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ISLAMIC FINANCE – UNDERGRADUATE EDUCATION

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Islamic finance literacy has become critical for the future growth of the Islamic financial sector in the twenty-first century. While a multi-pronged approach is called for, the focus in this paper is on the undergraduate programs in Islamic banking and finance. It analyses the state of teaching of Islamic banking and finance at the undergraduate level and proposes solutions for improving the undergraduate education of Islamic banking and finance.

1. INTRODUCTION

Islamic banking and finance has a relatively short history. The quest for Islamic banking started after the Second World War. This is the period when the Muslims in different parts of the world rid themselves of colonialism, and independent Muslim states appeared on the world map.

Islamic banking did not start with a well-developed theoretical model. In fact, ideological considerations pushed the move toward interest-free banking and finance. Intellectual stimulus was provided by Islamic economists, not experts in finance. The cause got backing from resourceful Muslim individuals mainly in the Middle East. The Muslim professional bankers provided a helping hand. And the Sharīʿah scholars came in the picture in order to clear the juristic hurdles in the path for Islamic finance. The end result has been that the theory of Islamic banking lagged behind (or was at best tied to) the practice of Islamic banking.

The role of undergraduate education in Islamic finance is crucial for meeting human resource needs of the Islamic financial sector in the long run. Undergraduate programs, because of the 4-years available to academic planners,

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can provide the much-needed foundations for preparing professionals and researchers who can be backbone of the Islamic finance industry. Moreover, the bachelor's programs also provide the platform for preparing graduate students for advanced studies and research in the discipline.

The paper is divided into five sections, including the introduction, which is Section 1. In Section 2 we look at the current state of teaching Islamic banking and finance in some selected countries in the OIC member states, namely Pakistan, Malaysia, Brunei and the Middle East (the GCC and Jordan). Some observations are also offered to Iran, Sudan and some other stakeholders. Section 3 will focus on the curriculum of Islamic banking and finance courses at the undergraduate level in those countries. Issues on student intake, the faculty and teaching material are discussed in Section 4. The section will also discuss major challenges in Islamic finance education: the paradigm, the Sharīʿah and its teaching, the curriculum, the teaching material, and the teachers. The paper concludes with some recommended initiatives, in Section 5.

2. SITUATION ANALYSIS

2.1. Current State of the Teaching of Islamic Banking and Finance: Pakistan, Malaysia, Brunei, the GCC, and Jordan

The experience of these countries represents the state of teaching Islamic banking and finance at the undergraduate level in the OIC-Member States. In other countries, especially those in the West, Islamic banking and finance have yet to find a place in the undergraduate curriculum. It is worth to be noted, however, that a major consideration in our choice of the sample has been availability of the information.

This sample is significant for the following reasons:

1. *Pakistan is among the countries with the earliest concerns raised about elimination of Ribā from the economy. In 1948 the first Constituent Assembly passed a resolution—now a part of the Constitution—that binds the Government to take steps in the said direction.*

2. *Malaysia made early strides in Islamic banking and finance. The emergence of Islamic banking soon followed by teaching and training in this regard.*

3. *Brunei is a significant due, among other things, to the introduction of a minor specialization in Islamic finance at the undergraduate level.*
4. *The Middle East is where the majority of the international players in Islamic banking and finance are based. It is also the largest source of Islamic money.*

2.1.1 Pakistan

In Pakistan the research and teaching effort in Islamic banking and finance preceded the practice. The International Islamic University, Islamabad (IIUI**)** was established on 01 Muharram 1401 (11 November 1980) with the aim of reconstruction of Islamic knowledge in the light of the Sharīʿah principles. In the initial phase a 4-year undergraduate program in economics was launched with the aim of preparing scholars who had dual specialization: proficiency in Arabic and expertise in the *usul al-fiqh* and *fiqh* and command of modern economics and the fundamentals of Islamic economics. The experiment proved successful towards developing experts with command in both the Sharīʿah and modern economics. This idea was extended to masters and doctoral level programs from 1985. During the 1980s, the International Institute of Islamic Economics (IIIE) of the university arranged several training programs for university teachers, senior officers in the government and bankers. The effort was complemented in the 1980s by national seminars and workshops in order to identify the Islamic modes of financing for banks and interest-free alternatives for government financing.

In the early 1990s pressure developed from the judiciary for taking effective steps to eliminate *Ribā* from the economy. In November 1991, the Federal Shariat Court of Pakistan declared all forms of “interest”, including the bank interest, to be *Ribā*. Legal proceedings on this issue continued during the rest of the nineties, but the pace of search for Islamic options in the domain of banking and finance picked up.

The Government of Pakistan established a Commission for the Islamization of the Economy in 1991 that issued two major reports in June 1992 and October 1997. The IIIE released a *Blueprint for Islamic Financial System* in late 1999. On December 23, 1999 the Shariat Appellate Bench of the Supreme Court of Pakistan declared bank interest to be *Ribā,* and identified some of the necessary measures to be taken in lieu of Islamic banking. This judgment worked as a catalyst for the advancement of the cause of Islamic banking and finance. The Government of Pakistan soon established a new national Commission for the

Transformation of the Economy that issued model agreements for Islamic financing[1]. In December 2001 there was a major policy shift, and the Government of Pakistan formally adopted dual banking system in the country. Without bringing about any changes in the existing legal framework, in December 2001 the State Bank of Pakistan issued guidelines for the establishment of full-fledged Islamic commercial banks, Islamic financial subsidiaries of the existing interest-based banks and Islamic banking branches by the interest-based banks. The next few years witnessed a quantum leap by Islamic banking and finance in Pakistan.

Pakistan issued its first license for an Islamic commercial bank in March 2002, and *Ijārah Ṣukūks* in December 2004. By December 2007, Pakistan had six fully-fledged licensed Islamic banks and 12 conventional banks established more than 200 branches in 32 cities and towns all over Pakistan. The total assets of the Islamic banking industry were more than Rs160 billion, which accounted for a market share of around 3.2 per cent. The market share of deposits, financing and investment stood at 2.9 per cent and 2.5 per cent, respectively[2]. In the domain of *Ṣukūks* as well, the Government of Pakistan, several public and private sector companies—notably, Wapda, PIA, Sui Southern Gas Company (SSGC), and Maple Leaf Cement—have raised funds through issuance of *Ṣukūks*.

While the above happened at the practical level, the IIIE and other research organizations in Pakistan held research seminars on Islamic banking and finance. The in-house teaching and research by the faculty members enabled the IIIE to introduce a significant revision in its academic programs. Starting with the 1997-1998 academic year, a compulsory three-course package was introduced for the undergraduate students. This required the students to take one course in Islamic economic theory, one in *zakāh* and public finance and one in Islamic banking theory and practice. The first Islamic banking theory and practice course was offered in the fall semester of 1997.

A further advancement in instruction of Islamic banking and finance was made with the launch of M.Sc. Economics & Finance program in 1998. In 2003, the Institute launched a one-year Post-Graduate Diploma in Islamic Banking. This was followed by the introduction of an M.Sc. in Islamic Banking in 2005. In the fall 2007 semester the IIIE also launched a four-year bachelor's program in Islamic

[1] Available at the website of the State Bank of Pakistan – www.sbp.gov.pk
[2] The News International, 12 December 2007

banking and finance. In addition to the above, the Faculty of Management Sciences of the IIUI offers a compulsory course in Islamic Economics and Banking to its Bachelor of Business Administration (BBA) students. Moreover, the Institute of Business Administration (IBA) Karachi and other leading business schools in Pakistan have made a course on Islamic finance a part of the curriculum for their BBA programs. Of course, Shaikh Zayd Centre of the Karachi University is offering a one-year diploma program and several institutions like NIBAF (National Institute of Banking and Finance, the training arm of the State Bank of Pakistan), and some religious madaris (such as Darul ‘Uloom Korangi) are offering training programs to cater to the needs of the Islamic banking industry.

2.1.2 Malaysia

Malaysia has to its credit a creative approach to Islamic banking and finance. It provided the necessary legal framework in 1983, and established Bank Islam Malaysia Berhad (BIMB) in July of the same year and Syarikat *Takāful* Malaysia Berhad in 1984. The BIMB was assigned the task of defining and establishing Islamic banking; it was given a 10-year monopoly toward this end. This was followed by a number of further steps:

- *Permission to interest-based banks to establish Islamic banking windows in 1993 in order to effect an orderly increase of the number of players in the field of Islamic banking.*
- *Establishment of an Islamic money market in 1994 along with the issuance of the guidelines for Islamic securities.*
- *Establishment of a National Syariah Advisory Council at the Bank Negara Malaysia in 1997.*
- *Establishment of another full-fledged Islamic bank in 1999.*
- *Issuance of Ṣukūks starting in 2001.*
- *Development of Lauban as an off-shore international centre for Islamic banking since 2004.*

Malaysia has also been chosen as the headquarters of the Islamic Financial Services Board, an international body of the central banks of several Muslim countries, established in December 2002.

The above and several other on-going developments in Malaysia have also been accompanied by concentrated efforts in the field of human resource development for Islamic banking and finance industry. This has mainly taken the form of conferences, seminars, training workshops, training programs for the Islamic finance industry. Both public and private sector universities and other academic institutions also put their share in this effort. Universiti Teknologi MARA (UiTM) offers a Bachelor of Business Administration in Islamic Banking while Universiti Utara Malaysia (UUM) is offering Bachelor of Islamic Finance and Banking. University Utara Malaysia also offers M.Sc. in Islamic Finance and M.Sc. in Islamic Banking. University Kebangsaan Malaysia (UKM) and the International Islamic University Malaysia offer bachelor's programs in Islamic economics and Sharīʿah that have Islamic finance content; UKM a bachelor of Economics (Islamic Economics), and IIUM offers an Islamic banking course, with *fiqh* and *usul-fiqh* contents, in the Bachelor of Economics program.

The students of the Bachelors of Economics program at the IIUM have the choice of other electives in Islamic economics, economics in the Qur'ān and *Sunnah*, economics of *Zakāt*, *Usul-fiqh* and *Maqasid Al Sharīʿah*. In the University's BBA (Hons.) and Bachelor of Accounting (Hons.) programs, there are courses in Arabic and *Fiqh*. But, the BBA (Hons.) program has one course on Principles & Practices of *Takāful* and *ReTakāful* and one on Management from an Islamic Perspective. And the Bachelor of Accounting has one course on AAOIFI standards. In addition to the above, the Kulliyyah of Economics and Management of IIUM also offers an MBA program with specialization in Islamic Finance and Banking.

The Institute of Islamic Banking and Finance (IIiBF) offers a Postgraduate Diploma in Islamic Finance and Banking and PhD in Islamic Banking and Finance. The University of Malaya (UM) offers one 3-credits course in Islamic Banking and Finance to the students of the Bachelor of Economics program seeking specialization in Monetary and Financial Economics. The University of Malaya is also offering Bachelor of Sharīʿah with Major in Sharīʿah and Economics. It is also planning to launch a Bachelor of Muamalat Management. Both these programs are offered through the Academy of Islamic Studies.

The Universiti Putra Malaysia (UPM) offers one course in Islamic Finance in Bachelor of Economics (Financial Economics major), and one course in Islamic Financial Management in Bachelor of Accounting.

Notwithstanding the above, other Malaysian universities are also planning to launch undergraduate programs in Islamic banking and finance. Universiti Tun

Abdul Razak (UNITAR) is planning to launch two bachelors programs in business administration with specialization in Islamic banking and finance or in Islamic financial planner. The target date for the above programs is January 2009. University of Sabah Malaysia is also planning to launch, though with no target date, a bachelor in Islamic banking and finance.

In addition to the above, several public sector Universities and degree-awarding institutions are offering training programs in Islamic banking and finance. These include, among others, Universiti Technologi Malaysia (UTM) which offers an Executive Diploma in Islamic banking and finance in collaboration with Aims Asian Sdn Bhd; International Center for Education in Islamic Finance (INCEIF) offers Certified Islamic Finance Professional (CIFP) and the center has of late launched a Masters in Islamic Finance program; and Islamic Banking and Finance Institute of Malaysia (IBFIM), the training arm of Bank Islam Malaysia Bhd, established in 1983, which runs Islamic Financial Planner CCP-I + Certified Islamic Banking Practice programs.

2.1.3 Brunei

Brunei's state university, the University of Brunei Darussalam, takes keen interest in Islamic banking and finance. The Faculty of Business, Economics and Policy Studies (FBEPS) offers a 124-credits B.A. (Hons.) program in Economics with a 15-credits Minor in Islamic Banking. The five courses for this purpose are administered by the Centre for Islamic Banking, Finance and Management (CIBFM) of the University that also offers a 42-credits masters program in Islamic banking and finance.

2.1.4 The Middle East – The GCC and Jordon

The Gulf States

In the Gulf States Islamic finance has a long history, where Dubai Islamic Bank is the first Islamic bank to have been established in the region in 1975, with equity stakes from the governments of Dubai and Kuwait and also from the private sector. Two years later, Kuwait Finance House was established, in 1977. And in Bahrain, where the Bahrain Monatery Authority (BMA) quite early adopted a policy of dual banking system, Bahrain Islamic Bank was established in 1978. In 1981, Dar al-Mal al-Islami was registered as an offshore banking unit by Shamil Bank of Bahrain. From 1989 to 1999, BMA issued licenses to ten new Islamic banks. The above rapid growth of Islamic banking was also accompanied by steps by the BMA for the development of information and regulatory framework and corporate governance standards for Islamic banks.This coincided with the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) that started its work in 1991. Bahrain has also made great strides in the establishment of an international Islamic money market and has pioneered the issuance of *Ṣukūks*.

Not much later than its neighbors, Qatar opened its doors for Islamic banking in 1982 with the establishment of Qatar Islamic Bank. The bank started its operations in June 1983. In 1983, after only one year of its creation, Dallah Al-Baraka Group of Saudi Arabia launched Al-Baraka Islamic Bank. At present, other Gulf States also have established Islamic financial institutions.

Rapid growth in the number of Islamic banks notwithstanding, the human resource needs of the Islamic finance industry are met mainly through conferences, workshops and training programs in Islamic banking and finance for reorientation and training of the professionals in Islamic finance.

With the exception of the University of Bahrain which offers one 3-credits course in Islamic Financial Institutions in the B.Sc. (Banking & Finance), offered through the Department of Economics and Finance of the College of Business Administration, in the rest of the Gulf States Islamic banking and finance are not part of the bachelor’s programs.

Saudi Arabia

Several Saudi nationals are playing a leading role in Islamic banking and finance. In Saudi Arabia Islamic finance developed through the establishment of Islamic investment funds by the banks. There are now full-fledged banks carrying out their operations only through the established modes of Islamic financing. Notwithstanding all this, however, only Imam Muhammad bin Saud Islamic University, Riyadh is offering courses relevant for Islamic finance. Its bachelor’s program, offered by the Department of Economics, is inclined in favor of the Sharīʿah courses. The medium of instruction is Arabic.

Imam Muhammad bin Saud Islamic University also offers a bachelors program in business administration. But, again, the program-content of Islamic banking and finance is more or less the same as above.

Jordon

The University of Jordon, Amman, does not have any program in Islamic banking and finance. The Faculty of Business Administration offers bachelor's programs in various disciplines of business administration (management, accounting, finance, marketing and management information systems), public administration and economics through separate departments. One 3-credits course *Al-Masarif Al-Islamiyyah* is elective for the B.Sc. in Finance. There is also one 3-credits elective course in Islamic economics for the B.Sc. in Business Economics.

Yarmouk University, Irbid, has very strong undergraduate programs. A Department of Islamic Economics and Banking was established in January 2001 in the Faculty of Sharīʿah and Islamic Studies. This Department offers a full-fledged bachelor's degree in Islamic economics and banking. In addition, the following options are available to the students of Faculty of Economics and Administrative Sciences:

- *The Department of Banking and Finance permits the bachelor's students to claim a minor in Islamic economics and banking, along with major in finance, by taking 21 credits of courses from the Department of Islamic Economics and Banking.*
- *The Departments of Accounting and Public Administration allows the bachelor's students majoring in their respective programs to seek a minor in the Sharīʿah by completing 21 credits from the departments in the Faculty of Sharīʿah and Islamic Studies. This, in turn, provides the option of the students having a minor in Islamic economics and banking.*

The above option is, however, not available to the students majoring in economics.

2.1.5 Selected Other Countries

Sudan

Sudan is one of the countries that have opted for the elimination of riba from the economy. And, the policy decision to this effect was made in July 1984. However, from the available information on the web, it is not clear how the Sudanese Universities are addressing the teaching of Islamic banking and finance at the bachelor's level.

Iran

Iran, like Sudan, also has *Ribā*-free banking system since 1983. But the information of teaching of Islamic banking and finance at the undergraduate level is not available.

Other OIC-Member States and the Rest of the World

In the other Muslim and non-Muslim countries where Islamic banking and finance has taken root, there are training programs for preparing manpower in Islamic banking and finance, but no formal bachelor's program at the university level.

3. THE CURRICULUM AND ITS TEACHING

Teaching of Islamic banking and finance succeeded—instead of preceding—its practice. In fact, the focus on the doctrinal debates on *Ribā* lasted well into the 1990s, i.e., well after the arrival of Islamic banking with the establishment of the Dubai Islamic Bank in 1975. Malaysia, however, fared better in this regard. Systemic advances in Islamic banking and finance were soon followed by formal teaching of Islamic banking. For example, International Islamic University Malaysia offered an Islamic banking and Islamic financial system course at the bachelor's level as early as 1991. Full-fledged bachelor's programs, as noted above, are of a later vintage. In what follows, we look at the state of curriculum at four levels: (1) full-fledged degree programs, (2) a minor in Islamic banking and finance, (3) Islamic banking courses as part of economics and/or Islamic economics package and (4) a single course in Islamic finance.

3.1. The Curriculum for Full-Fledged Bachelor's Programs

As noted above, only four universities are offering bachelor's programs in Islamic banking and finance. These are: Universiti Teknologi MARA Malaysia (UiTM), University Utara Malaysia (UUM), Yarmouk University Jordan and the International Islamic University Islamabad. Some details of their programs are given hereunder.

Universiti Teknologi MARA Malaysia (UiTM)

UiTM is the first university in Malaysia to launch an honors degree, in July 1999, in the field of Islamic Banking. This programme is planned to meet the requirements of the Islamic banking sector in Malaysia. It is noteworthy that in the final semester the students are required to undergo a period of practical training.

Universiti Utara Malaysia (UUM)

This University's Bachelor of Islamic Finance and Banking (Hons) is a 115+ credit hours program. It consists of basic courses in economics, finance, accounting, management, marketing and analytical methods.

Yarmouk University, Irbid, Jordon

As mentioned earlier, the program is offered through a separate department, namely the Department of Islamic Economics and Banking, in the Faculty of Sharīʿah and Islamic Studies, rather than the Faculty of Economics and Administrative Sciences that looks after bachelor's programs in economics, accounting, banking, finance and marketing, and public administration.

The 132-credit hour program, launched in 2001, is divided into 27-credit hours of general University requirements, 27-credits of the Faculty requirements in Sharīʿah and Islamic Studies, and 78-credits of the Department requirements. The Departmental requirements are divided into 7 courses for 21 credits in economics, accounting, statistics, and money and banking. The rest of the Department courses are mainly in Islamic economics and banking.

The International Islamic University Pakistan

The International Institute of Islamic Economics (IIIE) of the university launched in September 2007 a 136-credits B.Sc. Islamic Banking & Finance (Hons.) program with separate courses for developing functional skills in Arabic.

3.2. The Curriculum for a Minor in Islamic Banking and Finance As noted earlier, the University of Brunei Darussalam allows its students of B.A. Economics (Hons.) to get a Minor specialization on completion of the following five courses for 15 credits. Whereas the undergraduate students majoring in Accounting, Banking & Finance or Public Administration to opt for 21-credits minor in Islamic economics and banking at the Yarmouk University in Jordan, the Department of Islamic Economics and Banking—the principal department offering such courses—does not lay down any specific guidelines in this regard.

3.3. The Curriculum for Islamic Banking & Finance as part of the Economics and/or Islamic Economics Package

This is the practice followed by International Islamic University Islamabad and the International Islamic University Malaysia. The significant thing about these programs is that the Islamic banking course is offered along with a good grounding in *Usul Al-Fiqh, Fiqh* for Economics and Business, and Islamic economics. In this regard, the program has a further edge in terms of the academic preparation in Arabic, the language of the Qur'ān, the *Sunnah* and the *fiqh*.

Imam Muhammad bin Saud Islamic University, Riyadh, follows a similar approach as the above two Islamic universities. It is especially strong on the Sharīʿah side. Three things, however, differentiate it from the programs at the above universities. First, the medium of instruction is Arabic. Second, the economics preparation of the students in economics and banking-related subjects is not as rigorous as that at the above two Islamic universities. Third, on the Sharīʿah side, the students are taught in the classical *fiqhi* tradition.

3.4. The State of the Curriculum for a Single Islamic Banking & Finance Course offered as part of a Bachelor's Degree Program in Economics, Finance or Business Administration

There is no coordination among the various universities in this regard. This is understandable because the contours of the discipline have not yet been defined and independent initiative was at work at those institutions. What may be done in one course, from building the foundations to developing clear thinking on the theory and practice of Islamic banking and finance, is indeed a tall order.

The website of the Department of Finance of the University of Jordon's Faculty of Business states the purpose of a course on Islamic Banking System as follows:

> *This course provides students with the theoretical and applied background in Islamic banking system through the study of the operations carried out by Islamic banking and financial institutions which are based on the principle of profit - loss sharing (PLS). The course includes studying Islamic banks, their incorporation, development, PLS models of investment and equity based financing. (www.ju.edu.jo*

This gives a rough idea of the teaching of Islamic banking at the undergraduate level. That is, on the theoretical side, in some quarters Islamic banking is still viewed as PLS-based banking.

Whereas the above gives a broad picture of the curriculum of Islamic banking and finance, other related issues on student intake, teaching resources and relevance for present and future needs are taken up next.

4. SELECTED OTHER ISSUES

4.1. The Students Intake

The normal requirement for admission to a bachelor's program is 12-years of schooling, *Thanawiyah* in the Middle East and Higher Secondary School Certificate in Pakistan. In Malaysia, however, the students end their basic schooling with an SPM, an 11-years schooling certificate. Some students proceed to the next phase STPM that requires two additional years of study after the SPM. While students with STPM are directly admitted to bachelor's programs, those with the lesser qualification of SPM are required to provide evidence of additional academic preparation. This is, for example, in the form of a credit in

Mathematics/Additional Mathematics or an STPM level credit in some other subject for the students seeking admission at Universiti Utara Malaysia.[1]

Most of the universities face one or the other problem in terms of academic preparation of the incoming students. Some of these are as follows:

1. *Language. The language of the Qur'ān, the Sunnah and the fiqh is Arabic. But the high-school graduates in Pakistan and Malaysia are at a disadvantage in this respect. The problem is further complicated in the cases where the medium of instruction at the school level is the national language.*
2. *Preparation in Sharīʿah. Usul Al-Fiqh and Fiqh for the students of economics, business and finance are not part of the high-school curriculum anywhere. All universities have to fill the void in this respect.*

These factors have the following implications:

i. *In the Arab countries there is no language barrier for the students on the Sharīʿah side. But the source material is often not in a form that readily meets the existing intellectual needs.*

ii. In the universities in the non-Arab countries, the language barrier and availability of proper teaching material are both critical. Some universities, such as International Islamic University Islamabad, try to ease the language barrier, albeit partially, through compulsory Arabic language requirements. However, this only partially facilitates access to the original Sharīʿah texts. Therefore, the teachers draw upon a combination of Arabic and English texts. The local students are also allowed to refer to some source material in Urdu. This is possible because the Subcontinent has a long historical tradition in the Islamic knowledge. Notwithstanding this, however, the medium for examination is either Arabic or English.

iii. In Malaysia, the national language, Bahasa Malaysia, like English, is written in the Latin script. The challenge is, therefore, two-fold: easing the language barrier and imparting Sharīʿah knowledge. Time constraints stand in the way of adequate preparation in Arabic. Therefore, the Sharīʿah

[1]See www.cob.uum.edu.my/index.php?option=com_content&task=view&id=317, the web page of Universiti Utara Malaysia.

discourse is in either English (as at International Islamic University Malaysia) or Bahasa Malaysia (as in Universiti Utara Malaysia).

3. While it is unconsciously or consciously recognized that there has to be universal "Islamic" banking and finance, no Hanafi, Maliki, Shafi'i or Hanbali strands, the dominant *fiqh* in different countries has its is imprint on the Sharīʿah content.

4. Lately, the literature on Islamic banking and finance has witnessed major advancement in English. Of course, the Sharīʿah aspect of this literature is not entirely above reproach.

All of the above factors, to put it mildly, imply that no university can claim superiority of its academic programs over that of the others. The International Islamic University Islamabad may claim to be following a middle course. But only the time will tell which of the experiment is better.

4.2. The Faculty

The problems of curriculum and teaching resources are intertwined. This is understandable: Islamic banking and Islamic finance are still emerging disciplines. All the universities that have taken initiatives to offer one or a few courses in Islamic banking and finance or full-fledged academic programs must be appreciated. They have to design the curriculum while the contours of the discipline are still not clear and needs of the Islamic finance industry are somewhat clear but yet to be fully defined.

In the present circumstances, ready availability of fully qualified teaching resources is a distant dream. The need for teaching the Sharīʿah courses is presently met with the teachers coming from the Sharīʿah and the Islamic Studies faculties of the respective universities. International Institute of Islamic Economics of the IIUI and the Kulliyyah of Economics and Management Sciences of the IIUM are trying to develop in-house manpower for teaching the *fiqhi* courses. This need emerged due to the past experience: the teachers of Sharīʿah and the Islamic Studies faculties—trained in the classical tradition—are good at the details but not on the substance necessary for Islamic economics and finance. They can generate familiarity with the Sharīʿah terminology and concepts, but they cannot prepare the students for thinking along the Sharīʿah lines.

4.3. The Teaching Material

As noted earlier, the teaching material is a major constraint. At present, the respective teachers develop their own course-outlines and select teaching material from scattered sources. The resource scene is somewhat as follows:

- *The Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB) played a leading role in the dissemination of research on Islamic banking and finance through the publication of the proceedings of several international conferences and seminars on Islamic banking and finance. The official journal of IRTI, the Islamic Economic Studies, regularly publishes research articles on Islamic banking and finance.*

- *The IIIE of the International Islamic University Islamabad and the KEMNS of the International Islamic University Malaysia have released some important publications that are relevant for teaching of Islamic finance.*

- *Several Islamic institutions—such as the International Institute of Islamic Banking and Finance, London and the Islamic Foundation, Leicester—are publishing books on Islamic banking and finance.*

- *In addition to Islamic Economic Studies of IRTI, Journal of King Abdul Aziz University: Islamic Economics, Journal of Economics and Management of IIUM, among others like Review of Islamic Economics, regularly publish articles on Islamic finance. Lately, one can also find articles on Islamic banking and finance in international journals of economics, business and finance.*

- *The Accounting and Auditing Organization of the Islamic Financial Institutions (AAOIFI) publishes accounting, auditing, governance and the Sharīʿah standards after every few years.*

- *Central banks of Malaysia, Pakistan, Iran, Bahrain and Sudan are also useful sources of information on Islamic banking and finance in their respective domains. Occasionally, the IMF also releases working papers on Islamic finance.*

- *Several Islamic banks, both in the Middle East and the Far East, have also sponsored the publication of fatāwā and the practice of Islamic banking.*

- *Lately, international publishers—for example, John Wiley & Sons, the Cambridge University Press, the Oxford University Press, Palgrave-Macmillan and Euromoney Books—have released several titles on Islamic banking and finance.*
- *Last but not least, the internet has emerged as a vital source of information on Islamic banking and finance. Some journals are also available online, for example, The Journal of King Abdul Aziz University: Islamic Economics, the International Journal of Islamic Financial Services, and the Journal of Cooperation among the Muslim Countries.*

Lately, surveys and bibliographies of the researches in Islamic banking and finance are also available. For example, "Islamic Banking Theory and Practice: A Survey and Bibliography of the 1995-2005 Literature", by the writer of this paper, in *Journal of Cooperation among the Muslim Countries*, January 2007.

The discipline is going through the phase of critical evaluation, refinements and consolidation. There is plenty of material for interested teachers to design specific courses based on the above sources and the books and other publications in conventional banking and finance.

4.4. The Challenges

Five major challenges in Islamic financing education are as follows:

1. *The paradigm*
2. *The Sharīʿah and its teaching*
3. *The curriculum – academic programs*
4. *The teaching material*
5. *The teachers*

These are separately explained hereunder. The focus here is on identifying the challenges that ought to be addressed by Islamic finance education. Of course, some times the discussion involves points relevant for remedial action. But recommendations and proposed initiatives are the subject of section 4.

4.4.1 The Paradigm

As explained at the outset, Islamic banking started in 1975 with some general ideas but no well-developed theory. Since then advances on the practical plane have taken place at a breakneck speed. But the theory of Islamic banking and finance has not kept pace with these developments. The present position about the

Islamic finance paradigm, in general, is fairly complicated. The following points shed some light on the complexity of the matter.

The Paradigm – Islamic Banking

1. A systematic discourse on the Islamic model of banking is still not available. The working hypothesis in the teaching of Islamic banking is somewhat as follows: since there is interest-based banking, there ought to be Islamic banking. Every teacher and researcher introduces the subject and explains the core issues in his own way. There is still no generally agreed explanation of the rationale for Islamic banking, the nature of Islamic banking institutions, Islamic financial instruments, working of Islamic banks on the deposit mobilization and the financing sides, the institutional framework for efficient Islamic banking, etc.

2. Many things previously deemed to be "no go" areas for Islamic banks now carry "*Ribā*-free" tag. For example, financial lease by conventional banks has always been seen as a case of *Ribā*.[1] Its existing Islamic alternative is *Ijārah muntahiya bittamleek*. The documentations of both the instruments are quite similar, though not exactly the same. Any differences are, at best, marginal. Teaching experience proves it hard to convince the students that "promise to sell/gift" the asset (after the payment of all the installments by the customer) makes much difference.

3. Islamic banks in the South-East Asian region heavily rely upon *Bayʿ Bithaman Ājil* (BBA) for financing.[2] A similar position is held by *murābaḥah* financing in the other countries. A close examination of BBA financing and the *murābaḥah* financing elsewhere reveals that there is not much difference between the two. In the case of the BBA, the client is required to enter into a purchase deal with the supplier and, thereafter, Islamic bank makes a purchase and a sale agreement with the client for the same thing. In the *murābaḥah* financing, on the other hand, Islamic banks create a similar effect by first appointing the client as "agent" to buy the thing and then—i.e. after the client has acquired the

[1] See, for example, *Report on Elimination of Riba from the Economy* by Council of Islamic Ideology of Pakistan (1980), and the Judgment on Riba.
[2] Even education financing is provided through this mode. See, for example, the website of Bank Islam Malaysia Berhad.

things—completing an "offer and acceptance" formality to actualize the *murābaḥah*. Apparently, this is done in order to ensure that Islamic banks sell "what they have". It is indeed a very complex arrangement toward compliance with the Prophet's (Pbuh) directive on not selling what one does not have. An interesting thing about the *murābaḥah* financing is that the original seller's invoices are not made in the name of the Islamic banks and the transaction is not shown in the accounts of the Islamic banks as a purchase and a sale. On the whole, apart from documentation, financing under BBA as well as *murābaḥah* resemble interest-based loan financing. It is, therefore, not surprising that the beneficiaries of such a financing claim the same rights in legal and taxation matters as the interest-based borrowers.

4. *Bayʿ Einah* faces stiff resistance everywhere except in the South-East Asian region. While the opinion still remains divided on this matter, Islamic banks in several countries have created room for advancing personal loans through the instrument of *tawarruq*. This is reverse *murābaḥah*: the bank sells a thing to a client on deferred payment basis and also helps the latter to generate cash by selling the same thing to another party. This party is mostly a legal person. While credentials of *tawarruq* are contentious, it is quite curious that *tawarruq* has not been adopted by all the Islamic banks having more or less the same Sharīʿah Boards. It is difficult to explain these matters to inquisitive students.

5. Car financing is largely based on *Ijārah muntahiya bittamleek*. Some Islamic banks also use *murābaḥah* for this purpose. Apparently, this is done in order to meet the Sharīʿah requirements of making maintenance expenses and insurance premium responsibility of the owner of the asset. But compulsory hypothecation of the asset by the Islamic banks in their own name brings the things back to square one. Of late, some Islamic banks have adopted diminishing *mushārakah* in order to avoid objections to the *Ijārah muntahiya bittamleek* and *murābaḥah* financing. At the end of the day, however, the transaction is carried out in largely the same way as under *Ijārah muntahiya bittamleek*. Teaching of these issues always creates an imbroglio for both the teachers and the students.

6. There is hardly any difference between the working of Islamic banks and their interest-based nemesis on the deposit mobilization side. Practically, Islamic banks offer all financial products that interest-based banks do. There is no

problem with this. Questions arise when one observes, among others, the following:

(i) *A depositor can place a term deposit of his desired maturity at any time, and exit at an appointed time. The exit takes place with interest-based banks paying back the principal plus interest, and the interest paid is charged as bank expense. Moreover, there is a charge in the case of pre-mature withdrawals. Exactly the same thing happens in Islamic banks in lieu of term deposits. In both cases all funds are pooled together, profits are assigned to different categories of the deposits according to their maturity period, and finally distributed among the respective class of depositors according to the daily-product method.*

(ii) *Several Islamic banks are using wadīʿah for raising deposits.*

The instructors of Islamic banking cannot offer a satisfactory explanation for working of Islamic banks' deposit side still being the same as that of the interest-based banks despite differences in their respective legal bases—"loan" and "partnership" in the case of interest-based and Islamic banks, *respectively. A similar dilemma remains about wadīʿah. How can an instrument relevant for non-divisible assets yielding economic benefits be used for a divisible and fungible asset like money? Lately, challenges for the instructors are increasing with the introduction of such novel products as KFH International Commodity Murābaḥah Deposit*[1]*. If it is a contract between the depositors and the bank, how is it murābaḥah? If it is not but some sort of muḍārabaha, what are the grounds for offering "a pre-determined profit rate" to the depositors? If the deposit is to refinance an already existing murābaḥah financing by the bank, that is akin to trading of debt about which the Sharīʿah scholars have serious reservations.*

7 Islamic banks are using the same covers for their financing as the interest-based banks: mortgage, guarantees and promissory notes. The routine of interest-based banks is being followed as if the Sharīʿah has no distinctive guidelines in this regard.

[1](http://www.kfh.com.my/commercial_banking/treasury_services/international_commodity.php?intPrefLangID=1&).

8. The Islamic banks are using more or less the same accounting and balance sheets conventions that have been developed for interest-based banks. For example, despite the fact that *muḍārabaha*-based deposits involve "sharing" of the ownership (not lending) by the depositors with (to) the Islamic banks, all deposits are routinely reported on the "liabilities" side of the Islamic banks.
9. The governance, supervision and control matters for Islamic banks are being handled in the same way as those for interest-based banks. There is no evidence that the arrangements for the Islamic banks have been developed on some Sharīʿah basis. For example, the formulas for SLR (statutory liquidity requirements), capital adequacy ratio, risk management standards are same for Islamic banks as those for interest-based banks. Of course, there are some differences. For example, Islamic banks are allowed to hold *Ṣukūks* towards SLR's. But that is a trivial matter: the basis is the same. No allowance is made for conceptual differences between interest-based time deposits and profit-sharing based *muḍārabaha* deposits.
10. Applicability of *zakāh* in Islamic banking operations is also an unattended matter.

To cut a long story short, the gap between Islamic banking in vogue and traditional interest-based banking is narrowing by the day. Fears of convergence toward interest-based banking model cannot be brushed aside. Against this backdrop, an important challenge facing Islamic finance education is to arrest the slide as also to prepare the students in truly Sharīʿah-compliant Islamic banking.

The Paradigm – Islamic Securities

The idea of debt-based Islamic securities is quite old. Malaysia launched Government Investment Issues (GII's) as early as July 1983. Originally the GII's were based on the notion of loan from the bank buying the issue to the Government with return payable at the discretion of the Government. Since 2001 GII's are issued in the same way as the conventional treasury bills. That is, in the primary market the Government sells specified nominal value of its assets through a tender process to participating financial institutions, and subsequently the Government buys back the assets from the said institutions or bearers of the GII's at par price equal to the nominal value of the GII's. These GII's have a secondary market. The notion of *Bayʿ Al-Dayn* has also been used in Malaysia since the 1990s in order to create private debt securities. The process underlying resembles that of the GII's.

The scene changed with the arrival of *Ṣukūks* in 2001. Several Muslim countries, led by Bahrain and Malaysia, issued *Ijārah Ṣukūks* to mobilize funds for development projects. The model has been replicated by many countries and private companies. Lately, *ṣukūk al-intifa'*, *salam Ṣukūks* and *mushārakah Ṣukūks* have also come into existence. These *Ṣukūks* are excellent examples of financial engineering. But, at the academic level, they have added to already existing confusions. For example, in the original *fiqhi* discourse, sale takes place when the seller and the buyer are independent parties. But the foundation of *ṣukūk al-Ijārah* is sale of an asset by government to an SPV (special purpose vehicle) that is created by the government through an administrative fiat. This contradiction becomes obvious when the funds generated by the sale of the *Ijārah Ṣukūks* to investors (through the SPV) are claimed by the government, not left to the SPV. And, to add even a further confusion, the *Ṣukūks* also carry a "binding promise" by the government to buy the *Ṣukūks* back at their face value. The linkage of rental to LIBOR and similar other benchmarks further complicates the job of the teachers. A last straw comes from the original position that *Ijārah* is an instrument to get an asset on lease, not to generate funds.

In all fairness to the teachers and the students of Islamic finance, the contradictions between the *fiqh* at the micro level and the macro picture created by the *Ṣukūks* are irreconcilable.

The Paradigm – Islamic Equities and the Stock Market

The last twenty years have seen the development of Islamic investment funds to provide vehicles for investment in the stock market. Some benchmarks (about the main business of a company, its debt-equity ratio, percentage of interest-based income, etc.) have used to identify the existing shares in which concerned Muslims can invest without the fear of conflict with the Sharīʿah.

The contradictions are there but go un-noticed. While attention is being paid to tradability of shares, there is no model of an "Islamic joint stock company" by the Islamic scholars, in particular the Islamic jurists. While the principles for trading of goods are clear, such as no *gharar,* etc., the *Aḥkām* for trading spelled out in detail, the same is not the case for the trading of shares. For example, whereas tradability of shares may not be an issue, is the existing instrument above reproach from the Sharīʿah point view?

The above are very basic points. These and several other issues are yet to be taken up. This, among others, is a factor that teaching of Islamic finance has to grapple with.

The Paradigm – Islamic Insurance

In the domain of conventional finance, there is insurance of several types as well as re-insurance. Of course, Sharīʿah scholars have developed the notion of *Takāful* to provide an Islamic alternative. But when one looks at the range of the products, the list is similar to that of conventional insurance companies. There is no serious explanation to clarify why the original notion of *Takāful* extends seamlessly to all areas, such as life, property, marine, etc. Quite interestingly, Islamic financial engineers have come up with not only *Takāful* but also re-*Takāful*. It is well-known that ordinary traders are not permitted to insure their vocational risk. Why can *Takāful* operators be allowed to insure the risk consciously undertaken by them? Similarly, basically "*Takāful*" is a social or group notion. How can it provide basis for "bilateral" contracts between a *Takāful* operator and its prospective clients? These basic issues are unresolved.

The Paradigm – The Overall Picture

While there is a niche in the form of "Islamic banking" and "Islamic finance", there is little scientific knowledge to back it. There is hardly any theory that provides a unifying link between the existing positions on the various issues. This is the biggest hurdle in the way of Islamic finance education.

4.4.2 Sharīʿah and its Teaching

The claim of Islamic banking and finance as a distinct reality rests on "Sharīʿah-compliance". A consensus on the Sharīʿah matters is crucial for the advancement of Islamic banking and finance. The points discussed above reveal that there is a lot to be done in this respect. The existing approach on the Sharīʿah aspect of Islamic finance is as follows:

(1) *It is taken for granted that the Sharīʿah side is responsibility of the Sharīʿah scholars, and the banking and finance side that of the professional bankers and financial experts.*

(2) *Notable things about the recent developments on the Sharīʿah side are as below.*

i. *The general approach of the Sharīʿah scholars remains the same as that in the past. That is, the Islamic jurists are mainly concerned with permissibility versus non-permissibility of a matter placed before them. The subject matter is not probed in its totality. The focus is limited to the problematic parts. And remedies are proposed in order to correct the problematic parts.*

ii. *The methodology of the Sharīʿah scholars (Usul Al-Fiqh) remains more or less the same as in the early centuries of Islam. That is, the answers are initially sought in the Book of Allah (SWT), the Sunnah of the Prophet (Pbuh) and the Ijmaʿ of the Sahabah and, if need be, developed using the tools of Ijmaʿ, qiyas, istehsan, maṣlaḥah mursalah, ʿurf, etc. Of course, a notable departure from the original course is the use of the earlier fuqahās ijtihādi opinions (based on their qiyās, etc.) for further ijtihād.*

Of late, there is a notable departure from the original methodology in the form of greater reliance on qawaid al-fiqhiyyah (the Sharīʿah maxims) and maqasid al-Sharīʿah. This approach is a type of reverse engineering. Assignment of weights to different considerations before the fuqaha is a highly subjective matter.

iii. *The idea of "collective ijtihād"—ijtihād by a group of Sharīʿah scholars—has gained currency. Its acceptance stems from the complexity of the modern-day issues and the enormity of the challenges facing the Muslim Ummah. The working hypothesis is that knowledge of all the established schools of fiqh is common heritage of the Muslims. Against this backdrop, several Sharīʿah scholars trained in their own fiqhi traditions sit together, discuss the issue at hand in the light of their respective knowledge, and after a process of discussion develop a common position. There are both formal and non-formal forums for this purpose. The OIC Fiqh Academy and the Council of Islamic Ideology of Pakistan are two examples of the official bodies. The Fiqhi Academy of India established by graduates of Darul 'Uloom Deoband, in Delhi, exemplifies private initiatives. The idea of Sharīʿah Boards at the level of central banks as well as* *individual Islamic banks is another manifestation of the ever increasing reliance on collective ijtihād.*

Some of the problems with the existing approach are as follows:

1. *The dichotomy in the responsibilities for the Sharīʿah and the applied sides has dual implications. One, it permits the shifting of blame on the others for any questionable things in the existing Islamic banking and finance. The bankers don't own the legalistic arrangements that fall in the jurisdiction of the Sharīʿah scholars. The latter don't take responsibility for any lapses on grounds of questionable adaptation of their views by the bankers. Two, Sharīʿah scholars vs. bankers divide also permits Sharīʿah arbitrage. That is, the bankers have incentive to look for Sharīʿah advice from scholars who can give "acceptable" solutions. The only solution to this problem is to bridge the Sharīʿah vs. worldly divide in the manpower and architecture of Islamic financial institutions.*

2. *The existing approach of collective ijtihad or "ijtihad by a group of Sharīʿah scholars" is a risky proposition. It is well-known that in the group framework "collective identity" overshadows "individual identity" of the respective individuals. This, in turn, encourages adoption of positions that perhaps no Sharīʿah scholar might be ready to take otherwise.*

3. *The methodology of fiqh or the approach to work out Sharīʿah solutions calls for a review for several reasons:*

    i. *The existing issue-by-issue approach of the fuqahā cannot keep pace with the emerging challenges. It is to be replaced by a more proactive approach whereby the focus is directly on providing practical solutions for legitimate concerns, rather than cleansing and rectifying the existing options.*

    ii. *The use of qawaid al-fiqhiyyah and maqasid al-Sharīʿah creates space for subjectivity. Assignment of weights to different considerations is always a highly subjective matter. It has already lead to situations getting out of which is going to be fairly complicated. For example, the notion of penalty on bank-defaulters, on the pretext of ṣadaqah, is not defensible on the basis of the ayat of* *the Qur'ān and the relevant ahādith. Similarly, fusion of ʿaqd and wa'd is generating more heat than light*[1].

The handicaps created by the existing approach are too many. For example, the original idea of Islamic banking being based on profit-and-loss sharing delayed meaningful advances in the area by several decades. Lately, according to the press report on 26 March 2008, the State Bank of Pakistan issued fresh guidelines for Islamic banks whereby the Sharīʿah advisors were authorized to transfer "income from Islamic banking operations" to a charitable fund if they deem the transaction to be questionable. Why would such a possibility arise in the first place? Similarly, there is uneasy calm on the Ṣukūks front. The Sharīʿah scholars are now distancing themselves from some of the existing implementations.

iii. The existing approach, though useful, may stand in the way of the goal unification of the fiqh. The reason is simple. As long as the element of subjectivity (inherent in istehsan, maṣlaḥah, application of Qawaid Al-Fiqhiyyah and Maqasid Al-Sharīʿah) remains, the argument would remain opinion of one against the other. The only long-term solution lies in entrenching the argument in the Qur'an and the Sunnah.

The last point raised above is not as difficult as it perhaps sounds. It is an undeniable fact that the Aḥkām of the Sharīʿah are given at micro level for the basic case.

4.4.3 The Curriculum and the Teaching Programs

The targets may be set both for the short-term and the long-term. Moreover, one may have to make an allowance for the nature of the educational institutions. For example, the Islamic universities versus the traditional universities. And, in the

[1]A good example is KFH's Promissory Foreign Exchange Contract. KFH Promissory FX Contract is a written, dated and signed instrument by a party containing an *unconditional promise* to enter into an agreed foreign exchange contract with another party at a specified future date. The product is designed to assist your business to mitigate the uncertainty and provide flexibility in managing your foreign exchange open positions. http://www.kfh.com.my/commercial_banking/treasury_services/promissory.php?intPrefLangID=1 &; emphasis added. It is a clear departure from the established position on *bay[al-sarf* facilitated by a *wa'd* (promise).

latter category, we need to keep in view the universities in the Muslim countries as well as those in non-Muslim countries, particularly those in the West where not only resourceful Muslim youth go but also who can influence the course of future developments at the global level in a positive way.

4.4.4 The Teaching Material

It goes without saying that ultimately there has to be some sort of standardization in the teaching material. While individuals may be already at work, there is need for action at the institutional level, especially the Islamic universities, the other universities offering educational programs in Islamic banking and finance and research institutions devoted to the cause of Islamic banking and finance. The IRTI at the Islamic Development Bank, Jeddah and INCIEF in Malaysia and some other institutions are already doing useful work in this regard. But their outreach needs to be extended to mainstream teaching of Islamic banking and finance.

4.4.5 Teachers

At present, the universities and other institutions are using stop-gap measures. In-house faculty is working on the instruction as well as the teaching material sides. The solution may take a while until fresh graduates with command over both the Sharīʿah matters and banking and finance come to the market. However, there is room for short-term measures, in the form of short-term teaching programs and workshops for university teachers, to develop and to strengthen human resources for teaching purposes.

5. SOME RECOMMENDATIONS AND PROPOSED INITIATIVES

With the existence of several stakeholders with a common concern but different interests, an improvement on the academic front in the short term—the next 5 to 7 years—would be over-optimistic. However, some steps may be taken to reduce this period.

1. Establishment of a forum for sharing of experiences and resources by the teaching and research institutions. At present, such a forum exists in the form of international conferences and seminars. This, however, leaves much to be desired. A separate forum for the major stakeholders—both the teaching and/or research institutions and the representatives of Islamic finance industry—is

required for monitoring the developments, say, after every two years. This, in turn, would involve the issue of resources that may be looked into.

2. Arrangement of international seminars for the teachers of Islamic banking and finance in OIC-Member states on an annual basis. IRTI may take the responsibility of providing resource persons while the host or the participating institutions may bear the other necessary expenses—local hospitality and other material costs.

3. General Curriculum development. Monographs may be produced under an organized arrangement with suitable incentives for those who are called upon to work. The requisite effort may involve sacrifice of undue sensitivities on both the Sharīʿah and the practical sides. For example, among other things, lack of pro-active leadership by the existing Sharīʿah experts partly stands in the way of speedy and meaningful developments. While the door cannot be opened wide for everyone, foreclosing the possibility of input from other sources (with proper support from the Qur'ān and the *Ḥadīth*) is also not healthy. Likewise, when theoretical advancements are made, many of the established views or practices may call for review. In any case, in the long run, there is no escape from healthy criticism with proper basis in the Qur'ān and the *Sunnah*.

4. The Sharīʿah Curriculum. IRTI may establish working groups that can meet bi-annually to define curriculum and oversee the development of appropriate curriculum to meet the long-term needs of the Islamic finance industry.

5. A Blueprint for Teaching of Islamic Banking and Finance. IRTI may hold a workshop of academicians from institutions of all OIC-Member states, especially the 18 countries that are members of Islamic Financial Services Board (IFSB). This conclave should prepare proposals for academic programs in Islamic Banking and Finance.

   Once model programs have been outlined, the outcome may be shared by IRTI with the Ministries of Education of the OIC-Member States and other interested parties. The information can then be disseminated in the respective countries. As far as for the actual launching of the programs, the respective universities can do on their own initiative, once they are convinced, because all universities are autonomous for the purpose of launching any new degree program.