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«Show us the straight way.»
Surat Al-Fatiha, 1:6 Holy Quran



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The Shari'ah Scholar's Journal

SHARI'AH SCHOLARS

Mufti Taqi Usmani
Mufti Faraz Adam

ISLAMIC STUDIES

Khalid Zaheer
Shehzad Saleem
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THE BANKER

Adnan Al Bahar

THE ITALIAN LAW FIRM

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ISLAMIC FINANCE IN MALTA

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Editorial

Dear Readers

As the Islamic Banking and Finance Industry continues to grow, more innovations will take place, and one of the recent innovations that have taken the world by storm amongst others include the developments around blockchain such as cryptocurrencies.

Bitcoin is not a traditional note based currency but similar to commodities like gold, silver etc , some would call it a crypto commodity which is indeed intrinsically accountable and can be proven to exist if required.

Other currencies like notes are impossible to trace intrinsically and are essentially contract papers whereas a bitcoin stores the entire transaction history (under the larger bitcoin framework).

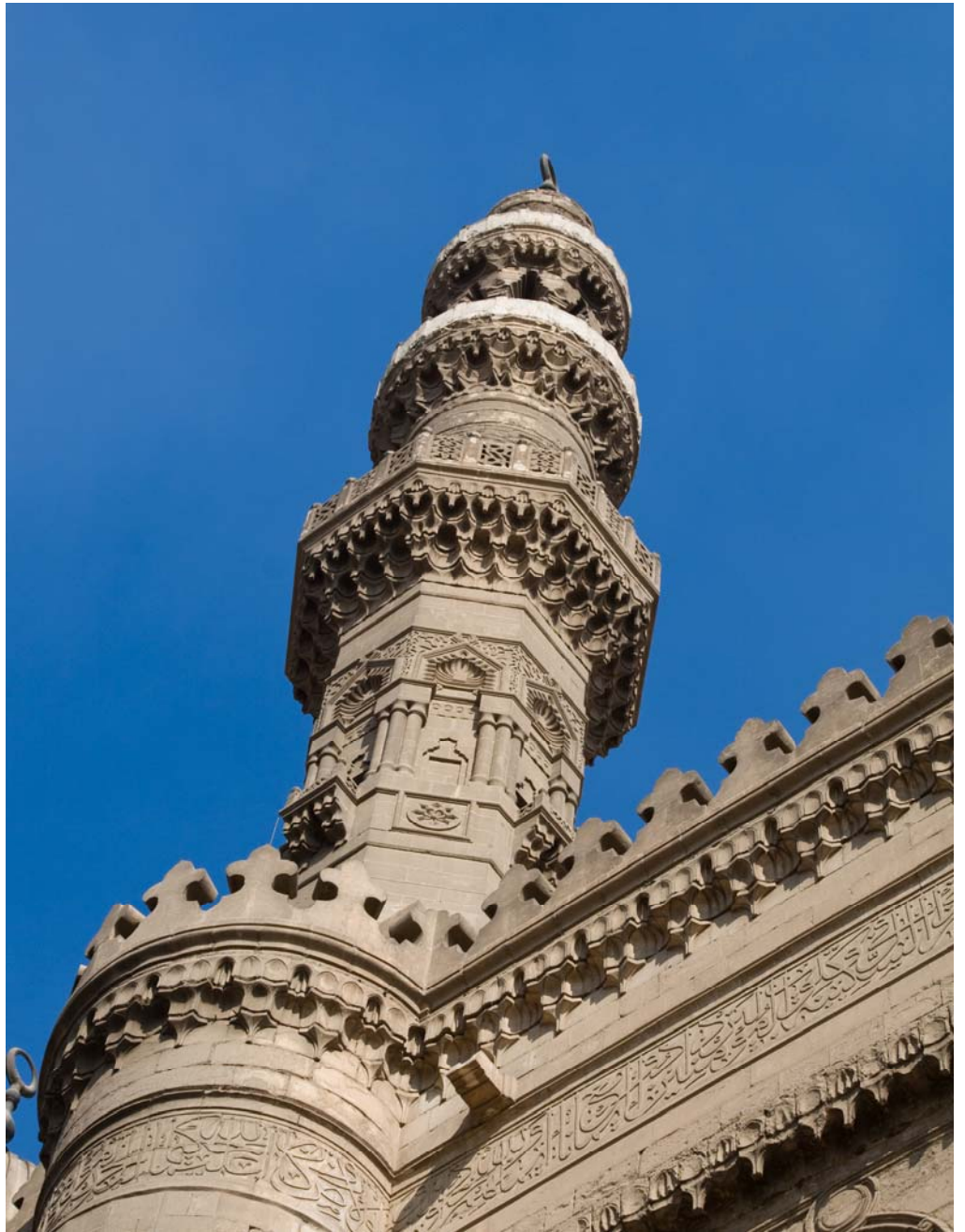
Islam requires accountability of the commodity spent and you just can't duplicate currency notes to fulfill demand like how governments do with paper currency. Inbuilt accountability of bitcoin allows the bitcoin commodity to be traceable and thus can't be duplicated on demand.

Cryptocurrency is a medium of exchange, created and stored electronically in the blockchain, using encryption techniques to control the creation of monetary units and to verify the transfer of funds. It has no physical form and no central authority or middlemen that control it. Bitcoin is the best known example of cryptocurrency, comprising the bulk of the market share, at 60.8%. Bitcoin is a digital currency that enables payment in a decentralized peer-to-peer (P2P) network that is powered and approved by the consensus of its users.

However, as global cryptocurrency, blockchain etc. is rising and expanding into Muslim-majority markets such as the Middle East, Indonesia, Malaysia and other predominantly Muslim regions, various forms of Shariah-compliant social cryptocurrency, blockchain etc. are fast emerging. For example Jeddah-based Islamic Development Bank (IDB) intends to drive development and financial inclusion in its member countries using a blockchain-based financial instrument. IDB is building a use case using blockchain smart contracts to create Muslim-friendly financial products. Apart from Saudi Arabia, Dubai has also begun the process of developing its own encrypted digital currency for nationwide implementation. Even though the UAE Central Bank have warned in the past against the use of bitcoin due to high propensity for abuse and lack of regulation, the Emiratis appreciate the convenience and urgent need for a digital economy.

It is noteworthy to point out that presently there is no consensus of opinion among Islamic scholars on whether cryptocurrency and peer-to-peer payment systems like bitcoin are Shariah-compliant. Instead, there is still an ongoing debate on this matter. Although the view that its usage is forbidden from an Islamic perspective are not set in stone, at the moment the Islamic Banking and Finance Industry should not consider its use in exchange unless there is a specific need until a regulated and transparent framework is established.

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Taqi Usmani

Mufti Taqi Usmani is one of the leading Islamic scholars living today. Author of more than 40 books, he is an expert in the fields of Islamic law, Economics and Hadith. For the past 35 years, he has been teaching at the Darul-Uloom in Karachi that was established by his father Mufti Muhammad Shafi, the late Grand Mufti of Pakistan. He also holds a degree in law and has sat as Judge at the Shari'ah Appellate Bench of the Supreme Court of Pakistan. He is a consultant to several international Islamic financial institutions and has played a key part in the move toward interest free banking and the establishment of Islamic financial institutions. He is the deputy chairman of the Jeddah based Islamic Fiqh Council of the Organization of Islamic Conference (OIC).

The Economic Challenge for the Ummah

By Mufti Taqi Usmani

The nineteenth century was a century of political oppression whereby the powerful Western nations enslaved most of the Asian and African nations including a large number of Muslim countries. The present century, which is nearing its end, has witnessed the gradual independence of these countries from Western imperialism. However, despite our apparent success in achieving the goal of political liberty, we could not succeed in acquiring independence on intellectual, economic and strategic levels. That is why Muslim Ummah could not yet reap the fruits of its political freedom.

Now the Muslim world is looking toward the coming century with hope that it will bring for it total independence in the real sense so the Muslims may find their due place among the nations of the world and may be free to live according to the Qur'ân and the Sunnah of the Prophet ().

However, this hope cannot be realized through wishful dreams. We will have to work hard for our total freedom even more than we did for our political freedom. We need a total revision of our strategy, a well-considered plan, a collective resolution, and a revolutionary approach. In this paper, I would like to confine myself to two major issues.

Self-Imposed Dependence

It is common knowledge that Ummah's basic economic problem is the dependence of the Muslim countries on others. Most of them are borrowing huge amounts from the rich Western countries. Some countries are incurring these heavy interest-bearing loans not only for the development projects, but also for their day-to-day expenses, and what is more serious, for the payment of interest accrued on their previous loans which keeps the size of their indebtedness ever-increasing through a vicious circle.

Dependency on foreign loans is the basic disease of our economy that has not only shattered our economic life, but has also devastated our self-determination and has forced us to submit to the demands of our creditors, sometimes, at the price of our collective interests. It is no secret that the creditors impose their own conditions before they advance a loan. These conditions keep us under a constant foreign pressure, often stop us from pursuing our own objectives and force us to follow the policies dictated by

others. The evil consequences of dependence on foreign loans are too obvious to need any further elaboration.

Islamic teachings consider "Indebtedness" as a detestable phenomenon, which should not be resorted to except in cases of extreme necessity. The Prophet (ﷺ) even refused to offer the funeral prayer for a person who died before paying back his loan.

Moreover, the Muslim jurists have discussed whether it is lawful for the ruler of a Muslim State to accept the gifts offered by a non-Muslim. The answer: It is lawful only where the acceptance of gifts does not result in any kind of pressure against the interest of the Ummah.

Islamic principles require that the Muslims should avoid incurring foreign debts, even if they face some hardships. But our present indebtedness was not created by lack of resources. In fact, the Muslims have never been so resource-rich. They own enormous natural resources. They occupy important strategic positions on the globe. They are joined together by a geographical chain from Morocco to Indonesia, broken only by India and Israel. They produce nearly 50% of the oil of the world. They are said to account for more than one third of the world's export of raw material. What is more, the cash they have invested in the western countries alone may be more than sufficient to set off their total liabilities.

According to a recent report of Islamic Development Bank, the total external debt of the IDB member countries in 1996 amounted to 618.8 billion dollars. The deposits and assets kept by the Muslims in the Western countries are said to be much more than this amount. Obviously, there is no authentic record of such deposits, because their owners do not disclose them. However, the economic experts have estimated them to be between 800 and 1000 billion dollars, out of which 250 billions are said to be taken back by the Arabs to their own countries after the Gulf War. Practically it means that we are borrowing a part of our own money at a high rate of interest.

Even if these estimated figures are taken to be exaggerated, one can hardly deny the fact that had these huge amounts been kept and properly used within the Muslim world, the Ummah would have never resorted to incur the debt of more than six hundred billion dollars.

Our dependence on foreign loans is self-imposed for which we cannot blame anyone but ourselves. We did never probe in to the factors underlying the flight of our capital. We did never try to remove those factors and instill confidence in our own people. We could not deliver ourselves from the corrupt and oppressive system of taxation. We were not able to create a peaceful atmosphere for investment. We could not provide our countries with stable political system. We did not bother to create opportunities for the sound utilization of capital and, above all, we failed to mobilize the spirit of Islamic unity and to activate the strength of the Muslim Ummah as a whole.

The tragic situation cannot be corrected by expensive celebrations at the advent of the new century. We will have to take the challenge of time seriously. Our economic and political leadership will have to find ways and means to free ourselves from dependence on foreign countries. We already have the basic resources for that. All we need is to design new policies to utilize the wealth of the Ummah within the Muslim world, and to develop the concept of Islamic brotherhood and mutual understanding and cooperation.

The Qur'ân says: "All the Muslims are brothers." Qur'ânic injunctions and the Prophetic teachings require that the Muslim Ummah should act as a single body. The geographical barriers should not divide them into different nations with conflicting objectives. The political boundaries may only be tolerated for the internal administrative affairs of each country, but all the Muslim countries must have a united face at least with reference to the common objectives of the Muslim Ummah vis-à-vis the rest of the world.

Gone are the days when technical know-how was the monopoly of a few Western countries. Now, the Muslim talent is capable of at least handling the immediate requirements of the Ummah. What we need is to seek this talent, and to put it to the service of this Ummah with a missionary zeal.

But all this requires the unified efforts from the leadership of our countries. This is the biggest challenge faced by them. They must meet it, not only for the betterment of the Ummah, but for their own survival. A great responsibility, in this respect, lies on the shoulders of OIC, which should take the initiative and create a

Muslim talent pool to design new policies for the Ummah as a joint body.

Restructuring our Economic Systems

The twentieth century has witnessed the rise of communism, the conflict between capitalist and communist countries and lastly the fall of communism. The capitalist Western countries are celebrating the fall of communism as if it was an empirical evidence of their own victory, not only on a political front but also on ideological plane. The fact is, however, that communism was based on an emotional reaction against some evil consequences of the capitalist economy, specially, against the element of inequitable distribution of wealth, which has been experienced in the capitalist countries throughout the centuries. The failure of communism was not due to its justified criticism of the evils of capitalism. Rather it was caused by the inherent defects of the alternative system suggested by it. The capitalist economies still suffer from inequities in the distribution of wealth. There is still a large gap between the haves and the have-nots and 'poverty in the midst of plenty' is still the major problem of their economy. These are the real problems created by capitalism and unless they are satisfactorily solved, it may give birth to another reaction that may be more aggressive than communism.

The world, therefore, is badly in need of a Third Economic System. The Muslim Ummah can work out this system based on the Islamic norms. The economic principles taught by the Qur'ân and Sunnah of the Prophet (ﷺ) are quite capable of solving the major economic problems faced by the world today. While they allow private ownership and market economy, they also provide a well-considered system of distributive justice, which may eliminate the inequities and bring about a system in which profit motive works with the collective interest of the society. The basic fault of communism was that, frustrated with the inequity of capitalism, it assailed the very institutions of private ownership and market forces and developed a utopian idea of planned economy which was unnatural, artificial and oppressive. The denial of individual liberty curtailed the zeal for production and the wide powers of the state left the destiny of the people in the hands of the ruling class.

It was neither private ownership nor the institution of market forces that was the basic cause of injustice in the

capitalist system. The basic factor for creating inequities in the capitalist countries was the absence of a criterion to differentiate between just and unjust earnings. The instruments of interest, gambling, speculative transactions and the tools of exploiting immoral desires of the consumers to secure huge profits were allowed, which tend to create monopolies and in turn paralyze the forces of demand and supply or at least obstruct their operation. It is thus ironical that the capitalist theory on the one hand asserts the principles of laissez-faire but, on the other, by allowing the aforesaid instruments, interferes with their natural function and stops the market forces from playing their due role by creating monopolies that impose their arbitrary decisions on the bulk of the common people.

The system of interest favors the rich industrialists who benefit from the wealth of the common people who deposit their savings in the bank, and after making huge profits do not allow the common people to share these profits except to the extent of a fixed rate of interest that is again taken back by them as it is charged to the cost of production. At macro level, it means that these rich people always use the money of depositors for their own benefit and in reality pay nothing to them because the interest payments are always added to the cost of production. Similarly, gambling is a major instrument for concentrating the wealth of thousands of men in a few hands and for promoting the disastrous motive of greed for the unearned income. The speculative transactions are also a major source of disturbing the natural market operations and contribute to the inequities in the distribution of wealth.

Islam not only allows the market forces but also provides mechanism to keep them operative with their natural force without their being hindered by monopolies. It applies two types of controls on the economic activities.

First, it subjects the process of earning to certain divine injunctions, which clearly define the limits of halal and haram. These injunctions tend to prevent monopolies and curb the unjust and immoral earnings and commercial activities detrimental to the collective interest of the society. In the context of modern economic needs where the savings of the common people are activated to boost development, the use of the Islamic instruments like musharakah and mudarabah, instead of interest, may



make the common people directly share the fruits of development which may bring prosperity in a balanced manner reducing the gap between the rich and the poor.

Second, the institution of zakat, sadaqat, and certain other financial obligations provide that even the halal income is again distributed to the persons who could not earn enough due to insufficient market opportunities. Through the twin controls, the wealth is kept under constant circulation and the chances of its concentration are almost eliminated.

But our main tragedy is that the principles of Islamic economy are still in theoretical form for which no living example is available. The Muslim countries have not tried to structure their economy on Islamic basis. Most of them are still following the capitalist system and that too in a half-baked manner, which has made the economic atmosphere much worse than that of the developed

capitalist countries. Unfortunately, despite having the clear cut Islamic injunctions, the inequities existing in Muslim countries are far more severe than in the Western world. This tragic situation cannot last forever. If we are not prepared to mend our ways, some natural process of revolution is bound to find its way. If we want to avoid disastrous consequences of such revolution, we'll have to restructure our economic system on the basis of clear guidance provided by the Qur'ân and Sunnah. Our success in setting an example for implementing the Islamic principles will be our best gift to the human fraternity at the advent of the new century. I hope that if the principles of Islamic economy are implemented sincerely, we will find the world more receptive to them today than we experienced it in the past.





Faraz Adam

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Bitcoin: Shariah Compliant?

By Mufti Faraz Adam

This is an overview and my personal conclusion to an ongoing research in respect to Bitcoin. References and detailed analysis can be viewed in my previous papers. After researching the issue of Bitcoin initially and releasing papers on the topic, I have received feedback from several colleagues from the Islamic finance industry, fellow Shariah advisors and practitioners from across the world. I am very grateful for all the support and comments. There are a few Takyīf (Fiqh interpretations) of Bitcoin. I will highlight and analyse the common interpretations below and conclude with what seems to be the strongest interpretation:

Interpretation No.1: Bitcoin is not Māl nor currency

Proponents of this view argue that Bitcoins have no real existence because:

They don't have the features of a currency

There is no entity is purchased, stored or traded

They conclude that Bitcoin is not Shariah compliant.

Interpretation No.2: Bitcoin is Māl and not a currency

Scholars of this view argue that Bitcoins do exist, but they are not currencies, instead, they are crypto-assets.

They conclude that the concept of Bitcoin is Shariah compliant and certain types of investments in Bitcoin are Shariah compliant.

Interpretation No.3: Bitcoin is a currency

This group of scholars argue that Bitcoin was established as a peer to peer payment system. As a result, they are established as currencies and used as such, resulting in *Istīlāh* (social concurrence) from the outset as a currency in Shariah.

They conclude that purchasing Bitcoin is Shariah compliant with certain conditions and in certain trades only.

Analysis of the above views:

Interpretation 1 falls short of analysing the reality. The notion of some 'thing' being there even if not tangible has been overlooked. The fact that your money is exchanged into a 'thing' which can be used to purchase fiat currencies, items and services negates the assumption that there is nothing there. There is a conversion; something else comes into your ownership and possession and you lose your ownership to your fiat currencies. Thus, there is a reality to this phenomenon.

The existence of something need not be established by pointing to it or physically outlining it; a number of things exist and are accepted among people which are not tangible yet acceptable. For example, emotions, thoughts, oxygen in the atmosphere. The existence of such things is known through their consequences



(thamarāt) and features even though there is no defined body. What makes Bitcoin different to these concepts is that the above is not stored nor retrievable in their original state; they are passing, spontaneous things. Whereas, Bitcoins can be accessed when required through one's wallet. Bitcoins have a form in the guise of digits which represent a value that can be used and exchanged for something of value.

Interpretation 2 & 3 seem to be more accurate than interpretation 1. To simply negate the existence of Bitcoin is illogical. It is 'something'. The question of whether it is a currency or not is the key issue.

Analysis of interpretation 2:

These scholars suggest that the existence of Bitcoin is established through its features, use and access through digital wallets. It is not necessary for something to have a physical or visible form. The Tamawwul of a thing (which is not prohibited) by the people is sufficient for something to be acceptable as Māl. Furthermore, the Aṣl (principle) in relation to financial matters is that everything is lawful unless there is a prohibitive evidence. Thus, there is no credible evidence to negate the lawfulness of Bitcoin.

However, this group negate Bitcoin as currencies. They reason that Bitcoins do not have Ta'āmul (wide usage) and Iṣṭilāḥ (social concurrence) as currencies. Thus, they fall short of being currencies.

The issue with this interpretation is that Bitcoins do not really serve any utility or purpose besides monetary purposes. Any assumed value is not being derived from any commodity-like utility per se; rather, it is being potentially derived from its features, its utility as a medium of exchange and obvious speculation. Furthermore, quantifying Ta'āmul and Iṣṭilāḥ is challenging to say the least in a decentralised system.

The Fuqahā' state that a grain of wheat will not be Māl without the Tamawwul of people[1]. This shows that although a grain of wheat is existing, it is tangible, visible and storable, the jurists negated it from being Māl unless there is Tamawwul. Tamawwul refers to an inclination to use and derive benefit. Considering this, if Bitcoins were no longer speculated upon and were no longer tradeable in exchanges and stores, would anybody invest in them? It is very unlikely any person would invest in Bitcoin as they would be meaningless digits. Bitcoin does not have any other real utility besides being a medium of exchange. They are merely numbers on a public ledger – to call mere digits an asset seems farfetched.

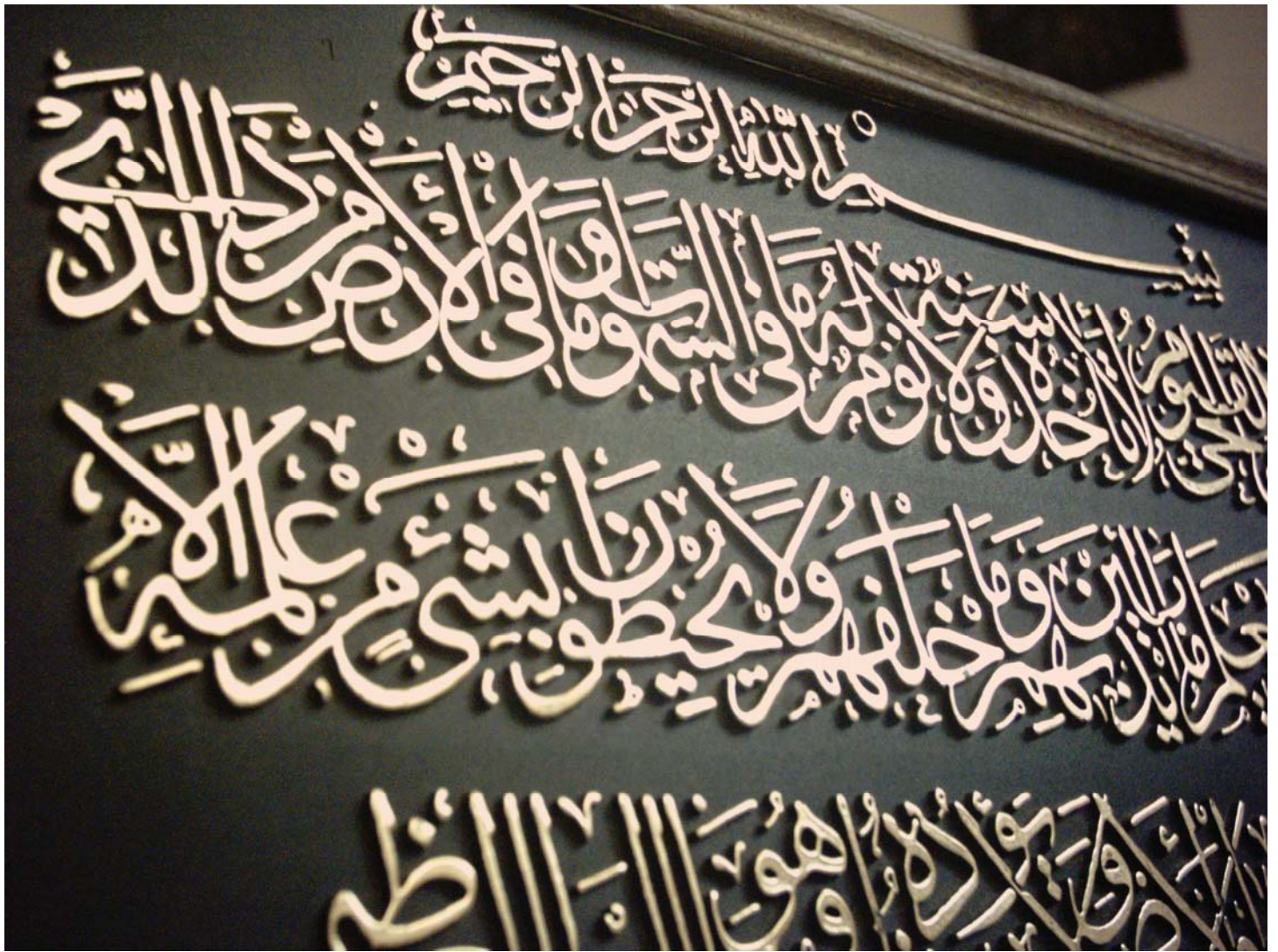
Does a currency have to have alternative utility besides a medium of exchange? Mufti Taqi Uthmani clearly states that "Money has no intrinsic utility, it is only a medium of

exchange" (An Introduction to Islamic Finance). If something is adopted as a currency which has other utilities, the other utilities are not considered when exchanging this currency for another currency – the other utilities are considered ma'dūm (non-existent).

For anything to be considered as Māl, it must have desirability and storability. Bitcoin possesses features which gives it desirability. For example, the blockchain technology behind Bitcoin, the replacement of trusted party intermediations with the proof-of-work protocol, decentralisation, limited supply and borderless payments with less transactional fees make Bitcoin desirable (some of these features are diminishing). This has resulted in a demand for Bitcoin. In respect to storability, Bitcoins are encoded within the blockchain and are entries on a public ledger. Your ownership is reflected by your Bitcoin address being credited with a balance. Considering that Bitcoins are merely digits and entries on a public ledger, there is no evidence or premise indicating to them being unlawful. Hence, Bitcoins have Taqawwum. In terms of Thamaniyyah, Bitcoin was created as peer to peer payment systems. As a result, they are established as currencies.

It can be argued that Bitcoin was launched as media of exchanges and as currencies. They are introduced as currencies and are usable as currencies. The blockchain provides a system for this currency. The fact that people are using them as investments does not negate their currency feature. It just gives them similarity to investing in foreign currencies. Indeed, Bitcoin has features which make them unique. If in future they ceased to be used as a medium of exchange and nor was there any speculative increase in their price, would Bitcoin hold any value among people? Would people have Tamawwul of Bitcoin and use of them? Bitcoin would be meaningless digits. Therefore, at present, they have some monetary use and people have assigned 'a value' to these Bitcoins. A 'value' is envisaged by the people as they purchase, sell, accept and exchange the form of Bitcoins for the underpinning notional value. The value of things can be manipulated, exploited and speculated. These are external issues which require regulation and control.

The philosophy of value has to also be reconsidered. The technological developments in the last century have reshaped and redefined our way of life. For example, value is represented today by mere digits on a bank app which are backed by the government. Society gives value to digits displayed in their bank balances because of the system and acceptability of these digits among people. If an alternative system was created which gave a certain degree of trust,



security, ease of use and similar features, why can't the digits on that system be considered to be digits representing value? A system which is acceptable among people is sufficient to establish a currency in Shariah.

Value is a concept; something people have social concurrence on. Value is something which attracts Mayl (inclination). This value is a meaning, a notion underpinning cryptocurrency digits. The value in Bitcoin is there due to the practices and inclinations of the people. The digits shown as a balance in digital wallets and on the public ledgers represent a value in the minds of people. People have an economic inclination to it and have economic benefit from these Bitcoin. There is no other tangible gain from Bitcoin. Thus, the most plausible Takyīf seems to be that Bitcoin is a currency. All other issues with regards to volatility, laundering, black markets etc. are all external matters which need controls and regulation to address them.

Hence, my personal view and opinion is that Bitcoins are in the ruling of a currency. They will be a currency as long as people use and exchange them. As a result, Zakat will be

compulsory on Bitcoin due to their monetary nature and Thamaniyyah.

The above view does not incorporate Bitcoin futures and derivatives. Nor are contracts of differences in Bitcoin included in the above analysis. These will be addressed separately. In addition, we will be releasing a research on the issue of Forex and the trading of Bitcoin soon with the permission of Allah.





Kahalid Zaheer

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Can Bank Lending be Islamically Fair?

By Kahalid Zaheer

The most significant feature of a truly Islamic economic system should be that it ought to be fair. Interest has been condemned by the Qur'an because it jeopardises that ideal. The practice of demanding security from borrowers while lending is also viewed by many Muslim scholars as unacceptable. However, even if modern banks are somehow able to get rid of these important -- though not vital -- tools of operation, banking would still survive and yet remain almost as unjust as ever before because, as we shall see, unfair lending is in-built in the nature of its operations.

The following is one of the most unequivocal, though honest, statements on the lending policy of banks:

...it would be irrational for lenders to be willing to lend as much to the impecunious as to the rich members of society, or to lend the same amounts on the same terms to each. (Mishan, E. 1972).

Such an apparently unethical policy statement has not necessarily been initiated by an unscrupulous mind. It has been prompted by the fact that banks, like other business enterprises, are more concerned with their commercial interests and they lay no claim to be regarded as substitutes 'for charity houses' (Ahmad S.M. 1989, 141). An important reason why banks are mostly prepared to lend to the already prosperous business concerns is that they believe that it is not their function as lending institutions to find capital for the customer's business; they believe that the major stake should be that of the proprietor himself (Mather 1979, 21). Therefore, it is no exaggeration that it 'seems to be easier to borrow \$5 million from a bank than \$50,000' (Clarke 1980, 46).

Aleem, in his attempt to study the rural credit markets in Pakistan, reports the following:

The chances of getting a loan in [the findings of] our study were directly related to the amount of land owned ... Thus a farmer owning more than 100 acres was virtually certain of getting a loan if he wanted one. At the other end of the scale the chances of a farmer owning less than 12.5 acres ever being able to get a bank loan was less than 50%. (Landless tenant farmers were not eligible for institutional loans at all). (Aleem 1985, 224).

The criticism on the banking practice that the banks are hesitant to extend loans to applicants who are unable to present collateral security is often dismissed by a claim that banks do sometimes lend even without requiring security. However, even when that is done banks make sure that they are charging more interest for the higher risk they are taking up. The general banking principle is:

Where the safety of any advance is unquestioned because the borrower and/or the security is undoubted, the rate of interest will often be somewhat lower than that charged for accepting a higher risk or perhaps for advancing for a less acceptable purpose. (Mather 1979, 18).

This, in other words, means that the more wealthy people are required to pay lower rate of interest and the less-privileged have to -- because they are not wealthy -- pay more for borrowing from the banks!

The bankers, moreover, do not make any secret of the principle that even if, on occasions, a wealthy customer requires loan for a purpose deemed unsuitable by them, it is better to avoid disturbing the valuable connection 'or incurring the wrath of a wealthy if turbulent customer, whose security margin commands respect' (ibid, 23).

As a natural consequence of the policy of favour for the rich, the less rich and the poor are ignored and avoided. The same institutions which offer millions of dollars to the rich are, as a matter of strategy, extremely weary of those less wealthy salaried officers with slender resources, for example, who are short at the end of each month and who, therefore, may start relying upon the bank regularly to make up the deficiencies if no objections are raised to their excess drawings in the previous months (ibid, 33). Ironically, however, it is these small depositors, at least in case of commercial banks, whose 'slender resources' together accumulate in the bank vaults to make the huge pool of funds that are later diverted towards the rich.

We now turn to a question which is crucial to the future of banking in the Islamic societies: If relative richness is not an acceptable criterion for the disbursement of bank funds, what else is? Most Muslim economists and bankers devoted to the cause of interest-free banking are quite convinced that the most predominant, if not the only, principle banks should follow while lending should be the possibility of efficient employment of funds (Ahmad, Z. 1991, 46) i.e. banks , at the time of lending, instead of looking at the wealth and security of the applicant, should consider 'the profit potential of the concern' (ibid).

Despite the fact that the efficiency criterion seems to be much more rational, two questions still remain to be answered before it is approved as Islamically acceptable as well: Is it possible to apply that criterion objectively and, even if that is possible, is that principle fair from the point of view of Islamic teachings?

As regards the first question, it could be claimed that it is not impossible to devise fairly accurate project evaluation techniques based on the information supplied by the

applicants for funds to find out which of the projects deserve to be helped by the limited funds available with the banks. In fact many modern financial institutions do already undergo some form of objective project evaluation process before finally responding to the applications .

The vital question is whether the most objective of those criteria could be fair as well from the Islamic point of view. We have to get clear answers to three important questions before the efficiency criterion is considered Islamically acceptable: 1) What is the nature of the financial resources made available by the process of pooling the depositor's funds? 2) On what principle of social justice should the more efficient be privileged with additional funds? 3) If the principle of helping the efficient is followed, what are the possibilities for the slightly less efficient to get funds?

1) Banks are able to pool huge funds as a result of the fact that people have an inclination to deposit their funds with them for various reasons. It is quite certain that the depositors are not directly involved in deciding the avenues their own funds should flow into. The decision is left in the hands of the bankers. Had the funds belonged to the bankers or had the depositors been involved in deciding the fate of their funds, few objections could be raised .

The reality is that the huge banking resources, the way they are, seem to bear some similarity to the natural resources like water, fire and grass which belong to the entire community rather than any particular individual. The Prophet (sws) is reported to have said: 'All Muslims are partners in grass, water, and fire' (See Ahmad Z., 55). He is reported to have decided the disputes of water distribution on the basis of proximity of land to the source of water (See Khan, M.A. 1989, 59-61) i.e. the one whose land was the nearest to it was given the right to use it first and then the second nearest and so on.

Indeed water is needed for crops like funds for business projects. In fact, water has never been an abundant resource in the significantly parched soil of Arabia. But the Prophet (sws) did not distribute this scarce resource on the basis of efficiency or the area of landholdings of the farmers. If the analogy of the bank funds with natural resources is to any degree reasonable, neither the principle of credit-worthiness nor efficiency would appear acceptable to Islam.

The other analogy suggested to decide the status of bank funds is that they are like Fay' i.e. wealth attained by Muslims without effort. If the analogy is correct -- and indeed it seems to be highly relevant -- then bank funds should be distributed to the poor and the needy rather than the wealthy or the efficient because neither of these groups is



mentioned by Qur'an as deserving any share in the wealth of Fay (See59:7).

2) If the principle of efficiency is to be implemented strictly as the sole criterion for distributing funds, it would promote the most efficient economic agents in the society; they will get abundantly rich while all others would lag behind. To halt that tendency then would be as difficult as it is now to narrow the rich-poor gap when the more privileged receive the lion's share of the finances. It appears to be equally unfair. A few more attempts to analogise financial funds with some other facilities would facilitate the understanding of the point I am attempting to make.

If the availability of extra funds is equated with the availability of educational opportunities, the case for efficiency criteria appears weak insofar as the weaker students may arguably deserve more attention than those who are better. If the good students continue to receive better education that would certainly widen the literacy gap, as would the decision to fund the more efficient economic agents increase the income disparity. In case of higher education, however, better students deserve and do normally get more attention. But can the availability of funds be reasonably equated with higher education?

If a justifiable comparison can be made between bank finances to borrowers and training to workers in plants, then, in the latter case, quite clearly the less capable appear to deserve more attention. Likewise, they have to learn significantly more to be able to achieve the minimum level of skills to work effectively. If we compare financial assistance with medical assistance then, again, the less efficient borrowers deserve more assistance just as the less healthy and the sick have a stronger claim on the medical facilities.

No matter how much we may stretch our imagination in the pursuit of discovering a comparable case in the real life examples to justify the efficiency criterion of distributing bank funds, it appears, we will always encounter difficulties in our attempts.

3) Even if, by some inconceivable way, it is established that efficiency criterion is a fair principle of distributing bank funds, there would still remain the unsolved problem of

distributing funds strictly in accordance with that principle. Justice demands that if efficiency is a fair principle of distributing bank funds, the most efficient borrowers should get as much more funds as they are efficient and the slightly less efficient should also receive funds commensurate with their ability and so on. However, this principle would never be able to be applied because of the enormous complications involved in the whole operation of finding the respective levels of abilities of the applicants and distributing funds accordingly. The reason for such apprehension is that the funds available to financial institutions are always limited and it is not humanly possible, nor commercially viable, to divide the available funds into the number of applicants, with each getting according to ability.

To conclude, it appears that the criterion of efficient employment of funds proposed by some Muslim economists to be used for distribution of bank funds cannot be accepted as fair.

It may well be asked that if neither the credit-worthiness criterion nor the efficiency one is relevant in the context of Islamic teaching, what else is? The answer to that question is that criteria for distribution of society's funds are needed in economies where huge funds are allowed to accumulate unnecessarily, as is done in modern societies by courtesy of banks. In a society, where the savings of the people are arranged to be related to the productive enterprise directly, no criterion will be needed to guide the economy; the savers will decide for themselves where to invest on the basis of not just the efficiency criterion, but also such factors as personal contacts with entrepreneurs, their reputation and popularity, the nature of business enterprise, its contribution to the ideals of the society etc. In other words, the task of deciding how resources should be allocated ought to be fulfilled by the market and not, as Robinson pointed out, 'by the great corporations who are in charge of the finance for development' (Robinson 1977, 1337) in the existing set up.





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Downfall of the Muslims

By Shehzad Saleem

Muslims remained a great power in this world for almost a thousand years. No nation was able to compete with them with regard to knowledge and wisdom, political acumen and affluence. They reigned over the whole world during this period. This kingdom was given to them by God and it was God who took it away from them. The law of God regarding the rise and fall of nations is that for its rise He selects whichever nation He wants to according to His law of trial; however, once He selects a nation to elevate it, He only changes this state of that nation when that nation itself falls in decadence with regard to scientific knowledge and morality.

Muslims are also faced with another scenario. By origin, most of them have been Arabs. Arabs are mostly the Ishmaelites and about the Ishmaelites it is known that they are the progeny of Abraham (sws). Hence they face the established practice of the Almighty that is mentioned by the Qur'an for the progeny of Abraham (sws). As per this established practice, if they adhere to the truth they will lead all nations of the world and if they deviate from the truth they will be deposed from this position and will have to face the punishment of humiliation and subjugation.

Hence if Muslims are afflicted with this punishment, then this is neither a haphazard incident nor is it the result of some conspiracy hatched by others, as is generally alleged by our religious and political leaders. Behind this punishment are specific reasons. The divine law of rise and fall of nations is the cause of this punishment. If this punishment and humiliation is understood in the light of this divine law, three causes for the downfall of the Muslims can be pin-pointed:

Firstly, Muslims were entrusted with the Book of God. It is not merely a book. It is the yardstick of God revealed to decide between truth and falsehood. Muslims should present all their religious differences before it and whatever verdict it gives, they should accept it without any hesitation. It should be the basis of their beliefs and deeds. It should be the source of all matters relating to faith and shari'ah. Every research, every opinion and every viewpoint must be kept subservient to it; so much so, even the words of the prophets of God should not be considered authority over it. On the contrary, it should be regarded as having authority over everything. Unfortunately, since the past many centuries Muslims have not been able to confer this status on the Qur'an in their beliefs and deeds. Hence, as pointed out by Allamah Iqbal:

خوار از مہجوری قرآن شدی

(You are in a state of humiliation because of leaving aside the Qur'an.)

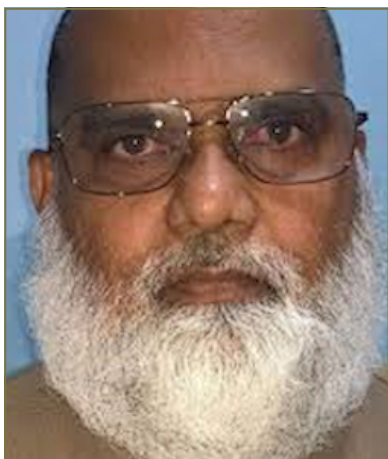
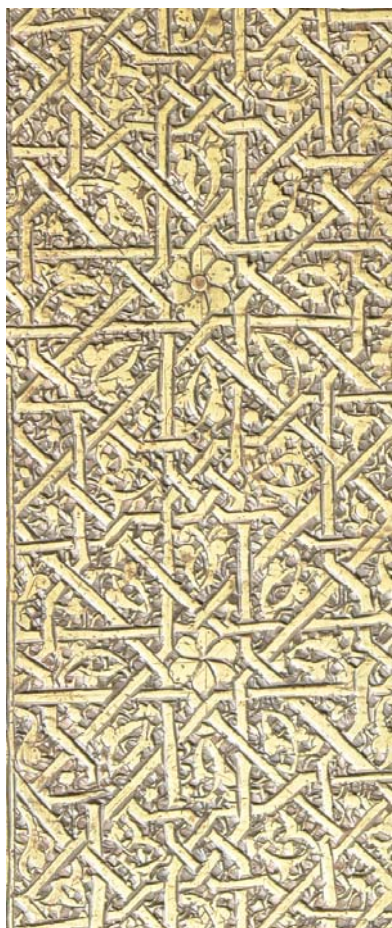
Secondly, this world is a place where harnessing potentials produce results. These

potentials can be harnessed mostly by having skill and expertise in scientific disciplines. It is this skill through which man can access the treasures which God has concealed in the heavens and the earth. History bears witness that the life and death of man is mostly dependent on the competence he has in these disciplines, what to speak of rise and fall of nations. From the discovery of fire to the invention of the wheel to the astounding advancement and developments of the modern era this fact can be read in every page of history. Though Muslims did show interest in these disciplines yet their intelligentsia mostly engaged themselves in the study of philosophy and tasawwuf, though this was not the least required. The Book of God had already been revealed with answers to questions which philosophy and tasawwuf grapple with. Avid interest in these disciplines made Muslims oblivious to both the Book of God and scientific knowledge. Our age old religious seminaries are still teaching various aspects of philosophy and tasawwuf that can be called the best examples of useless knowledge ('ilmun la yanfa'u). Thus we can see how far the world has advanced while Muslims gaze in wonder at these advancements.

Thirdly, Muslims have shown an utter indifference to their moral instruction. It is as a result of this disregard that lying, dishonesty, embezzlement, theft, fraud, adulteration, devouring of interest, deceit in weighing, false accusations, breaking promises, involvement in occult disciplines, labelling one another with disbelief and defiance, worshipping graves, polytheistic rituals, detestable forms of entertainment and other similar crimes are so common in their societies that one is struck with wonder. It was these wrong-doings of the Israelites on the basis of which the prophets of God cursed them and they were eternally deprived of God's mercy. Muslims too have gone far away from it. If a person wants to take a glimpse at them, he should read the Gospel where Jesus (sws) has stated the charge-sheet of the Israelites, of their scholars, their intellectuals and their rulers. The whole milieu and situation of Muslim societies cries out that they are even worse than the Jews of those times in their wrong-doings.

These are the reasons of the downfall of the Muslims. If they wish to come out of this scenario of decadence and downfall, then this can neither be achieved through warfare nor resistance movements. The past two hundred years of their history from Sarangapattam to Afghanistan bear evidence to this. To come out of this they will have to take remedial measures to circumvent the causes that have become the reason for their downfall; otherwise humiliation, disgrace and subservience will always remain their fate. The law of God is unalterable. Muslims are now in its grasp. When they want to come out of it by fighting others, they are in fact fighting God because it is He Who has actually let loose His strong men on them. This is God's punishment. The line of action to avoid it is not the one their religious and political leaders and self-styled mujahidin are suggesting to them. By adopting this line of action they can neither thwart the influence of big powers in their countries nor can they oust the Jews and Hindus from Palestine and Kashmir. They should study the preaching of the prophets mentioned in the Qur'an and the Bible. Whether the prophets of God come in the time of the subjugation of Babylon or in the times of Roman emperors, they never suggested this to their followers. They always informed their people of their wrong-doings, while our leaders are adept at pointing out the faults of others and censuring them. The Qur'an is in our hands. We can read it from the beginning to the end. We will not find a single word in it in condemnation of the Babylonian and Roman emperors. At every place, the Israelites are presented with this charge-sheet of their wrongdoings. The need of the hour is to recount the charge-sheet of the wrongdoings of the Muslims because the promise of God with the Israelites also holds for the Muslims. It was: "If you fill My covenant I will fulfil your covenant; My mercy is waiting; however, if you tread on that path, I will take the path I have already adopted and the lash of My punishment will strike you." Men of insight should learn a lesson from this!





Imtiaz Ali

Imtiaz Ali, Manager of Takaful T & T Friendly Society

The WAQF

By Imtiaz Ali

Waqf is an Arabic word derived from the root verb Waqafa. Awqaf is the plural of Waqf.

Raissouni (2001, p. 13) explains that from a linguistic point of view, Waqf means forbidding movement, transport or exchange of something.

Bewley (2001, p.62) also explains that in the Arabic language, the word Waqf literally means 'confinement or prohibition'. In legal usage it means the non-negotiability of property ownership which is of employable value, and the direction of its benefits to a certain charitable purpose, once and for all.

In his quest to define Waqf, Raissouni opted for the definition of Ibn Qudama: "and it means bequeathing the property and dedicating the fruit." (Raissouni 2001, p. 14)

Kahf (1998, p. 4) adds, "From a Shari'ah point of view, Waqf may be defined as holding a Maal (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness and/or philanthropy. Hence, Waqf is a continuously usufruct-giving asset as long as its principal is preserved. Preservation of principal may result from its own nature - as in land - or from arrangements and conditions prescribed by the Waqf founder."

Belkhoja (p. 7) selected Imam Ibn Abdelbar's definition as follows: "It's when an owner gives benefactorily whatever he likes from his revenue, fruits, crops or real estate so that the yield, tax and benefits thereof follow the course he schemed willingly. That is one way of seeking God's favour. Legal claim is in this case mortmain and meant neither to be sold nor granted and never inherited no matter how much remains thereof."

Since Waqf involves the transfer of ownership and the endowment of the recurring benefits of the gift, the words 'bequest' and 'endowment' do not by themselves convey the exact meaning of the word. Additionally, 'bequest' is associated with the demise of an individual while Waqf can be established both during one's lifetime and via a Will after one's demise.

Ahmed (1998) asserted that there is no equivalent word or expression in English to convey the Islamic concept and meaning of Waqf in the true sense of the term.

Therefore, I shall use the word Waqf in its Arabic form instead of attempting to give a precise translation.

General Charity

The institution of Waqf in Islam is augmented by the prevailing spirit of altruism which forms an integral part of the Islamic way of life.

Islam views charity not only as a means of wealth transfer to the poor but as a mechanism for self-development and an avenue for achieving Allah's pleasure and reward in the Hereafter.

In addition to the compulsory Zakah, the Holy Qur'an strongly advocates the giving of charity. Giving charity is synonymous with 'spending in the way of Allah' as in the following parable:

"The likeness of those who spend their wealth in the way of Allah, is as the likeness of a grain (of corn); it grows seven ears, and each ear has a hundred grains. And Allah gives manifold increase to whom He wills. And Allah is All-Sufficient for His creatures' needs, All-Knower. (Qur'an 2:261)

"And spend out of the substance which We have bestowed on you, before death should come to any of you and he should say, "O my Lord! If only Thou would relieve me for a little while, then I would give alms and be among the righteous." (Qur'an 63:10)

"... Whatsoever good you send before you for your souls, you would surely find it with Allah, better and greater in recompense." (Qur'an 73:20)

"Those who spend their wealth in the cause of Allah, and follow not up their gifts with reminders of their generosity or with injury, for them their reward is with their Lord; on them shall be no fear, nor shall they grieve." (Qur'an 2:262)

"To the question of what should be spent out of one's income and wealth for welfare purposes, the Qur'an answers that whatever is over and above one's need, i.e. the surplus after personal, business/ investment and savings need. ... In a sense, the Qur'an is encouraging people to contribute generously for social development and for helping the needy in the society. ... So the Qur'an establishes the general principle of generous welfare spending while encouraging sacrificial levels of spending for social emergencies and for situations demanding major financial support." (Haq 1996, p. 171)

Lasting charity- Waqf

Waqf is a special kind of voluntary charity that has permanence and the capacity to generate income.

"When a human being dies, his work for Allah comes to an end except for three things: a lasting charity (sadaqa jaariya), knowledge that benefits others, and a good child who calls on Allah for His favour." (Related by Muslim in his Sahih, the book of "Al-Wassiya". Related also by Abu Daoud, At-Tirmidhi and An-Nasai.)

10 Commenting on this Hadith, Mufti Bewley stated that the 'lasting charity' is generally recognized as referring to Waqf

endowments.

This type of charity gained prominence because it provided the dead posthumously with permanent reward and the living with an endowment of lasting benefit.

The following ayat of the Qur'an makes mention that Allah takes into account the actions of human beings that have ongoing consequences after they have died.

"Verily We shall give life to the dead, and We record that which they send before and that which they leave behind, and of all things have We taken account in a clear Book (of evidence)." (Qur'an 36:12)

Commenting on this ayat, Maulana Maududi wrote, "This shows that three kinds of entries are made in the conduct book of men. Firstly, whatever a person does, good or bad is entered in the Divine Register. Secondly, whatever impressions a man makes on the objects of his environment and on the limbs of his own body itself, are recorded, and all these impressions will at one time become so conspicuous that man's own voice will become audible and the whole history of his ideas and intentions and aims and objectives, and pictures of all his good and bad acts and deeds will appear before him. Thirdly, whatever influences he has left behind on the future generation of his society and on mankind as a whole as a result of his good/bad actions will continue to be recorded in his account as far as they reach, and as long as they remain active and operative. The full record of the good and bad training given by him to his children, the good and evil that he has spread in the society, and its impact on mankind as a whole, will continue to be maintained until such time that it goes on producing good or evil results in the world."

Waqf at the time of the Prophet (uwbp)

1. Philanthropic Waqf began with Prophet Muhammad (uwbp). A Jewish man called Mukhairiq made his will that his seven orchards in Madinah be given after his death to Muhammad (uwbp). In the year four of the Hijrah calendar, the man died and the Prophet, uwbp, took hold of the orchards and made them a charitable Waqf. (Kahf 'a' undated, p. 2)
2. According to Abdullah ibn Omar (May Allah be well-pleased with them both), Omar obtained a land lot in Khaibar; he came to the Prophet (uwbp) asking for advice. He said: "Ye Apostle of Almighty, I obtained a land in Khaibar. I never obtained a property more precious to me than this. What do you advise me? He said: "If you want, you can bequeath it, and give it as charity; provided that it should not be sold, bought, given as gift or inherited." He said, "then Omar gave it as charity for the

poor, relatives, slaves, wayfarers, and guests. There is no harm for the person responsible for it to feed himself or a friend from it but for free. Al-Bukhari

3. And according to Anas (May Allah be pleased with him), Abu Talha was the richest Ansari person near Madina. And the property he cherished most was "Bir Ha'e" (a palm tree orchard near the Prophet's Mosque). When the verse was revealed, Abu Talha went to the Apostle of Allah (uwbp) and said: "Allah Most High says in His Book: "Ye will not attain unto piety until ye spend of that which ye love," and the most cherished property I have is Bir Ha'e. I am giving it as charity, wishing goodness and preservation; thus, O Apostle of Allah, use it the way you want." Al-Bukhari

4. According to Othman (May Allah be pleased with him), the Prophet (uwbp) arrived in Madinah and realized that the city had very little drinking water except the water of Bi'r Ruma (Ruma Well). He asked: "Who will purchase Bi'r Ruma to equally share the water drawn therefrom with his fellow Muslims and shall be rewarded with a better well in the Garden (of Eden)?" Then I bought it from my own money. At-Tirmizhi

Since the Prophet (saw) instructed his Companions about Waqf and its benefits, they never stopped attending to it and putting their money and property in it; so much so that Jabir said: "Any of the Prophet's (uwbp) Companions (may Allah be pleased with them) who could afford it made endowments." (Raissouni 2001, p.19)

Waqf in Muslim History

Since making a Waqf is considered a virtuous act - i.e. an act of spending in the path of Allah which carries great reward - throughout Islamic history and in all lands inhabited by Muslims, Waqf had a formidable presence. Wherever one travels in the Islamic world, from West Africa to the Philippines, wherever there is an established Muslim community, one finds the Waqf.

After the demise of the Prophet (saw), Waqf grew by leaps and bounds. Waqf endowment became a pillar in the religious, social, cultural, scientific, economic and political life of Islamic society. Even non-Muslims in Muslim countries established Waqf for the benefit of their communities.

For every conceivable enterprise of social benefit there was a Waqf. There were Waqfs for mosques, universities, schools, hospitals, orphanages, houses for the poor, food for the poor, the blind, battered/abused women, soup kitchens, wells, aqueducts, fountains, public baths, watchtowers, bridges, cemeteries, salaries, pensions, guest houses, libraries, books and animal welfare.

"The Ottoman society left the financing of health, education and welfare entirely to the Waqf system so much so that the following saying does not exaggerate its central importance: "Thanks to the Waqfs that flourished during the Ottoman Empire, a person would have been born into a Waqf house, slept in a Waqf cradle, eaten and drunk from Waqf properties, read Waqf books, been taught in a Waqf school, received his salary from a Waqf administration, and when he died, placed in a Waqf coffin and buried in a Waqf cemetery." (Baskan 2002, p. 18)

The voluntary institution of Waqf supplemented the state in fulfillment of its obligation towards the provision of public goods. After the establishment of various departments of the Islamic state the importance of voluntary contribution especially in the form of Waqf did not diminish. This practice has been commonly followed by Muslims throughout the ages all over the Muslim world (Azmi 2002, p. 45).

Writing about Waqf in Morocco, Raissouni (p. 37) said, "Waqf donations took different forms and their benefit was extended to all kinds of scientific and educational needs. For many centuries, bequest makers were in charge of what many ministries are bearing now, such as the Ministry of Education, the Ministry of Higher Education and Scientific Research and the Ministry of Culture."

Today, almost every Muslim country has a Ministry that handles Awqaf and Islamic Affairs while Awqaf properties make up a considerable proportion of the social wealth in several Muslim countries.

Waqf and Development

It has now become evident that the growth and development of Islamic civilisation continues to depend on the growth and development of Waqf.

The Islamic system of Awqaf revolutionizes the non-profit sector and its role in social welfare. It creates a permanent, cumulative and ever-increasing capital base and infrastructure for benevolent activities. Awqaf expands the scope of benevolence to cover all areas of social welfare even sectors which many contemporary economists and political sociologists consider as part of the domain and responsibility of governments such as health, education and defense. (Kahf 2007, p. 18)

Today, many scholars advocate the use of Waqf in structuring and operating Takaful (Islamic insurance) and Micro-finance even as they continue to emphasise its role in the alleviation of poverty.

Financing the needs of Muslim Communities

Among the needs of Muslim communities are mosques, educational institutions (pre-school to university level),

cemeteries, da'wah material, adult education, training and research, counseling, health care, senior citizens care, homes for orphans and abused women and children, rehabilitation of prisoners, interest-free investments, credit and insurance products and services, halaal food, employment, entertainment, recreation and sporting facilities, and mass communication facilities.

Depending on the history of the development of a community and the facilities provided by the state in which it is located, the needs that require financing by the community may vary. The community, therefore, is totally dependent on the voluntary actions of its members to fund its needs.

Since the beneficiaries of Zakah are limited, the community must depend on voluntary donations and fund-raising events to cover the cost of whatever activities they may choose to pursue.

Establishing Waqf in Muslim communities

"It is not far-fetched to surmise that the role of Waqf is likely to increase in countries with Muslim minorities but not in countries where the majority of the population is Muslim. The reason for a more active role for Waqf in the former lies in the realization that, with a state which is at best indifferent to their religion and to many of their special socio-economic needs, they have to use Waqf for the fulfillment of these needs and for the protection and promotion of Islam." (Siddiqui 1996, p. 149)

Many Muslim communities depend on local voluntary contributions, fund-raising events and foreign assistance to cover the cost of operating mosques, educational and welfare institutions. However, while the altruistic and philanthropic nature of Muslims has facilitated the establishment, growth and development of such institutions, the establishment of revenue streams to facilitate sustainable growth and development remains sadly lacking in most communities. What is needed is the availability of a revenue stream that can revolutionise how Muslim communities operate and what they achieve, and which can also facilitate better planning and budgeting for growth and development.

We need to spend effort to revitalize the process of creating Awqaf in the Muslim communities in the West for the purpose of generating a permanent and stable flow of revenue that can support the needs of the community activities and enhance its religious and social programmes. The process of creating new Awqaf should be made available to every Muslim family in our communities not only to the

rich few. (Kahf 'b' undated, p. 10)

Since Waqf enhances the socio-economic welfare of a society, its contribution to Muslim communities must not be underestimated.

Waqf administration

Waqf takes a property out of individual ownership and vests it in the ownership of Allah, to be managed by a custodian. Over the ages, Waqf properties have been misappropriated by the state as well as faced mismanagement by the custodians. Therefore, for the successful management of Waqf among Muslim communities, the following should be considered:

Preference should be given to organizations (over individuals) as custodians so that continuity is assured.

Organisations managing Waqf should ensure that they are properly registered under legislation that would allow them to function as custodians of Waqf. • Muslim communities can lobby for special legislation to govern Waqf. • Initially, preference should be given to establishing a large national Waqf. • The donors and beneficiaries of Waqf should be vigilant about the management of Waqf with special emphasis on efficiency, accountability and transparency.

Conclusion

The Islamic institution of Waqf has the potential to revolutionize the operations and achievements of Muslim communities. It provides tangible opportunities for Muslims to channel their charities into income-generating activities so as to fuel the immediate, short-term and long-term development of their respective communities. In addition to promoting social welfare, Waqf has the potential to fill the gaps in the development of Muslim communities in such areas as education and research, da'wah and the development of alternatives to interest-based banking, finance and insurance.

In order to achieve the true potential of Waqf, the concept has to be marketed to the communities, institutions have to be strengthened and new ones established where none exist. While many Muslim communities do not have a history of co-operation at the regional or national level, we strongly recommend that Muslims break their organizational, Jamaat and ethnic barriers and work towards the establishment of regional or national Waqfs in order to maximize efficiency and productivity





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Volatility and Insecurity is Critical to The Advancement, Productivity and Competitiveness of a Society

By Adnar Al Bahar

In my Arabic article on The Need for "Kuwait to change its strategy, philosophy and constitution with regards to how it can use its Oil revenues and Sovereign Fund Reserves", I explain that an excessive contribution of natural resources revenue to the national budget and the false and misleading feeling of security and stability in turbulent times, that a large Sovereign Fund may provide are all damaging to a nations development and a drag on its competitiveness and productivity.

Primarily because they eliminate the pressure to reform and they take the urgency out of the drive for higher efficiency and productivity. While competing nations that have to live with volatility and insecurity will over time develop a thicker skin in the face of volatility and will be driven by the challenge to higher productivity and efficiency and as a result will drift further ahead of their secured comfortable competitors.

Volatility is critical to development and as such nations with surplus natural resource revenues must limit the contribution of natural resources revenues to government budgets and if their contribution is already very high, like in the case of Kuwait, they must come up with a plan with annual targets to bring natural resources revenues contributions down to a much lower level, and pass constitutional changes that prevent governments from taking annually from natural resources revenue anything more than what is agreed in the plan, this should create pressure and urgency to perform and reform, surplus natural resource revenues should be passed on to the sovereign fund.

As for the sovereign fund reserves, governments should not have the right to draw on them, nor should the fund provide guarantees to government borrowing, the fund should only be allowed to provide assistance to government budgets in times of war and natural disasters.

Should the country however go through a financial crisis the sovereign fund can contribute to a recovery plan that is approved by the World Bank and IFC, it may



also invest in local development projects or venture in partnership with other investors or international institutions, such a structure should allow for the necessary volatility and help support a stronger recovery from such volatility.

A discipline on those lines should expose those nations to the necessary levels of volatility, insecurity and pressures that their competitors are exposed to, and that are critically

important for their development, yet at the same time, provide them with the advantage of a stronger bounce back capability after a crisis.





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Reflection on Arab World Region-building before “Arab Spring”: obstacles and perspectives.

By Alberto Russo

Through this paper I would to point out some brief reasoning on the problematic question of Arab regional integration in the Middle East: why the scholars argue about a continual failure of Pan-Arab supranational entities and which are the main realistic prospective of the Region-building phenomenon in the Arab Middle East. Dealing with this issues firstly I would define the precise burdens of Arab Middle East and then I would focus the attention on the main elements that could had fostered a regional integration for Arab States and on the obstacles that had precluded it.

After that I would try to briefly define a possible model of starting integration on economic issues between sub-regional entities (GCC and MAFTA to name but two) in the general framework of the region as I defined above, with reference to the EU regional model.

Finally I would conclude arguing my thesis: today it's it too premature trying to identify a clear road map for a future possible Arab regional integration like the EC-EU one, instead of most of the basic conditions are still present. In fact, from the scholars debate on this issue, what we can expect for the future is only the strengthening of the already integrated sub-regional economic organizations. Maybe we can suggest the creation of strong commercial partnerships between the different sub-regions through the institution of an independent judicial panel that can promote a “by-case” integration, following the traces of ECJ.

The concept of Arab Middle East, Arab Identity and the barriers for a regional strength integration.

Between the scholars of M.E. issue there is a big debate on a clear determination of this region's boundaries: geographically speaking the major part of scholars defines Middle East as “the core countries of the Levant, the Gulf and the Nile Valley, together with Turkey, Iran and North Africa”.

But if we insert the Arab element to this formula the boundaries of the region change and are reduced or partially shifted: Turkey, Iran and Israel go away for different reasons, and states like Somalia and Comoros come in. So what can we deduce from these definitions?

The Arab World is bigger than the simple M.E., as well as the M.E. isn't only Arab.

But if we want to fix the boundaries of “Arab Region” in terms of our dealing we take into consideration only the North Africa, the Gulf (included Iraq) and the Great Mediterranean Asian countries.

What we identify here with the term “Arab Region” is not properly a common definition of region as a part of a continent in geographical terms, but something more social and cultural: a whole of elements that create a common Pan-Arab identity.

This Arab entity share a common written language, a common Islamic culture and tradition and, maybe not less important, a common ethnicity, even though with specific exceptions of minorities (Kurds, Berbers, Negroids) leaving in parts of above mentioned states. If we add the political and ideological concept of Pan-Arabic brotherhood and identity, we cannot understand why this great potential conglomerate of States and ideas hasn't established a realist form of regional integration.

The reason of this failure are many, both socio-political and economical.

First of all, the main problem concern the presence of not democratic regimes, such as Socialist Ba'th ones and the existence of kingdoms, emirates and sultans that not share their sovereignty with their people or with supranational institutions. These regimes, which are not based on the principle of the rule of law (even in the Islamic vision), are characterized by the presence of secret polices, lack transparency, corruption, lack of independent media, a quite absolute control of education and legal system.

This condition, even though not acceptable from a western vision, is due to the past experience of exogenous dependences of these states from non-Arab Entities: the Ottoman Empire, European colonialism. Arab states want to affirm each one his own properly identity as peculiar Nation, in the broaden framework of Arabic community. They didn't want, and still today, they don't want compromise their sovereignty in strong supranational entities. Then, if we add to this picture the presence of a strong western culture state, as Israel is, we can better understand how this has generated a sort of instability in the area[6] and thus has contributed to form a sort of complex of inferiority between Arabs and the Westerns.

Another barrier to a dynamics regionalism in the Arab area concerns some economic and market issues that can be summarized in the strong domestic interest in developing national economies, due to the diversification of resources (oil and gas for some States, ship-related services for some others, agriculture for others else) and the related the strong

comparative advantages that this phenomenon creates on the exportations to third countries, in the relative-small seizure of markets, in scarce interest of major Arab states to incentive a trade-market system that involves also smaller States.

Concluding this part of the paper we can argue that all the condition to develop a realistic regional integration are present in the contest, but – in the reverse of the medal – they are also the condition that preclude this integration.

A possible model.

Despite these arguments the idea of a regional organization which was in Europe EEC is not completely prevented in framework de quo: examples can be founded at sub-regional level in the Gulf Cooperation Council vision and in the Mediterranean Arab Free Trade Area projects.

These two entities, each one with his main characteristic typical of the respective areas and sub-regional dynamics and partnerships, following the model offered by European have developed two concrete form of well integrated (in Western terms) regional supranational subject.

The main common elements of the two FTAs are a quite well organized institution framework, in which is still present a judicial panel, and a structured series of rules and common procedures and trade practice, which are leading these entities beyond the failures of other Arab organizations.

Conclusion.

In conclusion, accordingly with the major part of scholars, we can argue that, with the exception of the above mentioned entities, the Arab Middle East as whole is not yet ready to develop a realistic regional integration. This does non mean that in the area others forms of limited seizure entities can be institutionalized, but the model of EU is too much advanced to be taken in to consideration.

So other models, but which one? It's also difficult to think at an ECSC model because we cannot see in the area the minimum condition to create such type of organization. Which sector? If we reason about water resources, we have to face with two big problems, Israel and Turkey, which control the main sources of the blue gold of the area; but this two countries are excluded by definition from our framework.

The only way to develop a model of possible regional integration comports a strengthening of the principle of rule law, also in the Islamic vision. A second step could be the creation of a Pan-Arab Free Trade Area, establishing at same a permanent and independent Islamic Arab Court of Justice, that can enforce and promote the agreed vision of developing entity.



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Malta's message to Shariah Compliant Businesses

By Reuben Buttigieg and Andrew Borg

Over the course of its rich history, the small Mediterranean island of Malta has taken advantage of its strategic location over and over again. Unlike old times however, Malta does not seek to benefit from this characteristic for military purposes. Nevertheless, this geographical location offers a myriad of commercial opportunities for the country. One of these potential markets which the Maltese economy is being directed at is Islamic Finance.

From Malta's point of view, Islamic Finance represents a huge market full of untapped potential at its doorstep. It was inevitable therefore, that since recent years the sector is being proposed as the way forward for the Island's economy. Malta has been investing for a number of year in its financial services sector. In fact, this sector today, represents more than 12% of GDP.

The financial sector has seen a coordinated effort in Malta and has built a reputation of implementing the EU regulatory frameworks effectively, while keeping in mind the interests of businesses. By doing so, investors can rest assured that they are investing in a secure market thanks to the high levels of transparency which are part and parcel of EU financial frameworks.

Being a member state of the European Union, Malta has understandably always worked on building strong trade relations with the other EU countries. Thus, it had seldom looked south in search for investment opportunities. However, since the change in administration there seems to be more interest in looking to relations with Non EU member states whilst maintaining strong relations with the same. The new approach being adopted by Malta's authorities, will present Malta as a Financial Centre which offers a bridge between Arab countries and the EU. Malta would act as a portal which would give Arab businesses the chance to trade in EU markets, with EU standards.

The Malta Stock Exchange (MSE) is taking concrete steps which is an indicator that this is indeed being considered as the next step to further expand its economy. A recent development was the launch of the Sharia Equity Index. This is currently made up of 8 companies which have been deemed as Sharia Compliant by the Dar al Sharia. It is too early to comment on the actual performance of this index, but the MSE is monitoring its performance to come up with concrete results.

Nonetheless, even at this early stage there has been a study which gives a high level indication of the sort of interest which the Malta Stock Exchange can expect. In a survey, participating companies from various countries amongst others Egypt, Saudi Arabia and the United Arab Emirates were asked about which factors they think are the most important when choosing a Stock Exchange to list in. The top three factors mentioned were efficiency, regulation and trade volumes. As explained above, these 3 factors are an integral part of the scope of the EU so the MSE is certainly a contender in these regards, like many other EU jurisdictions.

Costs have been featuring as one of the important factors considered as well. Indeed costs are the next factor considered in the investors priority list. In Malta, a



business can benefit from the same financial frameworks of the large EU financial centres, but at significantly lower costs which is estimated to be some 40 percent less than the EU average. There are also advantages related to the fact that Malta is a relatively small jurisdiction. Malta keeps investing in the education sector and boasts of a highly skilled work force. Its size together with its strong human capital allow for relatively lower bureaucracy, hence augmenting efficiency.

The Sharia Equity Index is by no means the final step of the project, however, it has been described by the chairperson of the Stock Exchange as a concrete step which shows that the Maltese institution, together with the government are planning to continue building on this project. In simple words, this step implies that Malta is officially open for

business to become an Islamic Financial Services Centre . To date various Shariah Compliant structures have benefitted from the Maltese tax system as well as its Trusts legislation which are ideal to assist Islamic Finance transactions.

With the launch of the Shariah Compliant Index, the statement of the Minister for Finance that the Government of Malta is looking into Islamic Banking and Sukuk and the existent Shariah friendly legislation , Malta certainly opens an opportunity for businesses and investors that are keen to follow this ethical way of doing business.





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Islamic Finance in Malta...Remedying the damage of manoeuvres past

By Reuben Buttigieg

The Malta Stock Exchange has placed Islamic Finance high on its agenda to the extent that it is part of the National Capital Markets Strategic Plan. The Malta Stock Exchange is once again at the forefront in identifying new markets in which Malta has huge potential. During 2016 it launched the Islamic Listing on which 8 companies are listed and certified as shariah compliant by the world known consultancy firm Dar Al Shariah.

This is a major step in the right direction, albeit we still need to see some effort that do incentivise listing of Sukuk and shariah compliant companies on the Malta Stock Exchange. Initially this may require some forward looking actions, such as allowing for Dual Listings. To do this the MSE will have to engage in various memoranda of understanding with other stock exchanges in the MENA region as well as in the far east. The MSE may provide to medium companies in this region not only a route to Europe and the commonwealth but also an access to finance which seems to be currently available in Malta.

Hopefully, the MSE will continue to build on its forward looking strategy and does not repeat the mistakes that the Malta Financial Services Authority as well as subsequent Governments have made in the past. The first blunder was that of the MFSA, which through the publishing of a paper for Islamic Funds, showed the Islamic Finance world that it has no idea whatsoever of Islamic Finance. The paper which was vetted by an unknown scholar, whose name seems to be a security secret, contained significant errors and showed that whoever prepared it is not familiar with actual reality and the standard setting bodies, such as AAOIFI and IFSB. To add insult to injury, the then Prime Minister, Dr Lawrence Gonzi boasted in Bahrain that Malta is open for Islamic Finance, whilst in reality, this couldn't have been more further from the truth.

The MFSA has also promised to issue further papers on Sukuk and Takaful, but this never materialised, in spite of the apparent political goodwill. When Mr Tonio Fenech was Minister for Finance, it was agreed that there is was to be a strategic document for the development of Islamic Finance. Mr.Oliver Agha was brought on board to do this and the MFSA was supposed to collaborate with the same. Yet, once again the MFSA refrained from taking matters forward, with under the presumption that everything is was in place for Islamic Finance. Once again, it gave a clear message that it had no interest in Islamic Finance and that it has no idea of the subject matter. Plenty of damage was caused by the same MFSA in this shameful episode, as those involved were highly reputable persons in the Islamic Finance world.

Under this Government, we had seen the light, when Minister for Finance, Professor Scicluna had announced in the 2014 Budget that the Government will be looking into Islamic Banking and Sukuk. Studies were commissioned and carried



out by the highly reputable Dar Al Shariah. Dar al Shairiah thinks highly in of Malta to the extent that it engaged into such a study probono, as it wished to explore further this opportunity. The study was presented and it entailed various measures that could be taken, giving different road maps. Once again, MFSA down talked the measures and did not even formally react to the final report. Dar Al Shariah is headed by Dr Hussein, who is considered to be the father of Islamic Finance.

Interest in Malta was obviously apparent, particularly in the issuance of a sovereign Sukuk. However, MFSA kept engaging into anti-Islamic Finance lobbying. One may recall that large banks like Doha Islamic Bank wanted to launch funds in Malta and were in discussions with a local bank to do so. One may also recall Germaine Birgen, who at the time was Head of Funds for HSBC who had stated that if Malta truly opens for Islamic Funds, he would be the first who would direct funds to Malta as Malta has the potential to handle funds which they would not be able to handle in Luxembourg due to its cost structure. The list of opportunities continues. MFSA keeps blaming the market for its intrinsic inertia in addressing this issue, but the reality is that the true problem is the MFSA's attitude, the arrogance in the manner it treated Islamic Finance officials and its all-pervading know-it-all attitude.

The financial services industry is at the moment in an unprecedented slowdown in Malta. It is clear that we need fresh ideas and a new strategy. MSE has recognised this and is taking various measures to stimulate capital markets and to attract new business to Malta. Unfortunately, the Government of Malta has not backed the MSE the way it

should. In order to send a strong, positive message to the Islamic Finance world and to repair the damage inflicted by the MFSA and various Governments, it should have launched a Sovereign Sukuk. The Government can do this without destabilising the existing Government Bonds markets, as it may engage in national huge projects that will not happen, unless we have a forward looking Prime Minister who can assess what is truly beneficial to the country and looks beyond the reasons why certain authorities use such a destructive lobbying strategy.

In spite of this, it is anticipated that if the MSE engages into proper marketing, a promotional campaign and invests further in the Islamic Capital Market, we may witness a new era for the stock exchange and the financial services in general.

If the Government expends the same energy in the sector as that it expended in the Individual Investor Programme and it encourages head of states in the MENA region to look at Malta, the country may well be on its way to becoming an Islamic Finance hub. Luxembourg has been very successful in this and it had clearly given the remit to its ambassadors to attract Islamic finance to Luxembourg with the promise of doing whatever changes necessary to stimulate the market. Luxembourg, which has no or little historic connections with the Arab world, has succeeded where Malta is clearly failing. Now, that we have an organisation like MSE which is acting concretely, will the Government give its full commitment in order to assist the MSE in this worthy endeavour?





Jarmo Kotilaine

Chief Economist – Market & Strategy
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Revealed: The \$32bn blueprint reshaping Bahrain

By Jarmo Kotilaine

Bahrain is in the midst of a large-scale transformation. Several years into a modernisation programme – underpinned by \$32bn of planned infrastructure projects and a large industrial hinterland that stretches well beyond the King Fahd Causeway – the island kingdom is already starting to see real economic benefits.

This huge slab of investment, an overwhelming proportion of which is not only earmarked but being spent on projects now well underway, consists of \$10bn of government funding, \$7.5bn under the GCC Development Fund, and \$15bn worth of investment in the private sector.

It is being focused on six key verticals, all designed to accelerate the kingdom's move away from energy production: tourism and hospitality, retail, real estate, finance (especially fintech), infrastructure and oil and gas services. If there is a theme that envelops these diverse sectors it is, in the view of Dr Jarmo Kotilaine, chief economist at the Bahrain Economic Development Board, "efficiency- and value-driven modernisation", particularly in the industries that have supported Bahrain's economy for the better part of two generations such as finance, energy and logistics.

The innovation now being introduced to the banking sector is one such example. Investments are now pouring into fintech as well as various kinds of ancillary and mid-office activities in financial services, perhaps best embodied by the impending launch of Bahrain FinTech Bay – a joint venture between the EDB and FinTech Consortium – in Q1 2018.

Oil and gas, the backbone of the economy for many years, is also undergoing necessary transformation as the drop in the price of oil and reduction in resources have seen the country's national oil company Bapco (Bahrain Petroleum Company) diversify into other sectors. "On current projections, it's not going to increase its production several fold, so I think the opportunity really is increasingly in the downstream area, and of course that's an area where Bahrain also was a pioneer," Kotilaine says.

"There is still opportunity in capacity expansion and also for different types of trading activities because of our location and regional connectivity. I think it's very much echoing a broader strategic thrust that we're seeing in the GCC – a sort of greater value chain capture through related activities. So for instance, that will mean certain types of petrochemicals or further refinement of the oil distillate."

One of the more conspicuous recipients of the \$32bn investment tranche is Bahrain International Airport, which is now undergoing a \$1.1bn modernisation programme in order to raise its annual passenger capacity from 9 million to 14 million by 2020. The move will enable Bahrain to come full circle and return to its original regional status as a specialist in logistics and transportation services.

"There was a time when this was the pioneering hub for many of these activities,

and then over time we started to see more competition as other countries started investing,” says Kotilaine.

What is interesting is that the fundamental geographic and economic realities that allowed Bahrain to lead the way in the 1930s haven’t changed; the Bahraini logistics infrastructure can serve as an entry point into the broader regional market, and above all the Saudi market. From a logistics perspective, Bahrain has a significant hinterland.”

The links with Saudi’s Eastern Province, whose population is about five times the resident population of Bahrain, are only deepening, not least due to the construction of a second causeway to connect the two countries. “There has also been quite a bit of regulatory overhaul,” says Kotilaine, “and the integration of the different modes of transportation, the streamlining and increasing efficiency in the transit trade between Bahrain and Saudi Arabia is beginning to bear fruit.”

So while huge real estate developments such as Bahrain Bay, the promise of 15 new hotels by 2020, the new retail spaces of Avenues Mall, Marassi Galleria and Dilmunia Mall are changing the landscape, it seems the same old values will be the ones propelling the country forward.

“We have a broad diversification agenda and Bahrain is very much a regional leader with less than 20 percent of the GDP now coming from oil and gas extraction,” says Kotilaine of the development. “But we’re also seeing tremendous dynamism within some of these old, established sectors, where tech-based innovation and entrepreneurship are the drivers of change.”

Tourism

Accounting for \$13bn of the allocated funds, this is one sector that is enjoying genuinely exponential growth. In the first nine months of 2017, the total number of tourists visiting Bahrain increased by 12.8 percent and monthly visitors are now comparable to the island’s population. Attracting mainly visitors from the GCC, especially Saudi Arabia, the sector as a whole is worth 6.3 percent of GDP.

The money is being spent on developing projects to create more physical infrastructure whether it’s hospitality or retail, as well as filling out the events calendar. “If you put in place a hospitality cluster for what is predominantly a regional clientele, then you obviously leverage it also for the benefit of visitors from other places,” says Kotilaine of the potential to expand the country’s reach for new visitors.

By 2020, that infrastructure will not only include a remodelled and expanded airport and a new causeway to Saudi Arabia that will run parallel to the existing King Fahd highway, but also 15 new four- and five-star hotels, adding 4,000 more rooms to the country’s existing hotel space. Brands as prestigious as Four Seasons, JW Marriott, One & Only and two Vida properties are arriving, while The Diplomat Radisson Blu Hotel is set to reveal a major renovation of the 246-room hotel in Q1 2018.

With the kingdom’s hospitality sector growing by 3 percent in 2017, and an ever-expanding MICE repertoire, the expectation is that the demand is there to meet the supply. The Bahrain Tourism and Exhibition Authority (BTEA), for instance, has a number of success to its name in promoting Bahrain as a major MICE destination, including the Gulf Construction EXPO.

Real Estate

Bahrain’s property development sector is also benefitting from the investment. In the last five years, the kingdom entered a number of public-private partnerships to deliver major housing projects, with as many as 4,000 new housing units being handed over in the last two years alone. Furthermore, the aggregate value of real estate deals in the first quarter of 2017 rose 8.1 percent from the corresponding period in 2016, reaching a staggering \$770m.

One of the reasons is significant regulatory reform, according to Ali Murtaza, director of Real Estate Development at the Bahrain Economic Development Board (EDB). Most notable is a new law that addresses the issue of regularising infrastructure development for new areas.

A new regulatory authority, the Real Estate Regulatory Authority (RERA), was set up to license real estate agents, resolve disputes, monitor deals and oversee progress of projects. The Central Bank of Bahrain (CBB) also recently approved the establishment of the first real estate investment trust in the country.

Despite challenges in the region, including low oil prices and global economic slowdown, Bahrain’s property market continues to grow thanks to supportive infrastructure, with the island investing \$2.4bn out of the total \$32bn investment on housing projects.

Moreover, it introduced the Stalled Projects Law in 2014 to allow the government to relaunch delayed property projects. It is headed by a judicial and expert committee that has allegedly resurrected nearly all projects paused during the 2008 global financial crisis.

According to a report by real estate consultancy CBRE, development in Bahrain has increased due to public-private infrastructure investments, as well as a growing population, with current demand standing at around 55,000 units, Murtaza says, with the number expected to grow by 5,000 units a year. Projects in the pipeline or under development include Diyar Al Muharraq, spread over 12 sq km off the coast of Muharraq, with the capacity to accommodate over 100,000 people. The Ministry of Housing also revealed its new programme Mazaya, which allows citizens to buy residential units directly from the private sector, without having to stay on the ministry’s waiting list.





Khalid Saad

Khalid Saad is the Executive Director of FinTech Consortium and the Chief Executive Officer of Bahrain FinTech Bay.

Bahrain FinTech Bay appointment of Chief Executive Officer

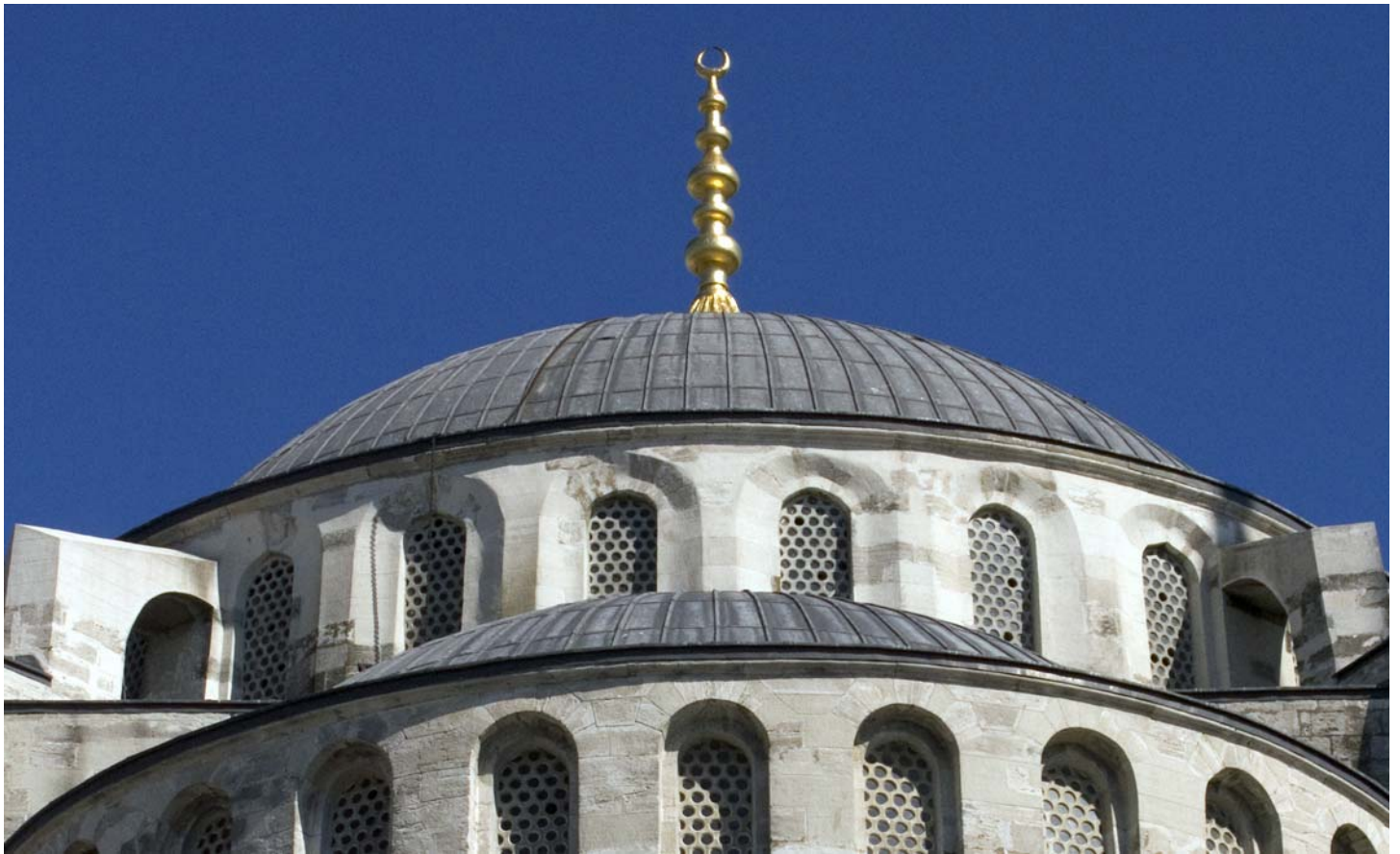
Islamic Microfinance is a sector with a great potential to expand. It is estimated that 72% of the population living in predominantly Muslim countries do not use financial services, because they do not follow the precepts of Islam. Muslims use conventional financial products, but various surveys show that if they had the choice they would use sharia-compliance financial products.

One of Islam objectives is to support the most vulnerable, which tally with the microfinance mission. Today, the Islamic microfinance is concentrated in three countries: Indonesia, Bangladesh and Sudan. According to CGAP study, 300,000 customers were concerned by the Islamic microfinance through 126 institutions operating in 14 countries and approximately 80,000 customers are linked to a network of Indonesian cooperatives. However, in Islamic countries, Islamic microfinance is still a tiny share of microfinance. It often develops due to government support as in Pakistan, in 2007, where guidelines were developed to promote growth.

Islamic Microfinance is a new market in Islamic finance : Islamic banks provide financial assistance to people excluded from the banking system. Microfinance as the same aim. Islamic microfinance complies with principles of Islam and to involves in projects halal (allowed by sharia). Projects must be charitable or helping to develop the economy of a country.

Islamic Microfinance would help the 650 million Muslims living with less than \$ 2 a day and give them access to financial services. However, despite a fourfold increase in the number of clients (estimated at € 1.28 million) and a doubling of the number of suppliers, in recent years, the nascent industry continues to struggle to develop. In a study on Microfinance, CGAP has studied the situation of the sector and then identified the main obstacles to growth (Karim, Tarazi and Reille 2008). In collaboration with the French Development Agency, CGAP has also conducted a survey in 2011 to better understand the current situation of supply of Islamic microfinance. Despite the impressive increase in the number of suppliers and customers of Islamic microfinance sector is still dominated by a few suppliers in some countries that rely primarily on just two products (Murabaha and Qard Hassan). Thus, the Islamic microfinance sector needs a concerted action.

Islamic microfinance products sale of Islamic microfinance services - murabaha - is the Sharia-compliance contract the most commonly used to finance goods. When



the client requests a specific product, the lender acquires it directly in the market and resells it after applying a fixed margin payment for the service provided.

Qard al hassan is a loan extended on a goodwill basis, and the debtor is only required to repay the amount borrowed. However, the debtor may, at his or her discretion, pay an extra amount beyond the principal amount of the loan (without promising it) as a token of appreciation to the creditor. In the case that the debtor does not pay an extra amount to the creditor, this transaction is a true interest-free loan. Some Muslims consider this to be the only type of loan that does not violate the prohibition on 'riba, for it alone is a loan that truly does not compensate the creditor for the time value of money

Musharaka and mudaraba are contracts which share risks and benefits. Musharaka is a relationship between two parties or more that contribute capital to a business and divide the net profit and loss pro rata. The parties share the profits or losses in a predetermined percentage. This type of financing can be used for the assets or funds bearing. Mudaraba is a trustee financing instrument in which one is a donor and the other brings management expertise in the project.

Salam is an advance payment in exchange of a future

delivery. It is often used in agricultural settings, allowing farmers to finance production in exchange for future delivery cultures. To respect the sharia, the quantity, the quality of future goods and effective date of delivery must be specified explicitly.

Exchange contract between a seller and a buyer is called istisna `a . The Sellers can either produce goods themselves or buy them from a third party. The end customer can pay the sale price is at once the contract is signed, or subsequently at other stages of the manufacturing process.

Micro-leasing: The MFI allows the customer to use an asset that belongs to him. Risks remain within the MFI, unlike a conventional leasing (all damages caused by involuntary means or in case of force majeure are supported by the MFI, to avoid leasing as a disguised sale with interest). Cash flows are adjusted so that costs and risks of MFIs are covered. The terms of the lease are set in advance to avoid speculation.

Takaful is a mutual insurance. Each person participates in a fund that is used to help the group in case of need, for example, death, agricultural losses, accidents etc... Premiums paid are reinvested to avoid the mechanism of interest.



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