

# A Critical Analysis of Mudarabah & A New Approach to Equity Financing in Islamic Finance

By

Salman Ahmed Shaikh

## **Abstract**

*Financial intermediation serves a valuable purpose, but it can also be structured using equity modes of financing. This can relieve the financee and increase diversity of entrepreneurial undertakings as in debt based commercial financing, there is little room for diversity with obligatory and stipulated servicing of debt. Using Islamic equity modes of financing poses the challenge of the agency problem and moral hazard. The extent of this agency problem in Mudarabah and its impact on economic payoffs between counterparties is analyzed in this study with a simulation model. Based on review of alternate solutions proposed, the author presents two possible covenants which could make Mudarabah mode of financing more acceptable and widely usable in financial intermediation. This would also further the egalitarian objectives of an Islamic economic order.*

# Islamic Banking and Finance: Triumph and Challenges in Pakistan

By

Imran Hussain Minhas

## Abstract

*With the achievement of political independence there arose an urge in Muslims to revive their Islamic systems which had become dormant during the colonial period. The conventional banking system, being based on interest which is strictly banned in Islam, was their first target and efforts were set afoot to introduce Islamic banking system to eliminate interest and to ensure its working in conformity with the Islamic Shariah principles. These efforts were crowned with success. The Govt promulgated necessary laws and the Islamic banking came into existence and progressed in phases. Now quite a large number of Islamic banks with assets running into billions are operating and hold out a promise of their bright future. However there are some problems faced by Islamic banks which may adversely affect their growth. But if the Govt takes initiative and solves them, the Islamic banks are poised to acquire universal popularity and phenomenal development and penetration in all corners of the world.*

# Refining Financial Reporting Practices of Islamic Financial Institutions in Pakistan

By

Altaf Noor Ali (ACA)

## Abstract

*This write-up discusses three areas where IFIs can bring more transparency in its financial reporting and practices.*

*Firstly, every IFIs transfers certain amount for disbursement to charities. This write-up discusses if the disclosures in IFI can be fine tuned for completeness and transparency.*

*Secondly, we review how an IFI would report its acquisition of a portfolio from a CFI. We also comment on the strength and weakness of disclosure of financing activities of IFIs and compare it with that of conventional commercial bank.*

*Finally, we comment on the going practice of virtually all IFIs of reporting cash flows from investments in securities as a part of cash flows from its investing activities. We also reason why cash flows from such investment in securities is a part and parcel of its operational cash flows of any bank, more so an IFI.*

# Diminishing *Balance* Model for Islamic home finance

By

Zubair Hasan

## **Abstract**

*This brief note supplements the argument of an earlier paper "Islamic Home Financing: Current Models and a Proposal from Social Perspective"; it explains that the Diminishing Balance Model for Islamic home financing is operable in a Shari'ah compliant way even without the Islamic Banking laws accommodating the notion of constructive ownership as envisaged earlier. It further clarifies how the new model scores over the models currently being used for the purpose.*

# **Money, Gold and Inflation: Some history and observations**

*By*

A.L.M. Abdul Gafoor

## **Abstract**

*The article traces the evolution of paper currency from the outset to the present level of its development. Gold was initially used as money. For facility gold coin was minted. First the goldsmith's receipt of depositors' coin was used as currency and was the precursor of paper money. This was followed by the banks issuing bank notes and lastly Govts issued Notes and declared them legal tender. The paper money was gradually delinked from gold by all Govt to adopt deficit financing. This triggered inflation putting common mans' welfare in jeopardy. However in the view of the author, it is the depreciation in the value of currency and not inflation which causes surge in prices.*

# A CLUSTER ANALYSIS AMONG MALAYSIANS FOR ISLAMIC DEPOSIT PRODUCTS

By

*Hanudin Amin, Mohd Zulkifli Muhammad*

## **Abstract**

*The aim of this study is to obtain a better understanding of student's selection criteria with respect to Islamic deposit products. The study presents primary data collected by self-administered questionnaires involving a sample of 154 undergraduate students in Labuan, Malaysia. Findings of the study are classified into six clusters. For cluster 1, members of this cluster were likely choose Islamic deposit products on the basis of "friendliness of banks' staff" but not to "availability of ATM in several locations". For cluster 2, members of this cluster expressed the greatest tendency on "availability of ATM in several locations" when selecting Islamic deposit products. For cluster 3, members of this cluster seem to have lower preference with respect to selection criteria for Islamic deposit products. For cluster 4, members of this cluster expressed a tendency to choose Islamic deposit products on the basis of "gift reward" and "family influences". Further, members of cluster 5 were likely choose Islamic deposit products on the basis of "availability of ATM in several locations" but not to "family influences". Finally, for cluster 6, members of this cluster preferred to choose Islamic deposit products when the rate of return offered for the products is higher. The results are primarily of its potential to bank managers who might want to bring forward specific Islamic deposit products policies for different target groups. The managers could use the outcomes of the current study for better planning of Islamic deposit products.*

# SHARIAH ANALYSIS OF SALE/DEBT BASED SUKUK: THE MALAYSIAN SAGA

By

Mughees Shaukat

## ABSTRACT

*Malaysia, backed by its aim to become the hub of Islamic banking and finance has gained some unprecedented ground; more so when it comes to SUKUK. The Malaysian sukuk market dominated by "Sale/Debt Based" sukuk has experienced phenomenal growth ever since its inception, However it has also raised many controversial issues (as is clear from this research). A financial product's claim of being Shariah compliant cannot be accepted unless it is shown to be in consonance with the objectives of Shariah. The mechanisms used in such Sukuk today however, strike at the foundations of these objectives and rendering Sukuk exactly the same as conventional bonds in terms of their economic results. This study has tried to prove this point by using some new testing parameters, which provide a litmus test to determine the legality of Shariah compliant instruments. These new parameters include financial reporting, legal documentation of contract and intent of the Shariah in terms of fulfilling Maqasid Al-shariah. This study while highlighting a number of controversies and issues pertaining to the much criticized contemporary Malaysian practices of sukuk, has also raised a lot of question marks on the future of sukuk and the whole industry. After all 'the "Islamic" in "Islamic economics and finance" should relate to the social and economic ends of financial transactions, rather than the contract mechanics through which financial ends are achieved'.*

# Islamic Microfinance: Opportunities & Challenges

By

Dr. Badr El Din A. Ibrahim

## ABSTRACT

*The purpose of this paper is to review the nature and practices of Islamic microfinance, and to investigate their challenges and future prospects. The methodology of this paper consists of critical review and examination of existing literature and experiences. The results indicate that Islamic microfinance witnessed few achievements. The experiments in the Islamic microfinance, with some exceptions, were based on a number of models and mechanisms and were not integrated into the financial system as same are undergoing the trials phase, being set up by donors or religious groups and have yet to develop like their conventional counterparts. For policy perspective the paper supports the governmental regulatory framework, and also the current efforts of the Mix Market Database on microfinance. Moreover, granting encouraging incentives, creation of sustainable model, expanding the use of technology services, ensuring the transparency of the Islamic microfinance institutions, broadening the products and guarantees basis, and creating qualified cadres are among the major polices recommended.*