



GFIF 2016 Report & Recommendations

CIIT-Lahore/CIF/0200

Dated: March 08 - 09, 2016

The Global Forum on Islamic Finance (GFIF), 2016

COMSATS Institute of Information Technology (CIIT), Lahore Campus has been organizing a Global Forum on Islamic Finance (GFIF) since 2013 for serving the noble cause of penetrating Islamic finance in Pakistan. After two consecutive GFIFs in 2013 and 2014 a Center of Islamic Finance (CIF) was established at CIIT Lahore campus. CIF is primarily meant to undertake research and development for contributing Shariah compliant financial solutions. It further offers demand driven and customizable trainings for professionals. In addition CIF also supplements the Department of Management Sciences in degree programmes with specialization in Islamic finance.



CIF organized the 4th GFIF on March 08 – 09, 2016 at the Pearl Continental Hotel, Lahore that was a bigger event in number of sessions and speakers. It benefited the audience through 15 parallel sessions in which around

40 notable national and international speakers contributed their work on the latest advances in the field of Islamic finance. Certain issues pertaining to adoption of Islamic finance and their solutions were also highlighted during the two days of GFIF. Honorable Governor of Punjab Mr. Malik Muhammad Rafique Rajwana graced the inaugural ceremony of GFIF 2016.



This platform successfully assembled regulators, Sharia experts, professionals, researchers, and academicians to deliberate Islamic Finance: Value Creation and Impact. Eminent professionals represented State Bank



of Pakistan, IRTI KSA, IFAAS UK, IBFC UK, INCEIF, ISRA Malaysia, IIU Malaysia, University Brunie Darussalam, Amanah Ethical New Zealand, Akhuwat Foundation, Maxim Corporation Finance UK, International Islamic Finance and Insurance Institute (IIFII), First Habib Modaraba, University Technology Malaysia, Mount Allison University Canada, Al – Huda, UMT, Allied Bank, UBL Ameen, Faysal Bank and NBP, MCB, FBR, SECP, Council of Islamic Ideology Pakistan, Meezan Bank, Takaful companies, chambers of commerce, Shariah courts, media and corporate sector. An audience of 600 people representing various walks of life participated in the event on both days.



An effective media coverage projected GFIF, CIF and CIIT in the electronic and print media. In addition to conference sessions on the first day a Policy Roundtable Meeting (PRT) was also held that was chaired by Mr. Ghulam Abbasi, Director, Islamic Banking Division, SBP. PRT targeted financial inclusion through

Islamic banking and finance. It also focused on bridging the gap among national and international stakeholders focusing on the role of regulators, direction for future research, and required capacity building for promoting



Islamic finance.

On the first day acknowledging the significance of GFIF and Islamic Finance for economic development of Pakistan, Maulana Muhammad Khan Shirani, Chairperson Council of Islamic Ideology (CII), Justice (Rtd.) Khalil ur Rehman and Mr. Erik Martini Political Economic Section Chief U.S. Consulate General Lahore also graced the event.



All sessions in GFIF were extremely interactive and beneficial. On the first day the 2nd



meeting of the Advisor Board of CIF was also held.

Subsequent to GFIF eminent guest speakers from IRTI, ISRA, INCEIF, IFAAS UK, IIU Malaysia and IFC UK were brought to CIIT Lahore campus for extending research relation and paving the desired faculty exchange. All these organizations consented to partner with CIF for joint research and faculty exchange.



With the collaboration of IFC UK a professional training workshop for Shariah Scholars was held on 2nd day of GFIF that was attended by 20 Shariah experts. This workshop was on External Shariah Audit and it remained very interactive and the Shariah Advisors attending this workshop benefitted from the knowledge of international audit experts.



2nd workshop was held in collaboration with IFAAS UK on Awareness – Achilles Heel of the Islamic Financial Industry. It was attended by an audience of 300. This interactive session enabled the attendees to benefit from the knowledge of international speakers.



GFIF 2016 successfully concluded contributing consensus on its theme with recommendations for the way forward for education, Islamic banks and government as follows:

1. The forum strongly recommended that the government of Pakistan must ensure its necessary political will for converting the conventional financial system to a pure Islamic financial system. In this context all provincial governments and public sector institutions are recommended to adopt Islamic finance on priority at all levels.



2. Lack of awareness was identified as a key impediment to the aspired growth of Islamic Finance in Pakistan. An effective awareness campaign was thus strongly recommended to be maintained by all stakeholders. It was stressed that the curricula of Islamiyat must be updated with chapters on Fiqa-

e-Muamalat at all possible level of education. It was further emphasized to utilize print and electronic media for spreading information on the need to shift to Islamic finance. Such advertisement campaign was recommended to be sponsored through the profit of relevant financial institutions.

3. Recommendations to State Bank of Pakistan (SBP) and Security Exchange Commission of Pakistan (SECP) were made to optimize regulations for:

- a. Speedy conversion to full fledged Islamic banking, Takaful and other financial functions. Timelines were recommended to be set for abandoning the hybrid model.
- b. Ensuring necessary contributions by Islamic financial institutions to sponsor necessary awareness campaign and further HRD.
- c. Paradigm shift from personality orientation/ dependence to system orientation in context of Shariah advisors.

4. Developments in FinTech (Financial Technology) for Islamic finance especially for upcoming Mobile Banking and E – Currency were strongly recommended to be expedited, facilitated and uplifted.
5. Objectives of Islamic financial institutions were recommended to be optimized from pro – commercial to pro – social development.
6. More and more collaborative research, joint ventures and joint product development among academia, bankers, lawyers and Shariah scholars were strongly recommended to be encouraged and sponsored by Higher Education Commission of Pakistan, Islamic banks and potential sponsors.
7. Council of Islamic Ideology (CII), Pakistan was recommended to contribute role in necessary reform required in the modern Islamic financial practices.

Closing ceremony was presided by Mr. Raja Ashfaq Sarwar, Minister of Labour and Human Resource and Pro-Rector Dr. Haroon Rashid, S.I.. Conference souvenirs were presented to all participating speakers at this occasion.



2nd Policy Round Table

In GFIF 2016 2nd Policy Round Table (PRT) was chaired by Prof. Dr. Akram Laldin Executive Director of International Shariah Academy for Islamic Finance (ISRA) and co-chaired by Mr. Ghulam Abbasi – Director SBP IBD. It was attended by representatives from ISRA Malaysia, DIB Pvt. Ltd., Meezan Bank Pvt. Ltd., UBL Ameen, Council of Islamic Ideology Pakistan, Punjab University, UMT, Allied bank, National Bank of Pakistan, Shariah scholars, practitioners and academicians. Following recommendations were made during the policy round table:

1. Extending the role of Islamic Banking from micro to macro level and adoption of Islamic Banking mechanism in a way that it benefits the poor.
2. To design and adopt a customized financial technology FINTECH for the Islamic Banking industry that is free from any ingredients of the conventional system.
3. To work on moving from Halal (permitted) to Tayyab (preferred).
4. The need to involve academia, regulators, practitioners and media for promotion of Islamic Finance.
5. The need to ensure that the regulators also play their part in enhancing

emphasis on HRD as part of their regulation role.

Concluding the PRT it was proposed to make synergized efforts for the promotion of Islamic Finance. SBP lauded the idea of FINTECH for Islamic Finance institutions and presented its intentions to continue working for promoting Islamic Finance and to cover 50% of the population under the banking system through IF.





GFIF 2016 Proceedings



ADEWALE ABIDEEN ADEYEMI, PHD, IIU MALAYSIA

A Second-Order Demographic Measurement Invariance Analysis of the Financial Behaviour of Muslim Investors in Malaysia

Abstract

This study examines a measurement invariance of a second-order factor models of financial behavior among Muslim Investors in Malaysia. Data elicited via a survey questionnaire was analyzed using both the Statistical Package for Social Sciences (SPSS) 22.0 and Amos22.0 software. The study revealed that financial behaviour as a second order factor is indicated by regret aversion, mental accounting, cognitive dissonance, anchoring, herding, and overconfidence first order factors. Measurement invariance was tested based on demographic factors via a set of hierarchically structured levels: a) configural invariance, b) metric invariance of both the first-order and second-order models, c) intercepts of both the first-order and second-order models, and d) residuals of both the first-order and second-order models. Moreover, based on t-test at alpha of 0.001, the latent mean difference tests of the second order model indicates was also assessed for statistically significant difference on a path by path basis along demographic divides.



**AHCENE LAHSANA, PhD, INCEIF & DEPUTY DIRECTOR, CENTRE OF
RESEARCH & PUBLICATIONS**

Tourism & Hotels as Asset Class for Investment and Financing from Shariah Perspective

Abstract

The objective of this paper is to initiate a debate on the issue of investment in and financing of the hotel business. The motive behind the discussion is the fact that the hotel business, as a stand-alone activity, is considered a Sharīah non-compliant asset and is listed in the negative list in Malaysia. Hence, as a general Sharīah rule, it is not allowed to invest in the hotel business or provide financing to it as a stand-alone entity. The case might be different if a hotel is subsidiary to a holding company, in case the holding company has a Sharīah-compliant status. The revised Sharīah screening methodology (2013) by the Shariah Advisory Council (SAC) of Securities Commission (SC) Malaysia provides for a 20% benchmark being applicable to companies that generate part of their revenue or profit before tax from hotel and resort operations. Other screening methodologies like MSCI Global Islamic Indices do not allow investment in companies which are involved in or derive more than 5% of their revenue from such activities like hotels and cinemas. The same benchmark of 5% is applicable to hotels by the Russell-Jadwa Shariah Indexes. However, the present paper discusses the hotel business as a stand-alone entity and looks into its assessment and screening in the context of Malaysia which may have implication in other jurisdiction.



**ALY KHORSHEID, PHD & SHARIAH SCHOLAR, UNIVERSITY OF READING
UK**

Islamic Finance Lack a Certain Degree of Credibility Globally

Abstract

Islamic banking and finance sector risks losing a golden opportunity to demonstrate an alternative system that could prevent a future credit crunch and share risks. With the conventional banking sector slowly coming to terms with its high-profile collapses and bailouts, while the Islamic sector suffering only mild aftershocks.

The question come to mind is: why are savers and investors not flocking to sharia-compliant banking? Could Islamic finance lack a certain degree of credibility? And if so, why?

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AKMAL HANUK, CEO, IBFC, UK

Sharing Prosperity: Inclusive Financial Services for Sustainable Development and Growth in Islamic Finance

Abstract

As the major developmental institutions around the globe are working together to support the financing effort for the post-2015 sustainable development goals, these institutions will require a proportionately ambitious and aspiring financial plan to implement to meet the objectives set out in this agenda.

A traditional approach to financing is insufficient and a paradigm shift in development finance is indispensable. Islamic Finance has the potential to play a transformative role in supporting the implementation of the post 2015 agenda.

Our own recent research along with many others identify a clear consumer demand to develop a financial model which is grounded in the basis of mutuality, and is sustained through shared risks and reward with, by and among the people. It is imperative that a new leadership style is evolved where the leaders distinctively reflect on the values, beliefs and assumptions and spend more time on the purposing and developing the structure based on shared fellowship and helping the Islamic Financial Institutions to become communities of responsibility.

Based on the Transformational Theory of Leadership, Akmal Hanuk, Founder and CEO of Islamic Banking and Finance Centre UK argues that the resulting leadership practice should combine the moral and ethical value proposition with what is principled and effective, what works and what makes logical sense. In short: to do things right and do the right things to address the financial needs of the masses.



The way forward for Islamic Finance is to transform the mind-sets, protect its value structure and intensify the efforts to present the value proposition in a way that enhances the meaning and significance for the general population through social impact. This indeed is an opportunity to meet the sustainable development and growth objectives through financial inclusion, poverty eradication, addressing inequality and encouraging enterprise throughout the world.

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AMIR ISLAM, VP, MCB-ISLAMIC

Factors effecting Liquidity Position of Islamic Banks

Abstract

Purpose - The purpose of the subject study is to analyse the position of Islamic banks in Pakistan with regard to liquidity management and to assess the factors affecting liquidity position of the Islamic banking Industry (IBI).

Design/Methodology/Approach – Primary research method was employed through a questionnaire. The respondents of the questionnaire were Islamic bankers belonging to senior and middle management engaged in the process of liquidity management.

The study initially examined the types of liquidity problems in financial institutions, comparison and difference in liquidity management in Islamic and Conventional banking industry. Thereafter, the study examined the liquidity problem in Islamic banks, factors affecting bank liquidity position and mitigation practices.

Findings – The study finds that the liquidity problem in Islamic Banks is dual in nature i.e. surplus liquidity and shortfall in liquidity and most of the Islamic banks faced liquidity problem at different times. The study unearths key factors affecting liquidity position of Islamic banking industry in Pakistan.

Originality/value – The paper may be of value to State Bank of Pakistan, Islamic banks as well as conventional banks of Pakistan, international banking industry, academic institutions and researchers to take on further research and propose solutions.



AMJAD SAQIB, PHD, CEO, AKHUWAT FOUNDATION

Services of Akhuwat for SMEs

Abstract

Akhuwat pioneers interest-free (qarz-e-hasan) micro-finance in Pakistan, by creating a low cost micro-finance paradigm with minimal operational costs. Akhuwat has successfully established a model that fully reinforces the assumption that client sustainability is as important as organizational sustainability. The organization's mission is to alleviate poverty by empowering socially and economically marginalized segments of the society through interest-free micro-finance and in the process harnessing their entrepreneurial potential and enhancing their capacity through economic and social guidance. Akhuwat envisions a poverty free society built on the principles of compassion, brotherhood and equity.

The concept of Akhuwat germinated with a first interest-free loan of PKR 10,000 extended to a widow who wanted to earn a decent living with integrity. She bought a sewing machine with the borrowed money to start a small home-based boutique. Return of the entire amount within the agreed time-frame led to the creation of a pool of money for the poor; which in turn became the basis for recovering funds for indefinite recycling. This initiative led to the establishment of the first interest-free micro-finance organization in the country which soon gained credibility. Gradually people offered more donations to Akhuwat which in turn extended more loans to individuals on the basis of social collateral. This marked the beginning of a new chapter in micro-finance that looks beyond profitability and works exclusively for alleviating poverty from the society through development of a mutual support system.

Akhuwat's main objectives are:

- To provide interest free microfinance services to poor families enabling them to become self-reliant



- To promote interest-free loans (qarz-e-hasan) as a viable model and a broad-based solution for poverty alleviation
- To provide social guidance, capacity building and entrepreneurial training
- To institutionalize the spirit of brotherhood, compassion, and volunteerism
- To transform Akhuwat borrowers into donors
- To make Akhuwat a sustainable, growth-oriented and replicable organization

Within a short span of time, Akhuwat has successfully opened 484 branches all over Pakistan with over 500,000 active clients and over 1,150,000 total beneficiary families. Its presence in over 276 cities and towns of Pakistan speaks highly of its sustainable growth model and viable operations. Akhuwat has disbursed more than PKR. 21 billion over a period of fourteen years, with a phenomenal recovery rate of 99.92%, staying true to its mission of helping the under-privileged with interest-free system.

Akhuwat offers diversified loan products to meet the needs of its clients. These include: Family Enterprise Loans, Liberation Loans, Education Loans, Marriage Loans, Emergency Loans, Silver Loans, and Housing Loans etc. Akhuwat loans are interest-free and there is no service charge or loan processing fee. It only charges a nominal application and insurance fee. These fees are optional and in total less than 1.5% of the loan amount. Maximum loan limit that Akhuwat offers is PKR 50,000 but the average loan size is around PKR 20,000. Akhuwat's expansion depends on continuing donations to finance growth in the loan portfolio. There is as yet no evidence that these donations will stop, although substantial effort has to be put into fund raising, there cannot be any reason why a programme which draws on brotherhood, generosity and goodwill should be any less 'sustainable' than one which depends on purely financial incentives.

All Akhuwat transactions take place at the local mosque or church where loans are processed, distributed and collected. Having a mosque or church as the disbursement center provides an avenue for transparency, community participation and awareness and also creates a sense of good-will amongst people. Most importantly, this cuts organizational costs and creates a sense of accountability.



Akhuwat has a well-placed organizational structure under a Board of Directors, consisting of philanthropists, civil servants and businessmen. The main responsibility of the internal governance rests with the board which operates through the Executive Director. The organization is further strengthened by a team of dedicated professionals motivated by the spirit of volunteerism and brotherhood.

Akhuwat has received overwhelming appreciation from internationally acclaimed financial specialists; Mr. Malcolm Harper, former Chairman Micro-Credit Ratings International, Ltd. commented, "Akhuwat is already doing for conventional microfinance what Professor Yunus did for conventional banking in late 1970's". According to Ms. Leslie Barcus President Microfinance Management Institute, Washington DC, USA "Akhuwat commendably demonstrates the simultaneous achievement of community based participation, respect for cultural beliefs and practices and excellence in operational and financial performance." Mr. Thomas Krink, an ILO consultant remarked, "Akhuwat is a highly competent institution with a most impressive design and operation". Mr. Graham Perrett, consultant CGAP has termed it "a creative approach to microfinance" and Mr. Eric Duflos, another microfinance specialist highly appreciated its cost-cutting methodology. It is these very characteristics that Akhuwat aspires to maintain in the coming years as well.



**AQIB ALI, COUNTRY HEAD & DIRECTOR, INTERNATIONAL ISLAMIC
FINANCE & INSURANCE INSTITUTE (IIFII)**

Murabaha Perceptions of Islamic Bankers: Case of Pakistan

Abstract

Purpose

The study is conducted to critically analyze the perceptions and opinions of Islamic bankers regarding Murabaha as an important mode of Islamic finance and to derive conclusions about the vitality of murabaha by evaluating the views of Islamic banking executives and personnel by doing an in-depth analysis of murabaha financing by looking at the important factors pertinent to it.

Design/Methodology/Approach

The research methodology is based on a survey research method in which the sample comprises Islamic bankers belonging to five full-fledged Islamic banks in Pakistan. The respondents are from four major cities of Pakistan including Karachi, Lahore, Islamabad & Faisalabad.

Findings

The research findings are based on data collected from Islamic bankers chiefly through questionnaires and interviews. The survey results are generally very favorable. The findings of the study are based on quantitative and descriptive analysis of the respondents' demographics and their opinions regarding various factors relevant to Murabaha-based products and financing.

Originality/Value



The paper provides an insight about a very important and most prevalent mode of Islamic finance used by Islamic banking globally i.e. Murabaha. The study would help in identifying the key issues that are needed to be addressed in the case of Murabaha offering at Islamic banks and to obliterate the negative perceptions regarding Murabaha-based products and services.

Research limitation/implications

The research surveyed would impact the Islamic banking industry positively by enhancing the confidence of stakeholders regarding Murabaha-based products by looking at different variables relevant thereto. The research has a limitation in terms of respondents from only one industry and country and in future research; the scope can be widened by including more stakeholders and by including participants from various countries.

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AZIZ UR REHMAN, MUFTI, SHARIAH SCHOLAR

How Islamic Micro Finance can assist in Socioeconomic Development

Abstract

In keeping with Islam's aim of giving every member of society the chance and tools of development, Islamic Micro Finance would enable the spread of economic production to those who would otherwise be and are denied this opportunity in other economic and social systems.

As we all know, it is the SME segment of an economy that provides the most benefit to many and supporting this area would enable the greatest social change. Enabling someone to better themselves by undertaking a economic activity gives them the means to not only improve their standard of living but also the environment around them. The increase in income would also lead to an injection in supporting industries such as medicine, education. This ability to look after themselves would also lessen the strain Govt. resources and lead to a better educated, healthy and financially stable population leading inevitably to a stronger nation.

It is also through Islamic Micro Finance that this process can be provided without the exploitation, instability and risk other financial systems may allow and benefit from. Indeed, with the inherent social checks in Islamic Finance, financing would be channelled correctly and for the social good.

GFI



BRIAN PHILLIP HENRY, MANAGING DIRECTOR, AMANAH ETHICAL, NEW ZEALAND

Marketing of Islamic Financial Principles to the Western World: New Zealand Perspective

Abstract

i) Purpose

The first Shari'ah compliant fund in New Zealand, Amanah Growth Fund (the Fund), was launched in 2015. Prior to the Fund, there was no Islamic or Shari'ah compliant investment option that met the religious needs of the growing Muslim population in New Zealand. The Fund manages retirement savings of New Zealand residents under a government initiative called KiwiSaver. Amanah Growth Fund manages money for Amanah KiwiSaver Plan. The purpose of this paper is to discuss the issues and implications associated with marketing of Amanah KiwiSaver Plan in New Zealand and hence, give the New Zealand perspective on marketing of Islamic financial principles to the western world.

ii) Design

I begin with explaining KiwiSaver and discussing how the idea of Amanah KiwiSaver Plan had evolved. I then discuss the reaction of the New Zealand market and the Muslim community and challenges we have faced and are facing in establishing the Fund in New Zealand. Following on, I highlight the key factors in the New Zealand KiwiSaver market and how Amanah KiwiSaver Plan is different and in the lead. I then share my experience as a Barrister, litigating in the aftermath of some investment failures, and as the Managing Director of the US50 Fund. The US50 Fund actually formed the basis of marketing of Amanah KiwiSaver Plan to the New Zealand population. Through my experience, I also developed a strong resentment to the common practices of interest and leveraging in the western financial world. I then share my litigating experiences and my personal views, how



they comply with Shari'ah values, which also helped Amanah KiwiSaver Plan take the lead in the New Zealand market. Before concluding, I discuss the economy and the legal system in New Zealand which governs the grounds on which Amanah KiwiSaver Plan operates, making it possible to persevere.

iii) Originality

KiwiSaver is a government initiative which helps people to save for their retirement through regular contributions. The originality of this paper is that the chosen topic has never been discussed on an international platform and Amanah KiwiSaver Plan is the first and only Shari'ah compliant investment option in New Zealand, hence, giving the New Zealand perspective.

iv) Findings

As it will be explained in this paper, over the years New Zealand regimes have undergone significant changes which, as a result, have made New Zealand a most desirable country for doing business. Islamic financial principles will always be the best option for investments. They are ethical, fair, transparent and demonstrate compassion to the investors while protecting the wellbeing of the investment. The western world is trying to understand the benefits of Islamic financial principles but will continue to struggle with its applications because the western world does not understand the fact that for as long as *riba* is an element of any investment, there is no prosperity.



**BUSHRA SHAFIQUE, JOINT DIRECTOR ISLAMIC BANKING DIVISION,
STATE BANK OF PAKISTAN**

Religion and Economic Behaviour: The Case of Islamic Banking

Abstract

Most religions of the world provide a value system that their adherents have to follow. These norms and values are expected to influence the socio economic behavior of individuals and by extension the culture thus defining morals of that society. Using Max Weber's theoretical framework this research focuses in particular on the impact of religion on economic attitude and practices of individuals. This paper uses Islamic banking industry as a case study where economic behavior of both clients and practitioners of Islamic banking is analyzed with respect to their religious sensitivity. This research is based on approximately fifty interviews to explore how religion carves out socioeconomic demeanors.



**DATO' AHAMED KAMEEL MYDIN MEERA, PhD, CEO Z CONSULTING
GROUP & FORMER DEAN, INSTITUTE OF ISLAMIC BANKING & FINANCE,
IIU MALAYSIA**

Gold Netting: A Complementary Money System for Increased Liquidity, Stability and Sustainability

Abstract

The present global economy is plagued with myriad problems. It has become so vulnerable to crises that seem to occur one after another, from country to country, with increased frequency. Indeed now most countries, including advanced economies like the US, Europe and Japan, are in economic recession. Employment and business opportunities have been much dampened. Inflation seems to be soaring globally and nations are witnessing widening gaps in income and wealth distribution. On top of those, there are environmental issues, including the global warming. All these, in turn, have caused regional and global political conflicts and turmoil. The Arab Spring and the sovereign debt problems faced by some European countries like Greece are examples of this. Sustainability of economics and environment is thus of paramount concern of today. This theoretical paper considers the mentioned problems and suggests Interest-free Gold-based Electronic Netting System (IGENS) as an effective way of injecting liquidity into the economy, practically free, that can spur business and employment while bringing about structural stability, inflation checked with both economic and environmental sustainability. Netting or *muqassah* is a transaction allowed in Shari'ah.



DZULJASTRI ABDUL RAZZAK, PHD, IIU MALAYSIA

Viability of Musharqa as Alternative Financing Mode for Small and Medium Enterprises: The Case of Klang Valley and Selangor, Malaysia

Abstract

Purpose – Small and Medium Enterprises ("SMEs") have been recognized as one of the most important component that contributes towards the economic growth of many countries around the world. Despite its importance, SMEs have limited access to external financing that is dominated by debt financing. They have difficulty in fulfilling debt requirements particularly in providing collateral, coping with high interest/ profit payment and adapting to credit rationing. Such limitations curb their growth and expansion. Therefore, there is a need to explore an alternative financing, which is more accessible by SMEs. This study examines the viability of Musharakah as an alternative financing mode for SMEs.

Design/methodology/approach – Quantitative method is adopted in this study. Questionnaires were self-administered, using drop-off method, to a sample of 100 SMEs firms in Klang Valley and Selangor, Malaysia. The data were analysed using Exploratory Factor Analysis.

Findings –Musharakah is found to be a viable alternative financing mode for SMEs. Its three main features, namely (i) risks sharing (ii) profit and loss sharing and (iii) participation have immense potential of salvaging SMEs from their debt based challenges of access to financing: collateral, high interest rate and credit rationing.

Research limitations – The study area is limited to samples in Klang Valley and Selangor, Malaysia.



Originality/value – This study contributes towards a better understanding of the potential of Musharakah as a viable financing for SMEs. Hence, it provides foundation and direction in structuring Musharakah as an alternative financing mode for SMEs.

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**EHSAN WAQUAR AHMAD, MUFTI, CHAIRMAN SHARIAH BOARD, NBP
AITEMAAD**

Role of Amalgamation of Contemporary and Religious Education on Islamic Finance

Abstract

Education is a device to shape human behavior and character and a vital component for driving the society to the heights of success. If we analyze the history of educational system in the subcontinent, during the Mughal era, we discover that there was a perfect balance educational system that flourished throughout the subcontinent, until the British invasion. Consequent to the policies implemented by the British created a pause in the continuity of educational development. The institution that once flourished were now deserted. Further, the division within the educational system resulted in creating two extremes in the society.

The Muslims, after gaining an independent state, failed to revive the balanced educational system that would have brought about a conducive healthy social and technical environment.

The current problem we are facing in Pakistan where wrong interpretation of Islam is presented is mainly due to the misunderstanding about the fundamentals of Islam and not able to correlate it with the modern development. To resolve the problem, we need to address the system. Thanks to Islamic Finance that primarily aims to eliminate Riba from the economy. Islamic Finance itself is so complex and without skilled and expert resource, we may not be able to move to the advanced level. In order to achieve excellence in Islamic Finance we need to bridge the gap, we need to bring the two segments of literates and professional together, to achieve best solution for the modern complex financial models.



**FARRUKH RAZA, CEO IFAAS UK & MEMBER OF AAOIFI'S BOARD
OF GOVERNANCE & ETHICS**

Challenges of Governance and Ethics in Islamic Financial Institutions

Abstract

Awareness is probably the biggest impediment that Islamic financial industry is facing worldwide. Despite the growth figures quoted frequently, the industry is struggling to reach the double digit of market share even across the largest Muslim countries including Pakistan, Indonesia, Turkey, Saudi Arabia and Egypt. The majority of Muslim consumers are aware of the prohibition of interest yet they do not understand what options are available to them and how these options work. The research has demonstrated that most of the people still don't trust that Islamic financial products are truly Islamic. The industry practitioners are struggling to understand how to get their message across in the market and build the trust that they need to bring in the people through their doors. Everybody in the industry talks about raising awareness but doesn't tell how.

This workshop aims at identifying and examining the underlying factors that are causing awareness issues and explore different ways of addressing the challenges. Based on his vast international experience in Islamic finance, the moderator will critically evaluate the factors that are preventing the industry's penetration, and using case studies from different countries, will try to propose some practical solutions for raising awareness.



**HUMAIRA JABEEN, LECTURER, DEPARTMENT OF MANAGEMENT
SCIENCES, ISRA UNIVERSITY, HYDERABAD**

Performance Assessment of Pakistani Islamic Mutual Fund

Abstract

In this paper, performance of Pakistani Islamic mutual funds is evaluated for the period of January 2009 to December 2013 with the help of multiple tests for bringing reliable results. Applied techniques include ratio analyses which are Sharpe, Sortino, Treynor and Jensen Alpha. Along with this for finding stationary behaviour ADF unit root test is applied and finally TOPSIS is applied that is a multi criteria decision making process, with the help of this funds are ranked according to their performance. These all tests give a clear image of Islamic mutual fund industry of Pakistan and overall indicate that this sector is in good condition in Pakistan.



IRAM SABA, INCEIF, MALAYSIA

Impact of Political Connections and Shari'ah Compliance on Firms' Profitability-A Case Study of Malaysia

Abstract

Connections between politicians and business houses are not uncommon. Literature shows that firms tends to connect with politicians/political parties to get easy access to credit, to have lax regulatory oversight, to have preferential treatment for the government contracts and for having access to insider information. On the other hand a *Shari'ah* compliant firm is considered to perform ethically and justly due to adherence to the rules and regulations prescribed by *Shari'ah*. In recent years the research on political connections of Malaysian listed firms is increased. But the comparison of politically connected listed firms and *Shari'ah* compliant listed firms in Malaysia is lacking. Malaysia is a leading country in Islamic finance hence; this paper analyzes the impact of political connections and *Shari'ah* compliance on the profitability of the listed firms' in Malaysia for the period of 2000-2014. The paper used regression technique for the analysis. The result of the study shows that *Shari'ah* compliant firms perform better than the politically connected firms. *Shari'ah* compliance has positive and significant impact on the profitability of the firm whereas political connections have negative and significant impact on the profitability of the firm in the case of Malaysia.



**KHUDA BAKHSH, DEPARTMENT OF MANAGEMENT SCIENCES,
COMSATS INSTITUTE OF INFORMATION TECHNOLOGY, VEHARI**

Determinant of Individuals Investment Decision in Islamic Banking: A Case Study from Vehari

Abstract

Purpose: There are two types of banking systems functioning in Pakistan. They include conventional and Islamic banking systems. Individuals take decisions to invest in a particular banking system while considering socioeconomic, religious and psychological factors. The present study is designed to examine factors affecting individual's investment decision in Islamic banking.

Methodology/Approach: The study uses cross-sectional data collected from Vehari district of Punjab province. A total of 150 respondents are selected randomly having accounts or availing any other type of banking facility from conventional and Islamic banking. We use a 5 point Likert scale for getting information on customer satisfaction. The study considers social, religious and psychological factors having influence on individual's investment decision. Logit model is employed to determine factors affecting the decision of individuals in making investment in a specific banking system.

Findings: The study provides insights on factors inducing individuals to make investment in a particular type of banking system. Age and education of respondents, whether banking is according to Islamic principles, ethical responsibility, wide range of Islamic products and networks are statistically related factors affecting decision on making investment in Islamic or conventional banks.

Research limitations: The present study considers Vehari district to observe behavior of individuals while making investment decisions in banks. The results cannot be generalized because socioeconomic and other variables may vary throughout the country.



Practical implications: Results of the study are useful for concerned banks to attract individuals to purchase the products.

Originality/value: The study is based on primary data collected from the individuals having accounts or availing other products from either Islamic or conventional bank.

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**MOHD. HASSAN MOHD. OSMAN, PhD, UNIVERSITI MALAYSIA
KELANTAN**

Crowdfunding information: Social media roles and challenges

Abstract

Obtaining business financing is one of the vitally crucial for entrepreneurs to optimize their business opportunities. Crowdfunding platforms bypass the banking system by providing investors with direct and quicker access to individuals and businesses needing funds. Generally, there are four types of Crowdfunding which are debt, equity, rewards and donations. Nowadays, current technology allows us to gain information related to financing just on the fingertips. The visibility of Crowdfunding information was not clearly informed by the public due to the limitation of media approaches. In conjunction of that, social media is the best solution to promote the right information with no boundaries. This paper aims to explore the empowerment of social media as a visibility tool to spread the crowdfunding information to the prospective users. This study indicates that the social media provide important roles to contribute the effectiveness in delivering the Crowdfunding information to entrepreneurs.



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Islamic Banking Competitiveness and Market Power: Evidence from Indonesia

Abstract

Purpose – The purpose of this study is to examine the competitive conditions and market power of Islamic banks in Indonesia for the period of 2006-2013.

Design/methodology/approach – Using samples of 27 Islamic banks, the study uses a variety of structural and non-structural measures related to the traditional approach and the new empirical approach of the industrial organization. The methodology is based on set of measures of the competition and market power. The first measures, concentration ratios and Herfindahl-Hirschman index, are to determine the competitiveness level while the second measures of Panzar and Ross H-statistic and Lerner index are to examine the market power of Islamic banks in Indonesia.

Findings – The finding of this study has confirmed the situation of Islamic banking industry in Indonesia which is operated in a higher degree of market power which lead to a less competitive market. Islamic banks earn their revenues under monopolistic competition over the tested period. This study has also found a negative but insignificant relationship between concentration and competition which shows that in the last few years, the market power for leading firms in Indonesia Islamic banking industry has reduced.

Originality/value – This study combines two approaches for bank competition measurement and bank market powers measurement which can provide more robust findings. To the best of the authors' knowledge, the study on Islamic banking competitiveness level and market power is very limited, especially in the case of Indonesia. Therefore, this study could contribute significantly towards the literature of the related field.



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Role of Saving Based Takaful Products in Increasing Higher Education Enrolment in Pakistan

Abstract

Pakistan is world's sixth most populous country with a population of more than 179.5 million (census, 2012) and it is indeed a well-known fact that enrolment rate in higher education is approximately 5% which is very low as compare to the developed countries and this has not even at par when we compare it with the India, Sri Lanka, Bangladesh. Analysing a few reasons gets us to a conclusion that there are some unfortunate circumstances where people do compromise on their child's education. And the ultimate result is the decline of educational status of the country. And thus the future remains gloomy. Securing child's educational future is surely every parent's first n foremost duty and responsibility. Every child of this nation deserves a big start which obviously helps him/her further in achieving major successes of his/her lifetime. After analysing current circumstances of our country, the rise of inflation is highly recognized due to several reasons and with the passage of time, in this competitive society the significance of education has greatly amplified. Parents sometimes have to compromise on their child's interests, welfare and future because of lack of funds to pay for their education. It is still a harsh reality that people still do dream about fulfilling their child's every need with expenses rising by the day, however, also worry about how to ensure it.

This study has analysed and recorded feedback from various people regarding educational future of their children. The ultimate conclusion of the study is that Saving Based Takaful products can help in providing children with a better and secure educational future. The views of the respondents clearly state the vitality of an investment plan which can be designed to provide adequate money for key educational milestones in a child's life. With the help of this study, the researchers have tried to emphasize on the fact that if people plan for



their children's' education considering Shariah rules and principles, the overall enrolment rate of higher education can potentially increase.

GFIF 2016 Report & Proceedings



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Islamic Finance Commercial Funding or “Finance as Worship”

Abstract

The main intent of the study is to determine the perception of general public well versed with the conventional education¹; regarding the contemporary Islamic banking & finance as to whether they consider Islamic banking; *“finance as worship or a commercial funding”*. Survey strategy is used to collect primary data through modified questionnaires having 12 questions of Likert scale covering three aspects i.e. Islamic finance as a commercial funding, Islamic finance as worship and knowledge about Islamic banking & finance. A total of 644 questionnaires have been distributed to collect the data from Islamic bankers, conventional bankers, teaching faculty² and non-finance industry professionals³. Independent sample t-test through SPSS has been used to estimate the results. The study found that the mean values of independent sample t-test of the conventional bankers, teaching faculty and non-finance industry professionals are 4.91, 4.86 and 5.07 respectively; which are below the level of 6.0 on Likert scale⁴ reveals that they consider Islamic banking as *“a commercial funding and not finance as worship”*. However, the mean value of the independent sample t-test for Islamic bankers is 6.07 which is slightly more than that of agreed level but far away from the strongly agreed level of 7 on Likert scale showing that the Islamic bankers consider Islamic banking *“finance as worship and not a commercial funding”* to certain extent but they are not

¹ General public well versed with the conventional education includes Islamic bankers, conventional bankers, teaching faculty and non-finance industry professionals.

² Teaching faculty includes college and university professors; faculty of Management Sciences. Moreover, teaching faculty also includes school teachers.

³ Non-finance industry professionals includes employees working in the finance department of private and public sector organizations excluding banks, non-banking financial institutions and educational institutes.

⁴ No: 6 is assigned to “Agree” on Likert scale.



strongly convinced on the same. Moreover, the study found that none of the respondents including Islamic bankers possess the formal Islamic finance education hence; unable to figure out as to why and in what way the transactions of the contemporary Islamic banks are Sharia' compliant. Therefore, the study recommends authorities to not only devote resources towards initiating Islamic finance awareness programs for the general public both at the micro and macro levels; but also formulate policies to develop human capital who is well versed with Islamic jurisprudence at least in the area of finance within Islamic banks.

GFIF 2016 Report & Proceedings

**MUHAMMAD SHERANI, MAULANA, CHAIRMAN, ISLAMIC IDEOLOGY
COUNCIL PAKISTAN**

Abstract

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اسلام کے معاشی نظام کا فلسفہ

مولانا محمد خان شیرانی
چیئر مین، اسلامی نظریاتی کونسل
اسلام آباد

معاشی نظام کے حوالے سے دو چیزیں اہم ہیں (۱) فلسفہ معیشت (۲) اور اس فلسفہ کے مطابق قانون سازی۔ پہلے مرحلے پر فلسفہ معیشت کی وضاحت ہو جائے تو اس کے مطابق قانون سازی مشکل نہیں ہوتی۔

فلسفہ معیشت

معیشت کا لفظ ”عیش“ سے نکلا ہے اور ”عیش“ کا معنی ہے ”زندگی“ اور ”معیشت“ کا معنی ہوتا ہے ”زندگی گزارنے کے وسائل اور ذرائع“ جس کے اندر آمدن اور خرچ دونوں شامل ہیں۔
معیشت کے تین عناصر:

معیشت کے میدان میں تین بنیادی چیزیں موجود ہوتی ہیں۔ (۱) سرمایہ۔ (۲) محنت۔ (۳) صارف کی ضرورت۔

سرمایہ دارانہ نظام کا بنیادی عنصر

سرمایہ دارانہ نظام اور اشتراکی نظام میں اس بات پر اتفاق ہے کہ معیشت کے میدان میں مقصود کمنا ہے، اختلاف اس میں ہے کہ کمائی کا بنیادی عنصر کیا ہے؟۔ سرمایہ دارانہ نظام میں کمائے کا بنیادی عنصر سرمایہ ہے اور اہمیت سرمایہ کو حاصل ہے اور مقصود سرمایہ دار کو فائدہ پہنچانا ہوتا ہے، طریقہ کار یہ ہوتا ہے کہ جس کو غائب کر دیا جائے اور ضرورتوں میں شدت پیدا کی جائے، نتیجتاً قیمتیں بڑھ جائیں گی اور سرمایہ دار کو فائدہ پہنچ جائے گا، اس لئے اس نظام میں غبن، احتکار (ذخیرہ اندوزی) وغیرہ سب طریقہ درست ہیں۔ اس نظام کا موقف یہ ہے کہ سود جائز ہے اس لئے کہ سرمایہ میری ملکیت ہے اور جس طرح میں اپنے مکان، گاڑی وغیرہ کی اجرت (کرایہ) لے سکتا ہوں اسی طرح اپنے مال کی بھی اجرت لے سکتا ہوں۔

اشتراکی نظام کا بنیادی عنصر

اشتراکی نظام میں کمائی کا بنیادی عنصر محنت ہے اور اہمیت محنت کو حاصل ہے اور محنت کش کو فائدہ پہنچانا مقصود ہوتا ہے، طریقہ کار یہ ہوتا ہے کہ محنت کشوں کی انجمنیں اور تنظیمیں بنائی جائیں، مزدور آزاد بازار سے دستیاب نہ ہوں تو لوگ انجمنوں کے پاس آئیں اور انجمن والے مزدور کی اجرت بڑھادیں تو اس طرح محنت کش کو فائدہ پہنچے گا۔

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اسلامی معیشت کا بنیادی عنصر

اسلامی فلسفہ معیشت ان دونوں فلسفوں سے مختلف ہے۔ اسلامی معیشت میں سرمایہ اور محنت ان دونوں کو کوئی خاص اہمیت حاصل نہیں ہے اصل اہمیت صارف کی ضرورت کے حل کو ہے۔ ارشاد باری تعالیٰ ہے:

”وَمَا مِنْ دَابَّةٍ فِي الْأَرْضِ إِلَّا عَلَى اللَّهِ رِزْقُهَا“

ترجمہ: اور زمین پر چرنے جاندار ہیں ان سب کا رزق اللہ تعالیٰ کے ذمہ ہے۔

گویا زندگی کی ضرورتوں اور وسائل کو پورا کرنا اللہ تعالیٰ نے اپنے ذمہ لیا ہے اور کسب انسان کے ذمہ ہے۔

ابتدائی انسان کا ذریعہ معاش:

ابتدا میں جب انسان تعداد کے لحاظ سے کم اور اس کی ضرورتیں محدود تھیں تو ہر شخص کی ضرورتیں اپنے کسب سے پوری ہو جاتی تھیں، کہ شکار کر لیتا تھا، ہڈی سے اسلحہ دفاع کے لئے، چمڑے سے لباس اور گوشت سے بھوک کی ضرورت پوری کر لیتا تھا۔

تبادلہ اجناس:

جب تعداد بڑھ گئی اور ضرورتیں پھیل گئیں تو ایک شخص کے اپنے کسب سے کفایت نہیں ہو رہی تھی، دوسرے کے کسب سے استفادے کی ضرورت پڑی، تو خرید و فروخت / تجارت درمیان میں آئی، تجارت کی ابتدائی اور طبعی شکل اجناس کا باہمی تبادلہ ہے، مثال کے طور پر ایک آدمی کے پاس جو ہے اور دوسرے کے پاس گندم ہے، گندم والے کو جو کی ضرورت ہے، جو والے کو گندم کی ضرورت ہے، یہ دونوں باہم تبادلہ کر لیتے ہیں، اب بظاہر تو انہوں نے گندم اور جو کا تبادلہ کیا ہے جو کہ اجناس کا تبادلہ ہے لیکن درحقیقت ہر ایک نے دوسرے کی ضرورت کے حل میں معاونت کی۔ جب ایسی صورت ہو تو تقاضا کا مسئلہ نہیں ہے، کیونکہ اس میں اصل مقصد صارف کی ضرورت کا حل ہے۔

کرئی کے ذریعے اشیاء ضرورت کا حصول:

ایک مرحلہ ایسا آیا کہ جب طرفین کی ضرورتیں ایک دوسرے سے پوری نہیں ہو پارہی تھیں، غلہ ایک کے پاس تھا اس کو کپڑے کی ضرورت تھی تو دوسرے کے پاس کپڑا نہیں تھا تو اس مشکل کے حل کے لئے درمیان میں سکہ آیا۔ اب سکہ بذات خود نہ کھانے کی چیز ہے نہ پینے کی، نہ ہی اوڑھنے کی چیز ہے، لیکن معیشت کے میدان میں اس سے مشکل حل ہو جاتی ہے کہ غلہ والا سکہ والے کو غلہ بیچ دے گا اور اس سے کپڑا خرید لے گا۔

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معیشت میں جائز و ناجائز کا معیار

اسلامی فلسفہ معیشت میں یہ ہے کہ معاشی میدان میں ہر وہ عمل جو صارف کی ضرورت کے حل میں معاون ثابت ہوتا ہے وہ مرغوب ہے، مثلاً: قرض حسنہ، صدقہ، عاریت، وقف اور ہبہ وغیرہ اور ہر وہ عمل جو صارف کی ضرورت کے حل میں رکاوٹ اور مشکل پیدا کرے وہ حوب مع اللہ ہے، اس لئے کہ اللہ نے رزق کا ذمہ لیا ہے اور یہ عمل اللہ کے ذمہ میں معاون نہیں بلکہ رکاوٹ بن رہا ہے، مثلاً: پیسے کو جمع کر کے اس سے کنز بنانا، تاکہ پیسہ گردش میں نہ رہے، پھر تو سرمایہ، سرمایہ داروں میں گردش کرے گا اور غربت بڑھتی جائے گی مذموم ہونے کی دلیل اور بازار میں اجناس کے انبار بھی لگ جائیں تو غریب کے پاس پیسہ نہیں ہوگا، جب پیسہ نہیں ہوگا تو پھر وہ جنس خریدے گا کیسے؟ تو پیسہ کا کنز کرنا صارف کی ضرورت کے حل میں رکاوٹ پیدا کرتا ہے۔

اسی طرح جنس کو جمع کر کے ذخیرہ کرنا جس کو ”احتکار“ کہتے ہیں۔ اب پیسوں کی بوریاں بھی ہوں تو جنس بازار میں نہیں تو کیسے خریدیں گے؟ تو اس سے صارف کی ضرورت کے حل میں رکاوٹ پیدا ہوگی۔ اسی طرح ”غبن فاحش“، یعنی بازار سے زیادہ قیمت لینا، کسی کی نادانی سے استفادہ کرنا، کسی کی مجبوری سے استفادہ کرنا، جنس ایک ہو اور اس پر اضافہ لینا، اور اگر سکہ ہے اور ایک ملک کا سکہ ہے اس پر اضافہ لیتے ہیں تو کنز بن جائے گا اور اگر جنس ایک ہے تو اضافہ لیتے ہیں تو احتکار بن جائے گا۔ یہی وجہ ہے کہ بیع سلم میں بیع تو موجود نہیں لیکن انسانی ضرورت اس سے وابستہ ہے تو یہ سودا جائز ہے۔

روایت میں آتا ہے کہ اگر کھجوریں درخت پر ہوں اور اس کا تخمینہ پانچ وسق کا لگایا جائے تو بعض فقہاء ان روایات کی بنیاد پر خشک کھجوروں سے ان کا تبادلہ اس لئے جائز قرار دیتے ہیں کہ کھجوروں کے موسم میں تازہ کھجوروں کی ضرورت پیش آسکتی ہے، اپنے بچوں، مہمانوں، دوستوں وغیرہ کے لئے۔ لیکن اگر کاٹی ہوئی تر کھجوریں ہوں تو پھر اس کا مبادلہ خشک کھجوروں سے جائز نہیں اس لئے کہ تر کھجوریں یا تو خشک ہو جائیں گی یا سڑ جائیں گی، اس کی کوئی خاص ضرورت ان سے وابستہ نہیں کیونکہ اگر خشک ہو جائیں تو وہ تو پہلے سے موجود ہیں اور اگر سڑ جائیں تو بھی بے فائدہ ہیں۔

انسان کی معاشی ضرورت کی اہمیت اور حالت اضطرار کے احکام:

انسان کی معاشی ضرورت کی اسلام میں اہمیت اس حد تک ہے کہ قطعی نصوص سے ثابت حرام بھی شدید ضرورت یعنی

اضطرار کی حالت میں ضرورت رفع کرنے کی حد تک جائز ہے جیسے مردار خنزیر وغیرہ۔

اور اگر کسی شدید ضرورت (اضطرار) کے وقت زندگی بچانے کے لئے ایسے جرائم کا ارتکاب کیا جائے جس سے نصوص

قطعی سے حد ثابت ہے تو ایسی صورت میں وہ حدود بھی معطل ہو جاتی ہیں جیسا کہ حضرت عمر رضی اللہ عنہ سے مروی ہے: (لا قطع فی

عام سنة) (قط سالی میں چور کے ہاتھ کاٹنے کی سزا نہیں ہے)۔

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اسی طرح ایک ایسی عورت پر حضرت عمر رضی اللہ عنہ نے حد جاری نہیں فرمائی جس نے شدید پیاس کی صورت میں ایک چرواہے سے پانی مانگا، وہ اس شرط پر پانی دینے کے لئے آمادہ ہوا کہ یہ عورت اس سے زنا کرے تو اس عورت نے زنا کار تکاب کر لیا اور بعد میں حضرت عمر رضی اللہ عنہ کے سامنے اقرار زنا کر کے اپنے اوپر حد لگانے کی درخواست کی تو حضرت عمر رضی اللہ عنہ نے اس پر حد جاری نہیں فرمائی۔

حتیٰ کہ قبیح ترین عمل یعنی کفر و شرک بھی شدید ضرورت کی صورت میں زبان پر جاری کرنے کی حد تک جائز ہے جیسا کہ آیت کریمہ میں ہے: مَنْ كَفَرَ بِاللّٰهِ مِنْ بَعْدِ اِيمَانِهٖ اِلَّا مَنْ اُكْرِهَ وَقَلْبُهُ مُطْمَئِنٌّ بِالْاِيمَانِ۔
 (جو شخص ایمان لانے کے بعد خدا کے ساتھ کفر کرے مگر وہ نہیں جو (کفر پر زبردستی) مجبور کیا جائے اور اس کا دل ایمان کیساتھ مطمئن ہو۔)

سود کی توجیہ کرایہ سے کرنے کا جواب

سرماہ دارانہ نظام کے فلسفہ معیشت میں سود کی توجیہ کرایہ سے کرنا، اس کی کوئی معقول دلیل موجود نہیں ہے اس لئے کہ کرایہ کے لئے تین چیزیں ضروری ہیں (۱) چیز بذات خود موجود ہو (۲) مالک کی ملکیت اس میں قائم ہو (۳) آجرنے اس سے استفادہ کیا ہو، مثلاً: کمرے میں ایک بندے نے ایک مہینہ گزارا، مہینہ کے بعد جب وہ یہ کمرہ چھوڑتا ہے، تو کمرہ موجود ہے، مالک کی ملکیت اس پر برقرار ہے، سہولت کی وہ اجرت دے دے۔ لیکن اگر کوئی کہے: فلاں بھوکا تھا اور اس کو میں نے روٹی دی ہے، اور یہ روٹی میں نے کرایہ پر دی، تو بھوکا تو روٹی کھا کر بھوک مٹائے گا تو نہ روٹی رہی، نہ مالک کی ملکیت، تو پھر کرایہ کس چیز پر لیا؟ یہ یا تو فروخت ہوگی یا قرض یا ہبہ یا صدقہ ہوگی، اجارہ کا تصور یہاں نہیں کیا جاسکتا۔ پیسہ بھی اسی کی نظیر ہے۔

کسب مال کے حوالے سے دو ذہنیتیں:

معیشت کے میدان میں مصروف عمل لوگوں کی ذہنیت دو طرح کی ہوتی ہے (۱) کمانا، کمائے پہ کمانا اس کو رہائے تعبیر کیا جاسکتا ہے (۲) کمانا برائے لگانا، جس کو ”انفاق“ کہتے ہیں۔

دونوں صورتوں میں ایک مشترک عیب ہے اور وہ یہ ہے کہ اس کے کمائے اور صارف کی ضرورت کے حل کے درمیان جو اعتدال کا ایک غیر محسوس توازن اور پردہ ہے کبھی اس کو چاک کرتے ہیں تو اس کو حرص کہتے ہیں، بچت اور کمائے کی ذہنیت کے دوسرے عیوب ہیں: بخل یعنی لگانے کی جگہ پر بھی نہ لگانا اور انتہائی عیب اس کا ”شخ“ ہے، اس کی مثال ایسی ہے جیسے: مردار جانور ہو اور کتے اس کو نوچتے ہوں تو جلدی بھی ہر ایک کو ہوتی ہے، غرغری بھی کرتے ہیں اور خواہش ہر ایک کو ہوتی ہے کہ دوسرے کو ضرورت کے مطابق بھی نہ لینے دے، سب پر میرا قبضہ ہو دوسروں کو ضرورت کے مطابق بھی کچھ نہ ملے۔ جیسا کہ حدیث میں ہے: الدنيا جيفة و طالبها كلاب۔

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انفاق والی ذہنیت کے الگ سے تین عیوب ہیں (۱) ریاء (دکھاوا) (۲) اسراف (ضرورت سے زیادہ لگانا) (۳) تنذیر (بنیادی ضرورت ہی نہیں اس میں لگانا تنذیر ہے۔)

لہذا اسلامی فلسفہ معیشت میں ”ربا“ کی ذہنیت کی نسبت ”انفاق“ کو ترجیح ہے، لیکن ”انفاق“ کے میدان میں ریاء، اسراف و تنذیر کو مذموم قرار دیتے ہوئے صدقہ کے عمل کو پسند کیا جاتا ہے اور صدقہ کا معنی یہ ہے کہ ایمان کے ذریعے سے جو سودا جان اور مال کا کیا گیا ہے۔ جیسا کہ اللہ تعالیٰ کا ارشاد ہے:

إِنَّ اللَّهَ اشْتَرَىٰ مِنَ الْمُؤْمِنِينَ أَنْفُسَهُمْ وَأَمْوَالَهُمْ بِأَنَّ لَهُمُ الْجَنَّةَ

(”بے شک اللہ نے مومنین سے جنت کے بدلے ان کا مال و جان خرید لیے ہیں۔“)

اس کے اس انفاق سے اس سودے کی تصدیق ہو یعنی اس کا مال اللہ کی ہدایات اور رسول کی اطاعت میں خرچ ہو جائے اور اس کے کئے ہوئے سودے کی تصدیق ہو جائے، کمانے کے میدان میں بھی اور لگانے کے میدان میں بھی۔



M. NAJEEB KHAN, MUFTI, SHARIAH ADVISOR, SUMMIT ISLAMIC BANK

A Case Study of Uboodiya: Shariah Compliance in Family and Partnership Structures

Abstract

All Hamd (Praise) to Allah (s w t) Who has created man as His most exalted creation, and granted him a complete and perfect Deen to express his servitude and adoration.

And we bear witness that there is no deity except Allah and we bear witness that Muhammad fo ynnaryt eht morf dniknam reviled ot tnes eH mohw ,regnesseM dna evalS siH si ﷺ darkness and error, to the justice and light of Shari'ah and Sunnah. May Allah send His choicest blessings upon Muhammad, His family, followers and entire Ummah, amen.

Allah (s w t) has clearly defined the purpose for which He has created mankind in the Ayah:

وَمَا خَلَقْتُ الْجِنَّ وَالْإِنْسَ إِلَّا لِيَعْبُدُونِ

“I have not created the Jinn and mankind except to continuously worship and serve me” or: “except to remain constantly engaged in my ‘Ibadah / ‘Ubudiyyah”.

‘Ubudiyyah is the essence of ‘Ibadah, which could be defined as, “The obedience of Allah, motivated by His love and reverence” this Ubudiyyah is to be applied and expressed in all activities and aspects of human existence.

UBM wants to make dealings and earnings of traders beneficial in this world and the Hereafter (Akhira).UBM desires that as an earner all should know what their dealings and earnings can achieve for them apart from being an income generator.

The “Ubudiyyah Business Model” is based on this concept, built upon two cornerstones:



1. This very Ayah (وَمَا خَلَقْتُ الْجِنَّ وَالْإِنْسَ إِلَّا لِيَعْبُدُونِ) and the concept that it carries, which is; All Ja'iz (lawful in Shari'ah) human activities come under the scope of "Deen" which can be defined as the total system of Allah's Ubudiyyah in all aspects of life. Therefore, all Jaiz activities can and should be part of our life of "Ubudiyyah", thereby securing Allah's pleasure and His reward in Akhirat, rather than merely being means towards material and worldly ends.

2. The Hadith: "خَيْرُ النَّاسِ مَنْ يَنْفَعُ النَّاسَ" "The best of Mankind are those who benefit Mankind"

Allah Ta'ala has engineered our worldly existence as one of interdependence. Hence, virtually everyone's daily routine will include transactions and interactions (Mu'aamalaat and Mu'aasharaat) each of which either takes one closer to Allah's pleasure and Jannah or His displeasure and Jahannam.

The outward form of transactions involving exchange of tangible goods and services, known as Mu'aamalaat, has been comprehensively covered in virtually unlimited detail in books of Shari'ah.

The inward character, morals, attitudes and general excellence in personal interaction with other human beings known as Akhlaq/Adaab, has also been exhaustively covered by the work of our 'Ulamaa'.

The "Ubudiyyah Business Model" seeks to help facilitate humanity in engaging and conducting all of their business transactions and interactions in accordance with Shari'ah and Akhlaq, by providing a simplified outline and roadmap in a user-friendly format.

To achieve this purpose UBM team developed comprehensive Shariah guidelines for each functional unit like Human Resource Management, Marketing, Finance, Supply Chain and Information Technology.

Caliph Umer (may Allah be pleased with him) passed a decree in Madinah Munawwara that:



“No one is allowed to do transactions in our market except who has understood religious rulings.”

It is therefore a duty of every businessman to get an understanding and knowledge of Shariah compliances in his respective business.

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**M. NAUMAN FAROOQI, PHD, RON JOYCE CENTER FOR BUSINESS
STUDIES, MOUNT ALLISON UNIVERSITY, CANADA**

A Roadmap for Value Creation and Impact through Islamic Venture Capital

Abstract

Venture Capital plays a pivotal role in encouraging innovation and entrepreneurship. Innovative companies such as Google, Facebook and Tesla would not have been possible had venture capital not provided the nurturing support they needed at their inception. The traditional financial system does not provide funding in the space of innovation and entrepreneurship due to the higher than normal level of risk involved in these ventures. Research shows that eight out of ten companies in the innovation space fail. However, the two successful companies provide a significant return on investment to the venture capitalists which more than makes up for the losses accrued on the other eight ventures. This is what makes venture capital a very lucrative space for investment.

There is little disagreement that Entrepreneurship and innovation play a significant role as an engine of economic development. Although the Non-Islamic and Islamic banks have made good inroads into the economies of Islamic countries, they do not cater to the needs of innovators and entrepreneurs due to their conservative risk-return investment models. Despite the growth of Islamic finance, there has been little or no development of the venture capital function in Islamic countries. This is interesting to note given the close conceptual alignment between the goals and mechanics of Islamic Finance and Venture Capital; sharing in the risk and return.

This presentation will provide a roadmap for introducing and encouraging the development of the venture capital function within Islamic countries. With the economic challenges facing Islamic countries coupled with significant growth in population and the need to find avenues for harnessing the human potential found in these countries, it is imperative that Entrepreneurship and Innovation be considered as a vehicle for bringing prosperity as well as



develop a creative channel for harnessing talent. The roadmap will provide a list of activities that need to be undertaken by Islamic financial institutions, high net worth individuals, government/regulators, sharia scholars and academics to provide the foundations for developing the venture capital function in Islamic countries.

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M. SHOAB IBRAHIM, CEO, FIRST HABIB MODARABA

Prospects and Challenges of Modaraba in Pakistan

Abstract

The Islamic Financial Services segment is an increasingly important constituent of the financial sector in Pakistan and has grown in size and diversity during the last over three decades. Within the universe of Islamic financial industry, the Modarabas are remained pioneer Islamic Financial Institution in Pakistan. The concept of Modaraba as a Shariah compliant mode of business was evolved and introduced as an institutional framework in Pakistan as back as in 1980 with proper legislation, regulatory and monitoring structure and operating guidelines. This privilege of translating the concept into an institutional and properly regulated structure is unique to Pakistan. In fact Modarabas as Islamic financial institutions are the fore-runners of development of Islamic financial sector of Pakistan.

After promulgation of Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980, the first Modaraba was floated in July, 1980. Subsequently the good progress was made within the sector and Modarabas remain engaged with diversified Shariah compliant businesses. These Modarabas were not only the trend setters of Islamic modes of financing in a pre-dominant conventional financial system in Pakistan but also built confidence amongst the general public and stakeholders regarding the practice of Islamic modes of financing. The basic concept of Modaraba provides a universe of diversity and variety of functions which can be performed successfully under the current regulatory regime.

Modaraba model in Pakistan having the corporate status is an exceptional business model all over the world. It provides an opportunity of Halal business/investment to the general public and its custody to the skilled managers. It can carry out a universe of Shari'ah compliant businesses encompassing financial products and services, local and international trading, manufacturing, distribution and various corporate functions under one umbrella and one license.



Over the years Modarabas have emerged as major sector within the segment of non-banking Islamic financial institutions. It is a viable and dependable source of medium term financing which also offer opportunity to investors to earn Riba-free income. Recently it has been seen interest of good corporate entities to enter into a Modaraba business and foresee a significant number of new entrants in the sector which will further strengthen this segment and find their way to set new milestones in coming years.

In presentation, the following areas will be covered for better understanding of Modaraba sector of Pakistan

- Sector's back ground
- Its legal and operational structure
- Engagement of sector in various Shariah compliant businesses
- Performance of the sector
- Challenges, future business prospects of the sector and way forward.



OMAR SHEIKH, CEO, ISLAMIC FINANCE COUNCIL UK

Enhancing Shariah Assurance – Gaps and External Shariah Audit

Abstract

Following the issuance of the IFC Enhancing Shari'ah Assurance report the presentation will address six select issues and suggest potential considerations towards addressing gaps within current shari'ah assurance practices. The approach is based on benchmarking with conventional external financial audit. Specific attention is paid to addressing recent developments and experiences within External Shariah Audit for which SBP have taken a pioneering role.

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**RAO MAJID SHAMSHAD, PhD SCHOLAR, UNIVERSITY OF MANAGEMENT
& TECHNOLOGY**

&

**ANIQA REHMAN, COMSATS INSTITUTE OF INFORMATION
TECHNOLOGY, LAHORE**

Corporate Governance among Sharī'ah Compliance Firms

Abstract

Purpose

This century has witnessed global financial scandals. The responsibility may go with top management team unable to deal with governance related issues. This demands scholars to rethink about contemporary governance related issues with religious perspective about stakeholder theory instead of defending capitalism to seek classical agency perspective. This study is dedicated to explore relationship among board diversity, structure, and firm's growth among Sharī'ah compliance firms.

Methodology

The study has used unbalanced panel data for Sharī'ah compliance firms to explore trend of governance related variables in relation with performance. The variables have been adopted from Bloomberg from listed Sharī'ah compliance firms indeed at various Islamic security markets. We identified 1775 firms among which 188 firms were having data of governance variables along with Governance disclosure score as per international standards. Finally 185 firms provided in Annex B are being used for data analysis.

Findings

The study underpins relationship among board diversity, corporate governance and firm's growth in the context of Sharī'ah compliance Firms. Study tested the classical board-



demography-performance linkage. For future study has recommended exploring mediating relationship among board diversity, structure and firm's performance indicators.

Originality

The work is unique in nature due to novelty of the subject. Data to test the model for unique set of Sharīah compliance firms by highlighting role of boardroom.

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**QAMAR UZ ZAMAN MALIK, PHD SCHOLAR, DEPARTMENT OF
MANAGEMENT SCIENCES, COMSATS INSTITUTE OF INFORMATION
TECHNOLOGY, LAHORE**

From Interest Tax Shield to Dividend Tax Shield: Corporate Financing Theory in Perspective of Islamic Finance

Abstract

Purpose: This study attempts to critically analyse conventional theories of capital structure in accordance with Islamic financial ideology. It aims to provide a model of firm financing policy by suggesting tax regulations to restrain debt and promote equity. Further, it seeks to analyse the effect of proposed model on overall firm value.

Methodology: Conventional theories of capital structure advocate debt based upon impermissible element of “interest tax shield”. After critical analysis of existing theories and Shariah perspective on interest “riba” study proposed its assumptions; mainly “Interest taxability” and “dividend tax deductibility”. Study provides mathematical estimation of firm value and uses scenario based simulation technique to drive the effect of proposed model on overall firm value.

Findings: Results indicate that dividend tax shield is more value oriented for the firm than of interest tax shield. Further, proposed policy would be helpful to avoid bankruptcy and minimize financial distress for the firm. Drawing from the above finding, it is theorized that proposed model provide an equitable and sustainable financing solution to firm and overall economy.

Originality and Contribution: It is a pioneer study to observe the affect of absence of interest tax shield and develop an Islamic corporate financial policy. It provides significant contribution to the corporate financial literature to devise equitable and sustainable regulatory framework and firm financing policy.



Policy Implications: Recurring financial crisis triggered by cheap or subsidized leverage, has highlighted the need of regulatory reforms. This study has specifically identified the required regulatory reform to restrain corporate leverage. In broader terms, proposed policy has wider implications to attain financial parity and sustainability.

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SHAIKH MUHAMMAD ASIF, AVP PDSC, MEEZAN BANK

Sukuk Al-Musharakah - A Case Study of Pakistan's First Sukuk Based on Shirkat-ul-Aqd without Any Linkage to KIBOR / Profit Ceiling

Abstract

Pakistan's Sukuk market has made a modest contribution towards the World of Sukuk in terms of volume. However, in terms of innovation with worldwide acceptance, Pakistan's Sukuk market has contributed a lot by introducing innovative structures like Airtime Sukuk, Shirkat-ul-Aqd based short term Sukuk etc. This time, the market is waiting for country's first Musharakah, (Shirkat-ul-Aqd) based Sukuk without any linkage to KIBOR and any sort of profit ceiling or capping to mimic the profitability of its conventional counterpart.

This Sukuk is structured for Treet Corporation Limited with the broader objective of the issuance is to meet the working capital requirement of the company. Sukuk are to be offered to the existing shareholders of the company. Besides underlying structure of Shirkat-ul-Aqd and profit sharing mechanism, the key features of the Sukuk includes its perpetual nature unless otherwise converted into Ordinary shares by the Sukukholders coupled with put option for redemption in cash by the Sukukholders, alongwith listing on Pakistan Stock Exchange.



SHEILA AINON YUSSOF, PhD, IIU MALAYSIA

Fine-Tuning Shari'ah Compliance in Malaysia

Abstract

Shari'ah compliance is a cardinal principle that must be observed by Islamic financial institutions in Malaysia and other emerging markets as it provides the original basis (or *raison d'être*) for establishing a faith-based and alternative financial system. In fact, it is this unique and distinctive ethico-religious feature that distinguishes Islamic finance from conventional finance. The imposition of this additional requirement makes it necessary for Islamic financial service providers to operate according to Shari'ah [the law and objectives of the *Shari'ah* (*maqasid al-Shari'ah*)]. Prominence should not only be given to legality of transactions, financial performances and profitability; these technical and commercial parameters must also be enhanced by realization of the *maqasid* of public good. To gauge whether IFIs are complying with *Shari'ah*, the compliance itself must be measured from end-to-end to cover the whole spectrum of activities: from product development, operational process, human resource management, information technology application systems, to dispute resolution mechanisms. The integrated and comprehensive approach comes highly recommended as it will reflect the holistic worldview of Islam. Protection of consumers, environmental protection, securing and realization of public benefit, should therefore form the central theme of *Shari'ah* compliant finance. When applied to banks and takaful operations, it necessitates the business organisations to fine-tune *Shari'ah* compliance to a more human-centric orientation in its rule application, whilst achieving macro-economic goals of economic prosperity and social justice. The financial impact of *Shari'ah* non-compliances can be costly to the IFIs as it will lead to invalidation of contract resulting in non-halal income and possibility of legal suits from aggrieved customers and harming credibility of the industry. This paper will highlight the importance of fine-tuning shari'ah compliance in Malaysia through a concerted effort by shari'ah scholars, industry players and regulators to achieve the principal regulatory objectives of the Islamic Financial Services Act 2013 which are to



promote financial stability, ensure shari'ah compliance and protect consumers. This study gives greater focus to the general issues relating to shari'ah compliance within the Takaful industry and the challenges of control. Recommendations are made for stakeholders to operationalize the *Maqasid* al-Shari'ah through the inclusion of an ethical parameter to ensure a fuller compliance to Shari'ah.

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WAHEED QAISER, CHAIRMAN VARCALE CAPITAL MANAGEMENT LTD.

Islamic Capital Market

Abstract

The Islamic Capital Market has added needed flavour to Sharia'a compliant offerings by developing a fair range of equity, debts securities and managed funds. The Islamic Capital Market is focused on adopting acceptable Sharia'a compliant screening processes. The two components of Islamic Capital markets; the primary and secondary, though limited in size and their offerings, are critical component for generating desired economic output. There is lack of investment and insufficient expertise on Islamic capital market globally. In order to capture to market opportunity and offer alternative solution, there is an urgent need to undertake comprehensive market research, build up human capital, allocate sufficient financial resources, and innovate with market needed offerings to compete with the conventional giants.



**YASRA ASLAM, DEPARTMENT OF MANAGEMENT SCIENCES, ISRA
UNIVERSITY, HYDERABAD**

Islamic V/S Conventional Microfinance Institutions - Measuring Satisfaction Level of Women Members

Abstract

All microfinance institutions whether Islamic or Conventional provide small loans to poor people. Islamic microfinance institutions provide small (*Riba Free*) loans to (people) women for starting their business. The purpose of this study is to compare the Islamic and Conventional Microfinance banks of Hyderabad in terms of level of satisfaction, age, type of financing, loan size, time of repay loan. We received 51 questionnaire from Islamic and Conventional Microfinance Banks through convenient sampling technique. We analyzed the satisfaction level of women members of both microfinance institutions by using a questionnaire as tool and derived data from women members of Islamic and conventional microfinance institutions of Hyderabad city. For data analysis we used descriptive statistic to calculate the normality of distribution. Moreover, to compare the Satisfaction level between Islamic Microfinance Banks and Conventional Microfinance bank is compared by using Mann-Whitney U-test and compute the Chi-square test to determine the significant difference between categorical variables (age, type of loan, loan size and time of repay) and satisfaction. The findings of the study conclude that Islamic Microfinance is popular among women aging 31 years or above who borrow small amount of loan for short term. In contrast, Medium to Large amount of loan is borrowed mostly by women between 21-31 years from conventional banks for medium to longer term.



YOUNES SOUALHI, PHD, IIU MALAYSIA

Corporate Governance Frameworks and The Stability of Islamic Finance: Evidence from South East Asia and Mena region

Abstract

Development in Islamic Finance has in recent years been enhanced by Shariah governance frameworks enacted to promote real economy and participative financing and investment activities. As Islamic finance is moving more towards heavy regulation, the stakeholders are now more confident that the 2 USD trillion Islamic finance industry is more promising than ever. The introduction of Shariah audit, Shariah review and Shariah risk management processes and procedures within the governance frameworks have simply ushered a nascent industry to the competition level with conventional finance, at a growth pace of almost 16% p.a. In this paper we will examine the governance frameworks of a few countries, which a special focus on shariah governance frameworks, where the regulators embedded Islamic finance in their economic Master plan. Malaysia, United Arab Emirates, Kuwait, Qatar, Jordan, Morocco, Pakistan are just examples of the countries whose governance framework will be examined in this paper.

The first part of the paper will shed light on the relevant governance frameworks and their role in achieving economic stability. In the second part, and through a comparative approach, we will assess the chosen frameworks in the light of the principles of governance such as transparency, disclosure independence and responsibility. As for the third part, it would be devoted for recommending improvements in the existing governance frameworks. The study is qualitative in nature and will rely on secondary data to achieve the main objective, which is to figure out the best model of governance that best serve Islamic finance industry and achieve economic stability.