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A Case Study of Islamic Financial Institutions of Pakistan: Challenges & Growth

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Abstract

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The purpose of this research paper was to find the growth of Islamic financial institutions for the economic development of Pakistan. Also, this study highlighted issues and constraints against the growth of Islamic banking in Pakistan. Islamic banking was based on the current model of products of conventional banking to achieve the general objectives of Islamic economic that was insufficient and based on the fair distribution of economic profits and render the Islamic financing more efficient from their conventional equivalents. The study contained major issues such as lack of treasury and liquidity risk management, regulatory, legal and tax environment, several interpretations of *sharia* ruling, lender of last resort facility, lack of *Sukuk* offered in secondary markets. The study found that in Pakistan, the growth and development of Islamic financial institutions were very low compared to other Muslims and non-Muslim countries need to improve the performance of the Islamic banks' mode, and it is not too late to plan on those constraint strategies and implantation to avoid those constraints. This study will facilitate privileged management to lay down policies so that the Islamic banking operations develop low-income countries such as Pakistan.

Keywords: *Economic Development, Islamic Banking, Pakistan Financial Institutions, Pakistan.*

I. Introduction

The existing model of products of Islamic Banks (IB) is based on traditional banks as Pakistan emerged on the name of Islam, and the nation of Pakistan was pressed for Islamic banking in Pakistan and to eliminate the (Riba) interest from the financial institution and banking industry completely.

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Elimination of interest consists of the concept as a significant objective of the policy of the state in all the three constitutions of Pakistan. A number of steps were taken by Pakistan's committees and commissions through forming in this regard. In 1977-1978, the major outcome of these steps was the interest-free banking and financial structure at the national level. However, the plan transformation in the implemented phases was a huge task. Progressive conversion into Islamic banking operations was the transformation of the functions based on the paradigm of PLS of the banking system (shoaib, 2015).

1.1. Research Problem

Consequently, one of several constraints the Islamic Banking environment has faced since the creation of instruments is that they offer similar needs for conventional banking products but are built in a different approach. These instruments include the operations of the monetary money market, which are important to control the liquidity of the bank.

1.2. Objective of Study

To accomplish the overall objective of Islamic economic, this is deficient depending on the reasonable circulation of economic benefits and render Islamic finance more productive than their traditional equivalents. This paper is to investigate the Islamic bank issue which related to lack of treasury and liquidity risk management, regulatory, legal and tax environment, several interpretations of *sharia* ruling, lender of last resort facility, lack of *sukuk* issuances in secondary markets and what tools are used for liquidity management by Islamic banks in Pakistan. This study was entirely consistent with the description, which demonstrated the challenges and hazards against the growth of Islamic banking in Pakistan.

This literature review illustrated the constraints of Islamic banking growth and their recommendation, as that study was descriptive and gave awareness regarding issues and constraints in the growth of Islamic banking of Pakistan. Lastly, section three demonstrated the conclusion.

II. Literature Review

For the residents of Islamic states and those whose populations are predominantly Muslims, the income of interest attained through savings or investment is forbidden in Islam. Thus, the existence of financial institutions like Islamic banks in the Muslim populace is not only urgently required but also implement the different economic policies for Islamic states because religious aspects influence the Muslims' decisions, where the bank deposits do not affect the interest rate. In the conventional banking system, the interest is a major reason for discomfort in the Islamic community to circumvent usury which is banned in Islam and as an alternative is a required for Islamic banking (Mirza and Halabi, 2003), (Shibani & De Fuentes, 2017).

Pakistan's corporate system and financial structure certified in 1980, and Islamic modes of finance developed an instrument of Islamic like Hire Purchase, Buy Back, *Musharika*, Leasing, Mark up, Mark down, development charge, Equity, Rent sharing, *Qard-al-Hasan*, Participation Term certificates and service charges for Islamic banking operations (Anwar,

1992) and banking company's ordinance 1962 made amendments (sbp.org). Islamic banking started activities nationwide in five banks of Pakistan in January 1981 in separate Islamic countries with 6600 branches. In the second half of the year of 1984, it was directed by the State Banks of Pakistan that all the existing bank accounts must convert into the paradigm of a division of profits and losses and finally, in 1985, the process of transition achieves. Since 1985, the whole banking operation in Pakistan was through a non-interest system, and Pakistan did not allow banks to operate in the philosophy of the western banking system. Hence, In Pakistan sustained deposits of foreign currency and foreign loans on-lending as before. This operation system was dominated with or without buy-back agreement by Mark up (shoaib, 2015)

III. Constraints are Faced in Pakistan of Islamic Banking Growth

Currently, Pakistan faces serious challenges on multiple issues. In Islamic banking, there are different factors that are probably going to oblige the turn of events and development of Islamic banking in Pakistan.

3.1. Treasury and Liquidity Management

Treasury risks rise out of the organization of the cash-related asset of the monetary organizations such as money administration, liquidity administration, assets liabilities administration, and equity management. These (treasury risks) are liquidity management of liability and asset and supporting risks (Iqbal Z M. A., 2007). As in Islamic banks, it applied in terms of risk of liquidity, and absence of liquidity compels the money-related establishments by illiquidity assets and unfit for the association to meet its liabilities and budgetary commitments. Islamic banks do not have admittance to acquire or raise funds at a sensible cost when required, unlike conventional banks (Swartz, 2012).

The absence of liquidity antagonistically influences the bank's ability to supervise portfolios. The logical inconsistency by *sharia* law from obtaining the reason of premium has restricted Islamic banks' options to viable manage their liquidity positions. Access to here and now is fundamental for meeting financial establishments here and now income needs. The past elements have raised Islamic banks' show to liquidity possibility and have ominously affected their profit by obliging their ability to place their capital in the long stretch and illiquid yet more useful resources (Iqbal Z M. A., 2007).

Assets liabilities administration risk outcomes were conducted from the dissimilarity being developed terms, and that demonstrates in the portfolio of the bank on its advantages and liabilities sides.

Islamic banks are less presented to resources and liabilities mismatches. This favorable position is established in the "go through" setting of banks of Islamic which concerning as experts for monetary trained professional/benefactors and all advantages as well as incidents are gone through to the examiners/ financial backers. Investors in the customary system have settled the case on the benefits to the bank's advantages as they get compensated. A pre-decided loan fee notwithstanding ensured central independence of the bank's profit on its benefits side. Possessors of advantage-sharing endeavors accounts in the Islamic structure participate in the bank's advantages and incidents nearby the

investors and thusly are introduced to the hazard of all misplacing or some share of their principal investment. The peril sharing and go through parts are not totally taken after, which thusly makes undesirable resources and liabilities crisscross dangers. The act of circulations of benefits regardless of the possibility so as to there are low or no advantages builds twirls and deposit strains on the worth of shareholders (funds contributor) (Iqbal Z M. A., 2007). Under supporting danger, the bank's general hazard presentation is upgraded by the inability to relieve and administer the diver's risks. (Iqbal Z M. A., 2007).

Liquidity Risk and Management issues in Banks of Islamic

Concept of liquidity risk

The liquidity risk is one of the several risks exposed by Islamic banks. It is a result of the imbalance between maturities of resources and liabilities. The risk is generated by the difference in maturity composition of the asset (long-term and medium) and liability (short-term) so as to bank is not capable of immediately responding to payment requests or the bank has forced to sell quickly financial assets high volume within its portfolio accommodating Much lesser cost as compared to market value (Ruozi R & Ferrari p., 2013). As a result, the bank may contain issues with dissolvability. The research has been supported the statement that many banks collapse might be conscientious on improper risk management of liquidity (Arena, 2008). In addition, it should be added the troubles of insufficient liquidity may conduct not a single bank collapse, but it could be the reason for the instability of the entire financial structure (Llewellyn, 1999). It is important to mention that this is why subsequent to the previous financial crises, the need for the risk management of liquidity forced the Committee of Basel to present this risk as a component of the structure of Basel III (Hartlage, 2012). No doubt which the lacking liquidity might lead the bank to massive issues. However, it ought to note about extreme liquidity isn't helpful in favor of the bank. Therefore, it has a pessimistic impact on its competitiveness. Given the low liquidity risks and costs related to the too-high liquidity in the bank, it should be the objective of the management process of liquidity to create a suitable balance among Security on the one hand and the productivity of the other (Liquidity Management Practices in Islamic Banking 567) (shoaib, 2015).

To assist in the management of liquidity, a number of instruments have been accessed by conventional banks. Those instruments included the foreign exchange of swaps, treasury bills, repo operations, commercial papers and interbank deposits. The market of interbank where the banks lend themselves their reservations liquidate with the most important significance for banks by controlling their liquidity. In critical conditions, it should be noticed that due to the lack of confidence, the banks do not wish to give somebody the use of money. They have the option to move towards a central bank for assistance. In this case, the central bank played a role as lender of last resort.

In Islamic Banks risk liquidity

As mentioned above, all instruments are interest rates based and are not obtainable in banks of Islamic. In this manner, the issue with the entrance to liquidity management tools standout amongst the most significant issues and biggest challenges for banks of Islamic. It is asserted that in examination with routine banks, Islamic establishments ought not to

experience the ill effects of the lack of liquidity, but rather their issue is really extreme liquidity. The winding-up can exist from investigating the fundamental forms of Islamic saving money, in view of Profit and loss sharing (PLS). The basic model of profit and loss sharing methods of support is that as opposed to loaning cash at a premium, the bank shapes an organization with the borrower, partaking in a wander's benefits and misfortunes. Consequently, not all like interest-based items, on account of PLS methods of the fund, there is no ensured rate of profit for the venture since salary relies on upon the benefit earned by the association organization and may potentially bring about misfortunes. The most widely recognized association contracts incorporate *Mudaraba* and *Musharaka* (Sobol, 2012).

Musharaka can be described as a kind of joint meander where around two gatherings consolidate their capital and work together to share the benefits, getting a charge out of comparative rights and liabilities. The benefits came about because of such wander are shared by a pre-concurred proportion between the social occasions of *musharaka* while incidents are borne in the degree to contributed capital. In *Mudaraba* arrangement, one get-together of the agreement, entitled *rub-ul-maal*, gives a capital asset to specific meanders displayed by the other party, entitled *mudarib*. Accordingly, *mudarib*'s obligation to the meander is capable and specific fitness. He is additionally in charge of the administration of the business.

In liquidity Management, selected tools utilized by Islamic Banks

As it was said in the past piece of paper, liquidity hazards in Islamic banks are accessible only to their customary partners. Though not in favor of traditional banks, they have considerably more problems with overseeing them. They have not instrument's entry in light of intrigue, and the quantity of *sharia* agreeable liquidity administration tools is confined. The market of Islamic interbank currency is not fully formed, and instruments are illiquid in the optional market for outmost then and now. Besides it, as regards a moneylender of final resort, Islamic Financial institutions cannot rely on the backing of a public bank. It must be incorporated that as a result of the various understanding of *sharia*, in various purviews, different instruments are allowed, which makes it exceptionally hard to create a global currency platform.

Recommendation

As per a review risk administration of liquidity hones banks of Islamic driven by Islamic money related Benefit Board (Technical note, 2008) called *Murabaha*, the interbank circumstance of resources beneath distinctive benefits sharing plans and Islamic shared resources are the foremost broadly recognized rebellious utilized for liquidity organization by Islamic cash related establishments. The outline moreover illustrates that reliance on central banks for liquidity organization remains moo. Islamic common resources, Islamic government wander announcements and here and presently *sukuk al-ijarah* are ordinarily driven between central and Islamic banks.

3.2. Risk Management

Risk, as comprehended by today's financial experts, does not have a set with this disallowance because it would deliver unlawful each exchange. The risk may exist in any exchange because of several grounds. It can be because of common causes (e.g., great

climate circumstances), instant portion consequence and marketplace consequence. The presence of every one of these risks is inescapable to regular exchange. All things considered, the presence of risk does not alone deliver an agreement invalid. Then again, be that as it may, the presence of the components of *gharar* is accepted, rendering an agreement invalid. (Dusuki AWD S. E., 2009) Risk is rather that is outside our ability to manage, whereas *gharar* is inside our compass and manage. (Dusuki AWD S. E., 2009).

Risk and Law of Islamic

Financial institutions of Islamic banks put into effect diverge in the matter and in nature of conventional banks as well as they thusly confront an alternate risk outline. Islamic banks have to possess distinctive resources before they can pitch them to customers needing financing, keeping in mind the end goal to be consistent with the *Sharia* decide that “one can’t offer what one doesn’t own”. (Ariss, 2007).

This uncovered the larger part of Islamic banks’ exchange to value chance coming about because of the obtaining of different resources, which thusly acquaints another risk measurement with the saving money book of Islamic banks.

IBs have a stronger budgetary emergency than commercial banks, and ever since, an unmistakable resource must uphold exchanges. Therefore, it entails that the bank of Islamic has a predisposition to have more guaranty as compared to customary counterparts. (Standard, 2010). One perspective of IBs is linked with the enormous improvement and the risk factor of finance, where questions are frequently anticipated. However, Islamic banks identified uniquely in relation to customary banks in their type of money related between intervention, budgetary instruments, and structure of monetary proclamations. These organizations are by the by subject to a comparable system for examining their exposures and risk. As these standards and strategies for controlling and measuring risk are comparative, so the logical system for evaluating risk ought to be comparable as well (Van Greuning H Z. I., 2008). In addition, The act of bank chiefs keeps on advancing, which is significant in some cases to manage difficulties of development not only latest improvement but also a limited extent to suit the more extensive joining of worldwide supervisory benchmarks and practices. Supervisory devices for surveying conditions of banks are liquidity, capital sufficient, the character of portfolio assumption, insider and the related loan quantity, size of exposures as well as open outside positions of trade. Although valuable, these assessments are in themselves unsatisfactory symbols of a bank’s risk profile, not only money security-related situation but also its prospects. So Therefore, The focal procedure for dissecting monetary risk is the nitty-gritty audit of the accounting report of a bank. This emphasizes relevant organizational approaches, like corporate management and administration’s value and method, the fulfillment of satisfactoriness and bank arrangement consistency as well as techniques. The IBs balance sheet record is typically an after-effect of risk administration decisions. (Van Greuning H Z. I., 2008).

A benefit without accepting a specific risk or potential commitment is nonhalal, as per the outstanding lawful adage “*al-kharaj bi al-daman*,” which is considered *riba*. Then again, notwithstanding, over-the-top risk renders an agreement, and in this way, the benefit

coming about because of the agreement, equivalent to the offer of *gharar* and in that capacity, is prohibited. (Dusuki AWD S. E., 2009)

Risk management framework

On account of Islamic banks, consideration is required to the remunerated lawfully obligatory component of the bank concerned, though in the bank's settlement and liabilities is breaking down by the risk characteristics. Preferences should be made in concerns to the level of satisfactory risk introduction. A different element of risk management should be doled out by the duty, while the possibility of risk administration is arranged to be analyzed and assured in the implementation of obligation. A formal procedure is required for practical risk administration. In economies creating, predominantly those on the move, precarious, monetarily unpredictable and shallow market conditions altogether grow the range and extent of presentation to money-related risk. Powerful risk management incorporates: the risk administration capacity ought to be comparable to other real capacities and be concurred the vital deceivability and use inside the significant risk administration and bank not only concerns but also constraints of essential leadership ought to be blended on the operational level for every single applicable business and practical processes (Van Greuning H Z. I., 2008).

The essential standards of the bank's risk management strategies are to assure probability assessment, as well as checking, are totally free from the business lines, seize fast to the severe connotation of confinements accounting report things and guarantee risk are persistently monitored. (Iqbal Z M. A., 2009). The important system of risk management is encouraged and screened, as well as upgrade the legislative structure in which is embraced by the bank controllers and management. Supervision of banks is sometimes connected inaccurately as a legal or regulatory power concentrated to a great extent on advice acknowledged among the issue of banking business. Such rules are frequently regulatory not only in nature but also force complicated requirements on banks, which make an effort to avoid them by generating innovative products (Van Greuning H Z. I., 2008).

Recommendation

Implementation with Basel ii, Islamic banking must now fine-tune and develop effective internal controls and techniques of risk management.

3.3. Regulatory, Legal and Tax environment

Particular gauges have been created by specific bodies setting standards, however administrative and supervisory structures in numerous locales do not yet take into account the novel dangers of the business. Mostly as an outcome, the act of Islamic managing an account of Islamic Banking has, in a few locales, brought about complex budgetary items and corporate structures. In addition, across the border processes have extended without administrative harmonization. These improvements show a requirement for expanded administrative clearness and harmonization, nearer collaboration amongst Islamic and customary monetary standard setters and further upgrade of apparatuses for compelling supervision.

An essential administrative test is to guarantee that benefit-sharing speculation accounts (PSIA) at Islamic banks are dealt with in a steady way with budgetary dependability. Numerous controllers regard these as deposits, which undermines their misfortune and liquidity sponginess highlight. At the point when controllers do consider some misfortune retentiveness, they do not generally give careful consideration to the suggestions for corporate administration and buyer assurance. Direction and supervision ought to guarantee that PSIA's are not regarded as unadulterated stores while likewise guaranteeing better exposure and authorization of the speculator's rights, including those identified with reserves and payouts.

Albeit Islamic banks seem all around promoted, there will be difficulties with the execution of the Basel III Accord. For instance, encouraging illumination will be required from national controllers with respect to the instruments that are qualified for treatment as extra Tier 1 and Tier 2 capital. Likewise, the shortage of high-quality liquid assets (HQLA) *sharia* agreeable will make it troublesome for Islamic banks to fulfill the Basel III liquidity scope proportion (LCR) prerequisite. Subsequently, it is critical that national experts utilize the slack given by Basel models to give exceptionally evaluated and *Sukuk* HQLA tradable status and find a way to extent nearby *Sukuk* and currency markets (Alfred Kammer, 2015). Further added, generally, regulators don't have the limit (or willingness) to guarantee compliance of *shari'ah*, which challenges the consistency of methodologies inside and crosswise over fringes. More prominent harmonization ought to be looked for crosswise over and inside nations, including during better execution of active guidelines for *shari'ah* administration and potentially by setting up focal sheets at the national level.

Tax issues

Islamic funds raise various tax collection issues. These incorporate duty motivating forces for obligation overvalue, the expense treatment of offers and extra layers of exchanges in a few instruments. Also, contrasts between the conventional bank and Islamic treatment, if unconstrained, can make cross-faring overflows and energize universal duty arbitrage. Assess frameworks ought to construct treatment with respect to financial substance and move far from distortionary exchange charges toward more nonpartisan benefit-based taxes. Universal measures for bookkeeping and reviewing of Islamic back ought to be further created and territorial, and worldwide assessment participation fortified. (Alfred Kammer, 2015)

Legal issues

Regardless, Islamic fund confronts various challenges. For instance, regardless of the endeavors of Islamic back standard setters, in numerous nations, the business is administered by an administrative and supervisory structure created for the traditional fund. Consequently, it doesn't completely assess the exceptional way of Islamic funds (Al-Maraj, 2014). The business is still to a great extent a beginning one, economies of scale lacking, and working in a domain where legitimate and impose the tax and regal rules, monetary foundation, and access to money related wellbeing nets and national bank liquidity are either truant or, if accessible, don't fitting consider the unique qualities of Islamic fund. (Askari H. I., 2014; Askari H. Z., 2010; Ernst and Young, 2014; IFSB, 2010).

Recommendation

In the regulatory, tax and legal environment, essential changes are required to accommodate Islamic finance without additional cost incurred to the customers.

3.4. Several Interpretations of *Sharia* Ruling

***Sharia* Issue**

As Pakistan emerged in the name of Islam, they were pressed for Islamic banking in Pakistan and to completely eliminate the (Riba) interest from the financial institution and banking industry. Moreover, Islamize the economy of Pakistan efforts started in the mid of 60s. A significant attempt in the mid-80s was made by the banking system to convert to an Islamic banking system. Thus, Non-interest transaction-based to accommodate was amended by the Banking Companies Ordinance (BCO, 1962) and was given the industry to convert a specific timeline to the non-interest system based (shoaib, 2015). So therefore, The *sharia* guideline is based on Hadith and Quran, and their economic system is well known as the Islamic economic system (Sheikh, 2001). The standards of *sharia* are developed with the effort of many Muslim disciples among the four Islamic schools of thought with a mutual consensus (shoaib, 2015).

Unfortunately, In November 1991, the existing banking structure declared is Un-Islamic in the country, and the operation of Islamic banking practices deviated from the Islamic finance soul theory and, according to *Sharia* complaint fail as a result by Federal *sharia* Court (FSC). Islamic banking practicing at the national level in the world decreased on of a country by this judgment, from the countries list Pakistan get-out that were operations of Islamic banking full-fledged practicing at the national level.

The forbiddance of riba has an enormous effect on Islamic banks since none of them can be founded on premium. Subsequently, one of many difficulties Islamic managing an account industry has been confronting since its initiation is the formation of instruments that need to serve an indistinguishable need from conventional items. However, it must be built in a different way (Sobol I. , 2012).

Recommendation

A distinguishing element of banks of Islamic is a commitment to lead operations according to *sharia* principles which is Muslim's religious law. The lack of standardization resulted in several interpretations of *sharia* ruling. To integrate the local market with the world market, a common understanding is necessary.

3.5. Lender of Last Resort Facility

A lender of last resort is an institution, usually a country's central bank, that offers loans to banks or other eligible institutions experiencing financial difficulty or are considered highly risky or near collapse.

Islamic viewpoints on LOLR one of the imperative parts of the state in Islam is to work towards securing people in general intrigue and advancing the general (counting material) welfare of society. In actualizing this part, government intercession may in specific cases be inescapable, in spite of the fact that Islam does not recommend anything like a state with enormous control over or mediation in the private division, other than taking control or

interceding to save the fundamental needs of society. This essential part can likewise be viewed as an element of *Bait al-Mal (Baitulmal)*, or the place of reaches- for this situation, the state. This capacity has been around since the period of Rasullullah SAW when Muslims were the beneficiaries of a lot of fortune passed out to them in the mosque by the Prophet, who had requested direction in the matter from God. From this history, it gives the idea that the Prophet had utilized the mosque as the state treasury office (Al-Bukhari and Muslim).

From the Islamic viewpoint

Relating to this part as a delegate of the express, the central bank has no less than three primary assignments, in particular: (i) fostering economic development with full work;(ii) distribution justice (iii) maintaining the stability of money. Concerning managing banking activities, the central bank is in charge of the vigorous execution of the state's banking operations, some portion of which includes foreseeing the bank's liquidity issues requiring the LOLR office. Consigning to the *Sharia* idea, LOLR suggests with the central bank ensure (Kafalah) to Islamic banks under liquidity trouble, where central banks furnish liquidity with a certain guarantee (Alamsyah, 2011).

Moreover, the central bank or supervisory specialists, notwithstanding their solid administrative and supervisory arrangement to the managing system of banking, can't ensure that a specific bank will be spared from the liquidity issue. Along these lines, it is imperative to build up a viable plan of the LOLR that not just confines the intrinsic facility of risk, additionally limits the bending to the market motions as this may somehow or another goad the ethical peril issues innate in such a guarantee scheme. It is additionally critical to keep up the least interruption to the financial system. In a specific circumstance, the central bank or supervisory expert ought not to take full charge of the LOLR part. Rather, a more extensive emergency administration convention ought to be produced with the government (Alamsyah, 2011).

Recommendation

As for the LOLR system for Islamic managing an account, it ought not to be significantly not the same as the LOLR for conventional banks. An Islamic bank may request a *sharia*-compliant collateralized loan facility, additionally a *sharia* consistent crises credit, or even a capital infusion from a supplier of LOLR. However, actually, a *sharia*-compliant LOLR would have particular components relevant to the Islamic contract, or *aqd*. As Islamic finance keeps on turning into a basic piece of the worldwide budgetary framework, it is basic to have an incorporated activity for both conventional and Islamic funds that incorporates, among different activities, the advancement of a more compelling LOLR and emergency administration system. (Alamsyah, 2011). State bank allowed less availability for access to Lender of Last Resort due to lack of compatible mode of *sharia*.

3.6. Lack of Sukuk Issuances in Secondary Markets

Sukuk are viewed too suited for financing infrastructure as a result of their hazard sharing property could likewise help fill financing spaces. The *Sukuk* of supply, be that as it may, misses the mark regarding the request, and aside from in a couple of purviews, issuance happens without a far-reaching technique to build up the local market. National specialists ought to, consequently, concentrate on building up the vital foundation, including advancing

genuine securitization and upgraded clearness over speculators' rights and on venturing up general sovereign issuance to give a benchmark to the private part. Expanded sovereign issuance ought to be supported by sound, open money-related administration. (Alfred Kammer, 2015).

The issuance of *Sukuk* has likewise expanded quickly. Worldwide issuance has developed appreciably since 2006, in spite of the fact that from a low base. It attained in 2013 120 billion US\$, conveying by end-2013 exceptional *Sukuk* to US\$270 billion, demonstrating to ¼ percent of worldwide security markets. Issuance is as yet gathered in the GCC nations and Malaysia, in spite of the fact that broadening is progressing with new issuance in East Asia, Europe and Africa. It is uniformly part amongst sovereigns and corporate *Sukuk* and, for the most part, designated in U.S. dollars or Malaysian ringgits. Demand is by, and large surpassing supply, to oversubscription prompting on most issuance, yields lower (when the basics of the guarantor are solid) and less liquidity as speculators want to "purchase and hold". These incorporate especially Islamic banks, which experience the ill effects of a deficiency of *Sharia* consistent liquid resources. (Alfred Kammer, 2015).

The *sukuk* advertise various elements that appeal to issuers and financial specialists. These incorporate its capacity to: (i) meet the changing and separated requests of the current economy; (ii) create inventive and forefront structures and items; (iii) accomplish such issuances of focused valuing (Aziz, October 9, 2014). The sovereign *Sukuk* are, for the most part, the primary advance into *Sharia*, consistent subsidizing in the capital market, empowering the production of reference costs after some time, to which private segment elements can benchmark their raising money exercises. Besides, sovereign *Sukuk* additionally encourages liquidity administration by central banks. (Alfred Kammer, 2015).

Sukuk can promptly be organized for foundation financing. They take after Public Private Partnership financing whereby speculators fund the advantages, possess them prompting to genuine securitization and afterward exchange them back to the regime at development. An emphasis on venture would mean a move toward new resource upheld securities and take into consideration a general and expanded amount of issuance, subsequently extending the market (Shabsigh, September 25, 2011). A variant of such a model could be founded on building up the gap a unique reason vehicle, for instance, as an independent substance of the administration that would go into business with government through deals and rent back exchanges, contingent upon the sorts of advantages to be obtained. It could likewise raise financing from speculators through *Sukuk Mudarabah*, which is tradable (Alfred Kammer, 2015).

The *Sukuk* risk-sharing part gives them an unmistakable preferred standpoint as a financing instrument for the foundation. About all customary frameworks, ventures contain isolated value and obligation parts, particularly amid the greenfield stage. This prompts complex contracts and convergence of hazards in the value tranche. Moreover, there is constrained adaptability to deal with unexpected yet regular occasions, for example, delays in the income era. *Sukuk* are planned from the start to spread the hazard comprehensively in light of the fact that all speculators partake in a similar way. *Sukuk* can likewise be utilized all the

more adaptable after some time since installments are fixing to fundamental returns instead of to settled timetables. (Alfred Kammer, 2015).

The sound public financial management (PFM) expanded sovereign issuance ought to be supported of specific significance in the statistical treatment and bookkeeping of *Sukuk* instruments, which are at present, to a great extent, ignored in existing worldwide standards. Such equivocalness can have outcomes for the figuring of the monetary position or potentially bend obligation maintainability investigation projections. Universal gauges for bookkeeping and measurements on *Sukuk* should be created (for instance, by the AAOIFI) and adjusted to the current worldwide benchmarks for bookkeeping and insights (that is, the international public Sector Accounting Standards Board (IPSASB) and the Government Finance Statistics Manual (GFSM)). What's more, great PFM practice would need understandable regulations for *Sukuk* instruments treatment and SPVs as for as spending arranging and execution and monetary dangers associated with these instruments, specifically changes of collateral in the valuation, which can affect on a budget of future. All SPV exchanges ought to be incorporated into the execution periods and arranging of spending procedure, and the returns of *Sukuk* issuance ought to be united with other government assets in a typical single treasury record. Additionally, the reserving of the returns of *Sukuk* issues for particular speculation ventures raises the issue regarding how to fuse these uses inside the administration's total spending envelope and strategy choices (Hurcan, 2015).

Likewise, buildings up a strong market framework to maintain *Sukuk* issuance will be vital to supporting promote the development of this instrument. *Sukuk* are turning out to be progressively mind-boggling, with the modern layering of proprietorship intended to keep away from genuine securitization, guarantee *sharia* consistency and accomplish tax productivity. These complications have outpaced the lawful and administrative structures in numerous purviews, where: (i) trust and securities laws are as yet nonexistent or fragmented; (ii) insolvency and bankruptcy administrations are deficiently created; (iii) tax collection frameworks don't consider the *Sukuk* specificities of contracts; (iv) credit appraisal apparatuses are inadequately created; (v) *sharia* translation may fluctuate without an incorporated board and (vi) the legal framework has battled in the earlier period to manage a few defaults. Moreover, the absence of central bank open markets operations and interbank currency markets influence the liquidity of the market. (Alfred Kammer, 2015).

Recommendation

Be that as it may, it would be vital for governments to set up a more grounded reason for the advancement of a neighborhood *Sukuk* showcase. General sovereign issuance at various developments is basic to extending the market and building up yield (or *Sukuk*) bend that could give a benchmark to corporate *Sukuk*. Notwithstanding, not very many governments or national banks for liquidity administration purposes (Malaysia, Qatar and Bahrain) have *Sukuk* issuance programs as a feature of their open obligation administration procedure, even when they are keeping up such projects for traditional instruments. Frequently referred to requirements to market issuance include (i) overabundance financial funds in a few nations, which restrain their enthusiasm for issuing obligation; (ii) trouble in

exchanging the responsibility for hidden resources for the *Sukuk* holders; (iii) underdevelopment of the lawful and institutional frameworks overseeing *Sukuk*. These components recommend an extension for specialists to devise and actualize a more extensive system to create neighborhood cash *Sukuk* showcases by enhancing the hidden framework and venturing up sovereign issuance as a feature of their obligation administration arrangements (Alfred Kammer, 2015).

The development and cross-border reach of *Sukuk* markets may push toward generally worthy structures. This advancement ought to be urged by endeavors to advance securitization, tradable structures, an extending of optional and currency advertises and unified *Sharia* Boards for *Sukuk* markets. Creating rating approaches that are designed for Islamic funds and *Sukuk* could help improve straightforwardness and proficient evaluating. Ventures to guarantee that *Sukuk* are qualified for meeting the Basel III liquidity necessities and capital and (in favour of mutually Islamic and conventional banks) could likewise goad the market for this instrument, which would likewise be animated by proceeding with endeavors by worldwide (Islamic and conventional) standard-setters on guidelines and controls for *Sukuk* structures (Alfred Kammer, 2015). While the Islamic market still has flexibility in economic crisis, the secondary market of Islamic finance is not consistent because of the lack of issuances in regular *Sukuk*.

IV. Conclusions

In Pakistan, the growth and development of Islamic financial institutions are very low compared to other Muslim and non-Muslim countries. Therefore, Pakistan needs to improve the performance of the Islamic banks' mode, and it is not too late to plan on the constraint strategies and implantation to avoid these constraints. Accordingly, the State Bank of Pakistan and policymakers can get rid of these financial crises through the strict implementation of *sharia* law in Islamic banking.

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