REVIEW OF LITERATURE AND RESEARCH DESIGN

The preceding chapter introduced the concept and nature of Islamic finance and discussed its distinctive features and other aspects in the context of Islamic shariah (tenets). The mechanism and dispensation of Islamic finance, its components, operation of Islamic banks and financial institutions, functioning of capital markets, financial products and services under Islamic finance etc. have been highlighted and discussed. To bring the understanding of Islamic banking home, a comparison has also been drawn between the Islamic banking and conventional banking.

The Islamic finance and banking concept with its provenance from the dawn of Islam is ancient in nature but the latest in its revivals, implementation and operation. It has thus not occupied the attention of scholars and academicians as much as the conventional banking system has received from them. Lot of literature exists on conventional system but the work on Islamic banking and finance is scanty so far. This chapter is devoted to review the literature on Islamic banking, finance and economy available in the form of books, magazines, journals, papers and articles etc. Even the material found on electronic media is also being included in the literature review. The gaps that remain unattended by the scholars will emerge from the literature review. This research study is a modest endeavour to cover such gap to the extent possible under limitations of time, finance and other needful resources. Besides; this chapter elaborates on the nature of the research problem, sets out its objectives and formulates the hypotheses to be examined under study.

2.1. Statement of the Problem

The Islamic financial system involves a social implication which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic banks from other banks based on other philosophies. In exercising all its banking
and development activities, the Islamic banks and financial institutions take into prime consideration the social implications that may arise from any decision or action taken by the bank. Profitability – despite its importance and priority – is not therefore the sole criterion or the prime element in evaluating the performance of Islamic banks, since they have to strike a balance between the material and the social objectives that would serve the interests of the community as a whole and help to achieve their role in the sphere of social mutual guarantee. Social goals are understood to form an inseparable element of the Islamic financial system that cannot be dispensed with or neglected.

Compatibility means harmony or relevance and as far as compatibility between objectives and achievements of Islamic Finance is concerned, this means it is to be verified whether achievements of Islamic finance are in accordance with the objectives of Islamic finance.

Islamic finance objectives are different from conventional financial system, but this does not mean that objectives are totally different from each other. There are many objectives which are common in both banking systems. Islamic finance objectives are very similar to conventional finance but the only big difference is in the procedure of working. Islamic financial system principles are totally based on Shariah, which is the main source of guidance for issuing products and services. On the other hand, other objectives are very similar in both the financial systems. There is a perception among some Muslims and non-Muslims that Islamic banks and financial institutions working procedure is almost the same and if there is some difference, it is only in name. So they are of the opinion that both the banking systems have same objectives. This study attempts to find out the objectives of Islamic finance and to examine whether the achievements are in accordance with the objectives of Islamic finance.

In short, there is a lack of research evidence in the world in general and Muslim world in particular with respect to objectives, achievements and their compatibility. The present study is an attempt to probe into the compatibility of objectives and achievements of Islamic finance. The study will also suggest the measures to rectify deficiencies in the
practical system of Islamic finance and offers the measures for improvement in the working of Islamic finance and thereby improving its effectiveness.

2.2. Literature Review

Islamic finance and its related issues have been explained by many authors both in books as well as in research papers. Most of these authors have explained Islamic banking, Islamic finance, Islamic economics, their products and services and other related issues (Kettell, 2011; Hassan, 2007; Iqbal & Mirakhor, 2007; Askari, Iqbal & Mirakhor, 2009; Warde, 2010; Chapra, 2006; Ansar and Memon, 2008; An-Nabhani, 2002; Elgari, 2003; Rosley, 2011; Pramanik, 2009; El-Gamal, 2006; Yunus, 2011). There is not so much research on Islamic Finance which is based on empirical studies. Although now scholars are concentrating on the same, but still there is gap to bridge in such research. Islamic banking is now a well-known term and has emerged as one of the most important industries in financial sector worldwide. Islamic finance complies with the law of the Land (jurisdiction) and Islamic Law (shariah). The main aim of Islam is to guide human development along the correct lines and in the right direction. Islam deals with all aspects of economic development, but always in the framework of overall human development and never in a form divorced from this perspective (Al-Harran, 1993). The main objective of Islamic finance has been the prohibition of interest and the use of trade and commerce.

Islamic finance and prohibition of interest was not founded on the principles of economics but was developed as a result of a decree sent by the Almighty Creator Allah (Ghannadian and Goswami, 2004). This has led many people to think that Islamic banks and financial institutions operate without interest. Islamic banking has two sets of belief. One is that interest as a reward for saving does not have any basis as a moral foundation; and second that abstinence from spending of present income does not deserve a financial reward and to benefit from money is to transform the money into investment (Presley,
1988). Interest free banks were established to conform to Islamic law, which prohibits interest on all types of loans (personal, commercial, agricultural, industrial) regardless of whether these loans are made to friends, private or public companies or any other entity (Mettwally, 1997). In addition to normal banking laws and prudential laws, Islamic finance is supervised by the Shariah Board to enforce the application of fair dealing and the avoidance of prohibited transactions (Arif, 2007). Also Taylor (2003) stated that Islamic principles extend to all aspects of a Muslim’s life so as a result each practitioner of Islam is necessarily implicated by shariah principles. The most important factor in the Islamic principles pertaining to banking is the prohibition of riba or any predetermined or fixed rate in financial institutions. As stated in the Qur’an “Allah forbids riba”. Riba means an increase and under shariah the term refers to the premium that must be paid by the borrower to the lender along with the principal amount as a condition for the loan (Omar and Abdel, 1996). The Qur’an states that interest constitutes an unfair business transaction as profits realized from loans are risk free with no evidence of value addition by lenders (Rosly and Bakar, 2003). The dictionary meaning of Riba is an increase and the reference in the verse is to every increase against which there is no exchange or consideration (Haque, 1993). Islamic law states that money itself does not have any value and therefore it should not lead to more money. Some have interpreted riba as any interest payments, while others interpreted it to encompass only “excessive” interest payments.

As an alternative, interest free techniques have been developed by Islamic banks. The main reason for the twentieth century re-development and growth of the Islamic banking system is the conventional banking system’s reliance on interest-based financing (Presley, 1988). The conventional financial system depends on interest but the Islamic economic system is based upon a number of principles founded in Islamic law (Rosley and Bakar, 2003). Islam prohibits doing business with riba or usury/interest. The prohibition of interest means that Islamic banks cannot incur or earn interest in any of their financial transactions. Karim (1996) stated that Islamic financing is based on two principles that are profit and loss sharing (PLS) and the mark up principle. The PLS
principle allows the bank to earn a return on invested funds, provided that the bank shares the risk of investment and bears the loss if the investment fails. Participatory finance through musharakah was one of the earliest forms of financing involving a partnership between the provider of the capital and the user or entrepreneur (Wilson, 1997). The mark up principle is considered as the reward of the risk for the financer. In the mobilization of funds, Islamic banks depend on four main sources including shareholders’ funds, current accounts, investment accounts and savings accounts (Karim, 1996).

Islamic banking is known for its interest free concept and operates in many countries including Bahrain, Pakistan, Jordan, Iran, Sudan, United Kingdom, Singapore, Malaysia, UAE etc. Islamic banking and finance has undergone rapid transformation and growth from an industry striving to satisfy the Muslim community needs, to a multibillion dollar industry upholding Islamic principles. Over recent decades the Islamic banking industry has emerged as one of the fastest growing industries and has spread to all corners of the globe, receiving wide acceptance from Muslims and non-Muslims (Iqbal and Molynex, 2005). The concept of Islamic finance and its Shari’ah ruling is discussed in the classical Fiqh books. (Al-Sarakhshi, 1978; Al-Kasani, 1983). In the late eighties and the beginning of nineties when Islamic banking and finance started its journey; the partnership business was the main concern at that time. Al-Harran (1993) defined the concept of partnership in Islamic finance and discussed its historical background. He explained different types of partnership and its practices focusing on the management issues like the distribution of profit, liability of loss, withdrawal of members etc. He also described the modes of equity investment in Islamic finance. He furnished some suggestions which must be followed to convert the interest based financial system to equity based financial system. Haron (1997) provides the overview, philosophy, history and regulation of Islamic banking and finance. He mentioned different types of Islamic financial products including Musharakah or partnership. Bendjilali and Khan (1995) defined the diminishing partnership and perpetual partnership in their study. They mentioned the need and importance of diminishing partnership. However, their study does not reflect on objectives of Islamic
finance. On the other hand, Ijarah or lease is a popular mode of financing in Islamic banking. Ramli & Onn (2007) described the features of Ijarah from the shari’ah perspective. They also illustrated its application, the mode of operations and legal restrictions in different countries especially in Malaysia. Issues such as the guarantor, documentation of this contract and the transfer of ownership were explained. Furthermore, the computation of Ijarah which includes the selling price, total rental, compensations, security deposit, monthly rental etc. are being discussed. Usmani (2002) has described the characteristics of different products in Pakistan and made a detailed discussion on the operational method of financing in Meezan Bank. The International Fiqh Academy of Organization of Islamic Conference (OIC) in its 15th session has made a discussion on different products where the Shari’ah scholars have discussed the fundamental characteristics of different contracts, their permissibility in the Shari’ah, its conditions and other Shari’ah principles related to different contracts. (International Fiqh Academy of OIC, 2004). Al-Kawamelah (2008) made a detailed explanation of banking contracts and their Shari’ah ruling. He critically analyzed every aspect of the contract and made judgment on them. He also mentioned different opinions of the Islamic jurists relating to these issues. He analyzed the current practices of banking in Jordan Islamic Bank and evaluated it under the framework of the Shari’ah. Thani, Abdullah & Hassan (2003) provided a chapter on Islamic financial products where they briefly explained them.

In the same way, Nienhaus (1988) examined the individual financial statements of a number of Islamic banks operating in different countries. He stated that in many countries there was only one Islamic bank, making a comparison between banks in different countries was the best option at that stage. He compared the performance of Islamic banks with conventional banks and concluded that Islamic banks were viable, but not as profitable.

A seminal article provided by Zaher and Hassan (2001), found that Saudi Arabia did not distinguish between conventional and Islamic banking, whilst numerous Islamic banks in
Pakistan had non-Islamic transactions despite attempts to comply fully with the financial system and Islamic principles. Malaysia did not opt for a full Islamic financial system due to different cultures within the country but Islamic banks have performed well there. Meanwhile, Bahrain imposed Basel capital regulations on Islamic banks. Zaher and Hassan (2001) also claimed that Islamic finance is not unlike Western ‘equity’ finance. A descriptive overview of regulatory features of 13 countries was provided. Aggarwal and Yousef (2000) noted that governments of Muslim countries often use Western financial concepts, (e.g. the Saudi Arabian government borrowed on international capital markets) and therefore they questioned these governments’ commitment towards fully developing Islamic financing options. They noted however, that Islamic banks often operated in developing countries with high levels of asymmetric information. Guru, Shanmugan, Alam and Perera, (2003) examined services offered via the Internet. Some banks offered both Islamic and conventional banking online, but with plenty of scope for improvement overall. Individual bank data across several countries were analyzed by Arayssi (2003) and it was found that inefficient decisions were often made with regard to investment operations. Iqbal (2003) also examined individual Islamic banks in a number of countries in the mid-1990s and provided a history of the attempts to fully Islamicize the markets in Pakistan, Iran and Sudan. The trade sector was the most popular sector for Islamic funding. Further Islamic cross-country banking research could examine the statutory compliance of Islamic products with the Basel Accord and other regulatory matters (Karim, 2003).

Brown and Skully (2004) incorporated country-specific variables such as the Islamic bank concentration ratio, Muslim population, competition and regulatory variables within the DEA model to help allow for differing environments in each country. Results for countries with lower macro-economic variables generally did not improve with the inclusion of environment factors, and rankings of efficiency scores were in agreement with the cost-to-income efficiency ratio. Their analysis was only for one year. However in the paper, a times series analysis is undertaken over a number of years.
Islamic finance has been thoroughly discussed in the following books and research papers.

Sheikh (1990) in his paper “Towards Interest Free Banking” introduced the TMCL model which is based on the basic idea that in a loan arrangement, both the amount of loan and time to maturity are equally important. Thus, if the amount of any loan is multiplied by the period for which it is extended, the result would be a unit i.e. loan value (LV). Thus an amount of Rs. 1000 for one year, has the same loan value as Rs.125 for eight years i.e. both sum up to the same loan value of Rs.1,000. Therefore, any combination of giving bilateral loans whereby the loan value remains same is in conformity with Islamic principles as it will fall in the realm of Qard-e-Hasan. Therefore, if a borrower needs a loan of Rs.1,000 for one year, he can give away a loan of Rs.125 for eight years and get a loan of Rs.1,000 for one year.

Zaheer (1996) in the paper “A Critical Look at the Alternatives to the Popular Models of Interest Free (IF) Banking” criticized TMCL concept arguing that TMCL is based on the premise that money ought to have time value, the Islamic prohibition of Riba requires that money should not be allowed to have any time value at all. Consequently, the TMCL proposal is contributing to resurrect exactly the same evil which Quran wants to see condemned to extinction. Time value of money is the problem of the lender. It is not the problem of the borrower. Lender cannot demand any compensation or the opportunity cost. The borrower cannot be obliged to pay the opportunity cost other than the principal amount. Interest rates in a given country are a function of many things other than just domestic inflation. Cost-push inflation is driven by supply shocks. Therefore, deterioration in real purchasing power is caused by factors not in the control of the borrower. He cannot be held liable to compensate in a matter in which he was not responsible. Furthermore, inflation is measured by an index which has an urban bias, period bias and representative bias inherently. If indexation is permitted, we will have to index compensation to other factors of production e.g. wages, rent etc. Interest free commercial banking has been introduced in many countries since decades.
Chapra (1996) in his book “What is Islamic Economics” explains in detail, the rise of Islamic economics. The author has provided a historical look on the development of Islamic economics in the world. While quoting different authors, he has explained the rise of Islamic economics conferences, educational institutions and the work of great scholars like Ibn Khaldum. The work done in the book is all based on logic and on the teachings of Quran and Sunnah. He has tried to explain the methodology in Islamic economics, while writing the first step that needs to be taken to accept or reject a given hypothesis is to see whether it fits within the logical structure of the Islamic paradigm, which is defined by the Qur’an and the Sunnah. However, since everything has not been spelt out in the Qur’an and the Sunnah, there is a great room for logical reasoning and human judgment or ijtihad without coming into conflict with the Qur’an and the Sunnah. Resort to the Qur’an and the Sunnah as the first step in the methodology for accepting or rejecting hypotheses is inevitable because, Islamic economics begins with an understanding of divinely-ordained ends and values and cannot be conceived without them. Instead of shying away from them under the cloak of wertfreiheit, economists may be able to make a valuable contribution by evaluating their hypotheses against the logical structure of the Shari’ah.

Mirakhor & Haque (1998) in the paper “The Design of Instruments for Government Finance in an Islamic Economy” presents perhaps the most viable approach for the design of an instrument of government finance (and monetary management) in an Islamic economy where conventional transactions based on an ex-ante promise of a risk-free rate of return are forbidden. Resources to finance government infrastructural and development projects can be mobilized by issuing a national participation paper and this instrument can also serve as an instrument of monetary management. The paper discusses various conceptional issues underpinning the introduction of such an instrument and methods of calculating a corresponding rate of return. In principle, this approach has been accepted by the Islamic Republic of Iran.

Archer, Karim & Al-Deehani (1998) in their paper “Financial Contracting, Governance Structures and the Accounting Regulation of Islamic Banks: An
Analysis in Terms of Agency Theory and Transaction Cost Economics” writes that Islamic banks are prohibited from entering into transactions based on riba (interest), they mobilise funds mainly on the basis of the mudaraba (profit-sharing) form of contract. Thus, in the place of interest-bearing customer deposits, Islamic banks offer investment accounts the return on which depends on the return on the pool of assets in which the customers’ funds are invested by the bank. In contrast to conventional deposits, such investments accounts therefore yield a variable periodic return which may be negative (a loss). Islamic investment accounts are thus a form of limited-duration equity investment. This type of investment account raises a set of issues concerning the contractual relations between the bank and the holders of such investment accounts. These issues may be addressed from the perspectives of both Agency Theory (principal-agent and principal-principal relations) and Transaction Cost Economics (contractual forms and governance structures), and this all has been explained in this paper. In particular, authors focus on governance issues such as the monitoring possibilities which may or may not be contractually available to investment account holders. They conclude that, under present contractual arrangements, investment account holders depend unduly upon ‘vicarious’ monitoring by or on behalf of shareholders, a situation aggravated by current shortcomings in financial reporting and limitations of the scope of external auditing. The latter have implications for accounting regulation as applied to Islamic banks. The paper concludes with some suggestions as to how this situation could be ameliorated.

Samad (1999) in paper “Comparative Efficiency of the Islamic Bank vis-à-vis Conventional Banks in Malaysia” was among the first to investigate the efficiency of the Malaysian Islamic banking sector. In his paper, he investigates the relative performance of the full-fledged Malaysian Islamic bank compared to its conventional bank peers. During the period of 1992 to 1996 he found that the managerial efficiency of the conventional banks was higher than that of the full-fledged Islamic bank. On the other hand, the measures of productive efficiency revealed mixed results. He suggests that the average utilization rate of the Islamic bank is lower than that of the conventional banks. Similarly, he found that profits earned by the full-fledged Islamic bank either through the
use of deposit or loanable funds, or used funds are also lower than the conventional banks, reflecting the weaker efficiency position of the full-fledged Islamic bank. In contrast, the productivity test by loan recovery criterion indicate that the efficiency position of the full-fledged Islamic bank seems to be higher and bad debts as a percentage of equity, loans, and deposits also show a clear superiority over the conventional bank peers.

Chapra & Khan (2000) in the book “Regulation and Supervision of Islamic Banks” reviews the standards set by the Basel Committee for Banking Supervision (BCBS). It finds the three pillars of the new Basel framework, namely capital adequacy, supervisory review process, and market discipline to be equally relevant to Islamic banks. It argues that adoption of the new system for risk weighting of assets proposed by the BCBS can help cultivate an effective risk management culture in Islamic banks through internal ratings and proper control systems. The book argues that it will be easier for these banks to adopt international standards if separate capital standards are set for demand and investment deposits with the clear objective of protecting demand deposits and transforming investment deposits into mutual funds. This will enhance the endorsement of Islamic banking by international standard setters, thus promoting its worldwide acceptance and enabling it to compete successfully in a globalizing environment.

Al-Jarhi & Iqbal (2001) in their book “Islamic Banking: Answers to Some Frequently Asked Questions” explain almost everything related to Islamic banking and finance. In part first, authors have defined interest and its types. In the second part, Islamic modes of finance have been explained, which include more than eight products and services. In part three, Islamic banking has been explained by the authors and so on. The book explains everything in detail and incorporates necessary details which are required to understand Islamic banking and finance.

An-Nabhani (2002) in his book “The Economic System in Islam” explains the Islamic view of the economy and its objectives, how to own property and increase it, how to spend and dispose of it, how to distribute the wealth among the citizens in society and
how to establish a balance within it. The author has explained the basis of Islamic system in detail while quoting some practical examples.

Siddiqui (2002) in his paper “The Wisdom of Prohibition of Interest” criticized interest, stating that even in commercial loans, the borrower may suffer a loss, yet interest based lending obliges him/her to repay the principal plus compound interest. Conversely, the borrower may reap huge profits, yet the lender gets only the stipulated rate of interest which may likely turn out to be small part of the actual profits. It results in inefficient allocation of society’s resources and increases the inequality in the distribution of income and wealth as it guarantees a continuous increase in the monies lent out, mostly by the wealthy, and puts the burden of bearing the losses on entrepreneurs and through loss of jobs on the workers.

Hussein (2003) in research paper “Operational Efficiency in Islamic Banking: The Sudanese” provides an analysis of the cost efficiency features of Islamic banks in Sudan between 1990 and 2000. Using the stochastic cost frontier approach, he estimates cost efficiency for a sample of 17 banks over the period. The interesting contribution of this paper is that specific definitions of Islamic financial products are used as outputs. In addition, the analysis is also novel as Sudan has a banking system based entirely on Islamic banking principles. The results show large variations in the cost efficiency of Sudanese banks with the foreign owned banks being the most efficient. State owned banks are the most cost inefficient. The analysis is extended to examine the determinants of bank efficiency. Here, he finds that smaller banks are more efficient that their larger counterparts. In addition, banks that have higher proportion of musharakah and mudharabah finance relative to total assets also have efficiency advantages. Overall, the substantial variability in efficiency estimates is put down to various factors, not least the highly volatile economic environment under which Sudanese banks have had to operate over the last decade or so.

Hassan and Hussein (2003) in the paper “Static and Dynamic Efficiency in the Sudanese Banking System” examined the efficiency of the Sudanese banking system
during the period of 1992 and 2000. They employed a variety of parametric (cost and profit efficiencies) and nonparametric DEA techniques to a panel of 17 Sudanese banks. They found that the average cost and profit efficiencies under the parametric were 55% and 50% respectively, while it was 23% under the non-parametric approach. During the period of study, they found that the Sudanese banking system have exhibited 37% allocative efficiency and 60% technical efficiency, suggesting that the overall cost inefficiency of the Sudanese Islamic banks were mainly due to technical (managerially related) rather than allocative (regulatory).

Elgari (March, 2003) in his paper “Credit Risk in Islamic Banking and Finance” explains the concept of risk which was well known in ancient societies. Even in financial decisions, people knew very well that lending to someone who is bankrupt has a high probability of losing the money as compared to a debtor with good standing. Nevertheless, risk became an important tool of decision-making when it became possible to measure it and to assign values to different situations. In the paper he argues that the concept of risk mentioned by jurists in their studies on the theory of contract has nothing to do with the concept of risk as known in modern financial studies. Such a distinction is important because when jurists refer to certain "risky" contracts and render them unacceptable from the Shariah point of view, some practitioners of Islamic finance take it as referring to risk in the jargon of finance which is not correct. The author argues that we should benefit from the great advances in studying risk and risk management techniques in finance. However, the author argues that Muslims have to develop their own theory that deals with the unique concept of risk from an Islamic perspective. The paper is an attempt in that direction written by the author.

Siddiqi (2003) in his book “Banking without Interest” demonstrates that banking institutions can operate without difficulty if the principles of profit-sharing are substituted for the practice of fixed interest payments. This applies to commercial banking as well as central banking. Explaining with numerical examples how neither the creation of credit nor the control over its supply would pose any problems in the change-over from interest to profit-sharing. The book also deals with such issues as bills of exchange and supply of
short term interest free loans to businessmen, consumers and the government. The author also discusses the possible role of commercial shares and instruments which the central bank can use, in the absence of bank rate, for controlling the volume of credit.

El-Gamal and Inanoglu (2004) in the paper “Islamic Banking in Turkey: Boon or Bane for the Financial Sector” used the stochastic frontier approach to estimate the cost efficiency of Turkish banks over the period 1990-2000. The study compared the cost efficiencies of 49 conventional banks with four Islamic special finance houses (SFHs). The Islamic firms comprised around 3% of the Turkish banking market. Overall, they found that the Islamic financial institutions to be the most efficient and this was explained by their emphasis on Islamic asset-based financing which led to lower non-performing loans ratios. It is worth mentioning that the SFH achieved high levels of efficiency despite being subjected to branching and other self-imposed constraints such as the inability to hold government bonds.

Hassan (2005) in the paper “The Cost, Profit and X-Efficiency of Islamic Banks” examined the relative cost, profit, X-efficiency, and productivity of the world Islamic Banking industry. Employing a panel of banks during 1993-2001, he used both the parametric (Stochastic Frontier Approach) and non-parametric (Data Envelopment Analysis) techniques as tools to examine the efficiency of the sample banks. He calculated five DEA efficiency measures namely cost, allocative, technical, pure technical, and scale and further correlated the scores with the conventional accounting measures of bank performance. He found that the Islamic banks are more profit efficient, with an average profit efficiency score of 84% under the profit efficiency frontier compared to 74% under the stochastic cost frontier. He also found that the main source of inefficiency is allocative rather than technical. Similarly, his results suggest that the overall inefficiency was output related. The results suggest that on average the Islamic banking industry is relatively less efficient compared to their conventional counterparts in other parts of the world. The results also show that all five efficiency measures are highly correlated with ROA and ROE, suggesting that these efficiency measures can be used
concurrently with the conventional accounting ratios in determining Islamic banks performance.

Obaidullah (2005) in the paper “Financial Contracting in Currency Markets: an Islamic Evaluation” undertakes an Islamic assessment of financial contracting in the global currency markets. Some basic currency-related contracts in mainstream finance, such as, spot transactions, options, forwards, futures, swaps etc. are examined in the light of Islamic norms of financial ethics, such as, freedom from riba, gharar, jahl, qimar and maisir. The study also highlights the views of Islamic scholars on various conventional as well as Shariah based contractual mechanisms. In cases where there is some degree of divergence of views, the study examines the nature and source of disagreement as also the implications and economic significance of the arguments. In view of the overwhelming importance of currency risk management in volatile markets, the study undertakes an assessment of the various financial contracts as risk management tools. It is obvious that spot settlement of the obligations of both parties would completely prohibit riba, and gharar, and minimize the possibility of speculation. However, this would also imply the absence of any technique of risk management and may involve some practical problems for the participants.

Chapra (2005) in his book “Prohibition of Interest- does it make sense?” writes that greater reliance on equity financing has to be an indispensable part of the strategy of any system which wishes to actualize the humanitarian goals of need fulfillment, full employment, equitable distribution of income and wealth, and economic stability. The reason why capitalism has not been able to realize these goals effectively is not because its goals are not humanitarian or the people in capitalist countries do not have the will and the resources needed for this purpose. The primary reason is the conflict that exists between its goals and its strategy. The author further states that the goals are humanitarian, originating from its religious past, while the strategy is social-Darwinist, based on the concept of survival of the fittest. It relies primarily on the rate of interest for allocating financial resources. This gives an edge to the rich and leads to not only concentration of wealth but also a rise in conspicuous and wasteful consumption. This
hurts the realization of goals. It also contributes substantially to the prevailing instability in the international financial markets.

Smolarski et al. (2006) in the paper “Permissibility and Use of Options for Hedging Purposes in Islamic Finance” analyzed options from Islamic point of view and argued that Options may be permitted for hedging purposes in Islamic finance as long as the underlying economic activities are themselves permissible from an Islamic point of view.

Chapra (January-June, 2006) in his paper “The Nature of Riba in Islam” explains the meaning of riba, types of riba while quoting the authentic sources of Islam (Quran and Sunnah). The author has explained the types of riba (Riba al-fadl and riba al-nasi’ah) in detail. He has put the appendices at the end of the paper where riba in the Quran, Hadith and Fiqh have been explained with proper and authentic references. Implications of two types of riba in modern world are main theme of the paper.

El-Gamal (2006) in his book “Islamic Finance: Law, Economics and Practice” has provided an overview of the practice of Islamic finance and the historical roots that define its modes of operation. The author has made focus on analytical and forward-looking. It shows that Islamic finance exists mainly as a form of rent-seeking legal-arbitrage. In every aspect of finance - from personal loans to investment banking, and from market structure to corporate governance - Islamic finance aims to replicate in Islamic forms the substantive functions of contemporary financial instruments, markets, and institutions. By attempting to replicate the substance of contemporary financial practice using pre-modern contract forms, Islamic finance has arguably failed to serve the objectives of Islamic law. This book proposes refocusing Islamic finance on substance rather than form. This approach would entail abandoning the paradigm of ‘Islamization’ of every financial practice. It would also entail reorienting the brand-name of Islamic finance to emphasize issues of community banking, micro-finance, and socially responsible investment.
Sufian (2006) in his paper “Size and Returns to Scale of the Islamic Banking Industry in Malaysia” examined the efficiency of the Malaysian Islamic banking sector during the period 2001-2004 by using the non-parametric Data Envelopment Analysis (DEA) method. He found that scale efficiency outweighs pure technical efficiency in the Malaysian Islamic banking sector, implying that Malaysian Islamic banks have been operating at non-optimal of operations. He suggests that the domestic Islamic Banking Scheme banks have exhibited a higher technical efficiency compared to their foreign Islamic Banking Scheme bank peers. He suggests that during the period of study the foreign Islamic Banking inefficiency were mainly due to scale rather than pure technical.

Hassan & Lewis (2007) in “Islamic Finance” which is a handbook of Islamic Banking comprises 25 studies by leading international experts on Islamic banking and finance specially commissioned to analyse the various debates and the current state of play in the field. From its origins thirty years ago, Islamic banking has expanded rapidly to become a distinctive and fast growing segment of the international banking and capital markets. Despite this expansion, Islamic banking still remains poorly understood in many parts of the Muslim world and continues to be a mystery in much of the West. Authors provide a succinct analysis of the workings of Islamic banking and finance, accessible to a wide range of readers. At the same time, it seeks to bring the current research agenda and the main issues on Islamic banking before a wider audience.

Iqbal & Mirakhor (2007) in the book “An Introduction to Islamic Finance: Theory and Practice” explain the fundamental principles of an economic and financial system governed by Sharia law (Islamic law), and introduces all of the key elements and concepts of Islamic finance. It shows how the surge of interest in Islamic finance practices is based on a demand for more ethical investing, and a greater appreciation of the principles of, and potential under, Islamic law.

Haniffa & Hudaib (2007) in their paper “Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports” highlights that Islamic Banks (IBs) are considered as having ethical identity, since the foundation of their business philosophy is
closely tied to religion. They also explore whether any discrepancy exists between the communicated (based on information disclosed in the annual reports) and ideal (disclosure of information deemed vital based on the Islamic ethical business framework) ethical identities and they measure this by what authors have termed the Ethical Identity Index (EII). This longitudinal survey results over a 3-year period indicate the overall mean EII of only one IB out of seven surveyed to be above average. The remaining six IBs suffer from disparity between the communicated and ideal ethical identities. In the paper it is found the largest incongruence to be related to four dimensions: commitments to society; disclosure of corporate vision and mission; contribution to and management of zakah, charity and benevolent loans; and information regarding top management. The results have important implications for communication management if IBs are to enhance their image and reputation in society as well as to remain competitive.

Munawar (2007) in his book “A Guide to Islamic Finance” highlights objectives and sources of Islamic law and the principles of business contracts in Islamic law, the author also provides Islamic banking model. It then systematically covers the main types of contract used by Islamic bankers along with a theoretical exposition on how to develop new Islamic banking products. A survey covering the experiences of Pakistan, Iran, Sudan, Bahrain, Malaysia and Indonesia are actual practice of Islamic banking countries. The author takes the accounts of a number of Islamic banks from a range of countries: Al Rajhi Banking & Investment Corporation, Saudi Arabia; Kuwait Finance House, Kuwait; Al Baraka Islamic Investment Bank, Bahrain; Bahrain Islamic Bank, Bahrain; Shamil Islamic Bank, Bahrain; Faisal Islamic Bank, Egypt; Dubai Islamic Bank, UAE; Jordan Islamic Bank, Jordan; Qatar Islamic Bank, Qatar; Islami Bank, Bangladesh; Bank Islam Malaysia Berhad, Malaysia; and Al Baraka Turkish Finance House, Turkey. The author summarizes the accounts of these banks from 1990 to 2004 and then proceeds to evaluate them on a number of criteria as revealed by their financial ratios such as capital-to-assets, liquidity, cost-to-income, return on assets and return on equity. Some of the return on equity ratios would be regarded as outstanding by any bank. They show the extent to which some Islamic banks benefit by having large current account deposits on which no
returns are paid to depositors. Islamic insurance is also briefly explained by the author. Here, the author examines a number of religious arguments raised against commercial insurance but concludes that commercial insurance is permissible in Islam provided that the insurance company does not invest its assets in interest-bearing or other prohibited investments. However, he points out that his opinion is a minority one among Islamic jurists. Finally, he considers the future of Islamic finance in his book.

Securities and Investment Institute (2007) in the book “Islamic Finance Qualification (IFQ)” provides basic knowledge about Islamic Finance. This text book explains everything related to Islamic Finance in a clear way. After Introduction, the sources of Islamic Law have been explained in the book which is followed by the historical development of Islamic banking and finance. The book also provides details regarding Islamic finance infrastructure, operating structure of Islamic banking and future of Islamic finance industry.

Jobst (February, 2007) in the paper “The Economics of Islamic Finance and Securitization” writes that Islamic lending transactions are governed by the precepts of the shariah, which bans interest and stipulates that income must be derived as return from entrepreneurial investment. Since Islamic finance is predicated on asset backing and specific credit participation in identified business risk, structuring shariah-compliant securitization seems straightforward. This paper explains the fundamental legal principles of Islamic finance, which includes the presentation of a valuation model that helps, distil the essential economic characteristics of shariah-compliant synthetization of conventional finance. In addition to a brief review of the current state of market development, the examination of pertinent legal and economic implications of shariah compliance on the configuration of securitization transactions informs a discussion of the most salient benefits and drawbacks of Islamic securitization have been discussed in the paper.

Jobst (2007) in the paper “Derivatives in Islamic Finance” explains importance for financial sector development. He also explains derivatives are few and far between in countries where the compatibility of capital market transactions with Islamic law requires
the development of Shariah-compliant structures. Islamic finance is governed by the Shariah, which bans speculation, but stipulates that income must be derived as profits from shared business risk rather than interest or guaranteed return. This paper explains the fundamental legal principles of Islamic finance, which includes the presentation of a valuation model that helps illustrate the Shariah-compliant synthetization of conventional finance through an implicit derivative arrangement. Based on the current use of accepted risk transfer mechanisms in Islamic structured finance, the paper explores the validity of derivatives from an Islamic legal point of view and summarizes the key objections of Shariah scholars that challenge the permissibility of derivatives under Islamic law. In conclusion, the paper delivers suggestions for Shariah compliance of derivatives.

Archer & Abdel (2007) in his book “Islamic Finance: the Regulatory Challenge” examines the regulatory aspects of Islamic finance, and the development of structured regulatory, supervisory, and legal frameworks appropriate for the Islamic financial services industry worldwide. It discusses principles of Islamic commercial jurisprudence, the role of the Islamic Financial Services Board (IFSB), the potential for growth in Islamic financial services, corporate governance and supervision issues, and the nature of risk in Islamic banking.

Chapra (2007) in his paper “The Case Against Interest: Is it Compelling?” highlights the benefits of asset backed financing by Islamic banks stated that asset-based debt should further help by not allowing the debt to exceed the growth of the real economy. The introduction of such a discipline carries the potential of helping realize not only greater stability, but also greater efficiency and equity in the financial system.

Ansari & Memon (January25, 2008) in the article “Islamic Banking: Is it really Islamic, have critically answered to the question of those who raise finger towards the credibility of Islamic finance. Authors have theoretically tried to prove that Islamic banking is really Islamic. For the similarity between Islamic and conventional banking if there is something, the authors have given three objectives for the same. The first one,
which is more important one, is to provide an ‘even playing ground’ to the Islamic Finance Institutions (IFIs) in order to ensure their survival in the overall banking system. The second one is that even by IFIs, it has to be ensured that their stakeholders and depositors get some return and preferably a return equivalent to those of conventional banks. The third reason is to avoid arbitrage amongst Islamic and conventional financial systems which may be exploited by a few big guns to get the benefit of the pricing difference between the two financial systems.

Dusuki (2008) in his paper “Understanding the Objectives of Islamic Banking: A Survey of Stakeholders' Perspectives” reveals that respondents highly regard Islamic banking as an institution that should uphold social objectives and promote Islamic values towards their staffs, clients and the general public. Other factors perceived to be important include contributing to social welfare of the community, promoting sustainable development projects and alleviating poverty. He further states that Islamic banking system has the potential to become one of the promising sectors to realize the noble objectives of Shariah, as it resides within a financial trajectory underpinned by the forces of Shariah injunctions. These Shariah injunctions interweave Islamic financial transactions with genuine concern for just, fair and transparent society at the same time as prohibiting involvement in illegal activities which are detrimental to social and environmental well-being. Such a balanced business orientation and strategy with good service quality can be expected to propel Islamic banks to greater heights in becoming viable and sustainable alternative to their conventional counterparts.

Visser (2009) in the book “Islamic Finance: Principles and practice” provides a balanced perspective on Islamic finance and its related products. Though the book is on Islamic finance, there is a good discourse on the Islamic economy apart from a general introductory background on Islam. Religious terms are clearly defined. Apart from numerous citations of past studies, it contains handy website addresses that could facilitate further research into the realm of Islamic banking and finance. As such, it is an essential reference for scholars, be they Muslims or non-Muslims, interested in the Islamic system as a possible alternative to the conventional system.
Askari, Iqbal & Mirakhor (2009) in the book “New Issues in Islamic Finance & Economics: Progress and Challenges” provide a review of the main issues and challenges facing Islamic finance. The application of Islamic finance is currently limited to banking. Authors provide an overview of the factors and motives behind the development of Islamic finance. They have also provided critical review of issues facing the industry which is followed by a detailed analysis of areas where further attention is required. The book offers some original thinking on issues pertaining to governance, institutions, public finance and economic development within an Islamic financial system.

Islahi (2009) in his book “Muslim Economic Thinking and Institutions in the 10th AH / 16th CE Century” has investigated the state of Muslim economic thinking in the tenth century hijrah corresponding to 16th century CE. The author has made detailed analysis of economic conditions, intellectual and literacy situation of Muslims in 16th century. The focus in the book is on economic thought of Muslim scholars during the above period. The book provides detailed information about works on public finance, Shariah governance and market supervision that have been depositary of economic ideas of Muslim scholars. The author has also provided detailed bibliography comprising the literature on Muslim economic thinking of the period. The book systematically studies Islamic economic thought during the tenth/sixteenth century. The gap which was in literature is covered by the author in this book.

Di-Vanna & Sreih (2009) in their book “A New Financial Dawn: the Rise of Islamic Finance” examine the global economic crisis in the context of how western markets influence Islamic financial innovation. The authors discuss how market conditions are creating a fertile seedbed for the next generation of innovation in Shari’ah-compliant financial services. The authors also consider the rising discourse that Islamic finance could be a replacement for capitalism. The book explores how Islamic finance differs from conventional finance by reviewing the early results from banks at the vanguard of product development. Posing the question: Does Islamic finance provide new ethically based economic cohesion to the vast underserved Muslim communities? It also examines
how Islamic banking has capitalized on innovation over the past two decades to fulfill its promise of equality and fairness by rebuilding trust in banking and financial services. Setting the stage for future research, the authors explore rising issues such as Islamic monetary union, alternative forms of currency and a host of factors that are shaping this new industry. The issues have been discussed in five ways. The first deals with the evolution of Islamic Finance. The second deals with innovation and growth; Islamic finance has transcended borders and regions but many challenges lie ahead before it can make that crucial leap from being an interesting but niche market to being an integral part of the global financial markets; the third looks at the potential for additional growth through emerging economic centers and financial hubs; the fourth looks at a new financial dawn rising from new forms of capital in the 21st century and the role of Islamic financial innovation on macroeconomics; the final on industry issues and strategies, both external factors and factors internal to the institution. According to the authors, an old Arabic proverb best summarizes the state of Islamic finance in early 2009: a promise is a cloud, fulfillment is rain. In the context of Shari’ah-compliant banks operating in the world today, this translates into a simple message; for several years, the Islamic finance industry has been building capacity to demonstrate to Muslims and non-Muslims the inherent value of Shariah compliant banking products and services. Currently the industry is maturing to the point where expansion of Shariah compliant services is only limited by the ambition and imagination of the banks’ senior management teams.

Abdul-Majid, Saal & Battisti (2009) in their paper “Efficiency in Islamic and Conventional Banking: an International Comparison” investigate the efficiency of a sample of Islamic and conventional banks in 10 countries that operate Islamic banking for the period 1996–2002, using an output distance function approach. Authors obtain measures of efficiency after allowing for environmental influences such as country macro-economic conditions, accessibility of banking services and bank type. While these factors are assumed to directly influence the shape of the technology, it is also assumed that country dummies and bank size directly influence technical inefficiency. The
parameter estimates highlight that during the sample period, Islamic banking appears to be associated with higher input usage. Furthermore, by allowing for bank size and international differences in the underlying inefficiency distributions, authors are also able to demonstrate statistically significant differences in inefficiency related to these factors even after controlling for specific environmental characteristics and Islamic banking. Thus, for example, results suggest that Sudan and Yemen have relatively higher inefficiency while Bahrain and Bangladesh have lower estimated inefficiency. Except for Sudan, where banks exhibit relatively strong returns to scale, most sample banks exhibit very slight returns to scale, although Islamic banks are found to have moderately higher returns to scale than conventional banks. While this suggests that Islamic banks may benefit from increased scale, the results suggest that identifying and overcoming the factors that cause Islamic banks to have relatively low potential outputs for given input usage levels will be the key challenge for Islamic banking in the coming decades.

Hisser (2009) in his book “Islamic Finance” succinctly presents the essentials of his critique. The comparison of Islamic finance with the standards of conventional finance arrives at a sobering result: “Seen through the eyes of the non-Muslim observer, applying Islamic principles in finance comes down to submitting economic activities to a number of restrictions” (p. 134). Positive facets of Islamic finance are scarce. It probably lowers barriers of access to financial services for such consumer groups for whom observance of shariah rules in finance is imperative. Islamic finance arguably lessens the risks derivatives might entail. Yet in authors view, aggregate drawbacks carry such a weight that the question inevitably arises whether Islamic finance might impede economic growth in national economies that implement its principles on a large-scale. Higher transaction costs for virtually all basic Islamic financial instruments already imply unavoidable structural disadvantages. Devising Islamic versions of more complex financial tools further pushes up price tags by the requirements to write complicated sequences of governing contracts and to set up special purpose entities. Even if ways to mimic conventional instruments or to reverse-engineer them in Islamic form (though probably not in substance) prove to be quite ingenious—at the end of the day there is no
free lunch. The author forcefully argued judgment is persuading. This notwithstanding, the author concedes that in some Islamic finance and banking still are in an experimental phase and will further evolve—hence the attachment of the epithet ‘tentative’ to his summarizing verdict. The controversies surrounding Islamic finance are bound to gain additional vigour. The debate—inescapably fraught with some ‘Huntingtonian’ subtext—attains an extra dimension of complexity through expanding debates among Islamic theological circles on the religious authenticity of both Islamic financial products and Islamic banking practices. Everybody who wishes to acquire a solid base from which to further observe these interesting developments will be well advised to start out with author’s outstandingly competent contribution.

Srairi (2009) in “Cost and Profit Efficiency of Conventional and Islamic Banks in GCC Countries” using stochastic frontier approach, this paper investigates the cost and profit efficiency levels of 71 commercial banks in Gulf cooperation council countries over the period 1999–2007. This study also conducts a comparative analysis of the efficiency across countries and between conventional and Islamic banks. Moreover, author examines the bank-specific variables that may explain the sources of inefficiency. The empirical results indicate that banks in the Gulf region are relatively more efficient at generating profits than at controlling costs. The paper also finds that in terms of both cost and profit efficiency levels, the conventional banks on average are more efficient than Islamic banks. Furthermore, there is a positive correlation of cost and profit efficiency with bank capitalization and profitability, and a negative one with operation cost. Higher loan activity increases the profit efficiency of banks, but it has a negative impact on cost efficiency.

Ariffin, Archer & Abdel Karim (2009) in their paper “Issues of Transparency in Islamic Banks” say that it is widely believed that market discipline is generally enhanced if the activities of banks are disclosed to market participants. Greater transparency from banks keeps market participants better informed about the way a bank is managed and governed. There is no exception for Islamic banks. This paper looks at the issue of transparency in the context of Islamic banks. Using a questionnaire survey addressed to
28 Islamic banks in 14 countries and also to bank supervisors, rating agencies, external auditors and representatives of IFSB (Islamic Financial Service Board) and AAOIFI, perceptions on several of the relevant issues are highlighted. The findings show that Islamic banks are still lacking with regard to risk disclosure, even though transparency from Islamic banks is more pertinent than for conventional banks due to their profit-sharing arrangements. These findings are helpful for the design of policies and standards to improve the transparency of Islamic banks.

Haque, Osman & Hj-Ismail (2009) in their paper “Factor Influences Selection of Islamic Banking: A Study on Malaysian Customer Preferences” highlights the emergence of strong Islamic movements in last three decades which has generated a renewed interest in Islamic economics, especially in Islamic interest free banking. Currently Islamic bank strategically offering high quality products and services to satisfy their customers due to the strong competition, customer expectation for high quality services and rapidly changes of technology. The authors have tried to investigate major factors that are reflecting to customers’ perception and satisfaction on Islamic banking. The study determine the perception, quality of services, availability of services, confidence in bank both social and religious perspective about Islamic banking system. A Logit model has been employed to anticipate the effects of the explanatory variables. The analysis confirms the significant positive relationship of quality of services, availability of services, social and religious perspective and confidence in bank with customers’ perception about Islamic bank. These factors are expected to have great role for influencing customer mind. With the help of these, customers can derive a better understanding of the activities that are undertaken by banks.

Pramanik (2009) in his paper “Objectives and Functions of Islamic Banking in the context of Poor Country like Bangladesh” discusses the sources of exploitation made possibly by institution of interest. The author in his paper argues that although the relatively rich exploit the relatively poor through the institution of interest the mechanism of exploitation rather works in a very complicated and different way depending on the nature of economic activities and the place where such activities take place.
Lahasasinah (2010) in his book “Introduction to Fatwa, Shariah Supervision & Governance in Islamic Finance” has provided a sound foundation of knowledge in fatwa and Shari’ah governance related to Islamic finance. This foundation is coupled with very important aspects of Islamic jurisprudence, legal maxims, and Islamic law of contracts. All information related to fatwas has been provided by the author so that to understand fatwa as one of the important corporate governance and appreciate its gravity in Islamic finance.

El-Diwany & Ahmad (2010) in the book “Islamic Banking and Finance: What it is and what it could be” commence with an overview of the religion of Islam itself, its history, its legal system, and the various Islamic schools of juristic, philosophical and economic thought through the centuries. A review of fiqh al-muamalat is provided in Section two, from both the traditional and modern perspectives, so that the reader can become familiar with the basic tool-kit of the shariah scholar. Authors have also explained Islamic insurance, the law of Islamic wills and inheritance, zakat etc. Section four begins with a review of the institutions and product ranges of the interest based system. Which help readers who are unfamiliar with interest based finance to better comprehend the dialogue that often takes place between the Islamic and secular worlds of finance. The discussion then expands to consider the implications of shariah for economic activity. What would be the features of a genuinely Islamic economic system? How would its framework compare with that of the interest-based system? A wide range of aptitudes are catered for, so that readers can in many cases skip the advanced theoretical content without compromising their understanding of the core issues. In the book, glossary lists the transliteration, definition, and Arabic text spelling for various technical terms, and an English definition is also given in brackets for the first occurrence of each such term in the text.

Karim (2010) in his book “The Islamic Moral Economy: A Study of Islamic Money and Financial Instruments” has written a short and somewhat subversive account of Shariah finance both in terms of its principles and with regard to the pragmatic implementation of those principles in modern financial markets. The book is based on the
notion of the ‘Islamic Moral Economy’ which he sees as ethically pure, but demanding; in fact a utopian ideal distant from the perennial and often underhand manipulations of the marketplace in short, from reality. The author points out, Islam’s moral economic universe is an idea rather than a reality; it asks for participants to give an account of themselves in moral terms rather than exercise their acumen in order to acquire riches and power. He gives a diligent if occasionally laboured account of the various types and effects of Shariah contracts and well-rehearsed precepts that underpin Shariah finance. As we are forbidden riba or interest (a pervasive and necessary catalyst in conventional finance, which is a more contested idea amongst Shariah scholars than is generally recognized), uncertainty, speculation and investment in forbidden products and activities such as gambling, arms manufacture, porcine products and so on. These strictures are based upon rigorous ethical injunctions that all Muslims are exhorted to follow as found in the Qur’an, the Prophet’s exemplary life or Sunnah and the sayings of the Prophet and his immediate followers, known as Hadith. These rules or injunctions are embellished and developed by the timely accruals of jurisprudential opinions over the ages, which make up Fiqh or the implementation of the Shariah into legal practice, authority and judgments. The Islamic Moral Economy, however, as envisaged by author, goes further than ad-hoc injunctions; there is a seamless ethos which gives the injunctions their energy and cohesiveness. It demands from Muslims complete reciprocity, integrity, an obligation to serve and to be responsible for the community. This worthy expectation of how people should behave virtuously does not translate into how they do behave in modern secular societies, which are becoming increasingly impersonal, self-centered and complex. Author questions the possibility of acting morally in accordance with the Islamic moral economy in modern contemporary financial markets. His cogent and challenging argument is threaded with an abiding scepticism about truly realizing the ethics underpinning Shariah finance, as opposed to indulging in window dressing by mouthing complacent slogans rather than making a reality of Shariah precepts.

Warde (2010) in his book “Islamic Finance in the Global Economy” writes that Islamic finance has grown at an annual rate that exceeds twenty percent a year and is now a two
hundred billion dollar industry operating in more than seventy countries. A best-selling text that introduces the role of Islamic finance in the global economy, this book unravels the paradox of a thriving system rooted in medieval practice. It defines Islamic finance in its broadest sense, including banks, mutual funds, securities firms, and insurance companies. The author addresses core issues, such as the moral economy of Islam, differences between Pakistan, Iran, Sudan, and Malaysia, including religious issues and challenges. This also accounts for recent changes and developments. It thoroughly traces the evolution of Islamic finance, explores its significance from historical and comparative perspectives, and considers strategic, marketing, managerial, political, economic, regulatory, and cultural challenges currently facing Islamic institutions.

Kettell (2010) in his book “Frequently Asked Questions in Islamic Finance” answers some of the most frequently asked questions from his many years experience in working and teaching in Islamic banking and Finance. From knowledge of the Qur’an and Shariah Law, to new and old Islamic financial concepts, Islamic terms, and Islamic financial instruments and services and other all questions have been answered. The book covers all the key areas that practitioners need in Islamic finance. It also explains the Islamic banking and finance products with an appropriate example. Question and answer section has been provided in the book to build the knowledge in the area of Islamic banking and finance.

Kettell (2011) in his book “Introduction to Islamic Banking and Finance” provides succinct guide to the key characteristics of Islamic banking, highlighting how these differ from conventional banking. This detailed book illustrates how Islamic banking is consistent with the Shariah, a key element of which is the prohibition on collecting and paying interest. This central religious precept appears to rule out most aspects of modern finance but it does allow money to be used for trading tangible assets and business, which can then generate a profit. The book looks at all aspects of Islamic banking, including chapters on its creation and evolution through a detailed discussions of the issues involved in the Shariah contracts of Murabaha, Mudaraba, Musharaka, Ijara, Istisna, and Salam. Islamic insurance (Takaful) is also covered. Finally the book takes a look at
Shariah law and Shariah Boards, indicating the roles and responsibilities that come with membership. Islamic banks have been operating in places such as Bahrain, Saudi Arabia, Malaysia and Dubai for some time. Conventional bankers have traditionally viewed the sector as a small, exotic niche but recent years have seen a dramatic surge in popularity. A number of Western investment banks have started working with Muslim clerics to create new ranges of financial products designed for devout Muslims, a large and growing market. Although estimates of the size of the Islamic finance industry vary greatly, everyone agrees that it is expanding rapidly. These are some of the areas explained in the book.

Bellalah (2011) in his book “Islamic Finance and Islamic Banking” explains basic concepts in Islamic banking and finance. It fills a gap in the financial literature by addressing the role of Islamic finance and banking with respect to financial instruments and innovations. Financial instruments such as derivatives and sukukks are explained, their performance is analyzed and comparisons are made between conventional funds and Islamic funds. This book explores the performance and risks of Islamic banking as well as how shariah compliant deals and structures are constructed. Both quantitative models and illustrations from real life are used to introduce the reader to trades and deals using Islamic financial instruments, funds and indices as well as performance measurement for Islamic structures. This book explains everything which a finance practitioners and advanced finance graduates want to know about Islamic banking and finance.

Yunus (2011) in his book “Islamic Finance: Law and Practice” explains that Islamic finance is a rapidly expanding global industry and this book is designed to provide a practical treatment of the subject. It includes discussion and analysis of the negotiation and structure involved in Islamic finance transactions, with relevant case studies, structure diagrams and precedent material supporting the commentary throughout. An introductory section describes the theoretical background and explains the principles (and their sources) of Islamic law which underpin Islamic finance practices, providing an important backdrop to the work as a whole. The work also considers the role of Shariah supervisory boards, Islamic financial institutions and the relevance of accounting
approaches. The work adopts an international perspective to reflect the pan-global nature of the industry and accepted practices, with the aim to bring together different schools of thought applied in international Islamic finance transactions. It also highlights any regional differences in accepted practice by reviewing the position in the Gulf States, Asia, UK, Europe and USA. The second part of the book concentrates on Islamic financial law in practice and begins with a section on financial techniques. This section explains the basic requirements for Islamic finance contracts both in terms of the underlying asset types and also both the applicability and acceptability of the underlying asset. There is a full discussion of the various types of contractual models such as Mudaraba (trustee finance), Musharaka (partnership or joint venture), Murabaha (sale of goods), and Sukuk (participation securities: coupons etc). The nascent area of Takaful (insurance) is also covered as are matters specific to the important field of project and asset finance.

Rosly (2011) in his book “Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking and Finance, Investments, Takaful and Financial Planning” provides the underlying principles of Shariah, financial instruments and presents them in actual and practical form. Since 1983, Malaysia has been making significant inroads into the Islamic financial landscape. Today, Islamic financial transactions have made their presence felt in almost all financial institutions including banks, unit trusts, insurance, discount houses, fund management, factoring, pawn brokering and project financing. And with more than US $300 billion Islamic funds available in global finance today, it is logical that the business of Islamic banking, insurance and fund management is fast expanding and encroaching into nontraditional financing. This book demonstrates the interlinking network of values derived from revelation and reason (senses) in resources allocation, particularly capital. It deals with the variant issues invoking philosophy and ethics, history, economics, banking and the capital market. It is unique in the sense that the articles were written on practical ground, dealing with the practical issues of the day. Islamic economics and finance are discussed by way of examples and problems faced by Islamic financial institutions, particularly in
Malaysia. It hopes to present Islam to the business community in a dynamic way. It is a layman version of the Islamic financial markets. The author’s approach is both practical and critical, with the hope to invite debates and discourses among discerning observers. As an economist, he considered that his role was to dissect the inside and see what is going on. This is the scientific method. By way of observation, he has explained most of the existing financial instruments and policies in Malaysia and in other Muslim countries as well. Critical observers who are curious how the Islamic financial markets operate in Malaysia may find this book helpful.

Choudhury (2011) in his book “Islamic Economics and Finance: An Epistemological Inquiry” work on the foundations of the role that the moral and ethical law plays on human enterprise comprising economics, finance, society and science. Divided into three parts, theoretical, empirical and application, the study covers a vast area of socio-scientific investigation and is extensively comparative in perspective. Its methodology is a mix of a textual, analytical, diagrammatic, mathematical and applied nature spanning various problems of Islamic economics, finance, society and science within a general-system worldview of unity of knowledge. This book presents multidimensional general-system conception, construction, formalism, application and inference as empirically viable and explainable and uses the language of philosophy of science and applied mathematical models alongside policy analysis. At a time when an epistemological study of the foundations of Islamic economics, finance, society and science is receiving crucial attention worldwide this text is equally accessible to the informed reader and the specialized one.

2.3. Research Gap

The foregoing literature review is a fervid attempt to find out and determine whether an identical or cognate academic work on the topic of this study has been previously undertaken by way of research, book, paper or article in journals published and available
so far. Electronic media avenues have also not been spared to find out any material related to the topic under study. A digital search has been made through World Wide Web like Emerald, Springer, etc. Visit to these sites presented lot of literature on Islamic banking, finance and economics. However electronic media even did not reveal any material directly touching upon the topic of study or remotely related to it. Also the numerous journals scanned to get similar or related literature drew a blank. Noteworthy amongst these are the journals published by organizations which include *Islamic Economics* published by Islamic Economics Research Centre, King Abdulaziz University, Jeddah; *Journal of Cooperation* published by Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC); *Islamic Economics Studies* published by Islamic Research and Training Institute of the IDB, Jeddah; *Review of Islamic Economics* published jointly by International Association of Islamic Economics and the Islamic Foundation, UK; *Journal of Islamic Economics, Banking and Finance* published by Islami Bank Training and Research Academy, Bangladesh and *IIUM Journal of Islamic Economics* and Management published by International Islamic University, Malaysia. Research made in the reputed Educational institutions in the world like International Islamic University, Malaysia; International Islamic University, Pakistan; INCEIF, Malaysia etc. Neither any previous study nor any proposed study directly or indirectly related to the research work as undertaken in this study has been noticed.

Indeed the studies discussed under the aforesaid literature review related to Islamic banking, finance and economics, but they restrict to some more specific aspects like interest free banking, institutions of Islamic finance, regulation and supervision of Islamic banks, efficiency of Islamic banks, credit risk in Islamic banking, operational efficiency of Islamic banks, financial markets in an Islamic economy etc. etc. None of the studies dwell upon the compatibility of objectives of Islamic finance and its achievements. This leaves a big research gap and this current study on the topic ‘Islamic finance: compatibility of its objectives and achievements’ is an endeavour to fill this gap.
2.4. Objectives of the Study

The study broadly attempts to empirically investigate whether achievements of Islamic banks and financial institutions are in accordance with the objectives or not. Keeping the same in mind, the following are specific objectives of the study.

- To identify the different objectives of Islamic finance.
- To examine whether all the objectives of Islamic finance are equally achieved by Islamic banks and financial institutions in different Muslim countries.
- To find out difference, if any, between the perception of stakeholders towards Islamic finance across profession, country, gender and age group on different objectives (Islamic, ethical, social and economic) of Islamic finance.
- To find out the perceptual difference among various stakeholder groups of Islamic finance towards the products and services of Islamic finance.
- To suggest measures to improve the performance of Islamic financial Institutions.

2.5. Hypotheses of the study

Based on extensive literature survey, relevant hypothesis were generated for the purpose of achieving the objectives of the study. The following null hypotheses have been formulated in respect of this study.

- All objectives of Islamic finance are equally achieved by Islamic banks and financial institutions.
- There is no significant variation in the perception of stakeholders on Islamic Objectives across profession, age, country and gender.
- There is no significant variation in the perception of stakeholders on Ethical Objectives across profession, age, country and gender.
- There is no significant variation in the perception of stakeholders on Social Objectives across profession, age, country and gender.
- There is no significant variation in the perception of stakeholders on Economic Objectives across profession, age, country and gender.
- There is no significant variation in the perception of stakeholders on Islamic finance products and services across profession, age, country and gender.

2.6. The Research Process

<table>
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<tr>
<th>Review of Literature</th>
<th>Problem Areas Identified</th>
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| Identification of dimensions to find out compatibility between objectives and achievements of Islamic finance | - Most Studies attempt to measure social and economic objectives only.  
- Negligible research work on objectives, achievements and their compatibility. |

<table>
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<tr>
<th>Focus Groups</th>
<th>Conclusion and Suggestions</th>
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<tr>
<td>40 respondents in 2 groups</td>
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Identification of factors measuring objectives of Islamic finance, 45 statements were crystallized.  
Design of Research Instrument by careful selection of items.  
Pilot Test to assess the flow of questionnaire and to assess its Face Validity  
Pre-Testing of the instrument with subject experts (Content Validity), only 38 statements finalized  
Defining Population and Sample two countries and 5 types of respondents. |

Interpretation of Findings and Discussions  
Statistical Analysis using M, SD, Test of significance such as ‘t’ test and ANOVA
2.7. Research Questions

- What are the different objectives of Islamic finance?
- Which objectives are achieved by Islamic banks first and which objectives are achieved last as far as stakeholders’ opinion is concerned?
- Are Islamic banks and financial institutions achieving their objectives or not?
- What is the perception of different stakeholders towards the Islamic finance and its working in different countries?
- Is perception of stakeholders’ towards Islamic finance different in different countries or there is uniformity of perception in different countries?

2.8. Research Methodology

The research is based on primary data collected through a well designed questionnaire served on a selected group of respondents to elicit the required information, questionnaire prepared on Likert’s five point scale and respondents have been asked to tick the relevant satisfaction/dissatisfaction agreement. The questionnaire was divided into five types of variables and questions were put in haphazard manner, so that to reduce the bias of the respondents. The data was collected from two countries where maximum number of Islamic banks and financial institutions are working i.e. Malaysia and United Arab Emirates. The maximum numbers of respondents were from Malaysia and most of the time was spent in this country to visit as well as to have interaction with Shariah scholars.
and experts of Islamic finance. In Malaysia, data was collected from Kuala Lumpur and in United Arab Emirates; data was collected from Dubai, Sharjah and Abu Dhabi. Data was collected from five types of respondents, who are directly involved with Islamic banking and financial system. These include customers, Shariah advisors, regulatory officers, employees of Islamic banks and others. Most of the respondents are customers of Islamic banks and their level of satisfaction is also somewhat different from employees of Islamic banks. Data was collected during the working hours of Islamic banks and financial institutions, but in some places respondents took more than a week to return the questionnaire and this happened mostly in headquarters of Islamic banks in Malaysia. In Dubai, Dubai Islamic bank distributed the questionnaire through proper channel and researcher did not get the chance to interact with the employees. The same bank did not permit the researcher to collect the responses from customers of the bank, although researcher tried hard to get the permission for the same from corporate headquarter but was not allowed. But other banks in UAE, allowed the same from their banks. Data was first collected from Malaysia and then from UAE as both have maximum number of Islamic banks. Although questionnaire was distributed personally among stakeholders of Islamic finance but due to culture differences in the banks, sometimes copies of questionnaire were handed over to Human Resources Department for getting the response from relevant departments. Questionnaire was also put online in the personal website of the researcher\(^5\), but those responses have not been used in the survey due to some technical problems. The total number of respondents is 425 from both the countries, such that 255 are from Malaysia and 270 are from United Arab Emirates. This means 60 percent of respondents are from Malaysia and 40 percent are from United Arab Emirates. The age group of respondents is divided into four categories and gender of respondents is male in most of the responses.

2.9. Plan of Research

\(^5\) www.wdibf.com (World Database for Islamic Banking and Finance)
The study is spread over six chapters and each is devoted to the subject matter as elaborated hereunder:

The first chapter is about the Islamic finance and its position in economic system in the world. The details related to products and services of Islamic finance and number of Islamic banks and financial institutions in world. This chapter explains all important things which a layman must understand and interpret before writing anything about Islamic finance.

Chapter second is about the review of literature and research design. The literature included in the thesis consists of books, research papers and other material related to Islamic finance in general and objectives and achievements in particular. The review of literature brings to fore the gap emerging from these works for further research. The gap justifies the problem of research which this study has set for itself as no work has been done so far specifically on the topic of research under study. Also spelled out in this chapter are the objectives of the study, the hypothesis to be tested, the methodology and limitations of the study in addition to other issues related to the same.

Chapter third presents an overview of Islamic finance and traces out the background of Islamic finance. This include origin of Islamic finance from authentic sources of Islam. The chapter also explains about the types of riba in Islam. Along with the historical Development of Islamic Finance in world, Islamic Finance in Malaysia and UAE are the particular areas explained in this chapter. Modern challenges of Islamic finance has also been explained in this chapter.

Chapter fourth explains in detail the objectives of Islamic finance while taking the authentic sources of Islam into consideration. The chapter also explains other objectives which great scholars have defined of Islamic finance. Four types of objectives have been identified in Islamic banking and finance (Islamic, Economic, Social and Ethical).

Chapter fifth is about the detailed research methodology and questionnaire responses. The necessary information related to stakeholders (customers, Shariah advisors,
employees of Islamic banks, regulatory officers and others) which include their age, gender and religion has been discussed and analysed. The other details like testing of hypothesis and accepting or rejecting hypothesis have been explained in the chapter.

Chapter sixth sums up findings, draws conclusion and makes suggestions which are based upon the results. The findings and suggestions would help in incorporating necessary changes and are recommended to the practitioners, scholars and others who have a stake in Islamic finance. The recommendations are based on the data collected from two countries and suggestions received from stakeholders while collecting the response from two countries. The outcome has its bearing on the hypotheses which are tested positive or negative.

2.10. Limitations of Research

No study can be final and perfect. So is the case with the present study which has its own limitations. They are enumerated as under.

- While collecting primary data from stakeholders in United Arab Emirates, lot of difficulties were faced by the researcher especially in translation. Many stakeholders did not understand English well as Arabic is their mother tongue. On the other hand, questionnaire was in English language, so it was difficult for them to understand some statements correctly.
- Primary data was collected through a questionnaire by the researcher. Some respondents reluctantly divulged their mind to answer the questions while some lacked confidence in answering the questions. Hence the possibility of some biased and irresponsible information creeping into interpretation relied on for analysis and interpretation in this study can not be ruled out.
• The data collection period in both the countries was limited (25 days in Malaysia and 20 days in UAE) and therefore only ‘425’ respondents could answer the questionnaire. The data collected from them has been made the basis of this study.

• Some banks did not officially permit to collect information through questionnaire from their customers since there were some queries in questionnaire related to the satisfaction of products and services of Islamic finance issued by the bank. This happened in UAE and not in Malaysia

2.11. Scope for Further Research

The study focuses on Islamic finance objectives, achievements and their compatibility in order to find out whether Islamic banks and financial institutions achieve their objectives or not. There are many areas related to it which have not been discussed yet. Most important areas are from Shariah point of view as also those related to customer satisfaction. Although customer satisfaction level differs from country to country and from bank to bank, but general perception towards the overall satisfaction is the area which needs attention by researchers. There is also a gap between what is defined in principle about Islamic finance and what it is in actual practice. Many areas have been left in Islamic finance either because of financial constraint or because of non availability of relevant data. Perception of stakeholders towards different products issued by Islamic banks and financial institutions is also the area which needs attention from academicians. These products usually include those which are new in Islamic Finance industry. Contribution of IDB (Islamic Development Bank) in the development of Islamic Finance Thought and suggesting the measures for the development of the same by IBD are among the important areas which need to be addressed by researchers.

Summary

Profitability (despite its importance and priority) is not the sole criterion in evaluating the performance of Islamic finance. While reviewing the literature, it was found that there is a research gap as far as objectives, achievements and their compatibility is concerned.
The present study was taken to fill the gap and objectives and hypothesis were formulated and appropriate research methodology was selected for the same in order to reach to the concrete conclusion.
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