seen at Website of the ICIB.

Main Points / Findings of Papers / Presentations

Dr. Mughees Shaukat - *Maqā╖id*: He emphasised that in the midst of fast growth of Islamic banking and finance over last two decades one must not forget the real foundational purposes of the Islamic financial institutions, that is, the fulfilment of *maqā╖id al*-Sharī'ah. He presented the 'Financial growth to *maqā╖id al*-Sharī'ah'- FGMS- Grid Matrix' to rate the banks, the regions and the overall sample as per the relative performances on both grounds. He applied the FGMS grid matrix, empirically examined the strength of the criticism made in this regard and tried to assess the gap between the financial growth of Islamic banks and *maqā╖id al*-Sharī'ah fulfillment. He suggested a methodology that could be used to measure Islamic banks performance via the designed *maqā╖id* ratios viz-z-viz financial growth.

Dr. Khaleequzzaman - Sharī'ah legitimacy: He emphasised that the Sharī'ah legitimacy of Islamic banking practices should be understood in a holistic perspective rather than mere adherence to the compliance requirements applicable to the products' structures, process flows, and documentation of the related transactions. Not only the *fatāwá* for permission of any products and their procedures must be based on the accepted principles of the Sharī'ah, but also their impact and implications must lead to achieve the socio-economic objectives as enjoined by the Islamic injunctions.

Dr. Akram Laldin - Sharī'ah Scholars' Role: in the paper, "*Sharī'ah Scholars, Sharī'ah Governance and maqā╥id al*-Sharī'ah *Application in Islamic Finance*" Dr. Laldin observed that the Sharī'ah Scholars have a key role to play in maintaining the credibility and integrity of the industry by requiring the IFIs to adhere to Sharī'ah principles. Islamic banks and financial institutions should observe *maqā╥id* in their corporate objectives and policies and also use them to verify compliance to true Islamic principles. Therefore, efforts are required to be made to develop standards and guidelines for the best practice of Sharī'ah advisory and supervision. *maqā╥id al*-Sharī'ah are the Islamic objectives and spirit in the banking and financial practices as a reflection of Islamic vision of the economy to the financial sphere in the effort of realizing human wellbeing (*ma╥la╒ah*) and a just and fair order of society. He elaborated the role of Sharī'ah scholars in the development of the Islamic finance industry, Sharī'ah governance framework, and the application of *maqā╥id al*-Sharī'ah in Islamic finance.

Dr. Zulkifli Hasan - *Ma╥la╒ah*: He made the presentation on "*Ma╥la╒ah in Stakeholder Management for Islamic Financial Institutions*". He discussed the corporate governance structure in the IFIs and conceptualised *ma╥la╒ah* in stakeholders' management as a tool to resolve the issues involved in this regard. *Ma╥la╒ah* also involves duty to protect the interest and rights of all stakeholders - protection of minority and majority shareholders, welfare of the employees, interest of the public and preservation of the environment. He also discussed the *Ma╥la╒ah* Parameters and contended that *ma╥la╒ah* should not be applied in the areas that are fixed and unchangable.

Dr. Syed Nisar Hussain: Divine Economics and Universal Values

On the subject of Divine sources and principles in socio-economic development, presentations were made by Dr. Syed Nisar Hussain Hamdani and Dr. Mirajul Haq. Dr Syed Nisar Hussain Hamdani discussed the approach to universal values in Divine economics. He contended that the most of the human beings belong to any religion and hence for the substantial majority we need faith-based models such as Divine economics. He defined Divine economics as the economics interpreted by divinely guided personalities such as Prophets, *Imāms*, Saints, priests, theologian, religious scholars, clergyman; and men of God. Its principles, rules and models are derived from Divine religions or the economic message of the Divine books. He referred to the research work done on DE during the period 1999–2015 and discussed its unique features. Under this the decisions related to resource allocation are taken under the Divine principles to maximize current, future and afterlife expected stream of well-being within available material and non-material resources. Divine economics examines how economic and non-economic factors shape an economy and society and how far any change affects its patterns of allocations, faith, spirituality, values and other socioeconomic interrelationships. He also discussed the report of the study funded by HEC, Pakistan and conducted by the Kashmir Institute of Economics, University of AJK. The study proposed an alternative methodology for identification of universal values based on fundamentals of Islam and other religions. Using the Divine economics criteria for values classification it developed survey-instruments for the collection of data. Regarding the theories of measuring values he contended that the available empirics-based approaches to identification of universal values are not appropriate for the societies which follow some faith patterns. These theories generally ignored the classical literature of Islam.

The paper on "Consumer Behavior in Tauheedi Epistemological perspective" by Mr. Sami-ud-Din and Dr. Kamran Azam of Riphah International University was presented by Mr. Sami-ud-Din.

Dr. Anwar Shah: Human welfare in Islamic Perspective

Dr. Anwar Shah critically analysed the conventional approaches of welfare from Islamic point of view and suggested a way for measuring welfare of the people in Islamic framework. He discussed the neoclassical approach of welfare (Edgeworth, Sidgwick, Marshall, and Pigou) and the New Welfare Economics approach (based on work by Pareto, Hicks and Kaldor) Both these approaches are outcome of the philosophy of positivism meaning that the market outcome is considered optimal while all institutions become subservient to the beneficiaries of market, in particular, suppliers (bigger and bigger companies etc.). It leads to helping the rich to become richer. It has impact on all major pillars of the societies namely the governance system (Democracy), Judiciary, Police, Health, education, etc. He emphasised that Islam ensures true concept of welfare of the mankind by rejecting the falsehood, recognition of the truth and allowing the development of the system based on truth. It protects the interest of society at the time of clash between private and public interest at three levels. The moral filter works in the market functioning and keeps the concept of maximization within moral limits. The concept of reward in the Hereafter motivates the rich to pass on wealth to the poor, voluntarily.

Formally, the institutions of *zakāh* and *waqf* become the tools for serving the purposes of those who might lose ability to serve themselves. Thus Islam makes society at large the custodian of the interests of all and encourages everyone in the society to discourage people who might hurt the interest of general masses. Ultimately, it makes the State custodian of the interest of people. It also requires monitoring of government officials to discourage them from misusing the power of government for private gains while the institutions of *╒isbah* functions to protect the interest of people.

Dr. Muhammad Anas Zarka: Islamic Finance – the Journey to the Present: A working paper by **Prof. Dr. Muhammad Anas Zarka** on the subject of "*Islamic Finance*: *The Journey to the Present, and Potential Participatory Modes*" was presented by Dr. M. Fahim Khan. Dr. Zarqa in his paper discussed how the participatory finance was visualised as the destination of Islamic finance and how the obstacles in using equity based financing led to the situation where real *mushārakah* based financing is almost non-exitent. Islamic finance comprises both participatory and the debt based modes; "*several important economic activities cannot be financed by equity*". But, it is now being universally agreed that equity finance is essential for stability and justice, and must be encouraged institutionally to replace the universal dangerously high reliance on debt; and that the present banking system needs fundamental reforms. Islamic finance has something valuable to contribute in this regard. With this long-term goal we should work hard on evolving participatory financing modes that are less risky than standard *mu╔ārabah*, *mushārakah* and common stocks, to suite the diverse needs of investors and institutions. He suggested a contract that insulates the financier from the costs and ownership risks of real fixed assets of the enterprise. This kind of contract called *musaqāt* is available in classical Islamic law. In *musaqāt*, the orchard owner provided the usufruct of his fixed capital in the orchard, while the operator provided all operating inputs and finance. Any project or enterprise characterized by relatively predictable and easily observable revenue (such as power and other utilities), offer the best low risk participatory financing opportunities. The revenue sharing operator has no incentive to inflate costs, while he still has full incentive to minimize costs to increase his residual profit. With regard to the bank as an operator he suggested that subcontract management to a third party with clear agreement of the owner. The bank can even hire the owner or his team to manage, as in an innovative two-tier 'inan partnership in Sudan. He also hinted at "Multi-Level Protection *Mushārakah ╗uk┴k*" (MLP Sukuk) being proposed by IDB / IRTI, ISRA and other research institutions. For the

MLP ╗*uk*┴*k*, the Company may issue a promise to redeem the ╗*uk*┴*k* held by investors if the Company's accumulated share in aggregated profits is adequate for such redemption. If this is the case, the Company shall redeem the ╗*uk*┴*k* at nominal value. If, however, the accumulated share of the Company in profits is not sufficient, the Company is under no obligation to redeem. Hence, the promise to redeem is not a debt obligation on the Company. It is conditional upon realization of sufficient profits. Thus, MLP ╗*uk*┴*k* are a kind of genuine partnership in the underlying assets. There is no guarantee by the Company that investors will get back their capital.

Dr. Nasim Shah Shirazi- Bridging the Inequality Gap: Dr. Shirazi from IRTI, IDB, Jeddah made presentation on "*Bridging the Inequality and Poverty Gap through State enforced Charity (social tax): A Case of Low and Middle Income Countries*". He suggested reviving the religious teachings on charity, and concretized their potential impact if legislated in the form of as a social tax equivalent to zakat in Islam. He indicated that despite many efforts by UNO, inequality in disposable income increased during 1990-2012in 65 out of 130 countries, which constitute 70.6 per cent of the world population. He stressed that transfer of resources from the haves to the have-nots may be viewed as a moral imperative on the rich, as emphasized by most religions. He suggested the idea that all low and middle income countries may like to impose a social or poor tax equivalent to *zakāh*, with proceeds transferred to the extreme poor. An international fund may be established to which all low and middle income countries may contribute their Social tax proceeds, which could be distributed to fill the poverty gap in each country. Hence, a surplus of one country could be used to fill the shortfall in another. He estimated that while the resource shortfall in absolute terms, under US $ 1.25 a day and US $2 a day is about Us $ 345 billion and US $ 553 billion respectively, the amount collected under social tax would be about US $ 1183 billion, consequently all the poor can be lifted out of poverty in these countries.

Dr. Salman Syed Ali – ***Waqf* Aligned ╗*uk*┴*k*:** Dr. Salman of IRTI, Jeddah presented a novel idea of *waqf* aligned developmental targeted Sakuk inviting the researchers to analyse and develop it further and the practitioners to analyse its feasibility. It is to give '*waqf'* a catalyst role in implementing and financing of projects of socio-economic significance. This kind of ╗*uk*┴*k* family will have following characteristics: i) development oriented; ii) stage wise outcome based; iii) to tap *waqf* resources as catalyst; iv) not as main financing, but to facilitate the main financing; and v) will be involving completion of specific development oriented project. The *waqf* aligned ╗*uk*┴*k* may be useful for infrastructure and other long term project the returns may be generated after three or four years. For example, drinking water PPP (Public Private Partnership) projects, a Dam or energy, communication, transport, infrastructure projects. The idea of *awqāf* has been suggested to take care of the interim period when there is no return from the project. Waqf will work as catalyst only to influence the investors to invest and hold during the gestation period. Through this idea, *waqf* can enhance or impact the development financing. The idea is that a trust or a *waqf* will pay the mark-up or will pay the interim period, so that the project is in running position. The idea combines *ju'ālah* to create performance based payment in ╗*uk*┴*k*.

Dr. Abdelrahman Yousri – Islamic banks's role in development: He discussed whether Islamic banking is helping in Economic Development of Muslim Countries. He argued that the performance of Islamic banking in four decades had been unsatisfactory. There is a wide gap between what was expected from Islamic banking in theory and what has been achieved in practice. Islamic banks succeeded in collecting funds but failed in employing these funds in the production sector. Majority of funds have been employed in retail trade of durable consumer goods and services or for financing the governments. He called for urgent corrections - total elimination of non-compliant Sharī'ah products (mainly *Tawarruq*), and termination of using the interest rate as bench mark and initiating new policies.

Dr. Zamir Iqbal- Ethical Dimensions of Islamic Finance: He underlined the point that the finance problems today are fundamentally the "ethics" problems. Financial scandals, crises, and crimes have forced academia to question the very fundamental assumptions such as self-interest and rational expectations underlying modern economic thinking. The increased complexity in the financial transactions and financial markets has blurred the issue of ethics and has made it difficult to establish clear accountability for individual or corporate actions. He indicated the key Islamic virtues namely sanctity of contracts, trust, integrity, market conduct, preservation of rights, market conduct and benevolence. He indicated following implications of this development on Islamic finance i) underdevelopment of core institutions based on Islamic principles and values; ii) divergence between public policy and objectives of Sharī'ah (*maqā*╗*id al*-Sharī'ah) iii) The trend of replicating risk-transfer rather than risk-sharing financial instruments; iv) financial engineering focused on form rather than substance; v) shareholder- rather than stakeholder-based eccentric governance framework and finally, redistributive instruments are underutilized and their effectiveness is below par.

Dr. Muhammad Qaseem – FOREX Trading: He discussed the Sharī‘ah related issues in FOREX trading in the light of Islamic law of contracts and contended that the reason for the prohibition of exchange of gold for more gold or deferred silver is that gold and silver are natural currencies. Majority of the Sharī‘ah scholars believe that the paper currency has taken the place of gold and silver. Therefore, any item which is considered as currency is subject to rules of *bai‘ al-╥arf* according to which Offer & Acceptance has to be accompanied with the actual exchange of counter values, which is not the case in the normal sale of commodities. He added that the paper money has replaced gold and silver as a natural currency; prices are measured by it, wealth is preserved in it and any debt paid in paper currency absolves the debtor from his liability. Therefore, currency exchange is subject to the rules of *bai‘ al-╥arf*. For an exchange of currency to be a valid transaction the contracting parties must exchange the currencies subject of sale and purchase before dispersing or terminating the *Majlis al-‘Aqd*. The spot FX transactions in which the value date is two business days after the transaction date are invalid from the Sharī‘ah perspective because deferment of the counter values has been stipulated. "*When forward transaction is prohibited in Sharī‘ah, it does not makes any difference whether the time lapse is ten minutes, two days, ten days or 3 months*" It implies that the contract must not contain any conditional option or deferment clause regarding the delivery of one or both counter-values; currency transactions shall not be carried out on the forward or futures market. A delay in making the transfer is allowed to the institution, according to prevailing business practice. However, the payee is not entitled to dispose of the currency during the transfer period. He also contended that English translation of the AAOIFI Standard is not correct as it has translated an immediate FX transaction (عقد ناجز) as a Spot transaction (T+2 FX). It caused confusion, as Treasuries of Islamic Banks assumed that the Sharī‘ah Standard has allowed spot FX transactions as practiced by them. Many Sharī‘ah boards of Islamic banks have approved Spot Transactions assuming that a Spot Transaction is a ready/immediate transaction. Actually, *fatwá* has been issued favouring the immediate transactions, but that was treated by the bankers as spot transactions involving T+2. He concluded that the main objective of the Islamic banks is that they should do Sharī‘ah compliant business. Sharī‘ah compliant business is not only the responsibility of Islamic banks, it is also responsibility of the government and the regulator also to facilitate in that field.

Dr. Asad Zaman – Monetary Reforms: While presenting the paper on "*Elimination of Interest and the Iceland Plan for Monetary Reform*" he discussed whether the present financial system can be reformed? Can the Parliamentary Democracy be converted to *khilāfah* /*Sh┴ra* by making step-by-step changes? The issue of money and credit creation is crucial in this regard. For this he suggested making operative the 'The Chicago Plan' that replaces Fractional Reserve by 100% researve banking. For Islamic-Iceland Plan, he suggested the following: Sovereign Money the quantity of which would be decided by a Technical Committee; it will be spent on real investments and separation of Deposit Banking & Investment banking. As the Government is poor at providing social service and investments, he suggested revival of Neighbourhood Communities, Creation & Support of *Waqf*, Local Community Banks for Investment and Islamic Financial Institutions focusing on financing of the commodity producing sectors.

Dr. Zahid Bukhari - NGOs and socio-economic development: He in his paper, "*Islam and Poverty alleviation: Connecting the missing Dots….*" he mentioned that there are as many as 20 million NGOs working around the globe for all kinds of social welfare and bringing social change and development. But, eradication of extreme poverty, achievement of sustainable development and establishment of a just society still remain a dream to realize. Even in the US, according to the Cato Institute, almost fifty million Americans are included in the category of hungry and poor people. This is despite the fact that the world has been producing more grain every year than the collective need of the total population of the planet earth. It implies that there is something fundamentally wrong with the present world order. There is a strong need to study the impact of imperialism, wars, and multinational defence corporations on the rising inequality in the developed societies under the present liberal capitalist world order. Even the NGOs are not very eager in changing the socio-economic structure of their countries of origin. The Muslim relief organizations are also copying, albeit unconsciously, the same model. It is mainly because the faith based institutions working for social development in medieval ages, lost their significance in the 18th century onward, probably because of capitalist and market approaches towards economic development. However, there has been a dramatic increase in the number and visibility of faith-based organizations (FBOs) involved in development and humanitarian aid. The increasing interest in the role of religion in development and humanitarian aid has shown in the establishment of various initiatives to strengthen cooperation with religious organizations for social welfare activities. However, the documents of the MDG and the post 2015 debate on these goals still lack any Islamic perspective. He contended that creating a just global environment should be the duty of all human beings. Any comprehensive indicators to show the extent to which justice prevails in a given society would include a number of indicators like family integrity, social harmony, equitable distribution of income and wealth and mental pace. A new "Just and Balanced Society Index (JABSI)" could be developed to examine if the human development is just and balanced according to the Islamic criteria prescribed in the Qur'ān and *Sunnah*.

Dr. Mughees Shaukat – **Cooperative framework:** On the subject of "Economics and finance in co-operative framework" he presented the paper on "Risk Sharing in *takāful*: An Appraisal of the *takāful* Model based on '*Tabarru'*. While Mr. Elvis Deumic discussed *takāful* as a System of Shared Responsibility and Co-Operative Risk Sharing, Dr. Muhammad Hanif presented a paper on evaluation of Islamic Insurance system in Pakistan.

Other Presentations: Dr. Sajjad Zahir presented the paper co-authored with Dr. Moazzam Farooq "On the Co-existence of Conventional and Islamic Banks: Do these Banks Differ in Business Structure and Efficiency". Mr. Amer Khalil-ur-Rehman presented the paper on "Promoting Practice and Usage of *salam* for increasing Social Inclusion". A joint paper by Sabiha Rehman and Mr. Muhammad Burhan on "Estimating Profitability of Islamic Banks: Evidence from Pakistan" was presented by Ms. Sabiha Rehman.

Mr. Bilal Rasool, Director Islamic Finance Department at the SECP explained the Legal and Regulatory Architecture for Islamic Capital Market in Pakistan. Mr. Agha Ali Javed gave a presentation on the national Rural Support Program (NRSP), Pakistan.

The potential role of social finance inspired by Islamic norms of micro financing in eradicating extreme poverty and triggering sustainable development should receive special attention within the MDG and Sustainable Development Goals (SDG).

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