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In The Name of Allah,

The most Beneficent, The most Merciful

"O Believers: devour not Riba, doubled and redoubled;

and fear Allah, in the hope that you may get prosperity."

Sura Ale-Imran (verse No. 130)

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Editor’s Note

Islamic Finance has a negligible share of microfinance at the moment in the overall asset mix. However, Muslim majority countries and regions have a greater incidence of poverty on average than the rest of the world. Muslim population comprises a quarter of the global population, but its share in total global poverty is almost near to half. On almost all major development indicators, Muslims are far behind not only the high-income countries on average; rather, they are even behind the middle-income countries on average on most health, education and other development and economic indicators.

One of the reasons why supply-side response is sluggish despite the huge demand for microfinance products and services is the higher cost of operations. Nonetheless, technological developments in the recent past, especially in their applications in the provision of financial services have provided a unique opportunity to enhance the scale of microfinance provision through more efficient delivery, administration and operations.

There is a need for Fintech Rich Hybrid Islamic Micro-Finance (FRHIMF) scheme as a specialized and comprehensive microfinance program which includes financial services, such as micro-credit, micro-Takaful and micro-savings. If it is blended with non-financial support as well as training and awareness camps for health and education, it can further extend the socio-economic impact on the beneficiaries. Together with financial services, a successful poverty alleviation focused microfinancing scheme must target skills enhancement, financial literacy, computing literacy and increasing the business acumen of clients.

The financial credit services using Qard-e-Hasan, Murabaha and Ijarah can provide finance for working capital needs and income generating assets acquisition. The aim of such a scheme should be to achieve three goals, namely scale, sustainability and outreach in innovative ways.

The use of Fintech in both supply side and demand side operations and processes can enable efficient delivery, cost synergies and financial sustainability. Furthermore, it will ensure transparency, effective monitoring and reducing transaction costs to help towards achieving scale, sustainability and outreach more efficiently than in a brick and mortar model.

The incentive structure in different services through Smart Cards, Smart Wallets can encourage participation of clients in the program for the long term by providing consistent subsidies in the form of discounts on the use of Smart Cards and Smart Wallets.

Thus, it is hoped that Islamic banks with surplus liquidity will think of embedding technology in their products and services so that they are able to compete on cost with the large conventional banks that have economies of scale. Technology has provided an opportunity for smaller Islamic banks to change the path of their cost curves by achieving efficient delivery and operations and excelling on service quality. In Pakistan, the premier Islamic Bank's achievement of award for the Best Bank in 2018 shows the way for other Islamic banks to excel in the efficient delivery and service quality in order to consolidate and extend the Islamic banking share in the overall banking industry. With growth in assets and capital, it is also expected and hoped that in future, Islamic banking services would also cater to the bottom of the pyramid population to actualize the vision of Islamic banking to be the banking of the first choice for everyone, including Muslim and non-Muslims and including all segments of population, regardless of their socio-economic status.

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

In his article **"Some Higher Education Issues in Muslim Countries with Islamic Economics as An Illustrative Case",** written by Zubair Hasan, he says this paper is a preliminary effort to look into a basic issue of delivery and its cost in higher education in the Muslim world. For that it selected the state of affairs in economics and finance as a reference point and the data on RePEc archive as a performance measure. It must be at once conceded that this approach may have more blemishes than the critics may dig out. Thus no tall claims for this meager effort but it does bring to light a few interesting facts about education in the Muslim world.

In his article **"Islamic Cryptocurrency? A Model Structure",** written by MohdMa'SumBillah, he says a cryptocurrency management is a digital financial platform operated in the borderless cyberspace, but it shall require to be established as a registered company with a separate legal entity. In this article an attempt is made to analyze the operational mechanisms of cryptocurrency amidst *Maqasid al-Shari'ah*.

"The Rationalization of Abu Yusuf Economic Thought (An Analysis of the Islamic Public Finances)" written by *Hendri Hermawan Adinugraha* who is on Faculty of Economics and Business, University of Dian Nuswantoro, Semarang-Indonesia has described his library research to rationalize economic thought of Abu Yusuf and to describe the contribution of his economic thought at the time. He presents that Abu Yusuf economic thought was influenced by two factors, namely internal and external factors. Internal factors emerging from his teachers influence, while external factors, it appears, from, at that time, unstable economic and political situation resulting from a lack of harmony in the relationship between rulers and religious figures. Therefore such social circumstances, it appears molded the economic thought of Abu Yusuf which is evident through his book al-Kharaj oriented to achieve mashlahah al-'āmmah especially from Islamic public finances perspective.

In their article "**Effective Organizational Communication and Its Roles in Mitigating Shariah Non-Compliance Risks for Malaysian Takaful Operators (TOs)**", written by Hafiza Harun and Rusni Hassan, this study empirically examines the organizational communication aspects in Malaysian Takaful Operator (TO). A set of questionnaires is distributed to a selected group of staff in one TO In Malaysia to assess their thoughts on the subject matter. The study finds the overall organizational communication is effective thus helps the institution to mitigate risks for IFIs especially Shariah non-compliance risk.

In their article **"Evaluation of Employees' Perception towards Islamic Banks Growth"**, written by Qaisar Ali, Hassnian Ali, Ummi Humairabte Hj Kamis, A quantitative research approach is adopted to examine the impact of various factors. The data was collected from 138 employees of Bank Islam Malaysia at Selangor state through a self-administrated questionnaire. The results of this study revealed that Islamic bank employees positively perceived the prospective growth of Islamic banking in Malaysia.

In their article **"Islamic Calendar Effect: A Literature Survey"**, written by Syukriah Ali & Najah Mokhtar, this paper reviews the related literature by addressing the Islamic calendar effect (Ramadan) on the stock market in Muslim countries. The findings of previous studies on Ramadan effect provide comprehensive understandings for scholars and investors.

In his article **"Deposit Taking by Islamic Banks"**, ***Muhammad Ali Shaikh***, a retired senior banker and professor of engineering economics, gives a very clear and comprehensive explanation of how Islamic Banks calculate return to depositors. He enumerates the differences in mechanism of returns from conventional banks based on interest, whereby the return to depositors is known and guaranteed. On the contrary he says, that Islamic banking depositors are neither guaranteed a profit, nor is their principal guaranteed as their position is that of a partner rather than a mere depositor. Mr. Shaikh thus concludes that such depositor should also be entitled to a return commensurate with this increased risk. An interesting article to understand profit distribution mechanism in Islamic banks.

Some Higher Education Issues in Muslim Countries with Islamic Economics as an Illustrative Case

By
Zubair Hasan[*]

Abstract

The purpose of this paper is (i) to state the objectives of higher education commensurate with Islamic requirements; (ii) to examine the current state of higher education in Muslim majority countries with reference to the stated objectives with a view to indentifying the main issues it faces and (iii) to present in outline a program for creating an Islamic space for higher education at the global level.

The constraints of space, time and resources at our disposal do not permit us to present an all covering blue print on this vital subject. Instead of dealing with specifics, we shall focus on attitudinal and directional issues of evolution. We shall use Islamic economics including finance as an illustrative case. Even here a comprehension of the desired magnitude may be lacking. Thus, we are conscious of the limitations of the truncated approach the paper takes to the problem. Yet, we expect the exercise to be rewarding in lighting up a few dark corners in the area.

Keywords: *Objectives of education; Islamic economics and Issues in higher learning; remedial action*.

1. Introduction

The view of education in Islam is based on verses of the Quran and the Prophetic ***traditions*** that exhort for learning, emphasizing the benefits that flow from the acquisition of knowledge. Indeed, no religion save Islam has given so much importance to learning; the very opening verses of the revelation instruct humans to 'read'. The Qur'an makes humans' ability to read and write for educating self as their definitional characteristic

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distinctive of other creatures on Earth. Humans were equipped to enable them take charge of the planet with all its resources intended to promote creativity and growth for transforming self from lower to higher stages of development – for becoming '*insaan'* from mere 'being'.[1] As both virtue and vice were kept ingredients in humans' creation, Humans were granted freedom to choose either course as guide to action in life on earth, Education was expected to keep them on the path of virtue but discretion granted could promote the opposite attributes as well. Thus, education did lead to both construction and destruction during the evolution march of knowledge though on the whole pen emerged mightier than the sword. Contextually, the divine control consisted of a system of reward for good deeds and punishment for the non-virtuous, here and in the hereafter. Thus, education acquired ethical dimensions of significance in Islam; Islamic jurisprudence becoming the guiding star of education at all stages of learning. There is of late a notable revival of interest in juridical studies.

The real journey on the education path begins after basic learning of language and numbers and their elementary use to have a feel of the happenings around and some of the basic human problems.[2] Learning grows into education after schooling. Colleges, universities and other specialized institutions are the cradles' of higher education, research and exploration. This paper aims to have a look at the state of higher education in the Muslim world. It is a fascinating but difficult task for the confines of a paper in terms of time, space and resources. We must define the boundaries, limitations and utility of our exercise.

1.1 The design

To begin with, we use Islamic economics including finance as an illustrative case in the Muslim world on a selective basis from 1975 onwards when the subject had just emerged as a formal academic discipline. The progress of the subject in higher education over the past four plus decades has been laudable, especially in the financial sector. Gaps remain, there have been misdirection too. But all new disciplines face teething problems. Even mainstream economics is not yet a body of settled conclusions readily applicable to policy. Theoretical formulations can never be, in a dynamic and kicking social order as of today. Change makes existing problems complicated and new problems continue cropping up.

Schooling is the bedrock on which the edifice of higher education is raised. The content and quality of learning at that level has serious limitations in the Muslim world to link it up with college education. However, we cannot discuss them here. Instead we take the risk of closing our eyes to the schooling limitations for the discussion that follows. Admittedly, such a truncated exploration of the higher education terrain would detract from the utility of our discussion on higher education issues in the Muslim world but we do hope to illuminate some of its darker corners.

1 Education is what is left in you beyond the classroom lessons; what sort of person it makes you. "Real education is something one take up, not as a means to make a living, but as a habit of being through a lifetime."

2 This implies the avoidance of the role of mosque in imparting educational instructions even as much classical juristic explorations owe their origin to work at mosque attached libraries. Even today the grand mosque at the centre of the International Islamic University of Malaysia (IIUM) and its sprawling library stand face to face in thattradition.

Structure of the paper

The Section of the paper following introduction deals with the broad overall objectives of education from Islamic perspective. Next, we state and analyze some basic issues relating to higher education in the Muslim countries in the field of economics providing broader generalizations where relevant and feasible. This would necessitate spelling out some policy measures to improve the situation. Finally, we close the discussion with a few concluding observations.

2. Objectives of higher education

There is no universal consensus among experts on what the objectives of education in general are or should be, much less on the aims of higher education. The reason is that educational aims - irrespective of level - do not exist or can be conceived of in vacuum. A social milieu has to be their frame of reference. Thus, aims of education cannot be thought of independent of factors affecting the social dynamics over time and place. These factors – historical, customary, juristic, economic and geo-political - vary across countries and over time in the same country. We have discussed the issues concerning the structural designs, curricula and reading material contextual to higher education in economics thread bare in a paper not too far back in the past (Hasan 2008). We need not go over the argument again as things have since shown not much change over time and space. What has remained typically frozen, has rather hardened, is the attitude towards education in Islamic economics and the approach to its development, the focal points of our discussion here.

2.1 Colonial hangover

When Qur'an opened with an exhortation to read and informed us that Allah was the first teacher of the humans – men and women – the reference was to their innate faculty to learn and gain knowledge as distinct from other creatures. Ability to learn was the necessary condition for educating one's self. Presently, the two – learning and education seem to telescope into one another and can be rarely distinguished. Education – call it learning if you like - takes us out of our childhood. It helps us break our mental shackles, imparts in us a sense of freedom and we feel as if breathing fresh air.

In this context pursuit of knowledge for its own sake is pleasurable and universities, at times, promote Ivory Tower thinking. We believe that kite flying is useful to gauge the wind speed and direction but beyond that education and research cannot afford to be purposeless, especially in developing economies, most facing resource crunch. Unwittingly bulk of the work coming out of higher education institutions in the Muslim world in the field of economics and finance tends to fall, we find, in the category of non-purposive contributions. There is either a thoughtless submission to historical "pull back" or timorous yield to Western prescriptions with little realization that judgment on education health need in no way be premised on magical notions of the past or imported medicines. It must be based on the usefulness to society of the systems' final product – the student. On that must be based the judgments about academic activities and their funding. The cost-benefit analysis is a must. The notion of excellence is, or must be, coextensive with such analysis. We shall argue that neither the 'pull back" obsession nor the 'modernity elation' meet Muslim requirements on such analysis.

Higher education is imparted in college, universities and specialized institutions. For this paper, we have in mind institutions of higher learning where Islamic economics and finance are major areas of instructions. Typically, the universities are the focus of attention. Higher education – its content, structure and direction - essentially depend on how universities operate in a country.

Let us first take a look at the historical 'pull back' and reform its impact prescribes for Islamic economics education. We do not document our argument unless challenged as we do not want to create divisions among the learned. However, those who are in touch with the literature on Islamic economics would readily agree that we have a group of influential writers that is vocal about Islamic economics not freeing itself of Western frameworks and going back to its classical juridical roots. For that, they insist on creating first a *performing* Muslim society through *dawahh* (preaching). Until an ideal social order is created, they take recourse in highlighting the weaknesses of the mainstream economics blaming on it all the ills modern economies suffer from. They reject scarcity of resources, pursuit of self-interest and maximizing behavior as Western afflictions non-amiable to moral reforms for accommodation in Islamic economics. A close look at the bibliography of writings critical of these mainstream concepts reveals that most of the argument is borrowed from mainstream itself; there are not many references of Islamic origin. When these and similar ideas are modified and defended as useful for Islamic economics, they do not comment or dispute. Rather, there is a candid tendency in the literature to shun critical evaluations unmindful of the fact that such evaluations are needed for the progress of the discipline. Why this is so?

History tells us that Muslim conquest of the world had peaked within three to four hundred years of its advent on the scene; they had downed both the mighty Roman and Iranian empires. During the same time Muslims had emerged as the knowledge leaders of the world – in philosophy, astrology, mathematics, medicine, jurisprudence, sociology, navigation and others. After these glorious years Muslims were mostly fighting among themselves for the chunks of land until after the close of the First World War Europe dismembered their (Ottoman) empire into colonized small bits. That in-fight among Muslims continues even after the dawn of independence from slavery. Muslims have killed more Muslims than have non-Muslims after the Second World War. Arrogance and corruption dominate Muslim lands with some exceptions. From needles to airplanes including prayer related materials are imported from abroad. What has been the Muslim contribution to the growing stock of knowledge over the recent centuries?

2.2 *Universities: some issues*

Universities are the seats of higher learning and research. The range and quality of their activities depends on how these institutions are run and in what sort of socio-political environs they operate. Initially universities started as public sector entities; most of them were established in developing countries by the legislative action – central or state – during the colonial era but mostly after independence. It was in the second half of the preceding century that private sector universities, colleges and other institutions of higher learning started proliferating in a noticeable way for several reasons. Finance was a major one but soon the rising wave of liberalization – political and economic – tended to be increasingly significant.

Whether public or private, a typical university is supposed to carry the mark of *excellence* with its name. How one defines this excellence and how it is, or must be, measured is a moot point. There is much controversy on the criteria and the resultant annual rankings of the institution of higher learning worldwide, wherein institutions in lower income economies lag far behind.[3] The result is that many developing countries seem to have an attitude of indifference toward these rankings.[3] Some as India have developed a parallel criteria set for internal ranking. Be it as it is, the relevance of a notion of excellence can hardly be denied;[4] it is needed at least for cost-benefit analyses and funding decisions. Presumably, OIC through its Statistics Office at Istanbul may take up the work of developing excellence norms and of ranking the institutions in the Muslim world.

Expenditure on education as a percent of World GDP has been rising over the years running over 4.4% after 2008 and touching 4.8% in 2014 as Figure 1 shows. There is presumption that the larger part of this rise has gone to boost higher education. What is the position in Muslin countries?

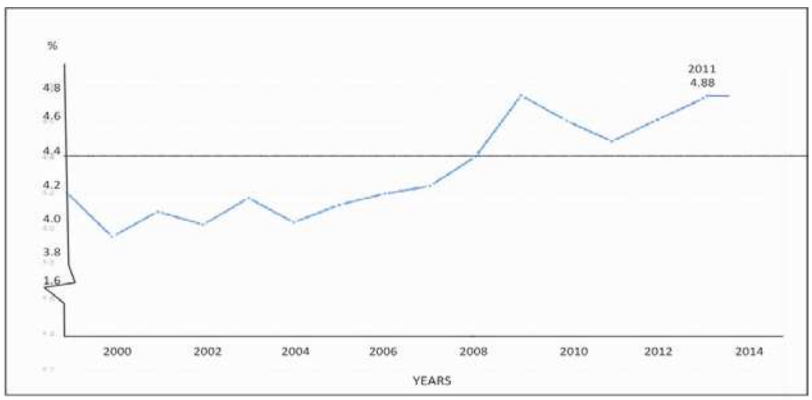

Figure 1: Rising trend of public expenditure on education in the world
Source: https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS(Picture edited)

3. Higher Education in Muslim lands: Analysis

Let us follow the criterion on which the Figure 1 is based and see what proportion of GDP in various Muslim countries is spent on education but one must clearly understand that parents and private institutions spent substantial amount of money on education, especially on quality improvement, which the public expenditure criterion ignores. Also, per head expenditure is a better criterion than the GDP proportion especially for comparisons over time and space. In Figure 2 the ratios are picked up from the Human Development Reports of the UNDP. These reports do not have data for all

3 The charge in developing world is that such rankings smack of bias. Its validity apart, it is true that the criteria of evaluation are based on what is largely relevant for the Western educational institutions and foreign to away in the developing world. To me, it looks akin to the case of fox inviting the crane for supper, using flat plates, and then blaming the crane of being poor at eating.

4 But many are also to ignore. India is a case in point. Upset at poor showing of Indian institutions in the rankings year after year, the Central government has decided to boast financially and otherwise some 10 institutions to see them among the top 100 at the earliest.

countries nor is the division of expenditures for different categories of education available. Despite limitations, the situation summary presented reveals some interesting facts about education in Muslin countries.

It is worth noting that the expenditure to GDP ratio for Muslim countries is on a higher side even in some poorer African countries. There are countries where it is greater than the average for developed economies. And, in the majority of cases. reported the ratio is higher than the medium income category. Overall, the community is spending generously on education; the religious instructions are being followed. Why the record of Muslims to the fast-growing stock of knowledge is then so pathetically poor both in quantity and quality? Let us illustrate.

Tunisia	6.2	Gambia	3.9
Kirgizstan	5.8	Kuwait	3.8
S. Arabia	5.6	Guyana	3.6
Morocco	5.4	Albania	3.3
Malaysia	5.2	Cambroon	3.2
Senegal	5.2	MHD	3.1
Iran	4.7	A. Baijan	2.9
Togo	4.6	Turkey	2.9
Jordan	4.6	B.Desh	2.2
Oman	4.3	Pakistan	2.2

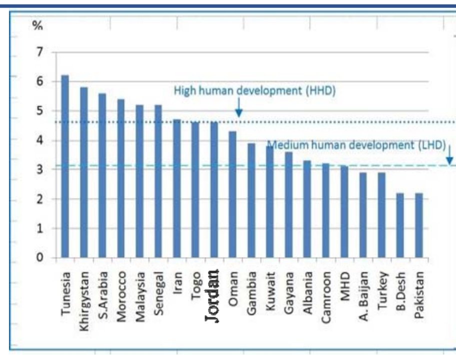

Figure 2: Public expenditure on education as ratio of GDP in Muslim countries in 2012

The contributions of Muslim scholars dominate areas in religion, arts and humanities; it is rare in physical sciences and technology. In social sciences, Islamic economics and finance lead the pack. Here too publications drawing attention of the world are countable. Journals attracting world attention are fewer. Readership in either case is meager. An objective test is the appearance of working papers and articles on the RePEc Archive. I do not have resources enough to conduct research on various aspects that it provides data on; still a small effort has been made. Not more than four academic journals dealing exclusively with Islamic economics and finance are registered with the archive.

Table 1: Data Availability status at RePEc 2018 (OIC Countries)

Available		Not Available
Albania, Algeria, Azerbaijan, Bahrain, Bangladesh, Brunei, Burkina Faso Egypt, Indonesia, Iran, Jordan, Kazakhstan, Kuwait, Lebanon, Malaysia, Morocco, Mozambique, Nigeria Oman, Palestine, Pakistan, Qatar, Saudi Arabia, Senegal, Sudan, Tunisia, Turkey, Uganda, UAE, Uzbekistan (30)		Afghanis tan, Benin, Cameroon, Chad, Comoros, Côte D'Ivoire, Djibouti, Gabon, Gambia, Guinea, Guinea-Bissau, Guyana, Iraq, Kirgiz Republic, Libya, Maldives, Mali, Mauritania, Niger, Sierra Leone, Somalia, Suriname, Syria, Togo, Turkmenistan, Yemen. (27)

Note: Countries having 5 or less entries have been classified ‘Data not available’.

We took the list of OIC member countries and opened the top 25 authors list for October 2018 for listed countries. We recorded the count of Muslim and non-Muslim contributors in each case. The downloads and views for the top Muslim scholar in each country were recorded. Findings are briefly reported as under:

It is regrettable that almost half of the Muslim countries have no or insignificant presence on the archive. Of the remaining 30 countries that appear there, the data for top five is provided in Table 2. The 18.4% of the contributors in these countries are non-Muslims; interestingly their ratio in Malaysia is 56%! The average long-run contribution of the top Muslim contributors at 440458/5= 88091 is not impressive.

Table 2: Top five countries (October 2011)

#	Country	Authors		Number of Downloads Views		Total
		Muslims	Others			
1	Turkey	23	2	28974	216561	245535
2	Lebanon	21	4	8167	62998	71165
3	Pakistan	25	0	1126	40899	42025
4	B. Desh	22	3	10037	31140	41177
5	Malaysia	11	14	11326	29229	40555
	Total	112	23	59630	380827	440457

It is interesting to note that there is no significant co-variation between the per capita national GDP level and RePEc performance. The above quantitative analysis of Muslim contribution to Islamic economics may not be free of blemishes but it does unmistakably reveal the academia contribution to knowledge falls much short of being redeemably commensurate with the generous public funding of education in the Muslim world. The academic system is not cost effective; per unit cost of deliverables is too high. The causes of this adverse cost-benefit scenario call for investigation of the causes.

For 12 countries[7] we had values for expenditure-on-education-ratios and their ranks as per RePEc contribution. The sample is adequate from a population of thirty countries for which data is available. We ran simple OLS regression taking as independent variable Y and expenditure ratio as X. The result is as follows:

$\hat{Y} = 0.26 + 1.46X - 0.086$ (The coefficient is significant at 5%)

It follows that in general increase in expenditure on education has led to an increase in contribution to knowledge in Muslim countries even as the result is not elating; an expenditure increase in as much as 1.46% of GDP raises rank by just one unit. Thus, it is too costly an affair relative to the benefit.

The picture of Higher education that emerges from the foregoing analysis is bleak to put it straight. The crux of the problem is that benefits are low in comparison of generous communal expenditure on education.

More than half the Muslim population across countries fails to find its way to prosperity in the darkness of ignorance. More than that, those who are fortunate to reach college education are not getting education of the sort needed in economics and finance, our sample field. Where have we missed the bus? What follows may not sound sweet but a wakeup call is the need of the hour.

3.1 Some Comments

To begin with, many of the faculty in higher education institutions is far beyond their peak productive years. They can no longer dish out, save in exceptions, bright new ideas any longer. They grow to become lotus eaters and mark time to get promotions just by aging. Such faculty is thought-poor unable to provide quality supervision for research work. They believe in making the student struggle rudderless in pursuit of learning. For what is then, one wonders, the supervisor needed and hours are credited to his service record?

Their academic output of the faculty is meager and research stale as the above analysis shows. They are blocking the way of the young. One way is to lengthen students' years of study in frustration. I have seen many such whiteheads around in the Muslim world where I spent quarter of a century of my professional career. Political patronage fed on connection, if not corruption, feeds the placement process unabated. Teachers were found claiming expertise in fields that they never studied or contributed to just for adding the tag of being a research guide to enrich their profile for promotion. They only tended to ruin the career of their charge. Research under such circumstance is perilous. Interestingly those who come out of the process successfully choose to perpetuate the process as though in revenge.

Another serious research issue concerning Islamic economics and finance is the imitative tilt towards using mathematics and econometric modeling in dissertation writing. We have already discussed the ill consequences of this tilt in a recent article on *Academic Sociology* (Hasan 2018) and need not repeat the argument here save reiterating that the overemphasis on using these tools, more presumably in Malaysia, is killing innovative urges in young minds without much benefit to either academics or the profession. This perilous tilt needs urgent correction.

Grade inflation: The professional non-performance of the faculty is reflected not only in the low number and quality of their publications but in what may be described as 'grade inflation'. In many universities of the Muslim world there is a system of students evaluating their teachers as in the West. After each semester students in each course fill forms to complete what is termed as 'teachers-evaluation-ratting, the TER. In fact, TER strikes terror among the teachers and, in my opinion based on observation, does more harm than good to the cause of education. It breeds a system wherein the teacher has his, so to say, his hand at the throat of the student – he grades his performance in assignments tests and examinations – and the student in turn has his on the teacher's at the end of semester; the TER exercise affecting his reputation and carrier. In this scenario each party seems saying to the other – "should you press, I shall also". Eventually, both decide to oblige each other. The result is *grades inflation.* I have found cases of all students getting A grade with some teachers and a high degree of correlation between teachers' TER sores and their students' average grades!

Finally, there is the issue of publishing avenues. Even as Islamic economics and finance has now been on the scene for half a century or so, there is an agonizing dearth of good academic journals with wide circulation – there are not more than five or six in the area, even as the Muslims constitute the second largest religious group in the world. These few journals too are not receiving adequate numbers of publishable articles.

Conferences are held too often and are well-attended. The journals divide conference papers among themselves for publication to overcome the paucity of regular contributions. Good comprehensive works, especially textbooks - are not many over time and space. Experience teaches that it is more rewarding to be a book seller than a book writer.

Concluding remarks

This small paper is a preliminary effort to look into a basic issue of delivery and its cost in higher education in the Muslim world. For that it selected the state of affairs in economics and finance as a reference point and the data on RePEc archive as a performance measure. It must be at once conceded that this approach may have more blemishes than the critics may dig out. Thus, no tall claims for this meager effort, but it does bring to light a few interesting facts about education in the Muslim world.

It tells us that the religion's special concern about education and emphasis on it as the key to world treasure and salvation in the hereafter finds pronounced expression in the practical affairs of the community; Muslim countries in general are possibly spending larger proportion of their GDP on education than most developing countries. Despite that, their performance is disappointing; benefits are not commensurate with money spent on education. It is an issue of academic sociology, not of economics. Possibly, drastic systemic overhaul could be the answer? A small surprise is the rank order of the top five performers: Turkey, Lebanon, Pakistan, Bangladesh and Malaysia. The populous Indonesia does not appear there!

Finally, this humble effort must be judged on what it achieves not on what it lacks. At least it opens a new and vital topic for research.

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Islamic Cryptocurrency? A Model Structure

By
*MohdMa'SumBillah**

Abstract

Even though a cryptocurrency management is a digital financial platform operated in the borderless cyberspace, but it shall require to be established as a registered company with a separate legal entity. Among the prerequisite of a Shari'ah(Islamic law) alternative cryptocurrency model is to be formalized under the company's rules either in the onshore or offshore as a separate legal entity. It shall be managed based on an acceptable system, operational mechanism, standard planning and strategies, legitimate objectives and manifesto, documentations and manuals, policies and guidelines, which all shall be complying to the Shari'ah, law and policies within the Maqasid al-Shari'ah[1] (divine objectives). In this article however, an attempt is made to analyze the operational mechanisms of cryptocurrency amidst Maqasid al-Shari'ah.

Keywords: Cryptocurrency; Operation; Maqasid al-Shari'ah, Halal; Shari'ah

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

Central Idea

The brain-child idea with every strategic and business model of *Sheridan* Cryptocurrency management was first discovered and initiated with intellectual discussions, writings and designations by some academia, researchers, scholars,

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1 See the scope of *Maqasid al-Shari'ah* In Vejzagic, M. and Smolo, E. (2011), "Maqasid Al-Shari'ah In Islamic Finance: An Overview" was presented at the conference on*Post-Crisis Economic Challenges for the Contemporary Muslim Ummah*, was held in October 2011 at UniversitiSains Islam Malaysia (USIM), Nilai, Malaysia at Pp 8-9

industrialists and software professionals sometimes in the early 2017. The idea has been shared among the interested ones, presented in forums and written in periodicals and promoted in the social media. Subsequently some initiated to establish a *Shari'ah* compliant cryptocurrency[2] model with global operation. A*Shari'ah* compliant crypto currency is a digital currency platform initiated by cryptography and operated based on a block-chain technology. Its objective, operational mechanisms, technicalities, culture and all activities shall be in total compliance with the *Shari'ah* principles (*Shari'ah*standard), which shall regularly be referred to and screened through by a *Shari'ah* board before one's operation takes place. It shall be treated as a commercial entity, offering cryptocurrency globally based on *Shari'ah* standard (*Shari'ah* compliance) within the *Maqasid al-Shari'ah*. For a *Shari'ah* cryptocurrency, it is among the prerequisites to ensure that, the entity and its total operations are backed by valued asset. In other word, a *Shari'ah* cryptocurrency shall be on asset-back operation within the ambit of *Shari'ah.*

Introduction

Cryptocurrency generally means a virtual, digital or cyber complimentary money with intrinsic commercial value, which takes the form of tokens or coins. Some cryptocurrencies have ventured into the physical world with debit or credit cards or other instruments, the large majority remains entirely intangible or virtual existence in the cyberspace. The term 'crypto' in cryptocurrencies refers to sophisticated cryptography, which allows for a particular e-coin or e-token to be generated, stored, and transacted anonymously typically, securely and smartly by digital encryption. The essence of 'crypto' feature of these digital currencies is, a common undertaking to decentralization; all cryptocurrencies are typically designed and developed as a specific hash code by teams who build in mechanisms for issuance through a process called 'mining' in most cases and other virtual devices. In the contemporary practices, cryptocurrencies are commonly designed to be free from government manipulation, control and influence, despite they (cryptocurrencies) have grown rapidly with global market appreciation. Cryptocurrencies, which modeled after bitcoin are collectively known as altcoins and have tried to appear in the cyber market as hybrid versions of bitcoin. Some of those digital currencies are easier to be managed than a bitcoin with complexity. Today, there are more than 1,600 cryptocurrencies exist, which are offered in the cyberspace through block-chain technology[3], and many of those tokens or coins are popular in their micro-capacities or attributes among the virtual communities of investors and traders in the cyber space[4].

A *Shari'ah* alternative cryptocurrency, is a *Shari'ah* compliant digital currency activated by the application of cryptography through a block-chain technology within the ambit of *Maqasid al-Shari'ah* (divine objectives). The fundamental dichotomy between the conventional practices and the Shari'ah alternative model is the core objectives and

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[2] See generally Oziev, G., andYandiev, M. (2017) "Cryptocurrency from Shari'ah perspective" available in https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3101981

[3] "Malaysia Central Bank Publishes Study about Cryptocurrencies", published in *Fintechnews* Singapore, November 01, 2017

[4] https://www.investopedia.com/tech/most-important-cryptocurrencies-other-than-bitcoin

the mechanisms adapted. In a *Shari'ah* cryptocurrency, its block-chain system, technology, model, objective, operational mechanisms, technicalities, culture, functions and all activities shall be in total compliance with the *Shari'ah* principles (*Shari'ah* standard), which shall regularly be advised by the board of advisors, screened through and duly approved by the *Shari'ah* advisory board (SAB) of the Company before any implementation takes place.

The cryptocurrency through the block-chain technology is a cyber-space economic revolution in the 21st century. Numerous players are in the market globally to offer different categories cryptocurrencies, but with many shortcomings like, lack of regulatory supports, poor strategic planning, uncertainty and mostly with no backing asset, but on virtual assumption. Whereas a *Shari'ah* model of cryptocurrency, is a *Shari'ah* compliant cryptocurrency model is a timely to fill the gap of the ongoing short-comings in the Cryptocurrency market. A *Shari'ah* Cryptocurrency model[5] is thus, backed by valued asset, operated based on valued assets (coins or tokens), transactions are based on *Shari'ah* instruments like; *al-Bay wa al-Shira'* (trading), *al-Musharakah* (partnership), *al-Mudharabah* (co-partnership), *al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange), *al-Wakalah*(agency), *al-Ujrah* (service charge), *al-Ju'alah* (reward), *al-Wadiyah*(deposit), *al-Amanah* (trust), *al-Tabarru'at*(charity) and *Zakat* (alms), concerns about humanitarian well-beings, regulated by the standard *Shari'ah* principles, opposes to uncertainty (*Garar*) in any component and liberty in enjoying with legitimate (*Shari'ah*) investment return. Thus, the *Shari'ah* cryptocurrency model has the greater opportunity to attract the global cryptocurrency market with sustainable existence in the emergence of block-chain technology.

The prime objective of a *Shari'ah* cryptocurrency model is, to create an enterprising and entrepreneuring based community across the world through *Shari'ah* cryptocurrency management and participation therein globally. This may ultimately fight the poverties, jobless, domestic economic crisis and world eco-catastrophe. *Shari'ah* crypto currency management, is with universal character welcoming, encouraging and benefiting all mankind regardless of one's religion, race, status, gender, color or even nationality. Its operation does not concern only money making, but part of its income with 2.5% in each transaction shall be deducted for the humanitarian or charitable causes based on the holistic principles of *Zakat*. Additionally, it is also recommended that, all gross income in every transaction, account, management, activities, income and services shall be subjected to a reasonable deduction as *al-Tabarru'at* (charity) for the noble causes of charity and solidarity.

The basic features of *Shari'ah* cryptocurrency model is that, it shall be operated based on the *Shari'ah* standard (compliant with the *Shari'ah* principles) closely supervised and duly screened through by a qualified *Shari'ah* advisory board, advised by a team of scholars as a board of advisors. The management of *Shari'ah* cryptocurrency operation, shall strictly be obliged to abide by the standard *Shari'ah* guidelines and

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5 See generally Oziev, G., andYandiev, M. (2017) "Cryptocurrency from Shari'ah perspective" available in https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3101981

ethical standard and its all activities, policies and functions within the rules of *Maqasid al-Shari'ah* (divine objectives). All investors (coin or token holders) shall be protected by transparence transactions and are formalized based on the *Shari'ah* justified doctrines and mechanisms.

A *Shari'ah* cryptocurrency model shall be based on the following dimensions and philosophy: The model shall be operated based on the principles of *Shari'ah* (*Shari'ah* standard).The total operation of the model shall be facilitated by a *Shari'ah* compliant hybrid structure. It evolves as both an asset-backed and also an asset-based operation within the *Shari'ah* frameworks. The company shall be backed by a valued asset equivalent to the value of the initial coin offering (ICO) at least, while its products and services (business operations) are based on asset (valued coins / tokens).The total operation shall be facilitated by *Shari'ah* justified instruments and divine principles like; *al-Mudarabah*(co-partnership), *al-Musharakah*(partnership or joint-venture), *al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange), *al-Wakalah*(agency with commission),*al-Wadiyah*(deposit),*al-Ju'alah* (reward or service charge), *al-Amanah* (trust), *al-Ujarah* (service charge), *al-Tabarru'at* (donation) and *al-Zakat* (alms or compulsory tax).The structure of a *Shari'ah* model is thus, it is a *Shari'ah* compliant hybrid platform of cryptocurrency backed by valued asset.

The operation of a *Shari'ah* cryptocurrency model is, facilitated and dully operated mainly based on the *Shari'ah* principles with the concept of "issuer coin or token" or of an "exchange platform".An operation based on "Issuer Coin or Token" shall primarily be executed by trading platform, a decentralized direct (one-to-one) buying and selling (*Bai' wa al-Shira'*) mechanisms. However, It may exceptionally be operated through exchange platform based on a *Shari'ah* hybrid mechanism, facilitated by the doctrines of *al-Shuftaza* (exchange), *Bai' al-Sarf* (money exchange), *al-Hewalah* (transfer), *al-Kafalah* (custodianship), *al-Amanah* (trust), *al-Wakalah* (agency by commission), *al-Ju'alah* (reward for services) and *al-Ujrah* (service charge) within the *Shari'ah* frameworks.

Objectives

Among the objectives of a *Shari'ah* cryptocurrency[6] are:

- Offering and managing *Shari'ah* cryptocurrency with the rules of *Shari'ah* compliance.
- To create a legitimate income opportunity for all mankind (regardless of one's religion, race, status, gender, color or nationality)within the *Maqasid al-Shari'ah.*
- To create a micro-investment platform for all mankind with holistic approach of universal character (regardless of one's religion, race, status, gender, color or nationality) through *Shari'ah* cryptocurrency management.
- To create an economic wellbeing for all mankind through *Shari'ah* crypto currency platform based on the holistic principles of mutual cooperation and solidarity.

[6] Bangash, A. (February, 2018) "Bitcoin, Cryptocurrencies, BlockchainShari'a Analysis and their Applications In Islamic Finance," available in https://www.linkedin.com/pulse/bitcoin-cryptocurrencies-blockchain-sharia-analysis-islamic-bangash/

- To care about the poor and helpless ones by segregating a part of the income over the *Shari'ah* cryptocurrency operation within the Divine principles of humanity.

Governing Principles

The governing principles[7] of a *Shari'ah* cryptocurrency are as follows:

- All levels of products and services of a *Shari'ah* crypto currency management shall be designed, regulated and operated in accordance with the principles of *Shari'ah*.
- All activities, policies, technicalities and mechanisms of a *Shari'ah* crypto currency management shall be in conformity with the *Shari'ah* standard and within the *Maqasid al-Shari'ah.*
- All activities, policies, technicalities, mechanisms, products and services of a *Shari'ah* cryptocurrency shall be closely monitored, screened and approved by the *Shari'ah* Advisory Board of a *Shari'ah* cryptocurrency management to ensure every *Shari'ah* compliance[8] is strictly observed.
- The *Shari'ah* cryptocurrency management's board of advisors shall also play a vital role to advise the company, to ensure its policies, products and services are in conformity with the *Shari'ah* principles within the *Maqasid al-Shari'ah*.
- A *Shari'ah* cryptocurrency management shall also strictly observe and duly comply to other applicable national or international laws and policies.

Ethical Principles

Among the ethical principles of a *Shari'ah* cryptocurrency management are:

- All levels of decision makers, advisors, operators and facilitators of a *Shari'ah* cryptocurrency management shall observe the principles of *Shari'ah* (*Shari'ah* standard) in their activities with relation to a *Shari'ah* cryptocurrency management in view of *Maqasidal-Shari'ah*.
- Anyone involves in a *Shari'ah*cryptocurrencymanagement directly or indirectly shall observe the divine principles of honesty, transparency, rights and obligations while strictly opposing and avoiding the unlawful culture or unethical gain at the expense of others.
- None of the parties involved in a *Shari'ah* cryptocurrency management directly or indirectly shall be allowed to practice undue influence, misrepresentation, duress, malpractices, falsehood, manipulation, selfishness, deceit and or other unethical action.

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7 See Ahmat,N. and Bashir, S.(2017), "Central Bank Digital Currency: A Monetary Policy Perspective", *Bank Negara Malaysia*, September 2017.

8 Noordin, K. A. (2018),"Islamic Finance: Is cryptocurrency halal? In *The Edge Malaysia* (September 6, 2018).

Model and Structure

A *Shari'ah* cryptocurrency management shall be based on the following model and structure:

- A *Shari'ah* cryptocurrency management is a digital currency model based on the principles of *Shari'ah* (*Shari'ah* standard).
- The total operation of a *Shari'ah* cryptocurrency managementis a *Shari'ah* compliant hybrid model.
- It evolves as both an asset-back and also an asset-base operation within the *Shari'ah* frameworks.
- The company is backed by a valued asset, while its products and services (business operations) are based on asset (valued coins / tokens).
- A *Shari'ah* cryptocurrency management's total operation are facilitated by *Shari'ah* justified instruments and Divine principles, like *al-Mudarabah*(co-partnership)*, al-Musharakah*(partnership or joint-venture)*, al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange), *al-Wakalah*(agency with commission)*,al-Wadiyah*(deposit)*,al-Ju'alah* (reward or service charge)*, al-Amanah* (trust), *al-Ijarah* (charge), *al-Tabarru'at* (donation) and *al-Zakat* (alms).
- The structure of a *Shari'ah* cryptocurrency management is thus, it is a *Shari'ah* hybrid platform of cryptocurrency backed by valued asset and, facilitated and dully operated mainly based on the *Shari'ah* principles of *al-Musharakah*and others(shared profit) and *al-Wakalah* (agency with service charge).
- A *Shari'ah* cryptocurrency operation shall be based on "Issuer Coin or Token" by trading platform by decentralized direct (one-to-one) buying and selling (*Bai' wa al-Shira'*).
- A *Shari'ah* cryptocurrency management can also be operated through exchange platform based on a *Shari'ah* hybrid mechanism, facilitated by the doctrines of*al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange),*al-Hewalah* (transfer), *al-Kafalah* (custodianship), *al-Amanah* (trust), *al-Wakalah* (agency by commission), *al-Ju'alah* (reward for services) and *al-Ujrah* (service charge) within the *Shari'ah* frameworks.

Operational Mechanism

The operational mechanisms of a *Shari'ah* crypto currency management are as follows:

- The operation adapts its prime operational tool based on valued coin or token offering through the issuance of the initial coin offering (ICO) justified and duly screened through by the general principles of *Shari'ah* and divine ethical standard.
- The offered coins or tokens through the ICO may also be effectively transacted (buying-selling) further in the secondary market within the *Shari'ah* ambit.

- A *Shari'ah* cryptocurrency management may also provide a platform for the international *Waqf* cooperation and contribution through Cryptocurrency.

Technological Model

- The products and services under a *Shari'ah* crypto currency management (*Shari'ah* cryptocurrency in coins or tokens) shall be operated based on a *Shari'ah* screened block-chain technology.

- The block-chain technology is cyber-space platform provider with a reliable block-chain solution to systemize, manage, operate and function all activities of a *Shari'ah* cryptocurrency management within the *Maqasid al-Shari'ah*.

- The block-chain technology for a *Shari'ah* cryptocurrency management is closely monitored by the *Shari'ah* experts to ensure all technological supports for a *Shari'ah* cryptocurrency platform are with *Shari'ah* compliance (*Shari'ah* standard)[9].

Scope and Limitations

Among the scope and limitations of a *Shari'ah* cryptocurrency management are:

- A *Shari'ah* cryptocurrency management shall be operated within the principles of *Maqasid al-Shari'ah*.

- All its policies, activities, structures, systems, products and services shall be in conformity with the *Shari'ah* principles.

- The culture shall generally be, in compliance with the divine ethical standards and *Shari'ah* principles.

Products and Services

Among the products and services of a *Shari'ah* cryptocurrency management are:

- *Halal* Cryptocurrency with valued coins or tokens commercialized by trading platform through block-chain technology or exchange platform or through halving exercise or mark-up through the Global Payment innovation (GPI).

- In order to create a cashless society, a cashless payment through crypto currency model may be introduced to ease the society in their day to day payment activities. It is a hybrid cashless or card-less digital debit account backed by cryptocurrency,

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9 Alexandre, A. (2018), "Stellar Becomes 'First' Sharia-Certified Blockchain for Payments And Asset Tokenization" in *The Cointelegraph, The Future of Money* (July 18, 2018).

to be maintained in the block-chain platform and be operated through mobile phone, iPad or laptop application like currently available in China. This may have dual benefits namely;

i. Having an investment return through currency inflation.

ii. Creating a cashless purchasing power by simply maintaining an image (barcode) with a digital credit capacity appearing in the mobile, iPad or laptop screen enabling the creditor or seller to appreciate the payment by digital swap.

- *Waqf* management through Cryptocurrency.
- Investment through *Shari'ah* Cryptocurrency.
- Trading platform through *Shari'ah* Cryptocurrency.
- Humanitarian concern through *Shari'ah* Cryptocurrency Management.
- Global *Tabarru'at* (Charity) Foundation through *Shari'ah* cryptocurrency Management.

Backing Asset

The company, its products and services shall be backed by valued assets as a backing asset. Thus, a certified proof of product (POP) shall be prerequisite to ensure that, the total operation of a Shari'ah crypto currency management is backed by commercially valued asset. Backing asset for a Shari'ah crypto currency management and its operation refers to a certified POP carrying the commercial value of a legitimate asset, product, property, intellectual property, IT, solution, program and or others recognized by the Shari'ah principles. The POP shall carry the value at least the equivalent of the initial coin offering (ICO). For a valid operation of a Shari'ah cryptocurrency, the backing asset is prerequisite to ensure that, the total products and services or business activities of the entity are an asset-backed operation. The backing asset shall only be treated as the backing Asset of the company, its activities, products and services. The Backing asset is just for the purpose of supporting and facilitating the company's capacity.

Decision Makers

The decision making in a *Shari'ah* cryptocurrency management shall be empowered to the following authorities:

- Board of Directors (General Decision).
- *Shari'ah* Advisory Board (*Shari'ah* Compliance, Screening and Approval).
- In-house Advisor or Consultant (Technical advice).
- Board of Advisors (Overall advice).

Shari'ah Advisory Board (SAB)

The Shari'ah Advisory Board of a *Shari'ah* cryptocurrency management shall comprise of qualified *Shari'ah* scholars including *Mufti*, *Shari'ah* judge, *Shari'ah* lawyer, Islamic finance expert, Islamic finance researcher, *Shari'ah* scholars in cryptocurrency and others.

Among the functions[10] of the *Shari'ah* Advisory Board are:

- To advise, supervise, monitor and approve a *Shari'ah* Crypto currency management and all its policies, systems, activities, operations and mechanisms to ensure the company and its operation are generally compliance with the *Shari'ah* principles.
- The *Shari'ah* Advisory Board shall also screen and approve all activities of a *Shari'ah* Cryptocurrency management to ensure all are compliant with the *Shari'ah* principles (*Shari'ah* standard).
- The *Shari'ah* Advisory Board shall also contribute to a *Shari'ah* Cryptocurrency management in training its employees and also the public as per required with *Shari'ah* compliant Cryptocurrency model.

Board of Advisors

The Board of Advisors of a *Shari'ah* Cryptocurrency management may comprise of renowned scholars including academia, financial experts, business operators and other key people in the Islamic financial industry.

- Among the functions of the Board of Advisors are: To advise the *Shari'ah* Cryptocurrency management to ensure that, the company is moving forward dynamically within the *Maqasid al-Shari'ah*.
- The Board of Advisors shall also contribute to a *Shari'ah* Cryptocurrency management in training its employees and also the public as per required with *Shari'ah* compliant Cryptocurrency model.

The Management

A *Shari'ah* Cryptocurrency management shall be managed by a qualified management team by complying the business dynamism, quality management and smart strategies within the holistic spirit of *Shari'ah* ethical principles. The Management team shall be headed by a well experienced with corporate personality and Islamic finance expert Managing Director or Chief Executive Director.

The Road Map of a *Shari'ah* Cryptocurrency Operation

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10 Wardhani, N. (2012), "The role of Shariah Board in Islamic Banks: A Case Study of Malaysia, Indonesia and Brunei Darussalam", presented at the ISRA Colloquium on November 2012

For the establishment and operation of a *Halal* Cryptocurrency model with effective results, the underlying Road-Map sample may be adapted, provided that the total activities of the road-map shall comply with the spirit *of Maqasid al-Shari'ah* (divine objectives).

Tasks (*Concurrent*)	**Details**	**Timeframe (*Concurrent*)**	**Action (*Concurrent*)**
Brain-child Idea	Background, Paradigm, Objectives, Structure, Strategies, Mission and Vision	15 days	Initiator
Model Sharing	Model in Reality	7 days	
Team Building	Brain-storming key persons	5 days	
Ownership / Decision Makers	Identification and Confirmation of the Owners (Board of Directors)	3 days	
Corporate Agreement	Formalization by Agreement among the proposed Board of Directors (owners) and duly notarization	3 days	Board of Directors (BoD)
Team Selection	Management team, Shari'ah Advisory Board (SAB), Board of Advisers (BoA), Technical Board, Consultant and Marketing team.	3 days	
Ad-hock Management team	A team of management to be assigned with primary tasks to be carried out till the official appointment is out.	3 days	
Corporate Formality	Licensing / Registration of a company with separate legal entity based either in offshore or onshore	30 days	Management
Corporate Office	Setting Up, Documentations and Readiness	30 days	
Corporate Bank Accounts	A company account plus an additional account for each BoD shall be opened and duly maintained with any established bank.	3 days	
Corporate Profile	The profile shall include details about the company, its system, principles, objectives, planning, management and operation.	21 days	
Mission & Vision	Objectives within *Maqasid al-Shari'ah*	2 days	
Planning	5 Years Action Plan within *Maqasid al-Shari'ah*	15 days	
Strategies	Corporate Strategies complying with the *Shari'ah* principles	15 days	
Official Website	Website with details of components and activities besides objectives and mechanisms to be established and duly maintained through own registered domain.	30 days	
Policies & Guidelines	Detail policies and guidelines to be established within the spirit of *Maqasid al-Shari'ah*.	30 days	

Appointments	Formalization of all levels of appointments.	5 days	BoD and Management
Backing Asset	Confirmation of the valued Backing Asset (with certified Proof of Property (POP) in Creating the Corporate Capital Capacity to support the total operation with real asset (POP) with intrinsic value, in opposing to the conceptual support by virtual asset (extrinsic value).	7 days	POP Provider
Technology Provider	Identification and Confirmation of a Block-chain technology provider.	7 days	Block-chain
Forming Technical Specification	Instrumental and technological preparation for the block-chain platform.	10 days	
Design Draft	Block-chain mind-mapping	7 days	
Block-chain / Technology Platform	Designing and establishment of the model and the operational platform in the block-chain technology.	45 days	
Technology Platform / Halal Screening	Establishment of the Block-chain platform and duly screened through with *Halal* compliance.	5 days	Block-chain and SAB
System	Designation of the System of Operation	30 days	Block-chain
System / Halal Screening	Establishment of the System of operation and duly screened through with Halal compliance.	5 days	Block-chain and SAB
Testing	Block-chain Technology	5 days	Technology team
	Block-chain Platform	5 days	
	System of Operation	5 days	
	Management Structure	5 days	Management
	Operation in Action	5 days	
	Marketing Mechanisms	5 days	Marketing team
	Market	5 days	
White Paper	Preparation of the standard 'White Paper'	3 days	Management
SAB Approval Page	Approval of the System and Model by the *Shari'ah* Advisor Board (SAB) in writing and duly signed by the SAB chairman on behalf of the Board in confirming it with the *Shari'ah* compliance.	2 days	SAB
BOA Approval Page	Approval of the System and Model by the Board of Advisors (BoA) in writing and duly signed by the BoA chairman on behalf of the Board in confirming it within the spirit of *Maqasid al-Shari'ah.*	2 days	BoA
Pre-ICO-Demo	Prior to the actual initial offering of coin (IOC) takes place, a pre-ICO-demo is recommended so to ensure the actual ICO will go through smoothly without any undesirable obstacle.	5 days	Block-chain and Operating team
ICO-full Scale Development	Preparation for the full scale of ICO.	10 days	

Soft Launching	For the pre-ICO public awareness of the product, a soft-launching is recommended to be organized by inviting selected key individuals, entrepreneurs, corporate entities, regulators, professionals and media.	2 days	Operating and Marketing teams
Traditional Summit	An effective gathering shall be organized prior to the ICO is required, which shall comprise of potential purchasing (Coin) groups. The summit shall focus on various aspects of the ready coin, benefits and opportunities besides satisfactory Q and A sessions.	2 days	
Public Statement	A public statement shall be prepared and duly published in the social media in particular, providing the summary of the product (coin), securities, mechanisms, benefits and opportunities.	1 day	Management
Media Summit	A media summit is more effective as compared to what a traditional one is? At least seven days prior to the actual ICO takes place a media summit is strongly recommended to be organized. The summit shall comprise of at least five to ten media groups (traditional or social) from each country of the targeted market zones. The summit shall provide fundamental ideas of the coin, benefits, opportunities, securities and other related aspects. The media group shall publish the summit message in the respective media at least three days prior to the ICO takes place. This may spread the news of the ICO across the world and thus, may create a sound market to participate in the ICO effectively.	3 days	Marketing team
ICO (Phase I)	30% as the initial kick-off by creating furtherance market demand.	30 days	Operating team
ICO (Phase II)	35% (only after selling out of Phase I)	30 days	
ICO (Phase III)	45% (only after selling out of Phase II)	30 days	
Real-time Transaction in Seconds (trading in the block-chain platform)	Real transactions by trading activities among the coin owners shall be continued in the block-chain platform.	30 days	Market and Investors

The Public Statement

In every operation of *Shari'ah* compliant Crypto currency, it is recommended to make a public statement through social media, soft-launching or organizing a summit prior to the actual operation takes place by initial coin offering (ICO) or initial product offering (IPO) or initial token offering (ITO). Thus, a model of a public statement may be as follows:

A *Shari'ah* Cryptocurrency management is a *Shari'ah* compliant Cryptocurrency. It is backed by valued asset with legal authentic proof of property (POP). Its establishment, policies, management, operation, activities and general culture are compliant to the spirit of *Shari'ah* standard and within the *Maqasid al-Shari'ah*.

Its block-chain technology, ledger system and operational mechanisms are designed as a *Shari'a h*ybrid model based on the *Shari'ah* doctrines *of Silsalat al-Katl*, *al-Ta'awun*, *al-Musharakah*, *al-Bai' wa al-Shira'*, *al-Wakalah*, *al-Fudhuli*, *al-Ju'alah* and *al-Tabarru'at.*

The total activities of *Shari'ah* Cryptocurrency management are generally screened through by Islamic finance and *Shari'ah* cryptocurrency expert, supervised by a *Shari'ah* Advisory Board (SAB) comprising of a team of renowned *Shari'ah* scholars and further advised by a Board of Advisers (BoA) comprising of a group of academia, economists and industrialists, to ensure the activities and operation of *Shari'ah* Crypto currency management are compliance to the spirit of *Shari'ah* standard.

Among the prime objectives of a *Shari'ah* Cryptocurrency management are: to create an economic and entrepreneurial opportunities for all mankind (particularly those of with less fortunate), embracing with the universal character (regardless of one's religion, color, status, gender or nationality) and within the holistic spirit of *Maqasid al-Shari'ah.*

It is also the strict policy of a *Shari'ah* Cryptocurrency management with a special provision to segregate part of all levels of its income for the humanitarian causes within the broad principles of *Zakat* and *al-Tabarru'at*.

The White Paper

A white paper for a *Halal* Cryptocurrency operation may include the following information:

Introduction to *Shari'ah* COIN

The Shari'ah Coin

It is a *Shari'ah* compliant (*Shari'ah*) cryptocurrency management platform with global prospect. Its block-chain system, technology, model, objective, operational mechanisms, technicalities, culture and all activities shall be in total compliance with the *Shari'ah* principles (*Shari'ah* standard), which shall regularly be advised by the Company's Board of advisors, screened through by the Company's in-house adviser prior to the approval by the *Shari'ah* advisory board (SAB) of the Company and thereafter shall be operated or executed globally.

Emerging of Block-chain

The Cryptocurrency through the block-chain technology[11] is a cyber-space economic revolution in the 21st century. Numerous players are in the market globally to offer Cryptocurrency platforms but with many shortcomings like, lack of regulatory supports, poor strategic planning, uncertainty and mostly with no backing asset, but only on virtual assumption. Whereas a *Shari'ah* model of Cryptocurrency is a *Shari'ah* compliant Cryptocurrency model is a timely to fill the gap of the ongoing short-comings in the Cryptocurrency market. The *Shari'ah* Cryptocurrency model is thus, backed by valued asset (POP), operated based on valued assets (coins), transactions are based on *Shari'ah* instruments of *al-Musharakah*, *al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange), *al-Wakalah*, *al-Ju'alah*, *al-Tabarru'at* and so on, concerns about humanitarian well-beings, regulated by the standard *Shari'ah* principles, opposes to uncertainty in any component and liberty in enjoying with legitimate (*Shari'ah*) investment return. Thus, in the *Shari'ah* cryptocurrency model has the greater opportunity to attract the global cryptocurrency market with sustainable existence in the emergence of block-chain technology.

Background of Shari'ah COIN

The idea of a *Shari'ah* cryptocurrency model was initiated with strategic structure in the early 2007 on how a *Shari'ah* cryptocurrency model can be developed and duly operated globally with a unique model to meet the contemporary demand as to cryptocurrency operation with *Shari'ah* standard within the *Maqasid al-Shari'ah*. It was initiated with grass root ideas, strategies, mechanisms and structures. It has been continued by sharing in different occasions and countries around the world both in Muslim and non-Muslim environments outreaching through social media in particular. To strengthen the idea further, this book project on *Shari'ah* cryptocurrency management undertaken has been by focusing on numerous specialized issues as among the pioneering and leading works on *Shari'ah* cryptocurrency model in the contemporary world of cryptocurrency.

How Shari'ah Coin could help to solve some problem

The prime objective of a *Shari'ah* cryptocurrency model is to create an enterprising and entrepreneuring based community across the world through *Shari'ah* cryptocurrency management and participation globally. This may ultimately fight the poverties, jobless, domestic economic crisis and world eco-catastrophe. A *Shari'ah* cryptocurrency management is with universal character welcoming, encouraging and benefiting to all mankind regardless of one's religion, race, status, gender, color or even nationality. The

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[11] See "Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Digital Currencies (Sector 6)", *Bank Negara Malaysia*.

operation does not concern only money making, but part of its income (2.5%) is mandatorily deductible as *Zakat* for the charitable causes. Furthermore, all gross income in every transaction, account, management, activities, income and services may be encouraged to be subjected a reasonable deduction as *al-Tabarru'at* (charity) for the humanitarian causes within the *Maqasid al-Shari'ah*.

The Meaning of Shari'ah COIN

A *Shari'ah* Coin refers to a *Shari'ah* Cryptocurrency model, to be operated based on the *Shari'ah* principles. It is a coin or token based offering and activated by transactions based on a *Shari'ah* trading mechanisms through *Shari'ah* screened block-chain technology.

Shari'ah COIN branding and definition

The basic features of *Shari'ah* crypto currency model is that, it shall be operated based on the *Shari'ah* standard (compliant with the *Shari'ah* principles) closely supervised by a world class *Shari'ah* advisory board, advised by team of scholars as a board of advisors and further monitored and screened through in-house *Shari'ah* expert. The management of *Shari'ah* cryptocurrency management is to abide by the standard *Shari'ah* guidelines and ethical standard. All investors (token holders) are protected by transparent transactions and are formalized based on the *Shari'ah* doctrine of *al-Musharakah* (partnership), *al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange), *al-Jualah* (service charge) and *al-Wakalah* (agency).

Shari'ah COIN structural analysis

A *Shari'ah* cryptocurrency management shall be based on the following model and structure:

- The model shall be based on the principles of *Shari'ah* (*Shari'ah* standard).
- The total operation shall be based on a *Shari'ah* compliant hybrid model.
- It evolves as both an asset-backed and also an asset-based operation within the *Shari'ah* frameworks.
- The company is backed by a valued asset, while its products and services (business operations) are based on asset (valued coins or tokens).
- The total operation is facilitated by *Shari'ah* justified instruments and divine principles. Among those doctrines are:*al-Mudarabah* (co-partnership), *al-Musharakah*(partnership or joint-venture), *al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange), *al-Wakalah*(agency with commission),*al-Wadiyah*(deposit),*al-Ju'alah* (reward or service charge), *al-Amanah* (trust), *al-Ijarah* (charge), *al-Tabarru'at* (donation) and *al-Zakat* (alms or compulsory tax).
- The structure of the model is thus, it is a *Shari'ah* hybrid platform of Cryptocurrency backed by valued asset and, facilitated and dully operated mainly based on the *Shari'ah* principles within *Maqasid al-Shari'ah*.

- The operation shall be based on "Issuer Coin or Token", but exceptionally it can be based on exchange platform subject to strict *Shari'ah* ethical guidelines.

A *Shari'ah* crypto currency operation shall primarily be based on "Issuer Coin or Token" by trading platform, a decentralized direct (one-to-one) buying and selling (*Bai' wa al-Shira'*). However, it may exceptionally be operated through exchange platform based on a *Shari'ah* hybrid mechanism, facilitated by the doctrines of *al-Shuftaja* (exchange), *Bai' al-Sarf* (money exchange),*al-Hewalah* (transfer), *al-Kafalah* (custodianship), *al-Amanah* (trust), *al-Wakalah* (agency by commission), *al-Ju'alah* (reward for services) and *al-Ujrah* (service charge) within the *Shari'ah* frameworks.

Application of a *Shari'ah* Cryptocurrency

Financial Assets Exchange (Backing Asset)

The company, its products and services are strictly backed by valued asset as a backing asset. Backing Asset for a *Shari'ah* cryptocurrency management and its operation refers to certified POP with an approved value equivalent to the value of the ICO at least.

Pass-up Plan

Total Volume

Total volume with ICO may rationally be recommended not to exceed: 1,000,000,000 coins or tokens with roaring value may not exceed USD 1.00.00 each. Thus, total value with all phases of the ICO may not exceed USD 1,000,000,000.00.

Launch time and its Check-list

The launching shall be at any convenient time only after the following check-list is confirmed:

- Registration of the Company.
- Documentations (Manual, Policies, Guidelines, Standards, Planning and Strategies).
- Complete tested model through block-chain technology.
- System of operation.
- Management team.
- Equipped office.
- *Shari'ah* Advisory Board.
- Board of Advisors.
- Technical Advisor.

- Website.
- White paper and public statement.
- Bank Accounts.
- Summit.
- Soft-launching.
- ICO (initial coin offering).

Digital Asset Ratio

Total value of the offered coins or tokens.

Shari'ah Cryptocurrency Appreciation Logic

No competitive model of *Shari'ah* cryptocurrency has been launched yet. Huge demand globally, but no supply (available model) yet thus, it's timely for the *Shari'ah* Cryptocurrency to grab the global market with utmost appreciation.

Project Progress and Team[12]

The Project of *Shari'ah* Cryptocurrency model is ready in hand with all modeling, strategic and structural solutions, required documentations, backing asset, decision makers, advisory panel, supervisory panel, marketing teams, audit (compliance), procedure, mechanisms, technological supports, logistic supports and management team with almost preparation. Thus, various teams are as follows:

- Board of Directors.
- Shari'ah Advisory Board (SAB)
- Board of Advisors (BOA)
- Technical Advisors
- Management Team

Operation

A *Shari'ah* cryptocurrency management may maintain its operating office in any offshore or in any other suitable location. It may maintain its corporate offices or branches in different locations or jurisdictions, as may time to time be decided by the Board of Directors.

Market

A *Shari'ah* cryptocurrency management shall be in liberty to create its marketplace across the cyber world within the legitimate frameworks, but within the spirit of *Maqasid al-Shari'ah.*The customers and investors are not limited, but open to anyone regardless of one's religion, race, status, gender or nationality.

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[12] Rahajeng, D. (2013),"Sharia Governance: Sharia Supervisory Board Model of Islamic Banking and Finance in Indonesia", in SSRN (December 11, 2013)

Accounts

A *Shari'ah* cryptocurrency management may maintain the following accounts:

- Customer's or Investor's Account (coin holders).
- Board of Directors' Accounts.
- Company's Management Account.
- *Waqf* Cooperation Account.
- Humanitarian Account.
- *Tabarru'at* (Charity) Account.

Significant Results

Among the significant results of a *Shari'ah* cryptocurrency operation are:

- To create an atmosphere for all mankind to participate with investment opportunities through *Shari'ah* Cryptocurrency within the *Maqasid al-Shari'ah*.
- To help everyone generally and particularly those who are poor and less income group to create an economic opportunity by participating in the *Shari'ah* Cryptocurrency Management.
- To create a global awareness among all with an encouragement to enjoy with entrepreneuring and enterprising opportunities through *Shari'ah* Crypto currency Management.
- To create an economic empowerment with basic rights for all mankind through *Shari'ah* Cryptocurrency Management.

Humanitarian Concern through *Tabarru'at*

A *Shari'ah* cryptocurrency management may aim at creating a *Tabarru'at* (Charity) fund through the partial contribution from the income to care and concern about those who are poor, helpless, destitute, orphans and other underprivileged ones in any society to meet their basic needs and natural rights of well-beings within the holistic spirit of *Maqasid al-Shari'ah*.

Conclusion

In the contemporary digital space, there is numerous types of cryptocurrency operated, but with no standard system, operational mechanisms non-compliance to the legal requirements. This maybe a negative phenomenon to the participants in the cryptocurrency and also to the system in general. For a sustainable existence of cryptocurrency, it shall observe and maintain from its establishment till its effective operation all legal requirements. A *Shari'ah* cryptocurrency model[13] is in no exception, which shall be recognized only by its existence with legal and *Shari'ah* compliance in its establishment, system, operation and code of ethics within the ambit of *Maqasid al-Shari'ah*.

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The Rationalization of Abu Yusuf Economic Thought (An Analysis of the Islamic Public Finances)

By
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Abstract:

This study is a library research that has used a historical approach and the economic approach conceptually. The purpose of this paper is to reveal the background and to rationalize economic thought of Abu Yusuf and to describe the contribution of his economic thought at the time. The results of a literature review showed that the Abu Yusuf economic thought was influenced by two factors, namely internal and external factors. Internal factors emerging from the educational background of some teachers affected his thought. While external factors, it appears from, at that time unstable economic and political situation. There was lack of harmony in the relationship between rulers and religious figures. Therefore such social circumstances, it appears, molded the economic thought of Abu Yusuf which is evident through his book al-kharaj oriented to achieve mashlahah al-'āmmah especially from Islamic public finances perspective.

Keywords: Rationalization, Economic Thought, Public Finance, and Abu Yusuf.

1. Introduction

Along with the development of economic terms Islamic or Sharia in the economy today, there is also the emergence of a lot of study or discussion of Islamic economics, but studies that are normative are more numerous than actual practical studies. In fact, the biggest challenge faced by Islamic economics is the fact that the Islamic economic policy has yet to be applied at the stage of government policies

Abu Yusuf economic policy should be eligible as tool's of comparison in the study of Islamic economics. Abu Yusuf practiced his concept of economy with considerable expertise carried with attention on the issue of taxation and state spending or fiscal

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problems. Writings about Abu Yusuf as administrator of the kingdom then recorded, explain what Abu Yusuf economic thinking was about (Rahardjo, 2012: 100-101). Abu Yusuf was a close friend of caliph Harun ar-Rashid and because of his wisdom he became Qādi al-Qudāh (Supreme Court Justice) and was instructed by the Caliph to formulate a government regulation on the public finance in accordance with Sharia, which was credible in managing economic policy at the time.

Abu Yusuf contributed ideas about economic policy in his time, which are important to be studied in order to look at the events of history through his monumental work (Kitab al-Kharaj) and rationale in accordance with the socio-religious dimension in the future. Therefore, it should be interesting to discuss some of the economic policies that were carried out by Abu Yusuf during Abbasid Caliph Harun ur Rashid's time, and what underlies thought or the economic policy?

The approach used in this paper is a historical approach and the economic approach, with the aim of explaining economic rationalization of Abu Yusuf with reference to the classical Islamic history, especially during the Caliph Harun ar-Rashid.

2. Discussion

2. 1. Biography of Abu Yusuf

An Alim famous in the golden era of Islam was named Ya'qub ibn Ibrahim ibn Habib bin Khunais bin Sa'ad al-Ansari, and was known by the nickname Abu Yusuf, he was born in Kufa, Iraq in the year 113 AH (731 AD) and died in 182 AH (789 AD) in the city of Baghdad, the administrative center of the Abbasid Caliphate at the time. Abu Yusuf's mother had blood relation with one of the companions of the Prophet named Sa'ad al-Anshori. Since childhood he was very interested in science. At that time, the city of Kufa was one of the centers of civilization and Islamic government. Kufa is where the Muslim scholars from across the Islamic world, came to exchange ideas on a variety of sciences (Karim, 2004: 231).

Abu Yusuf was born in a poor family. Although in poor condition, he never felt broken to study. In fact, he was described as an individual who is very diligent and has thirst for knowledge, especially with regard to the understanding of the law. Once when Abu Yusuf returned home in the afternoon after study with Abu Hanifah, he asked his wife to serve food, then his wife served food in the form of "book" which he learned in the evening. Finally, Abu Yusuf went to bed in a state of starvation, and he perseveres over the treatment of his wife (Huda and Muti, 2007: 54). Therefore, to see the talent and passion and perseverance in learning of Abu Yusuf, Abu Hanifah undertook to pay for all the education, even the cost of his family life.

In the process of learning (study groups) and his love for science, Abu Yusuf was very diligent and persevering so that he could show high ability as Ahl-ul-Hadith and was able to memorize a lot of hadiths (Karim, 2004: 231). Abu Yusuf was known to actively pursue the study of hadith held by Muhammad bin Abdurrahman bin Abi Laili and Abu Hanifah (Sudarsono, 2007: 150). Abu Yusuf gained knowledge from many scholars in Kufa and Medina. Among the scholars who had been his teachers were Abu Hanifah, Malik bin Anas, Al-Layth ibn Sa'd, Abu Muhammad ibn as-Saib Atho Al-Kufi, Mahram bin Sulaiman Al-A'masy, Hisham bin Urwah, Muhammad ibn Abdurrahman bin Abi

Laila, Muhammad ibn Ishaq ibn Yassar son Jabbar, and Al-Hajjaj bin Arthah (Mursi, 2007: 113). His science capabilities covered the fields of hermeneutics, the science of war strategy, Arab calendar, and transmission of hadith. Then he studied the science of fiqh that he learned with Mohammed bin Abdurrahman bin Abi Laila (often referred to as by Ibn Abi Laila) and Imam Abu Hanifah (Hanafi thinkers). Abu Hanifah also revealed that “Abu Yusuf has a very powerful memorization and knowledge. Under the guidance of Abu Hanifah, Abu Yusuf achieved remarkable success. Abu Yusuf is known as one of the leading disciples of Imam Abu Hanifa. One proof of proximity of Abu Yusuf to Abu Hanifa can be seen from the words of Abu Hanifa before his death, when he advised him: “I save you for later Muslims” (Huda and Muti, 2007: 54). Nevertheless, the relationship between teacher and student is often marred by disagreements between the two.

Thanks to the guidance of his teacher, and thanks to the diligence and intelligence of Abu Yusuf, he grew and developed into a pious and highly respected and admired person by many people, including religious leaders, authorities and the general public. Not infrequently his opinions are incorporated in social life. Among the great figures who became his students are Muhammad ibn al-Hasan al-Syaibani, Ahmad bin Hanbal, Yazid ibn Harun Al-Wasiti, Al-Hasan ibn Ziyad Al-Lu’lui, and Yahya ibn Adam al-Qarasy (Majid, 2003 : 2). As a form of respect and recognition of the breadth and depth of his knowledge, ‘Abbasid Caliph, Harun al-Rashid, elevated Abu Yusuf as Chairman of the Supreme Court (Qādi al-Qudāh). Although busy with various activities of teaching and bureaucracy, Abu Yusuf still took the time to write (Karim, 2004: 232). Although often disagree, Abu Yusuf was the first to determine the book of Hanafi teachings and disseminate his knowledge. Abu Yusuf closeness with the Abbasid rulers made Hanafi fiqh readily accepted throughout the territory of Islam. The areas that still adhere to the Hanafi School from that time, among others, are Egypt and Pakistan.

2. 2. Works of Abu Yusuf

In the 10th century, Ibn al-Nadim wrote “Kitab Al-Fihrist” which is a compilation of bibliography of books, and mentions that during his lifetime Abu Yusuf has authored a number of papers in various fields (Zuraya, 2012: 1-2). Abu Yusuf has produced several works, namely:

No	Name of Kitab	Discussion / study
1	***Kitab al-Astār***	In this book has published hadith narrated from his father and his teacher. He expressed the opinion of his teacher, Imam Abu Hanifa, then his own opinion and explain the cause of their dissent. The contents of this book are a narrative of the various traditions of narration of hadith.
2	**Kitab *Ikhtilāf Abī Hanīfah wa Ibni Abī Laila***	Therein is review of comparative fiqh raised by the opinion of Imam Abu Hanifa and ibn Abi Laila

3	**Kitab** ***al-Radd ‘alā Siyar al-Auzā’i***	This work was a refutation of the book Al-Awza’i (a jurist known in Syria) regarding the laws of war.
4	**Kitab** ***al-Jawāmi***	The book was deliberation written to Yahya bin Khalid containing debate about ra'yu and ratios.
5	**Kitab** ***Adabu al-Qādy***	This book discusses the temperament or behavior of judges in making decisions.
6	**Kitab** ***al-Hiyal***	Abu Yusuf book entitled “Kitab Al-Hiyal” (The Book of Tricks) which was compiled by his pupils and passed on to future generations. The book was rewritten by one of his pupils, Muhammad Al-Shaybani, as “Kitab al-Mahārij fi al-Haili”.
7	**Kitab** ***al-Kharāj***	This is a book of Abu Yusuf's most momentous proportions and is well-known in the field of economics. This book reviews the problems of social and economic phenomena, especially in terms of land tax, the revenue and expenditure of the State from an Islamic perspective.

Source: Karim (2004), with adjustments

2. 3. Social Dimensions of Abu Yusuf

Abu Yusuf was a jurist who was born during the Umayyad dynasty, but he started work with the well-known at the time of the Abbasid dynasty. Based on the social dimension of life, Abu Yusuf lived in a transitional period of two dynasties (daulah) in Islam, which is at the end of Bani Ummayyah dynasty and the reign of the Abbasid dynasty (Edwin, 2007: 185).

Historically the Abbasid dynasty began to show its existence after the emergence of insurgency by the descendants of Al-Abbas, and the other opponents of the dynasty of the Umayyads in Damascus that ended with the murder of Caliph Marwan II (Kathir, 1993: 31; Yulianti, 2012: 3). Thus Abu Al-Abbas self-proclaimed himself as first Caliph of the Abbasid dynasty (Lewis, 1994: 75; Yulianti, 2012: 3). This period was a time of transition from the Umayyad dynasty which was known for its hardness, while the Abbasid dynasty became famous for softness and prosperity. In the year 166 AH / 782 AD, Abu Yusuf left Kufa and went to Baghdad. This was because economic conditions did not favor or support his scientific career. Then he was greeted warmly by the Abbasid Caliph al-Mahdi (159 H / 775 M - 169 H / 785 AD) who immediately appointed him as a judge in eastern Baghdad. The position he held until the reign of al-Hadi (165 H-170 H). Abu Yusuf became a judge (qādi) in the year 166H / 782 AD at the time of Caliph Al-Mahdi, al-Hadi and peaked during the time of Caliph Harun ar-Rashid. In the reign of Caliph Harun ar-Rashid (170 H / 786 AD -194 H / 809 AD) Abu Yusuf reached the peak of his career in state office, when he was appointed as al-Qudāh Qādi (Supreme Court Justice), where he served as a the first chairman of the judges during the Abbasid dynasty. This position had not been there since the Umayyads (7th century) until the time of Caliph al-Mahdi of the Abbasid Daula (8th century). He deserved to be given this position because of the breadth of his knowledge, his kindness of personality. Harun ar-Rashid stated that "Abu Yusuf is a cleric who has the breadth of jurisprudence, has a scientific personality that is firm and consistent" (Huda and Muti, 2011: 56-58).

Magistracy (Qādi) was carried by Abu Yusuf for three periods of Abbasid caliphate in Baghdad, during the Governments of the Caliphs Al-Hadi Al-Mahdi and Harun ar-Rashid for 16 years. In fact, Caliph Harun ar-Rashid gave honor that all court decisions both in the West and the East have to lean to him. Abu Yusuf served as the chief justice until his death in 182 H (Zuraya, 2012: 2).

Historically, during the reign of Harun ar-Rashid, the Abbasid dynasty government made progress in socio-economic fields. This can be seen from the stability of the country's economy and society that made the city of Baghdad as centre trade between countries as well as made Baghdad as the capital of the government. The State obtain large revenues from the trading activities coupled with acquisition of trade tax and income tax. The revenue from trading activities enabled to finance the development of other sectors such as the construction of the city of Baghdad , the construction of places of worship, education, health, development of science and research in the field of translation. In addition the country was able to give high salaries to the scholars and scientists. Then, the State also provided a high incentive to scholars and scientists who have written scientific works and inventions (Dewan, 1993: 89; Lombard, 1975; Yulianti, 2012: 5).

The phenomenon of economic progress was evidenced by the existence of large ports such as the Persian Gulf and the Red Sea that opened the way to the Indian Ocean and the port of Syria and Egypt, known as Alexandria, as well as the ports of Sicily and Gibraltar which became passage to Europe opening the trade between east and west so the export and import trading activity took place smoothly (Dewan, 1993: 88; Majid, 2003: 46-47). Reality proves that economic and trade activities in the Abbasid period were not only limited to the territory of the Caliphate, but also covered the area beyond the power of Islam, even to China. Abbasid period of economic progress cannot be separated from some of the supporting factors and conditions conducive to political and governance structures. The Golden Age of Islam is the reign of Harun al-Rashid. Harun al-Rashid was born in Rayy, Tehran, Iran on March 17, 763 AD. He was the son of Caliph al-Mahdi bin Abu Ja'far al-Mansur, the third Abbasid caliph. His mother named Khaizuran, a slave girl from Yemen was freed and married Al-Mahdi. Harun al-Rashid's mother was very instrumental in the leadership of Al-Mahdi and Harun ar-Rashid (Huda and Muti, 2011: 61). Behind the success achieved in the Abbasid dynasty, there is a crucial problem that challenged the stability and economic future of the dynasty. Lack of harmony in the relationship between government and religious leaders in the early days of Islam, became an obstacle in the development of economic dynamics and social understanding of the law. This condition occurred from the end of the Umayyad dynasty until the end of the Abbasid generation. At that time the scholars who disagreed with the rulers were kept, in prison (Amin, 1974: 184; Zaidan, tt: 328-329; Yulianti, 2012: 12).

This resulted in a negative relationship between people, scholars and rulers. On the one hand, the authorities were obliged to maintain the economic stability of communities and countries. However, some policies had been defined, which led to oppression of the weak and tended to favour the ruling groups and the royal family. The conditions spawned a crisis of ethical and moral values and justice that has implications for economic instability, the culture of corruption, the luxurious life of the rulers, the palace cult and exploitation of religion for personal gain by ruler. Therefore government policies were deemed to be partial to small groups. For instance, the collection of taxes was without consideration of ethical values, morals and principle of balance.

Harun ar-Rashid was concerned with the situation and because of his proximity to Abu Yusuf then he spoke with the then Qādi al-Qudāh, to seek solutions to the problems that best the people. It was a challenge for Abu Yusuf to come up with an idea of revamping the system of government and community culture that is considered to have addressed the crisis. Anxiety of Abu Yusuf was evident in the long letter addressed to the Caliph Harun ar-Rashid to discuss an attempt to fix the economic system of government that does not oppressive ethical values and promotes the principles of balance. The correspondence is a long discussion between Harun ar-Rashid and Abu Yusuf, on various points especially those closely related to the income and expenditure of the State as well as some aspects related to market mechanisms (Yusuf, 1302 H; Majid, 2003: 75).

Abu Yusuf wrote his book – Kitab al Kiraj to set up the system of income and expenditure as well as the state of public finances in accordance with Islamic law at the request of Harun al-Rashid. He said: "I have written what you asked, and I had to explain it clearly, then understand and read and keep repeating until you memorize it because the book is the result of my ijtihad (al-Ma'rifah Encyclopedia, 2010).

2. 4. Basic Concept of Abu Yusuf

AbuYusuf's analysis in the book of al-Kharaj, is describing various economic thinking by using analytical tools. Qiyas preceded by conducting in-depth study of the Qur'an, Hadith, atsar Shahabi, and practices of pious rulers to achieve mashlahah al-'amma (the public good). So this approach makes the ideas and thinking more relevant and comprehensive (Karim, 2008: 235). This is in accordance with what is disclosed among schools of Abu Hanifa in determining the law, namely:

"In determining the law I cling to the Book of Allah, that if I find there. And if I do not find in the Qur'an then I cling to the Sunnah, and Atsar Salih narrated by the narrator reliable, if I do not get from them, I stick to the opinion of a friend that I like and leave the opinion that I do not like, and I do not to leave the other opinion. And when the matter has come to Ibrahim-sya'bi, al-Hasan, Ibn Sirin, and Said bin Musayyah, then I took a decision of the law as they see fit" (Majid, 2003: 107).

In the economic field, especially in the book of al-Kharaj, Abu Yusuf also uses ra'yu method. Kitab al-Kharaj is an answer to the dialogical process conducted by Caliph Harun al-Rashid and the problems encountered by Abu Yusuf society at that time. The answer to all these issues is strengthened by the arguments' aqli and naqli so superior academic from the book of Ibn al-Kharaj. Adam and Qudama bin Ja'far were only reinforced by naqli arguments without giving an opportunity to reason. Abu Yusuf uses a rational approach in concluding text of hadith. So the quality of hadith in Kitab al-Kharaj Abu Yusuf work more comprehensively. In this case Abu Yusuf did not ignore the factual practice of the companions, as long as the facts are relevant to the situation, given the benefit of the 'āmmah (public good) has always been a major consideration in thinking of Abu Yusuf (Yulianti, 2012: 22).

Rationale of Abu Yusuf in the economic sphere, is influenced by several factors: internal and external. Internal factors emerging from the educational background of some teachers affected it. This is evident from the social dimension of life that has influenced his policy formulation . Nevertheless, Abu Yusuf explicitly seeks to escape from the shackles of thought that have been outlined by predecessors, by promoting rationality and not follow blindly (taqlid a'mā) previous practices. External factors, are the absolute system of government and the public uprising against the policy of the caliphs who often oppressed the people. He grew up in a state of political and economic state instability, because reconciliation between the authorities and religious figures difficult to achieve. With such political and social dimensions Abu Yusuf appeared with economic thought contained in his al-Kharaj (Rahmawati, 2009: 2). Although it was all done on request of Caliph Harun ar-Rashid, considering he also has a background in position as Qādi al-Qudāh (justices).

2. 5. The Concept of Kitab al-Kharaj Written by Abu Yusuf

Kitab al-Kharaj discusses or covers various fields, among others:

1. On governance a caliph is the representative of God on earth to carry out His commands. In a relationship rights and responsibilities of government to the people. The rule is the famous *tasharaf al-imam manuthun bi al-mashlahah* (any government actions related to the people's welfare is always associated with them).
2. On the financial; the state money does not belong to the caliph, but the mandate of God and his people are to be protected and responsibly.
3. On the land; land acquired from the administration may be withdrawn if it is not cultivated for three years and given to others.
4. On taxation; taxes are set on the property that exceeds the needs of the people and is determined based on their willingness.
5. About the judicial;. Errors in forgiving are better than a mistake in punishing. Positions should not be taken into consideration in matters of justice (Huda and Muti, 2011: 65-66).

2. 6. Abu Yusuf Thought on Economy and Islamic Public Finance

Abu Yusuf is one of the Muslim scholars who contributed greatly in Islamic economic thought. He was the first Muslim scholars who raised the question of market mechanisms and his opinions have been widely cited by many famous scholars afterwards. Abu Yusuf's economic thinking in the book of al-Kharaj was used as guidelines for law enforcement at the time, to address injustice against the people caused by the difference in status (reputation) and religion. He has laid the economic theory that is ideal based on sharia law. Al-Kharaj had an important role in the management of bait al-mal during the reign of Caliph Harun ar-Rashid (Zuraya, 2012: 3). Abu Yusuf confirms the importance of the nature of the mandate to manage the State finances for the benefit of the people. This is different from the concept of maslahah adopted at Tufi, which is based on the hadith Arba'in maslahah Nawawi number 32. This hadith reads "la darāra wa lā dirāra", meaning "do not exacerbate themselves and do not exacerbate the others" (At-Tufi in Khallaf, 1972: 105). Abu Yusuf argued that maslahah can be measured from several aspects, namely balance, (tawāzun), free will (al-ikhtiyār), responsibility or justice (al-'adl or accountability), and do good (al-ihsān) (Rahmawati, 2009: 3).

To fix the economic system, Abu Yusuf improved the mechanisms for narrowing the gap between rich and poor. He considers that the price is not only determined by the manufacturer, but is determined by the demand for such goods. In fact, it indicates the existence of other variables that also affect the price, such as the money supply in the country, the dumping or detention of goods, or other commodities (Farida, 2012: 260). Communities and governments have the right of intervention in economic affairs to realize the benefit and social justice. Therefore, there are two main things that Abu Yusuf did namely; First, he determined the appropriate level of tax assessment and balance, in order to prevent the State from the economic recession. Second, government spending arrangement were made in accordance with the general policy in terms of income, expenditure, and market mechanisms. Thus, in taking steps to make it happen Abu Yusuf ideas were as follows:

2.6.1. Determine the Agricultural Tax (Kharaj)

According to Ibn Rajab, kharaj was first enacted in Sawad, Kufa, Iraq during the caliphate of Umar bin Khattab. Before the rule of Islam (when Persian was still in power), this region had become ard kharajiyyah ('ardh Sawad) (Khoeroni, 2015: 343-345). Abu Yusuf in imposing kharaj based it on the policies put in place by Umar bin Khattab (Yusuf, 1979: 24-25). Then Abu Yusuf went on to explain what was presented by Umar bin Khattab: "I argued to hold these lands, and I will oblige to kharj it, in addition they also pay jizyah, then it will become the property for the Muslims, both to our descendants and future generations" (Yusuf, 1979: 25).

From the words of Umar bin Khattab above, the true idea of kharaj had existed since the previous era. Umar did not divide the land of Sham and Iraq due to which the territory of Islam was already very extensive. Although there were some companions of the Prophet who opposed the decision, but in the end they conducted ijtihad by ijma' to continue allowing the land to be managed and picked by kharaj owners thereof. Which ijtihad footing source refers to the decision of Umar bin Khattab in determining the distribution of land conquered by ijma' shahabi (Huda, 2011: 70). The cornerstone of Abu Yusuf thought in determining policy mashlahah kharaj uses rules based on the proposition naqli and arguments' aqli (Huda, 2011: 71). According to Imam Al-Mawardi in the book of al-Ahkamu as-Sulthoniyah wa al-Wilayah ad-Diniyah explained that kharaj determined by ijtihad al-imam or leader's decision (Al-Kattani and Nurdin, 2000: 285).

2.6.2. Wazifah and Masāhah System Restructuring with the Muqāsamah

Wazifah is a tax collection system that is determined based on a fixed value (lump sum system) (LP3EI, 2008: 107), regardless of the size of the ability of the taxpayer or may be reworded by taxes levied by the provisions of the same amount as a whole. While muqāsamah is a system of taxation imposed by the value of which is not fixed or changed by considering the level of ability and percentage of income (proportional tax). This system replacement transactions are carried out in order to achieve economic justice. Rationale of Abu Yusuf on a proportional tax is contained in his statement from which some important lessons that can be taken. First, Abu Yusuf has successfully conducted research in the field, knowing some of the problems of taxation and economic activities. Secondly, the consultation (interviews and observations) as a follow-up survey of tangible community that objected to the imposition of land tax on land not fertile and non-productive, and the proposed tax differentiation for fertile and infertile soil. Formerly masāhah system was applied by the Caliph Umar bin Khattab to calculate the area of land, with a unit called jarib. According to al-Mawardi (1996: 142) qashbah is equivalent to one hundred jarib. One qafiz is ten square qashbah. One asyir is one square qashbah. One qashbah is equal to six fathoms, then one jarib is three thousand six hundred fathoms. One qafiz is three hundred and sixty fathoms, or one tenth jarib. Each jarib was taxed at one dirham and one qofiz. Total land area of 36,000,000 jarib was Sawad at that time. This means the tax revenue on every polling (jibayah) amounted to 36 million dirhams and jarib 3,600,000 (3,600,000 dirhams). Implementation of the system had an impact on taxation of the government of the day and would fluctuate every time polling (jibayah) was conducted. Based on the principle muqāsamah mashlahah then, the system was applied. As according to Ibn Taymiyah it had also been practiced in the Period of the Prophet at Khaibar ground, by making the land managed by the Jews(Huda and Muti, 2011: 80).

Background application of muqāsamah can also be seen from the condition of agricultural land and soil of Iraq and Syria at the time of Caliph Harun ar-Rashid was different from the time of Caliph Umar bin Khattab. At the time of Caliph Umar productive agricultural land was very abundant, while at the time of Caliph Harun land produced very little productive agriculture, coupled with increase in land that could not be fed by the government’s irrigation (Huda and Muti, 2011: 82).

These conditions made the Caliph Harun ar-Rashid take the initiative to make good management protocols with the appropriate Islamic Shari'a through Qādi al-Qudāh (justice), because the potential state revenue was significant. Then the rule was made to change the voting mechanism of kharaj (land tax) on masāhah system (the extent of the land) to muqāsamah system (proportional). Based on the factual data, Abu Yusuf advised Harun to impose this muqāsamah system with consideration maslahah (Huda and Muti, 2011: 83).

2.6.3. Changing the Kharaj of Ijarah Contract to Musharaka

At the time of application of the muqosamah system, taxes generated per jibayah fluctuated. Kharajnya status also changed from Ijara conducted to the Musharaka agreement or cooperation in the agricultural sector (muzāra’ah or asy-sirkah fi az-zar’i). According to Abu Yusuf and Muhammad ibn al-Hasan as-Syaibani, musāqoh and muzara’ah were permissible, because these are based on ijma’ which already constituted a transaction that is sorely needed by the people of that time, to meet the needs of those living with certain conditions, and also because of the needs of society or government to work and hire (Haroen, 2007: 282-283). There are four forms muzara’ah (Nasar, 1971: 484), three out of shape muzara’ah including authentic contract while the other is a false contract (ash-Syarbaini, 1978: 268).

According to Abu Yusuf and Muhammad ibn al-Hasan as-Syaibani, muzāra’ah agreement aims to help communities farmers and owners of agricultural land (in this case the government Daula Abbasid). The land owner is not able to work on the land, while farmers do not have agricultural land. Therefore, it is natural that the owners of agricultural land in cooperation with the peasants farm the land, with the provision that they enter a corresponding agreement (ash-Syarbaini, 1978: 419). As stated in the Qur'an. Al-Maidah: 2

> **...وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ ۖ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ...**
> "…and helping you in the (working) virtue and piety, and do not mutual assistance in sin and transgression"….

He also never conducted tilling transactions of the land with the Jews of Khaibar, but rather a sort of tribute payments, which was to be paid on cash crops in accordance with the agreement or their ability (Rahman, 1995: 284). Guidance is taken, as directed through sunnah of the Prophet Muhammad (pbuh), as he has done muzara'ah transactions with residents of Khaibar in exchange for half the harvest of fruit or plants (Badruddin, tt: 364). The amount of kharaj was adjusted with the results given by a land kharaj, because the Caliph Umar when setting kharaj on Iraqi territory, for some regions in Iraq for every area of the jarib has to pay kharaj by one qafiz and one dirham. Determination of the land area used measurements made by Kisra bin Qubbazd. He was the one who first made extensive measurements to determine the amount of land kharaj, set boundaries and made the system administration (Al-Mawardi, 1996: 140).

Abu Yusuf reiterated the importance of public works particularly irrigation facilities and roads. He also urged the authorities to take other measures to ensure the advancement of agriculture. This is also confirmed by Ibn Khaldun in the concept of the farm; he identifies agriculture as a source of strategic super life. The term "life" is defined as the desire to persist with efforts to get it. When life is obtained through optimization of agricultural products (including also the farm) with the added value which can then be used by many people, such as rice from the rice field, milk from cattle, silk from silkworms, and honey from the bees, or plants that produce fruit, then it is called a real farm. Moreover, Ibn Khaldun also identified the various crafts and trades as a natural way to gain life. In other words, agriculture, industry, and trade is the source of the economy that affect the quality of life of a community and nation (Beik and Arsyianti, 2012: 2).

In agriculture, Abu Yusuf tends to agree that if the state takes part of the produce of the tenants than rents from agricultural land is tilled in other words making it an as-syirkah fi az-zar'i. Abu Yusuf also disagrees with the levy of agricultural taxes. He favours it better be a joint venture between the government and the rural landless. Nevertheless, Abu Yusuf wisely suggested to the Caliph to give salaries to the tax man. Consequences of their actions should always be supervised to prevent fraud or breach of contract, such as corruption and oppression practices.

2.6.4. Build Social Harmony and International Relations

Problems of Muslims and non-Muslims is also a topic of thought of Abu Yusuf in the field of taxation, which is about the obligation of non-Muslim citizens to pay taxes. Abu Yusuf considers that citizens equal before the law, even non-Islamic religion. In this case Abu Yusuf split three groups of people who do not have full legal capacity, ie harbi, musta'min, and dhimmis. Groups included in the category musta'min and dhimmi is a group of non-Muslim foreigners who are in the territory of Islam and in need of security protection of an Islamic government, as well as comply with all applicable laws. Attention is drawn by Abu Yusuf in order to provide an understanding of balance and equality of rights and also the mechanism for setting protection tax (jizya) (Huda and Muti, 2011: 67).

Jizya payment by non-Muslims, is not as punishment for their unbelief against Islam, because such is contrary to the Koran (2): 256; “There is no compulsion in religion”. Jizya is not applied to women, children, the poor and the incapable. For those who cannot afford to pay, they also must be protected. In connection with this jizya, Abu Yusuf specifically addressed to Harun al-Rashid. He said “anyone who forces people who are not Muslims, or ask for a tax from them beyond their means, so I’m including the faction” (Huda and Muti, 2011: 68).

The concept of the jizya in the context of socio-economic realities (in action), strongly considers the percentage based on the opinion of Abu Yusuf that lead to equilibrium level and the values of justice in ummah. This is done as a measure of the materiality and the ability of communities to fulfill their responsibilities as citizens. Although the poll is mandatory, but in Islam there is no provision that the jizya be imposed only to the entire non-Muslim adult males who could afford it (LP3EI, 2008: 514).

Social harmonization was initiated by Abu Yusuf also visible from a tolerant attitude to the non-Muslims in the trade transactions in the territory of Islam. In fact, Abu Yusuf was someone who rejected their opinion that prohibits Muslim traders to trade in the region Darul harbi. This is done to create opportunities as a contribution to the economic development and expansion of international trade throughout the world, such as China, Africa, Central Asia, Southeast Asia and Turkey.

From the attitude of Abu Yusuf above, it appears that he paid attention to the urgency of good relations between countries, economic development in the field of trade, as well as the efforts of the attitude of the public economy as a preventive measure in case of a long-term crisis of basic needs (Huda and Muti, 2011: 68).

2.6.5. Initiating the Price Control According to Sharia Concept

Abu Yusuf tried to create an economic system that is not dependent on government intervention to achieve its economic vision. Actualization can be seen on his ideas in setting the price (tas’ir) contrary to the law of supply and demand. But he denied the inverted statement. For him a lot and at least things cannot be used as the main benchmark for the rising and falling prices, but there are other more decisive forces. It is based on some traditions embodied in Kitab al-Kharaj (Yusuf, 1979: 49). Abu Yusuf said; narrated from ‘Abd ar-Rahman bin Abi Laila, from Hikam bin ‘Utaibah which tells that at the time of the Prophet prices soared ever higher and they asked the Prophet to make regulations governing it. Rasulullah pbuh: “high and low prices of goods is part of a linkage with the existence of God, and we cannot interfere too much a part of that provision” (1979: 50-51).

According to Abu Yusuf, an Islamic economic system follows the principle of market mechanisms to provide optimal freedom for actors in it, namely producers and consumers. If, price increases, then the government cannot intervene to fix prices, unless there is a monopoly, hoarding or unilateral actions which are not fair from the manufacturer. Because the onset of the market according to Al-Ghazali in Ihya 'Ulumuddin, he found could have been farmers living where farming tools are not available. Instead, blacksmith and carpenter living where there is no agricultural land. However, naturally they will meet the needs of each individual. It may well be carpenter in need of food, but farmers do not need these tools. This situation has posed a problem. Therefore, naturally also people will be encouraged to provide the storage devices on the one hand, and storage of agricultural products on the other. The solution is then in coming to buyers according to their respective needs, forming the market (Rahmi, 2015: 178). However Ta'sir is left entirely to the market mechanism, played by the forces of demand and supply. Abu Yusuf was against the ruling which establishes an abundant crop prices is not a reason to lower crop prices, and vice versa scarcity does not lead to price soaring. The same thing was confirmed by the opinion of Ibn Taymiyyah, he said that the price control to be one of the government's responsibility on the market mechanism. Government intervention to control prices when the imperfections are allowed to enter the market and to limit normal conditions, as players have the freedom to sell the products they produce (Taimiyah, 1976: 16). This opinion is contrary to the opinion of two famous schools namely Hanbali and Shafi'i schools of thought that state that the government does not have the right to set the price (Islahi, 1997: 165).

In the period that Abu Yusuf became Qādi al-Qudāh (Supreme Court Justice), the ruler or government officials generally solved the problem of rising prices by increasing the supply of groceries and they avoided price control. No clear thinking is evident on aspects to cleanse the market of the practice of hoarding, monopoly, and other corrupt practices and then allow pricing to the forces of demand and supply (Karim, 2004: 231). Facts on the ground shows that there is a possibility of excess co-existing with a high price and scarcity at a low price (Karim, 2004: 15). The results of the analysis of Abu Yusuf is a statement of observations at the time, namely the existence of the same between the abundance of goods and the high price and scarcity of goods and low prices (Karim, 2001: 156).

2.6.6. Building Infrastructure for the Mashlahah

Abu Yusuf argued that the main task of the authorities / officials of the state is to realize and ensure the welfare of its people. He always explained the importance of meeting needs of their people and developed various projects oriented to the general welfare. By citing Caliph Umar bin Khattab, he revealed that; "The best of rulers are those who govern for the sake of prosperity of its people and the worst of rulers are those who govern but instead people have difficulty".

Abu Yusuf stated that the State's responsibility is to fulfill the provision of infrastructure in order to increase the productivity of the land, the people's welfare and economic growth. The state also should bear all costs required for the procurement of public projects, such as building roads, irrigation, dams, walls, and so forth. However, if the project only benefits a particular group, it is appropriate that the project cost will be charged to them. Statement this looks aesthetically when he commented on the project of cleaning the canals. As set forth in Kitab al-Kharaj: "If such projects resulted in the development and improvement in kharaj, you should have ordered digging canals. All costs must be borne by the state finances. Do not pull the expense of the people in the region as they should be improved, not destroyed. Each payer of kharaj can make public demand for improvement and so on, including the enhancement and improvement of the land and their channels, must be met so long as it does not spoil the others ". Furthermore, the opinion of Abu Yusuf specifically discloses that he personally knew the cost of cleanup projects, namely: "The whole canal should be cleaned first and pembiayaanya should be charged to the owner, according to their ownership of the portion of the know" (Yusuf, 1979: 109-110).

Abu Yusuf's perception about the procurement of public goods is also in accordance with conventional economic theory which says that public facilities must be provided by the State and financed by the budget policy. However, if the benefits of public goods are internalized and utilization opposite or hinder the other party in making use of the project, then the cost will be charged directly (Azmi, 2005: 66).

Abu Yusuf is sincere and kind and truly desired the elimination of oppression, justice and the realization of the people's welfare. This is reflected in his statements that always put the people's interests first rather than personal interest, which is embodied in the implementation of the construction of public facilities and infrastructure, such as the construction of irrigation facilities and roads. Abu Yusuf also appealed the authorities to take measures to ensure the advancement of banking applied more in the agricultural sector.

This is a form of sympathy of Abu Yusuf and his genuine desire that he made to the authorities. His thinking has a major contribution in determining the obligations of rulers, instilling the principles of taxation and promote agriculture for the benefit of the Ummah.

3. Conclusion

Abu Yusuf has contributed to economic thought and dedicated these contributions during the 'Abbasid caliphate which was exceptional. With various provisions of its knowledge and experience, he is one of the people who influenced the development of the economic system maslahat. In addition to the legal field, the main force of thought of Abu Yusuf is in the field of public finance, which consists of principles of taxation, sources of income and expenditure of State, infrastructure development, pricing (ta'sir).

His thoughts about the economy, were at least influenced by several internal and external factors. Internal factors emerging from the educational background of some teachers affected it. It can be seen from the social setting in every policy he recommended to the Caliph Harun ar-Rashid. Abu Yusuf seeks to shed the shackles of thought that have been outlined by predecessors, by promoting rationality with no taqlid. External factors, appear from absolute system of government and the public uprising against the policy of the caliphs who often oppressed the people. He grew up in a state of unstable political and economic state because reconciliation between the authorities and religious figures was difficult. Therefore social services such as that performed by Abu Yusuf's al-Kharaj using analytical tools. Qiyas preceded by conducting in-depth study of the Qur'an, hadith, atsar Shahabi, as well as the practice of pious rulers to achieve mashlahah al-ammah (the public good). Mashlahah must always contain a benefit and a blessing. Blessings in economic activity may be obtained by applying the principles and Islamic values in its activities in a holistic manner.

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Effective Organizational Communication and Its Roles in Mitigating Shariah Non-Compliance Risks for Malaysian Takaful Operators (TOs)

By
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Abstract

Highly effective organization is associated with the internal strength which refers to effective communication. Malaysian Islamic Financial Institutions (IFIs) are governed by the Shariah Governance Framework (SGF) which serves as the guiding route in achieving a sound system and overall confinement to Shariah compliance requirements. Thus, it is vital for IFIs including Takaful Operators to ensure all the organizational organs playing their oversight, accountability and responsibility including communication related roles and applicable scopes effectively. Communication aspect is worthy important in improving the implementation gaps of Shariah governance practices which are highlighted by researchers. This includes the mitigation of Shariah non-compliance occurrences within each of IFI. Therefore, this study empirically examines the organizational communication aspects in Malaysian Takaful Operator (TO). A set of questionnaires is distributed to a selected group of staff in one TO In Malaysia to assess their thoughts on the subject matter. The study finds the overall organizational communication is effective thus helps the institution to mitigate risks for IFIs especially Shariah non-compliance risk.

Keywords: Effective communication, Governance, Risk management

1. Introduction

Regardless of the underlying nature of industry or sector, communication forms the baseline of any organization to survive. Communication is the initiator of any primary resources before being transformed into secondary resources of any organization to

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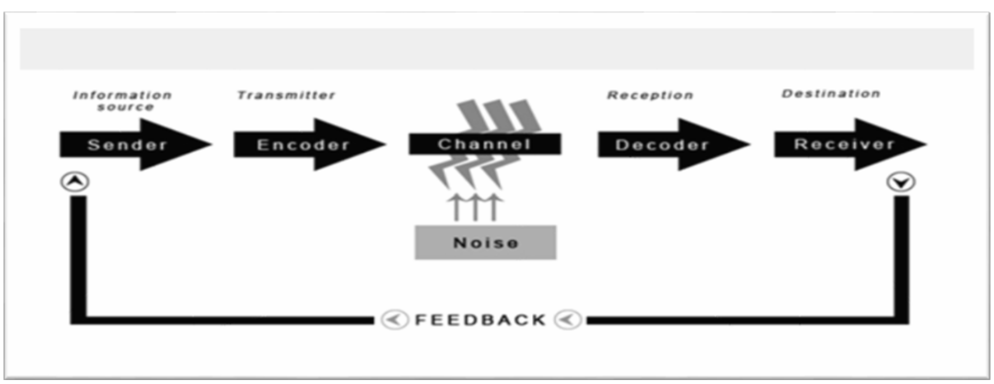
function (Van Riel & Fom brun, 2007). Derived from the root word “to communicate” which is extensively used, defining communication in scientific use is quite complicated. “Scholars have made many attempts to define communication, but establishing a single definition has proved impossible and may not be very fruitful” (Littlejohn & Foss, 2010). Through the components of communication such as source, message, channel and receiver, McCroskey, McCroskey & Richmond (2005) deliberated that communication process takes place in an ongoing nature.

All range of activities is undetached from being communicated. It integrates all other four (4) functions in basic. Beck (1999) emphasized that communication forms the lifeline of an organization, conveying directions, expectations, processes, products and attitudes. “'Communications' are best understood as interaction acts, not as objects and artifacts. People communicate when they interact. Communication is best understood as constitutive — interests should be understood as social products, often produced by decisions and opportunities” (Varey, 2000).

Communication could be considered as the best tool to be focused as it is a medium of transmission of rulings, information, knowledge as well as practices. The theory of communication evolved over the years, but the model of Shannon and Weaver (1949) is one of the original that explains the process of communication (See Figure 1). Today, communication is being regarded as an important factor commercially, and that the ability of the company to communicate can determine its success and capability to remain competitive. Based on theory, communication barrier such as noise must be abstained in ensuring the information could be communicated correctly to the targeted receivers.

Figure 1: Shannon and Weaver Theory of Communication



The same applies to any organization which requires constant communications. Looking at the context of Islamic Financial Institutions (IFIs) in Malaysia, there are some discrepancies in the practice of Islamic finance that may impede the development of its image, credibility and reputation, such as failure to promote Islamic values, lack of communication in Shariah supervision and failure to mitigate the Shariah non-compliance risk (Hasan, 2014). The respondents of the survey; have admitted that there are gaps between the regulators, IFIs' management and the Shariah board in terms of communication and understanding (Hasan, 2014).

Enticing an effective communication requires further assessment and evaluation from all the relevant parties which involved in a specific communication environment. Thus, the scope of this paper shall focus on Malaysian Takaful Operators as a specific subject matter. This paper is structured as follows. The first section is the literature review deliberating on effective communication in the organization, the roles of effective communication for institutions, Shariah non-compliance risks for Malaysian IFIs, its definitions and causes. This section is sealed with on how effective organizational communication could mitigate Shariah non-compliance risks for Malaysian TOs.The next section discusses the methodology, and then followed by the findings. The paper ends with conclusions and recommendations which are useful for other researchers in this area of study.

2. Literature Review

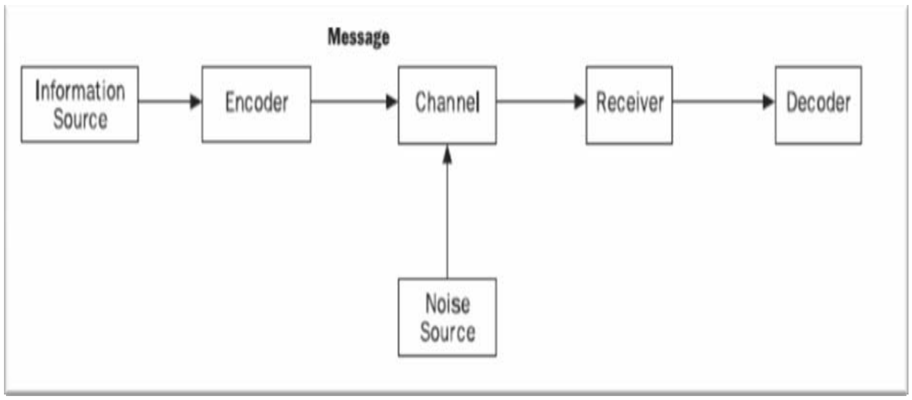
2.1 *Effective Communication in Organization*

As an introduction, it is interesting to share this statement which was made by a well-known figure in strategic management theory as well as organizational studies. "Chester Barnard once wrote that "the first executive function is to develop and maintain a system of communication" (1938, p.82). Barnard's statement has proved prophetic. Some years ago, in a survey by the president of one of the hundreds of the largest corporations in the United States, it was that 96% believed there was a "definite relationship" between communication and employee productivity (Lull et al., 1955)" (Tubbs, şi Moss, 1994).

Year by year, it has always been emphasized by the Board of Directors (BODs) in any organization for having a group of a talented management team and skillful team. Besides the core functions of managing such as planning, organizing, staffing, directing and controlling, management would be a failure if they are lacked in communication. The non-existence of effective communication could lead to retardation of productivity. It is worth to note that communication is the key to success for any organization which is achievable through management team or leadership. There are two (2) basic forms of communication which are; interpersonal communication and organizational communication. Interpersonal communication refers to a situation where the exchanging and transmission of knowledge, information and thinking happens between parties (sender and receiver). This type of communication might occur on any occasion, either within a company or other places. On the other hand, organizational communication refers to a proper exchanging of information, ideas and thought within a formal organization.

Inspired by classical communication model by Shannon and Weaver (1949), Hunt (1980) has come out with a model of organizational communication.

Figure 2: Hunt Model of Organizational Communication



Compared to Shannon and Weaver's work, Hunt has done a significant modification on "response" part. (Kelly, 2000) in addition to further enriching deliberation on other components in the communication process (Information source, encoder, channel (noise/source), receiver and decoder). He explains that "the concept of feedback highlights that in any communication event there are really two attempts to influence the sender's attempt to influence the receiver, and the receiver's attempt to influence the sender". (as cited in Berlo, 1960).

Goldhaber (1993) describe the definitions of organizational communication from various authors' perception in this field of study. Most of them emphasize the elements attached to organizational communication such as downward and upward communication. It also includes horizontal communication, human dealings and union-related relationship. Other authors defined organizational communication as a system which heavily depends on both internal and external interactions. Another definition which is closely relevant to this study is on the thought shared by Thayer. He explains that there is a flow of information within any company or organization which facilitates communication known as systems of communication. These systems of communication are:

1. "Operational (Task or Operations-Related Data)
2. Regulatory (orders, rules instructions)
3. Maintenance and Development (Public and Employee Relations, Advertising and Training)"

Communication in an organization is made of interconnection among departments or divisions which serve numerous functions and portfolios. For instance, complaint letter requires for an explanation related to his/her medical claims. Failing to provide a satisfactory response and amicable solution would result in him/her of suing the company. Some customers write it as it is a norm, where Customer Service would need for some advice from the governance team with regards to legal in handling such a difficult situation for the customer.

From another point of view, organizational communication was encircled to a smaller scale i.e. speech communication among the interconnected teams. The focus is solely on the interpersonal communication with no involvement of written communication element (Bormann & others). Among the interesting explanation of organizational communication mentioned (Bernstein, 1976) on the essence of this subject matter is the interaction of management, employees and the outsiders or external publics. He came into this conclusion after completing an industrial communication survey in identifying key thing which matters to all communicators.

3. The Roles of Organizational Communication for Institutions

Bambacas and Patrickson (2008) reiterated that further studies need to be embarked in analyzing the interconnecting factors between organizational communication and cooperative or committed staff. In any organization, effective management is achievable through effective people who are being the "communicators". Greenbaum (1980) comes out with a thought indicating that "an explicit appreciation of the role of the organizational communication system can result in more effective implementation of strategic long-term plans. This organizational communication system is made up of structure, climate and skills.

Understanding the essence of organizational communication needs to be enlightened through its functions. This refers to what communication would provide to an organization to be effective. Unlike Beck (1999) who indicated on four (4) functions of communication, McCroskey, McCroskey & Richmond (2005) had highlighted them in six (6). They are to inform, to regulate, to integrate, to manage, to persuade and to socialize. People in any organization need to be well informed of any policies and the procedural requirement for their functions and tasks. This function is being referred to top management since they are the helm of an organization. Simultaneously, the subordinates are required to seek further information to keep updated with any latest news and changes of regulations in their organization. As documentary evidence is very important, informative function usually is done in writing to ensure that a particular message is understandable.

It is quite different for the second function of communication which is regulative. This refers to a strict matter which involves legal and regulatory-based issues. The message is to ensure all staff or workers are in compliance with the organization's rules at all times. Adherence to a particular rule and law applicable to organizational background such as i.e.: act related to banking operations. The third function is called the integrative. This is where the communication is meant to coordinate the accomplishment of a task by a team through "a working together" spirit. Any assignment or assigned job is done in a very systematic manner as each and every person knows what he or she is supposed to do as well as communicating for any concerns. This is, indeed truly important to avoid any duplication of work which subsequently leads to ineffective time management. "The organization is viewed as an interconnected whole, which needs to be focused on agreed objectives in order to go through the organizational transformation without collapsing into internal strife" (Hargie & Tourish, 2009).

The fourth function is to manage. Management communication focuses on achieving the three (3) functions deliberated earlier, namely; informative, regulative and integrative. By achieving this communication objective, the management communication is considered successful as it reflects the capability of managing. This is crucial to be observed by superior or managers in helping them to handle their subordinates and team effectively. The fifth function is known as persuasive communication. This high-level method of communication is powerful for superior in getting full support from their subordinates. Subordinates are in control and any instruction is obliged accordingly. Last but not least, the sixth management communication is socialization. Mixing out with subordinates is a key to better understanding and openness. Top management needs to know who they are working with them and this principle would establish a long-term relationship for any organization. Socialization should not be neglected in building an effective organizational network.

In overall, organizational communication by McCroskey, McCroskey & Richmond (2005) spelled out this definition in a philosophical yet straight to the point approach as follows; it is "the process by which individuals stimulate meaning in the minds of other individuals by means of verbal or nonverbal messages in the context of a formal organization". It is therefore to note that any organization requires for systematic and well-organized communication method in integrating its business components. In Takaful[14] "A" for example, the whole company which consists of various departments are linked through formal organizational communication. Departments such as Operations, Information Technology, Distribution (Agency and Partnership), Finance, Actuarial Services as well as Risk, Shariah and Governance are impossible of being free from any communication in ensuring a continuous synergy and progress of the business. Realizing this importance, the next cause of action is to highlight the roles of effective organizational communication for Malaysian TOs.

4. Shariah Non-Compliance Risks for Malaysian IFIs: Definitions and Causes

As one of IFI sectors, Malaysian TOs are obliged to adhere with Shariah requirements in all operational aspect and company-related events conduct. Malaysian TOs are fully regulated by BNM since 1988 as well as supervised to ensure their soundness and stability. (Berkem, 2014). One of the requirements of any IFI is to be Shariah compliant in nature."Shariah-compliant refers to compliance with Shariah rulings and decisions issued by the SAC and Shariah Committee of the IFI respectively, and as determined by other relevant bodies". (BNM, 2017).

Any dealings conducted by IFIs are governed by principles of Islamic Law. In Malaysia, IFIs are defined as follows: "An IFI carrying out Islamic financial business shall ensure that the aims and operations of its business are in compliance with Shariah principles at all times. An end-to-end Shariah compliant control mechanism shall be established in all aspects of its business operations to ensure that all activities are Shariah

[14] Takaful is a scheme based on the spirit of cooperation and helping each other by providing financial assistance to participants when needed and all participants mutually agree to give contribution for the said purpose. Takaful Operator is a company which runs its business in accordance to this principle.

compliant". Based on this definition, it clearly shows that IFIs strictly have to follow the requirements and precepts ruled by Shariah. Simultaneously, other matters and elements which are in contradiction of this requirement are unacceptable. The IFIs develop their business which is summarised under these five (5) key principles:

1. Prohibition of Riba or Usury
2. Prohibition on realizing a gain from speculation (Maysir)
3. No uncertainty (Gharar) which is excessive in commercial transactions
4. All activities must be for permitted purposes (Halal)
5. Making money from money is not permissible

On top of these distinctive principles which grounded the root of each IFI, the existence of other elements which internalize its spirit of operations are worth to be considered. Alwosabi described that the main function of IFI is to enliven Islamic teachings as well as pleasing Allah Azzawajalla, the Creator of all. Thus, the concept of secularism (separation of worldly affairs from religion) is duly prohibited. It is because, Shariah is the foundation of life and it does not only a matter in relations to worship but includes the act in businesses. (Dalimunthe, 2009 as cited in Haniffa & Hudaib, 2007)

In the light of the above, any breaches of Shariah principle would possibly expose an IFI to a risk. Such risk is technically known as Shariah non-compliance. Simply defined, "Shariah non-compliance risks refer to possible failures to meet the obligation to Shariah principles". (BNM, 2010). As mentioned by Ginena (2013), the Basel Committee on Banking Supervision (BCBS) defines operational risk as ''the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk'' other words, possible incidences of Shariah non-compliances". Based on Aris, Tapsir, Abu Talib and Malaysia (2012)Shariah non-compliance risk is considered as the major risk for takaful industry besides other unique risks in Islamic Finance. Those risks are the rate of return, displaced commercial and equity investment risk.

BNM has issued the Shariah Non-Compliance (SNC) Reporting Circular on 15th March and subsequently took effect with effective from 30 June 2013. It is stipulated in Section 28 (3) of IFSA that any IFI is accountable to report any event of Shariah breach and its rectification plans. Penalties and effect of failure in following Shariah non-compliance reporting procedures would be serious. (IFSA, 2013). The Section points out the followings:

"28. Duty of institution to ensure compliance with Shariah

(1) An institution shall at all times ensure that its aims and operations, business, affairs and activities are in compliance with Shariah.

(2) For the purposes of this Act, a compliance with any ruling of the Shariah Advisory Council in respect of any particular aim and operation, business, affair or activity shall be deemed to be a compliance with Shariah in respect of that aims and operations, business, affair or activity.

(3) Where an institution becomes aware that it is carrying on any of its business, affair or activity in a manner which is not in compliance with Shariah or the advice of its Shariah committee or the advice or ruling of the Shariah Advisory Council, the institution shall—

(a) Immediately notify the Bank and its Shariah committee of the fact;

(b) Immediately cease from carrying on such business, affair or activity and from taking on any other similar business, affair or activity; and

(c) Within thirty days of becoming aware of such noncompliance or such further period as may be specified by the Bank, submit to the Bank a plan on the rectification of the non-compliance.

(4) The Bank may carry out an assessment as it thinks necessary to determine whether the institution has rectified the non-compliance referred to in subsection.

(5) Any person who contravenes subsection (1) or (3) commits an offence and shall, on conviction, be liable to imprisonment for a term not exceeding eight years or to a fine not exceeding twenty-five million ringgit or to both". (IFSA, 2013).

Malaysian TOs must observe this important requirement through enhancing the SC and other SG organs' roles and accountability to avoid any possible unintended breaches. Abu Kasim (2012) discovered a worrying issue where the adherence to SG requirement does not up to the regulator's expectation in ensuring fullest compliance. According to Berkem (2014), BNM has implemented the oversight function for Malaysian TOs through Financial System Master Plan (FSMP) and Risk-Based Supervisory Framework (RBSF).

"Generally, Shariah non-compliance may occur during the product development process that could originate from improper structuring of products, lack of internal research in understanding the appropriate Shariah concepts, and misrepresentation of the product at issuance or marketing stage of the product". (SGF, 2011). These processes involve proactive roles by all SG organs especially management, Shariah department and the SC. As the ultimate approver for IFIs products and services, SC would be accountable to confirm Shariah conformity by signing the attestation. (Shafii, Salleh & Shahwan, 2010)

Another cause to SNC is related to communication failure among the SG organs. Hasan (2014) summarizes one of the feedback gathered from various IFI's SC members is the incapability of management to identify possible matters which could lead to Shariah non-compliance risk. Additionally, some Shariah scholars have shared their concern on the reputational risks for IFI which caused by poor internal Shariah governance implementation. It is expected by the public that IFI portrays Islamic image which is in line with its governing principle. (p.25).

SG requires IFI to set up compliance job functions to ensure the proper check is done in business and operational implementation. This function is important in assisting IFI including TOs to be continuously assessed and adhere to all relevant requirements and Shariah precepts. It is found that "poor governance, a lack of Shari¯ ah-qualified officers and inadequate control mechanisms are the main factors that trigger Shari¯ ah non-compliance events in Islamic banks. A potentially non-compliant incident is identified by Shari¯ ah review or Shari¯ ah audit functions". (IFSB 2016).

The improper internal arrangement would also expose IFI to potential SNC risk. The utmost concern for IFI is to guarantee that the transaction is conducted in compliance with Shariah in both form and its substance. (Grassa, 2013).

5. How Effective Organizational Communication Could Mitigate Shariah Non-Compliance Risks for Malaysian TOs?

Effective communication for Islamic financial institutions (IFIs) including Takaful is important as it reflects the underlying principle which underlies this business. "Leadership and subordinate have a close relationship in obligation towards organizational performance" (Wan Daud, Abdul Rahim & Mohd Nasurdin, 2014). Quality organizational management needs to be fully embedded with the traits possessed by the ultimate leader in human history, i.e.: Prophet Muhammad (PBUH). One of these traits is communication or in Arabic called as "Tabligh". The existence of a religious organization called as "Hisbah" served as a center of coordination of information. This subsequently leads to achieving the ultimate objective of taking care the community safety and welfare in an Islamic state.

By focusing on the scope of Malaysian TO, the framework of overall governance had stipulated each and every organ's function and ideally, the practical implementation would contribute to enhancing efficiency and effectiveness of the organization. This had been reiterated by Hasan (2014) through a statement of concluding remark for a survey done on Shariah governance practices as the information gathered from the selected Shariah committees from numerous Islamic financial institutions in Malaysia, United Kingdom (UK) and United Arab Emirates (UAE). The researcher stated that "acknowledging the communication gap in Shariah governance among the key stakeholders, such as regulators, supervisors, BODs, shareholders and others, the Shariah scholars opined that there must be proper coordination to improve the communication environment". Improving this gap may contribute to improving the issue related to miscommunication and lack of interconnection among members of the organization.

On the other hand, based on Aboyassin and Abood (2013), ineffective leadership would possibly bring such an adverse effect not only to personnel but to the company's performance and organizational communication. They measure ineffective leadership elements which lead to organizational ineffectiveness. Those elements are" shared strategic vision, ineffective leadership characteristics, labor relations, and ethics". It is interesting research by Voinea, Busu, Opran & Vladutescu (2015) where their study focuses on managerial communication which forms a part of organizational interactions. They conclude that "behind communication embarrassments of managers are ineffective management styles, and behind embarrassments induced by subordinates is the lack of communicational culture". In summary, all parties involved in any organizational setting must be in the maximum state of readiness to ensure their roles are played efficiently. Therefore, any hiccups and imperfect things should be improved as well as mitigating other risks to the organization accordingly.

6. Methodology

6.1 Research Design

Survey research is one of the most important areas of measurement in applied social research. The broad area of survey research encompasses any measurement procedures that involve asking questions of respondents. A questionnaire comprises of a number of questions printed or typed in a definite order on a form or set of forms. (Kothari, 2009).

The questions formulated for this survey is based on three (3) themes which are relevant to this study. The formulation of this survey basically consists of the components as deliberated by Kothari (2009) namely general forms, question sequence and question development and wordings of choice. Part one (1) of this survey is the assessment on the TO's organizational structure. It is followed by part two (2) which is to check the TO's level of compliance with the relevant regulations and laws. Last but not least, the final part deals with the evaluation of TO's overall organizational communication.

However, in corresponding to this research's direction, the analysis in part two (2) and three (3) are relevant for further discussion. The reference was made to Bank Negara Malaysia (BNM) laws and regulations applicable to Malaysian TOs in preparing the measurement lists in part two. In formulating the measurement list of part three (3), this research is guided by Guiding Principles Shariah Governance Systems for Institutions Offering Islamic Financial Services (IFSB-10) which issued by Islamic Financial Services Board (IFSB). The measurement was basically meant for Shariah Board but for the course of achieving this research objective, the unit of analysis was changed to management who are the key players in organizational communication ambient.

6.2 Population and Sample

As this survey is conducted to complement this research, it is noted that the data is crucially beneficial for researchers for future analysis and studies. There were 50 survey questionnaires that were distributed to various executive levels of staff in Takaful Operators (TO) which are based in Malaysia. They were also attached to various departments such as Finance, Marketing, Shariah Risk & Governance, Distribution and Operations. This survey is expected to be challenging to certain of staff due to their nature of work. The respondents can generally be divided into two (2) groups. First, those who have direct communication and engagement with the SC and BOD. The second group is those who may not in direct communication with the SC and BOD. However, for effective implementation of policies as well as being the employees of TOs, they should be aware of the BOD and SC's decisions.

Out of 50 surveys distributed in the second week of November 2016, the researchers managed to collect 39 sets of questionnaires which were duly completed by the respondents. There are two (2) principal reasons why people do not return questionnaires based on Baruch (1999). Firstly, it may be due to the fact that they did not receive them and secondly, because they do not want to respond. The first reason was not possible for this case as the researcher had personally handed over the physical questionnaire surveys to randomly selected respondents. The second might appeal as the reason, as the questionnaires are on the governance and management communication-related. This area would not of their inclination or might be caused by extensive questionnaires distributed to them before this particular survey, especially to those who are in managerial levels. (Baruch, 1999).

It might be beneficial to discover possible ways of getting respondents to respond. VanGeest, Johnson, Welch (2007) highlighted on approaches which might be workable for favorable response in physician survey. Those strategies are based on monetary reinforcement and "design-based approaches (e.g., personalized mailings, design-friendly questionnaires, sponsorship, etc.)".It was proven that incentive-based method is effective in encouraging the respective respondents to participate in the questionnaires survey conducted. All the respondents were given a small token which was attached together with the questionnaires survey form. At the same time, it was found that some of the respondents did not return those questionnaires as they went out of the office for outstation training, advising agents and branches servicing such as Marketing and Distribution Departments.

6.3 Data Analysis

The data collected from the survey is analysed through SPSS Statistics, Version. 20.0.0.0. "As the questionnaire had been designed to facilitate respondents to answer it quickly, the data retrieved from the responses therefore were mostly in numeric and yes/no types, which are easy to be analyzed in a spreadsheet and statistical analysis programs". (Kumar & Phrommathed, 2005). The SPSS statistical procedure to cater the data gathered for this brief survey is illustrative. "Illustrative statistics are used to summarise data in a similar manner to descriptive statistics. Summarising data in a graph can be more meaningful to the reader rather than merely reporting descriptive statistics in a table. In a graph the main features of the data and any patterns can be clearly seen. Illustrative statistics can also facilitate statistical judgement". (Retrieved from https:// www.beds.ac.uk/ howtoapply/departments/psychology/labs/spss/Illustrative_Statistics)

7. Analysis and Findings

The returned surveys were completed by respondents accordingly. The respondents were the majority of female staff by percentage of 71.8% where the balance of 28.2% of the respondents are male staff. The awareness level of TO's organizational structure and relevant applicable laws are good and encouraging.

The first measurement was conducted to check staff's awareness of regulatory framework adopted within the institution. Through this way, the institutionalization of TO as one of the IFIs is inspired by Shariah requirement and Islamic mu'amalat. Basically, staff in overall are aware of the existence of Shariah Governance Framework (SGF 2011) and Islamic Financial Services Act (IFSA 2013) which are internalized by their TO. Most of the respondents are positively sure with the adoption of these Shariah related laws which stand a root for IFIs. Based on the survey, majority or 97.4% of respondents are aware of the SGF and IFSA adopted within their TO. As an authorized operator to promote takaful in Malaysia, awareness on Takaful Operational Framework Guidelines (TOF) as one of the key regulatory precepts among respondents is considered as encouraging.

In addition to the above, the adoption of internal SOPs which is extracted from Shariah related regulations are noted by staff. On the other hand, it is obviously discovered that 15.4% and 23.1% staff do not know and do not sure respectively on the existence of Shariah Non-Compliance (SNC) as a TO's policy. BNM has issued the Shariah Non-Compliance (SNC) Reporting Circular on 15th March and subsequently took effect with effective from 30 June 2013. It is stipulated in Section 28 (3) of IFSA that any IFI is accountable to report any event of Shariah breach and its rectification plans. Penalties and effect of failure in following Shariah non-compliance reporting procedures would be serious. (IFSA, 2013).

Malaysian TOs must observe this important requirement through enhancing the SC and other SG organs' roles and accountability to avoid any possible unintended breaches. Abu Kasim (2012) discovered a worrying issue where the adherence to SG requirement does not up to the regulator's expectation in ensuring fullest compliance. According to Berkem (2014), BNM has implemented the oversight function for Malaysian TOs through Financial System Master Plan (FSMP) and Risk-Based Supervisory Framework (RBSF).

Table 1

ASSESSMENT ON TO'S COMPLIANCE WITH REGULATIONS				
	Yes	No	Not Sure	Total
SGF adopted as the guidelines	38	1	-	39
%	97.4	2.6	-	100
IFSA adopted as the guidelines	38	1	-	39
%	97.4	2.6	-	100
Takaful Operational Framework (TOF) adopted as the internal guidelines	37	1	1	39
%	94.8	2.6	2.6	100
All the above regulations are adopted in developing TO's internal standard operating procedure (SOP) and Manuals	36	2	1	39
%	92.3	5.1	2.6	100
TO develops its own internal standard operating procedure (SOP) or Shariah governance manual	33	2	4	39
%	84.6	5.1	10.3	100
TO develops its own internal standard operating procedure (SOP) for Shariah Compliance Review	31	2	6	39
%	79.5	5.1	15.4	100
Does your TO develop the internal standard operating procedure (SOP) for Shariah Research?	27	2	10	39
%	69.2	5.1	25.6	100
Does your TO develop the internal standard operating procedure (SOP) for Shariah Secretariat?	28	3	8	39

%	71.8	7.7	20.5	100
Does your TO develop the internal Terms of Reference (TOR) of the SC?	27	3	9	39
%	69.2	7.7	23.1	100
Shariah Non-Compliance Reporting adopted as guideline	24	6	9	39
%	61.5	15.4	23.1	100
Shariah Non-Compliance Reporting is done on monthly basis	20	2	2	24
%	51.3	5.1	5.1	61.5

In assessing further the organizational communication implemented by TO's management, the survey had measured a list of elements. Based on the data gathered from the survey, it was revealed that the total of 74.4% respondents has agreed and strongly agreed that the management has demonstrated effective organizational accountability. It was strongly agreed and agreed by overall 71.8% respondents that management has communicated effectively with other organs of governance, including the BOD, SC, Shariah Department/Unit/Division and auditors. The other strongly agreed and agreed factor leading towards effective communication is management's capabilities in identifying Shariah non-compliance exposure with total 66.7%. , This is followed by the effort of promoting Islamic cultures and values. This same percentage of 64.1% respondents agreed that management's continuous improvement towards TO's control processes would lead to effective communication.

However, it is interesting to note that the percentage 33.3% of respondents with a neutral position in their opinion of management promotion towards continuous improvement of TO's Shariah control processes. The percentage of 25.6% represented the neutral respondents on the factor of management in promoting Islamic ethics and values within the TO. Obviously, the same percentage voted by the respondents for the factor mentioning the management proper identification and evaluation the organization's exposure to Shariah non-compliance risk and reputational risk, as well as effectiveness in communicating that risk information to appropriate bodies in the TO.

Interestingly, with such remarkable percentage of 33.3% of neutral respondents on the management is to promote a continuous improvement of TO's Shariah control processes, it is a duty for TO to observe this stand accordingly. Almost similar findings were found by Hasan (2011) while conducting a survey on Shariah governance practices in Malaysia, GCC countries and the UK. There was a significant percentage of neutral respondents who of the view that the SCs need to improve in some key aspects in Shariah governance such as the effectiveness of organizational communication, identifying Shariah non-compliance risk, contributing to Islamic ethics and values as well as the Shariah control process.

Evidently, this outcome serves as an interesting viewpoint that organizational communication provides a significant impact while leading their respective institution towards success. Ruck & Welch (2012) reiterate on this by emphasizing their roles in ensuring effective internal communication is achievable. In another study by Mishra & Mishra (2009), it is found that face to face is the most effective means of communication. Thus, this would be applicable to management in bridging any possible gap which may exist in their communication process.

Table 2

ASSESSEMENT ON EFFECTIVE ORGANIZATIONAL COMMUNICATION FOR TO							
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
The management has demonstrated effective organizational accountability	No.	1	1	8	28	1	39
	%	2.6	2.6	20.5	71.8	2.6	100
The management has communicated effectively with other organs of governance, including the BOD, SC, Shariah Department/Unit/Division and auditors.	No.	2	2	7	28	0	39
	%	5.1	5.1	17.9	71.8	0.0	100
The management has properly identified and evaluated the organization's exposure to Shariah non-compliance risk and reputational risk, and effectively communicate that risk information to appropriate bodies in the TO	No.	1	2	10	23	3	39
	%	2.6	5.1	25.6	59	7.7	100
The management promotes Islamic ethics and values within the TO.	No.	1	3	10	20	5	39
	%	2.6	7.7	25.6	51.3	12.8	100
The management promotes continuous improvement of the TO's Shariah control processes	No.	1	0	13	20	5	39
	%	2.6	0.0	33.3	51.3	12.8	100

Based on this survey, there are some significant findings could be summarized. In overall, as an institution which operates based on Islamic Law, Malaysian TO's organizational communication is effective in hindering any serious non-compliance with Shariah occurrence. The respondents have agreed that management demonstrated their appropriate roles in ensuring effective as well as efficient organizational communication. This encouraging outcome would help TO in mitigating any risks related to Shariah non-compliance accordingly. To ensure the effectiveness of overall management, takaful operators are required to observe the Guidelines on Directorship for Takaful Operators, which govern the appointment of directors and chief executives and the setting up of board committees, including risk management committee. (Aris, et al, 2012)

8. Conclusion and Recommendation

The response and effect of this study are valuable for future research of a similar area. Generally, the findings showed that the management is effectively contributing towards effective organizational communication and Shariah governance within Malaysian TOs. The analysis, however indicated that further enhancement is regarded to be continuously in improving internal Shariah control processes which subsequently mitigating to any possible risks. Additionally, it is a part of important responsibilities for management in promoting Islamic ethics, values as well as in managing issues related to Shariah non-compliance for their TOs. Guided by the roles as stipulated in the Shariah Governance Framework (SGF), management must realize their accountability to ensure Shariah practices are applied in all operations run by the organization. Shariah practice does not focus on product and business only; it needs to be fully embedded in a holistic manner.

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Evaluation of Employees' Perception Towards Islamic Banks Growth

By

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Abstract

This study determines employees' perception towards Islamic banking products, services, marketing strategies, gained experience and skills, and the significant impact of these factors on the potential growth of Islamic banking in Malaysia. A quantitative research approach is adopted to examine the impact of various factors. The data was collected from 138 employees of Bank Islam Malaysia at Selangor state through a self-administrated questionnaire. The results of this study revealed that Islamic bank employees positively perceived the prospective growth of Islamic banking in Malaysia. However, the analyses illustrate that certain aspects of Islamic banking such as its products, service, marketing tools, strategies and training of employees require mandatory amendments to develop Malaysia into a global Islamic finance hub. The regulators, bank management, and Islamic bankers may implement the findings of this study to develop relevant strategies to overcome Islamic banking growth issues. The findings of this study will enable Islamic banks' marketers, top management, and policymakers to develop suitable products and services, marketing plan and implement proper recruitment and training methods.

Keywords: Employees, Perception, Islamic Banking, Growth, Malaysia

1. Introduction

Islamic banks have procured prodigious growth since the last three decades (Ramzan et al., 2012; Chapra, 2007).The market share of Islamic banks in certain countries such as Saudi Arabia has outreached more than 50 percent (Ernst and young, 2014). It is an inordinate procurement of Islamic banks. However, 55 percent of total Islamic banks' assets of top twenty-five Islamic banks are concerted in seven countries

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including Gulf Cooperation Countries (GCC), Turkey, and Malaysia (ISFB Report, 2017).Furthermore, Islamic countries such as Malaysia, Pakistan, Egypt, Jordan, Sudan, Iran, and Indonesia have positioned progressive infrastructure for the growth of Islamic banking.

The reports manifest that the global Islamic banking assets have grown from $1.7 trillion in 2013 to $2.1 trillion in 2017 (Demak, 2017) and are expected to grow beyond the milestone of $3 trillion by 2020 (World Islamic banking Competitiveness report, 2016). In the context of Islamic banking growth in Malaysia, it has contributed 15.5 percent in global Islamic banking assets and its national Islamic banking assets grown up to 21.3 percent(World Islamic Banking Competitiveness report, 2016). Islamic banking in Malaysia started three decades in 1983 and currently, the industry comprises of 16 local and foreign Islamic banks and Malaysia is the second largest contributor to the overall growth of global Islamic banking assets. However, in the presence of an exceptionally supportive infrastructure for Islamic banking growth, these figures are considered stagnant and unsatisfactory which indicates the existence of certain operational barriers in industry.

Islamic banks are yet to declare vast operational issues in order to compete with conventional banks. Islamic bankers' perception and attitude are assumed as a significant growth barrier besides misconception about Islamic banking, its operations, products, and services Echchabi and Abdulaziz (2014), Zainol et al. (2008).Many Islamic bankers believe that Islam does not provide specific guidelines for performing a particular task (Uppal and Mangla, 2014). Moreover, these guidelines are not applicable in real life banking scenario.Zukri (2012) discovered misconception of Islamic banking products and services among Islamic bankers in Bank Islam strategic planning report. Employees' hesitation in acceptance of organizational core values results in decreased work outputs (Sekaran, 1989). The studies emphasized that Islamic banking poor perception among Islamic bankers exist due to the dearth of belief in Islamic banking operations; the dearth of awareness, training and Shariah compliance policies (Besar, 2009; Buchari et al, 2014).

Khan (2015) vindicated that Islamic banks are extorted to recruit employees from conventional institutions due to the unavailability of qualified and experienced staff. Harun (2015) further explained that the staff conventional background leads to lack of understanding and awareness of Islamic fiqh-al-muamlat (transactions). Sole(2007) and Harun et al. (2015) found that the lower awareness and understanding level of these bank employees hinders their ability to differentiate between Islamic and conventional banking products, services, operations, and policies. These perceptions among employees contribute to the generation of negative attitude that ultimately haunts their work outcomes and leads to inhibition of Islamic banks growth (Cowgill, 1994).

Malaysia corroborated a remarkable annual growth rate of 18-20 percent and it is expected to be doubled by the year 2020 (World Islamic Banking Competitiveness Report, 2016). However, the dearth of qualified Islamic bankers remains a serious issue and needs to be arbitrated to actualize the development of expected growth of Islamic banking. Islamic banks are predominately dependent upon skill, knowledge, expertise, experience, and efficiency of its employees. It is imperative for Islamic bankers to possess substantial understanding, awareness and knowledge of the difference between Islamic and conventional banks for the promotion and growth of actual Islamic banking (Bashir et al., 2011). Islamic bankers understanding and knowledge is evaluated by analyzing their perceptions of Islamic banking. The study suggested that management of Islamic bank employees' skills, Shariah knowledge, and training towards the difference between Islamic and conventional banking might potentially contribute developing positive perception among Islamic bankers (Laldin, 2008).

The fundamental objectives of the present study are to explore Islamic bankers' perceptions of Islamic banking. The coveted objectives and sub-objectives are formulated to explore Islamic bankers' perceptions. The first objective is to gauge Islamic bankers' perceptions of core difference between Islamic and conventional banking and their capability to calumniate people skepticism towards Islamic banking. The second objective is to measure Islamic bank employees' potential knowledge, understanding, expertise, and professionalism to potentially impact the growth of Islamic banks. The last objective is to investigate the inadequacy of Islamic banks marketing strategies inhibiting its proliferation and awareness.

The remaining study is organized as follows. Section 2 provides a brief literature review of past studies on Islamic bankers' perception towards awareness and understanding of Islamic banking products, services, and marketing strategies, gained experience, skills, and the perceivedconsequences on the Islamic banking industry. Section 3 briefly discusses the research approach, design, instrument, variables, and data collection techniques in this study. Section 4 presents findings and discussion on the coherency of findings with prior studies. Section 5 concludes this research and incorporates implications and limitations.

2. Literature Review

2.1 Perceptions towards knowledge of Islamic Banking Product and Services

Gloet and Terziovski(2004) found that "knowledge" has several definitions and there is no precise clarification of it neither in literature nor in an operational context. Moreover, the terminology used for knowledge is misleading as information, which eventually leads to developing misconception among people brains. It creates doubts in employees' perception of knowledge and management of people utilizing the same method. Knowledge is defined as information encompasses experience, context, interpretation, and reflection (Davenport et al., 1998). Knowledge is also defined as the systematic integration of ideas, rules, and procedures (Bhatt, 2000).

Zainol et al. (2008) and Aslam et al. (2011) studies found that Islamic bankers had limited knowledge of Islamic banking products and services. Zainol et al. (2008) further found a significant positive relationship between perceptions of Islamic bank employees' and its products and services. The study suggested Shariah-based Islamic principles were the basis of differentiation between Islamic banking products and services. The findings further substantiated that Shariah-based principles have a direct positive effect on Islamic banks' growth, size, and customers' efficiency. Baba and Amin (2009) study on employees'Islamic banking products and services knowledge revealed that offshore bankers possessed a limited understanding and knowledge due to confusion in practices of the Islamic banking system. Shah et al. (2016) explored the impacts of Islamic bankers' products and services perception on the growth of Islamic banks in Pakistan. The study determined the significant positive relationship between bankers' perception and Islamic banks growth.

2.2 Perceptions towards Marketing of Islamic Banking Products and Services

Brand management has become topic of significant focus for modern-day marketers; predominantly service corporates are involved in delivering complex and intangible messages as a part of brand management strategies (Davis, 2000; Goodchild and Callow, 2001). These days, brand managers confront critical concerns on the articulation of proper understanding between marketing and brand loyalty**.** Over the past 15 years,corporates have experienced colossal variations in its methods to approach customers and suppliers. The shift was eventuated due to development of sustainable competitive advantage strategy for survival in global markets through trusted brand creation.

Employees are considered functional instruments of relationship marketing. It has remained a critical area of discussion over the years and recently it evolved as an interesting subject in a modern day marketing context. Relationship marketing concept functions in the organization through its employees and the potential customers within the premises. The relationship development between employees and customers is a two-stage process; customers' attraction and relationship building to achieve organizational goals (Gronross, 1993). It was predicted that the creation of public awareness and promotion are the main components to develop Islamic banking brand (Anwar, 2013). Public awareness creation is possible through manipulation of versatile marketing tools to increase consumption of Islamic banking products and services. However, regulatory authorities and Islamic banks'commitment plays a vital role to foster awareness and the growth of the industry.

Rehman (2014) study found that Islamic bankers have different perceptions of the marketing practices of Islamic banks based on their understanding of Islamic banking concepts. Additionally, Wallace et al. (2013) predicted that Islamic bankers positive attitude towards marketing practices was a central instrument of bank growth. Employees' attitude at workplace renders excellent service quality, improved turnover and results in the positive environment within the organization(Lymperopoulos and Chaniotakis, 2004). Similarly, Islam et al. (2015) suggested that Islamic banks' employees need to maintain a competitive edge by ensuring customers' satisfaction and fulfilling customers' needs. It will assist Islamic banks to capture exceptional market share and maintain a strategic position in Malaysian dual banking system. Dhar et al. (2015) predicted that Islamic bankers' role has drastically transformed due to consistent fluctuations in customer behavior.

2.3 Perceptions towards experience and Skills gained in Islamic Banks

Regardless of stupendous growth of Islamic banking industry and assets, the industry is still facing a shortage of qualified, knowledgeable, and trained employees. Bokhari (2008) propounded that the shortage of qualified Islamic bankers is a huge barrier in Malaysian Islamic banking industry in transforming it to the global hub for Islamic finance. The shortage of qualified staff has propelled various Islamic banks to hire staff from conventional banks signifying the stance of less trained employees from a Shariah perspective (Tahir et al, 2004).

Zainol et al. (2008) study found that Islamic bank employees working in Islamic banking windows extremely lacked the knowledge and skill of Islamic banking concepts, objectives,and principles. The study further accentuated that a sizeable number of bankers did not possess adequate work experience, relevant Shariah and academic background before their formal appointment as Islamic bankers.Bokhari (2008) proposed that Islamic banking growth in the industry, accommodation of customers' demands and recruitment of qualified employees is wholly dependent upon recruiting staff with formal Islamic banking expertise. Bashir et al. (2011) investigated barriers to Islamic banking growth in Pakistan from the employees' perspective. After studying 126 Islamic and conventional bank employees, it was found that small network branches, inadequate knowledge of Islamic banking products and services, lack of Shariah knowledge and trust on banks operations were main barriers for the growth of Islamic banking in Pakistan.

The findings of Ali and Farrukh (2013) proffered that Islamic bank employees were confident and demonstrate high expertise level.Similarly, earlier study posited that Islamic bank employees evinced ample knowledge about products and services (Zainol et al., 2008). Anwar (2013) study further propounded that Islamic bank growth primarily contingent on bankers' skills, knowledge, expertise, experience, efficiency, and positive relationship towards Islamic banking. The impact of employees' skill and experience towards the growth of Islamic banking was investigated by Shah et al. (2016). The study determined that Islamic bankers' knowledge and skill has a significant impact on the substantial growth of Islamic banking and its market share. A qualitative study of employee attitude towards Islamic banking in Malaysia revealed that Malaysian Islamic banks' employees had various fallacious prejudiced opinions towards Islamic banking. The misleading perception among employees was developed due to the operational setting of Islamic banks, lack of Shariah knowledge, and a dearth of Shariah training (Ali and Hassan, 2017).

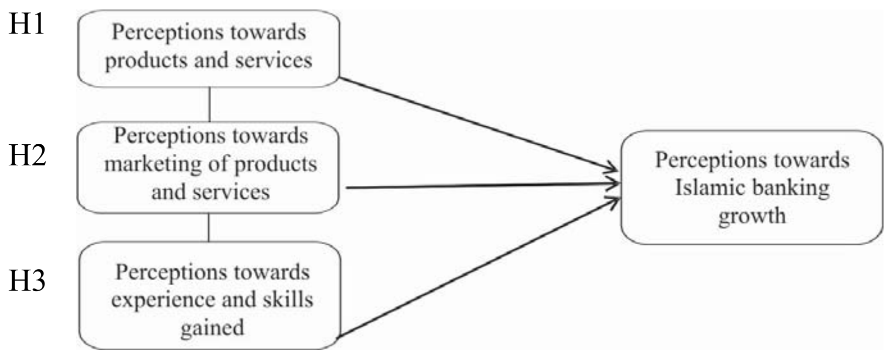
Appertaining to variance in the opinions proffered through the findings of various studies, employees differently impact Islamic banking growth. This study, therefore, explores the impact of employees' perception towards Malaysian Islamic banking products and services; Islamic bankers' perception towards marketing strategies of Islamic banks and Islamic bankers' perception towards skills and knowledge gained in Malaysian Islamic banks. This study gauged the impact of these factors on the growth of Malaysian Islamic banks effectuating following research hypotheses.

H1: Bankers' perceptions have a significant impact on Malaysian Islamic banking products and services.

H2: Bankers' perceptions have a significant impact on marketing of Malaysian Islamic Banking Products and Services

H3: Bankers' perceptions have a significant impact on experience and Skills gained in Malaysian Islamic Banks.

The theoretical framework of this study is represented below in figure 1.



3. Methodology

The quantitative approach is implemented to accomplish the objectives of this study. The research instrument was developed based on the factors highlighted in the literature review. The data was collected from 138 employees working in Bank Islam Malaysia located at Selangor state. The selected sample size is deemed satisfactory to gauge Islamic bank employees' perceptions as the previous studies produced satisfactory outcomes deploying similar approach(Loo, 2010; Rustam et al. 2011; Abdullah et al, 2012).

Most of the respondents were front-line employees in these bank branches. The front line employees were selected as a sampling population because these participants frequently interact with customers and have better knowledge of products, services, marketing strategies, and the perceptions of these employees may significantly impact the growth of Islamic banks. Purposive (non-probability) sampling technique is adopted for data collection. This data collection technique was adjudged most suitable based on the earlier studies on predicting bankers' perceptions also adopted similar approach (Fauziah et al., 2008; Marimuthu et al., 2010; Shah et al., 2016).

A self-administrated and well-structured questionnaire survey was distributed for data collection. The questionnaire was worded in English as most of the bank employees were fluent in English. The questionnaire comprised of two sections. Section 'A' contains five questions rendering employees' demographic information such as gender, age, education, designation and duration of employment in the bank. Section 'B' contains 22 questions to portray bank employees' perceptions of Islamic bank products and services; marketing strategies, experience, and skills gained and overall growth of Islamic banks. Respondents were provided 5-scale Likert options (1 = strongly disagree to 5 = strongly agree) to respond to these questions.

Variable determines employees' products and services perceptions incorporate eight items. The items of Shariah and Riba were adopted from Zainol et al. (2008). The remaining six items of Shariah concept, suitable substitutes to conventional banking, the corporate social responsibility of Islamic banks, innovative products and services and service quality determine employees' perceptions towards products and services. These items were adapted from the extensive literature review and the impact of these items on Islamic banks' growth.

The variable measures perceptions towards marketing practices of Islamic banks were adopted from Zainol et al. (2008) and literature review. This variable consist of five items of marketing and promotion of Islamic banking products and services, the effectiveness of the methods utilized for marketing the products and services, regulators commitment to promote and develop Islamic banking, implemented marketing tools and creation of public awareness towards Islamic banking products and services.

Variable explores perceptions towards skills and experience was adopted from Zainol et al. (2008) and Shah et al. (2016), it incorporates five items of training and exposure on products and services, capability to resolve issues, overall employees' knowledge, training and exposure before hiring, motivation to attend Islamic banking short courses and attend Islamic banking seminars and conferences.

The last variable contains four items to gauge Islamic bank employees' overall perceptions of the growth of Islamic banking. The items include; increase in individual and corporate usage of Islamic banking products and services, expansion of Islamic banking all over Malaysia and achievement of Islamic banking objectives.

4. Results and Discussion

4.1 Descriptive Statistics

The demographic profile of 138 participants is displayed in table 1. Of the 138 respondents, the majority (69.94 percent) was female and was aged between 20 to above 50 years. The majority (78.25 percent) were aged between 20 to 40 years. Most (72.62 percent) of the respondents held bachelor and master degrees and were employed as operational officers. The majority (59.41 percent) was employed for 1 to 5 years. Further details of respondents' demographic profile are exhibited in Table 1.

Table 1: Descriptive statistics

Respondents	Frequency	Percent ile %
Gender		
Male	47	34.05
Female	91	65.94
Total	138	100
Age		
20-30 year	62	44.92
30-40 year	46	33.33
40-49 year	20	14.49
Above 50 year	10	7.24

Education		
Diploma and below	29	21.01
Bachelor	58	42.02
Master	45	32.60
PhD	06	4.34
Designation		
Operational officer	96	69.56
Senior officer	29	21.01
Customer relationship manager	08	5.79
Branch manager	05	3.62
Employment duration		
Less than 1 year	31	22.46
1-3 year	36	26.08
3-5 year	46	33.33
5-10 year	21	15.21
More than 10 year	04	2.89

4.2 Reliability and Validity

Before proceeding to factor analysis of collected samples, it is mandatory to explore the degree of consistency in respondents' response. A reliability test encompasses alpha value measures the level of consistency. According to Nunnally (1978), the alpha value of 0.70 or more is considered acceptable to represent the reliability of collected samples. Table 2 delineates Cronbach's alpha values of the variables adopted in this study. The table shows that the overall Cronbach's alpha value is 0.831, which substantiates the reliability of collected data.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy. Approx. Chi-Square	**0.896** **451.664**
Bartlett's Test of Sphericity (df) Significance	28 0.000

However, the adequacy and validity of collected samples are measured by Kaiser – Meyer – Olkin (KMO) and Bartlett's test. The minimum threshold value of 0.50 is acceptable to represent the adequacy and validity of collected samples (Leech et al, 2005). KMO and Bartlett's test results are exhibited in table 3. The table illustrates that KMO was 0.896 and Bartlett's test was 0.000, it represents the acceptable validity of the instruments.

Table 3: Reliability Analysis

Dimensions	**Items**	**Cronbach's Alpha**
Employees' perception towards products and services	8	0.787
Employees' perception towards marketing of products and services	5	0.800
Employees' perception towards Experience and skill	5	0.802
Employees' perception towards overall growth of Islamic banking	4	0.805
Overall	22	0.831

4.3 Employees' perception measurement

4.3.1 Measuring the perceptions of products and services

Employees' perception of Islamic banking products and services is explored by computing the mean values of all the items. Table 4 depicts the mean values of items utilized for products and services perception measurement. The table shows that all mean values are positive which corroborates that employees possess a positive perception towards Islamic banking products and services. The average score of all items of this variable is 3.93. A careful overview of computed mean values determines that employees' perception towards innovativeness of Islamic banking products and services is below average. Furthermore, the mean value of Islamic banks potential to accommodate the needs of Muslim customers is below average as well which suggests that Islamic banks are not comprehensively catering the needs of Muslim customers.

Table 4: Analysis of Employees' Perception towards Islamic Banking

Items	N	Min	Max	Mean	SD
Islamic banking is according to Shari'ah, which differentiates it from conventional banking.	138	1	5	4.37	.975
The Islamic banking system must adhere to profit loss sharing principle.	138	1	5	4.14	.914
Muslims are attracted to Islamic banking because Riba is prohibited in Islam.	138	1	5	4.08	1.019
Islamic banking is introduced to promote the social and welfare economic system.	138	1	5	4.08	1.033
Islamic banking is a viable alternative to conventional banking.	138	1	5	3.65	1.212
Islamic banking addresses the reservations of Muslims towards conventional banking.	138	1	5	3.92	1.140
Islamic banking is capable to accomplish with the demand of customers to bring innovative products and services.	138	1	5	3.25	1.289
Islamic banking customers are concerned about service quality and price.	138	1	5	4.02	.978
Overall Average mean value: 3.93	138	22	38	31.51	3.287

4.3.2 Measuring the Perceptions towards Marketing of Products and Services

Table 5 exhibits Islamic bank employees' perception towards marketing of Islamic banking products and services. The mean values suggest that employees positively perceived the marketing efforts of Islamic banking. The average mean score of all the items of this variable is 2.84. The table shows that employees' perception towards commitment, tools, and marketing methods of Islamic banks was found below average.

Table 5: Analysis of Employees' Perception towards Marketing of Islamic Banking

Items	N	Min	Max	Mean	SD
Your bank management shows commitment to marketing and promoting Islamic banking products and services.	138	1	5	3.94	1.038
Your bank management shows commitment to creating public awareness regarding Islamic banking products and services.	138	1	5	2.15	1.183
Marketing tools utilize by your bank to promote their products and services.	138	1	5	2.15	1.165
Islamic banks market their Islamic banking products and services in an effective manner.	138	1	5	2.13	1.132
The Malaysian government shows commitment to further developing Islamic banking in Malaysia.	138	1	5	3.86	1.179
Overall Average mean value: 2.84	138	9	19	14.24	2.297

4.3.3 Measuring the Perceptions towards Gained Experience and Skills

The computed mean values in table 6 suggest that employees have a positive perception towards experience and skills gained during employment in Islamic banks. The average score for all the items of this variable is 1.94.The comparison of the average score against mean values suggests that employees' knowledge of products and services was below average. Similarly, the comparison of the average score against the mean value of 'training before employment' also suggests that it is below average. The employees'

Table 6: Analysis of Employees' Perception towards Experience and Skills Gained in Islamic Banks

Items	N	Min	Max	Mean	SD
Proper training and exposure are given on the products and services before they are launched.	138	1	5	2.00	.967
Extensive knowledge of the products and services is under my supervision.	138	1	4	1.69	.753
Employees capable to solve customers'	138	1	5	1.86	.906

problems.					
Adequate training and exposure before assuming the current post.	138	1	5	1.75	.818
Bankers are encouraged to attend Short-courses,seminars and conferences in the related field.	138	1	5	2.42	1.158
Overall mean value Average mean value: 1.94	138	6	16	9.72	1.951

4.3.4 Measuring the Perceptions of the Potential Growth of Islamic Banking

The computed mean values in table 7 predict that Employees' positively perceived the future and growth of Islamic banking in Malaysia. The average mean value for all the items of this variable is 4.17. Employees' perception towards usage, expansion, and achievement of global Islamic finance hub target was slightly below average.

Table 7: Analysis of Employees' Perception towards Overall Growth of Islamic Banking

Items	N	Min	Max	Mean	SD
Usage of Islamic banking products and services by individuals will increase.	138	1	5	4.16	1.013
Usage of Islamic banking products andservices by corporate sector will increase.	138	1	5	4.33	.907
Islamic banking will expand in a small town and big villages in Malaysia beside first-tier cities.	138	1	5	4.16	1.005
You are convinced that Islamic banking will achieve a set target of becoming a global Islamic finance hub by 2020.	138	1	42	4.04	3.492
Overall mean values Average mean value: 4.17	138	10	55	16.69	3.928

4.4 Correlation between Variables

The correlation between variables is determined by the Pearson Correlation. The results of correlation coefficients are rendered in table 8. It is evident from the table that all variables exhibit positive correlation with each other and are significant at the 1% significance level.

Table 8: Correlation Coefficients (N = 138)

Coefficients		**EPTPG**	**EPTPS**	**EPTMPS**	**EPTES**
EPTPG	Pearson correlation Sig. (2 tailed)	1			
EPTPS	Pearson correlation Sig. (2 tailed)	.421** .000	1		
EPTMPS	Pearson correlation Sig. (2 tailed)	.513** .000	.509** .000	1	
EPTES	Pearson correlation Sig. (2 tailed)	.467** .000	.407** .000	.544** .000	**1**

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

4.5 Hypothesis Testing

The hypotheses of this study are tested through multiple regression analysis. The following regression equation is deployed to establish a relationship between variables and hypotheses testing.

EPTOGi = α + β1EPTPSi+ β2EPTMPSi + β3EPTESi + ∑i
Where,

EPTPGi=Employees' perceptions towards the potential growth of Islamic banking in Malaysia.

EPTPSi = Employees' perceptions of Islamic banking products and services.

EPTMPSi = Employees' perceptions towards the marketing of Islamic banking products and services.

EPTESi = Employees' perceptions towards experience and skills gained in Islamic banks.

The summary of multiple regression analysis is outlined in table 9. The summary illustrates that values of R square and adjusted R square are .277 and .213, which signifies that the model explains 27 percent variation in the dependent variable. It suggests that 63 percent of the variation in dependent variable occurs because of other factors that contribute to the error term. The regression analysis represents that F statistic value is .773, which is significantly greater than the significance value of .000; it predicts the existence of exceptional significance between dependent and independent variables.

Table 9: Regression Analysis

Model	**Unstandardized coefficients**		**Standardized coefficients**	**T**	**Sig.**
	B	SD	Beta		
(Constant)	1.465	.130		4.471	**.000**
EPTPS	.190	.104	.236	4.149	**.000**
EPTMPS	.287	.148	.285	4.796	**.000**
EPTES	.221	.164	.198	3.905	**.000**

R square = .277 Adjusted R square = .213
F = .773, df= 134, p <0.001

The results predict that Islamic bank employees' overall perception towards Islamic banking in Malaysia is positive and optimistic. These findings are parallel with earlier studies of Zainol et al. (2008), Shah et al. (2016) and Buchari et al. (2014). The mean analysis of perception towards products and services was found positive whereas employees' perception towards 'Islamic banking as an alternative to conventional banking' and 'Islamic banks capability to accommodate customers needs' was below average. These findings are consistent with Zainol et al. (2008) and Bashir et al. (2011) studies, predicted that network of branches, trust on Islamic banking and insufficient product knowledge were the significant barriers to the growth of Islamic banking.

The marketing of products and services analysis revealed that employees positively perceived Islamic banking marketing practices and the growth of Islamic banking in Malaysia. The analysis further represents that perception towards Islamic banks efforts and tools utilized for the promotion of Islamic banking products/services are insufficient. These findings are consistent with Shah et al. (2016) whereas contradicts the earlier study of Buchari et al. (2014). The summary of employees' perception towards experience and skills gained during employment in Islamic bank revealed that its employees possessed positive perception. These findings are consistent with Arshad et al. (2012) and Harun et al. (2015). The findings further predicted that employees' knowledge of products and services, the capability to perform tasks and lack of adequate training before employment was below average. These findings are parallel with Bashir et al. (2011), Dewa and Zakria (2012), Arshad et al. (2011), Ali and Hassan (2017). Earlier studies predicted that employees' lack of Sharia training, inadequate formal Islamic banking knowledge and Islamic banks' practices of not encouraging employees to participate in Islamic banking conferences, seminars, and workshops are significant growth barriers.

Findings on the overall growth potential of Islamic banks predict that customers positively perceived that Islamic banking in Malaysia has a bright future. These findings are consistent with Shah et al. (2016), Buchari et al. (2014), Arshad et al. (2011). However, the findings also predicted that Islamic banks in Malaysia may not be fully adopted and grow especially in small villages and suburbs. The findings also predicted that according to employees' perception it might take longer than the year 2020 for Malaysia to become a global Islamic finance hub.

The correlation coefficients determined that the variables of this study are interconnected and significantly correlated. The regression findings suggested that variables of perception towards products, services, marketing, experience, and skills gained significantly impact on the variable of Islamic banking potential growth, which infers that all three hypotheses (*H1, H2, and H3*) are accepted.

Overall, the results render that Islamic bank employees have a positive perception towards Islamic banking growth in Malaysia. However, there are several barriers to the potential growth of Islamic banking. The bank regulators, top management and its employees are required to ascertain mandatory steps for the growth and development of Islamic banking. All the variables of this study are significantly correlated and impact on Islamic banking growth that determines the acceptance of developed hypotheses in this study.

5. Conclusion

This study has evaluated Islamic bank employees' perceptions of the growth of Islamic banking in Malaysia. The rambling scope of this study is to gauge the factors influencing employees' perception of the potential growth of Islamic banking. The impact of three factors, perceptions towards products and services, perceptions towards marketing strategies and perceptions towards experience and skills gained are analyzed deploying quantitative approach. The results infer that Islamic banking employees have positive perception towards overall growth of Islamic banking in Malaysia. However, the average means score infer that perceptions towards the viability of Islamic banking products and services in the catering needs of customers and allocation of innovative products and services were below average. Similarly, means analysis of Islamic banks' marketing strategies suggests that employees held positive perception. Whereas Islamic banks commitment to the creation of public awareness, marketing tools and the effectiveness of marketing strategies was below average.

The employees' experience and skills mean analysis predicted positive perception among Islamic bank employees with an exception to below average perceptions of employees' knowledge, the capability to perform duties and adequate training prior to the commencement of current position. The regression analysis proved that all these factors significantly impact Islamic banking growth in Malaysia.

This study has several practical implications for regulators, policy makers, management, and employees. The regulators and policymakers are required to establish more Islamic finance institutes so that exceptionally talented pool of employees is available to uplift the desired growth of Islamic finance. The bank management needs to ascertain relevant and effective marketing strategies to attract new customers, retain existing ones and to accommodate aggregate demands. The management further needs to corroborate that, it provides prior and subsequent versatile Islamic banking training to prevent incapability among employees for proper customer handling.

The major limitation of this study is the limited samples collection from 138 Islamic bank employees within one urban region of Selangor. However, the inclusion of bank employees' perception especially located in rural areas may predict a variety of barriers and new growth opportunities for Islamic banking. The future studies may focus on inclusion of large sample size and extend the scope of future studies through analyzing the perception of Islamic banks' regulators and policymakers.

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Islamic Calendar Effect: A Literature Survey

By
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Abstract

The market anomaly is the so-called calendar effect had been widely studied in various countries. This paper reviews the related literature by addressing the Islamic calendar effect (Ramadan) on the stock market in Muslim countries. The findings of previous studies on Ramadan effect provide comprehensive understandings for scholars and investors.

Keywords: Islamic Calendar Effect, Anomaliy, Ramadan, Muslim

1. Introduction

Market anomalies are referring to the security price relationships that appear to contradict a well – regarded hypothesis which refers to the efficient market hypothesis (Reilly, Norton 2006). According to Smart, Gitman, and Joehnk (2014), market anomalies are deviations from what one would expect in an efficient market and hence refute the efficient market hypothesis. Most of these anomalies are empirical anomalies, suggesting that over a specified period certain information could have been used to earn abnormal, risk-adjusted returns. That is, certain months or days of the week may produce better investment results than the others. There is no guarantee that they will provide anomalous returns in the future. Example of anomaly is the so-called calendar effect which holds that stock returns may be closely tied to the day of the week, turn of the month, turn of the year, holiday effect, intra-month effect, weekend effect, January effect, semi month effect, Monday effect, summer effect, month of quarter effect and week effect. Plenty of researches conducted on these anomalies for example Zhang, Lai, and Lin, (2017); Muhammad and Abdullah, (2015) ; Anwar and Mulyadi, (2009); Naik, (2014) ; Ahmed and Bokhari, (2009) ; Quayyoum, Asad, and Simonetti, (2017) ; and Ariss, Rezvanian, and Mehdian, (2011). Subsequently, Meher Shiva Tadepalli, and Ravi Kumar Jain, (2018) conducted a comprehensive review of studies on calendar anomalies which are a day of the week, turn of the month, turn of the year, and holiday effect.

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Apart from calendar effect, there are also researches done based on Islamic calendar effect for instance; Ramadan effect, Eidul Fitri effect, Mawlid effect, Asyura effect Hajj effect and Muharram effect (Jaziri & Abdelhedi, 2018; Atala, 2015; Wasiuzzaman, 2017; Abbes & Abdelhédi-Zouch, 2015). This paper aims to review the past literature related to Islamic calendar effect namely Ramadan effect. Ramadan is the ninth month in the Islamic calendar, which is a lunar calendar based on the cycles of the moon. Ramadan is the most sacred month of the year in Islamic culture and well known as the famous month. During the month of Ramadan, Muslims won't eat or drink between dawn and sunset. This is called fasting. Fasting is important during Ramadan as it allows Muslims to devote themselves to their faith and come closer to Allah, or God. Ramadan is also a time for spiritual reflection, prayer, doing good deeds and spending time with family and friends. People will make a special effort to connect with their communities and reach out to people who need help.

There were many studies investigated the Ramadan effect on the stock and index return in the equity market. This paper is organized in the following manner. The first part of the literature review is concentrated on the Ramadan effect which involves in Muslim dominant countries as a sample of the study. Next, it presents the literature on Ramadan effect in individual countries that are Pakistan and Turkey stock market. After that, this paper discusses the literature on Ramadan effect in Nairobi, Saudi, UAE & Tehran stock market. Finally, the last part provides a conclusion.

2. Literature Review

2.1 Ramadan Effect in Muslim Dominant Countries

Al-Hajieh, Redhead, and Rodgers, (2011) investigated the Ramadan impact in Islamic Middle Eastern markets (Bahrain, Egypt, Jordan, Kuwait, Qatar, Saudi, Turkey, UAE) using daily stock market closing price and volume collected from their respective stock exchange. The study covers 16 years period from 1992 to 2007 which comprises 3915 daily observations and 192 monthly observations. Wald-Wolfowitz (1940) Runs Test and z-test are used to analyze the data. Upon analysis, they noted that Ramadan has a positive impact on stock prices. Furthermore, the overall impact of Ramadan on returns has been found to be statistically significant to six countries with the exception of Saudi Arabia and Bahrain. It is found that market returns in the first and last days of Ramadan show high levels of significant value. Białkowski, Etebari, and Wisniewski (2012) explored investor sentiment and stock returns during Ramadan. Their study emphasises on 14 Muslim countries which are Bahrain, Egypt, Indonesia, Jordan, Kuwait, Malaysia, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Tunisia, Turkey, United Arab Emirates. The study considered the daily equity return collected from Datastream starting from 1989 until 2007. Using regression analysis, the result indicated that the stock returns during Ramadan are significantly higher and less volatile than during the rest of the year. Consequently, Nai-chiek, (2013) provides a further evidence, of the Ramadan Effect in Southeast Asian Stock Markets for the period of 1997 to 2008. Both Islamic and non-Islamic countries in Southeast Asia including Indonesia, Malaysia, Philippines, Singapore and Thailand are considered in this study. Ten years daily data for composite index and sector indices are collected from Bloomberg.

A total of 71 indices are selected for the purpose of this study. (11 indices - Indonesia, 11 indices - Malaysia, 7 indices - Philippines, 14 indices - Singapore, and 28 indices for Thailand). The result from GARCH analysis reported that during Ramadan there isa downward trend of volatility in major Southeast Asia countries except for Singapore which shows an upward trend of volatility.

Al-Khazali (2014) revisited the Ramadan effect of 15 Muslim countries (Bahrain, Egypt, Indonesia, Jordan, Kuwait, Malaysia, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Tunisia, Turkey, UAE - Abu Dhabi and UAE - Dubai). The daily stock index prices obtained from Morgan Stanley Capital International (MSCI) via Datastream. His study covers 24 years' period from January 1989 through December 2012 and also divided them into five sub-periods: (1989–1995, 1996–2000, 2001–2006, 2007–2012 and 1989–2012). Using stochastic dominance (SD) approach, the result reveals that Ramadan effect exists in most of the Muslim countries during the sub-periods in 1996–2000 and 2001–2006 and in the portfolio during the sub-period 1995–2007. However, its size reduces during the global financial crisis period (2007–2012). In line with that, Al-Ississ, (2015) examined the effect of Ramadan on companies return in ten Muslim countries (Egypt, Indonesia, Jordan, Kuwait, Malaysia, Morocco, Pakistan, Qatar, Saudi Arabia, Turkey) starting from 1 January 1995 till 31 August 2012.

Using fixed effect model, it is reported that the returns during the month of Ramadan as a whole are not statistically significant as the daily return decrease in the first ten days of Ramadan, while the increase in daily return during Ramadan's second and third ten days. Furthermore, this study analyzed the Ramadan effect on Odd-Days and Ramadan 27th on the individualcountry. The results show that returns on Ramadan's last five odd days are positive in six of the ten countries, negative in Turkey and not significant in Morocco, Malaysia and Qatar. Returns on Ramadan 27th are positive and significant for all countries except for Morocco and Qatar where they are not significant.

Subsequently, Sonjaya and Wahyudi (2016) used regression, ARMA and GARCH analysis to study the Ramadan effect in 10 Muslim countries (Bahrain, Indonesia, Jordan, Malaysia, Morocco, Kuwait, Oman, Qatar, Saudi Arabia, and Tunisia) over 24 years period from 1989 to 2013 involves of 139 Ramadan events. Following Al-Khazali (2014), this study divided the sample period into five sub-periods (1989–1993, 1994–1998, 1999–2003, 2004–2008, and 2009–2013) to observe the persistence of the Ramadan effect. Regression analysis shows that the Ramadan effect is significant only for three countries: Kuwait, Oman, and Tunisia, and the level is always larger than in other months. Moreover, other countries (i.e., Indonesia, Malaysia, Jordan, Morocco and Qatar) have experienced the Ramadan effect, but it is not significantly affecting stock return in all sub-periods. Similar to Al-Hajieh et.al, (2011), Bahrain and Saudi Arabia, have never experienced Ramadan effect, displaying negative annualized returns within Ramadan in all periods. Using ARMA and GARCH analysis it was proved that the Ramadan effect also has a non-persistent impact, except in three countries (Kuwait, Oman and Tunisia). The Ramadan effect is not significant when regression analysis is performed on portfolio returns.

Hasbullah and Masih, (2016) applied Markov Regime Switching technique to determine the stock returns in the five biggest stock market in Muslim majority countries during Ramadan. The countries are Saudi Arabia, Malaysia, Turkey, Indonesia and Kuwait. The weekly closing prices collected from Datastream and the study period was five years starting from 2011 to 2015. They reported that there was no evidence to prove that the stock return was affected during Ramadan as all five markets moving in the same direction during the study period. While Nai-chiek (2013) concentrated on Southeast Asian Stock Markets, Ali, Akhter, and Ashraf, (2017) tried to investigate the impact of five Muslim Holy Events (Eid-ul-Fitr, Eid-ul-Adha, Eid-Milad-un-Nabi, Ramadan and Ashura) focusing on Asian stock markets. These markets include Pakistan, Bahrain, Saudi Arabia, and Turkey. The daily stock returns are collected for the period of 1 January 2001 to 31 December 2014. Using pooled, fixed and random effect panel regression, the results of this study conveyed that Ramadan has no significant effect on stock returns of Asian markets.Al-awadhi, Bash, and Jamaani, (n.d.) carried out a study to analyze whether Ramadan effect creates stock market return seasonality in 12 stock markets in Muslim countries started from 1995 –2014. The selected countries are UAE, Bahrain, Egypt, Jordan, Kuwait, Malaysia, Oman, Pakistan, Qatar, Saudi Arabia, Turkey, and Indonesia. Using deterministic and stochastic seasonality test, they came to the conclusion that no Ramadan return seasonality in the majority of these stock markets.

Recently, Jaziri and Abdelhedi (2018), analyzed Islamic occasions and investor sentiment in six Arab financial markets which are Saudi Arabia, Kuwait, Qatar, Dubai, Egypt and Bahrain. Unlike other studies, the authors have divided the six financial markets into different study period respectively. For Saudi Arabia and Kuwait was from April 2001 to December 2016, Qatar and Dubai were from January 2005 to December 2016 and lastly Egypt and Bahrain from May 2010 to December 2016. Overall the data range is from the period from April 2001 to December 2016. In this study, Islamic occasions are referring to Ramadan effect, Eid-al-Fitr occasion, Mawlid and Ashura effect. The variables used are daily prices of market indexes and the trading volume of all six financial markets. Correlation analysis was conducted to achieve the research objectives. During Ramadan, the results show that Saudi Arabia, Kuwait, Qatar, Dubai and Bahrain have a significant effect of investor sentiment on return especially during the first and the second 10 days of Ramadan. However, for the last 10 days of Ramadan, only two financial markets which are Bahrain and Kuwait shows a significant effect of investor sentiment on return while the others are not significant.

2.2 Ramadan Effect in Pakistan and Turkey Stock Market

Instead of studying Ramadan effect on many countries, there are some researches concentrated on the specific country only. One of the initial observation held in this area was executed by Husain, (1998). He conducted a research in Pakistan equity market using GARCH analysis from 1st January 1989 to 30th December 1993. The daily stock prices and indices of 36 individual stocks, 8 sector indices and the general market index are gathered from the Karachi Stock Exchange (KSE). He came to the conclusion that Ramadan does not significantly affect the average return in the market even though stock returns drop during Ramadan. Furthermore, there isa significant decline in the volatility of stock returns during Ramadan. It is due to slow pace of economic activity, including a reduction in trading hours in Pakistan during this period and many Muslims may refrain from stock market speculation activity. After that, Halari, Tantisantiwong, Power, and Helliar, (2015) examines Islamic monthly anomalies in a Karachi Stock Exchange. They focused on 106 companies listed on the Karachi Stock Exchange (KSE) for the period of 1995 to 2011. Using the TGARCH model, it noted that the calendar effect exists not only in Ramadan, but in other Islamic months as well. It was found that very little statistical evidence of a monthly seasonal anomaly in average returns, but there is evidence of monthly patterns in the volatility of returns for KSE equities. The positive returns are present in some of the Islamic months (Ramadan, Shawwal, Zil Qa'ad, Rabiul Awwal) while negative returns are present in other Islamic months with the lowest returns in Rajab. However, these are not significant for most of the individual firms. By contrast, the calendar anomaly for return volatility is significant. Jamatul Awwal and Ramadan show lower return volatility while Shawwal is higher return volatility compared to other Islamic months.

In line with the earlier study, Halari, Helliar, Power, and Tantisantiwong, (2018a) re-examined another similar study from practitioner perspectives. Prior studies investigating Islamic calendar anomalies adopted quantitative method using secondary data. Among them are Al-Hajieh et.al, (2011); Białkowski et.al (2012); Nai-chiek (2013); Al-Khazali (2014), and Sonjaya and Wahyudi (2016). Interestingly, this study documents the findings by using face-to-face semi-structured interviews as an analysis of the study. A total of 19 peoples from brokers, regulators and high-net-worth individual investors in Karachi are selected as interviewees. The paper's major findings indicate that the participants believed that anomalies were present in the stock market and market participants were actively attempting to exploit these anomalies for abnormal gains. Interviewees suggested that predictable patterns can be identified in certain Islamic months (Muharram, Safar, Ramadan and Zil Hajj). The most common pattern highlighted by the interviews related to the month of Ramadan.

In addition to the above findings, Halari, Helliar, Power, & Tantisantiwong, (2018b) try enlightening the effect of what happens when the Ramadan effect and the January effect occur at the same time in Muslim countries. While most prior studies use index observations in their analyses (Al-Hajieh et al., 2011; Al-Khazali, 2014) their study employ individual firm data from five main sectors (Finance, Industrial, Utilities, Consumer Goods and Chemical) in order to provide a comprehensive result. This study considered individual firm data on the stock markets of four Muslim-majority countries (Indonesia - South East Asia, Jordan - the Middle East, Pakistan - South Asia and Turkey - Europe) over the 19.5-year period from January 1, 1995 to June 30, 2014. The result conveyed that the daily stock returns tended to be higher, on average, in Ramadan relative to the other Islamic months.

However, this Ramadan effect was only significant for a minority of all companies listed on these four markets. Jordan and Pakistan show the highest stock returns for the month of Ramadan and Indonesia had the second highest returns. The Ramadan effect in stock returns is relatively more prominent in the utility sector in terms of the percentage of firms affected, but is more prominent in the chemical sector in terms of the size of the coefficient. The Ramadan effect is relatively small in Turkey. Overall, the results suggest that, with the exception of the utility sector, less than half of the sample firms in each sector have significantly higher stock returns in the month of Ramadan. In Indonesia, Jordan and Pakistan, stocks have their lowest risk level in the month of Ramadan. Across all five sectors, equities traded in these Muslim countries are less volatile in the month of Ramadan. The chemical sector was most affected by Ramadan, in terms of the size of the reduction in return volatility and the percentage of firms with significant coefficients. However, when Ramadan and January effect overlap, the results for individual company data from four countries indicate higher returns and lower volatility except in Turkey.

Similar studies on Ramadan effect at Karachi Stock Exchange are carried out by Ahmed and Bokhari (2009), Iqbal, Kouser, and Azeem, (2013), Majeed, Raheman, Sohail, Bhatti, and Zulfiqar, (2015), Nasir Muhammad Ali and Khan, Kalimullah (2017). Ahmed and Bokhari, (2009) had performed a study on seasonality effect which includes conventional and Islamic anomalies at Karachi Stock Exchange (KSE). Seasonality effect is referring to January effect, turn of the year effect, summer effect, the month of the quarter effect, week of the month effect, semi month effect, weekend effect, Monday effect, holiday effect and Ramadan effect. The study period was from 1 December 1994 until 20 October 2008 and it was collected from Karachi Stock Exchange. This study used unconditional logarithmic returns in order to identify the seasonality effect. From the analysis it shows that only four out of ten seasonality effects are significant in KSE. They are the day of the week effect (Day 3), the month of the year effect (January, February, May), week of the year effect (week 3, 5, 7, 21 and 22) and Ramadan effect. Upon analysis, it noted that during this period, the returns are significantly higher as compared to another period. Following that, Iqbal et al., (2013) conducted a similar study by extended the study period starting from 1992 to 2011. They focused only on four seasonality anomalies which include a day of the week, January Effect, turn of the month and Ramadan effect using daily and weekly stock returns from Karachi Stock Exchange 100 Index (KSE-100 Index). While Ahmed and Bokhari, (2009), and Iqbal et al., (2013) concentrated on Islamic and conventional seasonal anomalies, Majeed et.al, (2015) focus on Islamic calendar effect only which are Ramadan, Eid-ul-Fitr, Eid-ul-Adha, Ashora, and Eid Miladun Nabi for the period of 2001 to 2012. Similar to Iqbal et al., (2013) this study applied Ordinary Least square (OLS) to analyze the data. Finally, Nasir Muhammad Ali and Khan, Kalimullah (2017) emphasize on Ramadan effect only by using daily KSE 100 index points of ten years starting from 1st of January 2001 to 31st of December 2010 obtained from the primary equity market in Pakistan. The data is examined through GARCH and ordinary least square (OLS) analysis. Based on the above analysis, they provide further evidence that the returns are significant during Ramadan as compared to the other period. Thus it can be concluded that their findings contradict the result of Husain (1998).

Apart of Pakistan, Küçüksille and Metin, (2015) also performed the same study which was conducted in the Turkish stock market. Daily return data of BIST 100 was collected from the website of ISE (Istanbul Stock Exchange) starting from 1988 to 2014. Using Tukey's HSD (honest significant difference) the result shows that there is no Ramadan effect on Turkey Stock Market. This can be proved by the highest mean return is in the month of Rajab while the lowest mean return is in the month of Rabi'al – than

(Rabi' II). Later, Tan, (2017) also examined the related study. Instead of investigating the Ramadan effect on the market index of Borsa Istanbul-BIST 100, this study includes 23 BIST Sectoral Indices in Borsa Istanbul. The study period is covered from January 1997 to December 2015 and it was collected from Thomson Reuters DataStream. This study divides the Ramadan days into 3 phases, where the first phase comprises the first 10 days of Ramadan, the second phase covers the next 10 days, and the final phase involves the last 10 days. From the regression analysis, this result is consistent with Küçüksille and Metin, (2015) which shows that no Ramadan effect on market index (Borsa Istanbul). However, Ramadan has a statistically positive effect on the five individual sectors which are BIST Transportation, BIST Non-Material Mineral Products, BIST Investment Trust, BIST Electricity and BIST Chemicals. By comparing the 3 phases of Ramadan, most of the indices show that there are positive and statistically significant returns at the first ten days of Ramadan. Menderes, Enstit, Sciences, Yilmaz, and Erg, (n.d.) also conducted the similar study by extending the study period starting from August 2000 until June 2017 making up a 4257 number of observations. The selected indices are technology, service, industry and financial sector. They used regression analysis and a GARCH model. It was found that average rates of return were not affecting Borsa Istanbul 100 index during the Ramadan. The result from GARCH analysis shows that the volatility is not statistically significant during Ramadan even though there is an increase in volatility.

2.3 Ramadan Effect in Nairobi, Saudi, UAE & Tehran Stock Market

Maeba, (2014) also conducted a study on Ramadan effect on stock return at the Nairobi Securities Exchange starting from 2001 until 2013. The daily stock index of 13 years was collected from the Nairobi Securities exchange starting from between 1st Jan 2001 and Dec 31 2013. Using Analysis of Variance (ANOVA) the results shows that the returns during the months of Ramadan tended to be lower than as compared to the other months. A statistical test of significance was conducted to determine whether the two means are significantly different or not. The results revealed that mean returns of the Ramadan period and the non-Ramadan period was not significant. Later, Atala, (2015) performed the study on the effect of Muslim holidays on stock returns in Nairobi Securities Exchange. In her research, Muslim holidays are referred to Mawlid, Muharram, the start of Ramadan, end of Ramadan (Eid al Fitr) and Eid al Adha. The daily closing price was collected from the Nairobi Securities Exchange starting from the year 2013 to 2014. Further analysis was conducted by using excel and SPSS. The result indicated that Mawlid holidays for both years did not give impact on the stock returns while Eid al Fitr and Eid al Adha for both years affect the stock returns in Nairobi. Furthermore, it was found that Muharram and beginning of Ramadan give an impact to the stock return in 2014 as compared to 2013.

In Saudi Arabia, Seyyed, Abraham, and Al-Hajji, (2005) conducted a research on Ramadan effect in stock returns and volatility of Saudi Stock market. They used weekly index values of six major sectors in the Saudi stock market namely Banking, Industry, Cement, Electricity, Agriculture and Services. The data were collected from February 1985 until April 2000. Using GARCH analysis, they found that average rates of return are unaffected during the month of Ramadan, there is a significant decline in volatility, implying predictable changes in the price of risk. This pattern is observed for the overall market as well as for the major constituent sectors of the economy.

Apart from that, Alatiyat, (2016) conducted a study at United Arab Emirates Stock markets. This study is different from others because the author used 19 listed banks in UAE stock markets (Abu Dhabi Securities Exchange: ADX and Dubai financial market (DFM). The study period is starting from 2008 to 2013. From the regression analysis the result found that the average returns for banks in ADX and DFM in Ramadan are less than the usual average returns.

Besides UAE stock markets, Garkaz, Hazini, and Azimi, (2014) conducted a study on the effect of Ramadan month on the stock price, trade volume and index of Tehran Stock Exchange (TSE). They emphasize their study in the minerals and mining industry. There are 21 companies selected for the analysis of the study. The stock price, trade volume and stock indices were collected from TSE starting from the year 2006 until 2011. From the regression analysis result, it shows that there is a significant relationship between Ramadan month and stock price and trade volume. However, the stock index is not significant during Ramadan.

In addition to the findings related to the Ramadan effect using specific countries' stock market data, Mazouz, Mohamed and Saadouni, (2016) conducted a research on stock return co-movement around the Dow Jones Islamic Market World Index (DJIMWI). The aim of their research is to examine changes in the return correlation structure associated with DJIMWI revisions during the month of Ramadan. The daily stock price and volume of Dow Jones Islamic Market World Index (DJIMWI) comprises of 8250 companies from eighteen countries were unable to achieve the purpose of the research. The data was collected from Dow Jones Company starting from 24 May, 1999 to June 2012. Using univariate and bivariate regression approach, the result shows that the newly added (deleted) stocks co-move more(less) strongly with the existing DJIMWI constituents during the month of Ramadan, consistent with the sentiment-based view. This finding is also consistent with the view that religious practice affects asset prices.

Instead of using Dow Jones Islamic Market World Index as the data for the analysis, Shah, Qureshi, and Aslam, (2017), extended the study done by Mazouz et.al (2016) by adding another data which are MSCI ACWI Islamic Index and S&P Global BMI Shariah Index. The study period is from 5 Jan 2011 to 12 November 2015. This study used Ordinary Least Square (OLS) and GARCH (1,1) regression methods to analyze the impact of the Islamic months on global stock returns and volatility respectively. The results revealed that, no significant impact of Ramadan on returns and volatility of Islamic Global Equity Indices.

3. Conclusion

The comprehensive review of past literature in the previous sections provide evidence that the Ramadan anomalies did exist in the Muslim countries' stock market for example in Egypt, Jordan, Kuwait, Qatar, Turkey, UAE, Morocco, Pakistan and Tunisia; to name a few. These evidence supported the view that religious beliefs and practice play an important role in influencing share price behavior. The effects of Ramadan could be seen from two perspectives; that is the less volatility and the higher stock returns earned during the sacred month than the rest of the months during the year. Further, this paper discovered that researches on Islamic calendar effect in Muslim dominant countries like Saudi Arabia, Egypt, Jordan, Kuwait, Qatar, UAE, Bahrain, Turkey, and Pakistan, are abundant. The studies were conducted on the stock and index return in the respective countries. As far as this paper is concerned, the impact of the anomalies on companies return, or individual firm, and on the sectoral index are less explored. Therefore, leaving a gap for a future research study to discover the Islamic calendar effect in this area.

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Deposit Taking By Islamic Banks

By
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Abstract

Deposit taking is an essential component of the financial intermediation process. The deposits of Islamic banks have a different legal and contractual status as compared to the deposits of conventional banks. The relationship between the bank and depositors is that of a fund manager and investors and actual profits earned by deploying these funds are shared between the fund manager (bank) and investors (depositors) instead of the usual debtor and creditor relationship in case of conventional banks. The risk taken by the depositors is different in nature than the risk taken by the counterpart conventional depositors. The paper focuses on the legal structure and corresponding changes required in financial reporting and other issues such as pool management and determination of profits and distribution to depositors, the role of bank management, regulator and external audit in the process and also the attitudinal change which is required to implement the system in letter and spirit.

Keywords: Islamic banks, deposits, risk, financial reporting

1. Introduction

The basic objective of establishing banks is to establish an effective system of financial intermediation which involves raising resources mainly from the depositors (savers) and providing these resources to eligible users as credit or as an investment. The deposit schemes, methodology and products of conventional banks are based on interest which is not permitted according to Islamic financial law. Therefore financial intermediation by Islamic banks should be based on Islamic financial principles. The deposits taken by Islamic banks are on the basis of Modaraba and actual profits earned through the investment of deposit funds are distributed between the banks and depositors. Likewise the recording and reporting must be different to reflect the different nature of

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contracts. This paper focuses on the issues in: the structure of deposit products of Islamic banks, methods of determination and distribution of profits, financial reporting, risks and rewards for the depositors.

2. An overview of deposit taking activity

Deposit taking is an essential part of the financial intermediation process. Before we identify and discuss the issues it is necessary to present an overview of the deposit taking activity by both types of banks.

2.1 Conventional banks

In the case of conventional banks the deposits are in the form of loans to the banks and the relationship between the bank and its depositors is that of a debtor and creditor. The bank is liable to return the money taken from the depositor along with an additional amount as interest (or profit as some banks call it or whatever another name may be given to it) to be paid at regular intervals or at maturity.

Likewise there is a similar relationship between the bank and its borrowers when money is borrowed from the bank on interest. The borrower may also default on his debt obligations and if the collateral is not sufficient to adjust his liabilities the bank will have to book a loss. However, since the borrowed funds are owned by the banks they have to assume the risk of loss. Therefore the bank's activities of borrowing (deposit taking) and lending are independent of each other and loss incurred on the advances side cannot be passed on to depositors except under bankruptcy.

2.2 Deposit taking by Islamic banks

Islamic banks raise deposits through a Mudaraba contract whereby the relationship between the bank and the depositor is that of an investor and fund manager. These funds are used to provide financing to individuals and businesses using Shariah complaint methods such as Musharika or Modaraba (Investment modes) or Murabaha, Salarn, Istisna (Trade mode) and Ijara (Leasing mode).

The income so realized is not based on interest but is either a trading profit or rent or an actual return on the investments made by the bank as manager of these funds. This income earned by the deposit pool is shared between the bank as manager of the funds and depositors who are treated as investors according to profit sharing ratio (PSR) which is announced at the beginning of each month.

Like the conventional banks there is a risk of loss to the asset portfolio in case of Islamic banks also. However since the deposits are funds under management and these assets are owned by the depositors, this loss will be passed on to depositors as per terms of Modaraba contract governing the deposits. Therefore the principal is not guaranteed. The bank will get no compensation for the services provided and will incur a loss due to no recovery of the expenses incurred as manager of the deposits and may also lose reputation. Therefore unlike the conventional banks the activities of financing and deposit taking are not independent of each other.

The depositors are in a way like stockholders. But unlike stockholders who proportionately own all the assets of the bank such as fixed assets, the depositors own only the asset portfolio created out of their deposits and assume the risk of loss in these assets as per rules of Modaraba. Any appreciation in the value of asset portfolio will also accrue to the depositors.

Since the depositors take a share in the actual profits earned by the asset portfolio their return will be tied with the performance of the asset portfolio and will vary accordingly.

For distribution of profits long-term investment deposits as well as higher tier deposits are differentiated from short-term deposits and lower tier deposits through a system of weightages[1]. Demand deposits or current accounts are taken as a loan to be returned on demand without any additional amount as return and therefore these deposits do not participate in the profit or loss distribution and the principal is guaranteed in case of these deposits.

2.3 Product Structures

2.3.1 Basic Design

1. The depositor and bank enter into a Modaraba contract whereby the bank is appointed as manager or Mudarib, to manage funds on behalf of the depositors or Rabul mal.[2] The bank as manager of funds forms different pools of deposit funds. The relationship amongst the depositors is that of partnership or Shirkah.

2. The money available in these pools is invested in Halal businesses, using Shari'ah compliant methods/products such as Musharaka, Modaraba, Murabahah and Ijarah to create assets. These investments are the assets of the pools which will generate income.

3. Direct expenses in the conduct of business will be charged to the Modaraba such as depreciation of ijarah assets, cost of sales of inventories, Takaful, fees and charges and taxes. Impairment and losses due to physical damage to specific assets, write off and loss on sale of investments will also be charged as a business expense to the Modaraba. However general and specific provisions as per SBP directives and losses on financings due to misconduct or negligence or in contravention of rules and generally accepted principles will be borne by the bank / Modarib. Indirect expenses pertaining to the management including establishment costs will be paid by Modarib.

4. To calculate the profit (or loss), the total income of all the assets will be computed for the period (one month) and expenses incurred on the business will be deducted.

5. The profits earned by the Modaraba, are shared between the bank and the pool on a predetermined profit sharing ratio (PSR).

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1 Like PSR weightages are also announced in beginning of every month on the websites and notice boards of the bank in all branches. Profits are distributed at the end of each month

2 Account opening form is an agreement of modaraba b/w the bank and the depositor

For example if the share of Mudarib and pool in the profit is 30% and 70% respectively and the actual profit is Rs.12, 000 in the month 30% i.e. Rs.3, 600 will go to the bank and remaining Rs. 8,400 will go to the pool. The bank can reduce its share voluntarily by gifting a portion of its profit of Rs 8,400 to the pool.

2.3.2 Profit distribution amongst pool members

6. In order to distribute the profits allocated to the pool amongst the depositors the deposits in the pool are categorized in terms of their tenures, and then weightages are allocated accordingly. For example let us assume deposits of three tenures and proposed weightages as given in the following table:

Table 1: Profit Distribution Framework

Tenure	Deposit (in Rs.)	Weightage
One Month	50,000	.55
Three Months	35,000	.62
Six Months	15,000	.64
Total	100,000	

In the above example, the profit allocated to the pool was Rs. 8,400 which will be distributed among the depositors according to the allocated weights as follows.

Table 2: Profit Distribution Illustration

Tenure	Deposit	Weightage	Weighted Average deposit	Profit*	Rate**
	A	B	A x B = C	D	E=D/A*100
One Month	50,000	.55	27500	3929	7.86%
Three Months	35,000	.62	21700	3100	8.86%
Six Months	15,000	.64	9600	1371	9.14%
Total	100,000		58800	8400	

*Profit d = (27500/58800) x 8400
**Rate E= (3929/50000) x 100 = 7.86%

In case of loss, both parties bear the burden. The bank earns nothing to cover its cost and risks loss of reputation. The pool takes the financial loss which is distributed among the pool members according to their investment ratios.

2.3.3 The system of weightages

As stated earlier the members of the pool are Mushariks amongst themselves therefore profit allocated to the pool should be shared in relation to the investment by each partner. However different categories of depositors are differentiated through a system weightages. The justification for this is that the status of each partner varies on account of the following factors

a. The risk varies according to the period of investment. A depositor with 5-year tenure takes higher risk than a depositor in the saving account category or in the 3 months deposit category.

b. Payment options e.g. profit taken on a monthly basis or at maturity.

c. Higher tier deposits entail lower operating cost per unit.

d. Weightages are assigned to neutralize these differences in the status of each member of the pool.

2.4 Comparison with conventional deposits

2.4.1. Relationship with depositors

In a conventional set up the relationship between the bank and depositors is that of a debtor and creditor. The assets side is also structured on the same basis. However the assets are owned by the bank and consequently the loss on asset side cannot be transferred to the liability side except in case of bankruptcy.[3] In the case of Islamic Bank the relationship is different. While raising deposits the bank and depositor act as a fund manager and investor respectively. The Bank, on behalf of the depositor, becomes an investor in case of PLS financing and trader/creditor in case of sale based financing.

2.4.2 Ownership of asset portfolio

The assets created from the funds of deposit pool are owned by the depositors who actually take the risk in these assets. Consequently the loss on the assets side is transferred to those who own these assets i.e. the depositors. Likewise the deposits (except the current accounts) are not the liabilities of the bank but funds under management. Therefore in reality neither the deposits are bank's liabilities nor do the assets belong to the bank. At best we can call these as defacto assets.

2.4.3 Type of income paid to depositors

An Islamic bank does not earn interest but earns either a trading profit or a share in the actual profit/loss on investments. Therefore instead of interest, a share in the overall net profit of the asset portfolio is paid to them.

3. Issues

After presenting an over view of deposit taking activity, the structure of deposit products practiced by IBs, the system of profit calculation and distribution and a comparison with conventional deposit schemes we are now in a position to discuss the issues facing the industry.

3.1 Premiums

The first issue which had been subjected to criticism is the system of premiums offered to high tier deposits. In the past premiums were offered to high net worth individuals to attract larger deposits. The rationale given by the banks was to pass on the benefit of lower administrative and operating costs to the depositors. Practically retail

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3 This form of intermediation is different from general intermediation such as a stock broker who facilitates transactions by bringing together the buyers and sellers of stocks for a fee.

customers, who are in majority, come themselves without much effort and incentives. Higher tier customers need to be lured through incentives. The premiums were offered by gifting some of the portion of banks' profit share as a gift to specific customers. This was termed as specific hiba as compared to a general hiba which is the voluntary gift by the IBI to the pool and still continues. The premium could be calculated as a percentage of investment. For example if the profit rate declared was 8% for a particular category and the bank was prepared to offer a premium of 2% the total applicable rate would be 10%. In case the pool earned no profit the bank's share as modarib will be zero and no premium would be offered.

The system of premiums has been abandoned. The SBP directed IBs in November 2012 to abandon it in a phased manner by 2015. There were a few issues such as:

1. The possibility of selling deposit products on fixed rates of return. This could be very easily done. For example if a customer wants a 10% rate on his deposit he could be assured that rate by the concerned marketing man. In case the declared rate was 8% it could be brought to 10% by adding a 2% premium as a gift from the bank. If the declared rate came down to 7.5% the premium would be enhanced to 2.5% to meet the committed rate of 10%.

2. The practice of premium required that the bank while deciding the profit sharing ratio should keep a margin for allowing premiums. This indirectly penalized small investors to benefit high net worth individuals

However higher weightages to high tier deposits is still continuing.

3.2 Financial reporting

This is one of the most important outstanding issues. The deposits of IBs are not liabilities but these are funds under management. Treating these deposits as liabilities of Islamic banks and assets created out of the deposit pool as bank's assets will not give a true picture as the relationship between the parties and method of application of profit/interest are different. Even the principal amount is not guaranteed in case of IBs whereas it is guaranteed in case of CBs.

International accounting standards are meant for interest-based transactions and cannot be used by IBs[4]. Presentation of profit and loss account and balance sheet in accordance with these standards will only create problems of misreporting and also doubts about the legitimacy of IBs.

Therefore the financial reporting will have to be different and needs more improvements. For example reporting deposits as funds under management in between the liability and equity portions on the right side of the balance sheet and reporting assets owned by the pool separately from the assets owned by the bank on the left side. The income earned by the pool assets could also be shown separately along with its sharing between the bank and the pool. The IBs cannot work on the concept of spread as do the

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4 (Hidayat, 2011) has given a detailed presentation on this issue

CBs. Interbank comparisons are necessary but they should be amongst Islamic banks. Compare an apple with apple.

3.3 Depositors' risk and banks' fiduciary responsibility

As discussed above the assets created out of the deposit pool belong to the depositors who actually take the risk in these assets. The following points emerge from the above principle:

a. The depositors own the asset portfolio created out of deposits in the proportion of their investment and therefore will own the depreciation or appreciation in the value of the assets of the portfolio. The Mudarib only takes a share in the profit. In contrast the depositors of CBs do not own the asset portfolio which is owned by the bank therefore the bank owns the appreciation or depreciation in its value.

b. The depositors' risk is linked with the risk of the asset portfolio. This provides stability to an Islamic bank. In contrast the depositors of conventional banks do not take any risk in the asset portfolio which belongs to the banks. Their risk is related to the bankruptcy risk of the bank.

c. The depositors share the actual profit of the asset portfolio whereas in case of CBs the depositors get interest at the contracted rate irrespective of the income earned by the asset portfolio.

d. In case of loss the depositors take the loss. This shows that the principal is not guaranteed where as in case of CBs depositor is not responsible for the loss and the principal is guaranteed ---an *important difference between the two.*

e. The income of the asset portfolio determines the rate to be paid to depositors whereas in case of CBs the depositors get interest at a contracted rate which is not dependant on the income of the bank from its asset portfolio.

f. Since the rate of profit on the deposits largely depends on the actual performance of the asset portfolio, it is likely to fluctuate and in turn may cause serious problems for the customers whose income will be affected. Different methods such as reducing the banks' share in the profit (currently in the range of 45% which has a lot of capacity for such adjustments), profit equalization and investment risk reserves etc can be used to stabilize the returns on the deposits but are not foolproof methods to guarantee profit under all circumstances.

The above methodology requires that IBs should be more careful and efficient in portfolio structure and decision making which in turn will benefit the economy as the allocation of economic resources will be more efficient. At the same time any carelessness or violation of procedures in the portfolio structure will make the IBs responsible for the loss according to the basic rules governing Modaraba. SBP's instructions wide IBD circular no 03 dated November 19, 2012 also cover this point[5].

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5 Clause 2.3 of annexure to IBD circular no 03 dated Nov. 19, 2012 on profit & loss distribution and pool management.

However in practice it will be very difficult to prove the carelessness by the Modarib (i.e. IBs) particularly when the rabulmal (depositor) has no means to detect or point out such cases. They have no means other than the regulator to protect their rights. This is just like protecting the rights of certificate holders in a Modaraba fund and small share holders in a listed company. Each one of these categories of investors lacks the knowledge and power to protect their rights and rely on the respective regulators

Recognizing this as an outstanding issue the State bank of Pakistan has also given guidelines/instruction in their Shari'ah governance framework. According to these instructions the BOD will also discharge fiduciary responsibility towards Investment Account Holders (IAHs) / PLS depositors who accept risk similar to shareholders without any voting rights[6] and will take measures to safeguard the interests of depositors.

However without the regulator's strict watch over the discharge of this responsibility by the Boards of respective IBIs, favorable results may not be achieved.

3.4 Return paid to depositors

An offshoot of the risk and fiduciary responsibility is the return paid to depositors and the overall treatment meted out to them.

The return paid to depositors also needs careful consideration. Since the principal amount is not guaranteed the depositors in IBs take more risk as compared to their counterparts in the CBs who are assured of their principal amounts. Therefore they deserve better returns. However there is a tendency on the part of IBs to maintain rates in line with interest rates which is not correct. Their religious sentiments apart, it must be kept in mind that up till now these depositors have been accustomed to their deposits remaining safe and yet earning a profit. They would expect a better return which is commensurate with the higher risk they are taking.

The most important reason for a return which is not commensurate with the higher risk is similar treatment being meted out to depositors of Islamic banks. Like the CBs who adjust their interest rates on deposits in line with policy rate/money market rates the Islamic banks also follow suit in spite of a well-defined profit calculation and distribution structure in place. Adjusting the rates through the above-stated structures is not only possible but easy. By just varying the profit sharing ratio between the bank and the pool the banks can adjust the rate on the deposits.

Legally the depositors are the owners of the assets and must have a say in the profit distribution ratio. Placing the information regarding profit distribution ratio and weightages on the websites and notice boards is considered as their implicit consent. But the possibility that all of them will see this information regularly and then understand it is a highly simplistic assumption. Often the depositors will have no option but to accept the

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6 In case of gains the depositors have a claim only on the asset portfolio created out of deposits but shareholders have a claim on all assets which gives them better returns while in case of loss depositors absorb the loss directly whereas shareholders may witness a short term decrease in the value of their stocks which may be recouped in the times to come.

decision of the bank which is even much harsher than the CBs in which case the rate can be negotiated in the beginning and would remain same during the contract period or will vary according to the method agreed at the time contract.

Therefore it can be concluded that practically the depositors of IBs are treated in the same way or even with a harsher attitude as compared to the depositors of the CBs who receive little better treatment.

It is true that the financing portfolio mostly consists of assets like Murabaha and ijarah on which the rates of profits / IRR are in line with market rates. This argument alone does not justify the instantaneous reduction in the returns to be paid to the depositors in line with the interest rates paid by CBs for the following reasons:

a. Interest rates offered to depositors of CBs are independent of their earning on the asset side. The spread between the lending and deposit rates takes care of the asset portfolio losses /loan losses whereas in case of IBs since actual profit is shared there is no requirement for such an allowance. In fact IBs cannot work on the concept of spread as do the CBs.

b. Earning of the asset portfolio will not decrease instantly with variations in market rates because all financing contracts are for a period and the income for those contracts is practically booked. It is only the new contracts which will be affected.

Rather in case of declining money market rates if the rates of profits are maintained in line with actual earnings it will provide good signals to the market players and increase confidence.

3.5 External audit

Previously a joint verification of the profit/loss distribution to depositors by Shari'ah advisor and the external audit was required. Now the scope of the external audit is limited to providing an opinion about the banks' pool management practices and IT-based system, computation and distribution of profits, tagging of assets and allocation of income and expenses. The Shari'ah compliance department is made responsible to verify the distribution of profits to depositors and internal audit is responsible to conduct post disbursement audit on a quarterly basis. Instead of providing an opinion a complete audit of the whole process from determination of PSR and weighages to final distribution should be given to the external auditors keeping in view the risk taken by the depositors and their weaker position in the system.

3.6 The attitudinal issue

It also depends on the attitudes. The bankers have to realize their moral and religious responsibility as Amin of the depositor's wealth. Everything cannot be enforced through rules and regulations. There has to be a will to do. You can bring the horse to the river but cannot make him drink water.

Both, the bankers as well as depositors have shifted from Conventional banking to Islamic banking. Time is required for the change in the mindset particularly when the reporting requirements have not changed.

4. Conclusion

The deposits of Islamic banks have a different legal and contractual status as compared to the deposits of conventional banks. The risk taken by the depositors is much higher and different in nature than the risk taken by the counterpart conventional deposits. Therefore not only financial reporting needs changes but the returns to depositors also need to be aligned with the risks they take. The role of external audit in the pool management, tagging of assets, computation of income and expenditure and determination of profits and distribution to depositors should be enhanced. Last but not the least change in the attitude of stakeholders is of paramount importance which will take some time to materialize.

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Country Model

Singapore*

Singapore benefits from being strategically located at the heart of Asia and has long been considered the gateway to Southeast Asia, home to a substantial Muslim population. Its strength as an international financial centre is often said to be anchored by prudential regulations, consistent regulators and an efficient government, coupled with an excellent business infrastructure, economic freedom and a deep talent pool. Singapore's economy depends heavily on exports, particularly of electronics, petroleum products, chemicals, medical and optical devices, pharmaceuticals, and on Singapore's vibrant transportation, business, and financial services sectors.

Islamic Banking & Finance

Since 1998, Islamic financial services have been available through Islamic windows of certain banks in Singapore. In fact, Singapore can be considered to be one of the pioneers of Islamic finance, with the launch of the Mendaki Growth Fund (Amanah Saham Mendaki) in Singapore in May, 1991, as one of the first few Islamic equity funds in the world. In 2005, Monetary Authority of Singapore (MAS) refined its regulations to facilitate the growth of Islamic finance. Since 2005, with the conscientious steps taken by the MAS to develop Singapore's Islamic finance capabilities and infrastructure, Islamic financial activity in Singapore has continued to grow and industry players worldwide have expressed confidence in Singapore having what it takes to develop into a hub for Islamic finance.

To contribute to the development of Islamic finance, MAS joined the Islamic Financial Services Board (IFSB) and has participated actively in its various working groups and task forces in areas like supervisory review, Islamic money markets, capital adequacy, liquidity management. Singapore had one full-fledged Islamic bank: Islamic Bank of Asia (IB Asia). Shariah banking assets in Singapore have been growing significantly since 2010 and the number of banks involved in Islamic banking has grown to fifteen. Other prominent Islamic banking service providers include Maybank, CIMB and Standard Chartered.

Regulatory Environment

Islamic financial institutions in Singapore are subject to the same legislation under the country's Banking Act as conventional institutions, with capital adequacies and requirements applicable to Islamic banking products in same way as conventional ones. MAS states that the regulatory approach is focused on addressing the risks to the soundness of the country's financial institutions, with reviews in place of regulatory and tax treatment to expedite the issuance of Islamic financial instruments. In 2013, the

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* Source: State Bank of Pakistan, Quarterly Islamic Banking Bulletin April-June 2018

government allowed the five-year tax window introduced in 2008 on specific Islamic finance instruments to lapse, although the tax treatment for Islamic instruments remains at par with conventional equivalents.

Like other jurisdictions attempting to enhance their Islamic finance industry, Singapore introduced new rules between 2005 and 2009 legislating Shariah banking and financing instruments as well as amendments to tax regulations, which removed additional tax obligations arising from the asset-based nature of Shariah transactions. In 2010, guidelines on the application of banking regulation to Islamic banking were introduced. In terms of positioning within the Islamic finance space, Singapore is in competition with jurisdictions such as Luxembourg and the Cayman Islands, which have established themselves as fund domiciles.

Sukuk

Although Singapore has significantly deep and liquid capital markets (despite no real need to tap the debt capital markets, the country has been maintaining current account surpluses, averaging SG$8.42 billion (US$5.94 billion) from 1986-2015 according to Trading Economics), the same, however, cannot be said about the Islamic side.

In general, Singapore has a relatively lackluster Sukuk market: government agencies have been active bond issuers in order to develop the nation's capital markets; however, in the past five years there have only been 31 Sukuk issuances in the country, according to MAS. The lack of Sukuk activities has been attributed to the great comfort of issuers with conventional facilities and the lack of incentives to pursue Islamic debt. Total outstanding issuance reached a high of SG$3.8 billion (US$2.68 billion) in 2014, a rise from SG$440 million (US$310.48 million) in 2009, the year when Singapore launched a Sukuk facility to provide regulatory assets for banks in the Shariah space.

Fintech

The Islamic crowdfunding platforms in Singapore have been increasing. The country is home to at least two Islamic fintech start-ups: Club Ethis and Kapital Boost. In the last quarter of 2016, Kapital Boost was certified Shariah compliant by Financial Shariah Advisory & Consultancy. Recently, Alpha Fintech collaborated with Bahrain's Finocracy to bring its end-to-end payment solution to the GCC region's e-commerce market participants. The effort will aid banks to quickly access new fintech partners across the entire payment, risk and commerce spectrum, as well as create opportunities for GCC retailers to capitalize on a 20% year-on-year e-commerce market growth.

Conclusion

Notwithstanding the progress of Islamic finance in Singapore, there is still much that can be done. In particular, areas such as Islamic fund management and Islamic wealth management remain relatively underdeveloped and need special focus to enable Singapore to stand out as the gateway for capital flows and investments between the Gulf and Asia. Government support and continued public awareness are key in developing its Shariah finance industry.

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Book Review

Title: Islam and the Path to Human and Economic Development
Author: AbbasMirakhor and Hossein Askari
Publisher: Palgrave Macmillan
Reviewed by: Dr. Salman Ahmed Shaikh

This book briefly surveys the evolution of the Western concept of development, recognizing the wider dimensions of human and economic development and the role of institutions and rules, which has moved toward the vision and the path of development envisaged in Islam.

This short book is divided into five chapters and a conclusion. The five chapters include 1) The Evolution of the Western Concept of Development, 2) Development as Human Well-being, 3) The Foundational Elements of Development in Islam, 4) The Dimensions of Development in Islam and 5) The Institutional Structure of Development in Islam.

The authors explain that in the early post-WWII period, economists defined economic development as a combinationof rapid economic growth and structural transformation. The policy focus was that countries that had low levels of percapita income needed to grow faster to catch up with the developed, or industrial, countries of the West. To achieve this, they would benefit from a transformation of their economies froman agrarian to an industrial base, where the level of productivity and its growth were significantly higher.

The authors argue that given that narrow definition of economic development, most early post-WWII theories of economic development focused on how rapid growth and structural transformation could be achieved. In the post 1970speriod, later economists led by the works of Mehboob-ul-Haq and Amartya Sen argued that development was much more than an increasedlevel of per capita income and a simple structural transformation. For the first time, human development, including education, healthcare, poverty eradication, a more even income distribution, environmental quality, and freedom, was seen as an integral component of the economic development process.

The authors trace the evolution of the Western concept of development before exploring the path to development in Islam. The Western approach was neutral to ethics, morality, values and emphasis on humans as the means as well as ends of development. It regarded humans as utility maximizing species and as merely an input in the production process. However, the Western concept of development now recognizes the wider dimensions of human development and the role of institutions and rules. The authors think that it has moved over time towards the vision and the path of development envisaged in Islam, emphasizing human solidarity, belonging, well-being, sharing, concern for others, basic human entitlements, and modest living.

The authors explain that in Islam, development is composed of three interrelated and interdependent dimensions: individual human self-development, the physical-material development of the earth, and the development of human society as a whole. The most important of all these is the first without which the other two would not progress as envisioned. The authors caution that the claims of any society to call itself Islamic must be validated by the existence and effective operations of the institutional structure (rules of behavior). They opine that in today's Muslim societies, the core elements of the institutional structure that would designate a system as Islamic are, by and large, notable for their absence.

In neoclassical growth theories, the emphasis is on increasing savings and technological progress which brings about an increase in capital per worker and eventually output per worker. Later researchers have done more sophisticated work to explore the factors which affect the technology, human capital and savings. To summarize their findings, these theories and models help to explain the differences in per capita incomes across countries. The main conclusions are that countries with high savings, countries having people spending more time in learning new skills and countries with better social infrastructure in the form of strong private property rights are able to have more per capita income than countries which lack in these characteristics.

Islamic economic principles have the capacity to help build these elements for sustainable growth and development. Islamic economic framework provides a lenient rate of income Zakāt and withdraws any fixed pre-determined cost of capital. The productive sector is provided with an incentive to boost production. This could itself bring about an increase in output per person in the economy and could bring stability in prices. Tax on cash and capital will force people to invest their money in productive uses. With the prohibition of interest, this money will only go in business either with the start of one's own business or equity participation in Mudarabah and stocks.

Besides this, a consistent and credible low tax rate policy with broader Zakāt base ensures minimum distortions, boosts aggregate demand and encourages investment by decreasing costs of doing business and this could also simultaneously solve microeconomic problems of imperfection in markets by increasing competition and helping to reduce market power.

If we study the classical and neo-classical literature on growth and development, the theories and policies based on them have felt short to improve income distribution. Islam economics has many non-state mechanisms to ensure income redistribution without interfering with individual freedom and market mechanism. Three such mechanisms are listed below:

Prohibition of Interest – Interest as a system of allocation of resources ensures a fixed return for one agent (lender) and variable and uncertain for another (borrower) in an intertemporal exchange of money. In contrast, Islam encourages equity financing in which the loss/profit would be shared. This ensures better results from the perspective of redistribution and better co-operative behavior since payoffs for all parties are linked with productive sector of the economy. Consequently, markets will not have to produce speculative surplus output just to service the exorbitant amount of debt. This feature could also help in stabilizing business cycles.

Family System and Inheritance Distribution –The family system of Islam brings social capital into existence. It ensures empathy and responsibility. It brings a very lasting and durable social safety net. Islamic injunctions about how to treat orphans ensure social security for individuals with special circumstances. Furthermore, the inheritance laws ensure that the wealth of the deceased is distributed widely among the members of the family of the deceased and this permanently and systematically ensures doing away with the concentration of wealth in every generation.

Zakāt and Infāq – Zakāt is a combination of wealth and income levy. It includes all heads of income and forms of wealth excluding only the means of production, items of personal use and value below Nisāb. With Zakāt on wealth, redistribution objective is directly achieved. It reduces confinement of wealth in few hands. The flow (income) and the stock (wealth) both are taxed and hence it ensures appropriate transfer of wealth and transfer of asset ownership to the needy. If an economy is in disequilibrium and policies fail to immediately recover and boost incomes, wealth Zakāt enables the distributive allocation that works independently of the business cycle and help stabilize the extremes of the business cycle.

In conclusion, this book outlines the Islamic vision and framework for development and contrasts it with Western conception of development. The book shows that Islamic conception of development grounded in the teachings of the Quran and the Holy Prophet (peace be upon Him) is comprehensive of values and institutions to extend progress towards inclusive and sustainable development. The need is to create the right understanding of the Islamic vision of development and then to use that in policies and application.

Islamic Banking Indicators Globally (2013 to 2018)

Country / Indicators	CAR	Gross NPF	ROA	ROE	Net Profit Margin	Cost to Income	Liquid Assets to Total Assets
Bahrain	19.00%	12.07%	1.33%	9.84%	26.46%	82.28%	17.57%
Brunei	21.22%	5.74%	1.73%	12.31%	52.39%	40.54%	49.93%
Egypt	13.54%	7.60%	2.70%	47.86%	59.21%	31.45%	68.36%
Indonesia	15.74%	4.69%	0.91%	9.39%	8.96%	91.09%	12.93%
Jordan	22.26%	2.96%	1.70%	17.90%	48.32%	51.67%	36.65%
Kuwait	17.97%	2.95%	1.21%	10.34%	21.41%	36.73%	32.01%
Malaysia	15.69%	1.30%	1.05%	15.23%	39.43%	41.62%	11.23%
Nigeria	38.31%	1.67%	0.06%	0.74%	4.93%	89.90%	21.06%
Oman	40.74%	0.06%	-2.02%	-3.42%	-71.01%	158.24%	20.38%
Pakistan	14.11%	5.98%	1.04%	15.88%	24.57%	74.76%	30.72%
Saudi Arabia	20.30%	1.18%	2.14%	14.37%	47.73%	51.98%	26.29%
Sudan	18.69%	5.96%	2.62%	25.70%	52.93%	43.81%	37.11%
Turkey	15.48%	4.31%	1.08%	12.35%	18.66%	49.28%	48.65%
UAE	16.46%	7.91%	1.52%	12.63%	33.85%	66.15%	15.01%

Source: Staff Calculations from IFSB Data (2013 to 2018)

Legends

- CAR refers to Capital Adequacy Ratio.
- NPF refers to Non-Performing Financing.
- ROA refers to Returns on Assets.
- ROE refers to Returns on Equity.

Note to contributors

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Figures, tables and boxes should be numbered consecutively in Arabic numeral (i.e figure 1, figure 2 and Table 1 & Table 2)

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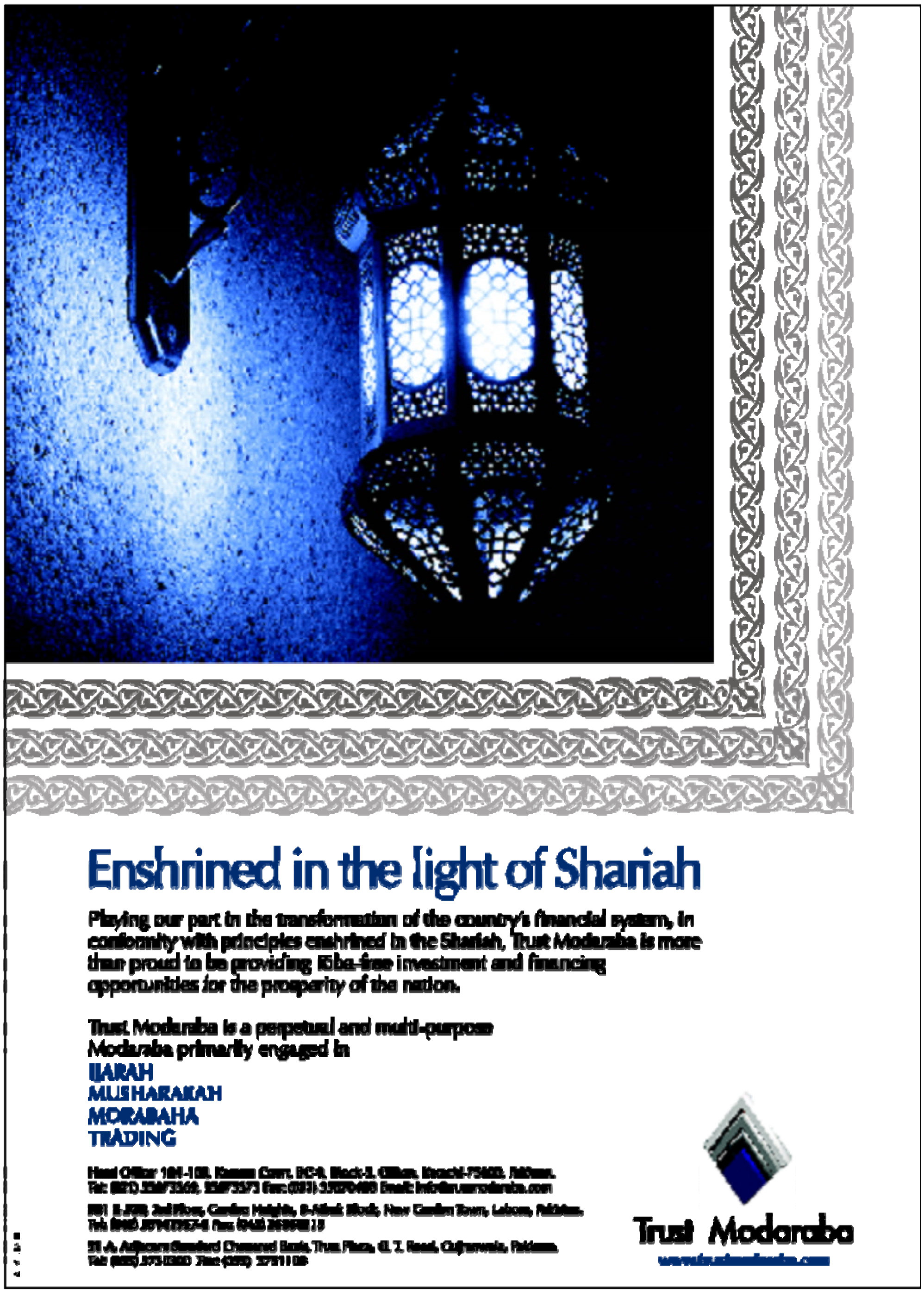
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