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“O Believers: devour not Riba, doubled and redoubled;
and fear Allah, in the hope that you may get prosperity.”

Sura Ale-Imran (verse No. 130)

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Editor’s Note

In the contemporary monetary system, governments finance their budget deficits through borrowing from internal and external sources. One way of borrowing is to issue treasury securities. Interest-based Treasury bills are not Islamic since they involve Riba, which is prohibited in Islam. In Pakistan, most of the financing by the Government of Pakistan is through Treasury bills, Pakistan Investment Bonds and national saving scheme instruments.

The Government of Pakistan has recently decided to launch ‘Pakistan Banao’ (Build Pakistan) bonds. But, due to the element of Riba, these cannot be regarded as compliant with Islamic principles and hence, Islamic scholars have rightly stated their apprehensions and reservations in this regard.

Nonetheless, since the need to finance is quite realistic, it requires a solution in Islamic finance space. As a substitute to Treasury bills, the governments can issue Treasury Sukuk Ijarah to source funds. This instrument can also be used in open market operations. It is important that the Government of Pakistan shall bring forward tangible fixed assets or real estate which can become the subject matter for lease and sale transactions under the Islamic contracts and instruments. This will enable the government to meet its fiscal deficit and obtain greater interest from the public due to ensuring Shari’ah compliance.

Simultaneously, the issuance of treasury instruments in compliance with Islamic principles will enable the Government of Pakistan to fulfill its aspiration to institutionalize the state of Pakistan on the model of Medina wherein there was no element of Riba. Change should begin from home. It is pertinent that new fresh borrowing from new instruments like Pakistan Banao [Build Pakistan] certificates is modeled in compliance with the principles of Islamic Finance. Overseas Pakistanis who are careful in choosing Halal dietary options would also be careful in choosing Halal investment options. Thus, it is pertinent that the Government chooses the Shari’ah compliant modes of financing in order to fulfill its constitutional duty and promise to the public mandate.
One of the reasons why Pakistan has very low levels of financial inclusion and savings is the interest-based financial institutions and instruments, which are prevalent and available in the market. According to the constitution, the Government of Pakistan shall make every possible and serious effort to eliminate Riba from the economy and financial system as soon as possible. Hence, in order to encourage Riba-free investments, the Government of Pakistan itself shall not use interest-based instruments to finance its deficit. Currently, it provides tax relief to the national saving scheme instruments which are interest based, while it does not offer the investors any Shari‘ah Compliant investment option in the national savings schemes.

It is pertinent that the national savings scheme instruments shall be developed in compliance with Shari‘ah principles and this will help the government to reduce its fiscal deficit, increase national savings and pluck the external sector deficit as well by reducing savings and investment gap in the economy.

This issue of Journal of Islamic Banking & Finance documents scholarly contributions from authors around the globe. Contributions in this current issue discuss the theoretical underpinnings of an Islamic economy, contemporary issues in Islamic finance and performance based empirical studies on Islamic banking and finance. Below, we introduce the research contributions with their key findings that are selected for inclusion in this issue.

In his paper entitled “Deficit financing in developing countries: Applications and consequences”, Zubair Hasan - Professor Emeritus, Islamic Economic and Finance, International Center for Education in Islamic Finance, Kuala Lumpur INCEF, defines Deficit Financing and its components and discusses the merits and demerits of deficit financing in mainly developing economies. He presents different scenarios in which deficit finance has been used by India, Malaysia, Indonesia and Pakistan and how it has impacted their economies especially in context of IMF.

Mohd Ma'Sum Billah, Professor of Finance, Islamic Economics Institute, King Abdul Aziz University, KSA in his article “SWOT Analysis of Cryptocurrency An Ethical Thought” discusses the phenomenon of cryptocurrency, its strengths, weaknesses, threats and opportunities it offers in the context of Islamic Finance. The author gives various suggestions as to Islamizing cryptocurrency. What is not clear is that with formalizing and Islamizing the instrument, would it still remain in the crypto category or become a currency in the conventional manner. However, an interesting take on the subject.

“Rotating Saving and Credit Associations as an Informal Finance Tunnel Evidence from Egypt” is a research based article contributed by Ahmed Taha Al Ajlouni, Associate Professor of Finance- Islamic Finance & Banking College of Business
and Economics Qassim University – KSA. In this article, the author describes the informal method used in Egypt by both rural and urban people to meet their savings and consumption needs. The study looks at the influence of gender and income on reasons of choice of rotating saving and credit associations as a means to fulfill consumption or saving needs. The article shows that this system is prevalent almost everywhere in the world by different names and is considered Islamic as it does not normally involve Riba or interest.

In their article “The Regulations Supporting Socio-Economic Initiative in Takaful Operations” written by Dr. Hafiza Harun & Rusni Hassan, explain that takaful operators are subject to relevant regulations and procedures. These regulations are important in providing a guided supervision and to ensure the interest of every stakeholder are preserved. This research paper applies the literature review based methodology that demonstrates the nature of takaful operations for society and nation.

In their article titled “The Journey of Islamic Banking in Pakistan” Dr. Burhan Ali Shah, incharge School of Management, Quaid e Azam University and Dr. Ghulam Shabbir Khan Niazi associated with University of Lahore trace the history of the development of Islamic Banking in Pakistan from the idea of such a financial system to its current status as an alternate method of banking. They talk about the role that Federal Shairiah Courts, Shariat Appellate Bench of the Supreme Court and State Bank have played in the development and delay of Islamic banking over the years. It cites the laws that were formulated at each stage and how the life cycle of Islamic banking developed. This article provides a background for a new comer to the Islamic Banking scene in providing background and indications for way forward.

“Small & Medium Enterprise (SME) Financing and Poverty Alleviation – A Case of Pakistani Islamic Banks” contributed by Iffat Zehra and Vijay Kumar both affiliated with the Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology, Karachi discuss the importance of small and medium business enterprises to the economy of Pakistan and how Shariah approved financial instruments used by local banks can help SMEs towards securing funds necessary to conduct efficient business. They used a structured questionnaire and administered it online to employees of all Islamic banks and Islamic windows of commercial banks, who were either working directly in SME function or had some functional relation with SME department. The researchers found that Islamic Banks in Pakistan preferred dealing with SME clients as the financial instruments used fit the needs of this sector.

In his article “Empirical Evaluation and Effect of Training & Staff Development”, Malik Shahzad Shabbir associated with International Islamic University Islamabad discusses his research findings on the role training and development has
played in improving organizational performance of two Islamic financial institutions in Nigeria. His research is based a questionnaire survey with 100 respondents, a significant number of who supported training initiatives towards better performance.

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The authors themselves are responsible for the views and opinions expressed by them in their articles published in this Journal.

The opinions, suggestions from our worthy readers are welcome, may be communicated on e-mail: ia_ib@yahoo.com / facebook link: http://www.facebook.com/JIBFK
Deficit Financing in Developing Countries: Applications and Consequences

By

Zubair Hasan *

Abstract

Budgetary deficits and adverse external payments have emerged as major public policy concerns in recent times. The purpose of this paper is to discuss briefly various aspects and forms of deficit financing as modern economies increasingly use it to address these concerns. Historical evidence shows that controlled deficit finance can be a useful tool to mobilize physical resources for economic development. Borrowings from the IMF are available to meet deficits during financial turmoil and chronic balance of payments deficits for country bailout. The paper warns of the dangers of reckless indulgence in deficit financing, internal or external - and indicates precautions to avoid the pitfalls. It puts, presumably for the first time deficit finance for various purposes from different sources in a single framework.

Keywords - Deficit financing, Economic development; International Monetary Fund (IMF) conditionality; Arms race;

Introduction

The term 'deficit financing' has wide applications even extending to TV shows1. In economics, it connotes the amount by which a resource falls short of a given target; indicating most often a difference between cash inflows and outflows or the shortfall by which expenses or costs exceed income or revenues. In the context of developing countries the term refers to government budgetary deficits. To define:

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1 Television deficit financing is the practice of a network or channel paying the studio that creates a show a license fee in exchange for the right to air the show. For more information see Wikipedia https://en.wikipedia.org/wiki/Television_deficit_financing.
“Deficit financing is a practice in which a government spends more money than it receives as revenue the difference being made up by borrowing or minting new funds”. (Britannica.com).

Having a balanced budget - equating revenues and expenditures of a government - seems an ideal fiscal policy. However, even as socio-economic dynamism may not usually allow a perfect synchronization of the two variables, there are occasions when circumstances may force governments to run into a deficit. There are others when they may find it expedient to run a deficit. This has been true with reference to both developmental effort and crisis management. The concept of deficit is not as simple as it looks. Various indicators of deficit in the budget may be noted, as delineated by Jose (2016):

- Budget deficit = total expenditure – total receipts
- Revenue deficit = revenue expenditure – revenue receipts
- Fiscal deficit = total expenditure – total receipts except borrowings
- Primary deficit = Fiscal deficit - interest payments
- Effective revenue deficit = Revenue deficit – grants for the creation of capital assets
- Monetized fiscal deficit = that part of the fiscal deficit which is covered by borrowing from the central bank.

Deficit may refer to any one or more of the above versions in a description. Thus, specification is always better for clarity. Using the first concept of budget deficit may especially be deceptive. Take for instance the following case of India on budget deficit. Notice that in Figure 1 both revenue receipts and budget deficits are year-on-year change expressed in percentages. Changes are larger and sharper in deficits than variations in revenue receipts deficits have a sharp overall rise; in receipts it is mildly downwards as the two curvatures show. The sum of the two in each block is the percent change in expenditure.

Figure 1 illustrates how political considerations, especially around elections force deficit financing on governments. In the current Indian budget presented on February 1, 2019 the deficit rises despite a fall in estimated revenues for providing relief to the SMEs hit by demonetization and farmers agitating for loan waivers. Budgets tend to underplay deficits creating problems.
A better and more revealing definition of the gap is provided by the fiscal deficit—total expenditure minus total receipt excluding borrowings. Thus, fiscal deficit represents government’s loaning from the market and is the best measure of the budgetary health of a country.

The main factors that cause fiscal deficit are the negative difference between revenue receipts and public expenditure in an accounting sense. The shortfall has an external component too — the excess of goods and services imported (M) over their exports (X) usually expressed as (X – M). A negative (X–M) enhances fiscal deficit and signifies the balance of payments problem. The government can bridge the fiscal gap from three sources:

- Mobilizing domestic savings through financial instruments like bonds or saving certificates. However, as the domestic savings pool is the same for different users and is limited, if government gets more, private enterprise will receive less. Aggregate mobilization and its impact on growth may be inconsequential.

- Printing of new currency notes is tempting and cheaper—unlike bonds no interest is payable. But its perils are no less than its attraction. It carries inflationary potential that may tend to get out of hand worsening income and wealth inequalities and depreciation of domestic currency.

- The third more commonly used source in the modern era is to borrow from abroad from friendly countries but mostly from international financial institutions, like the International Monetary Fund (IMF) as Pakistan is currently doing.

Rising corruption and governance inefficiencies tend to raise the cost of prestigious development projects over the years beyond the financial means of countries, pushing them to seek for, and encourage, external capital inflows. Much of these flows is short-term and tends to fly away with the slightest signs of adversity—real or false—plunging the economy into crisis that snowballs. The economy eventually seeks finance from the IMF to cover the yawning payments deficit - negative X-M in national income. A nexus is established between internal and international payments deficit.

**Structure of the paper**

This article is spread over four sections including the introduction. The following section explains how deficit financing is used as an instrument to mobilize physical resources for economic development, citing the experience of India’s first two five-year plans. The discussion is then raised to the global level showing that countries falling into non-manageable deficits to meet their financial obligations seek funds from the IMF as members to look back in hours of need. Here, the term ‘conditionality’ that has to be met for obtaining the needed assistance is explained. The nature of programs falling under conditionality is discussed and evaluated in the light of the aid recipients’ experiences. The discussion is then closed with a few concluding observations and suggestions.

**Deficit financing and development experience**

Interestingly, deficit finance can be used, as it was, for example, used in India, to mobilize resources for development during the 1950s. The financial resource estimate for
the First Five Year Plan (1951-1956) of the country from taxation and borrowings at the centre and state levels showed a substantial shortfall from the requirements to meet the planned growth targets. This brought under consideration the possible use of a third source—deficit financing. The measure was the direct addition to gross national expenditure through budget deficits on the revenue or capital account. In essence, the policy implied government spending in excess of revenues it collected from taxation, earnings of state enterprises, loans from the public, deposits and funds and other miscellaneous sources. The government could cover the deficit either by running down its accumulated balances, or by borrowing from the banking system—mainly from the Reserve Bank of India (RBI), the Central Bank of the country; thus creating money as Figure 2 demonstrates. Deficit finance at Rupees 2900 million provided 7.5% of overall financial outlay (14% of the public sector) for the plan over the five-year period.

Figure 2: Macroeconomic savings gap covered by deficit

To keep in check the inflationary potential of deficit financing (Section 3 of Figure 2), operations like taxation and saving schemes were launched for mopping up extra money generated. Price control and rationing of essential goods were put in place. The nature was merciful with monsoon rains for three consecutive years. Crops were good putting a tab on the prices of food grains and raw materials. The plan achieved its targets beyond expectations. The economy became stable and kicking.

The First Five Year Plan was designated largely to agriculture irrigation and pre-partition projects’ consolidation; the second (1956-1961) aimed on industrialization and transportation, though agriculture got its due share. Emphasis on expanding the public sector continued in view of the declared objective of establishing a socialistic social order. Emboldened by the success of the First Five Year Plan, the size of the Second Five Year Plan in outlay terms was raised to Rupees 480 billion of which no less than Rupees 120 billion or 25% was to be the deficit finance component.

The two plans raised the GDP of the country at constant prices by 42% and per capita income by 18% despite rapid increases in population. 30 years were also added to the life expectancy of an average Indian. These were laudable achievements wherein deficit financing contributed significantly as a tool for resource mobilization.

2 This explanation of deficit finance that the Planning Commission of India provided in paragraph 35 of the First Five Year document in 1951 is comprehensive, highlighting its nature possible sources, measurement and net outcome—that is money creation.
However, this merry march could not continue due to massive diversion of resources from development to defense after the 1962 Chinese attack across the North-Eastern border of the country. 3

Deficit finance and inflation

Deficit finance is a double-edged weapon that cuts both ways. If it facilitates resource mobilization, say for development, it can initiate and fuel inflation as well. Deficit finance adds to money supply and if the saleable output increases at slower rate additional money is not fully absorbed and must result in inflationary pressures via increase in effective demand. The situation aggravates if money adds to speculative activity. To ward off such possibilities effort is made to pull back the created money into savings through a well-managed system of price controls and rationing of wage goods. But such systems seldom remain clean; they more often than not give rise to corruption and black markets. Inflation beyond a limit alters the relative price structures to the disadvantage of weaker social groups; it perpetuates income and wealth inequalities generating social unrest. Thus, deficit finance has to be used, if at all, with utmost caution. India was lucky to contain inflation by good management and a bit of good luck during 1950s. Things thereafter drastically changed for the worse on the price front during the Third Five Year Plan and beyond.

Crisis management

Micro units can and do indulge in deficit financing but it essentially is a macroeconomic phenomenon strictly falling in the fiscal policy domain. Keynes (1936) vigorously advocated using deficit financing as an anti-crisis measure when the 1930s Great Depression peaked, wage rigidity for downward adjustment becoming the obstacle in the way of remedial action.

In that crisis deficit finance was needed to revive the falling demand to cheer the gloomy markets; it was to create what Keynes termed as ‘effective demand’. To this end, he advocated to employ people even to dig holes in the ground to put money in their pockets as wage and to employ them again to fill the same holes if needed. Thus, it was deficit financing mostly via printing money and was internal to governance. It was endogenous to the country’s macroeconomic system.

This changed drastically during the great turmoil during the subprime crisis of 2007 unleashed across countries for years. The locus for deficit finance shifted from revival of aggregate demand to the bailout of failing giant financial institutions, notably banks, insurance companies and funds. The need was external to the macroeconomic systems. The economy was no longer the recipient; it was the giver to the players of the financial markets to save them from a total annihilation of their own creation; of their greed and

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3 It was debated for some time as to why did Chinese attacked in the first instance, if they eventually had to withdraw voluntarily after reaching Tezpur in the Assam valley. Ayub Khan, the ex-president of Pakistan, provides the logic behind the action in his book *Friends not masters (published in 1967)*. He thought that the West had started comparing economic progress of democratic India with communist China. The latter attacked India to make them spend on arms too.
irrational exuberance. Institutions like insurance companies and funds—were running into huge deficits to meet their liabilities. This deficit was met by public funds.

A study by the Government Accountability Office (GAO) puts the 2008 financial crisis cost to the U.S. economy at more than US$22 trillion (Melendez 2013). It further observes that the crisis was associated with not only a steep decline in output but also with the most severe economic downturn since the Great Depression of the 1930s. The Agency said the financial crisis toll on economic output may be as much as US$13 trillion—an entire year's gross domestic product of the US economy. Furthermore, paper wealth lost by U.S. homeowners totaled US$9.1 billion while economic losses associated with increased mortgage foreclosures and higher unemployment since 2008 need to be considered as additional costs (Melendez, 2013).

How the crisis affected the Islamic financial institutions is a moot point even as an IMF survey (2010) lauds Islamic banks as being ‘More Resilient to Crisis’. Indeed, the literature is full of praises for Islamic finance on that count ascribing the achievement to two factors: Islamic finance maintains its links with real economic activities and is based on the principle of risk sharing. The claim of observed immunity might have elements of truth but it probably is being over stretched. It has been shown elsewhere that some Islamic banks and financial institutions did come to grief during the crisis and that the crisis overtook them indirectly through its depressing impact on macroeconomic variables—savings, investment and output—across countries (Hasan, 2016). Thus, one must take the superiority claims with a grain of salt.

**Deficit country bailout**

So far we have discussed the use of deficit finance by a country between its government and economic entities for development or for crisis management. However, a much bigger drama of deficit finance is staged between a country and the international community operating through the IMF which has been established for helping member countries out of financial deficits, if they land in, by granting loans under a program governed by the terms contained in what is popularly known as conditionality. Earlier, it has been shown that the need for borrowing is linked to the rising costs of monumental projects and the ballooning funds the crisis management needs. Both costs are largely self-inflicted, natural calamities occasionally contributing.

Whatever be the reason, in essence the country is not able to escape default on its external commitments and liabilities unless helped to overcome the impasse. The last source for succor in such cases is the IMF. The help seekers are usually the developing countries while the funds the IMF provides to bridge the deficit come from the developed countries, the institution acting as their collective mahajan. IMF bailout loans are no charity; they are to be reimbursed in the common pool so that others in need could be helped.

The conditions IMF imposes are tight. So tight at times that they may make the patient bleed white. The IMF Greece bailout is a case in point. The pending case is of Pakistan who has approached the Fund for help under compelling economic circumstance. The country is neck-deep in foreign debt substantially related to China Pakistan Economic Corridor (CPEC) involving US$60 billion of Chinese investment.
Political economy seems clouding the matter (Rana, 2018). The IMF has asked Pakistan to be transparent in revealing the details of the Chinese (and other) debt before Pakistan’s application to bridge the deficit could be considered to which the country has agreed. Interestingly, China insists that the term of their debt to Pakistan must be fairly evaluated. Politics apart, let us have a brief look at the manner the IMF conducts its bailout business and what repercussions it has on the borrowing nation, if experience is a guide.

(i) **The IMF Conditionality**

When a country approaches the IMF for help, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial assistance from the international community. The terms on which the IMF agrees to financially help a country in trouble are collectively called the IMF conditionality.

The IMF conditionality broadly consists of two parts: (i) the design of its support programs and (ii) the tools for monitoring the progress of program implementation. In principle, the programs are designed in consultation with the country seeking help. They essentially aim at resolving the balance of payment deficit problems of the country avoiding measures harmful to national or international prosperity. The monitoring measures at the same time oversee that the resources the IMF commits to help the country remain safe. The essence of conditionality is to help resolve the country’s problems such that it is in a position to repay the IMF loan.

To reiterate, the member country seeking help has primary responsibility for selecting, designing, and implementing the policies that will make the IMF-supported program successful. The program is described in a letter of intent (which often has a memorandum of economic and financial policies attached to it). The program’s objectives and policies depend on the country’s circumstances. But the overarching goal is always to restore and maintain the balance of payments’ viability and macroeconomic stability while setting the stage for sustained, high-quality growth and, in low-income countries, for reducing poverty.4

For ensuring progress in program implementation and to mitigate risk to the IMF’ provided resources, the loan granted is released in installments linked to demonstrable policy pursuit. The progress is reported to the IMF Executive Board for review to see if the program is on course or modifications are needed for achieving the prescribed objectives. The review approvals are based on various policy commitments agreed with the country authorities.5

(ii) **Program evaluation**

A typical IMF program focuses on correcting the balance of payment problems of a country seeking a bailout. Its main components are devaluation of domestic currency, liberalization of trade and expansion of the private sector. The three elements are assumed as mutually compatible and each supportive of others.

4 Apparently this looked fair but the borrowing country had to so frame the program as would ensure a safe return of the IMF loan.
5 For details see IMF Conditionality March 6, 2018: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality
Currencies of developing countries are mostly over-valued relative to the IMF based parities. The depreciating currencies of help seeking countries bear testimony to this statement. The assumptions supportive of devaluation are that the act would make domestic goods cheaper for the foreigners boosting exports, and imports costlier reducing their inflows. This combined with liberal trade policy would help correct the adverse balance of payments the borrowing countries suffer from. Since public enterprises lack motivation, are prone to corruption and slow to act, encouragement to privatization of the economy may be an added advantage for program implementation. The question is how valid are these assumptions?

The catch in this argumentation is that it ignores the issue of export and import elasticity. Most developing economies are exporters of primary products where price elasticity is generally less than one. To get the same revenue as before, the country must export more in physical terms than before. This apart, would they always have an exportable surplus ready at hand? Imports of these countries are even less price elastic. They import food grains to feed the teeming millions, machinery and spares for their upcoming industries and technical knowhow. They cannot cut down much on such survival needs. Devaluation for them, ipso facto means—continue imports at the same, even increased, level and pay more. Debt servicing also becomes costlier. Corruption is not the monopoly of the public sector. The private sector across the globe is showing itself no less corrupt, if not more; what caused the 2007 subprime debacle and what followed in its wake is evidence. Thus, the IMF bailout programs may not always or entirely prove conducive or helpful to the seekers.

In the year 1966, the currencies of 34 countries, mostly developing, went down on their knees under the IMF programs. The Indian rupee was one of them; 35% being the devaluation. The University Grants Commission (UGC) the same year organized, probably under government instructions, a seminar at Meerut entitled ‘Foreign Aid in our Plans’. One of the specified topics was devaluation and foreign aid. The above arguments were then outlined by the author in his paper on the topic. Later developments vindicated the position taken. Food grains imports created payment problems as the Americans expressed their inability to export wheat to India and the USSR had to help the country out of the predicament with a wheat loan.

The episode also brought to the fore another danger of the devaluation-led bailout. Many developing countries start manufacturing products such as automobiles having a certain percentage of imported components. This percentage is gradually substituted with local makes until one looks back with satisfaction that a tiny fraction of the product is now imported. Many such industries find them at the sea, as India experienced, if that

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6 In fact, most developing countries find it advantageous to keep if they can their currencies over-valued as their exports are not usually price elastic; they get imports cheaper for defense and development.

7 Note that the depreciation of a currency is not the same thing as its devaluation. Depreciation is a market phenomenon where a currency depreciates relative to some others. Devaluation is the reduction in official equivalence in gold at the IMF. Thus, two currencies cannot depreciate relative to one another but both can devalue together at the IMF.
crucial fraction becomes unavailable due to the IMF program or its cost becomes prohibitive due to devaluation. Billions worth of plant investment stands still, rather hostage to foreign dictates.

More recent is the story of two countries dealing with financial crisis of 1997-98—informative and interesting. It was the massive short-term Western capital flights from South-East Asia that had then hit the flourishing economies of the region. Originating from Thailand, the contagion spread fast to other nations including Malaysia even as her economic fundamentals—contrary to the IMF assessment—were sound. Anyway, Thailand sought relief from the IMF while Malaysia eventually took a different route—it resorted to the imposition of exchange controls (Hasan, 2002).

In a small open economy like Malaysia, the flight of short-term capital during the 1997-98 crisis led to a sequence of events involving the selling of shares by foreigners in the stock market and taking the sale proceeds to the currency market for buying US dollars to be taken out, the process leading to a downturn in both the markets as Figure 3 demonstrates.

The run on the Ringgit, the Malaysian currency, led to a rapid depreciation (35%) in its value vis-à-vis the US dollar in months. Action had to be taken to stem the rot. For some time the country experimented with raising the interest rates to arrest capital flight but it did not work. Eventually, Mahathir Muhammad, the astute Prime Minister of Malaysia who knew that there was nothing wrong with the country’s economy, took the monumental decision to impose exchange controls rather than go to the IMF for bailout, despite internal dissensions.

The exchange rate was stabilized at RM3.8 to US$1. The events unfolding in subsequent months vindicated the validity of his decision.\(^8\)

Malaysia came out of the turmoil unscathed and faster than others in the region. The Economic and Social Survey of Asia and the Pacific of the UN (2001) declared: “The experience of Malaysia suggests that capital controls can help stabilize an

\(^8\) The present author had then suggested a package of measures involving exchange control to remedy the situation in a seminar at the IIUM (June 1997) when the crisis was in the making. He later defended the action against criticism. See Hasan (2003).
otherwise difficult situation”. The IMF now envisages imposing fewer conditions on loans granted to developing countries so that they may have greater freedom to design their recovery plans in the future. The IMF made this announcement later in March 2013.

In contrast, after paying the last installment of the IMF loan in 2013 the Thailand Prime Minister vowed to never seek IMF bailout in future. The lament of the prime minister was not without reason. The IMF conditionality framework has some inbuilt difficulties for the borrowers. The important ones are as follows.

- Reduce borrowing, increase taxes and cut expenditure.
- Raise interest rate to stabilize the currency
- Let failing firms liquidate
- Initiate structural changes including increased privatization, deregulation and reduction in corruption as well as in official delays in decision making

The difficulty is that these conditions not only betray an ideological bias, the insistence on structural adjustment and the macroeconomic interventions they require often make the situation worse, not better, for the recipient country. This was the experience not only of Thailand but also of Indonesia and other aid receivers during the 1997/98 crisis. As a result of enforcing tight monetary regimes pursuant to the IMF conditions purportedly meant to reduce budget deficit and stabilize currency, problems aggravated. Contrary to their objectives the enforcement tended to slow down growth and spread unemployment in the aided countries. What happened on the exchange rate front? Even as the IMF aid programs’ conditions have not understandably remained unchanged over time and space the departure in the case of Kenya concerning the rate of exchange during the 1990s is of interest. The IMF made the central bank of the country remove all restrictions to allow a free flow of capital in or out of the country. The critics validly argue that the decision went against the country as it allowed the politicians to take their ill-gotten money out of the country.

(iii) Demonstration effect and arms race

The vital question is: why do developing economies fall into external debt traps? Some reasons are obvious. There is a demonstration effect. Expanding means of transportation and communication, especially the internet resources and global

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9 Thaksin made the declaration on the national TV on August 1, 2003 after the last installment of debt to the IMF had been cleared two years ahead of time. <https://assassinationthaksin.wordpress.com/2013/03/24/thaksinomics-the-hero-of-thailands-financial-crisis-or-populous-madness/>

10 The free market advocates criticize the IMF for the interventionist component in its relief program and demand that the institution should not interfere in the free play of demand and supply even in foreign exchange markets. Liberalization may especially be damaging in the least developed economies.

11 For more case studies in an interesting evaluation of the IMF conditionality programs see the comprehensive research article of Kampamba (2012).
advertising, have really converted the planet earth into a global village. The living standards and material affluence of the West coming into observation of people and leaders in developing economies awaken in them the urge to copy. In their eagerness to imitate, the society is more and more divided into have and have-nots. A sizeable and expanding upper class is created through corrupt and exploitative practices to finance lavish living. Foreign loans taken in the name of development projects in part land in Swiss or Panama accounts of leaders and the affluent. Can this all be stopped so that money is spent where it is meant to be spent? Imran Khan the new Prime Minister of Pakistan is trying to do it for building a Muslim country of his vision. Either he will soon give up or will achieve a miracle over time.

There is a wider and more sinister angle to the developed and developing economies divide in the world—the bloody wars—there is a chain from Vietnam to Afghanistan.

![Figure 4: Leading exporters and importers of arms in 2015](image)

Flourishing economies have been destroyed on the whims and imaginary fears of the powerful to attain more power. Arms trade is the most lucrative of all businesses; it values profit, not blood. A mere look at Figure 4 will make one understand the economics of war vis-à-vis peace.

Modern warfare is also a major contributor to international pollution. As per estimates released by the Council on Foreign Relations (CFR), in 2016 alone the US administration rained at least 26,171 bombs on seven different countries, averaging three an hour every day, every month, over the year. The figures, says the report, are relatively conservative, meaning the number of bombs dropped in 2016 could have been much higher. The report concludes that there was no legal validity for this action save stretching the interpretation of an old authorization for the use of military force. Further, the US admits that costly wars are responsible for the current economic troubles of the US, not the trade with Beijing.12

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12 Former French Prime Minister Dominique de Villepin, speaking at the Global Leadership Forum organized by Sri Sri Ravi Shankar’s Art of Living Foundation, said, ‘Military intervention is stupid, war on terrorism is stupid. The global leadership has been wrong in responding to Afghanistan, Iraq, Libya and Mali.’ He said that the world needs new weapons of peace and not weapons of war (Times of India 13 March 2016)
Thus, so long as wars—hot or cold—continue to fuel the armament industry the distinction between developed and developing economies will continue. The desire of the less privileged to “catch up with them” will continue creating deficits providing business to the IMF, the world money lender.

**Concluding remarks**

Pettifor Ann in a brilliant article (2019) projects her views on deficit financing in a Keynesian/monetarist framework. However her write-up does not cover the various aspects of deficit financing relevant to developing economies characterized with the imperfections of markets, especially financial. Her theoretical prescriptions are not being applied or delivering even in the developed mature economies of the West, their relevance to emerging economies is all the more limited. In the present paper, we have argued that a full scale and focused discussion on deficit financing contextual to developing economies must cover as discussed above the following three areas:

- Use of deficit financing to mobilize physical resources to promote growth provided its inflationary potential could be kept under control.
- Use of deficit financing to fight recession in the Keynesian vein where rigidity of wages to downward adjustment and fear psychosis of entrepreneurs is the hindrance.
- IMF bailouts: The country is heavily indebted to outsiders, its balance of payments position is precarious and no internal solution is available as is presently the case of Pakistan. In such situations, the country seeks succor from outside, especially through the borrowings from the IMF and what it brings in its train.

In the first two cases the solution via deficit financing is internal to the domestic economic system; in the last it is external.

Islamic economists naturally want to look at modern developments from an Islamic perspective. Deficit financing is no exception. Thus, Ahmad (2019, 79) argues that from a religious viewpoint deficit financing must be avoided both in normal functioning of the government and during recessions. In either case, he advocates reliance on Zakah payments and taxation to meet current expenditure deficiencies and on sukuk—the Islamic bonds - to cover capital shortfalls He does not touch upon the adequacy or operability of either measure in relation to the current economic realities that obtain in most Muslim countries especially in Indonesia, Pakistan and Bangladesh due to meager savings; deficit could arise despite Zakah and sukuk may not fill the bill due to insufficiency of savings. What looks possible may not be feasible.

The Qur’ān in Surah Yusuf (12:43-48) calls for saving of the current surplus crop to fall back to meet the deficit as forecast for the years ahead. Beyond this there is nothing in our knowledge that can be related to current practice of deficit financing. There is a need to impart realism in the interpretation and application of the Shari’ah law (Hamaudi 2007). We may accept the benefits of deficit financing and guard against its ills until it is convincingly shown going against the Islamic law or custom, in the same way as we have
accepted not a few things in Islamic finance and insurance avoiding interest, indeterminacy and speculation. Foreign currency though money can be bought and sold as a different commodity presumably treating interest as a mark-up or rental?

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SWOT Analysis of Cryptocurrency: An Ethical Thought

By
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Abstract
Cryptocurrency is a new dimension in the world of economy, which has been effectively realized since 2009 through the inception of bitcoin. Within a short period of time, the model won the heart of the global market generally. Despite such a popularity and future potential there are weaknesses and threats in cryptocurrency movement. In this chapter however, an attempt is made to focus on SWOT analysis on the contemporary cryptocurrency management both the conventional model and the Halal alternative paradigm.

Keywords: Cryptocurrency; SWOT; Maqasid al-Shari’ah, Halal; Shari’ah

JEL Classification Code: C1, E40, E41, E42, E49, Z11, Z12, Z13

SWOT Analysis on Cryptocurrency: An overview

A SWOT analysis¹ on cryptocurrency in the contemporary era reveals a META view that, a cryptocurrency is strengthened by its unique characters as it is costless and easiest as to its procedural requirements, common opportunities for all, safe and secured way of buying and selling through blockchain platform, not banking obstacles, friendly with sustainability and borderless operation with minimum threat. It creates huge opportunities for all levels of mankind with no restriction as to one's age, status, religion, color, gender or even nationality, to maximize the opportunity of enterprising and entrepreneurship

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¹ KieshaFrue (2018), "SWOT Analysis of Bitcoin: Do strengths outweigh its weaknesses?" Oct 24, 2018
through cryptocurrency. Such potential in cryptocurrency may contribute to rebuilding the global economic atmosphere.

Among the weaknesses in cryptocurrency are, it evolves around the element of uncertainty, less focus on regulatory requirement, zero risk plan, no financial sovereignty, no systematic management, emotional market competition, no humanitarian concern, poor realization of privity and less concern on accountability. This all weaknesses, if so allowed to be continued, the cryptocurrency movement may seriously be hindered till those shortcomings are not seriously attended with appropriate improvement.

Among the opportunities in cryptocurrency are; it’s profitability with minimum efforts and less cost, unrestricted commercial gain to build up one's economic strength through enterprising and entrepreneurship, borderless participation, common economic eradication, world peace with economic stability for all and to create a matured economic nation.

Among the challenges in cryptocurrency are; it is a threat to the existing banking system, the federal reserve and international banking system are exposed to threat, challenges to the standard laws and orders, undermining the public revenue, no legal protections to entrepreneurs, the market participants encounter uncertainty, no sovereignty, but on individual initiative monetary movement. Opening the door for the money laundering through the exchange platforms, system hazardous by hacks, morally hazardous by non-compliance to the laws and orders and emotional competitions with not much of ethical concern. It is thus concluded here that, despite the rapid growth of the cryptocurrency movement it encounters numerous weaknesses and threats. It is utmost essential to identify all those negative components and find the ways of standardization, so to maximize the opportunities in cryptocurrency with sustainable existence.

**Scrutinizing over SWOT Analysis**

A further investigation\(^2\) over the ongoing cryptocurrency management and its structure by comparing with the halal alternative model as follows:

**Technology**

The blockchain technology is the standard digital platform to operate cryptocurrency management. The blockchain platform for the conventional cryptocurrency management is not regulated by standard laws and policies, but an individual initiative in the cyberspace with no concern in complying to any standard law or policies. Each components of the blockchain platform is functioned at the choice of the receiver or technology provider. A Halal alternative on the other hand, even though operates its model on the blockchain platform, but every component of the technology, its functions and activities shall be inconformity with the divine spirit of Shari'ah. Such Shari'ah compliance shall be confirmed by the Shari'ah advisory board, which shall be established by the operator as a prerequisite.

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\(^2\) Peter D. DeVries"An Analysis of Cryptocurrency, Bitcoin, and the Future", October 2016
Establishment

Currently most of the cryptocurrencies operators are based on the cyberspace domain registration without being properly formalized at any jurisdiction. Such practices may lead to a high risk by letting the receiver uncertain and unknown to the users. This may also give a chance for the receiver escape free from any liability while victimizing the users with no legal rights. In Halal cryptocurrency management, it is prerequisite that, the operation shall be registered as a company and duly incorporated in any jurisdiction either in the offshore or onshore. The company's identity, accounts with the banks and activities shall be known to users without being vague. A registered company may also contribute to help both the users and the receiver in the cryptocurrency management free from malpractices by unlawful gain at the expense of others.

Law and Policies

The conventional cryptocurrency management does not really concern itself in complying to any law or standard policy in its establishment, functions and operations. Rather one relies on individual preferred policies, standard and culture in the total establishment, operations and activities of cryptocurrency. This may lead to a threat to the standard laws policies and orders and thus, may eventually be weakening the global financial system. In the halal alternative cryptocurrency model, each and every component of one’s establishment, operations and management shall be in conformity with the Shari'ah principles, ethical standard and the laws and policies of the local jurisdiction besides the cyberspace regulation. A halal alternative model therefore, is required to establish standard policies and guidelines as prerequisite.

Sovereignty

In the current practices of cryptocurrencies, there is no provision of sovereignty in centralizing one’s activities. Financial activities with no sovereignty may lead to a huge catastrophe with malpractices and opening the door for gaining unlawfully at the expense of others. In a halal alternative cryptocurrency on the other hand, the sovereignty shall first be with almighty Allah (swt) and thus, every activities of it shall be in conformity with the rules of Maqasid al-Shari'ah. Secondly, a qualified advisory board shall be established to ensure all activities of the operation are compliant to Shari'ah principles. Hence, the Shari'ah advisory board shall function as an internal sovereignty. Thirdly, all activities shall be regulated and controlled by the central bank of local jurisdiction within the principles of Shari'ah compliance. Fourthly, the total operation shall generally comply to the international monetary authority and principles.

Regulatory Authorities

In the current practices of cryptocurrency, there is no specific regulatory authority, regulating the activities of cryptocurrency. This may be a danger to the whole economic system generally and particularly a threat to the sustainable growth of cryptocurrency. In a Halal cryptocurrency management, even though there is no specific law enacted yet, the establishment, system, technology, operation and all activities are subject to the total compliance of the Shari'ah principles. Such conformity shall be ensured by the Shari'ah advisory body, Shari'ah compliance policies and guidelines, management responsibilities and corporate governance by complying with the divine ethical principles.

Backing Asset

In the contemporary cryptocurrency practices, one does neither hold any backing asset to back the total operation nor does it require any backing asset. A financial operation without a backing asset may lead to numerous catastrophes and may eventually weaken the total financial system. In a Halal cryptocurrency management, it shall be a prerequisite to hold a valued asset as backing asset for the total operation. The backing asset shall have an estimated value more than the initial coin offering (ICO). Such backing asset shall back the whole operation to create a confidence in the market among the investors and also to act as a safe guard for the operation in case of any catastrophe undesirably be faced.

Authenticity of Transaction

In current practices of cryptocurrency, the transaction is confirmed by the encryption of the users. Mere digital encryption with digit may alone not be sufficient to protect the user from any digital catastrophe like hacks, system crash or natural disaster. In a halal cryptocurrency management, it is suggested that, the transaction activated by encryption shall additionally be signed by digital biometric, so that it may provide a better protection for the users against any form of catastrophe. Therefore, it is recommended that, each transaction shall be confirmed with nodding and recording by encryption with digit and also signature by biometric of the users.

Ethical Concern

In the contemporary practices of cryptocurrency, the ethical concern is not a primary one, but dominated by the commercial gain. Everyone is concerned how to make money in no matter whether one is concerned with the ethical principles or otherwise. Less concern on ethical principles in any commercial or financial activities may be a threat to the sustainable growth and existence of the system and thus, may compel the world of economy to pay unforeseeable damages. In Halal cryptocurrency management, it is a prerequisite to care and concern about the divine ethical principles in one’s all activities of the operation within the Maqasid al-Shari’ah. So that no malpractices, unlawful gain, greediness, unjust enrichment and fraud may not have any place in the Halal cryptocurrency management.

Risk Plan

There is no risk plan in the contemporary cryptocurrency management against any unpredicted risk, be one against the system, operation, users or even receivers. In the cryptocurrency management, there are numerous risks awaiting namely; system collapse by crash or hacks, natural disasters, deceive or malpractices by the receiver or unethical activities adopted in the trading among the users. All those are among the risks, but the is no protection plan as yet. In Halal cryptocurrency management, risk plan is one of the prime concern to protect both the user and the receiver against unpredicted catastrophe be one either by system crash, hacks, unethical actions or natural disaster. In all circumstances, it is recommended that, there may be two categories of risks plan designed namely; user’s takaful plan and receiver takaful plan.

4 Rusty Russell (2018),"The Corrosion of Ethics in Cryptocurrencies", February 13, 2018
5 KhairaniAffifiNoordin (2018),"Islamic Finance: Is cryptocurrency halal?", The Edge Malaysia, September 06, 2018
Tax Provision

There is no tax provision over the income of the contemporary cryptocurrency management neither by law nor by internal policies. Any financial or commercial activities if so ignores the tax provision, might be a threat to the public policy. In a Halal cryptocurrency on the other hand, 2.5% Zakat is required to be paid over the net income should the Zakat requirement be fulfilled besides a percentage of tax over one’s net income required by the applicable laws of the jurisdiction concerned. It is clarified that, Zakat can be adjusted with the income tax subject to the applicable laws.

Humanitarian Concern

In the conventional cryptocurrency management, there is neither provision nor a concern generally to care about humanitarian issues out of its income. In any economic or financial operation, it is a common culture to care about the humanitarian issues out of one's income. Failure to humanitarian concern, the economic justice with fair distribution by caring about others may be defeated. In Halal cryptocurrency management, it is strongly recommended that, part of the income shall be segregated on the basis of the principles of al-Tabaruat(charity) for the humanitarian care. It is to ensure that, through a humanitarian provision, the economic justice is upheld.

Market Niche

It is undoubtedly agreed that, the cryptocurrency captures a promising global market as one of the fastest growing digital economic components or fin-tech through the block-chain technology. Because, it is one of the easiest, fastest and comfort financial mechanisms benefitting all with universal character. Its foreseeable future is great. But, the true result with sustainable existence is still under threat due to weaknesses in the regulatory frameworks, less concern on risk management, standardizing the system and ethical compliance. To achieve the goal of a niche market, all aspects of weaknesses shall be ratified by upgrading the total system and activities by complying the standard laws and policies. A Halal cryptocurrency management thus, shall in no situation be allowed to be operated without complying with the true principles of Maqasid al-Shari'ah and that may confirm a true achievement of global market niche with utmost appreciation.

Common Entrepreneurship

A cryptocurrency platform under both the conventional and the Halal model, is a common digital entrepreneurship platform for all with utmost comfort level to establish one as an entrepreneur and gain lawfully. Thus, a cryptocurrency platform may contribute to the development of micro-entrepreneurship opportunities for all mankind with no tension of unnecessary cost, but with less effort, with no time waste and not much of formalities ought to be experienced. To conclude here that, a cryptocurrency platform is a common digital entrepreneurship platform.

Enterprising

There is a huge number of population in the world with no proper sources of income due to retrenchment, joblessness, poverty, student status, housewife, poor income and other factors. The cryptocurrency platform in the contemporary socio-economic

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6 Maria Yavuz (2018), "Halal Coins Only": First Islamic Crypto Exchange to be Launched in 2019", The Cointelegraph.
environment is here timely to create an easy opportunity for all those of less fortunate ones to be enterprising and applying entrepreneurship to making one self-reliant. This may eventually contribute to the poverty eradication, creating an enterprising and an entrepreneurship based community, so to create true world peace with a reasonable and sustainable eco-victory.

Compliment to Eco-strength

A cryptocurrency platform of both the conventional and the Halal model are compliment to the economic growth and its global sustainable strength. All levels of mankind with no restriction have the common opportunity to participate in the cryptocurrency platform and maximize one’s economic goal within the legitimate frameworks. Thus, the common participation in the cryptocurrency platform may be a significant contribution and compliment to the economic strength of the world community.

Economic Opportunity for All

The contemporary banking and financial system or corporate activities do not create an opportunity for all mankind due to limitation by policies and cultures. Therefore, in the ongoing commercial system and activities, which fail to create an economic wellbeing for all mankind with universal value. The cryptocurrency platform on the other hand, is costless with minimum formalities, less effort, less obstacles and less restriction creates a global opportunity for all mankind regardless of one's status, religion, age or nationality, but with universal value to maximize one's source of legitimate income.

Economic Sustainability

The cryptocurrency platform wakes up all level of mankind be one entrepreneur, employee, jobless, less fortunate or even disable ones to be motivated, skilled, smarter, responsible, laborious and participant in the commercial activities through the cryptocurrency platform to make one enterprising and entrepreneur in view of gaining legitimate income with less cost and less effort, but through a smart management. Thus, eventually it may contribute to building up a community with sustainable economic existence and be self-reliant thus, may contribute to an economic sustainability.

Conclusion

It is submitted that, despite that cryptocurrency platform is promising component in the contemporary economic chapter to create an opportunity for all with universal character to maximize one's source of income and gain legitimately with less effort and less cost, the existing model and activities are haunted with numerous weaknesses and threats. The true achievement can only be realized if the above SWOT analysis results are closely observed with careful improvement of the total system and activities and, for the Halal model, which shall work within the Maqasid al-Shari‘ah.

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Rotating Saving and Credit Associations as an Informal Finance Tunnel Evidence from Egypt

By
Dr. Ahmed Taha Al Ajlouni

Abstract:
This article empirically investigates the drives for participation in Jamey'ah (literally, Society) in Egypt as types of Rotating Savings and Credit Associations (ROSCAs) that agree in their general framework with Islamic principles. The article also evaluates the sample’s experience in order to understand the influence of gender and income on the motives behind Society sharing and their valuation. The findings show that the amounts raised by societies are allocated to essential expenses. The tough procedures in case of borrowing; and low return in case of saving were the drivers behind leaving banks to finance via Societies as the results strongly suggest. The valuation of Societies indicate apparent impressive positive trend as the results strongly suggest. There is considerable empirical evidence showing that Societies can be a substitute to banks in providing personal loans.

Key words: Rotating Saving & Credit Associations, Cooperative Finance, Peer-to-Peer funding, Islamic Finance.

JEL Classification: G23, P460, P480.

Introduction
The last decades witnessed greater awareness and efforts from the international society in providing financial services for people who have little or no access to the formal finance that is delivered by traditional banks and other capital market institutions.

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Despite these overwhelming efforts; recent studies have estimated that 2.7 billion adults in the developing world remain unbanked, cf. (Mylenko, 2009). This is commensurate to the World Bank data suggesting that only 50% of adults globally had an account at a formal financial institution in 2011\(^1\) (Demirguc-Kunt & Klapper, 2012). This means that half of the population have no access to financial services or depend on informal premises in the "shadow banking sector" (Board, 2011) to manage their financial transactions.

Crowd funding, peer-to-peer funding, informal finance, Rotating Savings and Credit Associations (henceforth: ROSCAs), private lending, social lending and interpersonal credit, in addition to other nominations became well known as substitute schemes for conducting financial affairs for personal and households outside banks. The basic premise of these types of informal finance confirms the fact that traditional groups work together for their benefit to meet the financial needs of the participating members (Ehigiamusoe, 2011).

This paper focuses on a well-known cooperative finance model which has been working mainly in developing and underdeveloped countries. In the local Arabic dialect in Egypt, it is called as Jamey’ah (literally, Society). The documented research tracks this model to the Chinese experience in the early decades of the 20th century as a Rural Credit Cooperative (RCC)\(^2\). The Indonesian version of ROSCAs is actually a blueprint of this model (Geertz, 1962) as it charges no interest in comparison to the Chinese and Japanese versions. It has served as an effective tool in financial planning, procuring short and midterm funds, in addition to saving surpluses at personal and household levels.

The main purpose of this paper is to report a survey conducted in Egypt about the motives behind participation in Societies; and valuating them by participants according to gender and income. Another purpose of this paper is devoted to clarify the unique nature of Societies as a premise of informal finance to manage financial affairs that agree with Islamic Shari’ah in rejecting interest rate (which is considered as a major sin) and its relation to the ROSCAs. A sample of participants who manage part of their financial income depending on Societies was surveyed. Participants were asked about their economic and demographic traits, motives behind participation in the Societies, their

\(^1\) “The degree of financial inclusion varies widely by region and income level. The share of adults who owned an account ranges from just above 20% on average in low-income countries to almost 90% in high-income economies”. (Mehrotra & Yetman, 2015) These facts about inclusion ratios among regions points out that less developed and developing countries have the larger stake of the informal finance alternatives.

\(^2\) This model of interest free loan is known very well in the Islamic Economics terminology, it called Al-Qard Al-Hasan, with no charge on lending money, but altruism and looking for compensation in the thereafter life.
experience, how they estimate the current model of Societies, and if they find it better to institutionalize this model or maintain the status quo.

1. Societies, the concept and framework

Societies can be defined as an informal mode of group rotating credit funding in raised between peers in a socially related homogenous groups, based on no interest. This model of financing is not profit based, nor is it known as devoted to business purposes; it represents an important way in raising money for consumer needs and savings for short and midterm periods. This premise can be applied for different groups of people, different income clusters, and for different purposes.

The model depends in its structural framework on the contract of the Al Qard Al Hasan (interest free loan) which is historically well known in the Islamic economics and Muslim culture fifteen centuries ago (Al Ajlouni, 2017). Lending to needy people for free is a virtue that all religions and moral approaches support for thousands of years. Mutual no interest loans create this virtue through the cooperation between people as a human value.

Supporters of the no interest loans emphasize that economics behind zero-interest loans should not be viewed through the expected utility as so many economic models do, but through the notion of reciprocity, fairness, and dynamic incentives (Kropp, Turvey, & Just, 2008; Zeller, 2006).

According to the common template of Societies, one can procure a sum of money with no charge or any legal requirements or obligations. A group of relevant people as cousins, neighbors, colleagues at work, local village residents, or any related group decides to form a cooperative group. Every one of them pays an equal particular amount of money each month (USD 10 as an example). The collected sum of money from the group is given each month to one of them.

Despite the fact that this model of financing is not profit based neither devoted to business purposes, it represents an important way in raising money for the consumer needs and saving for a short and midterm periods. Besides, Societies are an interesting phenomenon of a unique nature (not interest based), which hopefully qualify it as a substitute for the traditional banking system scheme.

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3 The interest free base is not restricted to the Societies; family loans among the poor are frequently interest-free (Collins, Morduch, Rutherford, & Ruthven, 2009).

4 Suppose that 20 persons participate in the process, each one of them will pay 10$ monthly for twenty months and have one chance out of twenty to receive the collected monthly fund (USD 10 *20= USD 200). The cooperative finance ends in due course of the twentieth month when all members have received their monthly payments. As noted; an amount of USD 4000 (20*200) leaked out the formal financial system.
Even though Societies have been commonly used since many decades in Egypt and some nearby countries like Jordan (Al Ajlouni, 2015), just a tiny scientific research is done to explore this socio-financial phenomenon (Al Ajlouni, 2015; El-Gamal, El-Komi, Karlan, & Osman, 2014). The current study is one of the pioneer studies that investigates such phenomenon in an Arabic community; trying to understand it, investigate the role that demographic traits play in using this premise to solve financial problems, along with the possibility to adopt this model to develop an institutional form for Non Interest cooperative thrifts to serve local communities.

2. Background and Literature Review

The idea of mutual personal credit on the basis of zero interest rate was studied a long time ago (known as Societies in China-1945). The first rural credit cooperative (RCC) was founded in northern China in 1923 (Myers, 1970) and the idea and implementation spread to such an extent that by 1939 rural credit cooperatives were being established by the government throughout China (Hsiao-Tung & Chih-i, 1945). The premise based on the idea of mutual personal lending, time value considered implicitly as the participants pay more or less according to their turn in the Society. Recent studies about China, evidence suggests, and quite overwhelmingly, that friends and relatives no longer charge interest on loans. A study found that 61.57% to 79% of farm households use informal finance (He, 2006a).

2.1 ROSCAs as roots for Societies

The earliest records of ROSCA in Japan are traced out to 1275 (Salahuddin & Rashmi, 2015). Early research about the idea of rotating credit associations showed that

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5 Alono (2015) demonstrated the Egyptian experience through a case study about newly established internet-based platforms for crowd funding.

6 According to the RCS original model, anyone in need of money could organize a society and collect 10 members. At the first meeting the organizer will collect a total of 100 Yuan in prescribed amounts from all members and over the subsequent 10 periods, will repay into the pool an amount exactly equal to 100 Yuan. At the second meeting a subscriber receives 100 Yuan and this is treated as a loan. Since it is held for the longest period the first subscriber will have to deposit more than all others. The third subscriber pays a little less to account for shorter loan duration (4.5 years) and so on. The last subscribers are actually contributing as savings and for this they have to pay in less. Thus the first subscriber who receives 100 Yuan in the second meeting might contribute a total of 145 Yuan over 5 years while the 10th subscriber would contribute only 55 Yuan in total to receive 100 Yuan in year 5 (an 81% simple return on savings). The organizer thus gets an interest free loan but must also provide a feast at each meeting. If any member defaults the organizer is responsible for making that member’s payment so the RCFs had to rely on existing ties and trust (Hsiao-Tung & Chih-i, 1945).

7 This doesn't contradict with the fact that the first documented study about Societies was in China, because records not studies found in Japan.
this premise has been working effectively in Asia and Africa (Geertz, 1962), the basic principle upon which the rotating credit association is founded is described by (Geertz, 1962) as: "a lump sum fund composed of fixed contributions from each member of the association and is distributed in turn at fixed intervals, as a whole, to each member of the association. Thus, if there are ten members of the association, if the association meets weekly, and if the weekly contribution from each member is one dollar, then each week over a ten-week period a different member will receive ten dollars". Kimuyu (1999) concluded that ROSCAs "help in mediating funds where there are limited opportunities for accessing alternative financial instruments, and increase welfare by reducing the utility cost of saving for a lumpy expenditure. They are, therefore, used as surrogates for mitigating financial market failures".

In order to consider the preference and need of members, there're different versions of ROSCAs; according to the legal structure, the turn distribution order, and charges on lending (Besley, Coate, & Loury, 1993; Kirton, 1996; Klonner, 2003).

As a kind of ROSCAs; the role of mutual trust and social ties in bonding the Society "El Jamey'ah" and hedge it against delinquency and default risk that stem from the inability of members to fulfill their commitments towards it. Strong social –off Line-networks between members that are based on family, neighborhood, and long term friendship and joint work place strengthen the safety umbrella.

ROSCAs and RCSs represent a mirror image of the Societies in the zero interest rate bases and rotating nature (saving and loans) as structural characteristics; they look alike in the motives behind their establishment and the relative amount of funds rose by each of them. They're similar in that each of them depends on the social bonds between participants and informality of the finance offered by each of them.

Societies resembling ROSCAs and RCSs in regard to the problem of non-payment from the people who receive their sums early; the role of "social collateral" as a guarantee shows impressive results in decreasing the default chances of these premises (Besley et al., 1993). It makes the members strongly adhere to their commitment to pay their due installments. The social connections play vital role in this side, it gives the ROSCA the ability to enforce its contracts (Chiteji, 2002). Al Ajlouni (2015) showed that default ratio between participants in Societies less than 1%.

On the other hand, they have some differences in that RCS is framed in an institutional way while Societies are not. Societies are not restricted to the rural areas, rather; they are disseminated in urbanized societies.

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8 Many terms are used in the literature for this single type of institution at the time of study (Geertz, 1962): contribution clubs, slates, mutual lending societies, pooling clubs, thrift groups, friendly societies, etc.

9 Later definitions of ROSCAs and characteristics asserted the essence of this definition (Callier, 1990; Chiteji, 2002; Dagnelie & Lemay - Boucher, 2012; Donoso, Altunbas, & Kara, 2011; Kedir & Ibrahim, 2011; Kimuyu, 1999; Mrak, 1989)
In spite of the long experience curve and Societies' viability in application in Egypt and many Arab countries, their current practices still are not institutionalized. They also didn't benefit from the technological advances, especially in the computer and telecommunications like P2P platforms. This can be an advantage and disadvantage at the same time. The simplicity, traditionally well known and ease of arrangement attract the less educated people and work properly in the rural areas in traditional communities as long as people in big cities and urbanized areas who have limited access or willingness to resort to banks; as this study will investigate. But, in fast developing communities in an environment with good access to modern telecommunication networks and fair educated people; the need for developing Societies may represent a priority.

2.2 Literature Review

Many research efforts carried out and handled this issue from different angles in different countries; extensive research from various disciplines was done about ROSCAs in its different versions also. As an Islamic suggested model for microfinance, ROSCAs discussed from the Islamic Sharia'h perspective in addition to including it in the Islamic financial system, Aliero (2014) found out that " most of the principles and practices of ROSCAs are Shari'ah Compatible (with exception of very few cases.). The study investigates the Level of Compliance of Members of ROSCAs with Islamic Principles of Financing (IPF) has been discussed also (Abdul-Yakeen, Gatawa, Aliyu, & Ibrahim, 2016). Adopting ROSCAs by Islamic banks discussed by some researchers through Modernization and Formalization by opening windows of Savings and Credit Accounts (SACA) (Yakeen, Gatawa, & Na-Allah, 2014), and through bank-insured RoSCAs (El-Gamal et al., 2014), further study suggested bank-based investing ROSCA (Hamzaouii & Bousalam, 2015).

The positive role of rotating savings and credit associations in the economy in general and family economic welfare was studied thoroughly (Abdul-Yakeen, 2012; Ambec & Treich, 2007; Carpenter & Jensen, 2002; Chiteji, 2002; Kan, 2000; Mrak, 1989; Oluyombo, 2012). On the contrary of the mainstream of research about the benefit of ROSCAs for less fortunate people; Kimuyu (1999) concluded that poorer households are unlikely to benefit from these compensatory arrangements.

Motives behind participation in ROSCAs got the interest of other studies also (Al Ajlouni, 2015! Abdersib & Vakabdm 2002!; Degnelie & Lemay-Boucher, 2012; Donoso et al., 2011; EROGLU, 2010; Kimuyu, 1999). The socio economic factors behind contributing to credit repayment behavior among the members of savings and credit cooperative societies were examined also (Degnelie & Lemay-Boucher, 2012; Donoso et., 2011; Kedir & Ibrahim, 2011; Kimuyu, 1999; Laguerre, 1998; Musafiri Papias & Ganesan, 2009, Njoku & Odii, 1991). It is proved that the expenditure, female headship and household heads; positively affect the propensity to participate in ROSCAs (Kimuyu, 1999).
The enforcement of rotating savings and credit associations, the importance of psycho-cultural factors such as mutual trust, social ostracism and peer pressure has been studied by a variety of scholars from the early days of research up to these days (Ambec & Treich, 2007; Chiteji, 2002; Etang, Fielding, & Knowles, 2011; Geertz, 1962; Mrak, 1989; Oh, 2007). The social commitment; the manager of the Society (as the case in ROSCA) can add additional guarantees (Salahuddin & Rashmi, 2015)

In spite of the fact that ROSCAs are most common in the developing countries, they're also available in US through the immigrant societies (Besley et al., 1993).

Unfortunately; very little literature was found about the Egyptian and Arabian experience in using the ROSCAs, El-Gamal et al. (2014) developed an alternative microfinance model which aims to establishing credit unions for the poor that includes bank’s involvement, wherein the bank plays the role of a guarantor in the familiar ROSCA. They also addressed the possibility of failure coordination in the standard ROSCA structure (fixed collection order) by introducing bank insurance.

3. Data, Hypotheses And Methodology

This section describes the survey data, presents descriptive statistics, and discusses the different hypotheses and we will use econometric methodology to test them. This will be done by showing the demographic characteristics and analyzing the general trend of the motives behind participation and valuation of Societies. Testing the hypothesis and result discussion constitute the second fold of analysis strategy that helps understanding the influence of demographic traits on the motives behind sharing Societies and their valuation.

3.1 Data and Descriptive Statistics

A sample of 235 respondents was selected in Helwan; a large metropolitan area in Cairo city/ Egypt. The sample is restricted to employed people who are involved in Societies. They were randomly selected to answer the questionnaire. 204 individuals of the total sample provided accepted questionnaires, with an 88% response rate.

Female members’ portion was about 71%, this ratio is not strange as female constituted 84 % of another study (Anderson & Baland, 2002).

The Cross tabulation between gender with educational level and income summarized in Table 1

---

10 "To reduce the chances of default from organizer and member side, meaning nonpayment of ROSCA value and periodical contribution respectively by the existing members who have already taken ROSCA fund in that case organizer may ask collateral from members either any of them such as social collateral (guarantor), physical (tangible) or financial collateral like signed cheque book so that in case of failure of making payment by the members who enjoyed ROSCA fund, money can be collected on time”.

11 "The banker guarantees the stream of payments and loans to any member of the ROSCA who continues to make required payments on time. Those who default become debtors to the bank, and if they default on their debt to the bank".
Table 1. Cross tabulation

<table>
<thead>
<tr>
<th>Certification</th>
<th>Male</th>
<th>Female</th>
<th>Sub Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>under high school</td>
<td>0%</td>
<td>6.9%</td>
<td>4.9%</td>
</tr>
<tr>
<td>high school and diploma</td>
<td>46.7%</td>
<td>33.3%</td>
<td>37.3%</td>
</tr>
<tr>
<td>higher education</td>
<td>53.3%</td>
<td>59.7%</td>
<td>57.8%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Two Limitations to be mentioned, the sample selected randomly according to population's cooperation to fill the questionnaire; females were better respondents than males; this may be explained by their high portion in the sample. In addition, the high percentage of educated people is due to the fact that the sample was selected in an urbanized area, the circumstances in the rural and suburban areas differ considerably.

4.1.1 Motives behind participation

The respondents' motives behind participation in Societies in addition to their attitude toward Societies and its valuation will be discussed in this part through the general trend analysis.

The general trend can be tracked within the value-weighted averages for each question of the questions in this part; each probable answer was given a fixed serial number, the average is calculated after that to know the trend of concentration of answers for each question. Five scale ranges of answers was used as shown in the following table 2 in order to compare the estimated average with these ranges, matching the average with the scale that it belongs to and the answer that the range points for comes after that.

Table 2. Weighting ranges and the encountered paragraphs in case of five answers possibility

<table>
<thead>
<tr>
<th>Paragraph Number</th>
<th>From</th>
<th>To less than</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1.79</td>
</tr>
<tr>
<td>2</td>
<td>1.8</td>
<td>2.59</td>
</tr>
<tr>
<td>3</td>
<td>2.6</td>
<td>3.39</td>
</tr>
<tr>
<td>4</td>
<td>3.4</td>
<td>4.19</td>
</tr>
<tr>
<td>5</td>
<td>4.2</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: (Abdul-Fattah, 2008)
Table 3 clarifies the estimation results of the sample's general trend motives to join Societies. The current need for money for expending shape the general trend as those people barely can manage their current financial requirements; this is a reasonable reason for the tendency toward spending the Society's sum for the current disbursements. This implicitly means that saving looks small in comparison to expenditure motive, this is also reflected in a lower tendency of the poor to invest as they still can’t meet their essential needs. These findings are compatible with the findings of (Abdul-Yakeen, 2012) concerning the allocation of the ROSCA’s sum.

The weighted arithmetic mean (60/204 for Male and 144/204 for female) of the answers, related to the reason behind leaving banks to finance via Societies, shows that the tough procedures in case of borrowing; and low return in case of saving have the weighted answers, these findings are consistent with a previous study which pointed out difficulties in banks in regard to obtaining institutional credit, documentation, terms and condition, collateral etc. for people (Salahuddin & Rashmi, 2015). These findings are also compatible with the suggestion that consider ROSCAs as a response by socially connected groups to credit market exclusion and limited opportunities for accessing alternative financial instruments (Besley et al., 1993; Donoso et al., 2011; Kimuyu, 1999). The general trend answer indicated that the amount raised by societies is allocated to essential expenses; this is consistent with the answer about the main reason behind participation in that those people spend the sum on current essential expenses. This means that a slight portion of participants join Societies for housing and marriage in addition to the fact that the sum of a Societies is small in comparison to the amount of money needed for housing and marriage.

Table 3. Results of estimating the weighted arithmetic mean of the answers related to the motives behind participating in Societies and the most weighted answer according to income (EGPs) cluster and the general trend.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>1000 &lt; 2000</th>
<th>1000 - 2000</th>
<th>&gt; 2000</th>
<th>Weighted* Arithmetic Mean</th>
<th>The Range which the Arithmetic Mean belongs</th>
<th>Weighted answer (general trend)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Purpose Behind Participation</td>
<td>1.7826</td>
<td>1.8500</td>
<td>1.6250</td>
<td>1.7843</td>
<td>1</td>
<td>Current Need for Money</td>
</tr>
<tr>
<td>Reason Behind Leaving Banks to Finance via Societies (Borrowing)</td>
<td>1.8478</td>
<td>2.0000</td>
<td>1.9375</td>
<td>1.9216</td>
<td>2</td>
<td>Tough Procedures</td>
</tr>
<tr>
<td>Reason Behind Leaving Banks to Finance via Societies (Saving)</td>
<td>1.9348</td>
<td>1.9750</td>
<td>1.3125</td>
<td>1.8529</td>
<td>2</td>
<td>Low Return</td>
</tr>
<tr>
<td>Purpose of Procuring Money to spend them in:</td>
<td>2.1304</td>
<td>2.6250</td>
<td>3.0625</td>
<td>2.4706</td>
<td>2</td>
<td>Essential Expenses</td>
</tr>
</tbody>
</table>

* 92/204 for the Less than 1000 EGPs slide, 80 /204 for the 1000-2000 EGPs slide, 32 /204 for the More than 2000 EGPs slide.
4.1.2 Sample valuation of the Societies’ performance

Table 4 shows the estimated results of the general trend for the sample opinions in valuation of Societies, an apparent impressive positive trend showed up clearly; the majority of the respondents strongly agree that joining Societies effectively contributed to solving financial problems totally or partially. Besides, the sample agrees that being involved in Societies effectively contributed to solving financial problems of other people. The results unveil the strong attitude toward organizing Societies in a legal framework and disseminating this premise of financial cooperation. One of the important results revealed through this table is that the respondents see that Societies can be an alternative to banks in providing personal loans. The positive attitude toward Societies is consistent with the findings of other studies that proved the positive impact of ROSCAs (Abdul-Yakeen, 2012).

Table 4. Results of estimating the weighted arithmetic mean of the answers are related to the sample members’ valuation of Societies and the most weighted answer According to income, Gender, and general trend

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Male</th>
<th>Female</th>
<th>1000 &gt;1000</th>
<th>2000&gt;2000</th>
<th>Weighted Arithmetic Mean</th>
<th>The Range which the Arithmetic Mean belongs</th>
<th>Weighted answer (general trend)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in Societies Helped</td>
<td>1.867</td>
<td>1.417</td>
<td>1.5217</td>
<td>1.55</td>
<td>1.625</td>
<td>1.549</td>
<td>Strongly Agree</td>
</tr>
<tr>
<td>Effectively in Solving Sole Financial Problems</td>
<td>2.1</td>
<td>1.542</td>
<td>1.6304</td>
<td>1.875</td>
<td>1.5</td>
<td>1.706</td>
<td>Strongly Agree</td>
</tr>
<tr>
<td>Participation in Others Financial Problems</td>
<td>2.3</td>
<td>2.625</td>
<td>2.5</td>
<td>2.6</td>
<td>2.4375</td>
<td>2.523</td>
<td>Agree</td>
</tr>
<tr>
<td>Are you with Regulating Societies Are You With</td>
<td>2.533</td>
<td>2.514</td>
<td>2.5652</td>
<td>2.5</td>
<td>2.4375</td>
<td>2.512</td>
<td>Agree</td>
</tr>
<tr>
<td>Expanding the Premise of Societies Do You Think that the Societies can be Substitute to Banks in Personal Credit</td>
<td>2.2</td>
<td>2.048</td>
<td>2.1087</td>
<td>2.125</td>
<td>1.9375</td>
<td>2.089</td>
<td>Agree</td>
</tr>
</tbody>
</table>

4.2 Empirical Strategy and Main Results

In order to test the differences between averages of different sample groups; T test has been used. The answers of respondents were divided according to the demographic criteria (gender and income).
The null hypothesis in this test suggests that there're no statistically significant differences between sample members according to different demographic characteristics (taken in pairs). Four hypotheses were developed for study purposes that are summarized as follows:

- There's a significant difference in motives behind sharing Societies with respect to Gender.
- There's a significant difference in valuation of Societies with respect to Gender.
- There's a significant difference in motives behind sharing Societies with respect to Income.
- There's a significant difference in valuation of Societies with respect to Income.

The study also used F test for homogeneity test. The null hypothesis implies that the variance of the first sample equals the variance of the second sample (with different sample groups).

The availability of homogeneity between the two test groups help to continue using T test in order to test the differences between the arithmetical means averages. In case of non-availability of homogeneity (accepting the alternative hypothesis) we need to resort to another test similar to T test.

### 4.2.1 Testing the motives behind joining Societies

As table 5 unveils; for the first two questions about the goal of participating in Societies and the reason behind joining it in case of credit; the results of statistical test showed substantial difference between males and females in the preferences of each gender. It is clear from the table that females considered that the main reason for participation in Societies is the future need for money, where the males' reason is the current expenditure, this indicates that males are responsible for the family as the mainstream of eastern culture indicates, while women think more in the future and expenses as a sort of helping men in this regard. Karlan, Ratan, and Zinman (2014) pointed out the same argument "if the woman lacks relative power in the household, she may not have agency over her own decisions, and this may also have ramifications for savings that could benefit the children (if the women have child-centered preferences, more so than the men)", the same study discussed the intra-household preference heterogeneity effects on households' savings.

No substantial difference between the males and females answers in the third and fourth question groups about the reasons behind going to Societies in case of saving and where to spend money when procuring money from them; in case of credit. These findings are inconsistent with the documented literature on ROSCAs that it primarily used to save up for the purchase of indivisible durable goods (Besley et al., 1993), it is
also in contradiction with the findings of another study which confirmed that the main reason for enrolling in a ROSCA is the need to commit themselves to save money (Dagnelie & Lemay-Bouchr, 2012)

According to the reason behind involving in Societies to procure money instead of banks; female members considered the banks complicated routine procedures as the main reason for that, a possible explanation for that may belong to the feeling of women that they are excluded from the economic activity because of the negative impression about women as an unreliable partner in the economic activity, in addition to the fact that economic independence of women in the Arab countries is still in a lower level in comparison to that of developed or developing countries. The male side relied on religious considerations as banks give credit on the basis of interest rate (Riba=Usury)\(^\text{12}\) where Societies are free of interest charges.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Levene's Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
<th>The accepted hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Purpose Behind Participation</td>
<td>5.570 .019 NEQ</td>
<td>-2.958 202 .003</td>
<td>H(_1)</td>
</tr>
<tr>
<td>Reason Behind Leaving Banks to Finance via Societies (Borrowing)</td>
<td>16.269 .000 NEQ</td>
<td>-3.74 151.218 .001</td>
<td>H(_1)</td>
</tr>
<tr>
<td>Reason Behind Leaving Banks to Finance via Societies (Saving)</td>
<td>1.138 .287 EQ</td>
<td>2.796 202 .006</td>
<td>H(_0)</td>
</tr>
<tr>
<td>Purpose of Procuring Money to spend them in:</td>
<td>1.716 .192 EQ</td>
<td>1.607 202 .110</td>
<td>H(_0)</td>
</tr>
</tbody>
</table>

For the purpose of testing hypothesis about differences in answers about the drivers for participation with respect to income level; the main stream of the hypotheses show that no significant differences between the members in regard to the reason for joining Societies and the purpose for expending its sum concerning to income cluster. A detailed analysis was divided into three counter pairs as the following table shows

\(^{12}\) Interest based loans called Riba
When analyzing the answers of the sample members in the less than 1000 EGPs cluster and those who fall within the 1000-2000 income clusters; no substantial differences in the answers of the two clusters except the answer of the question about the expenditure purpose for the money raised via Societies. The less than 1000 pounds income cluster members answered that the goal is spending money on essential outlays, while the other cluster showed that the goal is to meet housing related expenditures.

By comparing the answers of the sample members in the less than 1000 EGPs cluster with those who gains more than 2000 pounds a month cluster; results of the test showed that there's a substantial difference between the answers of the two groups in regard to the reason behind going to societies instead of banks in case of saving, the same thing in the expenditure goal. No substantial differences are noticed in answering the
other two questions. The table clarifies that the goal of the sample members who fall in the less than 1000 EGP cluster is spending money on essential outlays, while the group of the above than 2000 EGP showed that the goal is to meet housing related expenditures.

Substantial differences between the answers in regard to the reason for going to Societies instead of banks in case of saving were shown from the test results and in the payout goal when comparing the answers of the sample members who fall in 1000-2000 EGP cluster with those who gain more than 2000 EGP a month, no such differences are found in answering the other questions.

4.2.2 Tests related to evaluating Societies

In spite of the general trend in the agreement between male and female about the positive role of Societies to solve personal and others problems, table 7 disclose substantial difference in answers according to gender in answering the question about the role of Societies in solving financial problems in sum or partially, males agreed on that, females answers showed strong agreement (see table 4 also). In addition, another substantial difference seems clear between the answers of the two groups in answering the question about the chance that Societies give them ability to help others, females answers showed strong agreement, while male group agree with that (see table 4 also).

Substantial difference has been shown also in regard to the opinion about organizing Societies legally (by Law) in a form of legislation, males agree on that, while females answer was neutral. No significant differences were observed in answering the other questions according to gender.

Table 7. Comparison of sample members' answers at the questions about valuating Societies according to gender

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Levene's Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Sole Financial Problems</td>
<td>2.308</td>
<td>.130</td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Others Financial Problems</td>
<td>14.920</td>
<td>.000</td>
</tr>
<tr>
<td>Are you with Regulating Societies</td>
<td>.145</td>
<td>.704</td>
</tr>
<tr>
<td>Are You With Expanding the Premise of Societies</td>
<td>.015</td>
<td>.902</td>
</tr>
<tr>
<td>Do You Think that the Societies can be Substitute to Banks in Personal Credit</td>
<td>.257</td>
<td>.110</td>
</tr>
</tbody>
</table>

The results of table 8 shows testing the differences in answers according to income, no significant differences were found in answering the questions about valuation of Societies performance, an exception is found in answering the question about the potential of helping others when joining Societies, this difference is shown between the less than 1000 EGP and the 1000-2000 EGP group.
The answer of the same question showed significant difference also between the 1000-2000 EGPs group and above of 2000 EGPs group, respondents from the higher income group strongly agree that Societies grant them a chance to help others, where the middle income group agrees on that. These results seem logical and mean that the people in the lowest clusters barely can help themselves; hence they don’t see the Societies helpful in assisting others.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Levene’s Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
</tr>
<tr>
<td>Less than 1000 EGPs</td>
<td>1000-2000 EGPs</td>
<td></td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Sole Financial Problems</td>
<td>.021</td>
<td>.884</td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Others Financial Problems</td>
<td>.696</td>
<td>.405</td>
</tr>
<tr>
<td>Are you with Regulating Societies</td>
<td>1.096</td>
<td>.297</td>
</tr>
<tr>
<td>Are You With Expanding the Promise of Societies</td>
<td>1.221</td>
<td>.271</td>
</tr>
<tr>
<td>Do You Think that the Societies can be Substitute to Banks in Personal Credit</td>
<td>9.469</td>
<td>.002</td>
</tr>
<tr>
<td>More than 2000 EGPs</td>
<td>Less than 1000 EGPs</td>
<td></td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Sole Financial Problems</td>
<td>1.476</td>
<td>.227</td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Others Financial Problems</td>
<td>2.921</td>
<td>.090</td>
</tr>
<tr>
<td>Are you with Regulating Societies</td>
<td>2.958</td>
<td>.088</td>
</tr>
<tr>
<td>Are You With Expanding the Promise of Societies</td>
<td>9.666</td>
<td>.328</td>
</tr>
<tr>
<td>Do You Think that the Societies can be Substitute to Banks in Personal Credit</td>
<td>2.63</td>
<td>.609</td>
</tr>
<tr>
<td>More than 2000 EGPs</td>
<td>1000-2000 EGPs</td>
<td></td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Sole Financial Problems</td>
<td>1.330</td>
<td>.251</td>
</tr>
<tr>
<td>Participation in Societies Helped Effectively in Solving Others Financial Problems</td>
<td>.520</td>
<td>.473</td>
</tr>
<tr>
<td>Are you with Regulating Societies</td>
<td>.835</td>
<td>.363</td>
</tr>
<tr>
<td>Are You With Expanding the Promise of Societies</td>
<td>3.372</td>
<td>.069</td>
</tr>
<tr>
<td>Do You Think that the Societies can be Substitute to Banks in Personal Credit</td>
<td>2.742</td>
<td>.101</td>
</tr>
</tbody>
</table>
5. Conclusion

This paper examines the drivers for participation in Societies and evaluates the sample's experience with it in order to understand the influence of gender and income on the motives behind sharing Societies and valuation of them.

With respect to the intention of spending Society's sum; the study showed that the amount raised by societies is allocated to essential expenses. No significant differences between the members regarding the reason for joining Societies and the purpose for expending its sum. These findings are compatible with the findings of (Abdul-Yakeen, 2012) about the allocation of the ROSCA's sum. On the contrary; the findings are inconsistent with the documented literature on ROSCAs that it is primarily used to save up for the purchase of indivisible durable goods (Besley et al., 1993).

The study confirmed that females' main reason for participation in Societies is future need for money, where the males' reason is for the current expenditure.

The findings of the study indicated that the tough procedures in case of borrowing; and low return in case of saving were the drivers behind leaving banks to finance via Societies. These findings are in line with a previous study which pointed out the difficulties in banks in this regard (Salahuddin & Rashmi, 2015). The findings agree also with the suggestion that consider ROSCAs as a response by socially connected groups to credit market exclusion and limited opportunities for accessing alternative financial instruments (Besley et al., 1993; Donoso et al., 2011; Kimuyu, 1999).

No substantial difference between the answers of males and females were observed about the reasons behind going to Societies in case of saving and where to spend money; in case of credit. These findings are similar to Al Ajlouni (2015), whereas inconsistency was found with the documented literature on ROSCAs that were primarily used to save up for the purchase of indivisible durable goods (Besley et al., 1993), it also contradicts with the findings of another study that confirmed the main reason for enrolling in a ROSCA is the need to commit themselves to save money (Dagrielie & Lamay-Boucher, 2012),

An apparent impressive positive trend in valuation of Societies is revealed by this study, the general trend showed an agreement between male and female about the positive role of Societies in solving personal and others problems and these findings are compatible with previous findings of (Al Ajlouni, 2015).

One of the important results revealed through this study is that respondents see that Societies can be an alternative to banks in providing personal loans. The positive attitude toward Societies is consistent with the findings of other studies that proved the positive impact of ROSCAs (Abdul-Yakeen, 2012). As a general result derived from the previous findings, Societies proved that it can be viable and dependable financing alternative for the Muslim people as it adheres to the principles of Islamic Shari'ah. It can be developed by Islamic banks through different modes which make it a new addition to the Islamic Finance industry.
Reference


The Regulations Supporting Socio-Economic Initiative in Takaful Operations

By
Dr. Hafiza Harun
Rusni Hassan

Abstract
Takaful operation in Malaysia has proven their credibility through the remarkable achievement in the market structure and net contribution income. As a financial product, takaful is one of the key tools in wealth protection. As the dedicated institutions which are authorized to operate in providing Shariah-compliant protection coverage to the community, Takaful Operators are subject to relevant regulations and procedures. These regulations are important in providing a guided supervision and to ensure the interest of every stakeholder are preserved. This research paper applies the literature review based methodology that demonstrates the nature of takaful operations for society and nation. From the regulatory perspective, Bank Negara Malaysia plays its role through the introduction and enforcement of numerous rulings for takaful industry. The regulations such as Shariah Governance Framework, Islamic Financial Services Act, Takaful Operational Framework, Life Framework and Value-Based Intermediation are found to support takaful industry in achieving its operations’ objective of helping the community’s socio-economic environments.

Keywords: Regulations, Takaful Operations, Socio-Economic

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1. Introduction

Takaful Operators’ (TOs) establishment is a blessing for Muslim communities who passionately look for an alternative protection which is based on Shariah requirements. Even though its counterpart in the conventional insurance is well performed and widely accepted all over the world, the existence of TOs serves to cater to the needs of the specific target audience in its own category. Based on (Kasim, 2012), Takaful consumers’ confidence on the product is dependent on the two criteria – first, the operations of the business must fully comply with the Shariah principles and second, the consequential wealth and financial progress of the TOs need to be disclosed. This proves that consumers’ choice for takaful is basically backed by Shariah and its principles such as transparency, value addition and so forth. In Malaysia, the growth of TOs is well supported by the regulatory body with an effective supervision (Berkem, 2014). This direction goes along with the objectives to protect the public interest, promote fairness and equity, foster competence, and play a developmental role. Compared to other sectors such as banking and finance houses, takaful comes with its identity as a social finance related institution. In handling such concept of business, TO is established with a proper managing system, governance as well as the regulations. Therefore, for this purpose, this paper examines the regulations supporting the socio-economic initiative in the takaful operations in Malaysia. In reflecting the discussion of the research, the organization of this paper shall be as follows. Next section starts with literature reviews on the philosophy of takaful, takaful and socio-economic elements and a brief overview of an applicable regulation. This section is followed by the research methodology. The analysis of applicable regulations supporting socio-economic initiatives in takaful is discussed in the findings section. Finally, the paper ends with the conclusion.

2. Literature Review

2.1 Philosophy of Takaful

Initiating a discussion on takaful is basically undetachable from its conventional insurance. Considering the underlying theme which correlates both insurance and takaful, it is worth to mention it in a brief manner. With the aim of providing protection towards its subscribers, insurance plays an important role in risk management effort in the community. “Insurance is an effective mechanism for reducing the vulnerability of the poor from the impacts of disease, theft, disability and other hazards as well as safeguarding the productive use of savings and credit facilities. Policyholders only pay the average loss suffered by the group rather than the actual costs of an individual event, whereby an insurance replaces the uncertain prospect of large losses with the certainty of making small, regular and affordable premium payments (Brown & McCord 2000, Brown & Churchill 1999). The primary function of an insurance is to act as a risk transfer mechanism to provide peace of mind and protect against losses” (as cited in Patel, 2004). As a matter of fact, this arrangement proves that insurance works on a risk transfer mechanism.

From an Islamic point of view, this effort is accepted providing that the contract does not involve such a selling-buying of policy between the company and customers as it would involve Riba. In fact, it is noted that the concept applied by an insurance
possesses such prohibited elements, namely uncertainty, gambling and usury. Hence, takaful is formulated in encountering this limitation, especially for Muslims. (Nahar, 2015). Nahar explained that “by selling insurance coverage, insurers assume that the subject risk stipulated in the insurance contract as evidenced by the fact that premiums paid are then treated as insurers’ income, signifies the shift of rights of such premiums from the insured to the insurer”. By applying the spirit of cooperation and mutual assistance among its participants, “Takaful, however, involves sharing a risk wherein participants voluntarily agree to subside each other’s risk through a pool of voluntarily contributed funds” (Hunt-Ahmed, 2013). As it is designed based on the Shariah principles and requirements, Takaful is the best option compared to the conventional insurance for the society. (Ayinde&Echchabi, 2012). Additionally, Masud pointed out that Takaful carries the meaning of which literally means unity, It set to be a structure in which members decide to protect each other from the loss. The existence of a special fund known as “Tabarru” means all participants are in the solidarity to assist each other once misfortune events occurred. “In line with Islamic ideals of welfare and charitable giving, the system is a collective enterprise that allows a community to pool together resources in order to assist members of the community in times of need resulting from casualty or loss” (Masud, 2010).

In the light of the above, obviously takaful is dissimilar from the conventional insurance in the form of principles and operations. Takaful is one of the wealth planning solutions for unforeseen events such as the death of the sole breadwinner of a family, critical illnesses, permanent disability and accidental incidents which lead to incapability to work. It is worth to consider this Hadith of Prophet Muhammad (peace be upon him) who said “Allah blesses those who acquire wealth in a good manner, then the wealth is spent accordingly and the remaining is saved for future use when hardship occurs” (Sahih Bukhari and Muslim). The application of “tawakkul” concept is demonstrated while individuals participate in any takaful plans. “Taking preventive measures and arranging beforehand for compensation for likely losses involved in the cases of natural risk, whether done individually or collectively, is absolutely compatible with the belief in predestination and submission to the Will of God” (Iqbal, 2007).

In discussing the takaful concept, reflecting the above comprehensive definition is vital. This cooperative scheme is basically inspired from Surah Al-Maidah, verse 2 which means: “Help you one another in Al-Birr and At-Taqwa (virtue, righteousness and piety); but do not help one another in sin and transgression”. Apparently, through this verse, Islam instructs the believers to communally enjoin good deeds and at the same time avoid committing vices and sinful activities. Secondly, the concept of mutual help and indemnification which already practiced in the pre-Islamic eras such as Al-Diyat (blood money), Al-‘Aqilah, Ma’qil, Al-Qasamah, Al-Tanahud, Al-Diwan and DhamanKhatar that serves the foundation for takaful operational structure. Some of these practices were approved by Prophet Muhammad (PBUH) in considering their compatibility with Shariah precepts (NuHtay, Hamat, Ismail, and Salman, 2015). Al-‘Aqilah¹, for instance, is the practice which could be briefly summarized as the reciprocal compensation principle and

¹ Literally means near of kin. Technically refers to a tribal custom.
joint responsibility that are acceptable in the eyes of Islamic Law perspective (Iqbal, 2007).

Principally, this indemnification concept is also mentioned by Saputra, Kusairi, Sanusi and Abdullah (2016) where “it obtained recognition under Islamic law based on the agreement of the Holy Prophet Muhammad (S.A.W) within one of his verdicts against a woman from the tribe namely Huzail. Therefore, the main idea of ‘Aqilah was that the tribes of ancient Arab had to be prepared to make a financial contribution on behalf of the killer to compensate the heir of the victim such readiness to make a financial contribution which has resemblance with the premiums in the practice of insurance”. It is also reiterated by Swartz and Coetzer (2010) who mentioned the concept claimed to be derived from the Arabic system known as ‘aqilah and diyah “whereby people of a given tribe would come to the financial rescue of one of its members should he face an unexpected liability, such as paying for blood money (diyah)” (as cited in Manjoo, 2007). NuHay et al. (2015) highlighted another system which known as Ma’qil. This practice was implemented “under the constitution of the city-state of Medina whereby each member of a tribe contributes to a fund to be used for payment of ransom money for someone who was made a prisoner of war by an enemy. If the fund is insufficient, other related or neighbouring tribes will assist”. Basically, the essence of cooperation is imbued in the system through an immediate assistance given by other members of the society. All these mutual support forms of practices are in line with Shariah principle as emphasized in the Quranic verses related to “ta’awun” concept.

Additionally, there is some spirit of takaful which are worth to be highlighted in this segment. Corresponded to the other financial sectors, takaful stands with its own unique features which could be shared with the participants. As a matter of comparison, the conventional insurance also plays an important role in risk management effort in the community. From an Islamic point of view, this effort is accepted providing that the contract does not involve such a selling-buying of policy between the company and customers as it would involve Riba. In fact, it is noted that the concept applied by insurance possesses such prohibited elements, namely uncertainty, gambling and usury. Hence, takaful was formulated in encountering this limitation, especially for Muslims (Nahar, 2015). Nahar explained that “by selling insurance coverage, insurers assume that the subject risk stipulated in the insurance contract, as evidenced by the fact that premiums paid are then treated as insurers’ income, signifies the shift of rights of such premiums from the insured to the insurer”.

In contrast, by applying the spirit of cooperation and mutual assistance among its participants, “Takaful, however, involves sharing risk wherein participants voluntarily agree to subsidize each other’s risk through a pool of voluntarily contributed funds” (Hunt-Ahmed, 2013). As it is designed based on Shariah principles and requirements, Takaful is the best option compared to the conventional insurance for the society (Ayinde and Echchabi, 2012). Additionally, Masud pointed out that Takaful carries the meaning

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2 This term is specifically used for takaful consumers. The word “participant” reflects the concept of mutual help which is imbued in takaful arrangement.
of which literally means unity and it set to be a structure in which members decide to protect each other from loss. The existence of a special fund known as “Tabarru” means all participants are in solidarity to assist each other once misfortune events occurred. “In line with Islamic ideals of welfare and charitable giving, the system is a collective enterprise that allows a community to pool together resources in order to assist members of the community in times of need resulting from casualty or loss” (Masud, 2010).

As a part of the wealth protection component, takaful’s products and services serve the needs of the society in facing any possible future events either good or otherwise. Under the wide-ranged ridge of financial planning, wealth management comes to provide a specific stage for an individual’s wealth and richness. In their studies, Ahmed and Salleh (2016) developed an integrated Islamic financial conceptual framework where the elements of classical Zakat and Waqf institutions are blended with the current or modern financial management. Based on the proposed conceptual framework which dedicated for low-income group, researchers have categorized takaful under the backup planning. Therefore, takaful would be one of the solutions for unforeseen events such as the death of the sole breadwinner of a family, critical illnesses, permanent disability and accidental incidents which lead to incapability to work. It is worth to consider this Hadith of Prophet Muhammad (peace be upon him) who said “Allah blesses those who acquire wealth in a good manner, then the wealth is spent accordingly and the remaining is saved for future use when hardship occurs” (Sahih Bukhari and Muslim).

2.2 Takaful and Socio-Economic Elements

Through the modern operational settings, there are various plans offered by TOs in ensuring products and services remain competitive in the market. Besides this objective, the existence of takaful is inclined towards supporting the preservation of socio-economic aspects. As stated in the analysis of the takaful risk management, “wealth preservation using takaful aims to safeguard wealth against financial risks and threats, protect assets and physical property against unpredictable occurrences and potential loss. It also to safeguard personal health and energy against hardships from illness, prolonged sickness, injury or disability, or death”. Aziz, Faizal and Mohamad (2013) deliberated on the wealth protection which is achievable via takaful. It does not provide the material benefits to participants and their heirs but the most important it is meant to fulfil the objectives of Shariah (Maqasid Al-Shariah) as promulgated in Islam. Jalil, Haris, Ramli and Said (n.d) reiterated the importance of social security from an Islamic perspective. As the research’s scope is wider, they have highlighted the aims of putting emphasis on social which simultaneously covers the wealth protection effort. A proper and well-planned of wealth and social security leads to justice, protecting the components in Maqasid Al-Shariah as well as the mutual support among the society.

Nowadays, takaful products are designed with exciting riders’ selections rather than being traditional in nature. The attached elements such as hibah, tabarru’ and waqf, for example, suit to be embedded in the takaful plan subject to certain strict requirements
such as being Shariah compliant and compatible with Maqasid Al-Shariah. Jalil and Rahman (2015) exemplified how hibah, tabarru' and waqf are possibly applied in takaful. In light of Maqasid Al-Shariah, this arrangement could be done with a few observations such as:

i. “To increase gifts and donations so that they may benefit the public as well as individuals.

ii. Gifts and donations must be voluntary and free from any reservation.

iii. There must be tolerance and flexibility in the validation of donation contracts according to the wishes of the donor.

iv. The act of donation does not cause loss of rights and suffering to others such as heirs and creditors”.

Additionally, takaful is considered as one of the important avenues in protecting life, wealth and pride of an individual (Abdullah, 2012). This emphasis is basically observed from this Hadith of Prophet Muhammad (PBUH): “…. leaving behind one’s heirs rich is better than leaving them poor” (Sahih Bukhari). Ismail (2009) reiterated on this wealth protection plays a simultaneous role of risk management technique, especially for the affected heirs and family. Via takaful, an immediate wealth is ready once the unexpected death of a wage earner.

Takaful is managed and run by institutions which are legally established as well as being endorsed by the respective country’s regulatory body. Besides supervision, the regulator also encourages TOs to work on “giving back” to the community. According to Alhabshi and Razak (2010), “Takaful should not be looked at merely as a business concern but should also locate areas where socio-economic assistance is definitely needed. Corporate Social Responsibility (CSR) could be employed as a means of reaching out to assist in the community improvement”. BNM has announced its latest Strategy Paper on Value-Based Intermediation (VBI) on 27 July 2017. The focal emphasis for this early stage is only on Islamic banking in Malaysia in an effort to gauge the response and understanding on this strategy. The strategy aims to achieve the same outcome of former efforts such as the Environment, Social and Corporate Governance (ESG) Sustainable, Responsible, Impact Investing (SRI) and ethical finance. The VBI sets to shape future strategy for Malaysian Islamic financial industry is described below:

“There is an intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, without compromising the financial returns to shareholders” (BNM, 2017). Such efforts are highly welcome in directing the industry to its main principle which is inspired by Islamic principles since its early days of establishment. For takaful industry, this VBI comes at the right time to support its current spirit of implementation which already socially imbued in nature.

In handling such concept of operations, TO is established with a proper managing system and governance. This subsequently leads to further social and economic growth for the respective community and nations. Obviously, TOs grow as a beneficial social
finance institution rather than being symbolized as a profit maximization organization. It was reported by Bank Negara Malaysia (BNM) on 26 June 2017 about the annual takaful statistics for the year 2016. The fact indicated that 4,158,354 takaful certificates recently in force with the total contribution of RM 17,703,362,759 (BNM, 2017). In parallel, in term of governance and as a part of IFIs, Malaysian TOs are subject to adherence to the Shariah Governance Framework (SGF 2011) and the Islamic Financial Services Act (IFSA 2013). SGF deliberates a comprehensive guidance, structure and functions dedicated to all key organs of an institution which operates under the ambit of Shariah.

From an operational perspective, the application of Shariah contracts such as Wakalah and Mudarabah, Alhabshi and Razak (2010) stated that any TO does not either take or accept the risk from its participants. All the participants agreed to “bear the risk and are mutually covering each other. The company is only a trustee acting on behalf of the participants to manage the operation of the takaful business. As such, the company does not have any right to the takaful benefits”. Depending on contract applied by the TO, it shall determine the contractual agreement which subsequently reflects both parties such as TO and participants.

The management of Malaysian TOs is accountable to ensure the overall compliance with Shariah which is known as holistic culture throughout the organization. It is stated by Abu-Tapanjeh (2009) on his comparison of corporate and Shariah governance principles. Corporate governance as developed by the Organization of Economic Co-operation and Development (OECD) only puts the emphasis on certain key functionary while Shariah wise accentuates on the holistic approach involving all parties in an IFI itself. With this encouraging development which is predicted to keep growing in future, proper monitoring by the respective regulatory bodies as well as ensuring the effectiveness of management communication for Malaysian TOs is always at the optimal level.

2.3 Brief Overview of Applicable Regulation

In Malaysia, the development of TOs is well supported by the regulatory body with an effective supervision (Berkem, 2014). This direction goes along with the objectives to protect the public interest, promote fairness and equity, foster competence and play a developmental role. Compared to other sectors such as banking and finance houses, takaful comes with social support element besides its commercial identity. The key highlights in this literature review section are directed to the regulations as well as initiatives relevant to Malaysian TOs. There are Shariah Governance Framework (SGF), Islamic Financial Services Act (IFSA), Takaful Operational Framework (TOF), Life Framework and Value-Based Intermediation (VBI). Berkem (2014) analyzed the growth of Malaysian TOs under the supervision of BNM. He concluded that such systematic regulations have resulted in an encouraging result for the further success of this industry.

Since 2009, BNM through Prudential Regulation and Supervisory Framework reiterated their formulation of new SGF which finally took effect on 1st January 2011. “

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3 Financial Stability and Payment Systems Report 2009, Issued by BNM
two-tiered Shariah governance structure has been established, comprising an apex Shariah advisory body at the Bank and a supervisory Shariah committee formed at the respective Islamic financial institutions” (BNM, p. 99). Comparing SG system applied by Gulf Cooperation Countries (GCC) and Malaysia, Hamza (2013) concluded the centralized SG system as being practiced in this country found to be efficient and conducive in enhancing IFIs system and control. The objective BNM in strengthening IFIs’ governance is vividly mentioned in paragraph 1.5 as below:

“The Bank has developed the Shariah governance framework for IFIs with the primary objective of enhancing the role of the board, the Shariah Committee and the management in relation to Shariah matters, including enhancing the relevant key organs having the responsibility to execute the Shariah compliance and research functions aimed at the attainment of a Shariah-based operating environment” (SGF, 2011).

Compared to other financial establishments, TOs grow as a beneficial social finance institution rather than being symbolized as a profit maximization organization. Correspondingly, in term of governance and as a part of IFIs, Malaysian TOs are subject to adherence to the SGF. SGF deliberates a comprehensive guidance, structure and functions dedicated to all key organs of an institution which operates under the ambit of Shariah. This encouraging figure stands as an evidence of the wealth protection acceptance among the community at large. Based on Ayinde&Echchabi (2012), the major reasons for takaful acceptance among Malaysian are due to the claims payment efficiency, staff effectiveness and credibility as well as prestigious effect.

Secondly, IFSA reflects takaful operations in term of strengthening the consumer protection and enhancing the public’s confidence in this financial service. By way of IFSA, some key scopes have been improved such as the prudential matters, Shariah governance, business conduct and consumers’ protection. All these are including the participants’ risk fund, beneficiaries’ issues, single license takaful business, both corporate and Shariah governance, the tightening role of Board of Directors, permissible takaful interest and so forth (Jamil and Jamal, 2016).

Schedule 10 of the Act itself deliberates on the requirements’ details on payment of takaful benefits under family, takaful certificate and personal accident and also, takaful certificate. It is worth to highlight the legal definition of takaful based on IFSA which is more comprehensive as below:

“Takaful” means an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund providing for mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of pre-agreed events” (p.24).

This exhaustive interpretation of takaful has been further improved and more precise in determining all key aspects involved in the takaful operations.

Such proactive action taken by BNM contributes to a greater success and encouraging future for Malaysian takaful industry. Undoubtedly, this fact is proven as mentioned by Othman (2017), “With this detailed guidance, Malaysia is raising its regulation of Takaful to a new level of sophistication. In the Financial Sector Blueprint
2011 - 2020 issued by BNM, one of the plans and initiatives for the financial stability towards becoming a high-income nation by 2020 is ‘Safeguarding the stability of the financial system’. It stated that “a regulatory and supervisory regime - that effectively maintains the stability of the financial system and soundness of financial institutions is necessary for sustainable growth and the orderly development of the financial sector. Significant attention has been directed over the recent decade towards strengthening the effectiveness of the regulatory regime, in line with leading standards and practices, and providing an enhanced focus on governance practices and risk management”.

Third, the Takaful Operational Framework or TOF took effect on 1 January 2012. It serves to improve an operational efficiency of takaful business as well as emphasizing in protecting the interests of participants of takaful in Malaysia. In overall, this framework helps Malaysian TOs to increase their efficiency in product structuring and servicing which is in line with the Shariah requirements. In line with its objectives, BNM has developed this framework under the guiding principles as stipulated in paragraph 3.1 as below:

i. Principle 1: Ensure uniformity with Shariah principles and consistency with the essential features of takaful;
ii. Principle 2: Promote prudent management of takaful funds to enhance the funds’ financial resilience;
iii. Principle 3: Promote fairness and transparency to protect the interests of participants;
iv. Principle 4: Ensure appropriateness of fees and charges imposed on participants and takaful funds; and

All these principles provide a standardized guidance for Malaysian TOs in ensuring the dynamic process for overall business. As the regulator, BNM has the mandate to issue the necessary rules when required.

Additionally, the introduction of Life Framework for both insurance and takaful industry was another step taken by the regulator in strengthening the existing systems. By taking all the key initiatives in the gradual stages, this “framework aims to promote innovation and a more competitive market supported by higher levels of professionalism and transparency in the provision of insurance and takaful products and services”. BNM had issued the framework on 23 November 2015 whereby both the insurance companies and takaful operators are subjected to adherence. Those initiatives intend to safeguard customers’ interests, including the gradual removal of limits on operational costs to promote product innovation while preserving policy or certificate value, diversification of distribution channels to widen outreach and last but not least to strengthen the market conduct to enhance consumer protection as deliberated in the Pillar Three of the framework (BNM, 2015).
Another initiative driven by Malaysian regulator in strengthening an Islamic financial environment is known as Value-Based Intermediation or VBI. This VBI “aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, without compromising the financial returns to shareholders”. (BNM, 2017). Apparently, this target allows the financial intermediaries such as Islamic banks and TOs to serve their clients as well as other stakeholders with additional elements of values that would fortify strong relationship in a long run. This principle has been reiterated by Bakar, Yasin and Teong (2017) as current Islamic financial practices could be enhanced by putting more value propositions in services and products offered to the community and nationwide. VBI benefit consumers and community at large through these 3 ways:

i. “Improved productivity and standard of living

ii. Fair and transparent treatment

iii. Reduced negative externalities” (BNM, 2017).

Malaysian TOs are on the best track in implementing these strategies as it is in line with the objectives and nature of the takaful products itself.

3. Research Methodology

This research paper adopts the qualitative research methodology by examining works of literature related to the takaful philosophy. Based on Greene (2006), this methodology allows for “a coherent foundation for inquiry with a tightly interconnected logic of justification, positioning, procedures, and rationales” (as cited in Onwuegbuzie and Frels, 2016). Further analysis was done on the takaful and socio-economic elements which is one of the most important principles in takaful scheme. Last but not least, the exploratory on the applicable regulations as well as provisions which attest to the support of Malaysian regulator towards socio-economic efforts are carried out by TOs.

4. Findings

Firstly, it is important to note that all regulations included in this research provide for the socio-economic initiative are through takaful operations in Malaysia. The summary of these regulations with their effective years are compiled as below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Regulation</th>
<th>Year of Effective</th>
<th>Regulator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shariah Governance Framework (SGF)</td>
<td>2011</td>
<td>BNM</td>
</tr>
<tr>
<td>2.</td>
<td>Takaful Operational Framework (TOF)</td>
<td>2012</td>
<td>BNM</td>
</tr>
<tr>
<td>3.</td>
<td>Islamic Financial Services Act (IFSA)</td>
<td>2013</td>
<td>BNM</td>
</tr>
<tr>
<td>4.</td>
<td>Life Framework</td>
<td>2015</td>
<td>BNM</td>
</tr>
<tr>
<td>5.</td>
<td>Value-Based Intermediation (VBI)</td>
<td>2017</td>
<td>BNM</td>
</tr>
</tbody>
</table>

Source: BNM
Table 1 shows the applicable regulations for Malaysian TOs. The systematic progress on the ruling development shown in the proactive measure taken by BNM as the regulator. Such progress is duly required in ensuring any flaws could be improved and further strengthened.

Secondly, most of the regulations which are applicable to TOs put the emphasis on the socio-economic aspects. This direction corresponds to the main objective of the takaful in helping the participants and their heirs. It also has its roles in mitigating the socio-economic related matters within the Malaysian community. Below summarize the regulations and the relevant provisions supporting socio-economic initiatives of the takaful industry.

Table 2: Regulations and Provisions Supporting the Socio-Economic Initiatives

<table>
<thead>
<tr>
<th>No.</th>
<th>Regulation</th>
<th>Provision/Clause Supporting Socio-Economic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shariah Governance Framework (SGF)</td>
<td>“The Bank has developed the Shariah governance framework for IFIs with the primary objective of enhancing the role of the board, the Shariah Committee and the management in relation to Shariah matters, including enhancing the relevant key organs having the responsibility to execute the Shariah compliance and research functions aimed at the attainment of a Shariah-based operating environment” (Paragraph 1.5).</td>
</tr>
<tr>
<td>2.</td>
<td>Takaful Operational Framework (TOF)</td>
<td>The Objectives of TOF: a) To enhance the operational efficiency of takaful business; b) To build healthy takaful funds which are sustainable; c) To safeguard the interests of participants; and d) To promote uniformity in takaful business practices (Paragraph 2.1) The Guiding Principles of TOF (Paragraph 3.1).</td>
</tr>
<tr>
<td>3.</td>
<td>Islamic Financial Services Act (IFSA)</td>
<td>Part IX (Business Conduct And Consumer Protection)- Section 133-142 Schedule 10 [Section 142] -Payment Of Takaful Benefits Under Family -Takaful Certificate And Personal Accident -Takaful Certificate</td>
</tr>
<tr>
<td>4.</td>
<td>Life Framework</td>
<td>Pillar Three (Strengthening Market Practices): Various market conduct practices will be strengthened to elevate the level of professionalism in the life insurance and family takaful industry. These enhanced practices are important preconditions for the removal of the OCC limits for life insurance/family takaful products to ensure that the interests of consumers continue to be adequately safeguarded (Paragraph 4.1).</td>
</tr>
<tr>
<td>5.</td>
<td>Value-Based Intermediation (VBI)</td>
<td>Part II - Realigning Focus for Greater Socioeconomic Impact</td>
</tr>
</tbody>
</table>

Source: BNM
5. Conclusion

The finding in this research proves that Malaysian regulation significantly supports socio–economic initiatives advocated by the takaful operators. This achievement is observed from both regulations enforced by the regulatory body and TO itself while providing the necessary product and financial services to their participants. Takaful operators play their important roles in ensuring full adherence to the requirements of Shariah and other applicable rules. Realizing the direction of financial services towards the value-based concept, this positive outcome serves to be the best indicator in the development of takaful industry in the years to come.

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Bakar, N. M. A., Yasin, N. M., &Teong, N. (2017) How Does Values-Based Banking Counter Unfair Terms In Consumer Contracts And Notices In Islamic Banks In Malaysia?


The Journey of Islamic Banking in Pakistan

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Abstract

The history of Islamic banking in Pakistan is unique having paramount significance. The seed of Islamic banking was sown by the Quaid e Azam in his inaugural address at SBP on July 1, 1948 followed by constitutional provisions requiring abolition of Riba and promoting Islamic banking. The role of CII is critical in promoting Islamic banking in the country. Islamic banking emerged with full swing in 1980s but was declared against the principles of Shari'ah by the FSC in 1991 and SAB in 1999 respectively. The current form of Islamic banking emerged in 2002 in parallel with conventional banking and spread all over the country. However, it still needs to put efforts to be universally recognized.

Key words: Islamic banking, Interest, CII, FSC, SAB, SBP

1.1. Introduction

The history of Islamic banking in Pakistan bears paramount significance and needs to be narrated in detail for the knowledge of the students of Islamic banking. The background of Islamic banking has been written by various scholars. However, a comprehensive detail covering the complete period since the emergence of Islamic banking till the writing of this account (i.e. 2018), is yet to be accomplished. Therefore, this paper intends to offer a critical review of the development of Islamic banking in Pakistan with detailed historical background in chronological order.

1.2 Historical Background

Islamic banking has been existing for almost 6 decades when the first Islamic bank came into being in 1963 in MitGhamr, Egypt. However, glimpses of Islamic banking might be traced back to the foundation of a “small rural cooperative bank” in 1958 in the

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then “West Pakistan”, which used to practice Mudaraba (Wilson, 2002). The first Islamic bank was also claimed to have been founded in 1975 in Dubai. The Islamic Development Bank was started by the Organization of the Islamic Conference in 1975 followed by the creation of various Islamic financial institutions across the world. Presently Islamic banking has achieved a global identity with significant existence in Saudi Arabia, Egypt, Iran, UAE, Bahrain, Kuwait, Jordan, Sudan, Malaysia, Qatar, Indonesia, Bangladesh, Turkey and Pakistan (Shah & Niazi, 2009; Shah, et al., 2017).

1.3. Rationale of Islamic Banking in Pakistan

Pakistan came into being on the basis of Islamic ideology with the aim of providing the Muslims of the sub-continent a safe and separate place to live their lives according to the teachings of Islam. Therefore the country required to provide the citizens a wholesome framework for practicing their religion in all activities of their lives. Therefore, Quaid-e-Azam Muhammad Ali Jinnah, in his address on the occasion of inauguration of the State Bank of Pakistan (SBP), on 1 July, 1948, said:

I shall watch with keenness the work of your Research Organisation in evolving banking practices compatible with Islamic ideals of social and economic life. The economic system of the West has created almost insoluble problems for humanity and to many of us it appears that only a miracle can save it from disaster that is now facing the world… We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice.

1.4. Constitutional Provision on Islamic Banking

In pursuance to the ideology of Pakistan, the first Constituent Assembly of the country passed the Objective Resolution on March 12, 1949, explicitly stating that “Muslims shall be enabled to organize their lives in accordance with the teachings and requirements of Islam”. The objectives resolution set the future direction of constitution making in Pakistan which continuously incorporated the principles of Islamic Shari’ah for the economic system of the country.

The country adopted its first constitution in 1956 incorporating Islamic principles in Article 25. Article 29 (f) bounded the State to eradicate “Riba as early as possible”. The 1962 constitution introduced the creation of the Advisory Council of Islamic Ideology through Article 199. Article 204 of the constitution described its main function in detail. The advisory council was primarily created as adviser to the government for making various laws of the country consistent with the requirements of Islam. Similarly, the 1973 Constitution maintained the Islamic characteristics of Pakistan. Article 38 (f) was very explicit on the abolition of “Riba as early as possible”. Article 227 stated that “all existing laws shall be brought in conformity with the injunctions of Islam … and no law shall be enacted which is repugnant to such injunctions”. The Advisory Council of Islamic Ideology was reconstituted as Council of Islamic Ideology (CII) in article 228 with the detailed functions of the council given in article 230, which were almost similar to those defined in the constitution of 1962.
1.5. The Ever First Question of Interest in Pakistan

The CII (the then advisory council) got an official invitation from the Ministry of Finance, in March 1963, asking for clarity on the question of interest in “public transaction”. The ministry asked,

*Whether interest in the form in which it appears in public transactions is in conformity with principles and concepts of Islam?*

The advisory council deliberated on this question in June and September 1963. It was the first time that the question of interest came under discussion in the meetings of the advisory council. However, the advisory council, on January 13, 1964, decided that:

The Advisory Council of Islamic Ideology agrees that *Riba* is forbidden but is in disagreement as to whether “interest in the form in which it appears in public transactions” which in the opinion of Council includes “institutional credit” as well, would also be covered by *Riba*, specified in the Holy Quran. There is, however, unanimity on the point that for the fulfillment of the Islamic requirement of social justice and concept of human brotherhood, a system of interest-less economy should be inaugurated. The Council recognises that any abrupt or sudden change will create numerous difficulties for the country. The Council recommends that efforts in the direction of establishing an economy free from interest should not be unduly delayed (CII Consolidated Recommendations, 1983, p.1).

The decision of the Advisory Council did not clarify the issue of “interest in public transaction” as required by the Ministry. The Chairman of the Advisory Council, in a meeting of the council held in Lahore on 26 September, 1966, divulged that their opinion on the involvement of “interest in public transaction” had been referred back by the Ministry of Law for explication. In order to clarify the issue of “interest in public and international transaction” a meeting was held on 9 December, 1966, in Dacca, in which the Council “unanimously agreed that *Riba* is certainly forbidden in all its forms according to Quran and *Sunnah*”. The Finance Ministry had explained the term “public transaction” and needed explicit position about “interest on rupee loan, discount on treasury bills, interest on saving certificates, prizes on prize bonds, interest on provident fund, and interest on loans to provinces, local bodies, government agencies, etc.”. In response to this question, the advisory council observed that the prevalent banking system in Pakistan was based on *Riba* that needed a “complete scrutiny and overhauling” (CII Consolidated Recommendations, 1983, p.2, 3).

1.6. *Riba* and the Role of CII

Before giving a precise opinion on the issue of involvement of Riba in public transactions, the advisory council decided to obtain the opinion of eminent scholars from other Muslim countries regarding Riba. Information relevant to the economic system of other Muslim countries particularly those working with interest free system were also considered important. Thus, the advisory council prepared and discussed a questionnaire on Riba on December 10, 1966 (CII Consolidated Recommendations, 1983, p.3, 4).
Subsequently, in a meeting held on November 28-29, 1967 in Dacca, the advisory council deliberated and finalized a list of 123 religious scholars, economist, and bankers, for obtaining information on the issue of Riba. Similarly, 17 countries were shortlisted for obtaining information on the working of interest free economy. However, the said questionnaire was not approved for circulation to the identified sample of people and countries till 1976. Nevertheless, the advisory council deliberated the issue of “Riba” in numerous meetings and finally made the momentous decision on December 23, 1969 for guiding the government on the issue of interest. The council stated that “Riba is prohibited in all its forms and the ups and downs in the rate of interest do not affect its prohibited status” (CII Consolidated Recommendations, 1983, p.8,9).

The advisory council suggested that the government should organize a committee of Islamic scholars, economists, and legal experts, in order to identify measures for reforming the prevailing economic system as per requirements of Islamic principles. The advisory council also worked on preparing a “blue-print on Islamic Social Order” during 1969 and 1970, which was submitted to the government in 1971. The recommendations of the said blue-print discussed the principles of Islamic economic system including nature of earnings, business, Riba, and prohibition of interest and advised the government to incorporate these principles in the legislations of the country (CII Consolidated Recommendations, 1983, p.10, 11, 12).

Later on, the CII (former advisory council) revised and approved the questionnaire of 1966 on January 31, 1976, in a meeting held at Karachi and decided to publish it in the national newspapers. Subsequently, this questionnaire was sent to 108 ulema, experts, and institutes including SBP, heads of departments of Islamic studies and economics of all Pakistani universities, Pakistan Banking Council, banks, research organisations, religious scholars, and certain prominent institutes in other Muslim countries. The CII received only few replies sent by local scholars and banks while only one reply came from abroad i.e. Indonesia (CII Consolidated Recommendations, 1983, p. 13, 17, 19).

1.7. Eliminating Interest from the Economy of Pakistan

General Muhammad Zia ul Haq took over the control of the country in July 1977 and declared to create an Islamic society according to the principles of Quran and Shari’ah. Resultantly Riba became an important issue to be addressed. The CII was again reconstituted in September 1977, and was directed to work for the elimination of interest from the economy of Pakistan (Kennedy, 2004, p.102). Therefore the CII, in a meeting held on October 13, 1977, constituted a “panel of economists and bankers” for this purpose. This panel held two meetings on December 15 and 16, 1977 and January 4 and 5, 1978 and after considering the opinion of ulema and experts, finalized a questionnaire for ulema on complications associated with Riba. This questionnaire was sent to 31 ulema but no reply was received from any one of them. However, the members of CII deliberated on all these questions in various meetings and communicated their views to the panel (CII Consolidated Recommendations, 1983, p.20, 21, 26, 27). A sub-committee of the panel, consisting of the “banker-members” was asked to prepare a model for
“interest free commercial banking”. The sub-committee accomplished the desired task on January 2, 1978 (Zaidi, 1987, p.85).

The panel presented an “interim report” in November 1978 which suggested elimination of interest from the operation of National Investment Trust (NIT) unit, Investment Corporation of Pakistan (ICP) and House Building Finance Corporation (HBFC) (CII Consolidated Recommendations, 1983, p.41). Resultantly, these institutions started operating on interest free basis from 1 July 1979. Further a new financial institution with the name of Bankers Equity Limited was founded in October, 1979 as a private limited company to offer financial support to private sector, “mostly on interest free basis”. Similarly the Small Business Finance Corporation converted its financing operation to noninterest modes from 1 July, 1980 (Janjua, 2003, p.616-618).

In February 1979 a committee under the supervision of the finance minister was constituted to conduct a detailed study of interest-free banking system and set forth the requisite paradigm. Following the formation of the committee, a meeting of the executives of SBP, the PBC, the Nationalized Commercial Banks and the Non-Banking Financial Institutions, was held on April 8, 1979, which concluded in the creation of six working groups for examining the respective issues and giving recommendations. The respective working groups completed their work during October, November and December 1979. The recommendations of these working groups proved helpful to the “Panel of Economists and Bankers” in preparation of the final report on elimination of Riba, which was submitted to the CII in February, 1980 (Janjua, 2003, p.614-615).

Subsequently, the CII held numerous meetings to carefully study the findings of the said report. The CII incorporated some alterations in order to make this report fully compatible with Shari’ah and “adopted a consolidated report” in its meeting on June 15, 1980. The 1980 CII report was produced by a unique combination of experts from economics, finance and Shari’ah, which could have provided appropriate strategies in the right direction for making an economic system fully compatible with the Shari’ah guidelines. It is worth mentioning that this time the CII had full support from the then President of Pakistan for “practical implementation of its recommendations”. The CII report was acknowledged in the Muslim world as “pioneering” work for founding an Islamic economic system (The 1980 CII Report, p. xiv, xiii, i).

For introducing “interest free banking in the nationalized commercial banks”, the PBC devised a “Superior Task Force” to prepare the requisite strategy. The Task Force completed the desired assignment on August 4, 1980 (Zaidi, 1987, p.85). The statutory framework of the country was modified in June 1980 in order to launch Participation Term Certificate (PTC), “a new interest free instrument of corporate financing”. Later, in August and October, 1980, various meetings took place in SBP, under the Chairmanship of the Governor, in order to “review the progress towards the Islamization of financial system” and deliberate upon the requisite amendments to the relevant banking laws (Janjua, 2003, p.619).
Resultantly, Banking Companies Ordinance of 1962, Banks (Nationalization) Act, 1974, The Negotiable Instruments Act, 1881, State Bank of Pakistan Act of 1956, and Banking Companies (Recoveries of Loans) Act, 1979, were amended in early 1980s. In addition to these amendments two new ordinances were also promulgated. The Mudarabah Companies and Mudarabah(Flotation and Control) Ordinance, 1980 was issued allowing establishing of Mudarabah companies and floatation of Mudarabah certificates. Banking Tribunal Ordinance, 1984 was articulated for creating Banking Tribunals in order to accelerate the judgments on banks’ cases and recovery of bank funds from the defaulters (Zaidi, 1987, p.105-129). In fact, a new legal framework of interest free banking was established in the country with the proclamation of the Banking and Financial Services (Amendment of Laws) Ordinance, 1984, through which seven laws were modified, primarily for facilitating the working of the new modes of financing (Janjua, 2003, p.621).

Further, the nationalized commercial banks and a foreign bank established independent Interest-free counters for working “on profit and loss sharing (PLS) basis” from January 1, 1981. The SBP issued an important circular i.e. BCD Circular No. 26, on December 24, 1980 prohibiting all banks from providing “financial accommodation” on interest basis with effect from January 1, 1981. It further prescribed that export bills would be purchased or negotiated on the basis of “exchange rate differential in case of foreign currency bills” or on commission basis if they were rupee bills. Investment in ordinary shares, NIT units, PTC, and in PLS based transaction would be made on the basis of dividend or PLS, as the case may be, with effect from January 1, 1981.

However, the CII in its meeting held on June 27, 1981, reviewed the steps taken by the government for the eradication of interest based system during 1980-81 and expressed dissatisfaction in form of a detailed resolution stating that the steps taken by the government were in total contradiction to the recommendations given by the CII. The resolution demanded appropriate steps in order to make the existing interest free counters conforming to the Islamic Shari’ah and ascertained that future actions to be taken to the satisfaction of the ulama and general public (CII Consolidated Recommendations, 1983, p. 50, 59).

The CII in another meeting, held on November 11, 1981, appreciated the elimination of interest from the business of HBFC, NIT, and ICP. However, the CII criticized the opening of PLS accounts as well as the system of mark-up and mark-down and declared that mark-up was just a different name of interest. The CII further requested that the mark-up system must be stopped by declaring it a temporary step to be ended in the second phase. The CII demanded that the government should announce the second phase for the implementation of interest free system, which should include the elimination of interest from the government transactions, and the restructuring of banks’ liabilities and assets. These recommendations were sent to the president and the ministry

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1 See Zaidi (1987, p. 105-129) for details on restructuring of laws for Islamic Banking in Pakistan.
of religious affairs (CII Consolidated Recommendations, 1983, p.60, 63-65). The CII was vigilantly observing the reaction of various corners towards the steps taken by the government for elimination of interest based system from the country. In this regard, it reviewed the opinions and observations made by various experts, national and international newspaper on the mark-up system and forwarded the same to the president and the ministry of religious affairs, who sent the same to ministry of finance for their response(CII Consolidated Recommendations, 1983, p.66).

In September 1981, the ministry of finance gave a detail review in response to the observations that were sent by the CII to the government. The ministry of finance defended the mark-up system saying that the mark-up price was not fixed and “was subject to review by SBP”. It added that banks were commercial organizations which used to invest PLS deposits in “trade and industry in line with Islamic system and at times actually hold goods” in their possession. It further explained that the mark-up system was simple to be implemented and was appropriate in the complex banking transactions. In contradiction the traditional PLS system was not practicable in the “vast multitude of transactions”. The ministry also identified the unethical practices prevailing in the business community to be one of the reasons discouraging the immediate implementation of PLS system. The ministry elaborated that it was a mammoth task to convert a “complex economic system” which was in place over years. Thus, the mark-up system was adopted as “transitory phase in the right direction”. The response of ministry emphasised the need of an Islamic society for the successful application of a true Islamic banking system(CII Consolidated Recommendations, 1983, p.67-70).

The ministry response apparently incorporated the acceptance of CII stance that the mark-up system was adopted as a “transitory phase” (CII Consolidated Recommendations, 1983, p.70). Nonetheless, the response of ministry was lacking in identifying the steps necessary for developing a true Islamic society. The CII, however, did not accept the justification given by the ministry and the “mark-up” as “solution” for Islamization of the banking system(CII Consolidated Recommendations, 1983, p. 76).The CII issued an “appraisal of interest free banking in Pakistan” in December 1983 and declared all the major steps taken tantamount to interest and in contradiction to the original recommendations of 1980 CII report. The CII strongly recommended to the government to fully abolish “all interest transactions with effect from 1st July 1984” (CII Consolidated Recommendations, 1983, p. 125).

The SBP, on the other hand, persistently followed the strategy of Islamizing the prevailing banking system by issuing another important circular (i.e. BCD Circular No. 13) on 20 June 1984, with the caption of “Elimination of ‘Riba’ from Banking System” introducing 12 modes of Islamic financing. This circular directed the banks to shift over to “Islamic modes of financing” in phases. In the first phase all banking companies were asked to adopt any of the 12 Islamic modes of financing with effect from July 1, 1984. In the second phase all banking companies were required to shift their financing to various “governments, public sector corporations, and public or private companies” to any of the
12 Islamic modes of financing with effect from January 1, 1985. In the third phase all finances made to all types of “entities including individuals” were required to be shifted to any one of the given Islamic modes of financing with effect from April 1, 1985. The said circular further directed the banks not to accept deposits on the basis of interest from July 1, 1985. All deposits must be accepted on the PLS basis except current accounts. This instruction was not imposed on foreign currency deposits. This instruction was reiterated through BCD circular No.29, dated June 12, 1985 clarifying that from 1st July, 1985 all savings accounts would be operated on the basis of PLS.

The SBP continued with its policy of Islamization and issued many circulars during 1984 and 1985, directing modus operandi for proper implementation of interest free banking. A few circulars were also issued in 1986 in follow up of the initial circulars. However, the frequency was lowered to a single circular in each of the following year including 1987, 1988, and 1989, respectively. Apparently the SBP had completed its task of Islamizing the banking system with the introduction of the 12 Islamic modes of financing in 1984 and banning the interest bearing deposit with effect from July 1, 1985. Therefore, in the later part of the 1980s, SBP only focused on implementing and monitoring the instructions issued in this regard.


However, all the efforts made to Islamize the banking system got a tragic end on November 14, 1991 when the FSC declared them repugnant to the Islamic Shari’ah in disposing of a total number of 115 petitions and 3 suo moto notices which had challenged various provisions of 20 laws, related with “interest” (FSC 1992, p.31). Apparently these laws might have been challenged in the FSC much earlier as observed from the CII stance on the steps taken by the SBP for the implementation of Islamic banking. However, there remained a ban on the jurisdiction power of FSC for a period of ten years preventing the FSC from examining any case regarding fiscal or monetary laws. The restriction of ten years expired on June 25th, 1990 and the FSC acquired jurisdiction powers to examine any laws repugnant to the injunctions of Islam including fiscal and banking laws. A total of “115 Shariat petitions and three suo moto Sharia notice cases” challenging the involvement of ‘interest’ in a set of banking and fiscal laws were filed in the FSC. The FSC developed a questionnaire on the issue of Riba and related matters and “sent it to distinguished ulama, scholars, economist and bankers” for obtaining their opinion on the said petition under review (PLD 1992, FSC 1).

The FSC bench admitted the series of petitions to regular hearing in 1990 and 1991 giving considerable attention to the arguments and counter arguments of the respective petitioners and respondents during this period. After extended debates the FSC gave a comprehensive verdict on November 14, 1991 resolving that:

... a transaction which contains excess or addition over and above the principal amount of loan, which is predetermined in relation to time or period to be conditional on the payment of that predetermined excess or addition, payable to the creditor ...constitutes Riba..., which is unlawful, Harm in territory of Islam, in Muslim society. There is a consensus (Ijma) of the Muslim jurists on it (PLD 1992, FSC 1: para 78).
On the practices of banks, the FSC declared that:

It is thus beyond any doubt that Bank interest comes under the category of Rib prohibited by the Holy Quran and Sunnah of the Holy Prophet (p.b.u.h). Moreover, the prohibition of interest... is general in its extent and application irrespective whether it is given or taken by the Bank or any other institution or an individual (PLD 1992, FSC 1: Para 116).

The FSC further elaborated that:

...the interest charged on loans and given on deposits by the banks falls within the definition of Riba and that it makes no difference whether the loan is taken for consumption purpose or for productive purpose (PLD 1992, FSC 1: Para 129).

Therefore, the FSC observed that the “mark-up system, as in vogue, is held to be repugnant to the injunctions of Islam” (PLD 1992, FSC 1: Para 262).

The FSC declared the provision of interest and mark-up in 20 banking and fiscal laws against the injunctions of Islam and advised the federal government and the four provincial governments to make the said “laws or provisions thereof” conforming to the rulings of Islam by 30 June 1992, where from the said laws would cease to remain effective (PLD 1992, FSC 1: Para 383).


A series of appeals were filed against the FSC judgment by the government of Pakistan and certain commercial banks and financial institutions in the SAB of the Supreme Court of Pakistan. All these appeals primarily referred to the same “issues” (i.e. interest), therefore all of them were examined collectively. A four member bench of the SAB examined the case and interestingly three separate judgments were authored by Mr. Justice Khalil-ur-Rahman, Mr. Justice Wajeeluddin Ahmad, and Maulana Justice Muhammad TaqiUsmani, respectively giving detailed reasons for declaring that “any amount, big or small, over the principal, in a contract of loan” was “Riba” irrespective of the purpose of the loan. The SAB gave the historic judgment on December 23, 1999 declaring that:

The present financial system, based on interest, is against the injunctions of Islam..., and in order to bring it in conformity with Shari‘ah, it has to be subjected to radical changes (PLD 2000, SC 225: p. 302-303).

The SAB examined all the provisions of various laws which were declared against the rulings of Islam by the FSC, in detail, and upheld the FSC decision regarding these provisions. The SAB judgment was more comprehensive suggesting numerous concrete measures for converting the prevailing financial system into a complete Islamic economic system. Consequently the SAB declared various laws “repugnant to the injunctions of Islam”, and ordered that such laws shall become ineffective since March 31, 2000, whereas certain other laws shall become void since June 30, 2001. Therefore all the appeals were rejected (PLD 2000, SC 225: p. 344-347) incidentally upholding the FSC decision of 1991.
1.10. Renewed Efforts for Islamization of the Financial System of Pakistan

The SAB advised the government to take certain steps, in a given time frame, for making the financial system conforming to the injunctions of Islam. Accordingly the Commission for Transformation of Financial System (CTFS) was created in the SBP in January 2000, which worked for almost two years starting from February 2000 to December, 2001. It constituted a committee in order to examine the assets and liabilities of banks and develop Shari’ah compliant financial instruments and standardized documents (model agreements) in the SBP for the new system. This committee drafted model contracts for all major modes of financing which were later endorsed by a sub-committee of the CTFS constituted for ratification of the contract documents (Janjua, 2004, p.843, 845).

Similarly a task force was also set up in the ministry of finance to work on elimination of interest from government borrowings and another task force was established in the ministry of law to analyze the legal system for making it conforming to the requirements of SAB judgments (SBP, 2002, p.192). The CTFS coordinated with these two task forces and facilitated them with detail set of guidelines on government borrowings and legal matters respectively (Janjua, 2004, p.846, 847).

The CTFS prepared two interim reports. The first interim report presented in October 2000 elaborated on certain requirements for making a Shari’ah complaint financial system. This report recommended the creation of different institutional set ups for the proper development of the Islamic financial system. The second interim report was submitted to the government in May, 2001. This report encompassed Shari’ah acceptable financing modes, their prerequisites, model agreements and guidelines for conversion of products and services of banks and financial institutions and draft of a proposed statute i.e. ‘Islamization of Financial Transactions Ordinance’ for consideration by the task force of ministry of law. The two interim reports were combined to prepare the final report by the CFTS, in August 2001 (Janjua, 2004, p.853).

The task force of ministry of law proposed seven draft laws submitted to the CTFS for scrutiny in March, 2000 and May 2000, as advised by the SAB judgment. The task force of ministry of finance submitted its report in June 2002 after taking a time of almost two years (Mehmood, 2002).

1.11. Reformation of Islamic Banking

When all this progress was being made, a meeting of all the important working groups including the “officials of the ministries of finance and law”, the SBP governor, “chairman and some members” of the CII and the “chairmen of the CTFS and the two task forces was held on September 4, 2001 under the chairmanship of the President of Pakistan” in order to take certain policy decisions for implementation of the Islamic financial system. In this meeting, it was decided that the economy would be made “interest free” in multiple phases, steadily. The SBP was assigned the task to prepare a

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A multipronged strategy for this purpose. It was proposed to contemplate establishing Islamic banking subsidiaries and exclusive Islamic banking branches and developing “a new full-fledged” commercial bank to undertake business of banking entirely on the basis of anticipated “Islamic products”. Resultantly, the SBP prepared “detailed criteria for establishment of full-fledged Islamic commercial banks in the private sector in December 2001” and issued “the first Islamic commercial banking license” to Al Meezan Investment Bank in January 2002. Consequently Meezan Bank Limited started operation as first full-fledged commercial bank from March 20, 2002 (SBP, 2002, p.193)

As apparently certain concrete steps were being taken in compliance with the SAB judgment of 1999, there appeared two deficiencies; one, the time frame prescribed by the SAB judgment was not followed, and second the SAB decision was challenged in the Supreme Court. United Bank Ltd. filed a review petition against the SAB judgment in the Supreme Court. In 2001, two other applications were submitted appealing “for suspension … of the judgment and extension of time for its implementation”, which were entertained by the court and an extension was granted for the “implementation of the judgment till 30th June, 2002”. Further, the court examined the review petitions of UBL, in June 2002, and decided that:

…..the issues involved in these cases required to be re-determined after thorough and elaborate research and comparative study of the financial systems which are prevalent in the contemporary Muslim countries of the world. Since the Federal Shariat Court did not give a definite finding on all the issues involved the determination whereof was essential to the resolution of the controversy involved in these cases, it would be in the fitness of things if the matter is remanded to the Federal Shariat Court which under the Constitution is enjoined upon to give a definite finding on all the issues falling within its jurisdiction (para 18).

Therefore, the earlier decisions of SAB, dated December 23, 1999, and that of the FSC, dated November 14, 1991 were “set aside” and the FSC was directed to consider the cases “afresh in the light of the contentions of the parties … and the observations made which are germane to the controversy” (para 19).

However, the SBP submitted an “Affidavit” in the Supreme Court during the hearing of the Riba case in which it resolved to promote Islamic banking in “parallel” with conventional banking by following a three pronged strategy including establishing “independent and dedicated Islamic bank; an Islamic banking subsidiary of a conventional bank; or a dedicated Islamic banking branch of a conventional bank” (SBP, 2002, p.194). Consequently Islamic banking started growing in parallel with conventional banking. Presently, 5 full-fledged Islamic banks and 16 conventional banks are operating Islamic banking branches in the country spreading over 111 districts of the country (SBP Islamic Banking Bulletin, April-June 2018)

1.12. Conclusion

If this relatively short history of Islamic banking is analysed delicately, it is observed that Islamic banking frequently emerged in the country with new vision and commitment seeing many ups and downs in this journey. The latest efforts to develop Islamic banking in parallel with the conventional banking apparently encouraged the growth of Islamic banking making it available in almost every corner of the country.
However, it is important to notice that FSC did not give a fresh opinion/judgment regarding the definition of Riba and Islamic banking practices, despite the lapse of more than 16 years after the advice of the Supreme Court (June 2002) for considering the case “afresh”. Moreover, there is still difference of opinion regarding the Shari’ah compatibility of the prevailing Islamic banking working in Pakistan.

1.13. References


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Small & Medium Enterprise (SME) Financing and Poverty Alleviation– A Case of Pakistani Islamic Banks

By

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Abstract

SME sector in Pakistan is challenged due to unavailability or restricted availability of credit from financial institutions which hinders their growth and development. Risk sharing system of Islamic finance can facilitate to achieve sustainable growth and reduce poverty in the country, through SMEs. The subject paper aims to determine empirically, preference of Islamic financial institutions and banks towards specific SME financing areas. Inequitable wealth distribution has been the main challenge for alleviating poverty within emerging economies. Through this paper, it is assessed does the availability of Shariah-compliant products to SME plays a role in poverty alleviation. The research design is descriptive and cross-sectional data has been collected from 63 respondents, mainly branch managers at different Islamic banks, through purposive sampling technique. Structured questionnaires have been used to collect primary data. Findings from the study indicate that Islamic banks (and Islamic windows of commercial banks) prefer to provide SME loans for working capital requirements and acquisition of machinery. Sole proprietorships are preferred over partnership concerns and almost 60% of the respondents prefer to have a simultaneous deposit and loan relationship with SME customers. However, the bank’s internal risk aversion policies act as the main hindrance in disbursing loans to SME clients. Of the four poverty alleviation indicators, business growth reported the highest correlation with SME loans, followed by improvement in the general income level of SME.

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owners, indicating that both these indicators are mutually dependent on each other.

Keywords: Islamic Finance, SMEs, poverty alleviation, financing

JEL Classification Code: I31, O10

1. Introduction

Small and Medium Enterprises (SMEs) play a crucial role in enhancing the country’s GDP and per capita income, reducing unemployment and poverty and improving the overall standard of living. They are considered as a source of innovation and entrepreneurship (Ayandibu & Houghton, 2017). Hallberg (2001) suggests that the government should realize the potential of SMEs as they form the basis for private-sector led growth.

Small and Medium Enterprises have been individually defined by State Bank of Pakistan (SBP) in Prudential Regulations (2016). Small enterprise is an entity which fulfills both the benchmark of reporting annual sales turnover of PKR 150 Million and employing a maximum of 50 employees. A ‘medium enterprise’ is a business entity which reports annual sales turnover between PKR 150 million to PKR 800 million (number of employees: greater than fifty but less than two hundred and fifty).

Over 90% of 3.2 million business enterprises in Pakistan are registered as SMEs (SME Policy, SMEDA). SMEs total contribution to GDP and exports in 2017 have been recorded as 30% and 25%, respectively. The statistics highlight the economic importance of SMEs in Pakistan, not only to foster growth but also to generate employment opportunities (Dar, Ahmed & Raziq, 2017; Khan, Awang & Zulkifli, 2013). In Pakistan, SMEs are not only clustered into conventional, agriculture sector but are diversified into contemporary sectors such as cutlery, fisheries, gems/jewellery, sports, engineering, minerals (SMEDA Report).

The SME sector is challenged due to unavailability or restricted availability of credit from the financial sector which hinders their growth and development (Ahmad & Alam, 2015). Reasons behind constrained credit financing to SMEs range from, sometimes an inadequate business plan and assets as collateral to risk averseness of banks and higher cost of borrowing charged from SME customers. Lack of innovative and transaction-based financial products also creates obstacles.

Allocation of private sector credit remains concentrated on large enterprises. A study conducted by Ahmad & Alam (2015) substantiates that flow of outstanding credit in Pakistan is limited to certain subsectors of large scale manufacturing industry. According to Policy Report on SME Finance by SBP (2017), merely 9% of total private sector credit from financial institutions is disbursed to SMEs (outstanding loans as of December 2016: PKR 400 billion), with net SME borrowers standing around 174,000, nationwide. 89% of total credit disbursements to SMEs are to fulfill their working capital requirement, which clearly indicates that commercial banks are hesitant to give project or long term loans to SMEs (Dar, Ahmed & Raziq, 2017).
Conventional commercial banks play a pivotal role in financial intermediary within the financial system. However, the accessibility of such financing still remains a challenge for an emerging economy like Pakistan. The gap due to credit unavailability to lower segments of society has led to a great debate in terms of apt functions of conventional banks and hence advocates a need for an alternative financing system. Such form of finance is expected to resolve credit and financing issues of the poor and lower segments of society through purposely designed products, hitherto discounted by conventional banks.

Rahman (2010) questions sustainability of loans given by commercial banks to rural communities and claims that such financing is useful in terms of spreading consumerism and materialism, raises false anticipations and discontent in the long run. On the contrary, an ethical system based on Islamic doctrines of tawhid (Unity), equality (Adl), free will (Ikhtiyar) and obligation (Fard), as given by Naqvi (1994) are ideal to deal with poverty reduction.

Inequitable wealth distribution has been the main challenge for alleviating poverty within emerging economies. According to a report by the World Bank and Islamic Development Bank Group (2016), Islamic finance can thrive towards achieving Sustainable Development Goals of poverty alleviation and economic prosperity. It has been argued that egalitarian societal goals under Islam (Maqasid Ash-Shari'ah) can be achieved by reducing wealth inequalities, via encouraging ownership of small businesses over large enterprises (Chapra, 1992).

Epistemology of Islamic economics and finance can be traced to Sharia (Islamic law) doctrines which are construed mainly from the Holy Quran and Sunnah (Dadgar, 2011). Hassan & Aliyu (2017) defines Islamic finance as a paradigm built on Sharia compliance principles which restrict gambling, risk-taking, speculation, and complicated derivatives. Islamic finance system believes in socio-economic justice and is driven by the redistribution of wealth (Hayat, 2009). According to Ahmed (2007), while the conventional system emphasizes more on debt financing, Islamic finance is inclined towards ownership or equity financing linked with the company’s tangible assets. This is central to sharing and transfer of risk as the ownership of asset translates into the transfer of risk (Alzahrani & Megginson, 2017).

The Islamic financial model for poverty alleviation can be broadly categorized into 2 classes based on profit. Zakah, Sadqa, Waqaf and Qard-e-Hassan are some examples of charity based products. The objective of the paper is to focus on profit based products under the following distinct financing modes:

1. Trade Based (Musawamah, Murabahah, Salam, Istisna)
2. Partnership Based (Musharakah, Mudarabah)
3. Rental Based (Diminishing Musharakah, Ijarah)
The untapped opportunities for sustainable growth and sustainable development within SMEs can be achieved through the risk sharing system under Islamic finance. Islamic finance norms will have the following utility for SMEs:

1. Prohibition of Interest or ‘usury’ – facilitating greater financing through equity and trade, rather than debt. Investments in infrastructure and equipment will increase since the cost of capital is linked with the risk of owning a particular ‘real’ asset.

2. Limiting excessive risk – the absence of speculation would mean both Islamic banks and SMEs are made fully aware of the result of transactions.

3. Prohibition of trade uncertainties – for sale transactions, quality and quantity of asset will be known and future transactions will be prohibited thereby reducing the risk from fluctuating market prices of products.

4. Ownership of asset - SME investments in the county will grow when Islamic banks will be co-owners in the business. Products such as Musharakah and Mudarabah can be used to cater to risk sharing requirement through participation by the Islamic banks.

5. Asset type and its use – illegal and prohibited products will not be financed. Islamic banks can provide Murabaha and Ijarah facility to purchase equipment and other fixed asset.

Keeping into consideration the above, the purpose of this paper is to empirically observe inclination of Islamic banks and institutions towards SME financing leading to an improvement on both micro and macro level. The paper highlights reasons as to why financing to SMEs by Islamic Banks has not been increasing in proportion to their counterparts.

2. Literature Review

The significance of SMEs for emerging economies such as Pakistan in terms of generating employment opportunities and reducing poverty through income redistribution cannot be overlooked (OECD Policy Brief, 2004). While discussing on SMEs contribution to poverty reduction, Beck, Kunt & Peria (2004) mentions enhanced competition and innovation generated through entrepreneurship, better productivity in small scale production as compared to corporates and labor-intensive nature of SMEs which leads to increased employment. Discernibly, contrasting views in favor of large firms are also available in the literature.

Financial constraints obstruct SME growth as per different studies (Beck et. al., 2005; Torre et.al, 2010). A study by Abe, Troilo & Batsaikhan (2013) used data of South Asian countries from World Bank and concluded that within emerging economies, financing is the foremost constraint for SMEs growth and survival. In actual, it is the perception of SMEs by financial institutions which poses a challenge for SMEs in securing financing (Woldie, Mwita & Saidimu, 2012). SMEDA report (2016) on Pakistani SMEs indicates that 85 percent of SMEs are owner financed and are functioning as proprietorship or partnership concerns. Since they are established through
the owner’s savings or informal financing, funds are a major impediment towards their expansion and growth. Emphasis on targeted assistance from international as well as governmental agencies to SMEs in developing countries has been observed for a while now. However, the irony is that such supported programs have achieved little in terms of addressing income inequalities and promoting SMEs.

World Bank (2008) defines poverty as a human state, where food, water, shelter, healthcare and education needs are unavailable to masses and it employs the Head Count Index (HCI) as the measure of poverty. As per the statistics provided by Social Policy and Development Centre (SPDC) Report (2017), during 2015-16, 38 percent of the total population in Pakistan was deemed as poor, which in absolute number was estimated to be 74 million people. In contrast to traditional poverty measures, SPDC report conceptualizes risk and vulnerability as key dimensions of poverty, with the justification that a household is vulnerable in terms of expected future losses due to risky events (Alwang et. al., 2001). To determine the extent of vulnerability to poverty, education and literacy level of the head and members of the household is utilized.

It has been observed that employees in the SME sector are not provided with basic facilities such as healthcare and family education, as part of their salary package. This is mainly because SMEs in Pakistan are themselves cash strapped. Hence, the adequate arrangement of credit and financing facilities for SMEs will not only enable their growth and expansion but in turn will also lead to owners providing better emoluments and working conditions for their employees (Khan, Awang & Zulkifli, 2013). Loans will lead to enterprise development, thus causing trickle-down effect towards social benefits like health and education (International Finance Corporation Report, 2011) thereby decreasing SMEs vulnerability to poverty.

Islamic banks can play a vital role in the growth and development of the SME sector and alleviation of poverty by providing small loans especially to the small enterprises with and without the collateral requirement. Aliyu et. Al, (2017) states that the ideology behind Islamic financing is guided by the broad notion of ‘Maqasid Ash Sharia’, that is societal well-being, which drives Islamic institutions to offer products for growth and progress of businesses. Islamic Finance products like Musharakah and Mudarabah emphasize on profit and loss sharing ensuring equitable distribution of wealth.

Hassan & Sirajo (2016) agrees that Islamic financing leads to income creation and redistribution through the prohibition of interest and supports trade and entrepreneurship through transparency in risk and return sharing. Studies (Woldie, Mwita & Saidimu, 2012; Seo, 2017) have supported that SMEs can perform better towards economic development provided that special equity financed and risk shared instruments are financed by institutions. These way small businessmen are able to materialize their small business plans into action thereby creating employment opportunities and increasing their own standard of living as well by providing better food, water, shelter, healthcare and education facilities to their families (Islamic Development Bank report, 2015).In
comparison to conventional banking, studies (Dridi & Hasan, 2010; Khalid, Kim & Alsmadi, 2016; Aliyu et al., 2017) have established empirically that when compared to conventional financing, Islamic financing is resilient against the financial crisis, as the former is based on real asset-based financing.

Small businesses in Pakistan enunciate sensitivity to religion and are generally oriented towards Islamic financing as compared to conventional products (Rafay & Farid, 2017). Islamic banks should realize this opportunity and capitalize on them, which so far has not been achieved. As per State Bank of Pakistan’s Islamic Banking Bulletin (September 2017), a meager 3.1% of total Islamic banking assets are employed with SMEs, as compared to 71% of corporate financing by Islamic banks.

To support the SME sector and encourage financing, government and regulator have been playing their role across emerging economies. Chowdhury, Azam & Islam (2013) proves from their study conducted on Bangladeshi SMEs that a government-sponsored fund can assist SMEs in setting up their businesses. Reinforcement of bank to SME relationship and the intervention of regulator have been suggested to encourage SME financing and make them self-sufficient (Abe, Troilo & Batsaikhan, 2013). A study conducted by Huda (2012) in Indonesia provides a recommendation for government to support SME Islamic financing. The government can play the role of a strategic partner in identifying prospective SMEs spread across the country, develop indigenous credit scoring for business valuation in association with the academia, assisting banks to evaluate SME’s risks.

In Pakistan, Federal Cabinet of Pakistan in 2007 approved the first SME Policy, realizing their potential which prompted commercial banks to extend advances to SMEs. However, even after a decade, SME led economic growth is yet to be witnessed since SMEs remain largely excluded from the financial system. SBP recently announced a refinance scheme under Working Capital financing, at a subsidized interest rate to encourage accessibility of capital to SMEs (SBP Circular, December 2017). In addition, in 2016, SME financing targets were assigned to commercial as well as Islamic banks for the very first time by SBP with the aim of sector development (Infrastructure, Housing & SME Finance Department Report, 2017).

From the above discussion, it is evident that restriction on the availability of funds by conventional sector towards SME can be capitalized upon by the Islamic financing institutions that have the ability to spur development, growth and overall improvement in the standard of living, due to their risk sharing structure of funding. The focus of the paper is hence restricted to evaluate four key developmental challenges of poverty, inequality, health and education, also part of UN drafted Sustainable Development Goals (SDGs). We intend to observe if Islamic financing institutions prefer to lend to SMEs which can lead to an improvement in these four highlighted areas. In the process, we also intend to cover on issues which pose a challenge in mobilizing financing to SMEs.

3. Research Methodology

The cross-sectional study is conducted under descriptive research design to highlight whether Pakistani Islamic banks take into account element of poverty
alleviation while offering Islamic financing products to SME customers and in their view whether or not poverty can be eliminated by offering SME loans. The study used the sample of five Islamic banks operating in Pakistan as well as Islamic windows of commercial banks. A structured questionnaire was prepared and administered online to employees of all Islamic banks and Islamic windows of commercial banks, which were either working directly in SME function or had some functional relation with the SME department.

Questionnaire consisted of seven sections, i.e. respondent profile, descriptive questions to evaluate the current status of SME financing by Islamic banks, Role of SME loans offered by Islamic banks on poverty alleviation, section four to section seven consisted of questions on four indicators of poverty alleviation i.e. Income Improvement, Children Education, Health Care and Business Growth. For respondents’ profile and descriptive questions, ratio analysis and percentage analysis were used. However, five points Likert scale that ranged from 1=strongly agree to 5=strongly disagree was used to collect data on income improvement, children education, health care, and business growth. The questionnaire was carefully designed to avoid ambiguity and bias.

Since it was difficult to calculate the number of employees working directly in SME function or had some functional relation with the SME department, therefore non-probability purposive sampling was used. Data collection was carried out online for a month (April 2018), phone calls and emails were made to encourage participation. At the end of the month, 63 complete questionnaires were considered for analysis. Due to the purposive sampling response rate was not calculated. Questionnaires were disseminated across different branches of Islamic banks and Islamic windows of commercial banks, however, branch managers were seen reluctant in sharing information and filling out a questionnaire. As a future extension to the study, sample size can be increased, also focusing more on data collection from other cities.

4. Analysis & Results

The data analysis comprised of descriptive statistics using percentages and frequencies to present the major characteristics of respondents as well as the current state of SME loans provided by Islamic banks and Islamic windows of commercial banks. OLS regression was used to analyze the role of SME loans on Income Improvement, Children Education, Health Care and Business Growth, which are used as indicators of poverty alleviation in the current study.

5. Respondents' Profile

Table 1 provides a summary of respondents, most of the respondents were males constituting eighty-seven percent (87%), while remaining thirteen percent were (13%) were females. Seventy-six percent (76%) of respondents were in between age bracket of 21-40, while eleven percent (11%) was seasoned bankers above the age of 50. Reflecting
exactly to their age bracket, sixty-seven percent (67%) of respondents were working on middle-level positions, while sixteen percent (16%) were working on senior-level positions. Since most of the respondents were working on senior and middle-level positions, therefore eighty-seven percent (87%) of respondents were having working experience of more than three years. As far education of respondents was concerned, the majority of them i.e. seventy percent (70%) were masters, whereas eighteen percent (18%) and nine percent (9%) were graduates and MS/Ph.D. respectively.

Table 1: Characteristics of Respondents

<table>
<thead>
<tr>
<th>Demographic Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>55</td>
<td>87</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-30</td>
<td>24</td>
<td>38</td>
</tr>
<tr>
<td>31-40</td>
<td>24</td>
<td>38</td>
</tr>
<tr>
<td>41-50</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Above 50</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduate</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>Masters</td>
<td>44</td>
<td>70</td>
</tr>
<tr>
<td>MS/PhD</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Management Level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Middle</td>
<td>42</td>
<td>67</td>
</tr>
<tr>
<td>Senior</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Work Experience</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-3</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>4-6</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>7-9</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td>10-12</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Above 12</td>
<td>23</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Authors calculation

6. SME Loans by Islamic Banks-Current Position

Before regressing variables to measure the impact of SME loans on them, we asked respondents about the current position of SME loans provided by Islamic banks and Islamic windows of commercial banks, some key findings are presented in Table 2, 3 and 4.
Seventy-eight percent (78%) of bankers prefer to provide loans to SME clients for working capital requirements and machinery. Trading (10%), Agriculture (9%) and Service Companies (7%) remained the top three sectors preferred by bankers to advance loans to SME clients, however 14 other sectors were in range of five to six percent (5-6%), which means bankers do not have strong sectoral preference, rather other factors are considered while advancing loans. Further, thirty-seven percent (37%) of bankers preferred companies as SME clients. Study findings also indicate that bankers preferred sole proprietors (30%) in comparison to partnerships (14%) for disbursing loans.

Table 2: Client Preference by Islamic Bankers

<table>
<thead>
<tr>
<th>Business Preference</th>
<th>Trading (10%)</th>
<th>Agriculture (9%)</th>
<th>Service Concern (7%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership Pattern Preference</td>
<td>Company (37%)</td>
<td>Sole Proprietor (30%)</td>
<td>No Preference (19%)</td>
</tr>
<tr>
<td></td>
<td>Partnership (14%)</td>
<td>Machinery &amp; Equipment (43%)</td>
<td></td>
</tr>
<tr>
<td>Purpose Preference</td>
<td>Short term for Working Capital (35%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors calculation

Sixty percent (60%) bankers preferred to develop both loan and deposit relationships with SME clients, whereas twenty percent (21%) were interested in developing only advances relationship. As per practice, banks do not segregate income into segments such as SME, Corporate and Retail in financial statements; we inquired respondents about SME segment’s contribution to net income, total cost and risk. Seventy-eight percent (78%) bankers felt that SME segment’s contribution to net income and total cost is in between zero to forty percent (0-40%); whereas seventy-five percent (75%) were of the view that SME poses risk of zero to forty percent (0-40%) of total risk.

Table 3: SME Sector Contribution

<table>
<thead>
<tr>
<th>Involvement with SME Clients</th>
<th>Both deposit and Loan (60%)</th>
<th>Only loan (21%)</th>
<th>Only deposit (19%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to Net Income</td>
<td>0-20% (43%)</td>
<td>20-40% (35%)</td>
<td></td>
</tr>
<tr>
<td>Contribution to Total Cost</td>
<td>0-20% (40%)</td>
<td>21-40% (38%)</td>
<td></td>
</tr>
<tr>
<td>Contribution to Risk*</td>
<td>0-20% (43%)</td>
<td>21-40% (32%)</td>
<td></td>
</tr>
</tbody>
</table>
Most of the bankers (61%) felt that the SME sector has optimistic prospects and it will grow significantly, it is surprising to note that though over 90% of 3.2 million business enterprises in Pakistan are registered as SMEs (SME Policy, SMEDA), but forty-six percent (46%) bankers felt that SME is a small segment. Bank specific factors such as banks’ size, structure risk and borrowing cost, application processing time ranked top with a percentage of thirty-four percent (34%) as a major obstacle for customers in obtaining loans from banks, application processing time in extreme cases took more than three months. Further, Bank’s Risk Aversion (26%), lack of forecasted financial statements (19%), and inadequate Business Model/Plan (18%) were top three factors which made banks unwilling to provide loans to SME clients.

SME specific factors such as the improper book of accounts and non-creditworthiness were a second highest contributing obstacle with the percentage of twenty-nine percent (29%), followed by State Bank of Pakistan (SBP)’s regulations with the percentage of twenty-two percent (22%).

<table>
<thead>
<tr>
<th>Table 4: SME Prospectus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size &amp; Prospectus</strong></td>
</tr>
<tr>
<td>Big market, Optimistic prospects (32%)</td>
</tr>
<tr>
<td>Small market, Optimistic prospects (29%)</td>
</tr>
<tr>
<td>Big market, Pessimistic prospects (22%)</td>
</tr>
<tr>
<td>Small market, Pessimistic prospects (17%)</td>
</tr>
<tr>
<td><strong>Application Processing time</strong></td>
</tr>
<tr>
<td>1-30 days (38%)</td>
</tr>
<tr>
<td>31-60 days (41%)</td>
</tr>
<tr>
<td>61-90 days (16%)</td>
</tr>
<tr>
<td>More than 90 days (5%)</td>
</tr>
<tr>
<td><strong>Main Obstacles faced by Customers</strong></td>
</tr>
<tr>
<td>Bank Specific Factors (34%)</td>
</tr>
<tr>
<td>SME Specific Factors (29%)</td>
</tr>
<tr>
<td>SBP Regulations (22%)</td>
</tr>
<tr>
<td>Macroeconomic Factors (10%)</td>
</tr>
<tr>
<td><strong>The hesitation of Islamic Banks</strong></td>
</tr>
<tr>
<td>Bank’s Risk Aversion (26%)</td>
</tr>
<tr>
<td>Lack of forecasted financial statement (19%)</td>
</tr>
<tr>
<td>Inadequate Business Model/Plan (18%)</td>
</tr>
<tr>
<td><strong>Government’s Role</strong></td>
</tr>
<tr>
<td>Awareness/Education (41%)</td>
</tr>
<tr>
<td>Relaxing regulations (22%)</td>
</tr>
<tr>
<td>Tax incentive (21%)</td>
</tr>
</tbody>
</table>

Source: Authors calculation

7. Results
7.1 Reliability

Cronbach’s alpha is known as the coefficient of reliability/consistency and measures internal consistency among a set of items in a group (Santos, 1999). In the current study, internal consistency was checked among a set of different questions that form a variable. The value of coefficient lies between 0-1, the however the coefficient of 0.70 or higher is considered acceptable (Nunnaly, 1978). As per table 5, a reliability coefficient of all variables is well above 0.70 except for the role of SME loans, the reliability of the complete questionnaire was found to be 0.853, which is acceptable to precede the research with further test analysis.

### Table 5: Reliability Statistics

<table>
<thead>
<tr>
<th>S.no</th>
<th>Variable</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SME Loans from Islamic Banks</td>
<td>0.547</td>
</tr>
<tr>
<td>2</td>
<td>Income Improvement</td>
<td>0.917</td>
</tr>
<tr>
<td>3</td>
<td>Education</td>
<td>0.786</td>
</tr>
<tr>
<td>4</td>
<td>Health</td>
<td>0.881</td>
</tr>
<tr>
<td>5</td>
<td>Business Growth</td>
<td>0.793</td>
</tr>
<tr>
<td>6</td>
<td>All Variables</td>
<td>0.853</td>
</tr>
</tbody>
</table>

Source: Authors calculation

ii. Mean, Standard Deviation & Correlation

Table 6 exhibits mean, standard deviation, and correlation of four variables (Poverty Indicators) i.e. Income Improvement, Education, Health, and Business Growth with Role of SME loans provided by Islamic banks or Islamic windows of commercial banks. The correlation for all four was significant and ranged from 0.25 to 0.40, which is considered to be moderate and acceptable to proceed with regression analysis.

### Table 6: Mean, Standard Deviation, and Correlation

<table>
<thead>
<tr>
<th>S.n</th>
<th>Variable</th>
<th>Mean</th>
<th>S.D</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SME loans</td>
<td>4</td>
<td>0.50</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Income Improvement</td>
<td>3.65</td>
<td>0.80</td>
<td>0.354**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Education</td>
<td>3.35</td>
<td>0.88</td>
<td>0.320*</td>
<td>0.740*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Health</td>
<td>3.10</td>
<td>0.87</td>
<td>0.248*</td>
<td>0.680*</td>
<td>0.802*</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Business Growth</td>
<td>3.65</td>
<td>0.70</td>
<td>0.379**</td>
<td>0.686*</td>
<td>0.569*</td>
<td>0.430*</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)**

* Correlation is significant at the 0.05 level (2-tailed)

Source: Authors calculation
iii. **Multiple Regression**

We regress the role of loans provided by Islamic Banks or Islamic windows of commercial banks in reducing poverty over four variables, which are explanatory variables in our study. Our main alternate hypothesis is as follows:

\[ \text{HA: Business Growth, Health, Income improvement and Education explains variation in the level of poverty for Islamic banking SME customers. (model testing)} \]

Regression results indicate that R square is 40% (adjusted R square: 36%) which indicates the model fit and is also called the coefficient of determination. This also indicates that 60% variation in poverty is due to other factors not part of this model. In other words, we can say that 40% variation in the main variable of interest poverty is caused due to business growth, health, income improvement and education.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>238.621</td>
<td>4</td>
<td>59.655</td>
<td>9.6</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>357.428</td>
<td>58</td>
<td>6.163</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>596.049</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Poverty  
b. Predictors: (Constant), Business Growth, Health, Incomeimprov, Education*

On the basis of ANOVA results, the overall model is significant (F-Statistics = 9.680 and Sig. < 0.05). We can accept our alternate hypothesis that all four independent variables are causing variation in poverty level of Islamic bank customers.

**Table 8: OLS Regression estimates**

<table>
<thead>
<tr>
<th>Variables</th>
<th>8.250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>(1.765)</td>
</tr>
<tr>
<td>Income Improvement</td>
<td>-0.382***</td>
</tr>
<tr>
<td>(0.136)</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>-0.128</td>
</tr>
<tr>
<td>(0.137)</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>0.112</td>
</tr>
<tr>
<td>(0.125)</td>
<td></td>
</tr>
<tr>
<td>Business Growth</td>
<td>0.198</td>
</tr>
<tr>
<td>(0.124)</td>
<td></td>
</tr>
</tbody>
</table>

Standard errors are given in brackets.  
*** indicates significance at 1 percent.  
Source: Author’s calculations

Table 8 above indicates results from pooled regression. Out of four explanatory variables, only income improvement is statistically significant at a 95 percent level of confidence. When the income level of SME customers improves, poverty reduces by 38.2 percent. The other three variables are found to be statistically insignificant hence we can
say that variables are not jointly significant in explaining the level of poverty within Islamic banking SME customers.

8. **Conclusion**

The study was conducted with the objective of examining the perspective of Islamic banks on SME loans and influence of such loans on poverty alleviation. Four key areas of poverty alleviation that is income improvement, education, health and business growth were questioned with regards to the provision of SME loans.

Contrary to the general belief, that SME is a neglected sector of the economy in terms of credit disbursements, findings from the study indicate that Islamic banks (and Islamic windows of commercial banks) prefer to provide SME loans for working capital requirements and acquisition of machinery. Sole proprietorships are preferred over partnership concerns and almost 60% of respondents prefer to have a simultaneous deposit and loan relationship with SME customers as they consider SME as a strategic sector of the economy. However, the bank’s internal risk aversion policies act as the main hindrance in disbursing loans to SME clients. Of the four poverty alleviation indicators, business growth reported the highest correlation with SME loans, followed by improvement in the general income level of SME owners. Mean response for these four variables was between scale 3-4 which indicates that respondents agree that Islamic financing plays an instrumental role in improving the level of income, health and education of the SME owners and their families, thereby resulting in growth of the business.

Study findings have significant implications for regulators and especially for financing institutions which will encourage them to advance further loans to SMEs with the objective of improving their financial stability. On the other hand, regulators can take into consideration hindrances identified by respondents, to facilitate greater Islamic financial inclusion of SMEs. The study, however, has certain limitations as only Islamic banker perspectives have been taken into account. A similar analysis from SME customer’s side can provide further insight into how SME loans assist in alleviating poverty. Secondly, due to the unavailability of the sampling frame, purposive sampling has been employed. Hence findings cannot be generalized. Progression of this study will be to include more variables of poverty alleviation and consider the variables from the viewpoint of SME customers.

**References**


Empirical Evaluation and Effect of Training & Staff Development

By
Malik Shahzad Shabbir

Abstract
This study investigates the effect of training and staff development on the financial and non-financial performance of the Islamic financial institutions in Nigeria. The study employs quantitative approach making use of questionnaire. However, descriptive statistics, correlation, regression and ANOVA were used to evaluate the perception of respondents. It is observed that the presentation of the Islamic banks has been improved through training and staff development most especially on the key products of the organizations. The findings of this research work will help the management of the selected organizations to evaluate and determine the areas, where improvements through training can be done and planning for the development and implementation of effective training and staff development needs. It will lead to increase the performance of the organizations and also serve as a source of references for the future researchers and guide to the authorities in the banking industry.

Keywords: Training & Staff Development, Organization’s Performance, Islamic Financial Institutions, Nigeria.

1. Introduction
Employee is the life wire of any Organization. The growth and development of any organization depends on the employees and the management level. This is among the reasons why top management realized the importance of investing in training and development for the sake of improving employee performance. Improved capabilities, knowledge and skills of the talented workforce proved to be a major source of competitive advantage in a global market (Amir and Amen, 2013). Employee handles all
the jobs in any organization such as materials sourcing, production, administration, finance and marketing. Therefore, without proper training and staff development, employee will not be able to carry out their assigned task effectively. Due to fast growing of technology, companies are now facing new challenges on the ways and manners tasks can be performed.

According to Neelam, et al (2014), performance refers to the accomplishment of something or mere working effectiveness. Organizational performance is attained through good staff performance while staff performance is realized through effective training and staff development. This means, there is a relationship among organizational performance, employees’ performance and training. Researchers in the past had worked on this topic both locally and internationally. Yet there is still a gap to fill on this study. Most researches conducted on this topic were carried out in foreign countries and not in Nigeria. The ones conducted in Nigeria mostly were not on the Islamic financial sector. This study intends to cover Nigerian financial sectors with special interest in full fledge Islamic bank and Islamic fund managers. For thisreason Jail Bank and Lotus Capital have been chosen.

The findings of this research work shall be helpful in giving information as to the significance of training and staff development to employee and organizations in relation to their performances. Also it will help the selected organizations to really understand the rate at which training and staff development affects managerial routine. The study shall also be helpful to incoming researchers that would like to explore more on this study especially when there are more Islamic banks and fund managers in the country. It will also serve as a source of literature review for the future researchers and a guide to the authorities in the banking industry. More importantly since the development of Islamic Banking is at its infancy stage in Nigeria, the findings of the study shall has a remarkable role to play in this regard.

2. Literature Review

The study used qualitative approach since the subject matter focused on human behavior. The study used primary data. Neelam et. al (2014) conducted a research on the impact of training and development on employee’s performance and productivity, a case study of United Bank Limited Peshawar City, of Pakistan. The study was quantitative in nature. The importance of training and development as regards to organizational performance was also emphasized in a research conducted by Franklin, et. al (2014) on ESCON Consulting Limited; Abdul Hameed and Aamer, (2011) conducted a research on employee development and its effect on employee performance; Ameeq and Furqan, (2013) conducted a research on impact of training on employee development and performance in hotel industry Lahore, Pakistan; Raja et.al (2011) carried out a research on the impact of training and development on organizational performance; and Michael, (2014) conducted a research on impact of organization effectiveness on training and development; James and Daniel, (2014) conducted a study on the effects of training on health workers performances in Siaya county, Kenya;

Despite a lot of researches that have been conducted on the effect of training and staff development on organizational performance, there is evidence that research in this area is promising. Most of the studies reviewed were carried out outside Nigeria while
some were done outside the financial sector. Even those done within the shore of Nigeria and within the financial sector used conventional banks as case studies. The study carried out by Victor and Jonathan, (2013) was focused on First Bank of Nigeria which is a conventional banking institution. This study is to focus on Islamic bank and financial institutions in Nigeria. Therefore, the study has chosen the two existing Islamic bank and fund manager in the country. These are Jaiz Bank Abuja, Nigeria and Lotus Capital Lagos, Nigeria. The study would like to examine how training and staff development will affect organizational performance in these two Islamic organizations considering their nature and mode of operations.

3. Research Method

A questionnaire is designed for this study in order to collect the data. The questionnaire was divided into three sections. Section A had to do with demographic information of the respondents. Section B and C contained closed-ended questions. Section B had to do with statements which focus on the respondents rating of effect of training and staff development on financial performance of their organizations. While section C was concerned with statements which focus on the respondents rating on the effect of training and staff development on non-financial performance of their organizations. Also for section B and C psychometric scales were used by the respondents to present their views;

- **SA** - Strongly Agree
- **A** - Agree
- **U** - Undecided (Neither Agree nor Disagree)
- **D** - Disagree
- **SD** - Strongly Disagree

Our target respondents belong to Jaiz Bank and Lotus Capital in their various head offices. The head offices of the two institutions were selected because they do not have enough branches for now. Their operations are majorly carried out from their head offices. For the purpose of this study convenience sampling is employed. One hundred and fifty (150) questionnaires were administered; one hundred (100) copies were duly completed and returned.

**Table 1: Distribution of respondents by Gender**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Valid Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>71</td>
<td>71.0</td>
<td>71.0</td>
<td>71.0</td>
</tr>
<tr>
<td>Female</td>
<td>29</td>
<td>29.0</td>
<td>29.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research’s survey (output from SPSS)
Table 1 above shows that out of one hundred (100) questionnaires administered, 71 respondents are male while 29 respondents are female.

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Valid Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-30</td>
<td>19</td>
<td>19.0</td>
<td>19.0</td>
<td>19.0</td>
</tr>
<tr>
<td>31-40</td>
<td>74</td>
<td>74.0</td>
<td>74.0</td>
<td>93.0</td>
</tr>
<tr>
<td>41-50</td>
<td>7</td>
<td>7.0</td>
<td>7.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research’s survey (output from SPSS)

Table 2 above shows that 19% of the respondents are of age bracket 20-30, 74% are age 31-40 bracket while 7% are age 41-50 bracket.

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Valid Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>25</td>
<td>25.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Married</td>
<td>73</td>
<td>73.0</td>
<td>73.0</td>
<td>98.0</td>
</tr>
<tr>
<td>Separated/Divorced</td>
<td>2</td>
<td>2.0</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research’s survey (output from SPSS)

Table 3 above shows that 25% of the respondents are single, 73% are married while 2% are separated or divorced.

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Valid Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>HND</td>
<td>17</td>
<td>17.0</td>
<td>17.0</td>
<td>17.0</td>
</tr>
<tr>
<td>B. Sc.</td>
<td>44</td>
<td>44.0</td>
<td>44.0</td>
<td>61.0</td>
</tr>
<tr>
<td>M. Sc.</td>
<td>37</td>
<td>37.0</td>
<td>37.0</td>
<td>98.0</td>
</tr>
<tr>
<td>PhD</td>
<td>2</td>
<td>2.0</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research’s survey (output from SPSS)
Table 4 shows that out of 100 questionnaires administered, 17% of the respondents have HND, 44% have B Sc, 37% have M. Sc while 2% have PhD qualification.

**TABLE 5: Distribution of respondent by Present position**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Valid Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Level</td>
<td>26</td>
<td>26.0</td>
<td>26.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Asst. Bank Officer</td>
<td>23</td>
<td>23.0</td>
<td>23.0</td>
<td>49.0</td>
</tr>
<tr>
<td>Bank Officer</td>
<td>17</td>
<td>17.0</td>
<td>17.0</td>
<td>66.0</td>
</tr>
<tr>
<td>Senior Bank Officer</td>
<td>10</td>
<td>10.0</td>
<td>10.0</td>
<td>76.0</td>
</tr>
<tr>
<td>Asst. Manager</td>
<td>8</td>
<td>8.0</td>
<td>8.0</td>
<td>84.0</td>
</tr>
<tr>
<td>Deputy Manager</td>
<td>14</td>
<td>14.0</td>
<td>14.0</td>
<td>98.0</td>
</tr>
<tr>
<td>Manager</td>
<td>2</td>
<td>2.0</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Research’s survey (output from SPSS)

Table 5 above shows that 26% of the respondents are in Entry Level position, 23% are Asst. Bank Officer, 17% are Bank Officer, 10% are Senior Bank Officer, 8% Asst. Manager, 14% Deputy Manager while 2% are Manager.

**Table 6: Working experience in the present employment**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Valid Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1year</td>
<td>21</td>
<td>21.0</td>
<td>21.0</td>
<td>21.0</td>
</tr>
<tr>
<td>2-5years</td>
<td>61</td>
<td>61.0</td>
<td>61.0</td>
<td>82.0</td>
</tr>
<tr>
<td>6-10years</td>
<td>11</td>
<td>11.0</td>
<td>11.0</td>
<td>93.0</td>
</tr>
<tr>
<td>11-20years</td>
<td>7</td>
<td>7.0</td>
<td>7.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Research’s survey (output from SPSS)

Table 6 above shows that 21% of the respondents have 0-1year working experience in their present employment, 61% have 2-5 years, 11% have 6-10 years, while 7% have 11-20 years working experience.

- **Hypothesis Testing**

  Hypothesis 1

  Ho: Training and staff development does not significantly affect the financial performance of the organizations.

  Generally, staff training and development has a positive effect on the profit after tax of my organization vs gender.
Residuals Statistics

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted Value</td>
<td>1.021</td>
<td>1.418</td>
<td>1.333</td>
<td>0.079</td>
<td>90</td>
</tr>
<tr>
<td>Residual</td>
<td>-0.418</td>
<td>0.780</td>
<td>0.000</td>
<td>0.467</td>
<td>90</td>
</tr>
<tr>
<td>Std. Predicted Value</td>
<td>-3.925</td>
<td>1.068</td>
<td>0.000</td>
<td>1.000</td>
<td>90</td>
</tr>
<tr>
<td>Std. Residual</td>
<td>-0.890</td>
<td>1.660</td>
<td>0.000</td>
<td>0.994</td>
<td>90</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Gender of the respondents

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.562</td>
<td>1</td>
<td>0.562</td>
<td>2.545</td>
<td>0.114a</td>
</tr>
<tr>
<td>Residual</td>
<td>19.438</td>
<td>88</td>
<td>0.221</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20.000</td>
<td>89</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), staff training and development has a positive effect on the profit after tax of my organization

b. Dependent Variable: Gender of the respondents

The hypothesis is tested at 5% level of significance with 1 as the degree of freedom.

F Statistics = 0.011

- **Decision Rule**

Reject H₀ if F cal > F tab otherwise accept H₀

The coefficient of determinant R square showed that explanatory variables approximately less than 10.3% of the relationship between the effect of training and staff development on the profit after tax of the organization and gender with impact significant at 0.05% level of significance and (2.545) computed value was greater than the table value of 0.114. Therefore H₀ is rejected since F cal = 2.545 > 0.114 it means that “there is substantial association exist between gender and training and staff development. Based on the above analysis, the null hypothesis (H₀1) is rejected while the alternative hypothesis is accepted. Therefore, this means that training and staff development significantly affect the financial performance of the organizations.

**Hypothesis 2**

Ho: Training and staff development does not significantly affect the non financial performance of the organizations.

b. Dependent Variable: Generally, through training and staff development on promotion and advertisement, the organization products have been widely accepted by Nigerians.

Versus Educational Background of the respondents
Regression

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimension</td>
<td>1</td>
<td>0.321*</td>
<td>0.103</td>
<td>0.093</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Generally, through training and staff development on promotion and advertisement, the organization products have been widely accepted by Nigerians.

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T- test</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>2.133</td>
<td>0.367</td>
<td>5.804</td>
<td>0.000</td>
</tr>
<tr>
<td>Generally, through training and staff development on promotion and advertisement, the organization products have been widely accepted by Nigerians.</td>
<td>0.296</td>
<td>0.093</td>
<td>0.321</td>
<td>3.184</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Educational Background of the respondents

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>7.396</td>
<td>1</td>
<td>7.396</td>
<td>10.138</td>
<td>0.002*</td>
</tr>
<tr>
<td>Residual</td>
<td>64.204</td>
<td>88</td>
<td>0.730</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>71.600</td>
<td>89</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Generally, through training and staff development on promotion and advertisement, the organization products have been widely accepted by Nigerians.

b. Dependent Variable: Educational Background of the respondents

The hypothesis is tested at 5% level of significance with 1 as the degree of freedom.

- **Decision Rule**

Reject Ho if F cal > F tab otherwise accept Ho
Ho is rejected since $F_{cal} = 10.138 > 0.002$ it means that “there is substantial correlation exist between educational background and training and staff development.

From the above analysis indicates that alternative hypothesis is accepted whereas, null hypothesis is rejected. It is further elaborates that staff training and development have significantly affect the non financial performance of the organizations.

**Discussion**

It has discovered that staff training and development significantly affect the financial and non financial performance of the organizations. Two hypothesis were tested and the findings indicate that there is a positive relationship between training/staff development and financial performance of Islamic financial institutions ($r=2.545, p=0.114$). Also, the results from the data analysis indicated that significant relationship exist between training/staff development and non financial performance of Islamic financial institutions $r$ value ($10.138$) is greater than $p$ value ($0.002$).

Neelam, et al (2014), carried out research on the impact of training and development on employees’ performance and productivity. Our statistically results are similar to Neelam et al. The difference is that Neelam; et al (2014) research work examined the impact of training and development on employees’ performance and productivity while this research work examined the impact of training and staff development on the financial and non financial performance of Islamic financial institutions in Nigeria. Falola, et al (2014) findings are similar to this research finding except that he made use of selected conventional banks in Lagos State as case studies while this research work made use of two Islamic financial institutions (Jaiz Bank Plc and Lotus Capital Limited) as case studies. Furthermore, most of the findings of the previous research works are in line with the findings of this study.

**Conclusion**

Analyses carried out so far on this study were based on the effect of training and staff development on the organizational performance of Islamic financial institutions in Nigeria. Training and staff development have been described as the major tools for improvement of employees’ performance when carrying out their respective roles. Studies showed that organizations that have experienced employees and well trained employees shall be able to meet their targets and at the same time achieve their visions and mission statements. Also it is proven that training improves employees’ performance on one hand and has a positive effect on the financial and non financial performance of organizations on the other hand. Below are some important findings by this study:

- 64% of the respondents strongly agree that the training they received has positive impact on their performance.
- 45% of the respondents agree that staff training and development has a positive effect on the profit after tax (PAT) on their organization while 37% strongly agree.
- 35% of the respondents agree that through staff training and development their organizations have been able to reduce overhead cost while 25% strongly agree.
43% of the respondents agree that training conducted on the organization products led to increase in the company turnover, while 32% strongly agree.

50% of the respondents agree that training and staff development brings about growth in shareholders’ wealth while 34% strongly agree.

46% of the respondents agree that through staff training and development their organizations have been able to meet budgetary target, while 28% strongly agree.

52% of the respondents agree that training and staff development in major core areas of their organizations lead to improvement in the Net Assets, while 31% strongly agree.

47% of the respondents agree that training and staff development on the organization products leads to increase in market share, while 44% strongly agree.

52% strongly agree that constant training and staff development motivates the employee to give more of their best to the organization, while 36% agree.

41% of the respondents agree that through training and staff development on promotion and advertisement, their organizations products have been widely accepted by Nigerians, while 36% strongly agree.

40% of the respondents agree that through training and staff development, their organizations has been able to achieve mission statements, while 39% strongly agree.

48% of the respondents agree through training and staff development, the organization has been able to achieve organizational objectives, while 33% strongly agree.

41% of the respondents agree that Management has been able to achieve and maintain a well structured organization and experienced employee through training and staff development, while 41% strongly agree.

47% of the respondents agree that training and staff development has improved the general well being of the staff and management in terms of knowledge enrichments, while 38% strongly agree.

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Bosnia Herzegovina

Recovering from the disastrous Bosnian War in the 1990s, which was part of the breakup of Yugoslavia, Bosnia at the turn of the millennium began re-establishing itself as a Muslim-majority state, one of the very few in Europe. The country today has a share of about 51% of its around 3.8 million population that follows the Islamic faith. The market for retail banking and financial services is, therefore, limited overall, and even smaller for the potentially Shariah compliant segment.

Bosnia has a transitional economy that relies heavily on the export of metals, energy, textiles, and furniture as well as on remittances and foreign aid. Foreign banks, primarily from Austria and Italy, control much of the banking sector, though the largest bank is a private domestic one. With no proper regulations and only one dedicated Shariah bank, Bosnia struggles to bring its Islamic banking and finance industry to the next level.

Islamic Banking & Finance

In total, there are 23 banks operating in Bosnia. The country has both domestic as well as foreign-owned banks from Germany, Austria, Italy, Russia, Slovenia, and Turkey. Out of total, there is only one full-fledged Islamic bank: Bosna Bank International (BBI), which opened its doors in October 2000. The bank’s shareholders include the Islamic Development Bank (IDB), Abu Dhabi Islamic Bank and the Dubai Islamic Bank. The BBI is also Europe’s first full-fledged Islamic bank. BBI has 31 branches, with its headquarters located in Sarajevo. BBI holds 4.6% of the loan market and 3.8% of the deposit market.

Two years following its launch, BBI secured a permit for domestic payment transactions from the Banking Agency of the Federation of Bosnia and Herzegovina as well as a license for deposit insurance. BBI has been showing promising growth as the Islamic bank has achieved an average annual growth of 20% for the last decade, and is one of the fastest-growing banks in the country. The country is receptive to cooperation from other countries on the Islamic finance front. Last year, BBI set up a EUR 1 million (US$1.19 million) fund in partnership with the Malaysian government to support SMEs in the country. The fund will allow SMEs in the sectors of agriculture, food processing, construction and tourism to apply for funding. In April 2013, the Association of Islamic Economics, Banking and Finance was formed as a result of an Islamic finance conference in 2012. The association holds conferences not only to promote the industry, but also to stimulate discussions among stakeholders and address pertinent issues to move the Islamic finance segment forward.

Regulatory Environment

Bosnia’s Islamic banking and financial system is regulated under the Law on Banks, but the law does not recognize Shariah principles. The country’s sole Islamic bank, BBI, has had to find ways to accommodate the law whilst providing Shariah

Source: State Bank of Pakistan, Quarterly Islamic Banking Bulletin July-Sept 2018
compliant banking options for its customers. Amendments to accommodate Islamic finance were proposed and passed in the Lower House of Parliament twice, but the country still lacks an Islamic finance legislative framework because the proposals were blocked in the Upper House.

The government is in the process of adopting a new Banking Act based on Basel III standards in accordance with relevant EU legislation; however, the new law still would not accommodate Islamic banking, as it restricts banks from being involved in trade or mediation in trade, a prevalent feature in the Murabahah model.

**Takaful**

So far, there are no takaful companies in the country. BBI is looking at establishing one under its brand, as part of its ambition to enrich the spectrum of Islamic finance products in Europe.

**Conclusion**

The outlook of Bosnia’s Islamic finance industry remains positive based on economic growth projection and the fact that Islamic banking plays a very significant role in the promotion of new foreign direct investments. Islamic banking in Bosnia has increased influence despite regulatory constraints and Sarajevo now serves as a hub for Islamic finance in the South East Europe (SEE) region. Besides its Shariah compliance, BBI has succeeded in building several unique features, which help to create one of the strongest brands in the Bosnian finance industry.

Although Bosnia seems a good potential market for Islamic finance, there are constraints on market growth. One obvious way forward would be for conventional banks to open Islamic finance windows or counters providing Shariah compliant products.

**Sources of Information**

Central Bank of Bosnia website https://cbbh.ba/

www.islamicfinancenews.com


http://investinggroup.org/review/206/a-growing-market-for-european-banking-bosnia-herzegovina/
Book Review

Title: Islamic Banking: Growth, Stability and Inclusion
Editors: Nafis Alam and Syed Aun Raza
Publisher: Palgrave
Reviewed by: Dr. Salman Ahmed Shaikh

This book presents a discussion on three contemporary themes related to Islamic Banking. First is the resilient growth this sector has had across the world, especially since the beginning of twenty-first century. The growth momentum has been spurred by features of stability which has shown Islamic banking to be resilient during and after the financial crisis of 2007-2009. Furthermore, with vast majorities of people in the Muslim world having limited access to financial services together with a reluctance to use interest-based services presents a window of opportunity for Islamic banks to bring financial inclusion through greater outreach to serve the latent demand.

The content of the book is divided into several chapters. The first chapter introduces readers to existing research and literature in the field and highlights areas of potential scholarly development within Islamic banking studies. The chapter discusses the areas and issues that have been covered intensively in the recent literature, and also helps to identify the areas that have received relatively less attention. In Islamic banking, research areas such as growth, efficiency, determinants of profitability and risk management had generated greater scholarly research interest. Furthermore, investment performance analysis of passive and active portfolios, market efficiency analysis and event studies had also been done in the literature. But, the recent literature had relatively focused less on economic analysis of Islamic banking.

There is established amount of literature that presents the positive impact of banking development on economic growth, which attracts attention and debates whether Islamic banking would also have a similar impact and how Islamic banking could impact the economic stability? Thesecond chapter examines the impact of the development of Islamic banking on economic growth and volatility by using a sample of 21 OIC member countries having both Islamic and conventional banks for the period of 2007–2013. Results show that, even though Islamic banking is relatively smaller in size, it is found to be conducive to economic growth but does not impact economic volatility.
According to the Global Financial Development Report 2014, the proportion of adult population holding bank accounts in 25 out of 48 Organization of Islamic Cooperation (OIC) member countries stands below 20%. Part of the reason is Muslims’ voluntary exclusion of interest-based financial services. On average, 28% of adults in the OIC countries hold a bank account at a formal financial institution. On the other hand, only 7.7% of the poorest 40% people in the OIC countries borrow from financial institutions. Furthermore, in the OIC countries, like Guinea-Bissau, Gabon, Chad, Sudan, Syria, Mozambique, Gambia, and Iraq, microfinance outreach are not even catering to the 1% of the poor people in these countries. In 26 out of 36 OIC countries where sufficient data are available, it is found that not even 10% of the poor people are under the microfinance radar. Thus, this presents a challenge as well as an opportunity for Islamic banks to increase their outreach toward fostering inclusive finance in the OIC countries. The results in the fourth chapter show that Islamic banks are performing well in using marketing efforts to generate meaningful financial and nonfinancial performance. More awareness and greater attention to outreach is needed to spur the growth in the sector further.

The book also discusses the Islamic bank’s retail financing, instruments, and operations. The discussion demonstrates that it is essential to have a banking system based on Shariah principles that fulfill the needs of Muslim consumers. The chapter examines the various personal financing products, their underlying Islamic contracts, and their computational mechanisms with appropriate examples. It also critically evaluates the products of Islamic bank’s retail financing. The availability of various personal financing instruments in Islamic banks allows Muslim consumers to achieve their financing needs. Moving forward, it is suggested that a greater variety of instruments that invite fewer Shariah issues must be offered in the market to ensure a more vibrant Islamic banking system.
## Private Sector Credit Indicators in Selected Muslim Majority Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Private Sector Credit to GDP</th>
<th>Private Sector Credit from Banks to GDP</th>
<th>Private Sector Credit from NBFIs to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>3.60</td>
<td>3.49</td>
<td>0.10</td>
</tr>
<tr>
<td>Albania</td>
<td>34.72</td>
<td>34.60</td>
<td>0.12</td>
</tr>
<tr>
<td>Algeria</td>
<td>23.02</td>
<td>23.00</td>
<td>0.02</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>26.57</td>
<td>26.49</td>
<td>0.08</td>
</tr>
<tr>
<td>Bahrain</td>
<td>73.72</td>
<td>73.72</td>
<td>-</td>
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<tr>
<td>Bangladesh</td>
<td>44.45</td>
<td>44.26</td>
<td>0.18</td>
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<tr>
<td>Bosnia</td>
<td>53.18</td>
<td>53.18</td>
<td>0.00</td>
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<tr>
<td>Brunei</td>
<td>44.30</td>
<td>43.57</td>
<td>0.74</td>
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<tr>
<td>Egypt</td>
<td>34.15</td>
<td>34.15</td>
<td>-</td>
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<tr>
<td>Indonesia</td>
<td>39.39</td>
<td>33.11</td>
<td>6.27</td>
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<tr>
<td>Iran</td>
<td>66.06</td>
<td>66.06</td>
<td>-</td>
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<tr>
<td>Iraq</td>
<td>9.21</td>
<td>9.17</td>
<td>0.04</td>
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<tr>
<td>Jordan</td>
<td>75.11</td>
<td>75.03</td>
<td>0.08</td>
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<tr>
<td>Kazakhstan</td>
<td>33.36</td>
<td>29.95</td>
<td>3.41</td>
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<td>Kuwait</td>
<td>103.77</td>
<td>103.77</td>
<td>-</td>
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<tr>
<td>Kyrgyz Republic</td>
<td>20.78</td>
<td>20.64</td>
<td>0.14</td>
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<tr>
<td>Libya</td>
<td>19.69</td>
<td>19.61</td>
<td>0.08</td>
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<tr>
<td>Malaysia</td>
<td>123.91</td>
<td>123.86</td>
<td>0.05</td>
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<td>Maldives</td>
<td>31.68</td>
<td>28.62</td>
<td>3.07</td>
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<tr>
<td>Morocco</td>
<td>63.83</td>
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<td>0.09</td>
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<tr>
<td>Nigeria</td>
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<td>15.66</td>
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<tr>
<td>Oman</td>
<td>75.56</td>
<td>75.52</td>
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<tr>
<td>Pakistan</td>
<td>16.51</td>
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<tr>
<td>Qatar</td>
<td>79.38</td>
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<tr>
<td>Saudi Arabia</td>
<td>57.98</td>
<td>57.98</td>
<td>-</td>
</tr>
<tr>
<td>Sudan</td>
<td>8.86</td>
<td>8.86</td>
<td>-</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>19.21</td>
<td>17.69</td>
<td>1.52</td>
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<tr>
<td>Tunisia</td>
<td>81.16</td>
<td>77.01</td>
<td>4.15</td>
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<tr>
<td>Turkey</td>
<td>69.85</td>
<td>65.74</td>
<td>4.12</td>
</tr>
<tr>
<td>UAE</td>
<td>85.89</td>
<td>85.89</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: World Development Indicator 2016
Note to contributors

Journal of Islamic Banking and Finance is an official publication of International Association of Islamic Banks Karachi, Pakistan. It is a refereed quarterly journal, as well as a pioneer in the field of Islamic banking and finance being published since 1984. It provides a forum for researchers, particularly in Islamic Banking and Finance, wishing to share their expertise with a vast intelligentsia in the form of articles, research and discussion papers and book reviews. Major areas of interest for the journal include: (i) Theoretical issues in banking and financial industry specially from Islamic perspective; (ii) Empirical studies about the Islamic banking and financial institutions; (iii) Survey studies on issues in Islamic banking and finance; (iv) Analytical studies of applied Islamic banking; (v) Comparative studies on Islamic and conventional banking systems; and (vi) Short communications and interviews investigating the perceptions of leading bankers and banking experts as well as policy makers.

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