


ISLAMIC FINANCE



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Definition

- ▶ Islamic finance
 - a financial practice
 - Islamic “Shariah” based.
- ▶ Shariah
 - Set of guidelines
 - The Quran : the holy book for the Islam Religion
 - The Sunnah : authenticated sayings (Hadith) and actions of the Prophet Mohammed



Development of Islamic Finance

- ▶ Emerged in the second half of the past century in and outside Muslim world
 - Needs of Muslims for Financial products and services that conform with their beliefs.
 - Important demands for Islamic finance
 - Growth of Oil and gas prices revenue.
- ▶ One of the most important trends in the economic sector
 - Annual growth rate of 10 to 15%
 - An estimated **1.6 billion Muslims worldwide.**

Islamic Finance Growth

- ▶ the worldwide Islamic financial banking system is estimated > \$500 billion.
- ▶ UK a key world center for the development of Islamic Finance in the West
 - Reforms in the financial tax system to make Shariah compliance easier.
- ▶ Islamic finance : niche to the mainstream



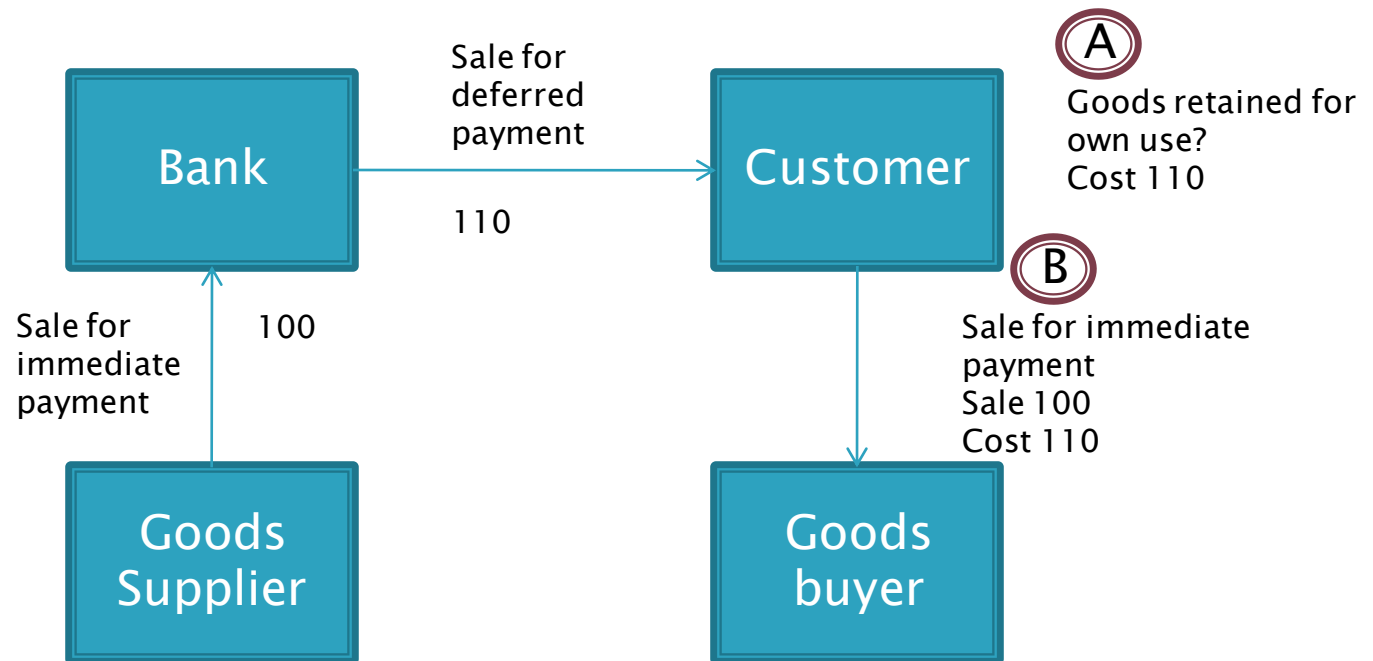
Islamic Finance Principles

- ▶ Prohibiting interest or RIBA
 - The giving or receiving of interest is forbidden
 - Money cannot be simply traded for money
- ▶ forbidding all forms of economic activity which it deems morally or socially harmful
 - Weapons, gambling, alcohol,...
- ▶ Sharing profits and losses



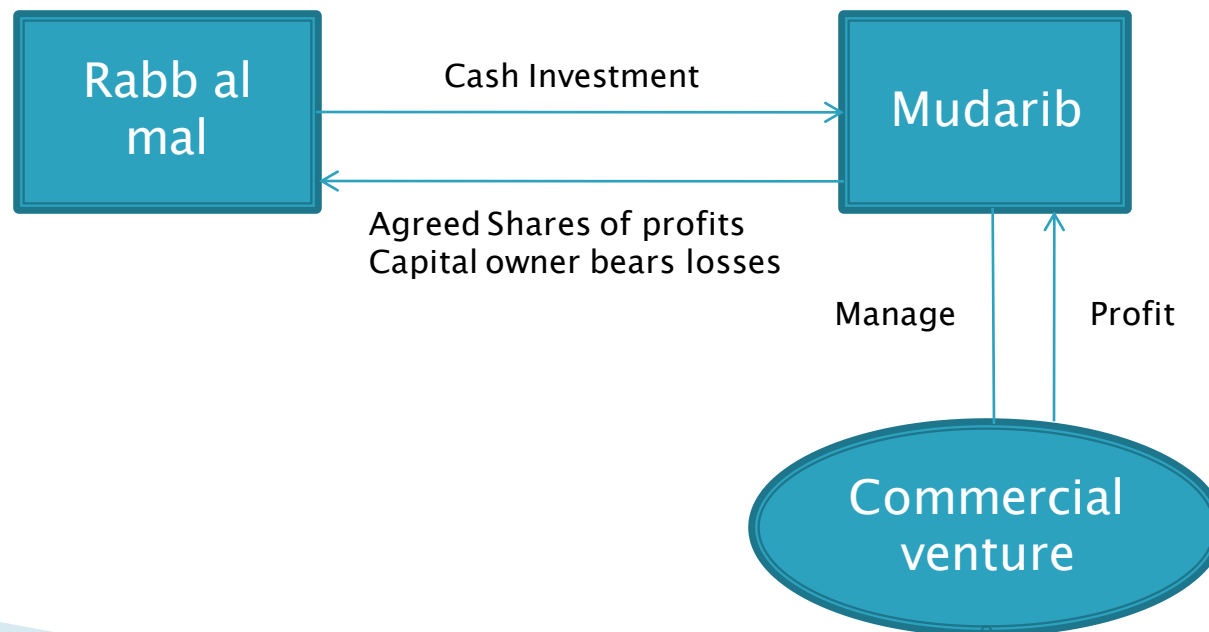
Murabahah

- ▶ It's a contract between the Islamic bank and the customer where the bank is the seller and the customer is the buyer.



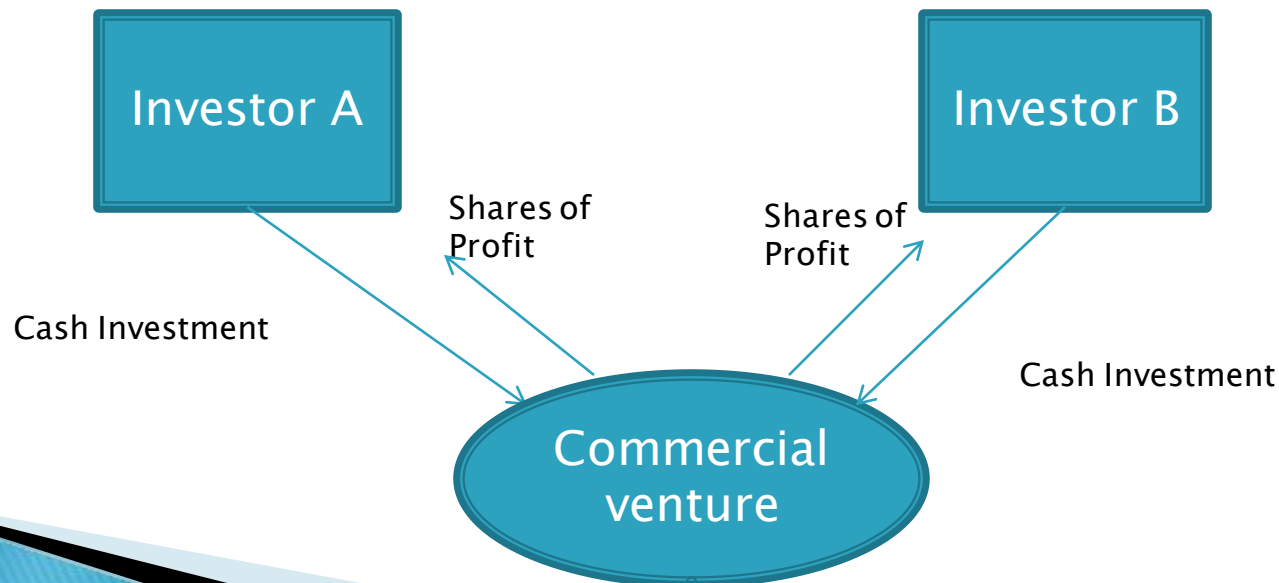
Mudarabah

- ▶ A form of partnership between two parties: a party which provides the capital (rabb-al-māl) and another party which provides his expertise and manages the business (mudārib).



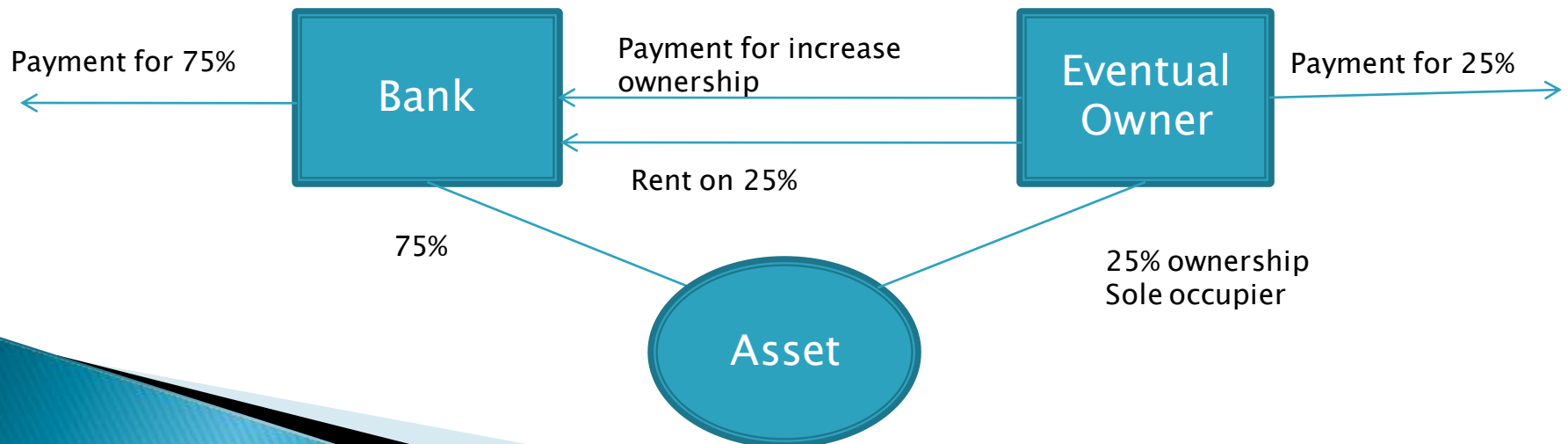
Musharakah (Partnership)

- ▶ It's a relationship established under a contract with mutual consent of all involved parties that sharing of profits and losses will take place in a specified joint business venture.



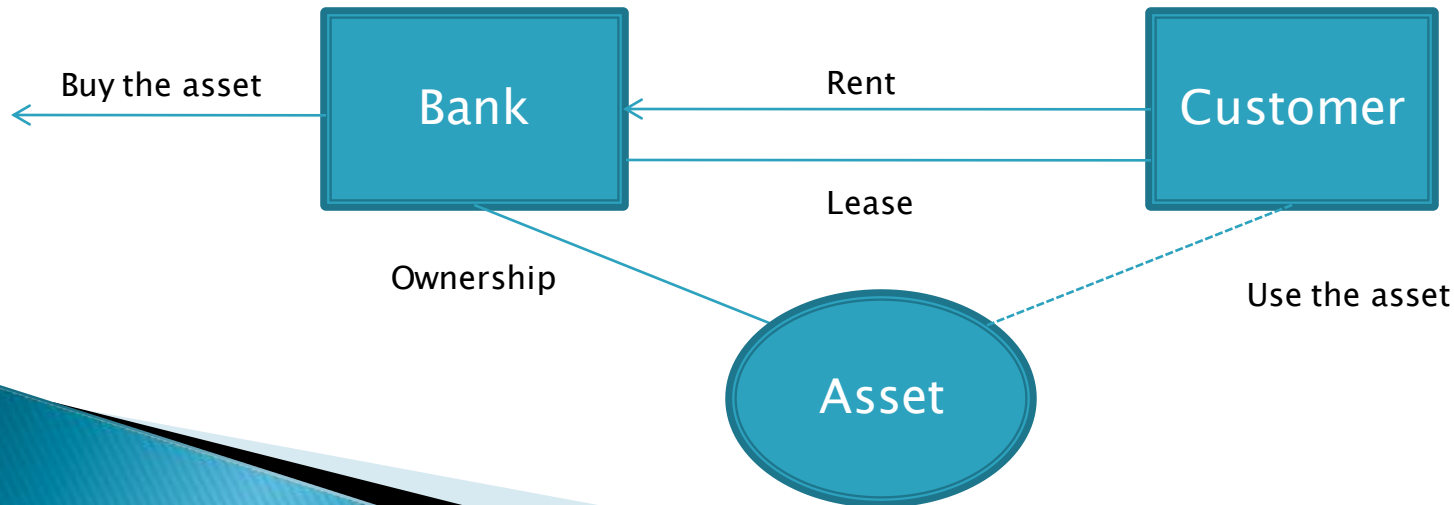
Diminishing Musharakah

- ▶ A practice where a financier and his client participate either in the joint ownership on asset. The share purchased on behalf of the financier is divided into a number of units, and it is understood that the client will purchase the share units one by one over a length of time until he is the sole owner of the property or asset.



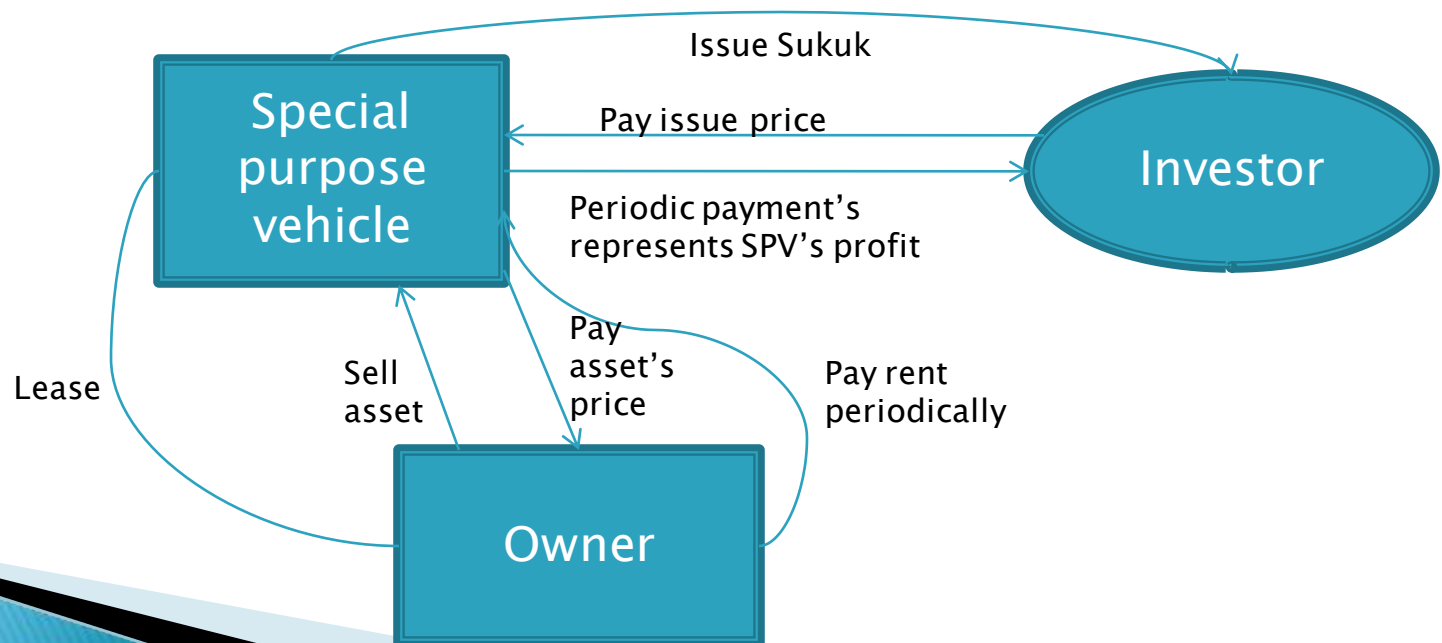
Ijara (leasing contract)

- ▶ The Ijara contract is a leasing contract agreement between the bank, the lessor, and the customer, the lessee. It gives the customer the right to use a specific asset for a specific period of time, in return for a specific rent.



Sukuk

- ▶ Sukuk is the Arabic name for a financial certificate but can be seen as an Islamic equivalent of bond. However, interest bearing bonds are not permissible in Islam, hence Sukuk are securities that comply with the Islamic law.



ISLAMIC FINANCE

Growth

Mainly attributed to :-

- Growing Muslim populations
- The need for alternative financing catering for Muslims
- Government driven

Issues

- Lack of consistency in Shariah views and adoption of accounting standards
- Lack of understanding of Islamic products
- Regulatory and tax neutrality

Project

- ▶ Book on Islamic Finance
 - An Introduction to Islamic finance by Mufti Muhammad Taqi Usmani
- ▶ Articles on BBC NEWS talking about Islamic Finance and its development in the UK.
- ▶ a lots of articles found on google and in some scientific forums like (SSRN.com : Social Science Research Network) talking about Islamic finance
- ▶ A wiki project on wikipedia discussing Islamic finance:
<http://wiki.islamicfinance.de/>
- ▶ Learning videos on Youtube about Islamic finance giving some examples by Islamic advisory.com
- ▶ A example of a western bank which created a Islamic bank and Islamic services (HSBC Amanah)
- ▶ Podcasts and blogs from Islamic finance experts : (PRICEWATERHOUSECOOPERS)