

## PRELUDE

Islamic banking and finance has gone through an evolutionary process during the last three decades or so. As a result, it is now an important segment of the global financial markets. Already, Islamic financial institutions, in one form or another, are operating in over 70 countries. With the exception of Sudan and Iran, Islamic banks, both in Muslim as well as other countries, are mostly working side by side with the conventional financial institutions.

Pakistan has also adopted a pragmatic approach in terms of allowing Islamic banking side by side with the conventional banking system in the country. Over time, this approach should enable us to refine and strengthen our experience of Islamic banking operations.

One full-fledged scheduled bank has recently been allowed to do exclusive Islamic banking. State Bank would welcome applications for permission to operate full-fledged Islamic banking and establish subsidiaries or branches of commercial banks to operate according to the tenets of Shariah. The State Bank will also provide a level playing field to Islamic banks vis-à-vis conventional banking institutions in the country.

Having said that, I would add that one of the major difficulties in moving to Islamic banking operations has been the general lack of awareness and education about the concept of Islamic finance and the expertise required for conducting operations in line with the dictates of Shariah. Policy makers, bankers, business community, industrialists, Shariah scholars, students and other members of the society need to know what Islamic finance is and what are its features and philosophy. A wrong notion appears to occupy peoples' mind that Islamic banking means money becoming available free of any return. There are others who understand the true import/concepts but do not have adequate knowledge of products and services that Islamic banks can offer in a competitive environment. In this connection, development of instruments for liquidity management by commercial banks and monetary management by the central banks is essential as part of Islamic banking. To promote future research in this field, proper education and training in theory and application of new system would be necessary. Therefore, all segments of banking community need to be familiar with the philosophy of Islamic finance and essential requirements of different Islamic modes of financing, and how they can be applied to various operations and services of banks and financial institutions. Accordingly, availability of comprehensive training material, covering both theory and practical aspects of Islamic finance, has been one of the problems in promoting the knowledge about Islamic banking and finance.

I am glad that Mr. Muhammad Ayub, an Officer of the State Bank, who has been working in Islamic Economics Division, has come out with a book which contains valuable information on the subject. Mr. Ayub, who is well versed in Islamic jurisprudence, Arabic as well as economics, banking and finance, has done a commendable job in preparing this manual. A chapter

on analytical framework and unresolved issues, added to the book at my suggestion, gives a concise and critical survey of the literature on theory as well as on the practice of Islamic finance. The book should provide readers and the practitioners in Islamic finance a good understanding of the modalities involved in the running of an Islamic financial institution.

I hope students, bankers, stakeholders and all others interested in Islamic financial system will benefit from the publication. I congratulate the author and wish a happy launching of the book.

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