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9th World Islamic Economic Forum

Speech By Mian Muhammad Nawaz Sharif,
Prime Minister,
Islamic Republic of Pakistan
London United Kingdom
October 29, 2013

I am honored and delighted to join this august gathering of world leaders and businessmen.
I am extremely pleased to note that the World Islamic Economic Forum (WIEF) has emerged as a prominent gathering of government leaders, scholars, Practitioners, Corporate Managers and Civil Society representatives, all motivated to promote trade and investment and exchange ideas on issues of global significance. I commend the efforts of organizers of the Forum to have achieved such remarkable success within a short period of 8 years since its inception.

Our contemporary world is witnessing unprecedented change. Human civilization is moving from Industrial revolution to Knowledge based economic and social development. Computers, telecommunications, robotics, new man-made materials, Bio and Nano technologies are emerging as frontiers and drivers of economic growth.

Most significantly, the information and communications technology has provided real time connectivity to the entire world as people are becoming more informed and consequently, more empowered. On the economic front, in the past two decades, the world has seen massive and unprecedented movement of goods and services as well as flow of capital.

Not surprisingly, all these developments have had positive impact on the world output and expansion of global trade, thus greatly improving the standard of living of a large number of people.
A recent report suggests that since 2000 the global wealth has more than doubled, reaching a new all-time high of US $ 241 trillion.

However, empirical evidence also suggests that globalization has had inequitable impact across nations and even within. While the developed economies have made significant gains, many countries of Asia and Africa have lagged behind and the absolute number of poor in these countries has actually increased. Inequalities have widened across the board and within the developed world as well.
Reportedly, at present the bottom half of the global population owns only 1% of the global wealth. On the other hand, the richest 10% own 86%, and the richest 1% own a staggering 46% of the global wealth.

Three things lie at the core of this downside of globalization. First, the national and sub-national governments, and international development institutions have not done enough to ensure that the gains from globalization are evenly distributed.

Second, financial markets have not been sufficiently regulated to ensure safety of depositors' money as well as inclusion of a very large population that has little or no access to such services. Third, free trade has been confined in such goods and services that have excluded labor, thereby denying opportunities available for their movement across national jurisdictions that would be otherwise justified due to massive wage differential in different parts of the world.

Alongside these developments, we may also note that universal connectivity has increased vulnerabilities for the entire global economy, with bad news and problems in one part of the world rapidly affecting other parts and amplifying their adverse consequences. Events surrounding the global financial crisis of 2008 provide empirical evidence regarding the expansive impact of these vulnerabilities and distortions.

Today, we see a world that offers unprecedented opportunities and promises to transform the lives of people.At the same time, it also poses challenges that may be the basis of friction and conflict, both existing and new. Accordingly, as much as we would like to promote the promising world we must also guard against its associated ills.

There are not many choices open to us. None would be inclined, nor will have the ability, to reverse the inevitable march of knowledge based revolution and globalization. Islamic nations have much to offer to the world, both in economic contributions as well as socio-political philosophies. These countries are inheritors of rich traditions of trade and cultural exchanges through the centuries, from highlands of north-eastern Eurasia to vast boundaries of Europe and Africa, both through the historical silk route and deep waters of Arabian and Mediterranean seas.

The Islamic world comprises a population of more than 1.5 billion people which is 23 % of the world population, including more than 835 million youth under the age of 24 years. It has a combined GDP of $6.6 trillion, which is only 8 percent of the world GDP. Our countries are spread over a landmass which is 1/3rd of the world and possesses vast amount of world's natural resources. We connect East with the West yet our exports are only 14 % of the global exports. Average GDP per capita in 57 Islamic countries is $ 4,900 which is slightly less than half of the global average of $10,400. Despite sporadic efforts over the last 50 years, we have failed to realize our true potential.

We need to make sustained efforts for rapid social and economic development of our people and contribute towards growth in the world economy. However, we need to identify the factors, which are inhibiting growth in Islamic countries and also learn from the experiences of those who have spearheaded the journey of development in the last few decades.

Excellencies

In my view, there are five important transitions for which we need to make accelerated progress in our countries. First, apart from responsible exploitation of our physical resources, we need to focus on Human Resource Development and scientific advancement. Today only 1% of scientific research articles are produced in Muslim countries while according to European authors of History of Science, almost ninety (90%) percent of scientific literature during Middle Ages was published by Muslim scientists.

Second, we need to quickly move from mere consumption to increased production of economic goods and services.

Third, we must transform our natural resource and cheap labor-based economies to private sector-led and value-added economies.

Fourth, we need to adopt inclusive and collaborative growth models to provide for a wider spread and benefits to our people.

Last, we need to focus on transparent and merit based governance with greater focus on performance and service delivery. We must remember that information revolution has exposed our people to global benchmarks in development and quality of life.

Excellencies, Islamic countries will also serve as the gateway to economic opportunities hitherto untapped in the vast hinterland of central Asia and Southern China. Countries of the region are presently working on landmark projects of road-connectivity and economic development that will open up these areas to wider opportunities of trade and commerce.

Islamic system of finance may provide answers to the multi-faceted problems of an interest based financial system. The assets of banks and financial institutions practicing Islamic finance have now reached an impressive US $1.3 trillion. 375 banks and financial institutions practice dedicated Islamic finance while another 110 conventional banks and financial institutions offer Islamic finance windows. The globally listed and traded Islamic Sukuk market has expanded rapidly in the last 7 years to reach nearly $500 billion mark. These are very encouraging signs as Islamic finance explores new markets and is no longer confined to Muslim countries.

Excellencies There are no inhibitions that prevent the Islamic countries from cooperating with the rest of the world. Our problems and challenges are no different than those faced in other parts of the world. We need energy, water, infrastructure, trade and investment for bringing economic development to our people. Poverty remains a major concern that can only be addressed through rapid economic growth which, in turn, requires foreign investment and expanded trade markets within the developed world.

We must remember that future of all mankind is now interdependent and no part or region of the world can achieve sustained progress in isolation. Religions and cultures, in fact, provide the much desired diversity to mankind. Technological and scientific advancement should serve as tools for human development rather than conflict and destruction. It is a sacred duty of all leaders of the world to strive for sustainable human development irrespective of all other considerations.

The economic pursuit in this world should not be viewed as a zero-sum game, which inevitably will promote antagonism and destructive competition. Allah has bestowed provisions for all mankind in the resources of this world. Together we can lead the world to a life of peace and prosperity. We need to reject divisive ideologies and pursue our common destiny. I sincerely believe that this forum continues to provide a platform for constructive and innovative thinking in this regard.

I thank you all for giving me an opportunity to share my views on this Forum.

(Source: Prime Minister's Office; Islamic Republic of Pakistan)
http://www.pmo.gov.pk/news_details.php?news_id=86

Islamic Banking Industry- Progress & Market Share

Overview

Islamic banking industry (IBI) continued its growth momentum during the third quarter of CY13. Both assets and deposits registered growth as asset base of the industry reached to Rs. 926 billion while deposits reached to Rs. 775 billion by end September 2013 (see **Table 1**). In terms of market share in overall banking industry, share of both assets and deposits increased during the review quarter to reach 9.5 percent and 10.1 percent respectively. Profitability of the Islamic banking industry reached above Rs 6.8 billion by end September 2013 from Rs. 4.3 billion by end June CY13, though still lower compared to Rs 7.7 billion profit in September 2012. Among performance indicators, return on assets (ROA) and return on equity (ROE) both witnessed increase during the quarter under review. Among other indicators, non-performing financing (NPF) of Islamic banking industry increased by 1.6 percent during the Jul-Sep 2013 quarter and reached Rs.19.7 billion, thereby resulting in an increase in provisions. Concentration of financing in few sectors and limited expansion of Islamic banking network to second and third tier cities remain among major challenges faced by the industry.

Table 1: Industry Progress and market share **(Rupees in billions)**

	Industry Progress			Growth (YoY)			Share in Industry		
	Sep-12	Jun-13	Sep-13	Sep-12	Jun-13	Sep-13	Sep-12	Jun-13	Sep-13
Total Assets	742	903	926	30.5%	27.0%	24.8%	8.1%	9.0%	9.5%
Deposits	*628*	771	775	35.6%	28.0%	23.5%	9.3%	9.9%	10.1%
Net Financing & Investment	*571*	*700*	*711*	37.9%	28.9%	24.6%	7.8%	8.8%	9.1%
Total Islamic Banking Institutions	*18*	*19*	*19*	–	–	–	–	–	–
Total No. of Branches*	*977*	*1115*	*1161*	–	–	–	–	–	–

Source: Quarterly Unaudited Accounts

**number includes sub-branches*

IBI Network Expansion

Islamic banking industry branch network continued to expand as 46 additional branches were added to Islamic banking branch network during July to September quarter 2013. These additional branches were established in all major provinces including Punjab, Sindh, Khyber Pakhtoonkhawa (KPK), Azad Jammu and Kashmir (AJK), and Islamabad. Moreover, one new district i.e. Poonch in Azad Jammu and Kashmir (AJK) was added to the list of districts having Islamic banking branches (see **Annexure III** for details). Despite this positive development, it is pertinent to note that second and third tier cities largely remain under served as more than 56 percent of Islamic banking branch network is still concentrated in 5 big cities (Karachi, Lahore, Quetta, Peshawar and Islamabad).

Asset & Liability Structure

Asset: Assets of the Islamic banking industry grew by 2.5 percent to reach Rs. 926 billion by end September 2013 from Rs. 903 billion in the previous quarter. In terms of market share, Islamic banking assets in overall banking industry increased to 9.5 percent in September 2013 from 9.0 percent in the previous quarter, reflecting relatively better growth in assets of Islamic banking industry compared to assets of overall banking industry[1]. This increase in assets of Islamic banking industry was contributed by both investments and financing, the two major contributors of assets. Investments increased to Rs 445 billion by end September 2013 from Rs 439 billion by the end of previous quarter while financing of the Islamic banking industry also increased to reach Rs 266 billion from Rs 261 billion during the same period.

Detailed analysis with reference to bifurcation of assets among full-fledged Islamic Banks (IBs) and Islamic Banking Divisions (IBDs) of conventional banks reveals that assets of both IBs and IBDs witnessed positive growth compared to previous quarter with IBs recording relatively better growth (2.7 percent) compared to IBDs (2.3 percent). In terms of share, assets of IBs constitute 64 percent in overall assets of Islamic banking industry with remaining 36 percent assets being contributed by IBDs.

Investments:

Investments of Islamic banking industry increased by 1.5 percent to reach Rs 445 billion by end September 2013 (see **Table 3**). It is important to note that this quarterly growth in investments is lower compared to previous quarter (2.0 percent) as well as same quarter last year (8.2 percent). The growth in investments has slowed down since March 2013 mainly due to non issuance of any new GoP Ijara Sukuk that has generally been the key investment option for Islamic banking industry.

Table 3: Investments

Rupees in million

				Growth	
	Sep-12	**Jun-13**	**Sep-13**	**YoY**	**QoQ**
Federal government securities	265,167.9	314,596.0	318,976.6	20.3	1.4
Fully paid up ordinary shares	3,843.1	3,881.8	3,922.8	2.1	1.1
TFCs, Debentures, Bonds, & PTCs	32,698.8	34,237.1	32,813.9	0.4	(4.2)
Other investments	73,481.9	87,487.1	91,205.3	24.1	4.3
Investments by type					
Held for Trading	515.42	210.01	147.96	(71.3)	(29.5)
Available for Sale	351,201.1	420,169.5	428,018.0	21.9	1.9
Held to Maturity	12,769.1	11,260.3	10,983.4	(14.0)	(2.5)
Surplus /(deficit) on revaluation	2,335.2	130.2	246.8	(89.4)	89.5
Net Investments	**373,980.8**	**438,754.3**	**445,478.6**	**19.1**	**1.5**

During the review quarter, all components of investments, except TFCs, Debentures, Bonds, & PTCs, registered growth. In terms of contribution towards investment, Federal government securities remained the highest contributor having more than 71 percent share in overall investments followed by the category of ‘other investments’ with share of more than 21 percent.

[1] Assets of Islamic banking industry grew by 2.5 percent during July-September quarter 2013 compared to negative growth of 3.3 percent in assets of overall banking industry during the same period.

Financing

Financing by Islamic banking industry witnessed growth of 1.8 percent during the quarter under review to reach Rs 266 billion by end September 2013. This quarterly growth of 1.8 percent is however lower compared to growth of 10.4 percent in the quarter ending June 2013. This is in line with the seasonal pattern witnessed during the third quarter of calendar year in which a drop in financing is generally witnessed mainly due to retirement of financing by the client industries due to the nature of their business cycle.

In terms of financing mix, all modes of financing, except Salam, Istisna and ‘others’, registered increase during quarter ending September 2013 (see **Table 4 (a)**). Like previous quarter, Murabaha remained the mode with highest share in overall financing followed by Diminishing Musharaka (see **Table 4 (b)**).

Table 4 : Financing Mix

	Sep-12	Jun-13	Sep-13
(a) Amount in billion Rupees			
Murabaha	81.0	110.0	112.5
Ijarah	22.0	23.4	24.2
Musharaka	2.2	4.0	11.6
Mudaraba	0.3	0.5	0.5
Diminishing Musharaka (DM)	77.8	90.8	92.6
Salam	4.7	13.4	9.5
Istisna	12.8	15.1	13.4
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	8.9	18.5	15.7
Total	**209.8**	**275.8**	**280.1**
(b) Percent Share			
Murabaha	38.6	39.9	40.2
Ijarah	10.5	8.5	8.6
Musharaka	1.0	1.5	4.2
Mudaraba	0.2	0.2	0.2
Diminishing Musharaka (DM)	37.1	32.9	33.0
Salam	2.3	4.9	3.4
Istisna	6.1	5.5	4.8
Qarz/Qarz-e-Hasna	0.0	0.0	0.0
Others	4.3	6.7	5.6
Total	**100.0**	**100.0**	**100.0**

Financing extended by IBIs remained mainly concentrated in the textile sector, though the share of textile financing in overall financing registered decrease during the quarter ending September 2013. This decline in share of textile financing is in line with the usual trend witnessed by the sector during third quarter of calendar year mainly due to nature of industry’s business cycle. Among other sectors, automobile & transportation equipment, production & transmission of energy and individuals witnessed

Table 5: Financing Concentration - percent share

	Sep-12	Jun-13	Sep-13	Industry
Chemical and Pharmaceuticals	7.7%	7.3%	7.1%	3.5%
Agribusiness	5.8%	4.0%	3.8%	8.5%
Textile	15.0%	17.1%	16.2%	15.9%
Cement	1.5%	1.4%	1.1%	1.3%
Sugar	2.7%	4.6%	3.4%	2.6%
Shoes and leather garments	0.9%	0.8%	0.8%	0.6%
Automobile and transportation equipment	1.4%	1.5%	1.9%	1.5%
Financial	1.3%	1.0%	0.8%	2.5%
Insurance	0.0%	0.0%	0.0%	0.0%
Electronics and electrical appliances	1.4%	1.9%	1.8%	1.2%
Production and transmission of energy	11.9%	7.6%	9.2%	10.8%
Individuals	16.2%	14.0%	14.4%	8.4%
Others	34.1%	38.7%	39.4%	43.1%
Total	100.0%	100.0%	100.0%	100.0%

an increase in their shares in overall financing during the quarter under review (see **Table 5**).

Client category wise financing of IBIs remained concentrated in corporate sector, having a share of nearly 70 percent followed by consumer financing (13.2 percent), commodity financing (11.3 percent) and SME (4.1 percent) in overall financing (see **Table 6**). It is important to note that relatively lower level of financing extended by Islamic banking in categories such as SMEs and agriculture is in line with the trend of overall banking industry indicating limited outreach of banking sector in the sectors. However, overall banking industry financing in SMEs and agriculture categories is still higher compared to Islamic banking industry.

Table 6: Client Wise Financing Portfolio (Share Percent)

	Sep-12	Jun-13	Sep-13	Industry
Corporate Sector	70.7%	70.5%	69.4%	65.5%
SMEs	4.8%	3.7%	4.1%	5.8%
Agriculture	0.0%	0.1%	0.1%	5.7%
Consumer Finance	14.9%	12.8%	13.2%	6.6%
Commodity Financing	7.4%	10.9%	11.3%	13.7%
Staff Financing	1.8%	1.6%	1.7%	2.2%
Others	0.4%	0.3%	0.2%	0.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Table 7: Non-Performing Financing & Assets

Rupees in million

				Growth in %	
	Sep-12	**Jun-13**	**Sep-13**	**YoY**	**QoQ**
NPF	18.9	19.4	19.7	4.2	1.6
Substandard	2.7	1.3	1.2	2.7	1.3
Doubtful	2.9	3.0	2.0	2.9	3.0
Loss	13.3	15.1	16.5	13.3	15.1
Provisions	12.0	12.8	13.7	12.0	12.8
Net NPF	6.9	6.6	6.0	6.9	6.6
Recovery (year to date)	0.8	0.7	0.4	0.8	0.7
NPA	22.5	23.1	23.4	22.5	23.1
Net NPAs	8.1	7.8	7.3	8.1	7.8

Asset Quality

After registering a decline in previous quarter, non-performing financing (NPF) of Islamic banking industry again increased during the Jul-Sep 2013 quarter and reached Rs.19.7 billion indicating quarterly (QoQ) growth of 1.6 percent. The rising trend of NPFs was mainly contributed by the category of “Loss” that reached 16.5 billion during the quarter under review; more than 83 percent of overall NPFs (see **Table 7**). The rising trend in NPFs resulted in increased provisions as provisions to NPFs reached 69.4 percent compared to 66.1 percent in the previous quarter (see **Table 8**).

Table 8: Performance Indicators

	Sep-12	Jun-13	Sep-13	Industry
Assets Quality Ratio				
NPFs to Financing	9.0%	7.1%	7.0%	14.3%
Net NPFs to Net Financing	3.5%	2.5%	2.3%	3.8%
Provisions to NPFs	63.7%	66.1%	69.4%	76.5%
Net NPAs to Total Capital	13.2%	12.2%	11.1%	16.5%
Real estate Financing to Total Financing	6.8%	5.6%	5.7%	1.4%
FCY Denominated Financing to Capital	8.6%	11.1%	11.2%	18.2%

However, NPF to financing ratio declined during the quarter under review. Similarly, Net NPAs to Capital and Net NPFs to Net Financing both registered a decline compared to previous quarter. It is important to mention that all above mentioned performance indicators of Islamic banking industry are still lower than overall industry ratios indicating relatively better asset quality of IBIs.

Liabilities

Share of Islamic banking industry deposits in overall banking industry reached double figures for the first time as it increased from 9.9 percent in June 2013 to 10.1 percent by the end of quarter under review. In absolute terms, deposits reached Rs. 775 billion by end September 2013 depicting a quarterly growth of 0.6 percent. This growth was mainly contributed by customers' deposits that grew by 0.8 percent during the review quarter. On the other hand financial institutions deposits declined by 4.0 percent during the same period, however given that financial institutions deposits have a relatively low share (5 percent) the overall deposits still increased during the quarter under review.

Table 9: Break up of Deposits

Rupees in million and growth in percent

				Growth	
	Sep-12	**Jun-13**	**Sep-13**	**YoY**	**QoQ**
Deposits	**627,859.9**	**770,945.2**	**775,413.0**	**23.5**	**0.6**
Customers	**601,448.7**	**729,998.8**	**736,110.2**	**22.4**	**0.8**
Fixed Deposits	231,110.2	239,836.0	244,803.7	5.9	2.1
Saving Deposits	228,676.9	289,360.8	297,566.9	30.1	2.8
Current accounts - Remunerative	1,349.8	2,259.5	1,717.6	27.3	(24.0)
Current accounts - Non-remunerative	137,858.3	194,895.8	188,549.5	36.8	(3.3)
Others	2,453.6	3,646.7	3,472.5	41.5	(4.8)
Financial Institutions	**26,411.2**	**40,946.4**	**39,302.8**	**48.8**	**(4.0)**
Remunerative Deposits	26,087.1	40,616.0	38,496.4	47.6	(5.2)
Non-remunerative Deposits	324.1	330.4	806.4	148.8	144.1
Currency Wise					
Local Currency Deposits	600,989.0	732,226.2	731,333.8	21.7	(0.1)
Foreign Currency Deposits	26,870.9	38,719.0	44,079.2	64.0	13.8

Within customers' deposits, both fixed and saving deposits registered positive growth during the period under review (see **Table 9**). Like previous quarters, saving deposits grew at a faster pace compared to fixed deposits indicated by rising share of saving deposits in customers' deposits. In terms of currency wise deposits, local currency deposits continued to dominate overall deposits with above 94 percent share in overall deposits.

Earning & Profitability

Profitability of the Islamic banking industry increased during the quarter as it reached above Rs 6.8 billion by end September 2013 from Rs. 4.3 billion by end June CY13, though still lower compared to Rs 7.7 billion profit in September 2012. Among other indicators of earnings and profitability, Return on Equity (ROE) and Return on Assets (ROA) both increased during the quarter under review and reached 0.9 percent and 11.6 percent respectively from 0.8 percent and 11.1 percent in the last quarter (see **Table**

10). Non-Markup Income to Total Income of Islamic banking Industry (21.0 percent) also registered increase during the quarter. ROA, ROE and Non-Markup Income to Total Income of Islamic banking industry are however; lower than the overall banking industry. On the other hand Net Mark up Income to Total Income (79.0 percent) declined during the quarter ending September 2013 and continued to stay above overall banking industry average. In line with general trend Operating Expense to Gross Income of Islamic banking industry remained higher than overall banking industry which can be attributed to the expansionary phase of Islamic banking industry.

Table 10: Earning & Profitability	**Sep-12**	**Jun-13**	**Sep-13**	**Industry**
Net Income to Total Assets (ROA)	1.2%	0.8%	0.9%	1.1%
Return on Equity (ROE)	14.3%	11.1%	11.6%	12.3%
Net mark up Income to Gross Income	80.3%	79.1%	79.0%	70.3%
Non-mark up Income to Gross Income	19.7%	20.9%	21.0%	29.7%
Trading & Fx Gains/(Losses) to Gross Income	7.0%	7.3%	6.8%	9.9%
Operating Expense to Gross Income	65.9%	71.7%	70.0%	56.7%
Personnel Expense to Operating Expense	34.6%	37.9%	37.3%	42.3%
Spread Between Financing & Deposit Rate	8.5%	7.3%	7.0%	5.3%

Country Model: Oman

Oman's entry to Islamic Finance is relatively late; the last among six Gulf Co-operation Council (GCC) states to allow offering of Shariah complaint financial services in the Sultanate. Central Bank's detailed regulations for Islamic Banking industry are in place while licences have been granted to two full fledged Islamic banks and two conventional banks for operating Islamic banking windows. Earnest & Young forecasted that Islamic finance would gain up to $6bn assets in Oman in next few years.

Oman did not allow distinction between conventional and Islamic banking till May 2011, when Sultan Qaboos bin Said Al Said permitted Islamic finance in the Sultanate with a royal decree. Consequently, the national law was amended for supervision and regulations of Islamic banking. The central bank issued regulatory framework in December 2012 that covered areas including information on licensing requirements, general obligations , governance, accounting standards, audit reports supervision and control , risk management , administration of Shariah scholar boards, and operations of Islamic windows of conventional banks. However, neither central bank nor any central Shariah board is responsible for ensuring Shariah compliance in Islamic banking industry. For accounting standards banks have been instructed to follow AAOIFI standards while the Taxation Law is under consideration for necessary changes for the Islamic banking industry.

Oman adopted the dual banking model where Islamic banks have been allowed to operate in parallel to conventional banks. By now licences have been granted to two full fledged Islamic banks; Bank Nizwa and Al Izz Islamic bank two conventional banks; National Bank of Oman and Bank Muscat (the biggest bank of Oman) to open Islamic banking windows; National Bank being the first conventional bank of Oman opened Islamic banking window on January 16, 2013. Conventional banks Bank Sohar, Bank Dhofar, Ahli Bank and Oman Arab Bank are also expected to join the league of conventional banks Islamic banking windows in near future.

There seems greater realisation in the Sultanate that capital market including sukuk and Takaful industry development is complementary for growth and smooth functioning of Islamic banking. In this regard legislation covering Takaful and Sukuk has been drafted. The Capital Markets Authority (CMA) has also given approval to three companies to float their Sukuk and three companies have been granted licences for starting Islamic insurance, Takaful. It is worth mentioning that in contrast to Islamic banking regulations, conventional insurance companies have not been allowed to offer takaful through their Islamic windows.

The growth potential appears huge in the sultanate not only because of high demand due to the state being Muslim dominated but also due to the special focus of government on this industry to achieve its Vision of 2020 of doubling its per capita income. However, a general perception prevails among Islamic finance experts that the Sultanate's strict supervision may hinder the growth.

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Adoption of AAOIFI Shariah Standards: Case of Pakistan
Sharika (Musharaka) and Modern Corporation

Modern Corporations[2]

The second part of the Standard 12 on Modern Corporation have been explained through five clauses; the first clause deals with stock company, second with joint liability company , third is about partnership in commendum, fourth with company limited by shares and fifth deals with Allotment/particular (Muhassa) partnership. Every clause is sub divided into two main categories; the first category defines the partnership/arrangement while second category deals with related Shariah rulings.

(i) Stock Company

According to the standard "A stock company is a company of which the capital is partitioned into equal units of tradable shares and each shareholder's(co-owner's) liability is limited to his share in the capital." The clause explains that stock company is a form of financing partnership and therefore rules of "Sharikat-al-Inan" apply to this structure except (i) the issue of the limited liability of the shareholders (ii) no possibility of unilateral termination either by one party or by minority of its shareholders.

This clause mentions the stock company as a juristic personality and is completely titled to initiate legal claims through its representative, however, is subject to the jurisdiction of the place of its incorporation. Further it has been clearly mentioned that liability of the company are separate from liability of its share holders.

Shariah Rulings:

This partnership is binding for the duration as specified by the articles of association for the duration of the company on the basis of the undertaking of the parties not to dissolve the company unless the majority of partners have consented to do so. No one is therefore entitled to terminate or dissolve the company in respect to his shares. However, there is flexibility for a shareholder to sell his shares or relinquish title in favour of other persons.

With reference to issuance of shares it is permissible to issue shares to raise capital; issuer of shares is also entitled to add a certain percentage to the actual value of the shares on the subscription date to recover issuing expenses. It is allowed for shareholders to ask for consideration for services provided other than the underwriting. It is also permissible to issue "bearer shares" and to issue shares "to the order of", however, issuance of preference shares and "tamatu (enjoyment) shares" is not allowed. Shareholders are allowed to underwrite an issue of shares without any consideration, however, in such case; shareholder who is issuing shares will provide undertaking to subscribe all the remaining shares that are not subscribed at its nominal value.

[2] The first part of Standard on Sharika has been discussed in the last issue of IBB; April-June 2013

With respect to payment for subscription of shares, it is permissible to pay in installments and installment can be deferred as well. However, it is not allowed to buy shares using interest based loans and selling of shares without owning shares; the promise of broker to lend shares to one at the date of delivery does not constitute ownership or possession of the shares. It is permitted to sell shares in the company subject to rules and regulations of the company that do not conflict with Islamic Shariah. To pledge the company's shares is also allowed subject to rules and regulations of the company that do not conflict with Islamic Shariah vis a vis the right of the shareholders to pledge their ownership rights to undivided shares in the company. The standard also allows public authorities to specify certain exchanges where trading of these shares will take place.

(ii) *Joint Liability Company*

Joint Liability Company is a form of personal partnership and the necessary requirement with this structure is its declaration publicly as a registered company under a unique title. Though a joint liability company has juristic personality and is independent of financial liability of its partners however, if existing assets can't meet the liabilities of company all partners are personally responsible for obligations and liabilities of company. Moreover, partners are obligated to maintain commercial documents relating to external trade activities.

Shariah Rulings: According to the Shariah rulings applicable to this setting;

i. There is no obligation on creditor to claim part or all of his right from the company first; he/she can claim from any of partners according to his/her own suitability.
ii. The contract of joint liability is not binding and a partner can withdraw from the partnership on following conditions;
    - No duration has been set among partners for the company
    - The partner should notify the intention to withdraw to other partner
    - If unilateral withdraw from the partnership wouldn't cause damage to other partners
iii. It is not permissible for one partner to bring in a substitute for himself without consent of other partner

(iii) *Partnership in Commendum*

Partnership in Commendum is a form of financing partnership whereby the ownership is calculated on the basis of disproportionate lots and not on the basis of proportionate shares that are equal in number. Under this partnership the personality of operating partner is important for sleeping partner.

This kind of arrangement consists of managing partners and sleeping partners where managing partners on the basis of joint liability are liable for the obligations of the company from their personal wealth, however, the liability of each sleeping partner does not exceed to his personal assets and is only limited to numbers of lots he owns in the company. Consequently sleeping partners are not permitted to interfere in operations of company; the management of the company may either be delegated to one of the joint liability partners or to a third party.

Shariah Rulings

Under this arrangement, profit is distributed according to the ratio of lots or agreement , however, it is not allowed to stipulate a certain percentage or lump sum amount of capital that sleeping partner can claim. In case of losses, these will be borne by managing partners irrespective of their share in capital while sleeping partners can't be liable for more than their lots in capital.

(iv) Company Limited by shares

This is a kind of personal partnership having managing and sleeping partners. Under this arrangement subscription in the company is in accordance with equal numbers of shares.

Shariah Rulings

The managing partners, who are in mudarib position, are liable for the obligations of the company from their personal assets while sleeping partners' liability is limited to their relevant shares in the capital. It is also permissible to limit the liability of some investors without any consideration for limiting their liability; this would lead to the case where company would consist of joint liability partners and partners with limited liability. Just like partnership in commendum this arrangement does not allow sleeping partners to interfere in the operations of company and management of the company is either delegated to managing partners or any third party.

The profit distribution under this arrangement will be in accordance to ratio of participation; however, managing partners are entitled to additional common shares in the profit as consideration for their work. In similar manner losses are born by managing partners without any limitation while sleeping partners are not liable for more than their share in the capital. However, it is not permissible to stipulate that a sleeping partner has a right to any amount or specific percentage of profit according to particular share in the capital.

(v) Allotment/particular (Muhassa) partnership

This is a personal form of company and Sharikat al inan is applicable to this partnership. Sharikat al Muhassa, however, does not have any juristic personality implying that it does not have any separate financial liability as entity.

Shariah Rulings

Partners under this arrangement are liable for the liabilities of the company from their personal assets. This partnership is not binding, however, with agreement among partners the contract can be made binding for a particular period of time.

A partner can terminate this partnership under conditions; (i) a notification to other partner about intention to withdraw (ii) unilateral withdraw from partnership would not cause damage to other partner or clients of company. The liquidation of partnership is possible by way of actual or constructive liquidation of assets.

This section of Standard no. 12 on Modern corporation is followed by a major clause sub divided into nine clauses on Diminishing Musharaka. In Pakistan self-contained Shariah Standard on Diminishing Musharaka has been issued which will be discussed in next issue of Islamic banking bulletin along with the description of this clause under AAOIFI Shariah standard No. 12

Adoption of Shariah Standard No. 12

AAOIFI Shariah Standard No. 12 related to 'Sharika (Musharaka) and Modern Corporations' has been adopted w.e.f July 01, 2013 in Pakistan and following clarifications/amendments have been made in the 2nd part of the standard;

Clause No	Original Clause	Amendment	Clarification
4/1/1/1	A stock company is a company of which the capital is partitioned into equal units of tradable shares and each shareholder's (co-owner's) liability is limited to his share in the capital…………………..	The word 'partitioned' used in the clause is changed to 'divided'.	
4/1/2/3	It is permissible to issue new shares in order to increase the capital provided the new shares are issued at the fair value of the old shares. This should be done in accordance with the opinion of experts in valuation of the company's assets. In other words, the new issues can be issued at a premium or at a discount to their normal value, or issued at a market value.	"The right shares can also be issued at lower than the market value as per the market norms and practices and the legal framework".	The amendment will be added as footnote to the clause.
4/2	Joint Liability Company	Not adopted	This clause is not applicable in Pakistan, hence not adopted
4/3	Partnership in Commendum	Not adopted	This clause is not applicable in Pakistan, hence not adopted
4/4	Company Limited by Shares	Not adopted	This clause is not applicable in Pakistan, hence not adopted
4/5	Allotment /particular (Muhassa) partnership	Not adopted	This clause is not applicable in Pakistan, hence not adopted

Sources:

- Shariah Standards for Islamic Financial Institutions, AAOIFI (2010)
- Website of State Bank of Pakistan (www.sbp.org.pk)
- Website of AAOIFI (www.aaoifi.com)
- Usmani, T.M. (2000); An Introduction to Islamic Finance; Idaratul Ma'arif, Karachi

Events and Developments at IBD

Awareness session at Bahawalpur
Held on September 20, 2013 at Bahawalpur Chamber of Commerce and Industry

An awareness session on Islamic banking was held at Bahawalpur Chamber of Commerce and Industry on 20th September 2013. Mr. Ghulam Shabbir, Joint Director – IBD attended the session and shared his thoughts with the members of the chamber. The session was arranged as a supplementary programme of Islamic Banking Focus Group meeting at SBP-BSC, Bahawalpur office and is in line with IBD's objective of improving awareness of Islamic banking among different segments of society.

Adoption of AAOIFI Shariah Standard No. 17

In continuation of State Bank's efforts to strengthen Shariah compliance framework and harmonize the Shariah practices in Islamic banking industry, the AAOIFI Shariah Standard No. 17 on 'Investment Sukuk' was adopted and notified via IBD Circular No. 03 of 2013 dated July 15, 2013.

Islamic Banking News and Views

Act to Amalgamate Separate Laws to Govern Financial Sector Comes Into Force
The Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA) amalgamating several separate laws to govern the financial sector under a single legislative framework for conventional and Islamic financial sectors respectively comes into force.
http://finance.bernama.com/news.php?id=960161

Japan Offers Cooperation in Islamic Finance
Islamic finance is one key area in which Japan and Malaysia can cooperate in order to enhance relations between the two countries, deputy DG of the International Bureau, Ministry of Finance of Japan, Hiroshi Naka said in Kuala Lumpur. The combination of Japan and Islamic finance seems very strange to some people, but for the Japanese nation, it is quite natural to engage in Islamic finance because it is a new frontier, he said.
http://themalaysianreserve.com/main/news/corporate-malaysia/4167-japan-offers-cooperation-in-islamic-finance

Malaysia Exposes Shariah Scholars to Jail for Breaches
The Malaysian law that exposes Shariah scholars to jail terms for rule breaches will ensure tighter compliance, in a market where the regulator has already made progress in unifying standards. Under the Islamic Financial Services Act 2013, which took effect June 30, scholars may be jailed for up to eight years or fined as much as 25mn ringgit ($7.6mn) if they fail to comply with central bank rules. It is the first time Shariah advisers have been expressly made accountable.
http://www.gulf-times.com/business/191/details/363694/malaysia-exposes-shariah-scholars-to-jail-for-breaches

Dubai Focuses on Islamic Finance as Part of Its Economic Diversification Strategy

Plans to establish Dubai‘s credentials as a centre for Islamic finance took a step forward in July with the opening of a new academic institution to train professionals for employment in the sector. A joint initiative backed by the government and the Hamdan Bin Mohammed e-University, the Dubai Centre for Islamic Banking and Finance is expected to support the emirate‘s push to become a leader in Islamic finance. Included in its curriculum will be master‘s degrees, foundation certificates and short-term training programmes in Islamic banking and finance.
http://www.oxfordbusinessgroup.com/economic_updates/dubai-focuses-islamic-finance-part-its-economic-diversification-strategy

Islamic Banking Nears Big Breakthrough in Africa

After years of slow development, there was a palpable sense among the delegates that Islamic banking is heading for its breakthrough in sub-Saharan Africa. While Islamic banking assets have grown rapidly around the world to stand at more than USD1.3 trillion at the end of 2012, the industry has remained in its infancy in Africa. By the end of this decade it‘s quite possible that banking complying with Shariah law could grow to account for up to 10 per cent of banking assets in five or six sub-Saharan African countries, including Kenya and Nigeria.
http://www.ghanabusinessnews.com/2013/09/03/islamic-banking-nears-big-breakthrough-in-africa-stanchart/

IILM Moves to Build Sales Network after Sukuk Debut -Dealers

Primary dealers of the International Islamic Liquidity Management Corp (IILM) said after enjoying healthy demand for its debut Islamic bond last week, efforts were shifting to expand the distribution network of buyers. The $490 million, three-month sukuk was auctioned to seven primary dealer banks, as the IILM aims to address a shortage of financial instruments for Islamic banks to manage their short-term funding needs. With the structure and approvals now in place, Malaysia-based IILM can shift its focus to establishing regular issuance, decide on future tenors and possibly expand its network.
http://in.reuters.com/article/2013/09/06/islamic-finance-iilm-idINL6N0H205220130906

Finance: Istanbul to Launch Center for Islamic Studies

The World Bank plans to open the first Center for Islamic Financial Studies outside US territory, the president of the Istanbul Stock Exchange, Ibragim Turhan, told the fourth Istanbul Financial Summit attended by heads of central banks and financial institutions of Europe, the Gulf, South-Eastern Asia, the US and Canada. The center will open in Istanbul.
http://www.ansamed.info/ansamed/en/news/sections/economics/2013/09/20/Finance-Istanbul-launch-Center-Islamic-Studies_9330715.html

London steps up Islamic finance ambitions

Britain is encouraging banks through a task force to establish sharia-compliant products, aiming to position London as a Western hub for a fast-growing Islamic finance sector that is expected to reach $2.6 trillion by 2017. Aiming to build on London‘s status as a lead-ing exporter of financial services, Britain hopes to step up the challenge to Islamic finance centres such as Dubai and Kuala Lumpur.
http://www.euronews.com/business-newswires/2123146-london-steps-up-islamic-finance-ambitions/

750m Euros Trade Facility to Help Forex Reserves

Islamic Development Bank (IDB) has decided to provide Pakistan $850 million loan and trade finance facility to Pakistan to ease out pressure on its dwindling foreign exchange reserves. IDB has agreed to extend a loan facility of 750 million euros to Pakistan. IDB will also extend a trade facility of $150 million for import of fertilizer and petroleum products. http://www.dailytimes.com.pk/default.asp?page=2013%5C08%5C04%5Cstory_4-8-2013_pg5_2

Articles/Views:

Risks in Islamic Banking and How to Manage Them

All bankers know too well that "Risk has no religion!" Almost all risks common to conventional banks are also faced by Islamic banks...plus more. This article analyses the additional risks Islamic banks are exposed to, by virtue of dealing with Sharia-compliant modes of financing. http://www.timesofoman.com/News/Article-19910.aspx

Islamic Capital Markets: A Selective Introduction

In the third quarter of 2012, for the first time, sukuk issuances (US-dollar volume) exceeded bond issuances in the countries of the Gulf Cooperation Council (GCC). In 2012, total issuances globally were $143.4 billion, up 54 per cent from 2011; miniscule in comparison to total global bond issuances ($6 trillion to $8 trillion of issuances, plus massive rollovers and refinancing).
http://whoswholegal.com/news/features/article/30640/islamic-capital-markets-selective-introduction/

A Question Mark on Islamic Finance Industry

Apparently, it is a matter of pleasure that global volume of Islamic Finance Industry has crossed $1.3 trillion approximately, which is, definitely, providing the best and compatible sources of finance with interest free modes. According to a careful estimate, there are more than 2000 Islamic Financial Institutions are offering Islamic Banking, Islamic Insurance (Takaful), Islamic Funds, Muda-raba, Islamic Bonds (Sukuk), Islamic Microfinance and some other institutions actively providing Islamic financial services on different modes in adherence of Shari'ah principles of Islamic Finance.
http://www.thefrontierpost.com/article/36119/

'I-5 Group'

Pakistan possesses all the basic ingredients essential for becoming a global hub for Islamic banking and finance. The biggest advantage that Pakistan has over its competitors in Islamic banking and finance is in terms of the size of Muslim population and hence a potential domestic market. While Malaysia has emerged as a global leader in Islamic banking and finance, its growth potential is limited by its relatively small domestic market. Out of about 28 million people in Malaysia, only around 60 percent are Muslim.
http://www.brecorder.com/articles-a-letters/187/1224619/

Sustainable Investing: Opportunity Awaits Islamic Finance Industry

Islamic finance and the forms of finance generally referred to as sustainable and responsible investing (SRI) are yet to actively collaborate with each other. One would think that to strengthen their position in a market dominated by conventional finance, Islamic finance and SRI would be sharing their successes and

failures, coming together for joint ventures, and supporting each other on issues where they have similar views..
http://gulfnews.com/business/banking/sustainable-investing-opportunity-awaits-islamic-finance-industry-1.1228584

Global Islamic Banking Grows at Fast Speed

The global Islamic banking industry grows at a fast speed, with its assets expected to cross the 2 trillion US dollars threshold by the end of 2014, the Islamic Development Bank Group (IDB) chief said in Istanbul . Speaking at International Forum for Financial Systems, IDB President Ahmad Mohamed Ali said that the global Islamic banking industry assets amounted to 1.3 trillion dollars in 2011, growing at a rate of approximately 20 percent.
http://www.globaltimes.cn/content/810670.shtml

Annexure: I

Islamic Banking Branch Network

(As of September 30, 2013)

Type	Name of Bank	No of Branches*
Islamic Banks	AlBaraka Bank (Pakistan) Limited	92
	BankIslami Pakistan Limited	89
	Burj Bank Limited	75
	Dubai Islamic Bank Pakistan Limited	108
	Meezan Bank Limited	332
		696
Islamic Branches of Conventional Banks	Askari Bank Limited	33
	Bank AL Habib Limited	16
	Bank Alfalah Limited	118
	Faysal Bank Limited	52
	Habib Bank Limited	38
	Habib Metropolitan Bank Limited	5
	MCB Bank Limited	27
	National Bank of Pakistan	13
	Silkbank Limited	10
	Soneri Bank Limited	8
	Standard Chartered Bank (Pakistan) Limited	10
	The Bank of Khyber	40
	The Bank of Punjab	5
	United Bank Limited	22
		397
Sub Branches	AlBaraka Bank (Pakistan) Limited	2
	Askari Bank Limited	2
	BankIslami Pakistan Limited	53
	Burj Bank Limited	8
	Habib Bank Limited	2
	United Bank Limited	1
		68
		1161

* *Source: Banking Policy & Regulations Department, State Bank of Pakistan.*

Annexure: II

Province wise Break-up of Islamic Banking Branch Network

(As of September 30, 2013)

Type	Bank Name	Azad Kashmir	Balochistan	FATA	Federal Capital	Gilgit-Baltistan	Khyber Pakhtun khwa	Punjab	Sindh	Grand Total
Islamic Banks.	AlBaraka Bank (Pakistan) Limited	1	3		4		9	46	29	92
	BankIslami Pakistan Limited	1	9	1	4	2	11	33	28	89
	Burj Bank Limited	1	2		4		3	32	33	75
	Dubai Islamic Bank Pakistan Limited	1	5		5		5	50	42	108
	Meezan Bank Limited	5	9		16		30	156	116	332
	IB. Total	**9**	**28**	**1**	**33**	**2**	**58**	**317**	**248**	**696**
Islamic Branches of Conventional Banks	Askari Bank Limited		2		2	1	6	15	7	33
	Bank AL Habib Limited		1				1	3	11	16
	Bank Alfalah Limited		4		7		7	70	30	118
	Faysal Bank Limited		2		3		13	22	12	52
	Habib Bank Limited	2	1	1	3		4	16	11	38
	Habib Metropolitan Bank Limited							1	4	5
	MCB Bank Limited		1		2		2	13	9	27
	National Bank of Pakistan	1			1		1	7	3	13
	Silkbank Limited		1		1		2	4	2	10
	Soneri Bank Limited		1		2	1	1	1	2	8
	Standard Chartered Bank (Pakistan) Limited				1		1	2	6	10
	The Bank of Khyber		2	2	1		26	6	3	40
	The Bank of Punjab						2	3		5
	United Bank Limited	1	2		1		4	8	6	22
	SAIBBs Total	**4**	**17**	**3**	**24**	**2**	**70**	**171**	**106**	**397**
Sub Branches	AlBaraka Bank (Pakistan) Limited				1				1	2
	Askari Bank Limited				1				1	2
	BankIslami Pakistan Limited	1	6		2		3	14	27	53
	Burj Bank Limited							3	5	8
	Habib Bank Limited								2	2
	United Bank Limited						1			1
Sub Branches Total		**1**	**6**	**-**	**4**	**-**	**4**	**17**	**36**	**68**
Grand Total		**14**	**51**	**4**	**61**	**4**	**132**	**505**	**390**	**1,161**

Annexure: III

District wise Break-up of Islamic Banking Branch Network

(As of September 30, 2013)

S. No	Province	District	No of Branches		S. No	Province	District	No of Branches
1	Sindh	Badin	3		45	Khyber Pakhtunkhwa	Abottabad	12
2		Dadu	3		46		Banu	4
3		Ghotki	1		47		Batagram	2
4		Hyderabad	24		48		Charsadda	4
5		Jacobabad	1		49		Chitral	3
6		Karachi City	321		50		Dera Ismail Khan	5
7		Larkana	3		51		Hangu	2
8		Matiari	1		52		Haripur	4
9		Mirpurkhas	5		53		Kohat	4
10		Naushero Feroze	1		54		Lower Dir	1
11		Nawabshah	6		55		Malakand	1
12		Sanghar	6		56		Mansehra	12
13		Sukkur	10		57		Mardan	9
14		Tando Allahyar	4		58		Nowshera	4
15		Tando Mohammad Khan	1				Peshawar	49
Sindh Total			**390**		59		Shangla	1
16	Punjab	Attock	9		60		Swabi	5
17		Bahawalnagar	6		61		Swat	6
18		Bahawalpur	4		62		Tank	1
19		Chakwal	6		63		Upper Dir	3
20		Dera Ghazi Khan	4		**KP Total**			**132**
21		Faisalabad	50		64	Gilgit-Baltistan	Diamir	3
22		Gujranwala	20		65		Gilgit	1
23		Gujrat	18			**GB Total**		**4**
24		Hafizabad	2		66	**FATA**	Khyber Agency	1
25		Jhang	3		67		Orakzai Agency	3
26		Jhelum	7		**FATA Total**			**4**
27		Kasur	3		68	**Federal Capital**	Islamabad	61
28		Khanewal	9			**Federal Capital Total**		**61**
29		Khushab	6		69	Balochistan	Chagi	1
30		Lahore City	184		70		Gawadar	1
31		Layyah	1		71		Kila Abdullah	3
32		Lodhran	1		72		Killa Saifullah	3
33		Mandi Bahauddin	1		73		Lasbela	2
34		Mianwali	2		74		Loralai	3
35		Multan	34		75		Pishin	1
36		Muzaffargarh	5		76		Quetta	36
37		Okara	7		77		Zhob	1
38		Pakpattan	2		**Balochistan Total**			**51**
39		Rahim Yar Khan	12		78	**Azad Kashmir**	Mirpur	10
40		Rawalpindi	59		79		Muzaffarabad	3
41		Sahiwal	5		80		Poonch	1
42		Sargodha	12		**AJK Total**			**14**
43		Sheikhupura	7		**Grand Total**			**1161**
44		Sialkot	17					
45		Toba Tek Singh	3					
46		Vehari	6					
Punjab Total			**505**					