"You resort to oaths as instruments of mutual deceit, so that a person might take greater advantage than another; although, Allah puts you to the test through this. Surely, on the Day of Resurrection, He will make clear the truth concerning the matters over which you differed." ***[Al-Nahl: 92].***

Prophet Muhammad (pbuh) has said that the act of planting trees, from which the human beings or the beasts or birds eat fruits, would be taken as an act of charity on the Day of Resurrection. ***(Sahih Muslim, Book 10 on Business Transactions, Hadith Number 3767).***

Inside This Issue

"Today, there are millions of people begging for food on the one hand, and on the other, surplus products piled up in factories and tons of wheat being dumped in the sea. This is because, under the capitalist dispensation, there is no provision for making additional economic resources available to the needy. Capitalism does not bother to generate the purchasing power to enable the 'have-nots' to secure their needs without having to beg for them."

Maulana Abul Ala Mawdudi (First Principles of Islamic Economics)

Research Note

Negative Effects of Interest Based Loans on Development

Salman Ahmed Shaikh

Most developing countries are going through a perpetual debt trap which takes away resources that could have been used on development, but instead are used to service compounded debt.

More money goes out in debt servicing than what comes in as aid in many countries. On a net basis, even after receiving aid, outflow is more than inflow. If this trend persists in future, one can see how it will perpetuate the debt trap.

UN predicts that the Corona Virus could add an additional 29 million people to the more than 400 million Africans living in extreme poverty. Progress on debt relief is slow as private lenders fear about reaction to their portfolio performance and ratings.

There is some empirical literature which supports the negative effect of external debt servicing on economic growth and development. Easterly (2002) presented empirical evidence which shows a negative effect of indebtedness on growth. Explaining the evidence, he stated that the paradox of debt is that heavily indebted poor countries (HIPCs) became more heavily indebted after two decades of debt relief efforts. He stated that even concessional financing – a form of debt relief – also failed to reduce net present value of debt. According to him, the record is not encouraging for the success of current debt relief efforts.

UN predicts that the Corona Virus could add an additional 29 million people to the more than 400 million Africans living in extreme poverty. Progress on debt relief is slow as private lenders fear about reaction to their portfolio performance and ratings.

From Africa, Fosu (2010) finds that the implied debt service burden adversely affects the share of public spending in the social sector, with similar impacts on education and health. For Zimbabwe, Saungweme and Mufandaedza (2013) find that external debt servicing adversely affects short run income per capita and is associated with worsening infant mortality rates.

Furthermore, Adegbite et al. (2008) confirm the negative impact of debt (and its servicing requirements) on growth in Nigeria. Non-linearity in their results show that external debt may have a positive impact for some time, but as debt servicing increases beyond a threshold point, it starts to negatively affect the economic growth. Problem is that reversal becomes all the more difficult for HIPCs who struggle to service current debt and require more resources to sustain their economies. Thus, they fall in debt trap and find it immensely difficult to get out of it when the economic growth is also negatively affected.

Ajayi and Oke (2012) found in an empirical study for Nigeria that external debt burden had an adverse effect on the per capita income and led to devaluation of the currency, increase in unemployment, social strife and poor educational system.

Cunningham (1993) collecting evidence for the period 1971-1987 from 16 HIPCs found a significant negative relationship between the growth of debt burden and economic growth in these countries.

It is not just Africa that is suffering from the debt crisis. Other developing regions are also having the same negative impacts. Malik et al. (2010) provided the empirical evidence for Pakistan's economy which shows negative and significant relationship of external debt with economic growth. Currently, Pakistan pays around half of its tax revenues in debt servicing.

To give another final account of negative effects of interest based debt, Karagol (2012) shows that even a relatively developed economy like Turkey has experienced negative effect of external debt servicing on economic growth.

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In Conversation with Thought Leaders in Islamic Economics

Mufti Irshad Ahmad Aijaz is the Chairman of the Shariah Supervisory Board of Bank Islami in Pakistan. He is also Chairman and Shari'ah Scholar of Shari'ah Advisory Committee of State Bank of Pakistan. He graduated from Jamiat-ul-Uloom Islamiyyah, Binnori Town, Karachi and obtained his Shahadat-ul-Aalamia (Masters in Arabic and Islamic Studies) from there. Afterwards, he completed his Takhassus fi al-Iftaa (Specialization in Islamic Jurisprudence and Fatwa) from Jamia Dar-ul-Uloom, Karachi. He has also completed his PhD in Islamic Sciences from Sheikh Zayed Islamic Centre. We got an opportunity to get his insights on Islamic economics and finance and hope that these insights will introduce new ways of thinking for young economists and social scientists aspiring to contribute in this field.

Q1: Some Muslim economists hold the view that Islamic banking has compromised the ideals of Islamic economics by not giving topmost priority to poverty alleviation, social mobility of deprived segments, contributing towards equitable distribution of income and providing

wide access to credit facilities to everyone. Is this concern justified in your view?

The foundational literature from the 1940s till 1980s looked at Islamic finance in a visionary way. They focused on the final outcome and had the genuine aspiration to reach the final destination. The vision was indeed ideal and there is no denying that it should remain our aspiration to fulfill the vision. However, that requires efforts at all fronts and at all levels.

It was thought that when Islamic banking will start in practice, there will be enormous response from the consumer and corporate customers to switch towards Islamic banking from conventional banking.

It was also thought that once the operational and practicable system of Islamic banking will be implemented, the government will patronize it and start converting to Islamic banking and finance without any hurdles and delay.

However, as things unfolded, Islamic banking by and large was only allowed to exist at best without having any attempt by the policymakers to convert to Islamic banking and finance fully. Any system has to go through a lot of challenges in implementation when it takes shape in a particular social, economic and legal context.

As things unfolded, Islamic banking by and large was only allowed to exist at best without having any attempt by the policymakers to convert to Islamic banking and finance fully.

Thus, there is a case of over expectation by disregarding the competitive, legal and market challenges of working in a dual banking system that is dominated by conventional banks and in which policymaking currently only allows space for Islamic banking to exist rather than looking for transformation of banking and finance towards Islamic finance.

Sometimes, critics point out the age of Islamic banking. But, merely passage of time does not make a system strong. In Indonesia and Pakistan, despite years of Islamic banking operations, the market share is still less than 20%. It is the size of the industry which matters more in determining whether it can disassociate from contemporary product structures without increasing the commercial displacement risk or not.

Q2: Conventional banking in marketing campaigns and social discourse is treated like evil. However, with similar cash flows and pricing, isn't Islamic banking vindicating the essence of conventional banking?

Banking itself is not evil in absolute sense. The problem from Islamic point of view is with prohibited elements in the contracts used in conventional banking, such as Riba (interest), Qimar (gambling) and Gharar (uncertainty).

The needs which are served in banking are not illegitimate per se. They are permissible needs. For instance, buying a car, home or purchasing assets for business. Islamic banks serve those needs with right process, mechanism and product. So, comparison should be made with respect to the way of serving those needs, which are legitimate in the first place.

It is also not fair to expect Islamic banks to operate like office of public treasury. They are commercial institutions looking for earning *Halal* profits on the behalf of depositors and shareholders through sale, lease and equity contracts while avoiding interest-based, speculative and contingent contracts.

Q3: Equity financing is regarded as preferable mode of financing given its inclusive, egalitarian and genuine risk sharing nature and its effect on equitable distribution of income. But, it is hardly used. What are the reasons for the lack of use of equity financing?

The needs which are served in banking are not illegitimate per se. They are permissible needs. For instance, buying a car, home or purchasing assets for business. Islamic banks serve those needs with right process, mechanism and product.

It is true that equity financing is preferable mode of financing from the socio-economic and inclusive point of view. However, it is not possible that all types of short term financing can be structured on the basis of equity.

For the increased use of equity financing, it is important to have transparency, sound governance and rule of law to build the trust for long term equity investments. Islamic banks on their own cannot bring about the required changes in law and governance.

There is also need for strong governance framework to avoid collapse and failures of equity-financed businesses. Finally, there is also need for changes in risk regulations governing banks in order to make way for equity investments by banks.

Q4: There seems to be lack of mutual understanding between academics from economics and Islamic jurisprudential backgrounds. Is there a role of Muslim economists in product development and evaluation of their socio-economic impacts?

There is need for more synergy. In debates, often the viewpoints of the realists and the idealists are not well understood by their respective critics and hence, misunderstandings develop. Both Shari'ah compliance as well as commercial viability is important to have a successful product or innovation.

Academics from economics and finance background can be categorized into i) those who also have knowledge about Shari'ah and the market and industry norms, and ii) those who do not have much knowledge about Shari'ah and the market and industry norms.

Usually, academic economists are looking at the bigger picture and take a long-term horizon. The Shari'ah experts facing a practical and applied issue have to come up with solutions that resolve the problem at hand. Among the permissible contracts, the ones that are acceptable to both counterparties will result in the increased use of Islamic way of finance.

Academic economists usually take one party's or society's perspective in looking at contracts. On the other hand, as an intermediary, an Islamic bank has two clients, i.e. i) investors including shareholders and investment accountholders and ii) clients requiring finance. Therefore, cheaper financing will have to be traded-off with lower returns to the investors while higher returns will have to be traded off with higher cost of finance.

The idealistic view is also important to keep the aspiration towards fulfilling Maqasid-e-Shari'ah in a complete sense alive. However, the shortcoming on that front from the social viewpoint currently is not a discussion about *Halal* and *Haram*, but between *Halal* and *Afzal*.

The idealistic view is also important to keep the aspiration towards fulfilling Maqasid-e-Shari'ah in a complete sense alive. However, the shortcoming on that front from the social viewpoint currently is not a discussion about Halal and Haram, but between Halal and Afzal.

Q5: What key steps are required in policymaking or laws to promote Islamic banking in Muslim majority countries?

There is need for policy direction. In many countries where the Islamic banking share is significant, the government's use of Islamic finance options in public finance is yet very limited.

In developing countries, banks get a lot of business from the government's projects and schemes too. If the government itself indulges in Riba without giving any consideration to the Islamic finance option which can be equally competitive, the industry will grow at a slower rate having to rely on organic growth alone in a policy-neutral environment.

In many countries, the government owns assets in the form of real estate, highways, motorways, ports and railway tracks, for instance. Governments can utilize those assets in mobilizing liquid funds through Islamic capital market instruments. Government's own agency can become the custodian of such transactions to allay any apprehensions.

There is also need for out-of-box thinking and giving leverage to Islamic banks to operate as trading houses and to make pre-emptive investments in the real sector of the economy in agriculture and industry with the oversight of government's own regulators.

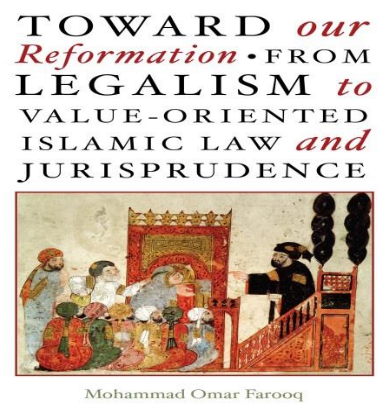
Likewise, allowing or mandating investments in particular socially desired and impactful projects to a particular extent can anchor financing operations towards critical needs of the society.

Q6: What advice would you give to aspiring researchers who want to contribute in Islamic economics and finance? What are the key skills they need to master and learn to excel in this field?

There are lots of economic problems being faced by the Muslim world. Therefore, research should have problem-solving focus. There are lots of empirical questions which need answers. For instance, in a dual banking system, what is the threshold level of market share which Islamic banking needs to reach before it makes sense to have a paradigm shift in nature of products as well as making a case for distinct policy framework for Islamic banks, i.e. distinct Islamic interbank benchmark rate, statutory liquidity requirements and risk management guidelines. Therefore, instead of repeating ourselves with visionary statements, it is important to understand the ground realities with empirical research in order to guide practitioners as well as in developing practicable and workable solutions.

Book Review

Title:	Toward Our Reformation: From Legalism to Value-Oriented Islamic Law and Jurisprudence
Author:	Dr. Muhammad Omar Farooq
Publisher:	International Institute of Islamic Thought, 2012



It is an important work in analyzing approach to developing Islamic jurisprudence. It is a topic that was also taken seriously by Allama Muhammad Iqbal. While his poetry is celebrated in public discourse, there are not many takers of his thought provoking lectures on Reconstruction of Religious Thought in Islam.

This book shares Iqbal's concern that there is a need for reformation in our approach to look at contemporary issues and matters. It critically analyzes the tendency of legalism and literalism which results in misapplication and inappropriate response on contemporary issues in the opinion of the noted author.

The author emphasizes the point that Islam places supreme emphasis on its followers being informed, educated, probing, discerning, and enlightened.

The author reiterates the fact that foundational sources of knowledge in Islam include Qur'an and Sunnah. The author contends that a law becomes Islamic when it meets all of the following conditions: (a) the formulation of the law must be rooted in the foundational sources of Islam, (b) it is derived with explicit attention to the Maqasid and values of Islam, and (c) the adoption and enactment of the law by the society occurs through Shura (consultation).

The secondary sources of knowledge like Ijma (consensus) and Qiyas (analogical deduction) involve an element of human understanding and hence, they must not be treated like divine sources of knowledge. On the scope, conditions and validity of Ijma, there are various views. Imam Shafi'i laid down strong conditions for Ijma and discusses examples in Ijma which are rather permanent matters in Islamic faith only. Likewise, on Qiyas, there is a variety of opinion from not allowing it at all to consulting it in deriving rulings on imaginary matters and preferring it over Akhbar-e-Ahad (solitary reports).

The author contends that a law becomes Islamic when it meets all of the following conditions: (a) the formulation of the law must be rooted in the foundational sources of Islam, (b) it is derived with explicit attention to the Maqasid and values of Islam, and (c) the adoption and enactment of the law by the society occurs through Shura (consultation).

The author maintains that in Qiyas, illah (cause) should not be delinked with Hikmah (wisdom). For instance, in Islamic banking and finance, the products and services result in similar eventual outcome as in interest based banking. The extant literature in Islamic economics and finance before the advent of Islamic banking was unanimous and categorical about the rationale for prohibition of interest, i.e. negative effects on distribution of income, lack of egalitarianism and inequality in payoffs from the outcome of activities that are carried out from interest based loan. Qur'an mentioned the word 'Zulm' in condemnation of Riba. It is hard to reconcile it with equal or higher cost of finance in Islamic banking products vis-à-vis conventional banking products. Mudarabah and Musharakah are considered ideal modes of financing based on their inclusive, participative, genuine risk-sharing and egalitarian nature, but they are hardly used.

The author highlights that in many matters, Ijma is claimed, but it does not quite exist if stronger conditions of Ijma are kept in perspective.

On the other hand, the author thinks that excessive use of Qiyas can also lead to anomalous rulings as in i) Kafa' (equality in marriage), ii) one-half rule concerning treatment and rights of slaves on the basis of ruling of one-half punishment in some crimes, and iii) regarding marriage as sale and lease, for instance.

The author thinks that from dowry to maintenance and from marital obligations to the conditions of divorce and its procedures, the emphasis is focused on contractual aspects rendering marriage a totally formalistic experience. According to some jurists, a sick wife who, on account of her failing health, is unable to discharge her marital duties has no legal right to maintenance by the husband.

In our curriculum of traditional religious schools, a concise booklet 'Usool-ul-Shashi' is used. It has plentiful examples of rare and innovative ways of divorce, but the guidance in Qur'an and Sunnah on overlooking mistakes of wives, focusing on positive aspects in personality of wives, fulfilling rights of wives humanely, and acknowledging their distinct identity and personality, is less focused upon.

The author notes that Hadith is one of the most important sources of guidance in Islamic sciences. However, much of it is transmitted in the form of Akhbar-e-Ahad. The author cautions that placing it at par with Qur'an is not appropriate.

The author maintains that in Qiyas, illah (cause) should not be delinked with Hikmah (wisdom).

Deriving the rulings from solitary reports which are not consistent with Qur'an as well as other Ahadith requires a revisit in the opinion of author. The author mentions the examples of i) women being discouraged to pray in mosque, ii) marriage of minor by guardian and iii) lack of reciprocal rights to women in separating from husbands. The author cautions that sticking to solitary reports alone without understanding them in the light of Qur'an and extant Hadith literature may turn out to be problematic.

The author is discontent with rigidity in Islamic thought which has rendered the understanding of Shari'ah as something mechanical and which makes deductive rulings of the past binding forever. The author is critical of legalism combined with an enforcement mentality. The author considers it erroneous to turn every aspect of Islamic guidance into law.

The book is thought provoking and deserves serious reading. It presents detailed references for all the arguments made. One of the unique aspects of the book is highlighting that how legalism and literalism had particularly turned out to be difficult for Muslim women and how it affected their rights and role in Muslim society through development of Islamic jurisprudence by exclusively male scholars.

Though, there may not be any deliberate mistake here, but sidelining one half of Ummah in any intellectual discourse even in matters of faith and practices related to women is something that requires a revisit. The author gives an account of how human exercise of comprehending and implementing jurisprudence can err as the example of Hudud laws in Pakistan shows. Some Fiqh books while listing guardians who can execute marriage contract on behalf of a lady on their own mention all male relations including step relations as eligible guardians before placing the mother of lady at eleventh.

The author argues that such juristic views unfounded in primary sources must not be presented and defended as divine to stop any discourse and appraisal for improvement.

However, in some places, it seems that criticism on particular attitudes of Muslims is misplaced on jurists alone. It must also be noted that deriving rulings from solitary reports and considering them at par or capable of overruling, extending or narrowing Qur'anic ruling is not a universal view in all schools of Fiqh. It will have been useful had the author explicitly given the Usul-ul-Fiqh of major schools of Islamic jurisprudence in a structured way.

As can be seen from the summary below, different classifications of Ahadith are acknowledged in Fiqh and literal knowledge is also complimented by secondary sources, such as Maslaha, Istislah and Sadd-e-Zariya. Part of the problem is not with the tools or differences in some rulings, but more with the trend of Taqlid (literal following) even in rulings that are based on secondary sources of knowledge or Ijtihad.

Hanafi Fiqh

It deduces Islamic rules of jurisprudence from Qur'an, Mutawatir Sunnah including Mutawatir (transmitted successively), Mursal (transmitted with break in chain at upper level), Mashhur Hadith (transmitted by many narrators from second generation) and also Khabr-e-Wahid (transmitted without too many narrators in initial generations) in cases other than Umum e Balwa (everyday matter or unavoidable matter), Qaul-e-Sahabi (Asaar), Ijma e Fuquha, Qiyas, Istihsan (juristic preference) and Urf (custom). In Umum-e-Balwa, Qiyas is preferred over Khabr-e-Wahid. Ijtihad bil-Rai (Ijtihad through one's judgement or opinion) is recognised by using Istihsan. Khabr-e-Wahid cannot extend or narrow the meaning of Qur'anic verses, but Mashhur and Mutawatir Hadith can. There are stricter rules for accepting Hadith which is compulsory to be acted upon. If Khabr-e-Wahid comes from a non-jurist narrator and goes against an apparent Qiyas, then Qiyas is preferred. Reason is that probabilistic attribution to Prophet Muhammad (pbuh) cannot be revisited once taken as valid, but Qiyas can be.

Maliki Fiqh

It deduces Islamic rules of jurisprudence from Qur'an, Mutawatir Sunnah and Mutawatir and Mursal Hadith, Ijma-e-Sahaba, Qaul-e-Sahabi (Asaar), Ijma-e-Amal-e-Medina, Khabr-e-Wahid, Qiyas, Istislah, Urf and Sadd e Zariya (blocking path to evil). If Khabr-e-Wahid goes against Amal e Ahle Medina, then the latter is preferred. Legal rulings of Khulfa Rashideen are also taken in tradition. Ijma of first generation of Muslims only or the second, third and fourth generation of Medina is preferred. Riwayat e Bil Lafz (narration in exact words) is preferred and there are stricter rules for accepting Ahadith.

Shafi'i Fiqh

It deduces Islamic rules of jurisprudence from Qur'an, Mutawatir Sunnat and Hadith (Mutawatir, Mursal), Ijma-e-Sahaba, Khabr-e-Wahid, Ijma-e-Fuqaha and Qiyas. Istihsan, Istislah and Urf are not used. Ijtihad bil-Qiyas is preferred over

Ijtihad bil-Rai. Istishab (continuity) and Sadd-e-Zariya are used. Khabr e Wahid can extend or narrow the meaning of Qur'anic verses.

Hanbli Fiqh

It deduces Islamic rules of jurisprudence from Nusus which include Qur'an, Mutawatir Sunnat and Mutawatir Hadith as well as weaker Hadith like Mursal and Gharib (transmitted with one person in chain at any level), Ijma of Sahaba, Ifta of Sahaba, Qiyas (initially wasn't recognised and used, but later it was used in limited cases), Istishab, Maslaha and Sadd e Zariya. In this system of jurisprudence, Hadith can extend or narrow the meaning of Qur'anic verses. It has relatively less strict rules for accepting Ahadith. Initially, Ijma of Sahaba was given most credence, but later, it was extended to next generations too.

Furthermore, the author emphasizes on Maqasid-e-Shari'ah, but that too involves human understanding and judgement. For instance, Maqasid-e-Shari'ah is invoked to defend products like Tawarruq and sale and leaseback (saving oneself from Riba at least) in Islamic finance. At the same time, these Maqasid are referred in making case for increased use of Mudarabah and Musharakah.

The author calls for reconsidering inheritance laws in current times when there are nuclear families, lower family size and much less economic interdependence as compared to before. However, these laws are given in Qur'an. Therefore, Wasiyyah (will) and Waqf (endowment) can be used to meet circumstantial needs rather than revisiting clear guidance in Nusus (fundamental sources of Islamic knowledge).

In many cases, it is possible to reconcile apparent inconsistencies in Ahadith. But, the noted author wants to make a larger point that such instances at least prove that Hadith literature needs to be carefully understood in the light of Qur'an and must not be considered divine unless we have solid basis to prove their direct attribution to Prophet (pbuh) through Marfu, Mutawatir and Sahih Asnad.

The author emphasizes the point that Islam places supreme emphasis on its followers being informed, educated, probing, discerning, and enlightened.

However, it would also have been useful to elaborate the perspective and rationale of traditionalist view in more detail in the book.

In commenting on extreme rulings, it must also have been better that juristic differences are also acknowledged. Such comparison will show that in a broader sense, Islamic jurisprudence is not all at fault concerning some matters.

In the presence of rigid views in some matters, there can also be found less rigid and more practicable and applicable views.

Lastly, it would have been better that the revitalization of Ijtihad must also have been acknowledged in recent past which is enabling a dynamic response to the contemporary issues. Although, one may not agree with all such recent Ijtihads, nonetheless, the visible change in urgency must also have been acknowledged.

Research Paper in Focus

Paper Title: The Economic Reality of Islamic Banks' Transactions: A Qualitative Inquiry
Author: Bassam Mohammad Maali, Usama Adnan Fendi and Muhannad Ahmad Atmeh
Publisher: International Journal of Islamic and Middle Eastern Finance and Management, 14(2), 286 -300.

This research paper examines the need for distinct accounting standards for Islamic finance. It collects primary data through interviews of respondents who are affiliated with a bank. It provides analysis in the light of this statement by International Accounting Standards Board *"In assessing whether an item meets the definition of an asset, liability or equity, attention needs to be given to its underlying substance and economic reality and not merely its legal form"*.

The informants in the interview by and large look at Islamic and conventional contracts in similar ways. Based on these findings, the authors conclude that international accounting standards are also applicable in Islamic banking. Shari'ah compliance does not imply that all operations including recording keeping of material transactions need to be different in Islamic banking as compared to conventional banking.

Therefore, if Islamic banks are expected and understood to be not transferring losses to the clients and will resort to profit equalization reserves and purchasing the non-performing assets in the investment pool on the behalf of shareholders, then there is no potent reason to classify investment accounts based on Mudarabah in equity rather than in liability. Furthermore, if Murabaha and other sale based modes of financing always involve two sales in two different legs of the financing structure, then there is no compelling reason to record such purchases and sales of assets like that for manufacturing concerns.

However, in interpreting results, one must be cautious in understanding what message the authors want to convey. They are not questioning the Shari'ah basis and Shari'ah legitimacy of Islamic financing transactions. They are investigating that when it comes to financial flows and eventual economic outcome, are the Islamic finance transactions significantly distinct to merit distinct accounting standards or not.

It will also have been appropriate for the authors to caution the readers about possible misinterpretation of Islamic banking by the informants in the study. Often, the technical specialists in accounting, risk and law are unable to appreciate distinction in other aspects in Islamic finance contracts beyond price and eventual final economic outcome.

It must also be noted that Islamic banking may not require a completely distinct way of accounting, but there are certain subtleties which must not be ignored either. Islamic banks cannot record amounts received in lieu of delay in payment as their income.

In equity investments, they may also be required to pay charity to purify their dividend. In Ijarah, they cannot take the initial instalments as rental income if the asset is not yet delivered in usable condition to the client.

Therefore, in lieu of these distinctions, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) had issued additional accounting standards to ensure that such points of distinction must not be overlooked in Islamic banking institutions even if they are not incorporated in global accounting standards for banks.

It is appreciable that AAOIFI has issued a comprehensive list of standards and made them public for greater awareness and appreciation of the distinct elements in Islamic banking. At the same time, it is also a progressive development that a lot of countries are now adopting these standards.

Reflections

Corona Virus has affected millions of people and killed hundreds and thousands of people already across the world. Almost all routines of life have been affected. Our tremendous journey in scientific, technological, industrial and economic advances has come to a pause for a while in the last few months. As we ponder over origin of Corona Virus, it is high time to also reflect and think over origin of everything and explore answers to deep questions about meaning and essence of life.

A reflective human mind would look at the COVID-19 pandemic and will be reminded that this life will end one day for him from one or the other material cause. But, it does not matter whether it will be due to any disease or accident. However, his life and life of others is not meaningless.

Doctors and nurses who are fighting hard to save lives of COVID-19 patients might lose their own in the process. But, if they believe in the life hereafter, then their virtuous acts will earn them rewards in the life hereafter which will begin for never ending again. Unlucky patients who die from this pandemic and those who die from other reasons may have been denied what they deserved in this life. Those who got killed, robbed, denied justice and discriminated against will get deterministic justice and rewards in life hereafter if they had lived virtuous lives given their circumstances in this life.

The lucky ones who survive this pandemic will also die one day. If they had helped the ones who were ill, who were hungry, who were deprived, who were unfortunate and who needed help, then their acts of kindness, generosity, sacrifice and devotion will transcend this world and will give those people rewards in life hereafter which will begin for never ending again.

A reflective mind will keep in mind the scientific and historical evidence that death is as much a fact as is life. The belief in life hereafter completes the cause and effect puzzle even in moral sphere of life. In life hereafter, everyone will get deterministic reward for intentional acts in this life based on the ability and freedom in the circumstances which one faced in this life, no matter whether rich or poor, white or black, male or female, strong or weak and elite or commoner. That makes life of everyone meaningful rather than a constant struggle of survival in one form of matter to the other form of matter where survival instinct is the only moral code.

Industry Insights

Islamic Banking System: Bloom's Taxonomy and Stakeholders' Responsibilities

Zubair Ahmed Bin Naseem Ahmed

Islamic banking is a part of Islamic financial system. In Islamic banking, there are two major stakeholders, i.e. depositors which invest their savings with Islamic bank and financing side clients who avail financing for the purchase of different types of assets.

Islamic banks use different types of Islamic finance modes, mainly categorized into trade, lease and partnership-based finance modes. Generally, these modes are combinations of Islamic finance core and supporting concepts. For example, Murabaha financing is the combination of purchase agency (Wakalah concept) and Murabaha sale. This article employs Bloom’s Taxonomy to identify the stakeholders of this system and their responsibilities in mutual understanding, resolution of conflicting thoughts and synergistic teamwork.

Contemporary Islamic banking must comply with banking regulations along with the Islamic regulations. According to Mufti Dr. Irshad Ahmed Aijaz, the Islamic banking system has four categories of stakeholders:

- Practitioners

- Beneficiaries
- Theorists (or Academicians)
- Regulators

These stakeholders, especially theorists or academicians, can also be divided into further three types. First category includes the people who have a background of Shari'ah and Islamic sources, and the knowledge of contemporary banking, finance, and economics. The second type consists of the people who have a background of modern banking, finance or economics, and the understanding of Shari'ah sources. The last type includes all others.

Bloom's Taxonomy can help clarify and solve the issue and confusion of type three of the above. Bloom's Taxonomy, originally developed by Benjamin Bloom in 1956, has six levels, as illustrated in Figure 1.

Figure 1: Bloom's Taxonomy Levels

The issue is that Islamic banking is operating mostly in a dual banking system. Most of the stakeholders or potential stakeholders do not have adequate knowledge and understanding of both the financial and Shari'ah aspects simultaneously. But, they are trying to do analysis and even evaluation of Islamic banking system, which is inappropriate according to the order of six levels in Bloom's Taxonomy. To do proper analysis or evaluation, one must have adequate knowledge and understanding of that system as per the Bloom's Taxonomy.

Since Riba is war against Allah and His Messenger (PBUH), as per Al Quran Surah Baqarah Ayah 279, it is not only the responsibility of one category of stakeholders or one segment of Muslim Ummah to do efforts against Riba. It is the responsibility of every member of Muslim Ummah to contribute for this noble cause with their abilities by knowing and understanding at least the basic principles of Islamic finance.

Without adequately understanding Islamic finance principles and contemporary system's limitations, there cannot be appropriate analysis and evaluation of the struggles of the people who want to do something against the Riba based system. It may lead to opposing the struggle without providing alternates. Ultimately, this can be harmful to the efforts against Riba.

In the context of Bloom's taxonomy, by and large, critics of Islamic banking have inadequate knowledge and comprehension about the core concepts of Islamic banking. They may have adequate knowledge and comprehension of finance and economics.

When they try to analyze, synthesize and evaluate Islamic banking with adequate knowledge of finance and economics but inadequate knowledge of Shari'ah foundations of Islamic finance core concepts, they tend to criticize Islamic banking from the lens of economics and finance mostly. That criticism, which may partially be valid from the economics and finance viewpoint, does not hold much weight in undermining the Shari'ah foundation of Islamic finance. Hence, it is important that in critical evaluation of Islamic banking and finance, both the perspective (economics or Shari'ah) must be clearly acknowledged and for evaluation from the Shari'ah perspective, the knowledge and comprehension gap is filled too for better mutual understanding and resolution of conflicting viewpoints.

Market News

- State Bank of Pakistan announced the third five-year strategic plan for Islamic banking industry, with the aim of expanding the share of Islamic banks' assets to 30% in overall banking industry (Dawn, April 6).
- Islamic banking assets grew to Rs 4.3 trillion as of year-end 2020 in Pakistan (Business Recorder, March 30).
- Al Baraka Islamic Bank launches 'Danat Al Baraka' housing and real estate project in Bahrain (Pak Observer, April 9).
- Deposit growth in the Bangladesh's banking sector was 13.5% in 2020, while the growth rate was 16.67% in Shari'ah-based banks (New Age, April 7).
- Mambu, newly-minted Fintech unicorn, has announced the highly anticipated launch of the Sharia-compliant version of its SaaS banking platform (Trade Arabia, March 22).
- Islamic financing is expected to grow by 7% in 2021 (from 8.1% in 2020) as compared to 2% expected growth for conventional banks in 2021 (from 1% in 2020) [The Star, Mar 25].
- Turkish Islamic banks' market share rose to 7.2% of total banking sector assets at end-2020 (end-2019: 6.3%) [Zawya, Mar 23].
- Dubai Islamic Bank provided relief measures totalling $2.45 billion to mitigate impact of the coronavirus crisis (Arabian Business, March 17).
- Islamic banks to get quota on Sukuk in Bangladesh (Financial Express, April 9).

- New business contribution for all family Takaful certificates increased by 7% to RM 6.59 billion in 2020 from RM 6.16 billion in 2019 in Malaysia (The Star, April 9).

- UAE-based Takaful insurer Islamic Arab Insurance Co.'s audited net profit reached $42.76 million in 2020, reflecting a 160% year-on-year growth (Business Insurance, March 16).

- 12.5% rise in Zakat in 2020, says UN refugee agency (Arab News, March 29).

- Zakat Fund of the Ministry of Endowments and Islamic Affairs has provided more than QR 12.6 million in aid for the eligible beneficiaries of families registered inside the Qatar State in February 2021 (The Peninsula, March 31).

- Britain issues £500m sovereign Sukuk (Arab News, March 25).

- Republic of Maldives successfully prices its debut sovereign US$200 million 5-year Sukuk issuance (Africa News, April 2).

- Saudi's Islamic Development Bank lists $2.5 billion sustainability Sukuk on Nasdaq Dubai (Gulf Business, April 6).

- PMRC issues Rs 3.1bn Sukuk to promote housing finance in Pakistan (Dunya News, March 18).

Sustainable Development Index (SDI) Rankings

Country	SDG-Index Value	SDG Index Rank	Country	SDG-Index Value	SDG Index Rank
Albania	0.25818866	1	Togo	0.078534272	21
Kazakhstan	0.223486621	2	Uganda	0.075609858	22
Kyrgyz Rep	0.221600296	3	Bangladesh	0.074597535	23
Bosnia	0.193495703	4	Sudan	0.073030672	24
Azerbaijan	0.192088057	5	Cote d'Ivoire	0.069674121	25
Malaysia	0.17971293	6	Cameroon	0.067433558	26
Jordan	0.176398053	7	Iraq	0.061908237	27
Maldives	0.174142963	8	Senegal	0.05649823	28
Turkey	0.168383517	9	Niger	0.05198618	29
Tajikistan	0.158671948	10	Mali	0.04547533	30
Indonesia	0.149894875	11	Nigeria	0.037649151	31
Gabon	0.140975849	12	Djibouti	0.033645438	32
Morocco	0.133001249	13	Benin	0.023017141	33
Algeria	0.124211772	14	Mozambique	0.018856207	34
Lebanon	0.122283311	15	Sierra Leone	0.015876447	35
Guinea	0.120467276	16	Burkina Faso	0.01407851	36
Egypt	0.112250122	17	Guinea-Bissau	0.007673941	37
Iran	0.092798559	18	Comoros	-0.000453615	38
Pakistan	0.084964222	19	Yemen	-0.007891107	39
Mauritania	0.082706443	20	Chad	-0.042502504	40

Source: Islamic Economics Project

Account Penetration in Selected OIC Countries (% of Adult Population)

Country	2011	2014	2017	Country	2011	2014	2017
Afghanistan	9.01	9.96	14.89	Mali	8.21	20.08	35.42
Albania	28.27	37.99	40.02	Mauritania	17.46	22.87	20.87
Algeria	33.29	50.48	42.78	Morocco	..	..	28.64
Azerbaijan	14.90	29.15	28.57	Mozambique	..	..	41.67
Bahrain	64.51	81.94	82.61	Niger	1.52	6.71	15.52
Bangladesh	31.74	30.99	50.05	Nigeria	29.67	44.44	39.67
Benin	10.46	16.62	38.49	Oman	73.60	..	..
Bosnia	56.21	52.69	58.84	Pakistan	10.31	13.04	21.29
Burkina Faso	13.35	14.36	43.16	Qatar	65.88	..	..
Cameroon	14.81	12.18	34.59	Saudi Arabia	46.42	69.41	71.70
Chad	8.96	12.43	21.76	Senegal	5.82	15.42	42.34
Comoros	21.69	..	..	Sierra Leone	15.34	15.58	19.81
Cote d'Ivoire	..	34.32	41.33	Somalia	..	38.66	..
Djibouti	12.27	..	..	Sudan	6.90	15.27	..
Egypt	9.72	14.13	32.78	Syria	23.25	..	..
Gabon	18.95	33.01	58.60	Tajikistan	2.53	11.46	47.02
Guinea	3.69	6.96	23.49	Togo	10.19	18.25	45.29
Indonesia	19.58	36.06	48.86	Tunisia	..	27.43	36.91
Iran	73.68	92.28	93.98	Turkey	57.60	56.68	68.59
Iraq	10.55	10.97	22.67	Turkmenistan	0.40	..	40.58
Jordan	25.47	24.62	42.49	Uganda	20.46	44.45	59.20
Kazakhstan	42.11	53.91	58.70	UAE	59.73	83.74	88.21
Kosovo	44.31	47.80	52.27	Uzbekistan	22.50	40.71	37.09
Kuwait	86.77	72.91	79.84	West Bank	19.43	24.24	25.02
Kyrgyzstan	3.76	18.47	39.94	Yemen	3.66	6.45	..
Lebanon	37.03	46.93	44.75	Low income	13.36	22.88	34.85
Libya	..	..	65.67	Middle income	43.44	57.54	65.31
Malaysia	66.17	80.67	85.34	High income	88.26	92.83	93.71

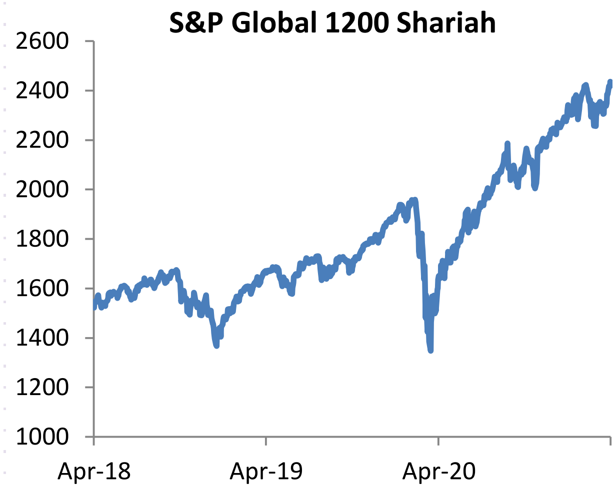
Source: Global Findex, World Bank

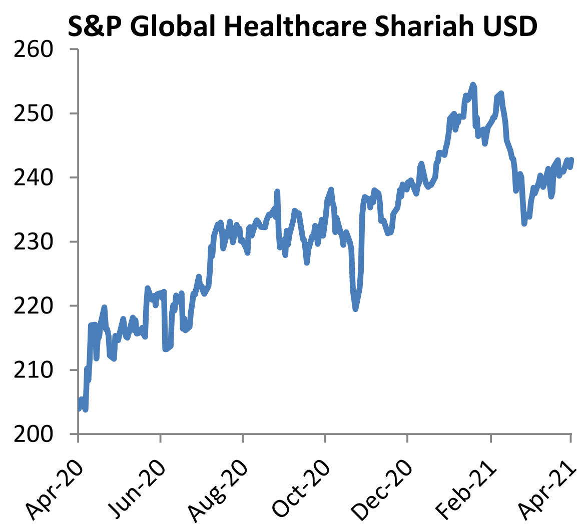
Islamic Banking Statistics

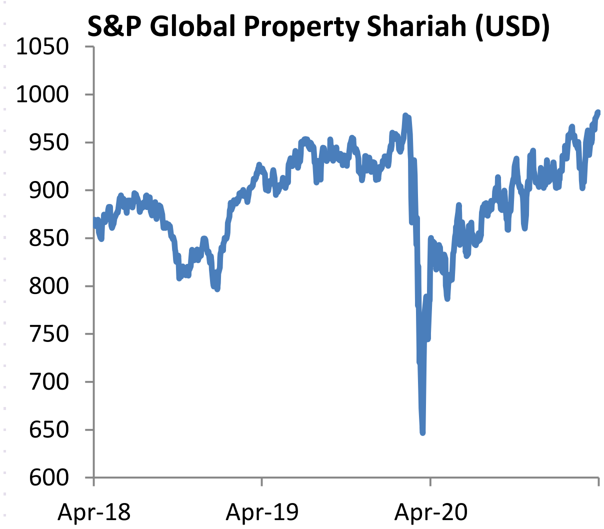
Country	CAR	Gross NPF	ROA	ROE	Net Profit Margin	Cost to Income
Bahrain (2019)	17.50	11.80	0.55	5.30	28.13	71.87
Bangladesh (2019)	11.50	5.26	1.16	24.15	32.58	47.68
Brunei (2020)	19.48	4.01	1.49	11.64	51.66	50.14
Egypt (2019)	18.20	5.76	2.86	32.30	60.10	26.26
Indonesia (2020)	20.36	3.43	1.72	16.57	23.35	76.65
Jordan (2019)		3.09	1.88	19.07	49.91	50.11
Kazakhstan (2019)	31.98	0.61	0.92	3.27	23.76	34.82
Kuwait (2019)	17.77	1.60	1.55	14.15	25.14	25.64
Malaysia (2019)	17.22	1.49	1.13	16.21	42.66	37.57
Nigeria (2020)	27.05	7.24	0.83	8.69	37.72	73.62
Oman (2020)	13.38	1.83	0.71	5.69	22.53	64.87
Pakistan (2020)	17.49	4.32	2.55	41.67	43.94	47.70
Palestine (2020)	15.64	3.04	0.74	7.85	19.19	72.01
Qatar (2019)	18.31	1.42	0.45	4.36	38.90	11.87
Saudi Arabia (2020)	19.44	1.41	2.10	15.82	46.95	53.08
Sudan (2019)		3.40	2.05	27.25	47.87	47.43
Turkey (2020)	18.85	4.00	1.25	15.20	20.00	36.20
UAE (2019)	17.93	5.03	1.26	9.34	23.82	76.18
UK (2018)	20.63	1.50	0.44	3.24	33.83	98.36

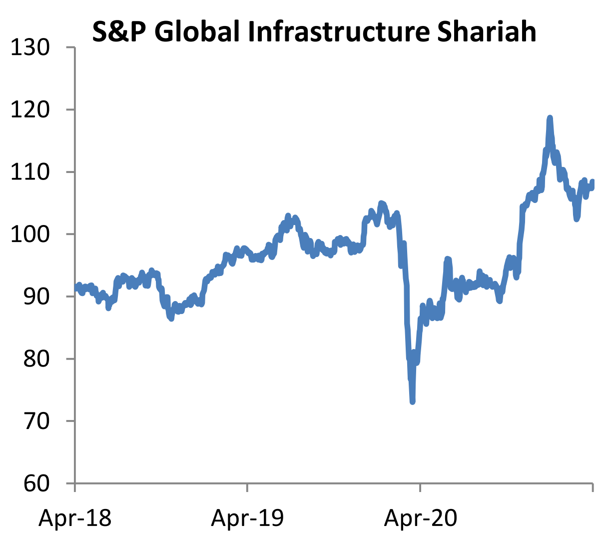
Source: Quarterly Average Values from IFSB Data

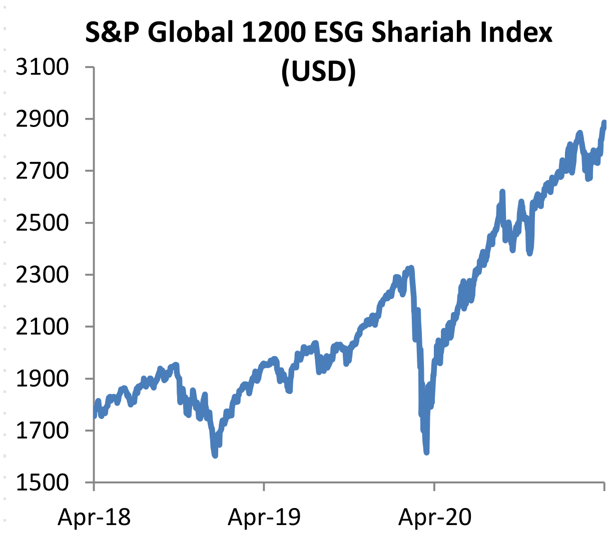
Performance of Islamic Stock Indices in Pre COVID-19 and Post COVID-19 Period











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Islamic Banking and Shari'ah Governance
https://mdpi.com/journal/jrfm

2nd International Graduate Student Symposium
Istanbul University Center for Islamic Economics and Finance
October 9-10, 2021, https://islamiktisadi.istanbul.edu.tr/en

7th International Islamic Monetary Economics and Finance Conference
Bank Indonesia Institute, Bank Indonesia, October 25 – 27, 2021
https://jimf-bi.org/index.php/JIMF/announcement

9th International Islamic Economic System Conference 2021 (I-iECONS2021)
Universiti Sains Islam Malaysia, 12 – 13 July, 2021
http://i-iecons.usim.edu.my/

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