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A Conventional bank is a financial institution that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. In other words, the banking system is the lifeline of any modern economy since it mobilizes deposits and disburses credits.

The principal objective of a bank is to return in the form of interest, fee and dividends in making advances and providing services to others.
An Islamic bank is a financial institution, which identifies itself with the spirit of Shari’ah, as laid down by the Holy Qur'an and Sunnah.

**Islamic banking has basically two principles**

- Sharing Profit and Loss
- Prohibiting Collection and Payment of Interest

Islamic banking refers to a system of banking whose operationalization is in conformity with Shari’ah principles. *Such principles emphasize moral and ethical values in all financial dealings, which should ensure the essence of justice.*
Conventional Banks uses the power of compounding interest, which creates a vicious circle and puts a heavy burden on the credit users.

If any of those lenders fail to repay their loans, this scheme will collapse back to the first lender, “the Bank”.

Credit Worthy Customer
5% interest
Street Vendor
First Borrower
12% interest
Second Borrower
Second Borrower
8% interest
Third Borrower
Third Borrower
20% interest
20% interest
5% interest
Islamic Banks can only invest in real assets and services.

Unlike their conventional counterpart, Islamic Banks do not charge any form of interest.
How Does an Islamic Bank Make Profit?

DEBT

Service Backing

Ethical & Moral Values

Asset Backing

Interest Free

Contractual Certainty

NO Speculation

Transparency

LEASING:
IJARAH

Risk Sharing

EQUITY:
MUDARABAH
MUSHARAKAH
SUKUK

TRADING:
MURABAHA
SALAM
ISTISNA’
1. Interest Free (Riba Free)

The prohibition of interest is not only banned in Islam but also in other divine religions such as Christianity and Judaism. Islam considers money as an instrument of exchange, a store value and a unit of measurement.

2. Risk sharing, Asset & Service Backing

The essence of Islamic finance is the principle of risk sharing. Therefore guaranteeing return on capital / investments without a commensuration of risk associated with its financial activities is not permissible.
3. Contractual Certainty

The principles of Islamic Law require a clarity of the contracts on their subject matters, dates and price to eliminate any uncertainty, which might arise from any of the components aforementioned.

4. Ethical and Moral Values

The Islamic Law prohibits the buying, selling and trading in items declared impermissible by Islam.
Main Activities Carried Out by an Islamic Bank Must Not Be Involved in Any of the Following Fields

- **Alcohol Beverage Industry**
  - Production
  - Distribution

- **Pork Industry**
  - Swine Breeding
  - Swine Food Production

- **Conventional Financial Services**
  - Banking
  - Mortgages
  - Investments
  - Insurance
  - Pensions

- **Arms Industry**
  - Military Defense
  - Weapon Production

- **Entertainment**
  - Gambling
  - Betting
  - Pornography
  - Cinema
  - Music
Islamic finance was practiced predominantly in the Muslim world throughout the Middle Ages, fostering trade and business activities. In Spain and the Mediterranean and Baltic States, Islamic merchants became indispensable middlemen for trading activities.

The first modern experiment with Islamic Banking was undertaken in Mit Ghamr, Egypt by Dr. Ahmad Elnaggar. The pioneering effort, led by Ahmad Elnaggar, took the form of a savings bank based on profit-sharing in 1963.

The first modern commercial Islamic Bank, Dubai Islamic Bank, opened its doors in 1975. Within a ten year period 1975-1985, 27 more Islamic Banks were established.

There are currently more than 200 Islamic banks operating in over 70 countries comprising most of the Muslim world and many Western countries.
What is Islamic Banking?

**Entrepreneur Methodology of Commercial Banks**
- Emphasis on Capital Recovery and Ability of Borrower to Repay
- Conventional Bank
  - Investment
  - Entrepreneur
  - Repayment with Interest
  - Manages
  - Business
  - Profits
  - Borrower assumes risk

**Entrepreneur Methodology of Islamic Banks**
- Emphasis on Management and Success of Business
- Islamic Bank
  - Investment
  - Business
  - Pre-agreed Share of Profits
  - Entrepreneur
  - Risk is Shared Between all Parties Involved
The main contracts used in Islamic finance can largely be split into three broad categories, namely transactional, equity and support contracts.

### Main Contracts in Islamic Finance

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<th>Equity Contracts</th>
<th>Support Contracts</th>
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<td><strong>Muḍārabah</strong></td>
<td><strong>Wakālah</strong></td>
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<tr>
<td>(Cost Plus Sale)</td>
<td>(Trust - Partnership)</td>
<td>(Agency)</td>
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<tr>
<td><strong>Bai Muajjal</strong></td>
<td><strong>Mushārakah</strong></td>
<td><strong>Wadi‘ah</strong></td>
</tr>
<tr>
<td>(Deferred Payment Sale)</td>
<td>(Joint Venture)</td>
<td>(Custody)</td>
</tr>
<tr>
<td><strong>İjārah</strong></td>
<td><strong>Muzāra‘ah</strong></td>
<td></td>
</tr>
<tr>
<td>(Leasing)</td>
<td>(Output Sharing)</td>
<td></td>
</tr>
<tr>
<td><strong>Istiṣnā‘</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Manufacture-Sale)</td>
<td></td>
<td></td>
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<tr>
<td><strong>Salam</strong></td>
<td></td>
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<tr>
<td>(Deferred Delivery Sale)</td>
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Islamic Financial Market

Financial markets are the places where financial instruments are issued and exchanged.

In economics a financial market is a mechanism that allows people to easily buy and sell (trade) commodities (such as precious metals or agricultural goods), and other fungible items of value at low transaction costs and at prices that reflect efficient markets.

The financial market also allows people to make investments in stocks and Sukuk.
Islamic Financial Market

Without financial markets and the Islamic banking structure that supports them, transforming the money into capital we own would be extremely difficult. Thus we can establish the importance of capital for the smooth operation of an economy.

Financial markets offer Rabb-ul mal and Mudarib a place to:

- Utilize the Capital
- Allow Risk - Sharing
- Communicate the Information

Just think what would happen if a business needed US$100 million capital, and we could only provide US$10,000.

Then, such a business would surely need a longer time to realize its operations. It may be due to our inability to run our own business.
By transforming our money into the capital of businesses, Islamic banks can share the business risk by sharing the profit and loss with the businesses’ owner. The Islamic banks also can utilize our money to buy commodities. The profit generated from these activities would, then, be shared between Islamic banks and us.

Banks provide the best way to summarize their investment outcomes by translating these into profit returns, and the business returns to Islamic banks to acquire capital and to mitigate their risks, for example - foreign exchange risks. Communicating this information, puts Islamic banks in a better position to utilize such information.
There are lots of financial markets and many ways to categorize them. Just take a look at the website of each Islamic bank and the central bank. On their websites, you will find the information on Rates of Return on deposits, stock returns (for investment linked products), inter-bank Mudaraba market, foreign exchange rates, and the mortgage market. To grasp the overall structure of the various financial markets, we need to group them in some meaningful way, but how?

There are three possibilities - the structure of financial markets like:

- Money Markets
- Capital Markets
- Foreign Exchange Markets
Islamic Money Market

The money market is the financial market for short-term financial instruments, typically that operating for less than a year. In the money markets, Islamic banks transfer funds amongst each other. The short-term financial instruments include:

- Negotiable Islamic Certificates of Deposit (NICD)
- Government Investment Issues (GIIs)
- Islamic Accepted Bills (IABs)
- Islamic Treasury Bills (ITBs)

The function of the Islamic money market is to provide short-term capital injection to deficit units and at the same time to offer mechanisms for investors to place their surplus funds into.

The Islamic money market, like all financial markets, provides a channel for the exchange of financial assets for money. Therefore, it provides the mechanism through which holders of temporary cash surpluses meet holders of temporary cash deficits.
Islamic Money Market

There are several characteristics of the Islamic money market:

- **Firstly**, transaction volumes involve large denominations.

- **Secondly**, the Islamic money market has a low default risk. By doing this, the Islamic money market is able to reduce default risks and this form of risk is rarely found in the Islamic money market.

- **Thirdly**, the instruments to be transacted in the Islamic money market have a maturity of less than a year. Therefore, the Islamic money market instruments are usually more widely traded than longer-term securities because of reasons of liquidity.

- **Fourthly**, the instruments traded in the Islamic money market are Shari’ah Compliant. There are no interest elements, but profit rates are allowable, which are fixed in order to reflect Shari’ah rulings, and are therefore able to reduce settlement risks.
Islamic Capital Market

Entrepreneurs can establish their companies by issuing shares to shareholders. The company’s form, the terms of issue of their shares, and the rights and responsibilities of their shareholders are similar to the criteria of an Inan company, as recognized by Shari’ah.

Thus, the formation of companies and their issuance of shares to their shareholders are legitimate processes of raising capital on the basis of the equity-financing models of al-Musharaka and al-Mudaraba. The issuing of these give opportunities to fund providers in order to provide direct financing to Mudarib. In addition, companies can also use debt financing instruments such as Sukuk and other debt instruments. All these instruments have a long-term maturity which can be realized in the capital market.
Payment involving the transfer of bank deposits from the buyer’s account to the seller’s account is very simple if both buyer and seller share the same bank. The process is only a little more complex when they have different banks or if both banks are part of the same clearing system. If the two banks are in different clearing systems, payment is substantially more complex.

Consider a Chinese importer who buys a shipment of Malaysian Liquefied Natural Gas (LNG). Assume that the exporter requires payment in RM to his account at a Malaysian bank, which of course is in a different clearing system. Normally the importer will go to the foreign exchange desk of his own bank and pay the Yuan required to buy the RM as a deposit in a Malaysian bank. The details of this transaction are handled by his own bank. A check can then be drawn on the Malaysian bank as payment to the exporter. When the exporter deposits the check in his Malaysian bank, it will clear in the normal fashion through the Malaysian banking system.
Where does the Chinese bank get the RM to sell to the importer? If the bank is large enough and does business in foreign exchange, it may maintain a deposit of its own at a Malaysian bank. If not, it can require the RM in the inter-bank market in foreign currencies where the ownership of deposits in different currencies is exchanged. Small banks may need the services of a correspondent bank that has trading facilities.

If the importer’s payment is not due for say three months, he can require a forward contract with his bank for delivery of RM at that time. This locks in the Yuan price and thus protects him against changes in the exchange rate before actual payment is required. If the amount is large enough, the bank will hedge its own risk with a currency swap in the foreign exchange market.

A currency swap consists of two simultaneous transactions. In this example, one would be the purchase of RM for Yuan for immediate delivery in the spot market (or bay’ al-Sarf). The other would be a contract in the forward market allowing the bank to sell RM for euro at an agreed upon price three months hence. At that time the RM would be delivered as required. The currency swap locks in the exchange rate and thus protects the bank. The bank makes its profit as a markup in the forward contract bought by the importer.
What is Takaful?

The word Takaful is derived from the Arabic verb “Kafala”, it means to aid or help out, which essentially suggest the importance of having shared responsibilities, solidarity and mutual cooperation. It was practiced between Muslims of Makkah and Medina, which established the foundation of mutual insurance.

Takaful is a Shari’ah Compliant alternative to an insurance scheme. It provides a protection plan based on Shari’ah principles. The underlying features of Takaful primarily lie on solidarity and mutual protection with the main objective to uphold the principle of mutual assistance and shared responsibilities to take precautions against risks and future misfortunes for all individual constituting the group.
## Differences Between Takaful and Conventional Insurance

<table>
<thead>
<tr>
<th>Takaful Companies</th>
<th>Conventional Insurance Companies</th>
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<tr>
<td><strong>Based on mutual cooperation</strong></td>
<td><strong>Based solely on commercial factors</strong></td>
</tr>
<tr>
<td>Free from interest (Riba), gambling, (Maysir), and uncertainty (Gharar)</td>
<td>Includes elements of interest, gambling, and uncertainty</td>
</tr>
<tr>
<td>All or part of the contribution paid by the Participant is a donation to the Takaful Fund, which helps other Participants by providing protection against potential risks</td>
<td>The premium is paid to conventional insurance companies and is owned by them in exchange for bearing all expected risks</td>
</tr>
<tr>
<td>Takaful companies are subject to the governing law as well as a Shari’ah Supervisory Board</td>
<td>Conventional companies are only subject to the governing laws</td>
</tr>
<tr>
<td>There is a full segregation between the Participants Takaful Fund account and the shareholders’ accounts</td>
<td>Premium paid by the Policyholder is considered as income to the company, belonging to the shareholders</td>
</tr>
<tr>
<td>Any surplus in the Takaful Fund is shared among Participants only, and the investment profits are distributed among Participants and shareholders on the basis of Mudaraba or Wakala models</td>
<td>All surpluses and profits belong to the shareholders only</td>
</tr>
<tr>
<td>In case of the deficit of a Participants’ Takaful Fund, the Takaful operator (Wakeel) provides free interest loan (QardHasan) to the Participants</td>
<td>In case of deficit, the conventional insurance company covers the risks</td>
</tr>
<tr>
<td>The Plan Owners’ and shareholders’ capital is invested in investment funds that are Shari’a compliant</td>
<td>The capital of the premium is invested in funds and investment channels that are not necessarily Shari’ah compliant</td>
</tr>
<tr>
<td>Takaful companies have re-insurance with Re-Takaful companies or with conventional re-insurance companies that adhere to certain conditions of Shari’ah</td>
<td>Conventional insurance companies do not necessarily have re-insurance with re-insurance companies that abide by Shari’ah principles</td>
</tr>
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Islamic Social Finance

What is Islamic Social Finance?

- Islamic Social Finance (ISF) broadly comprises the traditional Islamic institutions based on philanthropy and mutual cooperation as well as the more contemporary institution of not-for-profit Islamic microfinance.

- Islamic Social Finance covers aspects of Islamic Finance beyond the mainstream banking and finance sector.

- The main focus of Islamic Social Finance is on the alleviation of hardship, poverty and human suffering through mobilization and channelization of financial and material resources to the destitute and needy.
Islamic Social Finance

Why is Islamic Social Finance important?

- Islamic Social Finance is deeply rooted in the fundamentals of the Islamic faith and as an integral part of the Islamic social fabric that enjoins compassion, brotherhood and duty to other human beings and society.

- Looking after the basic needs of the poor is a collective obligation ("Fard Kifayah") of an Islamic society.

- Thus Zakat is one of the five pillars of Islam and is a financial obligation on the wealthy to share part of their wealth with the poor and needy segments of society.

- Similarly, philanthropic and other ways of mutual assistance are strongly encouraged in Islam to ensure circulation of wealth and its redistribution in a manner that the overall welfare of the society is maximized.
Islamic Social Finance

What are some of the main models and instruments of Islamic Social Finance?

The main models and instruments of Islamic Social Finance can be classified in 3 broad categories:

Irrespective of the category and instrument, the common objective of Islamic Social Finance is to enhance the welfare and well being of human beings through ensuring fulfilment of basic needs and financial inclusion.

**Philanthropy**
- Zakat
- Sadaqah
- Waqf

**Mutual Cooperation**
- Qard
- Kafalah

**Not-for-Profit**
- Islamic Microfinance
Islamic Social Finance

What is Zakat?

Zakat is a compulsory annual levy on Muslims

It is one of the five pillars of Islam and its importance is such that it has been mentioned 30 times in the Holy Quran

Zakat is collected:

- On wealth owned for one Hijri calendar year (Hawl)
- Must be equal to a minimum threshold (Nişāb) or more
- Not on income used for consumption
- On savings added to wealth of an individual during the year, and on agricultural output
Islamic Social Finance

How is Zakat calculated?

Zakat is levied on both assets (stock concept) and outputs (flow concept)

On assets, Zakat is generally 2.5% of the asset value e.g. gold, silver and currency

On outputs e.g. agricultural produce, Zakat is levied at 5% of gross or 10% of net output

In all cases, assets or outputs have to be above a minimum threshold called (Nişâb)

For assets, e.g. money or cattle, the passage of one calendar year (Hawl) is also a condition

For outputs, e.g. agriculture produce, Hawl is not necessary and payment becomes due at the time of harvest
Islamic Social Finance

What is the Nişāb (minimum threshold) of Zakat?

- The Nişāb for gold, silver and money is 85 grams of gold or 595 grams of silver or cash equivalent

- The Nişāb for cattle is as follows:
  - 30 Cows
  - 5 Camels
  - 40 Sheep

- The Nişāb for agricultural produce is five *wasq* (652.8 kg) of wheat or equivalent

- For agricultural produce, Zakat is payable at each harvest
Islamic Social Finance

Who are entitled to receive Zakat?

The recipients of Zakat are clearly specified in the Holy Quran.

The proceeds of Zakat can only be distributed amongst the following 8 categories:

1. Poor
2. Needy
3. Administrators and collectors of Zakat
4. Whose hearts are to be won over
5. Freeing human beings from bondage
6. Those overburdened with debts
7. Struggle in God’s cause
8. The wayfarers

While interpretation of the categories allow for a wide range of causes that can be supported through Zakat, the primary objective remains poverty alleviation and provision of basic human needs.

(9:60), Holy Quran
Islamic Social Finance

What is Sadaqah?

- Unlike Zakat, which is a compulsory annual levy, Sadaqah is voluntary and not bound by any conditions of time, Niṣāb or amount/rate.

- The essence of Sadaqah is to share one’s wealth and good fortune out of kindness, compassion, brotherhood and generosity.

- Sadaqah also has a wider meaning in Islam.

Abu Hurairah (RA) reports, the Prophet (PBUH) said:

“Sadaqah is due on every joint of a person, every day the sun rises. Administering of justice between two men is also a Sadaqah. And assisting a man to ride upon his beast, or helping him load his luggage upon it, is a Sadaqah; and a good word is a Sadaqah; and every step that you take towards prayer is a Sadaqah, and removing of harmful things from the pathway is a Sadaqah.” (Sahih Muslim)
Islamic Social Finance

What is Waqf?

- Waqf (plural: Awqaf) is defined as a *perpetual endowment*. It is also known as *Habs*
- Creating a Waqf involves setting aside certain assets by the donor (Wāqif) and preserving them so that benefits continuously flow to a specified group of beneficiaries or community
- The corpus (endowed asset) of a Waqf can be real estate or cash
- A Waqf is created by the Wāqif through a Waqf deed specifying the purpose of the Waqf, its beneficiaries, its caretaker (Nazir/Mutawalli) and the mechanism of caretaker’s compensation
Islamic Social Finance

What are the main features of Waqf?

The following are the main features of a Waqf:

- Irrevocability – Waqf made cannot be taken back
- Perpetuity – Waqf corpus to remain intact
- Purpose* – Objectives of Waqf to be clearly defined
- Permanence** – Benefits to continue indefinitely
- Honesty and Integrity*** – In management of Waqf

*While the purpose of a religious Waqf e.g. mosque, is always perpetual, the purpose of a philanthropic Waqf may become obsolete. In this case, the benefits may be transferred to a similar cause or for the betterment of the poor and needy

**A Waqf may also be created for a defined period e.g. the use of a building for a period of 10 years as a school or hospital after which it reverts to the owner

***The Mutawalli/Nazir is accountable to Allah in terms of performing his duty to manage the Waqf in line with the best interest and instructions of the Wāqif
Islamic Social Finance

What are the different types of Waqf?

A Waqf can be categorized in different basis:

- Direct Waqf: Asset to be used itself by community
- Religious Waqf: e.g. Mosque, Islamic School
- Investment Waqf: Asset generates revenue which is used for benefit
- Philanthropic Waqf: Revenue from asset goes to fund education for needy children
- Cash or Stocks Waqf: Like investment Waqf, only that asset is cash to be invested or stocks and securities. Revenues are used for Waqf benefit

The Dome of the Rock & Al Aqsa Mosque are both managed through Awqaf.
Islamic Social Finance

Why is Zakat, Sadaqah and Waqf important?

- Ultimately, philanthropy in Islam is an expression of piety and righteousness
- It also reinforces Islam’s emphasis on social responsibility, human welfare and the well being of others
- Zakat has been made compulsory and is the right of those who are less fortunate
- Sadaqah is voluntary but strongly enjoined to enhance mutual support and strengthen the social bond of society
- Waqf is a perpetual gift that generates perpetual rewards for the Wāqif and was the cornerstone of the welfare state of Islam

(3:92), Holy Quran

“You shall never attain piety until you give from what you love”
Islamic Social Finance

What is Qard?

- Qard or Qard Hasan in Islam is a benevolent loan in that it does not accrue any interest or profit. However, the borrower has to pay back the borrowed amount.

- While Islam strongly discourages borrowing money unless absolutely necessary, it enjoins lending money to those in need to meet their basic and consumption needs.

- In modern Islamic banking, the current account deposit may be based on the Qard concept whereby the depositor lends money to the bank and reserves the right to demand it at any time.

- Because the borrower has the right to use the money as he pleases, the Islamic Bank can invest that money. However, no interest or profit is payable to the depositor.
Islamic Social Finance

Why is Qard important?

- Within the context of Islamic Social Finance, Qard Hasan is important as it:
  - Helps fellow human beings in need by alleviating their immediate needs
  - Improves relationship and bridges the gap between the poor and the rich
  - Mobilizes wealth among people in society
  - Facilitates the poor in using their merits, skills and expertise
  - Promotes a caring society
  - Reduces social and economic discrimination in the society

- The advantage of Qard over Sadaqah is that it is more sustainable as the money can be lent again

- The loss due to opportunity cost, inflation and other factors is what makes Qard an act of philanthropy in Islam
Islamic Social Finance

What is Islamic Microfinance (IsMF)?

- IsMF is microfinance using Shari’ah compliant instruments and structures

- IsMF is still at a very early stage and represents less than 1% of global microfinance programs

- IsMF can be used for prevalent microfinance models such as:
  - Joint Liability Groups e.g. Grameen
  - Self Help Groups e.g. in India
  - Community/Village Banks e.g. Bank Perkreditan Rakyat (BPR) in Indonesia, Jabal Hoss in Syria
  - Credit Unions/Cooperatives e.g. Baitul Maal Wa Tamwil (BMT) in Indonesia
What are the main instruments of Islamic Microfinance (IsMF)?

Islamic Microfinance

Not for Profit Instruments

- Zakat
- Waqf
- Qard Hasan
- Kafala
- Hawala

Participatory

- Mudaraba
- Musharaka
- Muzara’a

Debt based

- Murabaha
- Ijara
- Salam
- Istisna
- Istijrar

Fee based

- Agency
- Wakala
- Reward Fee
- Juala

- Compulsory annual levy on wealth
- Perpetual trust
- Interest free loan
- Guarantee
- Transfer of Debt

Partnership between capital & labor
Partnership with capital & labor
Partnership in agriculture between capital, land & labor
Markup/ cost plus sale
Lease
Deferred delivery sale
Manufacturing contract
Continuous purchase or supply contract
Islamic Social Finance

Why is Islamic Microfinance important?

- Islamic microfinance is an important means of ensuring financial inclusion for the poorest of the poor, who are unable to avail or qualify for mainstream financial products due to lack of collateral, credit history and reputation.

- Islamic microfinance combines elements of mainstream microfinance such as collectivism, cooperatives, self help etc. with Shari’ah compliant instruments to deliver financial products designed to meet the requirements of the target market.

- Islamic microfinance may be combined with other philanthropic instruments such as qard, zakat, sadaqah and waqf to reduce the cost of finance to the recipients.
What is Shari’ah Governance?

- Shari’ah governance is defined* as “a set of institutional and organizational arrangements to oversee Shari’ah compliance aspects in Islamic Financial Institutions (IFIs)”

- In addition to corporate governance, which is critical to the management and control of any financial institution, IFIs also need to ensure that all their products, instruments, operations and practices are in line with Shari’ah

- IFSB, AAOIFI and other International Islamic Infrastructure setting Institutions have developed guidelines and best practices for IFIs to follow to ensure that they put in place appropriate structures and mechanisms to ensure Shari’ah compliance
Shari’ah Governance

Why is Shari’ah Governance important?

Shari’ah governance and compliance is extremely critical for any IFI because:

- Key differentiator between an Islamic and conventional financial institution
- Legitimizes a financial institution as “Islamic” and creates credibility
- Provides confidence to shareholders, regulators, customers and the public that the operations of an institution are compliant with Shari’ah
- Protects the IFI from reputational and fiduciary risks
- Ensures Shari’ah compliance both in actuality and perception
What are some of the main models of Shari’ah Governance?

There is no single model for Shari’ah governance and different jurisdictions follow different practices. These include:

**One tier model:**
- Shari’ah supervisory body required at the individual IFI level only
- No higher authority to oversee the rulings of individual IFIs Shari’ah supervisory board and no such requirement being provided in the central bank regulation
- Examples are Saudi Arabia and Qatar

**Two tier model:**
- A central apex Shari’ah body at the country level with respective Shari’ah supervisory boards at IFIs level
- Roles and responsibilities of each body clearly defined in central bank regulations
- Apex Shari’ah body the supreme authority on matters relating to business operations or transactions
- Individual IFI Shari’ah supervisory boards have to abide to the rulings of the apex body
- Examples are Bahrain, UAE, Indonesia, Malaysia, Pakistan and Sudan

**Hybrid model:**
- Shari’ah supervisory body exists at the IFIs level but a national Shari’ah board may be referred to in case of conflict among the members of the Shari’ah supervisory board
- In such event, the BoD of the IFI may transfer the matter to the national Shari’ah board for final ruling
- Example is Kuwait
What does a typical Shari’ah Governance structure look like?

- **Board Risk Management Committee**: Overall oversight on Shari’ah compliance and review.
- **Management**: Responsible for ensuring business operations in line with Shari’ah principles and guidelines.
- **Shari’ah Board**: Oversight on all Shari’ah related issues.
- **Board Audit Committee**: Provide independent assessment and assurance to improve IFIs compliance to Shari’ah principles.
- **Shari’ah Risk Management**: Identify, measure, monitor, report and control Shari’ah non compliance risks.
- **Shari’ah Review**: Review Shari’ah operations to ensure Shari’ah compliance.
- **Shari’ah Research & Development**: Conduct Shari’ah research and due diligence prior to submissions to Shari’ah board.
Contact Details:

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