

FOREWORD

On the historic occasion of the opening of State Bank of Pakistan in 1948, the Father of the Nation chose to specially mention the need for evolving banking practices compatible with Islamic ideals of social and economic life. He said, "The adoption of Western economic theory and practice will not help us in achieving our goal of creating a happy and contented people. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it and secure the welfare, happiness and prosperity of mankind."

The task of developing a viable and complete model of Islamic finance and putting it into practice is highly complex and difficult. Underestimating the difficulties and risks would neither be wise nor help the cause of Islamization. Gradual and practical approach would better secure the future. At the same time, it should be recognized that there is a tendency to overstate the risks to which the financial institutions would be exposed. Even the conventional system remains exposed to the risk of failure of business or projects and there is only marginal difference in risks between the two systems. If it were not so, the magnitude of non-performing loans in interest-based financial system would not happen to be this large.

Concerted and sustained efforts are needed to discuss and formulate practical Shariah compatible products for application, to begin with, to some designated types or classes of financial transactions. Over time based on experience, the application of such products could be extended to other types of transactions.

Also important is the fact that elimination of Riba is only a part of the Islamic economic system. Serious efforts are overdue to bring about changes in the socio-economic environment to make it conducive for adoption of the Islamic economic system including elimination of Riba. Riba alone should not receive exclusive attention to the neglect of other elements in the social and economic setting.

The need to educate all stakeholders in understanding economic and financial matters cannot, therefore, be overemphasized. Mr. Ayub has made a commendable effort by producing a comprehensive set of material covering theoretical and practical aspects of Islamic banking and finance. A review by the Peer Review Committee constituted by the State Bank has enhanced the value of this work. The book can serve not only as training material for bankers but also as a reference book for all those who are interested in knowing about the nature of the Islamic finance for purpose of policy formulation, implementation and regulation of the Islamic banking practices. It is important that educational and professional institutions,

including those imparting religious education, attempt to provide training in an integrated manner covering both the technical and religious aspects[@] .

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IMTIAZ ALAM HANFI
Chairman, Commission for Transformation
of Financial System & former Governor,
State Bank of Pakistan

[@] The views expressed are entirely my personal.