



Relaunch

It has been some years since I shifted from publishing my newsletter in pdf format to providing abstracts online on the website and as feed to twitter ([@IslamFinance](#)). Ever since people have asked me whether I stopped and that they would like to receive it again. Well, the website has its 10th anniversary, a good occasion to consider:

Now just republishing all the abstracts again is not much value add. In the same time the sheer number of news has multiplied and what it is needed for executives today is not only the abstract but the thematic order of what is going on with an opinionated view on where to go: Each the observation and the interpretation clearly recognizable as such. The themes are identified by reviewing the ongoing news and press releases through various internet scanners from a wide range of sources and, of course, being myself an industry member for some time. Further I aim to analyze new developments in social finance in general and how they relate to Islamic finance. Inshallah over time the strategic trends become visible and actionable.

The frequency of the new publication is envisioned to be quarterly going forward and I really would appreciate your feedback what your favored interval would be and any other suggestions you may have.

Any technical terms you should find explained in the [Islamic Finance WIKI](#); to which you are invited to contribute.

Private Issues

My previous readers still now myself when I was living in Cologne, in the meantime I worked and lived in Jeddah, spent five years in Zurich building up an Islamic private banking platform and since last summer living in Geneva for the same bank scaling up and serving the needs for Islamic oriented high net worth individuals. The newsletter itself is published by a family owned publishing house specialized on Islamic books in Cologne, Germany and edited by me in private capacity only.

Thus, you find me in person in Geneva and during summer vacation end of Ramadan in Kayseri, Turkey: Happy to meet in real life: Special occasions could be along a lecture in Sarajevo on Monday, 16th June and on Wednesday, 18th June in Geneva as participant on [The Academy of Philanthropy Seminar 2014: The interface between private and institutional donors – How to leverage impact.](#)

How to leverage impact
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Themes

In this issue six key themes of the ongoing year should be presented, those are the global expansion, scaling up by acquisitions, Sukuk market, governance issues, philanthropy/development and crowd funding.

Global Expansion

Islamic banks are looking further to international expansion. Qatar International Islamic Bank was cited in the news, but also the private sector arm, ICD, of the Islamic Development Bank. Africa is becoming again a target region.

According to [IFSB Stability Report](#) the total Islamic finance assets grew to an estimated USD 1.8 trillion by the end of 2013. The industry is estimated to chart a compound annual growth rate (CAGR) of 17.04% between 2009 and 2013.

The theme of global expansion is going hand in hand with merger & acquisitions and the increase of capitalization with some flavor of consolidation in certain companies.

Merger & Acquisition

Dubai Islamic Bank was affected by the impact on the real estate sector the financial crises caused. After a consolidation phase international expansion is again on the radar:

Indonesia, Kenya, surrounding African countries, India and GCC.

Dubai's Department of Economic Development announced that it has enlisted Noor Investment Group to conduct a feasibility study for the Ex-Im bank project. Finally we are seeing the way to deepen the Islamic finance footprint in international trade – the probably best business for use of short term liquidity in my view; from Sharia and business angle.

Not all transactions get passed through and finalized, such as the Burj Bank majority acquisition by the conventional Pakistani MCB. Noor Financial Investment Co aimed to sell its stake in Meezan Bank, while the interested buyer was not approved by the regulator.

However, the M&A activity is robust reading the announced sale of HSBC Pakistan to Meezan Bank is about going forward subject to regulatory approval. The decision to sell was formed back in 2012, but the initial buyer JS Bank Limited has terminated the agreement in October 2013, being announced a full year earlier.

Similarly in Bahrain Khaleej Commercial Bank and Bank Al Khair dropped their merger plans after disagreement of the terms. But this just re-affirms that the merger theme is recurring, remembering last year's triple merger forming Ibdar Bank between Capital Management House (CMH), CAPIVEST and Elaf Bank.

Last not least the most surprising step was the acquisition of Barclay's Bank retail business in UAE by Abu Dhabi Islamic Bank. This shows that the industry matures and being able to stem such a transaction valued about AED 650 mn and turning conventional assets to Islamic.



Sukuk market

Sukuks mature into becoming the fixed income product for the Islamic finance sector. Aside from more and more benchmark size issues (above USD 500 mn) also the sovereign Sukuk of the United Kingdom and Hong Kong are expected to be issued this year.

The Sukuk market (>USD 100 bn) grows despite ongoing controversy of Sharia compliance opinions. The International Islamic Financial Market (IIFM) aims to create standard templates for Sukuk, initially for lease back (Ijara) structures. It will take time but is a key for the long-term credibility of the whole segment.

- 1) The International Islamic Fiqh Academy (IFA), a branch of the Organization of Islamic Cooperation (OIC), in its 20th session (2012) has imposed severe conditions on such instruments: “The IFA pronounced the impermissibility of selling an asset on a cash basis on the condition that the seller leases the asset via a lease ending in ownership, whereby the total rental payments and repurchase price [paid by the sukuk issuer] would be more than the cash price [paid by the sukuk holders].” ([see ISRA/Bloomberg Fatwa service](#)) – Sukuk Al Ijara typically is based on leases ending in ownership, while it is a pre-arrangement not necessarily a legally imposed condition. Somehow a thin legal line, which decides whether it is acceptable. As such the IIFM has taken up a very timely task.

- 2) After the famous controversy initiated by an interview with Shaykh Taqi Usmani, leading to headlines that 80 % of the Sukuk in the market are not permissible, AAOIFI has issued a specific ruling on Sukuk and its conditions. It makes clear that any assets involved cannot be committed to be repurchased at nominal value, by a partner, manager, or agent – thus Sukuk being based on Musharaka, Mudaraba and Investment Agency (Wakala) would not be accepted to be capital protected by this very mechanism. Many scholars still uphold their difference of opinion, saying that such a Purchase Undertaking at nominal value does not equal an otherwise impermissible guarantee, already for the effect that the assets if ceased to exist no longer being able to be purchased. Nevertheless the typical Sukuk Al Musharaka/Al-Mudaraba/Wakala is based on the mechanism and adopting the view of those scholars, which differ from the Sharia Standard rules by AAOIFI.

While it is feared at the start that a Sharia question mark could irritate the market strongly, the ongoing discussion proves the contrary – it did not affect the market moving forward. Nevertheless we hear on every occasion the call for Sharia standardization being necessary to foster the industry, while the scholars refer to that the difference among scholars is a blessing. The reasoning is well drafted out by Dr Amir Shaharuddin in [the Bi-annual Bulletin on the Malaysian Islamic Capital Market by the Securities Commission Malaysia](#) discussing the issues of harmonization and standardization.

Standardization would achieve better scale and smoother execution. Currently even



simple contracts can be negotiated with Sharia departments and legal departments for months before starting business. Why not staying close to AAOIFI Standards in order to speed business? Adhering to the Sharia Standards ensures that any given offering could be offered to a variety of clients and institutions. It is astonishing to see so many Sukuk basically opting out of the AAOIFI Sharia ruling regarding Sukuk with repurchase of the assets at nominal value and leaning towards other Sharia interpretations. Just a reminder: The ultimate responsibility for Sharia compliance lies with the management of the institutions, not with their Sharia advisors. If they wish the advantages of standardization, they should start following such existing Sharia Standards even when structuring is getting more challenging.

Inshallah IIFM will have the patience and endurance to create a Sukuk template broadly acceptable and thus building the very foundation of this still tiny fixed income segment. IIFM deserves the support of all stakeholders, Islamic financial institutions, law firms, regulators, Sharia scholars and bankers.

Philanthropy/Development

In the Euromoney book [“Global Growth, Opportunities and Challenges in the Sukuk Market”](#) Michael Bennet and Zamir Iqbal outlining views of the World Bank, Islamic finance and the potential value of Sukuk for development back in 2011. For some time now are plans by the [International Finance Facility for Immunisation \(IFFIm\)](#) to issue Sukuk, which proceeds are used for vaccination. This shows the important role

finance can and should play in the field of development and aid.

An already conclude case is the cooperation between [GAVI](#) and the Islamic Development Bank. The IDB intervention in the health sector has surpassed over US\$ 2 billion since inception. The Bank's Islamic Solidarity Fund for Development (ISFD) is the arm dedicated for supporting poverty reduction interventions with focus on health of the poor. There are different models to meet ends, e.g. can donors take over the financing costs and IDB providing the funding.

Donation backgrounds – not only for Ramadan:

The [World Congress of Muslim Philanthropists](#) and [the ISFD](#) are creating a joint trust fund, Hasanah Fund, to alleviate poverty with an initial focus on hunger in least development countries. This allows wealth individuals to donate along the work of the Islamic Development Bank Group. This opportunity is foreseen for large scale donations with an interest in personal oversight. Interested persons can contact the ISFD, the WCMP [or me](#) in the capacity of the advisor to the World Congress of Muslim Philanthropists for initial information.

During my studies I learned Arabic in Damascus, Syria, which will remain an unforgettable experience (thus speaking with Syrian-German accent). Having lived among Syrians and still having many friends in the country, it is a burden to see and hear the news. One friend reported me that medical supply in many areas is down to 20 %. The World Health Organization (WHO) has done a detailed [‘Syria donor update’](#). Please share it further, so we can identify those able to help.

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The good news is that the WHO managed to cover all regions of Syria; the bad news is the substantial amount necessary to conduct the programs. In regard to [provide food to the Syrian people](#), the [World Food Program allows online donations](#). Did you know that 3 million Syrians are being taken care of?

While humanitarian aid is emergency based, the Hasanah Fund is for the long-term to permanently uplift the poorest. Who wants to read more about the social sector and Islamic finance should consider reading the detailed report of IRTI (IDB Group) and Thomson Reuters called [“The Islamic Social Finance Report”](#).

Environment, Social and Governance

Acting responsible is at the core of the Islamic finance industry’s objective. Thus it is recurrent theme. What I learned from the review of academic material on corporate social responsibility is that there surveys on how corporates perform alongside certain selected key performance indicators for environment, social and governance issues – what is still missing though, is a coherent approach how to properly manage the input, the management and day to day operative decisions. Why on the academic site one has started to measure the output factors before discussing the input? Did I miss a point here?

Irrespectively, the year showed engagement in this field, most recent news like spending 5 million Malaysian ringgit by [Bank Islam](#), discussing [the role of Waqaf in Malaysia](#), new

[environmental standards to meet in Saudi](#), ongoing funding of the Islamic Development Bank for socioeconomic development, a full-fledged study of the [Islamic social funds](#) by ThomsonReuters and IRTI as already mentioned, and the 11th gathering of the [Islamic Financial Services Board](#) (IFSB) are only a few to name but highlights.

Specific headlines came from Nigeria. Being the unexpected world champion on [Sustainable Banking Principles](#), the president of the central bank, Sanusi Lamido Sanusi, [was suspended](#) a short while [after he publicly complained about missing funds](#) as large as USD 20 billion from the national oil company. Let’s hope that [the implementation of the Nigerian sustainable banking principles](#) will be continued.

Crowdfunding

Crowdfunding means an online portal allowing funding certain projects or individuals by many small contributions (peer to peer).

The most known example is KIVA.org an online platform where one could choose whom to fund (www.kiva.org). KIVA always operated as charity, nevertheless the initial field partners helping to vet the beneficiaries charged interest on the loans. KIVA nowadays also allows to fund [Murabaha based projects](#). With [KIVA Zip](#) it is now possible to lend interest-free directly to beneficiaries without any interest or mark up. And the [unofficial online group ‘Kiva Muslims’](#) is dedicated to assist Muslims using KIVA properly. [KIVA won even the Islamic Microfinance award in 2013](#).

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A second award for Islamic crowdfunding was given to [Shekra](#) in Cairo, which are funding entrepreneurs with profit/loss-sharing instruments rather than loans.

Aside from debt and equity funding crowdfunding is increasingly used to fund cultural projects. The most famous (not per se Islamic oriented) site is [Kickstarter.com](#). [Launch Good](#) aims to do the same for Islamic topics. [Narwi](#) helps Arab micro and small enterprises get funding and support. Using Narwi, one could donate money, skills or even time to support a young Arab entrepreneur of choice – thus crowdfunding is more than just money transfer. It adds know how and often also a realistic market survey.

There are numerous websites on the start and the key challenges are always to attract enough quality content and interested users willing to fund. The World Bank already has published an [entire report about the potential of crowdfunding for development](#). It shows how serious this new instrument has to be seen, while some think it may even be able to once replace the banks as we know them.

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