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**GLOBAL INSTITUTE OF SHARIAH  
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# **COMPARATIVE ANALYSIS OF SOCIO-ECONOMIC DEVELOPMENT OF ISLAMIC APPROACH OF ECONOMY AND CAPIATLIST APPROACH OF ECONOMY IN PAKISTAN**

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## **ABSTRACT**

Economic System of Islam refers to the guidelines of Quran and Sunnah. It is based on the principles of human brotherhood, social and economic justice, proper circulation of wealth and individual freedom related to social welfare. Pakistan being an Islamic State, must have economic system according to the principles of Islamic Laws (Shariah). Currently the economy of the country is functioning on the Interest-based system. It needs to be reviewed and replaced according to principles of Islam. The purpose of the study was to review the socio-economic development of Islamic approach of economy and capitalist approach of economy. Two major research questions were raised. The scope of the study was limited to Islamic approach of economy and capitalist approach of economy in Pakistan. In-depth analysis of the literature was done. Qualitative research design was adopted. Samples were drawn through purposive sample design. The samples of books, Quranic Verses, and Ahadith were drawn alongwith the sample of experts on Islamic and Capitalist economy. Most of the sources to conceptualize the concepts of Islamic teachings are found in the Holy Quran, Ahadith (Traditions of the Holy Prophet Hazrat Muhammad (S.A.W.S), the books and Articles of the eminent scholars. Social, economic and ethical values relating to Capitalism, found in the books and Research Papers. Pakistan being an Islamic State, must have economic system

according to the principles of Islamic Laws (Shariah). The overall objective of the study was to compare and analyze the socioeconomic development of Islamic approach of economy and capitalist economy. The Study will help in advancement of knowledge, in the discipline of study.

- *To take decisions in the light of the findings of the study.*
- *The study will be valuable for the stakeholders like, State Bank of Pakistan, commercial banks and other financial institutions. It will benefit these institutions to develop and streamline their organizations.*
- *The economy of the country is functioning on the Interest-based system, which needs to be reviewed and replaced with the Islamized system.*
- *For Islamization of economy, there is need of Islamic reforms.*
- *In view of importance of the topic, this researcher has chosen this topic for the Study*

*Key Words: Socio-economic Development, Islamic Approach of Economy: A Capitalist Approach of Economy:*

## **INTRODUCTION:**

The Islamic Economists define Islamic economics as a Social Science having its own methodology and particular value system, based upon the injunctions of Islam about Riba and payment of Zakat. The modern economics has been defined by different economists differently. According to Adam Smith, “economics is the study of nature and causes of wealth of nations”. Alfred Marshall says, “Economics is a scientific inquiry in ordinary business of life”. To Robins, it is a study of scarce means to alternative uses”. To Marx, economics is a theory of Capitalism. The Islamic Economic System, if implemented after careful consideration, will be suitable for Pakistan which is an Islamic Country, will play important role for its sustainable economic development. (Pal, Izzuddin (1999)). In Islamic economic system there is a state intervention about economic activity in order to ensure welfare of its underprivileged population, but probably, there is no such a backing from capitalist countries for their residents. Moreover, some distinctive specification for Islamic economic system such as eradication of interest, organization of sadaqat and Zakat, concept of lawful and unlawful, just distribution of wealth, ban of hoarding and pressure on circulation of wealth, concern for wellbeing of the deprived people, which is not in capitalism. Although, the states having capitalist

economy, like other natural things where there is no equality among human beings, why should be an economic fairness in possession of wealth. In Islam also mentioned in Qur'an that this inequality is a part of Divine Economic order and never try to eliminate them, and with such inequality God intends to tests the human beings according to Muslim belief to know whether they are grateful to Him in both goods and disturbing situations or not. Besides, Islam does not allow few people live in ease and control main part of wealth whereas the majority of people possessing insignificant portion in community and are engaged in poverty, misery and hunger. In accordance to Islam, distinction in wealth had not to be increased than reasonable limits, because if it takes place the community faces its natural end of self-destruction. Islam is a heavenly religion; it cannot be compared with the Conventional ideological economic systems like, Capitalism, Socialism or Communism; because these ideologies come into existence under the pressures of certain circumstances. The Islamic economic system has the following features: Freedom of individual decision-making, guaranteeing individual rights, encouraging economic activities throughout the lands, social justice and welfare of the society. However, there are certain restrictions on expansion of private wealth, fight against poverty, wealthy people of the society must pay Zakat. Riba is prohibited in Islam and lawful means of investment are permissible. The main economic functions of the Government in Islam are given below:

1) Guaranteeing social and economic justice, 2) Full utilizations of resources, 3) Stability in the price of merchandises., 4) Social Security, 5) Proper circulation of wealth, 6) Maintaining Law & Order in the Country, 7) Harmonious relations with other countries and 8) Fiscal Measures. (Nasir, M Saeed (2005).

The essentialization of an Islamic economic system is required to assess whether Islamic business is simply a substitute mode of capitalist production or a sole and equal alternative economic order. The ethical standards of Islam are completely united with its economic purposes, as these are not voluntary actions but, important part of the revealed knowledge; and thus, its rigid nature makes it essential for them to be followed. This 'system' understanding also relates to the operational nature of an economic worldview irrespective whether "theoretically expressed

and documented or conventionally practiced over years” [Nomani and Rahnema 1994: 41]. Therefore, this discards criticism of an Islamic economic worldview, which is premised on the ideologies of revealed knowledge. Because, a lack of modern theoreticising does not disprove Islamic economics, ‘systemic’ claim, as an economic system is a “static recording of how society arranges itself to resolve the basic economic problems of what is to be produced, how many, how and for whom” [Nomani and Rahnema 1994: 41, (Asutay, 2007).

Capitalism has the features, like the right of private property, free market economy and self-interest without Government intervention. It supports the Capitalists to benefit from wealth accumulation. On the contrary, Islamic Economics is the mingle of natural traits present in Capitalism, such as right of private possessions, economic interest and use of marketplace forces. But it provides interest-free economy, social-economic justice, better income distribution and increase aggregate production; thus ensuring economic growth. (Shaikh, Salman Ahmed.(2009). In capitalism, there is no such a limitation and citizens can continuously increase their treasure and the key objective is that, the Islamic rules are coming from Allah, whereas; the capitalism system is a man made economic system. Besides, Islam has condemned the hoarding of everything for making profit in true clear terms, and those who hoard their wealth have been threatened with going to hell. Moreover, Islam encourages people for distribution of wealth among all segments of society. Capitalism is an economic system, where the owners control the factors of production and enjoy maximum profit. Capitalism needs a free marketplace economic system to prosper. It distributes items and services according to the laws of supply and demand.

### **Socio-Economic Development**

Socio-economic development of any region or area depends upon different features or components, which belonging to different parameters and it is very tough job to deliberate each and every element of socio-economic development in detail. Yet, now few major components of socio-economic development are being discussed. The main components of socio-economic development given below: Per capita Income Level of Agriculture Development, Industrial Development,

Urbanization Occupational Structure, Educational Development, Health Status, Transport and Communication, Population Characteristics Per Capita Income. The Per capita income is commonly recognized as a general degree of development. It is a routine to ascertain as to whether an area is backward or advanced in the levels of development using the assessments of per capita income. The areas enjoying higher per capita income are considered to be more advanced than the countries or regions with low per capita income. Normally per capita income has been taken at present rate. This variable or element is usually used for assessing economic development. Under-developed economies are distinguished from the developed economies on the basis of their low per capita income. The earnings, consumption and wealth are the direct sources of determining the economic condition of any state or place or an individual. (Albu,Mandru and Suciu-2018).

**Research Questions:** The present study was designed to analyze the Socio-economic development of Islamic Approach of Economy and Capitalist Approach of Economy in Pakistan, raising the following research questions:

- 1) Is the existing system of economy according to Islamic economic system or the Capitalist approach of economy?
- 2) Does the present economic system play any effective role in the social life improvement?

### **REVIEW OF THE LITERATURE**

Extensive literature was reviewed which reveals that the previous studies have considered the perceived understanding of socio-economic development of both Capitalist approach of economy and Islamic approach of economy in Pakistan. Development changes people's lives not just to replicate the economic data intended to influence the public that government has started numerous development schemes to increase the living standards, but it would make no logic if human development index shades a miserable picture as countries Like Bangladesh and Sri Lanka are seen well ahead of us in HDI rankings calling for massive warfare basis to increase our HDI, Economic projects as suggested by the lawmakers at Provincial and National level, yet these development projects have proved to be unsuccessful to improve the country's human development position

since these development projects are directed to profiting the rich people instead of changing the lives of the oppressed common people as real development means more than that, not just economic number game. To bring the actual development, we want to study numerous development models of various nations to know that how these countries have changed the lives of people and brought lifelong change by lamenting effective development policies. The governments in this regard should come with clear economic ethical policy by taking all the stakeholders i.e NGOs, INGOs including UNDP and World Bank Experts, development and economic professionals, legislators and Policy think tanks such as Sustainable Development Policy Institute, Institute of Policy Studies, Prime Institute, SPDC, PIDE, IDEAS-LUMS, NSPP, PITAD and IPRI for policy advice and suggesting strategies that may help Pakistan get out of the crisis. (Kapur-2018, [www.researchgate.net](http://www.researchgate.net)). The highest test then in dealing with Islamic worldview and economic development is that, how can the capability, approachability, and elasticity of human being in synthesizing between the Islamic legacy and new economy perfectly. Since, the economic development in Islam is firmly goal-oriented and economic managers have to set a definite goal which do not go outside "the purposes of Shariah (Maqasid Al Shari'ah)". The current economic system flops to satisfy and fulfill the goals of economic development, namely fulfilling properly the prerequisite of factual development of individual and society leading to supreme socio-economic well-being and the definitive good of mankind. (Kusuma-2010).

### **Islamic Perspective of Economic Development**

The Challenge confronted with the aid of using the sector of Islam is re-growing and restructuring their financial system in a manner is taken into consideration commensurate with the Shariah compliant. The paper is prepared in the under mentioned order, short introduction; talk at the goals of Shariah; planned Islamic idea of Development; inspect the general public spending and borrowing in Islam; complex the idea of Islamic nation; and subsequently offer summary and conclusion of Shariah (Maqasid Al-Syariah). Islamic Concept of economic development is described as a method, in which its material leaves in allowing people to meaningfully manipulate their monetary surroundings on the way to enhance their

lifestyles. The economic method right here is supposed as the system which stays included and undividable detail of the ethical and socio-economic development of human society. Islamic development is based on First, orientated and dedicated to the optimization. The position of man or women in all measurement of rein, order to reap the falah (welfare) each on this universe and hereafter. Next, Economic development, in keeping with Islam, ought to guide an economic system on accurate strains and in the proper course. Finally, we may also carry as much as the concept that economic development in Islamic approach is seeking to reconstruct a concept. In this regard, the development in ethical, non-secular, and fabric as nicely, and virtually the fulfillment that's relied upon a balanced persona devoted to and able to performing because the ultimate submission to the Truth of Allah's guideline. Since, the economic development in Islam is exactly aim-orientated and monetary traders need to set a sure aim which do not cross beyond "the goals of Shariah (Maqasid Al Shariah)". It is concluded in the way that The genius economic method falls to meet and satisfy the desires of economic development, i.e. gratifying pretty the requirement of fabric improvement of man or woman and society to most socio-economic welfare and the present economy effortlessly. (Kusuma-2010).

### **Capitalist vs. Islamic Economy**

Islam does not negate the marketplace forces and market economic system. Even the profit motive is suited to an affordable level. Private ownership is not absolutely contradicted. Yet, the simple distinction among capitalist and Islamic economic system is that in secular capitalism, the income purpose or non-public possession are given unrestrained authority to allow economic choices. Their liberty is not managed via way of means of any heavenly commands. In case, a few regulations, if imposed by the people and are constantly continued through the democratic lawmaking, which agree to take no right of any super-human power. Such a mindset has permitted certain practices which cause inequities in the society. Interest, gambling, hypothetical dealings have a tendency to pay attention towards capital in the supports of the few. Corrupt human instincts are misused to make money through dishonest and harmful products. Unchecked profit making generates monopolies which paralyze the market place forces or, at

least, prevent their normal process. Thus, the capitalist economic system which claims to be based on marketplace forces, almost halts the regular method of demand and supply, Because of this, those forces can suit in a surroundings of open competition, and not in monopolies. It is every so often liked in a mundane capitalist economic system that a sure economic interest is not in the interests of the society, but it is permitted to be persevered as it is going in the direction of the interest of a few powerful circles who govern the elected representatives at the power due to their majority. As each authority past the democratic rule is absolutely denied and trust in Allah (that's affirmed on the face of each U.S. dollar) has been almost excluded from the socio-economic domain, no divine directing is identified to manage the economic actions. The ills stemming from this mindset could by no means be controlled till the people bow to the divine power and follows its commands for obeying them as total reality and super-human orders which have to be observed anyhow and at any charge. This is exactly what Islam does. After recognizing private ownership, income purpose and marketplace forces, Islam have positioned definite heavenly principles for the financial deeds. These regulations being enacted in the way of Allah the Almighty, whose expertise has no boundaries, cannot be eliminated by any human power. The ban of *riba* (usury or interest), gaming, hoarding, dealing in illegal items or offerings, quick income and speculative dealings are a few examples of those divine regulations. All those bans blended collectively have a collective consequence of preserving balance, distributive justice equality of possibilities. (Mufti M TaqiUsmani).

## **METHODOLOGY**

The qualitative research design was adopted. Population was comprised of Verses from Holy Quran, Ahadith, text from books and research articles of eminent scholars and experts. Purposive sampling design was adopted to select the sample of Verses, Ahadith, text from books and research articles and experts. Interview was conducted to collect the data from experts. Content analysis was done.

Content analysis of major themes and sub-themes of the Verses from the Holy Quran and Ahadith (Traditions of the Holy Prophet, Hazrat Muhammad (S.A.W), selected text from books and Research Articles was done. Capitalism and Islamic

Economic Systems have obvious similarity in lots of regions consisting of permitting private possession, permission of incomes via way of means of the capitalist (with a few delinquency and ethical regulations in Islam), dedication of charges via way of means of the marketplace forces (without influence of marketplace, hoarding and hypothesis in Islam).

### **1) Verses from the Holy Quran**

**Verse No. (29:57)** The Islamic notion of *falah* (Welfare) could be very wide-ranging. It refers to formal, ethical and socio-economic welfare on this international and fulfillment in the Hereafter. Islam presented the first ever concept of welfare state. In Islam, sovereignty lies only with ALLAH. Islam secures rights of all segments of society. It commands its followers to do *Falah* for entire human society. ... It secures the rights of poor through *zakat* and *Ahsaan*.

**Verse No. 11:85** And O my people! Give just measure and weight, nor withhold from the people the things that are their due: Commit not evil in the land with intent to do mischief. (Al-Qur'an).

**Analysis:** The Quran teaches us to be reasonable in all of our affairs according to the concepts of Islam, for Islam has encouraged humans to get worried with numerous kinds of morally-suited businesses.

**Verse No. 4:29** Allah the Almighty says; "Eat not up each other's property by unfair and dishonest means." (Qur 'an-4:29).

**Analysis:** The Quran warns the people who violate this injunction: "Woe to the people who supply less than due. Who, once they take a measure from persons as buyers, they take full? But in the event that they supply by means of weight as dealers, they motive loss to others via way of means of giving much less than due. Do they not suppose that they'll be resurrected? For a momentous Day of Judgment. The Day whilst mankind will stand before the Lord of the worlds?" (Quran, 83: 1-6).

2) **Ahadith (Traditions of the Holy Prophet Hazrat Muhammad (S.A.W.S) Hadith Number 1209**, (Jami-al-Tirmizi, Vol 3, Chapter on Business. Prophet (SAW) said: “The truthful and trustworthy businessman will be in the company of Prophets, saints and martyrs on the Day of Judgment.”

**Analysis:** The Prophet (SAW) promoted fairness and equity and indicated that one should not involve themselves in transactions that will cause greater harm than good to the community and the environment.

**Hadith:** Ṣaḥīḥ al-Bukhārī 6094, Ṣaḥīḥ Muslim 2607

Abdullah ibnMas’ud reported: The Messenger of Allah, peace and blessings be upon him, said, “You must be truthful. Verily, truthfulness leads to righteousness and righteousness leads to Paradise. A man continues to be truthful and encourages honesty until he is recorded with Allah as truthful. And beware of falsehood. Verily, falsehood leads to wickedness and wickedness leads to the Hellfire. A man continues tell lies and encourages falsehood until he is recorded with Allah as a liar.”

**Analysis:** The Prophet Muhammad (SAW) has stressed the importance of honesty in most of his sermons, saying: “Remember, there is no faith in him who is not trustworthy; there is no place for him in religion that cares not for his pledged word or promise.

### 3) **Books of Eminent Scholars**

(Ahmed-2002)- **Islamic Economic Science: Definition, Essence and Nature-** A Book-Theoretical Foundations of Islamic Economics. Pp, 23-38.

“Islamic economics is the science that studies the best possible use of all available economic resources, endowed by Allah, for the production of maximum possible output of Halal goods and services that are needed for the community now and in future and the just distribution of this output within the framework of Sharia’h and its intents”.

**Analysis:** A definition of economic science that embraces the relative scarcity

concept, as given by P. Samuelson, is “Economics is the study of how people and society choose to employ scarce resources that could have alternative uses in order to produce various commodities and to distribute them for consumption, now or in the future, among various persons and groups in society”. This definition links all the aspects of the economic problems including production, distribution, consumption, and growth in the future. This definition also emphasizes the necessity of the best possible exploitation of economic resources since they are scarce relative to unlimited wants. This is an important point for the society in order to obtain the maximum quantity of goods and services that can possibly be produced in any given period of time, i.e. maximum possible level of economic welfare.

•(EAMONN BUTLER-2018) - **AN INTRODUCTION TO CAPITALISM** - (A Book)

Capitalism is an economy which relies on markets, private property, and the Rule of Law. It depends on prices, competition, and profits to direct resources to where they are most needed and to reward those who can best satisfy the wants of others.

**Analysis:** When buyers and sellers meet in a market to exchange goods and services, their offers and bids create prices that can be posted, advertised, and otherwise made known. This feature distinguishes capitalist economies from other economic systems. Prices act as signals telling producers what consumers are willing to buy and consumers what producers are willing to sell. Economist Henry Hazlitt explained, “It is only the much vilified price system that solves the enormously complicated problem of deciding precisely how much of tens of thousands of different commodities and services should be produced in relation to each other.

#### 4) **Research Articles/Research Papers**

##### **Capitalist vs. Islamic Economy: Introduction to Islamic Finance (Usmani)**

Interest, gambling, speculative transactions have a tendency to pay attention towards capital in the supports of the few. Unhealthy human instincts are exploited to make money via immoral and injurious products. Unbridled profit making

creates monopolies which paralyze the market place forces or, at least, prevent their natural operation. Thus, the capitalist economic system which claims to be based totally on marketplace forces, almost stops the natural method of demand and supply, due to the fact those forces can properly suit in an surroundings of free competition, and not in monopolies. This is precisely what Islam does.

### **The Most Important Aspects of Capitalism:**

The maximum vital elements of a capitalist system are private belongings, non-public management of the elements of manufacturing, accumulation of capital, and opposition. The starkest counterpoint to capitalism is communism. In a communist gadget, there may be no private belongings, an important government manipulates the functionality of manufacturing, capital isn't always amassed through oldsters or private agencies, and competition is nonexistent. But without a doubt, a capitalist gadget is managed by using marketplace forces, even as a communist system is managed through manner of the authorities. Private Property The proper to private belongings is a important guideline of capitalism. Citizens cannot collect capital if they're not allowed to very own whatever, nor can they buy or promote matters. As prolonged because the proprietor remains in the parameters of the regulation, which usually are big in capitalist structures, he may also moreover do what he wants with the belongings he owns. A private citizen can also additionally purchase belongings from any other private citizen at a price this is jointly agreed upon and not dictated thru a authorities. In a capitalist gadget, the loose marketplace forces of offer and call for, as an opportunity than an important governing body, set the expenses at which belongings is obtainable and sold. (GREG DEPERISIO- 2018)

### **5) Experts in Islamic and Capitalist Economy**

- Experts in Islamic Economy 05
- Experts in Capitalist Economy 05

### **Findings**

After comparative analysis of the Capitalism and Islamic Economy it reveals that the philosophy of capitalism is the final consumerism and the feeling of its vision.

A unique function of the capitalist economic system is the open opposition among consumers and seller. But, capitalism could not cure the economic difficulties of the human competition and also couldn't get rid of poverty. On the contrary, discrimination has elevated amongst the poor people. Islamic finance did not deliver open freedom to non-public initiative and did not even put on chains on its legs. Achieving stability in all regions is one of the needs of this economic system and existence-giving. The privileges of the person to supply and earn are acknowledged right here. Ban of interest, Risk involvement, asset-based dealings, currency as "Prospective" capital, the exclusion of hypothetical activities and purity of agreements and protection of assets rights is engaging in depending to Islamic economics. Moreover Zakat and Ushr and spending in way of Allah are one of the fundamentals of this economic system. The economy of the country is functioning on the Interest-based system, which needs to be reviewed and replaced with the Islamized system. For Islamization of economy, there is need of Islamic reforms. For those reasons, the Islamic economic system may be a terrific opportunity of economic mechanism to keep away from the manipulation of capitalism and socialism. IJSHS, 2019; 3 (3): 11-32 29.

### **Conclusion and Discussion**

Capitalism is an economic system, where the owners control the factors of production and enjoy maximum profit. Capitalism involves a free market economic system to flourish. It distributes items and services according to the laws of supply and demand. Another aspect of capitalism is the free operation of the capital markets. Capital markets enable businesses to elevate dollars to expand. Companies distribute income amongst the owners. They include investors, stockholders, and private owners. The future economic Scenarios of Pakistan look hopeful but upon a number of factors such as emerging international economy, positive addition of Pakistan into the worldwide economy, complete macroeconomic, a sturdy authority context, investment in arrangement and human progress and political strength. (Hussain-2018). Capitalism has the features, like the right of private property, free market economy and self-interest without Government intervention. It supports the Capitalists to benefit from wealth accumulation. On the contrary, Islamic Economics is the mingle of regular features existing

in Capitalism, such as right of personal property, economic concern and use of market forces. But it provides interest-free economy, social-economic justice, better income distribution and increase aggregate production; thus ensuring economic growth. (Shaikh, Salman Ahmed (2009). On the other hand, the Islamic Economists define Islamic economics as a Social Science having its own methodology and particular value system, based upon the injunctions of Islam about Riba and payment of Zakat. Whereas, the modern economics has been defined by different economists, differently. According to Adam Smith, “economics is the study of nature and causes of wealth of nations”. Alfred Marshall says, “Economics is a scientific inquiry in ordinary business of life”. To Robins, it is a study of scarce means to alternative uses”. To Marx, economics is a theory of Capitalism. The Islamic Economic System, if implemented after careful consideration, will be suitable for Pakistan which is an Islamic Country, will play important role for its sustainable economic development. (Pal, Izzuddin (1999). The moral rules of Islam are completely combined with its economic purposes, as these are not voluntary activities but, essential part of the revealed knowledge; and therefore its rigid nature makes it essential for them to be followed. This system understanding also shares to the organizational nature of an economic worldview irrespective whether “notionally expressed and noted or conventionally experienced over years” [Nomani and Rahnema 1994: 41]. (Asutay, 2007).

The history of human civilization has witnessed the upward increase and fall of many structures. After analyzing of comparative dialogue on that economic system, we observed the fall of the Soviet form of socialism and false manipulation of capitalism into the marketplace. Capitalism usually takes it is attention on self-interest that determines the economic system to caprice, greed, and corruption. Socialism and their marketplace mechanism previously cave in from the capital marketplace. Since the closing-decade, Islamic economic system has been displaying its amazing overall performance through retaining right contractual dedication into the marketplace (Zaman, 2012). Islamic economics method plays significant role to the general human existence. Therefore, Islamic economic system may be a terrific opportunity financial mechanism to keep away from the unnecessary manipulation of capitalism and socialism at the deprived and growing nations.

## **RECOMMENDATIONS**

Comparative discussion of capitalism, socialism and Islamic economic system has proven a terrific sign that "the dynamism of capitalism" and "parity of socialism" blended with the economic system of Islam. Amongst the 3 factors mentioned in the course of economic viewpoint, there may be excessive battle and contradiction. The ideology of capitalism is the ultimate consumerism and the feeling of his vision. A unique function of the capitalist economic system is the free opposition among consumers and seller. The major concept of socialism is a socioeconomic instrument in which assets and money are owned through social control (Maodudi, 1948). Poverty is one of the outcomes of socialism policy, which promotes and encourages corruption at the top level of the aspiring authorities. Money from money, interest from interest and interest on interest - that is the grammar of capitalism. The result of the failure of the capitalist economic system is the USA Wall Street demonstrations whose unique slogan, "The wealth of the world is 1% of the percentage of the collective, disadvantaged and 99% remaining". It is concerned with that capitalism's domination has affected all regions of Islamic existence. However, capitalism could not cure the economic problems of the human race and also couldn't get rid of poverty. On the contrary, discrimination has elevated amongst the poor people. Islamic finance did not deliver open freedom to non-public initiative and did not even put on chains on its legs. Achieving stability in all regions is one of the needs of this economic system and existence-giving. The rights of the person to supply and earn are acknowledged right here. Prohibition of interest, Risk sharing, asset-based transactions, money as "Potential" capital, the prohibition of speculative behavior and sanctity of contracts and protection of assets rights engaging and depending on Islamic economics. Besides Zakat and IJSHS, 2019; 3 (3): 11-32 29 Ushr and spending in way of Allah is one of the foundations of this economic system. Throughout the world, many individuals begin to see that the concepts of Islamic banking are from time to time thrilling than traditional economic offerings. Islam absolutely controls humanity and offers lawful approaches for retaining possession and contracts which indulges to take ownership and technology of wealth well. The continuations and right utility of the Islamic economic system are greater critical now than ever. For those reasons, the Islamic economic system may be a terrific

opportunity of economic system to keep away from the exploitation of capitalism and socialism for the deprived and growing nations.

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## **The Multiple Challenges to Human Rights by Weak Criminal Justice System (A case of Pakistan)**

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### **ABSTRACT**

Human rights do cover all the aspects of the whole system of safeguarding the rights of the people. There are different laws which are operational in Pakistan but there is a dire need to understand the proper prosecution of these laws. The research aims to find out the causes of failure for ensuring the human rights for the people of Pakistan. The objectives of the research include an analysis of the causes of failures of prosecution and human rights in Pakistan. To understand the measures to overcome these failures and legal laws available to deal with injustice. The current research explains the failure of human rights implementation and causes for violation of these human rights. In this paper, interpretivism philosophy is used. Raw data is collected through different interviews and observations. A total of 30 participants were involved in this research. These belong to different age groups starting from 25 years old to 50 years old. It has been found that the laws and rules are proven to safeguard the rights of the state and citizens. The human rights are distinct to be the ethical and legal rights which any citizen can claim. Pakistan has challenges with guaranteeing everyone with equal human rights. In addition, however, with the creation of the independent state, Pakistan also encompassed Shariah laws in the chief written forms of the law to integrate Islam, as it was the very foundation for the important belief of the nation's

independence. The system of regulations is weak as the regulations are poorly defined with inconsistent policies and lack of transparency. Since the introduction of 18th Amendment of Pakistan constitution law and order is judged on provincial basis. There is a main concern for the rising crime rate in Pakistan. To support the claim of delays in judiciary matters, it was noted that the courts and the prosecution were overburdened such that in the year 2014, there were almost half a hundred thousand cases pending in higher courts, with more than 2.5 million cases pending in the subordinate courts, and this number has only increased with the passage of time. There is a need of providing a proper legal framework from the legislature to maximize the power of prosecution over the culprits. Outdated prosecution methods are used without proper work force. There are a greater number of cases in courts than total number of workers. On national level, the forensic science lab should be operationalized under the Federal Investigation Agency and the local provincial labs should be managed by criminal investigation departments.

***Key Terms:*** Prosecution, Human Rights, Constitution, Shariah Laws, Pakistan

## **INTRODUCTION:**

In Pakistan, human rights implementation is important (Raza, 2020; Deeba, & Nazir, 2018; Cerna, 1994). Human rights do cover all the aspects of the whole system of safeguarding the rights of the people. There are different laws which are operational in Pakistan but there is a dire need to understand the proper prosecution of these laws. Different regulatory bodies have made various laws according to the changing times but what matters the most is implementation of such laws. Without implementation, there is no use of understanding and constituting such laws. Similarly, labor laws are also included in human rights. Importance of prosecution can be understood by the fact that if the prosecution fails in implementation of laws, a system never operates in a balance rather it floats and eventually collapse. Prosecution holds enough power to exercise the laws and create awareness that whoever will cross their limits will be treated according to the given laws. In this way, more concern and awareness will be created among individuals to understand and give respect to law (Alston & Goodman, 2013).

In this paper, there are different aspects of failed prosecution are mentioned. These causes are also linked with the violation of human rights in Pakistan which will portray an in-depth analysis on how balanced prosecution can be beneficial for the state and how various causes are hurting human rights in Pakistan. Various research results and findings from credible resources are also discussed for complete comprehension of human rights violations and failed prosecution issues (Mirza, 2010).

The constitution of Pakistan is the mixture of secular and Islamic laws. As a religion, Islam protects the rights of all human and encourages others to do the same. The teachings of Islam are based on the economic, social, religious and political rights to people (Yilmaz and Ahmed, 2018). Similarly, Islam is a religion of peace and prosperity. It focuses on forgiving and avoiding disputes. In Islam, human rights which are also described as “Haqooq-ul-Ibaad” which means rights of people over you. Immense importance is given to people’s rights and repeatedly instructions are given to take care of people and avoid discrimination. No one is above anyone and all people do possess the same status. Teaching of Islam is also utilized in the constitution of Pakistan since, Pakistan is an Islamic state and the basis of this state is on the grounds of Islam. After independence, human rights were given priority and this domain was taken seriously (Saeed, 2018). The history of human rights starts when the founder of nation, Quaid- e- Azam addressed in Assembly in 1947 and stated discrimination and inequality should be avoided. Pakistan has challenges with guaranteeing everyone with equal human rights. There are significant violations of human rights such as police torture, judicial executions, terrorism, women torture, corruption, harassment, target killings etc.

There were obvious reasons as due to prolonged dictatorship rule and less of democracy regime resulted in less freedom of speech and expression (Mayer, 2018). The concept of globalization made easy to determine the issues of human rights. The organizations such as; Amnesty International, Human Rights Watch, Asian Human Rights Commission of Pakistan and Defense of Human Rights helps in addressing the human right issues. The media plays a crucial role in highlighting the issues of human rights such as enforced disappearances, illegal deten-

tions, curbs on rights, etc. Role of media in exposing the violations is incredible. The main reason for the violation of basic human rights in rural areas is lack of education and awareness. Uneducated individuals are always a hurdle in the implementation of human rights. Since major cities are stuck with daily day issues, less regulatory bodies are present in these far away areas. In feudal systems, illiterate people have nowhere to go and they have to work under the feudal lords on their terms. Poverty and lack of basic facilities encourages them to work and neglect their basic rights (Rashid and Watoo. 2015).

Hence, the research gap is identified as this research addressed the reason of failure of human rights and its impact (Ali, 2018). The true implementation of UN human rights is still missing since there are bottle necks and ensuring fundamental liberties, improving law and order, eliminating extremism from society, improving the training and education of law enforcement agencies, speeding justice, promoting equalities, discouraging bribery, eradicating corruption from institutions from governance have imposed a big challenge.

As per the economic indicators, it was highlighted that there was a steady decline in economy of Pakistan in 2010 (Engelhardt, 2018). The poverty figures grew, inflation and corruption continued to have adverse impact on investment levels. A country like Pakistan, which is in the development phase, with limited resources in areas of law enforcement and human rights, fails to guarantee necessary provisions. There are laws, courts, prosecution services but the practice is far from ideal (Zaidi, 2016). The policy makers emphasize on eliminating extremism but not sure how to overcome. This is the gap addressed via this research after analyzing causes of failure of human rights in Pakistan.

The system of regulations is weak as the regulations are poorly defined with inconsistent policies and lack of transparency. Since the introduction of 18th Amendment of Pakistan constitution law and order is judged on provincial basis (Jawad, 2020). Any new law or policy seeks to address the gap to the legal system of Pakistan by prosecuting terrorism and ensuring the human rights to the people.

**The objectives of the research are formulated which are;**

The research aims to find out the causes of failure for ensuring the human rights for the people of Pakistan. The objectives of the research are stated as follows;

- To comprehend the causes of failures of prosecution and human rights in Pakistan.
- To understand the measures to overcome these failures and legal laws available to deal with injustice.
- To analyze the impact of these failures and how it influences the common citizen.

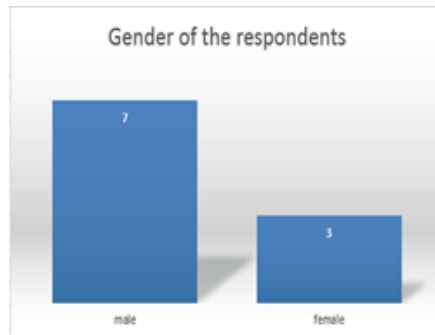
**Research Methodology**

In this paper, interpretivism philosophy is used. Raw data is collected through different interviews and observations. The current research explains the failure of human rights implementation and causes for violation of these human rights. Past literature displays that how the system works in Pakistan and it is discussed in detail, that how three pillars are responsible for implementation of law in which comes the prosecution, the legislature and the judiciary are involved. The purpose of this study is “explanatory” and it is the most suitable one for this. Apart from that, this study also focuses on the remedies for the better implementation of human rights in Pakistan and how common citizens can be benefited from the law enforcement. This study also builds a bridge in between three different domains such as the prosecution, legislature and the judiciary that how these three are linked with each other. In this paper, an inductive approach is used along with a descriptive design. The qualitative approach is used along with interpretivism philosophy, which aligns with the inductive approach (Ryan, 2018). Researchers have used the interview as a medium to gather information from different people working in different domains. A total of 30 participants were involved in this research, in which seven respondents are male, and three are female. These belong to different age groups starting from 25 years old to 50 years old. For better understanding, the researcher has interviewed different participants who belong to different professions. These professions include legal advisors, lawyers, human rights activists, legal advisors, policymakers, and counsels. Every respondent has given different reviews regarding the prosecution system and human rights violations, which the researcher appreciated. In secondary sources, different articles and papers have been studied to gather information regarding the prosecution

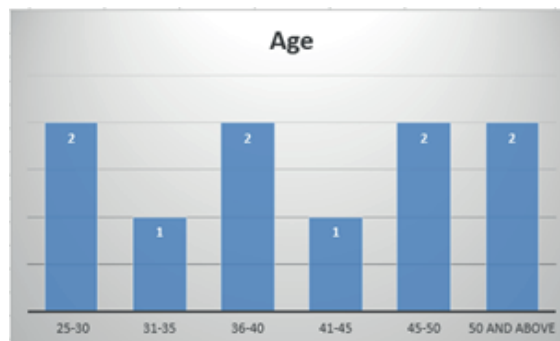
concepts, how it works in Pakistan, the low prosecution system and the judiciary's role in this aspect, provincial prosecution failure situation, and causes of the collapse of human rights. These aspects are covered in the secondary sources, along with facts and figures to justify the problem statement. After that, the researcher offered different remedies for the betterment of the system, and how a common man can be benefitted from human rights is also discussed in this source of data collection.

## Results & Analysis

### Demographic Analysis



The bar chart above shows the gender of the respondents. It can be seen that 7 of the total participants who took part in interview were male whereas 3 of them have been female



The bar chart above shows the age of the respondents. It can be seen that 2 of the respondents were between age 25 and 30 whereas 1 of them has been between age 31 and 35. 2 of the respondents were between age 36 and 40 whereas 1 of them has been between age 41 and 45. Lastly, 2 of the respondents were 50 and above years old.



The graph above shows the profession of the respondents. It can be seen that 1 respondent was lawyer whereas 2 of the respondents were legal analyst. It has been found that 2 of the respondents were counsels whereas 3 of them have been human rights specialist. 1 of the respondents was a policy maker.

## Thematic Analysis

### 1. The Importance of Prosecution and Human Rights in Pakistan

The first theme is associated with the question asked from the respondents regarding the importance of persecution and human rights in Pakistan. One of the respondents stated,

“The laws and rules are established to protect the rights of the state and citizens. The human rights are defined to be the moral and legal rights which any citizen can claim. These are the rights which come from the time of birth and are applicable on all humans irrespective of any discrimination elements of race, sex, colour, language and status. On the other hand, prosecution system is developed to determine how well the rights are guaranteed to the citizens. However, in the context of Pakistan there are challenges in guaranteeing these rights to common people and the impact of such failures have adverse impact on the common citizen.”

Another respondent stated,

“Pakistan has a wide array of sources that govern the judiciary system of Pakistan and provides that the system has undergone significant changes over the years. However, the prosecution system in Pakistan is not performing at the optimal level, however, to analyse the reasons for such, it is important to note the way the justice system works”

One of the respondents also highlighted,

“Fundamental and constitutional rights also play an important role relating to the Supreme, Federal Shariat, and High courts in the legal system prevalent in the country where their jurisdictions differ according to constitutional, criminal and civil proceedings relating to economic, ethical, political and other matters. Following the common law system led by the British, the prosecution system in Pakistan is in play after the police departments fulfill their role where the prosecutor’s assesses the evidence gathered by the police and select cases to initiate litigation on, file them to be assessed by the relevant courts, and instigate a trial to punish the perpetrator.”

It has been found in the aforementioned responses that the laws and rules are proven to safeguard the rights of the state and citizens. The human rights are distinct to be the ethical and legal rights which any citizen can claim. These are the rights which come from the time of birth and are applicable on all humans irrespective of any discrimination elements of race, sex, color, language and status. The human rights in Pakistan are a major perspective and its violations or failures can be observed in various scenarios and it limits the advancement of economy and rule of law (Yusuf, 2014). The legitimate has the stages developed for the government of Pakistan to endorse the generally acknowledged human right conventions and to promote human rights in Pakistan (Khan and Khan, 2019). This permits the government of Pakistan to implement international treaties into domestic law. Further, this makes it necessary at all law enforcement levels such as executive, law-making and magistrates to reverence and safeguard it is well experienced (Rashid and Watoo, 2015). In reality, the law in Pakistan is not very efficient and proper functioning as should be. This is often the reason of failure for the rights not equally being exercised (Mukhtar, 2017). The teachings of Islam are based on the economic, social, religious and political rights to people (Yilmaz and Ahmed, 2018). The history of human rights starts when the founder of nation, Quaid- e- Azam addressed in Assembly in 1947 and stated discrimination and inequality should be avoided. Pakistan has challenges with guaranteeing everyone with equal human rights. In addition, however, with the creation of the independent state, Pakistan also encompassed Shariah laws in the chief written

forms of the law to integrate Islam, as it was the very foundation for the important belief of the nation's independence (Hameed & Jamshed, 2013).

## **2. The Current Prosecution System of Pakistan**

The second theme is associated with the question asked from the respondents regarding the current status of legal public awareness in Pakistan. It has been explained by one of the interview participants,

“In Pakistan, the constitution of 1973 mentions in details the human rights which are the fundamental rights. It mentioned the freedom of thoughts, speech, information, religion, press, assembly, association etc. This enables the government of Pakistan to implement international treaties into domestic law. Further, this makes it necessary at all law enforcement levels such as executive, legislative and judiciary to respect and ensure it is well practiced. The constitution has the platforms developed for the government of Pakistan to endorse the universally accepted human right conventions and to promote human rights in Pakistan”

One more respondent stated,

With the formation of the sovereign state, Pakistan also included Shariah laws in the main written bodies of the law to incorporate Islam, as it was the very basis for the fundamental principle of the nation's independence. The constitution of Pakistan is the main source through which prosecution, or the administration of justice takes place such that it has laws relating to most criminal and unjust instances, where the Pakistan Penal Code 1860 also plays a significant role in determining the effective execution of justice. The Pakistan Penal Code (1860) refers to the principles, procedures and the role of major players in the prosecution system and reports all details of reporting a case, initiating a trial by courts, and a system for appeals.

Another respondent highlighted,

Pakistan operates on a three-pillar system where the branches are the legislature, executive, and the judiciary. The legislative branch is responsible for the making of the laws and relates primarily to the parliament, whereas the executive branch is responsible for the execution of the law, and the judiciary to control and monitor the execution and includes the courts in Pakistan.

The article 8 defines the laws for human rights. Under article 9 it is stated that

freedom, safety and life of individual is to be safeguarded. Article 10 to 28 of the constituents describes the rights of communal people for parity, fair trial, liberty of speech, freedom of movement, association, business, religion, acquisition of property, preservation of philosophy, language, property, beliefs, norms and information. The true implementation of UN human rights is still missing since there are bottle necks and ensuring fundamental liberties, improving law and order, eliminating extremism from society, improving the training and education of law enforcement agencies, speeding justice, promoting equalities, discouraging bribery, eradicating corruption from institutions from governance have imposed a big challenge. Arshad (2017) conveys that the prosecution system in Pakistan is not performing at the optimum level, however, to analyse the reasons for such, it is important to note the way the justice system works. Pakistan operates on a three-pillar system where the branches are the legislature, decision-making, and the judiciary (Adil, 2019). The legislative branch is responsible for the making of the laws and relates primarily to the parliament, whereas the executive branch is responsible for the execution of the law, and the judiciary to control and monitor the execution and includes the courts in Pakistan.

### **3. Role of Judiciary in Ensuring Effective Implementation of Prosecution System in Pakistan**

The third theme is associated with the question asked from the respondents regarding role of judiciary in ensuring effective implementation of prosecution system in Pakistan. One of the respondents stated,

“In Pakistan, the main responsibility to administer justice effectively and initiate prosecution is with the police department as they are the ones that lodge the complaints and FIRs in the beginning of the process, and are further the ones that hold the investigative responsibilities that are required to gather evidence for the prosecution to move forward with their conviction. However, the number of judiciary staff is not enough to handle the amount of crime that is instigated and reported against in the country”

Another respondent stated,

“The presence of informal judiciary systems such as jirgas further lower the confidence of the less privileged society in the prosecution as they have no other option

left. Here too, the jirgas are gender biased, where women rights are compromised. The court also takes notice of certain high-profiled cases and takes independent action against some cases such that the role of prosecution is then undermined.” The system of regulations is weak as the regulations are poorly defined with inconsistent policies and lack of transparency. Since the introduction of 18th Amendment of Pakistan constitution law and order is judged on provincial basis (Jawad, 2020). Any new law or policy seeks to address the gap to the legal system of Pakistan by prosecuting terrorism and ensuring the human rights to the people. Fundamental and constitutional rights also play an important role relating to the Supreme, Federal Shariat, and High courts in the legal system prevalent in the country where their jurisdictions differ according to constitutional, criminal and civil proceedings relating to economic, ethical, political and other matters (Adil, 2019). According to Adil (2019), following the common law system led by the British, the prosecution system in Pakistan is in play after the police departments fulfill their role where the prosecutor’s assesses the evidence gathered by the police and select cases to initiate litigation on, file them to be assessed by the relevant courts, and instigate a trial to punish the perpetrator. In Pakistan, the main responsibility to administer justice effectively and initiate prosecution is with the police department as they are the ones that lodge the complaints and FIRs in the beginning of the process, and are further the ones that hold the investigative responsibilities that are required to gather evidence for the prosecution to move forward with their conviction (Hameed & Jamshed, 2013). However, the system for the police is known to be corrupt in the country as was also noted by the Transparency International Report (Hameed & Jamshed, 2013)

#### **4. The Current Status of Legal Public Awareness in Pakistan and the Role State in Securing Legal Rights of the Citizens**

The fourth theme is associated with the question asked from the respondents regarding the current status of legal public awareness in Pakistan and the role state in securing legal rights of the citizens. It has been explained by one of the interview participants,

“The organizations such as; Amnesty International, Human Rights Watch, Asian Human Rights Commission of Pakistan and Defense of Human Rights helps in addressing the human right issues and increasing public awareness in Pakistan. In

addition, media plays a crucial role in highlighting the issues of human rights such as enforced disappearances, illegal detentions, curbs on rights, etc.”

Another respondent stated,

The fundamental problem that exists in the Pakistani society that leads to poor prosecution is the lack of awareness of the general population relating their fundamental human rights and other rights that grant them access to resources such as education etc. Also, the blasphemy law is often exploited to take advantage of religious minorities for ulterior motives relating to businesses or land, where the punishment is often capital. Other cases relating to corrupt prosecution include the discrimination against minority groups which are often neglected, and the accused are exploited by the police, especially women

The concept of globalisation made easy to regulate the subjects of human rights. The organizations have also been engaged in speaking up for the human right issues. The media plays a vital part in underlining the matters of human rights such as obligatory desertions, prohibited custodies, verges on rights, etc. It was noticed in various studies that much of the human rights violations were in rural areas which are far away from cities and have feudal system strong with higher rate of illiteracy (Rashid and Watoo. 2015). The international pressures have the influence on assuring the human rights but it is not simple in the context of Pakistan. The 1973 constitution of Pakistan comprises of the human rights processes and defends the rights of common citizen (Ali, Bano and Ehsan, 2019). Most NGOs worked to promote and ensure human rights in Pakistan. It was observed that state was weak in initiating the legislation and rule of law in society (Faisal and Jafri, 2017). The initial problem lies in the violations of human rights as law authorities and enforcement were observed to be a part of corruption with lack of sincerity, feudal system in rural areas disallowing women to be educated, higher levels of poverty, human trafficking, sexual abuses, child labor issues etc. There is a main concern for the rising crime rate in Pakistan. To support the claim of delays in judiciary matters, it was noted that the courts and the prosecution were overburdened such that in the year 2014, there were almost half a hundred thousand cases pending in higher courts, with more than 2.5 million cases pending in the subordinate courts, and this number has only increased with the passage of time (Arshad,

2017). The number of judiciary staff is not enough to handle the amount of crime that is instigated and reported against in the country.

### **5. Key Reasons behind the Failure of Prosecution System and Human Rights in Pakistan**

The fifth theme is associated with the question asked from the respondents regarding key reasons behind the failure of prosecution system and human rights in Pakistan. It has been highlighted by one of the respondents,

“The human rights practices are articulated in Pakistan by the name of ‘RULE OF LAW’ which is the most significant element for the human rights protection. Law is first and foremost considered and no one can skip from complying with it. Article nine of chapter one of the constitution of Pakistan guarantees equal rights to all citizens. In reality, the law in Pakistan is not very efficient and proper functioning as should be. This is often the reason of failure for the rights not equally being exercised”

Another participant has highlighted,

“The human rights in Pakistan are a major perspective and its violations or failures can be observed in various scenarios and it limits the advancement of economy and rule of law. The system of regulations is weak as the regulations are poorly defined with inconsistent policies and lack of transparency. Since the introduction of 18th Amendment of Pakistan constitution law and order is judged on provincial basis. Any new law or policy seeks to address the gap to the legal system of Pakistan by prosecuting terrorism and ensuring the human rights to the people”

One of the participants stated,

“Regarding the weaknesses of the prosecution system of Pakistan I can say that there was often a significant delay of criminal and civil proceedings in court due to which circumstances changed for the prosecution system. Furthermore, investigative practices needed to be improved and there was a need for coordination and cooperation among the legislative, prosecution, and the courts”

Through a study of past literature, Arshad (2017) examined the weaknesses of the prosecution system of Pakistan came to the conclusion that there was often a significant delay of criminal and civil proceedings in court due to which circumstances changed for the prosecution system. Furthermore, investigative practices

needed to be improved and there was a need for coordination and cooperation among the legislative, prosecution, and the courts (Arshad, 2017). The fundamental problem that exists in the Pakistani society that leads to poor prosecution is the lack of awareness of the general population relating their fundamental human rights and other rights that grant them access to resources such as education etc. (Hameed & Jamshed, 2013). This lack of awareness causes the exploitation of the numerous populations in Pakistan and is not able to stand up against it. Hameed & Jamshed (2013) highlights that this is because most procedures, laws and regulations are written in English, whereas Urdu is the national language while also being the language that more than half of the Pakistani population speak. While translations are available, they are often misinterpreted and do not mean the exact same thing. Arshad (2017) observed that since, there is no fixed time for a trial to take place, the selection for cases is delayed and many advocates use this to their advantage by examining evidence, preparing witnesses etc. which causes a delay in the overall process. This causes a loss of diminishable evidence and other monetary and time loss. Additionally, the prosecution is more than often, consistently at risk, such that their will to initiate litigations angers the perpetrators and threaten the prosecutors and the judiciary. Advocates have been tortured, murdered, and kidnapped that were representing plaintiffs in criminal cases and the state does not provide effective and enough security for the prosecution (Hameed & Jamshed, 2013).

#### **6. Solutions Regarding Litigants Grievances in Criminal Justice System of Pakistan**

The sixth theme is associated with the question asked from the respondents regarding solutions regarding litigant's grievances in criminal justice system of Pakistan. It has been highlighted by one of the respondents,

“The Criminal Justice System of Pakistan can further be improved by bringing some reforms. The role of Prosecution Department is important for strengthening the policy objective and remedies to public. Measure improvements at all provisional level could be to appoint hard working officers in the prosecution department to make it more sound and functional within shortest time.”

One of the respondents professed,

“The aim should be to analyze crime patterns and promoting the training, resource needs at provincial and national level. The improvements should not be limited to

police or prosecution level, but via broader dialogue with NGOs, jurists and civil society the assessment of the justice system of Pakistan should be evaluated. The enforcement of law should be well framed within the individual mind which discourages the criminal activities in society and fear of punishments leads to avoidance of any offence”

One of the respondents suggested,

“The criminal law should have the rehabilitation phases to bring the offenders back on to right path and to advise others who are likely to fall for it. Ensuring that innocents are acquitted fairly without any harassment and guilt should be punished. A non-biased implementation of law can ensure the adequate treatments of suspects those who are in custody and witnesses”

The Criminal Justice System of Pakistan can promote the authorities to bring some improvements. The part of Prosecution Department is significant for solidification of the rule unbiased and remedies to civic. Sizeable developments at all provisional level could be to appoint hard working officers in the prosecution department to make it more sound and functional within shortest time. An inclusive valuation prerequisite to be experienced in order to discourse the gaps in trial and investigation (UNODC, 2015). The Supreme Court shall establish and regulate the possibility of Section 154 of CRPS as this would permit the prosecuting attorney and the police to pave the way the preliminary version of events of FIR and change the offence nature if needed to bring more effectiveness in cases (Sultan, 2016). At provincial level the FIR should be computerized from initial level of reporting as this helps the prosecution and the police to protect the rights of accused under the constitution (PILDAT, 2015). The criminal law should have the reintegration stages to carry the criminals back on to right trail and to advise others who are likely to fall for it. Ensuring that innocents are acquitted fairly without any harassment and guilt should be punished. A non-biased implementation of law can ensure the adequate treatments of suspects those who are in custody and witnesses

### **8. The Impact of Failures and How Justice Can Be Provided To People in Pakistan**

The seventh theme is associated with the question asked from the respondents regarding the impact of failures and how justice can be provided to people in Pakistan. It has been highlighted by one of the respondents,

“On national level, the police investigation capacities can be enhanced via implementation of new laws and making the investigation institutions stronger. This is much possible via technology advancement and maintaining centralization. Under the Telegraph Act, the amendment should be introduced to access the phone data for crime investigation purpose and evidence building”

One of the participants said,

“Few amendments can be introduced in the Evidence Act such as incorporating the scientific methods and data investigations with further improvements in scientific collection of evidence including the DNA analysis, finger print interpretation and forensics. On national level, the forensic science lab should be operationalized under the Federal Investigation Agency and the local provincial labs should be managed by criminal investigation departments”

No matter the belief of the prosecution, the employment of unfair means might bring injustice to the society in the larger context even if it brings justice to the victim and the convicted, and hence, this goes against the true purpose of prosecution i.e. to seek justice. Green (1998) argues that because it is the purpose to serve the sovereign, the prosecution must be the servant of the law and execute it in a just and legitimate manner. The lack of security restricts access to the profession as well, where the will to ‘seek justice’ is then hindered by concern for safety. This contributes to the lack of adequate staff in the prosecution and the ultimate delays in case proceedings at court. The civil rights are considered to be the survival code for humans. These rights mainly comprise of the freedom of speech and equality. According to Montesquieu, the rights of the citizen are a kind of assurance of own security. To achieve this kind of security, the government should be well committed in providing and protecting fundamental rights (Bartels, 2014).

## **Conclusion**

The findings of the study have shown that Pakistan has an extensive selection of bases that administer the magistrates system of Pakistan and offers that the structure has endured noteworthy variations over the years. Nevertheless, the prosecution system in Pakistan is not carrying out at the prime level, nevertheless, to analyse the reasons for such, it is significant to note the way the justice system works. The findings have also shown that important and legitimate rights also show a significant part linking to the Supreme, Federal Shariat and High courts in

the legal system predominant in the country where their dominions vary rendering to constitutional, illegal and public chronicles linking to financial, moral, political and other matters. Following the common law system led by the British, the prosecution system in Pakistan is in play after the police departments fulfill their role where the prosecutor's assesses the evidence gathered by the police and select cases to initiate litigation on, file them to be assessed by the relevant courts, and instigate a trial to punish the perpetrator.

The human rights in Pakistan are a chief viewpoint and its defilements or failures can be experiential in numerous situations and it confines the development of economy and rule of law. The valid has the phases established for the government of Pakistan to approve the generally recognized human right agreements and to endorse human rights in Pakistan. This authorizations the government of Pakistan to implement international treaties into domestic law. Additional, this makes it indispensable at all law implementation levels such as executive, law-making and judges to respect and safeguard it is well experienced. In reality, the law in Pakistan is not very efficient and proper functioning as should be. This is often the reason of failure for the rights not equally being exercised. In Pakistan, the constitution of 1973 mentions in details the human rights which are the fundamental rights. It mentioned the freedom of thoughts, speech, information, religion, press, assembly, association etc. This enables the government of Pakistan to implement international treaties into domestic law. Further, this makes it necessary at all law enforcement levels such as executive, legislative and judiciary to respect and ensure it is well practiced. The constitution has the platforms developed for the government of Pakistan to endorse the universally accepted human right conventions and to promote human rights in Pakistan.

With the formation of the sovereign state, Pakistan also included Shariah laws in the main written bodies of the law to incorporate Islam, as it was the very basis for the fundamental principle of the nation's independence. The constitution of Pakistan is the main source through which prosecution, or the administration of justice takes place such that it has laws relating to most criminal and unjust instances, where the Pakistan Penal Code 1860 also plays a significant role in determining the effective execution of justice. The Pakistan Penal Code (1860) refers to the principles, procedures and the role of major players in the prosecution system and

reports all details of reporting a case, initiating a trial by courts, and a system for appeals. Pakistan operates on a three-pillar system where the branches are the legislature, executive, and the judiciary. The legislative branch is responsible for the making of the laws and relates primarily to the parliament, whereas the executive branch is responsible for the execution of the law, and the judiciary to control and monitor the execution and includes the courts in Pakistan.

The presence of informal judiciary systems such as jirgas further lower the confidence of the less privileged society in the prosecution as they have no other option left. Here too, the jirgas are gender biased, where women rights are compromised. The court also takes notice of certain high-profiled cases and takes independent action against some cases such that the role of prosecution is then undermined. Fundamental and constitutional rights also play an important role relating to the Supreme, Federal Shariat, and High courts in the legal system prevalent in the country where their jurisdictions differ according to constitutional, criminal and civil proceedings relating to economic, ethical, political and other matters. In Pakistan, the main responsibility to administer justice effectively and initiate prosecution is with the police department as they are the ones that lodge the complaints and FIRs in the beginning of the process, and are further the ones that hold the investigative responsibilities that are required to gather evidence for the prosecution to move forward with their conviction.

The organizations such as; Amnesty International, Human Rights Watch, Asian Human Rights Commission of Pakistan and Defense of Human Rights helps in addressing the human right issues and increasing public awareness in Pakistan. In addition, media plays a crucial role in highlighting the issues of human rights such as enforced disappearances, illegal detentions, curbs on rights, etc. The fundamental problem that exists in the Pakistani society that leads to poor prosecution is the lack of awareness of the general population relating their fundamental human rights and other rights that grant them access to resources such as education etc. Also, the blasphemy law is often exploited to take advantage of religious minorities for ulterior motives relating to businesses or land, where the punishment is often capital. Other cases relating to corrupt prosecution include the discrimination against minority groups which are often neglected, and the accused are exploited by the police, especially women. The media plays a vital part in

underlining the matters of human rights such as obligatory desertions, prohibited custodies, verges on rights, etc. It was noticed in various studies that much of the human rights violations were in rural areas which are far away from cities and have feudal system strong with higher rate of illiteracy.

The initial problem lies in the violations of human rights as law authorities and enforcement were observed to be a part of corruption with lack of sincerity, feudal system in rural areas disallowing women to be educated, higher levels of poverty, human trafficking, sexual abuses, child labor issues etc. There is a main concern for the rising crime rate in Pakistan. The human rights practices are articulated in Pakistan by the name of 'RULE OF LAW' which is the most significant element for the human rights protection. Law is first and foremost considered and no one can skip from complying with it. Article nine of chapter one of the constitution of Pakistan guarantees equal rights to all citizens. In reality, the law in Pakistan is not very efficient and proper functioning as should be. This is often the reason of failure for the rights not equally being exercised. The human rights in Pakistan are a major perspective and its violations or failures can be observed in various scenarios and it limits the advancement of economy and rule of law. The system of regulations is weak as the regulations are poorly defined with inconsistent policies and lack of transparency. Since the introduction of 18th Amendment of Pakistan constitution law and order is judged on provincial basis. Any new law or policy seeks to address the gap to the legal system of Pakistan by prosecuting terrorism and ensuring the human rights to the people.

There is a need of providing a proper legal framework from the legislature to maximize the power of prosecution over the culprits. Outdated prosecution methods are used without proper work force. There are a greater number of cases in courts than total number of workers. Every year, the number of cases is increased but the alarming situation is that number of pending cases are increased more than the solved cases. The ratio is not balanced at all since the number of coming cases are not greater than the pending ones. Although the judiciary system is working but it needs a lot of improvisations to become fully functional and reliable in every manner. Among the core three branches, police have to work hard on its frame-

work because they do play a key part in resolving a case through proper investigation and availability of evidences for case closures. Proper police trainings have to be given by the department while privileging them with rewards over excellent service which will boost their morale. In this way, they will try to work hard for achieving their targets (Siddiqi et al., 2014). Similarly, civilians will also regain their trust over police and they will also trust the court proceedings. Court will also proceed faster when they will have enough evidence. New laws have to be made by legislatures to counter with modern problems. At every level, monitoring and regulatory bodies should be built. These should be looked after by experts of related fields and strict punishments have to be announced for criminal acts. Islamic laws should also be involved properly regarding blasphemy and other major issues. Since the constitution of Pakistan also involves Islamic laws. Core team of governments should work on providing transparent prosecution and justice system which will ensure the protection of human rights and other complex rights of civilians (Qayum et al., 2016).

## **Recommendations**

With regard to the findings of the study, it has been recommended that The Criminal Justice System of Pakistan can further be amended by carrying some modifications. The part of Prosecution Department is significant for reinforcement of the strategy objective and cures to public. Major developments at all conditional level could be employed whereas hard working officers should be invited in the prosecution department to make it more sound and functional within shortest time. A wide-ranging valuation needs to be experienced in order to report the gaps in trial and examination. The purpose should be to examine crime forms and encouraging the exercise, reserve needs at regional and domestic level. The developments should not be partial to police or prosecution level, but via wider discourse with NGOs, jurists and civil society the assessment of the justice system of Pakistan should be evaluated. The enforcement of law should be well framed within the individual mind which discourages the criminal activities in society and fear of punishments leads to avoidance of any offence. On national level, the police investigation capacities can be enhanced via implementation of new laws and making the investigation institutions stronger. This is much possible via technolo-

gy advancement and maintaining centralization.

There are different issues which can be dealt with the new laws. The old reforms were for the past. In those times, crimes were conducted differently. Now, in modern times, one of the most important issue which different countries are facing is of cybercrime laws. Different activities are yet to identified that whether they do come in cyber laws or there is a need to make a new category of laws for that. There is a dire need of realizing that countries should get ahead with the new technologies. All the three main branches of government in Pakistan should work together and also consult different researchers of specific fields. This will allow all three branches known as Legislatives, Executives and Judiciary, to comprehend the modern issues. After understanding such issues, making of different laws, carrying such laws to different departments and implementation of such laws will be much easier. Prosecution cannot properly work under such laws which are not updated with time. Apart from law making, the current prosecution system is not yet revolutionized. Proper technological advancements are not observed in the system. Since, no technological advancements are observed, all the work is done on the papers and it takes a lot of time to settle down cases and keeping up with such a large number of documents. Governments must work on the policies and system to make it more advance. All the record should be kept online on various servers. All the cases should be monitored through proper systematic advancements from where the monitoring bodies can look at any case, anytime. This will speed up all the processes and corruption among such departments will be minimized to a great extent since all the record will be online and any monitoring body can check the record whenever they want to. Punishments should also be added in law body for those whom are not faithful with the department and are trying to earn more by doing unethical deeds. Once punishments will be given to corrupt and lazy officers, the system will automatically grow as old ones will be replaced with the efficient officers. These will then ethically perform their duties which will be in the favor of all departments and public (Antonov et al., 2019).

The problem lies in the country which is heavily plagued with the political inter-

ference in police systems, courts and prosecution systems. It further sheds light on the need for assistance from the International Community for reforming the system via western set of idealism and values. But this is quite implausible or impractical since the ground realities are very different considering the religiosity contiguous. Under the Telegraph Act, the amendment should be introduced to access the phone data for crime investigation purpose and evidence building. Few amendments can be introduced in the Evidence Act such as incorporating the scientific methods and data investigations with further improvements in scientific collection of evidence including the DNA analysis, finger print interpretation and forensics. On national level, the forensic science lab should be operationalized under the Federal Investigation Agency and the local provincial labs should be managed by criminal investigation departments. The forensic science labs should be equipped with the qualified scientists with competitive training programs and proper compensation structure. Such practices bring fairness in the justice system with more accountability within the society. The Prosecution Services should develop the binding guidelines for prosecutors as the Punjab Prosecutor General initiated a comprehensive checklist for prosecutors in this regard and such practices should be extended to all other three provinces for more hiring of prosecutors to overcome the problem of pending cases and trials. The prosecution department can make use of the official websites to display the district wise report in each quarter showing the number of cases in process, withdrawn, acquittals, pending and disposed-off. This allows the effectiveness and success to be determined independently.

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## Appendix

### Interview questionnaire

#### Gender

- Male
- Female

#### Age

- 25-30
- 31-35
- 36-40
- 41-45
- 45-50
- 50 and above

#### What is your profession?

- Lawyer
- Legal analyst
- Attorneys
- Counsels
- Human rights specialist
- Policy maker

#### Please answer the following interview questions

1. In your opinion, what is the importance of prosecution and human rights in Pakistan?
2. Can you please explain the current prosecution system of Pakistan?
3. Do you think that judiciary is playing a major role in ensuring effective implementation of prosecution system in Pakistan? If yes, please explain how?
4. What is the current status of legal public awareness in Pakistan? Do you think that state is playing a major role in securing legal rights of the citizens in the country?
5. What are the key reasons that are leading towards the failure of prosecution system and human rights in Pakistan?
6. What remedies and solutions can be provided regarding litigants grievances in criminal justice system of Pakistan?

# **MODERATING ROLE OF MUSLIM RELIGIOSITY AND COLLECTIVISM AMONG SIGHT CUES, CSR AND CUSTOMER LOYALTY THROUGH CORPORATE IMAGE IN ISLAMIC BANKS**

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## **ABSTRACT**

Loyalty among the customers is a key especially for the companies operating in the service sector. Recently, the Islamic banking is emerging in Pakistan but the customers of Islamic banking are not very much aware about how to shift from conventional banks to Islamic banks and this is the hurdle for Islamic banks' customer loyalty. Therefore, the prime objective of the present study is to examine the impact of sight cues and CSR activities of the Islamic banks on the loyalty by improving the corporate image of the Islamic bank. Moreover, mediating role of corporate image along with moderating impact of religion and collectivism is examined as well. The data of the present study was collected from the customers of Islamic banks in Pakistan. Current study employed quantitative research approach while utilizing cross sectional research design. For the data collection, systematic random sampling technique was adopted. Out of the 450 respondents, 346 questionnaires were received completely from Islamic Bank's customers. To ascertain the significant effect of study variables, the multiple regression technique through PLS-SEM was used. The results of the study reflected that Sight cues and CSR activities have significant impact over corporate image and keeping the customers loyal. Additionally, religion and Collectivism also moderate the relationship between corporate image and loyalty. The findings of the study will be helpful for the academicians and policy makers of Islamic banking to develop the policies by which they can keep the customers loyal.

**Keywords:** Sight Cues, Corporate Image, CSR, Customer Loyalty, Collectivism, Islamic Banks.

## **INTRODUCTION:**

In the highly competitive market, the most valuable intangible asset of a company is branding because brand can enable the consumers to understand the offered products and services of the such brand and it reduce the purchase risk decision of the customer(Kim, Dan J., Donald L. Ferrin and Rao. 2008). In today's highly competitive and complex environment, organizations are competing each other on base of their services. During 1980's people considers getting services as luxuries. At this modern age, due to change in lifestyle, people consider the services as the necessities of life which is offered by different organization, that changes in lifestyle help services industry to grow worldwide. This study comprises the different sectors like hoteling, educational, hospitals and banking sectors. All the services sector needs highly loyal customers because their success depends on loyal customers. The basic purpose of today's businesses is to turn satisfied customers to loyal customers. Throughout the past era, monetarist facilities segment has been endured due to the changing situation of the market, increasing competition, little market growth and increased deregulation(Afsar, Bilal, Zia Ur Rehman and Shahjehan. 2010). Banking sector is highly trying to loyal their customer from satisfaction. Loyalty can be measure through customers account used over the time and by noting their continually backup. In today's marketing situations, banks attempt many strategies to remain customers. Banks introduced many new goods and amenities that assist the clients to remain loyal by means of the bank (Ashraf et al. 2017).

In initial stages extensive efforts being put-up to explore the influence of CSR practically, while some researchers paying attention to the relationship between financial performance and corporate social behaviour. Later on, studies have been conducted measuring the impact of CSR in relation to socially-responsible marketing actions such as natural resource saving, social charities, environment protection, and community arduous volunteer activities(Asif, Muhammad, Cory Searcy, Ambika Zutshi and Fisscher. 2013). The honest efforts are being made to include CSR into Customer Loyalty (CL) model as CL is having an appreciable role in business achievements. On the other hand, most CL or Relationship Maintenance (RM) issues have been in production sector due to specific different

appearances from incorporeal facilities. In an empirical arduous manner, there is no demonstration of CSR in relationship marketing, so this study restricts its focus to the ethical environment. Companies direct their marketing department to focus on essential customers and suppliers in order to build a long-term relationship and as a result, their own survival and growth are ensured (Bhatti, Anam, Sumbal Arif Mariam and Younas 2017).

Religion is a treasury of the most sacred and precious values of society. Religion, being an integral and inseparable part of individual's life, significantly influences the society through shaping human behaviours (Gursoy, Dogan, Levent Altinay and Kenebayeva. 2017). As a collection of cultural as well as spiritual systems of worldviews, believes, values and norms, religion is an essential component of most people's lifestyle (Ives, Christopher D. and Kidwell 2019; Johnson, Kathryn A., Eric D. Hill and Cohen 2011). Individuals, in particular believers, transform religious values to their various activities including consumption behaviours, business practices as well as working environment (Wahab 2017).

The basic objective of the present study is to examine the impact of sight cues and CSR on Corporate image and loyalty of the bank customers. Moreover, the mediating role corporate image among sight cues, CSR and loyalty is examined as well along with moderating role of religiosity and collective culture.

## **Literature Review**

### **Customer Loyalty**

Customer loyalty is difficult to define. In general, there are three distinctive approaches to measure loyalty: 1 behavioural measurement; 2 attitudinal measurement; and 3 composite measurements. The behavioural measurements consider consistent, repetitious purchase behaviour as an indicator of loyalty. One problem with the behavioural approach is that repeat purchases are not always the result of a psychological commitment toward the brand (Tepeci 1999). For example, a traveller may stay at a hotel because it is the most convenient location. When a new hotel opens across the street, they switch because the new hotel offers better value.

Thus, repeat purchase does not always mean commitment. Attitudinal measurements use attitudinal data to reflect the emotional and psychological attachment inherent in loyalty (Patwardhan et al. 2020).

The attitudinal measurements are concerned with the sense of loyalty, engagement and allegiance. There are instances when a customer holds a favourable attitude toward a hotel, but he/she does not stay at the hotel (Foroudi 2019). A guest could hold a hotel in high regard, recommend the hotel to others, but feel the hotel was too expensive for him/her to use on a regular basis. The above approaches measure loyalty uni-dimensionally. The third approach, composite measurements of loyalty, combine the first two dimensions and measure loyalty by customers' product preferences, propensity of brand-switching, frequency of purchase, recency of purchase and total amount of purchase (Kursunluoglu 2011)

The use of both attitude and behaviour in a loyalty definition substantially increases the predictive power of loyalty (Pritchard and Howard, 1997). The two-dimensional composite measurement approach has been applied and supported as a valuable tool to understand customer loyalty in several fields, such as retailing, recreation, upscale hotels and airlines (Bowen and Chen 2001; Huo and Xu 2011).

### **Corporate Image: Impact on Loyalty**

Corporate image (CI) is a perception that consumers hold in their minds which is related to the organizations (Younis and Hammad 2020). A corporate image varies in different situation and media coverage. CI is the observation of regulars toward the specific brand (Ashraf 2018). Generally, a considerable time and efforts required to organization to build the image in the people.

Johnson et al. (2001) considered CI as insolvency which have greater impact on loyalty because of its practical mechanisms. Signalling theory provide a way to measure the relationship of corporate image and loyalty. According this theory view, organizational communication builds organizational reputation and capability in the society (Lee and Park 2013) that create indicators. Regulars practice these indicators to examine the superiority and worth of immaterial facilities which is offered by the organization. (Kim, Young-Ei and Lee 2010) reveals that

CI as organizations observation which is hold by customers in their mind, because it enables the customers to perceive and evaluate the whole operations of the organization. Furthermore, they suggested that CI has a greater encouragement on allegiance. In this tactic, (Nukpezah, Daniel and Nyumoyo 2014) and (Islam 2010) showed that CI is directly associated to different organizational attributes such as brand name, products or service category and the quality of its product or services which communicated with each customer. Furthermore, they concluded that corporate image has positive impact on loyalty as they gain evidence from different services sectors like telecommunication, education and retailing. CI is chief aspect that helps customers to evaluate organizations performance and its offered services, it has a greater inspiration on customer gratification (Huang, Hsieh, and Wu 2014), on brand loyalty (Coelho, Rita, and Santos 2018; Lee and Lee 2019), and on reiteration patronage also (Ashraf 2018).

### **Corporate Social Responsibility**

With this research, some questions are perhaps also worth pondering. Is CSR a must for an organization, or is it just PR window dressing and image building in disguise? Is CSR contributing to loyalty and value creation? If CSR is a must for corporations, then does it mean we should agree with (Freeman, R. Edward, Jeffrey S. Harrison, Andrew C. Wicks, Bidhan L. Parmar and Colle 2010) stakeholder theory, which says that organizations must fulfil the expectations of various stakeholders such as investors, customers and employees (Freudenreich, Lüdeke-Freund, and Schaltegger 2019)? Or does it mean that, ultimately, it is Milton Friedman's (1970) utilitarian view that counts, because businesses only need to fulfil their economic responsibilities, and CSR is a strategic management tool that does just that, and therefore the criteria of prioritising and selecting CSR activities should be the ability to contribute to the financial performance of an organisation, and hence management should only be held accountable to investors, but not other stakeholders (Friedman 1970)? Therefore, in navigating around the CSR literature there are at least three main approaches namely the old that consists of four aspects of CSR (Carroll 1979). These aspects include Ethical, Legal, Economic and Philanthropic. The second point of view relates the concept of CSR to the social responsibility of sustainable development. From this point of view, CSR

comprises of three dimensions economic, environment and social. A third approach regarding CSR is related to stakeholder's approach which comprises several dimensions of CSR. These dimensions include customers, employees, ethical legal, and shareholder, environment and society (Brown and Forster 2013; Freeman, R. Edward, Jeffrey S. Harrison, Andrew C. Wicks, Bidhan L. Parmar and Colle 2010). Based on these three scales scholars have different scales to measure the customer perceptions of CSR (Garcia de los Salmones Sanchez, Pérez Ruiz, and Rodríguez del Bosque Rodríguez 2009; Maignan 2001). In this paper, stakeholders-based approach is used given by (Hannan and Freeman 1984).

CSR has become a more mature topic and an important strategic management tool, which companies and scholars are keen to find out how to use it to fulfil both reputational and financial objectives. While there have been quite a number of research studies and discussions about the influence of CSR on customers' quality perception, brand trust, and even loyalty, there has been little discussion on the moderating impact of these factors on loyalty. Moreover, most analyses that tried to link CSR to trust, quality and loyalty did not distinguish between the different aspects of CSR, while some may divide CSR into too many aspects, like ethical and philanthropic aspects, where it may be hard to draw a clear line or where there might be a duplicate meaning (Lee, Park, and Lee 2013). Therefore, refining CSR into two major aspects, namely business practices relating to primary stakeholders, and philanthropic relating to secondary stakeholders seemed more appropriate (Homburg, Stierl, and Bornemann 2013).

It is reasonable to postulate that loyalty may form a feedback loop to reputation, because loyal customers may spread positive word-of-mouth, which may contribute to better reputation. Empirical research on loyalty has found that loyalty has an influence on repurchasing intent, satisfaction (Hur, Kim, and Park 2013), and profitability (Chen, Cheng, and Hsiao 2016). Other research also found that reputation has an impact on loyalty (Bontis, Booker, and Serenko 2007). As research study on the influence of loyalty on reputation is lacking, such relationship was not incorporated in this research framework, so the survey questionnaire focused on investigating the impact of the two types of CSR reputation on loyalty. Realiz-

ing there are such gaps in research, the author would like to contribute to the field of study by exploring the impact level of different aspects of CSR on trust and loyalty, and hence companies' financial and reputational performance.

### **Sight Stimuli: Impact on image and Loyalty**

Sight is the most used sense in marketing, as it is the most stimulated by the environment. The choice of colours and forms in the conception of a product, the layout of a point of sale, the realisation of promotion campaign are key factors of success (or failure), which are well understood by marketers. Colours and shapes are the first way of identification and differentiation. Many brands are associated to a specific colour, then it is memorised more easily by customers; Coca Cola is red, Kodak is yellow, and KFC are red and white. The company can be identified even though the customer did not see the name. According to memory retention studies, consumers are up to 78% more likely to remember a message printed in colour than that in black and white. In the food and beverage industry, the impact of colours is obvious and sharply defined(Randhir et al. 2016).

The visual system is to modify light patterns into information, according to which people are capable of perceiving forms, colours, dimensions, movements, and distances between objects. Recent years showed that the way the product looks is not the only factor important for the consumers. Furthermore, researchers have showed that sight is a dominant factor in creating brand awareness and in generating customer experience(Hultén 2017)

Sight is often considered the most important sense in marketing communication. Consumer's perceptions are influenced to a large extent by general shapes, colours, design, and aesthetics, as well as shapes and compositions of specific visual aspects – which has comprehensively been discussed in the published literature on the subject(Hussain 2019).

The findings of past studies revealed that brand image and customer loyalty have strong relationship with visual sense. Visual elements include, logo, brochure,

signage, menu, colour, dress code of the restaurant's staff, upholstery and cleanliness. It is suggested that fast food restaurant use visuals that are appealing to customer resulting in improved brand image a customer revisits to the restaurant.

### **Collectivism**

Culture is a fundamental conception explicating not only individuals' social behaviour but their consumption behaviour. Culture refers to "a collective programming of the mind which distinguishes one group from another" (Hofstede 1980b). Similarly, (Hwang et al. 2013) described culture as the integrative mixture of universal characteristics affecting one group's responses to its general environment. Given these definitions, it is feasible that culture is likely embedded within each person of the group, forming a distinct/unique school of thoughts, beliefs, and practices (Han et al. 2017). The extant cross-cultural literature has often utilized two distinct cultural patterns, namely individualism and collectivism (e.g., (Bekaert and Hoerova 2016; Hofstede 1980a; Institute 2017; Miller et al. 2014; Nukpezah, Daniel and Nyumoyo 2014; Randhir et al. 2016; Shabgou and Daryani 2014). While some researchers examine differences in four different patterns in terms of culture (vertical individualism, horizontal individualism, vertical collectivism, horizontal collectivism) (Cho et al. 2013), such two-dimensional conceptualization of culture (individualism and collectivism) has long been an effective predictor of individuals' behavioural patterns (Hofstede 1980b; Triandis and Gelfand 1998), being considered crucial to the comprehension of cultural values (Sivadas, Bruvold, and Nelson 2008).

According to Hwang et al. (2013), such words as "individualism" and "collectivism" are about the relationship between the collectivity and the individual, which prevail in a particular society. In individualism culture, people are independent from one another, taking care of themselves or only their immediate family (Hofstede, 1980). On the other hand, in collectivism culture, individuals are strongly integrated and mutually bounded in which they belong to one/closer in-group(s) (Hofstede, 1980). The literature in diverse sectors suggests that while English-speaking countries (e.g., USA, UK, Canada, Australia, and New Zealand) and other Western countries are associated with high individualism, Asian countries

particularly comprising Northeast Asian countries (e.g., China, Korea, Japan, and Taiwan) rate high on collectivism (Cho et al. 2013; Han and Hyun 2015).

Many researchers have made a general consensus that culture is one of the central forces of customer behaviour (Hwang et al. 2013; Park and Lee 2009). Indeed, numerous empirical studies advocate the criticality of cultural difference in understanding customer post-purchase decision-making process (e.g., (Cho et al. 2013; Hwang et al. 2013; Park and Lee 2009)). Particularly, contrasts between individualistic culture and collectivistic culture have been often drawn in the marketing and consumer behaviour literature (e.g., (Cho et al. 2013; Hofstede 1980a; Park and Lee 2009)). For instance, (Park and Lee 2009) examined the difference on patrons' online shopping behaviour between individualism culture and collectivism culture. Their findings demonstrated that the associations among online reviews, customer susceptibility, and shopping experiences were significantly moderated by such cultural forces. (Cho et al. 2013) investigated the impact of individualistic culture and collectivistic culture on young consumer pro-environmental behaviour. Their finding revealed that the formation of consumers' environmental commitment was under the significant influence of culture. The cultural difference also exists on impulsive purchasing as (Kacen and Lee 2002) provided empirical evidence that culture (individualism vs. collectivism) as a regional-level factor significantly influence patrons' impulsive buying decision/behaviour. Empirical evidences regarding the moderating impact of culture on customer decision formation and behaviour have been also well documented in tourism research (e.g., (Crotts and Pizam 2008; Hofstede 1980a; Hwang et al. 2013)).

Incorporating the cultural dimensions into a study can contribute immensely for practitioners when designing future marketing strategies. It is common knowledge that every customer is different, and it is best to provide customized services to each one (Bearden, Netemeyer, and Teel 1989). However, for most businesses that are not possible for a variety of reasons. This present study examined the recent trend of inbound tourists to Thailand and found the market has attracted more Chinese, Korean, Japanese, and Taiwanese than before.

## **Religion**

Religion is a treasury of the most sacred and precious values of society. Being an integral and inseparable part of an individual's life, religion also holds collective influence over society through its shaping of human behaviour. As a collection of cultural as well as spiritual systems of worldviews, beliefs, values and norms, religion is an essential component of people's lifestyles. As a rule, individuals, in particular believers, transfer religious values to their various activities; this includes business practices as well as the working environment (Griebel, Park, and Neubert 2014; Gursoy, Altinay, and Kenebayeva 2017). Such behaviour is common among religious entrepreneurs who are guided by ethical norms defined by religion during the decision-making process (Fernando 2005; Miller et al. 2014). This applies to both managing a business and establishing leadership styles (Abasilim, Gberevbie, and Osibanjo 2019; Low and Ayoko 2020; Mohamed Elias, Othman, and Yaacob 2017). Religion can serve as an ideal ethical system that promotes spirituality along with benefaction, thereby leading to positive moral behaviour based on clemency, trustworthiness and honesty.

On the basis of above literature: Following hypothesis are proposed:

H1: Sight cues has significant impact on loyalty

H2: Sight cues has significant impact on image

H3: CSR has significant impact on loyalty

H4: CSR has significant impact on image

H5: Image has significant impact on loyalty

H6: Image mediates the relationship of sight cues and loyalty

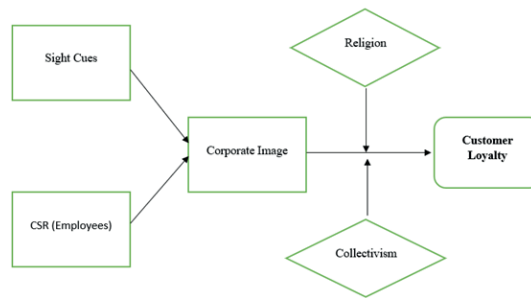
H7: Image mediates the relationship of CSR and loyalty

H8: Collectivism moderates the relationship of image and loyalty

H9: Collectivism has significant impact on loyalty

H10: Religion moderates the relationship of image and loyalty

H11: Religion has significant impact on loyalty



## Research Methodology

### Questionnaire and Pre-test

All constructs' scales were adapted from the past studies having multiple constructs. Six items were used to measure sight cues. Corporate social responsibility was measured by eight items and five items were used to measure corporate image. In addition, religion was measured through six items and five items were used to measure collectivism. Lastly, customer loyalty was measured using six items. Five-point Likert scale was utilized in order to measure all the constructs of this study where 5 was representing strongly agree, 4 agree, 3 neutral, 2 disagree and 1 was representing strongly disagree.

### Sample and Data Collection

For data collection, branches of Islamic banks were selected because of their emergence in the country. Six full-fledged Islamic banks namely bank Islami, bank Alfalah, Meezan bank, MIB, HBL operating in Pakistan. 17 commercial banks offering Islamic banking services in their different branches all over the country. In addition, more than 1348 branches of pure Islamic banks are offering facilities around the country. All the respondents of Islamic banks were mainly focused by this study. All of the respondents were informed about the purpose of the study before they fill the questionnaire. Once they were agreed to contribute, questionnaire was given to them. More 450 questionnaires were distributed and 346 questionnaires were received back with the response rate of about 77%. Moreover, 20 questionnaires were eliminated during the screening process and remaining questionnaires were used for further analysis.

## Findings

Smart PLS-3 was used to analyse the data employing PLX –SEM technique because this is considered advanced and popular technique for estimation (Ali et al. 2018). Furthermore, after PLX algorithm, bootstrapping techniques was applied to determine path coefficients, loadings and respective level of significance. The structural model assessment was used for examination after the measurement model.

The evaluation of validity and reliability related to the latent constructs are entailed through measurement model assessment(Hair et al. 2017). Measurement model assessment is also used to evaluate the relationship between latent constructs with their relevant items. The reliability and validity of the constructs is often evaluated by composite reliability and average variance extract. In addition, each indicator loadings of their latent variables are measured to evaluate the reliability. According to(Jr. et al. 2017)., for the acceptance of reliability, the loading of each indicator should be greater than 0.7. Loadings of most indicators were greater than 0.7 on their relevant constructs; however, loading of few indicators was between 0.6 and 0.7. The constructs reliability is also measured through composite reliability and it should also be higher than 0.7. The results of composite reliability of all latent variables are higher than 0.7. Such findings show that the measurement model is reliable.

## Data Analysis

**Table 1.** Data Screening

|      | No. | Missing | Mean  | Median | Min | Max | SD    | Kurtosis | Skewness |
|------|-----|---------|-------|--------|-----|-----|-------|----------|----------|
| SC1  | 1   | 0       | 3.243 | 3      | 1   | 7   | 1.497 | -0.447   | 0.091    |
| SC2  | 2   | 0       | 3.243 | 3      | 1   | 7   | 1.783 | -0.547   | 0.45     |
| SC3  | 3   | 0       | 3.515 | 3      | 1   | 7   | 1.872 | -0.773   | 0.325    |
| SC4  | 4   | 0       | 3.481 | 3      | 1   | 7   | 1.885 | -0.751   | 0.401    |
| SC5  | 5   | 0       | 3.527 | 3      | 1   | 7   | 1.708 | -0.435   | 0.316    |
| SC6  | 6   | 0       | 3.49  | 4      | 1   | 7   | 1.797 | -0.684   | 0.244    |
| CSR1 | 7   | 0       | 3.494 | 4      | 1   | 7   | 1.818 | -0.87    | 0.143    |
| CSR2 | 8   | 0       | 3.665 | 4      | 1   | 7   | 1.858 | -0.771   | 0.21     |

|      | No. | Missing | Mean  | Median | Min | Max | SD    | Kurtosis | Skewness |
|------|-----|---------|-------|--------|-----|-----|-------|----------|----------|
| CSR3 | 9   | 0       | 3.695 | 3      | 1   | 7   | 1.849 | -0.725   | 0.315    |
| CSR4 | 10  | 0       | 3.657 | 3      | 1   | 7   | 1.921 | -0.754   | 0.368    |
| CSR5 | 11  | 0       | 3.548 | 3      | 1   | 7   | 1.869 | -0.686   | 0.388    |
| CSR6 | 12  | 0       | 3.573 | 3      | 1   | 7   | 1.844 | -0.604   | 0.373    |
| CSR7 | 13  | 0       | 3.594 | 3      | 1   | 7   | 1.874 | -0.742   | 0.322    |
| CSR8 | 14  | 0       | 3.481 | 3      | 1   | 7   | 1.78  | -0.465   | 0.45     |
| CI1  | 15  | 0       | 3.523 | 4      | 1   | 7   | 1.899 | -0.894   | 0.213    |
| CI2  | 16  | 0       | 3.46  | 3      | 1   | 7   | 1.801 | -0.603   | 0.324    |
| CI3  | 17  | 0       | 3.644 | 3      | 1   | 7   | 1.758 | -0.584   | 0.27     |
| CI4  | 18  | 0       | 3.029 | 3      | 1   | 7   | 1.465 | -0.031   | 0.624    |
| CI5  | 19  | 0       | 3.142 | 3      | 1   | 7   | 1.48  | 0.582    | 0.915    |
| RI1  | 20  | 0       | 3.192 | 3      | 1   | 7   | 1.419 | 0.951    | 0.956    |
| RI2  | 21  | 0       | 3.105 | 3      | 1   | 7   | 1.444 | 0.529    | 0.781    |
| RI3  | 22  | 0       | 3.079 | 3      | 1   | 7   | 1.374 | 0.585    | 0.683    |
| RI4  | 23  | 0       | 3.155 | 3      | 1   | 7   | 1.497 | 0.37     | 0.713    |
| RI5  | 24  | 0       | 3.105 | 3      | 1   | 7   | 1.441 | 0.646    | 0.845    |
| RI6  | 25  | 0       | 2.983 | 3      | 1   | 7   | 1.417 | -0.207   | 0.447    |
| CO1  | 26  | 0       | 3.151 | 3      | 1   | 7   | 1.358 | 0.483    | 0.663    |
| CO2  | 27  | 0       | 3.067 | 3      | 1   | 7   | 1.436 | 0.215    | 0.65     |
| CO3  | 28  | 0       | 3.071 | 3      | 1   | 7   | 1.463 | 0.304    | 0.714    |
| CO4  | 29  | 0       | 3.172 | 3      | 1   | 7   | 1.408 | -0.128   | 0.524    |
| CO5  | 30  | 0       | 3.1   | 3      | 1   | 7   | 1.365 | 0.259    | 0.571    |
| CL1  | 31  | 0       | 3     | 3      | 1   | 7   | 1.338 | -0.15    | 0.538    |
| CL2  | 32  | 0       | 3.113 | 3      | 1   | 7   | 1.3   | 0.358    | 0.617    |
| CL3  | 33  | 0       | 3.092 | 3      | 1   | 7   | 1.414 | 0.019    | 0.702    |
| CL4  | 34  | 0       | 3.121 | 3      | 1   | 7   | 1.416 | 0.212    | 0.682    |
| CL5  | 35  | 0       | 3.155 | 3      | 1   | 7   | 1.331 | 0.336    | 0.667    |
| CL6  | 36  | 0       | 3.218 | 3      | 1   | 7   | 1.63  | -0.616   | 0.264    |

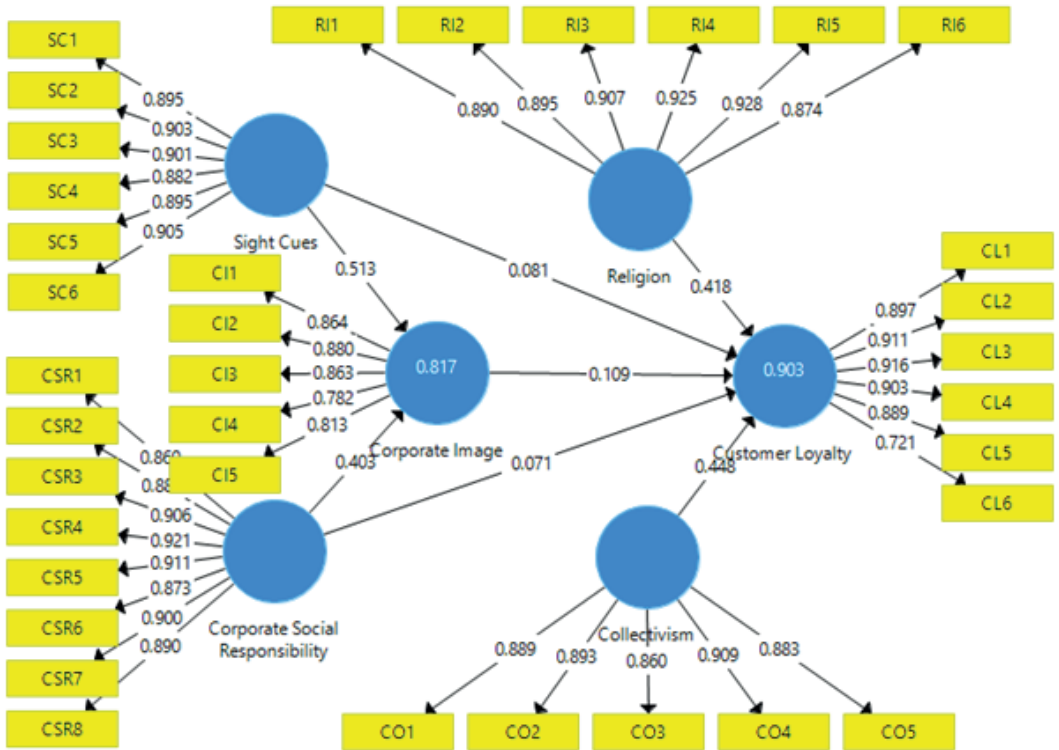


Figure 2. Measurement Model Assessment

Table 2. Factor Loadings

|     | Collectivism | Corporate Image | Corporate Social Responsibility | Customer Loyalty | Religion | Sight Cues |
|-----|--------------|-----------------|---------------------------------|------------------|----------|------------|
| CI1 | 0.864        |                 |                                 |                  |          |            |
| CI2 | 0.88         |                 |                                 |                  |          |            |
| CI3 | 0.863        |                 |                                 |                  |          |            |
| CI4 | 0.782        |                 |                                 |                  |          |            |
| CI5 | 0.813        |                 |                                 |                  |          |            |
| CL1 |              | 0.897           |                                 |                  |          |            |
| CL2 |              | 0.911           |                                 |                  |          |            |
| CL3 |              | 0.916           |                                 |                  |          |            |
| CL4 |              | 0.903           |                                 |                  |          |            |
| CL5 |              | 0.889           |                                 |                  |          |            |
| CL6 |              | 0.721           |                                 |                  |          |            |

|      | Collectivism | Corporate Image | Corporate Social Responsibility | Customer Loyalty | Religion | Sight Cues |
|------|--------------|-----------------|---------------------------------|------------------|----------|------------|
| CO1  |              |                 | 0.889                           |                  |          |            |
| CO2  |              |                 | 0.893                           |                  |          |            |
| CO3  |              |                 | 0.86                            |                  |          |            |
| CO4  |              |                 | 0.909                           |                  |          |            |
| CO5  |              |                 | 0.883                           |                  |          |            |
| CSR1 |              |                 |                                 | 0.86             |          |            |
| CSR2 |              |                 |                                 | 0.885            |          |            |
| CSR3 |              |                 |                                 | 0.906            |          |            |
| CSR4 |              |                 |                                 | 0.921            |          |            |
| CSR5 |              |                 |                                 | 0.911            |          |            |
| CSR6 |              |                 |                                 | 0.873            |          |            |
| CSR7 |              |                 |                                 | 0.9              |          |            |
| CSR8 |              |                 |                                 | 0.89             |          |            |
| RI1  |              |                 |                                 |                  | 0.89     |            |
| RI2  |              |                 |                                 |                  | 0.895    |            |
| RI3  |              |                 |                                 |                  | 0.907    |            |
| RI4  |              |                 |                                 |                  | 0.925    |            |
| RI5  |              |                 |                                 |                  | 0.928    |            |
| RI6  |              |                 |                                 |                  | 0.874    |            |
| SC1  |              |                 |                                 |                  |          | 0.895      |
| SC2  |              |                 |                                 |                  |          | 0.903      |
| SC3  |              |                 |                                 |                  |          | 0.901      |
| SC4  |              |                 |                                 |                  |          | 0.882      |
| SC5  |              |                 |                                 |                  |          | 0.895      |
| SC6  |              |                 |                                 |                  |          | 0.905      |

Moreover, the constructs under study were measured through convergent and discriminant validity. The convergent validity was examined through average variance extract (AVE). The AVEs of all reflective constructs should be higher than 0.5 in order to formulate the convergent validity(Jr. et al. 2017; Kwong and Wong 2013). Table 3 shows that the AVEs of all constructs were higher than 0.5, which demonstrate that convergent validity is established.

|                                    | <b>Cronbach's<br/>Alpha</b> | <b>rho_A</b> | <b>Composite<br/>Reliability</b> | <b>Average<br/>Variance<br/>Extracted (AVE)</b> |
|------------------------------------|-----------------------------|--------------|----------------------------------|-------------------------------------------------|
| Collectivism                       | 0.932                       | 0.933        | 0.949                            | 0.787                                           |
| Corporate Image                    | 0.896                       | 0.897        | 0.924                            | 0.708                                           |
| Corporate Social<br>Responsibility | 0.964                       | 0.964        | 0.969                            | 0.798                                           |
| Customer Loyalty                   | 0.938                       | 0.943        | 0.951                            | 0.766                                           |
| Religion                           | 0.955                       | 0.955        | 0.964                            | 0.816                                           |
| Sight Cues                         | 0.951                       | 0.952        | 0.961                            | 0.804                                           |

Discriminant validity refers to the level to which individual latent variable is different from other constructs(Jr. et al. 2017). Heterotrait–Monotrait (HTMT) ratio is used to assess the discriminate validity (Henseler, Ringle, and Sarstedt 2014) as shown in Table 4. To establish discriminate validity, a different benchmark of 0.9 for HTMT test is suggested by(Henseler et al. 2014). All the values of HTMT ratio were given and all the values are less than 0.90 as recommended by(Gold, Malhotra, and Segars 2001). Therefore, all the construct’s discriminant validity was also established.

**Table 4.** Heterotrait–Monotrait (HTMT) ratio

|                                    | <b>Collectivism</b> | <b>Corporate<br/>Image</b> | <b>Corporate<br/>Social<br/>Responsibility</b> | <b>Customer<br/>Loyalty</b> | <b>Religion</b> |
|------------------------------------|---------------------|----------------------------|------------------------------------------------|-----------------------------|-----------------|
| Collectivism                       |                     |                            |                                                |                             |                 |
| Corporate Image                    | 0.857               |                            |                                                |                             |                 |
| Corporate Social<br>Responsibility | 0.631               | 0.753                      |                                                |                             |                 |
| Customer Loyalty                   | 0.89                | 0.888                      | 0.677                                          |                             |                 |
| Religion                           | 0.868               | 0.889                      | 0.679                                          | 0.781                       |                 |
| Sight Cues                         | 0.677               | 0.766                      | 0.884                                          | 0.733                       | 0.742           |

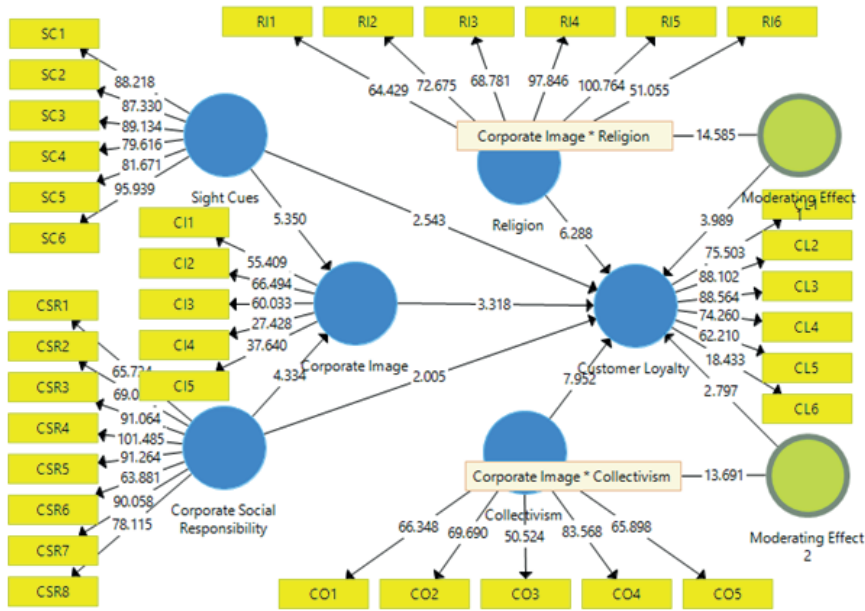


Figure 3. Structural Model Assessment

In this research structural model is used after the assessment of measurement model. The model significance was assessed based of path coefficients such as t-value and p-value. All the hypotheses of this study were tested for the indirect as well direct effects by utilizing bootstrapping mechanism through PLS 3. As shown in table 5, Collectivism has significant relationship with customer loyalty ( $t = 7.952$ ,  $p = 0.000$ ) and Corporate Image ( $t = 3.318$ ,  $p = 0.002$ ), thereby, both hypothesis H5 and H9 were supported empirically. In addition, Corporate Social Responsibility has significant relationship with customer loyalty ( $t = 2.005$ ,  $p = 0.041$ ) thus, H4 was supported empirically. It was also found that Corporate Social Responsibility has significant relationship with corporate image ( $t = 3.334$ ,  $p = 0.000$ ) and H3 was supported empirically. In addition, the results found that religion has significant impact on the customer loyalty ( $t = 6.288$ ,  $p = 0.000$ ), hereby, H11 was supported empirically. Furthermore, sight cues has significant impact on corporate image ( $t = 5.35$ ,  $p = 0.000$ ) and customer loyalty ( $t = 2.543$ ,  $p = 0.009$ ) therefore, H2 and H1 were supported empirically. This study also examined the moderating role of religion in the relationship of corporate image and

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**Table 5. Results**

|                                                   | Original<br>Sample<br>(O) | Sample<br>Mean<br>(M) | Standard<br>Deviation<br>(STDEV) | T Statistics<br>(O/STDEV) | P<br>Values |
|---------------------------------------------------|---------------------------|-----------------------|----------------------------------|---------------------------|-------------|
| Collectivism->Customer Loyalty                    | 0.45                      | 0.449                 | 0.057                            | 7.952                     | 0           |
| Corporate Image->Customer Loyalty                 | 0.08                      | 0.081                 | 0.024                            | 3.318                     | 0.002       |
| Corporate Social Responsibility->Corporate Image  | 0.403                     | 0.404                 | 0.093                            | 4.334                     | 0           |
| Corporate Social Responsibility->Customer Loyalty | 0.065                     | 0.066                 | 0.032                            | 2.005                     | 0.041       |
| Moderating Effect 1->Customer Loyalty             | 0.055                     | 0.054                 | 0.014                            | 3.989                     | 0           |
| Moderating Effect 2->Customer Loyalty             | 0.105                     | 0.106                 | 0.038                            | 2.797                     | 0.007       |
| Religion->Customer Loyalty                        | 0.387                     | 0.383                 | 0.062                            | 6.288                     | 0           |
| Sight Cues->Corporate Image                       | 0.513                     | 0.513                 | 0.096                            | 5.35                      | 0           |
| Sight Cues->Customer Loyalty                      | 0.105                     | 0.108                 | 0.042                            | 2.543                     | 0.009       |

As shown in table 6, corporate image mediates the relationship between Corporate Social Responsibility and customer loyalty ( $t = 2.122$ ,  $p = 0.047$ ), consequently, H7 is supported empirically. Moreover, it was also found that corporate image does not mediate the relationship between Sight Cues and customer loyalty ( $t = 1.27$ ,  $p = 0.205$ ), thereby, H6 is not supported empirically.

**Table 6. Indirect Effect**

|                                                                           | Original<br>Sample<br>(O) | Sample<br>Mean<br>(M) | Standard<br>Deviation<br>(STDEV) | T Statistics<br>(O/STDEV) | P<br>Values |
|---------------------------------------------------------------------------|---------------------------|-----------------------|----------------------------------|---------------------------|-------------|
| Corporate Social Responsibility -> Corporate Image<br>-> Customer Loyalty | 0.032                     | 0.033                 | 0.015                            | 2.122                     | 0.037       |
| Sight Cues -> Corporate Image -> Customer Loyalty                         | 0.041                     | 0.041                 | 0.032                            | 1.27                      | 0.205       |

### Discussion and Conclusion

The past studies have clearly reflected that sight cues and employee's CSR are the important dimensions of the corporate image including(Foroudi, Hafeez, and Foroudi 2017; LeBlanc and Nguyen 1996; Lin and He 2017; Palacios-Florencio et al. 2018; Pang et al. 2018; Selamat et al. 2016). sight cues and employee's CSR are very important incidents to enhance the corporate image of any organiza-

tion(Demetriou, Papasolomou, and Vrontis 2010; Foroudi et al. 2017; Hwang, Lee, and Do 2016; Lee, Kim, and Roh 2019; Polinkevych and Kamiński 2018; Vanhamme et al. 2012)however there are very limited studies which investigated the moderating role of the Muslim Religiosity and the collectivism between the corporate image and the customer loyalty for the Islamic banking industry.

The results of this study found that CSR and sight cues/stimuli have significant relation with corporate image which means that CSR activities and the positive environment enhance the corporate image of the Islamic banks operating in Pakistan's banking industry. The results also describe that once the better corporate image of any organization has been established, it creates the customer loyalty among the customer of Islamic banking industry operating in Pakistan. As Pakistan is a Muslim populous country, the results of this study reflect that the element of Muslim religiosity among the customers of Islamic banking industry more efficiently produce the customer loyalty through better corporate image of the Islamic banks. the study imitates that the element of collectivism also enhances the relationship between corporate image and customer loyalty for the society of Pakistan having very strong family structural society. Hence Muslim religiosity and collectivism (culture) are vital moderators to strengthen the relationship between corporate image and customer loyalty because Pakistan is a 97% Muslim populous country and customers want to be loyal with those Islamic banks which operate according to the shariah compliance range of products and services.

### Managerial Implication

This study emphasize that corporate image of the Islamic bank's is outproduced by the factor of religiosity which enhance the customer loyalty and Islamic banks are the only platform to entertain the banking as well religious requirement of the Muslim customers and create the loyal customer.

The Islamic banks can strengthen their Shariah advisory mechanism free from banking influence to provide the confidence of more shariah compliant practice to the religious customer which entail the loyalty and customer retention through the factor of collectivism and impact of culture.

Further the Islamic banks should adopt the strategy to provide the better environment (sight stimuli) for the customer retention which will be resulted in the shape of more loyal customer of Islamic banking industry.

## LIMITATION AND FUTURE RESEARCH

The present study considered the customers of Islamic bank operating in Pakistan. Therefore, the questionnaire is responded only by the Muslim customers so the results cannot be generalized in the areas other than the Muslim countries. In order to get more representative and better results of the research framework, future research could be conducted to investigate this combination of variables in other locations where the banking industry environment is not similar to Pakistan.

The Islamic banks can strengthen their Shariah advisory mechanism free from banking influence to provide the confidence of more shariah compliant practice to the religious customer which entail the loyalty and customer retention through the factor of collectivism and impact of culture.

Further the Islamic banks should adopt the strategy to provide the better environment (sight stimuli) for the customer retention which will be resulted in the shape of more loyal customer of Islamic banking industry.

Secondly, this study only examined the relationship among CSR, sight stimuli, corporate image and customer loyalty. Therefore, future studies should examine some different variables including trust and CRM to provide the loyal customers.

Lastly, further study could be conducted in comparative nature considering the conventional and Islamic banks.

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## **WHAT DRIVES ENERGY-EFFICIENT HOME APPLIANCES PURCHASING? EVIDENCE FROM PAKISTAN**

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### **ABSTRACT**

The principal determination of this study is to explore the human motivation towards energy-efficient home appliances purchasing. However, the research has been done in Karachi city whereas “310” respondents had taken part in data collection with the help of purposive sampling. Although, data have been analyzed in the Smart PLS while SEM was adopted to achieve the desired results. Also, the obtained results have shown that the data is quite reliable and authentic. Moreover, all the relationships of variables have been established significant except one moderating relationship of the product price has not been found substantial. Furthermore, some noteworthy limitations have also been faced like the study was only conducted in one city because of the limited time frame. Besides this, small sample size was used for data collection. For further study different cities must be focused on so that diverse results can be obtained. Adopt a large size of sample for better data accuracy. Last, the present study has introduced a unique conceptual model for innovative concepts and ideas.

**Keywords:** Subjective norm, perceived behavioral control, behavioral intention, product price concern, actual purchase, bill control

## **INTRODUCTION**

In the last few years, the consumption of energy has drastically been increased all over the world. Besides this, unseen risks are also generating due to the consecutive use of energy (International Energy Agency, 2017). The study of Tan, Ooi, and Goh (2017) has endorsed that the constant utilization of energy may be harmful to the atmosphere and may cause a serious threat to human lives. Less consumption of energy can reduce hidden risks and may develop a healthy environment (Hameed & Khan, 2020). Similarly in Pakistan, the usage of energy particularly in homes is around 85% and the rest is used on a commercial basis (Ali et al. 2019a; Ali, et al. 2019b). Large household appliances like (refrigerator, air conditioner, washing machine, microwave, and iron) consume a big portion of energy resulting in a high electricity bill which increases the cost and depression (Parikh & Parikh, 2016; Hameed & Khan, 2020). Due to this, large household appliances should be less energy consumed and also save energy to avoid dangerous hidden threats (Hua & Wang, 2019). The most suitable example is given by Del et al. (2016) people use luminous bulbs in their homes of 60 watts which means per hour energy is used of sixty watts similarly 11 watts bulb can save 49 watts energy in one hour. That is human psychic everyone wants ease in every situation whether it is financial or non-financial (Swalehe, Chombo, & Marungsri, 2018). The economic growth of a country can be enhanced when people live with full autonomy and zero percent depression so this reason makes a prosperous and peaceful country (Wang, 2016).

Studies pointed out that people must understand the vital demands and needs of every person in terms of fundamental necessities like water-saving, electricity-saving, or gas-saving because in the least developed countries there is a scarce of these essential resources (Yuksel et al., 2018; Khan & Hameed, 2019a; Hameed et al., 2021). It is cleared from the past studies that energy-saving is very much important these days for the betterment of a country as well as for the people's lives. The majority of work to determine people's intention towards purchasing has been done on the most popular theory of human psychology "the theory of planned behavior", though a similar theory particularly has also been applied to know purchasing intention of electronic appliances (Ali et al., 2019a; Ali et al.,

2019b). According to the world ranking in terms of population, Pakistan is the 6th largest populated country (Worldometer, 2018). As it has also been seen in other populous countries that many uncontrollable problems are also generated due to the increasing ratio of the population such as economic growth decreases, unable to provide fundamental resources, gradually country's infrastructure weakens, poverty, and many others. These are the main highlighted issues that Pakistan has also been facing for many years. The less supply of energy is a highly recognized problem, therefore, to control this issue people must change their way of thinking towards home appliance purchasing (Valasai et al., 2017).

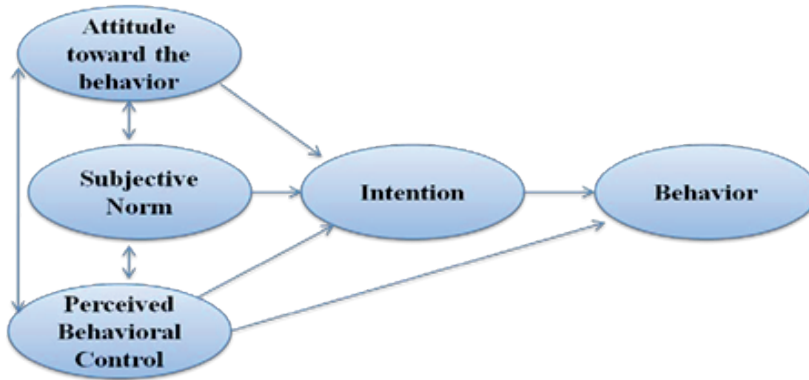
Nevertheless, very limited research work is completed on the consumption of energy-efficient home appliances in other countries but gradually the policy and strategy makers are keeping an eye on and have started to give awareness regarding the benefits of the exploitation of energy-efficient home appliances, their use will certainly help to save more energy and will also assist in enhancing GDP of a country (International Energy Agency, 2017). According to the State bank of Pakistan (2018), proper management and efficient utilization of energy are the elementary requirements to solve this delinquent, and it can only be done when people start to buy energy-efficient household appliances to save energy and control electricity bills. Thus, the present study has focused on these above-highlighted issues and also linked them with the theory of planned behavior (TPB) towards energy-efficient home appliances purchasing.

## Literature Review

### *Theory of Planned Behavior (TPB)*

The initial theory was introduced by the name of TRA (theory of reasoned action) and after that planned behavior theory (TPB) was presented to explain human's psychological behavior this theory is based on human's psychological behavior (Ajzen, 1991). The important factors which are involved to better explain human behavior are attitude, subjective norm, perceived behavioral control, and behavioral intention all these aspects help to develop a positive behavior of a person (Ajzen & Fishbein, 1972). In the past, several studies have used planned behavior

theory in a different context, some used as to understand human behavior only, whereas others applied it to describe an individual's purchasing intention behavior (Liu, 2008). The theory of planned behavior is deliberated as the best theory to define human psychology in depth. Therefore, the current study has also preferred to explain well an individual's purchasing behavior towards energy-efficient household appliances



**Figure1: The Planned Behavior Theory (TPB) (Ajzen, 1991)**

### **Attitude (AT)**

Attitude is a decisive factor that inclines to do an action (Allport, 1935). There are two kinds of attitudes which are positive and negative, both exist in human psychology (Ajzen, 1991). Eagly and Chaiken (1993) debated that if an attitude has two different forms, consequently the ultimate result will depend accordingly. The mixed feelings of both negative and positive are known as attitude (Newhouse, 1991). Attitude is considered as an essential factor to achieve the desired result if a person shows an affirmative attitude towards something then gets the decided outcome. Similarly, a favorable attitude towards purchasing leads to a successful result (Irland, 1993; Khan & Hameed, 2019b). In the same way, people's buying behavior for large things is very conditional, they want a complete package e.g. quality, price, long-lasting, best service provider, etc. Correspondingly in the context of purchasing energy-efficient home appliances, people show both positive and negative attitudes in the light of mentioned factors (Tan et al., 2017).

*H1: There is a positive effect of attitude on purchasing of energy-efficient home appliances.*

### **Subjective Norm (SN)**

The subjective norm is a kind of external pressure that influences a person's final decision exerts by the people in the surrounding, ultimately it affects an individual's behavior (Ajzen, 1991). The subjective norm influences every state of a decision such as commencing a new job or business, purchasing intention, traveling, or emotional relationship, the third person's advice always impacts other people's thinking (Akar, 2019). In the past literature, it is reflected a vital factor of human psychology, as it changes a person's decision quickly in many ways like the intention of buying may vary either the planned conclusion would take place or not (Lee & Chow, 2020). Thus, the present work has taken the subjective norm as an influential factor to know its effects on a person's thinking towards energy-efficient home appliances purchasing.

*H2: There is a significant influence of subjective norm on purchasing of energy-efficient home appliances.*

### **Perceived Behavioral Control (PBC)**

The accomplishment of the desired goal with full potential and commitment without taking any external or internal pressure (Ajzen, 1991). This factor has been vastly discussed in the previous readings in the context of purchasing intention (Klößner, 2015; Klößner, 2013). The activity of buying is usually considered the hardest exercise for a person's decision. Although it is the toughest element of human behavior because it leads to the final goal of what a person has already been planned (Jager, 2000). On the contrary, it is quite challenging to stick to the decision of purchasing large home appliances (Tan et al., 2017).

*H3: There is a momentous impact of perceived behavioral control on the purchasing of energy-efficient home appliances.*

### **The mediating role of Behavioral Intention (BI)**

The imperative element is to develop human behavior (Ajzen, 1991). Two main components have been identified by the previous studies which are strong commitment and pure enthusiasm (Rödiger, Plaßmann, & Hamm, 2016). The study of Oliver (2014) said that a strong inclination of willingness towards buying and develop repurchase intention of a specific product or to complete a particular job. Montano and Kasprzyk (2015) endorsed the previous argument when positive and negative attitudes are combined then the behavioral intention is formed along with competent skills and abilities. Another study has highlighted that it is not sufficient to have particular skills and abilities to create behavioral intention, necessary to have exact intentions that help to develop the behavior of a human (Zhou et al., 2013).

*H4: There is a noteworthy role of behavioral intention among attitude, subjective norm, perceived behavioral control, and purchasing of energy-efficient home appliances.*

### **The moderating role of Product Price Concern**

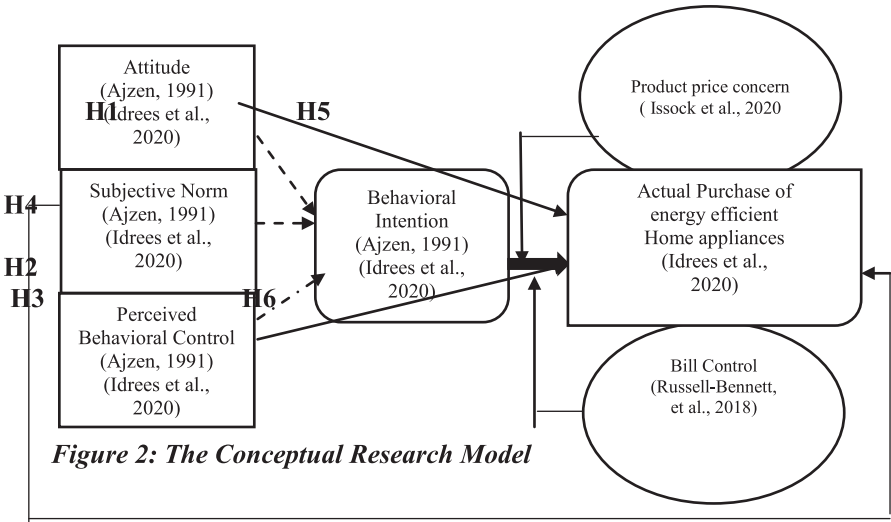
Many past studies have explained that the price of a product very much influences the intended behavior of an individual not only the person's buying intention even it completely changes the person's decision to buy or not to buy (Testa, Cosic, & Iraldo, 2016). Whereas in the massive previous literature has been shown the unacceptable view regarding the price towards purchasing intention, prior authors explored that the quality of a product impacts the final decision of a person it deviates the buying intention hastily rather than price (Völckner & Hofmann, 2007; Brucks, Zeithaml, & Naylor, 2000; de Langhe, van Osselaer, Puntoni, & McGill, 2014). Jung, Cho, and Lee (2014) refused the past author's arguments and claimed that an individual's decision is only affected by the price of a product, higher price weakens the relationship between buyer and seller.

*H5: There is a negative moderating effect of product price concern on behavioral intention and purchasing of energy-efficient home appliances.*

**The moderating role of Bill Control**

The deficiency of energy and power is always being the major problem in Pakistan. Although it is predicted that in the next few years the shortage and small amount of producing megawatts would become a severe issue because the energy is being used on a residential and commercial basis too (Kessides, 2013). The high consumption of energy is used for large household appliances therefore high electricity bills come at the house door which generates different other problems in people’s lives. Nowadays it is very difficult to manage income and energy-saving for a peaceful life (Seligman, et al., 2018). The utilization of energy-efficient home appliances can save energy and reduce electricity bills especially beneficial for low-income earners (Seligman et al., 2018).

*H6: There is a positive moderating effect of bill control on behavioral intention and purchasing of energy-efficient home appliances.*



*Figure 2: The Conceptual Research Model*

**Research Methodology**

The methodology plays the role of a backbone in the study. Though it enlightens the correct path from the beginning to the final destination. However, the right way always leads to the right conclusion (Saunders et al., 2009). The concept of research onion is introduced by Saunders that provides the accurate steps and helps to develop the exact methodology (Saunders et al., 2009). The positivism philosophy is commonly used in studies (Johnson & Clark, 2006). Thus the positivism philosophy was selected in the current study to test the developed hypothe-

ses. Next, there are two types of approaches named inductive and deductive (Neuman, 2006). As the study has been conducted on the quantitative pattern, therefore the deductive approach was used. According to the research onion, several strategies have been defined, while the survey strategy was applied for data collection. Moreover, “310” as the sample size and purposive sampling were selected for the collection of desired data. The primary data was collected through a close-ended questionnaire and it was also categorized into online and physical methods, whereas the secondary data was gathered from different methods such as research articles, online research databases, and related reports. Due to the limited time frame, the study was picked a cross-sectional time horizon for the interaction with respondents. The results were analyzed in the Smart PLS version 3.2.6 with the help of structural equation modeling (SEM) (Ringle et al., 2015). The SEM is categorized into two stages, the assessment of the measurement model and the assessment of the structural model (Khan, et al., 2021). The measurement model was used to investigate the reliability, validity, and VIF values of data. Besides this, the structural model was applied to inspect the relationships of variables or the testing of developed hypotheses.

## Results

### Demographics

**Table 1: Demographic's Information**

|                        | <i>Profile</i>              | <i>Frequency</i> | <i>Percentage %</i> |
|------------------------|-----------------------------|------------------|---------------------|
| Gender                 | Male                        | 195              | 63%                 |
|                        | Female                      | 115              | 37%                 |
| Age Group              | Below 20 years              | 10               | 3.2%                |
|                        | 21 to 30 years              | 21               | 6.8%                |
|                        | 31 to 40 years              | 180              | 58%                 |
|                        | 41 to 50 years              | 80               | 26%                 |
|                        | 51 and Above                | 19               | 6%                  |
| Household Income level | Below 25000                 | 25               | 8%                  |
|                        | 26,000 – 35,000             | 90               | 29%                 |
|                        | 36,000 – 45,000             | 93               | 30%                 |
|                        | 46,000 – 55,000             | 53               | 17%                 |
|                        | Above 55,000                | 49               | 16%                 |
| Qualification          | Matric                      | 0                | 0                   |
|                        | Intermediate                | 17               | 5%                  |
|                        | Bachelors                   | 111              | 36%                 |
|                        | Masters                     | 136              | 44%                 |
|                        | Diploma certificate         | 46               | 15%                 |
| Prefer Home Appliances | Air Conditioner             | 145              | 47%                 |
|                        | Refrigerator/Fridge-Freezer | 165              | 53%                 |
| Prefered Brand         | Haier                       | 120              | 38%                 |
|                        | Dawlance                    | 175              | 57%                 |
|                        | PEL                         | 15               | 5%                  |

The relevant information regarding the targeted respondent is necessary to evaluate the overall participation (Burns & Bush, 2003). According to the obtained results of demographics, the men had strongly participated in providing significant data and their strength was around 63%, whereas 37% of women had taken part in this study. Furthermore, the largest category of respondents was fall in the age group of 31 to 40 years, and their household income level was 36,000 – 45,000. The most preferable home appliance as per the people's opinion is a refrigerator. Besides this, the majority of the respondents were well educated and had a master's degree. The results can be seen in Table 1.

## Assessment of the Measurement Model Validation

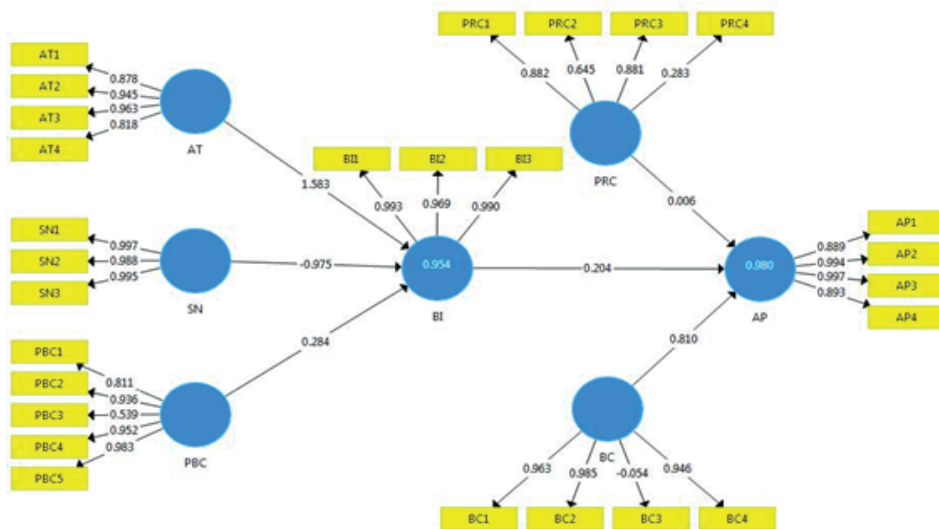


Figure 3: The Measurement Model

Table 2: The results of the Measurement Model

| Constructs | Items | Outer Loadings | Cronbach's Alpha | rho_A | Composite Reliability | AVE   | VIF    |
|------------|-------|----------------|------------------|-------|-----------------------|-------|--------|
| AP         | AP1   | 0.889          | 0.959            | 0.964 | 0.971                 | 0.893 | 1.5831 |
|            | AP2   | 0.994          |                  |       |                       |       | 1.0493 |
|            | AP3   | 0.997          |                  |       |                       |       | 1.3380 |
|            | AP4   | 0.893          |                  |       |                       |       | 1.9271 |
| AT         | AT1   | 0.878          | 0.924            | 0.953 | 0.946                 | 0.815 | 1.1657 |
|            | AT2   | 0.945          |                  |       |                       |       | 1.4595 |
|            | AT3   | 0.963          |                  |       |                       |       | 1.8464 |
|            | AT4   | 0.818          |                  |       |                       |       | 1.5659 |
| BC         | BC1   | 0.963          | 0.741            | 0.965 | 0.870                 | 0.699 | 1.4066 |
|            | BC2   | 0.985          |                  |       |                       |       | 1.1632 |
|            | BC3   | 0.054          |                  |       |                       |       | 1.1023 |
|            | BC4   | 0.946          |                  |       |                       |       | 1.2836 |
| BI         | BI1   | 0.993          | 0.984            | 0.985 | 0.989                 | 0.968 | 1.0892 |
|            | BI2   | 0.969          |                  |       |                       |       | 1.1159 |
|            | BI3   | 0.990          |                  |       |                       |       | 1.0800 |
| PBC        | PBC1  | 0.811          | 0.903            | 0.960 | 0.932                 | 0.739 | 1.1225 |
|            | PBC2  | 0.936          |                  |       |                       |       | 1.0383 |
|            | PBC3  | 0.539          |                  |       |                       |       | 1.2768 |

| Constructs | Items | Outer Loadings | Cronbach's Alpha | rho_A | Composite Reliability | AVE   | VIF    |
|------------|-------|----------------|------------------|-------|-----------------------|-------|--------|
| PRC        | PBC4  | 0.952          | 0.787            | 0.725 | 0.788                 | 0.513 | 1.2649 |
|            | PBC5  | 0.983          |                  |       |                       |       | 1.2120 |
|            | PRC1  | 0.882          |                  |       |                       |       | 1.5105 |
|            | PRC2  | 0.645          |                  |       |                       |       | 1.0997 |
| SN         | PRC3  | 0.881          | 0.993            | 0.993 | 0.995                 | 0.986 | 1.0356 |
|            | PRC4  | 0.283          |                  |       |                       |       | 1.4523 |
|            | SN1   | 0.997          |                  |       |                       |       | 1.2064 |
|            | SN2   | 0.988          |                  |       |                       |       | 1.2021 |
|            | SN3   | 0.995          |                  |       |                       |       | 1.0042 |

The obtained results of the measurement model can be seen in Table 2. Thus, the internal consistency could be measured from two approaches that are Cronbach's alpha and composite reliabilities (Gefen et al., 2000). If the values of both approaches are  $\geq 0.7$  then it confirms the existence of internal consistency. The study of Meng-Hisang et al., (2014) well explained the composite reliability and considered the authentic method of finding internal consistency. Hence, the obtained results of Cronbach's alpha and composite reliabilities have effusively verified the acquired data are consistent and reliable. Similarly, the convergent validity can be established through two methods the first one is outer loadings and the other method is average variance extracted (AVE). The values of outer loadings must be  $\geq 0.7$ , whereas the values of AVE should be greater than  $\geq 0.5$  to confirm the convergent validity (Hair et al., 2016). Another study has confirmed that the lower values of outer loadings affect the internal consistency (Hair et al., 2017). Thus, the attained results of both methods are well enough to confirm the convergent validity. The study of Hair et al. (2017) explored that multicollinearity issue which has commonly occurred in data and for its identification, the attained results should be  $< 5$ . Hence, the achieved data are quite reliable, have no multicollinearity issues, and can be utilized for future study.

**Table 3: The Fornell-Larcker Criterion Test**

|     | AP    | AT    | BC    | BI    | PBC   | PRC   | SN    |
|-----|-------|-------|-------|-------|-------|-------|-------|
| AP  | 0.945 |       |       |       |       |       |       |
| AT  | 0.834 | 0.903 |       |       |       |       |       |
| BC  | 0.983 | 0.850 | 0.836 |       |       |       |       |
| BI  | 0.881 | 0.912 | 0.830 | 0.984 |       |       |       |
| PBC | 0.838 | 0.937 | 0.809 | 0.958 | 0.860 |       |       |
| PRC | 0.667 | 0.706 | 0.628 | 0.749 | 0.725 | 0.716 |       |
| SN  | 0.735 | 0.961 | 0.788 | 0.781 | 0.831 | 0.624 | 0.993 |

**Table 4: The Heterotrait-Monotrait Ratio (HTMT) Test**

|     | AP     | AT     | BC     | BI     | PBC    | PRC    | SN |
|-----|--------|--------|--------|--------|--------|--------|----|
| AP  |        |        |        |        |        |        |    |
| AT  | 0.5263 |        |        |        |        |        |    |
| BC  | 0.1141 | 0.1688 |        |        |        |        |    |
| BI  | 0.4371 | 0.3990 | 0.2152 |        |        |        |    |
| PBC | 0.2347 | 0.4083 | 0.0881 | 0.1581 |        |        |    |
| PRC | 0.4388 | 0.3688 | 0.0912 | 0.7120 | 0.2516 |        |    |
| SN  | 0.3127 | 1.3405 | 0.1095 | 0.4692 | 0.7140 | 0.3079 |    |

The Fornell-Larcker Criterion and The HTMT ratio are two methods of determining the discriminant validity of the measurement model (Henseler et al., 2014). The Fornell-Larcker has been widely used in previous studies, however, the HTMT ratio test is being preferred to obtain accurate results of confirming the discriminant validity in data. In the Fornell-Larcker criterion test, the squared value of AVE must be greater which confirms the existence of discriminant validity (Fornell & Larcker, 1981). Thus, the obtained results in table 3 all the values are greater than the squared value of AVE that confirms the discriminant validity has been established through this method. While the HTMT ratio is the most appropriate technique for the verification, therefore the values must be  $\leq 0.9$ . Hence, it can be seen in table 4, all the values met the standard value except 1.3405, which describes that unable to differentiate the construct by the respondent.

**Table 5: The Variance Explained**

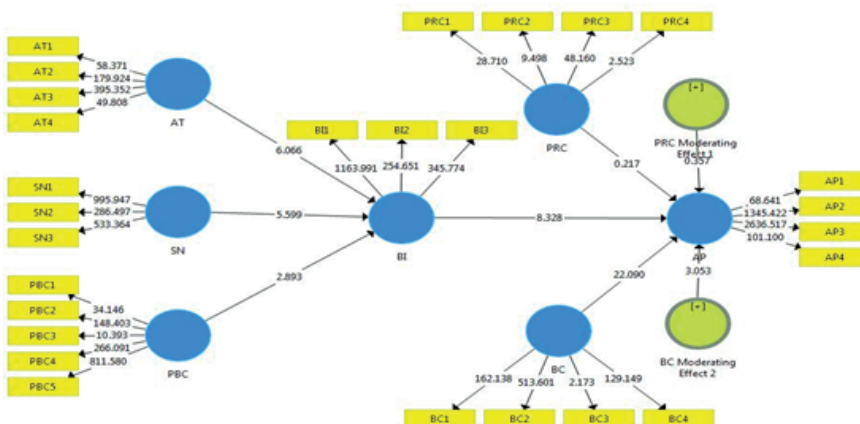
|    | R Square | R Square Adjusted |
|----|----------|-------------------|
| AP | 0.3991   | 0.3932            |
| BI | 0.2558   | 0.2485            |

Hair et al (2017) elucidated the criteria of variance explained in terms of substantial, moderate, and weak, 0.75, 0.50, or 0.25. in table 5 the values are quite nearer to the moderate. Therefore, the results of AP & BI have been shown a moderate variance in the model.

**Table 6: Model Fit Summary**

|            | Saturated Model | Estimated Model |
|------------|-----------------|-----------------|
| SRMR       | 0.073           | 0.072           |
| d_ULS      | 1.735           | 1.732           |
| d_G        | 0.952           | 0.963           |
| Chi-Square | 1918.7377       | 1920.0543       |
| NFI        | 0.7493          | 0.7463          |

### Assessment of the Structural Model Assessment

**Figure 4: The Structural Model**

*Farhan Salim, Dr. Kamran Khan, Dr. Syed Karamatullah, Dr. Kashif Riaz & Dr. Liaqat Ali Abro*  
Hu and Bentler (1999) clarified well the fitness of the model if the value of SRMR  $\leq 0.08$ , then the model is considered a good fit. Hereafter, the obtained value of SRMR is less than 0.08 so that it can be concluded that the model is a normal fit.

The testing of hypotheses in the Smart PLS through the bootstrapping procedure. The relationships of variables are confirmed significant if they meet the P-value (Hair et al., 2016). In the prior studies, different levels of significance have been used according to their data such as 0.1 (10%), 0.05 (5%), or 0.01 (1%) (Hair et al., 2016)

**Table 7: The results of Hypotheses Testing**

|                               | Origin<br>al<br>Sample<br>(O) | Sampl<br>e<br>Mean<br>(M) | Standar<br>d<br>Deviation<br>(STDEV) | T Statistics<br>( O/STDEV ) | P<br>Value<br>s | Status        |
|-------------------------------|-------------------------------|---------------------------|--------------------------------------|-----------------------------|-----------------|---------------|
| AT -> AP                      | 0.473                         | 0.491                     | 0.105                                | 4.514                       | 0.000           | Significant   |
| AT -> BI                      | 1.583                         | 1.601                     | 0.267                                | 5.930                       | 0.000           | Significant   |
| BC -> AP                      | 0.827                         | 0.817                     | 0.037                                | 22.492                      | 0.000           | Significant   |
| BI -> AP                      | 0.299                         | 0.306                     | 0.037                                | 8.139                       | 0.000           | Significant   |
| PRC Moderating Effect 1 -> AP | -0.014                        | -0.027                    | 0.041                                | 0.351                       | 0.726           | Insignificant |
| BC Moderating Effect 2 -> AP  | 0.100                         | 0.108                     | 0.033                                | 3.022                       | 0.003           | Significant   |
| PBC -> AP                     | 0.085                         | 0.085                     | 0.032                                | 2.614                       | 0.009           | Significant   |
| PBC -> BI                     | 0.284                         | 0.278                     | 0.101                                | 2.822                       | 0.005           | Significant   |
| PRC -> AP                     | 0.006                         | 0.002                     | 0.029                                | 0.215                       | 0.830           | Insignificant |
| SN -> AP                      | -0.291                        | -0.303                    | 0.068                                | 4.268                       | 0.000           | Significant   |
| SN -> BI                      | -0.975                        | -0.988                    | 0.178                                | 5.469                       | 0.000           | Significant   |

T-statistics > 1.96 at P- value < 0.05

The results of the hypotheses can be seen in Table 7. The relationships of all the variables have been found significant that means the null hypotheses are successfully rejected except the one hypothesis of product price concern that demonstrated an insignificant relationship or failed to reject the null hypothesis. All the obtained p-values are less than 0.05 that confirmed the adopted independent variables have sufficient effects on the dependent variable.

## **Discussion**

According to the achieved statistical results, the men had strongly participated comparatively than women for acquiring data. Around 63% of men had filled the questionnaire whereas 37% by the women. Moreover, the data were collected from the respondents with full consent. That is the reason more accurate information had been gathered. The SEM research technique was used to measure the measurement and structural model while, the reliability was checked through different tests such as internal consistency, convergent validity, and discriminant validity as all described in the previous section. Although, the testing of hypotheses was examined by the execution of bootstrapping procedure. Likewise, the relationships of all the variables have positive effects and represent that the null hypotheses are successfully rejected, except one hypothesis of product price concern was accepted. Besides this, the model was a good fit and can be utilized for further study.

## **Conclusion**

The core purpose of conducting this study was to determine the human behavior towards purchasing energy-efficient home appliances. In the prior literature, the theory of planned behavior (TPB) was linked with human psychology in different contexts. Whereas the planned behavior theory explains the key elements of an individual's behavior, and consists of four fundamental factors named attitude, subjective norm, perceived behavioral control, and behavioral intention and these causes derive to perform a particular task. Same as the present study has focused on the human's buying intention towards energy-efficient appliances. The purchasing behavior is deliberated as the most difficult activity for people due to the intensive internal and external factors that influence the person's decision. Thus, the core objective has fruitfully completed after getting the accurate results which cleared the behavior of a human certainly motivates by some reasons, same in the context of purchasing large home appliances an individual's psychic varies from diverse aspects, some in favor to develop that specific behavior which leads to the final decision.

## **Contribution to the Field**

Understanding a person's behavior in the respective discipline is relatively tough because no one can recognize what they want and think about. Like in purchasing so many things come in people's mind regarding the product which they are willing to buy. The manufacturers of large home appliances have to realize the requirements of a consumer because there is no other way to sell their products. Therefore, the current study describes the hardcore demands concerning energy-efficient household appliances. It also contributes to providing appropriate statistics and advises the concerned companies on what type of home appliances should be and can relieve to a common person in terms of electricity and money-saving. It could be possible when companies start to make energy-efficient and cost-saving appliances that will reduce depression and assist to create a healthy and peaceful environment in homes.

## **Limitations and Recommendations**

The study has underlined some primary limitations. The study was only conducted in the main city of Pakistan i.e. Karachi. The other major cities should be covered in the next study, and in this way, diverse data would be collected. The study used a relatively small sample of 310 which was considered an average, but in future studies must adopt a large sample size for better data accuracy and authenticity. Due to the shortage period, the cross-sectional pattern was followed and interacted with the respondent for one time because of unlimited resources and lack of time. Further research must take a long time and collect data from the respondents more than one time. In the last, the quantitative research method was focused, and picked purposive sampling technique for the mathematical data collection. Use the qualitative approach with other sampling techniques to achieve different results, and information, and also introduce innovative ideas.

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# **IMPACT OF COVID-19 ON UNITED ARAB EMIRATES ECONOMY, MICRO, SMALL AND MEDIUM ENTERPRISES “MSMES” AND A WAY FORWARD TO ISLAMIC FINANCE**

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## **ABSTRACT**

The Economy of United Arab Emirates (UAE) was thriving with its upcoming preparations for Expo 2020, until there was a sudden pandemic strike of the noble COVID-19 taking a huge toll on the economy and its businesses. According to the International Monetary Fund (IMF) statistics, the UAE economy Gross Domestic Products (GDP) of 2020 is expected to slash by -3.5%. While major firms can handle pandemic impacts better, Micro Small and Medium Enterprises (MSMEs) do not have such tolerance to withhold such a huge slash. MSMEs contribute to 52 per cent of UAE's non-oil GDP and are a great backbone to the economy. In such a situation, Islamic finance can prove to be of a great aid to MSMEs and ultimately the economy. The purpose of this research paper is to measure the impact of COVID-19 outbreak on the UAE economy and MSMEs of the country while providing Islamic finance resolutions that can help this issue. The research was conducted through distributing surveys to various MSMEs in the UAE and interviewing them regarding the impacts of COVID-19 on their business and measures taken by them. Additionally, the research attempts to find a relation between the number of COVID-19 cases and economic impact from January 2020 – September 2020 by using Purchase Manager's Index (PMI) as an indicator. The results portray a negative impact between the amount of COVID-19 cases and the country's PMI. However, these results may not be completely accurate as it is too early to produce confirmed relations. The findings of this paper also show that

Islamic micro-finance solutions coupled with Islamic fintech mechanisms can help the country in preserving MSMEs consequently helping the economy in gradual recovery. However, results show that due to the various restrictions in Islamic finance, providing solutions to all MSMEs is not possible as many businesses may not be sharia compliant.

**Key words:** Small and Medium Enterprises, UAE, COVID-19, Economy, Purchase Manager's Index, Sharia.

## **INTRODUCTION**

The first country in the middle east to report a coronavirus case in January 2020 was the United Arab Emirates (The National, 2020). Soon after, the virus escalated in the country and the UAE went through many phases including a lockdown and various restriction on mobility. Like the global impact of coronavirus, the UAE has also incurred unprecedented losses and substantial uncertainties across various industries. According to the UAE central bank forecasts, the country's GDP is expected to decline by -3.6% (CBUAE, 2020). UAE's latest GDP pre-pandemic accounted for USD 421.14 billion (Trading Economics, 2020) and was ranked 25th in the Global Competitiveness Report (World Economic Forum, 2019).

The Micro, Small and Medium Sized (MSME) Industry is a rapidly growing sector around the world. Companies in the UAE are categorized small and medium enterprise when their turnover is equal to or less than USD 250 million and have lesser than 250 employees (Tasjeel,2020). Micro firms are those with turnover AED threemillion or less (Approximately 817 USD) and those that employ lower than 20 workers. Micro firms in the UAE constitute 61% of the total organizations. The MSME industry of UAE is contributing significantly to the economy by 60% through 400,000 MSMEs. Additionally, MSME sector of UAE supports 86% of private sector employment and contribute 73% towards trading sector (UAE Government, 2020). The industry has incurred huge damages since the pandemic strike as they lack the resources and financial stability of large corporations. To support this flourishing sector during hard times, the Abu Dhabi

Executive Council has launched AED 3 billion MSME credit guarantee scheme (UAE Government, 2020). Even through the support of government, the recovery process for the MSME sector and UAE economy is assumed to be at a steady pace.

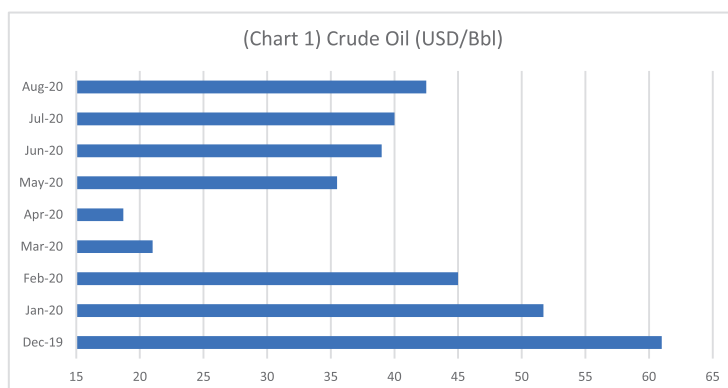
Islamic Finance is a faith-based mode of financing that promotes just economic mechanisms with the exclusion of interest elements and other prohibitions in Islam. Islamic financing has gained lots of credibility globally especially due to its benefits such as financial inclusion, reducing the impact of harmful products, stable investments, and overall acceleration of economic development. This has been proved through various circumstances one of which was the global financial crisis of 2008 where Islamic banking and finance sector proved to endure the situation much better than conventional ones. The UAE is a significant hub for Islamic Banking and Finance sector. The UAE's vision is to be a capital in Islamic finance and desires to incorporate Sharia compliant finances across maximum sectors. In fact, it is the third largest Islamic banking and finance market, contributes USD 158.72 billion of UAE's banking assets and has a faster industry growth rate than conventional banks in the region (Khan et al., 2019). The nation is currently processing a standardized global legislative framework for Islamic Financial Institutions-IFIs (Khaleej Times, 2020). Due to this reason, UAE has much potential resources of Islamic finance that can help in the economy recovery. The country must put extensive efforts in optimizing Islamic Finance towards a healthy economy. Hence, the purpose of this research is to measure the impact of COVID-19 on the UAE economy and its MSME sector while finding a solution to revive the economy and MSME sector through Islamic finance mechanisms.

## **2. LITERATURE REVIEW**

### **2.1 Economic Impacts of Coronavirus**

One of the most shocking and earliest effects of coronavirus was the erosion of USD 6 trillion from global stock markets, losses of USD 5 trillion in S&P 500 index in a week's span during February (Randewich, 2020). Similarly, the Dubai Financial Market index of UAE witnessed a -4.9 per cent decline which was

accounted as the biggest single day drop since Gulf war of 1991 (GCC Markets Monthly Report, February 2020). According to the IMF predictions, there is a high chance for occurrence of a global recession that may be worse than 2008 financial crisis with a possible revival from 2021 onwards. The recession of 2008 was triggered due to an inefficient monetary policy that consequently caused high leverage in banking industry, weak regulatory structures, and subprime mortgages (Allen and Carletti, 2010). However, Ozili and Arun (2020) state that there may be a different type of recession which has been triggered by coronavirus. According to El-Erian (2020), the coronavirus crisis has developed demand-supply shocks across the globe due to which this recession may not only be destructive but will also incur spillover implications. The impact of crisis on oil-dependent countries was worse as there was an ongoing price war between Kingdom of Saudi Arabia (KSA) and Russia that led to a 25 per cent decline in oil prices (see Chart 1) (Ozili and Arun, 2020). There occurred adverse impacts on the energy industry including coal, gas, oil and renewables due to the reduction in transport leading to a sharp decline in fuel demand. Another factor for major decline in oil prices was due to the excess supply of oil by KSA that surpassed oil demand and led to extreme losses in oil revenue for oil-producing countries. Due to such circumstances, these oil-dependent countries had to establish new budget corresponding the new oil price or were obliged to issue loans from world bank and IMF (Ozili and Arun, 2020). There has been a significant harsh impact on the economy and share prices of credible stock market indices due to travel restrictions, lockdowns, and monetary measures (Ozili and Arun, 2020). The reduction of Chinese economy Gross Domestic Products (GDP) by 13 per cent in the first quarter of 2020 has



significantly impacted many economies worldwide due to trade agreements. For instance, Central Asian economies trade 90 per cent of raw material to China and benefit vastly from China's FDI (Foreign Direct Investment) for this crisis have caused huge damages to these countries (Usman et al., 2020). Similarly, more than 3,000 employees were assigned to work on energy projects in Bangladesh and were declined reentry due to the situation (Nguyen, 2020). According to a study conducted by Al-Awadhi et al., (2020) a significantly negative impact of coronavirus cases and deaths occurs on stock market. Their study also confirms that IT and medicine sectors proved to perform better during the COVID-19 crisis. Using a panel data analysis to measure the impact on stock markets due to increasing COVID-19 cases and deaths, stock markets portray a strong reaction with negative returns to growth in coronavirus cases (Ashraf, 2020). Bahrini and Filfilan (2020) found through their research on the impact of coronavirus on GCC stock market returns, that GCC stock markets significantly respond to the deaths due to COVID-19 and do not respond to the COVID-19 cases. A study conducted through interviews of international experts on GCC issues portrayed that the most crucial challenge for the region is to deal with labor market as the GCC region is heavily reliant on foreign labor (Kozhanov and Zaccara, 2020). Most of the coronavirus infected patients are among the foreign nationals in GCC states. For example, In Qatar 70 per cent of the COVID-19 patients are South Asians and in Saudi Arabia four-fifth cases are among foreigners as well (The Economist, 2020). In response to this, GCC states are imposing bailouts on many foreign country citizens and are naturally favoring the welfare of nationals and state entities first to prevent further spread of the virus. These policies are expected to decelerate the economic growth rate and increase expenses for GCC states as they are heavily dependent on foreign labor. However, this measure can also give rise to long-term sustainability and development of local workers. According to the IMF (2020) research, the GCC will likely face depletion in financial assets by 2034 and found it already challenging to maintain fiscal sustainability; the pandemic crisis has added to the burden as the region is forced to reduce economic activities from non-oil sector. Additionally, there is a rise in government dominance in GCC states triggered by economic diversification standstill, capital flight, deficits in global equity markets owned by governments, lack of FDI due to

unfavorable conditions, and increasing social welfare expenses. Naturally, the region will divert its focus from innovation to survival through reformed strategies. Among all GCC nations, Qatar is noticed to have a much stable future and smooth recovery as they have exceeded large capital outlays and have contained savings of USD 350 billion. Whereas UAE will face slow recovery as the country had bigger plans of diversifying the economy by placing the country as a regional air travel hub and the preparing extravagantly for the most awaited Expo2020. As stated, the emergence of this pandemic crisis can also be an opportunity for the GCC region to reconsider diversification strategies and cut down on lavish expenditures that can benefit a post-pandemic economy (Kozhanov and Zaccara, 2020).

Hence, coronavirus pandemic has proved to cause severe havoc in global economy that is triggered by reduced production, declining exports, labor immobility, inconsistent supply chain, and overall reduced globalization(Usman et al., 2020).

## **2.2 Impact of Coronavirus on MSME sector**

Through empirical findings from 184 MSMEs in Pakistan, a research was established to see coronavirus impacts on the industry (Shafi et al., 2020). As an evidence, the sector's businesses were experiencing huge adversities including disruption of finance and supply chain, reduction in demand and steeping revenues. 83% of these companies did not maintain contingencies for such emergency situations and lack reserves to survive the lockdown period.

Another study measured the impact of COVID-19 on the MSME sector of India (Roy et al., 2020). Many firms in this sector had closed either temporarily or permanently due to government policies or lack of business. The relief funds provided by government also proved to be insufficient to cover the damages caused to these entities which was found to be more than 50%. A 100% halt on MSMEs economic activities was noticed due to the lockdown measures and increasing cases. The most impacted firms in this industry were manufacturing, and service providing companies as they faced extreme difficulties in procuring raw materials at normal rates and insufficiency in supply chains. Moreover,

MSMEs that generated turnover of over USD three million suffered losses of more than -25.3%. Another major challenge for this industry was the mortality rate of the workers as health conditions were extremely deteriorated. The study recommended that a wide array of credit guarantees to be disbursed and to provide generous subsidies through government channels. It is also important that the government take necessary measures to protect this sector from foreign multinationals and big firms(Roy et al., 2020).

SMEs are in great disadvantage as many banks and financial institutions refuse to deal with them as it is classified to be risky. One of the first factors is because SME disclosures are minimum compared to large corporations and lack details. Secondly, SMEs are less formal and are more prone to sudden changes in revenues. Thirdly, SMEs are not as swift and immediate in sharing financial activity as large corporations (Torre et al., 2010). The pandemic has put the SME sector in more hardship as they lack access to easy and immediate finance during such emergencies.

The European region has also seen some adversities in the SME sector as explained in the study of Juergensen et al., (2020). Many SMEs are facing supply and logistics issues with the lockdowns implemented. Over and above that, the demand has also reduced substantially as these SMEs are mostly consumer oriented since a wide number of populations have lost jobs. In their study they categorize the impacts on SMEs as short and long term. In the short-term SMEs have been impacted through liquidity issues, logistics hindrance, operational disruptions, and higher reliance on governmental subsidies. Whereas in the long-term, SMEs including industrial sectors are forced to introduce digital channels and products to keep their products diversified. A higher investment is required by SMEs to enhance technologies, train employees to use these technologies and replace employees with technological resources. Papadopoulos et al., (2020) discover the implications for SMEs to use digital technologies in order to maintain continuous business operations during worldwide disasters such as the current pandemic. The study suggests SMEs to apply a socio-technical approach that maintains a balance between social and digital work life.

Gourinchas et al., (2020) also studied the impact of COVID-19 on SME sector in 17 countries. According to this study, the SME sector was seen to face high liquidity issues with low government support. The SME businesses have failed by 8.8% due to this current pandemic. Due to the rapid failures of SMEs about 3.1% of employment has been impacted. It was found through the study that SME failures will incur more costs to the economy in the long run and that government must rush at aid. Almost 2.96% of unemployment will be recovered through providing subsidies of only 15% that only costs 1.8% of GDP. They conclude that such a strategy will rescue the SME sector by 5.6%.

### **2.3 Islamic Finance and Economic Crisis**

Al Eid and Arnout (2020) researched the Islamic approach of managing economy during disasters. After an analysis into Islamic history of crisis, the Holy Quran and Sunnah were found that four main theoretical concepts correspond to this issue in Islam. The concepts include the stages of crisis management, Islamic strategies for crisis management, crisis manager's characteristics and crisis management leader's roles. The study suggests there are four steps to crisis management in the light of Islam: clearly defining the crisis and finding its root cause, defining the indicators, developing sound methods of combating it, and laying down a resolution plan to recovery. One of the most effective yet basic solution that has Islamic roots in resolving economic crisis is providing job opportunities to all capable workforce who are healthy. The strategies implemented for crisis management according to Islamic history are patience, insulation, teamwork, immigration, confrontation, preventive measures, positive outlook and future planning. The study further recommends governments to train more leaders in crisis management and to adopt basic hygiene behaviors among citizens even after crisis.

An empirical study was conducted by Ashraf et al., (2020) to measure the performance of Islamic Equity Investments of eight Islamic Equity Indexes and their Benchmark Equity Indexes during the COVID-19 crisis and its comparison with conventional counterparts. It was found that Sharia governed Islamic Equity Investments which follows Market Value of Equity (MVE) approach have

performed significantly better than conventional counterparts during Q1 2020. They state that this outperformance is mainly attributed towards higher systematic risk and Sharia screening as these equities pick out low leverage non-financial stocks that engage in permissible activities. Additionally, during the first half of 2020, it was reported that despite adversities of COVID-19 on market movements Islamic indices in S&P and Dow Jones performed better than conventional indices (Welling, 2020). This can be explained by stating that Islamic investments are prone to better performance as sharia screening prevents investment in highly leveraged companies and low diversified Islamic portfolios (Boudt et al., 2019).

A significant study measured the stock performance of 426 Islamic banks and conventional banks from 48 countries to compare which one is more efficient (Mirzae et al., 2020). The study finds that Islamic banks are more resilient and have more capability to endure crisis and protect their profitability. The sector has also proven to generate higher stock returns and shareholder value better than conventional sector. According to the empirical findings, Islamic Banks stock returns have outperformed conventional banks by 10% to 13% in the first quarter of 2020. This is because Islamic banks have better efficiency which is adjusted for bank risk every year (even without crisis) that has helped them in obtaining better stock returns during crisis. Similarly, Kunt et al., (2020) studied the impact on conventional banks in 53 countries and the effect of policy changes on bank behavior. It was found that pandemic impacts on banking sector was much higher than non-banking sector. There was a sudden pressure from governments for banks to absorb most of the shock by supplying significant credit to the economy. A high depletion in stock returns was attributed to banks that had low liquidity and low oil sector exposure before the crisis. Large banks and government banks face intense crisis shocks due to the new policies on laxing borrower repayments. Overall, the conventional banking sector is in immense stress as they are expected to lend on countercyclical basis making them more vulnerable.

Previous occurrences of crisis such as the global financial crisis of 2008 had also experienced that Islamic financial sector performed much better than conventional sector and had greater endurance (Alam and Rajjaque, 2016). This result is due

to the attributes of Islamic finance such as dealing with real economy and avoiding interest bearing debt elements (Abedifar et al., 2015). These evidences can set a base to discover the same in current crisis of COVID-19.

Abdul-Rahman and Gholami (2020) explore the potential of Islamic finance mechanisms in aiding the recovery of COVID-19 impacts. They find that normalizing and wide adaptation of profit and loss sharing contracts (PLSC) will prove to solve many economic problems faced in such a situation compared to interest bearing contracts that shift risk. This can help businesses to spread risks among all parties and promote a 360-degree view of understanding of economic conditions instead of unfairly giving investors their returns. Profit and loss sharing contracts are an ideal tool to promote wealth creation and just income distribution instead of creating large gaps between the rich and the poor (Usmani and Zaubairi, 2002). Moreover, PLSC creates a direct bridge between real sector and money market. The study suggests that for organizations to combat COVID-19 impacts they must be willing to benefit each other and realign their strategies with common interests. They recommend conventional entities to initiate PLSC through using CSR funds and to monitor its success as compared to sudden heavy investments (Abdul-Rahman et al., 2020).

Through above all literatures mentioned, there has been plenty of research conducted on the impact of current pandemic in various economies and sectors. However, there is shortage of research conducted on the UAE and particularly on its MSME sector. Therefore, this research aims to bridge this gap by studying the impact of COVID-19 on UAE economy and its MSME sector. Furthermore, as this crisis is still in its early stages extensive research is found to be necessary.

### **3. RESEARCH METHODOLOGY**

In this research we firstly aim to establish the impacts caused by the COVID-19 pandemic on the UAE economy. This relationship will be established by measuring the amounts of COVID-19 cases in the region and the Purchasing Manager's Index (PMI). As economic indicators such as GDP are not yet officially published, this research will measure the PMI instead. Secondly, this research aims at meas-

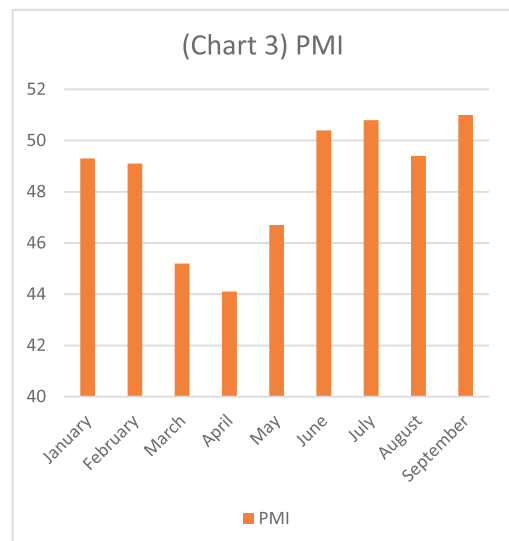
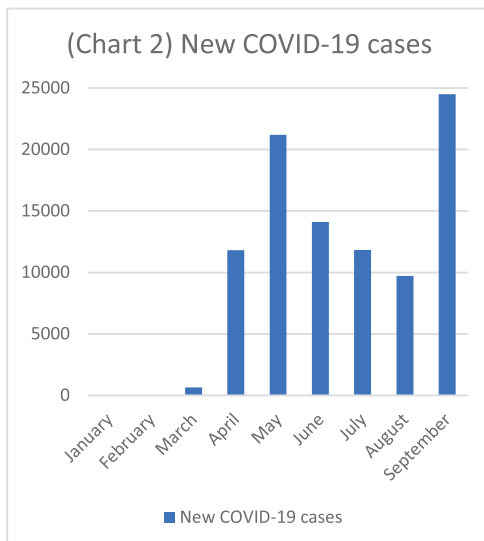
uring the impact of the COVID-19 crisis on the Micro, Small and Medium Enterprises (MSME). This objective will be established by distributing questionnaires to a sample of 50 MSME companies in UAE.

#### 4. FINDINGS AND DISCUSSION

This section will discuss the results of the research on two aspects: i) impact of COVID on economy; and ii) impact of COVID on MSME sector. The following section also discusses the role of Islamic banking and finance sector in the economy's recovery.

##### 4.1 Impact on the UAE economy

As overall economic data such as GDP is not yet available, monthly indexes like Purchasing Manager's Index (PMI), are elaborative about the economic market. The role of PMI as an economic indicator is to supply useful information to market analysts, business decisionmakers and investors. PMI is a crucial indicator that shows overall economic activity, conditions, and trends on monthly basis through surveying corporations in the industry. PMI also contributes significantly to the calculation of GDP, employment indicators and industrial production which conveys profitable foresight of the economy.



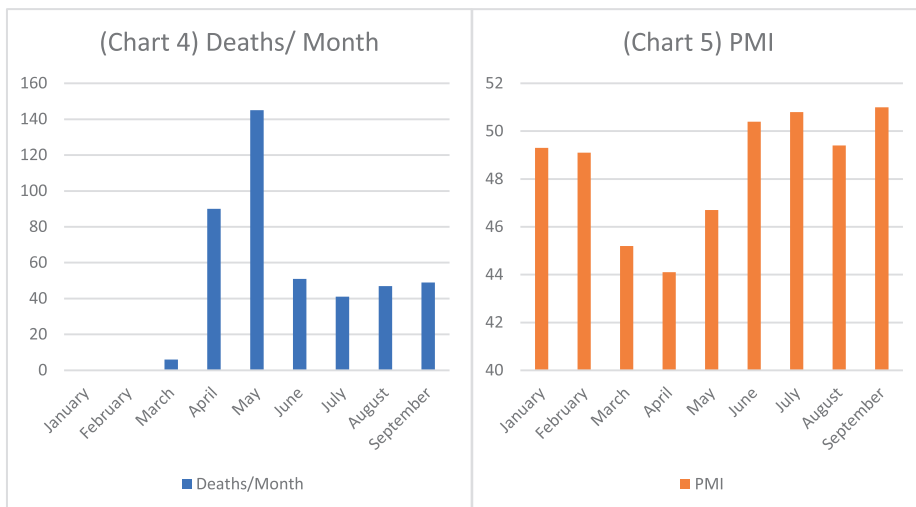
The above graphs (2&3) depict monthly data on new coronavirus cases in UAE and the Purchasing Manager's Index. Economic activity during the month of January was slow as PMI decreased to 49.3. There was a decline in new orders, output, and a high record of unemployment in the country. All companies had started implementing cost-cutting strategies and started encountering credit issues due to the coronavirus crisis faced in other nations. As COVID-19 cases kept multiplying rapidly from 16 cases in February to 643 in March there was also a corresponding decline in PMI from 49.1 to 45.2. February faced a slight drop in imports, exports, and even more reduced employment. With rapidly increasing COVID-19 cases, March faced the sharpest contraction in the non-oil sector of UAE. The country started implementing travel restrictions that contracted exports, FDI, tourism and consumer demand. With another sharp rise in coronavirus cases of 11,817 in April, the PMI hit another contraction point (44.1) which was the steepest to date. Many companies forced employees into leave, made redundant and/or cut salary that lead to a deeper employment reduction. Reduction in output, new orders,

#### **Purchasing Manager's Index:**

PMI is calculated through a monthly questionnaire distributed to supply chain managers across 19 industries, weighted by GDP contribution. It depicts if the market conditions will expand, contract or be stagnant. The PMI is represented as 1-100 and is in a state of expansion if above 50, contraction below 50, and no change occurs when it is equal to 50.

foreign trade and purchasing activities were recorded at the lowest till date. In May, coronavirus cases rose to double of prior month although PMI remained at the state of contraction with a slight increase to 46.7. However, in June the PMI (50.4) witnessed its first expansion amidst crisis as coronavirus cases reduced significantly by 7,093. This rise is mainly attributed to the gradual relaxation of restrictions on domestic movements, other measures, and improvement in health conditions. However, the job market encountered one of the worst reductions in history of UAE. PMI continued to rise by 0.4 as new COVID-19 cases drop further in July. As measures were taken to gradually open the economy, there were improvements in supply-chain. There was no improvement in employment conditions and a continuous decline for the seventh month in a row. The following

month of August encountered a contraction in PMI of 49.4 with a subsequent decline in new coronavirus cases. This can be attributed to the cause of businesses still adapting to new measures and preparing to reopen by fulfilling all governmental measures. Meanwhile, the unemployment rate assumed to reach a 3.50% was seen to be the highest in 100 years of UAE. There was a sharp increase of PMI in September to 51 with the highest record of COVID-19 cases in the period. The PMI was highest in eleven months considering the region mostly returned to normal operations with softer restrictions and lower health concerns among public. The employment rate has still not seen any improvement for the period.

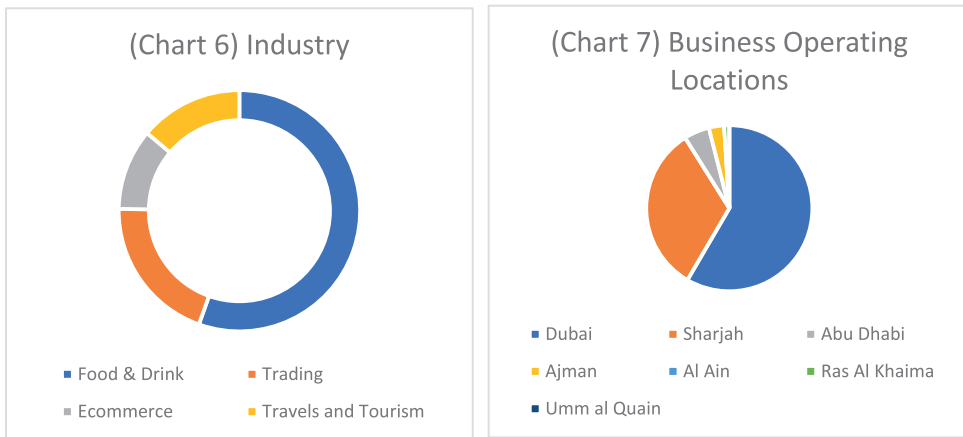


The above figures (4&5) depict a comparison between deaths due to coronavirus and the PMI for each month in 2020. As deaths resulting from the pandemic increase from March, the PMI also decreases until the month of April. However, the month of May faced the highest number of deaths in the given pandemic period and showed an increase in PMI at a decreased rate, although still in the stage of contraction. Deaths due to pandemic reduced three-fold in June and remained mostly stable with slight variations until September. Consequently, the PMI for these corresponding months were above 50 which is in the state of growth. Among last four months, August is an exception where PMI was just below 50 depicting a slight contraction. This portrays a negative relationship between deaths caused due to pandemic and PMI of the nation.

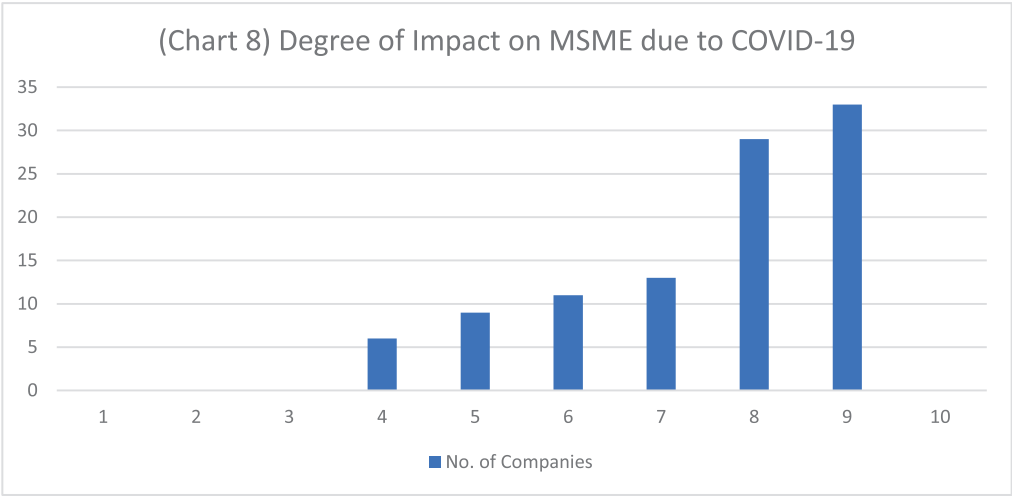
## 4.2 Impact on MSME sector

This section will discuss the results found through surveys conducted on various MSMEs in the UAE. A total of 101 SME responses were received. As MSMEs contribute towards 86% of employment and account for 94% of companies in the region, it is incredibly important to measure the impact of such a tragedy on this valuable sector. A high number of MSME respondents belong to the Food and Drink sector (56%), followed by Trading (20%), Ecommerce (11%) and Travel sector (14%).

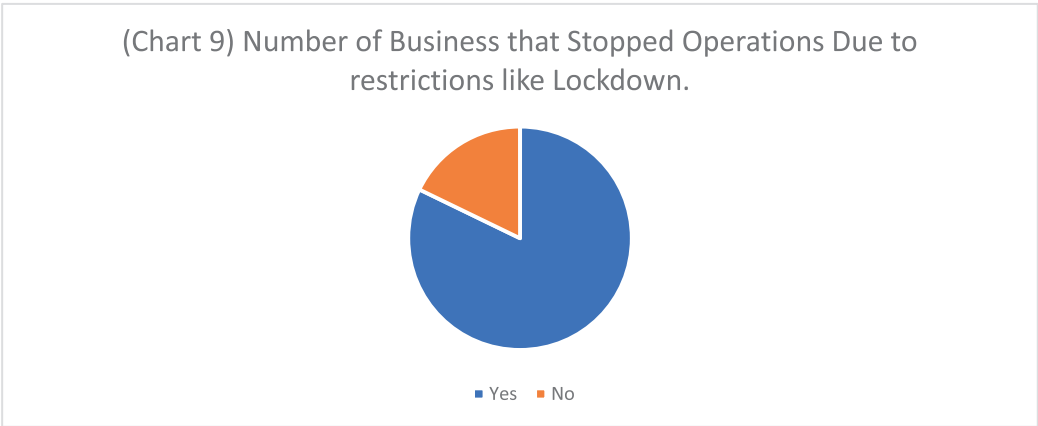
Chart 6&7 shows the distributions of the response along with the UAE states.



More than 50% of the MSME respondents operate in Dubai followed by Sharjah and no existing responses from Al Ain and Umm al Quwain. Chart 8 depicts the number of companies affected from COVID-19 on a rating scale. About 33 companies state that the impact on their operations was adverse with a rating of 9/10. These companies mainly belong to the travels sector as various travel agencies has to stop 100 per cent of operations due to border closure. Other MSMEs that are a part of Food and Drink and trading sector rated as 8/10. The least impact was seen on E-commerce sector that rated 7 and below as they incur low expenses on rent, labor, and licenses. Also, E-commerce sector was the most operational sector even during country wide lockdown as most of the population depended on online buying. Whereas other sectors have suffered significantly.

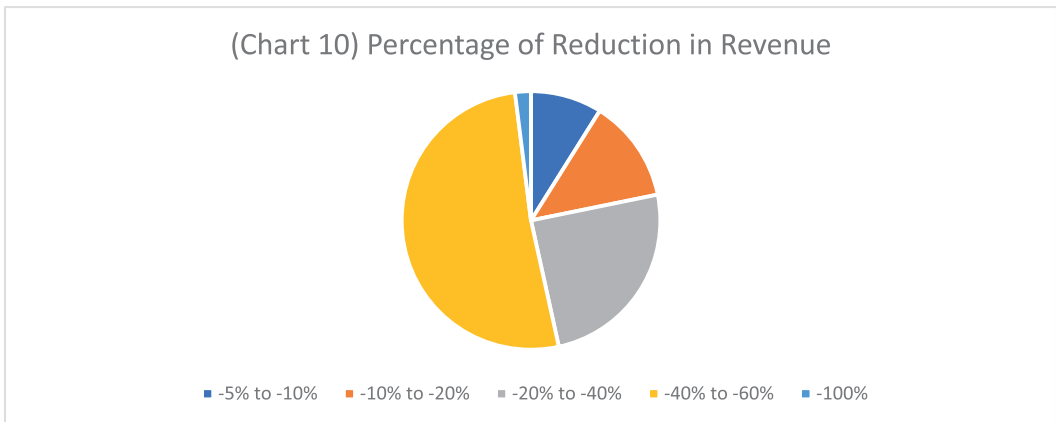


As mentioned previously about the intense impact caused to MSMEs, about 82% (Chart 9) of the firms has stopped operations mainly due to government restrictions on trade and movement. Many companies explain that even though there were customer orders and inquiries it was very difficult to fulfill them due to lack of supplies. Another major reason for stopping business operations were health reasons as most of unskilled labors had contracted the virus and were unable to work. Additionally, reduced demand for products and services was also a significant reason. However, since the ease of restrictions on various industries, business have started operating but are barely surviving in the market.



Adding to all, the pandemic has also taken a huge toll on the MSME's revenues (Chart 10). About 51% of the firms claim that their revenue has been reduced by 40% - 60% which is a significant amount. While 25% of MSMEs encountered a revenue depletion by 20% - 40% and 13% witnessed 10% - 20% reduction. Due to such significant losses in MSMEs, they were forced to carry out redundancy strategies to reduce their expenses. Evidently, MSMEs reduced one of their most costly resources that is the human resource. About 70% of the MSME companies have dismissed a significant number of employees. Because of this, the overall employment rate of UAE has reduced crucially and is currently encountering one of the highest unemployment hits in 100 years.

To preserve the operations of MSMEs, the government of UAE has established the following various initiatives, campaigns and programs (UAE Government, 2020):



- **UAE Central Bank Economic Support Scheme:** As soon as the advent of a pandemic, the CBUAE launched a scheme to support the economy with AED 100 billion. The aim of this program is to reduce the burden of interest and loan payments for all impacted companies in the UAE with some documented proof. The scheme grants temporary relief for a period of six months.

- **Abu Dhabi Economic Stimulus Package:** This program aims at protecting the UAE through providing relief for companies in the emirate. The scheme mentions to continue all planned projects while giving priority to startups and MSMEs. To

prevent the Abu Dhabi economy from crashing, this scheme has developed various new rules and regulations that are more flexible. Financially, AED five billion has been allocated to provide subsidies on water and electricity for all enterprises and residents. Additionally, the government has allotted AED three billion solely for MSME sector as a part of the MSME Credit Guarantee Scheme and AED one billion for financial markets to maintain sustainable stocks and better liquidity. The government has also subsidized many administration costs and further reductions on rentals. All banks in Abu Dhabi are instructed to defer loan payments, reduce service fees, and reduce requirements for accessing immediate finance.

- **Dubai Economic Stimulus Package:** Meanwhile the Dubai government has allotted AED 1.5 billion towards this scheme. As a part of this scheme, the government has reduced all market fees for businesses to 2.5% and a 20% refund on all imports. As for banks in Dubai, all customers are given deferment options and lower service charges given they support with documents. The Dubai Free Zone Council and Dubai Airport Free Zone Authority have also taken initiatives to ease business operations and support by offering to defer rental payments of six months, providing flexible installment options, returning security deposits, refunding guarantees, and waiving penalties. Especially for the MSME sector, the government has launched a second scheme worth AED 3.3 billion.

- **Economic Support of Northern Emirates Governments:** Ras Al Khaimah has launched this scheme towards promoting and sustaining the emirate's economic activities. The Environment Protection and Development Authority has waived all fines for violations against environment by companies provided that the company plants trees of an equivalent amount. About 15,000 establishments in the emirate are supported by exempting license renewals, flexible installment plans, discounted commercial license by 50%, waiving insurance payments, 25% discount on residence visas of employees registered under RAK, and waiver of penalties.

Even with the development of various flexible schemes, a wide number of MSMEs are still unaware of many ways through which they can obtain relief.

Chart 11 shows that only 27% of the MSME respondents are aware of government campaigns and have benefitted from them. About 41% of the companies have not initiated to avail the benefits of these governmental schemes. While another 33% of companies chose “Maybe” as they only availed basic waivers of fees and penalties but could not obtain assistance in receiving immediate financing to fulfill liquidity requirements. A major problem of liquidity issues was within the travel sector where many small travel agencies had to refund huge amounts to customers due to cancellations of flights and border closures. These travel agencies also faced huge difficulties as banks had stopped providing loans for this sector due to deteriorating revenues and halted operations.

A series of questions were focused on asking MSMEs on the required assistance to recover business losses. About 60% of the MSME respondents conveyed that they require access to immediate short-term financing with lower pre-requisites in order to fulfill their previous credit needs. Another 20% of respondents need enough supplies of equipment for personal protection such as masks and thermometers in order to avoid penalties by municipality. Moreover, 70% of MSMEs require consultation advice on business continuity planning and training for staff during disasters and pandemics. 30% of companies request for consultation on health and safety measures to stop the spread of pandemic and prevent in stopping business operations.

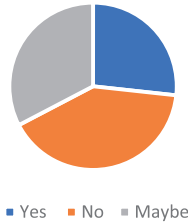
### **4.3 A way forward to Islamic Finance**

Even though the globalized economic system claims to improve and uplift society, about 1.7 billion people remain financially excluded (Global Findex Database, 2017). Among these, women are most financially excluded with about 56% of the world's women being unbanked. Additionally, the World Bank 2020 estimates that due to the current pandemic crisis the poverty levels will be increased by 115 million people. All these issues have certainly arisen due to the unfair conventional based economic systems followed. The conventional system has proved nothing more than the fact that the rich get richer and poor get poorer each day. To address the current situation and above issues financially and responsibly Islamic finance can play a huge role. The basic principles that are held in Islamic finance

are the key towards a better economic system. Applying these principles of social justice, inclusion, and equal distribution of resources are highly crucial. In the religion of Islam, all humans are accountable for their actions and must act wisely with justice. If only every individual had such a consciousness, the system would have been less discriminative. Islam also mandates charity (Zakah) for people who can afford to support the weak society. If all economies around the world mandated for a percent of income towards charity, poverty levels would also become low. The global debt has reached to \$188 trillion as of 2018 and has not significantly reduced since many years (Badia and Dudine, 2019). Substituting interest mechanisms with profit and loss contracts would save individuals and companies in maintaining debt levels. Many individuals often get confused between interest and contracts and PLS contracts thinking them to be more or less of same nature. A very important point to be cleared is that PLS contracts are not at all like interest-based contracts. In PLS contracts the principal amount, profit and monthly installments are pre-agreed between parties and remains fixed throughout the contractual period until the amount is repaid regardless of deferments. However, interest keeps multiplying every month on the principal amount that may or may not vary according to market rates. According to literatures stated above, majority of researches show that Islamic Financial Institutions have much better potential to improve economic systems and have higher endurance to shocks as compare to conventional sectors (Ashraf et al., 2020; Welling, 2020; Boudt et al., 2019). With these facts being stated, the crisis of COVID-19 can also prove as an advantage of opportunities to the Islamic Financial sector. The growing industry of Islamic financial technologies (Islamic FinTech) and digital platform services of Islamic banks must be extensively promoted and highlighted at such times. There is a noticeable increase in Islamic FinTech demand since the start of this pandemic (Winosa, 2020). Islamic products such as Qard Al Hassan, Sukuk, Waqf and Zakat have proved to uplift many of the Muslim and non-Muslim economies. Many nations such as United Kingdom, Hong Kong and Ireland have recently started to heavily look into Islamic finance options due to its long-term benefits (Mohammed, 2014). Although, for these economies to significantly reap the benefits of Islamic finance especially during crisis it is important that they penetrate Islamic finance as a large segment in their economy. It is recommended

for Western and European economies to establish an independent and skilled Islamic finance development sectors as a part of their government department to look over IFIs in the country.

(Chart 11) Have you availed any relief from government campaigns and initiatives?



Even though the UAE has a strong Islamic banking and finance industry, the measures taken to promote Islamic finance services to resolve crisis is low. To tackle the situation of a pandemic in Islamic finance sector, it is recommended for IFIs to double their integrity and transparency of information towards shareholders. This strategy will help in improving the quality of disclosures and bring about a sense of confidence, reliability, and trust among the IFIs stakeholders and in particular investors. IFIs in the UAE must be true to their Islamic nature and face problems wisely instead of covering it up from shareholders.

## **5. CONCLUSION AND FUTURE RESEARCH**

This study has contributed to figuring out the economic and MSME impacts in UAE due to the current COVID-19 pandemic. The UAE had been awaiting the year 2020 for five years only for all their grandiose Expo2020 plans to be hindered with a pandemic crisis. Nonetheless, it was found through this study that COVID-19 has taken a huge toll on UAE's overall economy just like most global nations. As the virus spread throughout the nation, the economic impacts deepened. The UAE has faced the worst case of unemployment in 100 years and is seeing a deteriorating MSME sector. Through distributed questionnaires among 100 MSMEs in UAE it was found that the worst hit industry was the travel & tourism industry leading to multiple business closures. Even with the UAE government initiatives, many MSMEs have not availed much relief due to unawareness.

The UAE must promote a higher use of Islamic financing options among the MSME sector and place extra benefits for selecting Islamic finance options as they plan to be an Islamic finance capital. Being a country with deep Islamic principles, the IFIs must highly support MSMEs during such a crisis in order to preserve the industry as they lack the resources compared to corporations. Additionally, the MSME sector of UAE has also immensely contributed towards the increasing employment rates and economic growth in previous years.

The limitation of this research is that firstly, it is too soon to draw relationships and conclusions on data related to the current pandemic as it is still in its early stages. Secondly, as the virus emerged in UAE just in the beginning of this year, there is a lack of literatures available particularly studying on this country. The UAE also does not issue official reports on disclosing information related to the MSME sector. Another lacking information was the unavailability of published economic indicators to support in the measurement of economic impacts of COVID-19. Hence, further research must be aimed at empirically studying the COVID-19 impacts on UAE economy through relating more important economic indicators such as GDP and unemployment rate. Furthermore, the importance of this study is to alert the UAE economy on the significance of MSME sector and the adverse impacts caused to their establishments. This study facilitates IFIs to tap on this sector and offer much better financing aids than conventional finance as a part of their corporate responsibility and as an opportunity to promote their Islamic FinTech products.

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## **DIMINISHING MUSHARAKA PRODUCT OF ISLAMIC BANKS: A SHARIA'A COMPLIANT SUBSTITUTE OF TERM FINANCE**

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### **ABSTRACT**

Partnership based business is the fundamental concept of doing commercial activity under Islamic rules and principles. To comply with Sharia'a principles within the boundaries of banking law in Pakistan, Financial Engineering provided the solution for all activities.

One of the modes of financing in conventional banking system is Term Finance in which the client repays principle and profit at predefined time intervals. This need can be fulfilled by using Islamic Alternate i.e. "Diminishing Musharaka".

This paper investigates the viability of this financing mode as compare to conventional Term Finance which is being utilized by conventional banking system for the same purpose. The paper also highlights the growth of Diminishing Musharaka in quantitative terms as well as its acceptability by end users and Islamic Financial Institutions in the form of portfolio growth for this mode of financing. To quantify its growth, historical time series data with its quarterly trend is used from Islamic Banking Bulletin issued by State Bank of Pakistan. Some key advantages and disadvantages are also mentioned by analyzing them critically. Related Sharia'a rulings and their linkage to this mode of financing are discussed in this study to further support it in Islamic perspective. Benefits associated with this mode and practical applications are discussed with some recommendations. The study is beneficial for Islamic Financial sector, central banks and students of Islamic Banking & Finance. It also aimed to enhance the knowledge of students and users of this product.

**Key words:** Financial Engineering, Diminishing Musharaka, Conventional Bank, Term Finance, Islamic Financial Institution.

## INTRODUCTION

This paper investigates the viability of Diminishing Musharaka (DM), a mode of asset financing which is being focused by Islamic Banks of Pakistan. Due to increasing demand of capital requirement by individuals and companies, this method is being adopted and its portfolio is constantly increasing. In response to public demand, Diminishing Musharaka is more convenient and is a perfect substitute of Term Finance which is commonly used for financing to meet the demand of capital requirement. Additionally, some other modes of financing are being utilized for the same purpose by Islamic Banking Industry like Ijarah Muntahia Bittamleek, Murabaha, Musharaka etc. but this financing mode is becoming more popular from the perspective of Islamic Banks as well as of its customers. This study concentrates on suitability of Diminishing Musharaka as a mode of financing in Pakistan.

Dr. Asrar H. Siddiqui (Siddiqui) defines Term Finance as borrowing a fixed amount from bank, repayable in periodic installments or lump sum at future date. He declares it a loan which can either be extended against security or without security in which the former is called Secured Loan whereas the latter is called Clean Loan. The borrower has to serve mark-up on the disbursed amount available for his use as well principal amount. Banker receives periodic installment or lump sum amount disbursed to the client along with profit.

Term loan is also called as installment loan which is the blend of interest and principle for repayment. In installment loans, repayment is combination of principal and interest which is repaid periodically as per defined intervals. Both parties keep the schedule simple to easily understand obligations of each party (Buckland, Robinson and Visano).

Frank Wood & Alan Sangster (Wood and Sangster) treats Term Loan as Hire Purchase which means creating charge on asset. In this mechanism, the asset belongs to supplier whereas the purchaser pays installments until the payment of final installment or the purchaser buys the asset. The purchase may give the asset back to supplier if he / she stops installment or does not want to continue the hire

purchase.

According to legal maxims defined in Islamic Jurisprudence “al-kharaj bi al-dhaman” is related to linkage of return an asset with risk of ownership, and al-ghurm bi al-ghunm” is related to justified gain with the risk. Since the reward in Term Finance is not linked with risk related to asset, it is prohibited in Islam.

In Term Finance, fixed amount / rate of interest is charged by the lender without having partnership in the business or having the risk of asset. This type of financing is not allowed as per guidelines given by Islamic Jurisprudence. Islam has provided solution of every sphere of life including financial dealings. Accordingly, Sharia's Scholars in coordination with Financial Engineers provided the Sharia's compliant solution in the form of Diminishing Musharaka which is the combination of Musharaka, Ijarah, and Sale.

The term “Musharaka” is derived from "Shirkah" which means sharing (M. T. Usmani) . Partnership, Musharaka or Shirkah are used interchangeably and it is encouraged by Islamic Jurisprudence to perform business under Musharaka. In modern banking system, it is a partnership in which client and bank participate to own assets or property to share profit or loss. In order to meet the demand of customers in a Sharia's Compliant manner, Islamic Banks use profit and loss sharing mechanism instead of debt-based modes of financing. Musharaka fulfills this purpose by the way of partnership in asset with sharing of risk and reward associated with that asset.

Diminishing Musharaka is a modern term used by Islamic banks as a mode of financing to meet the demand of asset or capital requirement. It is a kind of Musharaka in which customer and financier participate to have joint property, equipment or any other asset where the customer's share increases gradually and financier's share reduces until the customer becomes 100% owner of that asset (Hussain) . On specified time intervals, the client purchases the share from financier in the form of unit(s) as per agreed term and conditions until the client becomes sole owner of underlying asset.

Practically, it is an amalgamation of three independent contracts i.e. Musharaka, Ijarah, and sale. The first contract serves the purpose of purchasing asset jointly, second is used to take rental on bank's share from customer, and third is used for sale of bank's share to the customer. In the first stage, the customer enters into an

agreement of Musharaka where the asset is purchased at mutually agreed participation ratio. After purchase of the asset, the financier offers the usufructs of his / her ownership share of that asset to the client on specified rental terms and the client accepts to utilize the asset against rental payment on agreed time intervals. Periodically, the client offers to purchase unit(s) from the financier which ultimately reduces the financier's share in the asset and increases the share of client by purchase on each transaction (Osmani and Abdullah).

### **Literature Review**

Financing for assets is a major segment which produces attractive revenue in the financial industry of Pakistan. Islamic Banks focus on asset-based products by financing through different modes as per nature of their business to avoid usury or Riba. There are several products and mode of financing available to meet this purpose of investing money in Sharia'a compliant manner. Due to feasibility and acceptability of Diminishing Musharaka, it is convenient from the perspective of customer as well as Islamic Bank to execute their financing transactions under this mode. Diminishing Musharaka is the extension of Musharaka which is the best mode encouraged by Islamic Jurisprudence for doing business in Sharia'a compliant way (Meezan Bank).

Musharaka Mutanaqisah starts when the customer chooses the asset and applies for financing to the financial institution. Second step starts after approval of the financing where the financial institution and the customer enter into agreement of partnership. At third step, customer takes institution's share on lease. Fourth step is about customer's periodical payment consisting on rental payment and payment for purchase of institution's share. At final stage, the partnership is culminated on transfer of whole asset to the customer (Rahman, Hilmy and Saifurrahman).

Diminishing Musharaka is a type of joint ownership in property of asset in which any of the partners promises / undertakes to buy the ownership share of the other partner(s) gradually until the ownership of the joint property or asset completely transferred to the purchasing joint owner (State Bank of Pakistan).

Diminishing Musharaka is a kind of partnership used as a mode of financing where a partner can redeem his / her share having a call option of put option (Meezan Bank).

Diminishing Musharaka is a partnership transaction in which the partners agree to

terminate partnership gradually by means of purchase of one partner's share by other partner. Diminishing Musharaka Financing is a combination of Musharakah, Ijarah and Sale transaction. Therefore, all rules pertaining to Musharakah, Ijarah and Sale transactions are applicable to this transaction (BankIslami Pakistan).

Diminishing Musharaka is a form of partnership, which ends with one partner purchasing the entire share of the other partner's property in that project by a redeeming mechanism, agreed by both parties (Dubai Islamic Bank).

Diminishing Musharaka is most commonly used for the financing of fixed and movable assets, long term projects, etc. Customer and the Bank participate in joint ownership of a property, equipment or a commercial enterprise. The share of the Bank is divided into number of units. Customer purchases these units from bank one by one with periodic intervals, thereby increasing his / her share in the undivided property / asset gradually until the customer ultimately becomes sole owner of the property / asset. During the period of Musharakah bank charges rent for the use of that portion of asset which is owned by bank. The rent amount of the bank diminishes as its stake in the asset decreases after purchase of units (Bank Alfalah).

As per Sharia'a Standards issued by Accounting and Auditing organization for Islamic Financial Institutions (AAOIFI), Diminishing Musharaka is a type of partnership in which one of the partners promise to periodically purchase the share of another partner until the asset is fully transferred to one of the partners. This sale is purchase is on the basis of unilateral promise by one partner who is usually the customer of financial institution. Promise to purchase of share by one partner is independent from the partnership contract. Every partner has to contribute in the asset and its related expenses. The ratio of profit sharing should be pre-agreed which may vary from the ratio of investment, whereas the loss sharing ratio should be in accordance to the investment in asset. Promise to purchase the share may be binding, however, the sale should be on market value at the time of sale. (AAOIFI).

Structure of Diminishing Musharaka is to avoid interest (riba) which is a better alternative for financing over long durations. Diminishing Musharaka is most popular mode of financing in many countries including Pakistan, Malaysia, Indonesia, Qatar, Oman, United Arab Emirates, Kuwait, and Brunei (Mihajat).

Diminishing Musharaka is constructed on the basis of reactance which is some-

thing built by many parts. Technically, it is the engagement of financier into an asset which ultimately has to be transferred to the borrower (Naim). Diminishing Musharaka is developed in near past in which the client requests the financier to participate in the asset. Financier divides its share into units and the client purchases those units gradually until the client purchases all units from the financier and becomes the sole owner of that asset. It is divided into three steps i.e. 1st step to create joint ownership, 2nd step is to lease the financier's asset share to the client, and 3rd step elaborates the client's purchase of units from the financier (M. I. Usmani).

Musharaka Mutanaqisa is modern financing technique emerged with innovation and provides most appropriate financing tools. It provides clear exit and Sharia'a compliant mechanism for liquidation to financial institutions (Alghamdi).

Diminishing Musharaka was introduced by Samy Hamoud back in 1974 with the rulings of Musharaka yantanhi bittamlik. According to research in Malaysia, the customers are indifferent in opting Diminishing Musharaka of any other mode of financing as far as these are compliant with rules of Sharia'a. The basic benefit for choosing Diminishing Musharaka is the flexibility in applicable rates which may be revised and the installment is ultimately rescheduled according to economic conditions. Documentation involved in Diminishing Musharaka is much complex and it involves number of agreements which increases the documentation cost. Similarly, the execution of documents is also technical which increase the time involved in this product (Khairul Hafidzi Mohd Subky).

Qaisar Bilal & Muhammad Rahim (Bilal and Rahim) discussed scope of diminishing musharaka, its procedures, stages and components in detail. Some Sharia'a rulings and their relations to this mode of financing are also discussed with remedial measures. They mentioned major hurdles faced by Islamic Banks using this products and highlighted lack of training, non-availability for substitute of KIBOR, complex tax regime and absence of Government support in true sense. While discussing Musharaka, Muhammad Farooq & Mufti Muhammad Mushtaq Ahmed (Farooq and Mushtaq Ahmed) admitted that Diminishing Musharaka is more popular and acceptable by customers. As per their analysis, its market share is highest in financing portfolio. They further added that customers are dominant towards Diminishing Musharaka, Ijarah or Murabaha specifically in high yield

projects.

Muhammad Akram, Mamoon Rafique, & Hassan Mobeen Alam (Akram, Rafique and Alam) discussed the broader aspect with reference to Pakistan by analyzing performance and growth of Islamic Banks. They evaluated the growth of Diminishing Musharaka by type of asset products being offered under this mode. According to them, this mode of financing is being offered to corporate / SME sector of Pakistan by full fledged Islamic Banks.

Dr. Badr-El-Din A. Ibrahim & Mohammad Osman Khalifa (A. Khalifa and Khalifa) explained Banking Musharaka which is the representation of Musharaka with combination of other forms. Some practical aspects pertaining to gradual purchase are also discussed. They suggested some modification in existing products based on this mode of financing. Limitations and advantages are narrated in sequential order. Modification for Diminishing Musharaka includes the revaluation of asset at different time intervals to exercise the exact value of the asset.

Noor Muhammad Osmani & Md Farooq Abdullah (Osmani and Abdullah) critically analyzed Diminishing Musharaka by focusing its usage on home financing in Malaysia. Principles of Sharia'a are described for Musharaka Mutanaqisa contract and are compared with "al-bay bi-thaman a'ajil" by describing features of both modes. Comparative approach is used in this study by using qualitative method. In conclusion, this mode of financing is declared more Sharia'a compliant as compare to other modes which are being practices in Malaysian Islamic Banks for similar purpose.

Sharia'a based and Sharia'a Compliant modes of financing are bifurcated by Muhammad Hanif & Abdullah Muhammad Iqbal (Iqbal and Abdullah) where the Diminishing Musharaka categorized as Sharia'a Compliant mode. As per their opinion, Diminishing Musharaka is primarily used in real estate sector. To execute transaction under this category, the customer requests to have an asset and agrees to make payment of certain share in the purchase price while the remaining is being paid by the bank. Primary data tools are used in this paper as methodology by observation and questionnaire. In conclusion, the need of awareness and professional knowledge is emphasized.

Mufti Syed Sabir Hussain (Hussain) described musharaka in detail with its validity from sources of Sharia'a by giving reference from Qur'an and Sunnah. He termed

Diminishing Musharaka as modern shape of musharaka which is being used in Islamic Banks. He elaborated its pricing mechanism, procedure, kinds and related contracts in detail. He further discussed the mechanism for distribution of profit and loss with examples.

Musharaka is divided into two categories i.e. Shirkat ul Milk and Shirkat ul Aqd where former is for partnership in property while the latter is used for joint enterprise. Shirkat-ul Aqd is further divided into three categories namely Shirkat-ul Amwal, Shirkat-ul A'mal and Shirkat-ul Wujooth which are used for commercial enterprise, for services and based on credibility respectively (M. T. Usmani). He discussed Diminishing Musharaka in detail by describing it a joint ownership of client and financier in asset or enterprise. He elaborated its modality, practical and operational aspects by giving examples. Practical implication, usage of this product for house finance, services business, and trade are discussed in detail. He further added that by using this mode, the financier enables his client to become the sole owner of the asset by gradually purchasing his shares.

Diminishing Musharaka is also explained by Muhammad Ayub (Ayub) under participatory modes of financing. He called it as a more suitable product in current banking system and mentioned the practical example of HBFC. In his book, he discussed the method, its related contracts and preferred technique to implement it in a Sharia'a compliant manner by sequencing contracts.

### **Methodology**

Hybrid method is used in this report but mainly focusing on qualitative method. It is descriptive in nature because it describes the mode of financing, its theoretical and operational aspects, contracts involved and recommendation by sources of Sharia'a. Discussion of renowned scholars, literature available on this topic and official website of State Bank of Pakistan are used to describe the report. Literature available on this mode of financing is also in qualitative form which elaborates its different aspects in terms of nature of product, Sharia'a rulings in favor of it and some practical aspects. Performance, growth and trend are shown in quantitative method by using the Islamic Banking Bulletin issued by State Bank of Pakistan from time to time. It also compares the stated mode of financing with other modes being used by Islamic Banks operating in Pakistan.

## **Performance of Islamic Banks**

Quarterly Islamic Banking Bulletins (State Bank of Pakistan) issued by State Bank of Pakistan indicate that share of Islamic banking sector is constantly growing at double digit. Performance of Islamic Banking as of December 2019 and its growth rate as compare to December 2018 is highlighted hereunder;

- ✓ Asset size reached to 3,284 Billion with increase of 23.6%
- ✓ Amount of deposits reached to 2,652 Billion with increase of 20.4%
- ✓ Total financing portfolio reached to 1,623 Billion, increased by 7.41%

## **Growth of Diminishing Musharaka**

Sharia'a compliant modes banking and finance are allowed by State Bank of Pakistan under which Diminishing Musharaka is approved as a participatory mode of financing. Relative share of Diminishing Musharaka is continuously increasing in terms of amount as well as in terms of ratio in financing portfolio. As of December 2019, financing under this mode reached to 553 Billion which is 34.1% of Islamic Banking financing portfolio. Share of Diminishing Musharaka was highest in September 2016 which was 38.5% of Islamic Banking financing portfolio. Since June 2013 it continuously encompasses the highest share as compare to other modes of financing including Musharaka, Murabaha, and Ijarah.

## **Comparison with Term Finance**

Term Finance is conventional mode of financing which does not observe Sharia'a rules and principles rather it is purely debt-based transaction. Diminishing Musharaka is Sharia'a compliant solution which fulfills the similar need of customers.

- » Nature of Transaction: Term Finance is purely loan transaction while Diminishing Musharaka is combination of Musharaka and Rental.
- » Advance Payment: Advance payment of stake of client is not necessary in Term Finance whereas it is mandatory in Diminishing Musharaka.
- » Treatment of Advance Payment: In Term Finance, advance payment (if applicable) is treated at Down Payment, however it is treated as customer's share / participation in Diminishing Musharaka.
- » Relationship of Financial Institution and Client: In Term Finance, it is that of lender and borrower whereas, it is that of partners in Diminishing Musharaka.

- » Involvement of Asset: Term Finance does not involve directly in the underlying asset except for security purpose whereas Diminishing Musharaka is directly linked with underlying asset.
- » Risk: In Finance, the lender bears the credit risk with having the risk related to the asset, while in Diminishing Musharaka, the financial institution has to bear the risk of asset in addition to credit risk.
- » Ownership related expenses: Term Finance is a loan transaction, hence all expenses are borne by the borrower, while in Diminishing Musharaka, both partners share such expensed proportionately.
- » Repayment: With each installment, the borrower repays principle along with interest on capital in Term Finance, while the client purchases units and the asset is gradually transferred to client in Diminishing Musharaka.
- » Partial Payment: In event of making partial payment, Term Finance treats it reduction in outstanding loan amount, while in Diminishing Musharaka, it is treated as purchase of additional share from co-partner.
- » Early Settlement: In case of early settlement, outstanding loan amount need to be repaid along with penalty in Term Finance, whereas the customer needs to pay outstanding share value of the financier at predetermined / market price in Diminishing Musharaka.
- » Delay Payment: Charges related to delay payment in Term Finance are financial penalty being imposed to client, whereas in Diminishing Musharaka, such charges are received either in the form of additional rental for non-purchasing of unit in specified time or increase in the price of subsequent unit(s).
- » Sharia'a Compliance: Term Finance does not need to be Sharia'a compliant while Diminishing is Sharia'a compliant alternate which is in compliance with Sharia'a rules and principles.
- » Agreements / Contracts: Three separate independent contracts in Diminishing Musharaka are applied, while in Term Finance, single contract is executed.
- » Default: In case of default in Diminishing Musharaka, the financier has the right of recourse on that particular asset of Musharaka, whereas in Term Finance, the financier has the general right of recourse against the borrower.
- » Change in Price: Asset price may vary according to fluctuation in market price of the asset, while in Term Finance, price of the asset cannot be increased.

However, applicable interest rate may be revised in Term Finance.

» **Transfer of Ownership:** In Diminishing Musharaka the client purchases units gradually and ultimately the asset is transferred to the client. On the other hand, in Term Finance, the financier executes the loan transaction, hence there is no concept of transfer of ownership to the client.

**Table 1:** Sample Working Example of Diminishing Musharaka (Shirkat ul Milk) by Islamic Bank

|                        |           |
|------------------------|-----------|
| Asset Value            | 1,200,000 |
| Bank's Musharaka Share | 960,000   |
| Rental Rate            | 15.00%    |
| Tenure                 | 1 Year    |
| Payment Frequency      | Monthly   |

| Payment Date      | Total Monthly Payment | Unit Value | Rental Amount | Outstanding Bank's Share |        | Customer's Share |
|-------------------|-----------------------|------------|---------------|--------------------------|--------|------------------|
| May 1, 2020       | 92,000                | 80,000     | 12,000        | 880,000                  | 73.33% | 26.67%           |
| June 1, 2020      | 91,000                | 80,000     | 11,000        | 800,000                  | 66.67% | 33.33%           |
| July 1, 2020      | 90,000                | 80,000     | 10,000        | 720,000                  | 60.00% | 40.00%           |
| August 1, 2020    | 89,000                | 80,000     | 9,000         | 640,000                  | 53.33% | 46.67%           |
| September 1, 2020 | 88,000                | 80,000     | 8,000         | 560,000                  | 46.67% | 53.33%           |
| October 1, 2020   | 87,000                | 80,000     | 7,000         | 480,000                  | 40.00% | 60.00%           |
| November 1, 2020  | 86,000                | 80,000     | 6,000         | 400,000                  | 33.33% | 66.67%           |
| December 1, 2020  | 85,000                | 80,000     | 5,000         | 320,000                  | 26.67% | 73.33%           |
| January 1, 2021   | 84,000                | 80,000     | 4,000         | 240,000                  | 20.00% | 80.00%           |
| February 1, 2021  | 83,000                | 80,000     | 3,000         | 160,000                  | 13.33% | 86.67%           |
| March 1, 2021     | 82,000                | 80,000     | 2,000         | 80,000                   | 6.67%  | 93.33%           |
| April 1, 2021     | 81,000                | 80,000     | 1,000         | -                        | 0.00%  | 100.00%          |

## Discussion and Findings

Historical data shows that Diminishing Musharaka is growing constantly and its share is highest as compare to other modes of financing. Basic reason of this growth is that it is Sharia'a compliant substitute of Term Finance which is commonly used by conventional banking system of Pakistan. Another important reason is that banks are focusing on this mode due loss sharing by the client as well as compliance of their business nature as financial intermediary. Diminishing Musharaka is outcome of Financial Engineering in Islamic way which is developed keeping in view the demand of customers (Hussain).

Practically, it is combination three independent contracts i.e Musharaka between parties, Ijarah of financier's share and Undertaking to purchase of musharaka asset by client (Ayub). At first stage, partnership is executed to have asset for co-ownership of both parties by participating their agreed ratio / share. In second contract, after availability of the asset, one party provides his share on rent to second party for use of its usufructs. In third contract, the client offers to periodically purchase the share of financier. Islamic banks, being financial intermediary earn profit on their financing as well as gradually sell their share to client enabling him to become the sole owner of the asset. This mode of financing is being frequently used in Islamic Banks for financing of home, vehicles, consumer durables, and machinery. Products offered by this mode are being used primarily for consumer financing products (Akram, Rafique and Alam).

Diminishing Musharaka is further elaborated with following example. A client wants to purchase a house but he does not have enough money to purchase it. He goes to Islamic bank for financial assistance where after due diligence, the bank agrees to process his / her application for financing upto eighty percent for purchase house jointly. The client undertakes to purchase the bank's share in five years by paying sixty equal payments. It is also agreed that the bank will charge rent on its share of eighty percent which will be gradually decreased as per reduction in the participation ratio by selling its share. After purchase of house, the bank starts receiving profit in the form of rent of its portion and client makes payment of rent as well as agreed price of monthly units. At the end of term, client acquires the complete ownership and bank transfers the asset to client (Osmani and Abdullah). In above mentioned example, at initial stage, the bank and client enter into

agreement for purchase of house on Musharaka basis. At the time of purchase, they become co-owner of the house with eighty percent share of the bank and twenty percent share of customer. To enable the client for using that house, the bank provides its share on rent to client. At that point, the bank divides its share in sixty units and offers sale of one unit per month to its client. The client starts monthly payment for rental at predetermined rate / market rate as well as for purchase of one unit. Ownership related expenses are borne by both parties on the basis of their stake in the house while maintenance expenses are paid by the client as per market practice. At the maturity of financing, when the client has purchased all units from bank, the house becomes sole ownership of client and the bank transfers the house to the client according to pre-agreed terms.

It is also worth considering that while the customer takes any asset with financial help of financial institution whether in the form of Ijarah, Murabaha or Musharaka, he / she perceive that he/she is the part owner and his/her share is increasing with each payment. This perception only becomes true by the way of Diminishing Musharaka where each purchase of unit increases customer's share.

### Conclusion

Nature of Islamic financing is based on Sharia'a compliant transactions and its banking system is majorly focused on profit and loss sharing methods. Islamic banks, being intermediary are allowed to provide financing only in Sharia'a compliant way. Funds generation from different sources as well as financing and investment to different segments is made in accordance with Sharia'a rules and principals. Statistical data mentioned above shows the constant increase of Islamic Financial Institutions, their assets and deposits are evident of its acceptability. Growth of Islamic banking sector is on fast pace and State Bank of Pakistan being a regulator is focusing to support this segment (Akram, Rafique and Alam).

While practicing Diminishing Musharaka as a mode of finance, there are some problems as followed.

- » Diminishing Musharaka is executed on the principles of "Shirkatul Milk" while the intention of financier is to generate profit i.e "Shirkatul Aqd".
- » Sale and Purchase of periodic unit(s) is executed on book value while it should be on market value.
- » Sale evidence is not made available to the customer on each sale of unit(s).

Although Islamic Banking is widely accepted, yet there is need for promoting institutions, comprehensive training of human resource and education to general public (Farooq and Mushtaq Ahmed).

Moreover, the focus of Government is also required to provide level playing field for Islamic Banking sector in term of tax reforms, availability of sufficient SLR eligible securities approved by Sharia'a and arrangement of Islamic Inter Bank Offer Rate.

### **Recommendation**

Diminishing involves extensive documentation which attracts additional cost and revenue stamping / execution charges. Such documentation also creates hurdle for client and the financier and also increase time duration for execution. Number of documents / agreements need to be reduced to lessen the cost of transaction and time involved.

Practical version of Diminishing Musharaka to be extended from limited number of products to other related products including financing to corporates and SMEs. This will also require innovation and financing engineering in Shirkat ul Aqd. Outreach of Diminishing Musharaka to broaden specifically towards agriculture sector, educating sector, and small industries.

To increase the confidence to clients, it should be used with true spirits of Islamic rules and principles. Application of this mode of financing need to re-structured in a way that assure the clients with transparency.

Islamic Financial institutions should review their products, process flows, procedures, and implementation stages frequently. In case of any gap between customer's perception and applied operation procedures, it should be restructured immediately in line the Sharia'a rules and principles.

Value addition is a continuous and ongoing process which should also be applied in Diminishing Musharaka. Additionally, simplification of transaction is necessary to facilitate client without hurdles.

Awareness programs to be conducted with end users to educate them the concept, practicality, and difference from conventional term finance. Awareness sessions may also be conducted in collaboration with management universities, financial institutions, and Islamic Finance centers. This will also increase customer's confidence on Islamic Banking and Finance.

Standardization is also required in procedure, practice and documentation and practices to be exercised across the industry.

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