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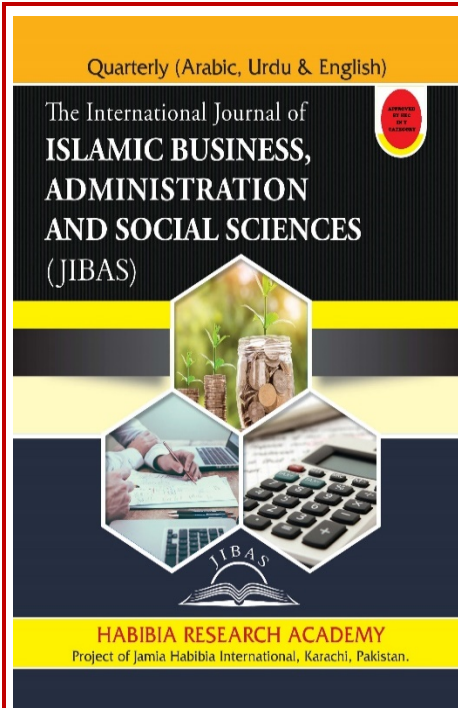
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TOPIC:

**FOR THE GROWTH OF MODARABA AS A FINANCIAL INSTITUTION
FLOATATION OF MEDIUM TERM AND LONG TERM
TIME AND PROJECT BASE MODARABA**

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**FOR THE GROWTH OF MODARABA AS A FINANCIAL INSTITUTION
FLOATATION OF MEDIUM-TERM AND LONG-TERM TIME AND PROJECT
BASE MODARABA**

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ABSTRACT:

The development of a nation's economy is virtually dependent on its financial sectors. For more than 40 years, Modaraba has been an established financial institution and the country's pioneer Islamic financial system. Although the Modaraba is regarded as a financing mode, it is more of a partnership in which one party contributes money and the other with labor, and the profit is shared according to a predetermined ratio. Modaraba is another legal financial institution in Pakistan and is governed by SECP rules and regulations. The Modaraba sector has been steadily declining rather than growing. Taking into account the past and present, the research aims to revitalize the Modaraba a tailor-made industry in Pakistan by introducing non-conventional mode and floatation modaraba. Through a questionnaire, a total of 90 respondents were evaluated. To the question of whether or not Modaraba institutions should be permitted to meet the needs for project financing and venture capital on a time-basis and for a specified purpose, 90% of respondents agreed or strongly agreed that the Modaraba Sectors in Pakistan should be revived. Until the Modaraba resource mobilization is made easy and convenient, the Modaraba should enjoy the tax benefit. The study concludes that further research is necessary to support the Modaraba sector's revival and emphasizes the necessity to look into the tax exemption of Modaraba. If the Modaraba sector is to revive, there is a need to amend the Modaraba laws by introducing of concept of unlisted modarabas along with the ease in floatation of time-based and project base modarabas.

KEYWORDS: *Modaraba institution, Islamic Financial Sector, Registrar Modaraba, Modes of Islamic finance, Resource mobilization, Revival of Modaraba.*

INTRODUCTION:

The economic, social, and political paradigms of the Islamic Moral Economy were inspired by the Qur'an and the Sunnah's upholding of moral and religious ideals. Two main goals of an Islamic moral economy are equitable distribution of income and strong social structures that allow the society to provide for everyone in need. Regarding the roles of buyer and seller, the core principles of the Islamic Moral. (S. A. Karim, 2010)

When it comes to the commonly recognized concept of *riba* and its intrinsic existence in all fractional financial transactions, the Islamic economic system is currently confronting a major understanding and dilemma. (Hasanuzzaman, 1991; S. A. Karim, 2010).

Modaraba is a financial institution and a product for participation that is one of the modes of the Islamic financial system. A modaraba is a special kind of collaboration where two or

more people. The one partner is an investor or rabb-ul-maal, i.e., provides the capital and assets, while the second partner, known as an amil or mudarib is in charge of operations. In Pakistan, Modaraba is a type of financial institution in which investors certificate holders, or shareholders are rabb-ul-maal and contribute to the capital, and Modaraba management company functions as a Mudarib.

In Arabic, Shariah means "the correct path." It refers to the divine guidance that Muslims adhere to live moral lives and become closer to God in Islam. The primary sources of Shariah are the Quran and Hadith. The primary and secondary sources of Shariah are:

- a) Qur'an: Muslims hold that the Qur'an is the primary source of Shariah law and that it contains the word of God as revealed to the Prophet Mohammed.
- b) Sunnah / Hadith: Sunnah literally means "well-known path". The sunnah, a collection of oral traditions that explains the legal significance of the sayings and deeds of the Prophet Mohammed, is one of the primary sources of law. The Sunnah also includes the sayings of other people that the Prophet seemed to imply he approved of by remaining silent.
- c) Ijma: Ijma is the term for the consensus of the Islamic community on a given topic, whether at the local or international academic level.
- d) Qiyas: Qiyas is the process of reasoning through which the Sunnah and Quran's precepts are applied by analogy to new situations.

Numerous general collections can be found by conducting a subject search for fiqh, Islamic jurisprudence, or Islamic law in a library catalog. Anyone can search for more detailed sources that address the methodologies including but not limited to Ijma (consensus among the scholars), Qiyas (analogical), Istihsan (juristic preference), Istihab (presumption of continuity), and Urf (local custom). Although Shariah law has a long history, it is still applicable and durable today because Ijtihad updates it frequently to make it compatible with new demands.

Riba is an Arabic word, that means the verb Raba that 'to grow' or 'expand' or increase or 'inflate' or 'excess'.

Not all type of increase or expansion is classified as riba, which is forbidden in Islam. Even though the English translation for Riba is "interest" or "usury".

In a transaction involving the sale or exchange of a good, riba refers to a gain or excess that the owner (lender) receives without providing the other party with an equivalent sum of money or other compensation.

In fiqh, one of the two homogeneous equivalents that are traded without a matching reward is riba. However, the word "Riba" has two distinct meanings in the Shariah.

1 Riba Al Fadhl: the simultaneous trading of ribawi items in different quantities, weights, or sizes. This is known as Riba of excess

2. Riba An Nasiah: Riba An Nasiah occurs as a result of the postponement during the exchange.

Ban on achieving financial gain from speculating (Mayseer): Making money off speculation is not acceptable. Thus, gambling is prohibited under Shariah.

No uncertainty (gharar) in commercial transactions: As per Shariah, there should be clarity in terms is essential for every transaction. There can be some commercial ambiguity, unlike speculating, but the essential terms of the contract must be explicit.

Making Money from Money is not Permissible: There is a claim that a merchant may profit more from the sale of his products than from the sale of his money. However, Islamic beliefs do not accept this idea. Money and commodities are treated differently because of their differences.

Main characteristics Islamic financial system: The following are some concepts of Islamic banks and funds:

❖ *Exclusion of usury or interest:* It is prohibited for Islamic banks and fund managers to grant or receive *usury or interest*. Islamic banks and fund managers are prohibited from engaging in any form of speculation, gambling or immoral activities in addition to being prohibited from paying interest or making any Riba payments.

❖ *Moral Ethics:* Islamic banks and fund managers follow ethical guidelines when choosing a financing source, participation, or investment because it is their duty to ascertain the location of transactions and activities.

❖ *Moral Social values:* Islamic banks and fund managers won't do business primarily for financial benefit. It should provide profit-free loans, gifts, grants, and other types of support to the less fortunate community members.

❖ *Business risk and liability:* the concept of fairness which states that every partner to a transaction bore some amount of risk in addition to reward. The profit distribution was defined by the specified rate and risk.

The use of interest rate benchmarks such as KIBOR or LIBOR is another point of argument. In Islamic banking, KIBOR is used as a financing benchmark in Pakistan's financial market. It is also used to assess Islamic financial products and instruments rate of return. In fact, rather than sharing the true benefits of exchanges or the profit, even the benefits of Shirkat and exchange gains are obtained on the base of KIBOR.

The important thing is that Islamic banks do not apply the concept of "urf" to charge market prices in exchanges where real market returns differ significantly from the cost of the loan. Islamic banking continues to adhere to the accepted financial practices of KIBOR as a benchmark for financial cost and return.

On February 10, 1979, ie 12th Rabiul Awal, 1399, along with other Islamization initiatives, the President Pakistan declared measures to eliminate interest from Pakistan's financial system. The Council of Islamic Ideology produced an interim report in 1979 and a final report in June 1980 at the President's request. These reports included suggestions for withdrawing interest from the economy.

(KHAN, M. S. 2020)

According to (KHAN, M. S. 2020) for several reasons, they considered it unfeasible to implement Islamic banking right away or to eliminate interest from all financial dealings inside the economy. Interest-free banking and interest-based activities so co-existed. It was decided that new legislation or changes in the existing laws were necessary to provide these

modifications legal standing and to make it possible for the aforementioned decision to be carried out effectively. Accordingly, the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 was promulgated along with some other Ordinance and amendments in the Ordinance

The banking industry is the cornerstone of any economy and is crucial to its growth. The financial sector in Pakistan consists of leasing companies, stock exchanges, Modarabas, commercial banks, DFI, insurance companies, mutual funds, and other banking finance businesses. The nation's deposits cannot be mobilized into the productive sectors without the support of commercial banks etc., which will accelerate economic growth. Successful commercial banks etc. also help to stabilize a country's financial system. Issuing finance and accepting deposits from the public are the main business activities of the banking industry etc.

Modaraba is a fidelity contract whose legitimacy has been recognized by the Holy Quran, Hadiths, Ijma, and Qiyas. The word “Darb” in the Holy Quran it is used many times whereas the “Daraba” which, when translated into literary terms, means to set forth, embark upon, or journey for the cause of Allah. The Holy Quran says, “And others who journey through the earth seeking the bounty of Allah”.

The relationship of trading that predated the marriage of the Holy Prophet (P.B.U.H.) and his wife Khadija (R.A.A.) is said to be one example of modaraba. The Holy Prophet went to sell Khadija's possessions and got paid a percentage of the sale price. The most important thing to remember, and what this paper emphasizes again, the Rab-ul-Mal Khadija (R.A.A.) wanted the Prophet to act as a Mudarib after discovering his skill, integrity, and honesty.

Modaraba Institution

In 1980, the idea of modaraba as a financial institution that would comply with Shariah was developed and presented, with complete appropriate legislation, a regulatory and oversight framework, and operational guidelines. Pakistan has the exclusive right to convert the idea into an official, well-regulated institution. In actuality, Pakistan's Islamic mutual funds and banking were pioneered by the Modarabas, as Islamic financial institutions.

Mudarib acts as Ameen, wakeel, shareek, zamin (liable), and ajeer (employee) of the Rabb-ul-Maal.

Assumptions, Limitations, and Delimitations:

I don't perceive any restrictions on data extraction and compilation inside the Modaraba Sector given my knowledge and exposure in Modaraba Institutions. As a result, the outcome was precise.

Currently, only 25 modaraba are in operation, Modaraba to IBI, IFI, Mufti, etc the samples had to be collected.

Motivation for Research:

As was previously mentioned, Modaraba is one of the Islamic financial systems modes; it functions as a financial institution as well as a product for participation. A modaraba is a special sort of collaboration when two or more people take part. I have over 25 years of

experience working in a Modaraba as a financial institution, so I have experienced the highs and lows of the industry.

I came up with the notion to investigate the causes of this decline and eventually identify solutions to restore the Modaraba sector in Pakistan since I have witnessed it degrade to the point where the number of Modaraba has decreased to half from its maximum, which is 57.

Research Aim, Objectives, and Questions:

Research Aim

To study the Modaraba industry to determine the causes of its collapse and strategies for recovery.

Research Objectives:

- To assess the Modaraba sector status.
- To examine the Modaraba industry growth pattern
- To scrutinize the challenges faced by the Modarabas.
- How the Modaraba sector can revival
- Evaluate the Floatation of Medium-term and Long Term Modaraba
- Viability of Time and project base Modaraba
- Assisting the nation in transforming its financial and economic structure to conform to Shariah

Research Question:

What are the variables influencing Modaraba's growth as a financial institution and the need for floatation of medium-term and long-term along with Time and project base Modaraba institutions?

LITERATURE REVIEW:

A regulated and profitable banking sector creates the motion for growth in an economy by making financing more accessible at competitive rates. (Petria et al. 2015).

Providing benefits and achieving social welfare is the primary objective of Islamic financial practices. Encouraging Islamic principles and humanity's social responsibility can assist in achieving both goals. (Amin et al., 2013)

Currently, there isn't an Islamic venture capital fund or an Islamic investment bank operating in Pakistan. There are many Islamic mutual funds as voluntary pension funds so as the conventional funds. This merely serves to underscore the amount of room that exists in non-bank alternative financial institutional structures, where Islamic institutions have the potential to lead rather than follow. (Shaikh, S. A. A. 2012)

After the first modaraba was floated in July 1980, there was a boom and at one time there were 52 modarabas. These Modarabas not only set the precedent for Islamic finance in Pakistan, where non-Islamic banking is the norm but also contributed to a rise in public confidence and understanding of the practice.. (Samiullah, M. 2013).

The Rabb-ul-maal's participation in the Modaraba's affairs was restricted to lending financial support. He did not actively participate in the organization's operations. Rabb-ul-maal provides all the shares and funds to the Mudarib. (Gazi, 1993). The Mudarib, also

known as the Amil, bears full responsibility for overseeing all business operations and administering the funds that have been provided by the Rabb-ul-Maal. (Chapra, 2005)

In case of loss, Mudarib or Amil will lose efforts as labor since he has not invested any funds in the Modaraba. The loss of time and services will result in penalties for the Mudarib. However, if Mudarib's negligence caused this loss, he will also be held accountable and must pay Rabb-ul-Maal. Rabb-ul-maal's liability under the Modaraba partnership is restricted to his investment. If there is a liquidation, he is not responsible for any debts unless he has authorized the mudarib to assume responsibility for them. In this case, the entire Modaraba assets belong exclusively to Rabb-ul-Maal. Mudarib cannot claim ownership of the assets, he can only claim his profit share.

One of the special features of a Modaraba contract is the Rabb-ul-maal and Mudarib pre-agreed profit share ratio. The Rabb-ul-maal donates his portion of Ras-Ul-Mal as he does not have neither managerial or labor experience. One essential component of a Modaraba is the Mudarib assuming all financial risk. Rabb-ul-maal can't give Mudarib any money losses. When one party lacks the contacts, competence, or time to use the financial resources to launch a firm, while the other lacks the finances to initiate one contract of modaraba, it possesses the contacts, expertise, and trading skills. (Siddiqui, S. A. 1998).

Profit of both ie Raab- Ul-Maal and Mudarib cannot be specified in the Modaraba contract as fixed monetary terms. On the contrary, there should be a share of profit ratio and that should be decided by both parties. Riba or compensation is a fixed amount of money, a modaraba that offers a fixed amount of compensation is considered null and void. The Modaraba will remain in effect, however, the clause will become invalid if Rab-Ul-Mal and Mudarib include a provision in the Modaraba contract that leaves the profit distribution flexible or contingent on a circumstance that frequently does so. (Mufti, Qaiser 1990)

According to the Modaraba contract, the Raab-Ul-Mal must completely relinquish control of any major resources and funds to the Mudarib. If he retains the funds, which among other things need to be delivered in installments, the Modaraba contract is void. When Mudarib is denied access to the assets, Modaraba's legitimacy is called into question. The Raab-Ul-Mal has an obligation not to meddle in the management of Modaraba. If the Raab-Ul-Mal can directly or indirectly influence management, they effectively control the company's assets. It is not permitted for Mudarib to make independent business choices. Thus, in all such situations where management remains under Raab-Ul-Maal's control, either directly or indirectly, the agreement between Modaraba and Raab-Ul-Mal is void. (Siddiqui, S. A. 1998).

Types of Modaraba:

Unrestricted Modaraba (Al-Modaraba Al-Mutlaqlah)

Unrestricted Modaraba is a kind of modaraba in which the financiers and investors, or Rabb-ul-Maal transfer their money/assets to the Mudarib without imposing any restrictions on the projects and business activities to be invested in or the location or timing of the transaction or the mode of payment (credit or cash). (Sapuan, 2016; M. A. Shaikh, 2017).

Restricted Modaraba (Al-Modaraba Al-Muqayyadah)

In restricted modaraba, there is a restriction by Rabb-ul-Maal on the Mudarib including lack of freedom regarding employment kind, location, investment, and time. However, the investor can't impose limitations on the Mudarib that would make Mudarib's business activities more difficult. (S. A. Karim, 2010; S. A. A. Shaikh, 2011).

The regulatory framework in Pakistan empowers the SECP to allow modarabas to operate as commercial financial entities. As the mudarib, modaraba management companies (MMC) supervise the modaraba and contribute 10% of the Modaraba's total paid-up capital. The owners of modaraba certificates, known as raab-ul-maal, provide 90% of the cash to the modaraba. (Hussain Minhas, I. 2011)

Hussain Minhas, I. (2011) further elaborates that Modarabas may offer any financing and facilitation contracts that comply with Shariah and were approved by the Religious Board. Apart from providing solely Islamic financial services, Modarabas is also capable of stock market trading, trading in halal commodities, project financing, and operating special purpose vehicles. The modaraba can raise deposits in the form of Modaraba/musharakah certificates and issue musharaka-based term financing certificates (TFGS). To encourage Islamic financing, the modarabas were exempt from income tax subject to the distribution of 90% of profit for the year to the shareholders.

Unique features of Modaraba as a financial institution concept

Halal Business — “A financial industry business model called Modaraba is founded on authentic Islamic principles that have been duly examined and approved by the Religious Board. It offers lucrative investment opportunities to those seeking to profit from their investments by Islamic Shariah.” (Annual Report 2013 by SECP).

Diversified Business — “The Modaraba concept's diversity offers the industry a wide range of business opportunities including those in finance, trading, manufacturing, equipment rental, project and portfolio management, import/export, and distribution.” (Annual Report 2013 by SECP).

The Modaraba sector is an important segment of the financial industry which was the first in Pakistan to offer Islamic financial services. However, due primarily to the lack of enthusiasm from most market participants and the ignorance of investors, the enormous scope of the Modaraba prospectus has not been fully realized. The modaraba industry could only sell three essential items: ijarah, Morabaha, and Musharakah. Neither the authorities nor the market participants attempted to innovate or produce new products. Developing innovative, state-of-the-art Islamic commercial products was imperative to capture the market and bolster the Modaraba industry's consistent growth. (Samiullah, M. 2013).

In 1980, following the promulgation of the MO1980, the "Twin Tower Modaraba, the first special-purpose modaraba, was floated. Modaraba set out to construct a multi-story structure in Karachi with a specific function in mind. Bankers Equity Limited was the management company for the Modaraba, which had a Paid-Up Capital of Rs. 15 million. Most of the certificates were in the hands of the banks. As it was a purpose-built Modaraba, the project was completed and the Modaraba was wound up in 1983. (Country Report 2020)

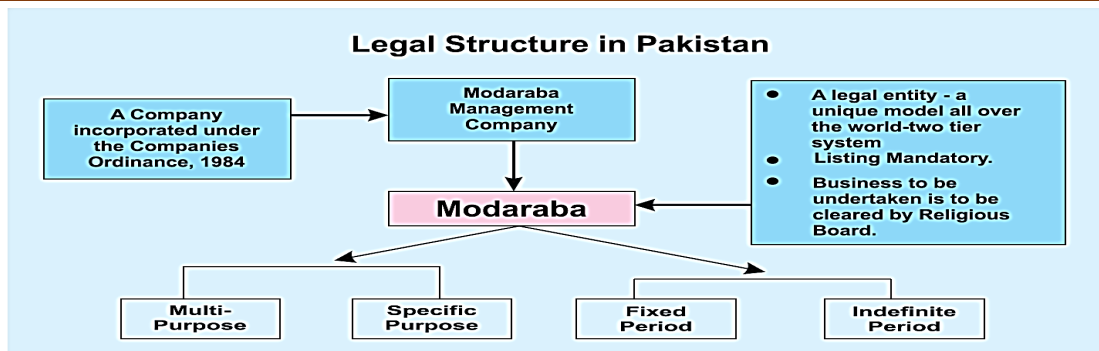
Fayzan Manufacturing Modaraba, which was established in accordance with the Modaraba Companies and Modaraba (Floatation and Control) Ordinances, 1980, and the Modaraba Rules, 1981, was the second and most prosperous specific purpose and time bases modaraba. The MMC was Faysal Management Services (Pvt) Limited. The sponsors of MMC were 2 banks and one DFI. The modaraba was floated for five and a half years and started production on March 22, 2001. It was listed on the Karachi Stock Exchange (now Pakistan Stock Exchange Limited) by the law. The Modaraba had a Paid-Up Fund of Rs. 900 million. Building, running, overseeing, and occupying a Polyester Staple Fibre (PSF) spinning and Processing Plant on the property of ICI Pakistan Limited (ICI) in accordance with the terms of the license agreement. On March 28, 2001, Modaraba and ICI signed a Toll Manufacturing Agreement, under which Modaraba would manufacture PSF for ICI for five years after commercial production started. Renewing the contract with ICI requires the consent of both parties. (Country Report 2020)

At the moment, only one Modaraba is involved in both domestic and foreign buying and selling. In the past, financial modarabas were involved in trading, which included exporting activities, when trading was also exempt from taxes.

Utilizing the tax benefits, the House of Treet established Treet Manufacturing Modaraba to produce corrugated cardboard. Originally, there were no taxes on modarabas manufactured, however, when the exemption from taxes was taken away, a large manufacturing group, even though it was approved for IPO, had to revoke its flotation.

While UDL Modaraba operates a pharmaceutical unit as part of its business. First Equity Modaraba maintains a wholly-owned subsidiary as a spinning unit. Since 2002, First Equity Modaraba has operated a full-fledged brokerage business and holds the Trading Right Entitlement Certificate from the Pakistan Stock Exchange.

In the Modaraba industry, where Ijarah was also making a profit, Allied Rental Modaraba presented the idea of rent. There is a severe lack of electricity in the country, which is increasing demand for their generator rental business. In 2007, they commenced the business as the biggest Modaraba in the Modaraba sector. Another rental modaraba started for business in 2015, and it is currently operating satisfactorily.



Ibrahim, M. S. (2017)

METHODOLOGY:

Study Design:

This is a cross-sectional, exploring Modaraba as an Islamic Financial Institution and growth. The study evaluated the status of the current running Modaraba sector.

This research, which is a cross-sectional empirical study [prospective study] in nature examined Modaraba's development as an Islamic financial institution. The researcher also assessed the state of the Modaraba sector in operations. Last but not the least the floatation of the medium-term and long-term product base and time base modaraba

Sample Size and Setting:

The study was conducted with people with backgrounds in convention and Islamic banking, and the modaraba sector from Karachi, Lahore, and Islamabad. More than 85% of the respondents were from Karachi, the financial hub of Pakistan. Additionally, the questionnaire was shared on several WhatsApp groups for academic and professional forums, stock market brokers, and capital market investors.

Sampling technique:

Purposive sampling with non-probability is the method employed for sampling. Purposive sampling is also known as selective, judgmental, or subjective sampling. This kind of non-probability sampling involves researchers selecting survey respondents solely based on their subjective opinions. Because each survey respondents were selected looking at the predetermined profile, researchers can use purposive sampling to focus on a particular population subset.

Sample selection:

Inclusion criteria:

- prior knowledge of the Modaraba sector
- experience of working in banks either conventional or Islamic
- knowledge of Islamic banking.

Exclusion criteria:

- not worked in the Modaraba sector in Pakistan.
- under graduation.
- not given their consent

Data collection method:

The principal investigator was responsible for gathering the data. To evaluate the questionnaires' organization, applicability, clarity, and fill-out time, a pilot project was carried out. This also addressed any mistakes or carelessness. The lead researcher assisted in distributing the paper copies and Google forms to the subjects. On the same day, all of the forms were carefully examined to make sure they had been filled out correctly. The data was entered using Microsoft Excel software. To make sure there were no mistakes, it was entered twice.

Plan of analysis:

Excel 2010 was used for data entry and statistical packages for the Social Sciences (SPSS) version 20 were used for statistical analysis.

RESULT:

One hundred and twenty-five responders received a verified questionnaire. Ninety valid replies were gathered in the conclusion, yielding a 72% response rate.

Table 1 Socio demographic characteristics of Participants

Socio Demographic Variables No.		Frequency	(%)
Age in Years			
25-34		11	12.2
35-44		34	37.8
45-54		27	30.0
55-64		12	13.3
65-74		04	4.4
75-84		02	2.2
Mean age	46.28	Average age $\pm$ S.D.	11.64
Qualification			
Graduation		11	12.2
Master's & above		57	63.3
Professional Qualification		22	24.4

Years of experience (years)		
1-20	53	58.9
21-40	34	37.8
>40	3	3.3
Courses / Qualifications pertaining to Islamic Banking		
Yes	71	78.9
No	19	21.1

Table 2 The status of an Islamic Financial institute and its products

	Yes	No
Familiar with Modaraba Sector in Pakistan	79 (87.8%)	11 (12.2)
Are Investors interested in investing in the Modaraba certificate at the Capital market / secondary market?	39 (43.3%)	51 (56.7%)

In Table 2 it presents the frequency and percentage of the participants who are familiar with the Modaraba sector 87.8% (79) whereas 12.2% were not familiar with the Modaraba sector at all. Participants of the research thinks 43.3% (39) that the investors are interested in investing in the Modaraba certificate at the capital market /or the secondary market but 56.7% (51) negated to the fact.

Table 3 Growth of the Modaraba Sector

Factors in the growth of the Modaraba Sector depend upon		
	Frequency	%
The availability of resource mobilization	53	58.9
Public interest towards Modaraba	37	41.1

Table 3 the perception towards floated Modarabas as per Modaraba Companies & Modaraba has been shown and it was seen that 74.4% (67) participants said that it is used to promote Islamic finance whereas 24.4% (22) research participants said that it is taken as business venture. Only one participant said that it is the regulators who float it.

Table 4 Challenges faced by the Modaraba sector.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The charter of Modaraba is considered as the biggest in the financial sector	0	0	22 (24.4%)	30 (33.3%)	38 (42.2%)
Modaraba products / mode of Islamic finance considered as replica or the vanilla product of conventional banking products	3 (3.3%)	14 (15.6%)	17(18.9%)	55 (61.1%)	1(1.1%)
Collaboration within Modaraba sector will flourish the sector	0	1 (1.1%)	6 (6.7%)	69 (76.71%)	14 (15.6%)
The Modaraba trade association has failed to deliver	2 (2.2%)	4 (4.4%)	16 (17.8%)	61 (67.8%)	7 (7.8%)

There are many challenges faced by the Modaraba sector. In table 4 it was seen that the charter of Modaraba is considered as the biggest in the financial sector and around 33.3% and 42.2% agreed and strongly agreed respectively. When asked regarding Modaraba products / mode of Islamic finance considered as replica or the vanilla product of conventional banking products 61.1% agreed whereas 15.6% disagreed. Regarding Collaboration within Modaraba sector will flourish the sector 76.71% of the participants agreed and almost 0% disagreed. When questioned that if the Modaraba trade association has failed to deliver 67.8% agreed and around 6.6% disagreed.

Table 5 Revival of the Modaraba sector

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Time base and specific purpose Modaraba institution should be allowed to cater the venture capital and project finance need	0	0	9 (10%)	59 (65.6%)	22 (24.4%)
Modarabas not governed by SBP hence SBP don't include Modaraba in concessional finance schemes	0	2 (2.2%)	19 (21.1%)	53 (58.9%)	16 (17.8%)
Should Modaraba Ordinance be amended as and when required	0	0	14 (15.6%)	61 (67.8%)	15(16.7%)

Table 5 displays some facts regarding the revival of the Modaraba sector. Regarding the time base and specific purpose Modaraba institution should be allowed to cater the venture capital and project Finance needs 65.6% agreed and no one disagreed. Modarabas not governed by SBP hence SBP don't include Modaraba in concessional finance schemes 58.9% participants agreed and around 2.2% disagreed. When asked should Modaraba Ordinance be amended 67.8% agreed and no one disagreed.

Table 6 Association between Investors interested in investing in the Modaraba and time base and specific purpose Modaraba

		Are Investors interested in investing in the Modaraba certificate at the Capital market / secondary market.			P-Value
Time base and specific purpose Modaraba institution should be allowed to cater the venture capital and project finance need		Yes	No	Total	0.288
	Strongly Disagree	0	0	0	
	Disagree	0	0	0	
	Neutral	6 (66.7%)	3 (33.3%)	9(100%)	
	Agree	23(39%)	36(61%)	59(100%)	
	Strongly Agree	10 (45.5%)	12(54.5%)	22(100%)	

Table 6 displays the cross tabulation between the status and revival of the Modaraba sector. The table 6 shows a cross tabulation and a connection was tried to find between the investors interested in investing in the Modaraba certificate at the Capital market / secondary market and time base and specific purpose Modaraba institution it was found to be insignificant with the P- value 0.288.

Table 7 Association between Modaraba Charter and availability of funds

		The charter of Modaraba is considered as the biggest in the financial sector where it can undertake the financing activities, consulting, advising, trading, etc. The only restriction that these activities should 2t be against the injunctions of Shariah. The Modaraba Manager did 2t fully explore the Modaraba charter and rested with the convenient vanilla financing product like Morabaha and Ijarah						P-Value
Until the Modaraba are not getting funds at market rate without restriction, Modaraba should enjoy the tax benefit.		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	0.529
	Agree	0	0	19	27	36	82	
	Disagree	0	0	3	3	2	08	
Total		0	0	22	30	38	90	

Table 7 The growth of Modaraba depends either on availability of fund or tax benefit so that the charter of the Modaraba can be fully utilized. As the p-value as 0.592 which is insignificant.

DISCUSSION:

One way to participate in the Islamic financial system is through modaraba. Initially, the Pakistan government's decision to convert the banking and economic systems to Islamic law and MO1980 was promulgated. Modaraba is a financial institution under the MO1980, just like any other financial institution.

The Modaraba institution is a unique and tailor-made financial institution in Pakistan that is not found in any other Islamic country or anywhere else in the globe. Due to this, there is a lot more risk involved than with any other financial institution. Despite the fact that just three Modarabas were floated in the first two years. However, when more people became aware of the Islamic financial system, around 30 modarabas were floated between 1990 and 1991.

There were few significant regulations, so conducting business was easy. In 1992, SBP issued Prudential Regulation for Modaraba. Then after the change of regulator, in 2000 SECP issued the first Prudential Regulation under its new regulation.

Modaraba is a practical model based on the triangular relationship between entrepreneurs, Islamic banks, and depositors. The model suggests that Islamic banks function as intermediaries between capital providers (rabb ul mal) and entrepreneurs acting as expert administrators (Mudarib).

One of the main dilemmas with the modaraba sector's growth in Pakistan was that the sector did not receive the assistance it deserved from the regulators, be it from the revenue or tax authorities FBR and SRB/PRB, or the lender of last resort SBP, or the front regulatory RM or SECP. Notice of audit and inspection was served even though the modaraba was tax-exempt when 90% of the profit for the year was distributed.

The FBR's decision to remove the Modaraba's tax exemption was the last nail in the coffin. Despite having an advantage over other FI due to its tax exemption, modaraba had significant limitations when it came to resource mobilization. The limitations on resource mobilization prevented the modaraba from competing with the other FI.

With the modaraba industry being so attractive, not many new modaraba were floated. This reason was the track record of the modaraba sector market rate at PSX.

CONCLUSION & RECOMMENDATION:

Taking all of this into consideration, we conclude that more study is necessary for the Modaraba sector to revive. We also emphasize the necessity to look into resource mobilization and the flotation of the new Modaraba and in order to support the Modaraba sector's tax exemption should be reinstalled. If the Modaraba industry is to revive, the regulators need to step forward and offer their assistance.

As per the Order by the Federal Shariat Court of Pakistan, all financial transactions must comply with Shariah by December 31, 2027. The financial industry should become more Islamic by utilizing Modaraba as a financial institution, which is also the first Islamic financial institution in Pakistan and has been in operation for more than 40 years. Shariah-compliant transactions are fully understood and capable of modarabas and their manager.

People want to earn profits that are halal and comply with Shariah. At the moment Islamic banks are creating the deposit pool under the modaraba, but there are certain limitations and objections to that pool. The greatest example of a time base and Project base modaraba can be found in the Faizan Modaraba as manufacturing time-based and Twin Tower Modaraba as a project.

Once the project is completed, or the time is exhausted, the modaraba will wind up and actual realization will be distributed among the Raab-ul-Maal / investors. This actual realization of the assets of the Modaraba will be a true and un-doubtful profit for the Modaraba.

By focusing on the project rather than the MMC sponsors, the Modaraba sector's credibility will grow. Modarabas can be floated in place of Sukuk for the industrial unit's financing needs as well because they are more widely known and have greater trust than Sukuks.

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