



IFEN

Islamic Finance Egypt Newsletter

February 2012

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Law Firm

ISLAMIC FINANCE & DEVELOPMENT THROUGH KNOWLEDGE



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Message from the Editor in Chief

It gives me great pleasure to welcome you to the inaugural issue of Islamic Finance Egypt Newsletter (“IFEN”), a new publication of Ibrachy Law Firm that is fully dedicated to Islamic finance in Egypt. IFEN serves as a forum for experts in Islamic finance, bankers, accountants, academics, lawyers and businessmen.

This first issue of IFEN contains a collection of articles written by an international group of authors, covering a wide spectrum of topics related to Islamic finance.

As the Editor-in-Chief of IFEN, I would like to express my sincere thanks to the Scientific Committee members and the authors for their remarkable efforts and valuable contributions.

I hope you will enjoy reading this issue and we welcome your feedback on any aspect of the newsletter.

With best regards,
Mohamed Madkour
Editor in Chief
Partner
Ibrachy law firm

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Message from the Head of the Scientific Committee

The changing political scene in North Africa is resulting in a much greater interest in Islamic finance and what it has to offer. The launch of this newsletter is timely as the financial environment is changing. New laws governing Islamic banking are being discussed in Egypt and Tunisia and the Central Banks will be reviewing regulatory requirements. Islamic finance is set to expand into new areas, including possible sukuk issuances in Egypt. With companies listed on the Egyptian stock market arguably undervalued now may be the time to establish Islamic equity funds.

The aim of the newsletter is to inform readers about these local developments as well as to promote understanding of how Islamic financing works and what types of Islamic finance are best suited for Egypt. Cairo has not been an international Islamic financial hub comparable to Kuala Lumpur, Bahrain or London, but there is an opportunity for this to happen. Reporting and analysis of key development in the Islamic finance industry in Egypt can help make this happen.

With best regards,
Professor Rodney Wilson.

Egypt 2.0: The Future of Islamic Finance in the Egyptian Financial Sector

By: Mohamed H. Moharram

Vice President of Business Development at HC Securities and Investment.

As the global economy and international financial markets are on the edge of another global financial meltdown, post revolution Egypt is struggling with sluggish and anaemic economic activity, capital flight, high inflation, an ailing stock market, falling foreign reserves and deteriorating foreign direct investments.

International investors are now wary of investing in Egypt, there is definitely still a lack of vision on future economic policies and political stability in the country.

Once the dust has cleared, for Egypt to attract new investments, I believe it has to turn East to the Gulf region and globally to the emerging BRICS countries.

There is a huge window of opportunity for Egypt to cultivate its Islamic finance market, develop a solid and transparent infrastructure for this industry to flourish and grab the chance to become the hub of Islamic finance in the region.

I am not arguing here for Egypt to destroy its western style financial sector in favour of an Islamic one but, to have both in offering. Consumers and investors would

then choose where to channel their savings and investments.

From a purely pragmatic vision, why doesn't Egypt's financial system extend its platform and product offerings to investors wanting to do things the "Shariah Compliant way"?

According to a 2009 report by consulting firm McKinsey: "Islamic banking only accounts for three to four per cent of Egypt's \$193 billion banking industry" and out of forty commercial banks operating in Egypt, only two are fully fledged Islamic banks (Faisal Islamic Bank and Al Baraka Islamic Bank).



It is ironic and saddening at the same time, that the only way for an Egyptian asset management firm to structure an Islamic product for a Gulf based investor, is through an international bank in London or New York. It is also shocking that only very few stocks on the Egyptian Stock Market are Shariah compliant. Most, if not all, “Islamic” products offered to Egyptian and regional investors by Egyptian investment banks are ethical funds/products, that are screening, removing and purifying their funds from companies deriving more than 5% of their revenue from alcohol, tobacco, pork related products, conventional financial services, gambling and music. This is not Islamic “enough” for deep pocket investors from Saudi Arabia and the rest of the Gulf region.

London is the capital of the UK and the city of London is one of the world’s major financial centres. As one of the most important financial districts in the world, one cannot underestimate the influence of “the square mile” on Egyptian businesses and financial as well as legal developments. Most, if not all, of the current management of both commercial and investment banks in the country have degrees from either the UK or the US and experienced working for international banks in the city of London. Talking in private to those bankers, they argue that Islamic finance is a big myth and lie, flaunting about the merits of the traditional Western style finance. Those bankers tend to forget the debt driven crisis Europe is facing at the moment. In all cases I cannot disagree that Islamic finance as an emerging industry is still in need of harmonization, consolidation and further developments. From a purely pragmatic perspective, there is money to be made through catering for local and Gulf based investors hungry for Shariah compliant

products. For example, HSBC Amanah in the UK providing Islamic banking, financial management and serving particular financial needs of Muslim investors from around the world.

Having a parallel system of both secular and Islamic nature can help transform the Egyptian economy into one of the most robust in the Middle East by way of a multitude of legal, financial and economic reforms. In addition to restructuring and overhauling the system with the intention to build sound market institutions and adopting policy reforms to boost capital inflows and investments, sustaining foreign investors’ confidence, and building up efficient capital markets.

Historically, Egyptian businesses and the political elite have shown poor attention to learning from the past. They frequently addressed problems as if they were unique, and came up with specialized solutions that are not related to past experiences. This reminds me of the Greek myth of Sisyphus, the founder of Corinth, who was forced to roll a block of stone against a steep hill, which tumbled back down whenever he reached the top. Then the whole process would start again, lasting for eternity. Failing to learn from the past will definitely be damaging to the reputation of Egypt as a transitioning economy. For the block of stone to remain at the top of the hill and not fall down once again, Egypt has to look East to its in neighbours in the Gulf, grasp a golden opportunity and expand its infrastructure to accommodate Islamic finance products and services. This is where the money is and this is where investors are at least until the West is free of its debt driven financial crisis.

Interview with

The Governor of Faisal Islamic Bank Mr. Abdel Hamid Abou Moussa



[1] Faisal Islamic Bank is the first Islamic bank in Egypt, how would you describe the phases of Islamic banking in Egypt since the establishment of Faisal Islamic Bank?

Historically, Islamic banks have gone through a series of phases since Islamic banking first appeared in the last century as merely an idea until it has become a reality. These phases can be summarized as follows:

- The period from the mid-sixties until the end of the seventies witnessed the first attempts to find alternative interest-free banking solutions, and the establishment of the first generation of Islamic banks such as Naser Social Bank, Islamic Bank for Development in Jeddah, Dubai Islamic Bank, Kuwaiti Finance House, and Faisal Islamic Bank of Egypt.
- The eighties marked the emergence of a number of Islamic banks and investment companies all over the world, and the strong attempts in some Muslim countries such as Sudan, Pakistan and Iran to convert the entire banking system. The first Islamic financial group was “DarEl-MallAl-Islami”,

followed by Al-Barakh Group; both have established a number of Islamic banks and financial institutions in several countries.

- The nineties witnessed a fast growth in the number of Islamic banks, the emergence of joint investment pools managed according to *Shariah's* rules; mainly Islamic investment funds in real estate, leasing, commodities and stocks. Takaful insurance companies also came up as an alternative to commercial insurance. During the same period, conventional banks showed interest in Islamic banking and started to develop their own products.
- In recent years, a number of international conventional banks such as Citi-Bank and Deutsche Bank started to launch some Islamic products.

Further, certain universities like Harvard, and research centers in Europe and the USA established departments for Islamic economic studies and researches.

As a result, during the last four decades, Islamic banking has developed and grown, and Islamic banks and institutions reached more than 430 Islamic organizations

distributed over five continents and 40 countries, with total assets of USD 750 billion and an average annual growth of 15%. If we take into account the Islamic branches of conventional banks, Islamic funds and takaful insurance companies, the total value of assets rises to USD 1400 billion.

It is worth noting that the Faisal Islamic Bank of Egypt is considered a pioneer in Islamic banking, one of the main players in the Egyptian market and one of the largest Islamic banks in the world. Faisal Islamic Bank was officially open on 5/7/1979 and was established as an economic and social organization in the form of an Egyptian joint stock company, operating in accordance with *Shariah* Law. It is a result of the cooperation between the Egyptian private sector and foreign capital represented in Arab investments seeking lucrative investment opportunities.

From the beginning of the eighties until mid 2006, Islamic banking in Egypt was further developed as follows:

- Fully Islamic banks as Faisal Islamic Bank, Altamweel Almasry Alsaudi Bank, later [Al-Baraka], and International Islamic Bank for Investment & Development which later merged with other two banks to form United Bank.
- Conventional banks having Islamic branches such as Banque Misr, Commerce and Development Bank (Al Togareen), Aletman Alzerae, and Alwatany Almasry.
- Recently Abu Dhabi Islamic Bank acquired Alwatani Bank for Development to become the newest Islamic bank in Egypt.

To further demonstrate the significance of Islamic banking in Egypt, it is noteworthy that the said banks have total assets of more than EGP 70 billion and total deposits of more than EGP 63 billion, with total investment of nearly EGP 51 billion.

[2] How do you see the Egyptian economy after the revolution? What do we need in Egypt?

In the wake of any revolution, there are normally political, economic, and social disturbances until the revolution calms down. My concern is the unstable security situation which is adversely affecting both domestic and foreign investments, as security is an essential element for economic development and progress. Nevertheless, I expect the security situation to stabilize after the parliamentary and presidential elections.

[3] How can Egypt attract more Shariah compliant investments?

In my opinion, the tools for attracting *Shariah* compliant investments are quite similar to those used to attract other types of investments. These tools include predictable and non-discriminatory regulatory environment, tax incentives, well developed infrastructure, and of course a stable political climate. If all the aforementioned elements are available, it will be easy to attract all types of investments.

[4] What are the recommended liquidity management tools in view of the legal restrictions and the lack of formal cooperation between Islamic banks in Egypt?

Liquidity management is considered one of the most important issues that banks and financial institutions have to deal with. As a result of the high demand on dealing with Islamic institutions, these institutions do not generally face liquidity problems. For example, Faisal Islamic Bank has a sound and safe liquidity position due to the increasing rate of customers' deposits (11.068% per annum) which reached an annual average amount of EGP 3 billion during the last three years until 30/9/2011. Further, the bank invests a substantial amount of its resources in profitable and highly liquid investments while its investment portfolio generates regular and steady cash flows.

[5] Does Egypt have sufficient human resources for mega Islamic finance projects?

The limited number of Islamic banks and financial institutions in Egypt has resulted in the lack of qualified human resources in the field of Islamic banking. However, we can gradually overcome this obstacle by:

- Organizing training programs in cooperation with specialized training institutions like the Egyptian Banking Institute, to prepare bankers for working in Islamic institutions.
- In order to gain international Islamic banking qualifications, we suggest that Islamic institutions form a long term partnership with international universities and research centers to develop human resources in the field of Islamic finance.

Reviving Takaful In New Egypt

By: Sohail Jaffer

After the financial storm of 2008 caused a turmoil that markets are still struggling to recover from, came a new season of change, the so called Arab Spring, sweeping a number of Arab countries. While the transitional period is triggering uncertainty and unpredictability about the political, social and economic future of these countries, everyone seems to agree that the Arab Spring is opening a huge window of opportunity for Islamic finance to prosper in most Muslim markets.

The recent win of an Islamist party in the first post revolution elections in Tunisia, and the latest statements by the Libyan head of the National Transitional Committee came to confirm the prediction that Islamic finance has a great chance to play a major role in rebuilding the recovering economies.

In Egypt, where the transition has been slower than expected, the predictions are also optimistic as far as Islamic finance is concerned. Claimed to be the birthplace of the *Shariah* compliant industry, Egypt has had bad experiences with Islamic finance due to past scandals, since the previous government sought to enforce a more secu-

lar financial system. Estimated at about \$1 trillion, Islamic finance has gained momentum across the globe, it is expected to grow at an annual rate of 15%. Malaysia and the Gulf serves as the two main hubs for global Islamic finance, however, many industry experts are confident that the new environment of change is raising the prospect that Egypt could become another thriving centre of Islamic finance.

Egypt accounts for about 9% of the Arab world's GDP and its banking system is one of the largest in the region, yet, the most populated Arab country has hardly been involved in the recent expansion of Islamic finance.

According to a 2009 report by consulting firm McKinsey, Islamic banking only accounts for three to four per cent of Egypt's \$193 billion banking industry. This compares with 46 per cent in the United Arab Emirates.

The potential in Egypt presents golden opportunities to established Islamic financial institutions in the Gulf region, who can pass on their expertise to the country, the need for cash inflow to rebuild the

economy will also motivate Egypt to offer Islamic options to maximize investments from the oil rich GCC economies. “Clearly Islamic banks in the Gulf are already anticipating the day when their home markets are saturated. And it appears that Egypt will be on the next front-line in the development of regional Islamic banking and finance...” notes an industry expert. Cairo-based National Bank for Development, which converted into a full-fledged Islamic bank, is already 49 per cent-owned by Abu Dhabi Islamic Bank. Al Baraka Egypt is in fact a unit of Bahrain’s Al Baraka Bank. The large number of Egyptian professional expats in the GCC, who gained tremendous experience in the Islamic finance, are also an added value that will contribute to the development of the industry which will facilitate talent integration in the market.

According to data from Bankscope and Thomson Reuters, Egypt could see Islamic finance assets grow to \$10 billion in 2013 from \$6 billion in 2007.

Takaful: Demand driven phenomenon:

In order for the Islamic banking industry to grow there needs to be a robust Takaful industry in place as the banking sector is highly dependent on the insurance industry, both for revenue generation as well as risk transfer.

The importance of the Takaful industry in providing real alternatives to give a push to the growth of Islamic finance is evident, the rise of Islamic banking must go hand in hand with Takaful. While the Takaful industry still has a long way to go to achieve an equal footprint with conventional insurance, it has laid

the necessary foundations to bridge the gap and it is only a matter of time before the alternative insurance builds enough scale to challenge its conventional peer significantly.

The prevailing needs of the Muslim community looking for a *Shariah* compliant alternative to conventional insurance accelerated the development of the Takaful industry at phenomenal rates exceeding 25% annually.

Globally, Takaful is offered by some 180 companies around the world with an estimated premium income of \$9.15 billion in 2010 as per the latest Ernst & Young World Takaful Report 2011 and is on its way to reach \$20 billion by 2015. The *Shariah* compliant insurance was initiated in 1979 with new companies emerging first in Sudan and Saudi Arabia. From the mid 1980s the idea spread to the Far East, before gaining momentum among other Arab countries in the last five years. Today, Saudi Arabia, Malaysia and the UAE remain the dominant markets, while other major Muslim majority countries such as Pakistan, Indonesia and Turkey are significantly growing.

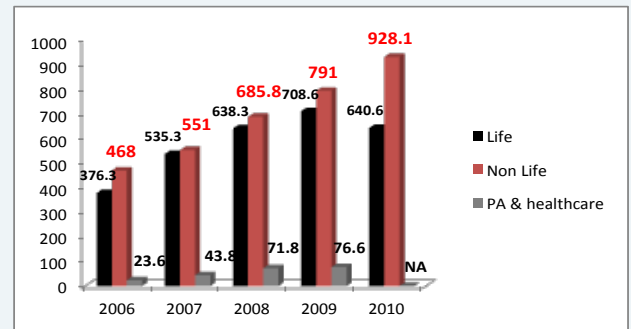
Egypt lagged behind and only welcomed Takaful recently. The Saudi Egyptian insurance house was the first operator to be established in 2002. Currently, there are eight Takaful operators out of 29 insurance players, the most recent one is Nile Takaful, a subsidiary of Japanese Tokio Marine that started operation in 2010. However, contributions remain modest. A March report by Islamic consultancy BMB Islamic revealed that Takaful makes up

only 5% of Egypt's \$1.5 billion insurance market, considering that Takaful operators account for 28% of the number of players, but this is expected to grow as Muslims comprise about 90% of Egypt's population and religion is cited as a factor that will encourage Islamic finance to thrive. Many are confident that the revolution may increase the willingness among Egyptians to embrace alternatives. The lack of insurance awareness is a key challenge in Egypt and even more for Takaful. This requires greater efforts from Takaful operators to educate the public about the benefits of protection and the specificities that set Takaful apart from its apprehended conventional competitor.

Overview of Egyptian Insurance Market Growth:

The less risky and more stable practices of Takaful companies might contribute to changing Egyptian reluctance towards insurance, especially in the life segment; -there are only about 3 million Egyptians with life insurance policies. There is further focus in Takaful around the importance of values and ethics as business is meant to be conducted openly in accordance with the utmost good faith, honesty, transparency and fairness in all dealings, which echoes perfectly with the aspirations of the broader community.

Takaful is an emerging force in the insurance industry. Taking into account the large number of Muslims that have grown more in affinity with their faith based beliefs and values and who do not insure for religious reasons, Takaful is extremely important to increasing insurance penetration rates in Egypt. It is slowly but surely gaining ground and is expected to achieve more success in



the near future. Abdul Raouf Qutb, Chairman and Managing Director of the Union of Egyptian Insurance Company, expects the growth of the Takaful insurance sector in Egypt to reach “between 15 and 20 percent by the end of 2013”.

2009 GWP	Life	Non -Life	PA &Health	Total Market
USD Million	708.59	790.95	76.61	1,576.15
%Total	45%	50%	5%	100%

Conducive Regulation, a Key Driver:

The Egyptian insurance market has gone through comprehensive reform in the last few years with the passing of important laws that focus on vitalizing the market, encouraging innovation and competition, developing and improving insurance services, and promoting competitiveness on the local and regional levels.

There is no separate law for Takaful in Egypt even if it's referred to and allowed under the present law. There were some amendments to the accounting standards to match the needs of Takaful operators, but industry players are pushing for the passing of Takaful law that will set special rules and regulations for the segment.

The Egyptian Financial Supervisory Authority has been vocal about its commitment to the creation of a dynamic insurance sector and there is a clear direction "towards fortifying the market and preserving sound practice while helping players necessary tools to grow".

BancaTakaful: The Missing Link:

The continuous freeze on the issuance of Bancassurance agreements by the Central Bank since 2007 has obviously created a gap in the insurance market especially for the life segment, but the impact is even worse on Takaful business as the sector that started flourishing after 2007. To date, there are no BancaTakaful agreements in Egypt, which is a great hindrance to promoting the distribution of *Shariah* compliant protection products, knowing that BancaTakaful has emerged as the most popular and successful channel of distribution, in thriving Takaful markets such as Malaysia where it has grown from 6% to 32% in less than five years. Bancassurance is already developed in Egypt and some international insurers claim that it accounts for up to 90% of their business. The revival of Bancassurance agreements, will create massive opportunities for the 8 Takaful operators especially in the family Takaful segment.

EFSA and the Insurance Federation in Egypt (IFE) are pushing for a change, it is hoped that by mid 2012, Bancassurance will be reactivated in line with applying Basel II which will allow banks to transact in other financial activities.

Conclusion: A Natural Market for Takaful:

There is an optimistic outlook on the country's ability to emerge stronger on the Islamic finance front with improved governance and implementation of long pending reforms.

Islamic finance in general has a promising future in Egypt. People need to gain back the trust in Islamic financial offerings, and believe in the need of financial protection first to be able to consider Takaful as a more suitable alternative, and a good option by all measures, whether technically or in terms of *Shariah* compliance. Egypt could certainly benefit from Islamic finance, but Islamic finance as an industry would also need Egypt to thrive, the country has one of the most robust banking systems and brokerage houses in the region, qualified human capital, and eminent Al Azhar scholars.

The favorable demographics, and the low insurance penetration rates, promise great potential for Takaful, especially in the life segment. With the increased level of awareness and the anticipated improvement in individual income predicted to be fueled by post revolution economic conditions, Takaful is set for an exponential growth.



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Financing the Knowledge-based Development in Islamic Economic Thinking

By: Amr Abou Zeid

The level of knowledge has become an indicator of the degree of advancement of nations as well as of its citizens' well-being. It is a concept that is congruent with religion. It's applications on the Egyptian condition open doors for innovative solutions in achieving sustainable development.

1. The Concept of Knowledge for Development in the Islamic Economic Thinking

“Developing the Earth” (‘Imaratu-al-ard) in Islam is a divine obligation addressed to man upon his creation by God. Just as creation was bound by succession of God on Earth, it was also bound by “Developing the Earth”. Thus, it is an obligation among all human beings to work positively towards accomplishing “Development”. “Developing the Earth” is literally and conceptually sustainable. It literally means: **“a state of positive change characterized by balance and continuity”**. The broader meaning of development in Islam includes ethical, economic, social, environmental, and future dimensions, since the fruits of “Development” are generally extended to include the

generation creating development and the ones following it.



God has also provided means to “Earth Development”. The first being knowledge. The corollaries of knowledge such as thought, reflection and perception, are the second most repeated concept in the Qur’an. Also, the “preservation of the mind” (‘Hifz Al-‘Aql) is one of the five of *Shariah* objectives (“the preservation of religion, soul, descendants, mind, and property”).

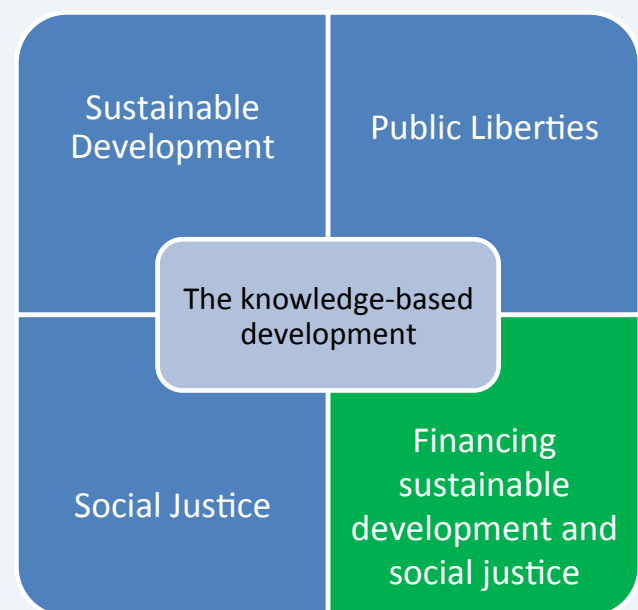
Furthermore, there is no dichotomy between the notions of social justice and “Earth Development” in Islamic economic thought, which established *Zakat* as a complete institution imposing religious tax, having its own assets and employees. In addition to this, the *Awqaf* contributed significantly to the revival and advancement of the level of education and health. It has also contributed to scientific research and other public services such as water distribution and road infrastructure.

2. Development through Knowledge in Modern Economic Thought:

In modern economy, the advancement of nations and its citizens’ socio-economic well being may now be measured by the ratio of scientific researchers and engineers per capita, the level of literacy, the number of inventions and research published in scientific journals, and the level of internet access as well as a country’s ranking in other human development indicators such as its public services in health, education, water distribution, sewage treatment and energy. As a result, the World Bank has issued comprehensive indicators on the knowledge of economy that ranks Egypt at number 90 out of 145 countries around the world.

A group of distinguished Arab academics agreed that the establishment of a knowledge-based society is the first priority in the challenge for human development in Arab countries, which includes Egypt. This is followed by civil liberties, and the empowerment of women. The establishment of a modern economy based on knowledge first requires setting up its foundations

These encompass civil liberties, a catalyzing institutional framework, education and scientific research, a quantitative and qualitative provision of services and infrastructure such as in transport, health, water distribution and energy, information, telecommunication technology, and a supply of adequate financing channels for various economic activities.



Civil liberties are the most crucial demands of the Egyptian revolution. They should be founded on a new constitution and adequate legislation, an application of law in a manner that protects gained liberties, and on the creation of an institutional framework catalyzing innovations and inventions. Notwithstanding the fact that Egypt has advanced a great deal in business indicators as issued by the World Bank due to selective reforms in areas such as foreign trade and taxes. It is nevertheless expected from the new parliament and government to fulfill their duty by implementing “a corrective revolution” of the Egyptian institutional framework. This should be done through the implementation of financial

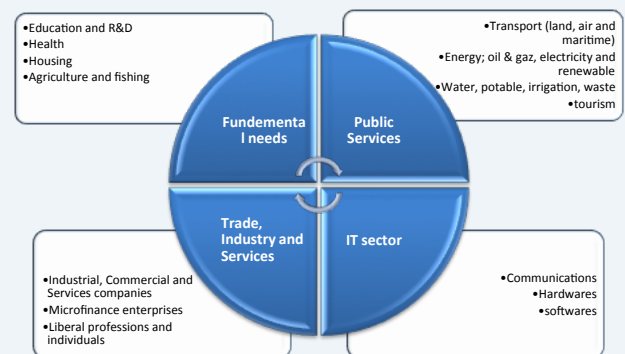
and economic laws that fight corruption, lead to the establishment of the rule of law, protect the State's property and assets, and promote investments and innovation in diverse sectors. This is done by modernizing the framework for social justice as well as the strategy for the fight against poverty. All of which should enable the accomplishment of comprehensive development in all economic sectors.

Furthermore, *Shariah* approved contractual frameworks for financing development, the most renowned being *Mudaraba* that is based on profit sharing between the investor and the *Mudareb* (or in other words the entrepreneur). This contract fulfills the purpose of financing in Islamic economics by providing scientists and entrepreneurs with capital for their projects, while providing investors sectorial and international diversification opportunities for their surplus capital. This can be possible despite their unfamiliarity with the specifications and risks of these markets since their capital is tied to knowledge-based sectors.

3. The Priorities of Knowledge-based Development in Egypt

The priority system of Islamic economics impose on those responsible for governing Egypt in the coming period to draw development strategies that take into account the optimal allocation of available resources. Additionally, they are also responsible for the direction of society's capabilities to the most pressing and crucial sectors in order to attain human development.

The following figure represents a sectorial classification for the infrastructure of the knowledge-based development that would require financing:



First:

Fundamental human needs such as food, water, housing, education and health treatment.

Second:

The need for public services including infrastructure in transportation, energy, water, information and telecommunication technology, which are all in need of urgent quantitative and qualitative improvement.

Third:

The financing to all other sectors of the Egyptian economy such as the industrial, commercial and services sectors, including individual establishments, professionals, tradesmen, and micro-entrepreneurs. This is considered crucial to the establishment of a knowledge productive society capable of competing in the wake of a profoundly complex economic and international framework.

In Egypt, there are two realities that should be considered for strategic planning for the coming period:

First:

Approximately 50% of the Egyptian population lives under the poverty line.

Second:

Egyptians have been living on only 4.5% of Egypt's total area for more than 7,000 years.

Given the narrow area of the populated valley and the corruption experienced by the country coupled with the increasing rate of poverty, agricultural lands have been ambushed and damaged by haphazard construction.

Moreover, many industries failed to prosper due to the insufficient know-how and widespread corruption in the tax regime as well as the State's duty to safeguard and protect.

Accordingly, formulating a strategic vision for Egypt, for after about one hundred years, requires that we begin studying what we have now versus what we need to build, fund, and manage for the reconstruction process that is required to re-draw the map of a modernized Egypt in its new era. This includes prioritizing gigantic projects currently proposed, most importantly:

- Development Corridor Project;
- Developing the North of the Suez Gulf project;
- East *Tafre'a* project;
- East *Owaynat* project;
- The reconstruction of the Sinai Peninsula project; and
- The *Toushka* project.

In addition to the basic infrastructure

required for the mentioned projects such as transportation, energy, water and sewage, the development of such areas requires housing, schools, universities, hospitals and research centers. Also, financing needs to be available for the private sector to pursue agriculture, industry and services to achieve sustainable human development in such new societies. All of which are inevitable to develop and accommodate the upcoming generations and employ the current ones.

The problem is not solely restricted to the scale of financing required for the initiative of development. It extends to technical, scientific, and managerial capabilities required to implement and manage diverse development initiatives. No state can bear all such burdens alone; otherwise the initiative of development is bound to fail from the start.

اِسْتِثْرَاجِيَّات



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اِسْتِثْرَاجِيَّات

Interview With

The CEO of Shariyah Review Bureau Mr. Yasser S. Dahlawi



Whether you are an asset management firm, a bank, or an insurance company you've got plenty to deal with, particularly, meeting the countless demands of corporate performances and fierce market competition. The last thing your firm needs is an added pressure of Shariah compliance. Especially as it has an increasingly high operational and cost profile such as assembling, managing and administering Shariah scholars, Review Officers, Coordinators, and Shariah Auditors.

Shariyah Review Bureau lets you remain focused on what you do best while they take care of all Shariah compliance matters. IFEN team was pleased to interview Mr. Yasser S. Dahlawi, the Chief Executive Officer of Shariyah Review Bureau "SRB", a leading Shariah advisory firm with extensive experience and knowledge of Islamic finance in the Middle East.

[1] Please describe the history of SRB briefly?

Shariyah Review Bureau (SRB) is a Middle East based *Shariah* advisory company, licensed by the Central Bank of Bahrain. SRB works with several top financial institutions including, amongst others, HSBC (KSA), NCB Capital (KSA), United Arab Bank (Dubai), Al Saffa Bank (Qatar), Arab Bank (UAE), Al Khabeer International (Bahrain) and OP Calypso (Hong Kong). Our services are designed to fulfill *Shariah* supervisory requirements of clients starting with the conception of investment products to consultation, product structuring, Certificate (Fatwa), and *Shariah* Compliance

Audits.

SRB's scholarly landscape is global in its scope and entails 28 reputable *Shariah* scholars from diverse geographical locations covering the world's major *Shariah* compliant markets from the Middle East to North Africa and Asia. Our clients are typically looking out for bold, fast, efficient, connected and responsive solutions in *Shariah* matters and they come to us for dynamic, speedy and customized solutions to meet their organization's specific needs.

[2] What is your role as a specialized Shariah advisory? And what is your added value?

We take on immense challenges which businesses face in managing and administering *Shariah* committees, supervisory audits, and compliance functions. Working with us is like having in-house *Shariah* advisors, coordinators, review officers and *Shariah* auditors who are on call whenever you need them. We achieve this by partnering with clients as a unified team and performing in the same dynamic and challenging environments in which they do business.

We give our clients direct channels of communication with *Shariah* experts. This direct access allows clients to pro-actively liaise and ensure accurate development and structuring of their products, deals and structures based upon their own special and specific needs and experience.

[3] What is the difference between the service you are offering and the activity of any Shariah board in an Islamic bank?

Compliance with *Shariah* is the core feature of Islamic banking and the role of *Shariah* Supervisory Boards is becoming more sophisticated as the industry grows. In the early stages of Islamic banking the number of products and transactions examined by any *Shariah* Board was limited. Now, any *Shariah* Board is overseeing multiple products and activities of the bank or financial institution. Therefore,

the need to work within a professional framework and to institutionalize the *Shariah* supervisory function arises. In view of that, the role of specialized *Shariah* advisory firms became very important.

Our role focuses on providing and maintaining sufficient *Shariah* supervisory functions for our clients. That includes three main functions; products approval, *Shariah* consultation and *Shariah* audit. This is in addition to other specialized services we provide including stocks screening, training and developing *Shariah* audit manuals.

[4] Please elaborate more on Shariah audit manuals?

Shariah audit manuals are designed to support the internal control systems of a corporation and to increase efficiency and enhance compliance with *Shariah* guidelines. One of the main objectives of this service is to employ professional methodology in performing *Shariah* compliance audits. Manuals can be tailor-made to the activities, product and services of the organization. It can also be generic including standard instructions for *Shariah* audit activities

[5] With the current political events in the Middle East what challenges are facing the development of Islamic finance in this region and what opportunities do you identify?

With all the political events taking place, it is clear that the demand for Islamic banking and finance has increased which is a major opportunity for the growth of the industry. However, the main challenge is regulations, even in countries currently offering Islamic banking services. In other words, without the proper regulation that takes into consideration the practices of Islamic banking and finance, regulation will remain an obstacle. Another main challenge is the availability of human resources which is facing the whole industry in general.

[6] What are your recommendations for these three markets to develop Islamic finance?

I believe that it is important to adopt Islamic banking and finance on a national level which means modifying regulations to cater for Islamic finance. On the other hand, my recommendation for those countries is to try to benefit as much as possible from the global experience in Islamic finance and its implementation in different countries in order to avoid faults and to develop an improved model.

Lessons from Malaysia: Developing the Islamic Finance Industry in Egypt

By: *Umar A. Oseni*

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The exponential growth being experienced in the Islamic finance industry, particularly during the last decade, is unprecedented. With over \$1 trillion *Shariah* compliant assets, the Islamic finance industry has displayed its resilient nature particularly during the turbulent period of global financial crisis. The on-going socio-political and economic reforms in Egypt call for proper frameworks for each of these sectors in order to reposition the Egyptian polity on the right track. It is no news to experts of Islamic finance and people who care to study the modern history of the industry that Egypt is a forerunner of the modern practice of Islamic finance with the Mt. Ghamr experiment of 1963. It appears Egypt lost this prime position over the years as a result of over sixty years of military rule with allegations of corruption and despotic rule. Given the importance of post-revolution reforms in the country and the overarching significance of the economy in the transformation of lives of the common people, things must be right at this first time or else the overall objective of the revolution will never be achieved.

In order to reposition the Egyptian economy next up to the front burner, a sustainable framework for the practice of Islamic

finance is absolutely necessary. This takes us to some successful models in the global Islamic finance industry. The focus of this article is the Malaysian model, which is considered as one of the most advanced frameworks in the global Islamic finance industry. While the analysis focuses on Malaysia, some relevant references are made to the Indonesian experience in the institutionalization of Islamic finance.

The Malaysian Experience

In Malaysia, an industry which began with a simple Hajj Savings Fund or what is generally known as Tabung Haji has consistently been developed through public-private partnership over the years to produce one of the most advanced Islamic finance industries in the world. The initial experiments in the 1960s in Malaysia has resulted in the exportation of Malaysian experiment in terms of products, market players, education awareness, industry bodies, regulations and legal framework, to other developing economies in the Organisation of Islamic Cooperation (OIC) like Egypt, Tunisia, Libya and Yemen. With a team of dedicated leaders with altruistic foresight, a dedicated legislation was enacted for the Islamic banking industry in

Malaysia known as the Islamic Banking Act of 1983. Subsequently, the first Islamic bank was established – Bank Islam Malaysia Berhad (BIMB), which commenced operations on July 1, 1983.

With the full backing of the Malaysian government, the Central Bank of Malaysia has consistently supported and sponsored initiatives to improve the practice of Islamic banking in the country and beyond. It has progressively partnered with sister Central Banks within Asia and beyond building the necessary synergy to develop the global Islamic finance industry through positive initiatives to promote cross-border transactions. In 2010, the Labuan Islamic Financial Services and Securities Act (LIFSSA) came into force. This new legal and regulatory framework provides a one-stop regulatory system for *Shariah* compliant business and financial services in a seamless way. Such *Shariah* compliant and conventionally competitive initiatives are put in place to establish Malaysia's leading role as a leading Islamic finance hub.

Apart from the banking sector, which has become the cynosure of all eyes, the Islamic capital market and the *takāful* industry have steadily been developed along the line of Islamic banking in Malaysia. Practical steps are put in place on a daily basis including the development of human and capital resources that will take the current initiatives to the next level. While there is a standing National Shariah Advisory Council at the Central Bank level, all Islamic banks and financial institutions in the country are statutorily required to establish Shariah Advisory Committees who are subject to the rulings and authority of the former. The Islamic capital market has its own separate Shariah Advisory Board established at the Securities Commis-

sion and saddled with the statutory role of ensuring that the Islamic capital market complies with *Shariah* principles. In order to complete the golden continuum of *Shariah* compliant products, several dispute resolution frameworks have been put in place over the years and they have passed through different stages of reforms, the latest being the mandatory referral of all Islamic finance cases coming before the court to the Kuala Lumpur Court Mediation Centre established on August 26, 2011.

Other countries in Southeast Asia and beyond have embraced these laudable initiatives in Malaysia. Foremost among these countries are its immediate neighbours such as Indonesia and Singapore. Recently, the Central Bank of Malaysia and Bank Indonesia organised a Joint High Level Conference on Islamic Finance. This was meant to enhance financial linkages toward economic prosperity between the two countries. The conference was meant to achieve the following objectives:

- (1) Foster stronger bilateral ties and cooperation between Malaysia and Indonesia in Islamic financial markets;
- (2) Enhance two-way trade and investment links for meaningful business relations and presence in both countries;
- (3) Explore potential business and investment opportunities for Malaysian and Indonesian investors; and
- (4) Promote Islamic finance as a viable alternative and new asset class that can provide greater stability and certainty to the global financial system. The new authorities in Egypt can learn a lot from these joint initiatives and set the ball in motion to develop the economy of the

country through collaborative efforts with other advance economies.

Making things happen in Egypt

1. Get it right now. The history of modern Islamic finance is not complete without the early Egyptian experiment. Subsequent decline was experienced in the industry as a result of bad policies and diminishing reputation. Getting things right with a renewed zeal to regain the lost glory and occupy an enviable position in the global Islamic finance industry is of utmost necessity.

2. Avoid the Cosmetic Model of Islamic Finance. With the crystallization of the practice of Islamic finance in some advanced jurisdictions, it seems the snowballing effect is now being experienced. The post-revolution Egypt must avoid the cosmetic model of Islamic finance where the label “Islamic” is being abused to win the minds of millions of unwary customers. Any Islamic finance product that is being utilized in the industry must be *Shariah* compliant in its form and substance.

3. Establish a Standard Framework for Dispute Resolution. Disputes are inevitable in matters of financial transactions. Islamic finance cannot be an exception. So, all hands must be on deck to establish a formidable framework for sustainable dispute resolution. The platform of the Cairo Regional Centre for International Commercial Arbitration may be utilized for mediation and arbitration of Islamic finance disputes. The courts should be the last resort when all other sustainable avenues have been explored.

4. Explore the OIC Market. With the overarching approval to cross-border Islamic finance transactions and investments by the Organization of Islamic Cooperation, Egypt

should explore these markets and encourage Foreign Direct Investment through regulatory incentives. When the regulatory framework in Egypt is conducive for investors with a relaxed capital control, many of the foreign investors would flood the market with *Shariah*-complaint products.

5. Cooperate and collaborate with other countries to boost the *Shariah*-compliant financial system. Malaysia and Indonesia have continued to collaborate to promote Islamic finance with a number of mutually beneficial joint programmes that would enhance such symbiotic economic relationship. Similar economic cooperation may be initiated between Malaysia and Egypt. The *Shariah* governance framework in Malaysia can also be replicated in Egypt. In fact, Egypt has more human capital to handle this important organ in the corporate governance structure of the Islamic Financial Institutions.

Conclusion

It is clear from the Malaysian experience that a mix of state-backed infrastructure and regulatory policies, including a dedicated legislation, and private sector initiatives is absolutely necessary in developing the Egyptian economy in this crucial post-revolution era. Getting it right at this climacteric period will reposition the Egyptian economy in the global economic map. Who says Egypt cannot be a new hub of Islamic finance in the Middle Eastern and North African region –a region undergoing significant economic and socio-political reforms. With all possible vigour, Egypt should tap into the growing market of *Shariah*-compliant financial instruments. All hands must be on deck to realize this objective that would project the country as the cynosure of all eyes in the Islamic finance industry.

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The Role of Islamic Finance in Post-Revolution Egypt

Opinions expressed here are the writer's own and do not reflect that of his organization.

By: Dr. Shehab Marzban

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Living in a country which is currently witnessing a tremendous political change due to the revolution that started on January 25th, 2011 and ended a dictatorship which lasted over 30 years, one is faced with numerous challenges, specifically the rise of Islamic political parties and their demand to restructure the banking and finance sector into a pure Shariah-compliant financial sector.

Islamophobics would just argue that promoting Islamic finance will catapult us a thousand years back, whereas it is very important to discuss Islamic finance in an objective manner to ensure that not everything labeled Islamic should be either criticized blindly with skepticism or accepted uncritically.

Just consider Islamic finance as an ethical way to perform banking and finance. Egyptians who belong to either Islamic political parties or groupings, secular or liberal groupings, or ideology-less Egyptians would all agree to promote ethics and principles which ensure that economic transactions are conducted in a manner that ensures fair distribution of wealth, joint risk taking, social responsibility and proper economic

development. Creating wealth and concepts of capitalism are not against Islam and thus the creation of value and growth is actually an element to be promoted. Egypt as a market is already very close to Shariah principles due to the absence of highly speculative financial derivatives such as options, swaps, futures and forwards. So, the main confronting issue would be the problem of interest and its interpretation as being “*riba*”. While Sheikh Tantawy and other scholars in Egypt issued fatwas accepting that interest from banks is not *riba* and thus permissible for Muslims, most *Shariah* scholars in Egypt as well as abroad will consider interest as being *riba* and thus a non-permissible manner to conduct financial transactions or create wealth.

Some will argue on how Islamic finance can be imposed on the Christian minority living in Egypt. Again, Islamic finance is primarily about ethics which are promoted by all religions as well as common sense, hence, there is no reason non-Muslims should consider Islamic financial institutions as a fear factor. Actually, a country like Malaysia is a good example, since a lot of Egyptians consider it a role model due to the evolvement of its economy within the

last 30 years as compared to Egypt. Malaysia is a largely diversified country with 60.4% Muslims, 19.2% Buddhists, 9.1% Christians, 6.3% Hindus and the rest belonging to other religious groups or are unknown². In Malaysia, according to some top officials in the banking sector, Islamic finance is also attracting a large portion of non-Muslims. The chairman of a major German financial services group providing Islamic insurance (Takaful) products in Malaysia, states that “there is nothing more powerful in the world than an idea whose time has come. Islamic finance is not a Muslim-only affair. It shows qualities, which are beneficial to all kinds of customers. For all the *Shariah*-compliant products we sell in countries such as Malaysia, some 70 percent of our clients are non-Muslim.”³ So if it works for Malaysia, why shouldn't it also work for Egypt? But we need to understand the reason behind why non-Muslims choose to use the services of Islamic banks since it surely isn't a religiously based decision. In a recent research conducted, Muslims and Non-Muslims in Malaysia were asked a number of questions regarding their perception towards Islamic Banking and Finance⁴, including the following:

What factors would attract you to Islamic banking: Religion, Products and Services, Availability of Outlets or Reliability

Rank	Muslim	Non-Muslim
1	85% Religion	64% Products and Services
2	73% Products and services	62% Other Factors
3	69% Reliability	15% Reliability
4	58% Other Factors	14% Availability of Outlets
5	53% Availability of Outlets	2% Religion

64% of Non-Muslims rank as a top priority the products and services offered by Islamic banks as the main attracting element whereas for Muslims the top priority is religion and adherence to their religious principles. Interesting is that religion is ranked fifth by Non-Muslims which implies that Islamic finance is considered as being compatible with their religious beliefs also. This issue is undermined further in the following survey question:

“Investing with Islamic banking does not conflict with my religious beliefs.”

Responses	Non-Muslims
Strongly Agree	11%
Agree	61%
Neutral	23%
Disagree	3%
Strongly Disagree	2%
Total	100%

² Source: The World Fact Book on Malaysia

³ Mushtak Partner, “Islamic finance without innovation is dead”, Arab News, April 2011

⁴ Mark Loo, “Attitudes and Perceptions towards Islamic Banking among Muslims and Non-Muslims in Malaysia”, International Journal of Arts and Sciences, 2010

So a total of 95% either strongly agree, agree or are neutral in that Islamic banking and finance does not conflict with their religious beliefs.

On a different note, some might argue that while Islamic Finance may be accepted in Islamic countries, this will not hold true for the West or secular countries. In a secular country like Turkey, for example, Islamic banking is growing tremendously and an increased interest exists in Islamic financial products, which are interest-free. In the United States, an Islamic fund like the Amana Income Fund, Assets Under Management now exceed \$1.3 billion and are managed according to *Shariah* principles attracting a lot of investors, many of whom are Non-Muslims.

According to a recent article in the Financial Times, Islamic banks in the UK are providing higher returns than their conventional counterparts, which results in increased customer deposits, mainly from Non-Muslim investors, such as in the Bank of London and Middle East⁵.

Similarly, during the financial crisis, the Vatican raised concerns about the current global financial system, including excessive interest-based transactions and speculative activities which in fact would be considered non-compliant from a *Shariah* perspective.

In New York, located at 53rd Street with 6th Avenue, a fast food stand can be found called “Halal Guys” which does not differ from any other fast food or hot dog stand you see across New York downtown corners, except



for the fact that this stand is always crowded and queues form on a daily basis by hundreds of New Yorkers and tourists alike. The men serving the food are Egyptians, long bearded Muslims and their products are labeled as Halal food, which might at first seem appealing for Muslim Americans only, and scary for Non-Muslims who would correlate the product and the men selling it with terrorism, 9/11 and less freedom but actually, the queued mass in front of the stand is there because what is offered is a high quality product in terms of food quality, pricing and service, resulting in attracting all types of New Yorkers and not just Muslims.

Imagine Islamic finance and especially the Islamic fund industry to be cross-religious by providing qualitative investment products in terms of return, risk, liquidity as well as ethical credibility which appeals to both Muslims and Non-Muslims similar to the concept of the “Halal Guys” in New York. In the case of the “Halal Guys”, the Islamic reference in their labeling does not bother the New Yorkers, so the question is

⁵ Elaine Moore, “Islamic banks outstrip high street rates”, *Financial Times*, October 2011

if Islamic finance could have the same effect or not.

Instead of focusing on the labeling, we have to focus on recognizing the positive element in the product offered instead of just criticizing it.

So, in conclusion, Islamophobics should give Islamic finance a chance and judge based on the services and products offered, comparing them to their conventional counterparts. On the other hand, promoters of Islamic finance should not focus on enforcing its products through banning conventional products and spreading fear that by not following the Islamic path of finance one is on the road to hell.

Even in a country like Saudi Arabia, *Shariah*-compliant financial institutions coexist with conventional financial service providers leaving the man on the street to choose which type of institution he or she prefers. Therefore the coexistence of alternative financial services needs to be ensured. Depositors' and investors' choices will be based on quality of service, trust and transparency, eventually pushing the financial service that is superior.

The quality of Islamic financial institutions and their products is the key factor to enhance the understanding and perception of Islamic finance without enforcing it on society by legislation but rather considering it as an alternative irrespective of the current political changes witnessed in Egypt.

An alternative's superiority can only be determined by freedom of choice rather than enforced choice.



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