

Credit Budgeting in Islamic Contracts for Increasing Income of Banks (case study: Saderat Bank of Chaharmahal and Bakhtiari province)

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Abstract

It is a Cross-sectional survey, and applied research. Main objective of this research is to investigate about Credit Budgeting in Islamic contracts for increasing income of banks. Statistical population of this research includes all managers and experts of branches of Saderat bank of Chaharmahal va bakhtiyari province. Paired comparisons questionnaire was used as measurement tool in this research. Rate of incompatibility index was used to measure validity of questionnaires. It was estimated as 0.1. Therefore, Paired comparisons were confirmed. Results of weight of each main contracts and its sub-systems showed that among the 4 main contracts, Exchange contracts is in 1st priority for creating income. Participation contracts is in 2nd priority. Loan contracts is in 3rd priority. Direct investment is in 4th priority. Allocation of funds to each one was determined too.

Keywords: Hierarchical Analytical Process, Islamic contracts, Credit Budgeting, Participation contracts, Loan contracts, Direct investment contracts, exchange contracts.

Introduction

Bank managers planned for banks in last times. They determined annual aims for each unit based on macro objectives and informed them.(Farzin Vash, 2012: 41). Therefore, those managers assess obtaining their goals level. There is an important gap here as a study on cost of each programs of banks and its income for banks (Moosaviyan , 2011: 52). In other words, due to lack of relationship between plans and budgets, measurement and efficiency of administering programs in banks is not possible. After some studies, it was clear that a correct budgeting system could create a correct and logical relationship between these2 categories (Mohsen Khan and Mir Akhor, 2013: 28). Allocation of resources is one of the most applicable branches of Linear Programming.

If programmers are not familiar with Optimization techniques, they look for a possible answer nfor resources allocation problem due to facing high data. they test it and find an answer after lots of error. But it is not an optimal answer. maybe a better answer could be found(Ghandehari et al, 2013: 29).

Using optimal models provides choosing the best model after studying all of different cases of allocation. Then the most optimal one will be selected based on goal function. Using modern scientific tools including mathematic planning could help organizations to reach a strategic operational plan, in a way that administering this plan increases efficiency of each unit than previous stage and provides objectives of organization (Alam Tabriz, 2012: 62).

Applying hierarchical analytical process method we would provide a model for optimal resource allocation and planning of a strategic program.

Islamic contracts in Banks

Interest and its weaknesses

Interest is a phenomenon as economic rule form in bank activities. Interest rate is considered as a criterion in banking and economic calculations. In a short definition of interest, it is an amount plus to main capital that loaner receives of borrower under a previous condition. It may be conditioned absolutely or as a percentage than capital (Bastani et al, 2014: 119). Since the interest under the legal standards is considered as loan usury, a brief overview of the usury and its variants is required (Motahari, 1975: 43). It is divided into 2 types as:

A- Transactions Lucre

Exchange or transaction usury is defined as a person exchanges a product or good with another good with the same quality plus another thing mutually under 2 conditions: 1- The two products are the same 2- be harmonic.

B- Loan lucre

Lucre is money or profit, often when it is obtained by dishonest means or in an inappropriate situation; an old fashioned word. When a person lend some money and conditioned to receive his money pulse some other money or goods. Therefore, Koran has tabooed lucre. Especially Koran has forbidden people to use loan lucre. Koran has stated that God ruins lucre and brings up charity. Evidently, under interests system in a society, some economic problems and injustices will occur.

Economic oppression and exploitation of work of others

Interest of capital is determined in interest system and capitalist does not accept any risk for receiving his interest. Invest of investor will be

increased under any economic system. While, profit of the person who uses capital is a probability. sometimes, Borrower might lose instead of obtaining interest (Alam Tabriz et al, 2011: 62).

Contrary to the rules of reason and religion

Interest system is contrary to rules of reason and religion. Because profit is product of work reassembly and is for the person who has worked. while, in interest system, investor allocates product of labor work to himself by interest. secondly, lucre is forbidden in religion (Afshar Kazemi, 2012: 26).

Economic instability

Lack of economic balance is another loses of interest system. Economic growth is along with fluctuations of economic slump and prosperity. Interest system is a factor of lack of balance (Kord Rostami et al, 2012: 73). Under interest system, investors are able to create economic problems.

Inequality in income distribution and increasing class differences

Under interest rule in a country, time is in favor of the capitalist because investor is winner every time. In interest system, investor is cut from real economy of society and is connected to interest economy and adds its wealth continuously. Therefore, worker is loser. As a result, there is a high difference in income distributions and lack of discipline in national economy. Finally class differences will occur which is forbidden in religion and reason (Bahman poor, 2010: 57)..the obvious inequity in income distribution and inappropriate national economy and ultimately increasing economic class differences in society is rejected by religion and reason.

Welfare just for capitalists

Capitalists who receive interest would have high welfare. So they will fall in prodigality guilty and violation of property or gathering money and

wealth, insatiably and Orgy and Uncontrolled Pleasure-seeking. On the other hand, people who pay interest, gain less welfare in spite of high efforts (Mahmoodi Golpaygani, 2004: 60). They have Economic losses too. There are another loses too. for example, other people do not save their money in banks to help others (Shirazi, 1975: 223). As a result, interest system results in welfare of rich men and poverty of weak classes.

History of research

Ghandehari et.al (2013) has studied about problems of simultaneous production ability of producers. An innovative idea is offered in this research in stone industry. By the obtained weights, choosing methods and putting these weights into tables, allocation methods of resources of any raw material was allocated to gain the most amount profit to a producer. Results of this investigation shows that a factory could use this model when it is not able to answer to all needs simultaneously or when facing with limitation of providers.

Afshar Kazemi et al (2012) used Combining of Data envelopment analysis and Goal Planning in order to form Optimal portfolio in their study as "Portfolio Selection in Tehran Stock Exchange with Integrating Data envelopment analysis and goal planning.

Therefore, data of 6 industries of companies listed in stock exchanges of Tehran was collected. Efficiency of companies of each industry was calculated and the most efficient companies of each industry was determined. totally, 48 efficient companies was determined. In the next stage after collecting data of investing criteria for efficient companies, linear programming was used to determine the ideal investment.

In order to realize goals with lower priority, results were entered into goal planning model after some changes. Finally, some signs were

collected to help investor by considering priorities and goals of investor and by using goal planning (Afshar Kazemi, 2012: 26).

Methodology

It is a descriptive-survey –applied research. Statistical population of this research includes all staffs and customers of Isfahan banks. Library method is used to gather data. Questionnaire is tool of collecting data. simple random Sampling is used for choosing samples. Sample size is calculated by Cochran formula.

Descriptive and inferential methods were used to analyze data. Parametric and non-parametric statistics tests were used to measure data.

Results

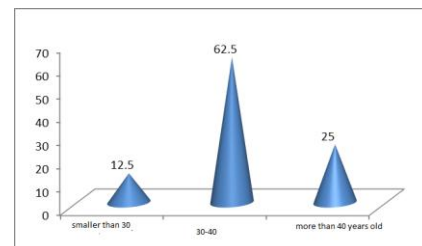


Figure 1- percentage distribution of sample based on age

According to figure 1, it is seen that 12.5% of respondents are under 30. 62.5% are between 30 and 40 years old. 25% of them are more than 40 years old.

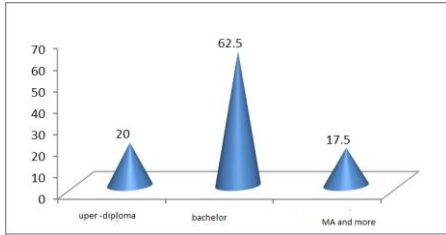


Figure 2- percentage distribution of sample based on education degree

According to figure 2, it is seen that 20% of respondents are upper than diploma, 62.5% are bachelor, and 17.5% are MA and more.

Paired comparisons table of main contracts

Paired comparisons table of 4 main contracts are presented here as follows:

Table 1- Paired comparisons of main contracts

	Exchange contracts	Participation contracts	Loan contracts	Direct investment
Exchange contracts	1	0.9973	6.9119	2.48380
Participation contracts	1.002	1	1.4147	6.06666
Loan contracts	0.1446	0.70682	1	1.28952
Direct investment	0.4026	0.16483	0.7754	1

The numbers in this table are by calculating the arithmetic mean of paired comparisons which 80 responded. 0.99730 number of column in the table 1 means that the importance degree of exchange contracts is equal to 0.99730 than participation contracts. The corresponding number of it than main diameter is 0.9970 and equal to 1.0027. it means that importance degree of participation contracts than

According to figure 3, it is seen that 20% of respondents have a work services as less than 10 years. 65% of them have worked between 10-20 years. 15% of them have worked between 20-30 years.

Making Paired comparisons table

In this part, a Paired comparisons table is formed considering hierarchical tree in 4 levels as main Islamic contracts to compare the contracts.

exchange contracts is equal to 1.0027. it is the same for other numbers too. Numbers on the main diameter are equal to 1.

The following relative weights were obtained for contracts according to AHP algorithm.

Table 2- relative weights if the main contracts

priority	contracts	Relative weight relative (value)
1	Exchange contracts	0.4823
2	Participation contracts	0.4303
3	Loan contracts	0.0441
4	Direct investment	0.0422

According to weights of table 2, Exchange contracts is in the 1st priority, the participation contracts in 2nd priority, loans in 3rd priority, and direct investment in the 4th priority.

Table 2: paired comparisons of exchange sub-contracts

Exchange contracts	symbol
Murabaha	K1
Astsna	K2
Jale	K3
Installment sales	K4
Hire-purchase	K5
Salaf	K6
Loan purchase	K7

Table 3: Comparisons of paired exchange contracts

	K1	K2	K3	K4	K5	K6	K7
K1	1	4.76	3.0643	2.5894	3.9399	4.4149	4.5457
K2	0.2100	1	1.6746	1.6410	2.0829	1.7029	2.2190
K3	0.3263	0.5972	1	2.3640	4.1619	4.7571	5.0039
K4	0.3862	0.6094	0.4230	1	4.84675	5.4586	5.5
K5	0.2538	0.48009	0.2403	0.2063	1	2/1662	2.6767
K6	0.2265	0.58	0.2102	0.1832	0.4616	1	3.0633

		72					3
K7	0.2200	0.45 07	0.1998	0.1818	0.3735	0.3264	1

The numbers in this table are by calculating the arithmetic mean of paired comparisons which 80 responded. 4.76 implies that importance degree of Morabebeh than Astsna is 4.76 times and it's corresponding number than main diameter is 0.21008. it means that Astsna contract importance degree than Morabehe is 0.21008 times. it is the same for other numbers. Numbers on the main diameter are equal to 1. The following relative weights were calculated for exchange contracts according to AHP algorithm.

Table 4- weights of final importance of exchange contracts

Exchange contracts	Weights of importance primary	Weight of Exchange contracts Group	The ultimate importance weights	Priority
Murabaha	0.276402	0.48327	0.133576	1
Astsna	0.135222	0.48327	0.065347	4
Jale	0.24946	0.48327	0.120556	2
Installment sales	0.17077	0.48327	0.082528	3
Hire-purchase	0.070561	0.48327	0.0341	5
Salaf	0.059179	0.48327	0.028599	6
Loan purchase	0.038407	0.48327	0.018561	7

According to weights in table 4, Morabebeh with importance degree of 0.133576 is in the 1st priority, Jale with importance degree of 0.120556 is in 2nd priority, Installment sales is in the 3rd priority, Astsna is in the 4th priority, Hire-purchase is in the 5th priority, Salaf is in the 6th priority, loan purchase is in 7th priority.

Table of paired comparisons of participation contracts

Table 5- paired comparisons of participation contracts

	Mozarebeh	Civic participation	Legal Partnership	Mozareae	Mosaghat
Mozarebeh	1	7.125	6.3169	6.975	7.15
Civic participation	0.14035	1	4.5897	5.2	5.7119
Civic participation	0.1583	0.2179	1	3.8905	3.3786
Mozareae	0.1434	0.1923	0.2570	1	1.8833

Mosaghat	0.1399	0.1751	0.2960	0.531	1
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The numbers in this table are by calculating the arithmetic mean of paired comparisons which 80 responded. 7.125 in table 5 implies that importance degree of Mozarebeh than Civil partnership contracts is 7.125. Its corresponding number than the main diameter is 0.14035. It means that importance degree of Civil partnership contracts than Mozarebeh contracts is 0.14035. It is the same methods for other numbers too. Numbers on main diameter is equal to 1. It is calculated so due to similarity of each contract than itself. The following relative weights were calculated for exchange contracts according to AHP algorithm.

Table 6- weights of final importance of participation contracts

Priority	Participation contracts	Weights of primary importance	Weight of Participation contracts Group	The ultimate importance weights
1	Mozarebeh	0.445477	0.43037	0.19172
2	Civic participation	0.333217	0.43037	0.143407
3	Legal Partnership	0.120621	0.43037	0.51912
4	Mozare	0.057732	0.43037	0.024846
5	Mosaghat	0.042952	0.43037	0.018485

According to table 6, Mozarebeh with importance degree of 0.19172 is in the first priority, civic participation with importance degree of 0.14407 is in the 2nd priority, legal participation is in the 3rd priority, Mozare is in the 4th priority, Mosaghat is in 5th priority. Weights show the budget share of each contract than total budget allocated to participation contracts. Table 7 shows priority of the 14 mentioned contracts.

Table 7- priority of the 14 contracts

Priority	Contracts name	Group name	Final weights
1	mozarebeh	Collaborative	0,19172
2	Civic participation	Collaborative	0,143407
3	Morabehe	Exchange	0,133576
4	Jale	Exchange	0,120556
5	Installment sales	Exchange	0,082528
6	Astsna	Exchange	0,0656347
7	Legal Partnership	Collaborative	0,051912
8	Loan	Loan	0,04413
9	Direct investment	Direct investment	0,04223

10	Hire-purchase	Commutative	0,0341
11	Salaf	Commutative	0,028599
12	Mozare	Collaborative	0,024846
13	Loan purchas	Commutative	0,018566
14	Mosaghat	Collaborative	0,018485

Table 7 is final table for priority of contracts and share of each one of total budget. According to Table 7, Mozarebeh is in the 1st priority, civil participation is in the 2nd priority, Morabebeh is in the 3rd priority, Jale is in the 4th priority, Installment sales is in the 5th priority, Astsna is in the 6th priority, Legal Partnership is in the 7th priority, loan is in 8th priority, direct investment is in 9th priority, Hire-purchase is in 10th priority, Salaf is in 11th priority, Mozare is in 12th priority, loan purchase is in 13 priority, Mosaghat is in 14 priority. Share of 14 contracts of the total allocated budget is as follows:

Mozarebeh as 19.1%, civil participation as 14.3%, Morabebeh as 13.3%, Jale as 12%, Installment sales as 8.2%, Astsna is 6.5%, legal participation as 5.1%, Hire-purchase as 3.5%, loan as 4.5%, direct investment as 4.2%, Salaf as 2.5%, loan purchase as 2%, Mosaghat as 2% of the total budget.

Conclusion

Islamic contracts include 4 classes as Exchange contracts, cooperative contracts, loan agreements and direct investment. Weight of Exchange contracts is 0.48327 weight of cooperative contracts is 0.43037 Weight of loan contracts is 0.04413 weight of direct investment is 0.4223. They have 1-4 priorities respectively. In this research, Analytical Hierarchy Process model is considered for budget allocation to increase income of banks.

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