

# Investment Policies Under Shari'ah Principles

By

Prof. Mohd Ma'Sum Billah, PhD

## Abstract

*The state of being wealthy is highly desired by people, regardless of religion, races or nationality. Islam, not being left behind, also encourages its followers to seek for wealth, but in doing so, it is compulsory to ensure that any activities concerning wealth creation must be aligned with Shari'ah principles and guidelines. Beginning from the purpose of wanting to be wealthy, to the way of obtaining and spending one's wealth, these acts must comply with the teachings of Islam, as depicted in the Qur'an and Hadith of Prophet Muhammad S.A.W. For instance, Allah said: "But seek, with the (wealth) which god has bestowed on thee, the Home of the Hereafter, nor forget thy portion in this world"<sup>1</sup> This verse indicates that wealth creation is permitted in Islam and it is a gift from Allah to those whom He wishes to award it to. Nevertheless, wealth should be spent in God's cause, that is, for charity and good works.<sup>2</sup> So, how do we create wealth, the Islamic way? There are many means of obtaining wealth, but the most prominent way is to engage in trade and commerce. Prophet Muhammad S.A.W. said: "Take to trade and commerce, because nine-tenths of the source of earnings is in trade and commerce."<sup>3</sup> Today, trade and commerce are becoming more and more complex, and they require knowledge and expertise in order to ensure the continuation of businesses over a long period of time. Hence, not everyone have the time, opportunity and needed skills to survive in the business world. Then, how are we to take advantage of the huge potential benefits that trade and commerce offer? One way is for Muslims to invest in businesses that offer future profits, while ensuring compliance with Shari'ah principles. This paper attempts to analyse the Islamic investment opportunities and some of the issues of investing in Shari'ah approved investments, as practised in Malaysia. Among other types of investments that*

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<sup>1</sup> Al-Qur'an, Al-Qasas: 77.

<sup>2</sup> A. Yusuf Ali, *The Holy Qur'an: Text, Translation and Commentary*, Amanah Corp., USA, 1983 at p. 1023.

<sup>3</sup> Maulana Fazul-ul-Karim, *Imam Gazzali's Ihya Ulum-id-din (Book 2)*, Sind Sagar Academy, Lahore, at p. 54.

*we will be looking at are: equity and commodity investments, Ijarah, Musharakah and Mudharabah investments. Furthermore, we will also be discussing about Islamic investment criteria and its future.*

## **Microfinance in Sudan and Ethiopia**

*By*

*Professor Badr El Din A. Ibrahim*

### **Abstract**

*The purpose of this paper is to review and compare the distinct features and practices of Sudanese and Ethiopian microfinance sector. Analysis includes general characteristics of both sectors such as institutional structures/ characteristics, policies, programs, regulation, strategies, wholesale markets, technical assistance etc. Moreover, the major characteristics of microfinance institution (MFIs) in both countries are compared, and a review and comparison of some performance criteria of MFIs is made. The methodology consists of analyzing and examining issues at hand using some indicators and qualitative information. The paper come up with some recommendations regarding the constraints facing microfinance (MF) sectors in the two countries, and also suggests how the two microfinance experiences can learn from each other. The Sudanese MF experience, we argued, can give a lesson from its diversified wholesale market via the government-owned Wholesale Guarantee Agency. The paper also propagates the merits of Islamic microfinance as practiced in Sudan to Ethiopia-Muslim minorities. We argued that this can be carried out via new windows or specialized branches within the existing MFIs; no need for a new legislations or a new MFIs structure. Sudan can learn from the role and functions of AEMFI, to establish the Sudanese Association of Microfinance Institutions. Sudan can also learn from the Ethiopian social management system to self monitor the social impact of microfinance on their clients. The paper is constrained by the limitation of quantitative data, especially financial data, regarding the Sudanese MFIs. This hinders deep comparison of the financial performance of MFIs in the two countries. More research is required in this area.*

## **Empirical Study of the Proximity of Rotating Savings and Credit Associations to Islamic Principles of Financing in Ilorin Metropolis**

By

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*Prof. Chika Umar Aliyu (Ph.D), and*

*Prof. Mohammed Olanrewaju Ibrahim (Ph.D)*

### **Abstract**

*The study empirically investigates the Level of Compliance of Members of Rotating Savings and Credit Associations (ROSCAS) in Ilorin Metropolis with Islamic Principles of Financing (IPF). Muslims are mandated to enter Islam completely (Q2:208). A day would come when all men would be asked of their worldly pleasures (Q102:1-8). Previous studies have not given the level of application of Islamic Principles to the operation of ROSCAS in Ilorin Metropolis. In this study, four hundred structured-questionnaires are administered on the purposefully selected respondents. Three hundred and twenty-eight of the returned ones were good for descriptive and inferential analysis via SPSS software. Three hypotheses were formulated on the biography of respondents to establish the relationship between operational strategies of ROSCAS members and IPF. Result of the tests conducted at 5% significance level on the gender of respondents does not conform to the a priori assumption while those of occupation and education do. The study reveals that male, highly-educated, and self-employed respondents have better compliance to IPF than their counterparts. Respondents with higher proximity to IPF must carry along their counterparts in Islamizing ROSCAS and add them to the Models of Islamic Finance. The study recommends that Muslim dominated nations should also start ROSCAS among themselves.*

## **Revisiting the Design of Interest Free House Finance**

*By  
Salman Ahmed Shaikh*

### **Abstract**

*In this paper, we revisit the design of interest free house finance. First, we discuss the current practice in conventional banking and Islamic banking. Then, we discuss an alternate design for interest free house finance. The proposal we present attempts to analyze the implication of using market based rent setting in place of using an interest rate benchmark. In the alternate design, the Islamic bank buys the house by paying the house owner full amount of the house upfront. Then, the bank gives the house on rent to the client and the Islamic bank also enters into an options contract as the call option writer. If the call buyer does not exercise the call option, the options contract expires and the Islamic bank is in a position to give the house on rent again. We present numerical examples of computing rents in two separate structures. In structure I, call option is used with the lease contract. In structure II, house is resold at market price with stated price floor.*

## **The Comparison between Musharakah Mutanaqishah and Conventional Leasing Structures, Which One is better?**

*By*

*Muhammad Iman Sastra Mihajat*

### **Abstract**

*As an alternative to conventional interest-based leasing structure, Islamic finance has come with Musharakah Mutanaqisah (MMQ) mode of contract that is currently in existence. The MMQ is a form of a musharakah (partnership) in which one partner promises to buy the equity share of the other partner gradually until the title to the equity is completely transferred to him. Upon the purchase of property, the Bank will lease the usufruct of its undivided share in the property to the customer against rental payments (ijarah) through periodic installment. Each installment will contain purchase of Bank's equity and lease rental. In the middle of financing if the customer default, he has some percentage of ownership over the asset, while in the conventional leasing, the customer will not own any percentage of ownership over asset unless and until the customer has made full payment until maturity period. The contemporary Muslim Scholars have consensus on the permissibility of the MMQ contract. This paper compares the MMQ model with conventional leasing structure and seeks as to which one is better. The paper concludes that the MMQ is better than conventional leasing structure for the customer and the Bank giving both several advantages.*

## **Islamic Financial Engineering: An overview**

*By*

*Mr. Mahfoud DJEBBAR*

### **Abstract**

*The past two decades have witnessed phenomenal growth of the Islamic financial services industry. The whole industry has been thriving at about 15 percent per annum. This development brings a challenge to the Islamic financial engineering (IFE), which is lagging behind its conventional counterpart. Therefore, in order to achieve its goals, two approaches are available, i.e. 1) replicating engineering and 2) innovative engineering. We also try to emphasize the innovative strategy since it guards the Islamic identity of different financial products and processes, and thereby, improves the creativity in the Islamic financial industry. The attempt also centers on sukukization (Islamic securitization), liquidity management, and risk management and hedging in the Islamic financial system, as well as Islamic capital markets, as a fertile field for IFE. Finally, the challenges facing IFE are also addressed.*

# **Islamic Finance – Opportunities and Challenges**

*By*

*Mufti Ismail Ebrahim Desai*

## **Abstract**

*Islamic finance has achieved considerable growth and considered to be the fastest growing segment of the financial system. The main jurisdictions in the GCC and Malaysia have experienced notable growth. However other jurisdictions in Africa such as South Africa, Nigeria, Kenya and Ivory Coast and in Asia, such as Singapore and Indonesia and in Europe, such as Luxembourg, United Kingdom and Germany have also seen considerable growth in the sector. There however remain various challenges such as lack of human capital, Shari'ah standardization and harmonization, public awareness, regulation and supervision, access to finance, liquidity management and others. Various solutions have been provided in this paper including adoption of Shari'ah law standards across jurisdictions, creating mass awareness programmes by governments and banks, amendments to tax policies to level the playing field, creation of Islamic financial benchmark and Shari'ah harmonization with existing legal and policy frameworks.*