



# ISLAMIC FINANCE CONTRIBUTION ON ECONOMIC GROWTH

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Islamic  
Bank

# Contents

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- Islamic Finance – brief history
- The world of Islamic finance
- What is Islamic Finance
- Salient Characteristics of Islamic finance
- Islamic Finance contracts
- Investment Opportunities on Islamic Finance
- Role of Islamic finance in Economic growth
- Case - Islamic banking practices in Tanzania; Amana Bank



# Islamic Finance – Brief History

- Modern day Islamic finance emerged in the 1960s with the establishment of the first Islamic bank in Egypt by Ahmad El Najjar.
- Until the 1970s, Islamic banking mostly focused on the retail market. The emergence of wholesale banking and the associated product innovation is however a more recent development.
- Establishment of Islamic Development Bank in 1975 to foster economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of shariah.
- The first private interest-free bank (Dubai Islamic Bank) set up in 1975.
- Establishing of Accounting and Auditing Organization for Islamic Financial Institutions – AAOIFI, In February 1990, which creates accounting, governance and Sharia Standards and integrate them with global corporate and risk management standards (i.e., Basel Accords I, II and III).
- Today, Islamic finance falls within the scope of the IMF and of the World Bank.



# The world of Islamic finance

- Islamic finance represents a small but growing segment of the global finance industry. Today it stands at around \$ 3Trillion USD which amounts 2% of the global financial assets worldwide . *AAOIFI – World Bank 13<sup>th</sup> Annual Conference 23-24 October 2018 – Kingdom of Bahrain.*
- There are more than 300 Islamic banks & windows that are present in at least 60 countries and more than 750 Islamic funds worldwide with assets under management of more than US\$60 billion.
- Number of multinational financial institutions such as Lloyds Banking Group UK, HSBC Holdings UK, Barclays Plc UK are now providing Islamic financial solutions to their clients around the globe.
- Currently, the largest and most influential Islamic finance hubs are in Kuala Lumpur, Jakarta, Hong Kong, Riyadh, Dubai, Bahrain, Doha, Istanbul, Teheran, Karachi, Luxembourg, London and Dublin.
- Some African nations has embraced Islamic financial institution through amending their financial Institution Acts to accommodate provision of Islamic financial Solutions. (Kenya, Uganda, Zambia, Mauritius)
- Good number of Islamic Banks and Islamic banking windows have been opened in different countries.



# What is Islamic Finance

- Islamic Finance is the application of injunctions and rules of the Shariah (Islamic law) in financial transactions.
- The target of Islamic finance is to prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society.
- There are number of injunctions in Islamic Finance which all tend to prevent injustice amongst involved parties.
  - Prohibition of Interest
  - Prohibition of Gambling
  - Prohibition of Gharar in a selling contract (Uncertainties on specification, attributes, quantity, quality, condition etc.)
  - Prohibition of Selling of items that harms society such as alcohol, expired items etc.
  - Prohibition of Selling/Buying halal items for haram purposes – e.g. truck for delivery of alcoholic items.
  - Prohibition of Selling/buying anything (halal or haram) acquired by haram means (theft, robbery etc.)
  - Prohibition of Selling without having ownership – there are some exceptions. (Salam and Istisna'a)
  - Prohibition of Hoarding of Essential Goods.
- Islamic finance is a mix of economy, ethics and Islamic law (Fiqh Al mu'aamalat) resulting in financial transactions based on fairness, profit and loss sharing and real transactions.

- Islamic Financial System:      **Islamic Banking**                      **Islamic Insurance**                      **Islamic Capital Market**



# Salient Characteristics of Islamic finance

## ■ Asset and service backed finance

- Funds are channeled directly to real economic activities.
- Ensure funds are used for intended productive purpose, this improves customers repayment ability and minimize default risk.
- Asset may be used to recover the balance of debt and leave collateral untouched.
- Prevents diversion of funds through making payment direct to suppliers and delivering asset to customers.



## ■ An ethical finance

- Prohibiting trade in unethical products which harms society.
- Transparent and free from deception.

"The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service," (The Vatican's official newspaper Osservatore Romano-2010)

# Salient Characteristics of Islamic finance

## Participatory Finance

- Depositors are the partners/investors.
- Depositors earn returns according to the performance of the bank/business.
  - Profit is shared on agreed ratios not fixed rates on deposits.
  - Depositors' share of profit is allocated on gross financing & investment income before deductions of overhead expenses.
  - loss.
- On financing side:
  - The bank may earn more profit by participating in profitable business deals.
  - Unlike conventional banks, the Islamic banks share the loss with the customers, lift the burden of repaying from customers in case of genuine proven loss.

## Fairness in contracts

- Transactions are structured in a way that helps to avoid conflicts.
- Protections of rights of all stakeholders e.g. Buyer, Purchaser, third party and even the environment.
- No hidden or tricky clauses.
- Involved parties must have full knowledge of transaction they involved in.



# Islamic finance contracts

## Trade Contracts

Murabaha

Salam

Istisnaa

## Participatory Contracts

Mudharabah

Musharakah & Diminishing Musharakah

Wakalah

## Leasing Contracts

Ijarah

## Other Contracts

Qardh

Wadiah

Kafalah (Guarantees)

Sarf (Currency Trading)





# Investment Opportunities on Islamic Finance

- Market analysis
  - Islamic Finance Industry size is expected to continue expanding further and show upward trend in the future primarily due to the fact the growing Muslim population is fast becoming receptive to and accepting of the Sharia compliance proposition.
  - By 2018, it is estimated that Islamic banking assets could reach up to US\$3.4 trillion.
  - There is a search for ethical investments by Muslim and non-Muslim investors.
  - The need for Islamic project financing for the infrastructure projects due to risk sharing nature of structures.
- Given the nature Mayotte culture, with above 95% Muslim population, the clear investment opportunities in Islamic Finance include: -
  - Establishing Islamic banks
  - Establishing Islamic Banking windows
  - Islamic insurance companies
  - Funds Mobilization for development projects through Sukuk
- Important requirements
  - Development of Islamic regulatory framework, or Amending existing laws to accommodate Islamic finance
  - Imparting Islamic finance knowledge amongst investors and population.



# Role of Islamic finance on Economic growth

- Fund mobilization through Sukuk for funding development projects such as roads, bridges, hospitals.
- Financing development projects by financial institutions.
- Financial inclusion through supporting the unbanked or banked with limited services
- Supporting business growth through
  - Financing assets
  - Working capital



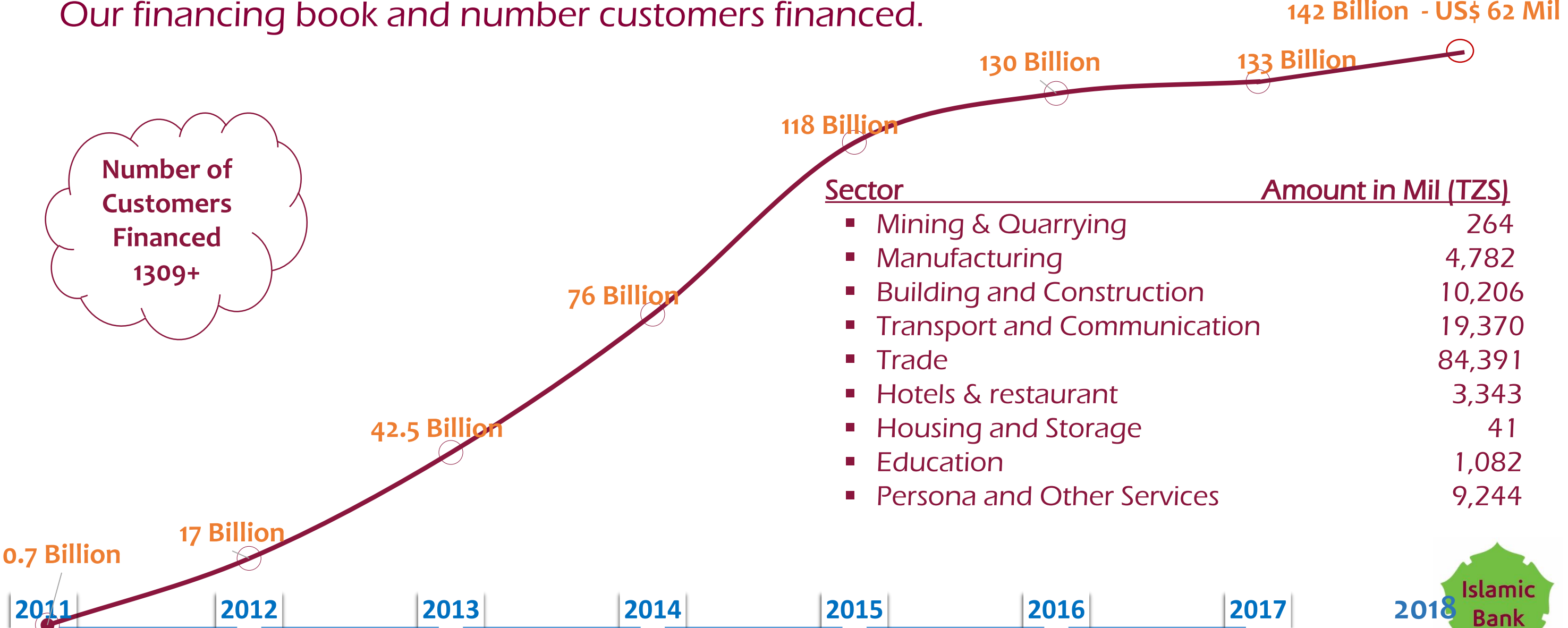
## Case – Islamic banking practices in Tanzania; Amana Bank Limited

- Started 2011
- Ownership – Mostly Tanzanians
- 8 Branches - average of 1 branch a year
- Break even – after 4 years
- Muslim Population – Sizable
- Access to bank 33%
- Number of banks 52
  - Islamic
    - Full fledged – 1
    - Windows – 2
    - Division – 1



# Contribution of Amana Bank in Tanzania

Our financing book and number customers financed.



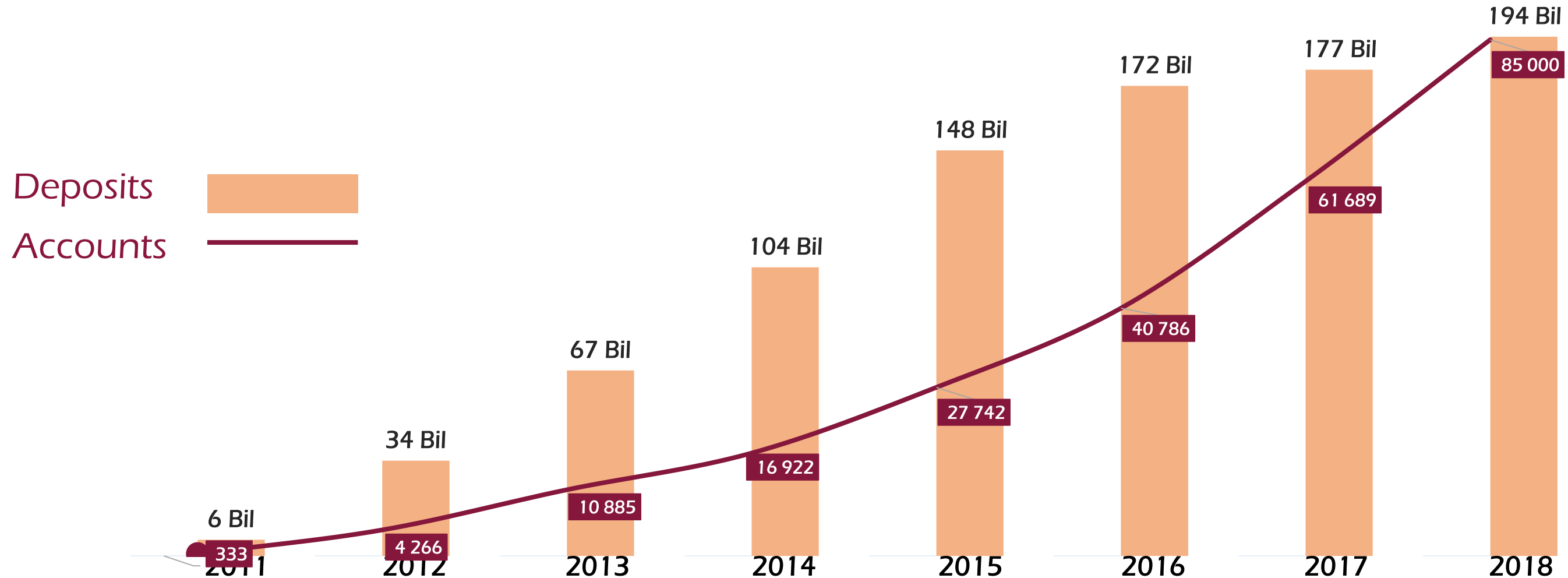
Number of Customers Financed  
**1309+**

Sector	Amount in Mil (TZS)
▪ Mining & Quarrying	264
▪ Manufacturing	4,782
▪ Building and Construction	10,206
▪ Transport and Communication	19,370
▪ Trade	84,391
▪ Hotels & restaurant	3,343
▪ Housing and Storage	41
▪ Education	1,082
▪ Persona and Other Services	9,244



# Contribution of Amana Bank in Tanzania

- The bank has reached about 85,000 customer with total deposit of TZS 194 Bil – equiv. US\$ 83 mill



## Case – Islamic banking practices in Tanzania; Amana Bank Limited

Category	Number of Staff
Permanent Staff	182
Contractual (Sales Executives, Graduate trainees and Interns)	45
Agents	300+
Indirect (through Business we support)	To be established



# Contribution of Amana Bank in Tanzania

- The bank has paid tax on average of 2.1 billion per year over past six years
- Charity contribution to the society

Category	Number of Beneficiaries	Amount Contributed
Education Sector	444	TZS 406 mil
Health Sector	108	TZS 178 mil
Humanitarian Sector	32	TZS 93 mil
		<b>TZS 678 mil</b>

- Customer promise to pay nominal charity in case of default/delay.
- Charity fund is not part of the income of the bank. It is used to support poor and orphans in accessing education and medication services.
- Penalty can be waived if the customer is in real difficulty.



# Amana Bank Products and Service

Deposits products	Financing products	Other services
Saving/Current Accounts	Murabaha Financing	Foreign Exchange
<ul style="list-style-type: none"> <li>▪ Personal/joint Saving</li> <li>▪ Hajj Saving</li> <li>▪ Nuru Saving</li> <li>▪ An-nisaa Saving</li> <li>▪ Salary Saving</li> <li>▪ Student Saving</li> <li>▪ Biashara Current</li> <li>▪ Ihsaan Current</li> <li>▪ Corporate Current</li> <li>▪ NGO Current</li> <li>▪ Kilimanjaro Diaspora</li> <li>▪ Ashraf Banking</li> </ul>	<ul style="list-style-type: none"> <li>▪ Asset</li> <li>▪ Working Capital</li> <li>▪ Building Materials</li> <li>▪ Plot Financing</li> <li>▪ Consumer Financing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Spot FX Transaction</li> <li>▪ Forward FX</li> <li>▪ Commodity Murabaha</li> </ul>
	Musharakah Financing	Fund Transfer Services
	Ijarah Financing	<ul style="list-style-type: none"> <li>▪ TISS</li> <li>▪ TT (Inward and Outward)</li> <li>▪ Banker's Cheque</li> <li>▪ Asy Bank (Tax collection for custom duty)</li> <li>▪ Western Union/Money gram</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Service Ijarah</li> <li>▪ Usufruct Ijarah</li> <li>▪ Elimu Financing</li> </ul>	
	Bank Guarantees	
Term Deposit	LCs	<ul style="list-style-type: none"> <li>▪ Internet Banking</li> <li>▪ Sms Banking</li> <li>▪ Documentary collections</li> <li>▪ Collection Services</li> </ul>
<ul style="list-style-type: none"> <li>▪ 3 – 12 Months</li> </ul>	<ul style="list-style-type: none"> <li>▪ Wakala LC</li> <li>▪ Murabaha/Musharakah LC</li> </ul>	
	Oardhan Hassan	





*Thank you*

