

# **The Political Economy of Islamic Banking and Finance in the Muslim World: A Case Study of Pakistan**



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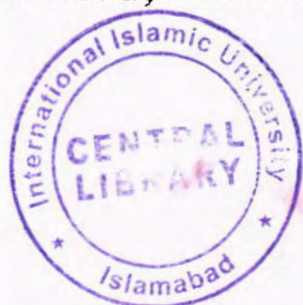
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**January, 2017**



Accession No TH:18635 by



PHD  
330  
KHP

Banks and banking - Religious aspects- Islam  
Political economy  
Islamic finance

# **The Political Economy of Islamic Banking and Finance in the Muslim World: A Case Study of Pakistan**

Thesis submitted in partial fulfillment of the requirement for the Degree of Doctor of Philosophy, at the Department of Politics and IR, Faculty of Social Sciences, International Islamic University Islamabad

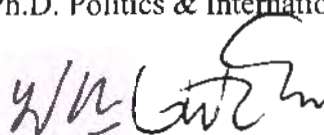
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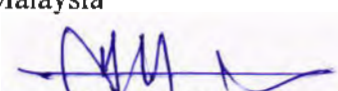
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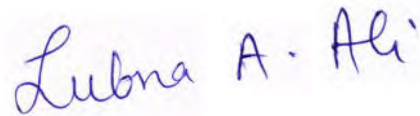
  
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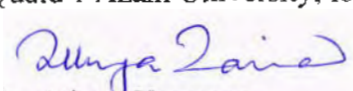
  
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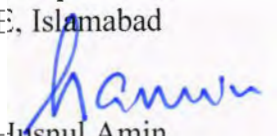
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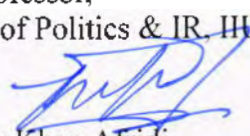
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## **Declaration**

I, Abdul Qayyum Khan, Registration No. 24-FSS/PHDP&IR/F08, student of PHD in Politics and IR at International Islamic University Islamabad, do hereby declare that this thesis, entitled “The Political Economy of Islamic Banking and Finance in the Muslim World: A Case Study of Pakistan” neither as a whole nor as part thereof, has been copied out from any source. It is further declare that I have carried out this research by myself and have completed thesis on the basis of my personal efforts under the guidance and help of my supervisors. I confirm that this thesis is the original work of the researcher except where otherwise acknowledged in the dissertation.

Abdul Qayyum Khan

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# Glosory of Terms

**Riba:** Any excess amount or benefit (than principal amount) given by the debtor for debt or kind

**Shari'a:** A set of instructions consists of the Holy Quran, Sunnah, Ijmah and Qiyas for every walk of life.

**Ijtihad:** Consists upon Ijmah and Qiys to innovate banking products according to instructions of Islam.

**Musharka:** A partnership agreement in which all partners contribute capital and work to share profit/loss.

**Mudaraba:** A partnership agreement in which some partners contribute capital and others contribute their competencies to share profit or loss according to an agreed ratio.

**Ijarah:** A lawful consideration as rent for hiring an asset or reward for hiring services.

**Salam:** A contract in which bank made advance payment for goods/services to be delivered at future date.

**Istisna:** A contract of credit sale that allows future payment for manufacturing goods for future delivery

**Muajjal:** A financing contract in which bank purchase goods to be sold to customer by showing the purchase price and profit margin.

**Bait-ul-Mal:** Finance

**Hadith:** The sayings of the holy Prophet Mohammad (PBUH). They may be defined as the narration of words and actions of the holy Prophet Mohammad (PBUH) and also of actions of his companions about which he remained silent and thereby tacitly approved them.

**Hisba:** The institution of the Islamic state to supervise the economic and social dealings of the polity.

**Ijarah:** An Islamic leasing contract.

**Ijarah-wa-Iqtina:** A form of hire purchase or lease contract in which the lessee gradually acquires ownership of an economic asset by paying its total value by installments.

**Riba:** Interest

**Riba al-fadl:** Interest on trading or barter transactions.

**Riba al-nashi'ah:** Interest on loan or financial transactions.

**Maysir:** Gambling, speculative activities similar to gambling

**Hikma:** Wisdom

**Istinbat al-ahkam:** Derivation of Shariah rulings

**Gharar:** Uncertainty

**Darurriyyat** = essentials (essentialities)

**Hajiyyat** = sami-essentials

**Tahsiniyyat** = comforts

**Sukuks** = Islamic financial papers of debt or securities holding claims and rights for the owner/holder.

**Din** = religion

**Nafs** = human life

**Nasl** = children

**Mal** = wealth  
**Aql** = intellect  
**Maqasid Al- Shari'a** = Objectives of Shari'a  
**Awqaf** = trust institutions  
**Waqf** = trust  
**Mukhat -i-Medina** = brother-hood developed by the Holy Prophet (PBUH) in Medina  
**Muhajir** = emigrant  
**Ansar** = local Muslim resident of Medina  
**Bi'r Ruma** = Ruma Well  
**Zakah** = One of the five pillar of Islam. Every Muslim is supposed to Pay 2.5% of his wealth annually beyond a certain limit prescribed by Islamic Shari'a. It is obligatory.  
**Nafaqat-i-wajaba** = obligatory spending on wife, children and parents (obligatory maintenance by relatives)  
**Aqilah** = indemnity for blood money  
**Wakala** = agency  
**Muzara'ah** = crop-sharing  
**Ijarah** = hire purchase  
**Hayat tayyiba** = to live a good life  
**Adl** = justice  
**Ihsan** = equity  
**Shaikh al Islam** = leading scholar of Islam  
**Qadis** = Judges of Islamic courts  
**Dawa** = call  
**IBF**= Islamic Banking and Finance  
**SBP**= State Bank of Pakistan  
**OIC**= Organization of Islamic countries  
**PLS**= Profit and loss sharing  
**SME**= Small and medium enterprise  
**R&D**= Research and development  
**CDFIs**= Community development financial institutions  
**ISIs**= Islamic Social Institutions  
**FSC**=Federal Shariat Court  
**SAB** =Shariat Appellate Bench of the Supreme Court of Pakistan  
**IDB** = Islamic Development Bank  
**IIFM**= International Islamic Financial Market  
**AAOIFI**= Accounting and Auditing Organization for Islamic Financial Institutions  
**IFSB**= Islamic Financial Services Board (Malaysia-based)  
**IRTI**= Islamic Research and Training Institute  
**CII**= Council of Islamic Ideology  
**MMA**= Muttahida Majlis-i-Amal  
**NGOs**= Non Gov. organizations

# Acknowledgment

All praises are to Almighty Allah who is the creator of all the creations and taught the men to speak. He tests people by different ways to teach them not to divert from Him even for a single moment. He ultimately completes things as He desires, and we are bound to explore in His hounity. It is Almighty Allah who gave me courage and patience to complete my dissertation. He helped me at each and every step during the completion of this study. Countless blessings of Allah on the Holy Prophet (PBUH), who is sent by Allah Almighty for the guidance of entire humanity till the Day of Judgment.

I am grateful to my supervisor Professor Dr. Humayon Dar for his valuable support and guidance during my thesis. I cannot forget his cooperation which he provided me at each and every step to complete it. He enabled me to collect my scattered thinking with the notion of opposition of Islamic Banking and Finance to be a paradigm. He helped me at such a crucial time when I had no way ahead. He is an authority in Islamic Banking and Finance nationally and internationally. His precious ideas, suggestions and criticisms were fresh in my mind at every step of the study. This made my thesis what it is now.

I am also thankful to my second Supervisor, Dr. Arshad Ali Bhatti, who always encouraged me to complete this task. He is an excellent coach who always transformed knowledge and research techniques to me. This is he who taught me to fly independently in the area of research. He particularly trained me for empirical research and analysis, an area, where generally, researchers hesitate to go.

I am also thankful to all the teachers and staff at IIIE especially Mr. Zaheer Ahmed, Program Coordinator, who extended help during the project. Thanks are due to my teachers, Dr. Sohail Mehmood, Ex- Dean, Faculty of Social Sciences, Dr. Ijaz Shafi Glani, Professor of Politics and I.R, Dr. Asad Zaman, Chancellor PIDE University, Islamabad, Dr. Ifthikar Adil, Lecturer at NUST, Islamabad, and Dr. Mumtaz Assistant Professor at COMSATS, Islamabad for their contributions during the completion of this research.

I express my profound sense of gratitude to my family and friends who have supported and encouraged me throughout the research work, particularly, the moral and spiritual support and guidance which I received from my (late) father, who remained worried for my shortcomings throughout his life. Finally, I am thankful to the higher education department, Azad Govt. of the state of Jammu and Kashmir (where I am serving as an assistant professor in Economics) which invested and financed about PKR. 4.00 million for completion of this study.

# Abstract

This dissertation explores three important aspects of Islamic banking and finance (hereafter IBF). First, attitude of key stakeholders: depositors/customers, general masses, religious scholars, Islamic political parties, employees of Islamic banks, officers State Bank of Pakistan and officers Ministry of Finance towards IBF. Secondly, factors responsible for converting IBF into a mass movement by boosting its adoption. Thirdly, some stakeholders are opposing the promulgation of IBF in Pakistan. Chapter 1 highlights the introduction and identifies gap in the area of research for Pakistan. Chapter 2 discusses the historical evolution of IBF in the Muslim World. Islamic concept of wealth accumulation is developed from divine sources of *Quran* and *Sunnah*. Chapter 3 focuses on the literature review in a thematic way. Chapter 4 traces out the linkages between IBF: A new paradigm in I.R. The IBF has a lot of scope due to the vast geography it covers and the huge population that is more than 1.6 billion Muslims in OIC. This chapter concludes that IBF is a mean to win friends by cooperation among the Muslim countries and other nations by interfaith dialogue. Chapter 5 discusses the data and methodology. We use online questionnaire to collect primary data of 1008 respondents. Further, our questionnaire is pre-tested before it is uploaded through establishing a website. We use descriptive analysis to explore the most important factors influencing political, economic, religious and social dimensions of IBF. Moreover, we use ordered logistic regressions to estimate the probability of adoption and non- adoption of IBF in Pakistan. In Chapter 6, we perform the descriptive analysis of each stakeholder group. We construct frequency tables, bar charts and histograms to explain our data. Our results show that despite the awareness of IBF, the said stakeholders are opposing the paradigm as it does not offer attractive, cheaper and need compatible products to customers and general masses. The Shari'a consistency of IBF is not supported by the majority of Ulema on the basis of its practices. Moreover, the religious forces of Pakistan are not aware of IBF opportunities such as political alliances, winning more assembly seats, job opportunities, dialogue with other nations, education and research. However, it is found that the religious consensus on IBF is possible by conducting conferences, establishing district boards and constituting dialogues among various sects of Ulema. The employees of Islamic banks, in general, lack in education and long run trainings, hence are unable to execute it properly. The IBF in Pakistan is suffering from the lack of political will and has been used by the successive regimes to achieve their political goals. Further, the bureaucracy opposes the implementation of IBF as they consider it a threat to their vested interests. Chapter 7 focuses on the logistic regression analysis. We conclude that majority of the Ulema demotivate their followers to adopt Islamic banking as they do not consider it truly Shari'a compliant. Similarly, no religious consensuses of ulema coupled with un-addressed social issues by IBF may decrease its adoption domestically and damage the cooperation among the Muslim world. Moreover, lack of political will coupled with opposition by the policy makers is a hurdle for the promulgation of IBF in Pakistan. Lastly, the unclear mechanism of IBF is the main hurdle faced by the employees of Islamic banking in its execution. Chapter 8 covers summary and conclusion along with policy implications.



# Chapter 1

## Introduction

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### 1.1: Background

Islamic banking and finance (hereafter IBF) is recently developed as an attractive field of research. It has a lot of scope due to the vast geography it covers and the huge bulk of population that amounts to more than 1.6 billion Muslims in the member countries of Organization of Islamic Countries (OIC) (see Ja-young, 2010). According to Islamic Financial Services Industry Report (2015), Islamic Financial Services Board (IFSB), The Islamic finance industry has increased from US\$ 1.79 trillion the end of 2013 to US\$1.87 trillion at the end of 2014 (see Islamic Financial Services Board, 2015). By September 2015, the total market share of Islamic banking assets and deposits is 11.2 percent and 13.1 percent respectively in Pakistan. The total number of Islamic banking branches increased to 1,783. Islamic windows of conventional banks increased to 1,013 in the reported quarter (see Islamic Banking Bulletin July-September 2015). Assets of Islamic banking in Pakistan are Rs.1.745 trillion with a growth of 7.4 pc during April to June 2016 and deposits reached Rs.1.461tr. by 9.3 percent growth (see the Banker Pakistan, September 3th, 2016). According to Edbiz Index (London-based Islamic financial advisory company) Pakistan ranks 9th position in the promotion, development and supporting IBF. The top eight countries are Iran, Malaysia, KSA, Bahrain, Kuwait, UAE, Indonesia and Sudan (see the Express Tribune, March 3rd, 2014).

Government of Pakistan conceptually supports the idea of Islamic banking and finance but no practical measures have been taken so far. The hospitable policies of the successive regimes could have paved the way for the popularity of Islamic Banking and Finance in Pakistan. Successive regimes in Pakistan manipulated the paradigm of IBF for their political goals. They did not bother to establish adequate institutional infrastructure and delayed the process of Islamization of the economy in Pakistan. They did not take measures to mobilize the internal and external resources for the popularity

of IBF in Pakistan. Hence political will is the missing element for the popularity of IBF in Pakistan (see Hassan, 2008; Ahmad, 2006; Ul Hassan, 2007; Kahf, 2004; Khan and Bhatti, 2006; Hanif and Iqbal, 2010). According to Edbiz Index (London-based Islamic financial advisory company) Pakistan ranks 9th position in the promotion, development and supporting IBF. The top eight countries are Iran, Malaysia, KSA, Bahrain, Kuwait, UAE, Indonesia and Sudan (See the Express Tribune, March 3rd, 2014).

The resistance to Islamic banking and Finance in Pakistan can be linked to lack of political will and religious motivation and guidance. Religious political parties did not play their role in mobilizing the masses for Islamization of the economy. The process of Islamization of the economy could not get momentum because of non-adequate religious and political forces. Neither Islamic political parties nor religious scholars created any continued pressure on the successive regimes and policy maker to adopt Islamic values and principles in policy formulation. Consequently, they did not pay attention to design policies according to the teaching of Islamic Shari'a (see Nadeem, 2010). However, religious scholars started demanding their share of power soon after the independence. Maulana Shabbir Ahmad Usmani demanded for a ministry and the appointment of a Sheikh al Islam (the leading scholar of Islam) having powers over the Qadis (Judges of Islamic courts) throughout the country in 1948. Similarly, Maulana Maududi demanded from the Constitution Assembly to make all legislation subject to Islamic Shari'a (see Hassan 2008). The religious scholars and Islamic political parties of Pakistan can take a lead from the Singapore Islamic scholars and religious teachers association which has announced to train Islamic religious scholars in Islamic banking and finance. The above association has organized a joint Shari'a advisers training program with the International Institute of Islamic Finance, Kuala Lumpur Malaysia (see Khan and Omar, 2008).

A lot of studies have linked the evolution of IBF to the desire by Muslims for Islamic socio-political and economic systems and a stronger Islamic identity. IBF is an ideology which is the result of the writings of Muslim scholars of the 20th century. It is a faith based concept subject to the divine guidance of Islam. It covers social, economic, as well as the political sphere of life. These studies consider the Islamic ideology and identity as the main driving force for the evolution of IBF in the world (see Warde,

2000; Zaher and Hassan, 2001; Shah, 2007; Rethel, 2007; Abraham, 2008 and Asutay, 2007).

Some studies have linked social mechanism of the Muslim masses behind emergence and evolution of IBF. The evolution of modern Islamic Finance is linked to resistance and opposition by Muslim masses against secular institutions and policies adopted by the colonial regimes. This opposition led to the creation of informal institutions in different colonized Muslim countries which resulted in to the emergence of contemporary IBF (see Haroon, 2004; Ariff, 1988; Nisar, 2007; Ahmad, 2008; Peled, 2001; Wiktorowicz & Farouki, 2000 and Zaher & Hassan, 2001).

Similarly another view is that financial crisis of the capitalism have created the room for the emergence of IBF. The capitalism is crises born due to inadequate market discipline in the financial system. Islamic finance could provide an alternative system to the world (See Aziz, 2008; Tilva and Tuli, 2008; Chapra, 2008; Ja-young, 2010; Awan, 2009; and Usmani, 2010). Islamic investments are less risky and more profitable than the conventional one. In Islamic banking financial flows are tight to real flows and no chances of crisis. Interest based financial sector is not integrated to the real sector would end up with crisis (see Tahir, 2007).

Moreover, some of the studies have indicated that IBF has not started any social agenda to address issues of poverty, hunger and social conflict from the world. It is the social failure of IBF that ordinary Muslims who hoped to benefit from the industry remains unattended.

Furthermore, adoption of borrowed policies resulted into realization among the Muslim world that these policies would not solve their problems and they should develop their own discipline to cater their need. The economic, political, social, cultural and religious needs of Muslim countries are entirely different than the western nations. Blind adoption and replications of the western policies by Muslim regimes in post-colonialism did not solve their socio-economic problems. Similarly, borrowed policies were implemented by successive regimes in Pakistan to solve the socio-economic problems of masses produced counterproductive results. So a combination of hostile attitude of successive regimes and their ill-suited policies marginalized Islamization of the economy in Pakistan (see Siddiqi, 1994; Manan, 1989; Tahir, 1995; Siddiqui, 1996;

Khan, 1999; Irfan, 2003; Choudhury, 2001; Alterman and Hunter, 2004; Zaman, 2005; and Montgomery, 2010). We study that how IBF can be converted in to a mass movement and what are the potential hurdles for that in Pakistan? The study analysis the perception of the key stakeholders towards IBF in Pakistan on indicators such as awareness, motivation, adoption, preferences, incentives, opportunities and hurdles.

Lastly, Islamic concept of women financial empowerment is strengthened by a series of divine institutions supplemented by women right to enterprise, right of contract, right to buy and sell and wealth accumulation through PLS mechanism of Islamic finance. Islam guarantees maximum women's rights and women financial role is dominant in special circumstances like Hazrat Khadija who financially and morally supported the Holy Prophet (PBUH) for the noble cause of Prophet Hood (see Razvi, 1999 and Bukhari 2012).

## **1.2: Research Objectives:**

In the context of the above background, we out line the following research objectives.

- 1.To examine the perceptions of key stakeholders of Islamic Banking and Finance in Pakistan.
- 2.To examine the factors associated with and responsible for not converting the IBF into a mass movement in Pakistan.
- 3.To examine determinants of cooperation among the key stakeholders of IBF in Pakistan.
4. To examine why key stakeholders are opposing IBF in Pakistan?
5. To examine political opportunities of IBF for Shari'a scholars (Ulema) and Islamic political parties of Pakistan.
6. To examine factors which promote the adoption of IBF by general masses in Pakistan.
7. To examine political will of the Government of Pakistan to promote IBF?

### **1.3: Research Questions:**

On the basis of our research objectives, we attempt to answer the following questions.

1. Whether IBF can be a substitute of the conventional financial system?
2. Who are the key stakeholders of IBF in Pakistan, their degree of awareness and do they support or oppose it?
3. What are the determinants of adoption of IBF and how to convert it into a mass movement in Pakistan?
4. How to develop the consensus of religious scholars by involving them in the promotion of IBF in Pakistan?
5. How to train and educate the employees of IBF in Pakistan?
6. What are the hurdles of IBF in Pakistan?

### **1.4: Research Hypothesis**

We establish our testable hypothesis as follows.

H<sub>1</sub>: Successive regimes in Pakistan are opposing/resisting the implementation of IBF.

H<sub>2</sub>: The Policy makers/ bureaucracy are opposing the IBF in Pakistan.

H<sub>3</sub>: The Key stakeholders are lacking in coordination regarding implementation of IBF in Pakistan.

H<sub>4</sub>: The IBF is unpopular due to social dimension (the issues of poverty, deprived masses microfinance and social banking) in Pakistan.

H<sub>5</sub>: The IBF is a means of new international relations among the OIC and rest of the world.

H<sub>6</sub>: The Employees of Islamic banks in Pakistan lack relevant education and training.

H<sub>7</sub>: The religious forces (religious scholars and Islamic political parties) are marginalized in the promotion of IBF in Pakistan.

H<sub>8</sub>: IBF is a means of consensus among the religious scholars of Pakistan.

H<sub>9</sub>: The IBF can be converted into a mass movement by religious appeal/support in Pakistan.

### **1.5: Significance of the study**

In a Pakistani framework it is worth mentioning that the issue of Islamization of

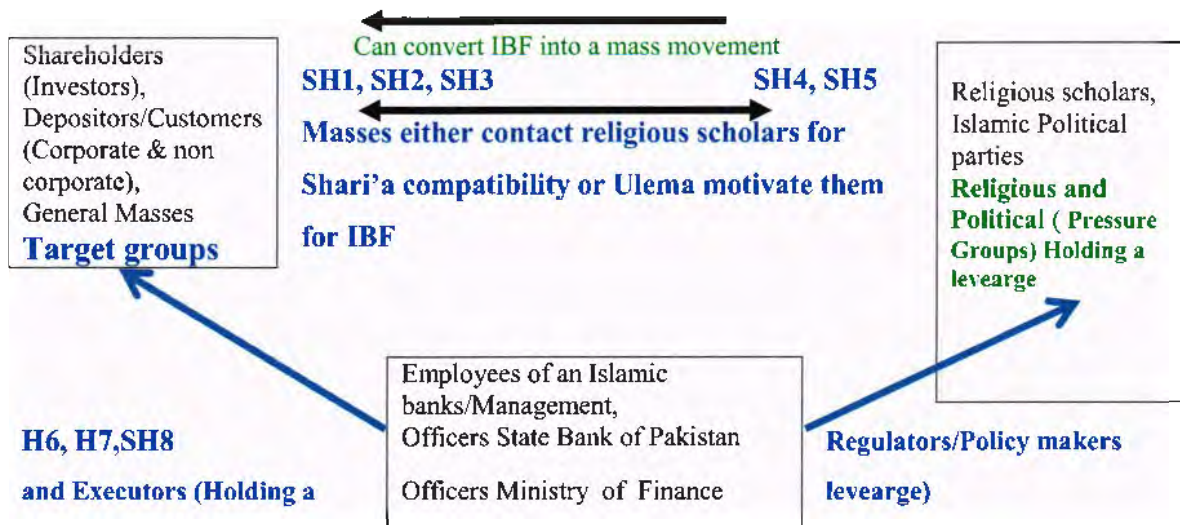
the economy has never been addressed from all of its dimensions. The proposed key stakeholders like depositors/customers (corporate & non corporate), general masses, shari'a scholars, Islamic political parties, employees of Islamic banks, State Bank of Pakistan and Ministry of Finance should be considered and involved in the process of Islamisation of the economy. All these stakeholders are important parties in the Islamic financial service industry in Pakistan and ignorance of a single one will further delay and complicate the implementation of the whole process. Did we address all the concerned key stakeholders for the Islamization process in Pakistan? Did we get any political, economic, social, religious and academic motivation in this regard? Some key stakeholders like bureaucracy, State bank of Pakistan and the successive regimes in Pakistan are discussed by academia while the other are neglected at a large scale. Perhaps no attempt has been made to explore the role of Shariah scholars, Islamic political parties and general masses for the IBF in Pakistan. Moreover determinants of cooperation among the of key stakeholders, factors exploiting their potentials and hurdles faced by them are not explored.

Most of the existing literature ignores the political economy aspects of the IBF regarding Pakistan. There was no coordination among the key stakeholders for the popularity, awareness and implementation of the IBF in Pakistan. Perhaps no attempt has been made to analyze the attitude of key stakeholders of IBF in Pakistan from Political- economy perspective so far. Most of the studies have explored the economic and religious dimensions of the IBF in Pakistani context. A combination of social, political and economic dimensions of the IBF regarding Pakistan have been neglected by the contemporary writers. In the proposed study a simultaneous consideration of political, economic and social factors is and analyzed accordingly. We explore that how IBF can be converted in to a mass movement and what are the potential hurdles for that in Pakistan? We study the attitude of key stakeholders towards IBF in Pakistan on indicators such as awareness, motivation, preferences, incentives, opportunities and hurdles. Hence the study will fill in the gap.

The IBF can be converted into a mass movement by political will, religious consensus, conducive institutional framework, competitive and compatible products, religious and political motivation. The best combination of the proposed stakeholders of

the research thesis is presented in the following diagram.

### 1.6: Proposed Execution Mechanism by Stakeholder (SH) of IBF in Pakistan



Where as SH1, SH2 and SH3 are the target groups of IBF while, SH4, SH5 are social regulators in the form of religious endorsement, Shari'a compatibility, check and balance as pressure groups and religious force having roots in the society. The SH6, SH7 and SH8 are government regulators / Policy makers of IBF in Pakistan. A coordination of social regulators and government regulators is required for the implementation of IBF in Pakistan. Since the social regulators are holding leverage and do not endorse adoption of IBF to the target groups (society). Presently, government regulators are executing the Islamic banking without involving the social regulators. Had the government regulators root the Islamic banking via social regulators, the IBF would have converted into a mass movement in Pakistan. The social regulators are so much influential that target groups (society) do not adopt IBF without their endorsement. To enhance the adoption of Islamic banking by the target groups, the execution mechanism should be routed through social regulators.

### 1.7: Scheme of Study

The scheme of study is as under. Chapter one explains the introduction while historical evolution of IBF is the subject matter of chapter two. Chapter three focuses on the literature review whereas, chapter four discusses IBF and International Relations

(I.R). Moreover, chapter five determines the methodology and research plan of the study while chapter six examines descriptive analysis. Chapter seven discusses logistic regression analysis and chapter eight covers summary and conclusion.



## Chapter 2

# Historical Evolution of Islamic Banking and Finance

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Islamic banking and Finance, evolutionary in nature, emerged during 1970's to meet the urge of World –wide Muslim community to come up with an alternate idea of finance and economic transactions based on Islamic Shariah. Muslim civilization basically has a mercantile character evolved in the World with prophethood of Holy Prophet (PBUH) in the state of Medina. We cannot find Islamic banks in the early history and records of Islamic states. However, Islamic banking was developed and practiced by the Muslim traders during medieval period.

A lot of factors resulted in the emergences of contemporary Islamic banking in the Muslim World. The famous factors are rise of pan-Islamism, writings of Islamic scholars in recent past, political awareness, establishment of OIC, establishment of Islamic Development Bank (IDB), oil boom of 1970s, Saudi support for the establishment of universities and institutions in Muslim states. The establishment of certain infrastructure institutions like Islamic Development Bank (IDB), Bahrain based International Islamic Financial Market (IIFM), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Malaysia-based Islamic Financial Services Board (IFSB) and Islamic Research and Training Institute (IRTI) paved the ways for evolution of Islamic Banking industry worldwide. Fall of communism and crisis of capitalism have created a gap in the world. This gap has demanded an alternative system for the benefit of mankind. The Islamic economic system has emerged as an alternative in the form of Islamic Banking and finance (see Ibrahim, 2008; Chapra, 2008).

A historical touch followed by empirical studies supported by an institutional arrangements with Islamic moral values and broad vision of all segments of the society would be a right direction to address the issues faced by Muslim Ummah. The re-awakening of Muslims from the colonial bondage in the 20th century led to the rise of

Islamic identity. Muslim thinkers of the age that is Jamal-ud-Afghani, Allama Iqbal, Abdul Wahab Najdi, Syed Mudadi, King Fasal, Bakir Al- Sadr, and Sayidd Qutub and others played a role in motivating the Muslims to revive back their values and culture. So the thought of their revival was much strong in the Muslim community in the second half of the 20th century. However, there was stagnation and silence prevailing in the Muslim world till middle of 20th century (see Shah, 2007). This stagnation got rid of by the stir created in Arab-Israel conflict of 1967 and oil boom of 1973-74. It motivated Muslims to re-shape their economic life according to the teaching of Quran and Sunnah. So Islamic Development Bank was established in 1973 from the platform of OIC. The IDB latter convened for the promotion of AAOIFI. This development opened the gateway for different Islamic Banks to start their functioning in the Muslim World. The success of these banks attracted the attention of western world to establish the same. Hence, it is a fair judgment that Islamic financial institutions are the profitable mode of business in our modern competitive world.

This chapter discusses Quranic and Sunnah references, early roots of IBF, positive steps towards it after independence and developments in Pakistan for its evolution. It covers certain themes like ideology, political links and financial crisis for the emergence of IBF.

## **2.1: Quranic references for IBF**

The theory of Islamic financial system can be derived from the Holy Quran directly. The wealth and property are such important issues which are repeatedly emphasized by Allah Almighty and His Prophet (PBUH) with different dimensions. A single verse was sufficient to understand the importance of matters however; Allah Almighty and the Holy Prophet (PBUH) repeatedly warn the Muslim to be extremely careful about the matters of wealth. Allah Almighty says; don't utilize the wealth of one another through unjust means (2:188).<sup>1</sup>In another verse Allah Almighty orders not to utilize the wealth of one another unjustly but lawful business with mutual permission and do not kill one another (see verse 4:29). This verse refers to financial killing.

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<sup>1</sup> The first number represents Surah, whereas the second number is Ayah (Verse) translation by Abdullah Yusuf Ali

Financial killing needs attention and preventive measures to protect the common people in a society. It is not normally discussed by the contemporary writers of Islamic finance. Financial killing is similar to physical killing. The above verse is a master source for all kind of social and economic contracts. A person using wealth and property of others without their mutual consent is an act of financial killing. Acquiring other's property and wealth through haram (unlawful) means comes under financial killing. Similarly, physical killing is a big sin condemned by Allah Almighty in another verse; whosoever has killed a person is like killing the entire humanity and who has saved a body is like protecting the entire humanity (see verse 5:32). Hence both physical and financial killings are equally prohibited by the Allah Almighty in Holy Quran.

In the same line of action, other thing which can lead to financial killings is dealing with properties of orphans. Orphans and minors should not be given their properties until they get the age of maturity. All Almighty knows the Hikmah (wisdom) behind this. Minors are unable to understand the importance of wealth and property which not enable them to take possession before age of maturity. This precautionary measure is taken to protect the chances of wealth and property to be wasted (see verses 4:2; 4:5). In another verse Allah Almighty orders guardians of orphans to test them before handing over their properties and not to consume it extremely and quickly. These are other precautions to be taken into account before transferring the wealth and property by the guardians to minors and orphans (see verse 4:6). Similarly, regarding debt, its correspondance should be documented and conditions of writer, witnesses, security deposit are mentioned directly in another occasion by Allah Almighty. Hence record keeping is a Quramic injunction which must be taken as granted. All these measures are to protect the wealth and property from its destruction (see verses 2:282; 2:283).

Similarly, the incident of Hazrat Musa and Hazrat Khizar is a clear reference of preventive measures from financial killing. Hazarat Khizar damaged the ship to be protected from its being seized by the cruel king and repaired a wall of the two orphans of city. The father of the orphans had buried the treasure (wealth) beneath the wall but it got broken. Hazarat Khazir made the ship defective and repaired wall by the will of Allah. The ship was a source of earning of the poor people working on it. The property

of orphans was protected till they become mature and dig out the treasure. All this was done by the will of Allah almighty (see verses 18:79; 18:82). Moreover, Allah Almighty has stopped the Muslims from wasting wealth, property and all kind of economic resources. Allah dislikes those who commit excess and overspending. Wealth and property should be protected and utilized in a careful manner. Wasteful spending is condemned by Allah Almighty. It is a kind amanah in the hands of believers subject to limitations of not to be wasted, destroyed and over-spended (see verses 7:31; 17:26 and 17:27).

An integrated look of all the above Quranic injunctions give justification of institutions like judiciary, defense, internal security and many more to protect the humanity/society from physical killing. Similarly, rationale for financial institutions automatically generates for the protection of financial killing like institution of *Bait-ul-Mal* (Finance), *Zakah*, *Waqaf*, market, Islamic banks, *Takaful*, *Hisba* and many more.

## **2.2: IBF in the Context of Sunnah**

Islamic financial system and its links from Sunnah can be derived from following incidents of the Holy Prophet (PBUH). For example, Hadith about the wealth of orphans to be protected by investing and trading otherwise *Zakah* deductions will decrease it (Tirmizi, Hadith No. 618). A companion was stopped by the Holy Prophet (PBUH) to spend all, half or one third of his wealth in the way of Allah Almighty. The Holy Prophet (PBUH) said even one third is too much and was ordered to protect it for his family otherwise they will be begging (Bukhari, Vol.No.2, and Hadith No.15). Moreover, Holy Prophet (PBUH) said blood, property and honor are as sacred as the day of Haj, month of Haj and the city of Mecca for one another (Musnad Ahmad Hadith No.2036). In another Hadith it is reported that whoever died while protecting his property is a martyr (Bukhari Hadith No.2480). All things of a Muslim are sacred for his brother in faith: his blood, his wealth and his honor (Muslim, Hadith No.2564). It is not lawful for a person to take out of the *Mal* (property and wealth) of his brother except his right because Allah has declared sacred the wealth of Muslims for Muslims (Musnad Ahmad Hadith No.7727).

Developing institutions like IBF for the protection and growth of wealth is directly linked to the above mentioned references of Quran and Sunnah. Similarly another reference is worth mentioning from the last address of the Holy Prophet (PBUH) about the sacredness of the wealth and property. The property is as sacred as the day of Arfa (Haj), month of Haj, the city of Mecca [last address of the Holy Prophet (PBUH)]. Last but not least, the principle of moderation in spending emphasized by the Holy Prophet (PBUH) in another saying. Moderation in spending is half of the economics. The principle of moderation in consumption means that one should take the food and drinks with moderation and avoid excess spending. Excess of intake is harmful to health and leads to the wastage of wealth which is required to be protected for other noble causes. One should not be miser in spending nor extravagant. Holy Prophet (PBUH) says that moderation is half of the success in economic life (Kanz-ul-Ammal). Similarly another saying of the Holy Prophet (PBUH) states that it is a part of wisdom of a man that he should adopt moderation in his economy (Musnad Ahmad).

An important outcome from the above saying of the Holy Prophet (PBUH) is that Islam has created certain financial shock absorbers to prevent the believers from socio-economic conflicts and crisis. These shock absorbers are the foundations for Islamic financial system. Islamic banking and Finance (IBF) is a Shari'a compliant mechanism of wealth accumulation by exploring the bounties of Allah Almighty in a country. Islamic banking and Finance is a faith based concept which is subject to divine guidance of Islam. This belief covers all aspects of the followers (see Hamid, 2006).

Therefore, Islamic finance covers all aspects of social, moral, ethical, and religious dimensions to promote and boost equality, social justice and wealth distribution in the society contrary to the conventional financial system which is confined to economic aspects of businesses. Features of Islamic finance are risk-sharing, promotion of entrepreneurship, sanctity of contracts and no speculative behavior. It prevents the use of debt-based instruments as interest and fixed rate of returns are prohibited (see Iqbal, 1997).

### 2.3: Early Roots of IBF

It includes pre-colonial and colonial periods. It is imperative to take leads from early roots of IBF to protect the Muslims from crisis, disasters and to attain success of both lives. For example, Siddiqi (2008) highlighted that Allah Almighty orders the man to learn lesson from the history. The word *ibar* (learn lesson) is repeatedly mentioned by Allah in Quran. There are lessons to be learnt, warnings to be noted. Knowledge of history can save us from repeating mistakes and encourages us to follow those who succeeded.

According to Worthington et al (2009), Holy Prophet (PBUH) himself practically did Islamic finance on the basis of Quranic revelations in seventh century. He personally did *Mudarabah* trade and *Musharakah*, *Bay Salam* and *Quard Hassan* was being practiced by the Muslim society of his time (Kahf and Khan, 1993). The Islamic state was expanded to whole Arab countries, Asia, Africa and Europe. With the expansion of Islamic state, Islamic financial system reached central Asia, India, China, Africa, Morocco and onward to Spain in four centuries. Islamic financial tools *Mudarabah* and *Musharakah* are evident from historical records (Moore, 1997). Islamic financial system continued in the Muslim world till the beginning of the 19th Century (Warde 2000).

Some studies have highlighted Islamic financial tools, coins, trade methods, Islamic banks and joint stock companies of the medieval period. The mercantile character of the Islamic traders got essential for commercial activities in Baltic States, Mediterranean and Spain in the medieval period. Islamic finance was primarily implemented in the Muslim world during that era. Hence, Islamic financial tools, ideas and methods were adopted by the Western traders (see Iqbal, 1997).

Likewise, Azab (2011) cited a reference Faraj, Wissam (1987-1988); the Byzantine administration had imposed constraints on trading activities of its subjects created a space for Islamic economy and trade to grow from the Umayyad period. Islamic trade was motivated for profit purposes whereas Byzantine trading interests were lust for power and control. This is how mercantile character of Muslim world expanded in that era of middle age (see Azab, 2011). He further reported (Aziz and

Atiya, 1972) that Islamic currency (Islamic dinar) was a transaction source of the world in the middle ages confirms its achievements and economic power of Muslim world of that era. Islamic coins of various shapes were found in Iceland and Britain. Archaeologists found huge amounts of Islamic coins in Balkans, Scandinavia, Russia and Finland of the era seven to eleven century AD.

It is interesting to note that Byzantine and Sassanian coins were substituted with Islamic coins in 695 A.D by Abdul Malik. These coins have been discovered from Sweden, Baltic States, Ukraine, China and Zimbabwe. Adequate infrastructure (financial institutions and instruments) was established by Arab traders to foster trade in the world. They are pioneers in development of international banking by extending the model of ancient Persian banking system. Amounts deposited in an Islamic bank of Arab country pay out cash or check at a bank in China and Cordoba. Joint-stock companies dividing the profits even among the non-Muslim investors were created by the Arab merchants. Islamic model of International banking was adopted by Europeans till order was destroyed by Philip IV of France in 1307. Double entry bookkeeping was invented by Muslims in banking was adopted by the West (see Skeen and Bradley, 2008).

Moreover, Karimis (Arab merchants) monopolized trade in Indian Ocean from 11th -13th centuries. It was a group of about 50 merchant families organized in a network in Egypt, Yemen, Ceylon, and India. The group was engaged purely in mercantile activity and did not directly profit from land owning or tax farming. The group had developed joint-stock ventures with private investors and ran the largest network of international banks, and they are regarded as a pioneer to modern multinational corporations (Ibid). Similarly, in Islamic history, one can find some glimpses of certain forms of banking activities as early as 1200 years ago in Baghdad, Damascus, Fez and Cordova. Deposits in current accounts and use of cheques were well known in these Muslim cities. The banking activities were inter-city money transfers; cash deposits and some form of money exchange (see Kahf et al, 1998).

Furthermore, a fund for public improvement was established in 1863 by the Ottoman Empire. The contributions of farmers (5% of their output) were the source of fund. The fund was giving credits to the needy people at very low interest rate. Interest

Similarly, it is worth mentioning that Islamic scholars started opposing the presence of the interest-based Barclays bank established for financing the construction of the Suez Canal during 1890s. During 1900-1930 this critique extended to other Arab regions and India. During 1930-1950 Islamic economists presented the concept of Shari'a compliant partnership as an alternative mechanism. During 1950s Islamic economists started to offer theoretical models of Islamic banking as a substitute for interest-based banking. A two-tier *mudarabah* model of Islamic banking was presented by 1953 (see an historical evolution of IBF by IRTI and IFSB, 2006).

Likewise, Muslim communities had interest free loans mechanism to finance poor and needy in India during 1890s to 1920. The first Islamic financial institution was established in Malaysia in 1940 to promote interest-free saving funds that developed into Muslim Pilgrims Savings Corporation and consequently it took the shape of Bank Islam Malaysia Berhad. The second Islamic financial institution was established in Egyptian town of Mit Ghamr in 1963. The political, cultural and social climate changed in many Muslim countries during 1970s. Oil boom of 1970s demanded a rapid growth of Islamic financial institutions. The Islamic Development Bank was created by the Organization of Islamic Countries in 1974 to support the economic development of Muslim nations. The Dubai Islamic Bank was established in 1975. The Faisal Islamic Bank of Sudan and Egypt were created in 1977. The Bahrain Islamic Bank was established in 1979. A Centre for research in Islamic Economics at King Abdul Aziz University was established in 1978. The Islamic Finance House was established in Luxembourg in 1978 (see Alwosabi, 2007). Moreover, Muslims of India established trusts called Muslim funds in 1930s and they still exist. Many of similar efforts failed due to Indian legal hurdles. The Barkat investment group was an Islamic financial institution which had been highly successful in India in 1980s to mid-1990s. Islamic banking on profit based emerged by 1980s in the world (see Nisar, 2007).

Furthermore, Skuratowicz (2005) presented a case study of an Islamic fundamentalist religious movement called Maitatsine in Nigeria. During colonialism, the capitalist system of the West exploited the peripheries and weakened the political and economic institutions which caused unrest in those societies. Consequently the



social religious groups emerged under religious leadership who confronted Western capitalist ideology and presented Islamic ideology as an alternative. This is how religious factor became a strong mobilizing and motivating factor in those societies.

Likewise, Islamic NGOs in Africa emerged as a reaction against the Christian missionaries in the colonial era. In a reaction to that educated elite established associations under Islamic ideology. These NGO's were discouraged by the colonial rulers and instead introduced secular urban associations to counter them. These Islamic associations were converted into Africa's modern political parties who launched independent movements in Africa (see Salih, 2002).

However, Berner (2004) observes that civil society is a third force providing social services in the areas where Government services cannot reach and is an important pillar to support democratic society. This third force cannot flourish without a supportive political system. Islamic charitable institutions have emerged as national and transnational actors. They can be used as a means to attain social justice and should have a democratic agenda to address the governance issues of the Muslim ummah.

#### **2.4: Positive Steps towards IBF after Independence**

This section covers positive steps taken by informal sectors of Islamic countries for institutionalization and promulgation of IBF. The Muslim communities of non-Muslim countries are demanding for Islamic banking by adopting it in different forms like NGO's, interest free associations and community organizations. The role of International Islamic financial institutions in developing infrastructure institutions in Islamic countries resulted to the evolution of IBF in the world.

For example, the move towards establishing an Islamic bank in Malaysia was initiated by private parties. The first formal request was made during the *Burmiputera* (indigenous people) economic congress in 1980. This congress through a resolution demanded the government to allow the Pilgrimage board to establish an Islamic bank. The participants of a seminar at the National university of Malaysia requested the government to promulgate special law for the establishment of Islamic banking in 1981. Consequently the government appointed a high power committee on Islamic Banking in 1981. This committee studied the mechanism of Islamic banking of other Islamic

countries and presented its report. The first Islamic bank, Bank Islam Malaysia Berhad was started in 1983 (see Haroon, 2004).

Similarly, Mit Ghamr saving house was a model of interest-free banking started by Najjar in Egypt. He gave the name of saving bank to protect it from the opposition of Govt. Zakah fund was named as the social service account to hide the Islamic identity of the bank. The Govt. when realized its Islamic influence merged it with other interest-based banks to lose its identity and Najjar was forced to leave the country. This experiment created a pressure on the government to consider Islamic banking in the country. The government of Egypt established the first Islamic bank, Nasser Social Bank in 1971 (see Soliman, 2004).

Moreover, Ariff (1988) has made a reference of Mastura (1988) about Philippine Amanah Bank established in 1973 as a response by the Government to the Muslim rebellion in the south. It was a dual banking system operating both interest free and interest based mechanism. In Indonesian context the traditional interest-free borrowing is still widely dominant form of informal rural credit known as *ijon* (green) because the loan is secured on the standing crop. Another is the *arisan* system practiced among consumers and small craftsmen and traders. Each member contributes regularly a certain sum and obtains interest-free loans from the pool by drawing lots.

It is interested to note that more than 200 interest free financial institutions, mostly loan societies and investment companies are operating in the unorganized sector in India. These financial institutions are registered under societies Act. A legal framework for such institutions is not devised yet and their sources of funds are different. Non-banking financial companies and Islamic investment companies are interest free societies in India. Deposit mobilization and interest free loans and leasing is done by these institutions (see Ahmad, 2008).

Moreover, Islamic finance has grown in Muslim countries and around the world during the last twenty years. This growth was a result of several factors such as the desire for sociopolitical and economic systems based on Islamic principles and a stronger Islamic identity. Islam remains the fastest growing religion in the world. Muslims now constitute about 27 percent of the world population. The structural

reforms in financial systems paved the way for the expansion of Islamic banking and finance (see Zaher and Hassan, 2001).

Similarly, the growth of Islamic revivalism is evident in every Muslim country and transnationality. Its goal is the transformation of society through the Islamic formation of individuals at the grass-roots level. *Dawa* (motivating groups) works in social services, economic projects, education and religious media coverage (see Alternative Global Forces, 2007). Moreover, Muslim community organizations and associations in Australia, India, Mauritius, Fiji Islands are mobilizing interest free financing for the Muslim populations of these countries. All of them have common feature of interest free mechanism of pooling funds and financing (see Ali, 2005).

Some studies have linked the role of Islamic financial institutions and development of infrastructure institutions in evolving Islamic banking in Islamic states. For example, the factors behind the growth of Islamic financial institutions are the oil wealth of the Middle East countries. In addition, Saudi Arabia extended financial supports to the Muslim communities to establish Islamic universities and research institutions. These universities and institutions are providing the facilities to contemporary Islamic banking system in Islamic world (see Samy and Manama, 2008).

Similarly, the creation of new organizations like International Islamic Financial Market and the Accounting and Auditing Organization for Islamic Financial Institutions of Bahrain and Islamic Financial Services Board of Malaysia are the most important bases for the growth of contemporary Islamic banking (see Jajbhay, 2008). Similarly, the establishment of some important infrastructure institutions helped in the evolution of Islamic Banking industry worldwide. These institutions are IDB, IFSB, and AAOIFI. These institutions frame Shari'a compliant standards and principles for supervision and regulation of Islamic banking around the world (see Manan, 2008).

However, the concept of the informal sector has recently received growing attention. The re-emergence of the concept is related to social protection and poverty alleviation. The objective is to fight against poverty and improve livelihoods of the poor in developing countries. The concept of the informal sector originated three decades ago is rapidly getting popularity in the development of community (see Social Protection Unit, the World Bank, 2001).

## 2.5: Developments in Pakistan.

Formal and informal measures taken for the promulgation of Islamic banking are worth mentioning. For example, the contemporary history of Islamic banking is linked to an institution established in Pakistan in 1950s. Some landlords deposited funds without interest and credit was given to poor farmers for agricultural improvements. Its main purpose was to finance poor farmers by extending interest free loans (see Roy, 1991).

Regarding formal measures, the Founder of Pakistan while inaugurating the State Bank of Pakistan in 1948, said: *I shall watch with keenness the work of your Organization in evolving banking practices compatible with Islamic ideas of social and economic life. 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* (see Hassan, 2008).

It is justified to link Islamization of economy and institutionalization of Islamic banking with interest free informal financial mechanism of Pakistani society. The pulse of the predominately Muslim society of Pakistan is evident from the studies below. The concept of *committees* is widely understood by nearly 90 percent of the population in Pakistan, and this informal money-lending method ranks the third savings channel in the country. This is third most popular borrowing channel behind shopkeeper loans, family and friends borrowing system. A large number of Pakistanis are involved in such group schemes. About 63.6 percent of savers save at home. *Committees* are the second most popular informal saving channel for savers both male and female. Saving with family and friends is done equally among rural and urban areas and across income groups. Only 11 per cent people are using the products of formal sector (see World Bank study, 2009). Similarly, fourteen percent (14 %) of Pakistanis are using financial products or services of a formal financial institution (including savings, credit, insurance, payments, and remittance). Whereas 60 percent are using informal financial access (though friends, committees, shopkeepers, moneylenders, hawala or hundi money transfers) (see Nenova et al, 2009).

Moreover, it is important to note that the average Pakistanis are excluded from formal financial system and are the part of informal financial channels. A significant 50.5 percent of Pakistani society has adopted informal financial mechanism in the form of saving through committees, borrowing from shopkeepers, moneylenders, friends, family and hawala/hundi money transfers. Whereas, only fourteen percent (14%) of Pakistanis are using a financial products and services of a formal financial institution (see Nenova T. and Ahmad A. 2009).

## **2.6: Ideology**

Ideology plays an important for in the evolution and implementation of a paradigm. Role of ideology, Islamic identity and desire by Muslim to revive Islam, intellectual leadership by Muslim scholars are historical factors in evolution of IBF. For example, the desire by Muslims for sociopolitical and economic systems based on Islamic principles and a stronger Islamic identity are the main factors behind the evolution of IBF (see Zaher and Hassan, 2001). Moreover, multiple reasons for the growth of the Islamic banking and finance are oil wealth, growing political and social desire in the Muslim world; recent global financial crisis and the growth of sovereign wealth (see Mcmillen, 2009).

Similarly, the ideology of Islamic banking and finance was born in the 1970's as a result of the writings of Muhammad Iqbal, Maududi, Bakir Al- Sadr, and Sayidd Qutub. The wealth and capital resulted from the oil industry created an awareness of Islamic banking based on Islamic Shari'a. Hence the Islamic world found itself in the need of an alternative Shari 'a compliant banking model (see Shah, 2007). Furthermore, major factors in the development of Islamic finance are the oil wealth and desire for improving socio-economic conditions of the Muslim masses and their deep attachment with religious values and political beliefs. Islamic finance aims to replace the existing financial structures (see Rethel, 2007).

Likewise, Islamic Finance is related to the principle of Pan-Islamism of Jamal al-Din al-Afghani who is regarded as one of the greatest Islamic revivalists in the Islamic world (see Nagaoka, 2007). Similarly, Islamic finance challenges the conventional finance, addresses religious identity and explores relationship between

religion, politics and the economy. The politics of religious identity coupled with economic reshaping and political representation have emerged in the world (see Abraham, 2008). Likewise, the Islamic Finance is a faith based concept which is subject to the divine guidance of Islam. This belief covers all aspects of the followers' lives, private, public, individual, collective, family, social, economic and political (see Hamid, 2006). Moreover, Muslims did not have the necessary global power, they failed to establish their political and economic order. The reality of this Islamic economics system is based on a particular ideology which is tested by developments that have taken place in Islamic finance. The development of Islamic banking and finance is a step forward towards Islamic economic order (see Asutay, 2007).

## **2.7: Political Links**

This section covers political links for the evolution of Islamic banking coupled with other factors. Political links supported with economic factors are considered the main driving force for emergence of contemporary IBF. For example, political-economic developments of pan-Islamism and oil price shocks of 1970s resulted in the creation of modern Islamic banking and finance. Pan-Islamism as a modern political movement started in 1960s at the time of cold war between Egypt's president Gamal Abdul Nasser who was promoting pan-Arabism and King Faisal of Saudi Arabia who championed Islamic unity by sponsoring a pan-Islamic movement in the world. Faisal provided financial aid to non-Arab Islamic countries of Asia and Africa and paid official visits to these countries (see Warde, 2000).

He further states that pan-Islamism became a powerful movement by mid-1970s and the diplomatic relations of the Arab countries were strengthened with Pakistan and Turkey. Pakistan provided the manpower and Saudi Arabia and Gulf States extended funds for the creation of Islamic institutions under the OIC. The idea of the creation of Islamic bank was approved by the OIC submit of Lahore in 1974 (Ibid). Moreover, a combination of political and economic factors due to Arab-Israel conflict resulted in the oil restriction in 1973 against the supports of Israel and these events paved the way for the development of Islamic Banking (Ibid). Furthermore, He further states that the rise of Islamism was the result of vacuum created by the secular ideologies. Islamic groups

demanding to Islamize the financial system in different parts of the world. Kuwait, Islamic rebels in Philippines and Chechnya announced financial Islamization in 1990s (Ibid).

Moreover, Pan-Islamism considers the unity of Muslims regardless of the differences of language, ethnicity or nationality. This idea of Islamic brotherhood is incorporated in the OIC. It is the International political body of 58 Muslim states advocating their rights. In addition, it promotes cooperation and unity among the Islamic states (Sheikh, 2003). Similarly, Jamal al-Din al-Afghani started a movement called Pan-Islamism against the colonial rule at the end of 19<sup>th</sup> century. He advocated the unity of Islamic countries and the modernization of traditional Islam. He introduced the concept of Islamic reforms. He strongly criticized secular disbelievers (naturalists and the materialists) for not having faith in God and values in religion. He emphasized that secular unbelievers have brought corruption and stagnation into the Islamic world. Their teachings and actions coupled with the colonial rule brought misery and destruction to the Muslims (see Kyoto Bulletin, 2007).

Moreover, Muslim scholars in India led the intellectual debate favoring the feasibility of an Islamic financial system in 1940s. Certain political and economic developments like pan-Islamism, conflicts with West and the rise in oil prices provided a launching pad for this theory to practice. Egypt championed this vision in Muslim countries. Saudi Arabia and other countries reinforced it later. The Arab-Israeli conflict had deep rooted results which compelled the Muslim countries to create Organization of the Islamic Conference. The OIC also planned Islamic monetary and financial systems and established the Islamic Development Bank at its fourth summit in 1974 (see Ibrahim, 2008).

It is worth mentioning that the foreign ministers of Islamic states met again in Jeddah, where a special committee was formed to prepare the Islamic Banking Agreement in 1972. They approved the articles of an inter-governmental financial agency in 1973 and consequently the Islamic Development Bank was formally established in 1974. Egypt and Pakistan had an active role in the creation of Islamic Development Bank and provided motivation for formal cooperation among Islamic

States. Saudi Arabia provided 25 per cent of the paid-up capital while Libya and the United Arab Emirates paid 16 and 14 per cent respectively (see Roy, 1991).

Islamic finance is used as political force by some Muslim regimes. For example, Islamic banking in the Arab world created a new political alliance between the wealthy people and many religious scholars. The alliance opens up new areas for cooperation as well as competition between governments and Islamist oppositions (see Kahf, 2004). Likely, the oil wealth and pan-Islam of the early 1970s, Socio-economic development, capitalist profit and general principles of capitalist economic efficiency enhanced the possibility of Islamic financial system. In some Muslim states governments and Islamist parties cooperated each other to legitimize their agendas are the factors behind birth; rise and growth of Islamic finance (see Castle, 2008).

However, in past, US, IMF and the World Bank extended financial assistance to some Arab countries for liberalization of their economies. It resulted in a decline in state provision of social welfare which increased poverty and enhanced inequality there. It resulted in emergence of Islamist groups who filled the gap by providing social services to the society in these states. Consequently the process of globalization strengthened the hands of Islamic groups and weakened the political legitimacy and power of these states (see El-Said and Harrigan, 2006).

Moreover, Islamic NGOs is an institutionalized attempt to counter Western values and practices hostile to Islam. Apolitical activities (education and health care provision) become political when they challenge other cultural codes and institutions. Islamic NGOs are not the part of formal politics nor confront with the states rather waging a social struggle at the cultural level. Al-Afaf is a charitable marriage society formed by university professors of Jordan and prominent Islamist activists and the NGO members to reduce the social and economic burdens of marriage in the society. Major activities are collective weddings, a matching service, interest free loans for marriage purposes, and a media campaign to achieve objectives. This campaign is promoted with the collaboration of the voluntary sector and the concerned ministries of the state (see Wiktorowicz & Farouki, 2000).



## **2.8: Financial crisis**

This section develops ground by linking the current financial crisis as a strong reason for emergence of contemporary Islamic banking. The said crisis that began at the end of 2007 and spread world-wide in 2008 brought a lot of opportunities to IBF and indeed exposed some inherent problems associated with its practice. For example, interest-based banking system has created cyclical fluctuations in different economies. During the great depression as well as the recession of the 1980s, the world economy has experienced high rate of unemployment and other economic problems. Conventional banking failed to solve these problems. The capitalism is subject to economic recessions and depressions resulted in failure of conventional banking. The emergence of Islamic banking as an alternative model to the world is based on justice and equity and free from interest. This has provided a chance to the Islamic economic system to flourish in the world through establishment of Islamic banking and finance (see Tilva and Tuli, 2008).

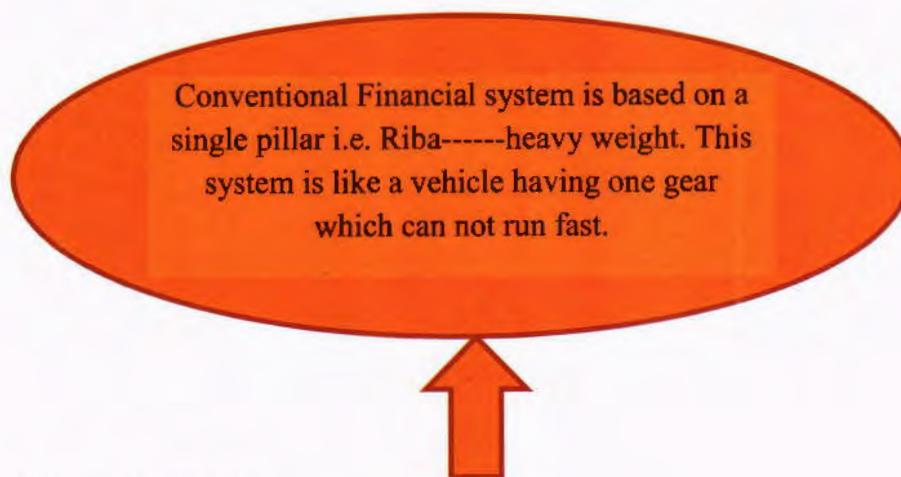
Similarly, capitalism is crises born due to inadequate market discipline in the financial system. Islamic finance based on its Shari'a principles would play an alternative role by reducing financial instability (see Chapra, 2008). Moreover, interest and gambling are the major factors in the emergence of current financial crisis which could have been averted by incorporating moral values of Islam (see Khan, 2010). Furthermore, the cost of 1986-95 saving and loan crisis of U.S was \$225billion. The banking crisis of Japan in 1990-99 was \$800 billion to that economy. The economic crisis of 1998-99 was equal to \$400 billion. IMF has estimated the cost of current economic crisis of 2007 worth of \$ 1.4 trillion and revised estimates were \$2.2 trillion. Another institution estimated the cost of current crisis equal to \$ 50 trillion (see Awan, 2009).

However, Islamic finance is relatively safe and survived during the crisis due to stable management of assets based on Islamic law. The world is paying attention to it as an alternative to Western finance. Islamic countries play a major role in the world community. They share 17.8 percent of the global economy and they are 24 percent of

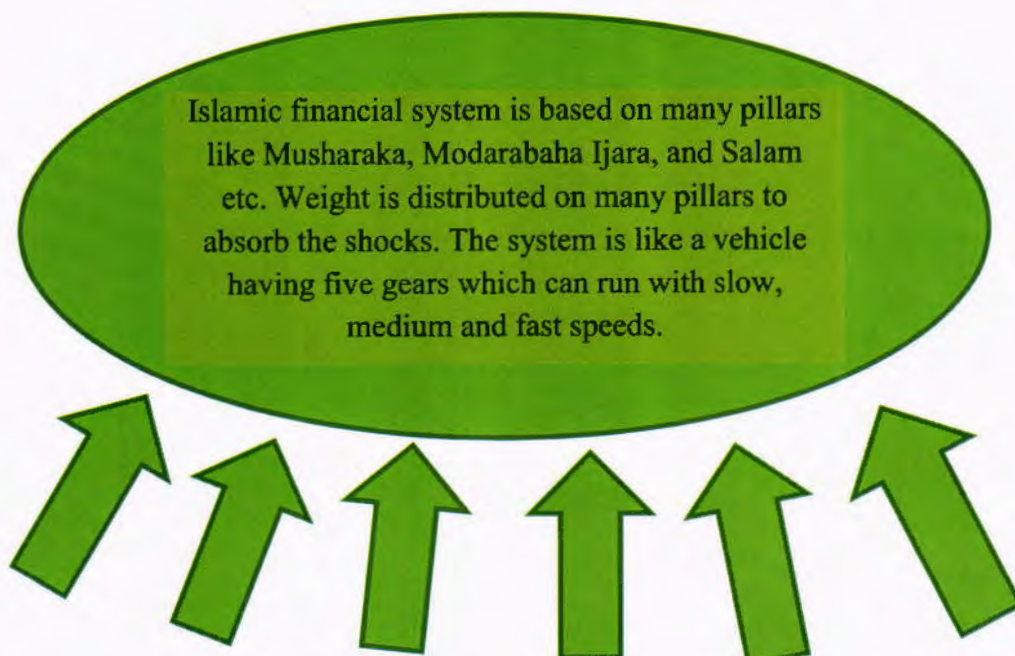
the world population which is expected to reach 3 billion in 20 years (see Ja-young, 2010).

Conventional financial system is based on one pillar i.e. Riba holding heavy weight and can collapse on its own weight. This financial system is like a vehicle having one gear which cannot run fast. Conversely, Islamic financial system is based on many pillars like *Musharaka*; *Modarabaha*; *Murabahah*; *Ijarah*; *Istisna* etc., weight is distributed on many pillars to absorb the fluctuations and shocks. Islamic financial system is like a bus having 5-gears to run with slow, medium and fast speeds (see Tahir, 2007). To prove the assertion that IBF is the substitute of conventional financial system, see figures 1 and 2.

**Figure 2.1: Conventional Financial system based on one pillar**



**Figure 2: Islamic financial system is based on many pillars**



## **2.9: Summary**

The evolution of Islamic Banking and Finance emerged in the Muslim World due to many factors. Its emergence is directly linked with Quran and Hadith and remained in operation along with mercantile character by the Muslims of medieval period. It was eliminated and substituted with conventional financial system during colonialism. However, it survived as an informal mechanism among Muslim communities of world in different ways. The rise of pan-Islamism, writings of Islamic scholars in recent past, political awareness, establishment of OIC, IDB, oil boom of 1970s, Saudi support for the establishment of universities in the Muslim world and the establishment of certain infrastructure institutions like IDB, IIFM, AAOIFI, IFSB and IRTI paved the ways for evolution of Islamic Banking industry in the contemporary world. A combination of political and economic factors due to Arab-Israel conflict resulted in the oil restriction in 1973 against the supports of Israel and these events paved the way for the development of IBF. Islamic NGOs are apparently apolitical in nature, is an institutionalized attempt to counter Western values and practices that are seen as hostile to the Islam world. The crisis born capitalism and fall of communism has demanded an alternative Islamic Economic system in the form of IBF in the world. The desire by Muslims for sociopolitical and economic systems based on Islamic values and a stronger Islamic identity are the main factors behind the evolution of IBF. The current movement of IBF is consequence of above events.

# Chapter 3

## Review of Literature

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Islamic Banking and Finance (IBF) emerged in the world as a result of resistance and opposition by Muslim masses against secular institutions and policies adopted by the colonial regimes. This opposition led to the creation of informal institutions in different colonized Muslim countries. The secular systems were substituted with the Islamic system. Muslims started reviving their identities and started to regain their lost values in all aspects of life. The revival of Islamic religious practices starts in the post-colonial era. Islamic organizations and OIC started supporting the teachings of Islam among the Muslim masses. The same period provides intellectual development and establishment of infrastructure institution like Islamic research centers and universities in the Muslim world. The establishment of the Islamic Development Bank (IDB) in 1970's created ever lasting effect on the social and economic development of Muslim Ummah (see Iqbal and Mirakhor, 2007; Montgomery, 2010).

This chapter aims at reviewing existing studies on IBF with a view to critically evaluate them and to identify areas of neglect and potential gaps that can be filled by the proposed study. Unsurprisingly, most of the existing literature on IBF is on its technical aspects for example its mechanism. Some critics, however, attempt to link IBF with the Islamist movements in different parts of the Islamic world (Kuran 2004). Nevertheless, most of these studies ignore the fact that there is a lot of resistance to IBF among members of different social groups, especially political regimes, religious scholars in the Islamic world.

The emergence of IBF is linked to infrastructure institutions which result into its evolution. The emergence of Islamic NGOs which though are non-political and claim to deal with social issues and providing socio-economic needs of the Muslim societies in different parts of the Muslim world resulted to the creation of contemporary IBF. Few empirical studies are on the stakeholders of Islamic banking in Pakistan and Malaysia. These studies discuss the importance of stakeholder analysis for IBF. However, financial crisis of capitalism have created room for the emergence of IBF. The

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capitalism is crises born due to inadequate market discipline in the financial system. Islamic finance could provide an alternative system to the world. Some studies reflect that IBF has not started any social agenda to address the issue of poverty, hunger and social conflict from the world. Hence, it is the social failure of IBF that ordinary Muslims who hoped to benefit from the industry remains unattended. Certain studies criticize the adoption of borrowed policies which resulted into realization among the Muslims that these policies would not solve their problems and they should develop their own discipline to cater their need.

It is important to note that literature regarding critique on IBF from western political economy perspective comes under the opponents who link IBF to Islamist movements, terrorist financing, a mechanism of charging interest in the name of Islam, economic war against the west, an ideology like nazism and socialism against the west and a step towards political and economic order in the Muslim world. However, proponents consider the IBF, a mean to revive Islamism, to counter radical Islam, to build civil societies, having no ties to terrorism and a mechanism of moderation in Muslim society.

The political ups and downs of the Muslim Ummah during the last century awakened the leadership which realized its unity and establishment of Islamic finance in the world. Few studies explore the political links of IBF in Pakistan for example, Karen (2010). However, certain studies cover constitutional, social, religious and economic aspects of the Islamic finances in Pakistan such as, Khan and Bhatti (2006). Islamic banking and finance is suffered due to lack of political support in Pakistan. The role of religious scholars is imperative for IBF in the country. Any social and cultural movement cannot be set to remain disconnected to politics. It has to deal the political phenomenon in one or the other way, and converting IBF into a social movement is one of the objectives of study. The role of Islamic political parties for IBF in Pakistan is neglected by the academia. A lot of studies elaborate views of contemporary Muslim scholars to institutionalize IBF and Islamic concept of wealth accumulation.

This study identifies and reviews following strands of literature: education and awareness of IBF, religious scholars and IBF, lack of political support to IBF in

Pakistan, religious appeal for IBF in Pakistan, social movement and IBF, importance of stakeholder analysis, borrowed policies and need of IBF, politics of Islamic finance, criticism of IBF, role of Islamic political parties for IBF in Pakistan. Moreover, views of contemporary Muslim scholars to institutionalize IBF, Islamic concept of wealth accumulation and role of Hazrat Khadija in the evolution of Islamic finance.

### **3.1: Education and Awareness of IBF**

Lack of education and awareness is a hurdle for adoption of IBF by the masses in a society. Muslim communities have deep attachment with the promotion of Islamic values in any part of the world. However, a proper education and awareness regarding IBF can enhance its popularity. A mass movement for education and awareness is required by different means to cater the need. The religious attachment of the Muslim communities combined with the education and awareness would enhance the scope of IBF industry.

For example, Hamid and Nordin (2001) on a survey based study in Malaysia reported that almost 100 percent of the Muslim population was aware of the existence of the Islamic bank. Only 27.3 percent could differentiate between Islamic and conventional banking, while 38.7 percent utilized the Islamic bank strictly because of religion. In a similar fashion, Haque et al. (2009) surveyed 485 banking customers in Malaysia and concluded that service quality, social and religious perspective, and availability of services are the important factors formulating customer awareness. In a similar way, Ahmad et al. (2010) surveyed 720 banking customers in Pakistan and states that customers of Islamic banks have greater awareness towards service quality than the customers of conventional banks. Likewise, Dusuki and Dar (2004) conducted a survey of seven stakeholders, namely customers, depositors, employees, branch managers, Shari'a advisors, regulators and local communities of two Islamic banks in Malaysia. Using a sample of over 1500 respondents, the study aims to explore perceptions of various stakeholders of Islamic banks in Malaysia regarding the social responsibility of Islamic banks. The findings reflect that stakeholders of Islamic banks in Malaysia have generally positive views of corporate social responsibility.

Similarly, State Bank of Pakistan is actively engage with international Islamic financial institutions in using their resources for awareness and capacity building of the Islamic banking industry in Pakistan. A short training program on Islamic banking was jointly organized by IRTI and SBP in Islamabad in 2011 (see Islamic Banking Bulletin, 2011). In addition to the above, State Bank of Pakistan started an awareness campaign by holding a series of seminars for their own staff, bank employees, chambers of commerce & industries, business houses and universities along with the media and press coverage. Regular presentations in civil services academies and staff colleges were made for the awareness of the military and civil bureaucracy (see State Bank of Pakistan, 2010).

Moreover, Iqbal and Hanif (2010), on opinion survey bases, finds that Islamic banking is new system and common people are ignorant about its theory and operations. Its awareness can be increased by seminars, advertisements, workshops and inclusion in syllabus of business and finance. Better links should be created with customers by educating them through seminars, trainings, and workshops. It is worth mentioning that factors affecting Islamic banking in Pakistan are legal framework, knowledge sharing, research and development, public awareness and political determination. Political commitment and leadership is needed for developing the Islamic financial system and allocation of resources to support government's determination (see Lodhi and Kalim, 2005).

### **3.2: Religious Scholars and IBF**

The role of religious scholars is imperative for IBF in the country. The common masses of Pakistan are closely connected to the religious scholars and their favor to the IBF would pave the way for its acceptance at the mass level. To understand the true Islamic spirit of IBF, the consensus of religious scholars is inevitable in Pakistan. Their inclusion in the process would have changed the position. Dominancy of the religious scholars is due to the fact that they have to decide the authenticity and compatibility of IBF activities. Desired results cannot be achieved without incorporating their role in the IBF industry. According to Siddiqi (2006), Muslim scholars start writing against the conventional system in the second and third quarter of the 20th century and onwards.



These writers propagate that the problems of conventional system could be solving by eliminating interest and replacing it by profit sharing mode of Islamic finance.

Similarly, according to Husain (2004), role of Shari'a Scholars differentiate the IBF from conventional financial system. Their religious endorsement can significantly increase the adoption of IBF. Study has indicated the importance of Shari'a scholars as a key stakeholder in IBF industry. They have to decide compatibility of products offered by Islamic banks. IBF cannot achieve its targets and solutions of contemporary problems without incorporating their role.

Whereas, Kahf (2001) states that a top-down approach was adopted for interest free banking in Pakistan. The State Bank of Pakistan ignored religious scholars and the members of Islamic movement while implementing recommendations of the Council Islamic Ideology (1980) about interest free economy. The role of Ulama started by the establishment of Islamic banks in private sector in late 1980's. Government of Pakistan gave free hand to policy makers for implementation of the Supreme Court decision in 2000 without involving the religious scholars who can challenge any government policy. However, it is worth mentioning that some religious scholars highly praise the Islamic banking system while a large number of Ulema oppose it. More than 30 Islamic scholars of Pakistan consider that the current Islamic banking is Haram (unlawful). Many scholars from different countries of the world hold similar opinion (see Draz et al., 2011).

#### ***Critique of Binawri Town Karachi on IBF***

A group of religious scholars is skeptic about contemporary IBF. According to this school of thought, procedure and practical form of existing IBF are not Shari'a compliant. It is based on *Iḥlāl* Tricks (deceptions) which are called non Shari'ah *Hiyal* and is equal to or even worse than the Riba based banking. This school of thought headed by Mulana Salimullah Khān and jurists/ Ulema from all over Pakistan issued unanimous Fatwa (Legal Judgment) that contemporary IBF is illegal on August 28, 2008 at Karachi. After that Binawri Town Karachi compiled a book titled 'Murawwajah Islami Bankari: Tajziyati Muṭāliyah, Shari Jaizah, Naqd wa Tabṣirah' (Contemporary Islamic Banking: Analytical Study, Legal Review, Criticism and Commentary) which criticized the legal basis of existing IBF in Pakistan (see Zubair and Chaudhry, 2014).



### **3.3: Lack of Political Support to IBF in Pakistan**

Islamic Banking and Finance is suffered with the lack of political support in Pakistan. For example, Khan and Bhatti (2006) are of the view that Council of Islamic Ideology of Pakistan prepared blueprint of interest-free economy in 1980 and suggested the government to restructure state institutions on Islamic lines. No comprehensive strategy was ever framed. Zia ul Haq started elimination of interest from economy but banned the Federal Sharia Court (FSC) to issue any judgment against interest for ten-year. He took these measures for some political targets. Nawaz Sharif established commission for Islamization of Economy in 1991 to get support of Islamic political parties. His Govt. challenged 1991 FSC judgment on Riba in the Supreme Court of Pakistan. Military government of 1999 supported petition of United Bank in the Supreme Court for suspension of its judgment on Riba. It also manipulated Supreme Court bench of judges, who gave a decision on Riba case review in June 2002. The policy makers opposed Islamic banking as it is a threat to their control over financial resources. The SBP did not formulate any practical policy for interest-free financial system and complicated judicial system discouraged banks from adopting PLS system. Weak economy, socio-economic and political constraints did not allow Islamic banking to take its roots in Pakistan.

Similarly, according to Mehboob Ul-Hassan (2007) elimination of interest from the economy has constitution provision in Pakistan. Zia-ul-Haq announced to eliminate interest from the economy, but imposed a ten-year ban (from 1980 to 1990) on FSC preventing it from issuing any ruling against interest based banking. The government of Nawaz Sharif established commission for Islamization of the economy in June 1991 to promote Islamic Banking but same government challenged 1991 FSC judgment on Riba in the Supreme Court. SBP did not devise any practical policy for adoption of Islamic banking until 2001. Socio-economic set of country supports ruling class of society having monopoly over state affairs. Above factors delayed implementation of interest free banking in the country.

Moreover, according to Khan (2008), lack of genuine political will is the main reason of failure for Islamic banking in Pakistan. Zia ul Haq initiated Islamic banking to

meet his political objectives. Other regimes also used Islamic banking as a political tool to gain their vested interests. Policy makers in the ministry of finance avoided Islamic banking because it was a threat to their powers in financial sector. SBP did not devise proper strategy of training to financial institutions. Furthermore, Federal FSC declared all forms of interest into the category of Riba in its ruling in 1999 and ordered the government to abolish interest charges. The government and some financial institutions made appeals to Shariat Appellate Bench (SAB) of the Supreme Court of Pakistan. The SAB delivered its judgment in 1999 rejecting the appeals and directing that laws involving interest would cease to have effect finally by 2001. The court concluded that present financial system had to be subjected to radical changes to bring it into conformity with Shari'a. SAB of the Supreme Court in its short judgment 2002 set aside previous judgments on Riba by FSC in 1991 and judgment by SAB in 1999 and referred the issue back to FSC for rehearsing where it is still awaited.

Although, Islamic banking system is enshrined in the constitution of Pakistan. The Council of Islamic Ideology (CII) recommended a three-year plan for the elimination of interest from economy. Interest was to be eliminated from all specialized institutions in phase one. Interest was to be removed from bank operations and financial institutions in phase two. Dual banking (profit-and-loss deposits along with conventional accounts) was adopted during this phase. Banks were not to accept interest based deposit in third phase. A gradual approach was adopted without adequate institutional arrangement which complicated substituting conventional system into interest free economy (see Ahmad, 2006). However, Govt. of Pakistan did not devise any sharp policy for Islamization of economy except developing the Council of Islamic Ideology. Successive regimes used elimination of Riba from the economy for their political goals (see Mehboob ul Hassan, 2008).

But, it is important to note that Govt. of Pakistan suddenly took a policy shift in 2001. An Islamic banking division and banking policy department was established at the State Bank of Pakistan in 2001. A formal license in the name of Meezan bank limited was issued to operate as a full-fledged Islamic bank in January, 2002. Under policy guideline 2003 of SBP, five more Islamic banks named Bankislami Pakistan Ltd, Dawood Islamic bank Ltd, Dubai Islamic bank Ltd, Emirates global Islamic bank Ltd

and Albaraka Islamic bank got permission for Islamic banking business. The conventional banks were allowed to open separate Islamic banking branches. The combined branches of Islamic banking of both conventional and Islamic banks reached 514 by December 2008 (see Awan, 2009).

### **3.4: Social Movement and IBF**

Any social and cultural movement cannot be set to remain disconnected to politics. It has to deal the political phenomenon in one or the other way. The emergence of Islamic NGOs which though are non-political and claim to deal with social issues like poverty, marriages, burring the dead and providing other socio-economic needs of the Muslim societies in different parts of the world. In this way, these NGOs revive local values and culture and this is how, they are become the political discourse. It would be interesting to develop a link of apolitical nature of indigenous mechanism of Mitgamer project of Egypt, Taboon hagi of Malaysia and interest free loans of Pakistan in 1950's. Mitgamer project was converted to a social bank by the Egyptian Government at a later stage to nullify its Islamic influence from the society and interest free loan mechanism in Pakistan could not take roots due to non-cooperative attitude of the ruling regimes.

Likely, Sparre (2008) states that a new group of actors especially upper middle class young people in Egyptian civil society have emerged in providing voluntary social welfare activities by establishing their own organizations different than the traditional one. They mobilize young people to participate in civil society through a new approach to Islam and voluntarism. They combine social welfare activities to human development associated with awareness. Most of them were started by the student of public and private universities by year 2000. The members of these organizations are inspired by Amar Khaled's ideas of faith-based development. These members instead of changing political order think to change individuals and local communities by adopting Islamic values.

Moreover, the emerging religious power and strength according to Bayat (social scientist) is a shift from Islamism as a political project to one primarily concerned with personal salvation, ethical salvation and self-actualization. The Muslim youth who

remained excluded by their state and elders are establishing organizations by Islamic motivation for active engagement in society. This is how they are searching and creating their role and position in the society. They want to create a just society by solving social problems advised by Islamic scholars.

Furthermore, Clark (2004) is of the idea that Islamic social institutions create and establish middle-class in Muslim society. This middle-class network has political significance. These institutions develop a horizontal network of middle-class donors, volunteers, doctors, patients, social workers and managers. These institutions are a mean to uplift the poor class in the Muslim society. She has coined resource mobilization theorists who refer to social movements as multi-organizational fields (Klandermans, 1992) or social movement industries (McAdam, 1988) or loosely structured collective action (Anthony Oberschall, 1980) in which institutions and groups are loosely bound by the same ideology, symbols and are connected by social networks. Islamic clinics are established in horizontal networks connecting circles of friends together. According to social movement theory, these social networks are mean to movement participation and recruitment. This framework analyses horizontal connections within social networks, between social networks and institutions, and between individual institutions. Hence, the growth of secular state in the 20th century and changing economy are two historical links which produced Islamic social institutions in the region (Egypt, Jordan and Yemen). A local middle class emerged as a result of economic disorders and changing economy. The state started social welfare services which were extended by religious authorities by early nineteenth century. During this transformation both state and religious authorities failed to provide sufficient social welfare services and this gap was filled by the local middle class.

Similarly, according to Nasr (2009), a new business-minded middle class in Muslim societies has emerged and reshaping religion, social, and political life and would replace the radical elements. Some of the Muslim world is missing this middle class because of their close economies. However, the growing middle class is evident in Iran, Pakistan, Malaysia, Indonesia, Turkey, and Dubai. This middle class would be a mean of wealth generation, innovation, and social transformation in the Muslim societies. He has linked the growth of IBF in the world with growing Muslim middle

class. This demand is growing as Muslim masses have money to invest and it is not only the oil money. A growing middle class in the Muslim societies want to adopt Islamic financial mechanism. Islamic finance has been most rapidly growing segment of global finance in recent past and its market grew by 30 percent globally during the current economic crisis.

Moreover, Bayat (2005) opines that Post-Islamism is an attempt to conceptualize and strategize the rationale and modalities of transcending Islamism in social, political, and intellectual areas. It combines religiosity and rights, faith and freedom, Islam and liberty. It wants to marry Islam with individual choice and freedom, with democracy and modernity. Islamism is defined by combination of religion and responsibility, post-Islamism emphasizes religiosity and rights.

Furthermore, Ayoob (2004) states that Islamist resistance movements were shaped for resistance to colonial domination without incorporating socioeconomic changes along with cultural and moral transformation. Had these resistant movements include the socioeconomic changes the results would have been different. During the colonial period, Islamist movements had to share the stage with secular nationalist forces through which anti-colonial struggle was waged. Unlike Marxists, the Islamists were less interested in socio-economic change than with moral and cultural transformation.

It is interesting to note that Touraine (2002) defines social movements as conflicts between organize actors over social use of common cultural values. It studies social conflict and social initiatives within a given social situation, as industrial society or information society. It is the inner studies of a socio-economic system. He considers a social movement to be an answer either to a threat or a hope that is directly linked to the control that a social group has over its capacity to make decisions and to control changes. The future of democracy, freedom and justice depends on different parts of the world's capacity to transform at least part of the present-day anti-globalization movement or anti-capitalist movement into social movements.

Similarly, Bryan (1994) identifies the relationship between globalization and Muslim self-conception of communication within global ummah. Globalization of Islam is the result of effective global communication system. Islam had always claimed

universalistic status while contemporary communications systems gave it uniformity and universalism. The contradiction of modern systems of communication is that it makes Islam simultaneously exposed to western consumerism and provides the mechanism for distribution of a global Islamic message.

Moreover, according to Sullivan (1994), rise of Islamic social movements in the late 20th century has three phases. In phase one Ataturk's model of secular state was adopted in Muslim majority states except Gulf States, Pakistan and Malaysia. Secular education, controlled security mechanism interrupting family relations and suppression of Islamic groups were implemented. Phase two emerged after the Muslim defeat in the 1967 war and marked by international economic instability gave a crisis of global dominated leadership. Saudi Arabia and Gulf States directed oil revenues to revive Islam in the poorer secular states and eroded their legitimacy. Migration of labor force from poor countries of Islamic world to the gulf countries brought instability and change. Consequently, it disrupted the existing power structure by explosion of social forces. Phase three is followed by collapse of oil prices in 1980,s and adoption of structural adjustment programs by the multilateral institutions and a powerful demonstration effect on other Islamic protesters by the Islamic revolution of Iran. In some countries the Islamic organizations have become a parallel state welfare service. Consequently, post-colonial secular state idea failed to meet its objectives.

He further states that Islamic movements rely on networks often created by scholarly and student affiliations. They construct dense networks of Muslim associations connecting mosques, schools, welfare associations, pilgrimage associations, clinics, missionary activity, community development associations and student associations. On the political front, Islamic civil societies organizations form a parallel organizational alternative to the state, when allowed to compete are very successful in pluralist democratic elections.

Similarly, Krause, 2007 states that Gulen has established many charitable organizations, hospitals, schools, universities, media outlets, journals, poverty eradication foundations, interfaith & intercultural dialogue institutions. Volunteerism is a cornerstone to the success of movement's institutions as well as support of small businessmen, social elite, community leaders and powerful industrialists. With

donations from these sources, trusts and foundations establish above institutions to provide social services to help masses in society. Moreover, in its sponsorship and support for interfaith and inter-civilization dialogue, Gulen movement seeks both to counter the impact of more violent fundamentalist pressures in modern Islam and to undermine wherever it can Huntington's (1996) Clash of Civilizations thesis (see Park, 2007).

### **3.5: Importance of Stakeholder Analysis**

It is the need of time to analyze and explore the nature of social contracts among key stakeholders of IBF in Pakistan. We do not find any detailed study which has covered the impacts of stakeholders on IBF in Pakistan. The present study is an attempt to explore the attitudes of key stakeholders towards IBF in Pakistan. The study would be unique in its nature by capturing weight of all the key stakeholders in its analysis. The situation would be complicated when conflicting interests and attitudes of stakeholders prevail in a situation. The consensus among the key stakeholders on a theory and doctrine would lead to the popularity, acceptance and implementation among the masses. An example is necessary to put weight in the argument. A family is a basic unit of a society. Who is more important in this unit: parent, children, relatives, servant or neighbors? Every unit has its importance and, if neglected could threat the family unit. The prosperity of the family unit depends on the unity and harmony among the said unit. Stakeholder analysis regarding IBF would explore and highlight the importance of neglected segments of society such as religious scholars, Islamic political parties and general masses. The studies below are shed light on the importance of key stakeholders.

For example, Crosby (1991), states that the purpose of stakeholder analysis is to indicate whose interests and why those interests should be taken into account when making a decision. How to know, when a group's interest must be given specific and serious consideration? When a group is in a position to damage the authority or political support of the decision maker, then it should be taken into account. When the group's support provides a net benefit to an organization and enhances the decision-maker's authority, then it should be considered. When a group is capable of influencing the

direction of an organization's activities, it needs to be counted as a stakeholder.

Similarly, Bryson (2003) is of the view that stakeholder support requires coalitions and long-term viability of policies and plans. Public policies, organizations, communities, countries and civilizations will fail when key stakeholders are not satisfied. Ignorance of key stakeholders results in to a series of disastrous misadventures (see Barbara Tuchman, 1984). Moreover, Schmid (2006) states the main groups of stakeholders are customers, employees, local communities, suppliers and shareholders. Other groups of stakeholders are media, public, business partners, future generations, past generations, academics, competitors, activists, trade unions, financiers, competitors, government, regulators and policy makers (see Friedman, 2006).

Furthermore, Best (2007) asserts that stakeholder analysis is a process of systematically gathering and analyzing qualitative information to determine whose interests should be taken into account when developing and implementing a policy. Actors who have a vested interest in the policy are considered stakeholders. These stakeholders can be categorized as international, public, national political, commercial, non-governmental organization, labor and consumers. Stakeholder analysis helps to refine understanding and influences success, maps the politics, stresses collaboration and communication needs, identifies opportunities and anticipate problems, develops consensus, provides data for multidimensional analysis and can attract resources and support.

### **3.6: Borrowed policies and need of IBF**

The economic, political, social, cultural and religious needs of Muslim regimes are entirely different than the western nations. The post-colonial method of adoption of western policies by Muslim regimes resulted into the aggravation of the situation in the Muslim states. For example, Montgomery (2010), while making a reference of El-Ashker and Wilson (2006) Islamic revivalism movement changed emphasis on developing Islamic solutions for social challenges. End of colonial rule brought opportunities for the Muslim leaders to design and implement domestic policies to substitute the colonial legacy. Consequently many Muslim states and their masses turned to Islam for solutions. Second, Arab's defeat of the 1967 war with Israel created



massive popular support for reform and adoption of Islamic ideals in society. Islamic revivalism is linked to religious, social, political, and economic matters. The revival of Islamic religious practices started in the post-colonial era. Islamic organizations, Muslim brothers and OIC supported the teachings of Islam among the Muslim masses. The same period provided intellectual development and establishment of infrastructure institution- Islamic research centers and universities in the Muslim world. The establishment of the Islamic Development Bank in mid-1970's created ever lasting effect on the social and economic development of Muslim Ummah.

According to Siddiqi (1996), it is the need of time to design policies while keeping in view the religious commitments of the society. The social, cultural and religious factors must be taken in to account in our policies. Only religious oriented policies would success as the people of Pakistan are committed to the Islamic way of life. Historical and religious background of the area shows that people of this region have always been looking for convenient and natural way of life.

Zaman (2006), while discussing the failure of modern economies states that as a theory, its main principles are empirically false. It cannot predict for economic shocks and depressions. It ignores ethical side and feeding of poor masses. More than 11 million children die every year due to hunger and poverty and most research in economies is not relevant to solving real life economic problem. Islamic economics is in its process of evolution. The humanity would have to wait till the Muslim can practically show some alternative mechanism to capture the economic problems (income inequalities, unemployment, inflation, hunger, poverty, economic shocks and depressions). However, the paradigm of Islamic political economy and world-system basis on the epistemology of unity of knowledge in the Qur'an and the Sunnah gives birth to a new field of human inquiry that can be truly revolutionary as it is reliable (see Choudhury, 2001).

It is interesting that economics and politics are inseparable aspects of social existence and cannot be studied separately. The study of political economy is a more effective way of studying societies. Political economy is defined as: *Focus on phenomena that lie at the cross roads of the traditional fields of political science and economics. It seeks to explain how political power shapes economic outcomes and how*

*economic forces constrain political action?* (see Khan, 1994).

Likely, foreign norms and new economic policies serving the interests of globalization rather than Islamization undermine the prospects of Islamic political economies taking root in the Muslim world (see Khan, 1999). Likewise, Muslims failed to implement their good ideas and depended on borrowed theories. They must define their problems and set their own agenda. A simultaneous consideration of economic, political and social factors may solve the problems faced by the Muslim communities. Economic problems cannot be considered in isolation from political and social issues, as is assumed in west (see Zaman, 2007). Moreover, western formulations of social sciences cover ethical and social commitments to secular views which conflict the Islamic views. Muslims have accepted the western theories at large and it has prevented the development of genuine Islamic substitutes (see Zaman, 2005). Furthermore, western Physical sciences are making progress and social science has failed in terms of their outcomes. Society is shaped by families, where children learn from their parents and other to be a part of that. Families are broken in the west. The breakdown of this important unit of society can be seen in a report on “Fractured Families” by the Social Justice Foundation (2006) (see Zaman, 2009).

It is worth mentioning that Chapra (2010) explains the idea of integrated role of market, families, society and government. Market is not the only institution where people interact in human society. They interact in family, society and government, and their interaction in all these institutions is closely interrelated. Self-interest raises efficiency in the market place but having no moral restraints on individual behavior would result ineffective institutions, disintegrated families, uncaring society and corrupted government. Mutual sacrifice is necessary for keeping families attached together. Lack of such sacrifices can lead to a decline in the quality of human input of all other institutions, market, society and government.

Similarly, Zaman (2008) is of the view that the Holy Prophet (PBUH) completely transformed the economics of Arab society. Economic laws prevailed in Muslim countries can be changed by transforming our societies through effective motivation. For example, motivation for the payment of Zakah and adoption of simple lifestyles can eliminate poverty from Islamic societies. Western social science simply

observes human behavior, while Islam is a collection of tools for transforming behavior of individuals and societies. This area of transformation is one where Islam has deep visions to offer and nothing comparable is available in the western literature. Moreover, Islamic Finance could solve the present day's problems of economic instability, currency run-off, investment needs, political subservience, inequity and poverty of the Muslim World. This reconstruction may increase the political stability and organization for the spread and practice of Islamic transformation (see Choudhry, 2003).

Likely, Manan (1989) asserts nine conditions for development in an Islamic framework. a) Mass participation and sharing in economic activities through the establishment of Islamic social banking at grass-root level. b) Using distributive consideration for determining production priorities. c) Humanizing the lines of production. d) Humanizing the lines of distribution and consumption. e) Institutionalizing the obligatory, Islamic tools of redistribution of income. f) Institutionalizing the Islamic voluntary sector. g) Provision for future generations. h) Increasing the level of economic cooperation. i) Increasing the levels of regional, economic and monetary integration. Furthermore, Manan (1989) states that Muslim countries adopted irrelevant development models of the advanced countries. The Muslim countries having different resource endowments are facing different problems. Every poor Muslim country needs an indigenous development model based on its own problems.

Moreover, according to Tahir (1995) an experiment of more than four decades proved that borrowed values of the developed countries failed in developing states. Islamic concept of economic development is the provision of fundamental economic rights, improvement of the moral, social and institutional bases, economic growth by a constant distribution of income or a reduction in economic inequalities, no deviation from the original divine mandate, a strong defense and pace with the ever-changing times.

Furthermore, Ahmad (2005) is of the view that the western development policies are based on modern capitalism and socialism and their adoption in Muslim countries resulted into failure. The reason behind is that the Muslim countries have a particular culture which cannot be separated from their economic system. Islamic economic

system is different from modern capitalism as well as from socialism. It combines private with public ownership and material with spiritual objectives under the given religious rules and values. When the value system is different, targets will differ and policies needed would be different. Blind adoption of western development models is one of the most important factors behind the chronic problems of economic and social underdevelopment in Muslim countries. The secular development theories have neglected the question of “what ought to be” and focused only on “what actually exists”.

### **3.7: Politics of Islamic finance**

The political factors which created the concept of IBF are worth mentioning. The social mechanism in an historical context is generally believed root cause for the evolution of IBF. One would have to explore political factors which created the need for development of IBF. The political ups and downs of the Muslim Ummah during the last century awaked the leadership which realized the unity and establishment of Islamic finance. IBF would not have attained recognition and fame in the world without political determination. Although a lot of political resistance still prevails among the Muslim regimes in adoption of IBF. However, significant political development resulted in to creation of OIC and consequently the establishment of IDB which further created certain institutions during 1970s. From its origin, the OIC was involved in planning Islamic monetary and financial systems. The factors behind the creation of OIC were the idea of Pan-Islamism, Arab-Israel war of 1967 which resulted in to former defeat, desire by Muslims for sociopolitical and economic systems based on Islamic tenets and a stronger Islamic identity and the ideology which is the result of the writings of Muslim scholars of the 20th century. The foreign ministers of Islamic states and the OIC plate form felt the need of Islamic finance as an emerging need for the Muslim countries of the world. The Arab states provided the financial resources while Pakistan and Egypt provided the technical support (See Roy, 1991 and Sheikh, 2002). The Arab-Israel war of 1967 resulted in to the creation of the Organization of the Islamic Conference (OIC) which planned Islamic monetary and financial systems and created the Islamic Development Bank (see Ibrahim, 2008).

Likely, Henry (2004) appreciates the performance of Islamic banks as compared to the conventional banks in countries like Saudi Arabia, Kuwait, Jordan and Turkey. It is because of the openness and globalization that IBF took roots and would get prosperity in future. His study did not incorporate the resistance to IBF by the current regimes of the above countries. The secular elements in the Turkish Govt. consider the IBF a threat to their rule. As a result of the liberalization of the Turkish economy, Islamic business has become an important sector of the economy.

Likely, Malley (2004) gives opinion that Islamic banks in Jordan may prove to be intermediaries between the government and Islamic activists. Islamic banks can perform this role in a situation of real political liberalization that seems to be doubtful in the near future. Conversely, Parks (2004) discusses the state domination on Islamic banking in Tunisia. The helping hand of the state brings prosperity for IBF in the country while a state dominated policy adversely affects its progress. Good relations with the political regime bring more deposits and funds for an Islamic bank to make progress. The finding explains political support of ruling regime essential for IBF to take roots in a country.

Likely, Hamid (2006) states that the Islamic finance is subject to faith based belief which is subject to the divine guidance of Islam. This belief influences all spheres of a Muslim's life - private, public, individual, collective, family, social, economic, as well as the political sphere. Moreover, Abraham (2008) is of the view that Islamic finance challenges the conventional finance, addresses religious identity and explores relationship between religion, politics and the economy. The politics of religious identity is very strong and complex issues of cultural recognition, economic redistribution and political representation have emerged.

Similarly, Adas (2008) examines social origins and characteristics of Islamic entrepreneurs their development and cultural aspects in Turkey. There was a significant shift in the state's policies toward religion called religious adjustment reforms. The purpose of these reforms was to construct a new national cultural policy- Turkish-Islamic synthesis. These changes in the state's economic and cultural policies created conditions in which Islamic actors emerged as important political and economic actors, developed strong connections to the political center, and hence access to the state

resources. Secondly, the emergence of Islamic banks played a central role in supporting the Islamization of economy and Islamic economic actors in Turkey.

However, Wilson (2004) warns to devise a mechanism of IBF to protect the capital flight from Muslim countries. This is worth consideration to devise such a system to pool and invest the local resources of a country to meet the growing needs at the domestic level. This would be the true spirit of IBF to take its roots in the societies of the different countries of the world by opening new avenues of investment. The proposed mechanism would be protection of capital flight from the developing countries of the Muslim Ummah. Conversely, Soliman (2004) states that the most significant guarantee of Islamic finance's future may be the large multinationals that have opened Islamic windows for receiving deposits. Islamic finance is becoming respectable in international business circles. It is in the Western world's interest to encourage a more benevolent sort of globalization whereby Islamic financial instruments are integrated into international finance.

The opposition to the paradigm of IBF is explored by Soliman (2004), who states that Mit Ghamr saving house was a model of interest-free banking started by Najjar in Egypt. He gave the name of saving bank to protect it from the opposition of Govt. Zakah fund was named as the social service account to hide the Islamic identity of the bank. The Govt. when realized its Islamic influence merged it with other interest-based banks to lose its identity and Najjar was forced to leave the country. This experiment created a pressure on the government to consider Islamic banking in the country. The government of Egypt established the first Islamic bank, Nasser Social Bank in 1971.

### **3.8: Criticism on IBF**

Those who criticize are of the view that Islamic banking and finance is on the pattern of conventional banking. Neglecting of mass coverage is a serious challenge to IBF in the Muslim world. Islamic finance has so far failed to internalize social dimension and social justice in its operations. Islamic financial institutions do not address project financing, long-term risky projects and social targets for economic development (see Hasan, 2007). Similarly, Islamic finance has failed to provide the

needs and economic development of Muslim communities. Poverty is one of the main problems of Muslim countries and Islamic finance has little to offer towards its solution (see Siddiqi, 2006).

Likewise, according to Kamla and Rammal (2013), all religions place significant importance to social justice and equality. Financial institutions are the means to attain equality and justice in society. Islamic banks are expected to play a significant role in equitable redistribution of wealth in society to attain social justice. The study concludes that Islamic banks have no serious schemes targeting poverty elimination or enhancing social justice in society.

Moreover, according to Islamic Economics Bulletin (2003), Abdul Manan is involved in the introduction of micro-credit for the poor, Cash-Waqf Certificate and establishment of World Social Bank for global mobilization, creation and investment of Cash Waqf Fund to provide freedom from educational, social and economic deprivations. Islamic social banking at grass-roots level would result in mass participation.

Likely, Zaman (2009) cites the famous Islamic scholars (Chapra, Siddiqi, Kahf, Behdad and Kuran) who explain the crisis and failure of Islamic economics. It failed to solve the problems faced by Muslim countries, alternative to capitalism and socialism, any agenda for political economics, a viable social alternative and a drive to correct economic imbalances and injustices. Moreover, Muslim Ummah faces certain obstacles in the field of research regarding Islamic economics. A historical touch followed by empirical studies supported by an institutional arrangements with Islamic moral values and broad vision of all segments of the society would be the right direction to address issues faced by the Ummah (see Siddiqi, 2008).

Furthermore, Henry (2001) explains that Islamic banks are charging interest on the name of Islamic modes and Islamic banks are similar to that of conventional banks. No clear mechanism is evident which can differentiate Islamic banking from interest based banking. Shari'a boards of different Islamic banks are issuing inconsistent judgments on similar issues and standardization is a main problem. Islamic banking can only survive by developing both short and long terms investment opportunities.

Conversely, Atzori et al (2010) are of the view that Islamic finance attracts suspicion for its alleged links with Islamist political movements and terrorist groups. Islamic finance is affected by the very same flaws of conventional financing methods, such as speculative investment behavior and accountability and transparency issues. This policy brief aims to provide policy makers and investors with the state-of-the-art of Islamic finance, pinpointing the main policy challenges.

In a similar way, Yousef (2004) notes the difference between the theory of equity-based finance and murabahah-dominated practices of Islamic banks. He examines the murabahah condition in Islamic finance through the prism of a systematic analysis of financial structures across the world. His findings show that Islamic banks are operating on the pattern of conventional banks. Similarly, according to Kuran (2004), Islamic modes of finance like mudarabah and musharakah are used by Islamic banks to avoid interest. The Islamic modes are disguised mechanisms for charging interest by the Islamic banking authorities.

Likely according to Sramek (2009), the concept of Islamic economics emerged during the decolonization process in Muslim countries. Its creators wanted a new economic paradigm based on Islamic principles. It was an attempt to keep away the newly independent countries from their colonial legacy. The whole concept was strongly politically motivated since its very creation and this legacy has never been overcome. However, a general discrepancy prevails between the theory and practices as well as some interesting regional differences. It turns out that Islamic banking does not stand up to its own claims and even more so in those countries where Islamization of economy was imposed by the government. The reason behind such discrepancy is the influence of political agenda on Islamic finance.

### **3.9: Role of Islamic Political Parties for IBF in Pakistan.**

Islamic political parties are an important key stakeholder of IBF can convert it into a mass movement by a political means. Some studies such as, (Misra, 2003; Hathaway, 2004; Baele et al., 2010; Crisis Group Asia Report No.216, 2011 and Rana, 2011) explain role and importance of Islamic political parties for Islamization process of the country since 1947. According to them Islamic political parties played significant



role in the constitutional development and developed political alliances for the implementation of Islamic Shari'a in Pakistan. These parties are so influential that any regime cannot survive without their support. Islamic political parties being the major stakeholder of IBF failed in creating any pressure on the successive regimes for policy formation regarding its promulgation in Pakistan. The said parties did not start any movement, develop infrastructure institutions (universities, research centers, etc.) and organize agitation (rallies and long marches) for the implementation of IBF in Pakistan. General masses due to their Islamic aspiration have the tendency towards IBF even though its mechanism is not clear. It proves the presence of IBF in Pakistan and scope of its progress if properly addressed by the concerned stakeholders. The people inspirations coupled with political will, bureaucratic support and Shari'a endorsement can convert IBF into a mass movement in Pakistan.

For example, Baele et al. (2010) analyzes default rates on conventional and Islamic loans using a comprehensive monthly dataset from Pakistan that follows more than 150,000 loans over the period 2006:04 to 2008:12. They find strong evidence that the risk rate on Islamic loans is less than half the hazard rate on conventional loans. Across duration models we include a variety of loan contract, borrower, and bank characteristics, where possible combined with time, borrower, bank or borrower bank fixed effects. In big cities Islamic loans default less likely if the share of religious parties' increases, suggesting that religious motivation may determine loan default. It means that religious parties do not influence on bank officials to recover loans.

Likely, Misra (2003) opens that Interest-free economy by introducing Islamic banking in the country was an important of the 15-point election manifesto of the MMA (Muttahida Majlis-e-Amal). One of the reasons of policy shift in 2001 regarding introducing Islamic banking by the military regime of Pervaz Musharraf was to accommodate the demand for Islamization process of MMA. Both Musharraf and MMA need each other to attain their political objectives. Religious feelings in Pakistan are deeply rooted and can never die. Both military regimes and the democratic governments used religious force and elements to harvest legitimacy and public support. None of the civilian regimes after 1988 have implemented the recommendations of CII and the Shari'a court decisions regarding Islamization of the economy. The Power

struggle between political regimes and military is normal phenomena in Pakistan and the religious parties will play a dynamic role in tilting the balance in favor of one or other side. This would further enhance the utility of Islamic political parties in Pakistan.

Moreover, Hathaway (2004) is of the view that MMA (Muttahida Majlis-e-Amal) emerges a political force in Pakistan's 2002 national elections by winning sixty seats in the National Assembly. MMA form the Govt. in the NWFP province and got a prominent role in the coalition government of Baluchistan. The military regime of Musharaff took policy shift to Islamize the economy by eliminating Riba and introducing Islamic banking as a result of the pressure created by MMA. It was done to prevent the MMA which could have gain additional support by representing itself as a strong political force.

According to International Crisis Group (2011), Pakistan has 96 per cent Muslim population comprising 80 percent Sunni and 20 percent Shia. The sects of Sunnis are Barelvis, Deobandis, Ahle Hadith and Jamaate-Islami (JI). Maulana Shabir Ahmad Usmani left the JUI and formed a group with the name of Markazi Jamiat Ulema-e-Islam (MJUI) by supporting the ideology and demand of Pakistan for the Muslims of Subcontinent in 1947. MJUI was a major political party which created pressure by demanding constitution based on Islamic Shari'a and pursued for the implementation of an Islamic political system for newly born Pakistan in post-independence scenario. The struggle of MJUI succeeded in incorporating the Islamic clauses in the 1949 Objectives Resolution which provided a base for future constitutions of Pakistan. It started agitation against the Ahmadis by demanding a separate voters list for them and stressed for implementation of Islamic political system of governance in 1956. While explaining the importance of Islamic political parties of Pakistan, the report has mentioned that either elected governments or military regimes would have to accommodate the demands of Islamic political parties for their stability as they have influence on certain state institutions.

Moreover, around 25 Islamic parties participate in politics in one or the other way but their success depended on the military rulers while having less electoral victories. Islamic parties are pressure groups by making alliances with the Pakistan People's Party (PPP) and the Pakistan Muslim League-Nawaz (PML-N). Following

seven Islamic political parties are prominent in Pakistan. 1) Jamiat Ulema-e-Islam (JUI): A main Sunni Deobandi political party which is the successor in the Jamiat Ulema Hind in pre-partition India. Presently JUI is divided into groups as JUI-Fazlur Rehman (JUI-F) and JUI-Samiul Haq (JUI-S). 2) Jamiat Ulema-e-Pakistan (JUP): It was established in 1948 and is a Bareilvi political party. The party was divided into two groups JUP-Noorani and JUP-Fazal Karim.in 1990. 3) Jamaat-e-Islami (JI): An Islamic political party based on modernist political Islam. 4) Markaz-e-Jamiat Ahle Hadith: It was founded in the All India Ahle Hadith Conference of 1906. Their main base is the Quran and Sunnah and does not rely on Islamic Fiq (jurisprudence). 5) Sunni Tehreek: It was formed in Karachi and is a militant Bareilvi organization. 6) Tehreek-e-Nafaz-e-Fiqh-e-Jafaria (TNFJ): It is a Shia political party formed in 1979 for protection of the Shia Legal System. It has two branches as Islami Tehreek-e-Pakistan, TNFJ-Moosavi Group and Majlis-e-Wahdutul Muslimeen. 7) Tehreek-e-Jafaria Pakistan (TJP): It is a political party of Shia sect.

Likely, Rana (2011) highlights that all the Islamic political parties of Pakistan having common manifesto of the supremacy of divine law and its implementation. They are promoting almost a common agenda of social mobilization of society on religious basis and Islamization of the country since 1947. They succeeded to incorporate the Islamic clauses in the Objectives Resolution of 1949 which states the supremacy of Quran and Sunnah for future constitutional development of Pakistan. It further highlights that no legislation can be made against the Islamic Shari'a. The Islamization process started by Zia ul Haq regime reinforced the importance of Islamic political parties of Pakistan.

He further states that there were six sectarian religious parties active in Pakistan namely Jamiat Ulema-e-Islam, Tehreek-e-Ahrar, Khaksar Tehreek, Jamaat-e-Islami, Jamat-e-Ahl-e-Hadith and the Shia Political Party. The Jamiat Ulema-e-Pakistan was formed in 1948. The number of religious parties rose to 30 by the USSR invasion of Afghanistan in 1979. Their number reached to 239 by the year 2002 out of which 21 were Islamic political parties formally participating in politics. Moreover, other religious groups working for charity, missionary, sectarian, educational purposes or engaged in Jihad are affiliated with Jamaat-e-Islami (JI), Jamiat Ulema-e-Islam (JUI),

Jamiat Ulema-e-Pakistan (JUP) and Jamiat-e-Ahl-e-Hadith and Tehrik-e-Nifaz-e-Fiqah-e-Jafaria.

Moreover, the first alliance of religious scholars from all sects developed a consensus on an Islamic constitutional structure consisting of 22 points in 1952. The structure highlighted supremacy of Quran and Sunnah and no law would be framed contrary to Islamic Shari'a in Pakistan. Many of the clauses framed by the said alliance became part of the 1973 constitution of Pakistan. Moreover, in 1976 second alliance of Islamic political parties developed against the democratic government of Zulfikar Ali Bhutto and to implement Nizam-e-Mustafa in Pakistan. The struggle resulted into the Islamization agenda of military ruler Zia ul Haq.

Furthermore, in 2002 third alliance of Islamic political parties emerged in the name of Muttahida Majlis-e-Amal (MMA). MMA won 65 seats in the National Assembly and became ruling party in Khyber Pakhtunkhwa (KPK) and was part of the ruling coalition in Balochistan. The above mentioned alliances could not survive long because of varying political strategies and power struggle of member parties of alliance and not on religious basis.

Similarly, the religious scholars started demanding their share of power soon after the independence. Maulana Shabbir Ahmad Usmani demanded for a ministry and the appointment of a *Sheikh al Islam* (the leading scholar of Islam) having powers over the Qadis (Judges of Islamic courts) throughout the country in 1948. Similarly, Maulana Maududi demanded from the constitution assembly to make all legislation subject to Islamic *Shari'a* (see Mehboob ul Hassan, 2008).

However, IBF is not an agenda of Islamic political parties in Pakistan. Common masses can be mobilized by Islamic political parties for implementation of IBF in Pakistan. This process can enhance popularity of Islamic political parties and would create pressure on ruling regime to implement IBF in the country. A mass-appeal for interest free banking has never been started. Religious awareness is less than 10% in Pakistan. Religious alliance MMA won 53 national assembly seats in 2002 elections. A sectarian concept of religion prevails in Pakistan. Religious political parties could play some role in mobilizing masses against Riba. Lack of education, excess to rural

population, secular elements in society and lack of religious consensus are the main hurdles for Islamic banking in Pakistan (see Nadeem, 2010).

### **3.10: Views of Contemporary Muslim Scholars to Institutionalize IBF**

The masses in Pakistani society are not familiar with the theory of Islamic Banking and Finance (hereafter IBF). Although the theoretical foundations of IBF are very rich, a brief touch of it would furnish the basic foundations for understanding the mechanism of IBF in the field of political science and other social sciences. IBF is a Shari'a compliant mechanism to promote the welfare of the people in financial matters. Islamic Shari'a puts certain limits upon the individuals to protect them from conflicts, disharmony, injustice, financial disasters and social order in the society. A Muslim mind thinks in the light of divine guidance and the human reasoning is subject to Shari'a principles. Riba based conventional system cannot achieve the goals of the Islamic Shariah which aims justice, fairness and general welfare of the humanity. Riba is against the human interests and promotes unfair financial system, increases income inequalities within and among nations (see Siddiqi, 2006).

Similarly, Tahir (2006) gave the idea of negative social implications of Riba as temporary economic hardship for poor masses, selfishness, social fragmentation, class-based society, bonded labor/ peasantry and socially un-optimal allocation of resources. The negative economic impacts are inflation, unemployment, prolongs period of decline and readjustment in the economy and demise of socially beneficial projects. He further stated that the denial of Riba will lead to replacement of Riba-based loan transactions by alternative economic arrangements (trading, leasing, musharakah, mudarabah and share cropping etc.) with flow of funds tied to flow of assets would result greater integration between real and financial sectors of economy, less inflation and more employment by solving modern economic ills by getting to the bottom of the problem. Moreover, according to Tahir (1999) *Riba is a discrepancy which results from the contractual obligations of a party in the context of a direct exchange of items of the same general kind between two parties.*

Likely, Al-Qaradhawi (1997) is of the view that Islamic Shari'a discusses Allah SWT's rules, regulations and legislation in matters of worship, family, financial,

criminal, state administration, international relation and others. In resolving contemporary issues on muamalat, the Islamic jurists have taken into account very seriously the fundamental aspects of the tradition of *istinbat al-ahkam* (derivation of Shari'a rulings) such as halal, haram, Riba, *gharar*, *maslahah* and *Maqasid al Shari'a* by applying the principle of flexibility which requires changes in ruling based on the guidance of *Quran* and *Sunnah*. While mentioning the flexibility of *Islamic Shari'a*, he has quoted the words of Ibnu al-Qayyim, *the interpretation of law should be changed according to the changes in time, space, condition and tradition* and neglecting these facts will bring about injustices to *Shari'a* and would result in more harms and difficulties. However, *Shari'a* which is known to protect the interest of human being will never tolerate such consequences.

Likewise, according to Seidu (2009), the basis of Islamic finance is its value-oriented system based on the *Quran* and *Sunnah*. Riba is haram as it is based on injustice and exploitation. Contracts are based on risk sharing. Islam prohibits gambling and all transactions involving *Gharar* (uncertainty). Many forms of derivatives which involve the sale of securities are debt trading is not allowed in Islamic Shari'a. Islamic finance does not permit deals based on imaginary contracts. All the information must be shared with the concern parties. Islamic Finance is an alternative to the conventional financial system.

Similarly, Islamic finance aims to bring justice in the society by its value loaded mechanism. Profit and loss sharing and equity sharing are followed by Islamic finance. Islamic financial modes are based on real assets, possession of the real assets; genuine trade transaction and no selling of debts (see Chapra, 2009). Moreover, according to Samuelson (2007), the features of Islamic finance are interest-free, multi-purpose & not purely commercial, strongly equity-oriented, is for entire humanity and project financing on profit-sharing basis.

Moreover, classical *Maqasid* (objective) as explored by Ghazali and Shatby are *darurriyyat* (essentials), *hajiyyat* (semi-essentials) and *tahsiniyyat* (comforts). *Darurriyyat* (essentialities) for the survival of humanity are protection of religion, protection of human life, protection of progeny, protection of wealth and protection of intellect. *Hajiyyat* are semi-essential benefits to support and promote *darurriyyat*.

*Tahsniyyat* are desirable for convenience and betterment of human life. He on the basis of modern needs has presented the dynamic concept of *Maqasid al- Shari'a* by protection of religion and life as original *Maqasad*. Protection of education and justice can only be achieved by protecting intellect and provision of economic needs which are essential for living are complementary *maqasid* for the protection of original *Maqasad*. Value loaded Islamic finance supports complementary *Maqasid* by prohibition of Rib, prohibition of trade in debt, prohibition of *Ghabn* and *Gharar*, Justice, leniency, recognition and respect of private property rights. Protection of income and earnings are essential for protection of religion. Recognition and respect of private property rights directly supports protection of wealth which is one of the important complementary *Maqasid*. Hence, Islamic Finance is an essential infra-structure for the proper implementation of complementary *Maqasid Al- Shari'a*. It is not only needed for productive activities of material satisfaction, but also for educational and judicial activities to guarantee efficiency in productive activities and for protection of religion (see Ahmed, 2011). Furthermore, Ayub (2007) is of the view that combination of Islamic financial institutions, human rights groups and those believing in ethics could resolve many serious issues including hunger, poverty and social conflict from the world.

### **3.11: Islamic Finance and the Concept of Wealth Accumulation**

Wealth accumulation through permissible means is encouraged and very much different than the ownership of wealth in capitalism. Wealth accumulation and its spending according to Shari'a is a blessing without the disease of the love of money in the hearts. Contrary to this wealth accumulation like Qaroon is a curse. The rich Muslims can grow their wealth by taking risks of business and investments. Modern investment banks allow investors to participate in risks and profits of doing business. He cited the practical example of the Holy Prophet (PBUH) participation in, and led, caravans financed on this basis.

Similarly, wealth accumulation is essential for meeting the needs of an individual and his family is considered worship and encouraged its spending among needy of the society. Helping others through excess wealth will decrease precautionary

saving; adopting simple life and prohibition of wasteful consumption are the hallmarks of Islamic wealth accumulation concept. This would result more spending on human and social capital, and much less on industrial goods in an Islamic society. Human capital and trust are much stronger determinants of growth than the conventional physical capital (see Zaman, 2014).

Likewise, Islamic concept of wealth inequality is natural and subject to certain restrictions. Wealth inequality will result into competition and progress in the society. Islam ensures wider circulations of wealth by different measures. Islam ensures cooperation for the needy and poor of the society by different obligatory and optional measures. This cooperation even prevails among certain species of birds, bees and ants. He further states that Islamic economic system allows a minority of rich class under certain heavy obligations like taxes, prevention from immoral means of exploitation, hoarding and wealth accumulation. It stops the poor from begging and encourages the wealth to spend on the needy. The Holy Prophet (PBUH) established a role model of wealth protection. He stopped many companions from spending all of their wealth in the way of Allah. He ordered them to protect for their family (see Hamidullah, 1980).

Moreover, Zuriah (2014) on the bases of certain references from *Quran* and *Hadith* is of the view that wealth accumulation, its protection and distribution according to Shari'a rules is encouraged. He made a reference of Yahya and Azhar (2005) who has defined wealth means to accumulate. Wealth can be accumulated in the form of material assets (real estate, physical goods) and non-material assets (copyrights, intellectual capital) and the like. While citing references of *Quran* dangers of wealth accumulation in the form of decline in character leading to greed, pride, miserly and others are warned. Wealth accumulation at individual, society and state level is necessary for needs fulfillment at different levels. The positive aspects of wealth accumulation is blessing while negative result into problems, unhappiness, uneasiness and certain punishments in the life hereafter are warned. He concludes his discussions with the concept that wealth accumulation through Shari'a means is encouraged but some limitations are placed to absorb its negative effects.

Furthermore, the institution of *Mukhat -i-Medina* (brother-hood) was established by the Holy Prophet (PBUH) for the rehabilitations of those companions who migrated



with him from Mecca. They have left every kind of wealth and properties in Mecca and had nothing like earning means in Medina. The Holy Prophet (PBUH) made the pair of brotherhood between one *Muhajir* (emigrant) with an Ansar (local Muslim resident of Medina). This institution of socio-economic bond resulted into creation of certain earning means in the form of trade, house and land. The Ansar donated half of their properties to the emigrant companions. This was so successful that within a short period of time, the emigrant companions became economically strong. This institution of brotherhood was established by the Holy Prophet (PBUH) to solve an economic crisis faced by the Islamic state of Medina. This incidence is a clear reference of wealth creation in Islam (see Pahary, 2014).

It is worth mentioning that blood money was to be paid by the tribe and in case of failure it was to be covered by the Islamic state of Medina. It was the institution of Islamic insurance established by the Holy Prophet (PBUH) in the Islamic state of Medina. Holy Prophet (PBUH) nominated a separate market for the Muslims of Medina as an infrastructure of wealth creation by Islamic ways. It was a market having free entry and exit without any duty and fee charges. He did not impose any custom duty or any tax on anybody in Medina (see Kahf, 1987).

Similarly, the Quran and Hadiths are the sources of economic activity have laid the foundations of wealth generation, where and how to be consumed are explained. Similarly basis of legalized and illegal activities are repeatedly mentioned in the above sources (see Ghazi, 2010). Moreover, on the basis of certain references of Holy Quran Muslims are encouraged to get wealth to perform their duty of vicegerancy and to fulfill their worldly needs. While performing the duties of vicegerancy on earth one has rights and duties which can be done through wealth. Wealth is needed to meet certain Shari'a obligations like prayers, *Zakah* and *Nafaqat-i-wajaba* (obligatory spending on wife, children and parents). Islamic Shari'a orders to protect the wealth by protecting it from being wasted, wealth is trust of Allah and man is trusty, who dies while protecting his property and wealth is martyred, growing wealth through investing in different sectors of the economy, guardians of the orphans are ordered by the Holy prophet (PBUH) to invest/ do trade of the wealth of orphans, not giving the wealth to minors and one cannot possess wealth of others without Shari'a means all are indicating the importance

of the wealth. Sources of wealth generation in Islam are contracts, natural sources; inheritance and investment (growing wealth by investing in different sectors of the economy) (see Ghazi 2010).

However, distribution levels according to Tahir (2003) in an Islamic economy are preproduction level; productive activity level; post-production level; redistribution on yearly basis and redistribution at intergenerational level. The enforcement mechanism by non-formal (family, neighborhood and mosque) and formal institutions (market mechanism, *zakah*, *baitulmal*, PLS based financial system, *hisba*, *qadaa* and *waqf*) coexist. There is a three-tire model i.e. distribution of current production, inter-temporal distribution and redistribution of wealth and redistribution of wealth by inheritance.

In addition to the above, Shafi (1979) asserts Islamic objective of the distribution of wealth as (a) the establishment of a practicable system of economy (b) enabling everyone to get what is rightfully due to him (c) eradicating the concentration of wealth. He gave references of the Holy Quran about the primary and the secondary rights. The primary right belongs to the factors of production, who participate in the production process. The secondary right refers to societal share in the wealth without taking part in the production process.

While, Zarqa (1992) mentions list of tools out of which some are voluntary while others are compulsory and institutional under Islamic schemes of distribution and redistribution. Prohibition of interest and promotion of profit sharing, prohibition of monopoly, measures for distributing natural wealth, partnership of all citizens in certain kinds of wealth, prohibition of private preserves (enclosures), obligation of granting surplus water and renewable natural resources, inheritance and *Zakah*. He further presents the outstanding example of the Holy Prophet (PBUH) who did not rely only on charity to alleviate the poverty of *muhajirin* (inigrants). He, first advised the ansar to use the system of *maniha* and then utilized *fay'* for the restoration of balance in the distribution of wealth in the society.

Moreover, Iqbal (2002) gives a list of institutional arrangements to address the issue of poverty in the Muslim society. Both the public and private sectors have a balance role to play in this regard. The institution of market has to play a significant

role which is supported by other divine institutions like *Zakah*, elimination of interest, Islamic rules of ownership of wealth and natural resources, law of inheritance, compulsory maintenance of certain relatives etc. He further mentions that institutions like *awqaf*, *takaful* and *infaq* are working subject to *ijtihad*.

Similarly, Ahmed (1992) is of the view that in an Islamic economy when all the people are not paying *Zakah* due to poor Islamic believes and practices then the institution of *Zakah* should be supported and supplemented by other sources to meet the basic needs of the citizens. The maximum impact of the institution of *Zakah* on the overall economy will depend on the whole range of policies that are pursued in a country. Growth of an economy would be strengthened by the elimination of *Riba* (interest) and its replacement by profit sharing modes of finance.

Moreover, according to Al-Ghazali (2001) the solidarity of a society is achieved by minimizing the gap between have and have not by helping its poor through charity, mutual cooperation, crop sharing, profit loss sharing, hire purchase, partnership, agency, mutual loans, credits and deposits. He suggested that the prerequisites to poverty alleviation are Islamic mode of financing as crop-sharing, profit-and-loss sharing, hire purchase, partnership, and agency (*wakalah*), mutual co-operation, gift, lending and almsgiving and integrating the society through mutual love. According to him the social security for all the members of the society would be achieved through infrastructure development, promoting trade and commerce, extensive cultivation of land, excelling craftsmen products, human resource development on modern grounds, identification of corrupt verses honest, needy verses master of arts/craft (resourceful persons) and their utilization for further resources generation.

Likely, according to Khan (1994) *Hayat tayyiba* (to live a good life) is the objective of life in which economic relationships are based on *adl* (justice) and *ihsan* (equity) while economic activity is organized on the basis of mutual help and cooperation. Contracts, commitments and oaths must be fulfilled in social and economic dealings. Furthermore, Manan (1989) gives nine conditions for income generation (sources to get wealth) in an Islamic framework. a) Mass participation and sharing in economic activities through the establishment of Islamic social banking at grass-root level. b) Using distributive consideration for determining production priorities. c)

Humanizing the lines of production. d) Humanizing the lines of consumption. e) Institutionalizing the obligatory Islamic tools of redistribution f) Institutionalizing the Islamic voluntary sector. g) Provision for future generations. h) Increasing the level of economic cooperation. i) Increasing the levels of regional, economic and monetary integration.

### **3.12: IBF and its Modes of Financing**

Islamic Finance is based on the principle of no Riba (Usury), no *Gharar* (uncertainty), no gambling and game of chance. It prohibits Riba and promotes trade. Islamic banks use the following alternative financing tools:

***Mudarabah***: when two parties are agreed to produce goods/services with the condition that one provides capital and other services on a pre-agreed rate of profit, In case of loss, the owner will lose his capital while other services.

***Musharakah***: when two parties are agreed to pool capital and services in a Shari'a compliant economic activity on a pre-agreed profit and loss sharing basis.

***Murabaha***: A commodity/service sold on defer payment (price+ profit) basis.

***Salam***: Payment for a good/service is in advance while delivery of good/service in future.

***Ijarah***: It is simply leasing of an asset against rent.

***Istisna'a***: Manufacturing goods are sold to a customer in future on advance periodic payments (price+ profit) basis (see Ayub, 2007).

The most distinguishing feature of IBF is asset-backed financing which leads to the generation of goods and services while capitalist financial system deals in derivatives and paper money. Money is simply a medium of exchange and its trade is not allowed by Islamic Shari'a. Islamic financial system allows such liquid assets which generate goods and services in the economy. The alternative financing tools presented by IBF are musharakah, mudarabah, Salam and istisna' are means to generate goods in the economy. Leasing and murabahah also create goods and services and are used as substitute in situations where above mentioned tools are not working. In conventional financing, increase in money supply when not matched with increase in goods creates inflation in the economy (see Usmani, 1998).

*Quran* and *Hadits* directly prohibit *Riba*, *Gharar*, Gambling and games of chance in the economic activity. *Riba* is increased amount over the principal in a debt / loan against time. Accumulation of benefits without any laboring or risk is categorized under *Riba*. While earning profit, an investor has to face the loss against his financial investment. Indexation of loan is only allowed for gold and that currency which is not subject to inflation by the *Fiqh* academy of OIC.

*Gharar* refers to a situation of extreme doubt in an economic activity or contract. *Gharar* in a transaction give undue loss to one party while excess benefit to the other. When rights and duties of parties involved in a transaction activity are not mentioned and it ends up with unknown results falls under *Gharar*. All those contracts having *Gharar* are prohibited by Islamic Shari'a. No clear knowledge in a contract by the concerned parties is referred to *Jahal* and is part of *Gharar*. Transactions like derivatives and choices are not allowed due to *Gharar*. *Gambling* holds *Gharar* and lotteries are similar to *gambling*. Both *Riba* and *Maisir* are involved in prize schemes and hence prohibited (see Ayub, 2007).

Similarly, IBF is based on many pillars (*Musharaka*, *Modarabaha*, *Murabahah*, *Istisna* etc.) while conventional financial system is holding a single pillar of interest. The former is dynamic and applicable all over the world, flexible in its adjustment according to the needs of humanity in all the times viz-a-viz latter which is static and subject to crisis (see Tahir, 2007).

Although IBF operates on its modes of finance while a layer of other institutions coupled with it are imperative to attain social and economic objectives. For example, distribution levels according to Tahir (2003) in an Islamic economy are preproduction level, productive activity level; post-production level; redistribution on yearly basis and redistribution at intergenerational level. The enforcement mechanism by non-formal (family, neighborhood and mosque) and formal institutions (market mechanism, *zakah*, *baitulmal*, PLS based financial system, *Hisba*, *Wadaa* and *Waqf*) coexist. There is a three-tire model that is distribution of current production, inter-temporal distribution, redistribution of wealth and redistribution of wealth by inheritance.

Moreover, Zarqa (1992) presents a list of seventeen tools out of which three are voluntary while others are compulsory and institutional under Islamic schemes for

distribution and redistribution of wealth. Prohibition of *Riba* and promotion of profit sharing, prohibition of monopoly, measures for distributing natural wealth, partnership of all citizens in certain kinds of wealth, prohibition of private preserves (enclosures), obligation of granting surplus water and renewable natural resources, inheritance, *Zakah*, possible yield of *Zakah*. The potential distributive effects of *Zakah*, *Zakah al fitr*, *al-waqf*, share of *al-gharimin* (debtors), share of *ibn al-sabil* (wayfarer) in *Zakah*, system of *aqilah* (indemnity for blood money), obligatory maintenance by relatives, guarantee by the public treasury of a minimum level of living for each citizen and right to acquire necessities of life.

Furthermore, Manan (1989) asserts nine conditions for income generation (sources to get wealth) in an Islamic framework. a) Mass participation and sharing in economic activities through the establishment of Islamic social banking at grass-root level. b) Using distributive consideration for determining production priorities. c) Humanizing the lines of production. d) Humanizing the lines of distribution and consumption. e) Institutionalizing the obligatory, Islamic tools of redistribution of income. f) Institutionalizing the Islamic voluntary sector. g) Provision for future generations. h) Increasing the level of economic cooperation. i) Increasing the levels of regional, economic and monetary integration.

However, social implications of IBF are worth exploration. Al-Ghazali (2001) asserts that solidarity of a society is achieved through minimizing the gap between have and have not by helping its poor through charity, mutual cooperation, crop sharing, profit loss sharing, hire purchase, partnership, agency, mutual loans, credits and deposits. He suggests that the prerequisites to poverty alleviation are Islamic mode of financing as crop-sharing (*muzara'ah*), profit-and-loss sharing (*mudarabah*), hire purchase (*ijarah*), partnership (*musharakah*), and agency (*wakalah*), mutual co-operation, gift, lending and almsgiving and integrating the society through mutual love. According to him the social security for all the members of society would be achieved through infrastructure development, promoting trade and commerce, extensive cultivation of land, excelling craftsmen products, human resource development on modern grounds, identification of corrupt verses honest, needy verses master of arts and their utilization for further resources generation.

Similarly, Tahir (2006) presents the idea of negative social implications of *Riba* as temporary economic hardship for poor masses, selfishness, social fragmentation, class-based society, bonded labor/ peasantry and socially un-optimal allocation of resources. The negative economic impacts are inflation, unemployment, prolongs period of decline and readjustment in the economy and demise of socially beneficial projects. He further states that the denial of *Riba* will lead to replacement of *Riba*-based loan transactions by alternative economic arrangements (trading, leasing, *musharakah*, *mudarabah* and share cropping etc.) with flow of funds tied to flow of assets would result greater integration between real and financial sectors of economy, less inflation and more employment by solving modern economic ills by getting to the bottom of problem.

The dynamic mechanism of IBF is an area which is focus of attention for researchers. In *Riba* based financial system banks are pure financial institutions and financial intermediaries. Conversely, in Islamic frame work, Islamic banks are no more intermediaries rather they perform as economic agents. The equation of Islamic banking mechanism is as under.

**Islamic banks = Economic agents operating + working as financial institutions**

Moreover, Shari'a conditions for a transaction mode can be developed by six point approach.

1. Take a real life case.
2. See how an Islamic bank might come into the picture in the gainful manner.
3. Identify the relevant transaction modes.
4. List the Shari'a requirements for those transaction modes.
5. Clarify with yourself working of the transaction at bank level or at bank of view
6. Write down the financial instrument.

It means like *Bai* (trading) the ownership of your money goes to shopkeeper and *Milkia* (possession) of thing comes to you. It is the reciprocal of *Milkia* or ownership. In *Ijara* (leasing) you keep the ownership with you but transfer the usufruct right. In *Shrika* (partnership) both pool and share in ownership. In *Qaraz* (loan), you

give \$1000 for a period of one month. The significance of above modes is that ownership is temporarily transferred to Mr. B. People can interact with the modes of *Amana*, *Wadiah* and *Aqala*. A given situation involves buying and trading. Both the parties must satisfy the *Akham* (Shari'a legitimacy) of *Bai* (trading). Another mode is *Bai-Muajjal* (defer payment). *Qaraz* and *Bai* are fusion of two transaction modes. Both orders of *Bai* and *Qaraz* should be fulfilled by all transaction modes of IBF.

Moreover, a target can be achieved by many alternative ways, but they are not efficient all the time. Some are relatively more efficient. If you choose the efficient mode, the cost of financing is less and gain is more. The crux is that most efficient mode with least cost and maximum gain can be used by an Islamic bank. Masses of a society can demand financing from an Islamic bank by five potential ways.

1. A client wants to buy a thing having no necessary cash demanded by the seller.
2. A producer wants working capital in order to acquire several inputs but may like to settle with the financier in terms of the goods produced / manufactured.
3. A party wants to acquire something that can be produced / manufactured in a well-defined stages on defer payment basis while the producer/manufacturer wants advance payment.
4. A party without resources wants to get something on lease basis while it also wants to keep the option of buying that thing.
5. A business man /dealer of electronics want working capital.

An Islamic bank can consider above five cases by using following five financial instruments.

1. *Murabahah* financing instrument.
2. *Salam* financing instrument.
3. *Istisna* financing instrument.
4. *Ijareh* financing instrument.
5. *Musharka* financing instrument.

The above instruments are flexible modes of financing, well enough for operating Islamic banks vis-i-vis conventional financial system based on a single financing tool that is Riba (see Tahir, 2007).



Moreover, Islamic law has prohibited many pre-Islamic period's contracts of exchange based on injustice and leading to clashes like *bay' al-mulamasah* (sale merely by touching an article), *bay' al-hasat* (deal by throwing stones), *bay' al-munabadah* (sale by throwing an object without assessment), *bay' al muwafah* (sale of un possessed good), *bay' muzabanah* (an exchange of dry dates by fresh dates on the tree), *bay al-mukhadarah* (sale of fruits and grains before ripe), *bay' al-muhaqalah* (sale of seed-produce still in the ear), *al-haml* (sale of what a female animal bears in the womb), *bay' al-hayawan bi al-lahm* (sale of an animal for meat), *bay' al samak fi al-ma* (sale a fish in the water), *darbat al gha'is* (sale effected by condition, "I shall dive into the sea, if I have anything precious will be yours at such price), *bay'atan fi bay'ah* (two sales in one sale), *bay' al-kali bi al-kali* (exchange of credit for credit), *bay' wa salaf* (sale and lending with the condition, "I shall take your goods for such and such if you lend me such and such") (see Abdullah,1994).

Furthermore, transactions of real assets and possessions of goods are Shari'a compliant conditions for debt to be an effective financing mechanism of Islamic finance. This would boost real economy through genuine trade transactions. IBF does allow selling debts which cannot outsize the real economy. Expansion of real economy would generate employment, self-employment and production of need-based goods and services in the society. Money should not be an earning asset rather a measure of value and a means of exchange in IBF. IBF promotes profit and loss sharing, community banking by serving humanities and not markets, responsible finance through Shari'a filters, alternative paradigm by linking financial sector to the real economy and widens the ownership base of society (see Hasan and Kayad, 2009).

### **3.13: Role of Hazrat Khadija in the Evolution of Islamic Finance**

Despite of all the doom and gloom in political will of successive regimes, there are still some bright spots in social dimension particularly the role of women in IBF. Islam is a divine religion granting equal financial rights to men and women. Gender parity is directly explained by Allah Almighty in many verses of Holy Quran and no room for gender biasness. Rather a series of cover after cover is very much evident from Qur'an and the Hadith. It is an attempt to remove the miss-conception that gender biasness prevails in Islam regarding women financial empowerment using references

from Quran and Sunnah. Islamic concept of women financial empowerment is strengthened by a series of divine institutions supplemented by women right to enterprise, right of contract, right to buy and sell and wealth accumulation through PLS mechanism of Islamic finance. It is concluded that Islam guarantees maximum women's rights and women financial role is dominant in special circumstances.

Allah Almighty himself eliminates the gender biasness by explaining the virtues of both men and women. A balance prevails between men and women in spiritual and material wellbeing. Both men and women are equal part in the proliferation of humanity. Allah has mentioned certain everyday jobs and accountability to both men and women in the following verses of Holy Quran.

*For Muslim men and women, for believing men and women, for devout men and women, for true men and women who are patient, for men and women who humble themselves, for men and women who give in charity, for men and women who fast, for men and women who guard their chastity, and for men and women who engage much in Allah's praise - For them all has Allah prepared forgiveness and great reward. (Al-Ahzab 33:35)*<sup>2</sup>

*And (as for) the believers, both men and women – they are friends and protectors of one another: they [all] enjoin the doing of what is right and forbid the doing of what is wrong, and are constant in prayer, and render the purifying dues, and pay heed unto God and His Messenger. (At-Taubah 9:71)*

*They are your garments and you are their garments. (Al-Baqara 2:187).*

*The believers, men And women, are protectors one of another: They uphold what is just, and forbid? What is evil: they observe regular prayers, practice regular charity and obey Allah and His Messenger.*

The famous saying of holy propbet (SAW) about education is a key to eradicate the gender biasness from the Muslim world. *Seeking knowledge is mandatory for every Muslim (male and female)* (Ibn-e-Majah Hadith No.224).

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<sup>2</sup> Abdullah Yusuf Ali © Copy Rights:Zahid Javed Rana, Abid Javed Rana Lahore, Pakistan [www.quran4u.com](http://www.quran4u.com).

The historical links of Islamic finance can be linked to Hazrat Khadija- a wealthy woman of Makkah used to engage some people for trade purposes. She inherited wealth from her father and was an expert lady in trade of her time. Hazrat Muhammad (PBUH) was orphan by birth and brought up by his uncle Abu Talib. Abu Talib advised his nephew to be a trade agent for Hazrat Khadijah. She selected Hazrat Muhammad (PBUH) for business trip on profit loss sharing basis to Syria with her servant Mesra twice. The trade trip brought unexpected profit due to the blessing of Hazrat Muhammad (SAW), which impressed her. Her servant told some miracles of the trade journey which resulted into the marriage contract of both after a short period of time. She then financially and morally supported the Holy Prophet for the noble cause of Prophet Hood till her death (see Razvi, 1999). All these incidents of trade and then marriage took place by the will of Allah Almighty who selected Hazrat Muhammad (SAW) as last and final Prophet for entire humanity. A Hadith states *I was chosen best of the best* (Ibn Haban, No. 6242).

Similarly, Hazrat Khadija was one of the greatest spiritual, emotional and material supporters of Prophet (SAW). She was a businesswoman who employed Hazrat Muhammad (PBUH) for her trade caravan to the country of Syria. After a short span of time, business contract resulted into the marriage contract because of similarity in generosity and protection of the rights of underprivileged between both. Moreover, Hazrat Zaynab was financing her husband wanted to seek permission from the Holy Prophet (PBUH) to give him Zakah which she had from business enterprise of handicrafts. Similarly, many other women of her time were running trade, agriculture, perfume makers, crafts, nurses and midwives (see Krausen, 2008). Moreover, trade trips of the Holy Prophet (SAW) before prophethood are reflected in *Surah Al-Quraish* by Allah Almighty. It is an endorsement of trade activities of the Holy Prophet (SAW) and his tribe of that society. The tribe of *Quraish* was famous in trade trips to Syria and Yemen. The hunger and security are simultaneously mentioned by Allah Almighty as a prerequisite for healthy economy.

*For the covenants (of security and safeguard enjoyed) by the Quraysh, Their covenants (covering) journeys by winter and summer. Let them adore the Lord of this House, Who*

*provides them with food against hunger, and with security against fear (of danger).* (Al-Quraysh 106:1-4).

### ***Financial role of Woman in Islam (Financial and Economic Rights of women)***

The following verses of the Holy Quran clearly mention the financial rights of woman in Islam. These are rather institutions enshrined by Allah Almighty like law of inheritance (4: 7), (4:11-12) and (4:176), *Mehr* (4:24, 4:25, 5:5, 60:10), maintenance of parents (17:23-24) and maintenance of wife and children (4:19, 65: 6, 4: 34, 2:233, 16: 59, 31:14).

A series of institutional arrangement prevails by Islamic *Shari'a* for the financial empowerment of both men and women. The prominent institutions are inheritance, *mehr*, maintenance of parents and maintenance of wife beside right of contract and right to buy and sell (see, Shafi, 1979; Tahir, 2003 and Bukhari 2012).

However, more than half a billion Muslim women are living in 45 Muslim-majority countries from Senegal to Philippines onward to Indonesia and South Asia. A gender-based inequality associated with male-controlled gender system prevails in Muslim societies. Western observers are of the dilemma that Muslim women having represented Islam as exclusively male-controlled and incompatible with women's equality. Muslim families are suffered with intra-familial gender-based inequality of domestic violence, honor killings, and female circumcision (see Offenhauer, 2005).

According to latest and current data (2011) male female ratio is 51: 49 in Pakistan. It means women are 51% while men are 49% of the total population in Pakistan. Role of an important segment of the population in Pakistan is over sighted by academia regarding IBF in Pakistan. Female participation in IBF is such an area having multidimensional impacts. Female are equal in financial and economic rights established by Islamic *Shari'a*. Islam has granted the woman a status by giving rights to take part in economic activities, right to property, right to choose spouse, right to determine her financial requirements. Women performed vigorous role for betterment of society in Islamic history. Parity prevails in Islam between men and women for right to possess, mortgage and execute all types of contracts. A Muslim woman is adequately empowered to perform her economic and financial affairs. She has the right of private

enterprise, to sell, to purchase, to lease, to speculate, to donate, and to commit. Financial rights for women by Islam are economic eligibility, right to work, right to maintenance, dowry, right to inheritance, right to buy and sell, right to dispose-of and right to own property (see Bukhari 2012).

Moreover, financial inclusion in Islam finance is addressed by its mechanism of inclusion through risk-sharing and inclusion through instruments of redistribution. It ensures Islamic rules of social justice, inclusion, and sharing of resources between the rich and poor. Risk-sharing contracts ensure a viable substitute of conventional financing. The redistribution of the wealth and income is achieved by a scheme of *Zakah*, *Sadaqat*, *Waqf*, *Nafaqat* and *Qard-al-hasan* which complements risk-sharing instruments to attain social justice in the society (see Xiaochen Fu et al, 2012).

Furthermore, contemporary Muslim scholars explain a set of institutional mechanism for resource endowment of both male and female members in Islamic society. For example, distribution levels according to Tahir (2003) in an Islamic economy are preproduction level, productive activity level, post-production level, redistribution on yearly basis and redistribution at intergenerational level. The enforcement mechanism by non-formal (family, neighborhood and mosque) and formal institutions (market mechanism, *Zakah*, *baitulmal*, profit and loss based financial system, *Hisba*, *Qadaa* and *Waqf*) coexist. There is a three-tier model i.e. distribution of current production, inter-temporal distribution and redistribution of wealth and redistribution of wealth by inheritance. Moreover, Shafi (1979) mentioned Islamic objective of the distribution of wealth as (a) the establishment of a practicable system of economy (b) enabling everyone to get what is rightfully due to him (c) eradicating the concentration of wealth. He gave the idea of primary and the secondary rights. The primary right belongs to the factors of production, who participate in the production process. The secondary right refers to societal share in wealth without taking part in the production process.

It is interesting to note that, *Waqf* has played an important role in the Islamic history - owned and run by both men and women. Three-quarters of all arable land in the former Ottoman Empire belonged to *awqaf*. In Algeria, under French occupation, *waqf* comprised half of the lands of the country. Haj infrastructure (roads and

roadhouses) were established by the wife of Harun al-Rashid from Baghdad to Mecca for pilgrims out of her single *waqf* (Anwar and Haneef, 2005). Likewise, committees are the second most popular informal saving channels for savers, as much among women as men in Pakistan. The concept is widely understood by nearly 90 percent of the population in the country. Committees are third most popular borrowing channel, behind shopkeeper loans and family and friends. About 63.6 per cent of savers save at home, saving with family and friends is done equally among rural and urban areas, across income groups (see Nenova et al., 2009).

### 3.14: Summary

Overall, the above literature suggest that there exist twelve strands of literature such as education and awareness of IBF, religious scholars and IBF, lack of political support to IBF in Pakistan, religious appeal for IBF in Pakistan, social movement and IBF, importance of stakeholder analysis, borrowed policies and need of IBF, politics of Islamic finance, criticism of IBF, role of Islamic political parties for IBF in Pakistan. Moreover, views by contemporary Muslim scholars to institutionalize IBF, Islamic finance and the concept of wealth accumulation, IBF and its modes of finance and role of Hazrat Khadija in the evolution of Islamic finance.

In a Pakistani framework, it is worth mentioning that issue of Islamization of the economy has never been addressed from its all dimensions. The proposed key stakeholders like depositors/customers (corporate & non corporate), general masses, religious scholars, Islamic political parties, employees of Islamic banks, State Bank of Pakistan and ministry of finance should be considered and involve in the process of Islamization of the economy. All these stakeholders are important parties in the Islamic financial service industry in Pakistan and negation of a single one would further delay and complicate the implementation of the whole process. Did we address all concerned key stakeholders for the Islamization process in Pakistan? Did we get any political, religious and academic motivation in this regard? Some key stakeholders like bureaucracy, State bank of Pakistan and successive regimes in Pakistan are discussed by academia while the other are neglected at a large scale. Perhaps no attempt has been made to explore the role of religious scholars, Islamic political parties and general

masses for IBF in Pakistan. More over determinants of cooperation among the key stakeholders, opposition by some key stakeholders, their marginalization and hurdles faced by them are not explored.

Most of the existing literature ignores the political economy aspects of IBF regarding Pakistan. There was no coordination among key stakeholders for popularity, awareness and implementation of the IBF in Pakistan. Perhaps no attempt has been made to analyze the attitude of key stakeholders of IBF in Pakistan from political-economy perspective so far. Most of the studies have explored economic and religious dimensions of IBF in Pakistani context. A combination of social, political and economic dimensions of IBF regarding Pakistan has been neglected by the contemporary writers. In the proposed study a simultaneous consideration of political, economic and social factors would be adopted and analyzed accordingly. We are going to explore that how IBF can be converted in to a mass movement and what are the potential hurdles for that in Pakistan? We are going to explore the attitude of the key stakeholders towards IBF in Pakistan on indicators such as awareness, motivation, preferences, incentives, opportunities, adoption of IBF and hurdles. Hence the study will fill in this gap.

## **Chapter 4**

# **Islamic Banking and Finance: A new paradigm in IR**

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A chain of historical events led to the emergence of Islamic Banking and Finance (hereafter IBF) in the world. Ill-suited policies of the colonialism in the Muslim world, Freedom from the colonial bondage, Arab-Israel wars, idea of Pan Islamism, philanthropic characteristic of Muslim societies, fall of communism and crisis born capitalism are factors for emergence of IBF in the world. The adoption of western development models by Muslim regimes could not solve their problems. Contemporary international relations (hereafter I.R) theories did not incorporate the role and influence of religion as the discipline emerged from western and American perspectives. Western social sciences separated the role of religion after enlightenment movement. Contemporary I.R is based on enlightenment, western experience of world and ignoring the role of religion. Modernity is the main reason for demise of religion as social and political force in the western framework. The western academia remained biased in incorporating the voices and experiences of the religion believers in I.R discipline. Religion never disappeared from the world affairs rather it remained growing to survive. The integration of religion to I.R theory is imperative to understand and solve the issues at world level. Our findings show that IBF is a mean of developing new I.R by its integration with conventional financial system, promoting education and research among states and incorporating the neglected voices and experiences of Muslim population in world affairs. It is a mean to revive Islam among the Muslim societies and incorporating the role of Islamic religion in I.R discipline. IBF is an alternative paradigm to conventional financial system and a mean to substitute the western development models in the Muslim world by promoting foreign direct investment among them. IBF coupled with Islamic philanthropy is a mean to attain social justice and a valuable political resource in the Muslim world.



## 4.1: Introduction

According to contemporary Muslim scholars and economists, features of Islamic finance are risk-sharing, promotion of entrepreneurship, sanctity of contracts and no speculative behavior. It prevents the use of debt-based instruments as interest and fixed rate of returns are prohibited. Islamic Shari'a governs the economic, social, political, cultural and Islamic financial aspects of Islamic societies (see Iqbal, 1997). Riba (Usury) based conventional system cannot achieve the goals of the Islamic *Shari'a* that aims justice, fairness and general welfare of the humanity. Riba is against the human interests and promotes unfair financial system, increases income inequalities within and among the nations (see Siddiqi, 2006). The foundation of Islamic finance is its value-oriented system based on the Quran and Sunnah. *Riba* is haram as it is based on injustice and exploitation. Contracts are based on risk sharing. Islam prohibits gambling and all transactions involving *Gharar* (uncertainty). Many forms of derivatives which involve the sale of securities are debt trading, are not allowed in Islamic *Shari'a*. Islamic finance does not permit deals based on imaginary contracts. In Islamic transactions all the information must be shared with the concern parties. Hence, Islamic finance is an alternative to the conventional financial system (see Seidu, 2009). Islamic finance aims to bring justice in the society by its value loaded mechanism. Profit and loss sharing and equity sharing are followed by Islamic finance. Islamic financial modes are based on real assets, possession of the real assets; genuine trade transaction and no selling of debts (see Chapra, 2009).

With these introductory views, proponents and opponents of IBF are worth mentioning. For example, Ilias (2009) refers to the opponents of Islamic finance who tend to link it to the terrorist financing. Another similar observation is made by Alexiev (2007) who equates Islamic finance with Nazism and communism, which aims at destroying western civilization. According to this view, IBF is a key instrument of the militant Islamist movement in its struggle against the West. Proponents of IBF, on the other hand, consider it an alternative tool for economic development. According to Terrell (2007) Islamic finance has no ties to terrorism, religiousness and oil wealth are bases for development of Islamic finance; it has ties to terrorism and can influence as a

means of moderation and enfranchisement when advanced free of an Islamist agenda. Abraham (2008) asserts that Islamic finance challenges the conventional finance, addresses religious identity and explores relationship between religion, politics and the economy. The politics of religious identity is very strong and complex issues of cultural recognition, economic redistribution and political representation are emerged.

Less extreme views on IBF are abundant. According to Warde (2000), combination of political and economic factors due to Arab-Israel conflict resulted in to the oil embargo in 1973 against the supports of Israel and to the emergence of IBF. The rise of Islamism was the result of vacuum left by the secular ideologies. Islamic groups demanded to Islamize the financial system. As a result Kuwait, Islamic rebels in Philippines and Chechnya announced financial Islamization in 1990s.

Political opportunities of IBF are important to be noted. Kahf (2004) is of the view that Islamic banking in the Arab world created a new political alliance between the wealthy people and many religious scholars. The alliance opens up new areas for cooperation as well as competition between governments and Islamist oppositions. It is interesting to note that Lubeck (1999) observes that some states are successful in containing the revival of radical Islamic movements while others face civil war and conflict. The restructuring of the global political economy since 1975 is started due to oil boom and neoliberal economic policies and consequently state elites and Islamic movements compete for popular support. Communal conflict is determined by the interaction of three factors; globalization processes, state developmental capacity, and the historical legacy of Islamic institutions and movements. Algeria and Egypt experienced high communal conflict while Malaysia has experienced little.

It is worth mentioning that western modern society is afflicted with social evils of race realization and alcohol. These social evils can be eliminated by the propagation/adoption of the moral values of Islam. One of the outstanding moral achievements of Islam is the elimination of race consciousness among Muslims and there is a desperate need for the propagation of this Islamic feature to the humanity. Moreover, the advocates of racial intolerance are dominant and their attitude towards the race question may ultimately inflame a general disaster. Yet the forces of racial toleration are fighting a losing battle. The spirit of Islam can convert this issue to peace

and tolerance around the world (see Toynbee, 1946).

It was recognized by the early 1970's that the politically important role of some non-state actors was ignored and the states were not only seen as the primary actor in international politics. The growth of transnational relations from this time also pointed to the political and economic significance of various non-state actors, independent of state control, such as transnational corporations and international organizations of various kinds. The Islamic Finance as a transnational phenomenon would be a means to multidimensional impact on the international relations. It would develop links among the states, NGO's, INGO's and different stakeholders at the international level. It would be a tool to develop interfaith dialogue among the nations and to bring peace and harmony in the world. The growing role of these non-state actors cannot be ignored in the International Politics. Those states would be successful which would manage to absorb the growing impact of these transnational actors. Global political process started incorporating the role of non-state actors and the states did not remain the only and primary actors in the international politics by early 1970's. The number of international non-governmental organizations (INGOs) based on cosmopolitan model had grown from 2000-5000 and are influencing the global political process. Consequently, the primacy of the state in international politics is strongly challenged by the growth of transnational civil societies (see Haynes, 2001).

The sovereignty of the states is eroded by the non-state actors, such as Transnational Companies (TNCs), International Organizations (IGOs are U.N and regional blocks like E.U, SARC, ASIAN and NATO), International Non-Governmental Organizations (INGOs are International Red Cross, Amnesty International etc.), Hybrid NGOs (where state and NGOs both can get representation at the international forums), Domestic NGOs, Professional Organizations and Global Social Movements. These non-state actors, especially TNCs, NGOs are challenging the existing world political order dominated by states and the nature of domination in the world has changed. They are the sources of economic, political, social and cultural changes, and interdependency between the states has increased in the world (see Willetts, 2001). Similarly, the states are facing two issues of international trading and financial systems. The international trade issues are solved by the trading groups while financial systems are under crisis.

Different kinds of NGOs, INGOs and various other transnational actors are coordinating with each other for their influence and transactions on the global and regional scale. Consequently, different regional blocks (economic, cultural and security) have emerged in the world (see Clark, 2004).

Giddens (2003) is one of the most heavily cited studies, which discusses that the world is subject to many risks and uncertainties due to the rising effect of globalization. It means a process of changes which has links with social, political, economic and cultural aspects of the societies of the entire world. The changing globalization has certain positive and negative impacts on individual and collective life of humanity. Therefore, present generation is more subject to manufactured risks such as environmental, nuclear proliferation or meltdown of world economy. Moreover, democracy is backed by free market economy. The decreasing level of trust on politicians, corruption, human rights, family policy and sexual freedom, nuclear issues, increasing role of non-state actors, fast moving information, technological advancement and global economic fluctuations are serious threats to the world democracy.

In the context of above discussions, primary purpose of this work is to analyze a new dimension of linking the paradigm of Islamic banking to the international relations. The growth of IBF in the world has everlasting effect on international relations among the Muslim countries and rest of the world. The IBF would be a mean of new dimension of international relations among the Muslim countries. The new dimension can be seen in the form of cooperation among the different regions, institutional cooperation and rivalry in education, research, *Shari'a* standards and other services among the Muslim countries. Further, this new dimension could be a mean to increase the popularity of IBF among hostile Muslim regimes. The new links could be promoted in developing dialogue among the Muslim and non-Muslims states, institutional development, bringing peace and harmony in the world, transforming the Muslim societies, supporting the revival of Islam in the world, presenting the soft power of Islam in the world, removing the misconception of the western regimes who are linking IBF to the Islamist movements, terrorist financing, a mechanism of charging interest on the name of Islam, economic war, and an ideology like Nazism and Socialism against the west.

This chapter is thematically composed in nine major sections. Section 1 explains revival of Islam in the world. Section 2 examines IBF: A mean of cooperation among the other cultures of the world. In section 3, we explore integration of IBF with the conventional financial system. Section 4 expresses IBF: A mean of cooperation among the nations in term of education and research. Section 5, discusses IBF: A mean of foreign direct investment among the Muslim world. Section 6 highlights IBF: A mean to incorporate the voices of Muslim population in world affairs. Section 7 discusses that western development models are exploiting the Muslim states. Section 8 explores role of religion in I.R. In section, 9 we examine philanthropy and IBF as a mean of civil society to attain social justice. Finally, section 11 covers conclusion and summary.

## **4.2: Revival of Islam in the World**

Revival of Islam is an appeal to Muslim masses for restoration of religious beliefs, cultural refinement and adoption of pure Islamic teachings in every walk of life. It demands to reconsider their Islamic institutions (economic, social, political and education systems). It is a move to change the behaviors of Muslims masses by adopting Islamic values and divine guidance. It is a motivation to gain the divine mandate of Muslim Ummah (propagating good deeds and forbidding evils) in this world (see Shuriye, 2011). In a similar fashion, Esposito (1992) is of the view that Islamic revival is a transnational concept and is growing in every Muslim state and becoming an active movement having multidimensional impacts. The movement aims to transform the Muslim masses by providing social services like education; health, Islamic finance and the media coverage through grass-roots approach (see Alternative Global Forces, 2007).

It is worth mentioning that Islamic NGOs are growing to solve basic socio-economic problems and Islamists utilize these institutions to combat the invasion of western values and cultural codes. Islamic NGOs is an institutionalized attempt to counter western values and practices that are seen as hostile to Islam. Islamic NGOs are apparently apolitical development organizations tightly regulated by the state and are contextualized by struggles over culture and values and are inherently political. Seemingly apolitical activities, such as education and health care provision, become

political when they challenge other cultural codes and institutions. Rather than directly confronting the state or participating in formal politics, Islamic NGOs are engaged in social struggle at the level of cultural discourse and values. Islamist volunteers view themselves as combatants in a cultural war against westernization, which is blamed for social ills in Muslim societies. As a result, while their activities may seem apolitical, they are contextualized by a cultural struggle that endows them with political phenomenon (see Wiktorowicz & Farouki, 2000).

However, political-economic developments of pan-Islamism and oil price shocks of 1970s resulted in to the creation of modern Islamic banking and finance. Pan-Islamism as a modern political movement started in 1960s at the time of cold war between Egypt's president Gamal Abdul Nasser who was promoting pan-Arabism, and King Faisal of Saudi Arabia who was a champion of Islamic solidarity by sponsoring pan-Islamic movement in the world. King Faisal provided financial aid to non-Arab Islamic countries of Asia and Africa. Pan-Islamism became a powerful movement by mid-1970s and the diplomatic relations of the Arab countries were strengthened with Pakistan and Turkey. Pakistan provided the manpower and Saudi Arabia along with Gulf States extended funds for the creation of Islamic institutions under the OIC. The idea of Islamic bank was approved by the OIC submit of Lahore in 1974 (see Warde, 2000).

In 1972, the foreign ministers of Islamic states met in Jeddah, where a special committee was formed to prepare the Islamic banking agreement. Subsequently, in 1973 and 1974, they approved the articles of an inter-governmental financial agency, and the Islamic Development Bank (IDB) was formed. Egypt and Pakistan were instrumental in the creation of IDB, which provided the motivation for formal cooperation on Islamic finance through the consultation of Islamic States. The composition of shareholders (Saudi Arabia, Libya and the United Arab Emirates) in the IDB is 25, 16 and 14 percent of the paid-up capital respectively Roy (1991). Likewise, are of the view that Islamic revivalism is linked to religious, social, political, and economic matters. The revival of Islamic religious practices started in the post-colonial era. Islamic organizations and OIC supported the teachings of Islam among the Muslim masses. The same period provided intellectual development and establishment of

infrastructure institution like Islamic research centers and universities in the Muslim world. The establishment of the IDB in mid-1970's created ever lasting effect on the social and economic development of Muslim Ummah (see El-Ashker and Wilson 2006; Montgomery, 2010).

In order to support the revival of Islam, Toynbee (1946) discusses the problems faced by western civilization and the emerging role of the Islamic civilization. His famous saying is worth mentioning that *civilizations die from suicide, not by murder*. The Paradox of contemporary world is that, on one side human rights are recognized by all the nations, classes and races; however, at the same time they have ruined to class conflict, nationalism, and racism. While discussing the socio-economic problems of industrialization, he mentions that it has restricted the masses to perform very essential basic human services like taking care of children. Industrialization has persistent fluctuations of extensive unemployment with famines of man-power. Additionally, the problem of western political system is that although, France and England holds a continuous political existence of no more than a thousand years of western states. However, U.S and Brazil being largest western states holds a very small portion of the world population (525 million in 2015) (US 321million +204 million of Brazil=525 million in 2015). While explaining the geographical importance of Islam and its universal nature in the world, he states that Islam has a strong footing on land as it stretches from the China, sub-continent (India), to the west of Africa. At Dakar, Islamic world commands the continental approaches to the straits that divide African peninsula from the island of South America.

The conflict between Islam and the west is going on, but the balance is favoring the latter being superior in weapons, economy (on which military science ultimately depends) and the civilization. However, western modern society is afflicted with social evils of race realization and alcohol. These social evils can be eliminated by the propagation/adoption of the moral values of Islam. One of the outstanding moral achievements of Islam is the elimination of race consciousness among Muslims and there is a desperate need for the propagation of this Islamic feature to the humanity. Moreover, the advocates of racial intolerance are dominant and their attitudes towards the race question may ultimately inflame a general disaster. Yet the forces of racial

tolerance are fighting a losing battle. The spirit of Islam can convert this issue to peace and tolerance around the world.

Furthermore, he states hurdles to attain Islamic solidarity. The idea of Pan-Islamism cannot be executed as the Muslims are divided into Wahhabi or Sanusi sects and the Muslim society is dispersed from Morocco to the Philippines and from the Volga to the Zambezi. Similarly, Muslims are lacking in modern technology and scientific advancement. West creativity has invented modern technology which is beyond the range of the Islamic extremist's ability. Moreover, their life is on western pattern. Likewise, the fall of Ottoman caliphate resulted into the emergence of nationalism in the Muslim world. The path of nationalism is evident among the Turks, Arabs, Persian and Afghans. In a situation when Pan-Islamism is dormant and Muslim world is not united, still there are hopes for Islam. One should not forget that the sleeping Muslim ummah may awake and revolt against the western dominance. The west is subject to social crisis and Islam might be moved to play her historic role once again (see Toynbee, 1946).

According to Nasr (2009), a new business-minded middle class in Muslim societies has emerged and reshaping religion, social, and political life and would replace the radical elements. Some countries of the Muslim world are missing this middle class because of their closed economies. However, the growing middle class is evident in Iran, Pakistan, Malaysia, Indonesia, Turkey, and Dubai. This middle class would be a mean of wealth generation, innovation, and social transformation in Muslim societies. This demand is growing as Muslim masses have money to invest and it is not only the oil money. A growing middle class in the Muslim societies want to adopt Islamic financial mechanism. Moreover, Sparre (2007) cited a reference of Bayat (2005) who considers the emerging religious power and strength is *a shift from Islamism as a political project to one primarily concerned with personal salvation, ethical salvation, and self-actualization*. The Muslim youth, who remain excluded by their state and elders, are establishing organizations by Islamic motivation for active engagement in society. This is how they are searching and creating their role and position in the society.



#### **4.3: IBF: A Mean of Cooperation among other Cultures of the World**

The mechanism and the spirit of IBF are to cooperate with the other cultures and civilizations in the world. It has the potentials to accommodate different nations of the world due to its Islamic characteristics. It can be a mean to promote dialogue among nations/ civilizations of the world and to remove their misunderstandings. IBF is a mean to win friends by cooperation with the other nations and not by confronting with them. It would be possible by institutionalizing interfaith dialogue among the different faiths and religions of the world rather than creating conflicts with them (Siddiqi, 1994). It is the need of time to open a dialogue with the western powers to get benefit of Islamic Finance. Islamic finance can be used as a mean to counter terrorism, moderate the radical elements and social reforms in the Muslim masses with the joint effort of Islamic and the western states (see Dar, 2009). The Gulen movement in case of Turkey is a mean to support interfaith and inter-civilization dialogue along with the provision of socio-economic needs of the society (see Yilmaz, 2010). Islamic finance is facing a challenge of its integration into non-muslim societies. The integration would only be possible by opening a dialogue with the other faiths, nations and communities with the involvement of Islamic states, civil society and non-state actors (see Masmoudi and Belabed, 2010).

#### **4.4: Integration of IBF with the Conventional Financial System**

It is interesting to note that United States can harvest the potential foreign policy benefits from Muslim world by recognizing IBF. The paradigm of IBF is growing and should be regulated. It can be a mean to attract foreign capital for U.S economy which is facing crisis. Furthermore, IBF would be formalizing unbanked religious activities and providing choices for consumers in U.S. economy (see Billah, 2011). However, in Europe (Ireland, Great Britain, Germany, Luxembourg and France), a competition prevails among the political players for the future European center of Islamic finance. Ministers of finance, regulatory authorities and members of parliaments are attracting investors from the Islamic countries. Infrastructure institutions like secondary sukuk market, takaful (insurance) and retakaful (re-insurance) products are operative. Similarly, education and training in Islamic finance within university programs is

prevalent (see Masmoudi and Belabed, 2010). Moreover, Singapore Govt. has made policy changes to promulgate Islamic banking and finance in the country. The finance ministry announced several changes in the 2005 and 2006 budgets by giving tax concession on income from Islamic bonds and waiving off the imposition of double stamp duties on Islamic transactions. The Monetary Authority of Singapore has allowed banks to engage in *Murabahah* transactions (see Khan and Omar 2008).

In above scenario, Islamic financial institutions are becoming partners with western market players to promote Islamic banking products and services in European markets. The western market environment is more favorable for Islamic banking practices. These developments have given IBF industry an opportunity to become truly competitive and integrated part of international financial markets (see Khan and Bhatti, 2006). Similarly, surplus funds of many Islamic Financial Institutions (IFIs) can be invested in non-Muslim countries by working together the risk desire of conventional financial institutions and risk-return characteristics of IFIs (see Lee & Ullah, 2007). The most significant guarantee of Islamic finance's future may be the large multinationals that have opened Islamic windows for receiving deposits. Islamic finance is becoming respectable in international business circles. It is in the western world's interest to encourage a more benevolent sort of globalization whereby Islamic financial instruments are integrated into international finance (see Soliman, 2004). Moreover, current western financial crisis has provided greatest political opportunity for Islamic finance to flourish. It is the need of time that credible links should be developed with the western regimes to harvest mutual benefits of Islamic finance (see Dar, 2009).

#### **4.5: IBF: A Mean of Cooperation among the Nations in Terms of Education and Research**

The concept of geo-educational dynamics of Islamic finance is going to provide additional reading network to international relations. A rivalry prevails between Britain and Malaysia to become an educational hub for Islamic finance. The issues of rivalries are standards; jurisprudential, prudential, rating, and accounting & auditing of the industry. Negotiation would be gaining momentum for recognition from IMF and Bank for International Settlement (BIS) (see Belouafi et al., 2012). In order to support the

idea, Said (1984) presents traveling theory that like, people, institutions, ideas and theories travel from person to person, from situation to situation and from one period to another. He identifies four stages for theories to travel. First stage is the development and explanation of the theory. In second stage it travels through people, publications and electronic media to different part of the world. In third stage its acceptance, rejection or modification is done in a new time and place. The last stage reflects its use as a new theory (see Mandaville, 2003).

According to El-Ashker and Wilson (2006), Islamic organizations and OIC supported the teachings of Islam among the Muslim states. The same period provided intellectual development and establishment of infrastructure institution like Islamic research centers and universities in the Muslim world. The establishment of the IDB in mid-1970's created ever lasting effect on the social and economic development of Muslim Ummah. Similarly, Saudi Arabia extended financial supports to the Muslim regimes to establish Islamic universities and research institutions. These universities and institutions are providing the facilities to contemporary Islamic banking system in Islamic world (see Samy and Manama, 2008; Montgomery, 2010). Moreover, Singapore Islamic scholars and religious teachers association have announced to train Islamic religious scholars in Islamic banking and finance. The said association has organized a joint Shari'a advisers training programme with the International Institute of Islamic Finance Kuala Lumpur Malaysia (see Khan and Omar K. M. R. 2008). Furthermore, State Bank of Pakistan (SBP) is actively engage with international Islamic financial institutions in using their resources for awareness and capacity building of the Islamic banking industry in Pakistan. A short training program on Islamic banking was jointly organized by IRTI and SBP in Islamabad in 2011(see State Bank of Pakistan, 2011).

#### **4.6: IBF: A Mean of Foreign Direct Investment among the Muslim World**

The Middle East wealth was converted into a political courage of the Islamic world against the West. The first Gulf War resulted into increased international borrowing and dependence of Middle Eastern countries on the western powers. This resulted into the development of region's capital markets and financial infrastructure to

reduce foreign dependence by absorbing the growing oil wealth domestically and regionally (see Rethel, 2007).

The central bank of Pakistan has increased the maximum holding limit of Islamic bonds for banks by 10 percent (25 to 35 percent) to attract investors from the Muslim world and. The federal government had set a budgetary borrowing target of Rs. 1.19 trillion from the banking system during 2012. The State Bank of Pakistan has set a target of Rs. 54.95 billion of the Islamic bonds (see Dilawar, 2012). Islamic finance is a crucial vehicle for the wealth of Muslim investors to be invested for the promotion of Muslim businesses. According to the ministry of foreign affairs, Malaysia topped the list of investors making foreign direct investment in Pakistan in 2008. The May Bank of Malaysia invested US\$ 907 million in banking, Saudi Arabia 750 in steel and UAE 500 in power sectors of Pakistan respectively (see South Asia Investor Review, 2009). Arab investors are interested to invest Rs. 35 billion in Islamic banking of Pakistan. Direct investment in Pakistan's Islamic banking industry has reached to Rs. 20 billion in September 2007. The interested investors are Dubai Bank, Qatar Islamic Bank, Qatar International Islamic Bank, Saudi Economic and Development Company, National Bank of Dubai, Rayyan Bank, Ithmar and Al Noor (see DAWN Karachi, October 06, 2007).

Similarly, wealthy Muslims population is about 37 million in Xinjiang, can be used as a tool to introduce Islamic Banking in China. Asset based tools in the form of wheat-based deposit products and metal-based funds are launched by the Islamic banks as an ethical Investment, a protection from banking crisis and to attract the non-Muslim customers of China and India (Islamic Finance Expert, 2009).

#### **4.7: IBF: A Mean to Incorporate the Voices of Muslim Population in World Affairs.**

Muslims are one fourth of the world population and Islam spreads from Asia to the west of Africa and onward to South America. It is logical to incorporate their voices, experiences, civilization and value system in the discipline of I.R to understand the contemporary world affairs. Western scholars remained biased while discussing the achievements of Islamic civilization in the field of social sciences (Islamic finance and economics) during the medieval period (see Khan, 2010). The population in Muslim

countries is growing but stagnating or falling in developed nations. Muslims worldwide are 24% of the total world's population. There is considerable room for growth as well, particularly in Asia, where there are very large Muslim populations and low coverage by Islamic banks. In Indonesia, with a Muslim population of 195 million, only 1.2% of total banking assets are under Islamic Finance. India, Pakistan and Bangladesh have 439 million potential customers but less than 10% of the market in each case has been tapped into by the banks offering Sharia-compliant products. Even in the Middle East and North Africa, which may be regarded as the natural home for Islamic banking, the penetration by Islamic banking is still relatively small. The potential for development of the sector, is, therefore, very large, especially given the relative population growth of the Muslim world versus the global population (see Dalziel and Rossides, 2007).

A large Muslim population and growing wealth provide a ready retail Islamic banking market in China. Islamic finance industry is targeting rapidly growing Asian economies such as China and India and new markets like Kazakhstan and Sri Lanka to offset slowing growth in its traditional base of Gulf Arab states. Islamic banks are advertising wheat-based deposit products and metal-based funds as ethical investments to appeal to investors burnt by the recent conventional banking crisis. If Islamic finance can tap Muslims, especially in Xinjiang, then there will be a huge potential for its popularity in China having Muslim population of about 37 million (see Islamic Finance Expert, 2009). Islamic finance is relatively safe and survived during the crisis and the world is paying attention to it as an alternative to western finance. Islamic countries make up 17.8 percent of the global economy and the Muslim population represents 24 percent of the world's total (see Ja-young, 2010). Moreover, growth of Islamic finance is linked to Islam which remains the fastest growing religion in the world. Muslims are about 27 percent of the world population and their faith and financial system is getting popularity in the world (see Zaher and Hassan, 2001)

#### **4.8: Western Development Models are exploiting the Muslim States**

Humanity is in the search of a new economic system which can absorb the fluctuations created by the capitalism in the recent past. A new economic system based on religion, traditions, culture and Islamic civilization is emerging in the world (see

Rosser, 1999). Islamic finance is emerging in the world as an alternative to western finance. It is safe and survives during the current crisis due to its assets- based nature. According to Ja-young (2010), capitalism is crises born in its nature and Islamic finance bases on Shari'a principles can be an alternative financial system in the world. In a similar fashion Chapra (2008), opens that the capitalism is subject to economic recessions and resulted in to failure of conventional banking. The emergence of Islamic banking as an alternative model is based on justice and equity and free from interest. Moreover, Zaman (2006), while discussing the failure of modern economies states that its main principles are empirically false, no predictive power for shocks, ignores ethical values and feeding of the poor. Most research in economies is not relevant to solving real life economic problem.

The post-colonial method of adoption of western policies by Muslim regimes resulted into the aggravation of the situation in the Muslim states. Conventional and Islamic economists are of the view that these policies would not solve their problems and they should develop their own discipline to cater the need (see Tahir, 1995; Ahmad, 2005; Zaman, 2007). The reason for Islamic underdevelopment is linked to the dependency theory associates with Frank (1966), Wallerstein (1974) and Amin (1977). The dependency theory is main reason for underdevelopment of Islamic world. International economy is divided into a dominant center and periphery of dependent poor countries. Centre holding dominancy in terms of wealth, capital and technological advancement is developed at the cost of periphery countries which are deliberately kept underdeveloped. Islamic states being the periphery got victims of underdevelopment and Islamic decay by the colonial powers. The colonial masters exploit resources of Islamic states for maximization of their profits (see Mehmet, 1990).

According to Castles (2001) the development models of 1980s are challenged by cultural, economic, technological and geopolitical changes in the world. Ultimately, the sovereignty of nation-states is threatened. The famous development ideas like dependency, modernization, underdeveloped and developed got outdated. Similarly the idea of Third world became impracticable because of political and economic diversities of under developed nations. The social transformation studies are proposed to incorporate social, economic, political and cultural changes for development models.

The western development models are means of exploitation for Islamic world. For example, Perkins (2004) discusses that how poor countries are trapped on the name of growth in the form of loans to develop infrastructure projects by the United States. Initially the poor countries are motivated and influenced to accept development loans. When the borrowing countries default on loan and are at the mercy of its creditors (World Bank, USAID, and International Monetary Fund) owned by the United States. The U.S government then demand from indebted nations for favors, like a U.N. vote, a military base abroad or even energy resources. The development projects in the form of financial loans are mean to conquer the poor countries of the world.

In a similar fashion, Ahmad (2005) is of the view that the western development policies are based on modern capitalism and socialism and their adoption in Muslim countries resulted into failure. The reason behind is that the Muslim countries have a particular culture which cannot be separated from their economic system. Islamic economic system is different from modern capitalism as well as from socialism. It combines private with public ownership and material with spiritual objectives under the given religious rules and values. When the value system is different, targets will differ and policies needed would be different. Blind adoption of western development models is one of the most important factors behind the chronic problems of economic and social underdevelopment in Muslim countries. The secular development theories have neglected the question of "what ought to be" and focused only on "what actually exists". Similarly, Manan (1989) stated that Muslim countries adopted irrelevant development models of the advanced countries. The Muslim countries having different resource endowments are facing different problems. Every poor Muslim country needs an indigenous development model based on its own problems. Furthermore, Muslims failed to implement their good ideas and depended on borrowed theories. We should define our problems and set our own agenda. A simultaneous consideration of economic, political and social factors would solve the problems faced by the Muslim communities. A good theory is that which solves the practical problems of the society. A critical issue is that the economic problems cannot be considered in isolation from political and social issues, as is assumed in West (see Zaman, 2007). The solution of economic problems faced by Muslim regimes lies in adoption of IBF paradigm. Islamic

finance would be solving their present day's problems of economic instability, currency run-off, investment needs, political subservience, inequity and poverty. This reconstruction would increase the political stability and organization for the spread and practice of Islamic transformation (see Choudhry, 2003).

In past, US, IMF and the World Bank extended financial assistance to some Arab countries for liberalization of their economies. It resulted in a decline in state provision of social welfare which increased poverty and enhanced inequality there. It resulted in emergence of Islamist groups who filled the gap by providing social services to the society in these states. Consequently the process of globalization strengthened the hands of Islamic groups and weakened the political legitimacy and power of these states (see El-Said and Harrigan, 2006).

#### **4.9: Role of Religion in I.R**

It is advocated to develop I.R theories by incorporating norms and practices of non-western world as the discipline remained dominated by western perspectives. Contemporary international relations are based on western norms by neglecting the practices of non-west. Non-western norms and voices can be incorporated by integrating area studies, people-centric approaches, security, development, regional diversities and agency role of non-western ideas with I.R discipline. The I.R discipline can be broadened by incorporating Buddhist philosophy (see Acharya 2011). Similarly, according to Neuman (1998) I.R theory shows major gaps in explaining the political, economic and security relationships in the non-western world (see Acharya A., 2011). Hurd (2004) blames western social sciences for neglecting religion and this trend is strongest in I.R discipline. Social scientists of both Europe and America are the reasons for this marginalization. Modernity is the main reason explained by thinkers for death of religion as social and political force (see Fox, 2006).

International relations (I.R) have marginalized concerns of high politics of external relations among states and the discipline has failed to address current financial and economic crisis which is highly concerned with it. It reflects that the discipline has no tools and mechanism to understand the crisis and its implications at state and world levels. The financial crisis has threatened the regimes in the west due to mounting debts



and budgets shortfalls. I.R has failed to develop any method to come out of it and this shortcoming seeks attention. Moreover, recent financial crisis got converted into a full fledged global economic crisis because of global integration of the international financial and monetary system. It confirmed the governance and regulations of the global monetary and financial policies much more effectively. Hence the global governance appeared as a hard and burning researched concept. Consequently, issues of international finance, monetary and trade mechanism appeared as hot items of the international political agenda. The need for restructuring financial, monetary and trade issues in line with national interests became the most important issues of international politics. The empirical studies of international political economy are increased and its importance as a sub-discipline of international relations is enhanced (see Chalabi and Manokha, 2011; Ozkan, 2012).

Furthermore, conventional economists remained unaware of the current financial crisis and underestimated its dimensions. The conventional economics has failed to tell the shortcomings and limitations of its models. The economists failed to develop the indicators predicting the system crisis and its remedies. Hence, it resulted into systemic failure of the economics profession. The majority of economists failed to warn policy makers about the threats that the system has crisis. It is an ethical breakdown of the conventional economic system (see Lux, 2009).

World is recognizing the role of religion which is ignored by I.R theories. The awareness of incorporating religion to solve issues of contemporary world is evident. Religion is very much relevant for its revival in the world. In this regard, Huntington's (1996) stated that *the late twentieth century has seen a global resurgence of religion*. Religion never disappeared from the world affairs rather it remained growing to survive. The integration of religion to I.R theory is imperative to understand and solve the issues at world level (see, Wallerstein, 2005). In a similar way, Rosato (2011) highlights the contribution of persistent research of religion to prominent theories of international politics which is yet to be seen. It would lead us to a destination of better understanding of state actions and international outcomes drives by other factors. This alone makes it difficult for international relations theorists to pay continued attention to religion. Religious scholars' have failed to rule out alternative explanations by

establishing a causal connection between religion and important international phenomena.

Western social scientists remained biased to religion and did not incorporate its role in international relations. Religion is now a competing actor which remained suppressed by conventional actors in international politics. Religion is emerging at state and the international affairs of contemporary global politics (see Shuriye, 2011). Religion influences international relations but remained ignored by the academia because of its being western-centric. Contemporary I.R is based on enlightenment, western experience of the world and ignoring role of religion. Major theories of I.R and their empirical methods have also excluded religion. However, religion is essential for the discipline of I.R. as it is a source of legitimacy by traditional policy makers and their opposition, both domestic and foreign. Another dimension of its importance is that lot of world population believe normative values and religious values. Further, secular and religious motivations overlap in the game of power politics like charity and extension of aid. Similarly, certain states are supporting Israel to promote material interests in the region and, supporting democracy and the concept of market economy all over the world (see, Fox and Sandler, 2004).

It is worth mentioning that western formulations of social sciences cover ethical and social commitments to secular views which conflict the Islamic views. Muslims have accepted the western theories at large and it has prevented the development of genuine Islamic substitutes (see Zaman, 2005). Likewise, Chapra (2010) gave the reasons to develop an alternative Islamic economic system. The conventional economics was converted into its secular and value-neutral nature after the enlightenment movement of the seventeenth and eighteenth centuries. The market system has failed to eliminate poverty and fulfillment of everyone's needs even in the developed countries. Inequalities of income and wealth have continued to persist and the economic instability and unemployment have added to the miseries of the poor. Moreover, Iqbal and Lewis (2009) referring Chapra (2000) who states that Islamic paradigm gives primary importance to moral values, human brotherhood, socio-economic justice and integrated institutions like family, market and society unlike its Marxist or capitalist counterparts. Furthermore, it is the need of time to explore the

financial system and Institutional framework of the Islamic societies before they were colonized by the West. The contemporary financial system was implemented by demolishing their institutions. The modern financial system developed without taking any lessons from the Muslim civilization. Almost all branches of modern knowledge admit the contributions of Islamic civilization except science of economics and finance which does not recognize any contribution made by Islamic civilization in this field. Schumpeter (1954), while writing history of economic analysis totally ignored the long history of economic successes in the era of Islamic civilization. Poverty, worldwide famine, financial and economic crisis have no evidence in the long history of 1000 years (see Khan, 2010).

#### **4.10: Philanthropy and IBF: A Mean of Civil Society to Attain Social Justice**

Any social and cultural movement cannot be set to remain disconnected to politics. It has to deal with the political phenomenon in one or the other way. The emergence of Islamic NGOs which though are non-political and claim to deal with social issues like poverty, marriages, burring the dead and providing other socio-economic needs of the Muslim societies in different parts of the world. In this way, these NGOs revive local values and culture and this is how they become the political discourse. It would be interesting to develop a link of apolitical nature of indigenous mechanism of philanthropy and IBF to I.R discipline. According to Alterman and Hunter (2004) philanthropy has long historical roots as an indigenous phenomenon of Islamic civilization. How civil society is instituted and interacts with state institutions are deeply grounded in the western experience. Philanthropy is an idea that has long existed in Muslim communities. Charity being an obligation builds Islamic community through faith, and strengthens faith through deepening of community. It is a mean to attain social justice both by civil society and government. However, in the early twentieth century, many states responded by nationalizing awqaf, often establishing a ministry or office to administer such affairs in accordance with the local civil code and with state interests. In so doing, they extended state control into what was thought in Western Europe to be the heart of civil society, eliminating a source of independence

and potential political opposition. Similarly, states brought under their control a massive amount of assets (in many cases representing some 15 percent of the wealth of the state), which could then be directed toward supporting state interests.

It is interesting to note that the growth of secular state in 20th century and changing economy are two historical links which produced Islamic social institutions in the region (Egypt, Jordan and Yemen). A local middle class emerged as a result of economic disorders and changing economy. The state started social welfare services which were extended by religious authorities by early nineteenth century. During this transformation both state and religious authorities failed to provide sufficient social welfare services and this gap was filled by the local middle class (see Clark, 2004). Similarly, Bayat (2005) opines that Post-Islamism is an attempt to conceptualize and strategize the rationale and modalities of transcending Islamism in social, political, and intellectual areas. It combines religiosity and rights, faith and freedom, Islam and liberty. It wants to marry Islam with individual choice and freedom, with democracy and modernity. Islamism is defined by combination of religion and responsibility, post-Islamism emphasizes religiosity and rights. Likewise, Berner (2004) asserts civil society in Islamic world depends on the development of indigenous philanthropy. Civil society cannot sustain and support social justice only by government funding and international donations. It has to mobilize the local resources. Islamic societies have rich heritage of philanthropic institutions which were a source of social justice in those societies and were crushed during colonial era and the period of nationalization. Civil society is an important pillar to support democratic society and a third force in the provision of social services in areas where government cannot reach. Civil society is the product of social, political and economic environment and can only flourish by a supportive political system.

Furthermore, Salih (2002) highlights that Islamic NGOs are voluntary organizations in the provision of goods and services to the society by generating funds from local donations in Africa. Islamic NGOs comprise communities of interest with diverse motives and objectives, including social, political and economic interests. The resource bases of voluntary activities in Islam are zakat, waqf, gifts and donations, voluntary services (education, health) and obligatory family support. A combination of

Islamic ethics, law, politics and economics in a modern form is taking care for Muslim communities. Islamic NGOs can be utilized as a valuable political resource in the modern world. Finally, Islamic movements rely on networks often created by scholarly and student affiliations. They construct dense networks of Muslim associations connecting mosques, schools, welfare associations, pilgrimage associations, clinics, missionary activity, community development associations and student associations. On the political front, Islamic civil societies organizations form a parallel organizational alternative to the state, when allowed to compete are very successful in pluralist democratic elections (see Ahmed, 2009).

McCarthy (2002) from U.S perspective gave the idea that philanthropy, government and the nonprofit sector are not perfectly separate rather historically been linked although the lines between them are not clear. Research over the past twenty years has underscored this for the contemporary scene. What the historical record clearly shows is that the places where the sectors intersect provide an important vintage point for understanding not only its role in service delivery, but also in pulling marginalized groups in the political and economic fields that ostensibly excluded them. Second, efforts to build a nonprofit sector by insulating it from the political system and the market are short sighted at best, and probably naïve. One cannot understand American democracy without understanding civil society which cannot be understood without understanding the nonprofit sector and the philanthropy that supports it.

#### **4.11: Summary**

The IBF could be a mean of new dimension of international relations among the Muslim countries. The new dimension can be seen in the form of cooperation among the different regions, institutional cooperation and rivalry in education, research, Shari'a standards and other services among the OIC and rest of the world. This new dimension could be a mean to increase the popularity of IBF among the hostile Muslim regimes towards IBF. The new links could be promoted in developing dialogue among the Muslim and non-Muslims states, institutional development, bringing peace and harmony in the world, transforming the Muslim societies, supporting the revival of Islam in the world. IBF would be a mean of cooperation among the other cultures of the

world. This could be boosted through integration of IBF with the conventional financial system. IBF could be a mean of foreign direct investment among the Muslim world which ultimately ensure the self-reliance and monetary union among them. Overall, it is hoped that IBF being an alternative paradigm to conventional financial system could be a mean to incorporate the role of Islam in I.R discipline.

# Chapter 5

## Methodology and Research Plan

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This chapter explains the methodology and research plan of the study. We use survey as a method of research. A survey is a systematic way of collecting information to illustrate, compare, or elucidate knowledge, attitudes, and behaviors. It requires a reliable and valid instrument for data collection such as self-administered questionnaire. This study uses questionnaire as an instrument of survey which is developed in the light of our research objectives and hypotheses, explained in Chapter 1. After pre-testing, the questionnaire was posted on a designated website and the responses of 1008 respondents were recorded. The details of our research methodology and research design are given in the following sections.

### 5.1 Methodological Approach

We use positivistic methodology of research for which survey method is used to collect data from the respondents through a self-administered questionnaire. We describe our data using graphical and numerical tools. For example, a descriptive analysis of each stakeholder group is explained in the light of frequency tables which are constructed out of the collected data and histograms are designed with the help of said tables followed by explanations and citation from the literature. Further, we provide logistic regression analysis to examine the factors that may affect the probability of occurrence of certain attributes, particularly the adoption of IBF in Pakistan. Finally, we synthesize our results obtained from different methods of analysis.

### 5.2 Quantitative Research Design

The quantitative research design is a systematic way of analyzing quantitative or numerical data using various statistical tools such as frequency tables, histograms and regressions etc. In this study we construct and interpret frequency tables based on our collected data through a structured questionnaire. Then, we construct histograms with

the help of constructed frequency tables and interpret the distributions of various attributes such as information of IBF, general perception on Riba / bank interest, knowledge of IBF terminology, information source of IBF, motivation sources of IBF, opportunities and hurdles of IBF, gender, demography, education and occupation of the overall respondents of all the stakeholders.

Similarly, the attributes for the customers of Islamic banks are customer ship of Islamic banks / Islamic branches of the conventional banks, period of customer ship, products used by the customers, reasons for the adoption of IBF, reasons for not adoption of IBF, motivation by ulema for IBF adoption, motivation by members of society for IBF adoption, motivation by the employees of Islamic banks for IBF, motivation by the media sources for IBF, motivation by the Govt. policy for IBF and hurdles faced by the customers in dealing with Islamic banks.

Likewise, the attributes for general masses are holding an account, types of account, types of banks, reasons for not adopting banking, willingness for Shari'a compliant banking, motivation by Shari'a Scholar for IBF, motivation by members of the society for IBF, motivation by the employees of IBF, motivation by media sources for IBF, motivation by Islamic political parties for IBF, products needed by the masses, reasons for adoption and reasons for not adoption of IBF.

Moreover, the attributes for shari'a scholars are general awareness of IBF, satisfaction with IBF, reasons for institutionalizing IBF, IBF a means of wealth generation & protection, short comings of IBF, possible substitute of IBF, motivation by ulema for IBF, membership by ulema for Islamic political party/ religious association, steps taken by the association of ulema for IBF, imperative role of shari'a scholars for IBF, marginalization of shari'a scholars for IBF, economic opportunities of IBF to ulema, political opportunities of IBF to ulema, teaching and research of IBF by ulema, awareness and agreement with the critique of IBF and consensus of ulema on IBF.

Furthermore, the attributes for Islamic political parties are membership, steps taken for IBF, political opportunities, their involvement for IBF by the authorities and hurdles faced by them. Likely, the attributes for the officers, State Bank of Pakistan are



reasons for policy shift in 2001 by State Bank of Pakistan and organization of training to staffs of Islamic banks with collaboration of OIC institutions.

Lastly, the attributes for the officers, Ministry of Finance are cabinet orders to support IBF, subsidy to Islamic banks, developing links with the OIC financial institutions, recruitment of Shari'a scholars/experts of IBF in the ministry, reasons to institutionalize IBF, reasons not to institutionalize IBF in Pakistan and effective ways for the promotion of IBF in Pakistan. The above mentioned attributes of all the stakeholders of IBF are incorporated with respect to their importance or satisfaction/agreement using 5 point likert scales. Moreover, we analyze our data using logistic regressions.

### **5.2.1 Population and Sample of the Study**

The target population of this study is whole Pakistan; however our sample frame consists of those respondents who use internet. It includes depositors/ customers, general masses, majority of religious scholars, Islamic political parties, employees of Islamic banks/management, officers State Bank of Pakistan and officers ministry of finance and those groups who can play a vital role in the adoption and promotion of IBF in Pakistan such as some of ulema and members of Islamic political parties. In this background, we use two sampling methods, cluster and convenient sampling. We use cluster sampling for officers, State Bank of Pakistan and officers, ministry of finance and convenient sampling for rest of the stakeholders. Cluster sampling is used when target population is located in a particular geographical area like Govt. ministries, headquarters, universities, industrial areas and organizations. It is an economically efficient sampling in which primary sampling unit is not the individual element in the population but a large cluster of elements. So population of the study consists of whole Pakistan. Moreover, the Pakistani nationals living abroad also responded by filling the online questionnaire. We choose a sample size of 1008 respondents from stakeholders of Islamic banking in Pakistan which is consistent with most of the empirical literature (see Comrey and Lee, 1992; Bartlet et al 2001). Comrey and Lee (1992) argue that a sample size of more than 1,000 is excellent, 500 is very good, 300 is good, 200 is fair, 100 is poor and 50 is very poor. A minimum of 10 observations per variable is

necessary to avoid computational difficulties. The following table provides the details of our sampled observations.

**Table 5.1: Sample Size of Stakeholders of IBF in Pakistan**

Stakeholder Group	Target set	Target achieved
Depositors/Customers (Corporate & non corporate)	50	107
Shareholders (Investors)	50	05
General Masses	250	280
Religious scholars	250	98
Islamic political parties (members)	200	142
Employees of Islamic banks/Management	50	280
State Bank of Pakistan (officers)	50	58
Ministry of Finance (officers)	50	38
<b>Total</b>	<b>1050</b>	<b>1008</b>

The Table 6.1 reflects that a sample size of 1050 respondents was targeted against which 1008 respondents of each stakeholder group reflected their responses. About 500 incomplete responses were dropped from the analysis.

### 5.2.2 Unit of Analysis

The following key stakeholders are identified to be the units of analysis of our research:

**Depositors/Customers (Corporate & non corporate):** Those who had a banking relationship with the Islamic banks, Islamic windows of conventional banks in Pakistan in particular financing customers. They may or may not have deposit accounts with the Islamic banks under study. Examples of such customers are those who experienced in using consumer financing products like house financing, personal financing, motor vehicle financing, education financing, etc., or corporate financing products like trade financing, letter of credits, Islamic bills, Islamic bonds, etc. The customers have only deposit accounts with any of the Islamic banks in Pakistan. Their relationship with the

bank is only confined to fiduciary engagement, i.e. depositors of the banks and hence not using any financing services offered by the banks.

**General Masses:** Those who do not have any direct banking relationship with the Islamic banks under study, i.e. they may or may not be the customers of both Islamic and conventional commercial banks in Pakistan.

**Shari'a Scholars:** The religious scholars (experts of Islamic Shari'a) from the society who are closely connected with the masses and an appeal by them can make the IBF a mass movement. These are the imams/khateeb/ mudress of the religious madrassas of Pakistan.

**Islamic political parties of Pakistan:** They are considered opinion makers of the masses by leadership role and raising the issue of Riba / Islamization of the economy at the different forums like National and provisional assemblies and Senate through resolutions, bills and agitations.

**Employees of Islamic Banks/ Management:** Employees at various organizational positions and levels of the Islamic banks in Pakistan.

**Officers, State Bank of Pakistan:** Officers who are responsible for overseeing matters concerning Islamic banking licensing, regulation and supervision of Islamic Banks in Pakistan. The wing is responsible for supervision of Islamic banking in the country by all means and conduct research and development along with training of the employees of Islamic banks.

**Officers, Ministry of Finance:** They are responsible to identify the mechanism for converting whole conventional banking into IBF along with Islamization of the economy of Pakistan by providing funds through budget allocations. Moreover, they design and implement the fiscal policy of the country.

The above Key stakeholders of Islamic banking in Pakistan are our primary target respondent groups. This identification is in accordance with the definition of (see Freeman, 1984).

### **5.2.3 Construction of Questionnaire and Pre-Testing**

It carried the discussion with some senior researchers<sup>3</sup> in developing and designing the survey questionnaire. The questionnaire was designed for the key stakeholders namely Depositors/Customers (Corporate & non corporate), General Masses, Religious scholars, Islamic political parties, Employees of Islamic banks/Management, State Bank of Pakistan and Ministry of Finance as our primary target respondent groups.

We conducted focus group discussions comprising 10-12 persons and prepared a list of most important attributes regarding the adoption of IBF and related issues regarding Pakistan. On the basis of these attributes, we developed our questionnaire which was pre-tested on various groups of concerned stakeholders. After incorporating the comments and feedback from pre-testing, we revised our questionnaire and posted it on a designated website to collect the primary data in year 2013-14 to be used in our analysis. Our questionnaire contained close ended as well as open ended questions (see the questionnaire in Appendix).

### **5.2.4 Data Collection Procedure and Response Rate**

Survey through internet is cost effective and higher response rate can be achieved. More structured method is involved in designing the mail questionnaire. Different social media sources are used to get the responses. It is a quick method used by the researchers to generate the primary data. Scope of this method is increasing with the more internet use. Those who are not using internet are excluded by this method. We used prominent persons of academia like university professors, different social references to motivate the respondents for responses. Human resources departments such as Islamic banks, State Bank of Pakistan etc. were contacted for the circulation of questionnaire and requested to assist in filling it.

Moreover, we use mixed mode which is a combination of mobile, surface mail, e-mail, internet, and personal meetings to generate the primary data through structured

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<sup>3</sup> Asad Zaman Chancellor PIDE University, Islamabad; Ijaz Shafi Glani Professor Politics and I.R Department, International Islamic University Islamabad; Shoaib Mehmood Ex- Dean Faculty of Social Sciences and professor Politics and I.R Department, International Islamic University Islamabad; Mohammad Ayub Saddiqi, Head Business School, Fast University, Islamabad; Ifthikar Adal Lecturer Nust, Islamabad; Mumtaz Ahmed Assistant Professor COMSATS, Islamabad.

models are used. These model suit to our data (primary data of qualitative variables) and widely used by different researchers of social sciences (see Hosmer and Lemeshow, 1991). Many of these researches involve dichotomous dependent variable in analysis, so logistic regression model become the statistical model of choice in these research results. The motive of selection of logistic regression model are its easy interpretation of the estimated coefficient as “adjusted log odds ratios”, its ability to estimate the probability that explanatory variable develop for dichotomous dependent variable and its wide availability of easily used reliable software to carry out estimation. The logistic regression model is powerful statistical tool and is being used with increasing frequency in all areas of social, business and health researches.

The logistic regression model is of the following form

$$\ln\left(\frac{p_i}{1-p_i}\right) = \beta X + U_i \quad (6.1)$$

Where,  $P_i$  is the probability of occurrence of an event,  $(1-P_i)$  is the probability of non occurrence of an event,  $X$  is the vector of explanatory variables and  $U_i$  is the error term. Equation (6.1) is called logistic regression and maximum likelihood method is used for its estimation. Merit of this function is that it ensures probability ranges from 0 to 1, whereas regression equation predicts values from negative infinity to positive infinity (see Gujarati, 1995; Cameron and Trivedi, 2005).

Specifically, we write our equation (6.1) as follows:

$$\begin{aligned} \ln\left(\frac{p_i}{1-p_i}\right)_{ADOIBF} = & \beta_0 + \beta_1(AWIBF) + \beta_2(PERIBA) + \beta_3(SOCMOT) \\ & + \beta_4(NRELPR) + \beta_5(OPPM) + \beta_6(MECIBF) \\ & + \beta_7(IBFSIM) + \beta_8(FORMIS) + U_i \end{aligned} \quad (6.2)$$

where,  $P_i$  is the probability of ADOIBF (adoption of IBF) which is our binary dependent variable. The independent variables measured at 5-point likert scale are as follows: AWIBF is awareness of IBF, PERIBA is perception on Riba, SOCMOT is ‘information source is relative (social motivation)’, NRELPR is ‘no religious pressure’,

OPPM is 'opposition by policy makers', MECIBF is 'mechanism of IBF', IBFSIM is 'IBF is similar to conventional banking' and FORMIS is 'formalizing the informal sector' and  $U_i$  is error term. We repeat various regressions by adding and dropping of explanatory variables for each stakeholder group of IBF in Pakistan. We use sophisticated econometric software, STATA version 12, for our estimations.

#### *Definition of Variables*

Our regression model in equation (6.2) implies that the adoption of IBF (ADOIBF) is a binary variable measured in terms of Yes / No categories. Our explanatory variables include awareness (AWIBF), perception on Riba (PERIBA), social motivation (SOCMOT), no religious pressure (NRELPR), opposition by the policy makers (OPPM), mechanism of IBF (MECIBF), IBF is similar to conventional banking (IBFSIM) and formalizing the informal sector (FORMIS) for the respondents. These exploratory variables are influencing the adoption of IBF in Pakistan.

To find out the impacts of categorical variable both the above mentioned models are suitable to our regression analysis. To capture the impact of binary dependent variables, we use logistic regression (e.g. Yes / No). So  $p(b1) = 1$  and  $p(b1) = 0$  while if the dependent variable is ordered variable (i.e. three and above) ordered logit model is used. Both the models are used to capture the impacts of surveys responses on scales. In traditional regression analysis, mean of the response code is often used while estimating a regression equation. But, in the response code (1= strongly agreed, 2= agreed, 3= uncertain, 4= disagreed, 5= strongly disagreed), the mean of the response is 2.5, which could not tell us about the actual position of the response. Some dependent variables having codes (1= most important, 2= very important, 3= important, 4= less important, 5= not important or in some cases 1= yes, 2= no, 3= uncertain) show the same problem. Since our study is also based on the responses in ordered categorical variables: ordinal nature of adoption of Islamic banking and non- adoption, so it is useful to use ordered logit model in estimating the equation. The ordered logit model is used by different researchers like; Graham and Pettinato (2001) and Lu (1999) in similar studies.

# Chapter 6

## Descriptive Analysis

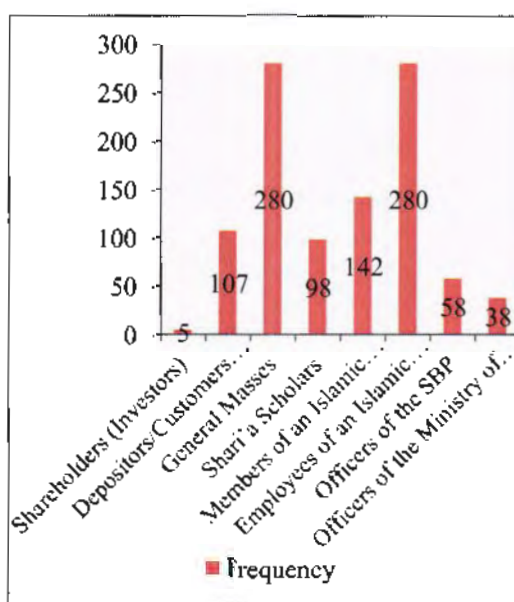
In this chapter descriptive analysis of each stakeholder group is explained in the light of frequency tables which are constructed out of the collected data and histograms are designed with the help of said tables followed by explanations and citation from the literature. This chapter comprises of subsections entitled as general awareness and perceptions about Islamic Banking and Financing (hereafter IBF), customers' perceptions about IBF, perceptions of general masses, perceptions of Shari'a/religious scholars, Islamic political parties of Pakistan, employees of Islamic banks, officers State Bank of Pakistan and officers Ministry of Finance in Pakistan.

### *Numbers of total respondents of the stakeholders groups*

Our analysis is based on the responses of 1008 respondents. They are categorise as follows.

The highest numbers of respondents are General Masses and Employees of Islamic banks/Management, followed by Islamic political parties, Depositors/Customers (Corporate & non corporate), Shari'a scholars, Officers State Bank of Pakistan, Officers Ministry of Finance and Shareholders (Investors) of IBF in Pakistan. The numbers of stakeholders of IBF in Pakistan who responded the survey through social media are presented (see Figure 6.1 here and related data Table 6.1 in Appendix)

**Figure 6.1: Stakeholder of IBF in Pakistan**





## 6.1 General Awareness and Perceptions about IBF

This section is based on the analysis of questions related to awareness about IBF perception, sources of information, knowledge of basic terminologies, perception about Riba/interest and general hurdles perceived by the respondents for IBF in Pakistan. Islamic banking is new system and common people are ignorant about its theory and operations. The awareness of a paradigm is the prerequisite for its adoption. Lack of education and awareness is a hurdle for adoption of IBF by the masses in a society. The religious attachment of the people coupled with the education/awareness would enhance the popularity and adoption of IBF in the country.

The analysis of data reflects that 97.2 percent respondents out of a sample of 1008 have awareness of IBF, while only 2.8 percent are ignorant of it in Pakistan (see Table 6.2, Figure 6.2). The introduction of IBF is very much there in the society but its adoption by masses is the real issue. The complexity arises when people know the paradigm but not willing to adopt it due to the ambiguous mechanism, complicated terminology, exclusive and non-attractive products.

**Table 6.2: Awareness of Respondents about Islamic Banking**

Have you heard of Islamic banking?	Freq.	Percent	Cum.
Yes	980	97.22	97.22
No	28	2.78	100.00
Total	1,008	100.00	

These observations are in line with other studies such as Lodhi and Kalim (2005); Iqbal and Hanif (2010); Hamid and Nordin (2001) and Islamic Banking Bulletin (2011).

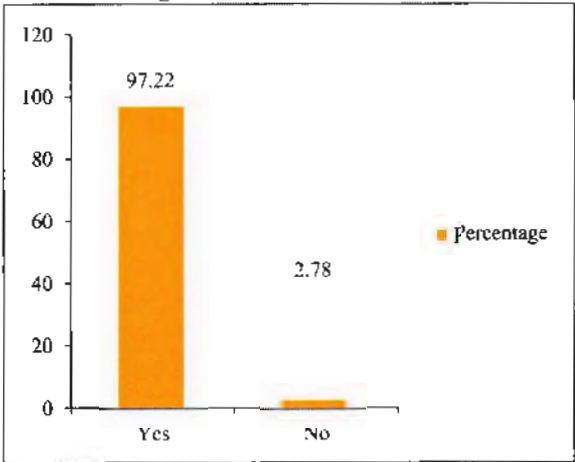


The huge awareness of IBF is due to people's keen attachment and emotions towards Riba prohibition. Almost all of the respondents believe that interest is haram in Islam and are very much aware of the Shari'a position about it (see Figure 6.2). Only a few respondents are uncertain about its being haram with the view that bank interest is not that usury which is declared as haram and unlawful in the Quranic injunctions.

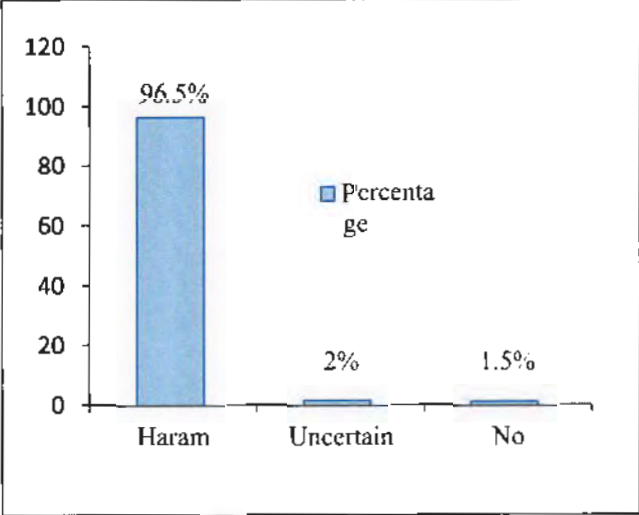
A little number of respondents considers that interest is not haram which might be due to their ignorance about this critical issue repeatedly mentioned in the Holy Quran. The above results confirm the theory of Riba presented by contemporary Muslim scholars such as Tahir (1999), Usmani (1998) and Ayub (2007).

Pakistani society is well aware of the Shari'a position of interest and can support any effort in this direction either by the Government, or private sector. This perception about the prohibition of interest is a guideline for the Islamic banking and finance authorities to design future policies for the growth of industry (see, Figure 6.3 and Table 6.3 in Appendix).

**Figure 6.2: Awareness of Respondents about Islamic Banking**



**Figure 6.3: Perception of the Prohibition of Interest**



### ***Gender Profile***

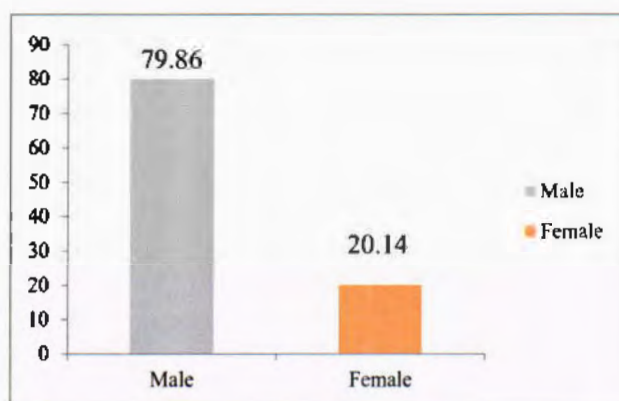
Majority of the respondents believe in the prohibition of interest. Islam gives equal status to male and female, the participation of female is ensured by including 20 percent of female respondents (see Table 6.4 Figure 6.4).

In Pakistan, the financial matters are generally handled by the head of the household which is likely to be a male member of the family. Moreover, banking matters are run by the male member of the family and female are less concern about this issue.

**Table 6.4: Gender Profile of the Respondents**

Sex	Freq.	Percent	Cum.
Male	805	79.86	79.86
Female	203	20.14	100.00
Total	1008	100.00	

**Figure 6.4: Gender of the Respondents**



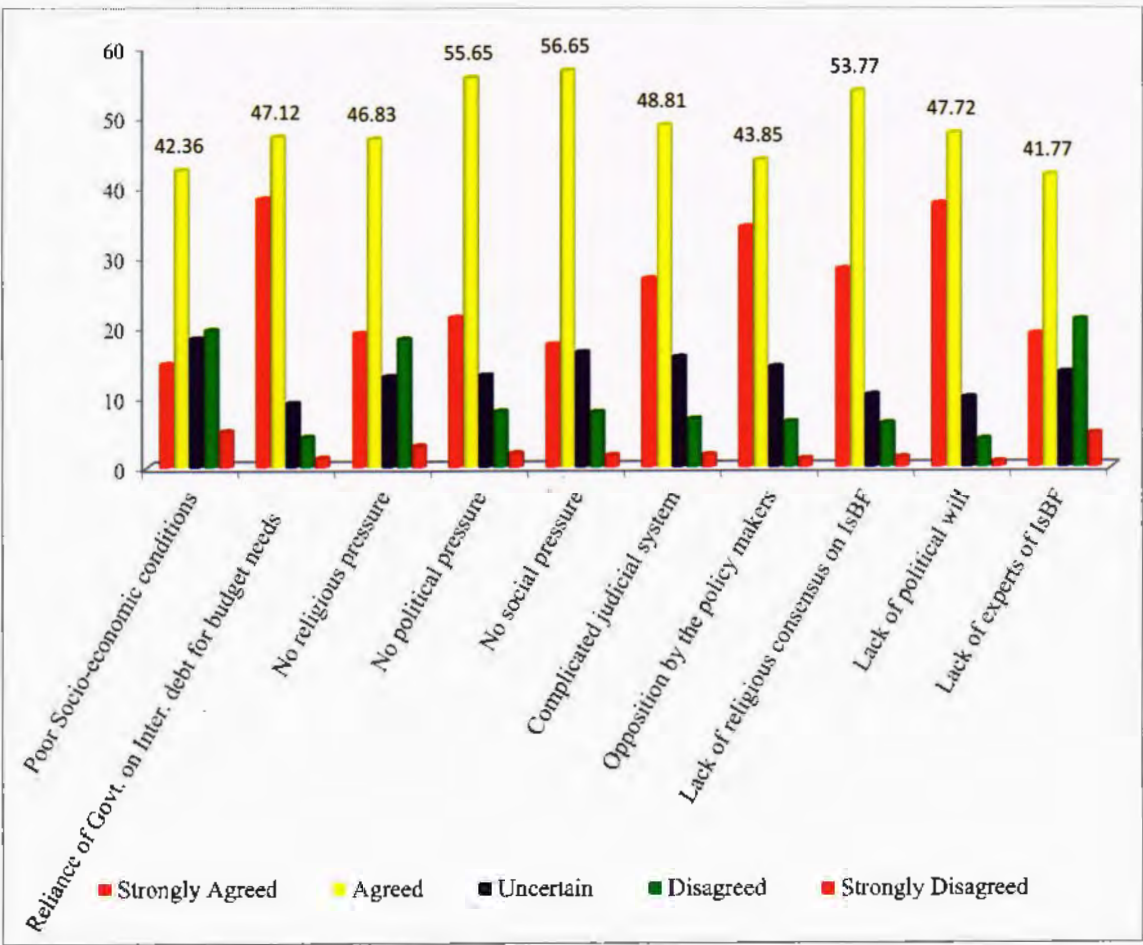
### ***General hurdles to IBF in Pakistan***

The awareness of IBF and prohibition of interest is very much there in the society. However, hurdles in its adoption are the real issue. Majority of the respondents endorse that reliance of the Govt. on international donors and financial institutions to finance the budget needs is a general hurdle for IBF in Pakistan. Similarly no religious and political pressure, opposition by the bureaucracy and lack of Political will are other general hurdle for IBF in Pakistan. Common people do not understand the mechanism of IBF and people believe that IBF is same as that of conventional banking are also the general hurdles for in Pakistan (see table 6.5 through 6.12 in Appendix). These results are consistent with the studies of Ahmad (2006); Mehboob Ul-Hassan (2007); Awan

(2009); Misra (2003); Hathaway (2004); CGAR (2011)<sup>5</sup> and Rana (2011).

However, poor socio-economic conditions, lack of experts of IBF, no mass participation of the investors and non-availability of Shari’a compliant government securities/bonds are agreed by a large number of respondents (see Figure 6.5 and 6.6).

**Figure 6.5: General Hurdles for Islamic banking in Pakistan**

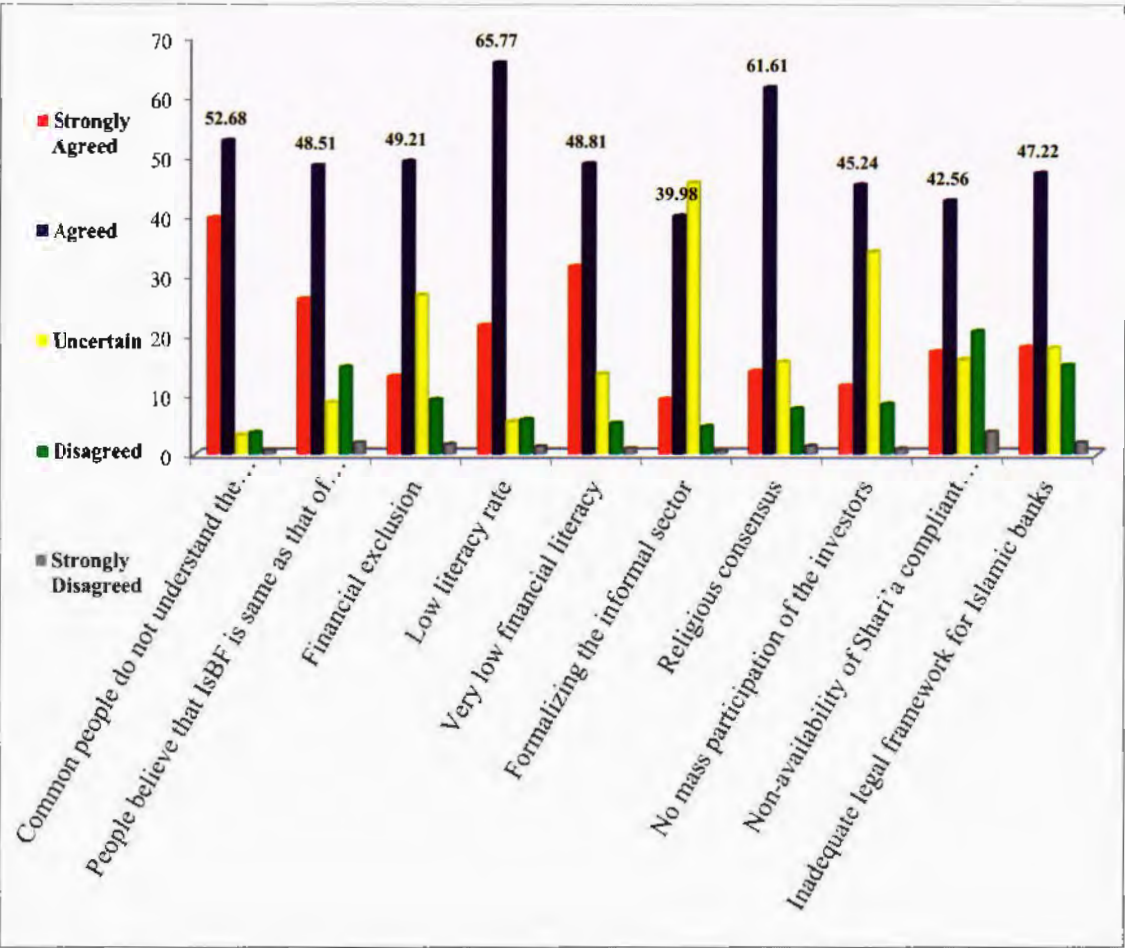


The data depicts that some of the research questions of general hurdles for IBF in Pakistan are agreed by almost half of the respondents. The question regarding formalizing the informal sector is agreed by 49.2 percent respondents. However, 45.54 percent respondents have reflected their uncertain choice about formalizing the informal sector. The reason could be that the processes of formalizing the informal sector may not be fully understood by them. Similarly 26.79 percent of the respondents are

<sup>5</sup> Crisis Group Asia Report No.216, (2011)

uncertain about financial exclusion. Again the term financial exclusion might not be clearly understood. 33.93 percent respondents reflect their uncertain choice about the mass participation of the investors in the IBF industry. The reason could be that the knowledge about such facts and figures is only known by the concerned management of IBF industry. The question on “non-availability of Shari’a compliant government securities/bonds”, a general hurdle for IBF in Pakistan is agreed by majority of respondents (60 percent) while 24.4 percent are not agreed who may not be practicing the Sukuk/Islamic bonds of IBF in Pakistan. However, 15.87 percent respondents are uncertain, who perhaps do not understand the research question and the term “Shari’a compliant” government securities and bonds. The responses related to general hurdles for IBF in Pakistan are summarized in Tables 6.5 through 6.12 presented in Appendix).

**Figure 6.6: General Hurdles for Islamic Banking in Pakistan**





6.2 Customers of Islamic Banking in Pakistan

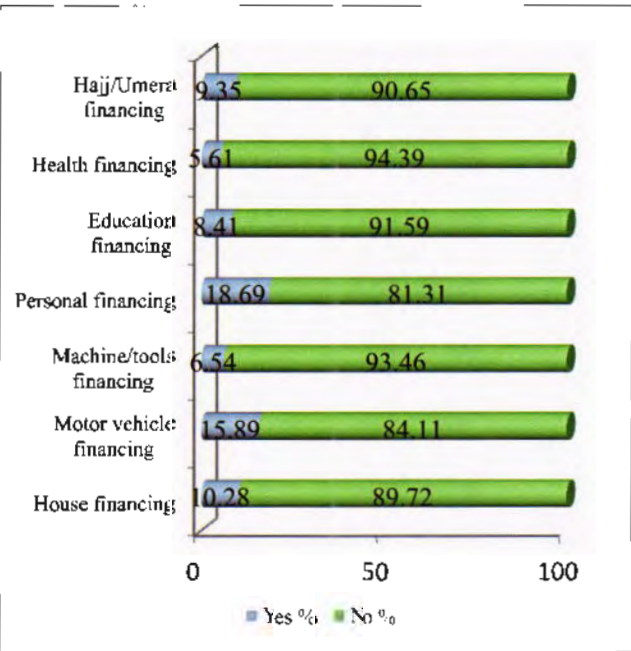
In this section, we analyze the perceptions of respondents regarding types of products used by the customers of Islamic banks, reasons for preferring/adoption of Islamic banking, motivation by Govt. policy to customers for adoption of IBF and hurdles for customers in the adoption of Islamic banking attributes.

Products used by the customers of Islamic Banks

The awareness of IBF paradigm and prohibition of interest coupled with general hurdles is the main problem in its adoption by the customers. They are very much aware of IBF due to their emotional attachment to the issue of Riba and its elimination from the economy. Their emotions are cooled down by general hurdles faced by the IBF industry in its way to adoption. Despite these hurdles existence of Islamic banking in Pakistan is a reality means still some people are adopting it although they are small in numbers.

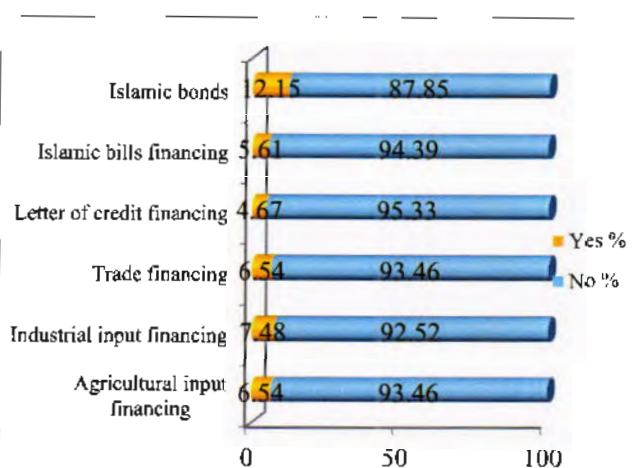
The data on Table 6.13 presented in Appendix reflects that majority of the respondents are not buying the products of Islamic banks. However, a small numbers of customers are using the motor vehicle financing, house financing, Hajj/Umera financing, industrial input financing, machine/tools financing, agricultural input financing, trade financing, Islamic bonds, Islamic bills financing and letter of credit financing offered by Islamic banks.

Figure 6.7: Products used by the customers of Islamic banks



A very low range of 5 to 16 percent customers of Islamic banks reflect the product use out of a sample of 107 respondents (see Figure 6.7 and 6.8). The main reason for this low percentage use might be that these products are too much expensive, not according to the preferences of the customers; approval procedure is complicated and too lengthy.

**Figure 6.8: Products used by the customers of Islamic banks**



Another reason might be that no proper marketing is done by the employees of Islamic banking to their customers. One possibility is that these products are not needed by the customers. The needs of the customers are different from rural to urban, small to big towns and hot to cold regions. For Hajj and Umera financing, it is generally believed that no borrowing is needed for them. Hajj obligation starts after certain saving level. Still another possibility is that customer awareness and service quality matters for buying the products of Islamic banks. This finding is consistent with the earlier empirical studies by Ahmad et al. (2010) and Haque et al. (2009).

An important point is worth mentioning that no products are offered by the branches of Islamic banks located in small cities of Mirpur, Jhelum, Dina, Attock, Hasanabdal and Murree. General banking services are offered by the management of Islamic banks in the above mentioned small cities. Similarly, no products are offered even in the big cities of KPK which is declared red zoon due to the war on terrorism and military operation<sup>6</sup>.

Specified products for women, labor class, middle income groups and deprived masses are needed to be offered by the Islamic banks. Islamic banking is limited to few big cities. The product selling is confined to big cities while general banking services

<sup>6</sup> Data collected from small cities of Punjab and Peshawar.

are extended in the small cities. The management of Islamic banks in the small cities states that their top management has ordered them to start the general banking and not to sell the products for which complete consensus is not established yet. One of the managers of Ameen Islamic bank of UBL Islamabad during the survey informed that collection of funds for him is not a problem. He can collect millions of deposits from his customers mostly friend and relatives but have limited opportunities for Shari'a compliant investment and secondary market. The responses related to products used by the customers of Islamic Banks are summarized in Figures 6.7, 6.8 mentioned above. and related data Table 6.13 is presented in Appendix).

*Why IBF is adopted by the customers?*

Factors responsible for the promotion/ adoption of IBF in Pakistan are religious attachments of the people along with awareness of the paradigm. The other potential factors influencing the adoption of IBF in Pakistan are reflected in the analysis. Most of the respondents reflect that Islamic banking products/services provide religious peace and satisfaction. Banks are the reasons for adoption (see, Figures 6.9, 6.10 and related data Tables from 6.14 to 6.28 are presented in Appendix).

**Figure 6.9: Reasons for adoption of Islamic banks by the customers**

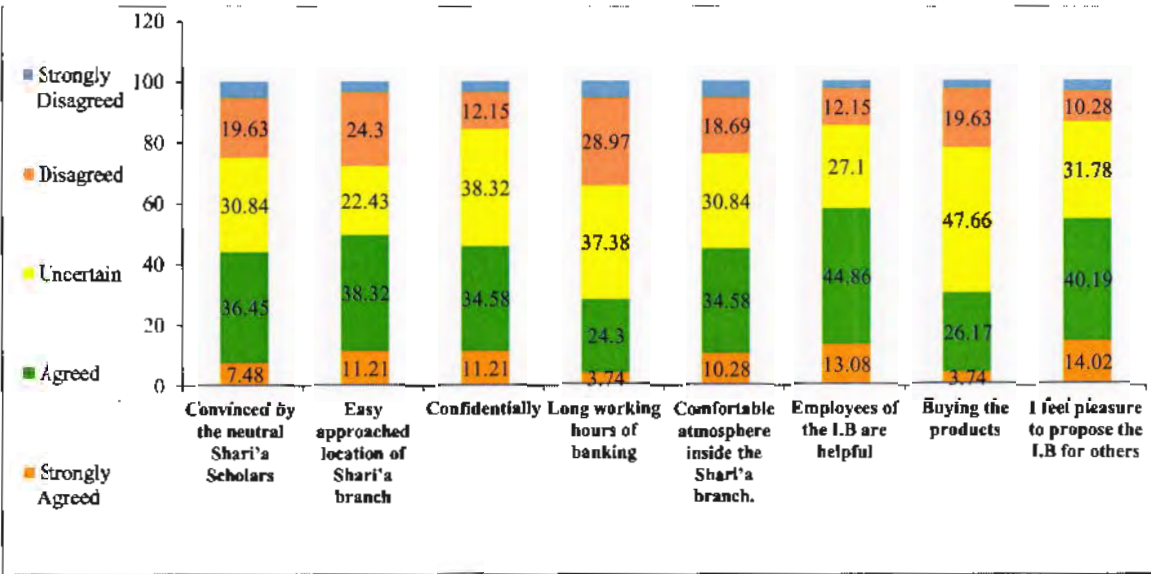
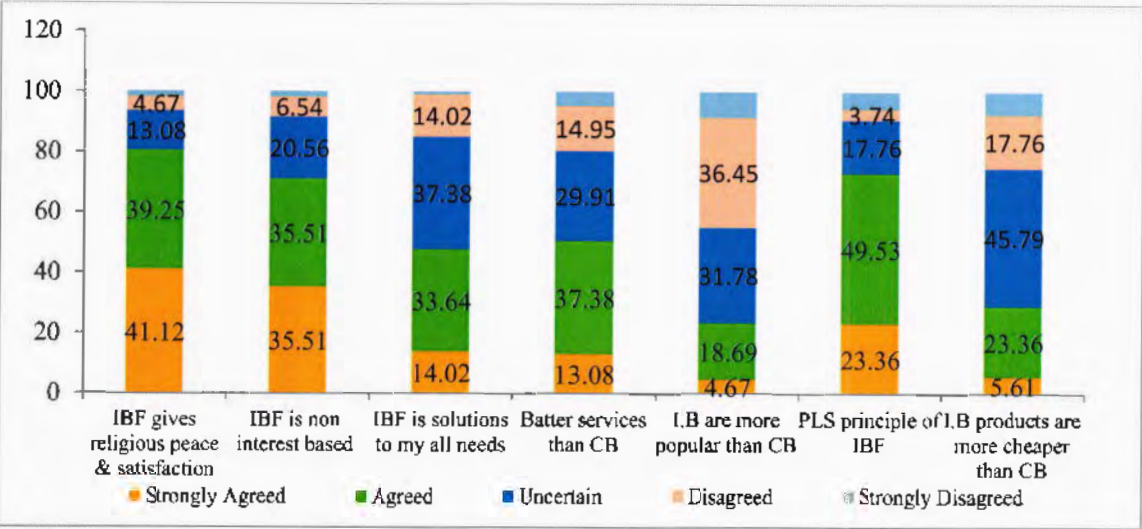


Figure 6.10: Reasons for Adoption of Islamic Banks by the Customers



It reflects that people are religious conscious and sensitive in the issues of Islamic banking. They give more weight to Shari’a aspects in adopting Islamic banking because they are very much attached with the Islamic values in financial matters Their spirit, emotions and attachments to the religion need proper guidance and direction by the authorities of Islamic banking.

**Why Islamic banking is not adopted by the customers?**

One of the reasons for not adopting Islamic banking is economic as well as its competitive nature with respect to the conventional banking. Significant numbers of respondents from the customers (37 percent) are uncertain that Islamic banking products/services provide solutions to all or most of personal corporate/business needs. Similarly, the other research questions (a) Islamic banks are more popular than the conventional banks and (b) Islamic banking products/services are cheaper than the conventional banks (c) confidentiality (d) comfortable atmosphere inside the Shari’a branch are uncertain by the significant (31 to 48 percent) respondents from the customers of Islamic banks. These are the reasons for not adoption of Islamic banking by the customers. Moreover, another significant number of the respondents (30 to 47 percent) are uncertain that buying the products, long working hours of Islamic banking and convinced by the neutral Shari’a scholars are the means for adoption of Islamic banking by the customers (see , Figures 6.9, 6.10 mentioned above).



A majority of the respondents (54 to 57 percent) from the customers confirm the research question (i) employees of Islamic banks are helpful (ii) one feels pleasure to propose the IBF for others are the means for adoption of Islamic banking by the customers.

However, half of the respondents (50 percent) from the customers are agreed that Islamic banks provide better services than the conventional banks and easy approached locations of Shari'a branch are the means for adoption of Islamic banking (see Figures 6.9 and 6.10 above). These results confirm that the customers are simply depositors and not buying products from Islamic banks. It reflects that Islamic banking branches are simply deposit collection points and product selling is not promoted by their management.

One of the reasons for limited products offered by Islamic banks might be that they are facing the rivalry of the conventional banking in their operations. Islamic banking industry can survive by offering more attractive and cheaper products than the conventional banking. Cheaper products and services are not sold by the Islamic banks as compared to conventional banks. Selling of cheaper products than the conventional banks would be a developed stage of Islamic banking in Pakistan. The IBF industry has yet not started promoting product-selling in all cities of the country and its efforts are confined to general banking services only. The customers compare the above aspects of Islamic banking viz-a-viz conventional banking. We can conclude from these preferences that less product and more general banking are promoted by the management of Islamic banks. Islamic banks are operating in an atmosphere of dual banking and are facing the rivalry of conventional banking industry fully owned and supported by the helping hand of the Govt. of Pakistan. Islamic banks have to compete with their conventional banks counterparts by offering cheaper financing products in a Shari'a compliant way and diverting the people from conventional to Islamic banking.

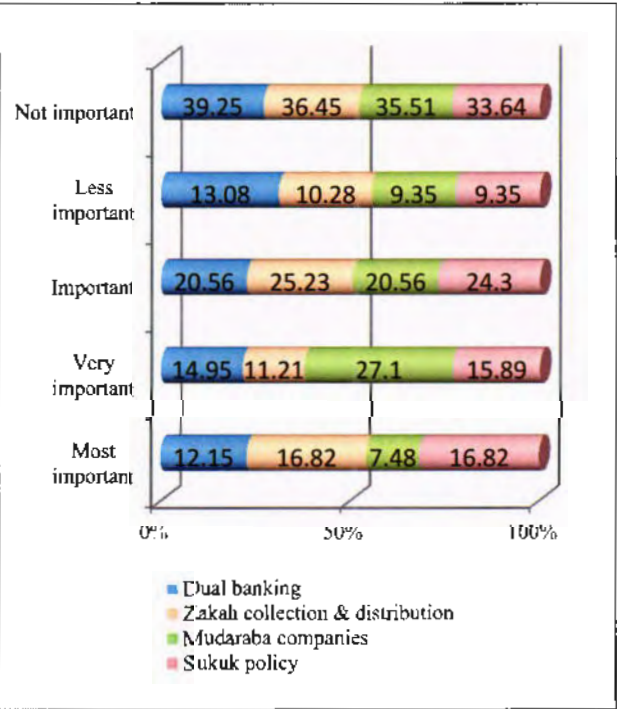
### ***The Role of Government Policy***

In addition to the reasons for adoption of Islamic Bank, the role of Govt. policy in IBF adoption is important to be explored. Whether Govt. policy is a mean of motivation for the customers of Islamic banks in Pakistan, the analysis depicts that

majority of the customers are motivated with Zakat collection and distribution, Mudaraba companies and Sukuk policy in the adoption of Islamic banking.

All these policies of the government are important means of motivation for majority (53 to 57 percent) of the customers of Islamic banks. However, majority (52 percent) of the respondents from the customers do not consider dual banking a mean of motivation for Islamic banking in Pakistan (see Figure 6.11 here and Tables 6.29 through 6.32 in Appendix. These results indicate importance of the government policies for boosting the popularity of IBF paradigm in the country.

Figure 6.11: Motivation by Govt. policy to customers for adoption of IBF



It may give a multiplier boost to the Islamic banking industry by simply routing the Govt. schemes/projects through Islamic banks. No comprehensive strategy was ever framed. The policy makers opposed Islamic banking as it is a threat to their control over financial resources. The SBP did not formulate any practical policy for interest-free financial system and complicated judicial system discouraged banks from adopting PLS system. The above finding is consistent with Khan and Bhatti (2006).

The Prime Minister’s scheme of youth business loan is not being routed through Islamic banking. The Govt. of Pakistan has stared the Islamic banking and is supporting the conventional banking by its loan schemes through conventional banking and not

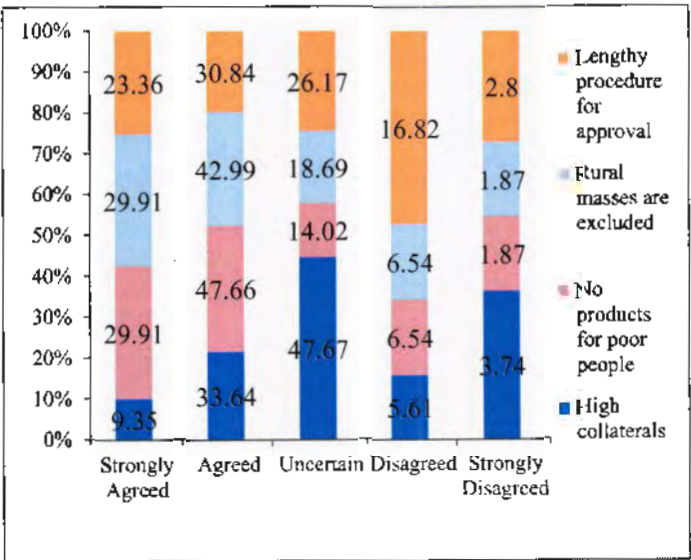
opening Government accounts in Islamic banks. The Govt. has allocated Rs. 5 billion for the said scheme in budget of 2013-14<sup>7</sup>.

***Hurdles for Customers in the Adoption of Islamic Banking***

Majority (73 to 78 percent) of the respondents from the customers consider that no products by Islamic banking is offered for poor/deprived people and rural masses are excluded are the reason for not adoption (see Figure 6.12 and Tables 6.33 through 6.38 in Appendix). The other social groups like middle class workers, craftsmen, labor class, and seasonal workers and women groups can be explored in future. Islamic banks have yet not started serious projects for poverty elimination or enhancing social justice in the society. Above results are consistent with the studies by Hasan (2007), Siddiqi (2006), Zaman (2009) and Kamla and Rammal (2013).

Moreover, majority of the respondents (54 percent) from the customers consider that lengthy procedure of approval is a hurdle for non- adoption of Islamic banking. However, about half of the respondents (48 percent) blame the high collaterals as a hurdle for non-adoption of Islamic banking.

**Figure 6.12: Hurdles faced by customers in the adoption of Islamic banking**



<sup>7</sup> Prime Minister’s scheme of youth business loan 2013. <https://www.nbp.com.pk/pmybl/index.aspx>  
Access date: December 24, 2013.

**6.3 General Masses**

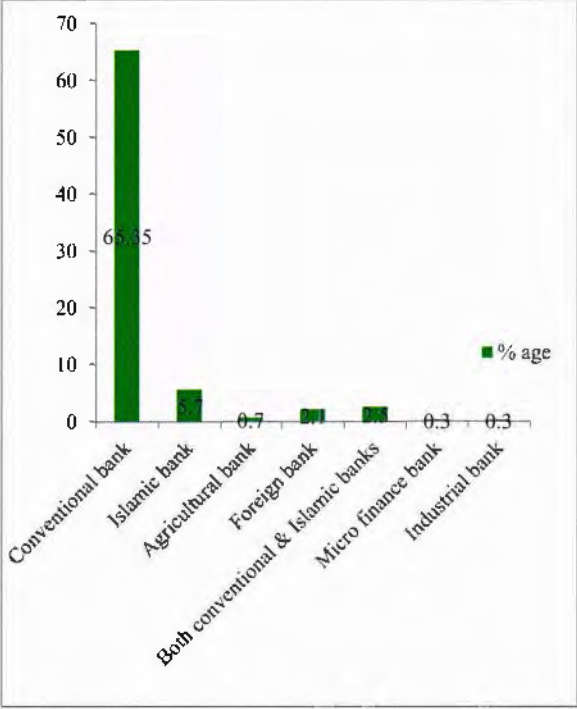
In this section, we analyze the attributes of general masses regarding type of banks adopted by them and willingness to adopt Shari'a compliant banking. It also covers the issue of motivation by the Islamic banks and Islamic political parties to adopt IBF. Moreover, it highlights the products needed from Islamic banks and reasons for adoption of Islamic banking by general masses group. The kind of banking adopted by the respondents of general masses can be seen from their type of account holding. Consequently this attribute indicates the adoption of conventional viz-a-viz Islamic banking by respondents in a country where Govt. has allowed dual banking practices. The data depicts that 65.3 percent respondents of the general masses are holding accounts with conventional banks followed by 5.7 percent with Islamic banks, 2.5 percent with both conventional & Islamic banks, 2.1 percent with foreign bank and less than 1 percent with each agricultural bank, micro finance bank and industrial bank out of a sample of 280 respondents of the general masses (see Table 6.37 and Figure 6.13).

**Table 6.37: Types of banks general masses holding account with**

Which bank do you hold an account with?	Freq.
Conventional bank	183
Islamic bank	16
Agricultural bank	2
Foreign bank	6
Both conventional & Islamic banks	7
Micro finance bank	1
Industrial bank	1
Total	216

This shows a clear distrust and non-satisfaction of the common masses on Islamic banks of Pakistan. The low percentage of masses holding accounts with Islamic banks raises serious questions regarding their unclear mechanism, costly products and no attractive schemes. It indicates that serious doubts and distrust prevails in the mind of common people regarding IBF in Pakistan. People do afraid that Islamic banking might be ending with some scandal and it is better not to adopt it.

Figure 6.13: Types of banks general masses holding account with



Another reason for not adopting Islamic banking might be that people are very sensitive in wealth protection by banks and since Islamic banking being a newly established concept in Pakistan; it is not fully exposed to masses. So people are not ready to take the risk of money protection / growth by adopting Islamic banks having uncertain future in the perception of masses. This misconception can be removed by Ulema, Islamic political parties and above all with the helping hand of the Govt. of Pakistan. Above results are consistent with the study of Ahmad (2006).

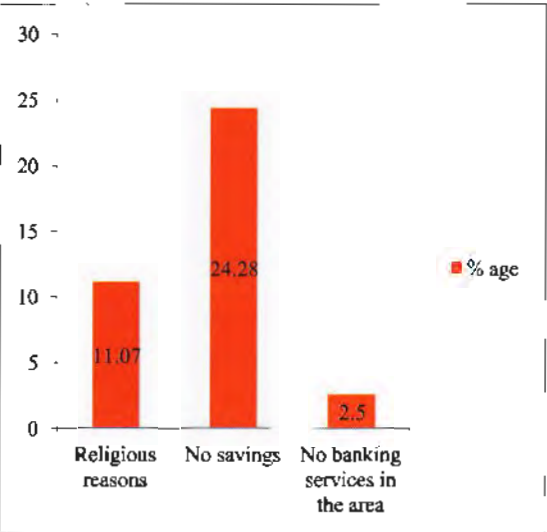
It is important to note that general masses have not adopted any kind of banking (conventional or Islamic) in the presence of dual banking in Pakistan. The data shows that 24.3 percent respondents are not using the banking services due to no savings, 11.07 percent because of religious reasons and 2.5 percent for not having banking services in the area (see Table 6.38 and Figure 6.14).

**Table 6.38: Reasons for not adopting any kind of Banks/Banking**

Why have you not used the services offered by a bank?	Freq.
Religious reasons	31
No savings	68
No banking services in the area	7
Total	106

The important are no savings and religious reasons. Lot of middle class people do not have enough savings to put into the banks as, they hardly meets their expenditures. Religious reason for not joining a bank is the element of interest involved in banking system of Pakistan. People believe that interest is haram and it is better to save the money by informal means like savings with relatives, shopkeepers and friends etc.

**Figure 6.14 Reasons for not using the banking services**



The above results are consistent with the studies by Cecile and Ahmad (2009), World Bank study (2009) and Ahmad (2006). In the light of above findings it is evident that majority of the general masses have adopted conventional banking. The critical issue is that how they can be switched over to Islamic banking.



The analysis depicts that most of the (92 percent) respondents of general masses are willing to adopt Shari'a compliant banking out of a sample of 264 numbers. However, limited 8 percent respondents are not ready to adopt IBF as they might have not understood the mechanism of IBF (see Table 6.39 and Figure 6.15).

The other reason might be that they do not consider it truly Shari'a compliant. Another possibility is that they might be the followers of Ulema who are opponents of IBF. However, majority of the respondents are ready to adopt IBF which indicates that people are ready to join Islamic banking provided they are properly approached by the concerned authorities. People of Pakistan are extremely sensitive and touchy to any kind of move for Islam. The findings are supported by the studies of Husain (2004) and Draz et al. (2011).

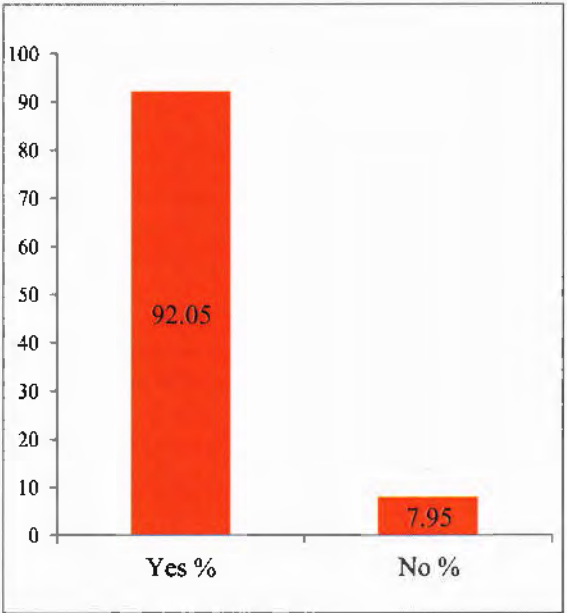
Personal contacts and advertisement through all kind of media, public campaign and awareness seminar are prominent means of motivation to the respondents for the adoption of Islamic banking in Pakistan. The above means are the tools for the opinion making of the masses for a paradigm like IBF in Pakistan. The employees of Islamic banks whether use the above means to motivate the respondents in the adoption of IBF.

Our analysis reflects that majority of the respondents (54 to 63 percent) from the general masses confirm that personal contacts, awareness seminars, public campaign,

**Table 6.39: Masses Willing to Use Shari'a Compliant Banking**

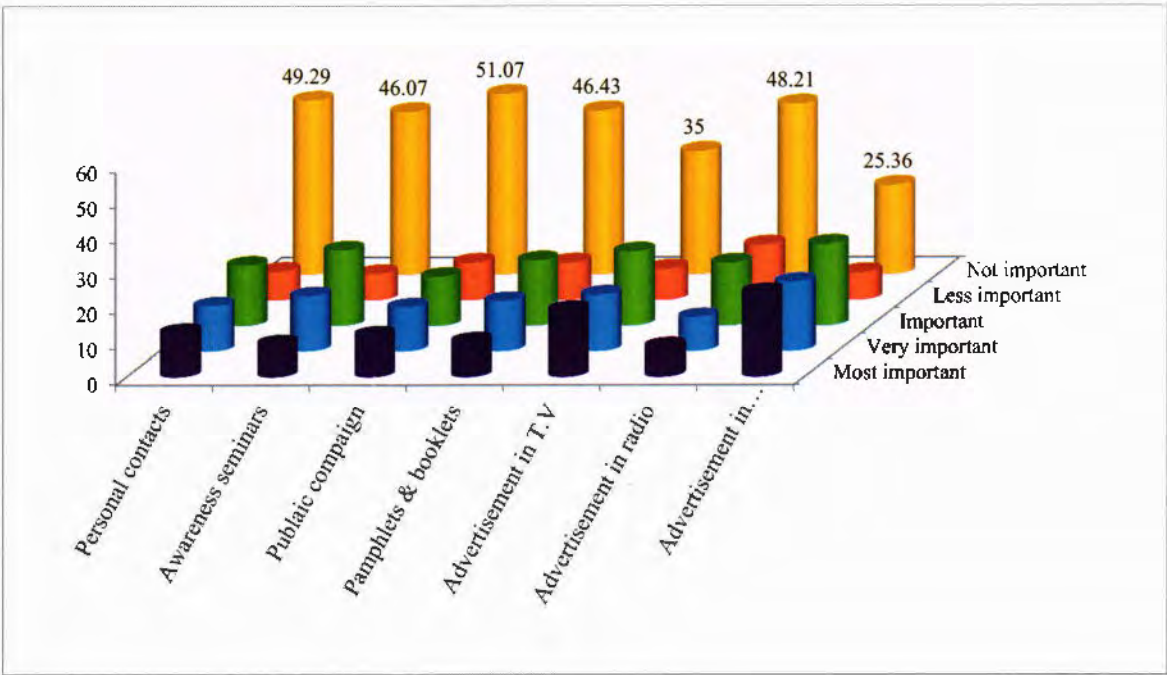
Are you willing to Use the Shari'a Compliant Services of an Islamic Bank?	Freq.	Percent	Cum.
Yes	243	92.05	92.05
No	21	7.95	100.00
Total	264	100.00	

**Figure 6.15: Masses willing to use Shari'a compliant banking**



distribution of literature (pamphlets and booklets) and advertisement in radio for the popularity of IBF by the employees of Islamic banks are not important sources of motivation (see Figure 6.16 and Tables 6.42 through 6.48 in Appendix). However, advertisement in T.V and newspapers is important for majority (56.3 percent) of the respondents from general masses (see Figure 6.16 and Tables 6.42 through 6.48 in Appendix). This result confirms that the management of IBF does not bother to apply the above means for the popularity and adoption of Islamic banking among the masses in Pakistan. It proves our hypothesis that different stakeholders oppose the paradigm of IBF in Pakistan.

**Figure 6.16: Motivation by the employees of Islamic banks through means**



The potential reasons for such opposition might be lack of knowledge by the management, high cost of such means, lack of experts and professionals of such means in IBF industry and many more.

However, advertisement in T.V and newspapers is important for majority (56.3 percent) of the respondents from general masses (see Figure 6.16 and Table 6.42 through 6.48 in Appendix). It reflects that the employees of Islamic banks mainly focus on advertisement in T.V and newspapers. The other means are not important tools used by the management of Islamic banks for the motivation of general masses. These means

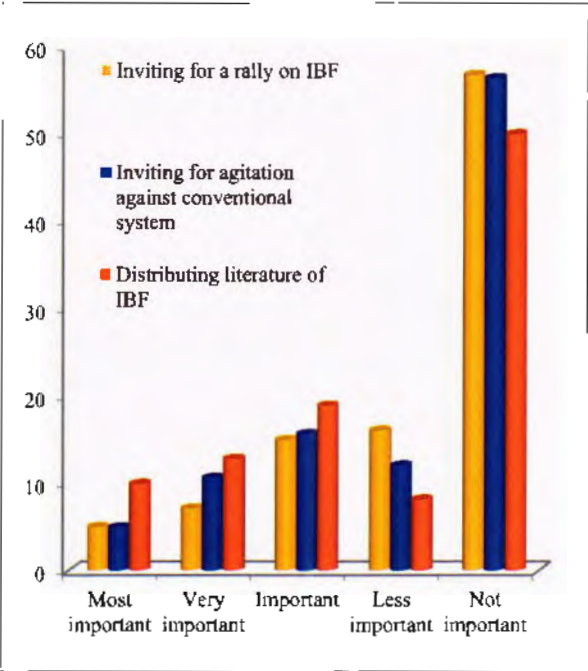


are the potential sources of motivation for the popularity of IBF model among the members of the society both print and electronic media can be an effective tool for opinion making of the people of Pakistan. The direct and indirect media techniques can motivate the people to adopt Islamic banking. The results are supported by the studies of Bryan Turner (1994) and Esposito 1992)

Political means like rallies, agitations, street protest and movements are effective tools used by the political parties to achieve their objectives. To convert the IBF in to a mass movement in Pakistan can be achieved by the above means.

The Islamic political parties' whether motivates the general masses for IBF adoption through political means. Our data shows that the means like invitation to participate in a rally on IBF, invitation to participate in agitation against interest based system, distribution of literature on IBF by Islamic political party are not important source of motivation for majority of (58 to 71 percent) respondents from the general masses (see Figure 6.17 and related Tables 6.49 through 6.51 in Appendix).

**Figure 6.17: Motivation by Islamic political parties to masses for IBF by means**



These results reflect that promotion of IBF through the above means is not the priority of the Islamic political parties of Pakistan. The common masses have never been mobilized by the Islamic leadership for Islamization of the economy by introducing IBF as a substitute of conventional economic/financial system. The Islamic political parties can increase their popularity by incorporating IBF as election manifesto, mobilizing the masses in its favor, conducting education and research, developing infrastructure institutions, a mean of developing links with the Islamic political parties of the Islamic world and a mean of dialogue with the western world.

The emerging paradigm of IBF supported by the Islamic political parties of Pakistan can be converted into a mass movement in the country. Above findings are supported by earlier studies by Mehboob ul Hassan (2008) and Nadeem, (2010). Furthermore, the management of IBF ever explored the needs of the people in Pakistan. The financing of products/services needed by the masses matched by the products/services offered by Islamic banking can enhance the adoption of IBF paradigm in the society. Our analysis depicts that products needed by general masses from Islamic banks are micro tools/machines, agricultural inputs, trade financing, small and medium enterprise financing important for majority of the respondents (44 to 54 percent).

**Figure 6.18: Products needed by the masses from Islamic Banks**

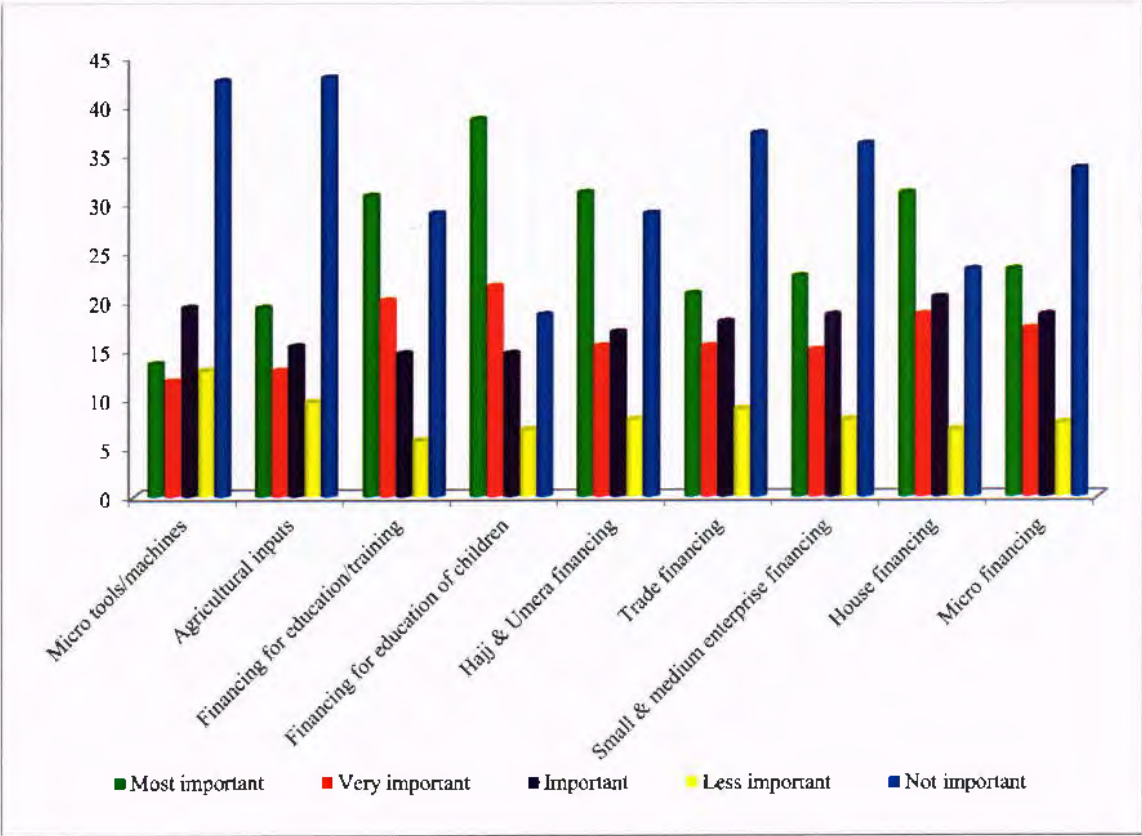
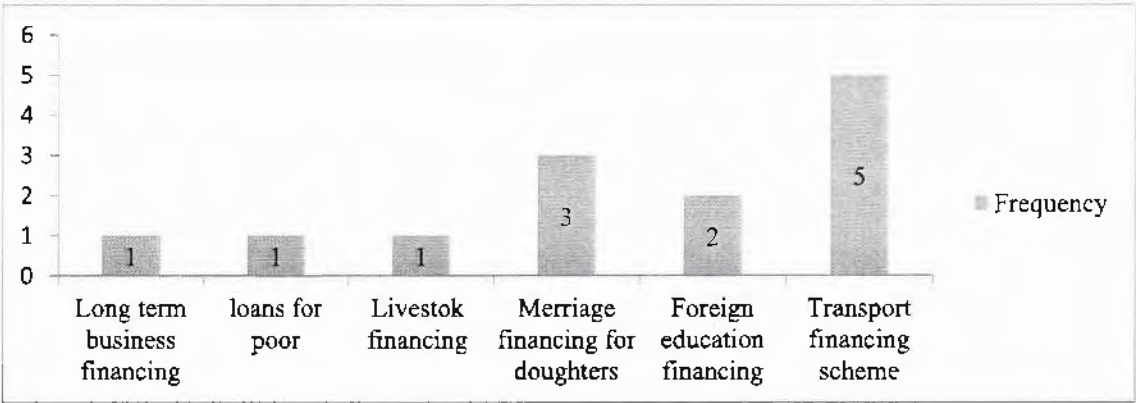


Figure 6.19: Financing needed by general masses from Islamic banks any other

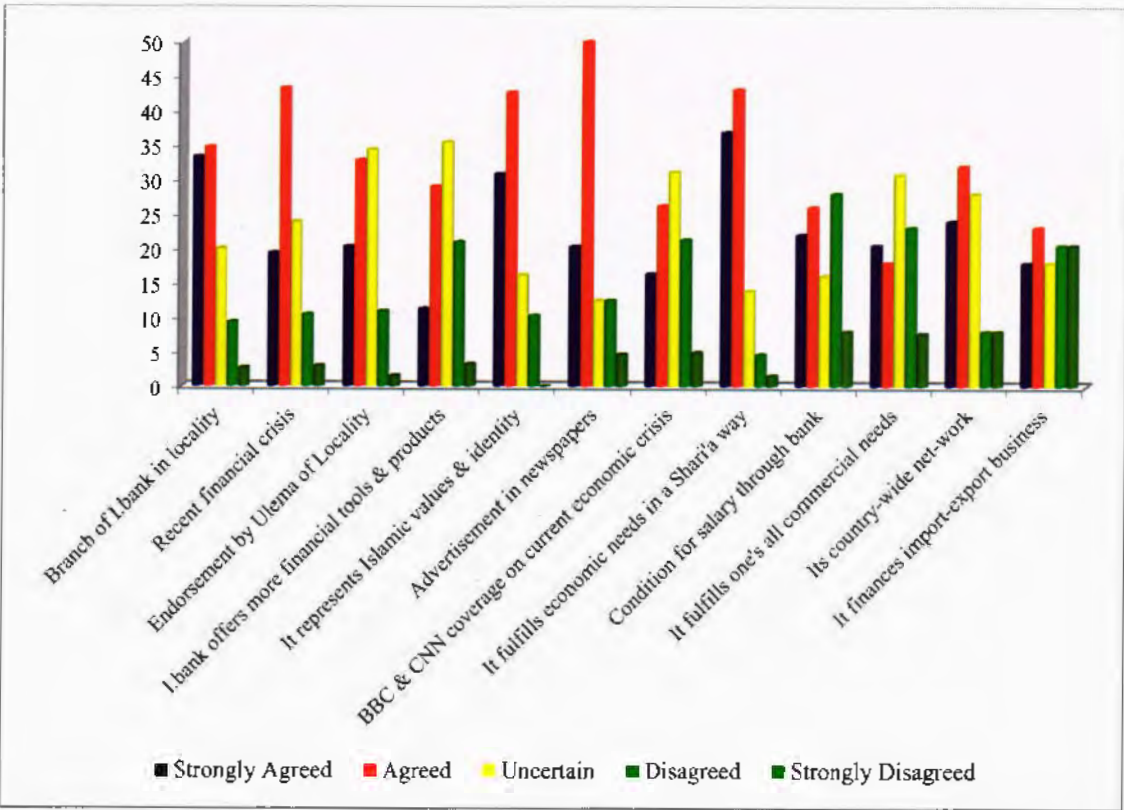


The above schemes are demanded by almost half of the respondents of general masses from the Islamic banks in Pakistan. Financing for education/ training, financing for education of children, Hajj and Umra financing, house financing and micro financing are important for majority of the respondents (60 to 75 percent) from the general masses (see Figures 6.18 and 6.19 and Tables 6.52 through 6.61 in Appendix). We can conclude that these are the significant schemes needed by the general masses of Pakistan. These results are consistent with Haque et al. (2009) and Ahmad et al. (2010).

***Adoption of IBF by General Masses in Pakistan***

The reasons for adoption of Islamic banking by general masses are worth exploring. The religious factors coupled with media coverage and economic needs are the means of motivation for the general masses to adopt Islamic banking or not. Our analysis depicts that Islamic banking is a mean to represent the Islamic identity, Islamic banking fulfills economic needs in a Shari'a compliant way and advertisements by the Islamic banks in newspapers are the means to adopt IBF agreed by the majority (70 to 80 percent) of respondents from general masses. It reflects that religious and economic factors supported by media sources are the means for adoption of IBF by the general masses of Pakistan (see Figure 6.20 and Tables 6.62 through 6.68 in Appendix).

Figure 6.20: Reasons for adoption of Islamic banking



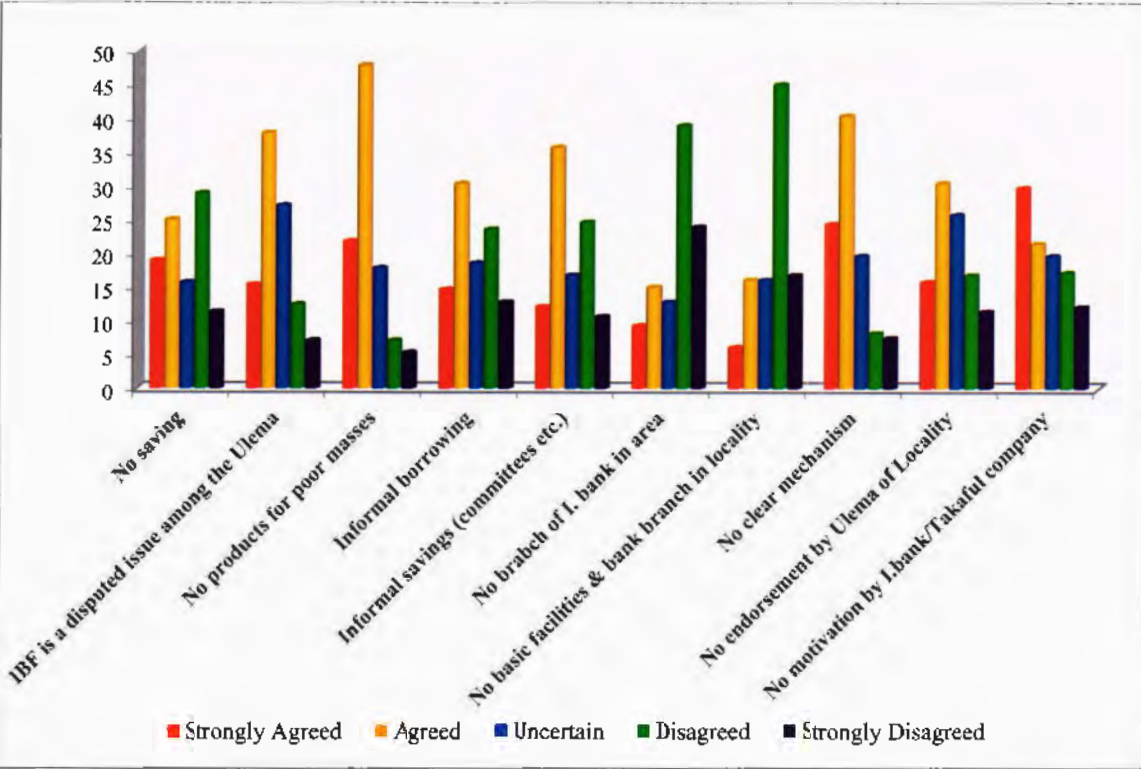
Our, analysis of the data shows that majority of the respondents (52-62 percent) from the general masses are not agree that (a) Islamic banks offer more financing tools and products than conventional banks (b) BBC and CNN coverage on the current financial and economic crisis (c) compulsory bank account (d) import-export business financing by an Islamic bank (e) Islamic bank fulfills all commercial needs are the reason for not adoption of Islamic banking (see Figure 6.20 above and Tables 6.64 through 6.68 in Appendix).

However, majority of the respondents (53.22 percent) confirm that Islamic banking is a disputed issue among the Shari'a scholars and is not adopted by the general masses. Similarly, 46% respondents consider that people consult the Shari'a scholars of the area on issues like Islamic banking (see Figure 6.21 and related data is presented in Tables 6.69 through 6.73 in Appendix). The above results are consistent with (Bryan Turner 1994 and Esposito 1992). Moreover, majority of the respondents (53.22 percent) confirm that Islamic banking is a disputed issue among the Shari'a scholars and is not adopted by the general masses. Similarly, 46% respondents consider that people consult



the Shari'a scholars of the area on issues like Islamic banking (see Figure 6.21 and Tables 6.69 through 6.73 in Appendix). Disagreed and uncertain respondents might be the followers of opponents groups of Shari'a scholars and those who are agreed are the followers of Ulema who are the proponents of IBF. The above results are consistent with Henry 2001; Atzori et al 2010; Yousef 2004 and Kuran (2004). Furthermore, majority of the respondents (65 to 70 percent) from the general masses believe that Islamic banking has yet not started any attractive projects/schemes for poor and deprived masses, while Interest free banking mechanism is not clear for them. Hence, these are the important reasons for not adoption of Islamic banking by the general masses of Pakistan (see Figure 6.21 and Tables 6.71, 6.72 in Appendix).

**Figure 6.21: Reasons for not adoption of Islamic banking by General Masses of Pakistan**



This result indicates that attractive schemes and clear mechanism could be the effective tools for the adoption of Islamic banking among the common people of Pakistan. IBF has failed to solve the problems faced by Muslim countries and having no viable social alternative and a drive to correct economic imbalances and injustices. Islamic banks have no serious schemes targeting poverty elimination or enhancing social justice in the society (see Hasan, 2007; Siddiqi, 2006; Zaman, 2009; Kamla and

Rammal, 2013). Furthermore, Majority of the respondents (52 to 55 percent) from general masses support formal borrowing and saving as reasons for not adoption of Islamic banking. However, almost half of the respondents (45 to 48 percent) from the general masses confirm the reason for not adoption of Islamic banking because of informal borrowing and saving (see Figure 6.21 above). The result indicates that 45 to 48 percent of the general masses have adopted informal sector while 52 to 55 percent formal sector. Hence both formal and informal financing practices are equally prevailing in Pakistani society (see Cecile and Ahmad, 2009; World Bank study, 2009 and Ahmad, 2006).

Furthermore, our analysis reflects that majority (63 to 68 percent) of the respondents from the general masses confirms that branch of Islamic bank in locality and recent financial crisis are the reasons for the adoption of Islamic banking (see Figure 6.21 above). Similarly, country-wide network of Islamic banking is the mean of adoption for majority (56 percent) of the respondents from general masses of Pakistan (see Figure 6.21 above). The growth of IBF in some of Muslim countries (Pakistan, Iran, Malaysia, Indonesia, Turkey, and Dubai) is linked with the growing Muslim middle class. This demand is growing as Muslim masses have money to invest and it is not only the oil money. A growing middle class in the Muslim societies want to adopt Islamic financial mechanism. Islamic finance has been most rapidly growing segment of global finance in recent past and its market grew by 30 percent globally during the current economic crisis (see Nasr, 2009).

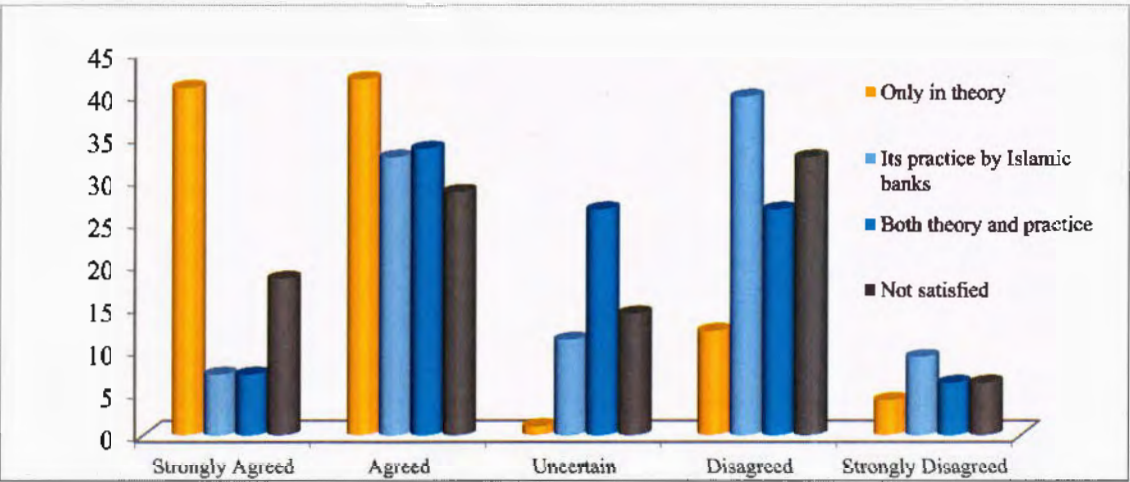
#### **6.4: Shari'a Scholars (Religious Scholar)**

In this section, we analyze the attributes regarding satisfaction of ulema with the theory of IBF, its practices by Islamic banking, shortcomings of IBF, and neglecting of ulema for IBF in Pakistan and political opportunities of IBF for ulema. The religious scholars are the experts of Islamic Shari'a, having lot of influence in the society of Pakistan and are closely connected with the masses. An appeal by them can make the IBF a mass movement in Pakistan and Muslim world. These are the imams/khateeb/mudarris of the religious madrassas of Pakistan. Their perceptions, endorsement,

critique, involvement by the authorities and political opportunities have a lot of scope for IBF in Pakistan.

Our analysis of the survey data shows that majority of the respondents (82.66 percent) from ulema are satisfied with the theory of Islamic banking. Almost half of the respondents (48.98 percent) from ulema are not satisfied with the practices of Islamic banks while a number of 39.79 percent respondents are satisfied. Similarly, ulema who are satisfied both theory and practice by Islamic banks are 40.81 percent and ulema who are not satisfied are 46.94 percent while 14.29 percent respondents are uncertain. Broadly speaking, 50 % ulema in our sample endorse while other 50 % oppose the contemporary model of IBF (see Figure 6.22 below and Tables 6.74 through 6.77 in Appendix). Three groups are emerged out of this analysis. First, proponents of Islamic banking those who are agree with IBF. Second, opponents of Islamic banking those who are disagree with IBF. Third are neutral, those who are uncertain about IBF. These findings are consistent to the existing literature of IBF (see Draz et. al., 2011).

Figure 6.22: Satisfaction of Ulema with IBF

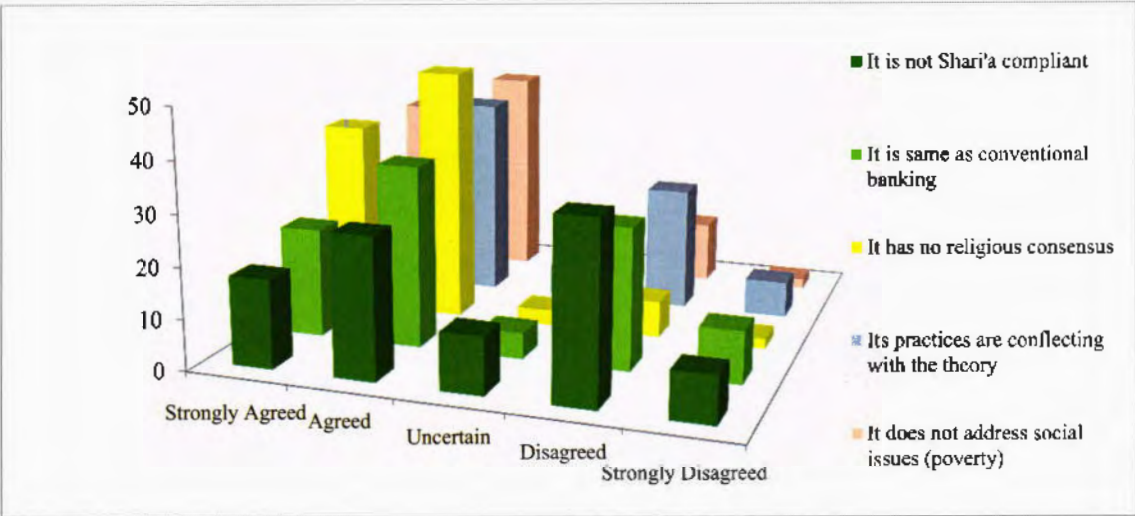


### Short comings of IBF in the eyes of Ulema

The IBF is not accepted by the ulema due to its shortcomings which are worth exploring. The data analysis reflects that 45% of ulema consider IBF being Shari'a compliant and 44% do not while 11% are neutral. This result endorses the above mentioned three groups of ulema of Pakistan (proponents, opponents and neutral of Islamic banking). Moreover, majority (57.14 percent) of ulema believe that IBF is same

as conventional banking. Similarly, most of the ulema favor (87.76 percent) that IBF has no religious consensus (see Figure 6.23 below and Tables 6.78 through 6.82 in Appendix).

Figure 6.23: IBF is suffered with shortcomings like



Moreover, majority of ulema (62.25 percent) who are agree that IBF practices are conflicting with the theory while 31.63 percent disagree and only 6.12 percent respondents are uncertain (see Figure 6.23 and Table 6.81 in Appendix). Islamic banks are charging interest on the name of Islamic modes and Islamic banks are similar to that of conventional banks. No clear mechanism which can differentiate Islamic banking from interest based banking. Above results are consistent with the perceptions of Henry (2001) Atzori et al (2010), Yousef (2004) and Kuran (2004). We note that IBF does not address social issues such as poverty; illiteracy and unemployment etc. which is supported by 76.53 % of ulema (see Figure 6.23 and Table 6.82 in Appendix). Islamic banks have no serious schemes targeting poverty elimination or enhancing social justice in society (see Kamla and Rammal (2013), Siddiqi, 2006), and Zaman (2009).

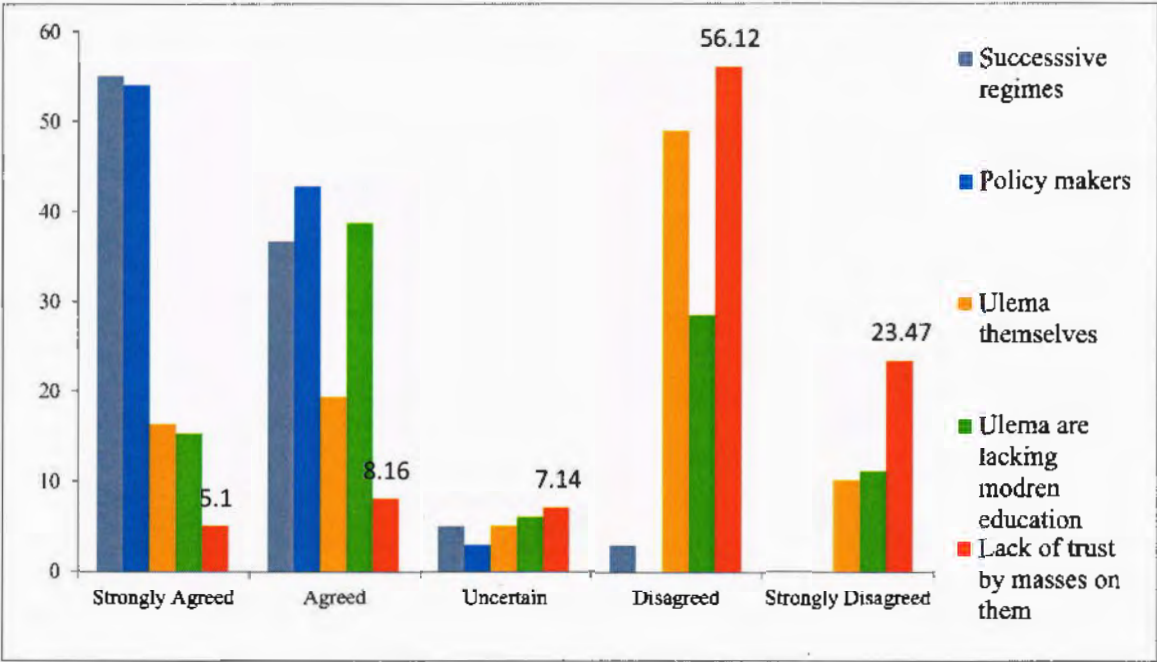
**Ignoring Ulema for IBF in Pakistan**

The ulema’s role is imperative for IBF as they have to decide the Shari’a compatibility and their endorsement would convert it into a mass movement in the country. The involvement of ulema by the successive regimes and authorities in implementing IBF is imperative. Our data depicts that most of (almost 90%) the ulema



affirm that successive regimes and bureaucracy ignored them for Islamic banking in Pakistan. The above result is consistent with (Kahf 2001 and Husain 2004). However majority of ulema (59%) are disagreed that they themselves are responsible for their not involvement in IBF. Similarly, majority (54.09 percent) of the ulema affirm that lacking in modern education is the reason for their not involvement in IBF. While responding to the question that lack of trust on the religious scholars by masses is the reason for their not involvement in IBF is rejected by most (79.59) of the ulema (see Figure 6.24 and Tables 6.83, 6.84 in Appendix).

Figure 6.24: Responsible for ignoring Ulema in IBF

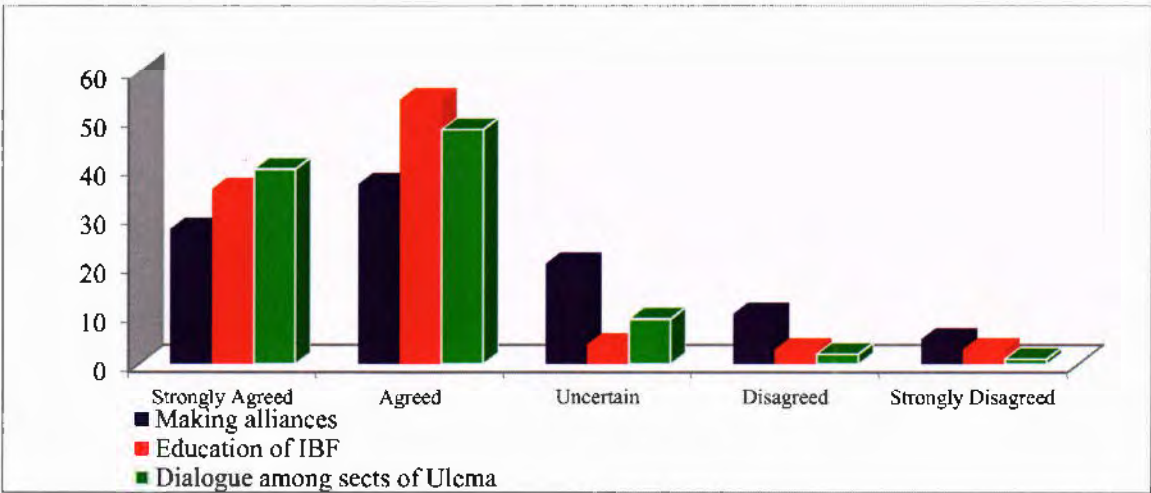


### Political Opportunities for Ulema

IBF has a lot of scope for ulema in Pakistan by uniting the religious strength into a political force by making alliances, opening dialogue among different sects of ulema and conducting education and research. These opportunities have two way benefits by involving the ulema and converting IBF into a mass movement in Pakistan. IBF a platform to unite the religious strength into a political force by making alliances of the Shari'a scholars is supported by majority (64.58 percent) of the respondent ulema. However, 15.3 percent respondents are opposing while 20.41 percent are uncertain with the above notion (see Figure 6.25 below and Tables 6.85, 6.86 in Appendix). This result

highlights the political importance of IBF paradigm for religious elements of the country. The uncertain respondents might have never thought of Islamic banking a potential platform and a mean to establish a political alliance of the Shari'a scholars (see Rana (2011). Our data depicts that most of the respondents (almost 90 percent) from ulema are agree that educating the ulema with the modern IBF and opening dialogue among different sects of ulema are the political opportunities of IBF for them (see Figure 6.25).

**Figure 6.25: IBF a platform to unite the religious strength into a political force**



A country like Pakistan having sectarian society can get rid of this social problem by implementing IBF paradigm. Hence, it can be a suitable tool to achieve the target of good governance by strengthening regimes. Common masses can be mobilized by ulema for implementation of IBF in Pakistan. This process would generate a pressure on ruling regime to implement IBF in the country. A mass-appeal for interest free banking has never been started. Religious alliance MMA, won 53 national assembly seats in 2002 elections. A sectarian concept of religion prevails in Pakistan. Religious political parties could play some role in mobilizing masses against Riba. This finding is consistent with Nadeem, (2010).

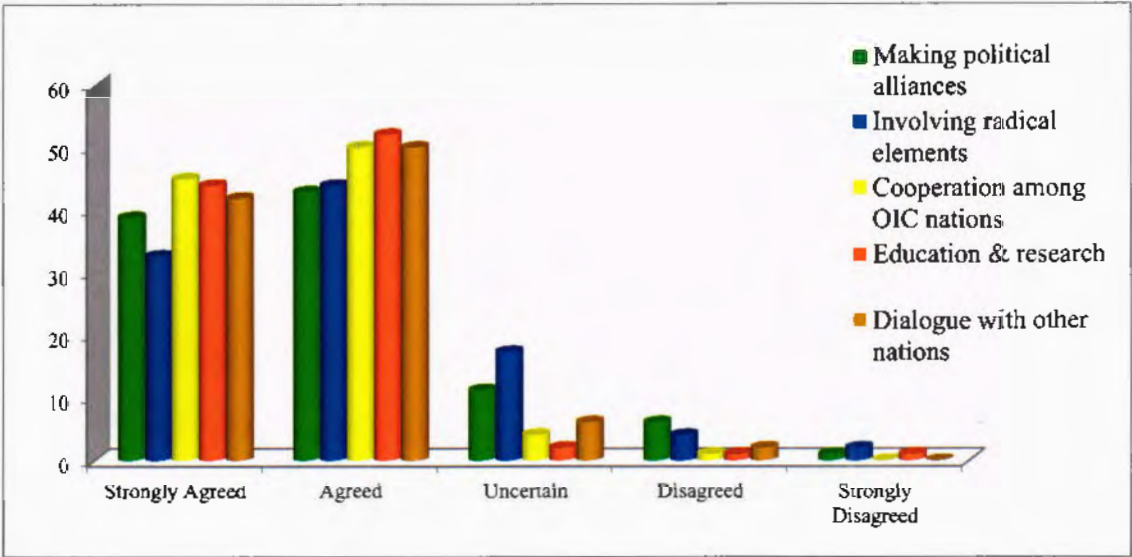
IBF can be used to involve the marginalized segment of society- madrassa students. They can be trained in modern Islamic finance and would be employed as Shari'a scholars' and research investigators in the Islamic financial institutions and banks. This is how madrassa students would be more productive and able to get better employment opportunities. In this way the students which are used for radical purposes

can be diverted into useful organ of the society. Evidence can be taken from dar-ul-alum of Karachi where madrassa students are trained for modern IBF. With the same token, the business professionals and the graduates of I.T, management, engineering and other professionals can be trained for short Shari'a courses. In their respective fields, they would be able to practice the norms and values of IBF and thus converting it to a mass movement. A motivation for ulema of Pakistan is from Singapore Islamic Scholars and Religious Teachers Association which has announced to train Islamic religious scholars for IBF in Malaysia (see Khan and Omar K. M. R., 2008).

***IBF: A platform to convert the religious strength into a political force.***

It is important to analyze whether IBF converts the scattered religious strength into a political force by making political alliances, involving the radical elements, opening new avenues of cooperation among the OIC countries and by conducting education/research to harvest political benefits domestically and internationally. Most of the respondents of ulema (81.64 percent) believe that IBF is a mean to convert the religious strength into a political force by making political alliances of ulema (see Figure 6.26 below and Table 6.87 in Appendix). The above finding is in the line of Rana (2011). Similarly, most of the respondents (76.53 percent) favor that IBF is a mean to convert the religious strength into a political force by involving the radical elements in to nation building (see Figure 6.27 and Table 6.88 in Appendix). The above result strengthens the view given by Atzori et al (2010). Moreover, most of the respondents (above 90 percent) from ulema accept that IBF a mean to convert religious strength into a political force by opening new avenues of cooperation among the Muslim world, conducting education/research of IBF and constituting dialogue with other nations (see Figure 6.26 and Tables 6.89 to 6.90 in Appendix). It proves our hypothesis of Islamic banking is a mean of new I.R among the Muslim countries.

Figure 6.26: IBF a mean to convert religious strength into a political force by

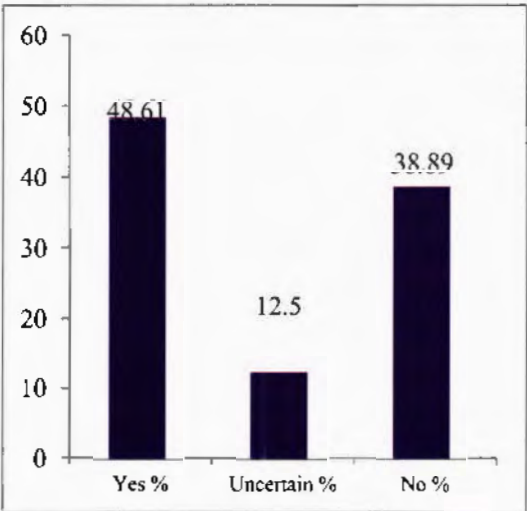


**Critique on Islamic banking by Ulema**

The most interesting part of this stakeholder group is to analyze the critique on the IBF paradigm made by ulema of Pakistan. The proponents and propagators (Islamic scholars) are highly praising the IBF while a large number of ulema are opposing it. More than 30 Islamic scholars of Pakistan consider that the current Islamic banking is Haram (unlawful). Many scholars from different countries of the world are holding the same opinion (see Draz et. al., 2011).

The data reflects that 48.6 percent respondents are agreed with the critique and 38.89 percent disagreed while 12.5 percent respondents are uncertain (see Figure 6.27 and related data Table 6.91 is presented in Appendix). It confirms our earlier finding of proponents, opponents and neutral groups of ulema regarding IBF. The above outcome confirms the perception of Draz et. al., (2011) about IBF.

Figure 6.27: Ulema agreed with the critique of Binauri Town on IBF



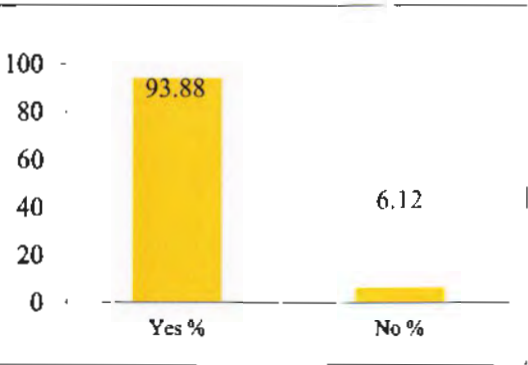
Consensus of ulema on IBF would be the most fundamental prerequisite for its becoming a mass movement in the country. All the other factors such as education and research on IBF, political opportunities of IBF, economic and social opportunities of IBF either generate it or come out of the consensus of ulema.

The data reflects that most of respondents (93.88 percent) agree for a possible consensus among the ulema of Pakistan on IBF (see Table 6.92 and Figure 6.28). A significant Majority of ulema endorse the possibility of consensus on IBF and now it is up to the authorities to implement it.

Table 6.92: Possibility of consensus among Ulema on IBF

Do you think that a consensus among Ulema is possible on IBF?	Freq.	Percent	Cum.
Yes	92	93.88	93.88
No	6	6.12	100.00
Total	98	100.00	

Figure 6.28: Possibility of consensus among Ulema on IBF

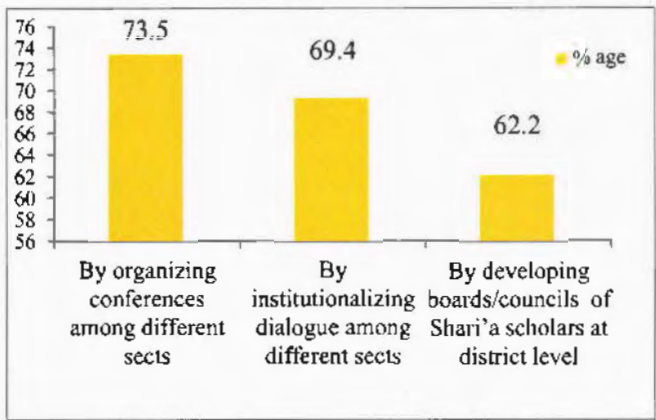


Ahmed, (1999) cites the statement of Yusuf Al-Qaradawi who states that the issue of Riba has resisted the test of consensus of contemporary religious scholars as well as past. Moreover, Farooq, (2006) cited a reference *Ijma is not a matter of consensus of a number of experts or jurists. Its meaning and function should be worked out in relation to the legislative function in concrete political systems, where it may produce a workable relationship between the ideal and the real with maximum possible support and participation on the part of Muslim peoples.*



Once it is evident that a consensus of ulema on IBF is possible then the means for that are worth exploring. A private or state initiative would institutionalize the consensus of ulema on IBF (see Kahf, 2001).

Figure 6.29: Means of developing consensus on IBF among the Ulema of Pakistan



The data depicts that most of the respondents from ulema (73.5 percent) suggest organization of conferences among different religious sects while majority of respondents (69.4 percent) recommend dialogue among different sects of ulema. Yet another majority (62.2 percent) propose developing boards of Shari'a scholars at district level as means of consensus among ulema on IBF in Pakistan (see Figure 6.29).

6.5 Islamic political parties of Pakistan

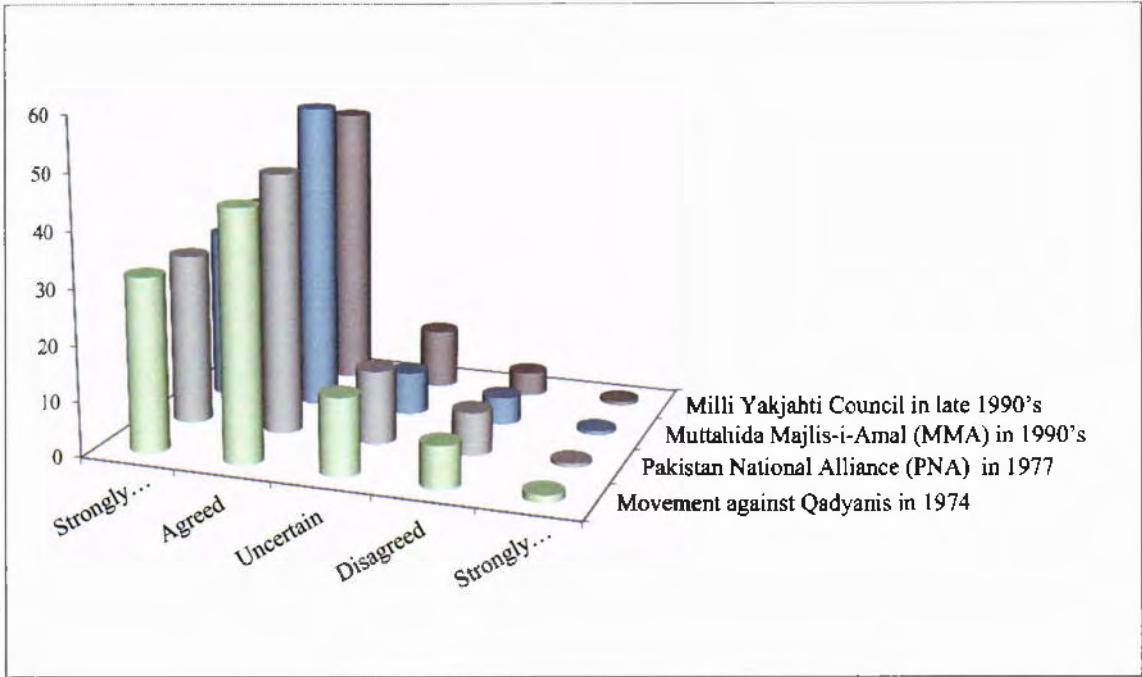
This section mainly analyzes the attributes regarding political opportunities of IBF for Islamic political parties and involvement of Islamic political parties by authorities for IBF in Pakistan. Islamic political parties are considered opinion makers of the masses by giving leadership role and raising the issue of Riba / Islamization of the economy at different forums through resolutions, bills and agitations. Islamic political parties have played a significant role in the constitutional development and developed political alliances for the implementation of Islamic Shari'a in Pakistan. These parties are so influential that any regime cannot survive without their support. Islamic political parties, being the dominant stakeholder of IBF, failed in creating any pressure on the successive regimes for policy formation regarding its promulgation in Pakistan.

However, it is important to be address whether the said parties started any movement, developed infrastructure institutions (universities, research centers) and organized agitation (rallies, street protest and long marches) for the implementation of

IBF in Pakistan. General masses due to their Islamic aspiration have the tendency towards IBF even though its mechanism is not clear. It proves the presence and scope of its progress provided properly addressed by the concerned stakeholders of IBF in Pakistan. Why could IBF not become a mass movement in Pakistan? The immediate answer could be people inspirations coupled with political will and bureaucratic support and Shari'a endorsement can convert IBF into a mass movement in Pakistan (see Misra (2003), Hathaway (2004), Baele et, al (2010) Crisis Group Asia Report No. 216, (2011) and Rana (2011).

Our analysis depicts that most of the respondents (77 to 87 percent) from members of Islamic political parties consider Islamic banking to be a platform to make an alliance of the Islamic political parties like: Movement against Qadyanis in 1974, Pakistan National Alliance (PNA) in 1977, Muttahida Majlis-i-Amal (MMA) in 2000's and Milli Yakjahti Council in late 1990's (see Figure 6.30 and Tables 6.93 through 6.96 in Appendix).

**Figure 6.30: IBF a platform for political alliance of Islamic political parties**



Majority of the members of Islamic political parties endorse that IBF has potential to be a platform for their political alliance. A potential platform for political alliances of Islamic political parties is naturally emerged. It is up to the leadership of

Islamic political parties to accommodate wisely the emerging paradigm of IBF for uniting the scattered religious strength into a political force. IBF is a practical model for the Islamic political parties to harvest multidimensional benefits like education and research, employment opportunities for their members and to use it as a tool for their popularity. Islamic political parties have played a significant role in the constitutional development and developed political alliances for the implementation of Islamic Shari'a in Pakistan. Above findings are consistent with (Misra, 2003; Hathaway, 2004; Baele et al., 2010; Crisis Group Asia Report No.216, 2011 and Rana, 2011).

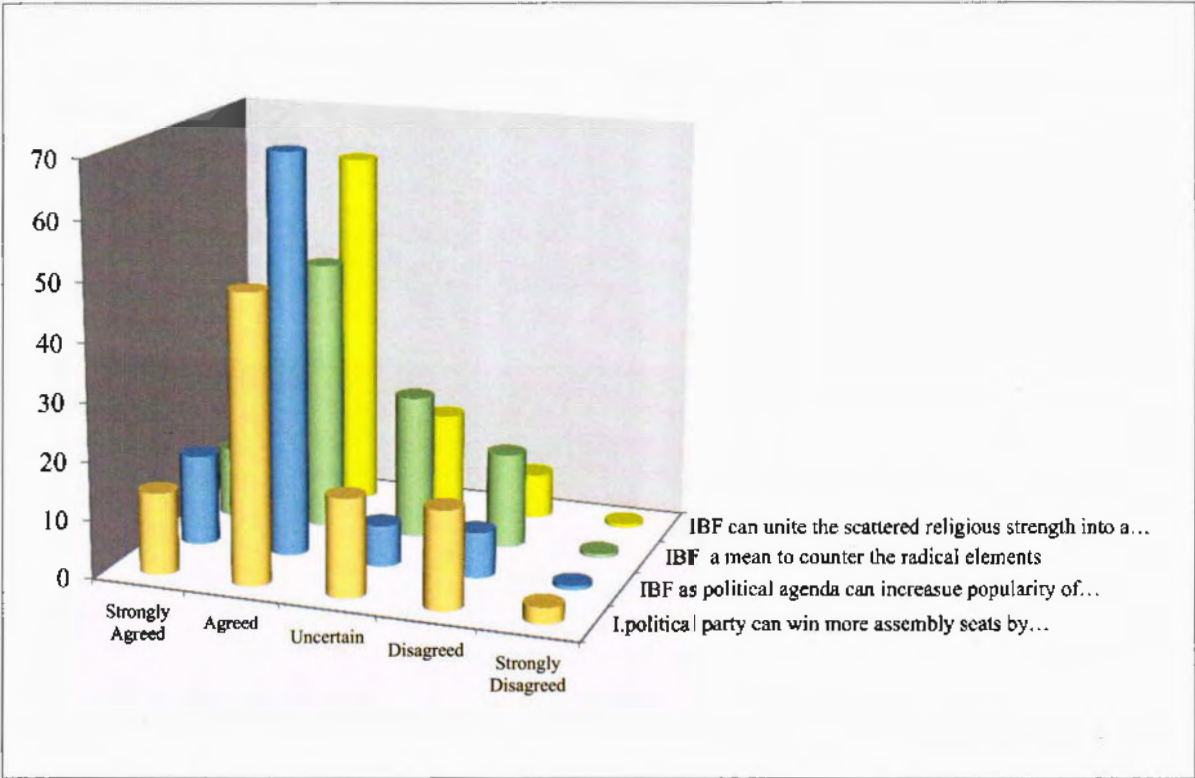
### ***Opportunities of IBF for Islamic political parties***

A part from the above mentioned opportunities, IBF has a lot of scope for the Islamic political parties of Pakistan by winning more assembly seats, increasing their popularity and controlling radical elements in Pakistan. These opportunities will involve the Islamic political parties in IBF implementation and convert it into a mass movement in Pakistan. Our analysis represents that majority of the respondents (63.38 percent) favor that Islamic political parties can win more assembly seats by making IBF an election manifesto (see Figure 6.31 and Table 6.97 in Appendix).

Similarly, most of the respondents (85 percent) are of the view that IBF as a political agenda can increase the popularity of an Islamic political party. Furthermore IBF can unite the scattered religious strength into a political strength is favored by 74.65 percent respondents of the Islamic political parties (see Figure 6.31 and Tables 6.98 through 6.100 in Appendix). The significant endorsement by the members of Islamic political parties carries lot of lessons for their leadership to chalk out a policy for the adoption of IBF and using it as a political force at different dimensions. Currently IBF is not an agenda of Islamic political parties of Pakistan. Common masses can be mobilized by Islamic political parties for implementation of IBF in Pakistan This process can enhance popularity of Islamic political parties and would create pressure on ruling regime to implement IBF in the country. A mass-appeal for interest free banking has never been started. Above results are consistent with Nadeem, (2010) and Mehboob ul Hassan, (2008). Similarly, majority of the respondents (58.45 percent) affirm that IBF is a mean to counter the radical elements.



**Figure 6.31: Opportunities of IBF for Islamic political parties**

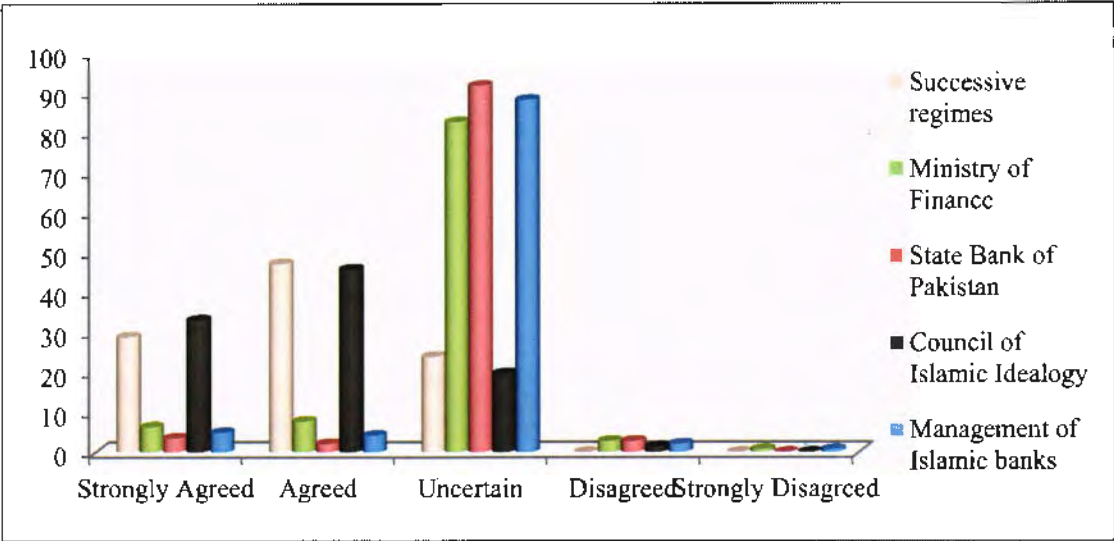


However, 16.72 percent respondents do not approve the above view while 24.65 percent are uncertain (see Figure 6.32 and Table 6.100). Those who are disagree and uncertain may consider some other factors to counter the radical elements

***Involvement of Islamic political parties by authorities for IBF***

Involvement of the Islamic political parties for implementation of IBF by the authorities can enhance its popularity and adoption among the masses. The concerned authorities of Islamic banking ever need to involve the Islamic political parties of Pakistan in its implementations is worth exploring. Our analysis shows that most of the respondents (76 and 78.87 percent) support the involvement of Islamic political parties for Islamization of economy/ IBF by successive regimes and by the Council of Islamic Ideology (see Figure 6.32 and Tables 6.101 through 6.105 in Appendix).

**Figure 6.32: Involvement of Islamic political parties by authorities for IBF**



This result confirms the limited involvement of Islamic political parties by some authorities in the implementation of IBF in Pakistan. Our data further depicts that most of the respondents (82.39 to 92 percent) from the members of Islamic political parties are uncertain about their involvement by the ministry of finance, by the State Bank of Pakistan and by the management of Islamic banks in implementing the IBF in Pakistan (see Figure 6.32 above and Tables 6.101 through 6.105 in Appendix). It proves our hypothesis that there is lack of coordination among the key stakeholders of Islamic banking in Pakistan. Another important hypothesis that Islamic political parties are ignored by the policy makers for the promotion of IBF in Pakistan is proved. The above results are consistent with Kahf, (2001) and Husain, (2004).

**6.6 Employees of Islamic banks in Pakistan**

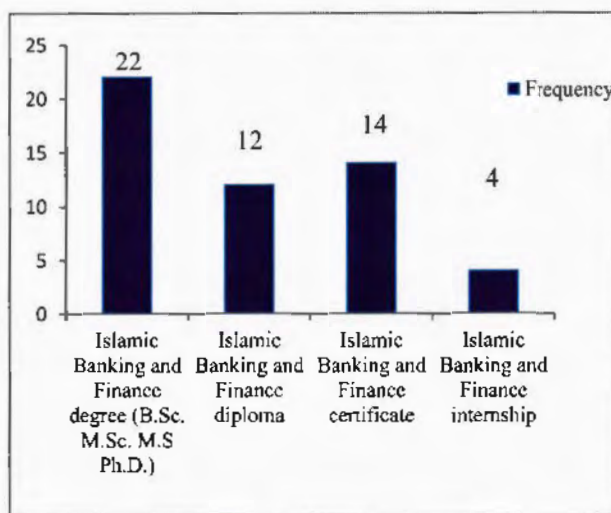
In this section, we analyze the attributes regarding the qualification of employees of Islamic banks, tools used by the management of Islamic banks for the promotion and popularity of IBF and types of specified products offered by the Islamic banks to the people of society. Employees of Islamic banks are such an important key stakeholders who ultimately execute the IBF mechanism in the industry. Unfortunately, IBF industry is suffered with the lack of professionals. The experts and trained staff will increase the popularity of IBF and would enhance its adoption among the people of

society.

### Education and Training of IBF to Employees of Islamic banks

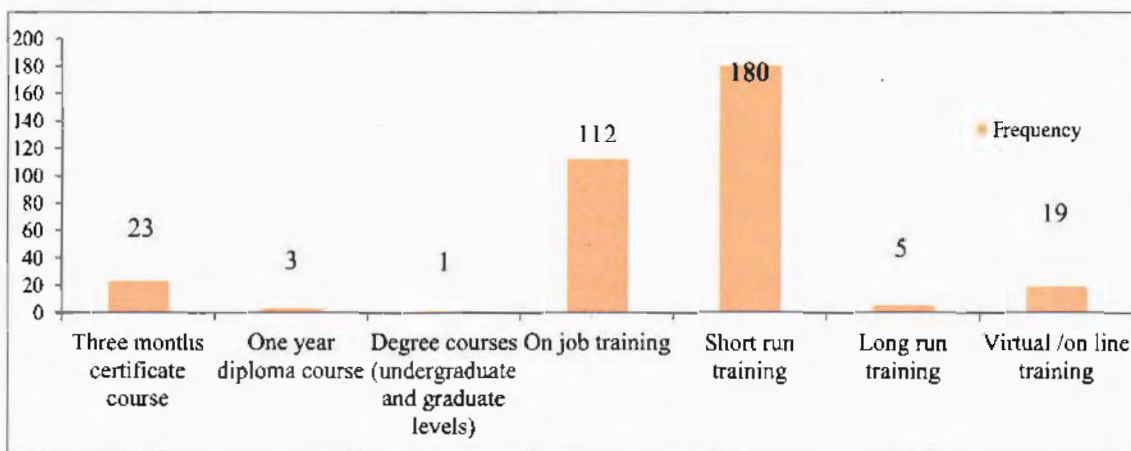
In the light of above discussion, our analysis of the data shows that only 0.07% employees of Islamic banks are holding IBF degrees followed by 0.05% IBF certificates, 0.04% IBF diplomas and 0.01% IBF internships out of a sample of 280 respondents (see Figure 6.33 and Table 6.106 in Appendix).

**Figure 6.33: Employee's qualification of IBF prior to join the Islamic bank**



Now the question arises that whether the management of Islamic banking sponsors any training to its employees. The data shows that 180 respondents of Islamic banks have mentioned short run training followed by 112 on job training, 23 certificate courses, 19 virtual training, 5 long run training, 3 one year diploma course and 1 degree courses out of a sample of 280 (see Figure 6.33- A below).

**Figure 6.33-A: Islamic bank sponsor any training of IBF for its employees**



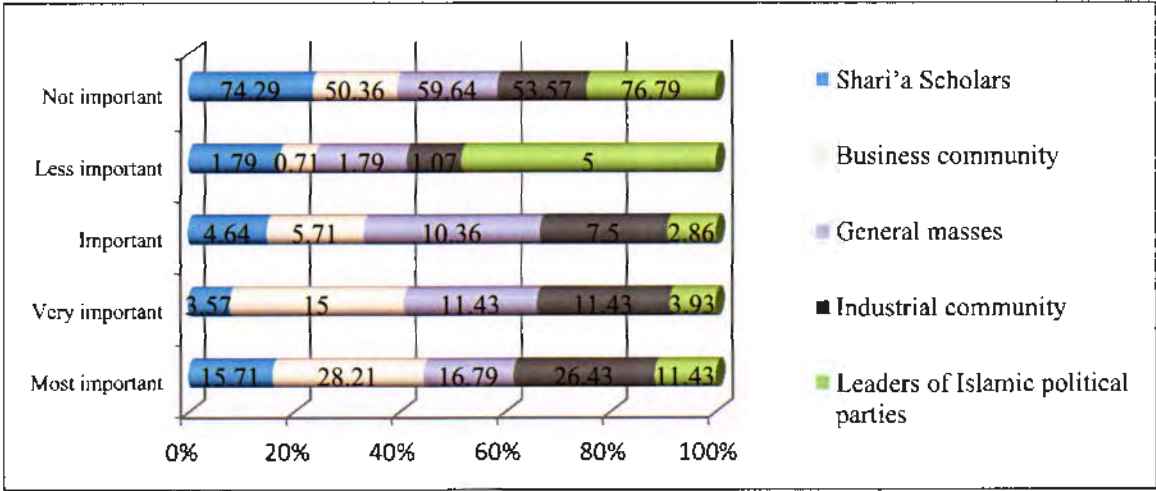
It means short run trainings are mainly arranged for the employees of Islamic banks by their management. Long run training and degree courses are not sponsored by

the management of Islamic banking in Pakistan. Education and research is the backbone of innovations for the Islamic banking industry to take its roots in the society. On the basis of above finding, we can conclude that the management of Islamic banking is opposing the IBF because of not having its education and sponsoring education

**Promotion of IBF by Employees through Seminars/Conferences**

Islamic banking is new system and common people are ignorant about its theory, operations and financing mechanism. One of the significant tools for the motivation of different social groups towards IBF is seminar and conferences. It could be a mechanism of involving the different marginalized groups for IBF in Pakistan. The management of Islamic banks whether uses the above tools for popularity of IBF in the country needs elaboration. Our data depicts that seminars and conferences for Ulema and the leaders of Islamic political parties are not important source of motivation for most of the respondents (74 to 77 percent) of the employees of Islamic banks (see Figure 6.34 and related Tables 6.107 through 6.111 in Appendix).

**Figure 6.34: Promotion of IBF by Employees through Seminars/conferences**



It shows that religious Scholars and the leaders of Islamic political parties are not involved by the management of Islamic banks for promotion of IBF paradigm. The endorsement by religious scholars and appeal by the leaders of Islamic political parties can convert the IBF into mass movement in a country like Pakistan where people are emotional and touchy towards religious issues. Moreover, our analysis shows that

seminars and conferences for business community are not important for half of the respondents (50.30 percent) from employees of Islamic banks. Furthermore, majority of the respondents (54 to 60 percent) favor that the above tools are not important for industrial community and general masses (see Figure 6.34 and Tables 6.107 through 6.111 in Appendix).

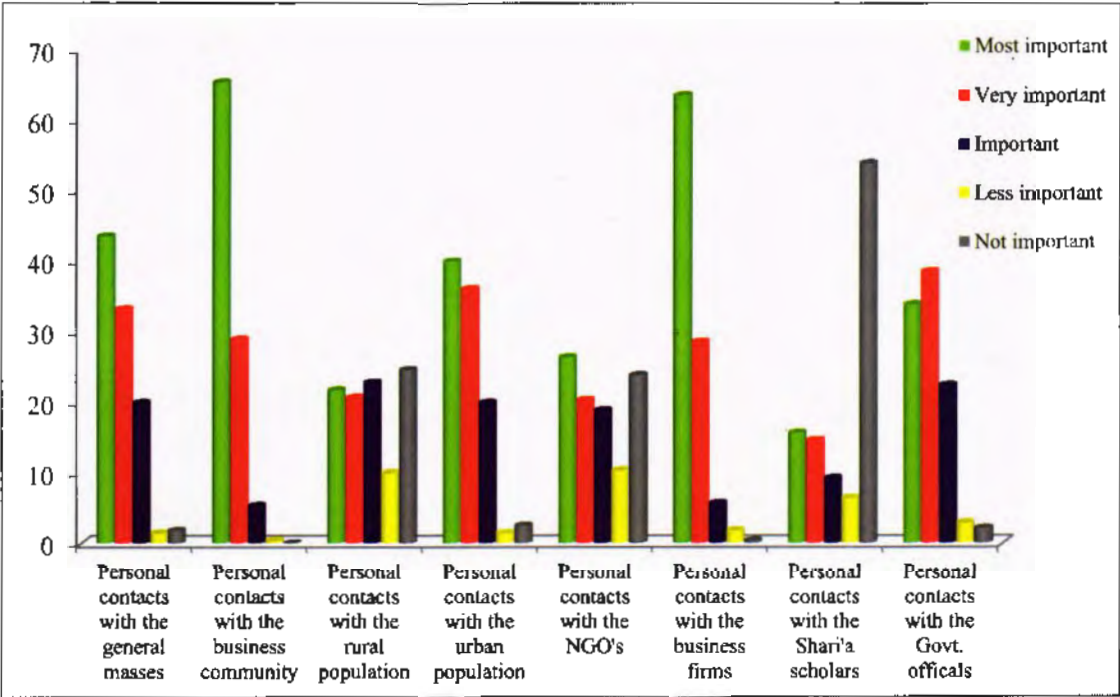
The above results are a clear indication that the tools are not used by the management of Islamic banks for the popularity of IBF in the country. Islamic banking is new system and common people are ignorant about its theory and operations. Its awareness can be increased by seminars, advertisements, workshops and inclusion in syllabus of business and finance. Better links can be created with customers by educating them through seminars, trainings and workshops to increase the popularity and adoption of the Islamic banking (see State Bank of Pakistan, 2010), Iqbal and Hanif (2010).

#### ***Personal contacts of IBF Employees***

Similarly, another potential tool for enhancing the popularity and adoption of IBF is personal contacts of IBF employees. Personal contacts with the different social groups are the key for IBF industry to take roots in the society. Unless the employees of Islamic banks do not interact with different social groups, the gap between the industry and society cannot be identified. The analysis of the data shows that most of the respondents (above 90 percent) from employees of Islamic banks support that personal contacts with general masses, business community, urban population, business firms, and government officials are important. Moreover, personal contacts with rural population and NGO's are important for majority of the respondents (64.46 percent). However, Majority of the respondents (60 percent) from employees of Islamic banks consider that personal contacts are not important for Shari'a scholars (see Figure 6.35 and Table 6.112 in Appendix).



**Figure 6.35: Personal contacts by the Employees of Islamic banks cover the groups**

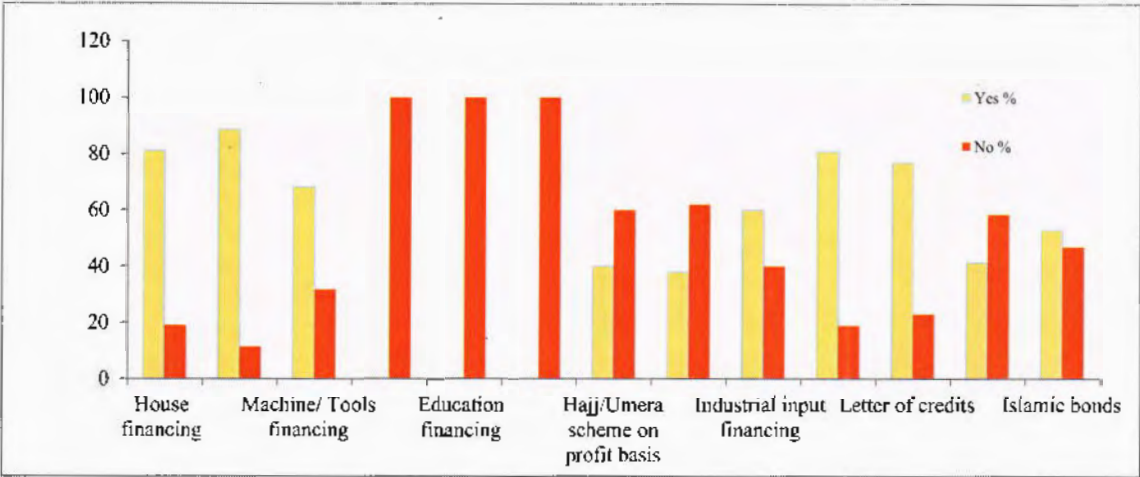


This result proves our hypothesis that Shari'a scholars are ignored by the employees of Islamic banks for IBF in Pakistan. The overall result reflects that the management of Islamic banks contacts with limited social groups. The above result is consistent with Kahlf, (2001).

***Specified products offered by Islamic Banks of Pakistan***

The financing of products/services needed by the masses compatible by the products/services offered by Islamic banking can enhance the adoption of IBF paradigm in the society. Our data analysis reflects that most of the respondents (77 to 89 percent) from employees of Islamic banks confirm specified products/services like motor vehicle financing, house financing, trade financing and letter of credits offer by Islamic banks. Moreover, majority of the respondents (60 to 68 percent) support that machine/tool financing and industrial input financing products are offer by Islamic banks.

**Figure 6.36: Specified products offered by Islamic banks to the customers**



However, a minority of the respondents (38 to 41 percent) from the employees of Islamic banks consider that schemes like Hajj/Umera financing, Islamic bills and agricultural input financing are offer by Islamic banks (see Figure 6.36 above and related data Table 6.113 in Appendix). This result indicates that not all the Islamic banks are offering the same and equal products. Islamic banking products/services are limited up to motor vehicle financing, house financing, trade financing, letters of credits, machine/tool financing and industrial input financing. General banking services are promoted by the Islamic banks and hence they are simply the deposits collection points. Service quality coupled with social and religious perspective and availability of services may be important factors formulating customer awareness regarding IBF adoption (see Haque et.al. (2009).

**6.7: Officers, State Bank of Pakistan (SBP)**

In this section, we analyze the attributes regarding reasons for policy shift in 2001 by State Bank of Pakistan (SBP hereafter) and organization of training to the staffs of Islamic banks with collaboration of OIC institutions in Pakistan. The SBP is regulator of all financial institutions of country by framing rules and regulations. Monetary policy and all financial matters are designed by the SBP. Officers of the SBP are responsible for licensing, regulation and supervision of Islamic Banks in Pakistan. The SBP is also responsible to organize training for employees of Islamic banks. On one side IBF as a foreign policy tool can be utilized for the awareness, popularity and

promotion, education and training among the hostile Muslim countries. International Islamic financial institutions can be leverage for eliminating resistance to IBF and increasing its greater acceptance, awareness and capacity building among the OIC countries. IBF is a mean to revive Islamism, to counter radical Islam, to build civil societies, having no ties to terrorism and can be leverage as a mean of moderation, and to bridge gap among different segments of the society. The above results are consistent with the studies by Karen, 2010; Filiz Baskan, 2004; Keyman et al, 2005; Henry, 2001; Kahf, 2004; Lubeck, 1998 and Rubin, 2005).

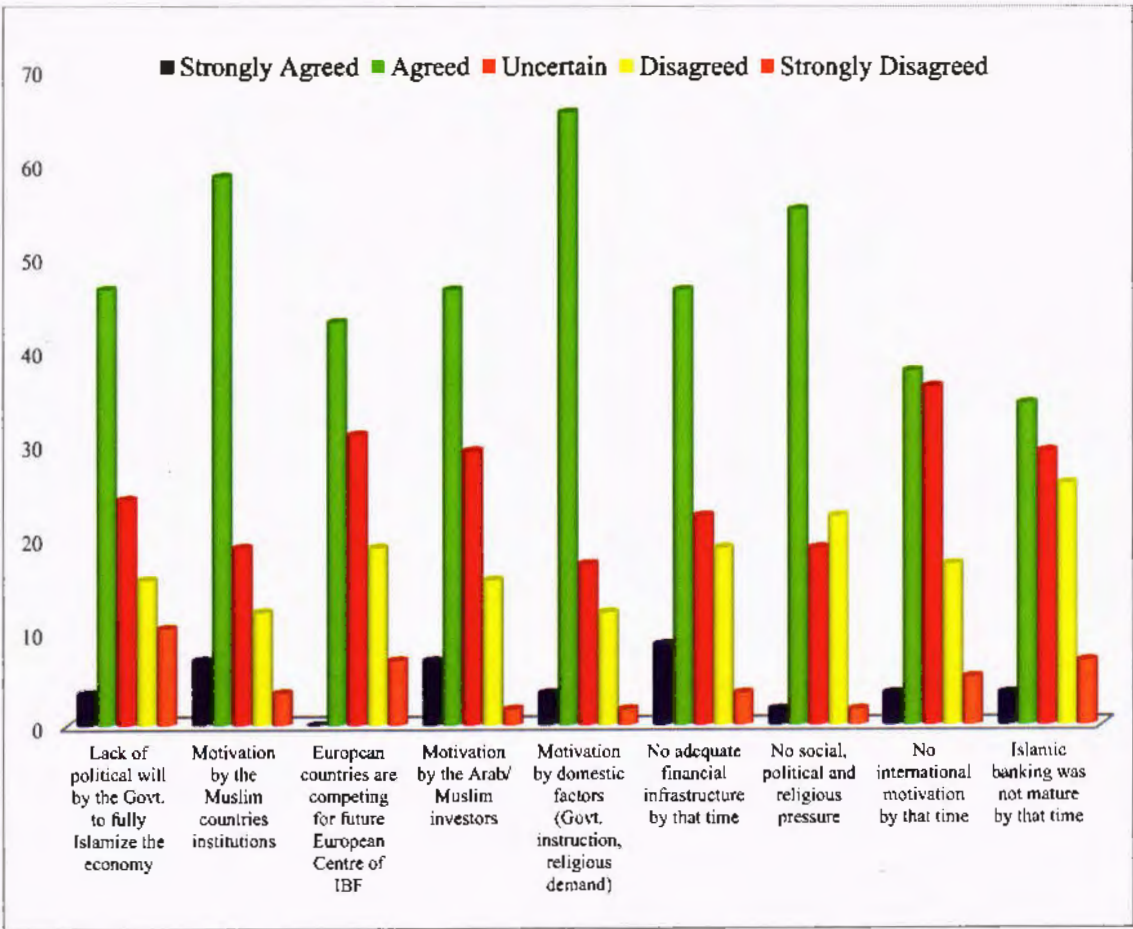
Similarly, majority of the respondents (57 to 69 percent) from SBP support that the reasons for policy shift in 2001 are motivation by domestic factors (Govt. instructions, religious demand) and no social, political and religious pressures (see Figure 6.38 and Tables 6.114 through 6.117 in Appendix). This result reflects that Govt. instructions and religious demand are influential factors for the implementation of IBF in the country. Religious demand coupled with Govt. instructions will be the most effective tool for the implementation of IBF. This result highlights a message to the religious groups and Islamic political parties of Pakistan to mobilize the masses for Islamization/IBF to generate a pressure on the Government. A strict Govt. order cannot be ignored by the policy makers to implement IBF. The above finding is consistent with (Ahmad, 2006; Mehboob Ul-Hassan, 2007 and Awan, 2009). The analysis of the data reflects that majority of the respondents (53 to 66 percent) from SBP confirm the reasons for policy shift in 2001 are motivation by Muslim countries institutions and motivation by the Arab/ Muslim investors (see Tables 6.114 through 6.117 and Figure 6.37). The result endorses our hypothesis of IBF as a mean of new I.R among the Muslim world.

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<sup>8</sup> SBP officially launched Islamic banking by issuing license to Islamic banks in 2001



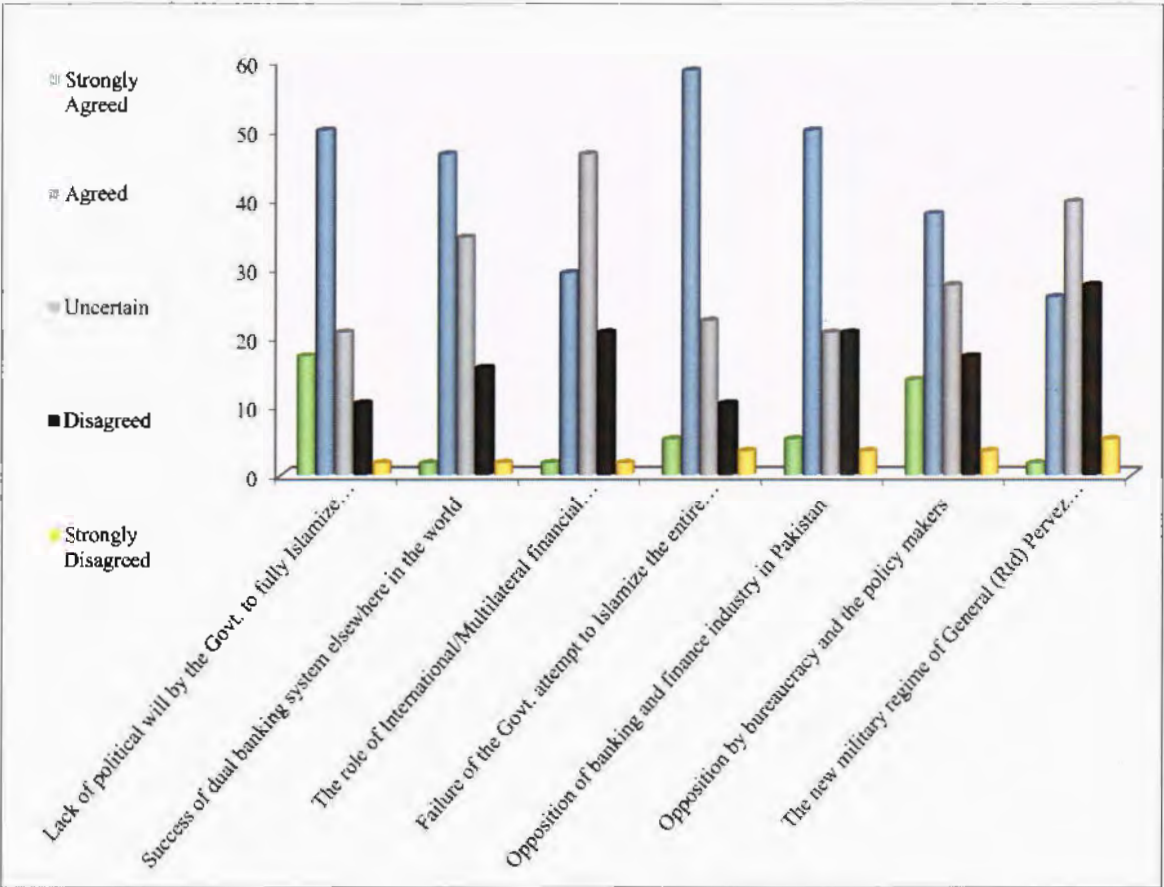
**Figure 6.37: Reasons for policy shift in 2001**



The analysis of the data represents that majority of the respondents (67.24 percent) support that lack of political will by the Govt. to fully Islamize the economy of Pakistan is agreed by significant respondents of the SBP (see Figure 6.37). The political will is the main driving force for implementation of a paradigm like IBF endorse by officers of any government organization. Even those who are opposing are blaming government for not adopting clear policy to implement the Islamic banking in Pakistan. The uncertain respondents are reflecting the possible behavior as under. They know that their responses are becoming the part of research publication and hence they are bit careful for any kind of negative outcome to be seen by the ruling class. Other possibility is that the respondents consider other factors (such as religious endorsement, social pressure, domestic needs, development of infrastructure, education and research) to be addressed before the political will for IBF. Islamic Banking and Finance is suffered with the lack of political support in Pakistan. Above result is consistent with (Karen,

2010; Khan and Bhatti, 2006; Mehboob Ul-Hassan, 2007; Kahf, 2001; Khan, 2008; Nadeem, 2010; Lodhi and Kalim, 2005; Ahmad, 2006; Mehboob ul Hassan, 2008; and Awan, 2009). Similarly, majority of the respondents (64 percent) from SBP endorse that reasons for policy shift in 2001 is failure of the govt. attempt to Islamize the entire economy of Pakistan (see Figure 6.38 and Table 6.118 in Appendix).

**Figure 6.38: Reasons for late policy shift in 2001**



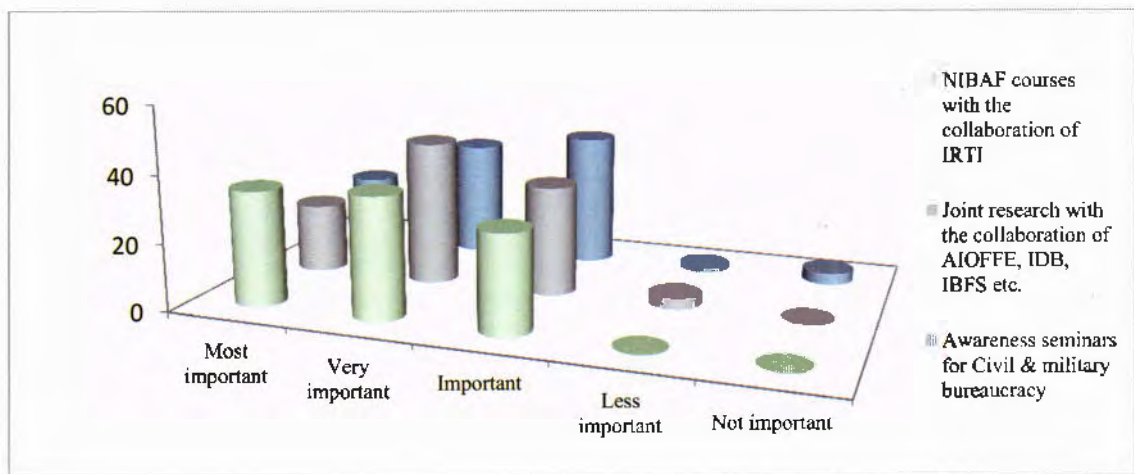
Moreover, majority of the respondents (52 to 55 percent) from SBP consider that reasons for policy shift in 2001 are opposition by banking and finance industry in Pakistan and opposition by bureaucracy. However, a significant minority of the respondents are uncertain with the above reasons (see Figure 7.38 and Tables 6.118 through 6.121 in Appendix).The reasons may be as follows. It is difficult for the officers of SBP to agree with a question against their own institution and they prefer to choose the option of uncertain. The policy makers generally use the delaying tactics for

newly implemented paradigm of IBF and uncertain response is the most suitable option to reflect their attitude. The policy makers may have concerns regarding pros and cons of IBF paradigm and hence they choose the option of uncertain. State Bank of Pakistan is responsible for designing and supervising monetary policy of the country. The bureaucracy of SBP opposes interest-free system as it is a threat to their control over financial resources. The SBP did not devise any practical policy for adopting an interest-free financial system and absence of a just and speedy judicial system discouraged banks from adopting the PLS system. The above results are consistent with (Kahf, 2001; Lodhi and Kalim, 2005 and Khan, 2008).

***SBP organizes Training to the staffs of Islamic banking with the collaboration of OIC institutions***

Our analysis of data represents that most of the respondents (95 percent) consider that SBP organizes NIBAF courses, joint research and awareness seminars with the collaboration of OIC institutions (IRTI, AIOFFE, IDB and IBFS) are important for the employees of Islamic banking (see Figure 6.39 and Tables 6.122 through 6.124 in Appendix).

**Figure 6.39: SBP organizes training to the staffs of Islamic banking with collaboration of OIC institutions**



This result proves our hypothesis that Islamic banking and finance is a mean of new I.R among the Muslim world. The above result is consistent with (Karen, 2010;

Baskan, 2004; Keyman et al, 2005; Henry, 2001; Kahf, 2004; Lubeck, 1998 and Rubin, 2005).

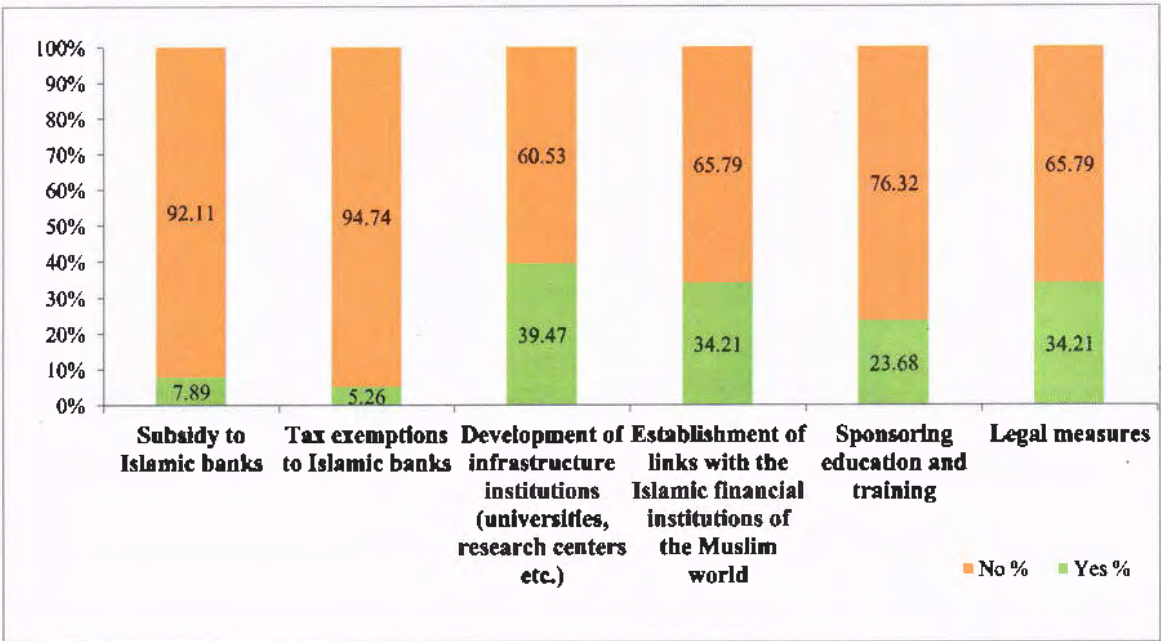
## **6.8 Officers, Ministry of Finance**

In this section, we analyze the attributes regarding cabinet orders to support IBF, subsidy to Islamic banks, to develop links with the OIC financial institutions, recruitment of Shari'a scholars/experts of IBF in the ministry, reasons to institutionalize IBF, reasons not to institutionalize IBF in Pakistan and effective ways for the promotion of IBF in Pakistan. Ministry of Finance is responsible to identify the mechanism for converting whole conventional banking into IBF along with Islamization of the economy of Pakistan by providing funds through budget allocations. In addition to that, Ministry is responsible for designing and implementing the fiscal policy of the country.

### ***Cabinet orders to support IBF***

Our, analysis of data depicts that most of the respondents (76 to 95 percent) from ministry of finance confirm no instruction from the cabinet to support Islamic banking in Pakistan by (i) subsidy to Islamic banks, (ii) tax exemptions to Islamic banks and (iii) sponsoring education and training. However, majority of respondents (61 to 66 percent) mention no instruction from the cabinet to support Islamic banking in Pakistan by (i) development of infrastructure institutions, (ii) establishment of links with Islamic financial institutions of the Muslim world and (iii) legal measures (see Figure 6.40 and Tables 6.125 through 6.133). Above measures are not priorities of authorities in ministry of Finance because of not having instruction from the cabinet. Some foreign countries like Singapore Govt. have made policy changes to promulgate the Islamic banking and finance in the country. Her Finance Ministry announced several changes in the 2005 and 2006 budgets by giving tax concession on income from Islamic bonds and waiving off the imposition of double stamp duties on Islamic transactions (see Khan and Omar, 2008).

**Figure 6.40: Cabinet orders to support IBF**

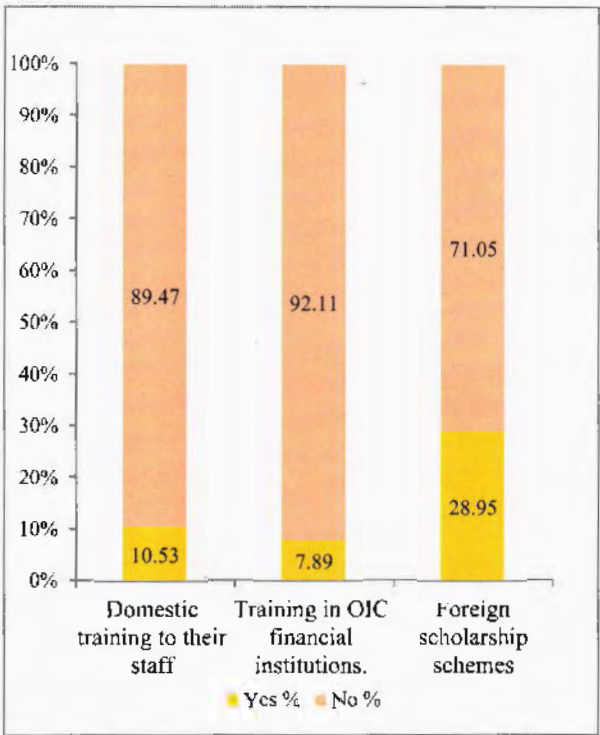


However, a minority of respondents (24 to 40 percent) from ministry of finance confirm instruction from cabinet to support Islamic banking by development of infrastructure institutions, establishment of links with Islamic financial institutions of the Muslim world, sponsoring education and training and legal measures (see Figure 6.40 and Tables 6.125 through 6.133 in Appendix). This result indicates that limited measures are priority of the govt. for IBF in Pakistan. Above result proves our hypothesis that Govt. of Pakistan is opposing the paradigm of IBF. Contrary to this Ireland, Great Britain, Germany, Luxembourg and France are among most active countries in the adoption of Islamic banking by establishing infrastructure institutions (sukuk market, development of insurance sector, education and trainings). This result is consistent with the theory of (Masmoudi and Belabed, 2010).



Similarly, establishment of certain institutions (education, research and training) was the long term measure for the popularity of the IBF in Pakistan. Infrastructure institutions provide a base for identification, formulation and updating the theories and ideas. Had there not been infrastructure institutions, there would have not evolution and emergence of IBF in the world. Inadequacy of these institutions is one of the main problems faced by Islamic banking industry in Pakistan.

**Figure 6.41 Cabinet orders for subsidy to Islamic banks**



Saudi Arabia financially supported the Muslim countries to establish Islamic universities and research institutions which provided foundation for IBF (see Samy and Manama, 2008). Similarly, creation of institutions like IIFM, AAOIFI and IFSB are most important bases for growth of contemporary Islamic banking in the world (see Jajbhay, 2008; and Manan, 2008). Zaman and Asutay (2009) highlighted the importance of institutions by citing a reference of North (1990), *institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction*

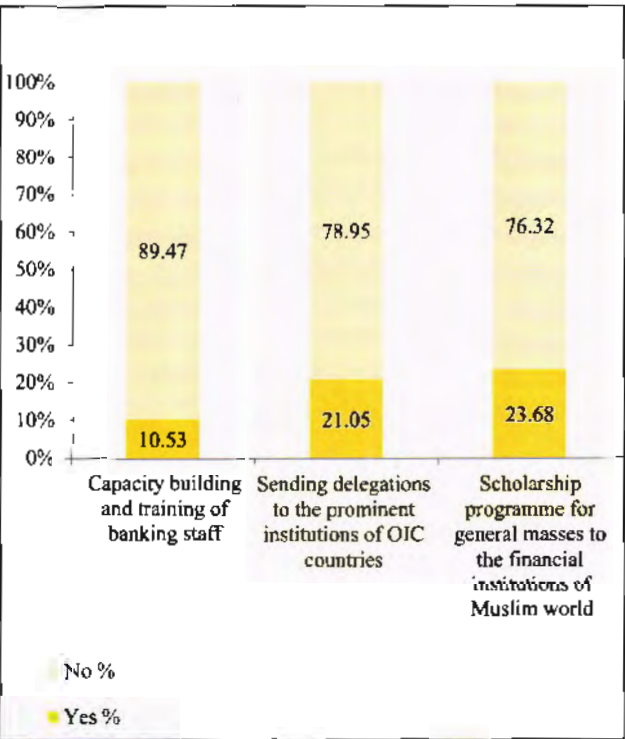
The analysis of data reflects that most of respondents (71 to 92 percent) from officers, ministry of finance opt that no instruction from the cabinet to support Islamic banking in Pakistan by (a) subsidy for domestic training to their staff, (b) training in OIC financial institutions and (c) foreign scholarship schemes. The said respondents consider that above measures are not responsibilities of the finance ministry. However, a minority of (29 percent) respondents proclaim that foreign scholarship schemes are executed through higher education commission. Hence no special foreign scholarship

scheme for IBF education is specified by the ministry of finance (see Figure 6.41 and Tables 6.135 through 6.137 in Appendix).

**Cabinet orders to develop links developed with the OIC financial institutions**

The analysis of data represents that most of respondents (76 to 89 percent) opt no cabinet orders in case of (a) to support Islamic banking in Pakistan by developing links with Islamic financial institutions of Muslim world for capacity building and training of banking staff, (b) sending delegations to prominent institutions of OIC countries and (c) scholarship program for general masses to the financial Institutions of the Muslim world (see Figure 6.42 and Table 6.134 in Appendix).

**Figure 6.42: Links developed with the OIC financial institutions on Cabinet orders**



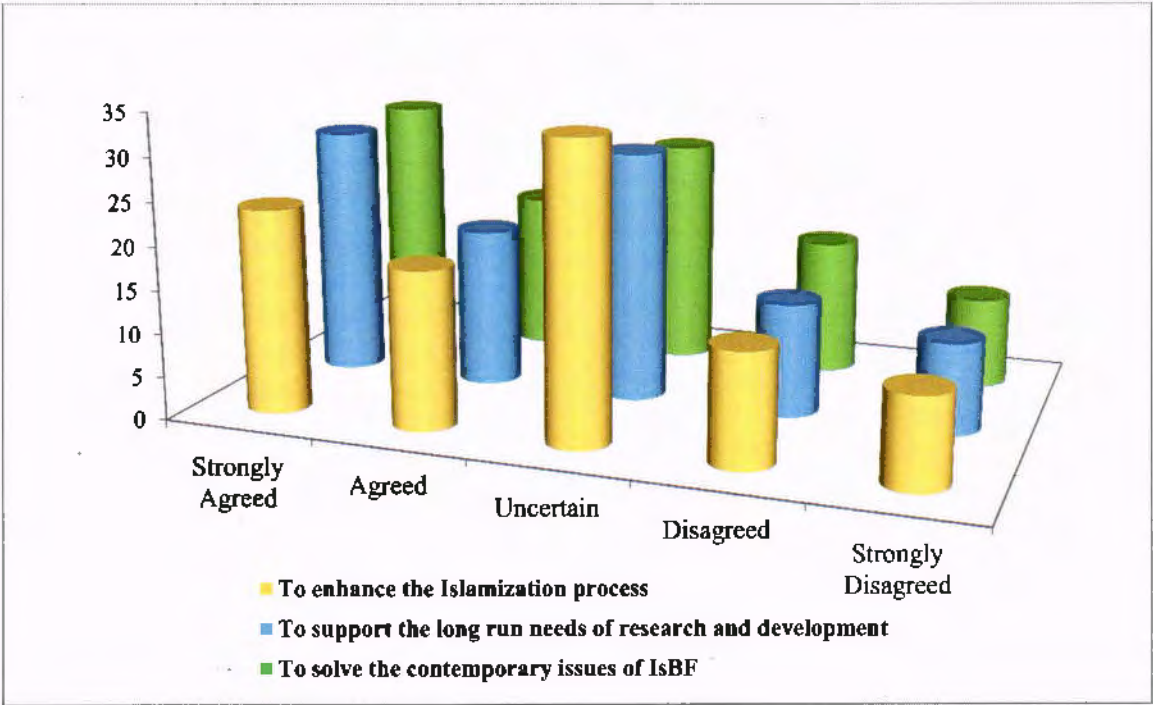
This result proves our hypothesis that govt. of Pakistan is opposing the paradigm of IBF in the country.

**Recruitment of Shari’a scholars/experts of IBF in Finance Ministry**

Our analysis of data depicts that a minority of respondents (41 to 47 percent) confirm recruitment of the Shari’a scholars/scholars having knowledge of both conventional and Islamic economics in the ministry of finance (i) to enhance the Islamization process, (ii) to support the long run needs of research and development (iii) to solve the contemporary issues of IBF. . However, majority of respondents (51 to 57 percent) are disagree and uncertain reflect that these issues have never been executed by

the authorities in finance ministry (see Figure 6.43 and Tables 6.138 through 6.140 in Appendix). These results prove the hypothesis that policy makers are opposing the paradigm of IBF.

**Figure 6.43: Ministry of finance ever felt the need to recruit Shari’a scholars/experts of IBF**



The policy makers oppose interest-free system as it is one of the threats for their control over financial resources. The SBP did not devise any sound policy for adopting an interest-free financial system. The above results are consistent with the ideas of (see Kahf, 2001; Lodhi and Kalim; 2005 and Khan, 2008). On the same pattern of argument, we can develop a link of the opposition by the bureaucrats who have authority on financial resources of the country and they had been designing ill-suited policies creating hurdles for the process of Islamization of economy. A lot of contemporary Muslim economists and scholars consider that the adoption of borrowed policies by successive Muslim regimes did not solve their problems and they should develop their own discipline to cater the need. The economic, political, social, cultural and religious needs of Muslim countries are entirely different than the western nations. Similarly the borrowed policies were implemented by the successive regimes in Pakistan to solve the



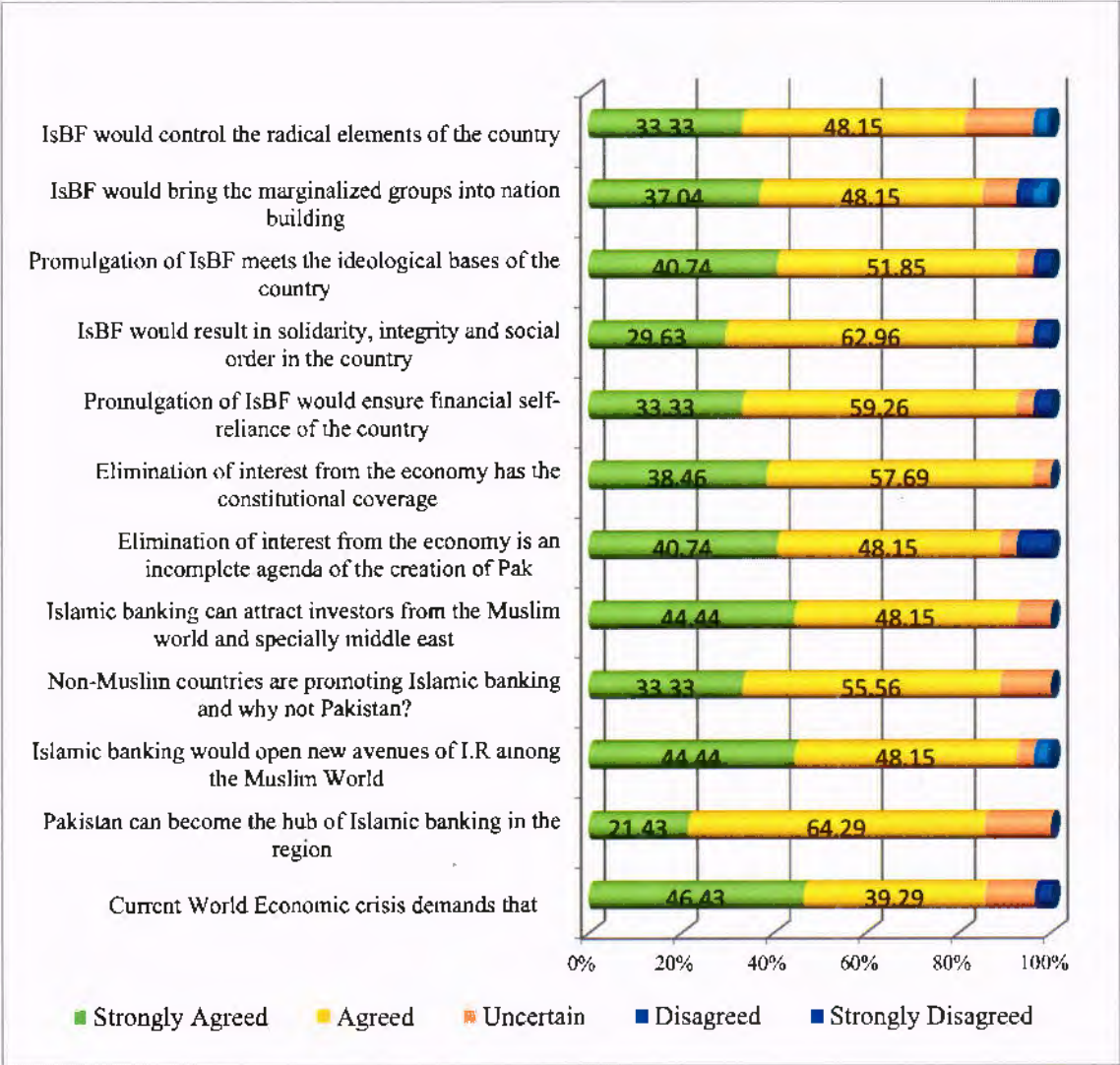
socio-economic problems of the masses produced counterproductive results. So a combination of hostile attitude of the successive regimes and their ill-suited policies marginalized the process of Islamisation of economy in the country (see Manan, 1989; Tahir, 1995; Siddiqui, 1996; Khan, 1999; Irfan, 2003; Alterman and Hunter, 2004; Yousri, 2005; Zaman, 2005; Zaman, 2006; Zaman, 2007; Adaş, 2008 and Montgomery, 2010).

#### ***Reasons to institutionalize IBF in Pakistan***

The analysis of data depicts that most of respondents (86 to 92 percent) from officers ministry of finance support the reasons to institutionalize IBF in the country (i) current world economic crisis demands that, (ii) Pakistan can become hub of Islamic banking in the region, (iii) Islamic banking would open new avenues of I.R among the Muslim world, (iv) non-Muslim countries are promoting Islamic banking and why not Pakistan and (v) Islamic banking can attract investors from the Muslim world and especially middle east (see Figure 6.44 and Tables 6.141 through 6.143 in Appendix). It proves our hypothesis that Islamic banking is a new means of I.R among the Muslim world. The Western market environments have turned up more favorable for Islamic banking and finance practice. These developments have given the Islamic banking and finance industry an opportunity to become truly competitive and integrated part of international financial markets. The above results confirm the studies by (Khan and Bhatti, 2008; DAWN Karachi, October 06, 2007; Lee & Ullah, 2007; Dilawar, 2012; Soliman, 2004; Siddiqui, 2005 and South Asia Investor Review, 2009).

Moreover, our analysis depicts that most of the respondents (90 percent) agree that reasons to institutionalize IBF in the country (i) elimination of interest from the economy is an incomplete agenda of the creation of Pakistan, (ii) elimination of interest from the economy has the constitutional coverage, (iii) promulgation of IBF would ensure financial self-reliance of the country and (iv) promulgation of IBF meets the ideological bases of the country (see Figure 6.44). Islamic banking system is enshrined in the constitution of Pakistan. Islamic Banking and Finance is suffered with the lack of political support in Pakistan. Elimination of interest from the economy has constitution provision in Pakistan (see Ahmad, 2006 and Mehboob Ul-Hassan, 2007).

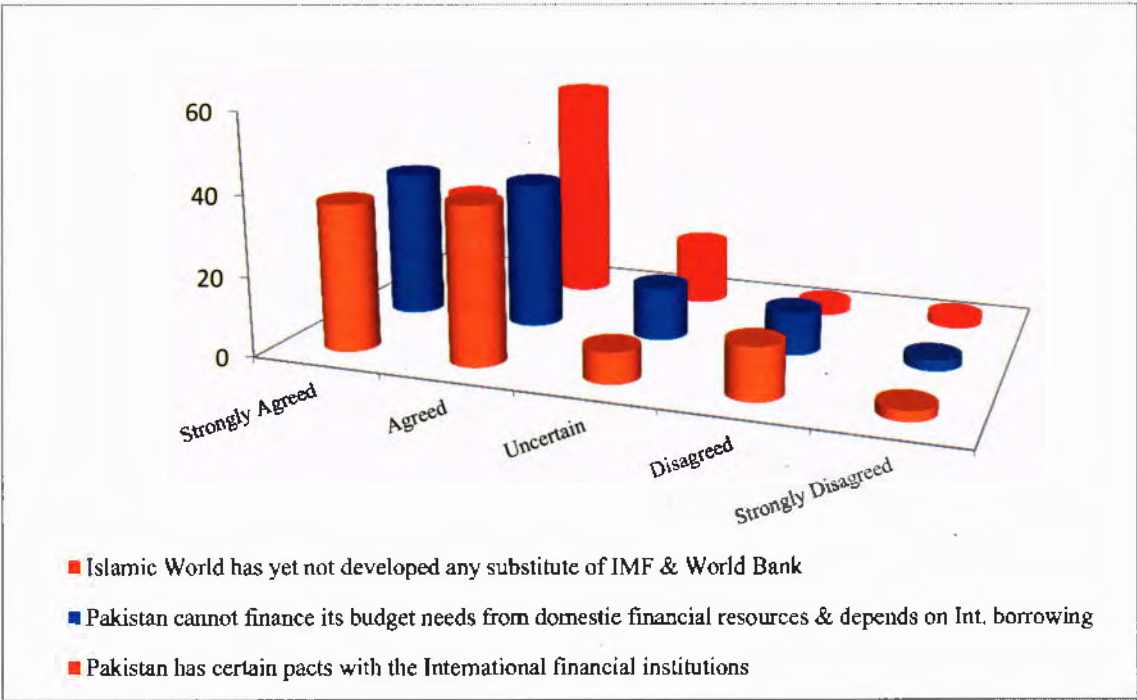
Figure 6.44: Reasons to institutionalize the IBF in Pakistan



Furthermore, most of the respondents (81 to 90 percent) support the reasons to institutionalize IBF in the country (i) IBF would result in solidarity, integrity and social order in the country, (ii) IBF would bring the marginalized groups into nation building and (iii) IBF would control radical elements of the country (see Figure 6.44). It proves our hypothesis that IBF is a mean to counter the radical elements in the country. The possible reasons for opposition by the officers of finance ministry are worth exploring. It is not merely a matter of threat associated with the IBF paradigm to their financial gains rather some other factors are also involved.

Our analysis of data depicts that most of respondents (73 to 80 percent) from ministry of finance confirm that IBF would isolate the country from world economy as (a) Islamic world has yet not developed any substitute of IMF and World Bank, (b) Pakistan cannot finance its budget needs from domestic financial resources and depends on int. borrowing, (c) Pakistan has certain pacts with international financial institutions (see Figure 6.45).

**Figure 6.45: IBF process would isolate the country from the world economy as**



These are the reasons for not adopting IBF by the successive regimes in Pakistan. These results prove our hypothesis that Govt. of Pakistan is opposing the paradigm of Islamic banking and finance. The above results are consistent with the ideas of (Kahf, 2001; Lodhi and Kalim; 2005; Khan, 2008).

### 6.9 Summary

Wealth protection and its growth are extremely important in Islamic Shari'a. IBF is one of the institutional arrangements to cater these needs. Despite the awareness of IBF, the above discussed stakeholders oppose as it does not offer attractive, cheaper and need compatible products to customers and general masses. The Shari'a consistency

of IBF is not supported /confirmed by the majority of Ulema on the basis of its practices. Moreover, the religious forces of Pakistan are not aware of IBF opportunities such as political alliances, winning more assembly seats, job opportunities, dialogue with other nations, education and research etc. However, the religious consensus on IBF is possible by conferences, district boards and dialogue among various sects of Ulema. The employees of Islamic banks, in general, lack in education and long run training, hence unable to execute it properly. The IBF in Pakistan is suffering from the lack of political will and has been used by the successive regimes to achieve their political goals. The bureaucracy opposes the implementation of IBF as they consider it a threat to their vested interests.

## Chapter 7

# Logistic Regression Analysis

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We discuss the descriptive analysis of our survey data in Chapter 6. In this chapter, we extend our analysis to Logistic regression, where we analyze the impact of different attributes on the probability of adopting IBF services and related issues. The details, in the context of various stakeholders, are provided in the following sub-sections.

### 7.1 General Masses and IBF

The factors affecting Islamic Banking in Pakistan are legal framework, knowledge sharing, research and development, public awareness and political determination etc. The awareness of IBF customers can be increased by seminars, advertisements, workshops and by including it in the syllabus of business and finance courses. Simple awareness of IBF is not sufficient for its adoption. Rather, more profitable, cost effective, more attractive, trusty worthy and truly Shari'a compliant IBF among the masses could be the other compliments of the awareness/ information for adoption of IBF (Lodhi and Kalim 2005; Iqbal and Hanif 2010; Hamid and Nordin 2001; and Islamic Banking Bulletin 2011).

#### *Awareness and adoption of IBF*

Our results in Table 7.1 show the impact of some awareness factors and hurdles on the adoption of IBF services in Pakistan. These awareness factors or hurdles are Television, relatives, friends, poor socio-economic conditions, religious pressures, opposition by policy makers, political will, and having no Islamic bonds etc. Table 7.1 shows that the relationship between information/ awareness of IBF and adoption of IBF is negative and significant at 5% level. It means that a person having more information of IBF services is less likely to adopt Islamic banking. The reason could be of its being risky, costly, not accessible, having substitute of IBF in the form of conventional and

informal banking. Further implication could be that simply information of IBF is not sufficient for its adoption. Whether IBF is more profitable, cost effective, more attractive, trustworthy and truly Shari'a compliant among the masses could be the other factors that may affect IBF adoption.

**Table 7.1: Logistic Regression result regarding Adoption of IBF by general masses in Pakistan**

ADOIBF	Coef.	Robust Std. Err.	z	P> z
AWIBF	-2.1396***	0.8163	-2.62	0.009
MOTTV	-0.6794**	0.3187	-2.13	0.033
MOTRE	0.3297**	0.1412	2.33	0.020
MOTFR	-0.3117*	0.1643	-1.90	0.058
PRSOECO	0.4589*	0.2577	1.78	0.075
RELPR	-0.6002**	0.2900	-2.07	0.038
OPPM	-0.8088**	0.3728	-2.17	0.030
LKPWL	0.7568*	0.4013	1.89	0.059
IBFSCB	-0.6459***	0.2475	-2.61	0.009
NIB	-0.6389**	0.2907	-2.20	0.028
Cons	9.1581***	1.7763	5.16	0.000
<b>Notes:</b> ***, **, * represent significance at 1%, 5% and 10% level respectively. Our dependent variable is adoption of IBF (ADOIBF). The independent variables are awareness of IBF (AWIBF), Motivation by T.V (MOTTV), Motivation by relatives (IFSRE), Motivation by friends (MOTFR), Poor socio-economics is hurdle for IBF (PSOECO), No religious pressure is hurdle (NRELPR), Opposition by policy makers is hurdle (OPPM), Lack of Political will is hurdle (LKPWL), IBF is same as conventional banking is hurdle (IBFSCB) and No Islamic bonds is hurdle (NIB).				

### ***Impact of Media sources on IBF adoption***

Globalization of Islam is the result of effective global communication systems. The paradox of modern systems of communication is that it makes Islam simultaneously exposed to Western consumerism and provides a mechanism for the dissemination of its message globally (Bryan Turner 1994). Modern information systems interact, communicate and integrate globally; even minor aspects of everyday human life and minority of actors are reported. The global networks and the electronic revolution are producing cultural and social impacts on the masses around the world.

Hence, the direct and indirect media techniques can motivate the people to adopt Islamic banking (Esposito 1992).

Our results in Table 7.1 also show that the relationship between T.V as information source of IBF and adoption of IBF is negative and significant at 10% level. It suggests that T.V, as information source of IBF, has negative impact for a person to adopt Islamic banking. The reasons could be that people do not want to adopt IBF because of its unclear mechanism, Sharia authenticity, informal banking and some other reasons. It is common to have talk shows on TV that discuss the pros and cons of IBF that may cause people not to adopt IBF services. Further, no motivation programs are started by the concerned authorities for the adoption of IBF on T.V.

#### ***Motivation by social groups to adopt IBF***

The relationship between independent variable 'relatives being an information source of IBF' and dependent variable 'adoption of IBF' is positive and significant at 10 percent level. It shows that relatives are good source of information as well as motivation for individuals to adopt IBF services. Despite heading towards modernism, still a majority of Pakistani population believes and practices joint family system and people trust more on their relatives as compared to their friends, be it the matter of information or consultation in adopting IBF services (Table 7.2). Further, we note that an increase in poor socio-economic conditions would increase the adoption of IBF and vice versa.

#### ***Role of Religious pressures in Pakistan***

In historical perspective, major political parties have been playing their role in the adoption of Shari'a compliant political and financial systems and practices. For example, Markazi Jamiat Ulema-e-Islam (MJUI), a major political party (in 1947) led by Maulana Shabbir Ahmad Usmani created a pressure by demanding constitution based on Islamic Shari'a and succeeded in incorporating some Islamic clauses in the 1949 Objectives Resolution which provided a base for the future constitutions of Pakistan. In addition to the above, religious scholars started demanding their share of power soon after the independence. Maulana Shabbir Ahmad Usmani demanded a



ministry and the appointment of a Shaikh al Islam (the leading scholar of Islam) having powers over the Qadis (Judges of Islamic courts) throughout the country in 1948. Similarly, Maulana Maududi demanded from the Constitution Assembly to make all legislation subject to Islamic Shari'a (Mehboob ul Hassan, 2008).

Religious scholars were ignored by the authorities for the implementation of Islamic banking in Pakistan. Some Islamic scholars are highly praising the Islamic banking system, while a large number of Ulema are opposing it. More than 30 Islamic scholars of Pakistan consider that the current Islamic banking is Haram (unlawful). Many scholars from different countries of the world are holding the same opinion. The role of Shari'a Scholars differentiates the IBF from conventional financial system. Shari'a scholars as a key stakeholder in IBF industry and their religious endorsement can significantly increase the adoption of IBF. They have to decide the compatibility of products offered by Islamic banks. The IBF cannot achieve its targets and solutions of contemporary problems without incorporating their role (Kahf 2001; Draz et al., 2011; Husain 2004).

Table 7.1 also shows that the relationship between 'no religious pressure is a hurdle for IBF in Pakistan' and 'adoption of IBF' is negative and significant at 10 percent level. It suggests that religious pressures are important for the adoption of IBF services in Pakistan. Since the religious forces are not organized / united and are not creating any pressure on the Govt. to implement IBF, consequently its adoption by the masses decreases. Another reason behind the no religious pressure is that majority of Ulema consider IBF not Shari'a compliant and even worse than the interest based system. The Ulema demotivate their followers to adopt Islamic banking. A person sitting in the religious circles of the Ulema, less he will adopt IBF.

The bureaucracy opposed the interest-free system as it was a threat to their control over the financial resources. The State Bank of Pakistan (SBP) did not device any sound policy for adopting an interest-free financial system and the absence of a just and speedy judicial system discouraged banks from adopting the PLS system. The above result is consistent with Kahf (2001), Lodhi and Kalim (2005) and Khan (2008). Further, any move for the adoption of IBF is nullified by the opposition of policy

makers. The policy makers do not support IBF by designing/ framing and implementing favorable policies for the model of IBF in Pakistan (Table 7.1).

### ***Lack of Political support to IBF***

The opposition of IBF in Pakistan can also be linked to the lack of political support. Although Pakistan was created on the bases of Islamic ideology but the newly born state suffered with leadership crisis as its founder died after one year. Sudden death of Quaid-e-Azam and the assassination of Liquat Ali Khan created a political gap which resulted in political crises in the coming history of Pakistan. Did the successive regimes frame any long run policy in the Islamization process of the economy? The mere slogans and political announcements in the past failed badly and produced counterproductive results. Government of Pakistan conceptually supports the idea of Islamic banking and finance but no practical measures have been taken so far (Iqbal and Hanif 2010). The Founder of Pakistan, while inaugurating the State Bank of Pakistan in 1948, said: *I shall watch with keenness the work of your Organization in evolving banking practices compatible with Islamic ideas of social and economic life. 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.* Conversely, successive regimes of Pakistan keep on delaying elimination of Riba from the economy for their political goals (Mehboob ul Hassan, 2008).

Lack of political will is the main reason for the failure of Islamic banking movement in Pakistan. Zia ul Haq initiated Islamic banking but banned the Federal Shariat Court to issue any judgment against interest for ten years to meet his political objectives. Other regimes also used Islamic banking as a political tool to gain their vested interests. Weak economy, socio-economic and political constraints did not allow Islamic banking to take its roots in Pakistan (Khan and Bhatti 2006; Khan, 2008). Some European countries like Ireland, Great Britain, Germany, Luxembourg and France are among the most active countries in the adoption of Islamic banking by establishing infrastructure institutions like sukuk market, development of insurance sector, education and trainings etc. (Masmoudi and Belabed, 2010). Similarly, Singapore Govt. has made policy changes to promulgate the Islamic banking and finance in the country. Her

Finance Ministry announced several changes in 2005 and 2006 budgets by giving tax concessions on income from Islamic bonds and waiving off the imposition of double stamp duties on Islamic transactions (Khan and Omar, 2008)

Our analysis in Table 7.1 shows that the relationship between ‘lack of political will is a hurdle for IBF in Pakistan’ and ‘adoption of IBF’ is positive and significant at 10 percent level. It shows, as the opposition and neglecting of IBF by the Govt. increases, its adoption increases. The Govt. of Pakistan opposed IBF and promoted conventional banking resulted into the adoption of IBF by the masses. This emergence of IBF paradigm is through private sector and some foreign factors.

### ***Unclear Mechanism of IBF as a Hurdle for its Adoption***

Islamic banking is relatively new and generally masses are not well aware of its mechanism as well as operations (Iqbal and Hanif, 2010). Islamic banks charge interest on the names of Islamic modes and Islamic banks that are similar to conventional banks. There is no clear mechanism which can differentiate Islamic banking from interest based banking. Shari’a boards of different Islamic banks are issuing inconsistent judgments on similar issues and standardization is a main problem (Henry, 2001). The practice of Islamic banking is different than the theory in countries where Islamization of economy was imposed by the government.

The relationship between ‘people believe that IBF is same as that of conventional banking is a hurdle for IBF in Pakistan’ and ‘adoption of IBF, is negative and significant at 1 percent level in Table 7.1. It suggests that as the perception of the people that IBF is similar to conventional banking changes, they will be more willing to adopt IBF. Further, the relationship between ‘non-availability of Shari’a compliant government securities/bonds is a hurdle for IBF in Pakistan’ and ‘adoption of IBF’ is negative and significant at 5 percent level. That is, the more the Islamic bonds are available in market, the more is the adoption of IBF services in Pakistan.

### **7.2: Customers of Islamic Banks**

The factors responsible for the promotion of IBF in Pakistan are religious attachments of the people along with awareness about IBF paradigm. Why Islamic

banking is adopted by the customers? The reasons/ factors significantly endorsed by the respondents are that Islamic banking products/ services provide religious peace and satisfaction, they are non interest based, and PLS principle adopted by the Islamic banks reflects that people are religiously conscious and sensitive in different issues related to Islamic banking. The customers think that Islamic banks give more weight to Shari'a aspects while offering their services. The customers' spirit, emotions and attachment to the religion need proper guidance and direction by the authorities of Islamic banking.

An important finding of our analysis of data reflects that majority of the customers adopt Islamic banking due to religious factors such as religious satisfaction, PLS principle, non interest based etc (see Fig. 6.11, Ch. 6). The needs of the customers are different from rural to urban, small to big towns and hot to cold regions. For Hajj and Umera financing, it is generally believed that no borrowing is needed for it. Hajj obligation starts after certain saving level. Last but not the least might be customer awareness and service quality that matters for buying the products of Islamic banks (Ahmad et al., 2010; Haque et al., 2009).

Our results in Table 7.2 show that the relationship between our independent variables (motor vehicle financing product, Islamic banking products give religious peace & satisfaction, Islamic banking services are better than the conventional banks, motivation by Shari'a scholars through Jumma speeches) and the dependent variable (Islamic banking products give solutions to all individual needs) is positive and significant at 1 or 5 percent level. This positive relation can be interpreted as a good signal for the further growth of Islamic banking industry in Pakistan and it confirms that the real essence of IBF is asset based financing.

**Table 7.2: Logistic Regression Result Regarding Adoption of IBF by Customers of Islamic Banking**

IBPSAKN	Coefficient	Robust Std. Err.	z	P> z
MVFP	1.5468***	0.416	3.72	0.000
IBPRPS	0.9075***	0.244	3.72	0.000
IBSBCB	0.6958**	0.273	2.55	0.011
MORSTJ	0.4007***	0.139	2.87	0.004
<b>Notes:</b> ***, **, * represent significance at 1%, 5% and 10% level respectively. Our dependent variable is Islamic Banking products give solutions to all kind of individual needs (IBPSAKN). The independent variables are Motor vehicle financing product (MVFP), Islamic banking products give religious peace & satisfaction (IBPRPS), Islamic banking services are better than the conventional banks (IBSBCB) and Motivation by Religious scholars through Jumma (MORSTJ).				

### 7.3: The Shari’a Scholars (Ulema)

Shari’a scholars have different opinions regarding IBF in Pakistan. Some Islamic scholars praise the Islamic banking system, while others oppose it. Shari’a scholars as a key stakeholder in IBF industry and their religious endorsement can significantly increase the adoption of IBF. Muslim scholars started writing against the conventional banking system in the second and third quarters of the 20th century and onwards. They suggest that the problems of conventional system could be solved by eliminating interest and replacing it by profit sharing modes of Islamic finance (Hameedullah 1936; Qureshi 1946; Uzair 1955; Maududi 1961; Al-Arabi 1965; Siddiqi 1969; Hameedullah 1970; Ahmad 1972; Ghanameh 1973). Ulema have a capacity to mobilize people for the implementation of IBF in Pakistan. This process would generate pressure on ruling regime to implement IBF in the country. However, a mass-appeal for interest free banking has never been started may be due to sectarian differences in the society (Nadeem, 2010).

Our results in Table 7.3 show that the relationship between ‘IBF has no religious consensus , substitute of IBF is converting wealth into real state, making alliances of the Shari’a scholars’ and ‘religious force can be converted into a political strength by opening new avenues of cooperation among the Muslim world’ is negative and significant. It suggests that the religious consensus of Ulema will improve the

cooperation among Muslim Ummah, which can further be improved by motivating masses in favor of IBF rather than investing in real state. Moreover, cooperation among the Muslim world is likely to improve if IBF addresses the social issues such as poverty, illiteracy, and un-employment which are not the current agenda of IBF. Similarly, Islamic ideology & Shari’a scholar’s role cannot be ignored by making political alliances, involving the radical elements in to nation building, conducting education/ research of IBF, and constituting dialogue with other nations. These findings confirm our hypothesis that IBF is a mean of new international relations among the OIC and rest of the world.

**Table 7.3: Logistic Regression result regarding opportunities of IBF for Ulema in Pakistan**

RFCPSMW	Coefficient	Robust Std. Err.	Z	P> z
IBFNRC	-2.8676***	0.748	-3.83	0.000
IBFDASI	1.7902***	0.586	3.05	0.002
IIRSRCI	2.6533***	0.942	2.82	0.005
SIBFCWRS	-2.4461**	0.967	-2.53	0.012
MAORS	-0.7883*	0.450	-1.75	0.080
MPA	2.9694***	1.088	2.73	0.006
IREINB	1.4582***	0.550	2.65	0.008
CERIBF	3.5559***	1.049	3.39	0.001
CDWON	4.7580***	1.157	4.11	0.000
<b>Notes:</b> ***, **, * represent significance at 1%, 5% and 10% level respectively. Our dependent variable is Religious force can be converted into political strength among Muslim world (RFCPSMW), IBF has no religious consensus (IBFNRC), IBF does not address social issues like Poverty, illiteracy, un-employ (IBFDASI), Islamic ideology & Religious scholar’s role cannot be ignored (IIRSRCI), substitute of IBF is converting wealth into real state (SIBFCWRS), making alliances of the Religious scholars (MAORS), making political alliances (MPA), involving the radical elements in to nation building (IREINB), conducting education/research of IBF (CERIBF) and constituting dialogue with other nations (CDWON).				

Regarding, the imperative role of Shari’a scholars, our findings in Table 8.4 show that they must be provided with modern IBF education and encouraged to constitute dialogue with other nations. However, ulema think that their alliances will decrease the

importance of their imperative role which may be due to sectarian differences among them.

**Table 7.4: Logistic Regression result regarding Political opportunities of IBF for Ulema in Pakistan**

IRRSIBF	Co-efficient	Robust Std. Err.	Z	P> z
MAORS	-18.8653***	1.269	-14.86	0.000
ERSIBF	17.4299***	1.273	13.69	0.000
CDWON	1.9699**	0.883	2.23	0.026
Notes: ***, **, * represent significance at 1%, 5% and 10% level respectively. Our dependent variable is Imperative role of Religious scholars for IBF in Pakistan (IRRSIBF). The independent variables are making alliances of the Religious scholars (MAORS), educating Religious scholars with IBF (ERSIBF) and constituting dialogue with other nations (CDWON).				

### 7.4: Islamic political parties

Islamic political parties are opinion makers of the masses by giving leadership role and raising the issue of Riba/ Islamization of the economy at the different forums through resolutions, bills and agitations. Islamic political parties have played a significant role in the constitutional development and developed political alliances for the implementation of Islamic Shari’a in Pakistan. These parties are so influential that any regime cannot survive without their support. They, being the dominant stakeholder of IBF, failed in creating any pressure on the successive regimes in policy formulation regarding its promulgation in Pakistan. Did the said parties start any movement, develop infrastructure institutions (universities, research centers, etc.) and organize agitation (rallies and long marches) for the implementation of IBF in Pakistan? In this section, we attempt to answer this question.

Our results in Table 7.5 show that Islamic political parties need IBF as it can unite scattered religious strength into a united political force and it may increase their popularity among the masses. Further, Islamic political parties motivate members for IBF by holding rallies that may have a positive and significant impact on their agenda of implementing IBF in Pakistan. However, Islamic political parties do not create



awareness of IBF among their members by arranging awareness campaigns and distribution of IBF literature. It may be due to their lack of awareness about the potential and opportunities of IBF.

**Table 7.5: Logistic Regression result regarding political pressure by Islamic political party for IBF**

IBFPAIPP	Co-efficient	Robust Std. Err.	Z	P> z
IBFURSPF	18.6293***	1.565	11.90	0.000
IPPMR	19.3286***	1.732	11.16	0.000
IPPHAC	-18.7302***	1.246	-15.03	0.000
IPPMRTL	-19.6939***	1.681	-11.71	0.000
<b>Notes:</b> ***, **, * represent significance at 1%, 5% and 10% level respectively. Our dependent variable is IBF/ Islamization as a political agenda of Islamic political parties (IBFPAIPP). The independent variables are Islamic political party need IBF can unite scattered religious forces into a political force (IBFURSPF), Islamic political motivates members through rallies for IBF (IPMMR), Islamic political party holds awareness campaign for IBF (IPPHAC) and Islamic political party motivates members through literature of IBF (IPPMRTL).				

### 7.5: Employees of Islamic Banks/ Management

The management and employees of Islamic banks are so important key stakeholders in the execution of IBF mechanism in the country. Unfortunately, IBF industry is suffering from the lack of professionals. The experts and trained staff increase the popularity of IBF and enhance its adoption among the masses. The factors affecting IBF in Pakistan are legal structure; knowledge sharing, research and development (see Lodhi and Kalim, 2005). The employees of IBF face some hurdles in the implementation of IBF in Pakistan. For example the mechanism of IBF is not clear to the people as they do not understand the terminology of Islamic banking. Moreover, majority of the people are involved in informal banking (see Table 7.6).

**Table 7.6: Logistic Regression result regarding Employees of Islamic Banks in Pakistan**

HFEPDUMIBF	Co-efficient	Robust Std. Err.	Z	P> z
PDUTIBF	0.8326***	0.2462	3.38	0.001
MPIIB	1.5520***	0.2737	5.67	0.000
<b>Notes:</b> ***, **, * represent significance at 1%, 5% and 10% level respectively. Our dependent variable is Hurdle faced by the employees of Islamic banks: People do not understand the mechanism of IBF (HFEPDUMIBF). The independent variables are people don't understand the terminology of IBF (PDUTIBF) and Majority of the population is involved in informal banking (MPIIB).				

## 7.6: Officers, State Bank of Pakistan

The state bank of Pakistan (SBP) is a central bank of Pakistan and a regulator of all financial institutions. Officers of the SBP are responsible for licensing, regulations and supervision of Islamic Banks in Pakistan. The SBP is the supervisor of Islamic banking in the country by all means, and responsible for research along with the training of the employees of Islamic banks with in the country and abroad. The IBF is a mean to win friends by cooperation with the other nations. It would be possible by institutionalizing interfaith dialogue among the different faiths and religions of the world rather than creating conflicts with them (Siddiqi, 1994). The IBF, as a foreign policy tool, can be utilized for the awareness, popularity and promotion, education and training among the hostile Muslim countries. International Islamic Financial Institutions can be a leverage for eliminating the resistance to IBF, increasing its greater acceptance, awareness and capacity building among the OIC countries. Further, it is a mean to revive Islamism, to counter radical Islam, to build civil societies, having no ties to terrorism and can be a mean of moderation and to bridge the gap among different segments of the society (see Karen, 2010; Filiz Baskan, 2004; Keyman et al, 2005; Henry, 2001; Kahf, 2004; Lubeck, 1998; and Rubin, 2005).

However, the IBF can be a mean of dialogue among the western regimes who are linking it to the Islamist movements, terrorist financing, a mechanism of charging interest on the name of Islam, economic war against the west, an ideology like Nazism

and Socialism against the west and a step towards political and economic order in the Muslim world (see Atzori et al, 2010; Yousef, 2004; Lewis, 2002; Kuran, 2004; Sandler, 2005; Kuran, 1995; and Ehrenfeld, 2008). Islamic banking and finance is an economic war against the west with sophisticated financial and political weapons (see Ehrenfeld, 2008).

**Table 7.7: Logistic Regression result regarding Officers State Bank of Pakistan**

<b>MBAI</b>	<b>Co-efficient</b>	<b>Robust Std. Err.</b>	<b>Z</b>	<b>P&gt; z </b>
MBMCI	1.6625***	.404	4.11	0.000
IGMCBDB	-1.0886**	0.445	-2.44	0.014
IGMPSCP	1.7587***	0.467	3.76	0.000
LMBIHSB	-0.8809**	0.411	-2.14	0.032
TWCIRTI	1.2856**	0.580	2.21	0.027
SBHASLL	-0.5902**	0.238	-2.47	0.014
SBHASRS	-1.0221**	0.430	-2.37	0.018
SBHCIPP	1.0234***	0.271	3.77	0.000

Notes: \*\*\*, \*\*, \* represent significance at 1%, 5% and 10% level respectively. Our dependent variable is Motivation by the Arab/ Muslim investors (MBAI). The independent variables are Motivation by Muslim countries institutions (MBMCI), Incentives for the general masses is that a competition between dual banking is beneficial for masses (IGMCBDB), Incentives for the general masses is that private sector is fully supported to make progress in IBF (IGMPSCP), Liquidity management by banks is an institutional hurdle for SBP (LMBIHSB), Trainings with the collaboration of IRTI were arranged by SBP (TWCIRTI), SBP held Awareness seminars for Land lords (SBHASLL), SBP held Conferences for Religious scholars (SBHASRS) and SBP held Conferences for leaders of Islamic political parties (SBHCIPP).

Our analysis in Table 7.7 depicts that the motivation for the SBP to adopt and promote IBF is positively affected by the motivation of institutions of Muslim countries, people's perceptions about the potential of private sector to avail this opportunity, the arrangement of various joint trainings of NIBAF with IRTI, and the arrangement of conferences for the leaders of Islamic political parties. However, the form of dual banking demotivates the authorities. Further, the issue of liquidity management by commercial banks is another reason of demotivation. It is surprising

that the SBP does not receive any positive signal from the conferences held in the honor of Ulema and landlords. It is also quite likely that these parties have never been consulted by the SBP authorities for IBF.

## **7.7: Summary**

Overall, our results from logistic regression show that the awareness of IBF alone is not sufficient for its adoption. A more profitable, cost effective, more attractive, trusty worthy and truly Shari'a compliant IBF along with the awareness may be adopted by the masses of Pakistan. Similarly, motivation programs through media sources for the popularity of IBF by the concerned authorities may boost the adoption of IBF in the country. Likewise, relatives are good source of information as well as motivation for individuals to adopt IBF services. The customers adopt Islamic banking due to religious factors such as religious satisfaction, PLS principle, non interest based etc.

The factors negatively affecting the adoption of IBF are as under. The Ulema demotivate their followers to adopt Islamic banking as they do not consider it truly Shari'a compliant. Similarly, no religious consensuses of Ulema coupled with un-addressed social issues by IBF may decrease its adoption domestically and damage the cooperation among the Muslim world. Moreover, lack of political will coupled with opposition by the policy makers is a hurdle for the promulgation of IBF in Pakistan. Furthermore, the mechanism of IBF is not clear to the masses is the main hurdle faced by the employees of Islamic banking in its execution.

# Chapter 8

## Summary and Conclusion

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The present study focuses the attitude of key stakeholders namely depositors/customers, general masses, Shari'a scholars (Ulema), Islamic political parties, employees of Islamic banks, officers State Bank of Pakistan and officers Ministry of Finance towards IBF in Pakistan. The role of few stakeholders is discussed by academia but serious and conclusive attempt has been made to explore the role of Shari'a scholars, Islamic political parties and general masses being imperative at the core of the paradigm for IBF in Pakistan. Moreover, factors responsible for the adoption of IBF along with the political economy aspects are well addressed in this analysis being the pioneering attempt in this direction. We explore that how IBF can be converted into a mass movement and what are the potential factors to enhance its adoption by masses in Pakistan. We study the attitude of the key stakeholders towards IBF in Pakistan on indicators such as motivation, preferences, opportunities, adoption and opposition. The Islamic financial system is founded on the prohibition of interest, encourages risk sharing, promotes entrepreneurship, discourages speculative behavior and emphasizes the sanctity of contracts. Wealth accumulation, its protection and distribution is very much encouraged in Quran and Hadith (Zuriah, 2014).

The study employs the both type of descriptive and regression analysis on the basis of primary data on proposed stakeholders and is collected from all over Pakistan through social media over the period 2013. The results of descriptive and regression analysis show that religious factors (religious peace and satisfaction, products are non interest based, PLS principle) are the main reason for the adoption of Islamic banking by the general masses. The factors for not adoption may be the absence of attractive schemes and clear mechanism along with the failure of IBF to tackle the socio-economic problems faced by Muslim countries around the world (Hasan, 2007; Siddiqi 2006; Zaman, 2009 and Kamla and Rammal, 2013).

The analysis also reflects that ulema are opposing the IBF paradigm due to presence of interest in the banking transactions on the name of Islamic modes and the

absence of clear mechanism which can differentiate Islamic banking from interest based banking (Henry, 2001; Atzori et al 2010; Yousef 2004 and Kuran 2004). The analysis also reveals that the Ulema and political parties are also ignorant regarding the IBF potential being a mean of converting the scattered religious strength into a political force (see Rana, 2011; Khan and Omar, 2008; Misra, 2003).

The finding of the analysis reveals that effective human capital lacks in Islamic banking industry (i.e. IBF industry is suffered with the lack of professionals (see Lodhi and Kalim, 2005). The analysis supports that the new paradigm of IBF may not guarantee to serve the vested interests of the regulatory institutions (see Kahf, 2001; Lodhi and Kalim, 2005; Khan, 2008). The crux of the analysis is that the IBF can be converted into a mass movement in Pakistan by political will, religious consensus, competitive and compatible products, religious and political motivation and conducive institutional framework.

### **8.1: Policy Recommendations**

Government of Pakistan should own and adopt the Islamic banking in all its dimensions supported by necessary legislation in this direction. A complete model of Islamic banking should be adopted by the Government instead of dual banking. In order to strengthen the institutional framework, the State Bank of Pakistan may be assigned a core role to develop coordination among key stakeholders of IBF by organizing the long-run trainings and research programs for the employees of Islamic financial institutions.

Owing to an influential status, religious consensus among ulema has to be developed through districts boards and conferences. Ulema can be involved by the authorities for a religious appeal to convert the IBF into a mass movement. On the dimension of political economy, IBF being the political agenda of the Islamic political parties of Pakistan can win more assembly seats, increase their popularity and control radical elements of Pakistan. Political means like rallies, agitations and street protests could be an effective tool to create pressure on the Govt. to implement IBF in Pakistan. Both print and electronic media has an effective role in opinion making of the people of Pakistan and to enhance the adoption of Islamic banking. A special media channel

needs to be established for promotion of IBF programs in the country. Attractive schemes for poor and deprived masses coupled with clear mechanism of Islamic banking operations and products compatible to the needs of masses shall be introduced by the Islamic banks. Religious factors along with cheaper and profitable products /services are required to be introduced by the Islamic banks. The IBF being a mean of peace and harmony in the world could establish inter-faith dialogue among nations. Govt. of Pakistan has to promote IBF as a mean of new I.R among the Muslim countries through research, education and foreign direct investment. Lastely financial empowerment of women through IBF in the line with Islamic history is imperative.

## **8.2: Scope of future Research**

In future, a country wide survey of IBF can be conducted to identify the multi-dimensional needs of the industry. Higher education and long run training schemes may be started for the employees of Islamic banks. The inclusion of IBF in the syllabus of higher education may be accomplished on priority basis.

Due to time and financial resources constraints, the following important areas could not be covered in this research and hence are future area of interest for research. To collect the primary data of IBF through field study, a country wide survey is also needed. Moreover, one may carry a comprehensive research on OIC countries. Specified schemes/ projects (products/services) for different social groups (like women groups, labor class, crafts men, disable people etc.) is needed to be explored. The attitude of political parties of Pakistan (Pakistan Muslim League (N), Pakistan people's party and Tarik-i-Insaf etc.) may be one of the areas of research. Non- Muslim countries of the world wanting to adopt and implement the paradigm of IBF are another potential area of further study. Extending network of Islamic banking branches to the rural areas of Pakistan is still another area of research. Potential needs of the different regions/areas of Pakistan may be worth exploring. Moreover linking the IBF with peace and security is another area of research. Global integration of IBF with the conventional financial system needs special focus for future studies. Regulation issues like independent regulators than the central banks, independent board of Ulema to monitor the Shari'a



boards of central banks are the potential areas of further research. Similarly scandals and formalizing the informal sector of Pakistan are waiting for exploration. The perceptions of retired government officials/bureaucrats for Islamization of the economy are such a potential area which can explore the hidden areas of IBF. Similarly, environmental issues with IBF a major field of research. Last but not the least could be the financial role of women in IBF; it is such a potential area which remained over sighted by the contemporary Islamic economists. A seprate thesis is the potential research area to be explored on war footing.

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# Appendix-A

**Table 6.1: Stakeholder of IBF in Pakistan**

<b>You are which of the following stakeholder of IBF in Pakistan</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Shareholders (Investors)</b>	5	0.5	0.5
<b>Depositors/Customers (Corporate &amp; non corporate</b>	107	10.62	11.11
<b>General Masses</b>	280	27.78	38.89
<b>Shari’a Scholars (Ulema)</b>	98	9.72	48.61
<b>Members of an Islamic Political parties</b>	142	14.09	62.7
<b>Employees of an Islamic banks/Management</b>	280	27.78	90.48
<b>Officers of the SBP</b>	58	5.75	96.23
<b>Officers of the Ministry of Finance</b>	38	3.77	100
<b>Total</b>	1,008	100	

**Table 6.3: Perception of the Respondents Regarding Prohibition of Interest.**

<b>Do you consider that giving and taking interest is haram in Islam?</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Yes</b>	974	96.63	96.63
<b>Uncertain</b>	19	1.88	98.51
<b>No</b>	15	1.49	100.00
<b>Total</b>	1,008	100.00	

**Table 6.5: Poor Socio-Economic Conditions is a Hurdle for IBF in Pakistan**

Poor Socio-economic conditions is an hurdle for IBF in Pakistan	Freq.	Percent	Cum.
Strongly agreed	148	14.68	14.68
Agreed	427	42.36	57.04
Uncertain	185	18.35	75.4
Disagreed	197	19.54	94.94
Strongly disagreed	51	5.06	100
Total	1008	100.00	

**Table 6.6: Reliance of the Govt. on Donors to Finance Budget**

Reliance of the Govt. on International donors and financial institutions to finance the budget	Freq.	Percent	Cum.
Strongly agreed	385	38.19	38.19
Agreed	475	47.12	85.32
Uncertain	92	9.13	94.44
Disagreed	43	4.27	98.71
Strongly disagreed	13	1.29	100
Total	1,008	100	

**Table 6.7: Religious Pressure and IBF in Pakistan**

No religious pressure is an hurdle for IBF in Pakistan	Freq.	Percent	Cum.
strongly agreed	192	19.05	19.05
Agreed	472	46.83	65.87
Uncertain	130	12.9	78.77
Disagreed	184	18.25	97.02
strongly disagreed	30	2.98	100
Total	1,008	100	



**Table 6.8: Political Pressure for IBF in Pakistan**

<b>No political pressure is an hurdle for IBF in Pakistan</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>strongly agreed</b>	215	21.33	21.33
<b>Agreed</b>	561	55.65	76.98
<b>Uncertain</b>	132	13.1	90.08
<b>Disagreed</b>	80	7.94	98.02
<b>strongly disagreed</b>	20	1.98	100
<b>Total</b>	1,008	100	

**Table 6.9: Role of Policy Makers/Bureaucracy for IBF in Pakistan**

<b>Opposition by the policy makers/bureaucracy is an hurdle for IBF in Pakistan</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>strongly agreed</b>	345	34.23	34.23
<b>Agreed</b>	442	43.85	78.08
<b>Uncertain</b>	144	14.29	92.36
<b>Disagreed</b>	65	6.45	98.81
<b>Strongly disagreed</b>	12	1.19	100
<b>Total</b>	1,008	100	

**Table 6.10: Political Will for IBF in Pakistan**

<b>Lack of Political will is an hurdle for IBF in Pakistan</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	379	37.6	37.6
<b>Agreed</b>	481	47.72	85.32
<b>Uncertain</b>	100	9.92	95.24
<b>Disagreed</b>	40	3.97	99.21
<b>Strongly disagreed</b>	8	0.79	100
<b>Total</b>	1,008	100	

**Table 6.11: Common People Understanding for IBF in Pakistan**

<b>Common people do not understand the mechanism of IBF in Pakistan</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	400	39.68	39.68
<b>Agreed</b>	531	52.68	92.36
<b>Uncertain</b>	33	3.27	95.63
<b>Disagreed</b>	37	3.67	99.31
<b>Strongly disagreed</b>	7	0.69	100
<b>Total</b>	1,008	100	

**Table 6.12: People's Belief about IBF and Conventional Banking in Pakistan**

People believe that IBF is same as that of conventional banking in Pakistan	Freq.	Percent	Cum.
Strongly agreed	263	26.09	26.09
Agreed	489	48.51	74.6
Uncertain	88	8.73	83.33
Disagreed	148	14.68	98.02
Strongly disagreed	20	1.98	100
Total	1,008	100	

**Table 6.13: Products used by the customers of Islamic Banks**

Product Type		Freq.	Percent	Cum.
House Financing	Yes	11	10.28	10.28
	No	96	89.72	100
Motor Financing	Yes	17	15.89	15.89
	No	90	84.11	100
Machine/Tool financing	Yes	7	6.54	6.54
	No	100	93.46	100
Personal Financing	Yes	20	18.69	18.69
	No	87	81.31	100
Education Financing	Yes	9	8.41	8.41
	No	98	91.59	100
Health Financing	Yes	6	5.61	5.61
	No	101	94.39	100
Hajj/Umra financing	Yes	10	9.35	9.35
	No	97	90.65	100
Agriculture Input Financing	Yes	7	6.54	6.54
	No	100	93.46	100
Industrial Input Financing	Yes	8	7.48	7.48
	No	99	92.52	100
Trade Financing	Yes	7	6.54	6.54
	No	100	93.46	100
Letter of Credits	Yes	5	4.67	4.67
	No	102	95.33	100
Islamic Bills	Yes	6	5.61	5.61
	No	101	94.39	100
Islamic Bonds	Yes	13	12.15	12.15
	No	94	87.85	100
	Total	107	100	

**Table 6.14: Reasons for adoption of Islamic Bank by the customers**

Reasons for preferring the products of Islamic bank: religious satisfaction	Freq.	Percent	Cum.
Strongly agreed	44	41.12	41.12
Agreed	42	39.25	80.37
Uncertain	14	13.08	93.46
Disagreed	5	4.67	98.13
Strongly disagreed	2	1.87	100
Total	107	100.00	

**Table 6.15: Reasons for adoption of Islamic Bank by the customers**

Reasons for preferring the products of Islamic bank: non interest based	Freq.	Percent	Cum.
Strongly agreed	38	35.51	35.51
Agreed	38	35.51	71.03
Uncertain	22	20.56	91.59
Disagreed	7	6.54	98.13
Strongly disagreed	2	1.87	100
Total	107	100.00	

**Table 6.16: Reasons for adoption of Islamic Bank by the customers**

Reasons for preferring the products of Islamic bank: PLS principle adopted by Islamic banks	Freq.	Percent	Cum.
Strongly agreed	25	23.36	23.36
Agreed	53	49.53	72.9
Uncertain	19	17.76	90.65
Disagreed	4	3.74	94.39
Strongly disagreed	6	5.61	100
Total	107	100.00	

**Table 6.17: Reasons for adoption of Islamic Bank by the customers**

Reasons for preferring the products of Islamic bank: endorsement by neutral Shari'a scholars	Freq.	Percent	Cum.
Strongly agreed	8	7.48	7.48
Agreed	39	36.45	43.93
Uncertain	33	30.84	74.77
Disagreed	21	19.63	94.39
Strongly disagreed	6	5.61	100
Total	107	100.00	

**Table 6.18: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: it is popular than conventional banks</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	5	4.67	4.67
<b>Agreed</b>	20	18.69	23.36
<b>Uncertain</b>	34	31.78	55.14
<b>Disagreed</b>	39	36.45	91.59
<b>Strongly disagreed</b>	9	8.41	100
<b>Total</b>	107	100.00	

**Table 6.19: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: easy approached location</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	12	11.21	11.21
<b>Agreed</b>	41	38.32	49.53
<b>Uncertain</b>	24	22.43	71.96
<b>Disagreed</b>	26	24.3	96.26
<b>Strongly disagreed</b>	4	3.74	100
<b>Total</b>	107	100.00	

**Table 6.20: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: Confidentiality</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	12	11.21	11.21
<b>Agreed</b>	37	34.58	45.79
<b>Uncertain</b>	41	38.32	84.11
<b>Disagreed</b>	13	12.15	96.26
<b>Strongly disagreed</b>	4	3.74	100
<b>Total</b>	107	100.00	

**Table 6.21: Reasons for adoption of Islamic Bank**

Reasons for preferring the products of Islamic bank: Long working hours of banking	Freq.	Percent	Cum.
Strongly agreed	4	3.74	3.74
Agreed	26	24.3	28.04
Uncertain	40	37.38	65.42
Disagreed	31	28.97	94.39
Strongly disagreed	6	5.61	100
Total	107	100.00	

**Table 6.22: Reasons for adoption of Islamic Bank**

Reasons for preferring the products of Islamic bank: comfortable atmosphere inside Branch	Freq.	Percent	Cum.
Strongly agreed	11	10.28	10.28
Agreed	37	34.58	44.86
Uncertain	33	30.84	75.7
Disagreed	20	18.69	94.39
Strongly disagreed	6	5.61	100
Total	107	100.00	

**Table 6.23: Reasons for adoption of Islamic Bank**

Reasons for preferring the products of Islamic bank: Islamic banking products are more cheaper than conventional banks	Freq.	Percent	Cum.
Strongly agreed	6	5.61	5.61
Agreed	25	23.36	28.97
Uncertain	49	45.79	74.77
Disagreed	19	17.76	92.52
Strongly disagreed	8	7.48	100
Total	107	100.00	

**Table 6.24: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: Employees of the bank are helpful</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	14	13.08	13.08
<b>Agreed</b>	48	44.86	57.94
<b>Uncertain</b>	29	27.1	85.05
<b>Disagreed</b>	13	12.15	97.2
<b>Strongly disagreed</b>	3	2.8	100
<b>Total</b>	107	100.00	

**Table 6.25: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: Buying the products</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	4	3.74	3.74
<b>Agreed</b>	28	26.17	29.91
<b>Uncertain</b>	51	47.66	77.57
<b>Disagreed</b>	21	19.63	97.2
<b>Strongly disagreed</b>	3	2.8	100
<b>Total</b>	107	100.00	

**Table 6.26: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: so satisfied that propose others for adoption</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	15	14.02	14.02
<b>Agreed</b>	43	40.19	54.21
<b>Uncertain</b>	34	31.78	85.98
<b>Disagreed</b>	11	10.28	96.26
<b>Strongly disagreed</b>	4	3.74	100
<b>Total</b>	107	100.00	

**Table 6.27: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: solutions to my all needs</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	15	14.02	14.02
<b>Agreed</b>	36	33.64	47.66
<b>Uncertain</b>	40	37.38	85.05
<b>Disagreed</b>	15	14.02	99.07
<b>Strongly disagreed</b>	1	0.93	100
<b>Total</b>	107	100.00	

**Table 6.28: Reasons for adoption of Islamic Bank**

<b>Reasons for preferring the products of Islamic bank: it provides better services than conventional banks</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	14	13.08	13.08
<b>Agreed</b>	40	37.38	50.47
<b>Uncertain</b>	32	29.91	80.37
<b>Disagreed</b>	16	14.95	95.33
<b>Strongly disagreed</b>	5	4.67	100
<b>Total</b>	107	100.00	

**Table 6.29: Motivation by Govt. policy to customers for adoption of IBF**

<b>The Government policy &amp; scheme which motivated you is: Dual banking by the Govt.</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	13	12.15	12.15
<b>Very important</b>	16	14.95	27.1
<b>Important</b>	22	20.56	47.66
<b>Less important</b>	14	13.08	60.75
<b>Not important</b>	42	39.25	100
<b>Total</b>	107	100.00	

**Table 6.30: Motivation by Govt. policy to customers for adoption of IBF**

<b>The Government policy &amp; scheme which motivated you is: Zakat collection and distribution</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	18	16.82	16.82
<b>Very important</b>	12	11.21	28.04
<b>Important</b>	27	25.23	53.27
<b>Less important</b>	11	10.28	63.55
<b>Not important</b>	39	36.45	100
<b>Total</b>	107	100.00	

**Table 6.31: Motivation by Govt. policy to customers for adoption of IBF**

<b>The Government policy &amp; scheme which motivated you is: Mudaraba companies</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	8	7.48	7.48
<b>Very important</b>	29	27.1	34.58
<b>Important</b>	22	20.56	55.14
<b>Less important</b>	10	9.35	64.49
<b>Not important</b>	38	35.51	100
<b>Total</b>	107	100.00	

**Table 6.32: Motivation by Govt. policy to customers for adoption of IBF**

<b>The Government policy &amp; scheme which motivated you is: Sukuk policy by the Govt.</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	18	16.82	16.82
<b>Very important</b>	17	15.89	32.71
<b>Important</b>	26	24.3	57.01
<b>Less important</b>	10	9.35	66.36
<b>Not important</b>	36	33.64	100
<b>Total</b>	107	100.00	



**Table 6.33: Hurdles for customers in the adoption of Islamic banks**

<b>Hurdles for customers in dealing with an Islamic bank: High collaterals</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	10	9.35	9.35
Agreed	36	33.64	42.99
Uncertain	51	47.66	90.65
Disagreed	6	5.61	96.26
Strongly disagreed	4	3.74	100
Total	107	100.00	

**Table 6.34: Hurdles for customers in adoption of Islamic banks**

<b>Hurdles for customers in dealing with an Islamic bank: No products for poor people</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	32	29.91	29.91
Agreed	51	47.66	77.57
Uncertain	15	14.02	91.59
Disagreed	7	6.54	98.13
Strongly disagreed	2	1.87	100
Total	107	100.00	

**Table 6.35: Hurdles for customers in the adoption of Islamic banks**

<b>Hurdles for customers in dealing with an Islamic bank: Rural masses are excluded</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	32	29.91	29.91
Agreed	46	42.99	72.9
Uncertain	20	18.69	91.59
Disagreed	7	6.54	98.13
Strongly disagreed	2	1.87	100
Total	107	100.00	

**Table 6.36: Hurdles for customers in the adoption of Islamic banks**

<b>Hurdles for customers in dealing with an Islamic bank: Lengthy procedure of approval</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	25	23.36	23.36
Agreed	33	30.84	54.21
Uncertain	28	26.17	80.37
Disagreed	18	16.82	97.2
Strongly disagreed	3	2.8	100
<b>Total</b>	<b>107</b>	<b>100.00</b>	

**Table 6.37: Hurdles for customers in the adoption of Islamic banks**

<b>Hurdles for customers in dealing with an Islamic bank: Rural masses are excluded</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	32	29.91	29.91
Agreed	46	42.99	72.9
Uncertain	20	18.69	91.59
Disagreed	7	6.54	98.13
Strongly disagreed	2	1.87	100
<b>Total</b>	<b>107</b>	<b>100.00</b>	

**Table 6.38: Hurdles for customers in the adoption of Islamic banks**

<b>Hurdles for customers in dealing with an Islamic bank: Lengthy procedure of approval</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	25	23.36	23.36
Agreed	33	30.84	54.21
Uncertain	28	26.17	80.37
Disagreed	18	16.82	97.2
Strongly disagreed	3	2.8	100
<b>Total</b>	<b>107</b>	<b>100.00</b>	

**Table 6.42: Motivation by Employees of an Islamic bank to general masses for its adoption**

<b>Employees of an Islamic bank motivated you by:</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Personal contacts</b>			
<b>Most important</b>	35	12.5	12.5
<b>Very important</b>	36	12.86	25.36
<b>Important</b>	48	17.14	42.5
<b>Less important</b>	23	8.21	50.71
<b>Not important</b>	138	49.29	100
<b>Total</b>	280	100.00	

**Table 6.43: Motivation by Employees of an Islamic bank to general masses for its adoption**

<b>Employees of an Islamic bank motivated you by:</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Awareness seminars</b>			
<b>Most important</b>	26	9.29	9.29
<b>Very important</b>	44	15.71	25
<b>Important</b>	60	21.43	46.43
<b>Less important</b>	21	7.5	53.93
<b>Not important</b>	129	46.07	100
<b>Total</b>	280	100.00	

**Table 6.44: Motivation by Employees of an Islamic bank to general masses for its adoption**

<b>Employees of an Islamic bank motivated you by: public campaign</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	33	11.79	11.79
<b>Very important</b>	35	12.5	24.29
<b>Important</b>	39	13.93	38.21
<b>Less important</b>	30	10.71	48.93
<b>Not important</b>	143	51.07	100
<b>Total</b>	280	100.00	

**Table 6.45: Motivation by Employees of an Islamic bank to general masses for its adoption**

<b>Employees of an Islamic bank motivated you by: Distributing pamphlets &amp; booklets</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	28	10	10
<b>Very important</b>	40	14.29	24.29
<b>Important</b>	52	18.57	42.86
<b>Less important</b>	30	10.71	53.57
<b>Not important</b>	130	46.43	100
<b>Total</b>	280	100.00	

**Table 6.46: Motivation by Employees of an Islamic bank to general masses for its adoption**

<b>Employees of an Islamic bank motivated you by: Advertisement in T.V</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	53	18.93	18.93
<b>Very important</b>	45	16.07	35
<b>Important</b>	59	21.07	56.07
<b>Less important</b>	25	8.93	65
<b>Not important</b>	98	35	100
<b>Total</b>	280	100.00	

**Table 6.47: Motivation by Employees of an Islamic bank to general masses for its adoption**

<b>Employees of an Islamic bank motivated you by: Advertisement in Radio</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	24	8.57	8.57
<b>Very important</b>	27	9.64	18.21
<b>Important</b>	50	17.86	36.07
<b>Less important</b>	44	15.71	51.79
<b>Not important</b>	135	48.21	100
<b>Total</b>	280	100.00	

**Table 6.48: Motivation by Employees of an Islamic bank to general masses for its adoption**

<b>Employees of an Islamic bank motivated you by: Advertisement in Newspapers</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	67	23.93	23.93
<b>Very important</b>	55	19.64	43.57
<b>Important</b>	65	23.21	66.79
<b>Less important</b>	22	7.86	74.64
<b>Not important</b>	71	25.36	100
<b>Total</b>	280	100.00	

**Table 6.49: Islamic political parties Motivate General Masses for IBF adoption**

<b>Islamic political party which motivated you by: inviting for a rally on IBF</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	14	5	5
<b>Very important</b>	20	7.14	12.14
<b>Important</b>	42	15	27.14
<b>Less important</b>	45	16.07	43.21
<b>Not important</b>	159	56.79	100
<b>Total</b>	280	100.00	

**Table 6.50: Islamic political parties Motivate General Masses for IBF adoption through**

Islamic political party which motivated you by: inviting for agitation against interest based system	Freq.	Percent	Cum.
Most important	14	5	5
Very important	30	10.71	15.71
Important	44	15.71	31.43
Less important	34	12.14	43.57
Not important	158	56.43	100
Total	280	100.00	

**Table 6.51: Islamic political parties Motivate General Masses for IBF adoption**

Islamic political party which motivated you by: Distributing literature of IBF	Freq.	Percent	Cum.
Most important	28	10	10
Very important	36	12.86	22.86
Important	53	18.93	41.79
Less important	23	8.21	50
Not important	140	50	100
Total	280	100.00	

**Table 6.52: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: micro tools/machines	Freq.	Percent	Cum.
Most important	38	13.57	13.57
Very important	33	11.79	25.36
Important	54	19.29	44.64
Less important	36	12.86	57.5
Not important	119	42.5	100
Total	280	100.00	

**Table 6.53: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: Agricultural inputs	Freq.	Percent	Cum.
Most important	54	19.29	19.29
Very important	36	12.86	32.14
Important	43	15.36	47.5
Less important	27	9.64	57.14
Not important	120	42.86	100
Total	280	100.00	

**Table 6.54: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: financing for education/ training	Freq.	Percent	Cum.
Most important	86	30.71	30.71
Very important	56	20	50.71
Important	41	14.64	65.36
Less important	16	5.71	71.07
Not important	81	28.93	100
Total	280	100.00	

**Table 6.55: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: financing for education of children	Freq.	Percent	Cum.
Most important	108	38.57	38.57
Very important	60	21.43	60
Important	41	14.64	74.64
Less important	19	6.79	81.43
Not important	52	18.57	100
Total	280	100.00	

**Table 6.56: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: Hajj and Umra financing	Freq.	Percent	Cum.
Most important	87	31.07	31.07
Very important	43	15.36	46.43
Important	47	16.79	63.21
Less important	22	7.86	71.07
Not important	81	28.93	100
Total	280	100.00	

**Table 6.57: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: Trade financing	Freq.	Percent	Cum.
Most important	58	20.71	20.71
Very important	43	15.36	36.07
Important	50	17.86	53.93
Less important	25	8.93	62.86
Not important	104	37.14	100
Total	280	100.00	

**Table 6.58: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: small & medium enterprise financing	Freq.	Percent	Cum.
Most important	63	22.5	22.5
Very important	42	15	37.5
Important	52	18.57	56.07
Less important	22	7.86	63.93
Not important	101	36.07	100
Total	280	100.00	

**Table 6.59: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: House financing	Freq.	Percent	Cum.
Most important	87	31.07	31.07
Very important	52	18.57	49.64
Important	57	20.36	70
Less important	19	6.79	76.79
Not important	65	23.21	100
Total	280	100.00	

**Table 6.60: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: Micro financing	Freq.	Percent	Cum.
Most important	65	23.21	23.21
Very important	48	17.14	40.36
Important	52	18.57	58.93
Less important	21	7.5	66.43
Not important	94	33.57	100
Total	280	100.00	



**Table 6.61: Products needed by General masses from Islamic Banks**

would you need from an Islamic bank: Micro financing	Freq.	Percent	Cum.
Most important	65	23.21	23.21
Very important	48	17.14	40.36
Important	52	18.57	58.93
Less important	21	7.5	66.43
Not important	94	33.57	100
Total	280	100.00	

**Table 6.62: Reasons for adoption of Islamic banking by General Masses of Pakistan**

you adopted Islamic bank as: It represents Islamic values & identity	Freq.	Percent	Cum.
Strongly agreed	21	30.88	30.88
Agreed	29	42.65	73.53
Uncertain	11	16.18	89.71
Disagreed	7	10.29	100
Strongly disagreed	0.0	0.0	0.0
Total	68	100.00	

**Table 6.63: Reasons for adoption of Islamic banking by General Masses of Pakistan**

you adopted Islamic bank as: It fulfills economic needs in a Shari'a way	Freq.	Percent	Cum.
Strongly agreed	24	36.92	36.92
Agreed	28	43.08	80
Uncertain	9	13.85	93.85
Disagreed	3	4.62	98.46
Strongly disagreed	1	1.54	100
Total	65	100.00	

**Table 6.64: Reasons for adoption of Islamic banking by General Masses of Pakistan**

you adopted Islamic bank by: advertisements in newspapers	Freq.	Percent	Cum.
Strongly agreed	13	20.31	20.31
Agreed	32	50	70.31
Uncertain	8	12.5	82.81
Disagreed	8	12.5	95.31
Strongly disagreed	3	4.69	100
Total	64	100.00	

**Table 6.65: Reasons for adoption of Islamic banking by General Masses of Pakistan**

you adopted Islamic bank as: It offers more financing tools & products	Freq.	Percent	Cum.
Strongly agreed	7	11.29	11.29
Agreed	18	29.03	40.32
Uncertain	22	35.48	75.81
Disagreed	13	20.97	96.77
Strongly disagreed	2	3.23	100
Total	62	100.00	

**Table 6.66: Reasons for adoption of Islamic banking by General Masses of Pakistan**

you adopted Islamic bank by: BBC & CNN coverage on current economic crisis	Freq.	Percent	Cum.
Strongly agreed	10	16.39	16.39
Agreed	16	26.23	42.62
Uncertain	19	31.15	73.77
Disagreed	13	21.31	95.08
Strongly disagreed	3	4.92	100
Total	61	100.00	

**Table 6.67: Reasons for adoption of Islamic banking by General Masses of Pakistan**

you adopted Islamic bank as: A condition for salary through bank	Freq.	Percent	Cum.
Strongly agreed	11	22	22
Agreed	13	26	48
Uncertain	8	16	64
Disagreed	14	28	92
Strongly disagreed	4	8	100
Total	50	100.00	

**Table 6.68: Reasons for adoption of Islamic banking by General Masses of Pakistan**

<b>you adopted Islamic bank by: Endorsement by the Shari'a scholars of locality</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	13	20.31	20.31
<b>Agreed</b>	21	32.81	53.13
<b>Uncertain</b>	22	34.38	87.5
<b>Disagreed</b>	7	10.94	98.44
<b>Strongly disagreed</b>	1	1.56	100
<b>Total</b>	64	100.00	

**Table 6.69: Reasons for Not adoption of Islamic banking by General Masses of Pakistan**

<b>you did not adopt Islamic bank as: It is a disputed issue among Shari'a scholars</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	43	15.36	15.36
<b>Agreed</b>	106	37.86	53.21
<b>Uncertain</b>	76	27.14	80.36
<b>Disagreed</b>	35	12.5	92.86
<b>Strongly disagreed</b>	20	7.14	100
<b>Total</b>	280	100.00	

**Table 6.70: Reasons for Not adoption of Islamic banking by General Masses of Pakistan**

<b>You did not adopt Islamic bank as: No attractive projects/schemes for poor masses</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	61	21.79	21.79
<b>Agreed</b>	134	47.86	69.64
<b>Uncertain</b>	50	17.86	87.5
<b>Disagreed</b>	20	7.14	94.64
<b>Strongly disagreed</b>	15	5.36	100
<b>Total</b>	280	100.00	

**Table 6.71: Reasons for Not adoption of Islamic banking by General Masses of Pakistan**

<b>You did not adopt Islamic bank as: Its mechanism is not clear</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	68	24.29	24.29
<b>Agreed</b>	113	40.36	64.64
<b>Uncertain</b>	55	19.64	84.29
<b>Disagreed</b>	23	8.21	92.5
<b>Strongly disagreed</b>	21	7.5	100
<b>Total</b>	280	100.00	

**Table 6.72: Reasons for Not adoption of Islamic banking by General Masses of Pakistan**

<b>you did not adopt Islamic bank as: I borrow from informal ways (friends, relatives)</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	41	14.64	14.64
<b>Agreed</b>	85	30.36	45.00
<b>Uncertain</b>	52	18.57	63.57
<b>Disagreed</b>	66	23.57	87.14
<b>Strongly disagreed</b>	36	12.86	100.00
<b>Total</b>	280	100.00	

**Table 6.73: Reasons for Not adoption of Islamic banking by General Masses of Pakistan**

<b>You did not adopt Islamic bank as: I save by informal ways (committees etc.)</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>strongly agreed</b>	34	12.14	12.14
<b>Agreed</b>	100	35.71	47.86
<b>Uncertain</b>	47	16.79	64.64
<b>Disagreed</b>	69	24.64	89.29
<b>strongly disagreed</b>	30	10.71	100.00
<b>Total</b>	280	100.00	

**Table 6.74: Satisfaction of Ulema with IBF**

<b>you are satisfied with Islamic banking: only in theory</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	40	40.82	40.82
<b>Agreed</b>	41	41.84	82.65
<b>Uncertain</b>	1	1.02	83.67
<b>Disagreed</b>	12	12.24	95.92
<b>Strongly disagreed</b>	4	4.08	100
<b>Total</b>	98	100.00	

**Table 6.75: Satisfaction of Ulema with IBF**

<b>you are satisfied with Islamic banking: Its practice by Islamic banks</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	7	7.14	7.14
<b>Agreed</b>	32	32.65	39.8
<b>Uncertain</b>	11	11.22	51.02
<b>Disagreed</b>	39	39.8	90.82
<b>Strongly disagreed</b>	9	9.18	100
<b>Total</b>	98	100.00	

**Table 6.76: Satisfaction of Ulema with IBF**

<b>you are satisfied with Islamic banking: Both theory and practice by Islamic banks</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	7	7.14	7.14
<b>Agreed</b>	33	33.67	40.82
<b>Uncertain</b>	26	26.53	67.35
<b>Disagreed</b>	26	26.53	93.88
<b>Strongly disagreed</b>	6	6.12	100
<b>Total</b>	98	100.00	

**Table 6.77: Satisfaction of Ulema with IBF**

<b>you are satisfied with Islamic banking: Not satisfied</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	18	18.37	18.37
<b>Agreed</b>	28	28.57	46.94
<b>Uncertain</b>	14	14.29	61.22
<b>Disagreed</b>	32	32.65	93.88
<b>Strongly disagreed</b>	6	6.12	100
<b>Total</b>	98	100.00	

**Table 6.78: Shortcomings of IBF**

<b>IBF is suffered with shortcomings: It is not Shari'a compliant</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	17	17.35	17.35
<b>Agreed</b>	27	27.55	44.9
<b>Uncertain</b>	11	11.22	56.12
<b>Disagreed</b>	34	34.69	90.82
<b>Strongly disagreed</b>	9	9.18	100
<b>Total</b>	98	100.00	

**Table 6.79: Shortcomings of IBF**

<b>IBF is suffered with shortcomings: It is same as conventional banking</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	21	21.43	21.43
<b>Agreed</b>	35	35.71	57.14
<b>Uncertain</b>	5	5.1	62.24
<b>Disagreed</b>	27	27.55	89.8
<b>Strongly disagreed</b>	10	10.2	100
<b>Total</b>	98	100.00	

**Table 6.80: Shortcomings of IBF**

<b>IBF is suffered with shortcomings: It has no religious consensus</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	37	37.76	37.76
<b>Agreed</b>	49	50	87.76
<b>Uncertain</b>	3	3.06	90.82
<b>Disagreed</b>	7	7.14	97.96
<b>strongly disagreed</b>	2	2.04	100
<b>Total</b>	98	100.00	

**Table 6.81: Shortcomings of IBF**

<b>IBF is suffered with shortcomings: Its practices are conflicting with the theory</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	22	22.45	22.45
<b>Agreed</b>	39	39.8	62.24
<b>Uncertain</b>	6	6.12	68.37
<b>Disagreed</b>	24	24.49	92.86
<b>Strongly disagreed</b>	7	7.14	100
<b>Total</b>	98	100.00	

**Table 6.82: Shortcomings of IBF**

<b>IBF is suffered with shortcomings: It does not address social issues</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	34	34.69	34.69
<b>Agreed</b>	41	41.84	76.53
<b>Uncertain</b>	9	9.18	85.71
<b>Disagreed</b>	12	12.24	97.96
<b>Strongly disagreed</b>	2	2.04	100
<b>Total</b>	98	100.00	

**Table 6.83: Responsible for ignoring Ulema for IBF in Pakistan**

<b>Ulema have been ignored for IBF in Pakistan by: Successive regimes</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	54	55.1	55.1
Agreed	36	36.73	91.84
Uncertain	5	5.1	96.94
Disagreed	3	3.06	100
Strongly disagreed	54	55.1	55.1
<b>Total</b>	<b>98</b>	<b>100.00</b>	

**Table 6.84: Responsible for ignoring Ulema for IBF in Pakistan**

<b>Ulema have been ignored for IBF in Pakistan by: Policy makers</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	53	54.08	54.08
Agreed	42	42.86	96.94
Uncertain	3	3.06	100
Disagreed	N/A	N/A	100
Strongly disagreed	N/A	N/A	55.1
<b>Total</b>	<b>98</b>	<b>100.00</b>	

**Table 6.85: IBF a platform to unite the religious strength into a political force**

<b>IBF to unite religious strength into a political force: by making alliances</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	27	27.55	27.55
Agreed	36	36.73	64.29
Uncertain	20	20.41	84.69
Disagreed	10	10.2	94.9
Strongly disagreed	5	5.1	100
<b>Total</b>	<b>98</b>	<b>100.00</b>	

**Table 6.86: IBF a platform to unite the religious strength into a political force**

<b>IBF to unite religious strength into a political force: By dialogue among sects of Ulema</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	39	39.8	39.8
Agreed	47	47.96	87.76
Uncertain	9	9.18	96.94
Disagreed	2	2.04	98.98
Strongly disagreed	1	1.02	100
<b>Total</b>	<b>98</b>	<b>100.00</b>	

**Table 6.87: IBF a mean to convert religious strength into a political force**

<b>Converting religious strength into a political force: By involving radical elements</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	32	32.65	32.65
<b>Agreed</b>	43	43.88	76.53
<b>Uncertain</b>	17	17.35	93.88
<b>Disagreed</b>	4	4.08	97.96
<b>Strongly disagreed</b>	2	2.04	100
<b>Total</b>	98	100.00	

**Table 6.88: IBF a mean to convert religious strength into a political force**

<b>Converting religious strength into a political force: By making political alliances</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	38	38.78	38.78
<b>Agreed</b>	42	42.86	81.63
<b>Uncertain</b>	11	11.22	92.86
<b>Disagreed</b>	6	6.12	98.98
<b>Strongly disagreed</b>	1	1.02	100
<b>Total</b>	98	100.00	

**Table 6.89: IBF a mean to convert religious strength into a political force**

<b>Converting religious strength into a political force: By cooperation among OIC</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	44	44.9	44.9
<b>Agreed</b>	49	50	94.9
<b>Uncertain</b>	4	4.08	98.98
<b>Disagreed</b>	1	1.02	100
<b>Strongly disagreed</b>	N/A	N/A	N/A
<b>Total</b>	98	100.00	

**Table 6.90: IBF a mean to convert religious strength into a political force**

<b>Converting religious strength into a political force: By dialogue with other nations</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	41	41.84	41.84
<b>Agreed</b>	49	50	91.84
<b>Uncertain</b>	6	6.12	97.96
<b>Disagreed</b>	2	2.04	100
<b>Strongly disagreed</b>	41	41.84	41.84
<b>Total</b>	98	100.00	



**Table 6.91: Ulema agreed with the critique of Binauri Town on IBF**

Ulema agreed with the critique of IBF by Binauri Town?	Freq.	Percent	Cum.
Yes	35	48.61	48.61
Uncertain	9	12.5	61.11
No	28	38.89	100
Total	72	100.00	

**Table 6.93: IBF a platform for political alliance of Islamic political parties**

IBF can be a platform of political alliance like: 1974 movement against Qadyanis	Freq.	Percent	Cum.
Strongly agreed	45	31.69	31.69
Agreed	64	45.07	76.76
Uncertain	20	14.08	90.85
Disagreed	11	7.75	98.59
Strongly disagreed	2	1.41	100
Total	142	100.00	

**Table 6.94: IBF a platform for political alliance of Islamic political parties**

IBF can be a platform of political alliance like: Pakistan National Alliance in 1977	Freq.	Percent	Cum.
Strongly agreed	44	30.99	30.99
Agreed	67	47.18	78.17
Uncertain	19	13.38	91.55
Disagreed	11	7.75	99.3
Strongly disagreed	1	0.7	100
Total	142	100.00	

**Table 6.95: IBF a platform for political alliance of Islamic political parties**

IBF can be a platform of political alliance like: MMA in 2000's	Freq.	Percent	Cum.
Strongly agreed	44	30.99	30.99
Agreed	79	55.63	86.62
Uncertain	11	7.75	94.37
Disagreed	7	4.93	99.3
Strongly disagreed	1	0.7	100
Total	142	100.00	

**Table 6.96: IBF a platform for political alliance of Islamic political parties**

<b>IBF can be a platform of political alliance like: Milli Yakjahti Council of 90's</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	46	32.86	32.86
<b>Agreed</b>	72	51.43	84.29
<b>Uncertain</b>	15	10.71	95.00
<b>Disagreed</b>	6	4.29	99.29
<b>Strongly disagreed</b>	1	0.71	100
<b>Total</b>	140	100.00	

**Table 6.97: Opportunities of IBF for Islamic political parties**

<b>Islamic political party can win more seats by making IBF an election manifesto</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	20	14.08	14.08
<b>Agreed</b>	70	49.3	63.38
<b>Uncertain</b>	24	16.9	80.28
<b>Disagreed</b>	24	16.9	97.18
<b>Strongly disagreed</b>	4	2.82	100
<b>Total</b>	142	100.00	

**Table 6.98: Opportunities of IBF for Islamic political parties**

<b>IBF as political agenda can increase popularity of an Islamic political party</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	22	15.49	15.49
<b>Agreed</b>	98	69.01	84.51
<b>Uncertain</b>	10	7.04	91.55
<b>Disagreed</b>	11	7.75	99.3
<b>Strongly disagreed</b>	1	0.7	100
<b>Total</b>	142	100.00	

**Table 6.99: Opportunities of IBF for Islamic political parties**

<b>IBF a mean to counter the radical elements</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	17	11.97	11.97
<b>Agreed</b>	66	46.48	58.45
<b>Uncertain</b>	35	24.65	83.1
<b>Disagreed</b>	23	16.2	99.3
<b>Strongly disagreed</b>	1	0.7	100
<b>Total</b>	142	100.00	

**Table 6.100: Opportunities of IBF for Islamic political parties**

<b>IBF can unite scattered religious strength into political force</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	18	12.68	12.68
<b>Agreed</b>	88	61.97	74.65
<b>Uncertain</b>	24	16.9	91.55
<b>Disagreed</b>	11	7.75	99.3
<b>Strongly disagreed</b>	1	0.7	100
<b>Total</b>	142	100.00	

**Table 6.101: Involvement of Islamic political parties by authorities for IBF**

<b>your Islamic political party was involved for IBF by: Successive regimes</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	41	28.87	28.87
<b>Agreed</b>	67	47.18	76.06
<b>Uncertain</b>	34	23.94	100.00
<b>Disagreed</b>	NA	NA	NA
<b>Strongly disagreed</b>	NA	NA	NA
<b>Total</b>	142	100.00	

**Table 6.102: Involvement of Islamic political parties by authorities for IBF**

<b>your Islamic political party was involved for IBF by: Council of Islamic Ideology</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	47	33.10	33.10
<b>Agreed</b>	65	45.77	78.87
<b>Uncertain</b>	28	19.72	98.59
<b>Disagreed</b>	02	1.41	100
<b>Strongly disagreed</b>	NA	NA	NA
<b>Total</b>	142	100.00	

**Table 6.103: Involvement of Islamic political parties by authorities for IBF**

<b>your Islamic political party was involved for IBF by: Ministry of Finance</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	9	6.34	6.34
<b>Agreed</b>	11	7.75	14.08
<b>Uncertain</b>	117	82.39	96.48
<b>Disagreed</b>	4	2.82	99.3
<b>Strongly disagreed</b>	1	0.7	100

<b>Total</b>	142	100.00	
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**Table 6.104: Involvement of Islamic political parties by authorities for IBF**

<b>your Islamic political party was involved for IBF by: State Bank of Pakistan</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	5	3.52	3.52
<b>Agreed</b>	3	2.11	5.63
<b>Uncertain</b>	130	91.55	97.18
<b>Disagreed</b>	4	2.82	100
<b>Strongly disagreed</b>	5	3.52	3.52
<b>Total</b>	142	100.00	

**Table 6.105: Involvement of Islamic political parties by authorities for IBF**

<b>your Islamic political party was involved for IBF by: employees of Islamic banks</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	7	4.93	4.93
<b>Agreed</b>	6	4.23	9.15
<b>Uncertain</b>	125	88.03	97.18
<b>Disagreed</b>	3	2.11	99.3
<b>Strongly disagreed</b>	1	0.7	100
<b>Total</b>	142	100.00	

**Table 6.106: Qualification of IBF by the Employees of Islamic Banks**

<b>Do you have any qualification of IBF prior to join the Islamic bank like?</b>	<b>Freq.</b>	<b>Percentage</b>
<b>IBF degree (B.Sc. M.Sc. M.S Ph.D.)</b>	22	0.07
<b>IBF diploma</b>	12	0.05
<b>IBF certificate</b>	14	0.04
<b>IBF internship</b>	4	0.01
<b>Total</b>	72	0.25

**Table 6.107: Promotion of IBF by Employees through Seminars/conferences**

<b>Seminars and conferences for promotion of IBF are held for: Shari'a Scholars</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	44	15.71	15.71
<b>Very important</b>	10	3.57	19.29
<b>Important</b>	13	4.64	23.93
<b>Less important</b>	5	1.79	25.71
<b>Not important</b>	208	74.29	100
<b>Total</b>	280	100.00	

**Table 6.108: Promotion of IBF by Employees through Seminars/conferences**

<b>Seminars and conferences for promotion of IBF are held for: Business community</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	79	28.21	28.21
<b>Very important</b>	42	15	43.21
<b>Important</b>	16	5.71	48.93
<b>Less important</b>	2	0.71	49.64
<b>Not important</b>	141	50.36	100
<b>Total</b>	280	100.00	

**Table 6.109: Promotion of IBF by Employees through Seminars/conferences**

<b>Seminars and conferences for promotion of IBF are held for: General masses</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	47	16.79	16.79
<b>Very important</b>	32	11.43	28.21
<b>Important</b>	29	10.36	38.57
<b>Less important</b>	5	1.79	40.36
<b>Not important</b>	167	59.64	100
<b>Total</b>	280	100.00	

**Table 6.110: Promotion of IBF by Employees through Seminars/conferences**

<b>Seminars and conferences for promotion of IBF are held for: Industrial community</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	74	26.43	26.43
<b>Very important</b>	32	11.43	37.86
<b>Important</b>	21	7.5	45.36
<b>Less important</b>	3	1.07	46.43
<b>Not important</b>	150	53.57	100
<b>Total</b>	280	100.00	

**Table 6.111: Promotion of IBF by Employees through Seminars/conferences**

<b>Seminars and conferences for promotion of IBF are held for: Leaders of Islamic political parties</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	32	11.43	11.43
<b>Very important</b>	11	3.93	15.36
<b>Important</b>	8	2.86	18.21
<b>Less important</b>	14	5	23.21
<b>Not important</b>	215	76.79	100
<b>Total</b>	280	100.00	

**Table 6.112: Promotion of IBF by Employees through personal contacts among social Groups**

<b>Personal contacts for promotion of IBF cover: Shari'a scholars</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	44	15.71	15.71
<b>Very important</b>	41	14.64	30.36
<b>Important</b>	26	9.29	39.64
<b>Less important</b>	18	6.43	46.07
<b>Not important</b>	151	53.93	100
<b>Total</b>	280	100.00	

**Table 6.113: Specified products offered by Islamic Banks of Pakistan**

<b>Specified products offered by Islamic banks</b>	<b>Freq.</b>
House financing	227
Motor vehicle financing	248
Machine/tools financing	191
Personal financing	13
Education financing	19
Hajj/Umera scheme on profit basis	113
Agricultural input financing	108
Industrial input financing	169
Trade financing	226
Letter of credits	215
Islamic bills	116
Islamic bonds	148

**Table 6.114: Reasons for policy shift in 2001 by SBP**

<b>Reasons for policy shift in 2001:Motivation by Muslim countries institutions</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	4	6.9	6.9
Agreed	34	58.62	65.52
Uncertain	11	18.97	84.48
Disagreed	7	12.07	96.55
Strongly disagreed	2	3.45	100
<b>Total</b>	<b>58</b>	<b>100.00</b>	

**Table 6.115: Reasons for policy shift in 2001 by SBP**

<b>Reasons for policy shift in 2001:Motivation by the Arab/Muslim investors</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Strongly agreed	4	6.90	6.90
Agreed	27	46.55	53.45
Uncertain	17	29.31	82.76
Disagreed	9	15.52	98.28
Strongly disagreed	1	1.72	100
<b>Total</b>	<b>58</b>	<b>100.00</b>	

**Table 6.116: Reasons for policy shift in 2001 by SBP**

Reasons for policy shift in 2001: Motivation by domestic factors (Govt. instructions, religious demand)	Freq.	Percent	Cum.
Strongly agreed	2	3.45	3.45
Agreed	38	65.52	68.97
Uncertain	10	17.24	86.21
Disagreed	7	12.07	98.28
Strongly disagreed	1	1.72	100
Total	58	100.00	

**Table 6.117: Reasons for policy shift in 2001 by SBP**

Reasons for policy shift in 2001: No social, political and religious pressure	Freq.	Percent	Cum.
Strongly agreed	1	1.72	1.72
Agreed	32	55.17	56.9
Uncertain	11	18.97	75.86
Disagreed	13	22.41	98.28
Strongly disagreed	1	1.72	100
Total	58	100.00	

**Table 6.118: Reasons for late policy shift in 2001 by SBP**

Reasons for late policy shift for IBF in 2001 by SBP: Lack of political will by the Govt.	Freq.	Percent	Cum.
Strongly agreed	10	17.24	17.24
Agreed	29	50	67.24
Uncertain	12	20.69	87.93
Disagreed	6	10.34	98.28
Strongly disagreed	1	1.72	100
Total	58	100.00	



**Table 6.119: Reasons for late policy shift in 2001 by SBP**

Reasons for late policy shift for IBF in 2001 by SBP: Failure of Govt.to Islamize economy	Freq.	Percent	Cum.
Strongly agreed	3	5.17	5.17
Agreed	34	58.62	63.79
Uncertain	13	22.41	86.21
Disagreed	6	10.34	96.55
Strongly disagreed	2	3.45	100
Total	58	100.00	

**Table 6.120: Reasons for late policy shift in 2001 by SBP**

Reasons for late policy shift for IBF in 2001 by SBP: Opposition by banking industry of Pakistan	Freq.	Percent	Cum.
Strongly agreed	3	5.17	5.17
Agreed	29	50.00	55.17
Uncertain	12	20.69	75.86
Disagreed	12	20.69	96.55
Strongly disagreed	2	3.45	100
Total	58	100.00	

**Table 6.121: Reasons for late policy shift in 2001 by SBP**

Reasons for late policy shift for IBF in 2001 by SBP: Opposition by the policy makers	Freq.	Percent	Cum.
Strongly agreed	8	13.79	13.79
Agreed	22	37.93	51.72
Uncertain	16	27.59	79.31
Disagreed	10	17.24	96.55
Strongly disagreed	2	3.45	100
Total	58	100.00	

**Table 6.122: SBP organized training to the staffs of Islamic banks with collaboration of OIC institutions**

<b>SBP organized training to staffs of Islamic banking with OIC institutions: NIBAF course</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	20	34.48	34.48
<b>Very important</b>	21	36.21	70.69
<b>Important</b>	17	29.31	100
<b>Less important</b>	N/A	N/A	N/A
<b>Not important</b>	N/A	N/A	N/A
<b>Total</b>	58	100.00	

**Table 6.123: SBP organized training to the staffs of I. banks with collaboration of OIC institutions**

<b>SBP organized training to staffs of Islamic banking with OIC institutions: Joint R&amp;D</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	12	20.69	20.69
<b>Very important</b>	25	43.1	63.79
<b>Important</b>	19	32.76	96.55
<b>Less important</b>	2	3.45	100
<b>Not important</b>	N/A	N/A	N/A
<b>Total</b>	58	100.00	

**Table 6.124: SBP organized training to the staffs of I. banks with collaboration of OIC institutions**

<b>SBP organized training to staffs of Islamic banking with OIC institutions: Awareness seminars</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	12	20.69	20.69
<b>Very important</b>	20	34.48	55.17
<b>Important</b>	23	39.66	94.83
<b>Less important</b>	1	1.72	96.55
<b>Not important</b>	2	3.45	100
<b>Total</b>	58	100.00	

**Table 6.125: Cabinet orders to support IBF in Pakistan**

<b>Does Finance have cabinet orders to support IBF: Subsidy to Islamic banks</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	3	7.89	7.89
No	35	92.11	100
Total	38	100.00	

**Table 6.126: Cabinet orders to support IBF in Pakistan**

<b>Does Finance have cabinet orders to support IBF: Tax exemptions to Islamic banks</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	2	5.26	5.26
No	36	94.74	100
Total	38	100.00	

**Table 6.127: Cabinet orders to support IBF in Pakistan**

<b>Does Finance have cabinet orders to support IBF: Development of infrastructure institutions</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	15	39.47	39.47
No	23	60.53	100
Total	38	100.00	

**Table 6.128: Cabinet orders to support IBF in Pakistan**

<b>Does Finance have cabinet orders to support IBF: Establishment of links with OIC financial institutions</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	13	34.21	34.21
No	25	65.79	100
Total	38	100.00	

**Table 6.129: Cabinet orders to support IBF in Pakistan**

<b>Does Finance have cabinet orders to support IBF: Sponsoring education and training</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	29	23.68	23.68
No	9	76.32	100
Total	38	100.00	

**Table 6.130: Cabinet orders to support IBF in Pakistan**

<b>Does Finance have cabinet orders to support IBF: legal measures</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	13	34.21	34.21
No	25	65.79	100
Total	38	100.00	

**Table 6.131: Cabinet orders to support IBF in Pakistan**

<b>Cabinet orders to Finance ministry for subsidy to Islamic banks: Domestic training to their staff</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	4	10.53	10.53
No	34	89.47	100
Total	38	100.00	

**Table 6.132: Cabinet orders to support IBF in Pakistan**

<b>Cabinet orders to Finance ministry for subsidy to Islamic banks: Training in OIC financial institutions</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	3	7.89	7.89
No	35	92.11	100
Total	38	100.00	

**Table 6.133: Cabinet orders to support IBF in Pakistan**

<b>Cabinet orders to Finance ministry for subsidy to Islamic banks: Foreign scholarship schemes</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	11	28.95	28.95
No	27	71.05	100
Total	38	100.00	

**Table 6.134: Links developed with the OIC financial institutions on Cabinet orders**

<b>Links developed with OIC institutions on cabinet order: for training of banking staff</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Yes	4	10.53	10.53
No	34	89.47	100
Total	38	100.00	

**Table 6.135: Long run measure neglected by successive regimes for IBF in Pakistan**

<b>Long run measure ignored by regimes: Recruiting Shari'a advisors in ministries</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Most important	12	31.58	31.58
Very important	11	28.95	60.53
Important	11	28.95	89.47
Less important	3	7.89	97.37
Not important	1	2.63	100
Total	38	100.00	

**Table 6.136: Long run measure neglected by successive regimes for IBF in Pakistan**

<b>Long run measure ignored by regimes: Development of Shari'a courts in the country</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	11	28.95	28.95
<b>Very important</b>	11	28.95	57.89
<b>Important</b>	12	31.58	89.47
<b>Less important</b>	3	7.89	97.37
<b>Not important</b>	1	2.63	100
<b>Total</b>	38	100.00	

**Table 6.137: Long run measure neglected by successive regimes for IBF in Pakistan**

<b>Long run measure ignored by regimes: lack of coordination among key stakeholders</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	13	34.21	34.21
<b>Very important</b>	15	39.47	73.68
<b>Important</b>	8	21.05	94.74
<b>Less important</b>	1	2.63	97.37
<b>Not important</b>	1	2.63	100
<b>Total</b>	38	100.00	

**Table 6.138: Recruitment of Shari'a scholars/experts of IBF in Finance Ministry**

<b>Finance ministry ever felt the need to recruit Shari'a scholars: to enhance Islamization process</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	9	23.68	23.68
<b>Agreed</b>	7	18.42	42.11
<b>Uncertain</b>	13	34.21	76.32
<b>Disagreed</b>	5	13.16	89.47
<b>Strongly disagreed</b>	4	10.53	100
<b>Total</b>	38	100.00	

**Table 6.139: Recruitment of Shari'a scholars/experts of IBF in Finance Ministry**

<b>Finance ministry ever felt the need to recruit Shari'a scholars: to support long run R&amp;D</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	11	28.95	28.95
<b>Agreed</b>	7	18.42	47.37
<b>Uncertain</b>	11	28.95	76.32
<b>Disagreed</b>	5	13.16	89.47
<b>Strongly disagreed</b>	4	10.53	100
<b>Total</b>	38	100.00	

**6.140: Recruitment of Shari'a scholars/experts of IBF in Finance Ministry**

<b>Finance ministry ever felt the need to recruit Shari'a scholars: To solve the contemporary issues of IBF</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	11	28.95	28.95
<b>Agreed</b>	7	18.42	47.37
<b>Uncertain</b>	10	26.32	73.68
<b>Disagreed</b>	6	15.79	89.47
<b>Strongly disagreed</b>	4	10.53	100
<b>Total</b>	38	100.00	

**Table 6.141: Reasons to institutionalize IBF in Pakistan**

<b>Reasons to institutionalize IBF: Pakistan can be its hub in the region</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	6	21.43	21.43
<b>Agreed</b>	18	64.29	85.71
<b>Uncertain</b>	4	14.29	100
<b>Disagreed</b>	N/A	N/A	N/A
<b>Strongly disagreed</b>	N/A	N/A	N/A
<b>Total</b>	28	100.00	

**Table 6.142: Reasons to institutionalize IBF in Pakistan**

<b>Reasons to institutionalize IBF: A mean of new avenues of I.R among OIC</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	12	44.44	44.44
<b>Agreed</b>	13	48.15	92.59
<b>Uncertain</b>	1	3.7	96.3
<b>Disagreed</b>	N/A	N/A	N/A
<b>Strongly disagreed</b>	1	3.7	100
<b>Total</b>	27	100.00	

**Table 6.143: Reasons to institutionalize IBF in Pakistan**

<b>Reasons to institutionalize IBF: It would control the radical elements</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Strongly agreed</b>	9	33.33	33.33
<b>Agreed</b>	13	48.15	81.48
<b>Uncertain</b>	4	14.81	96.3
<b>Disagreed</b>	N/A	N/A	N/A
<b>Strongly disagreed</b>	1	3.7	100
<b>Total</b>	27	100.00	

**Table 6.144: Effective ways for the promotion of IBF in Pakistan**

<b>Effective ways for IBF: Mass-appeal by Islamic political parties</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	5	13.16	13.16
<b>Very important</b>	16	42.11	55.26
<b>Important</b>	13	34.21	89.47
<b>Less important</b>	2	5.26	94.74
<b>Not important</b>	2	5.26	100
<b>Total</b>	38	100.00	



**Table 6.145: Effective ways for the promotion of IBF in Pakistan**

<b>Effective ways for IBF: Mass-appeal by Religious Scholars</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
<b>Most important</b>	11	28.95	28.95
<b>Very important</b>	16	42.11	71.05
<b>Important</b>	6	15.79	86.84
<b>Less important</b>	4	10.53	97.37
<b>Not important</b>	1	2.63	100
<b>Total</b>	38	100.00	

## Appendix-B

### QUESTIONNAIRE

Department of Politics and I.R

International Islamic University Islamabad

The purpose of this questionnaire is to ask from the Key stakeholders of the Islamic banking and finance (IBF), namely Shareholders (Investors), Depositors/Customers (Corporate & non corporate), General Masses, Shari'a scholars, Islamic political parties, Employees of Islamic banks/Management, State Bank of Pakistan and Ministry of Finance about awareness, motivation, preferences, incentives, adoption, opportunities/ potentials and hurdles in Pakistan.

Dear Respondent,

I am a P.hD researcher at the Department of Politics and International Relations, International Islamic University Islamabad. I am conducting research on "The Political Economy of Islamic Banking and Finance in the Muslim World: A case study of Pakistan". In this regard, I need your valuable comments. I would be highly thankful to you for your cooperation in filling up this questionnaire. I assure you that the information provided by you will only be used for research purposes and your identity will not be disclosed at any stage.

With deep personal regards,

Yours faithfully,

Abdul Qayyum Khan

Cell No. 03465863163

E-mail address: [aqayyum63@gmail.com](mailto:aqayyum63@gmail.com)

#### Survey Objectives:

- 1.To examine the attitude of the key stakeholders towards IBF in Pakistan on indicators such as awareness, motivation, preferences, incentives, adoption, opportunities/ potentials and hurdles.
- 2.To examine the factors associated to and responsible for not converting the IBF into a mass movement.
- 3.To examine determinants of cooperation among the of key stakeholders of IBF in Pakistan.
4. To examine the factors exploiting the potentials of various stakeholders of IBF in Pakistan.

#### Definition of Terms:

**Riba:** Any excess amount or benefit (than principal amount) given by the debtor for debt or kind

**Shari'a:** A set of instructions consists of the Holy Quran, Sunnah, Ijmah and Qiyas for every walk of life.

**Ijtihad:** Consists upon Ijmah and Qiys to innovate banking products according to instructions of Islam.

**Musharka:** A partnership agreement in which all partners contribute capital and work to share profit/loss.

**Mudaraba:** A partnership agreement in which some partners contribute capital and others contribute their competencies to share profit or loss according to an agreed ratio.

**Ijarah:** A lawful consideration as rent for hiring an asset or reward for hiring services

**Salam:** A contract in which bank made advance payment for goods/services to be delivered at future date

**Istisna:** A contract of credit sale that allows future payment for manufacturing goods for future delivery

**Muajjal:** A financing contract in which bank purchase goods to be sold to customer by showing the purchase price and profit margin.

**Abbreviations:**

IBF= Islamic Banking and Finance

SBP= State Bank of Pakistan

OIC= Organization of Islamic countries

SME= Small and medium enterprise

R&D= Research and development

HR= Human resource

**Instructions in filling-out the questionnaire:**

- 1. Please tick your single response in the check box.
- 2. Kindly type necessary information in the lines provided.

Please send the questionnaire duly filled in as attachment to the undersigned at [aqayyum63@gmail.com](mailto:aqayyum63@gmail.com)

**Part-I: Personal Profile & Identification**

<b>A. Personal profile.</b>	This section contains questions about the name, sex, age, occupation, department/ organization, city and education level.
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<b>a1:Name (optional)</b>	
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<b>a2:Sex:</b>	Male	1	Female	2
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<b>a3:Age in years: (Pick up from the following list by ticking the relevant box)</b>				
<b>a31</b>	18-20	1	<b>a35</b>	51-60
<b>a32</b>	21-30	2	<b>a36</b>	61-70
<b>a33</b>	31-40	3	<b>a37</b>	Above 70
<b>a34</b>	41-50	4		

<b>a4:Occupation: (Pick up from the following list by ticking the relevant box)</b>					
a41	Salaried person employed in Govt. organization	1	a411	Lawyer /Legal advisor	11
a42	Salaried person employed in private sector	2	a412	Tourism	12
a43	Business	3	a413	Information technology	13
a44	Owning a large corporation	4	a414	Retired	14
a45	Small business	5	a415	Receives money from abroad/ overseas	15
a46	Agriculture	6	a416	Technician	16
a47	Consultant in Agriculture	7	a417	Daily wage earner	17
a48	Consultant	8	a418	Craftsman	18
a49	Teacher	9	a419	Any other (Please specify) -----	19
a410	Media	10			

<b>a5: City:</b>	<b>a6: Country: Pakistan.</b>
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<b>a7: Province:</b>					
a71	Punjab	1	a72	Sindh	2
a73	Khyber Pakhtoon Khawa	3	a74	Baluchistan	4
			a75	Azad Kashmir	5

<b>a8: What is your highest completed education? (Pick up one /more than one answers from the following list by ticking the relevant boxes)</b>					
a81	Never attended a school	1	a88	M.Phil./M.S (18 years)	8
a82	Primary	2	a89	PhD/Doctorate	9
a83	Middle	3	A810	Professional qualification	10
a84	Matric	4	A811	Dersa Nazami (Religious education)	11
a85	Intermediate (12 years)	5	A812	MBBS (Doctor)	12
a86	Bachelor's degree (14 years)	6	A813	Any other (please specify)-----	13
a87	Post graduate/ Masters (16 years)	7			

## Part-II: General Awareness and Perceptions

This section contains questions about **awareness and the perception of the proposed stakeholders** about **Islamic Banking and finance** in Pakistan and identifies the stakeholder group.

<b>b1: Have you heard of Islamic banking?</b>			
Yes	1	No (Go to c4)	2

<b>b2: How did you get the information on Islamic banking? (Pick up one /more than one answers from the following list by ticking the relevant boxes)</b>					
Radio	1	Family members	4	Neighbor	7
T.V	2	Relatives	5	Mosque	8
Newspaper	3	Friends	6	Internet	9
				Colleagues at work	10
				Any other (Please specify)	11

<b>b3: Have you heard of the following Islamic banking terminologies (Encircle 1-3, one/ more than one answers are possible)?</b>				
Terminology		Never Heard=1	Heard of it and understood=2	Heard of it but did not understand=3
b31	Musharka	1	2	3
b32	Mudarabha	1	2	3
b33	Murabaha	1	2	3
b33	Bai-Salam	1	2	3
b34	Bai-Muajjal	1	2	3



b35	Ijara (leasing)	1	2	3
b36	Qaraz-i-Hasna	1	2	3
b37	Any other (Please specify) -----	1	2	3

<b>b4: Do you consider that giving and taking interest is haram in Islam?</b>				
Yes	1	Uncertain	2	No
				3

<b>b5: Do you consider the interest based products offered by conventional banks as:</b>				
Haram	1	Uncertain	2	Halal
				3

**b6: What hurdles Islamic banking faces in Pakistan (Encircle 1-5, one/ more than one answers are possible)?**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>b61</b>	Poor Socio-economic conditions	1	2	3	4	5	<b>b612</b>	People believe that IBF is same as that of conventional banking	1	2	3	4	5
<b>b62</b>	Reliance of the Govt. on International donors and financial institutions to finance the budget needs	1	2	3	4	5	<b>b613</b>	Financial exclusion	1	2	3	4	5
<b>b63</b>	No religious pressure	1	2	3	4	5	<b>b614</b>	Low literacy rate	1	2	3	4	5
<b>b64</b>	No political pressure	1	2	3	4	5	<b>b615</b>	Very low financial literacy	1	2	3	4	5
<b>b65</b>	No social pressure	1	2	3	4	5	<b>b616</b>	Formalizing the informal sector	1	2	3	4	5
<b>b66</b>	Complicated judicial system	1	2	3	4	5	<b>b617</b>	Religious consensus	1	2	3	4	5
<b>b67</b>	Opposition by the policy makers/bureaucracy	1	2	3	4	5	<b>b618</b>	No mass participation of the Investors	1	2	3	4	5
<b>b68</b>	Lack of religious consensus on IBF	1	2	3	4	5	<b>b619</b>	Non-availability of Shari'a compliant government securities	1	2	3	4	5
<b>b69</b>	Lack of political will	1	2	3	4	5	<b>b620</b>	Inadequate legal framework for Islamic banks	1	2	3	4	5
<b>b610</b>	Lack of experts of IBF	1	2	3	4	5	<b>b621</b>	Any other (Please specify) - -----	1	2	3	4	5
<b>b611</b>	Common people do not understand the mechanism of IBF	1	2	3	4	5							

<b>C: Stakeholders Group.</b>		This part simply identifies the stakeholder group.	
<b>c1: You are which of the following stakeholder of Islamic banking and finance in Pakistan? (Pick up the answer from the following list by ticking the relevant box)</b>			
c11	Shareholders (Investors)	Go to part-III (Section-1)	1
c12	Depositors/Customers (Corporate & non corporate)	Go to part-III (Section-2)	2

c13	General Masses	Go to part-III (Section-3)	3
c14	Shari'a Scholars	Go to part-III (Section-4)	4
c15	Members of an Islamic Political party	Go to part-III (Section-5)	5
c16	Employees of an Islamic banks/Management	Go to part-III (Section-6)	6
c17	Officers State Bank of Pakistan (policy Wing and IBF Department)	Go to part-III (Section-7)	7
c18	Officers of the Ministry of Finance (Section for Islamization of the economy)	Go to part-III (Section-8)	8

### Part-III

#### Section 1

This section contains questions about preference, motivation/ incentives, hurdles and needs of the **Shareholders (Investors) (domestic and foreign)** of Islamic banking in Pakistan.

**d1: Which Islamic bank in Pakistan you hold shares in** (Pick up one /more than one answers from the following list by ticking the relevant boxes)?

Meezan Bank Limited	1	Bankislami Pakistan Limited	2	Dubai Islami Bank Pakistan Limited	5
Albaraka Bank Limited	3	Burj Bank Limited	4		

**d2: Since how long have you been the investor (shareholder) of an Islamic bank?** (Pick up the answer from the following list by ticking the relevant box)

Up to one year	1	2-5 years	2	6-10 years	3	Any other (Please specify) -----	4
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**d3: Why did you prefer to invest/ buy the share of an Islamic bank in Pakistan** (Pick up one /more than one answers from the following list by ticking the relevant boxes)?

It is Shari'a compliant	1	Because I believe in the future prospects of Islamic banking in Pakistan	4
Because the members of their Shari'a boards are trust worthy	2	Any other (Please specify) -----	5
Management of the Islamic banking is committed to Islamic banking	3		

**d4: Did any International factor compell you to invest in an Islamic bank in Pakistan** (Encircle 1-5; one/ more than one answers are possible)?

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>d41</b>	Current financial and economic crisis of the world	1	2	3	4	5
<b>d42</b>	Many conventional banks failed in the world while Islamic banking flourished during the current financial and economic crisis	1	2	3	4	5
<b>d43</b>	International media highlighted the current financial and economic crisis and it created the awareness of IBF	1	2	3	4	5
<b>d44</b>	The incident of 9/11	1	2	3	4	5
<b>d45</b>	Many Pakistani and Middle east investors returned to their countries due to post 9/11 measures by the U.S and it increased the demand of IBF and it consequently created awareness among local investors	1	2	3	4	5
<b>d46</b>	Any other (Please specify) -----	1	2	3	4	5



**d5: Which authorities/ sources gave you incentives/motivation to invest in an Islamic bank in Pakistan (Encircle 1-5, one/ more than one answers are possible)?**

**Most Important =1; Very Important=2; Important=3; Less Important=4; Not Important=5**

**The State Bank of Pakistan offered you incentives:**

<b>d51</b>	The SBP has increased the maximum holding limit of Islamic bonds for banks by 10 % to attract the investors	1	2	3	4	5
<b>d52</b>	SBP has allowed dual banking which would convert the IBF industry to become truly competitive	1	2	3	4	5
<b>d53</b>	The SBP has set a target of Rs.54.95 billion by issuance of Islamic bonds	1	2	3	4	5
<b>d54</b>	Any other (Please specify) -----	1	2	3	4	5

**The Govt. Authorities (Excise and Taxation Deptt. And Ministry of Finance) offered you incentives:**

<b>d55</b>	By tax exemptions	1	2	3	4	5
<b>d56</b>	By subsidy	1	2	3	4	5
<b>d57</b>	Banking Companies Ordinance, 1962 (BCO) has been amended to suit IBF	1	2	3	4	5
<b>d58</b>	Pakistan's Islamic banking Sukuk got international acceptance	1	2	3	4	5
<b>d59</b>	Any other (Please specify) -----	1	2	3	4	5

**The Shari'a scholars motivated you through:**

<b>d510</b>	Jumma speeches	1	2	3	4	5
<b>d511</b>	Daily lectures of Quran and Hadits	1	2	3	4	5
<b>d512</b>	Ramadan speeches/lectures	1	2	3	4	5
<b>d513</b>	Eid speeches	1	2	3	4	5
<b>d514</b>	Through literature	1	2	3	4	5
<b>d515</b>	Any other (Please specify) -----	1	2	3	4	5

**The Management/ employees of Islamic bank offered you motivation:**

<b>d516</b>	By the moral attitude of the employees of IBF	1	2	3	4	5
<b>d517</b>	By offering substitute of conventional banking in the form of IBF	1	2	3	4	5
<b>d518</b>	By providing diversified Shari'a compliant Investment opportunities	1	2	3	4	5
<b>d519</b>	Any other (Please specify) -----	1	2	3	4	5

**The International Islamic Financial institutions/ organizations offered you incentives/motivation:**

<b>d520</b>	By increasing the awareness/ importance and need of IBF among the OIC countries through seminars and conferences	1	2	3	4	5
<b>d521</b>	By infrastructure development(i.e. universities, research centers and financial boards)	1	2	3	4	5
<b>d522</b>	By imparting education and training	1	2	3	4	5
<b>d523</b>	By offering scholarship schemes for IBF to the student of OIC countries	1	2	3	4	5
<b>d524</b>	Any other (Please specify) -----	1	2	3	4	5

**d6: Which of the following are important factors considered by investors (domestic/ Foreign) to invest in an Islamic bank in Pakistan(Encircle 1-5, one/ more than one answers are possible)?**

**Most Important =1; Very Important=2; Important=3; Less Important =4; Not Important=5**

<b>d61</b>	Peace and security	1	2	3	4	5
<b>d62</b>	Political stability	1	2	3	4	5
<b>d63</b>	Support of the authorities	1	2	3	4	5
<b>d64</b>	Religious endorsement	1	2	3	4	5
<b>d65</b>	Mass participation	1	2	3	4	5
<b>d66</b>	High returns on investment	1	2	3	4	5
<b>d67</b>	Consistency in Govt. policies	1	2	3	4	5
<b>d68</b>	Any other (Please specify) -----	1	2	3	4	5

**d7: What are the hurdles faced by the Investors (Encircle 1-5, one/ more than one answer are possible)?**

**Strongly Agreed=1; Agreed=2 ; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>Complicated judicial system:</b>						<b>Opposition of the bureaucracy:</b>							
<b>d71</b>	Prolonged hearing by courts	1	2	3	4	5	<b>d75</b>	By making non supportive policies to IBF	1	2	3	4	5
<b>d72</b>	Challenging the lower courts decisions at higher courts	1	2	3	4	5	<b>d76</b>	By not allocating budget for infrastructure development needed for the promotion of IBF in the country	1	2	3	4	5
<b>d73</b>	High cost of litigation	1	2	3	4	5	<b>d77</b>	By delaying the creation of institutions needed for the promotion of IBF	1	2	3	4	5
<b>d74</b>	Any other (Please specify)---	1	2	3	4	5	<b>d78</b>	Any other (Please specify) -----	1	2	3	4	5
<b>Inadequate financial infrastructures are:</b>						<b>The Muslim investors have doubts about Islamic Banks:</b>							
<b>d79</b>	No domestic financial service boards	1	2	3	4	5	<b>d715</b>	Islamic banks do not display their financing to their investors	1	2	3	4	5
<b>d710</b>	Lack of research centers	1	2	3	4	5	<b>d716</b>	Profit ratios of Islamic banks are almost same as that of conventional banks	1	2	3	4	5
<b>d711</b>	No consultancy firms	1	2	3	4	5	<b>d717</b>	Islamic banks do not finance the poor and deprived masses	1	2	3	4	5
<b>d712</b>	No secondary markets	1	2	3	4	5	<b>d718</b>	Any other (Please specify) -----	1	2	3	4	5
<b>d713</b>	Inadequate education/research institutions	1	2	3	4	5							
<b>d714</b>	Any other (Please specify) ---	1	2	3	4	5							



## Section 2

This section contains questions about preference, motivation/ incentives, perceptions, hurdles and needs of the **Depositors/ Customers (Corporate & non corporate)** of Islamic Banking in Pakistan.

**e1: You are the customer of which Islamic bank in Pakistan?** (Pick up the answer from the following list by ticking the relevant box)

Meezan Bank Limited	1	Bankislami Pakistan Limited	2	Dubai Islami Bank Pakistan Limited	5
Albaraka Bank Limited	3	Burj Bank Limited	4	Any other Islamic branch of a conventional bank (Please specify) -----	

**e2: Why did you prefer to buy the products of an Islamic bank in Pakistan** (Pick up one /more than one answers from the following list by ticking the relevant boxes)?

It is Shari'a compliant	1	Because I believe in the future prospects of IBF in Pakistan	4
Because the members of their Shari'a boards are trust worthy	2	Any other (Please specify) -----	5
Management of the Islamic banking is committed to Islamic banking	3		

**e3: Since how long have you been the customer of an Islamic bank?** (Pick up the answer from the following list by ticking the relevant box)

Up to one year	1	2-5 years	2	6-10 years	3	Any other (Please specify) -----	4
----------------	---	-----------	---	------------	---	----------------------------------	---

**e4: Which of the following consumer financing and corporate financing products offered by an Islamic bank are you currently using** (Encircle 1or 2, one/ more than one answers are possible)?

Yes=1 No=2

<b>e41</b>	House financing	1	2	<b>e48</b>	Agricultural input financing	1	2
<b>e42</b>	Motor vehicle financing	1	2	<b>e49</b>	Industrial input financing	1	2
<b>e43</b>	Machine/ Tools financing	1	2	<b>e410</b>	Trade financing	1	2
<b>e44</b>	Personal financing	1	2	<b>e411</b>	Letter of credits	1	2
<b>e45</b>	Education financing	1	2	<b>e412</b>	Islamic bills	1	2
<b>e46</b>	Health finance	1	2	<b>e413</b>	Islamic bonds	1	2
<b>e47</b>	Hajj/Umera financing	1	2	<b>e414</b>	Any other (Please specify) -----	1	2

**e5: Why did you prefer to buy the products of an Islamic bank** (Encircle 1-5, one/ more than one answers are possible)?

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>e51</b>	Islamic banking products/services provides religious peace and satisfaction to me	1	2	3	4	5
<b>e52</b>	Islamic banking products/services are non interest based	1	2	3	4	5
<b>e53</b>	Islamic banking products/services provide solutions to my most/all/ almost personal corporate/business needs	1	2	3	4	5
<b>e54</b>	Overall Islamic banks provide batter services than conventional banks	1	2	3	4	5
<b>e55</b>	Islamic banks are more popular than the conventional banks	1	2	3	4	5
<b>e56</b>	I believe to participate in PLS principle which is adopted by the Islamic banks	1	2	3	4	5
<b>e57</b>	The cost/price/profits of Islamic banking products/services are more beneficial than the conventional one i.e. deposits get more profits and Investment/financing is cheaper	1	2	3	4	5
<b>e58</b>	I have consulted the independent/neutral Shari'a scholars and Shari'a experts and convinced that Islamic banks are providing Shari'a based services	1	2	3	4	5

e59	Easy approached location of Shari'a branch	1	2	3	4	5
e510	Confidentially	1	2	3	4	5
e511	Long working hours of banking	1	2	3	4	5
e512	Comfortable atmosphere inside the Shari'a branch	1	2	3	4	5
e513	Overall, I like the atmosphere of the bank i.e. Employees of the bank are helpful	1	2	3	4	5
e514	Buying the products	1	2	3	4	5
e515	I am so much satisfied by the services of my bank that I feel pleasure to propose the Islamic bank for others	1	2	3	4	5
e516	Any other (Please specify) -----	1	2	3	4	5

The Shari'a scholars motivated you through:							The members of the society who motivated you are:						
e61	Jumma speeches	1	2	3	4	5	e67	Relatives	1	2	3	4	5
e62	Daily lectures of Quran and Hadiths	1	2	3	4	5	e68	Brothers and sisters	1	2	3	4	5
e63	Ramadan speeches/lectures	1	2	3	4	5	e69	Friends	1	2	3	4	5
e64	Eid speeches	1	2	3	4	5	e610	Neighbors	1	2	3	4	5
e65	Through literature	1	2	3	4	5	e611	Colleague at work	1	2	3	4	5
e66	Any other (Please specify) -----	1	2	3	4	5	e612	Any other (Please specify) -----	1	2	3	4	5
The employees of Islamic bank motivated you through:							The media sources are:						
e613	Personal contacts	1	2	3	4	5	e621	Radio	1	2	3	4	5
e614	Awareness seminars	1	2	3	4	5	e622	T.V	1	2	3	4	5
e615	Public campaign	1	2	3	4	5	e623	Newspapers	1	2	3	4	5
e616	Posters and banners	1	2	3	4	5	e624	Magazines and journals	1	2	3	4	5
e617	Advertisement in T.V	1	2	3	4	5	e625	Pamphlet /banner	1	2	3	4	5
e618	Advertisement in Radio	1	2	3	4	5	e626	Internet	1	2	3	4	5
e619	Advertisement in newspapers	1	2	3	4	5	e627	Mobile	1	2	3	4	5
e620	Any other (Please specify) -----	1	2	3	4	5	e628	Any other (Please specify) -----	1	2	3	4	5
The Government policy/ scheme which motivated you is:													
e629	Dual banking by the Govt. of Pakistan	1	2	3	4	5	e632	Sukuk policy by the Govt.	1	2	3	4	5
e630	Zakat collection and distribution	1	2	3	4	5	e633	Any other (Please specify) -----	1	2	3	4	5
e631	Mudaraba companies	1	2	3	4	5							

**e6: Which sources motivated/ inspired you to buy the product of Islamic banks? (Encircle 1-5, one/ more than one answer are possible)?**

**Most Important =1; Very Important=2; Important=3; Less Important=4; Not Important=5**

**e7: What are the hurdles faced by the customers in dealing with an Islamic bank (Encircle 1-5, one/ more than one answers are possible)?**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

e71	High collaterals	1	2	3	4	5	e74	Lengthy procedure of approval	1	2	3	4	5
e72	No products for poor people	1	2	3	4	5	e75	Any other (Please specify) -----	1	2	3	4	5
e73	Rural masses are excluded	1	2	3	4	5							

### Section 3

This section contains questions about personal profile (banked/Non banked), awareness, motivation, perceptions and needs of **General masses to IBF** in Pakistan.

**f1: Do you at present hold a bank account or have previously done so?**

Yes	1	No (Go to f4)	2
-----	---	---------------	---

**f2: Which of the following accounts (one/ more than one answers are possible)?**

Current account	1	Value account	7
Saving account	2	Super Value account	8
PLS account	3	PLS Term Deposit	9
Fixed account	4	Company account	10
Children saving account	5	Any other (Please specify) -----	11
Joint account	6		

**f3: Do you hold an account with: (one/ more than one answers are possible)?**

Conventional Bank(please go to f5)	1	Both conventional and Islamic banks(please go to f5)	5
Islamic bank(please go to f6)	2	Micro Finance bank(please go to f5)	6
Agricultural bank(please go to f5)	3	Industrial bank(please go to f5)	7
Foreign Bank(please go to f5)	4	Any other (Please specify) -----	8

**f4: Why have you not used the services offered by a bank (one/ more than one answers are possible)?**

Religious reasons (Go to f5)	1	No banking services in your area	3
No savings	2	Any other(Please specify) -----	4

**f5: If the banking services are offered to you in a Shari'a compliant way would you be willing to use the services of such a bank?**

Yes	1	No (Go to f6)	2
-----	---	---------------	---

**f6: Do you save your money/wealth by informal ways such as: (One/ more than one answers are possible)?**

Informal means (saving with shopkeepers, relatives, friends, at home, and by pooling committees)	1	Any other (Please specify) -----	4
Buying assets (Real state, Gold/silver and precious metals)	2	Not at all	5
Trade and commerce	3		

**f7: Have you ever got motivation about Islamic banking in Pakistan from any sources like? (Encircle 1-5, one/ more than one answer are possible)?**

The Shari'a scholars who motivated you by:											The members of the society who motivated you are:										
f71	Jumma speeches	1	2	3	4	5	f77	Relatives	1	2	3	4	5								
f72	Daily lectures of Quran and Hadiths	1	2	3	4	5	f78	Brothers and sisters	1	2	3	4	5								
f73	Ramadan speeches/lectures	1	2	3	4	5	f79	Friends	1	2	3	4	5								
f74	Eid speeches	1	2	3	4	5	f710	Neighbors	1	2	3	4	5								
f75	Through literature	1	2	3	4	5	f711	Colleague at work	1	2	3	4	5								
f76	Any other (Please specify) -----	1	2	3	4	5	f712	Any other (Please specify) ----	1	2	3	4	5								



The employees of an Islamic bank who motivated you by:							The media sources which motivated you are:						
f713	Personal contacts	1	2	3	4	5	f721	Radio	1	2	3	4	5
f714	Awareness seminars	1	2	3	4	5	f722	T.V	1	2	3	4	5
f715	Public campaign	1	2	3	4	5	f723	Newspapers	1	2	3	4	5
f716	Distributing pamphlets and booklets	1	2	3	4	5	f724	Magazines and journals	1	2	3	4	5
f717	Advertisement in T.V	1	2	3	4	5	f725	Pamphlet /banner	1	2	3	4	5
f718	Advertisement in Radio	1	2	3	4	5	f726	Internet	1	2	3	4	5
f719	Advertisement in newspapers	1	2	3	4	5	f727	Mobile	1	2	3	4	5
f720	Any other (Please specify) -----	1	2	3	4	5	f728	Any other (Please specify) --- ----	1	2	3	4	5

**The Islamic political party which motivated you by:**

f729	Inviting you to participate in a rally on IBF	1	2	3	4	5	f731	Distributing literature of IBF	1	2	3	4	5
f730	Inviting you to participate in agitation against interest based system	1	2	3	4	5	f732	Any other (Please specify) -----	1	2	3	4	5

**Most Important=1; Verv Important=2; Important=3; Less Important=4; Not Important=5**

**f8: Which of the following Shari'a compliant financing would you need from an Islamic bank (Encircle 1-5, one/ more than one answers are possible)?**

**Most Important=1; Verv Important=2; Important=3; Less Important=4; Not Important=5**

f81	Micro tools/machines (e.g. Fridge, Generator, laptop etc.)	1	2	3	4	5	f86	Trade financing	1	2	3	4	5
f82	Agricultural inputs (fertilizer, seeds and pesticides etc.)	1	2	3	4	5	f87	Small and Medium Enterprise financing	1	2	3	4	5
f83	Financing for education/training	1	2	3	4	5	f88	House financing	1	2	3	4	5
f84	Financing for education of children	1	2	3	4	5	f89	Micro financing	1	2	3	4	5
f85	Hajj and Umra financing	1	2	3	4	5	f810	Any other (Please specify) -----	1	2	3	4	5

**f9:How did you become the depositor/client of an Islamic bank (Encircle 1-5, One/ more than one answers are possible)?**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

f91	An Islamic banking branch in my locality provided an opportunity for its introduction	1	2	3	4	5
f92	Because of recent financial crisis, many conventional banks failed in the West while Islamic banking flourished and this is how awareness about IBF increased	1	2	3	4	5
f93	Islamic banking got endorsement by the Shari'a scholars of my locality	1	2	3	4	5
f94	Islamic banks offer more financing tools and products to its customers as compare to the conventional banks	1	2	3	4	5
f95	Islamic banking is a means to represent the Islamic values and Identity	1	2	3	4	5
f96	The advertisements by the Islamic banks in newspapers	1	2	3	4	5
f97	BBC and CNN coverage on the current financial and economic crisis created the importance/awareness of Islamic banking	1	2	3	4	5
f98	Islam is a complete code of life and Islamic banking fulfills my economic needs in a Shari'a compliant way	1	2	3	4	5
f99	I am an employee of the Govt. / private organization and the condition for the withdrawal of salary by the employer made me the client of an Islamic bank	1	2	3	4	5
f910	I am a business man and an Islamic bank fulfills my all commercial needs such as transfer of funds, short and long term loans	1	2	3	4	5
f911	A country-wide net-work of the branches of Islamic banks which can provide all kind of banking	1	2	3	4	5

	services								
f912	I am involved in import-export business which is financed by an Islamic bank	1	2	3	4	5			
f913	Any other (Please specify) -----	1	2	3	4	5			
f101	My income is limited, I hardly meet my expenditures and hence no saving	1	2	3	4	5			
f102	Islamic banking is a disputed issue in which some of the Shari'a scholars are favoring while others are opposing	1	2	3	4	5			
f103	Islamic banking has yet not started any attractive projects/schemes(e.g. Qarzi hasna, any machine/tool) for poor and deprived masses	1	2	3	4	5			
f104	I borrow from my friends, relatives, neighbors and colleges and no need of any loans from an Islamic bank	1	2	3	4	5			
f105	I prefer to save by informal ways e.g. through pooling committees, buying assets and buying gold and silver	1	2	3	4	5			
f106	I reside in a village and no branch of an Islamic bank is yet established in our area	1	2	3	4	5			
f107	Mostly the people in our locality are not educated and moreover basic facilities like electricity, road, school, basic health unit, bank branch does not exist	1	2	3	4	5			
f108	Interest free banking mechanism of Islamic banks is not clear to me. How the deposits of Islamic banks are used for financing and investment purposes. If this is understood by the common man then majority will adopt an Islamic bank	1	2	3	4	5			
f109	The people of our area consult the Shari'a scholars on the issues like Islamic banking and their endorsement would lead us to adopt it	1	2	3	4	5			
f1010	The representative of an insurance company motivate and connivance the people in our locality to adopt different schemes and hence a lot of people have adopted their schemes while no such motivation by an Islamic bank/Takaful company	1	2	3	4	5			
f1011	Any other (Please specify) -----	1	2	3	4	5			

**f10: Why did you not adopt Islamic banking? (Encircle 1-5, one/ more than one answer are possible)?**  
**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

#### Section 4

This section contains questions about validity, motivation and opportunities of the Islamic banking to the Shari'a scholars in Pakistan.

**g1: Did you ever hear about Islamic Banking and Finance?**  
Yes 1 No (Go to g6) 2

**g2: To what an extent you are satisfied with Islamic banking?**  
**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

g21	Only in theory	1	2	3	4	5	g23	Both theory and practice by Islamic banks	1	2	3	4	5
g22	Its practice by Islamic banks	1	2	3	4	5	g24	Not satisfied	1	2	3	4	5

**g3: The reasons for institutionalizing IBF are (Encircle 1-5; one/ more than one answers are possible):**

g31	Islamic banking is based on Shari'a (Quran, Sunnah, Ijmah and Qias)	1	2	3	4	5					
g32	Islamic banking follows the Islamic law of business & commercial transactions	1	2	3	4	5					
g33	It can be started on the basis of Ijtihad	1	2	3	4	5					
g34	Islamic banking is Mubah (permissible for the greater benefit of Muslims)	1	2	3	4	5					
g35	Any other (Please specify) -----	1	2	3	4	5					

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g4</b>	<b>Islamic banking is a mean to protect/ grow the wealth of Muslims by (Encircle 1-5, one/ more than one answers are possible):</b>
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**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g41</b>	Investing in Halal (Permissible) modes like Musharaka, Mudaraba etc.	1	2	3	4	5
<b>g42</b>	Protecting wealth from any theft and waste (an objectives of Shari'a)	1	2	3	4	5
<b>g43</b>	Avoiding any Haram (unlawful) transactions	1	2	3	4	5
<b>g44</b>	Presenting a substitute of the conventional Banking	1	2	3	4	5
<b>g45</b>	Canalizing the savings of informal sector	1	2	3	4	5
<b>g46</b>	Any other (Please specify) -----	1	2	3	4	5

<b>g5: Islamic banking and finance is suffered with the shortcomings like (Encircle 1-5, one/ more than one answers are possible):</b>
--

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g51</b>	It is not Shari'a compliant	1	2	3	4	5	<b>g54</b>	Its practices are conflicting with the theory	1	2	3	4	5
<b>g52</b>	It is same as conventional banking	1	2	3	4	5	<b>g55</b>	It does not address social issues (Poverty, illiteracy, Unemployment etc.)	1	2	3	4	5
<b>g53</b>	It has no religious consensus	1	2	3	4	5	<b>g56</b>	Any other (Please specify) -----	1	2	3	4	5

<b>g6: The possible substitute and alternative of Islamic banking could be (Encircle 1-5, one/ more than one answers are possible):</b>
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**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g61</b>	Informal savings	1	2	3	4	5	<b>g64</b>	Converting wealth into gold, silver and precious metals	1	2	3	4	5
<b>g62</b>	Trade and commerce	1	2	3	4	5	<b>g65</b>	Any other (Please specify) -----	1	2	3	4	5
<b>g63</b>	Converting wealth into real state	1	2	3	4	5							

<b>g7: Do you preach and motivate your followers about Islamic hanking through (Encircle 1-5, one/ more than one answers are possible):</b>
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**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g71</b>	Daily lectures	1	2	3	4	5	<b>g75</b>	Holding rallies/ agitations Against interest based System	1	2	3	4	5
<b>g72</b>	Jumma sermons	1	2	3	4	5	<b>g76</b>	Awareness campaign among masses/followers	1	2	3	4	5
<b>g73</b>	Sermons of Eids	1	2	3	4	5	<b>g77</b>	Publishing literature regarding Islamic banking	1	2	3	4	5
<b>g74</b>	Ramzan lectures	1	2	3	4	5	<b>g78</b>	Any other (Please specify) -----	1	2	3	4	5

<b>g8: Are you the member of any Islamic Scholars and religious association/ Organization/ Islamic political party?</b>
---

Yes	1	No (Go to g10)	2
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**g9: Your association/ Islamic political party ever took steps for promotion of IBF in Pakistan like: (Encircle 1-5, one/ more than one answers are possible)**  
**Most Important =1; Very Important=2; Important=3; Less Important =4; Not Important=5**

Judicial initiatives include:						Publication of literature includes:							
<b>g91</b>	Adjudication	1	2	3	4	5	<b>g96</b>	Publication of books	1	2	3	4	5
<b>g92</b>	Establishing councils for taking care of legal issues regarding IBF	1	2	3	4	5	<b>g97</b>	Publication of Journals	1	2	3	4	5
<b>g93</b>	Lawyers activism for IBF	1	2	3	4	5	<b>g98</b>	Publication of articles in journals	1	2	3	4	5
<b>g94</b>	Raising funds for legal expenditures	1	2	3	4	5	<b>g99</b>	Publication of brochures, booklets and pamphlets	1	2	3	4	5
<b>g95</b>	Any other (Please specify) ----	1	2	3	4	5	<b>g910</b>	Any other (Please specify) -----	1	2	3	4	5
Media coverage includes:						Establishing institutions for the Islamisation of the economy/ IBF are:							
<b>g911</b>	T.V program on IBF	1	2	3	4	5	<b>g915</b>	Educational institutions	1	2	3	4	5
<b>g912</b>	Radio program on IBF	1	2	3	4	5	<b>g916</b>	Research institutions	1	2	3	4	5
<b>g913</b>	Internet coverage /Website developments for IBF	1	2	3	4	5	<b>g917</b>	Publication institutions	1	2	3	4	5
<b>g914</b>	Any other (Please specify) -----	1	2	3	4	5	<b>g918</b>	Any other (Please specify) -----	1	2	3	4	5

**g10: Do you think that the role of Shari'a scholars is imperative for IBF in Pakistan?**  
Yes 1 No (Go to g12) 2

**g11: The Shari'a scholars' role is imperative due to the reasons (Encircle 1-5, one/ more than one answers are possible):**  
**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g111</b>	All the segments of the society respect them	1	2	3	4	5
<b>g112</b>	All the society in Pakistan is interacted/attached (five time prayers, Jumma, Ramadan, Eids, deaths, births and wedding) with them	1	2	3	4	5
<b>g113</b>	An appeal by Shari'a scholars can convert the Islamic banking in to a mass movement	1	2	3	4	5
<b>g114</b>	Pakistan was created on the basis of Islamic ideology and the Shari'a scholar's role cannot be ignored	1	2	3	4	5
<b>g115</b>	Any other (Please specify) -----	1	2	3	4	5

**g12: The Shari'a scholars have been ignored/ marginalized in the IBF in Pakistan, responsible are: (Encircle 1-5, one/ more than one answers are possible)**  
**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g121</b>	Successive regimes	1	2	3	4	5	<b>g124</b>	Shari'a scholars are lacking in modern education	1	2	3	4	5
<b>g122</b>	Burcaucracy and policy makers	1	2	3	4	5	<b>g125</b>	Lack of trust on the religious scholars by masses	1	2	3	4	5
<b>g123</b>	Shari'a scholars' themselves	1	2	3	4	5	<b>g126</b>	Any other (Please specify) -----	1	2	3	4	5

**g13: Islamic banking has brought the following opportunities to the Shari'a scholars: (Encircle 1 5, one/ more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g131</b>	Employment opportunities to the Shari'a scholars within the country and abroad	1	2	3	4	5
<b>g132</b>	Advisory services opportunities in related industries of IBF within and outside the country	1	2	3	4	5
<b>g133</b>	Inter and intra -national education and training opportunities	1	2	3	4	5
<b>g134</b>	Engagement of the Shari'a scholars in Islamic banking would strengthen nation building	1	2	3	4	5
<b>g135</b>	Any other (Please specify) -----	1	2	3	4	5

**g14: Islamic banking has provided a platform to unite the scattered religious strength of Islamic scholars into a political force: (Encircle 1-5, one/ more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g141</b>	By making alliances of the Shari'a scholars	1	2	3	4	5	<b>g143</b>	By opening dialogue among different sects of Scholars	1	2	3	4	5
<b>g142</b>	By educating the Shari'a scholars with the modern Islamic banking	1	2	3	4	5	<b>g144</b>	Any other (Please specify) -----	1	2	3	4	5

**g15: The religious strength can be converted into a political strength: (Encircle 1-5, one/ more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>g151</b>	By making political alliances	1	2	3	4	5	<b>g154</b>	By conducting education/research of Islamic banking and finance	1	2	3	4	5
<b>g152</b>	By involving the radical elements in to nation building	1	2	3	4	5	<b>g155</b>	By constituting dialogue with other nations	1	2	3	4	5
<b>g153</b>	By opening new avenues of cooperation among the Muslim world	1	2	3	4	5	<b>g156</b>	Any other (Please specify) -----	1	2	3	4	5

**g16: Do you know that some of the religious madrassas have started teaching /conducting research in Islamic banking and Finance (Encircle 1or 2; one/ more than one answers are possible)?**

**Yes=1 NO=2**

<b>g161</b>	Jamiah Dar-ul-ulum korangi Karachi	1	2	<b>g163</b>	Jamiah Imdadia Faisalabad	1	2
<b>g162</b>	Jamiah Al-Rashid Karachi Ahsan Abad	1	2	<b>g164</b>	Any other (please specify) ----	1	2

**g17: Are you aware of the critique of Islamic banking and Finance by Jamiah -Al- Ulum -Al-Islimia Binauri Town?**

Yes	1	Uncertain	2	No	3
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**g18: Do you agree with this critique?**

Yes	1	Uncertain	2	No	3
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**g19: Do you think that a consensus among the Shari'a scholars is possible on Islamic banking?**

Yes	1	No	2
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**g20: If yes, how it could be done: (Pick up the reasons from the following list by ticking the relevant box)**

By organizing conferences among different sects	1	By developing boards/councils of Shari'a scholars at district level	3
By institutionalizing dialogue among different sects	2	Any other (please specify) -----	4



## Section 5

This section contains questions about the steps taken, motivation and opportunities to the **Members of Islamic political parties** in Pakistan.

Resolutions regarding IBF were floated in National/provincial assemblies:										Publication of literature includes:									
h31	During 1970's in National / Provincial Assembly	1	2	3	4	5	h36	Books	1	2	3	4	5						
h32	During 1980's in National / Provincial Assembly	1	2	3	4	5	h37	Journals	1	2	3	4	5						
h33	During 1990's in National / Provincial Assembly	1	2	3	4	5	h38	Articles & Newspapers	1	2	3	4	5						
h34	During 2000's in National / Provincial Assembly	1	2	3	4	5	h39	Broachers, booklets & pamphlets	1	2	3	4	5						
h35	Any other (Please specify) -----	1	2	3	4	5	h310	Internet coverage	1	2	3	4	5						
<b>Media coverage includes:</b>										<b>Establishing institutions for the Islamisation of the economy/ IBF are:</b>									
h311	Print- media programmes for IBF	1	2	3	4	5	h317	Educational institutions	1	2	3	4	5						
h312	Electronic- media programmes for IBF	1	2	3	4	5	h318	Research institutions	1	2	3	4	5						
h313	T.V programmes on IBF	1	2	3	4	5	h319	Publication institutions	1	2	3	4	5						
h314	Radio programmes on IBF	1	2	3	4	5	h320	Consultancy firms	1	2	3	4	5						
h315	Website developments for IBF	1	2	3	4	5	h321	Any other (Please specify) -----	1	2	3	4	5						
h316	Any other (Please specify) -----	1	2	3	4	5													
<b>Election manifesto was during the elections of:</b>										<b>Your Islamic political party took legal measures/ fought for Islamic banking in the courts:</b>									
h322	1971 elections	1	2	3	4	5	h328	Yes	1	2	3	4	5						
h323	1977 elections	1	2	3	4	5	h329	Uncertain	1	2	3	4	5						
h324	1985 elections	1	2	3	4	5	h330	No	1	2	3	4	5						
h325	1989 election	1	2	3	4	5													
h326	1991 election	1	2	3	4	5													
h327	Any other (Please specify) -----	1	2	3	4	5													
<b>h1: You are the member of which of the following Islamic political party? (Pick up from the following list by ticking the relevant box)</b>																			
Jamiat-e- Islami		1		Pakistan Awami Tharaik		6													
JUI (F)		2		Taharik-i- Nafaz-e- Shariat		7													
JUI (S)		3		Taharik-i- Ahla Sunat		8													
JU Pakistan		4		Any other (Please specify) -----		9													
Jamait Ahilahadis		5																	

**h2: Whether the Islamisation of the economy and promotion of IBF is the political agenda of your Islamic political party?**

Yes	1	No	2	Uncertain	3
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**h3: Your Islamic political party took steps for Islamization of the Economy in Pakistan are: (Encircle 1-5, more than one answers are possible)**

**Most Important =1; Very Important=2; Important=3; Less Important=4; Not Important=5**

**h4: The Islamic banking can be a platform to make an alliance of the Islamic political parties like: (Encircle 1-5; more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>h41</b>	Movement against Qadyanis in 1974	1	2	3	4	5	<b>h44</b>	Milli Yakjahti Council in late 1990's	1	2	3	4	5
<b>h42</b>	Pakistan National Alliance (PNA) in 1977	1	2	3	4	5	<b>h45</b>	Any other (Please specify) ---- ---	1	2	3	4	5
<b>h43</b>	Muttahida Majlis-i-Amal (MMA) in 1990's	1	2	3	4	5							

**h5: The need and importance of Islamic banking for an Islamic political party is due to the reasons: (Encircle 1-5, more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>h51</b>	Islamic political party can win more assembly seats by making IBF an election manifesto	1	2	3	4	5	<b>h54</b>	IBF can unite the scattered religious strength into a political strength	1	2	3	4	5
<b>h52</b>	IBF as a political agenda can increase the popularity of an Islamic political party	1	2	3	4	5	<b>h55</b>	Any other (Please specify) -----	1	2	3	4	5
<b>h53</b>	IBF a mean to counter the radical elements	1	2	3	4	5							

## Section 6

This section contains questions about education/ training, motivation, incentives, specified products, objectives and hurdles to the **Employees of an Islamic bank/Management in Pakistan.**

**i1: Which Islamic bank do you work for? (Pick up the answer from the following list by ticking the relevant box)**

Meezan bank Limited	1	Bankislami Pakistan Limited	2	Dubai Islami Bank Pakistan Limited	5
Albaraka Bank Limited	3	Burj Bank Limited	4		

**i12: Which Islamic banking branch of the conventional bank do you work for? (Pick up the answer from the following list by ticking the relevant box)**

Allied Bank Limited	1	Askri Bank Limited	2	United Bank Limited	5
Habib Bank Limited	3	Standard Charted Bank Limited	4	Any other (Please specify) -----	6

**i2: Does your Islamic hank sponsor any training of Islamic Banking for its employees? (Pick up the answer from the following list by ticking the relevant box)**

Three months certificate course	1	Short run training	5
One year diploma course	2	Long run training	6
Degree courses (undergraduate and graduate levels)	3	Virtual /on line training	7
On job training	4	Any other (Please specify) -----	8

<b>i3: Does your Islamic bank arrange training of Islamic banking and Finance for its employees with the collaboration of institutions? (Encircle 1-5; more than one answers are possible)</b>			
State Bank of Pakistan/ NIBAF	1	International financial institutions	4
Int. Islamic university Islamabad	2	Any other (Please specify) -----	5
Dar-al -Ulum Karachi	3		

<b>i4: Has your Islamic bank established any department like: (Encircle 1-4, more than one answers are possible)</b>			
Education and Training	1	International banking department	3
Research and development	2	Any other (Please specify) -----	4

<b>i5: Do you have any qualification of Islamic banking prior to join the Islamic bank like? (Encircle 1-5, more than one answer is possible)</b>			
Islamic Banking and Finance degree (B.Sc. M.Sc. M.S Ph.D.)	1	Islamic Banking and Finance internship	4
Islamic Banking and Finance diploma	2	Any other (Please specify) -----	5
Islamic Banking and Finance certificate	3		

<b>i6: You promote the Islamic banking among the masses through: (Encircle 1-5, more than one answers are possible)</b>			
<b>Most Important =1; Verv Important=2; Important=3; Less Important =4; Not Important=5</b>			

Media (both print and electronic) coverage includes :							Seminars and conferences are held for:						
i61	Advertisements through T.V	1	2	3	4	5	i67	Shari'a scholars	1	2	3	4	5
i62	Advertisements through radio	1	2	3	4	5	i68	Business community	1	2	3	4	5
i63	Advertisements through news papers	1	2	3	4	5	i69	General masses	1	2	3	4	5
i64	Advertisements through Internet	1	2	3	4	5	i610	Industrial community	1	2	3	4	5
i65	Advertisements through posters, banners, brochures and pamphlets	1	2	3	4	5	i611	Leaders of Islamic political parties	1	2	3	4	5
i66	Any other (Please specify) -----	1	2	3	4	5	i612	Any other (Please specify) -----	1	2	3	4	5
Personal contacts cover :													
i613	General masses	1	2	3	4	5	i618	Business firms	1	2	3	4	5
i614	Business community	1	2	3	4	5	i619	Any other (Please specify)	1	2	3	4	5
i615	Rural Population	1	2	3	4	5	i620	Shari'a scholars	1	2	3	4	5
i616	Urban population	1	2	3	4	5	i621	Govt. Officials	1	2	3	4	5
i617	NGO's	1	2	3	4	5							



**i7: The objective of your management is to:** (Pick up the answer from the following list by ticking the relevant box)

**Most Important =1; Very Important=2; Important=3; Less Important =4; Not Important=5**

i71	Maximize the wealth of shareholders	1	2	3	4	5	i74	Welfare of the society/ humanity	1	2	3	4	5
i72	Protect and promote Muslim's wealth	1	2	3	4	5	i75	Shari'a compliant profit and making the people habitual of Shari'a compliant products	1	2	3	4	5
i73	Maximize the Shari'a compliant profit	1	2	3	4	5	i76	Any other (Please specify) - -----	1	2	3	4	5

**i8: You avoid financing any group of the society due to the reasons:** (Pick up the answer from the following list by ticking the relevant box)

**Most Important =1; Very Important=2; Important=3; Less Important =4; Not Important=5**

i81	Poor and deprived people (b/c of recovery problem)	1	2	3	4	5	i83	Any other (Please specify) - -----	1	2	3	4	5
i82	Lawyers, police, media people and political figures (b/c of litigation and manipulation)	1	2	3	4	5							

**i9: You give incentives to your customers and clients like:** (Pick up one/more than one answers from the following list by ticking the relevant boxes)

**Most Important =1; Very Important=2; Important=3; Less Important =4; Not Important=5**

i91	Offering them Shari'a compliant banking	1	2	3	4	5	i94	Diversified corporate and non- corporate financing products	1	2	3	4	5
i92	Offering them products on the basis of different Shari'a tools (Mudarba, Musharaka, diminishing Musarka and Ijara)	1	2	3	4	5	i95	Risk free for a single investor/customer by an Islamic bank by diversifying the investment/ financing	1	2	3	4	5
i93	Diversified investment opportunities	1	2	3	4	5	i96	Any other (Please specify) ---- ---	1	2	3	4	5

**i10: You offer specified products to your customers and clients like: (one/more than one answers are possible)**

House financing	1	Agricultural input financing	8
Motor vehicle financing	2	Industrial input financing	9
Machine/ Tools financing	3	Trade financing	10
Personal financing	4	Letter of credits	11
Education financing	5	Islamic bills	12
Health finance	6	Islamic bonds	13
Hajj/Umera scheme on profit basis	7	Any other (Please specify) -----	14

**i11: What are the hurdles faced by employees in operating the Islamic banking in Pakistan (Encircle 1-5, one/ more than one answers are possible)?**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>i111</b>	Most of the people don't understand the terminology of IBF	1	2	3	4	5
<b>i112</b>	Financial illiteracy	1	2	3	4	5
<b>i113</b>	Majority of the population is involved in informal banking	1	2	3	4	5
<b>i114</b>	Any other (Please specify) -----	1	2	3	4	5
<b>i115</b>	People do not understand the mechanism of IBF	1	2	3	4	5
<b>i116</b>	People are habitual of conventional banking and do not want to switch over to IBF	1	2	3	4	5
<b>i117</b>	People are habitual of free hand loans by conventional banking and do not want to involve in any risk based financing of IBF	1	2	3	4	5
<b>i118</b>	Undocumented transactions due to undocumented economy	1	2	3	4	5

#### Section 7

This section contains questions about motivation, policy shift, incentives given to Islamic banks, education/training measures and hurdles to the **Officers of the State Bank of Pakistan (policy Wing and IBF department)**

**j1: Why the policy shift in 2001 happened? (Encircle 1-5, more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>j11</b>	Lack of political will by the Govt. to fully Islamize the economy of Pakistan	1	2	3	4	5
<b>j12</b>	Motivation by Muslim countries institutions	1	2	3	4	5
<b>j13</b>	European countries are competing for future European Centre of Islamic Finance	1	2	3	4	5
<b>j14</b>	Motivation by the Arab/ Muslim investors	1	2	3	4	5
<b>j15</b>	Motivation by domestic factors (Govt. instruction, religious demand)	1	2	3	4	5
<b>j16</b>	No adequate financial infrastructure by that time	1	2	3	4	5
<b>j17</b>	No social, political and religious pressure	1	2	3	4	5
<b>j18</b>	No international motivation by that time	1	2	3	4	5
<b>j19</b>	Islamic banking was not mature by that time	1	2	3	4	5
<b>j110</b>	Any other (Please specify) -----	1	2	3	4	5

**j2: The policy shift regarding Islamic banking in 2001 by the State Bank of Pakistan/ Govt. of Pakistan was a late decision. What were the reasons? (Encircle 1-5, more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>j21</b>	Lack of political will by the Govt. to fully Islamize the economy of Pakistan	1	2	3	4	5
<b>j22</b>	Success of dual banking system elsewhere in the world	1	2	3	4	5

<b>j23</b>	The role of International/Multilateral financial Institutions (like IDB, World Bank, IMF etc.)	1	2	3	4	5
<b>j24</b>	Failure of the Govt. attempt to Islamize the entire economy of Pakistan	1	2	3	4	5
<b>j25</b>	Opposition of banking and finance industry in Pakistan	1	2	3	4	5
<b>j26</b>	Opposition by bureaucracy and the policy makers	1	2	3	4	5
<b>j27</b>	The new military regime of General (Rtd) Pervez Musharraf	1	2	3	4	5
<b>j28</b>	Any other (Please specify) -----	1	2	3	4	5

**j3: Does the State Bank of Pakistan have incentives for the stakeholders of IBF? (Encircle 1-5, more than one answers are possible)**  
**Most Important =1; Very Important=2; Important=3; Less Important =4; Not Important=5**

The incentives for the investors (domestic and foreign) are							The incentives for the Shari'a scholars are:						
j31	The SBP has increased the maximum holding limit of Islamic bonds for banks by 10 % to attract the investors	1	2	3	4	5	j35	Training	1	2	3	4	5
j32	The SBP has set a target of Rs.54.95 billion by issuance of Islamic bonds	1	2	3	4	5	j36	Job opportunities	1	2	3	4	5
j33	SBP has allowed dual banking which would convert the IBF industry to become truly competitive	1	2	3	4	5	j37	Consultancy services	1	2	3	4	5
j34	Any other (Please specify) -----	1	2	3	4	5	j38	Advisory services	1	2	3	4	5
							j39	Any other (Please specify) -----	1	2	3	4	5
The incentives for the financial institutions (domestic and foreign) are							The incentives for the general masses are:						
j310	By making HBFC Act Shari'a compliant	1	2	3	4	5	j317	A choice between dual banking	1	2	3	4	5
j311	By launching dual banking						j318	Alternative of conventional banking	1	2	3	4	5
j312	By launching Islamic bond policy	1	2	3	4	5	j319	A competition between Islamic banking and conventional one would benefit the masses	1	2	3	4	5
j313	A legal framework to encourage Islamic banking	1	2	3	4	5	j320	Private sector is fully supported to make progress in IBF	1	2	3	4	5
j314	By arranging technical assistance to Islamic banks	1	2	3	4	5	j321	Any other (Please specify) -----	1	2	3	4	5
j315	By launching dual regulatory mechanism (An Islamic bank is subject to regulations of the State bank of Pakistan and its own Shari'a board)	1	2	3	4	5							
j316	Any other (Please specify) -----	1	2	3	4	5							



**4: The institutional hurdles for the State Bank of Pakistan are: (Encircle 1-5, more than one answers are possible)**

**Most Important =1; Very Important=2; Important=3; Less Important=4; Not Important=5**

**The hurdles for the investors (domestic and foreign) are:**

j1	Development of instruments for Shari'a compliant Govt. financial transactions	1	2	3	4	5
j2	Liquidity management by banks	1	2	3	4	5
j3	Monetary management by the State Bank	1	2	3	4	5
j4	Shari'a compliant mutual funds, Modarabas, Sukuk market, Takaful companies, Islamic asset and wealth management companies and Islamic Pension Funds are being regulated by Securities and Exchange Commission of Pakistan (SECP)	1	2	3	4	5
j5	Any other (Please specify) -----	1	2	3	4	5

**5: Does State Bank of Pakistan sponsors any IBF education programme like? (Pick up the answer from the following list by ticking the relevant box)**

Degree courses (undergraduate and graduate levels)	1	Research/ Joint research	3
Ph.D. program	2	Any other (Please specify) -----	4

**5: This sponsorship of Islamic banking education program is for: (Pick up the answer from the following list by ticking the relevant box)**

State Bank of Pakistan employees only	1	General masses	4
Employees of any Islamic bank	2	Any other (Please specify) -----	5
Employees of any financial institution	3		

**7: State Bank of Pakistan organized or sponsored or helped in some way training of bank staff related with Islamic banking are: (Encircle 1-5, more than one answers are possible)**

**Most Important =1; Very Important=2; Important=3; Less Important=4; Not Important=5**

Training to the employees of financial institutions includes:							Training to the staffs of Islamic banking with the co OIC institutions includes:						
j71	Certificate courses	1	2	3	4	5	j75	NIBAF courses with the collaboration of IRTI	1	2	3	4	5
j72	Online training (virtual)	1	2	3	4	5	j76	Joint research with the collaboration of AIOFFE, IDB, IBFS etc.	1	2	3	4	5
j73	Diploma courses with the collaboration of certain universities	1	2	3	4	5	j77	Awareness seminars for the Civil and military bureaucracy with the collaboration of inter. Financial institutions	1	2	3	4	5
j74	Any other (Please specify) -----	1	2	3	4	5	j78	Any other (Please specify) -----	1	2	3	4	5
Awareness seminars were held for:							Conferences were held for:						
j79	Civil and Military officers	1	2	3	4	5	j717	Shari'a scholars	1	2	3	4	5
j710	University students						j718	Investors	1	2	3	4	5
j711	Shari'a scholars	1	2	3	4	5	j719	Industrialists	1	2	3	4	5
j712	General masses	1	2	3	4	5	j720	Landlords (feudal-lords)	1	2	3	4	5
j713	Business community	1	2	3	4	5	j721	Leaders of the Islamic political parties	1	2	3	4	5
j714	Industrial community	1	2	3	4	5	j722	Any other (Please specify) -- -----	1	2	3	4	5
j715	Land lords (Feudal lords)	1	2	3	4	5							
j716	Any other (Please specify) -----												

## Section 8

This section contains questions about steps for promotion of Islamic banking, institutional developments, motivation, opportunities, policy issues, incentives, and hurdles of the Islamic banking to the **Officers of the Ministry of Finance (Section for Islamisation of the economy)** in Pakistan

**k1: Does Ministry of finance have any instruction from the Federal govt. /Cabinet to support /Finance the Islamic banking in Pakistan by way of the following? (Encircle 1 or 2; more than one answers are possible)?**

Yes=1; No=2

Yes=1; No=2

Support to IBF:			Infrastructure institutions developed for the promotion of Islamic banking are:		
<b>K11</b>	Subsidy to Islamic banks	1 2	<b>K18</b>	Development of Shari'a board by Islamic banks	1 2
<b>K12</b>	Tax exemptions to Islamic banks	1 2	<b>K19</b>	Converting HBFC in to a Shari'a compliant institution	1 2
<b>K13</b>	Development of infrastructure institutions (universities, research centers etc.)	1 2	<b>K110</b>	The Commission for Transformation of Financial System (CTFS) was constituted in SBP	1 2
<b>K14</b>	Establishment of links with the Islamic financial institutions of the Muslim world	1 2	<b>K111</b>	Development of Council of Islamic Ideology	1 2
<b>K15</b>	Sponsoring education and training	1 2	<b>K112</b>	Development of Int. Islamic university Islamabad	1 2
<b>K16</b>	Legal measures	1 2	<b>K113</b>	Development of Federal Shariat court	1 2
<b>K17</b>	Any other (Please specify) -----	1 2	<b>K114</b>	Development of Shari'a board by the SBP	1 2
			<b>K115</b>	Any other (Please specify) -----	1 2
Subsidy to Islamic banks includes:			Links developed with the Islamic financial institutions of Muslim world are:		
<b>K116</b>	Domestic training to their staff	1 2	<b>K120</b>	Capacity building and training of banking staff	1 2
<b>K117</b>	Training in OIC financial institutions.	1 2	<b>K121</b>	Sending delegations to the prominent institutions of OIC countries	1 2
<b>K118</b>	Foreign scholarship schemes	1 2	<b>K122</b>	Scholarship programme for general masses to the financial institutions of the Muslim world	1 2
<b>K119</b>	Any other (Please specify) -----	1 2	<b>K123</b>	Any other (Please specify) -----	1 2
Tax exemptions to Islamic banks include:			Legal measures taken by the Govt. are:		
<b>K124</b>	No taxes on projects of Islamic banks in rural areas	1 2	<b>K127</b>	Establishment of taskforce in the ministry of law for Islamic banking	1 2
<b>K125</b>	Less taxes on the projects of basic needs	1 2	<b>K128</b>	Prohibition of Riba Ordinance was passed	1 2
<b>K126</b>	Any other (Please specify) -----	1 2	<b>K129</b>	Financial Transactions Ordinance was passed.	1 2
			<b>K130</b>	Any other (Please specify) -----	1 2

**k2: Which is the most important step taken by the successive regimes for the promulgation of Islamic banking in Pakistan? (Encircle 1-5; more than one answers are possible)**

**Most Important =1; Very Important=2; Important=3; Less Important =4; Not Important=5**

Establishment of the institutions like:					
<b>k21</b>	Establishment of the council of Islamic Ideology	1	2	3	4 5
<b>k22</b>	Establishment of the Federal Shariat court	1	2	3	4 5
<b>k23</b>	Establishment of the International Islamic university	1	2	3	4 5
<b>k24</b>	Establishment of the ministry of religious affairs	1	2	3	4 5
<b>k25</b>	Any other (Please specify) -----	1	2	3	4 5
Constitutional coverage in the form of:					
<b>k26</b>	Abolition of interest from the economy is the part of the Objective Resolution of Pakistan	1	2	3	4 5
<b>k27</b>	A special clause for the elimination of the interest from the economy in 1973 constitution	1	2	3	4 5
<b>k28</b>	Introduction of the profit and loss sharing (PLS) accounts in commercial banks in early 1980's	1	2	3	4 5



<b>k29</b>	Introduction of Mudaraba companies	1	2	3	4	5
<b>k210</b>	Task Force was set up in the Ministry of Finance to suggest the ways to eliminate interest from Government financial transactions	1	2	3	4	5
<b>k211</b>	Task Force was set up in the Ministry of Law to take care of the legal measures	1	2	3	4	5
<b>k212</b>	Any other (Please specify) -----	1	2	3	4	5

**k3: Which is the most important long term measure neglected by the successive regimes for promotion of IBF? (Encircle 1-5; more than one answers are possible)**

**Most Important =1; Very Important=2; Important=3; Less Important=4; Not Important=5**

<b>k31</b>	Recruitment of Shari'a advisors and experts having knowledge of secular and Islamic education in the ministries	1	2	3	4	5
<b>k32</b>	Development of Shari'a courts in the country	1	2	3	4	5
<b>k33</b>	Development of infrastructure institutions	1	2	3	4	5
<b>k34</b>	Development of universities	1	2	3	4	5
<b>k35</b>	Development of research centers	1	2	3	4	5
<b>k36</b>	Development of centers of Excellences	1	2	3	4	5
<b>k37</b>	Development of Islamic financial boards	1	2	3	4	5
<b>k38</b>	Lack of coordination among the key stakeholders of Islamic banking and finance	1	2	3	4	5
<b>k39</b>	Capacity building and human resource development of the policy makers in Islamic Economics/IBF	1	2	3	4	5
<b>k310</b>	Introducing Islamic economics/ IBF as a subject from the secondary level of education	1	2	3	4	5
<b>k311</b>	Any other (Please specify) -----	1	2	3	4	5

**k4: Has the Ministry of finance ever felt the need to recruit the Shari'a scholars/scholars having the knowledge of both conventional and Islamic Economics due to the reasons? (Encircle 1-5; more than one answer is possible)?**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>k41</b>	To enhance the Islamization process	1	2	3	4	5
<b>k42</b>	To support the long run needs of research and development	1	2	3	4	5
<b>k43</b>	To solve the contemporary issues of Islamization of the economy/ Islamic banking	1	2	3	4	5
<b>k44</b>	Any other (Please specify) -----	1	2	3	4	5

**k5: Ministry of Finance has a task force/ section for the Islamization of the economy/ promotion of Islamic banking, its responsibilities are: (Encircle 1-5; more than one answers are possible)?**

**Most Important =1; Very Important=2; Important=3; Less Important=4; Not Important=5**

Coordination with the key stakeholders of Islamic banking is developed by:							The publications of the ministry for Islamisation of the Economy/ Islamic banking are:						
k51	Organizing conferences	1	2	3	4	5	K58	Progress reports	1	2	3	4	5
k52	Organizing seminars	1	2	3	4	5	K59	Survey reports	1	2	3	4	5
k53	Establishing education institutions	1	2	3	4	5	K510	Annual reports	1	2	3	4	5
k54	Introduction of the profit and loss sharing (PLS) accounts in commercial banks in early 1980's	1	2	3	4	5	K511	Quarterly reports	1	2	3	4	5
k55	Establishing research institutions	1	2	3	4	5	K512	Manuals	1	2	3	4	5
k56	Establishing publication institutions	1	2	3	4	5	K513	Any other (Please specify) -----	1	2	3	4	5
k57	Any other (Please specify) -----												

Coordination among the OIC institutions for the promotion of Islamic banking is developed by:							Budget allocations for Islamization/ IBF are made:						
k514	Sending delegations of Govt. officials	1	2	3	4	5	K522	At the initiative of ministries/line agencies	1	2	3	4	5
k515	Sending delegations of Shari'a scholars to various institutions	1	2	3	4	5	K523	At the directives of cabinet	1	2	3	4	5
k516	Organizing training for the employees of Islamic banks with the collaboration of Int. Financial institutions of the Muslim world	1	2	3	4	5	K524	At the directives of the Prime Minister	1	2	3	4	5
k517	Sending Govt. officials for higher studies in the Muslim world	1	2	3	4	5	K525	At the directives of the President	1	2	3	4	5
K518	Sending Shari'a scholars for higher studies in the Muslim world	1	2	3	4	5	K526	At the initiative of the provincial governments	1	2	3	4	5
K519	Granting scholarship to the students of Muslim countries	1	2	3	4	5	k527	Any other (Please specify) -----	1	2	3	4	5
K520	Granting scholarship to the Muslim students of Non-Muslim countries	1	2	3	4	5							
K521	Any other (Please specify) -----	1	2	3	4	5							

**k6: What are the reasons to institutionalize the Islamic Banking and Finance in Pakistan? (Encircle 1-5, more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

<b>k61</b>	Current World Economic crisis demands that	1	2	3	4	5
<b>k62</b>	Pakistan can become the hub of Islamic banking in the region	1	2	3	4	5
<b>k63</b>	Islamic banking would open new avenues of Inter. Relations (I.R) among the Muslim World	1	2	3	4	5
<b>k64</b>	Non-Muslim countries are promoting Islamic banking and why not Pakistan?	1	2	3	4	5
<b>k65</b>	Islamic banking can attract investors from the Muslim world and specially middle east	1	2	3	4	5
<b>k66</b>	Elimination of interest from the economy is an incomplete agenda of the creation of Pakistan	1	2	3	4	5
<b>k67</b>	Elimination of interest from the economy has the constitutional coverage	1	2	3	4	5
<b>k68</b>	Promulgation of IBF would ensure financial self-reliance of the country	1	2	3	4	5
<b>k69</b>	IBF would result in solidarity, integrity and social order in the country	1	2	3	4	5
<b>k610</b>	Promulgation of IBF meets the ideological bases of the country	1	2	3	4	5
<b>k611</b>	IBF would bring the marginalized groups into nation building	1	2	3	4	5
<b>k612</b>	IBF would control the radical elements of the country	1	2	3	4	5
<b>k613</b>	Any other (Please specify) -----	1	2	3	4	5

**k7: Does the ministry of finance have plans to issue Sukuk (Islamic bonds) for the following sectors? (Encircle 1-5, more than one answers are possible)**

Agriculture sector	1	Mining sector	4
Education sector	2	Any other (Please specify) -----	5
Transport and Communication sector	3		

The incentives for the investors (domestic and foreign) are:							The incentives for the Shari'a scholars are:						
k101	Tax holidays	1	2	3	4	5	k106	Job opportunities in ministries	1	2	3	4	5
k102	Subsidy	1	2	3	4	5	k107	Consultancy services in ministries	1	2	3	4	5
k103	Islamic bonds	1	2	3	4	5	k108	Scholarship schemes for higher studies	1	2	3	4	5
k104	Sukuk schemes	1	2	3	4	5	k109	Scholarship schemes for training	1	2	3	4	5
k105	Any other (Please specify) -- -----						k1010	Any other (Please specify) ----- -	1	2	3	4	5
The incentives for the financial institutions (domestic and foreign) are:							The incentives for the general masses are:						
k1011	Financial liberalization	1	2	3	4	5	k1019	Islamic banking and Finance education in colleges	1	2	3	4	5
k1012	Govt. borrowing from Islamic banks	1	2	3	4	5	k1020	Scholarship schemes for the children of general masses	1	2	3	4	5
k1013	Freedom to finance any sector of the Economy	1	2	3	4	5	k1021	Employment opportunities in Islamic banking industry	1	2	3	4	5
k1014	Dual banking	1	2	3	4	5	k1022	Can establish consultancy firms	1	2	3	4	5
k1015	Conventional banks can open Islamic Window	1	2	3	4	5	k1023	Can develop any supporting institution to Islamic banking	1	2	3	4	5
k1016	Lucrative market of the country	1	2	3	4	5	k1024	Any other (Please specify) - -----	1	2	3	4	5
k1017	A legal framework to encourage practice of Islamic banking	1	2	3	4	5							
k1018	Any other (Please specify) -----	1	2	3	4	5							

**k8: The Islamic banking process would isolate the country from the world economy as: (Encircle 1-5, more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

k81	Islamic World has yet not developed any substitute of IMF and World Bank	1	2	3	4	5
k82	Pakistan cannot finance its budget needs from domestic financial resources and depends on Int. borrowing	1	2	3	4	5
k83	Pakistan has certain pacts with the International financial institutions	1	2	3	4	5
k84	Any other (Please specify) -----	1	2	3	4	5

**k9: The past Govt. policies could not support the Islamic banking in Pakistan due to the reasons: (Encircle 1-5, more than one answers are possible)**

**Strongly Agreed=1; Agreed=2; Uncertain=3; Disagreed=4; Strongly Disagreed=5**

k91	Policy makers had no practical models for Islamization of the economy so, they relied on foreign policies	1	2	3	4	5
k92	Policy makers had many domestic and International hurdles in converting conventional to Islamic banking	1	2	3	4	5
k93	Lack of experts of the Islamic banking and finance in the ministry	1	2	3	4	5



<b>k94</b>	Islamic banking did not emerged as a discipline by that time	1	2	3	4	5
<b>k95</b>	No pressure/ support from the Islamic World	1	2	3	4	5
<b>k96</b>	No domestic pressure from the masses	1	2	3	4	5
<b>k97</b>	Any other (Please specify) -----	1	2	3	4	5

**k10: Does the Ministry of Finance have incentives for the stakeholders of IBF in Pakistan?(Encircle 1-5, more than one answers are possible)**

**Most Important =1; Verv Important=2; Important=3; Less Important =4; Not Important=5**

**k11: Are you aware of any Govt. plans to establish institutions for the promotion of Islamic banking in Pakistan like: (Encircle 1-5, more than one answers are possible)**

**Most Important =1; Verv Important=2; Important=3; Less Important =4; Not Important=5**

<b>k111</b>	A special media channel for the mass coverage of Islamic banking domestically and world wide	1	2	3	4	5
<b>k112</b>	Introduction of Islamic banking and Finance as a subject from the intermediate level of education	1	2	3	4	5
<b>k113</b>	Establishment of dialogue centers for the contemporary issues of Islamic banking	1	2	3	4	5
<b>k114</b>	Introduction of Islamic banking and Finance as a discipline in all the universities of Pakistan	1	2	3	4	5
<b>k115</b>	Any other (Please specify) -----	1	2	3	4	5

**K12: The effective ways for the promotion of Islamic banking and Finance in Pakistan are: (Encircle 1-5; more than one answers are possible)**

**Most Important =1; Verv Important=2; Important=3; Less Important =4; Not Important=5**

<b>k121</b>	Implementation of Federal Shariat court's judgment regarding Islamic banking and Finance	1	2	3	4	5
<b>K122</b>	By not Challenging the Federal Shariat court's judgment regarding Islamic banking and finance in the Supreme court	1	2	3	4	5
<b>K123</b>	Collection of potential information and data for Islamisation of the economy/Islamic banking	1	2	3	4	5
<b>K124</b>	Converting the Council of Islamic Ideology (CII) into a regulatory body	1	2	3	4	5
<b>K125</b>	A mass-appeal for Islamic banking by the Islamic political parties	1	2	3	4	5
<b>K126</b>	A mass-appeal for Islamic banking by the Shari'a Scholars	1	2	3	4	5
<b>K127</b>	Gradually shifting the conventional banking into Islamic banking	1	2	3	4	5
<b>K128</b>	Political determination	1	2	3	4	5
<b>K129</b>	Strengthening the infrastructure institutions (education, research and publication)	1	2	3	4	5
<b>K1210</b>	Any other (Please specify) -----	1	2	3	4	5