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SECTION A: PROPOSAL SUMMARY

Project Title:	Liquidity Management in UAE Islamic Banks (2000-2013): A comparative study			
Principal Investigator (PI):	Name:	Suzanna El Massah	College/Dept:	IIWS
	Title:	Assistant Professor of Economics	Highest Degree:	PhD
	Tel:	0555525059	Year Awarded:	2009
	Email:	Suzanna.elmassah@zu.ac.ae		

List all Co-Investigators below, including those from other institutions:

Name	Email	Highest Degree	University/ College
Ola AlSayed	Ola.alsayed@feps.edu.eg	PhD	Cairo University Faculty of Economics

1. Abstract - Please provide a concise summary of the proposed research in plain language (max. 150 words).

Islamic banking and finance has shown progressive development all over the world since mid-1970s. Several potential markets still untapped. On January 10th 2013, His Highness Sheikh Mohammad bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, has launched the "Dubai: Capital of Islamic economy" initiative which envisions setting up an integrated platform for an "Islamic economy". Such initiative would call for innovative instruments, amongst is the liquidity management, in order to create the proper environment for Islamic banking expansion in the UAE and similar countries in the region. In line with this vision, the main goal of this proposal is to investigate the effect of shortage in Shari'ah compliant liquidity instruments on the liquidity management in UAE Islamic banks; by comparing tools and strategies in both conventional and Islamic banks in UAE during (2000-2013). This time period has been chosen based on the fact that the past ten years have witnessed both a surge in Islamic banking as well as a parallel surge in stock markets activity. It is worth noting that both UAE stock exchanges have been established in 2000, thus representing one of the major ways of investing Islamic banks liquidity. More specifically, we aim at: 1) identifying the extent of applying the liquidity management theory in the UAE Islamic banks. 2) analyzing the effect of UAE legal framework, monetary policy and public debt strategy on Islamic Banks' liquidity management. 3) proposing the opportunities and potentials of islamic banks' expansion; through innovative liquidity management techniques.

The results of this research could benefit both Central Bank of Emirates and Islamic banks in improving the liquidity management strategies and introducing innovative instruments for managing liquidity that will deepen the Islamic money market and supporting the UAE vision regarding the Islamic economy implementation. Furthermore; we believe that, this would be a world-leading research to benefit not only the Islamic Banks in the Islamic countries , but the entire Islamic Banking system worldwide particularly in light of the widespread of Islamic banking system and Shari'ah-complied finance in the Western countries.

2. Time Period – are you requesting a one-year or two-year grant?

one-year grant two-year grant

3. Students – Does the project contribute to student research training?

Yes, describe briefly we plan to involve senior undergraduate and graduate students in the data collection, survey design and survey conduction. we will contribute in training students on how to build a questionnaire and construct indices as well as analyzing data, in order to achieve the project`s goals.
 No

4. Budget - What is the total budget requested for this proposal over the entire research period?

98,375 AED

5. Facilities and Equipment - Are you requesting space for a research assistant(s) and/or special equipment? If so, please describe briefly:

Mac-book, printer with scanner, voice recorder

6. Ethical Clearance - Does this proposed research involve human or animal subjects?

Yes – you will be required to apply for ethical clearance through the Research Ethics Committee if your proposal is successful
 No

SECTION B: DESCRIPTION OF RESEARCH PROJECT

Please provide a detailed project description using the six (6) section headings below.
Please write in plain language, limiting the use of jargon and acronyms.

1. Statement of the research problem(s)

(maximum 400 words)

The banking sector has experienced increasing liquidity volumes during the last century. Banks have responded by developing many instruments to manage this liquidity to meet the growing market needs and to deepen the money market. These instruments are short run "debt" securities ranging from less than 3 months to one year such as; commercial papers, certificate of deposit (CDs), bankers' acceptance, municipal or government loans and treasury bills. Islamic banking system has emerged in the banking sector few decades ago; identified as a system based on the principles of Islamic law (Shari'ah) and guided by Islamic economics with two basic principles namely sharing of profit and loss and prohibition of the collection and payment of interest. Islamic banks have received significant increasing of deposits over the recent decade. Therefore, a robust efficient

liquidity management framework is vital to achieve a comprehensive stable Islamic banking system, in order to support funding and investment operations in these banks. Most of the conventional liquidity management instruments are not Shari'ah-compliant. Therefore, Islamic Banks cannot use them. Recently, several countries (Bahrain, Iran, Malaysia, Sudan and UAE) have developed new tradable Shari'ah-compliant instruments such as; Mudarabah and Musharakah certificates in addition to Murabahah-based and Leasing-based securities. However, most of these papers are generally bought to hold rather than to trade because of their attractive yield and generally the shortage of such papers. By all means, Shari'ah-compliant liquidity management instruments have not witnessed enough development and are not yet suitable for monetary operations by all central banks. Moreover, Islamic banks lack the core tools for liquidity management such as; the well-suited interbank instruments, sufficient utilization of securitization technique, availability of risk management instruments. That would frame a major constraint for further development of Islamic banking.

In line with this trend, His Highness Sheikh Mohammad bin Rashid has launched in 2013 “Dubai: Capital of Islamic economy”. This envisions setting up an integrated platform for an “Islamic economy” including Islamic banking practices within a Shari'ah-compliant system. The goal of this study is to find out the effect of Shari'ah-compliant liquidity instruments deficiency on the liquidity management of the UAE Islamic banks during the last 13 years. The main value proposition is to give policy recommendations for Islamic Banks and Central Bank of Emirates in regard to improving the liquidity management strategies, introducing innovative instruments, offer creative solutions tools to enhance the proficiency of liquidity department employees in Islamic Banks; that will deepen the Islamic money market and supports the UAE vision regarding the Islamic economy implementation.

2. Literature review – a concise and current review of scholarly research or important information relating to your research topic
(maximum 600 words)

Having good liquidity management is a prerequisite for sustaining financial stability and avoiding liquidity shortages, (Abdullah, 2010). While liquidity management is equally important to Islamic banks as it is to conventional banks, it is ascertained in the literature such as in (Ariffin, 2012) that liquidity management for Islamic banks is of a different nature due to the fact that most of the existing instruments used for liquidity management are interest-based (riba), therefore not Shari'ah-compliant. (Hakim, 2004) describes the differences between conventional and Islamic financial products as "fundamental to the risk/return profile of these instruments". As mentioned in (Sulaiman, Mohamad, and Samsudina, 2013), due to the Islamic prohibition against interest (riba), Islamic banking has a unique risk profile. For instance, Islamic finance promotes risk sharing and avoids interest-based charges, where Mudarabah and Musharakah are based on the concept of profit-sharing and profit-and-loss sharing, respectively (Ayub, 2002). The effect of the shortage of instruments in Islamic banking is highlighted in the literature, such as in (Akhtar et al., 2011), that liquidity risk is a major risk facing Islamic banks and that it essentially arises from the lack of sufficient Shari'ah-based liquid instruments. (Ray, 1995) explains that one reason causing liquidity issues is the financing nature of Islamic banks which relies on long-term equity contracts such as Mudarabah. Another reason is the limited number of financial instruments that are accepted by Shari'ah scholars. As a result, Islamic banks do not have the same funding options that are available to conventional banks. (Alvi, 2009) mentions that Islamic Financial Institutions can have a shortage of liquidity compared to their conventional counterparts due to their limited ability to acquire short-term funds. The need to meet the requirements of Shari'ah-compliant liquidity brings the issue of liquidity management in Islamic banking to the surface and highlights the importance to develop new innovative instruments. Conventional banks use interbank markets' various instruments to meet short and medium term liquidity needs (Sulaiman, Mohamad, and Samsudina, 2013). This access to the interbank market provides them with flexibility in adjusting their short-term cash flows. Conversely, Islamic banks are restricted in the inter-bank market due to the requirement to avoid the interest-bearing instruments. They are also prohibited from borrowing at short notice through the central bank discount window, and there is no Shari'ah-compliant lender of

the last resort facility. This leads to an exposure to liquidity risk due to illiquid long term assets. (Vogel and Hayes, 1998) discuss that the absence of adequate money markets or secondary capital markets for Islamic instruments leads to the problem of mismatched maturities and liquidity difficulties. Focusing on the relationship between liquidity risk management and performance (Ismal, 2010) reflects on the state of the Islamic banking market, and finds that the difference between Islamic banks' asset growth and conventional banks asset growth in 5 countries is declining, and must be viewed as a sign for Islamic banks to revisit their operational strategies. It is worth mentioning some milestones that marked early changes and progress in Islamic banking such as Malaysia's issuance of the first Islamic Bond in 1983, the issuance of interest-free by the Central Bank of Kuwait (Hakim, 2004), Bank Negara Malaysia introducing the Liquidity Framework in 1998 to replace the liquid asset ratio requirement (Ariffin, 2012), and establishing the Islamic Inter- bank Money Market in 1994 in (Bacha, 2008).

3. Goals of the research – anticipated outcomes including potential problem solutions, or contribution to knowledge or understanding of issues
(maximum 400 words)

Liquidity is the ease by which an asset can be exchanged for another with little or no loss of value, usually cash. Liquidity assets are those held in cash or invested in instruments which can be converted rapidly into cash like demand deposit, deposits in other banks and investments in short term liquid government securities. Liquidity management is undoubtedly one of the most crucial tasks of a bank. The main goal of the project is to investigate how shortage and undiversified Islamic liquidity instruments affect the performance of Islamic banks in United Arab Emirates (UAE). This goal can be refined into the following sub-goals: 1) Focus on the comparative liquidity situation of Islamic banks and conventional banks in UAE for the period of 2000-2013. Both short-term and long-term liquidity positions will be considered. 2) Test the proficiency of the UAE Islamic Banks's employees for their ability and efficiency of liquidity management. 3) Explain to what extent do the legal framework, coordination of monetary policy and public debt management promote the development of Islamic money market. 4) Involve IIWS graduate students in this project, as well as undergraduate finance students, as means to enhance their knowledge and skills in relation to Islamic Economics and Islamic Finance. In addition to, enrich the IIWS Arabic Library with that study that would benefit the MA students. 5) Provide suggestions and policy recommendation to the UAE administration and the central bank, on ways to deepen the Islamic banking sector.

4. Research methodology – anticipated methods to be used in your research process, including main research questions, data gathering, documentation or analysis planned
(maximum 400 words)

This project focuses on Liquidity management in UAE Islamic banks as compared to conventional banks, and how the efficiency of the liquidity management function may impact the profitability of Islamic banks and thus enhance the expansion of their client base, based on profitability reasons (rather than religious reasons only). The achievement of our study's goals is a challenging process, involving number of phases and using several methodologies: In Part One: The study will start by an introductory chapter and a literature review for the theoretical framework and definition of the main concepts. The definition used for Islamic banks is the one used by the Central Bank of UAE in the Islamic Banks, Financial Institutions and Investment companies (Law Number 6 for the year 1985). However, the project will also pay attention to the Islamic banking products / portfolios of conventional banks (only if they prove to be really Islamic and not mixed with conventional banking products in the same balance sheet & income statement). The reasons behind this attempt, is to stand on the extent of competition between Islamic and conventional banks in offering Islamic products. This part will

also cover a historical part about the beginning of Islamic banking in the UAE, the regulatory legal framework governing them, and their relative importance / weight in the UAE banking / financial sector. Part Two: attempts to review and compare the financial performance and the liquidity situation of both Islamic banks and conventional banks in the UAE. The study attempts to examine the performance of each group – and compare between the two groups - in four main areas, namely: Capital Adequacy-Asset Quality-Earnings-Liquidity. Data will be collected from the Central Bank of UAE reports as well as the income statements and balance sheets of the studied banks over the study period. This is in addition to some references availing this kind of data such as the Union of Arab Banks Guide for Arab Financial institutions and Banks Research methodology will include both descriptive data analysis as well as statistical analysis. While descriptive data analysis includes numerical and graphical data representation. Statistical analysis is subject to availability of the time series data. The study may also compute some indices to compare between the two groups of banks under study. This is in addition to the analysis of financial ratios that measure the financial performance and the liquidity situation of banks. Part Three: will focus on the liquidity management function in Islamic banks and how it affects profitability, and consequently attractiveness to clients on profitability basis. The study will attempt to examine the proficiency of the Islamic Banks’s liquidity department employees; measured by their awareness and application of best practices in liquidity management. The research methodology used is a questionnaire designed to assess the level of awareness and application of Islamic banks liquidity department employees. The findings of the survey would provide insight into what liquidity management employees consider as useful or important, both in terms of instruments and infrastructure for development of Islamic money market in UAE. The questionnaire will address the following issues to examine their proficiency; the regulation and supervision of the domestic money market, such as type of regulators, laws governing the domestic Islamic banking industry and/or its money market, etc.. • a variety of money market practices and financial instruments, both for monetary operations and liquidity management, recognized as compatible with Shari`ah rules and principles. • The infrastructure for effective supervision and financial stability, including monetary and exchange operations, trading, clearing, depository, payment and securities settlement systems; • Shari`ah issues and the framework of approval for financial instruments according to Shari`ah rules and principles; and any other issues/concerns/obstacles that could impede the development of Islamic money market in UAE.. Another Questionnaire may be designed to examine the general public perception about Islamic banks, and why they do / do not use them, and it can be implemented on Zayed University staff and faculty. The findings of the two questionnaires will be analyzed and linked together to reach conclusions about the stance of liquidity management function in Islamic banks, and its impact on profitability, as well as its implications on their attractiveness to clients on profitability basis.

5. Research schedule and deliverables – what are the major phases of your research anticipated, and what do you realistically plan to accomplish at what stage

- March 2014 - July 2014: Report on Introductory concepts about Islamic finance and Literature review on Liquidity management in both Islamic Banking and conventional Banking. [Deliverable: one Report on literature and historical review]
- August 2014 - February 2015: comparing the financial performance and liquidity situation between the Islamic banks and conventional banks in the UAE. [Deliverable: one journal paper]
- March 2015 – July 2015: assessment of the awareness, ability and the efficiency of liquidity management staff in Islamic banks in the UAE. [Deliverable: one journal paper]
- August 2015 – November 2015: Statistical testing for the proof-of-concept prototype [Deliverable: one technical report]
- December 2015: Presenting Project results and recommendations in a dissemination event, inviting stake holders in the UAE Islamic banking sector and other academy/banking industry partners.

6. Budget narrative – describe and justify your main budget items. An itemized budget spreadsheet will also be attached to this proposal

Two Research Assistants (AO 5 level) for 230 hours @ AED 55.00 per hour. AED 25,300.00. One Research Assistant (AO4 level) for 220 hours @ AED 85.00 per hour. AED 18,700.00. The research assistants will work with us on (1) Literature gathering, (2) Sample identification, (3) Field study Questionnaire (4) Statistical data collection (5) Statistical and Quantitative techniques application, and (6) papers/reports writing. One translator (level-1) for 75 hours @ AED 80.00 perhour. AED 6000.00. One translator (Level-2) for 100 hour @ AED 115.00 per hour. AED 11,500.00. The translators will work with us on (1) Translating old Arabic literature (2) preparing an Arabic version of the technical report (3) producing Arabic language version of the project. Publication fees AED 5,000.00. Statistical data purchase for Islamic and Conventional Banks, AED 3,000.00. One trip for one investigator in the second year, for co-investigators discussion and finalizing the project. AED 9,325.00. Capital expenses for a Mac-book, printer, scanner, stationary and books. AED 19,550.00.
Total budget: AED 98,375

SECTION C: RIF BUDGET SPREADSHEET

Please attach your completed [RIF Budget Spreadsheet](#).

Please use the naming convention 'your surname'_RIF_budget.xlsx eg Martin_RIF_budget.xlsx

SECTION D: SEDONA CV

Please attach your updated SEDONA CV

Please use the naming convention 'your surname'_SEDONA_CV.doc eg Martin_SEDONA_CV.doc

SECTION E: DEAN'S EVALUATION

You must obtain the physical signature of your Dean before submitting this application form. Applications without signatures will not be accepted.

If you do not have access to digital signatures, it is recommended to:

- print the completed form
- obtain the Dean's signature
- sign the application yourself
- scan and email to research@zu.ac.ae **Please note:** When saving this application form, please use the naming convention, 'your surname'_RIF_2011_proposal.doc eg Martin_RIF_2011_proposal.doc

Dean's Name:	Nasr Arif <i>CTARAK ASHEDDAH</i>	College/Department	IIWS
I endorse that this project is appropriate for the unit to undertake as part of its educational, service or research programs; that appropriate and sufficient staff are available and willing to supervise; and that adequate space and facilities are available.			<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
I approve the request for facilities and equipment.			<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> NA

(Arrangements will be made directly with the Principal Investigator)			
Comments:			
Dean's Signature:	<i>Tarak Abdallah</i>	Date:	<i>28-11-2013</i>

I certify that all information provided is true and correct at the time of submission.

Submit to research@zu.ac.ae

PI's Signature:		Date:	
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