

Challenges and Opportunities Islamic Financial Product Diversification with Shariah Legitimacy

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Web of Science Researcher ID is **AAD-6273-2019**

Islamic Finance for Value Addition

- Promises of Islamic finance:
 - Equity, efficiency with social justice
 - Fair treatment disclosure and transparency
 - Ethical Finance / Responsible Finance
- Failure of MDGs (UNDP)
- SDGs- 2030 can be achieved only when ethics and efficiency are seen through the lens of responsible finance
- Values and norms - those given by Divine authority

Value Addition

- For-Profit and Not-For-Profit Islamic finance
 - Can lead to broader-based welfare and reduced inequality.
- **For-Profit Finance:**
 - Owning a property, and real transaction – necessary condition for earnings – It generates real value.
 - Morally committed to generate additional value in every stage of the exchange.
 - Only such goods have a value that are useful for human beings and the universe
- Intermediation in Islamic framework is double -
 - **Commercial b/w supplier/producer and the consumer and,**
 - **Financial b/w savers and investors**

For-profit Islamic finance - also social finance

- By creating value for broad-based welfare and sustainability
- It is because owning a property and any real transaction necessary condition for earnings –
- (Business) Risk taking and value addition
- It generates real value.
- Every party to contracts is committed to generating additional value in every stage of the exchange.

Not-For-Profit Islamic finance

- Beyond market or Pre-market activities:
- Beyond market wealth transfer and distribution.
- To fulfill the objective of divine authority and Islamic economics:
- Need fulfillment of all – not ‘WANTS’
- Zakah – for a specific list of beneficiaries
- Charity giving beyond Zakah – moral as also religious duty
- - Waqf for long-term and perpetual impact for welfare of the intended categories of beneficiaries.
- **OBJECTIVE: Wealth is not concentrated**

Product Innovation and Diversification

- With the Objective:
- Shariah Legitimacy
- Efficiency with Equity – Transparency & disclosures
- Socio-economic justice
 - BY
- Avoiding
 - Riba – risk-free return and with value addition (in real term)
 - Linking ownership with risk – risk and reward theory in Islamic commercial law
 - Gharar – creating and dealing in risk
 - Gambling
 - Short selling

Treatment of Money & its implication

- Different from that of goods and assets useable by human beings
- Cash / liquid capital verses Fixed capital – FINANCE
- Return on FINANCE is always ex-post – cannot be agreed in advance of the result of the activity
- Like that of Entrepreneurs – So Liquid / Cash finance if entrepreneurial FOP - EFPs.
 - Vis-vis:
- Hired Factors of Production – HFPs
- Land, buildings, Factories, Consumer durables, Cars, airplanes

Role of the State and the Regulators

- Implementing Property Rights as per ethical norms and Islamic law.
- Value Creation at every stage of exchange and business
- Equity – Stakeholders approach
- Justice and Fair treatment in all exchange activities and business structure – partnerships, trading and leases, Services
 - With the objective
- Need-fulfillment of all
- Not trending to wealth concentration
- Cooperative risk mitigation and shared welfare

Challenges and Opportunities

- Increasing hold of Conventional market players
- Product developers with experience of risk-free return products and instruments.
- Hunt for *Profit maximizers* – treated unfortunately as “**Heaven’s Bankers**” [Book by Haris Irfan -<https://www.amazon.com/Heavens-Bankers-Inside-Islamic-Finance/dp/146831047X>]
- **Product Implementation** – **Towards Regulator Captures** in various jurisdictions
- **COMPLIANCE IN FORM – LEGAL**
- **Conversance with conventional finance** – loosing integrity and **legitimacy**

Realizing the Opportunities

- Using Islamic finance as social finance
 - In both
- For-profit and
- Not-for-profit activities
- Shariah Governance for efficiency with equity and justice
- Shariah advisory
 - Capacity Building
 - Removing conflict of interests