

Potential Applications of Istisna Financing in Pakistan

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Abstract

Istisna is an Islamic financial contract in which the product is manufactured by the manufacturer and sold to the buyer with stipulated terms and conditions. Istisna financing is widely contributing to the Islamic financial system. Previous studies on Istisna are just based on theoretical backgrounds. Istisna financing is being implemented in other Islamic countries such as Malaysia. However, the main purpose of this study is to explore how Istisna financing could be implemented in Pakistan. To investigate it, we conducted this research that is based on qualitative research methodology using a semi-structured survey to gather comprehensive information that presents a strong opinion of the participants. According to a preliminary survey, including Islamic banks and regulators, the results of this study show that Istisna is considered as a good product in Pakistan with unique features and capabilities.

Keywords: - Istisna financing, Potential application, Islamic Finance, Islamic banking.

1. Introduction

Pakistan is the developing country in the field of Islamic finance research. Financial companies have a significant impact on business growth by providing financial support of their products (El-Galfy and Khiyar 2012a). Housing and Infrastructure developments are essential for the country's economic growth. Islamic Finance is widely contributing in the economic system of Pakistan. Islamic financial products are being used by the Islamic banks of Pakistan as well as Islamic microfinance institutions.

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Islamic financial system is becoming the essential model of the world's economic industry. Factors in the real economy such as manufacturing, construction, and other industries are main models of Islamic finance (Alzoubi 2017a). Therefore, Pakistan offers Islamic banks and IFI's the opportunity to offer their products based on sharia principles.

In previous research on the behavior of Islamic financial products, the sale of Bai 'al Istisna' or products is the most important. Several countries including Bahrain (Samad, et al 2005a), Jordan (Abdul -Khaliq 2014a) Saudi Arabia (Ibrahim, Ong, and Akinsomi 2012) and Malaysia (Al-smadi, Abobakr, and Balfaqih 2013) usually take or add Istisna to local funds. In Pakistan, Istisna may be used for production or construction purposes (Grewal, (2015). This study presents the uniqueness of Istisna, a specialized form of marketing for the production or construction purposes. From a research point of view, the special value of Istisna financing states that the contractor's product price will not be paid when performing the contract (Economics, Management, and 2004 2004). Therefore, Istisna may be used as a financial contract or financial support for the contracting parties. However, Islamic financial institutions, the major supporter of Islamic financial system, are still reluctant to follow the Istisna agreement. In 2005, Pakistan's manufacturing and infrastructure grew by a good percentage. . This should encourage IFI to innovate and meet customer needs. For example, the success of future Islamic financial institutions will depend on the ability of these companies to invest in real estate. To find out, by specific analysis, why Muslims seek Istisna is also one of the basic purposes of this study. The study also presents that how Istisna financing could be implemented in Islamic financial system of Pakistan along with presenting the concerned issues. In addition, this study also examines how to improve Istisna-based products.

Research questions focused in this study are mentioned below;

RQ1. Why do Muslims need Istisna financing?

RQ2. Why does Istisna financing has less popularity rather than other Islamic modes of financing in Pakistan?

RQ3. How Istisna financing could be implemented in Pakistan?

This study includes effective cooperation with Islamic banks in Pakistan. This approach seeks to provide an in-depth understanding of Istisna financing in current Islamic financial system of Pakistan. The interviews to be considered would identify Istisna "based on experience from different angles by using some important questions regarding Istisna structures and its applications". The results of the study can be used to inform Islamic banks about developing a forecast for improving Istisna policies in Pakistan.

Our study differs from Istana's previous research in three aspects: Firstly, this is the first study to provide an insight view of Istisna financing. Previous studies in Istisna have been limited to the revision of short contractual terms, Sharia licensing terms and comparisons with other Islamic financial products such as Salam, Ijarah, Musharakah and Mudarabah. In this study, we will find out from the respondents' answers that what are the opinions of participants regarding the potential applications of Istisna financing in Pakistan. Islamic financial instruments may be a good choice for customers but they are not familiar with IFIs. In this regard, we focus on Istisna growth data by asking direct questions and get truthful answers about the risk of irrelevant legal issues. However, this study is based on four parts to explore the potential applications of Istisna financing in Pakistan: First part of the study describes an overview of Istisna financing and its usefulness for the customers. In Part 2, we review the literature on Istisna financing". Part 3 presents our methods and data. Part 4 is about our findings.

2. Literature Review

A huge literature is available on the theoretical background and the shariah status of Istisna contract. But here is a study conducted by Khan (1997) who described that how the constructions projects can be funded under Islamic financial institutions quoting some of the constructive projects in which the Istisna agreements were used. The Hub power project in Malaysia is one of them and that was funded with a variety of Istisna finance-based agreements, it also may be a subject to increase further research of Istisna financing. Islamic Financial institutions including Al-Raji Islamic Bank were included in the project. Ninety-two million rupees were provided for preliminary work and for a conglomeration of four International Financial institutions were provided 65 million for the transmission. Zarqa (1997) quoted an example of Interest-free loan for public utilities in the form of Interest-free debt certification. They cannot obtain funding for infrastructure projects because they do not have access to revenue under the terms and conditions which were stipulated.

Syariah (2002) explained that some good steps are taken by the Islamic financial institutions to apply the Istisna agreements in the manufacturing. He believes that this method of investing is more important in Islamic Banks. This includes the manufacturing method as well as promotes the industry, and plays a significant role for development in Islamic Banks. According to Rosly & Abu Bakar, (2003), the use of credit transactions in financial management (Al-Murabaha and Ijarah wa iktina) owns more than 90% of Islamic Banks' assets. Diversity should be sought by promoting ethical banking through agreements

such as Mudarabah, Musharakah, Salam, and Istisna products, as they can play the main role of entrepreneurs and beginners. It is believed that Islamic Banking can increase the profit ratio of the economy having a positive impact on the well-being of society.

Samad et al., (2005b) tested seven Islamic products from Bahrain and Malaysia as a feasible substitution to the Interest-Based agreements. These agreements are Murabaha, Musharakah, Ijarah, Murabaha, Qard Al-Hasan, Bai Thaman e Ajal and Istisna.

Al-Salem, (2009) penned that in the countries of the Middle East, investment plans are a main method of life and refers to increase the ability of society to achieve maximum productivity. Islamic Financial Institutions have provided services and products to diversify transactions. The research also points to some successful Islamic Financial products such as Mudarabah, Murabaha, and Istisna that are fully compliant with the guidelines and principles of Islamic Law. According to this research, new ideas based on Islamic principles need to be continued and implemented as well as the needs of today's financial market. Further development of goods and financial services are required under Islamic Law for the improvement of the Islamic Financial System.

According to Nurrachmi et al., (2012), Istisna contracts cover several areas that can be designed or built such as the real estate and construction industry including high-tech infrastructures such as aircraft, cars, boats, and home appliances. Ibrahim et al., (2012) conducted a survey to investigate the main issues with Shariah-Compliant financial system and investment issues in real estate development. The survey response was less likely to consider Istisna contracts to support investments and real estate development as compared to other products. El-Galfy and Khiyar, (2012b) opined that Islamic finance is related to asset-based production and trade thorough which huge profits are obtained. Islamic Finance is limited to the scale of goods and services in the market through capital contributions, sales, or lease agreements.

Adelekan et al., (2013), according to the GCC study model, the study can take advantage of Islamic Finance worldwide which possesses business partnership features including profit and risk such as conflicting to the Interest-Based Finance and the conventional banking system. Further penned that Islamic financial institutions will use variation of industry and financial resources to make available the necessary financial support to meet the needs of its customers. In many cases, financing infrastructure projects require the support of the banks. Islamic Finance cost of \$300 million is fixed for Istisna and Ijarah Mawsufah fi Al-Dimmah.

Ibrahim, M.F. and Kamarudin, (2014) described the benefits of the potential applications of Istisna financing that will contribute to the benefit of all the buyers, contractors, Islamic Banks and Islamic financial institutions. It is specialized that offering the right product's structure to consumers, who need investment, will increase revenues of the Islamic Financial companies. Therefore, the concept of the Istisna application will play a significant role in the development of Islamic Financial system. Therefore, this study approved Istisna as another way of development of Islamic Financial System.

Abdul-Khaliq (2014b) used secondary data from the Islamic Bank of Jordan to establish the most Islamic investments in Murabaha. Istisna represents less than 3% of the total investment. Abdul-Khaliq also suggested expanding Istisna application to support small industries and to find effective ways with other Islamic banks around the world. Therefore, Islamic financial institutions must provide an Istisna product to build up the application of Istisna.

Lasa, et al conducted a research on private project financing resources related to public project development. Authors also explained that Istisna financing is primarily involved in Islamic financial projects that are available to financial intermediary partners taking into account key factors such as project factors, project feasibility, project risk, and economic strength of the company. In this scenario, Istisna can change the game, as it can be used for launching.

Shabbir et al. (2016) are of the view that under Islamic Finance, the instruments should be secure from the prohibited things, likewise Interest, Gambling, and uncertainty. The study also declared three main modes of financing such as Trade-based, Partnership-based and Rental-based modes. Istisna product is classified as a modern financial mode of financing. Under the Istisna agreement, payments can be flexible therefore; the Istisna product is more flexible product rather than the other products of Islamic finance. The main structure of Istisna financing depends on the conditions of the agreement, being conducted between two parties, and payment may also be on the spot or in installments.

Alzoubi, (2017a) scrutinizes the profit ratio of Islamic Financial Instruments which are based on a model of 41 banks from 13 countries. Islamic Financial Institutions are missing a large percentage of profits by investing in Istisna and Murabaha products. (Alzoubi 2017a) argues that Istisna contributes positively to banks' profit ratio.

Recently, Hasmawati and Mohamad (2019a) penned about potential application of Istisna financing in Malaysia. The author conducted semi-structured interviews of the participants who were chosen by different Islamic financial institutions and some of them were from regulators. Through these interviews, the author described their response regarding potential applications of Istisna financing in Malaysia.

As we reviewed the literature on Istisna financing, most of the previous studies are based on theoretical backgrounds and basic information regarding Istisna financing and its shariah status. Only one of them tested the actual application of the Istisna financing in Malaysia it is also found as the first study that truly described the potential applications of Istisna financing in Malaysia. Thus, there is no research available on the applications of Istisna financing in Pakistan. Many others studies are available which are about applications of other Islamic financial products such as Musharakah, Mudarabah, and Ijarah. But, this research takes a qualitative way with a variety of data sources. However, to explore Istisna financing applications in Pakistan is the main purpose of our study.

3. Research Methodology

This study explores the potential application of Istisna financing in Pakistan. Through the opinions of participants from Islamic banks, we tried to have an idea for the potential application of Istisna financing in Pakistan. The study is based on qualitative research methodology using a semi-structured survey to gather comprehensive information that presents a strong opinion of the participants. For the interviews, we invited twenty-nine members from Islamic banks. Only fourteen members of Islamic banks are included in the interview. As shown in below table, one participant from each institution contributed to the interview session.

Table 3.1: Participant of Islamic Bank

| No . | Islamic Financial Institutions (IFIs) | Interviews | Designation | Respondents |
|------|---------------------------------------|------------|--|-------------|
| 1. | Meezan Bank | Yes | Sharia Officer | IB1 |
| 2. | Dubai Islamic Bank | Yes | Sharia Advisor | IB2 |
| 3. | Soneri Islamic Bank | Yes | Sharia Executive | IB3 |
| 4. | Bank Alfalah Islamic | Yes | Sharia Review Manager | IB4 |
| 5. | Al Baraka Bank | Yes | Sharia Committee | IB5 |
| 6. | BankIslami Pakistan Ltd. | Yes | Branch Manager | IB6 |
| 7. | MCB Islamic Bank | Yes | Director & Co-Head of Group Sharia and Islamic Legal | IB7 |
| 8. | UBL Islamic Bank | Yes | Financial Guide Service Officer | IB8 |
| 9. | Askari Bank Ltd. | Yes | Sharia Committee | IB9 |
| 10. | National Bank of Pakistan | Yes | AVP Sharia Advisory | IB10 |
| 11. | HBL Islamic Bank | Yes | Branch Manager | IB11 |
| 12. | Bank Al Habib Islamic | Yes | Credit Department Officer | IB12 |
| 13. | Faysal Bank (Islamic) | Yes | Sharia Committee | IB13 |
| 14. | Bank of Punjab Islamic | Yes | Sharia Advisory | IB14 |

Number of the participants for Islamic banks with their designations is shown above in Table 1. We selected fourteen participants from Islamic banks of Pakistan as well as some of these banks are full fledge Islamic bank such as Meezan Bank Limited. We observed the views and opinions of the participants for interviews on Istisna and its potential implementation in Islamic banks including their advancement in financial technology. All these views are obtained after the interviews. Members are those participants who are much aware of Istisna products. Regulators are those who are directly involved in structuring Istisna models and are familiar with the Istisna products. To collect

data about their business environment as well as how an organization picks the funding technique when under taking development plans was also the basic purpose of the interviews. The participants in interviews came from the treasury, finance or project management offices. The Sharia committee, Sharia researchers, and Islamic financial products managers were all interviewed who were the members of the Sharia management departments. Members from the regulatory authority, who deal directly with the Istisna idea paper, are included in our sample. Interviews with Islamic Financial Institutions were done with a project officer and a member of the treasury department also, who were familiar with the company's overall business cycle. Three groups of analytical aims are separated in this study because they are with distinct perspectives. Hasmawati and Mohamad (2019b), talking about interviews structuring said that face-to-face interviews and electronic channels such as the telephone, the internet, or video calls, also may be used to conduct interviews. Therefore, we decided to conduct face-to-face interviews to gather more effective opinions from the participants (Miles, et al. 2014). The primary questions are mentioned in Table 2. The interviewee's responses are described in the results of the paper. We attempted to recognize patterns of answers and responses during the theme analysis. All of the participants have different response on the questions, they were asked. We collected their responses and presented an overview from the participants for interviews (Berg, and Lune 2004).

Table 3.2: Interviewee's Responses

| No. | Main question | Additional/Clarifying question |
|-----|--|---|
| 1 | What do you think about Bai Al Istisna? | Objective, Shariah compliance, Market |
| 2 | How would you differentiate Bai al Istisna from other Islamic products? | How Istisna is prominent rather than other Islamic financial products? |
| 3 | How Istisna can attract investors as a mode of financing? | |
| 4 | What is the progress of current practices of Istisna? | In terms of: profit, General performance, issues faced, challenges, market/need and risk. |
| 5 | How Islamic Financial Institutions will prefer Istisna as their Islamic product? | Bank's preferences to offer Istisna |
| 6 | What would you recommend to propagate Istisna product in Pakistan? | What bank thinks that Istisna product should be more preferred than other IFIs-product? |
| 7 | What is the reason that Istisna is less flourished than other Islamic Products? | What is the probability of Istisna to be implemented in future? |

Opinions regarding Istisna, Factors Affecting Istisna and applications of Istisna financing in Pakistan were three main categories discussed in this study. Based on the interviews with the members, we emerged this point of view to get more effective observation. The first category focuses on broad opinions about Istisna. Risk, regulation, and other items are the three main key themes in the second category. The third category includes the suggestions of the participants to implement the potential applications of Istisna financing in Pakistan. This area is made up of three key themes: models, applications, and recommendations. Therefore, in results we will deeply describe participants' opinions and their points of view regarding potential applications of Istisna financing in Pakistan.

4. Results

Above mentioned questions were asked to the participants including Islamic financial institutions, regulatory bodies and companies. The results we observed are mentioned below;

4.1 Why do Muslims Need Istisna Financing?

Istisna is generally perceived as a good opportunity for Islamic financial institutions that is especially for the construction purposes. The concepts are very unique about the benefits of Istisna financing and its potential applications in Pakistan. It can provide that how the Islamic banks can get back to the core of the Islamic economy interacting with real capital. Mohd Faisal Ibrahim, (2014) wrote about the benefits to apply Istisna as financing and said that it is very important to provide financing facilities to the people, as we do not know how to use it, it does not attract us. There are many types of sharia contracts with different types and purposes; if the customer needs money for the construction purposes, the respondent says that Istisna is the best deal.

One of the participants considered Istisna under exceptional contract and elaborated that Islamic law forbids the sale of goods that is not included in the shariah but there are exceptions in this situation according to the hadith given by the As-Salam, as taught by Bukhari and Muslims. "Man Aslafa fi syai in fi yusli syai in" All vendors must indicate quality, quantity, and also the delivery time - when a product can be delivered. This was his general point of view about concerned topic. Thus, under Shariah's prospective, there are three main elements in sales contract: offer and acceptance, contracting parties and presence of the commodity. These elements must be considered at the time of the sale contract. Shariah does not allow any sale if the commodity is not present at the time of contract but, the exception is only to two contracts Istisna and Salam. In Istisna contract, the commodity is not present at the time of

contract but will be delivered in future agreed date as per stipulated terms and conditions between the parties. Some participants described that Istisna is also unique tool of financing that will contribute to fulfil the needs of poor people along with its usefulness for the business purposes for Islamic financial institutions. It can also provide many facilities for customers. The banks are just an average finance provider to their customers. Those Islamic banks in other countries which are providing Istisna financing, are more popular rather than conventional banks for their financing facilities to the customers.

Istisna financing is the most important tool of finance. It is also playing a prominent role in the development of finance facilities of Islamic financial system. Therefore, the potential applications of Istisna financing in Pakistan could be very useful facilities of financing for the customers. In this modern era, Istisna financing is the facility that is really useful for the Muslims as well as No-Muslims communities. This emerging tool of Istisna financing is also widely attracting the Muslim communities because of its smooth process and uniqueness.

4.2 Why does Istisna have less popularity rather than other Islamic modes of Financing in Pakistan?

Islamic financial institutions which provide Istisna financing are being faced by many risks regarding financing. The reason behind is the people's behavior regarding the complications of the flow process of this financing tool. As most of the interviewees mentioned in the interview that Istisna financing is riskier in terms of risk management rather than other financing products of Islamic financial system. Most of the Islamic financial institutions do not want to adopt Istisna as financing tool due to many risks (risks in istisna - Google Search n.d.). These risks are becoming the impediments in the application of Istisna financing. Istisna has been used especially for construction purposes; this sense of inferiority to other products seems to indicate a weakness in the value or misunderstanding to use Istisna as a financing tool. One respondent's opinion was that anything can happen with improper ownership and that banks do not face this risk. Likewise, as reported by (Hanafi and Kasim 2006), Istisna is less popular because banks are reluctant to accept a contract that is considered a high risk as a lender. In interviews related to the implementation of Istisna financing, two types of risks are often mentioned namely the risks from customers in payments and the distribution of equipment. Secondly, there is a risk in Istisna when the equipment is not updated. Due to the inability to deliver assets, the ability to quit the job and the ability of equipment does not meet the specifications which leads to a breach of circumstances.. As stated in

previous studies published about Istisna, the sellers are disregarding the timely and efficient delivery of Istisna assets. However, the buyer can buy the property as it is or terminate the contract. In terms of quality performance, the risk arises if the property does not meet the requirements. Istisna financing has to meet the requirements of all parties. In fact, in our new shariah standard, it is possible to terminate a contract if you feel that a project does not meet the requirements.

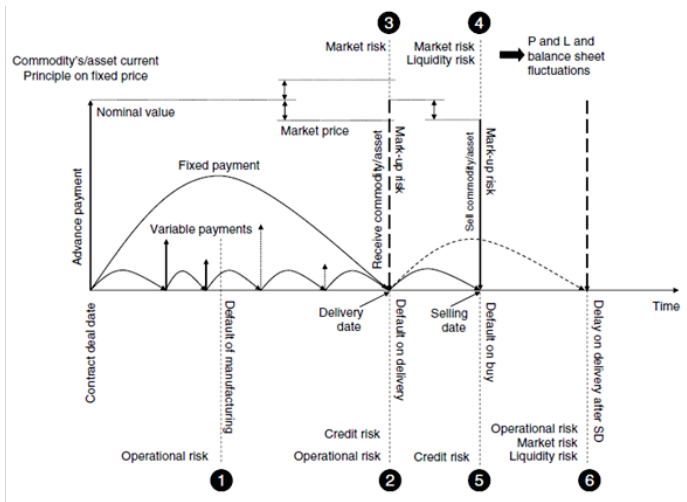
The risk can be financial loss. Although the only threat is unwarranted, it must be exploited to create wealth and profit. The first priority of Islamic financial institutions is not to dedicate themselves to Istisna due to the fears of risks they have. Moreover, there is a forecast document issued which describes the concepts regarding Istisna financing as well as the Islamic Financial Services Act 2013 which governs the general behavior of Islamic banks. The law is on two sides: sharia and the requirements for performance (Abdul-Khaliq 2014a). It outlines Islamic financial institutions' guidelines for both of them, if they want to offer Istisna products. They argue that this principle has become a challenge for Islamic financial institutions and the Islamic market. Some Islamic financial institutions' staff members said that it is difficult to comply with certain rules.

One of the main concerns of the banks is that the new law could lead to restrictions. As listed in IFSA Sec, it is the responsibility of Islamic financial institutions not because they have not complied with sharia principles but because they are concerned that their current products are not complying with the new Shariah standards. If we look toward other products appearing in the conventional financial markets, these are found reluctant for the popularity or good awareness of Istisna financing. According to a participant interviewed, "when banks want to choose a policy or a recommendation, we do not want a strong contract that may occur any risk for the business process. Banks are very smart because they don't want to put risks even if they can give customers any kind of risk". According to Islamic financial institutions of Pakistan, Tawarruq is the best idea today because it is simple and smooth and is not contradicted with the Shariah law. Moreover, many of the Islamic banks have achieved this goal by purchasing Murabaha products rather than using Tawarruq (Alzoubi 2017b).

A study penning about the risks in Istisna financing found that Construction projects and infrastructure development are capital intensive. The capital requirement often exceeds the capacity of a single company and thus there is a need for project financing. Istisna is suitable for real estate and infrastructure developments because it is a flexible Islamic

manufacturing contract which can accommodate the involvement of other parties” (Lahsasna, et al 2018). According to (Akkizidis and Khandelwal 2008), “in a study of 18 Islamic bankers regarding their perception of the risks inherent in various Islamic modes of financing, Istisna was perceived as risky due to the high possibility of production failure and constant exposure to operational risk during the construction period”. As shown below in figure 1, these are the risks in Istisna financing which are being faced by Islamic financial institutions and Islamic banks as well.

Figure 4.1: Risks in Instina Financing



Source: (Akkizidis & Khandelwal, 2008, p.66)

Nasucha, et al (2019), “The inability of the builder to deliver the asset on time may cause further delays or even termination of the contract which could result in financial losses due to additional expenditures and loss of opportunity cost. The Islamic financier also faces market risk where price differentiation between the actual market price and the estimate occurs due to market fluctuation. Additionally, bankers also perceive that Istisna has a high liquidity risk due to its product-deferred instrument. In the Istisna contract, the Islamic financier is exposed to liquidity risk (see Figure 1, at points 4 and 6) in the event of default. Common approaches to mitigation of the aforementioned risks include reservation of adequate capital to cover financial losses and insuring the property. The seller in Istisna is responsible for insuring the asset. In instances where insurance is insufficient to mitigate risks, the Islamic financier acts through a special purpose vehicle (SPV) to ring-fence their

financial liabilities. The use of SPV to act on behalf of the Islamic financier as the buyer under an Istisna agreement protects the financier from potential liabilities (e.g. property damage, non-completion, environmental liability). If a cost overrun occurs in a project under Istisna contract, the Islamic financier has no obligation to pay the excess. Another common banking practice is to break the contract into smaller contracts with phased payments. To reduce risk of delayed delivery, the bank pays the builder or contractor conditional on completion of the previous phase, the milestone completion certificate with various deliverables is similar to a conventional loan disbursement request. Furthermore, the drafting of the Istisna contract should also incorporate damage limitation provisions, inspection rights and appropriate waivers of liability to address the liability exposure of the bank”.

4.3 How Istisna financing could be implemented in Pakistan?

The study explores potential application of Istisna financing in Pakistan that may be considered and applied. Where Istisna is being used as simple contract could also be used as financing tool to provide financial facilities to the customers especially for construction purposes. The Islamic banks must enter into an agreement with the contractor to reduce the risk of default. The customer must also pay for the services offered by the bank to make the entrepreneur honest. The government also needs to get involved in legal requirements of Istisna. The procedure is mandatory. All of these factors must be taken into consideration. Istisna could also be used in the Wakala agreement (MALAYSIA 2015) where the process begins when the customer comes to the bank and requests to avail the opportunity of this contract. The Islamic Bank and its customers enter into an Istisna agreement where the customer becomes the bank's largest trader and seller may also be an agent. The customer requests his basic contract with the manufacturer. In this agreement, the buyer often pays the producer the entire amount because the price under the second Istisna will be lower than the first Istisna. So, how will the bank benefit. The initial payment will be paid at the beginning of the agreement and the asset will be provided on delivery date of the contract.

To ensure that the service is delivered on time and in accordance with the specified instructions, Islamic banks may use Wakala agreement and the customer enter into a contract where the customer will work with the bank office to review the production process. As this is what the customer requests in the beginning, the customer can check that the product meets the requirements. Therefore, this scheme can reduce the risk to deliver the product on time. The consumer should also be prepared to use Takaful to protect its products from threats. At the end of the manufacturing process, the manufacturers

will ship the goods to the bank and the bank will deliver the goods to the customer. This is the type of Istisna application that the customer accepts regardless of whether it fulfills the specified requirements as well as the price tag of the buyer. Within these systems, Islamic bank performs important functions such as investing, providing the capital's operating capital, mainly manufacturing, in addition to provide the financial clients' access to the capital. This can be seen in the capital portfolio. Wakala's other agreement with the bank is to take care of the manufacturing process and help the bank to reduce the risk. The second structure is Istisna, Ijarah Mawsufah fi Dimmah. In Pakistan, many Islamic financial institutions have taken advantage of this situation. This can be called a mixture because it is a form of Istisna agreement as well as a mixture of several Islamic conditions. The campaign is supported by Istisna and Ijarah Mawsufah Fi Dimmah and Ijarah Muntahiya-bit-Tamlik. Under these plans, buyers turn to the bank for immediate financial assistance. Before the bank arrives, the buyer enters into a contract and buys it with the manufacturer to release the product.

Therefore, the Islamic Bank then entered into an Istisna agreement in which the buyer would be the seller and the buyer of the bank, who was appointed by the manufacturer, previously. In addition, the customer and Islamic bank may enter into the Ijarah Mawsufah fi Dimmah or lease contract. Under this agreement, the bank will provide current customers with goods, and buyers pay a small mortgage. After the completion of the project, the third contract will be closed, which is Ijarah Muntahiya-bit-Tamlik (Damayanti, Nasim, and . 2019). The bank provides the customer's goods. Following the Istisna concept, the Istisna contract ends in this stage, the customer accepts the Istisna product and fulfills certain requirements, and terminates it at the price agreed upon by the buyer.

5. Conclusion

Existing products offered by Islamic financial institutions such as Murabaha and Tawarruq have been criticized. Islamic financial institutions should be opened so that the Islamic financial industry in Pakistan can offer better quality products such as Istisna financing. We seek to ensure that the results of this study can be used by Islamic financial institutions to launch Istisna financing in Pakistan. Studies show that Islamic financial institutions are reluctant to start Istisna financing in Pakistan. We investigated Islamic banks' clients in Pakistan with various aspects of the application of Istisna financing. We found that Istisna financing has unique properties and can be used in construction or manufacturing but also there are many risks. We also noticed that the participants of the interview expressed that they are facing some issues such as the client's uncertainty about accepting the item in accordance with Islamic law.

Islamic banks generally adopt a method of providing Istisna financing in which they hire the customer as their agent against an agent fee. For example, if a customer came to the bank and placed an order for the manufacturing of a product, now the bank appoints the same customer as an agent for inspection on the given manufacturing order by the same customer. Many contradictions are more likely to occur in this case. So, AAOIFI does not recommend making the same customer as an agent. On the other hand, if the bank appoints another alternative agent, it may be more acceptable rather than the previous situation. Since the bank makes every effort to avoid any kind of risk in finance or financial dealings. Keeping this in mind, the bank should appoint only those agents who possess all the capabilities of being an agent.

Therefore, to promote Istisna financing in Pakistan, we have come up with two important suggestions. First, Pakistan's Islamic financial institutions may present Istisna as a financing tool to facilitate the customers. According to this concept, Islamic financial institutions act as buyers and control the ownership of the product or property, and then make that customer his agent or lease the property to the customer. Second, Islamic financial institutions in Pakistan can provide a parallel Istisna and also may oversee construction or manufacturing projects which can help them reduce default risk. Keeping in mind all the above precautions described in this study, if Istisna financing is implemented in Pakistan, it will not only promote the Islamic economic system of Pakistan but will also provide financial benefits to the customers.

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