

**Comments received from
Members of Peer Review Committee**

Peer Review of the Book
Islamic Banking and Finance: Theory and Practice

In my view, this book is an excellent introduction to the subject, particularly for all those who are genuinely interested in giving Islamic orientation to savings, investment and other financial transactions. I believe that in order to mobilize public support for the Shariah compliant financial system, all the players in the financial markets, namely traders, investors, students and the general public need to get fully familiar with various concepts and scope of Islamic banking. Therefore, training and educational institutions should include the courses on Islamic banking and finance in their relevant academic programs to expedite the implementation of Islamic banking. In this context, this book is a great contribution; it explains the relevant concepts in a simple language and in a comprehensive manner.

Mr. Muhammad Ayub has been in the field of Islamic economics for over two decades. Over the years, he has gained an insight into Islamic banking and finance that helped him produce this book which will be useful to a large number of people. The work produced by Mr. Ayub has all the features of a compendium, as it nearly covers all areas of the discipline. This is particularly true of the identification of problems and the difficulties faced by the equity based Islamic banking and an exposition of alternatives to interest and their application by contemporary banking institutions. All these provide a clearer insight into the practical aspects of Islamic banking and finance. He has also discussed some of the issues that did not receive sufficient treatment by earlier authors. Included in these are Islamic capital market and its instruments, conduct of monetary policy, status and growth of paper money, settlement of debt, impact of fluctuation in currency rates, exchange of currencies, assets and risk management by banks and the regulatory issues involved in Islamic banking and finance.

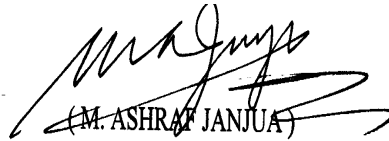
A cursory look at the contents would bear me that at least one of the challenges that of non-availability of focused training material has been met to a large extent by the present work.

Mr. Ayub's book is the result of hard work and intensive study of relevant literature on Islamic finance. The author has remained involved in the nitty-gritty of Islamic banking and finance since the late 1970s. As a result, he is genuinely qualified to analyze the pace of progress of Islamic banking in Pakistan. His writings show his keen interest to enquire into factors leading to less than satisfactorily progress of Islamization of banking in Pakistan: Whether it pertained to the will and commitment of politicians or with the lack of understanding of Shariah compliance by the bankers and lack of appreciation of banking intricacies by the Shariah scholars.

I have read with special interest Chapter 7 dealing with analytical framework and unresolved issues included in the book on the advice of the

Governor, State Bank of Pakistan. The areas covered are survey of the analytical framework by various eminent Islamic scholars, the need to eliminate Riba, the structure of Islamic banking and finance, some strategic issues to be settled, misgivings about Islamic finance, etc.

I wished that as an Addendum to 'Riba Put on Trial and Retrial' (Chapter 3 of the book) Mr. Ayub could have critically examined the recent decision by the Supreme Court on the verdict of the Shariat Appellate Bench of December, 1999. However, the matter being sub judice, critical examination was not advisable. The arguments given by the Counsels during the recent hearing compared with earlier position taken by the FSC and SAB, however, have been summarized as Excursus to the book for the benefit of the reader. I wish a very successful launch of the book.



(M. ASHRAF JANJUA)

Chief Economic Adviser

State Bank of Pakistan

6-09-2002

S.M. HASANUZZAMAN

My dear Janjua Sahib,

Assalam-o-alaikum wa rahmatullah

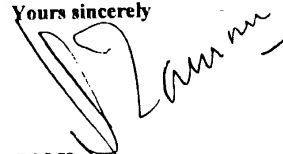
***“Islamic Banking and Finance:
Theory and Practice”***

Thank you very much for referring to me the manuscript of the book prepared by Senior Research Economist Mr. Muhammad Ayub. As you know Mr. M. Ayub and I have been working together in the same Division for about fifteen years and still have frequent discussions on different issues that strike our minds. During these interactions we also had the opportunity to discuss many points contained in the manuscript. On a number of points he either satisfied me on his approach or agreed with me to make alterations in the manuscript accordingly. The version of the book that you have now sent to me contains all the changes in the format and contents of the book that were agreed upon. This version has now become a good compendium of the important literature on the subject so far appeared in English. A reader will now be in a position to grasp the theory and the practice of Islamic banking without referring to the heterogeneous sources.

I feel that the latest judgment of the Supreme Court in response to the UBL’s review petition needs to be accommodated and reviewed in the book even though as excursus.

With best regards

Yours sincerely



S.M. Hasanuzzaman

Number 91-809
Attached
Date (H)
Date (G) 6-8-2002

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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Mr. M. Ashraf Janjua
Chief Economic Adviser
State Bank of Pakistan
Central Directorate
Karachi - Pakistan

My Dear Janjua Sahib,

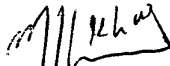
**REVIEW OF THE BOOK ON ISLAMIC BANKING AND FINANCE:
THEORY AND PRACTICE BY MUHAMMAD AYUB**

I must apologize that I took a long time in responding to your letter asking me to review the book mentioned above. I have gone through the revised version of the book in detail and I also had the chance to see the revisions that he incorporated later on. I must say that he has done a very professional job in producing a book that is of great significance in the context of Pakistan where the efforts are being made to introduce Islamic banking. One of the greatest hurdles in the introduction of Islamic banking in Pakistan is the lack of manpower adequately trained in the business of Islamic banking. This in turn is a result of the lack of training material in this area. I believe this book fills this gap and I suggest that this book should be recommended for the training programs of State Bank as well as other commercial banks in the country to train their staff in the area of Islamic banking.

As you know Mr. Muhammad Ayub worked with me during my association with the Commission on Transformation of Financial System in Pakistan which was established by the State Bank of Pakistan in pursuance of Supreme Court judgment on Riba in December 1999, I was quite impressed by the insight of Muhammad Ayub in Sharia as well as in the operation of conventional banking, a rare combination of two expertise. I am glad to see a book written by Mr. Ayub on the subject for which he is definitely a qualified person.

Best regards

Yours sincerely,



Dr. M. Fahim Khan
Chief
Islamic Economics, Cooperation &
Development Division



SIDAT HYDER QAMAR & Co
Chartered Accountants

Progressive Plaza, Beaumont Road
Karachi- 75530 Pakistan
(92-21) 5650007-11 Tel 5681965 Fax

G/1639/2002
07 August 2002

Mr. M. Ashraf Janjua
Chief Economic Adviser
State Bank of Pakistan
I. I. Chundrigar Road
Karachi

Dear *Tanjum Sobel*
Mr. P. U. I.

**PEER COMMITTEE ON THE BOOK, "ISLAMIC
BANKING & FINANCE : THEORY AND FINANCE"**

This has reference to your letter No. TC/SBP/19/2002 dated 23 January 2002 inviting me to review the aforesaid book authored by Mr. Muhammed Ayub, Senior Research Economist, Research Department, State Bank of Pakistan. At the outset, I must apologize for the considerable time that I have taken to respond on the subject, caused as it was due to my professional preoccupations.

2. I must also admit that the constraint of time did not permit me to go through the manuscript of the book cover by cover. I would, however, hasten to add that having had a reasonable insight in the comprehensive work which Mr. Ayub has ably produced, I have no hesitation to say that it has all the significant attributes to serve as a handbook on the all important subject of Islamic Banking and Finance generally and with specific reference to the progress made, obstacles faced and unresolved issues obtaining in Pakistan.

3. Starting from a macro view of Islamic Economic System in Chapter 2, the learned author takes the reader in a structured manner to the various phases of implementation, howsoever deficient it may have been, of the interest-free modes of financing as introduced in Pakistan from time to time.

4. I have particularly noted with interest the title of Chapter 3 "Riba Put on Trial & Retrial". This is very apt in the circumstances. The recent judgment of the Honourable Supreme Court Appellate Bench tends to reaffirm this caption. It appears that the subject will remain on trial for the foreseeable future. I would, however, like to add here that the learned author may be requested to consider adding a Chapter, perhaps an Epilogue, to deal with the aforesaid judgment. This will add further value of immense academic and practical significance.

5. Chapter 4 dealing with alternatives to interest would provide anyone interested in the subject, a fairly good conceptual clarity on the various

modes of Riba Free financing, particularly the manner in which the learned author has contrasted the same with the conventional modes of financing. This to my mind, would enable the reader to understand that Islamic Financial System is not all that deprived of reasonably practical and conceptually sound modes of *riba* free financing to meet the challenges of our time.

6. I was glad to note that contrary to a common approach in certain quarters, the learned author has been realistic enough to appreciate and admit that government financing through public debt, in particular, the National Saving Schemes being substantial, is one of the major challenges and by the same token, one of the most significant risks confronting the process of transformation of the system to one which could be deemed Shariah compliant. The comparative scenarios obtaining in Iran, Sudan and Malaysia dealt with by the learned author provide useful insight. I am not too sure whether the extent to which these systems obtaining in certain foreign jurisdictions have been dealt with are to the desired level of depth or not. Probably, the learned author may be well advised to reconsider this aspect. I have found Chapter 7 dealing with certain unresolved issues presenting a fairly detailed analysis which would assist and provide students, practitioners of Islamic Finance and others a good food for thought while going forward to achieve the objectives of transformation.

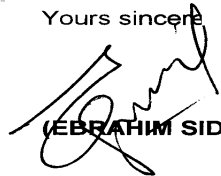
7. The learned author has, in the final Chapter, given a practical perspective of bridging the gap between Islamic banks and the ones operating on the conventional system. This again could be quite stimulating for the thought process for further advancement and refinement as the struggle for transformation, Inshallah, goes forward.

8. To sum it up, I would venture to say that once the book emerges in print, it will be an impressive and rich addition, both in its intellectual context as also from a practical standpoint, to a wide and useful number of works already done and available on the subject, both by international and local scholars.

9. In the end, I would like to thank the Governor, State Bank of Pakistan for having given me the privilege of being included in the panel of peer reviewers of the book. I am, however, not sure whether I have done justice to the task assigned to me.

With kind personal regards

Yours sincerely



(IBRAHIM SIDAT)

Peer Review of the Book
“Islamic Banking And Finance: Theory And Practice”

I must confess at the very outset that Islamic banking and finance has never been an area of academic interest for me. I must, however, admit that the book in hand provided me an opportunity to study in detail the subject of Islamic banking from theoretical as well as practical angles. Although I could not go through manuscript of the book page by page due to time constraint, I happened to see minutely, in particular, the part dealing with practical aspects of the subject. I have also discussed with the author some issues for mutual clarity, which Mr. Ayub may like to emphasize while revising the book for the next edition.

Without going into juristic details, Mr. Ayub has described the consensus view points on features of Islamic financial system and the products/services that Islamic banks could offer. For this purpose, he has extensively quoted from resolutions of the Islamic Fiqh Academy of OIC, Pakistan’s Shariat Courts and the Council of Islamic Ideology. Besides reference to available literature on the subject, he has also cited decisions of the Shariah Boards of some Islamic banks operating in various parts of the world and viewpoint of scholars in general. Thus, he has tried to provide possible solutions to problems faced by Islamic finance movement passing through evolutionary stage.

Giving overview of judgments of the Shariat Court and the Shariat Appellate Bench (Chapter 3), he provides detailed information on Riba and Shariah principles in respect of time value of money, rules of credit sale and trading of instruments evidencing price of goods and rentals and the situation arising from default by the clients. Chapter on alternatives to interest reveals that all financing by Islamic banks and financial institutions would need to be asset-based in physical sense involving commercial risks of varying degrees that can be mitigated through prudential risk management techniques but not totally eliminated.

In chapters five and six, the writer has suggested some instruments flagging problems/difficulties in transforming the sub-sector of government financing to make it Shariah compliant. Although the instruments suggested by him are less likely to be feasible in Pakistan’s perspective, the information contained therein could become a basis for further Research & Development in the area.

As described in the book, individual Islamic financial institutions are operating successfully in various parts of the world. However, transformation of the entire financial system to conform to Shariah tenets and to provide tools for liquidity and monetary

management in the framework of Islamic principles is a challenging task. As the book reveals, a beginning has already been made towards development of Shariah compliant instruments in some countries, yet a massive work lies ahead for the industry to adapt the conventional banking practices in line with the Shariah principles.

I hope the book will play an important role not only in creating awareness about Islamic finance among the stakeholders but also in acquainting them of the modalities of the requisite framework.

A-Naseer

**DR. ABDUL NASEER
ECONOMIC ADVISER
STATE BANK OF PAKISTAN**