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«Truly, nothing is hidden from Allah, in the earth  
or in the heavens».

Surat Ale-Imran, 3:5 Holy Quran



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The Shari'ah Scholar's Journal

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Murat Cizakca

## ISLAMIC STUDIES

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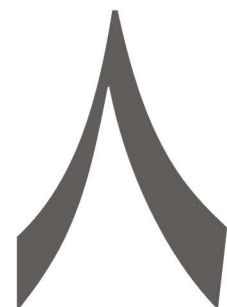
## ISLAMIC FINANCE – ITALY

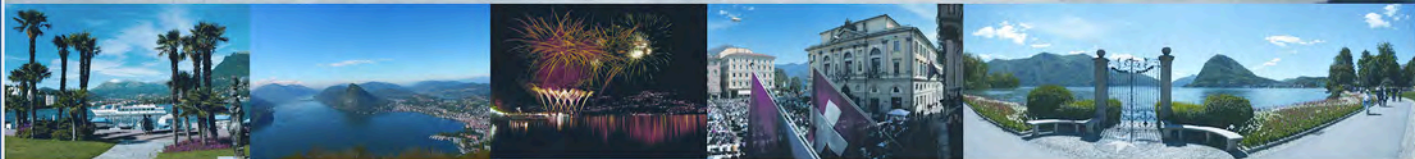
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Alberto Di Gennaro  
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# Editorial

Dear Readers

The art of Islam is essentially a contemplative art, which aims to express above all, an encounter with the Divine Presence. The origin of Islamic art has often tried to be explained through tracing it back to some precedent in Byzantine, Sassanid, Coptic or other art, yet what is lost sight of, is the intrinsic and original unity of Islamic art and thus the 'seal' that Islam conferred on all borrowed elements. In order to understand the essence of Islamic art it is first necessary to realise the different conceptions of art itself. From the European point of view, the criterion of an artistic culture lies in its capacity to represent nature and even more in its capacity to portray man. From the Islamic point of view, on the contrary, the main scope of art is not the imitation or description of nature - the work of man will never equal the art of God - but the shaping of the human ambience. Art has to endow all the objects with which man naturally surrounds himself - a house, a fountain, a drinking vessel, a garment, a carpet - with the perfection each object can possess according to its own nature. Islamic art does not add something alien to the objects that it shapes; it merely brings out their essential qualities.

In traditional art, beauty and use go hand in hand; they are two inseparable aspects of perfection, as envisaged by the Prophetic tradition: 'God has prescribed perfection in all things.' It is connected with the concept of *ihsan* as set forth in the Hadith of Gabriel, whereby the religion rests on three fundamental principles: Islam (submission to the Divine Will), Iman (faith), and Ihsan. Ihsan may be translated as 'spiritual virtue' or simply virtue, and includes the ideas of beauty and perfection. More exactly it means inward beauty, beauty of the soul or of the heart, which necessarily emanates outwards, transforming every human activity into an art and every art into the remembrance of God.

If we consider inward beauty and outward beauty, we find the latter has its origin in the former. To the extent that human activities are integrated into Islam, they become a support for beauty - a beauty which in fact transcends these activities because it is the beauty of Islam itself. This is particularly true of the fine arts, as it is their role to manifest the hidden qualities of things. The art of Islam receives its beauty not from any ethnic genius but from Islam itself and just as Islamic science has its roots in the Qur'an and hadith, so the typical forms of Islamic art are rooted in the spirit of Islam.

An important lesson that Islamic art provides is in challenging the notion that works of art from earlier centuries need to be studied as historical 'phenomena', which belong to the past and have very little to do with the future. Against this relativistic point of view, for the Muslim, the great mosques of Kairawan, Cordoba, Cairo, Damascus, Isfahan, Herat and so on belong as much to the present as to the past, insofar as it is possible to realise the state of mind of those who created them, and thus what is timeless in the art of our spiritual ancestors is the roots in Islam itself.

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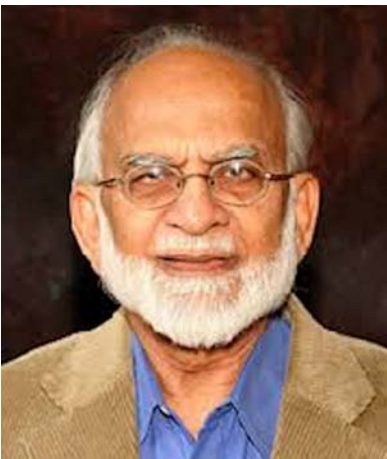
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Mohammad Nejatullah Siddiqi

Dr. Mohammad Nejatullah Siddiqi is a highly respected Islamic economist, and a former professor of economics at both Aligarh University and King Abdul Aziz University in Jeddah. His website includes several essays on Islamic economics, as well as on the rationale for the prohibition of interest. He is particularly noteworthy as well for our purposes for his 1973 study, *Insurance in an Islamic Economy*, which helped build support for the idea that insurance, in some form, does have a place in an Islamic community.

# Shariah, Economics and the Progress of Islamic Finance

By Dr. Mohammad Nejatullah Siddiqi

Discussing the role of *Shariah* experts in the development of Islamic economics and Islamic finance calls for a look at the nature of economics and the focus of *Shariah*. The chief concerns of economics over the ages have been efficiency and equity. *Shariah* in its broader sense that gives primacy to objectives over rules and regulations shares these concerns. However the same may not apply to *shariah* meaning *fiqh*: i.e., laws codified at a particular time and place. The historical context in which we approach our subject today sends mixed signals. The schools of traditional *Shariah* learning had long tilted towards teaching codified *fiqh* with few insights into the objectives, the *maqasid al-shariah*. But the new assignments given to *Shariah* scholars trained in these schools increasingly called for paying attention to objectives while interpreting the rules. How far have they been able to meet this challenge, is one of the questions whose answer I will try to explore. I begin by first narrating what happened in the name of Islamic economics during the last century then trying to understand where we find ourselves today and how we arrived where we are in the business of Islamic finance.

## The Islamic Economics Project

Islamic economics was conceived in the early part of the twentieth century as an antidote to socialism and capitalism—an Islamic response to what were perceived as God-less western ideologies. The emphasis was on justice. Freedom from colonial rule and all that it meant in terms of exploitation and oppression was to be accompanied by a return to Islam that stood for elimination of poverty and reduction in inequalities in the distribution of income and wealth. Islam would help securing these goals without socialistic regimentation depriving people of their freedoms and robbing them of their properties. Islamic economy would not allow labor to be exploited by capitalists and the environment to be despoiled by greedy profit seekers. The appeal in all this was to the objectives of Islam, the *maqasid al-Shariah*. There were few references to *fiqh*, to *Shariah* in the sense of laws and regulations as codified in early Islamic history. Those who championed the alternative vision were mostly modern educated people, university teachers, journalists, political activists, poets. Even among the *Ulema* expounding Islamic economic system very few could be characterized as experts in *fiqh*/Islamic law. Even though it was asserted that Islamic economic system would be free from

interest and gambling-like speculation, the *mechanics* of interest-free banking did not occupy the center of the stage. That came much later, in the nineteen-seventies, to be precise. That development brought in the *Shariah* experts whose role I propose to study and highlight, but before that there is something more to note in order to reinforce what I said above.

In the early nineteen-seventies I made a survey of writings on Islamic economics in English, Arabic and Urdu languages. Out of the seven hundred items included in the bibliography only 8 date before 1920. Out of these, only 2 deal with the subject of interest, the remaining dealing with distribution of wealth (2) history (2) trade (1) and *waqf* (1). Of the 14 entries in the following decade only one deals with interest, the remaining are spread over other subjects. The first writings on interest-free banking appear in the nineteen-forties. Out of a total of 28 writings on Islamic economics during this period, three are on interest-free banking. Among the remaining *zakat* and the Islamic economic system in general has the largest number of writings. Though the writers in this period include *Ulema* trained in traditional schools, the writings on interest-free institutions are not by them. We have 156 entries for the nineteen-fifties which include several writings on interest and interest-free institutions but the writings on socialism, capitalism and on some other aspects of Islamic economy far outnumber these. I have also listed all writings on interest-free banking in English, Arabic and Urdu till 1967 in the appendix of my book *Banking Without Interest*. Out of the 18 items listed 9 belong to nineteen-sixties, 2 to the fifties, 3 to the forties and 4 are not dated. Few, if any, among the authors of these books are *Ulema*. As the above-mentioned survey would show, most of the writings on interest-free Islamic banking came in the sixties and seventies of the last century. But the flood of technical material on the subject started after the period I surveyed and that is where *Shariah* experts came into picture in a big way.

### **Shariah Experts**

I have made this statistical digression to establish three points.

First, the project of Islamic economics launched in the twentieth century was much wider in scope than introduction of Islamic finance, as it was mainly focused on providing a just and humane alternative to the raging ideologies of those times, capitalism and socialism.

Second, the role of *Shariah* experts in launching that project was at best marginal. I hasten to add that I say this not to belittle the role of *Shariah* scholars but to put it in proper perspective. As we proceed to describe, they do have a very

significant role in the contemporary practice of Islamic banking, much more than what we noted above in the context of early days of the Islamic economic project. But their role is rather technical whereas the main project from which Islamic finance branched out was civilizational, oriented as it was towards *maqasid al-shariah*, which have little to do with technicalities. As I will show in what follows, *Shariah* experts have been doing what their training equips them to do, and they have been doing it well. Unfortunately their training is no longer well designed to serve the *maqasid al-shariah* in circumstances very different from the environment reflected in the books they study. This places the entire burden of identifying the *maqasid* involved in any matter and finding ways and means of securing them on the individual *Shariah* expert. Furthermore, the *Shariah* advisory function also involves monitoring the consequences of adopting a certain course and, in the light of lessons learnt, changing course if necessary. Let me make it clear that the *Shariah* experts do care for *maqasid al-Shariah*. As I have argued elsewhere, there are numerous recent examples of *fatawa* given on the basis of *maqasid*. The problem in my opinion is not of willingness to take *maqasid* into account. The challenge comes from the nature of the task in the new environment. These are tasks calling for not only economic analysis but drawing upon latest developments in other social sciences like sociology, psychology, political science and management. Lacking proper institutional arrangements for training to do the task, with its necessary backup in terms of fundamental research, instances of malfunction have been increasing in recent years causing anxieties in the market and raising the possibility of a backlash in terms of consumer rejection.

Third, it is only natural that the progress of Islamic financial industry be evaluated in the context of the larger project of Islamic economics of which it is an offshoot. That many find Islamic finance failing to serve the larger goals of Islamic economics should not be shocking in view of the short period of time since actual practice started in mid nineteen seventies and complexity of the task itself.

The first few *fatawa shar'iyah* dealing with Islamic banking and finance and providing us with a window upon role of *Shariah* experts in the development of Islamic finance date late nineteen seventies and early eighties. They originated from the Dubai Islamic Bank, Kuwait Finance House and Faisal Islamic Bank in Sudan. Most of the early *fatawa* deal with well-known contracts like *mudarabah* and *musharakah* along with *tijarah* (trade). *Murabaha* was not in picture in this early phase, nor were *salam/istina'*. I am not sure about





leasing (*ijarah*), but it could have been on the agenda of Kuwait Finance House. Issues relating to trade dominated the scene, giving rise to questions and answers relating to guarantees and bills of trade. There was no conscious effort to find Islamic substitutes for conventional financial products (which is different from what was obviously in focus: finding Islamic ways to do what needed to be done). In the nineteen eighties the two big conglomerates, Dar al-Mal al-Islami and al-Barakah, established in the beginning of the decade, became the most important sources of *fatawa*, even though smaller entities like the Jordan Islamic Bank had their independent *Shariah* Boards some of whose *fatawa* are available in print.

The emergence of Islamic financial institutions (Islamic banks, Islamic insurance companies, Islamic investment companies, etc.) was preceded by lot of homework that involved *Shariah* experts. Some of these works are available in the form of committee reports.

The involvement of *Shariah* experts in the project was also crucial in giving legitimacy to the newly established Islamic financial institutions. For the Muslim masses under colonial rule, western financial institutions were an extension of

colonialism, an instrument of exploitation like other colonial institutions. Introducing banks and insurance companies in Muslim societies was, therefore, always suspect as the history of nineteenth century shows. Government officials and businessmen with a vested interest would have never succeeded in selling these institutions to the people.

It is time to mention state-sponsored bodies occupied with the task of 'Islamization' of banking operations in Pakistan, Iran and Sudan. *Shariah* experts served on these bodies, either as members as in case of the Council of Islamic Ideology in Pakistan or as advisors to the central bank of the country, a pattern followed later on in Malaysia and Indonesia, both of which have in-house committees of *Shariah* experts. Pronouncements of the Council of Islamic Ideology and other official bodies mentioned above are, mostly, available in print.

About this time, in the middle of nineteen eighties, big multinational financial corporations started operating in the Islamic financial market. Whereas the two biggest Islamic conglomerates, Dar al-Mal al-Islami and al-Barakah were managing funds around 5 billion dollars each at the peak of their success, Citibank, HSBC and ABN AMRO, managing



hundreds of billions each started aggressively, first to prevent their rich Arab clients from deserting them in favor of Islamic banks and then to mop up the surplus liquidity in the oil-rich Muslim countries. The small but rich Muslim countries of the Persian Gulf also entered the fray at the official level. Even after the introduction of *murabaha*, *ijarah*, *salam* and *istisna'* during the eighties, the Islamic financial market needed more sophisticated financial products to handle the estimated three hundred billion dollar funds under management at the dawn of the twenty-first century. The impulse to try duplicating conventional financial products seemed natural.

Some important departures from early practice in the matter of *Shariah* advisement need be noted at this stage as they may turn out to have implications for our subject of study: role of *Shariah* experts. Most of the *Shariah* experts serving the Islamic financial industry in its infancy were not well versed in the English language. This changed. Western multinationals marketing Islamic financial products needed *Shariah* experts who could read, write and speak English. That was a scarce commodity in late eighties and continues to be so. Secondly, we find increased secrecy and reduced transparency in this later phase. Being private institutions the new entrants were under no obligations to make public all that their *Shariah* experts told them. Thirdly, those issuing *fatawa shar'iyah* in the early seventies came from an environment in which *fatwa* was seen as a public good. This was not obvious in an environment in which conventional legal experts charged hefty fees per hour of consultation. Following the same practice in getting Islamic-juristic advice looked fine. And lastly, wide publicity of *fatawa* in the early phase served the additional purpose of assuring the niche markets for Islamic financial products that they were being served the *halal* they cherished. But with the passage of time the importance of this function declined sufficiently to be overshadowed by the advantages of reaping the advantages of innovative moves.

### **Shariah Advisement Under Stress**

In anticipation of further empirical research I can only surmise that the trend of focusing on duplicating conventional financial products through a kind of Islamic financial engineering started in nineteen nineties and came to dominate the scene in the new century. The most important areas seem to be *sukuk* duplicating bonds and *tawarruq* duplicating bank-loans. Leaving detailed empirical research for more competent scholars, I shall proceed to describe the mal-function in *Shariah* advisement that occurred in the case of *tawarruq*, as an example.

I base my opinion that declaring *tawarruq* to be *Shariah* compliant is a case of mal-function in *Shariah*-advisement on two grounds. Firstly, it was necessary to evaluate the *masalih* (benefits) and *mafasid* (harms) involved, as adoption of this practice on a large scale (by financial institutions) was an entirely new thing without precedents in the entire history of Islam. In the words of some scholars, *tawarruq masrafi* is qualitatively different from *tawarruq* practiced at individual levels, person to person. Secondly, evaluating *masalih* and *mafasid* in case of wide spread practice of *tawarruq* was beyond the capacity of *Shariah* experts, generally speaking, as it requires expertise not provided in *Shariah* schools. I think it is necessary to look at the ultimate macroeconomic consequences of approving this product. It is not possible to detect the full extent of the *mafsadah* (ill-effects) involved without doing so. The *maslaha* (benefits) cited by those approving the product mainly relates to the individuals. Also it is smaller compared to the public harm that would occur. In accordance with the well-established *qaidah* (dictum), the smaller private gain has to be given up in order to avoid the larger public harm. Unfortunately the macroeconomic part of the above argument never came into focus in the deliberations on the subject. The point I wish to make is: It could not be considered because the kind of training it calls for is not given in *Shariah* schools. The ability to conduct economic analysis in order to delineate the consequences of allowing *tawarruq* is not available with *Shariah* experts, generally speaking. Let me briefly elaborate.

One of the banes of modern financial system is the proliferation of debt. Debt instruments dominate the scene. From money creation and supply of credit to investment and capital formation, in the domestic market and at the international level, everywhere it is accelerated proliferation of debt. Islamic economists since the earliest dates but increasingly during the last three decades have pointed out that almost all major ills of the cotemporary economic and financial system are rooted in this phenomenon. Domination of debts leads to instability. It creates opportunities for gambling-like speculation. It increases disparities in the distribution of income and wealth based as it is on interest. Islamic economists advocated an asset-based system of creating money and extending credit in which money loans will occupy a marginal role. The problem with *tawarruq* is it introduces money now, given in exchange of a larger amount of money in the future, thus opening the door for debt proliferation. As I noted earlier, arguments given in favor of *tawarruq* demonstrate complete unawareness of the macro economic consequences of debt proliferation.

It is not possible for me in this brief talk to go into further details in discussing the wider causes of mal-function in *Shariah* advisement. I only note that it occurred. I think it can occur again. I suggest the issue be discussed with the seriousness it deserves and at the level of scholarship it requires. It will be most unfortunate for the discussion to degenerate into a blame game. The matter is far too complex to be dealt with in terms of pronouncements of right and wrong, sincere or motivated, etc. To appreciate part of the complexity, let us remember that economists were always called upon to assist the *Shariah* experts by the sponsors of *Shariah* boards/advisories. They participated in several conferences and seminars organized to sort out such matters as inflation, and indexation. They are invited to participate in non-voting capacities in such bodies as the OIC sponsored *Fiqh* Academy, Jeddah and the *Fiqh* Council of Muslim World League at Mecca and the Islamic *Fiqh* Academy, India. It remains to be researched how far this association served its purpose. If it still left something to be desired, why? In these days of specialized expertise it may be too much to expect anyone to be an expert in the whole of *Shariah* or in all branches of *fiqh*. So how realistic it is to expect one to be an expert in *Shariah* and economics simultaneously? All that can be said with certainty is that the current practice of *Shariah* advisement/auditing, buttressed by occasional hearings given to economists, is vulnerable to mal-function. As to how to fix it, we are yet to grapple with that problem. I do not claim to offer you any quick fix. I will consider my job done if I succeed in convincing you that a problem exists and deserves your attention.

Banking, insurance and investment were not the only financial institutions taking off from the Islamic economic

project launched many decades ago. In several countries with a Muslim majority the project covered other areas of the economy such as trade, commerce and international economic relations. The establishment of the Islamic Development Bank and its numerous subsidiaries is an eloquent testimony to that. Even in the countries in which Muslims lived as minorities, there have been considerable efforts to reorganize *Awqaf* and harness them once again in service of the goals they served in Islamic history, e.g., educational improvement and health care, etc. Also there have sprung up official as well as private institutions for collection and disbursement of *Zakat*. *Shariah* scholars had a strong role in the conception as well as direction of these institutions. Last but not the least, teaching of Islamic economics and finance, and research in related subjects, spread throughout the landscape of Muslim education with the *Ulema* often taking a lead. It would be rewarding to cover these areas too as they are witness to the valuable contributions *Ulema* have made to Islamic economics and finance. But I stop here to enable you to focus exclusively on the most important part of a vast problem.

Summing up, I would like to re-affirm the important role *Shariah* experts played in the progress of Islamic economics and finance. However there has been some mal-functioning that needs looking into and correction. Further more, the issues we face are far too complex to be handled properly without some conceptual as well as structural changes in *Shariah* advisement. The future of Islamic economics and finance may well depend on rising to this challenge.





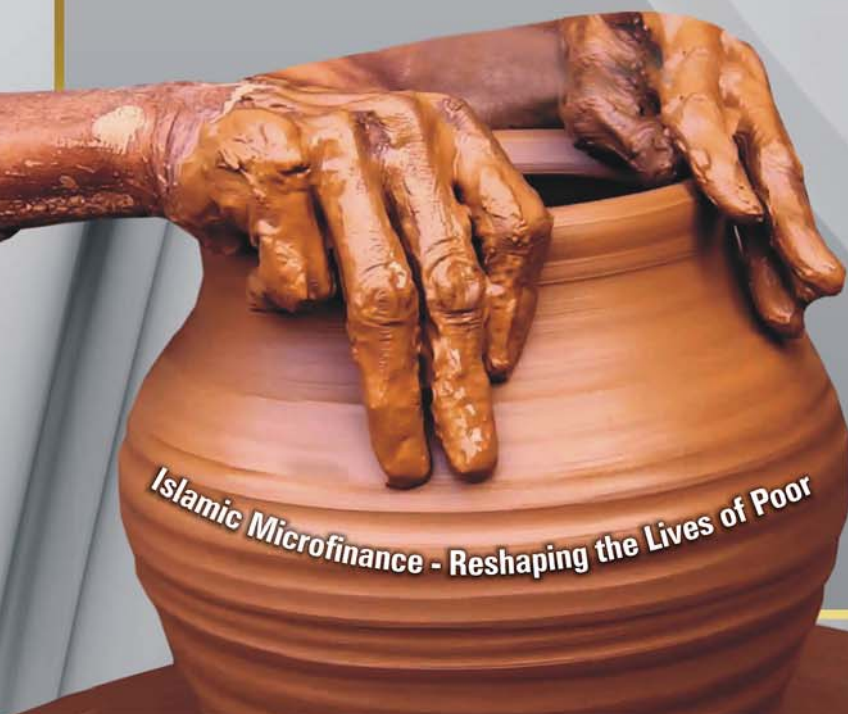


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Sidi Abu Salif Ahmad Ali al-Adani

He was born in the Yemen, and he is an Italian Muslim and one of the scholars devoted to the revival of the classical knowledge of Ahl as-Sunnah. He has studied in Tunis, with Shaykh Muhammad an-Nayfar and at the Zaytouna University and the Bourghiba School for Arabic. Then he moved to Cairo, where he studied at Ourman School, at the Dirasat Khassah in al-Azhar and at Kulliyah Dar al-'Ulum at the Cairo University. He translated several classical Arabic texts: he is one of the leading world translators of masterworks belonging to the written heritage from the Islamic West.

# Building Households of Enduring Virtue: *The Case of an Islamic Sapiential Household in Islamic Spain*

By Sidi Abu Salif Ahmad Ali al-Adani

Rather than a focus on feeding ideological clans, which met their extinction as quickly as they sprang into life, notable Muslims in the past took great care to nurture evergreen trees of excellence within their households. That was true of Morocco and Jakarta, or Syria and Khorasan in between. There are now books specifically devoted to renowned households of scholarship in Muslim countries, which trace the genesis and evolution of such human spaces in which excellence, in the form of healthy knowledge and civic engagement, was planted firmly in one familial soil, passed from father to son across generations, and made to flourish in different luxuriant branches season after season.

Naturally, there has to be a foreordained growth Allah has willed for that garden, as Imām Mālik synthetically underlined when drawing attention to his own son insouciantly playing with a falcon during one of his lessons. As Muslims, we are not humanists, so we believe that our efforts are blessed with enduring fertility only in the presence of Divinely granted success.

In this nimble writing, which is meant to be no more than the mooted of an issue for further discussion and elaboration, we will introduce the household of Baqī b. Makhḷad in Islamic Spain. In advance, however, it seems appropriate to clarify that, in our view, some of the mainstays of establishing households of durable excellence in this field consist in the following:

- We must have a *sense of mission*. We must clearly envision the centrality of our community (ummah). We must eagerly desire to play a meaningful role in the destiny of the *ummah*, to be agents of significance in it.
- We must have a *direction*. We cannot simply live to survive, to make ends meet or enjoy a slice of this world while engaging in the minimum worship to guarantee an otherworldly pass or prevent our spiritual death in this life. There has to be a greater good which is purposefully aimed at.
- We must have an *identity* and a keen sense of that identity. Members of the household of Baqī b. Makhḷad knew who they were. They were conscious of their roots, and embraced them with affectionate reverence. They were Muslims, but



they were also Andalusian Arabs with a tradition, a set of shared values, and a common culture delineating their human features in relation to the distinguishing features of other such human units. They did not reject their origin. They were not oblivious to it either, as if it was something unsettling to be smothered through indifference or passive negation. That is why we talk of a “household of Baqī b. Makḥlad” in the first place.

- The children and the grandchildren must accordingly feel at all times affiliation to an identifiable *organism*; an organism which, through its peculiar genius, contributes to orientating the forward march of the larger units, e.g. the country (the tribe or the continent), the madhhab, the course of scholarship in a particular age, the Abode of Islam. It must know its special place within these broader maps and how those maps configure themselves on the wider canvas.

- The sets of parents must *coalesce* around that project and around that nurtured identity. They must be ad idem for them to be repositories of a sustainable flame of greatness. It does not matter whether the woman comes from the same ethnic group or not (and excess insularity of marital choices stagnates the lineage), so long as there is cohesiveness around a mission, larger than the immediate material fortunes of a household, at the center of which there need to be the man and the genius associated with his blood and stock. I liaised recently with a descendant of Šaykh Zarrūq striving to perpetuate the virtue of his progeny: we are unaware, conversely, of known Islamic legacies based on matriarchal lines.

- It is not enough to have an inner perception of the uniqueness of one’s household and the role it plays: it must be *voiced*, talked about, embedded in written documents, reinforced on public occasions, celebrated by capable outsiders (patrons, interviewers, biographers, promoters and so on).

- One individual in any such household will naturally emerge as the *custodian* of the specificity of its valuable contribution. When such a human type disappears in one generation, the household is close to eclipse. The family of my late teacher in Tunis, the Nayfar family, was deeply rooted in cross-generational eminence over a number of centuries, but in this age of decadence the visible products of its genius are falling into oblivion, unattended to save by one surviving son of my late teacher. It is imperative therefore to give full support to whichever household member emerges at any given time as the outstanding perpetuator of genial specificity, as its solidifying spokesperson.

The household of Baqī b. Makḥlad had the good fortune of a multiplicity of such gifted spokespersons. Some of the giants in that sequence are briefly listed here under.

Eventually, as it was said by historians, no household boasted a richer mine of scholarly talent than Baqī’s. The only two rivals of sorts were Banū Mugḥhīth in Cordova and Banū al-Bājī in Sevilla (Imām Abu l-Walīd came from that clan), yet Baqī’s household had pride of place in that trio as well.

1. The originator, Baqī b. Makḥlad b. Yazīd al-Qurtubī (201-276 AH), one of the chief *huffāz* of the *ummah*, who authored a large-sized *Musnad* and an excellent *Tafsīr*, the like of which no one had penned as Ibn Hazm stated (with all that he was known for his critical mordacity), and who brought the science of accurate *ḥadīth*-examination to the Iberian Peninsula. In the East, he received direct knowledge at the hands of 284 teachers, almost all of whom were famed for their impeccable qualities.

2. His son, Judge Aḥmad b. Baqī b. Makḥlad (d. 324 AH). Muḥammad b. al-Ḥārith al-Khuṣanī, the reputable biographer who personally associated with him over a long period, described him as someone regaled with generous nobility and proficiency in his pursuits, as eloquent, a moving orator, and a prolific writer. He was an indefatigable memorizer of the Qur’ān, yet he would read from the *mushaf*, like his father, lest he missed the blessing of looking into it. When he passed away, the funeral prayer was recited by his own son ‘Abdu r-Raḥmān, as instructed by his father Baqī in a testamentary disposition. Events like births and funerals, and ceremonies like weddings, are important passages in entrenching the identity of a clan and the internal and external perception of its tangible identity.

3. ‘Abdu r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad (d. 366 AH): A precise writer, a reliable transmitter of *ḥadīth*, and a fluent speaker who presided over sedate gatherings free from coarseness or vulgarity.

4. Makḥlad b. ‘Abdu r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad (d. 408 AH): When he died, he was buried in the area of the cemetery reserved for the tribal clan of Banu l-‘Abbās, and his own son ‘Abdu r-Raḥmān b. Makḥlad conducted the funeral prayer. One of the latter’s brothers in turn was:

5. Muḥammad b. Makḥlad b. ‘Abdu r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad, a *faqīh* who transmitted and taught his forefather’s *Musnad* and *Tafsīr* through a fully familial narrative chain: from his father Aḥmad b. Makḥlad from Aḥmad’s father Makḥlad b. ‘Abdu r-Raḥmān b. Aḥmad from ‘Abdu r-Raḥmān’s father Aḥmad b. Baqī from Aḥmad’s

father, the progenitor Baqī b. Makḥlad.

6. ‘Abdu r-Raḥmān b. Makḥlad b. ‘Abdi r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad, a Cordovan endowed with a fine calligraphy and brilliant skills in recounting stories and anecdotes, who acted in the judiciary for a while, and was subsequently employed as inspector of the police and the market in his home town, a function he performed admirably, conduct-wise, as mentioned to us by Ibn Baṣkuwāl in his seminal *As-Silah*, one of the biographical cornerstones on luminaries of al-Andalus. Therein, Ibn Baṣkuwāl described this household as one of “knowledge, high-mindedness, virtue and majesty”.

7. Aḥmad b. Muḥammad b. Aḥmad b. Makḥlad b. ‘Abdi r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad (d. 532 AH): He was skilled in juristic answers to novel contingencies, as well as in the forefront of expertise on how to phrase contractual terms and conditions (= contract-drafting) and how to pinpoint defects in contracts. He granted a number of scholarly authorizations to Ibn Baṣkuwāl. He was also one of the teachers of al-Qādī ‘Iyād, who mentioned him in that capacity in his index of teachers, *Al-Ghunyah*.

Al-Qādī ‘Iyād included in it a report recounted by his said teacher (Aḥmad b. Muḥammad b. Aḥmad b. Makḥlad b. ‘Abdi r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad) from Baqī b. Makḥlad, through a full transmission chain. A *Musnad* is a work arranged in accordance with the transmitters of reports rather than the chapters of *fiqh*. ‘Ubaydullāh and Ishāq, two sons of Yaḥyā b. Yaḥyā, the celebrated transmitter of Mālik’s *Muwatta’*, came to Baqī b. Makḥlad lamenting the fact that in his *Musnad* he had granted sequential preference to Abū Mus‘ab az-Zuhrī followed by Yaḥyā b. Bakīr, with their father Yaḥyā b. Yaḥyā placed only third in that list. Baqī b. Makḥlad said to the two of them in reply: ‘My sequential prioritizing of Abū Mus‘ab az-Zuhrī is due to the saying of Allah’s Messenger, *sallallāhu ‘alayhi wa-sallam*: “Give priority to Quraysh, and do not prioritize others over them” [Banū Zuhrah were Qurashites: The great ‘Abdu r-Raḥmān b. ‘Awf belonged to them]. As for Ibn Bakīr being prioritized by me (over your father), it is based on his being older, as the Messenger of Allah, *sallallāhu ‘alayhi wa-sallam*, in fact said: “Give preference to your elders, in hierarchical order”, and on his having heard the *Muwatta’* from Mālik ten times, as opposed to your father who only heard it from him once.’

When Aḥmad b. Muḥammad b. Aḥmad b. Makḥlad b. ‘Abdi r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad met his death, he was buried in the said cemetery of Banu l-‘Abbās alongside his ancestors, and his own son, Abu l-Ḥasan, prayed over him

amid a large crowd of people in attendance.

8. ‘Abdu r-Raḥmān b. Muḥammad b. Aḥmad b. Makḥlad b. ‘Abdi r-Raḥmān b. Aḥmad b. Baqī b. Makḥlad (d. 532 AH): A judicial offer in Cordova for a long time, he was buried in the selfsame cemetery and prayed over by his brother Abu l-Qāsim after dying on a Friday.

9. ‘Abdu r-Raḥmān b. Aḥmad b. Muḥammad b. Aḥmad b. Makḥlad b. Baqī b. Makḥlad (d. 573 AH): He was a jurist and an adviser to the political class, of far-reaching erudition and endowed with an exalted rank.

10. Makḥlad b. Yazīd b. ‘Abdi r-Raḥmān b. Aḥmad b. Muḥammad b. Baqī b. Makḥlad (d. 622 AH): He was appointed marriage officer in Cordova. He was fond of books on Sufism and heart-softening tales.

11. Aḥmad b. Yazīd b. ‘Abdi r-Raḥmān b. Aḥmad b. Muḥammad b. Baqī b. Makḥlad (d. 625 AH): He was the Chief Justice of Morocco, as termed by Ibn al-Abbār in his *Companion* to Ibn Baṣkuwāl’s said biographical text (= *At-Takmilah*). He wrote therein that Aḥmad b. Yazīd was one of the stars of perfected manhood in al-Andalus. He served as judge in Marrākuš [Morocco and Spain were essentially one entity for many centuries]. In *Silah as-Silah*, an appendix to Ibn Baṣkuwāl’s work by Ibn az-Zubayr (a profound exegete of Allah’s Book), the biographer of judges from Malaga, an-Nubāhī, is quoted as saying that Aḥmad b. Yazīd, Baqī b. Makḥlad’s said descendant, was the Imām of the people in Arabic and linguistics, who had written one of the best books on the subject of allegorical *āyāt* in the Qur’ān, which he never parted with, whether he was at home or on a journey. He wrote clearly and concisely, eschewing tedious prolixity altogether. In his judicial verdicts he leaned towards the Literalist school.

We have therefore a panorama stretching across some four centuries, with a portfolio of interests ranging from intellectual research to active engagement in civic society, from law to politics, from the Book and the Sunnah to Arabic studies via general *fiqh*, specialist jurisprudence, Sufism, oratory and story-telling. Both Baqī and Makḥlad bear the meaning of lasting and going on, of persisting and subsisting - and success is by Allah.









Murat Çizakça

Murat Çizakça is the Professor of Islamic Finance, Comparative Economic and Financial History at INCEIF in Kuala Lumpur. He is also a member of the Executive Academic Board of Istituto di Storia Economica in Prato, Italy. He also served as the "Third Allianz Professor for Islamic Studies" at the Institut für Geschichte und Kultur des Nahen Orients at Ludwig Maximilians University in Munich, Germany. He has authored numerous books including Islamic Capitalism and Finance.

# Islamic wealth Management in History and Present

By Prof. Dr. Murat Çizakça

When contemporary Islamic economists discuss Wealth Management, they understand accumulation of wealth and its redistribution within an Islamic framework.

In my paper, I will also follow this method and discuss first the accumulation of wealth and then its redistribution.

But my paper will differ from theirs in that my approach will be historical and will cover from the birth of Islam in the 7th century to the present.

It will also differ from them in that I will focus on the institutions and their evolution, While in this way I will combine Macro and micro economic dimensions, they focus on the micro primarily to service high net-worth individuals in Saudi Arabia and the Gulf.

## **Accumulation of Wealth in Islam:**

I have argued elsewhere that the classical Islamic economic system was capitalistic. But, this was an ethical, commercial and pre-industrial capitalism.

## **Evidence:**

The evidence for this argument can be found in the classical sources of Islam: i.e., The Qur'an, the prophetic traditions and the verdicts of the major jurists.

## **Principles:**

From these sources we deduce the following economic principles for capital accumulation

- a) Competitive markets
- b) No upper limit to profits providing they are *halal*
- c) No interference in prices
- d) Modest taxes on trade
- e) Interest Prohibition

But principles are in theory.

They need to be translated into practice by institutions.

## **Institutions:**

Classical Muslim jurists deduced the following institutions from these principles:

- a) Institution of *Ihtisab* controlling the markets and ensuring competition
- b) Free trade given utmost priority. The most advanced maritime law of the middle ages was developed by Muslims. This law was then taken to Europe by Eleanor of Aquitaine and her son Richard the Lion Heart of England. This was the beginning of the *Lex Mercatoria* in medieval Europe.
- c) Interest prohibition could only be implemented if the capitalist and the entrepreneur could be linked, by an alternative non-usurious method. *Mudaraba* partnership was the solution. This partnership and its derivatives were also borrowed by the Europeans, particularly the Genoese and the Venetians, and were incorporated into the *Lex Mercatoria*.



d) The *raison d'être* for the interest prohibition and its substitution with business partnerships was to ensure risk sharing. But risk sharing leads to profit and loss sharing as well. The overall result is a share economy. This was the essence of the classical Islamic economy, or the capital accumulation segment of historical Islamic wealth management.

e) All of these institutions were enhanced by the annual pilgrimage, which brought together in Mecca merchants from all over the Islamic world and united the Mediterranean and the Indian Ocean world economies. Muslims controlled this link between the two world-economies for about a millennium from the 7th century to the 17th.

It was these principles and the institutional set up which, created the massive wealth of the Islamic world in medieval period.

### **Capital Re-distribution:**

#### **a) Taxation**

Every society needs to redistribute the accumulated capital in the economy.

In Western economies the usual venue for this is taxation.

But in Islam, taxation is paradoxical, because, it is considered as an infringement of one of the most important purposes of the Islamic law— protection of wealth.

On the other hand, it is essential for defence.

The Qur'an mentions only three taxes by name.

These are, *zakat*, *kharaj* and *jizya*.

The first one was due to the Muslims and was applied at 2.5%.

In agriculture it could go up to 10%, or even more, depending upon the local conditions.

The other two were due to the non-Muslims, who paid higher rates, because they were exempt from military service.

Over all, the tax burden in the classical period was negligible. This has raised the issue of how to finance the state expenditure.

Modern Islamic economists have argued whether it is possible to add additional taxes to the Qur'anic taxes.

It is generally agreed that this would be legitimate, only if the country is under enemy attack.

This also implies that any tax revenue must, first of all, be spent for defence.

This is confirmed by the 1527 budget of the Ottoman state.

This budget reveals that bulk of the state expenditure was allocated to the military.

The Ottoman state spent hardly any money on Such vital services as health and education.

### **Waqfs:**

It was the waqf system which financed, set up and maintained schools, hospitals and all the other civilian needs.

How do we explain this?

Waqf emerged in the Islamic world in response to a Statement of Prophet Mohammad.

The statement was simply this:

"When a person dies, all his/her acts come to an end except three: useful knowledge, continuous charity and a pious offspring".

Thus, Muslims established waqfs essentially with a religious motive, to save their souls in the hereafter.

A waqf combines all these three acts and allows a person to have his/her sins eventually forgiven by obtaining good deeds.

Muslims believe that they can do so by donating their properties to a charitable purpose and then channelizing the usufruct generated to this purpose.

At this point, I would like to explain the modus operandi of a waqf by answering the 10 questions of Prof. Toru Miura so as to facilitate cross-cultural comparison.

1) **Who are the donors?** Anyone who had the means. But the military class was predominant.

2) **What is donated?** Until the 15th century, real estate, both rural and urban. Cash began to be donated during the 15th century and increasingly became popular. After the year 1908, waqfs could also be established with joint-stock company shares.

3) **Who receives the donation?** A donation could be self-standing or attached to another waqf. Usually, a large donation contained its own mosque, bazaar, school, public kitchen and even a college. This was the so-called waqf kulliyah, or a complete waqf. Individuals with lesser means could contribute to an already existing waqf. When a complete waqf was established, myriad of people benefited: people who prayed in the new mosque, merchants and craftsmen who practiced their trade in the bazaar, the poor who could eat in the kitchen and the students who studied in the college.

4) **For what?** Purpose was primarily religious. But eventually, the military class, whose property rights were in jeopardy, began to donate their properties in the form of waqfs and appointed themselves and then their offspring as trustees. The motive thus became, in addition to religion, also to protect the property from confiscation. Still another motive was to side step the Islamic law of inheritance. Founders, who wanted to transmit their properties to the most trustworthy offspring, used the waqf for this purpose.



5) **Who owned the donated properties?** Allah!

6) **Who managed the donated properties and how were they managed?** Usually, the donors appointed themselves as the initial managers. Then the management was to be entrusted to the most capable and trusted offspring. Finally, rules were laid down by the founders how to appoint trustees after the family became extinct. When this happened, courts or in the 19th and 20th centuries Turkey, centralized Directorates of Waqfs (DoW) appointed suitable trustees. Waqf accounts were annually inspected either by the courts or by the DoWs. In Malaysia, SIRC's are the sole trustees of all the waqfs in a state.

7) **For what was the income used?** The usual purposes were those mentioned in the statement of the Prophet. But many other purposes eventually emerged. This was independent, decentralized decision making in response to local needs.

8) **Did the state tax the donated properties?** Cash waqfs were tax exempt. Because they were considered to have been established with already taxed income (after tax income). In rural areas, there were no uniform rules. Taxability depended on the status of the land donated.

9) **Deeds of Donation.** A *waqfnameh*, informs us who the founder was and with what purpose the waqf was founded and in what year. It then informs us about the extent and nature of the *corpus*. We are then informed how the annual revenue is to be spent. Another source is the cash waqf annual inspection registers kept by the Shari'ah courts. These inform us about the amount of cash that was endowed, to whom it was lent and at what percent, the total annual return this cash generated and the purpose for which it was spent. These records are very well preserved and can be found in Turkey among the so-called *Şer'i Mahkeme Sicilleri*. They also exist in major Arab cities.

10) **What kind of social relationship is organized by the donation? Corporate body, personal network etc?** Notwithstanding the arguments of some orientalist authors, a waqf, at least during the Ottoman era, possessed judicial personality. This is proven by the fact that the so-called *marsad* waqfs could borrow money in their own name, not in the name of their founders or the trustees. A waqf was also a quasi corporate organization in that it had its own life separate from its founder or the trustees. Consequently, waqfs enjoyed longevity. The reason why they are not considered as fully incorporated is that they did not provide owner and entity shielding.

To sum up, waqf was the most important institution in the Islamic world to build up human capital.

It was not, however, unique to the Islamic world as other cultures, particularly Japan and China, developed their own similar systems.

In the West, however, European foundations and trusts were borrowed from the Islamic world when the crusaders "visited" the region.

It has been shown that Merton College of Oxford as well as Peter's College of Cambridge were designed originally as waqf institutions.

2 Monica Gaudiosi, "The Influence of the Islamic Law of Waqf on the Development of Trust in England: the Case of Merton College", *University of Pennsylvania Law Review*, vol. 136, no. 4, 1988.

The borrowing did not stop with Oxford and Cambridge and spread to the United States as well.

Today, nearly all the top US universities have either been established as trusts or have their own trusts/foundations.

### **Decline of the Islamic Capitalism**

It goes without saying that Islamic world today has some of the poorest countries in the world.

This stands in sharp contrast to the period 7th-13th centuries when it was one of the most advanced civilizations in the world.

What went wrong? When did the decline start?

These are difficult questions.

I can only answer them with a hypothesis.

During the period 11th-13th centuries, Islamic world suffered a pincer attack:

From the West the crusaders and from the East the Mongols. These attacks were so fierce that the very survival of Islam was at stake.

Defense needed powerful, centralized states that could mobilize the population.

Heavy taxation to finance huge military build up was needed. All of this was achieved and both invaders were eventually expelled.

It was the Turkic states who achieved this.

But this occurred at the huge cost of substituting the liberal, classical Islamic capitalism with the proto quasi-socialist states.

Defence was achieved, Islam was saved but economy was socialized.

Spice trade came to be monopolized by the Mamluks.

State interference in the economy increased in time.

Ottoman economy constituted the pinnacle of the proto quasi-socialism.

These developments coincided with the rise of Western capitalism which, culminated with the industrial revolution.

As a result, all three Islamic empires, the Mughal, the Safevid and finally the Ottoman empires succumbed to western capitalism.

### **Attempts of Recovery**

Bulk of the Islamic countries regained their independence after the second world war.

This was an exciting period and Muslims wanted to re-design their economies according to Islamic principles.

They felt this need because they knew that the prevailing economic system in their countries was imposed by western imperial powers.

They also knew that, this system was designed for the *homo-economicus*.

But they claimed that *homo-Islamicus* is a different species and needs a different economic system.

They felt, the easiest point to start had to be the financial system.

This meant, primarily, a new interest free financial system.

The very first Islamic bank was established by Dr. Ahmad al-Naggar of Egypt in 1963.

Dr. Al-Naggar did this by modernizing the Classical *mudaraba* partnership.

This was 100% in conformity with the Classical Islamic law (a pure profit and loss sharing system) was initially a great success.

Before long, many other Islamic banks were established.

But, there was a huge shortage of personnel trained in correct Islamic finance.

So, the industry came to be invaded by conventional bankers.

Today, Islamic finance is dominated by the Shari'ah compliant mode. It works like this:

Islamic bankers take conventional financial instruments, then they reverse engineer them to make them "Shari'ah compliant".

Then they claim that they have a new "Islamic" instrument, whereas what they have done is actually to put an Islamic cloak upon a conventional instrument.

This is the "Shari'ah compliant" approach.

This is now completely discredited among the academia.

I have argued elsewhere that a better approach would be the Shari'ah based approach.

This involves modernizing genuine Islamic institutions.

Al-Naggar's was a good start.

Another example is the Tabung Haji of Malaysia.

Established by Ungku Aziz, Tabung Haji modernized the preparation for the ancient tradition of pilgrimage.

Still another example might be the modernization of the Ottoman public borrowing instrument of "esham".

Finally, we can also mention the evolution of waqf of stocks from the classical Ottoman cash waqfs.

### **Conclusion**

I have tried to explain Islamic wealth management from a historical and institutional perspective.

On the capital accumulation side, today, there is a great struggle to protect the system from the invasion of conventional finance.

This is also a struggle between risk sharing and risk shifting.

On the capital re-distribution side, there is also a struggle to modernize the waqf system.

In short, Islamic world is desperately searching for an economic model that is not only in conformity with its principles and traditions but also able to address the demands of the contemporary world.





**Raffaele Coglianese**

He is a swiss - italian citizen. He started out as junior assistant to relationship managers and traders in the forex company owned by his father, Devco Trade AG, Baar, Canton Zug, Switzerland.

Together with his father and six other shareholders, Raffaele founded Eurogest SpA in 1998, a fully regulated forex company in Italy licensed with the security dealers' permit.

In 2002 he sold his holding, and acquired 35% of Unionforex SpA, a regulated company in Italy that specialises in the forex industry. He was responsible for trading activities and relationship management on behalf of HNWI's. He sold this company to the initial shareholders, and in 2006 he relocated to Switzerland. He formed Plusfinanz AG, a financial intermediary company regulated in Switzerland by PolyReg since 2009.



**Ettore Scudella**

He is a swiss - italian citizen. Since 25 years he is involved in the Swiss private banking industry. His financial formation was carried out in several European countries and he complete his studies at the renowned Tam/Trainer Akademie Munchen, Germany. He started with foreign exchange activities and became a private banker with multilingual skills. He's professional experience in the insurance industry started in Switzerland in a department for "Life and Risk Management" of a big insurance company. As founder and CEO of IB Life Ltd. He dedicated his professional experience to the promotion of Life Settlements investments in Europe. In Switzerland he is considered to be the pioneer for US Life Settlements bringing second hand policies from the USA to the European investment community.

# The Swiss Ways To Alternative Investments

## *Focusing on the Islamic Financial Markets*

By Alberto Di Gennaro

**Q: Mr. Coglianese, would you introduce Plusfinanz AG to our readers ?**

**A:** Plusfinanz AG is an independent investment management company based in Rain, in the Canton of Lucern, Switzerland. It provides its services to international and Swiss clients.

Our core business is Alternative Swiss Asset Management.

We are an asset management company licensed under Swiss law and regulated by Polyreg SRO.

**Q: Which are the main services of Plusfinanz for its swiss and international clients?**

**A:** We can absolutely consider Family Office, investment Advice & Alternative Swiss Asset Management/Trusts as well as Forex investments the focal points of our business.

The foreign exchange market has never played a more important role in the world economy than it currently does. With a daily turnover of around USD 4 trillion, the foreign exchange market is the largest financial market in the world.

Foreign exchange trading (Interbank foreign exchange trading), restricted until a few years ago to banks and large-scale investors, has now also become an extremely attractive and lucrative investment option for private and institutional investors, the main benefit being in its liquidity. Plusfinanz AG is a dynamic and innovative finance company. Our specialists have proven expertise and many years of experience in foreign exchange trading and in advising discriminating clients.

We want our clients' capital to be invested in foreign exchange trading on a profit-oriented basis but as safely and carefully as possible. We therefore place equal importance on dual core objectives of maintaining the invested capital while also generating a monthly gross return of around 1 – 1.5% without leverage .

We are always fully focused on our clients' requirements. An independent asset manager can manage our clients' investments on the basis of his or her own



expertise and convictions, without having to consider the business interests of a third party such as a bank. We place a great deal of value on long-term, personal relationships. Our expertise and wealth of experience allow us to tailor our investment strategies perfectly to our clients' needs. Client satisfaction is very important to us.

### **Q: Why to address to Plusfinanz?**

**A:** The advantages to address to Plusfinanz are first of all a tailored advice: We take the time to analyze your investment situation. We look for and develop solutions that are tailored to your needs. Because all our employees are multi-lingual, we always seek to communicate clearly and unambiguously. Stability and consistency: We seek to establish a long-term relationship, as this is the only way to establish trust. Satisfactory investment performance: We achieve realistic performance on the basis of the agreed investment strategy framework and current market conditions. These results are based on solid training, excellent expertise and experience. We ensure a continuous process of further training for our employees. Independence: We select financial products on the basis of our convictions, not on what the banks decide for us. Our remuneration is usually coupled with client performance. Discretion and privacy are paramount to us. Banking confidentiality is part of our company culture. We are also committed to secrecy through our recognition of the statutes and regulations of our regulator, the Polyreg Self-Regulatory Organization, to which we have subjected ourselves.

We maintain an open and friendly relationship with our clients.

### **Q: The Family Office services and Plusfinanz, a swiss excellence history**

**A:** Our concept of a family office is to provide assistance to families with international ties in handling their private affairs in the most efficient and enduring way. We are a multi-family office. We are here to serve high net worth family individuals by helping them to preserve their private wealth for the next generation. In our capacity as careful administrator and cautious advisor, we share our professional experience with our clients, coaching them through critical situations of life. We are committed to assisting family members in difficult moments, and we help to find the most appropriate decisions.

The most important goal is to serve and guide the family – our client. Our culture of respect for banking secrecy, strict

privacy and full confidentiality for our clients constitutes the basis for our fidelity, continuity, independence and expertise. We are here to bring to the table and discuss those uncomfortable situations nobody likes to talk about – but we do, because it is in the interest of the family to do so, to really consider the situation of the person who is in the driver's seat.

Plusfinanz AG is an open-minded Swiss "Multi-Family Office". We have many families (high net worth individuals) as our clients, unlike those other offices that serve just one super-rich family (ultra-high net worth individuals). This gives us some important advantages. We have to face and resolve a wider range of issues and problems. Our expertise is based on a wide range of different situations. The diversity of work in an international environment allows us to attract top-class multilingual professionals to come on board with us. It also allows us to serve younger and less wealthy families as well, in the most efficient way. You don't have to be a super-rich Hollywood star to enjoy the benefit of our services. As a multi-family office, we are simply here to serve wealthy families living in an international environment.

Our aim is to help the current decision-maker and principal to select and train the next generation of family leaders to carry and pass on the responsibility for the family assets.

Wealthy and international families have complex affairs to manage. Mistakes can cost a lot of money and have devastating consequences. Those that have experienced the consequences due to poor administration will know the value of a good, experienced administrative partner. You and your family can benefit from our expertise gained from our work with other families. We guide your family in difficult and important moments of life to ensure a secure future for you.

### **Q: Plusfinanz has already established a operational presence in the Middle East area?**

**A:** We are operating in Oman by a company named EXO Commodities AG.

EXO Commodities AG with its registered address at Schölssliweg 5, Rain 6026, Switzerland is commodities trading company and Investment Company with a focus in energy, natural resources and infrastructure.

EXO Commodities AG was founded by experienced finance, investment and commodities trading professionals.

EXO Commodities AG is a privately held group ("EXO") of companies focused on commodities trading and investment







### Plusfinanz AG –IB LIFE Ltd Headquarter

in energy and natural resources sectors. EXO is headquartered in Switzerland (Lucerne, Rain) and has offices London, UK and Muscat, Oman.

Our approach is founded in strong partnerships with industry participants and network of well-known trading partners. Our ethos is entrepreneurial and we value teamwork and high integrity in our operations.

Our core business is sourcing, supplying and trading crude oil and refined petroleum products as well as metal ores. In addition, with our strategic partnership with producers in Americas we are extending our approach to encompass a range of dry bulk commodities and agricultural products, primary food and feed grains.

EXO is able to enter into agreements with energy and commodity producers that provide financing and will help bring products to market in a timely and controlled manner.

EXO can provide tailored solutions and access to credit and investment for long or short term transactions in crude oil and other commodities. We also have extensive experience in mining and E&P financing support.

**Q: Mr Scudella, IB LIFE can to be considered a swiss leading pioneer company in the life settlements insurance field ?**

**A:** In Switzerland IB LIFE is considered to be the pioneer for US Life Settlements bringing second hand policies from the USA to the European investment community IB LIFE Ltd is dedicated to the promotion of a safe investment model with a guaranteed return and not related to the volatility of international financial markets. Our clients of financial advisors, wealth management companies, banks and family offices rely on our team of specialists with decades of experience in the US Life Settlement Industry.

The Company has a track record of more than 12 years and is considered as a pioneer in the introduction of US Life Settlement investments in the European investment community.

IB LIFE Ltd has gained an impeccable reputation as a serious and fair market player in the private banking industry which



is documented by several articles in the financial press in Switzerland, Germany and Italy. Even the most critical newspapers dedicated to the protection of consumer interests tested our products. The newspapers have summarized the positive results of the tests and they have written several positive articles confirming the high value and the sustainability of our products.

### **Q: Tell us about the peculiarities of the Life Settlements insurance policies.**

**A:** US-Life Settlements are existing life insurance policies in the United States, which are for sale on the secondary market at a price below the sum insured. The policy-holders are seniors between 65 and 95 years of age. The policy-holder sells the policy to the buyer, the new beneficiary. After the seller has passed away, the return from the amount insured will be payable by the insurance company to the new beneficiary (buyer).

In 2013 the second hand policy market had a volume on sold policies in the amount of 24 billion dollars, this market has a capability of 160 billion dollars.

The market for US-Life Settlements is an independent market without correlation to other markets such as stock markets, real estate markets, commodities markets.

### **Q: Are you planning to enter the Middle East financial market by your specific life settlements products ?**

**A:** In 2010, the Sovereign wealth funds in Qatar, Bahrain and Dubai planned to buy a USD 1,25 billion life settlement bond. Today we offer an alternative investment opportunity

to the investors by subscribing in RESCO OPPORTUNITY FUND , with an expected return between 9%-15% p.a. In the last decade, there has been an explosion of investment in the alternative asset class known as “life settlements”. A life settlement is the purchase of a life insurance policy by a third-party investor from the policy owner for less than the policy’s death benefit: The primary source of investments in life settlements has been from U.S. and European-based institutions. As the market has continued to grow, industry participants have begun reaching out to investors in other parts of the world, including Asia, Latin America and Australia: recently there has been interest in obtaining funds from Middle Eastern and other Islamic countries. There are, however, unique issues associated with courting Islamic investors. Specifically, many of these investors can only invest in assets that comply with the principles of Islamic finance. Given the particular restrictions of Islamic finance, the question arises whether investments in life settlements can be Shari’ah compliant. As a threshold matter, it must be determined if the underlying asset, life insurance contracts, are Shari’ah compliant. Conventional insurance is structured as a contractual relationship between an insurance company and consumers where in exchange for a fee the insurance company agrees to compensate a policy holder in the event of a loss. In sum, creating a Shari’ah compliant life settlement investment vehicle would be challenging and require innovative structuring. However, if it can be done it would allow Islamic investors to access to this attractive, non correlated asset.

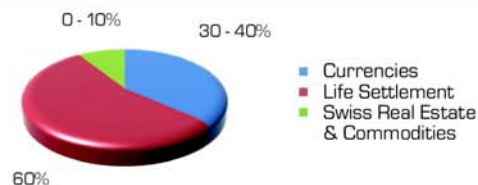


# RESCO Opportunity Fund

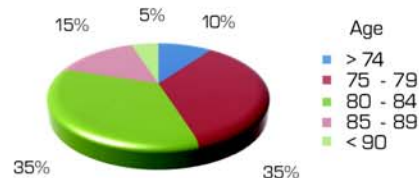
## FUNDS FEATURES

Name:	RESCO Opportunity Fund
Structure:	SICAV plc, domiciled in Malta
Type:	Open-ended Professional Investor Fund
Regulatory Authority:	MFSA Malta Financial Services Authority
Auditor:	Deloitte S.A., Malta
Legal Adviser:	Dr. David Griscti, David Griscti & Associates, Malta
Custodian Bank:	Valartis Bank AG, Liechtenstein
Manager:	Reichstein Trading & Asset Management, Zürich, CH
Administrator:	SGGG Fexserv Fund Services, Malta
Policies Advisor:	Mr. Ettore Scudella, IB Life AG, Luzern, Switzerland
Policies Valuation Specialist:	Mr. Christoph Arnegger, Sigma Investment AG, Wien, AT
NAV and Redemption:	Monthly
Initial min. Subscription:	EUR 75.000 or any currency equivalent
Subsequent min. Subscription:	EUR 50.000 or any currency equivalent
Expected Return:	9% - 15% p.a
Currencies:	CHF / USD / EUR

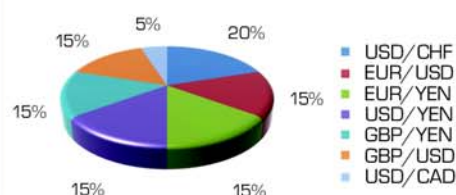
## FUND ALLOCATION



## AGE BRACKETS INSURED



## DIVERSIFICATION BY CURRENCIES



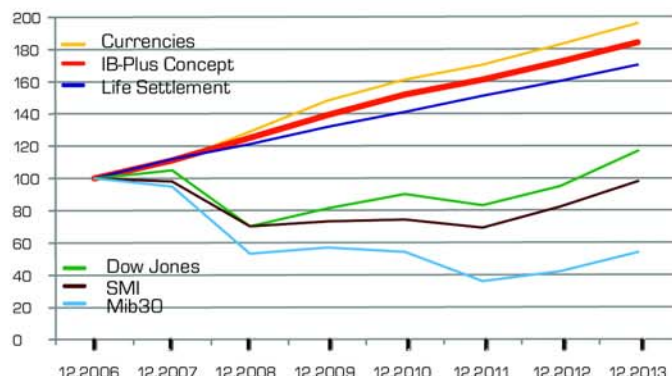
## TRACK RECORDS CURRENCY TRADING STRATEGY

The charts below relate to the performance of another fund applying the same trading strategy as the RESCO opportunity fund and should not be taken to be indicators of the future performance of the RESCO opportunity fund.



The mentioned figures and historical quotes are not reliable for future results. The performance illustrated does not consider commissions and costs.

## TRACK RECORDS IB-PLUS CONCEPT

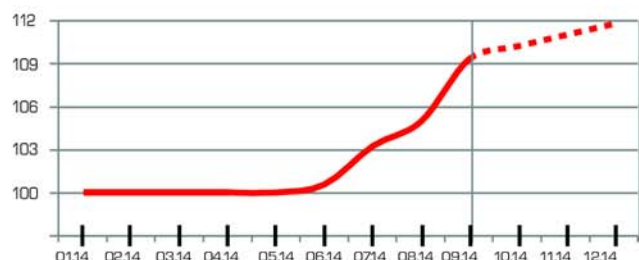


## PERFORMANCE RESCO OPPORTUNITY FUND

Year	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
2014	0.00%	0.00%	0.00%	0.00%	0.00%	0.57%	2.69%	1.65%	4.14%	0.00%	0.00%	0.00%
Nav	0.0	0.0	0.0	0.0	100.0	100.57	103.26	104.97	109.32	0.0	0.0	0.0

## FORECASTED TREND IN NET ASSET VALUE (NAV)

The chart represents the forecasted trend in the Fund's NAV and should not be taken to be any indication of future performance.



The performance of the fund depends on two principal factors:  
First, maximal accuracy in the selection of good policies. The selection process is based on TWO medical evaluations on life expectancy (LE). The longer LE is decisive in the policy purchase process. Second, the conservative foreign exchange trading approach based on low leverage trading is ensuring an appropriate management of the liquidity/ cash management. That's the reason why we have combined US Life Settlement with foreign exchange.



Salim Al-Hassani

Professor Salim T S Al-Hassani is currently an Emeritus Professor of Mechanical Engineering and an Honorary Professorial Fellow at the School of Languages, Linguistics and Cultures, Faculty of Humanities, University of Manchester. He is Chairman of the Board of Trustees of FSTC, Editor in Chief of MuslimHeritage.com, and founder of 1001inventions.com.

In addition to his academic work, Professor Salim Al-Hassani is leading a campaign for promoting the "Cultural Roots of Science" as a platform for community cohesion, world peace and prevention of extremism.

# Interview with Professor Salim Al-Hassani

By Jawed Akhtar Mohammed

**Jawed Akhtar MOHAMMED**

Lecturer, International Business Faculty of Business and Law Swinburne Business School Department of Leadership and Management

**Q.** As someone who has studied innovation, can you tell us what it means to you and how it played out for Muslim civilization?

**A.** Innovation means taking inventions to the marketplace. Muslim inventors were not concerned with the market or protecting intellectual property through copyright and patents, etc.

**Q.** So what inspired their inventions?

**A.** Early Muslims were charged. They plugged in five times a day to God through their prayers named "Salat", which is related to the word connect, and this is what gave them their input, their spiritual energy. They then dissipated that spiritual energy through their work by doing useful and righteous deeds.

**Q.** So how did that transpire? What for scientists were righteous deeds?

**A.** Any useful work to improve the quality of life of people and the environment, including animals and plants.

**Q.** That is pretty broad. There are many luminaries and innovators that your research of Muslim science and history covers. Can you pick one example and share something that really hit you?

**A.** Abu al-Rayhan Muhammad ibn Ahmad Al-Biruni was born in 973 CE in what is today Uzbekistan on the southern shores of the Aral Sea. However, he spent a large part of his life in what is now Afghanistan and North West India. Al-Biruni was a prolific scholar in diverse subjects from physics, mathematics, and astronomy, to natural sciences, and was also a historian, chronologist, and linguist. It is said that on his deathbed a man came to visit him from a different town. Al-Biruni, once learning about him, said, "I have been looking for you for years." He gave him a mathematical problem and said "you have the solution. Would you give it to me please." The man was curious as to why on his deathbed Al-Biruni would act this



way. Al-Biruni replied "what will I say, when I meet God, and I had this opportunity to learn and I didn't take it." So to Al-Biruni, seeking and spreading knowledge was a useful deed linked to faith.

**Q.** That's a fascinating story. Can you share anything else about Al-Biruni's background that we could take a lesson from?

**A.** Well, he wrote over 200 major works. He calculated mathematically the circumference of the earth. There was a discrepancy between his calculation and the actual field expedition that he had commissioned earlier to make the measurement. He sought to approach the same philanthropist who had sponsored his previous expedition, but Al-Biruni was sad to find he had died. Imagine today, 700 years later, going to Muslim millionaires or billionaires and asking them "I would like to measure the circumference of the earth, would you sponsor me?" What kind of a response would you get?

**Q.** I am wondering what has changed for society at large. Do you think Maslow's hierarchy of needs is a requirement for people to be creative and innovative?

**A.** In those days people's needs were minimal. There is always the need for the basics, food, shelter, etc. If you didn't have a sofa or dining table, which was the case for most people, they just sat on the floor. Their demands were not materialistic.

**Q.** That is so universal. If we step back and look at where humanity is today with respect to innovation and benefitting humanity, where do you see us?

**A.** There is a huge imbalance, where people are being robbed of their possessions and rights through inflation, fiscal instabilities and lack of ethics. We see this from the ongoing financial crisis, so there is a slow-motion collapse going on. If you look at it, the Pharaoh's civilization was, relatively speaking, way ahead of where we are in the West today. They treated people like slaves. But the Pharaohs lacked a moral system. They did not treat other humans with dignity. The Industrial Revolution eventually enslaved people. Women were enticed to work in the guise of freedom and equal rights only to increase industrial output and increase tax revenue from each family. Women are still struggling to carve a respectable space for themselves.

**Q.** But with an increasing world population, hasn't the Industrial Revolution improved the standard of living, and also produced so much more capital and productivity that has benefitted society?

**A.** From a humanity point of view, there is a moral dimension to everything. Yes we have improved crop yields, and we

have genetically modified foods, but what is the end result? While some have plenty, many others are hungry. In Islam hoarding of food or gold is a big sin. Today people worship material acquisition.

But there are rules in nature that will not allow this to go on forever. There are in-built systems which require balance, justice and dignity. When these go pear-shaped, collapse and catastrophe occur. The industrial revolution created modernity with ever-increasing imbalance. I am glad to see there are increasing numbers of voices crying out for an holistic approach to today's world problems. This will hopefully save the world from the dangers of blinkered attitudes of materialism, consumerism, greed and selfishness. The industrial revolution created huge opportunities for business which allowed the merchants to control that movement and thus deflecting its humanistic direction towards capitalism which then engendered communism, and as an opposite reaction creating yet another form of blinkered materialism, lacking ethics and respect for human dignity.

**Q.** So from your understanding of Muslim Heritage, what were the essential qualities that kept society running without materialism and yet with scientific and economic growth?

**A.** God awareness, balance, justice, and mercy were seen to be essential qualities of life.

**Q.** It is hard for people in contemporary times to understand that Muslims played a major role in "innovation," and I use that word in my context of taking new ideas and bringing them to reality. What brought the downfall?

**A.** As with others, Muslim culture also decayed after its rise to the heights. Being a mechanical engineer, I like to use the analogy of a car. A car needs petrol (gasoline) to do useful work, which is its motion. Muslims were given the charter by God, the charter to inhabit earth and build a healthy civil society. In later centuries, they took this meaning of doing righteous deeds only to the limit of praying, fasting, and other worship rituals. Pioneering Muslims embraced in their deeds all useful work. Hence their faith (analogous to petrol) was the input and the building of a society was their useful deeds (analogous to movement of the car). They did not care where the petrol came from, but now they are obsessed by it, as to which brand they should buy and from where (analogous to Sunni, Shia, Salafi, Sufi... etc., or Christian or Jew ... for that matter).

**Q.** Your analogy sounds so intuitive; gasoline is just to move the car, and the brand is secondary. Many out there, given the mess the world is in, have become delusional or just gave up. What do you say to them?

**A.** There is a prophetic narration that says to the effect "if you are holding a sapling, and you see the Day of Judgment in front of you, plant it." However, what's interesting is, it takes years for the sapling to grow into a tree and be useful to others. So planting a tree (useful work) was a matter of faith, a useful output, no matter if logically it may not continue. That is, there were no apparent conflicts between faith and science. Anything that is useful for humanity will also benefit the environment. For example, take the saying of 'Umar the second Caliph that heared God will hold him responsible over a stone or rock on the public path lest a camel or horse trips over it. This led to civil engineers paving roads. There are so many such examples.

**Q.** In your examples, there is a strong tie-in between religion and inventions. In the contemporary world, we see the two to be divorced. What do you make of that?

**A.** When they were together and in harmony, for the Muslims, this was an act of worship. Their work led to advancements and creations of whole new fields in agriculture, medicine, and so forth.

**Q.** In contemporary Muslim societies, there is no sign of these contributions. What happened?

**A.** In the past, Muslim charities set up *waqfs*, which are endowments that funded research and social benefit to be brought to society. For example, there was even a *waqf* for angry wives. It was a place for them to vent, get peer advice, and avoid problems like depression, which are so common now. Muslim charities now are primarily focused on building mosques and relief work, which although commendable is a very limited in the scope of what they can do to benefit society at large. In the early times of Islam, unlike today, people were more interested in building the *sajid* (the worshipper) before the *masajid* (places of worship).

**Q.** What role did government play in the birth of this golden age of Muslim innovation?

**A.** Governments played a marginal role, but some enhanced and encouraged seeking of knowledge and funded translations of knowledge from Greek, Syriac, Indian, and other languages. However, most useful work was supported and funded by public charities (*awqaf*).

**Q.** How over so many lands and across such a long time span were Muslims able to continue this path of innovation?

**A.** The spirit of the Prophet didn't stop with him. An organic movement started and it has continued till the present day. It is like a wave through space and time, which is still traveling.

**Q.** There is a big shift in economic growth from the West with China and India leading the way. Their populations are

highly educated and leading innovation there and here. Then you have pint-sized places like Dubai, coming from the Muslim Middle East, which sprung up from nowhere, but really not as much human development taking place. Your thoughts?

**A.** If power, economics, or innovation shifts with the same ethos, people are unjust, and there is lack of morality. What kind of world will it be? In many developing countries, people are schizophrenic. They are trying to imitate the West through materialism and consumerism. The Western capitalistic civilization is slipping downwards as did other civilizations that did not respect the law of balance and justice in nature. We can't be just eating, drinking, and consuming. The future world expects us to have balance in our treatment of the environment and the inhabitants of this earth. So if India, China, Africa and the rest of the developing world were to follow the same way of life as the West, the world will be doomed by global warming and a lack of sustenance. Therefore, there needs to be a different civilization emerging from the rest of the world.

**Q.** What is your goal with "1001 Inventions," touring exhibitions, books, and films?

**A.** In school books, after the Greek and Roman civilizations there is a notable gap of a thousand years after which point the Renaissance starts. I would like to have credit given where it is due. The heritage that the Muslims shared with the rest of the world came from a combination of Greek, Chinese, Indian, and old Middle Eastern civilizations. I would like to see the cultural roots of science used as a tool for enhancing social cohesion and intercultural respect so that we have a better world with people appreciating each other's positive contributions and characteristics.

**Q.** What lessons can we derive from these giants who developed all these fields from algebra, chemistry, and modern medicine, to so much more?

**A.** We need to take our role models from the best of the past as well as the present to build a better future. The past giants didn't do all this work for PhDs and Masters, or for excessive recognition and wealth. We need to get back to doing useful work to improve the quality of life for society and the world at large.



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3<sup>rd</sup> ANNUAL

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Valerie J. Hoffman

Arabist and a specialist in Islamic thought and practice. She has worked on many aspects of Islam, from the time of the Prophet to the contemporary period; she conducted textual studies and have done fieldwork. She did two major fieldwork projects in Egypt, one on Muslim women's religious lives in contemporary Egypt (1980-81) and another on Sufism in modern Egypt (1987-89). As Director of the Center for South Asian and Middle Eastern Studies, much of her time and energy is now devoted to promoting these areas of study on our campus.

# Ibadi Islam: an Introduction

By Professor Valerie J. Hoffman

Ibadism, a distinct sect of Islam that is neither Sunni nor Shi'i, exists mainly in Oman, East Africa, the Mزاب valley of Algeria, the Nafus mountains of Libya, and the island of Jerba in Tunisia. The sect developed out of the seventh-century Islamic sect known as the Khawarij, and shares with that group the desire to found a righteous Muslim society and the belief that true Muslims are only to be found in their own sect. Ibadis refer to themselves as "the Muslims" or "the people of straightness" (*ahl al-istiqaama*). Nonetheless, Ibadis see themselves as quite different from Khawarij.

Whereas the Khawarij had labeled all Muslims who committed a grave sin without repentance *mushrikun*--i.e., unbelievers whose guilt is tantamount to idolatry and merits the capital punishment deserved by all apostates of the faith--Ibadis see such people as *kuffar ni'ma*--monotheists who are ungrateful for the blessings God has bestowed upon them. Ibadis distinguish between *kufr ni'ma* and *kufr shirk*, which is the unbelief of idolatry. The Khawarij had not made such a distinction, and neither do the Sunni Muslims, who likewise equate *kufr* with unbelief but, unlike the Khawarij, maintain that a sinning Muslim is still a believer. The word *kufr*, which is typically translated into English as "unbelief," literally means "ingratitude." The characteristic position of human beings, according to the Qur'an, is not their ignorance of the existence of God, but their failure to be grateful for His kindness and blessings, which should prompt people to turn to Him in worship and give generous charity to the poor, orphans and widows. The Qur'an contrasts the believers, who are grateful (*shakirun*), with the unbelievers, who are ungrateful (*kafirun*).

The Ibadi attitude toward *kuffar ni'ma*, whether they be sinning Ibadis or non-Ibadi Muslims, was that one should practice "dissociation" (*bara'a*) toward them. This "dissociation," however, is usually an internal attitude of withholding "friendship" (*wilaya*), rather than outright hostility. Nonetheless, non-Ibadis who call themselves Muslims and pray facing the direction of the Ka'ba are *ahl al-qibla*, not idolaters. They may be *kuffar*, but not in the sense of idolatry, only in the sense of *kufr ni'ma* outlined above. The practice of dissociation (*bara'a*) does not imply enmity. Nur al-Din al-Salimi (1869-1914) clarified this when asked about the difference between dissociation from an unbeliever (*bara'at al-mushrik*) and dissociation from a corrupt monotheist (*bara'at al-muwahhid al-fasiq*). Salimi replied:

Although the *mushrik* is farther [from the truth] than the corrupt monotheist, both

are cursed. Nonetheless, the Law allows certain things with the corrupt monotheist that it does not allow with the polytheist, such as intermarriage, eating their slaughtered animals, inheritance, giving the greeting of peace, saying "God bless you" if he sneezes, praying behind him, praying over him if he dies, accepting his testimony, and interacting with him in all worldly matters just as one would interact with Muslims with whom one has *wilaya*.

It is interesting to note that British observers of Omani rule in East Africa commented that Ibadis are the least fanatic and sectarian of all Muslims, and openly associate with people of all faiths and pray together with Sunni Muslims. Hostile action is reserved for one type of person: the unjust ruler who refuses to mend his ways or relinquish his power.

In theology, the Ibadis adopt the positions of the Mu'tazila on the questions of *tawhid*: rejecting a literal interpretation of all anthropomorphic descriptions of God; denying the possibility of seeing God in this life or the afterlife; rejecting the existence of eternal attributes in God that are distinct from His essence; and upholding the doctrine of the creation of the Qur'an. They also part ways with Sunni Muslims in their condemnation of 'Uthman, 'Ali and Mu'awiya and their rejection of the Prophet's intercession on behalf of grave sinners and of all possibility of rescue from hellfire: punishment in hellfire is eternal, as the Qur'an says. They do not uphold the notion of an intermediate position between faith and *kufr*, but, as we have already indicated, they distinguish between different types of *kufr*, drawing a sharp distinction between *kufr ni'ma* and *kufr shirk*. However, on the question of free-will vs. predestination the Ibadi position is virtually identical to that of al-Ash'ari: God is the creator of all human acts, which are termed "acquisitions."

There are minor differences between the prayer observances of Ibadis and Sunnis. Ibadis, like the Shi'a and the Malikis, pray with their arms down at their sides. They do not say *Amin* after the *Fatiha*, and they do not say the *qunut* invocation in the *fajr* prayer. They believe that Friday prayer should be held only in major cities in which justice prevails--meaning that for centuries Ibadis did not observe congregational prayer because of the lack of a just Imam--and they reject the blessing of tyrannical rulers in the *khutba*. The righteous Imamate is a topic of great importance in Ibadi legal literature. The Imam should be chosen for his knowledge and piety, without any regard to race or lineage. He should be chosen by the elders of the community, who are also obligated to depose him if he acts unjustly. The last "true Imam" to unite the entire country of Oman under his power was Ahmad ibn Sa'id (ruled 1754-1783 CE), founder of

the BuSa'idi dynasty that remains in power to this day. His descendants took the title not of Imam, with its connotations of religious leadership, but Sayyid, an honorific title held by any member of the royal family. Later, they used the title Sultan, implying purely coercive power. Thus they relinquished all pretense of spiritual authority, although they patronized Muslim scholars and promoted Islamic scholarship. Ibadi scholars were often actively engaged in trying to actualize the true Islamic state; they poured forth their longings in poetry, even as they elaborated the foundations of piety in lengthy works of jurisprudence. The Ibadi scholars of Oman--and the Mzab valley of Algeria, although the linkage of Ibadism with Omani identity has necessarily made Oman the focus of Ibadi political aspirations--have not merely taught and studied: they have agitated, led revolts, elected Imams, and been the true leaders of Omani society, as both moral exemplars and arbiters of power. Shaykh Sa'id ibn Khalfan al-Khalili (1811-1870), a mystic, poet and scholar of Arabic grammar and rhetoric who is credited with inaugurating Oman's literary revival, is even more famous for his role in leading a rebellion against Sultan Turki and establishing the Imamate of 'Azzan ibn Qays (1868-1871), which was overthrown only through British intervention. Nur al-Din al-Salimi led a new Imamate movement in 1913, and forced his student, Salim ibn Rashid al-Kharusi, to accept the role of Imam on pain of death. When Salim was assassinated in 1920, another of Salimi's students, Muhammad ibn 'Abdallah al-Khalili, grandson of the great Sa'id ibn Khalfan al-Khalili, who was appointed to succeed him. For seven years the British defended the Sultan in Muscat and eventually in 1920 arranged the so-called Treaty of Seeb, the formal agreement which ambiguously divided the authority of the "Sultan of Muscat and Oman" from that of the "Imam of the Muslims," who ruled in the interior. This division remained in force until Sultan Sa'id ibn Taymur secured the allegiance of the tribes of the interior in the 1950's.

Omanis had settled in East Africa for centuries, and periodically parts of East Africa came under direct rule from Oman, although more often individual Omani families ruled East African city-states, most famously the Mazru'is of Mombasa. But Sayyid Sa'id ibn Sultan (ruled 1806-1856) was able to consolidate central Omani rule over the Swahili coast, and in 1832 he moved his capital to Zanzibar. On the Swahili coast Ibadis found themselves a minority, ruling over a largely Shafi'i Muslim population. In the nineteenth century Zanzibar became an important center of Islamic scholarship, attracting scholars from Oman as well as from other parts of





East Africa, such as Somalia, Lamu, Mombasa and the Comoro Islands. In Zanzibar Ibadis were exposed to contemporary Islamic currents in a way that had not been possible in Oman. Sayyid Barghash ibn Sa'id, who ruled Zanzibar from 1870 to 1888, was well-read and deeply interested in world affairs, and established a printing press to promote Ibadi scholarship. Ibadis in Zanzibar continued to take great interest in the political affairs of Oman, and many ardently supported the movement that established the Imamate of 'Azzan ibn Qays (1868-1871). In the period following this Imamate, many Omanis fled unstable economic and political conditions at home and settled in Zanzibar. Among them was Nasir al-Rawwahi, a great poet, scholar, mystic and judge known in Oman as Abu Muslim al-Bahlani (1860-1920), who emigrated to Zanzibar as a young man, along with his father, who had served under Imam 'Azzan ibn Qays as judge in Nizwa. Rawwahi was an ardent supporter of the Ibadi ideal; his scholarly writings reflect fully the tradition of Ibadi learning, and his extensive commentary on Nur al-Din al-Salimi's poem on jurisprudence is a tribute to the range of his learning and his consistency with Ibadi tradition. His poems are of a deeply mystical character, and Rawwahi has a reputation for being a "divine" (*rabbani*) poet in the full sense of the word--a man so enraptured with the

divine beauty, so privileged with the vision of the unseen, that his poetry belongs to a realm beyond our own. Some of his poems, *dhikr* meditations on the Divine Names, were intended to be used for devotional purposes. Like the other great Ibadi scholars, he disdained either to write love poetry or panegyric. Yet this otherworldly mystic was also a man of this-worldly politics. As one researcher commented, "His entire *diwan* indicates that the poet was fighting the opponents of Ibadism in Zanzibar." He greatly admired the lives of the leaders of Ibadism, to the point where he said, "God will accept no religion other than theirs." In his youth he was a close friend of Ahmad ibn Sa'id al-Khalili, son of the great Shaykh Sa'id ibn Khalfan al-Khalili, and the latter's influence on Nasir al-Rawwahi is palpable. In the movement to establish the Imamate of Salim ibn Rashid al-Kharusi, Rawwahi compared his role to that of Hassan ibn Thabit, the personal poet of the Prophet Muhammad.

But moving to Zanzibar enabled him to expand his cultural horizons a great deal. He was chief judge and advisor of Sultans Hamad ibn Thuwayni (1893-1896) and Hamud ibn Muhammad (ruled 1896-1902), even traveling with the latter in coastal East Africa in late 1898, penning his observations in a booklet that has been published by the Ministry of National Heritage and Culture in Oman. His attitude toward modern



innovations may be compared with that of Nur al-Din al-Salimi, who had written that it is impermissible to learn the languages of the Europeans or adopt any of their manners or send one's children to their schools. In contrast, Rawwahi openly admired the improvements brought to the region by British administration. He observed that the town of Lamu, a traditional center of Muslim culture and scholarship on an island off the coast of Kenya, had narrow streets and old, crooked buildings, and its inhabitants manifested diseases of body and soul. The British, he says, had left the city as it was, restricting themselves to road repair and building hospitals. He expressed his hope that the English would not leave Lamu in this condition, but would plant the "civilization" (*tamaddun*) in it that they had in their own capitals. He praised the justice of British administration in Zanzibar.

It is a sign of Rawwahi's cosmopolitanism and his difference from earlier Ibadi scholars that he was influenced by the ideas of the Egyptian reformer Muhammad 'Abduh, and established the first newspaper in Oman or Zanzibar, called *Al-Najah*, to propagate 'Abduh's ideas. He corresponded with non-Ibadi Muslim leaders, and sent a poem to Riyad Pasha thanking him for his efforts to reconcile Muslims and Copts in Egypt. Like Sa'id ibn Khalfan al-Khalili, Rawwahi is a fascinating blend of contradictions: an ardent supporter of a pure Ibadi Imamate, a friend and counselor of sultans, an admirer of British rule; affirming the traditional Ibadi doctrine that non-Ibadi Muslims are *kuffar ni'ma*, but expressing his admiration for non-Ibadi Muslims and advocating a unity that encompasses not only Muslims, but non-Muslims as well; a judge and journalist advocating modern "civilization," and a mystic who longs for the righteous Ibadi Imamate.

Sultan Sa'id ibn Taymur, who ruled Oman from 1932-1970, was a staunch conservative whose resistance to Westernization was so strong that Omanis were not allowed to own automobiles, and the country had no paved roads until 1968. But he sent his son, the present sultan, Qaboos, to London to study at the Sandhurst Military Academy. This Qaboos deposed his father in 1970 and set about modernizing Oman at a rapid rate. So far Oman has managed to avoid unthinking Westernization and its corollary, Islamic reactionism. Islam remains an important part of life, but in a thoroughly natural and non-politicized way. The government supports the publication and dissemination of Ibadi scholarship, but the rhetoric of Ibadism is noticeably absent from its public pronouncements. Scholars like Nur al-Din Salimi and Sa'id al-Khalili are sources of national pride, but their struggles against the BuSa'idi sultanate are downplayed. It is noteworthy that Nur al-Din al-Salimi's son, Muhammad, wrote a poem in praise of Sultan Qaboos. Abu Nabhan Ja'id ibn Khamis (1734/5-1822), an important Ibadi scholar of the early BuSa'idi period, confidently wrote that regardless of how kind, pious and good non-Ibadi Muslims may be, they will inevitably go to hell in the afterlife. But the present Grand Mufti of Oman, Shaykh Ahmad ibn Hamad al-Khalili, believes that the differences between Sunni and Ibadi Muslims are subsidiary issues that are of little eternal consequence and in no way impede Muslim unity. One can say that today Ibadism is hardly sectarian, and the dream of establishing a modern Imamate has given way to aspirations more typical of modern life.





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# Islamic Finance: What Is the Outlook for Italy?

By Prof. Paolo Pietro Biancone

The spread of Islamic financial instruments is an opportunity to offer integration for the immigrant population and to attract, through the specific products, the richness of sovereign funds from the "Arab" countries. However, it is important to consider the possibility of comparing a traditional finance model, which in recent times has given rise to many doubts, with an "alternative" finance model, where the ethical aspect arising from religious principles is very important.

## I. INTRODUCTION ON ISLAMIC FINANCE IN EUROPE

LITERATURE in the Western world has only recently dealt with Islamic finance in aspects of its tumultuous development in countries where it professes the religion of Mohammed and regarding its slow but gradual spread in the Western financial system.

Islamic finance is a phenomenon that cannot be limited to only the Islamic countries, especially given the growing number of Muslims in the West Muslim communities in non-Islamic contexts are characterized by being highly fragmented in terms of language, socio-economic status and ethnicity, but on a steady rise in terms of income.

Older generations of laborers and small shopkeepers have been replaced by a growing number of professionals. This

evolvment represents a very significant reality in the international financial environment, especially in regard to the growth rates and the number of people involved. However, there have been very different growth rates from country to country in which it has spread, with specific reference to European countries that do not have a religious Muslim tradition.

Particularly in the UK, where there is a well-established presence of Muslims, Islamists are fueling a growing demand for financial services in line with the Shari'ah. Traditionally well-advanced in the financial sector, the United Kingdom was the first European jurisdiction to amend its tax legislation to allow the execution of financing transactions in line with the precepts of the Shari'ah, avoiding, thus, a legal transaction tax penalty compared to traditional financing, in the case wherein said burden was attributable exclusively to the peculiar financial structure put in place. Besides the United Kingdom, notable attempts of dissemination of Islamic banking have also been made in Germany and Denmark.

France, despite the significant presence of Muslim immigrants, has developed an

interest with conscious delay on the Islamic finance phenomenon. Most of the big Western financial institutions, following the model of Citibank, which in 1996 opened its own Islamic subsidiary in Bahrain, are now engaged in this type of activity in the form of branches, or Islamic windows or financial products intended for the Muslim customer. However, the recent development of Islamic finance is attributed to strong support from the French authorities, who have built a proper and welcoming environment.

Currently most European Muslims manage their own financial assets through conventional banks, because the leading providers of Islamic financial services are not present in the retail market. The majority is served by large institutions rather than small banks and only a few uses the European branches of Islamic banks. The agreements reached allow the use of credit cards issued by banks of the Islamic world in ATMs of other banks, but this does not fully meet the needs of customers, who often find a limited range of automated services and are penalized with extra charges if they withdraw cash from banks other than their own.

In general, in Italy there are no obstacles to granting authorization to the exercise activities of a bank that establishes in its statute that their banking activities will be carried out according to Islamic norms, but the supervisory authorities must examine, prior, to giving their assessment, the characteristics of each initiative for the corporate purpose of the Islamic bank. Potentially, these features may not be compatible with the Banking Act (Testo Unico Bancario) which art. 14 provides for the authorities that are conventionally focused on the function of collecting deposits and lending.

The operative reality in Italy is that many brokers are licensed as banks, yet do not carry out the functions of typical banking, but rather focus on specialization in investment services, since the bank does not only participate in banking activities, but also acts as an intermediary authorized to carry out other financial activities, as long as it is not confidential by law to other categories of intermediaries (such as insurance activities).

Therefore, the specific operating characteristics of Islamic banks are compatible with the Italian financial system.

With regards to the question of the religious motivations that underlie the relationship between Islamic banks and traders, the experience of Banca Popolare Etica in our country and provision of ethical savings products demonstrates the legitimacy and recognition motivated by different financial choices, so that in fact the legislation cannot be applied in a different manner. What has also been debated is the concept

of a "joint venture", governed by art. 2549 of the Civil Code, in reference to the operating scheme of certain Islamic financing operations, which could lead to two problems in the relationship between banks and non-financial institutions:

- Interference in the management of the bank by unauthorized persons and banks;
- Risk of dominant position of influence in favour of third parties associated with the transmission of profits or losses.

With reference to the first aspect, the Bank of Italy does not give any decision-making power to the associates or management, since it considers that the joint venture does not constitute a joint management of the subject, but only involves the division of profits and losses in exchange for a contribution that is economically assessable, unless there exist contractual clauses that influence the management decisions of the bank.

Fear of supervisory authorities suggests that the contractual constraints could lead to a dominant position of influence in favor of non-financial associations with violation of the principle of separation. The association agreements on participation, however, must be approved beforehand by the supervisory authority.

The new provisions of the Civil Code in relation to company law have facilitated the construction of Shari'ah compliant contracts, thus broadening the range of instruments for the financing of an enterprise and disciplining the assets for contribution to business with third parties. The total investment in economic participation must be contained within the capital. However, to ensure the performance of Islamic banking activity in Italy, surpassing the prohibition of interest and the Islamic sector, which contrasts with the general principles of separation between the bank and the Company, and the protection of depositors, the Banking Act should be accordingly modified and adapted.

The rules to protect investors also require adherence by an Islamic bank to the Interbank Guarantee Fund of Deposits for obtaining authorization. Deposit insurance is, next to the supervisory mechanism and the lender of last resort, one of the key components of a safety net aimed at ensuring the stability of the banking system. The Statute of the Interbank Deposit Protection Fund is in accordance with the national legislation transposing the directives on deposit-guarantee schemes, including the protection afforded to depositors' claims relating to the funds acquired by the banks with repayment obligation in the form of deposits or in any other form, including bank drafts and comparable securities. The



application of different prudential standards lower than those required cannot be assumed even for Islamic banks in Italy. The typical risks of financial intermediation involve the need to apply different forms of prudential supervision to intermediaries and activities for regular management and avoid the repercussions of certain systemic crises.

In addition, the Islamic Bank will have to define the role and responsibility of the *Shari'ah Supervisory Board*. Not having executive power cannot interfere in the management of the bank nor can decisions be made on behalf of the management, only to verify the conformity of transactions with Islamic laws and regulations and the admissibility of the transaction, unless the nature of the relations of the Board with the bank, which may take various forms with members appointed by the shareholders, and with members selected by the Board of Directors are approved by a general Council. The existence of these Councils of the Islamic bank should not interfere with the tasks of officials and internal control audits.

## II. DEVELOPMENT PERSPECTIVES OF ISLAMIC FINANCE IN ITALY

Italy is one of the fastest growing markets in Europe. A series of initiatives have been taken by the Italian authorities to study the issues related to an expanded presence of Islamic finance. The Bank of Italy, for example, has hosted a series of conferences on the subject. ABI, the Italian Banking Association was established on a voluntary basis and, besides not having any profit, has set itself the goal of working to promote the activity and promote the interests of the banking and financial system. In its relations with the business world, the ABI has given rise to international meetings to strengthen economic cooperation. With particular attention on the Gulf countries to develop trades, investment, and financing opportunities through, amongst others, the introduction of Shari'ah compliant instruments in Italy. It is currently coordinating a working group on the issue of a sovereign or corporate sukuk.

The spread of Islamic finance and compliance with the prohibitions set by the Muslim religion from a theoretical point of view would lead to reduced intermediation activity of Islamic banks, and a redefinition of the paradigm of intermediation, in the sense of understanding the bank first as a partner of a company or business consultant and secondarily as a lender. From an operational point of view, the bank

behaves like a conventional bank in terms of costs for companies and returns for depositors, but adopts a different *modus operandi* to compete in international and local

contexts with Western banks. Consequently, its "safe" intermediation operations opens growth perspectives in Italy, taking into account on the one hand the actors who can build a dedicated offer to customers and the Islamic community and other factors that may coordinate the development of this same offer. In Italy as many of 1.3 million people are Muslim, which amounts to 2% of the Italian population, but there is no offer of financial services or products for the Islamic community in Italy.

The birth of the first Italian Islamic bank was expected by 2008 between ABI (Italian Banking Association) and UBA (Union of Arab banks), but the financial crisis has slowed down the development. However, the latest agreement now wants to overcome the limitations of fiscal and financial legislation, as has happened in the UK, where the Institute of Islamic Banking of Britain was activated with only a tax review, always taking into account the degree of consistency with the Islamic Shari'ah compliance, which is a dependent variable according to banking projects conceived in optical Islam or born of an economic western entity.

Alongside offering developmental perspectives of Islamic finance in Italy, Italian Islamic banks could also explore the Islamic windows of Italian banks. Opening a window on the Islamic world can be a growth opportunity for those banks that want to become first distributors of products in accordance with the Koran, and second packagers of products of this type.

Initiatives dedicated to Islamic finance may also be provided by banks that have launched social banking or banking to welcome initiatives as an international trend. In this context we can also consider the Islamic windows of foreign banks. In fact there are large banks with international vocations, such as the British HSBC and the OIZ TSB, who have offered full Islamic services extending basic banking services to the needs of customers of Islamic origin. Considering Islamic banks on the basis of European Community legislation, they are free to offer their services to customers in any country of the European Union, by virtue of the investiture obtained by the supervisory authority of the country of origin. In England, considered for its qualification as a portal of Islamic finance as a reference point in the future development of Islamic finance in Italy, Islamic banks are licensed on the basis of certain requirements verified by the FSA. Other subjects may also be involved in the process of construction experience in Islamic Italy, in the opinion of some scholars.

So, besides the ABI-UBA agreement, there are also other Italian banks (UBAE bank, Unicredit bank, Banca Etica and Banca Sella) nearby to offer Islamic products, even if they







currently do not have structured products. Notable European Islamic banks are the Islamic Bank of Britain, the European Islamic Investment Bank, and other banks licensed in the UK to retail and wholesale. Another English bank very active in the international arena, and the first to have understood the potential of Islamic finance, is HSBC and its subsidiary HSBC Amanah. These are the people who may be interested in defining an Islamic offer in Italy. Considering now the factors for the takeoff of Islamic finance in Italy, we can say that this, from a systematic point, depends on the following factors;

- regulatory disposition,
- fiscal disposition.

Downstream from conditioning and economic opportunities of the main factors for the intrinsic compatibility of Islamic contracts with Italian law are;

- accounting,
- communication,
- the distribution,
- staff training.

The greater opportunities for Islamic banks in Italy arise from the geographical proximity of Italy to the Middle East and North Africa. Italy is considered a bridge between Europe and the southern shores of the Mediterranean. Based on the trade and good business relationships that bind Italy to the Islamic countries, we can usefully analyze the activity of the Bank UBAE Union of Arab Banks and European banks, which act as a link between the countries of North Africa and Europe. UBAE Bank has developed unique capabilities to assist trade between countries of the Arab world and with international trade. They have become highly regarded as so called expertise in trade finance or financial assistance for the acquisition of raw materials or the early liquidation of the receivables associated with the foreign market. The relational capital of UBAE Bank is a good starting point for the establishment of the first Islamic Bank in Italy.

The opportunities for Islamic windows in the Italian bank scene may be summarized as follows: the banking needs of the Islamic community in Italy of the first generation with access to these facilities are based on financial needs related to remittances, savings and some investment. The second generation will have more refined financial needs as they trigger entrepreneurial activities that require bespoke services.

In some regions of the north this is already happening. Basic banking services should be offered to attract the interest of the emigrants and enable initiatives to promote financial integration of communities of immigrants in Italy. Particular opportunities exist for European Islamic banks to exploit the

success of the Islamic finance in Britain. The Islamic Bank of Britain is only one of the five authorized that specialize in retail. Its eight branches are a bench-mark for other Islamic banks.

### III. THE TRAINING PROJECT

Economic relations between Italy and the Middle Eastern countries are facilitated by geographical contiguity. Italy is the ideal partner in the effort of both Arab and Islamic countries (such as Iran, Turkey and others) to expand their production base, on account of Italian specialization of low and medium intensity production of capital and the flexibility of the national production system, favored by the high density of small and medium enterprises.

The training project, proposed by us, to bring Islamic finance into our country is a profitable opportunity to further enhance our knowledge and share it with our financial community and academia. The aim of the course is to provide a complete picture of Islamic finance, the analysis of the founding principles and the potential for development of the sector with reference to the Italian market, and the more technical aspects relating to individual financial instruments at the disposal of Islamic Banking. This can be achieved in addition to gaining knowledge on the mechanisms that regulate the commercial and financial processes from a perspective of interaction between the market and Western finance institutions and those of the Islamic culture.

There are a growing number of established international financial centers, such as London, Tokyo, Hong Kong and Singapore, all of which have started projects of integration between Islamic finance and other financial systems. The evolution of Islamic finance has aimed at strengthening its development. With this endeavor, two important institutions, namely the IFSB founded in 2002 and the AAOIFI founded in 1990, have both become points of reference to ensure uniformity of architecture and ensure the financial stability of the Islamic system.

Our mission is to start a training, education, research and professional consultation center and promote the dissemination of Islamic finance at national and international levels, spurring the possible integration of our banking system and the alternative that will undoubtedly deliver significant benefits to the Italian economy. The Center also serves as a bridge in order to examine best practices in banking and finance from proffers studies that compare traditional practices with those in the Islamic world.

The School of Management and Economics (former Faculty of Business and Economics) is part of the University of Turin (Italy), founded in 1404. The faculty celebrated its first





centenary in 2006; it was renamed School of Management and Economics in 2012 and divided into two departments: the Department of Management, and the Department of Economic and Social Sciences, Mathematics and Statistics. It now has 70,000 students, a staff of more than 220 full, associate and assistant professors and offers a wide range of Italian and English taught programs both at undergraduate and graduate levels.

The Department of Management is assembling a Bachelor's degree and a Master's degree course in English, intended to train both Italian and international students interested in learning study issues related to Islamic finance.

#### IV. DEVELOPMENT PROJECT OF RETAIL PRODUCTS

The migrants are included in the economic and social Italian structure to such an extent that they represent a very significant segment of the market. Therefore, the present project aims to create alternative financing and investment routes that are immediately usable within the legal and fiscal Italian system, for Islamic investors and the community of immigrants from the southern shores of the Mediterranean and resident in Italy. Development, in the medium term, of Shari'ah compliant finance in Italy not only responds to the

need for investment, but also the need to save by the Islamic community in our country. In particular, the progressive sophistication of financial needs related to the presence of the second generation of immigrants and the gradual development of business activities, requires an assessment of the potential of the Italian market in offering Shari'ah compliant retail financial products.

The articulation of the retail offer could be targeted to meet the basic financial needs (liquidity, investment, financing for home purchases and capital goods for the development of productive activities), but the structuring of the supply and the choice of which business model to adopt must be determined in order to best exploit profitability perspectives for the bank, customers' convenience and operational complexity. With this aim, we propose to carry out compatibility studies of Islamic products and collaborate with micro-credit banks, cooperative credit and the big banks from which the traditional products will be emulated and adapted into Islamic products.

Until now, the supply/demand focus has been on money transfer services (remittances, payment instruments) prevalently provided by the postal channel and skilled

operators, and it is this particular phase of the Islamic community's financial markets that is an interesting segment for banks, and therefore the development of a Shari'ah compliant commercial option is being carefully evaluated.

Currently in Italy the needs of Muslim residents are being fulfilled by the experience of the staff in the multi-ethnic project "Agenzia Tu", within the banking group UniCredit. The specific objective of this project is to meet the needs of foreign citizens who are struggling to gain access to bank services, such as consumer credit or home loans. It is in this way that the initiative is aimed at UniCredit Bank, which is dedicated to new players of the economic and labor market.

Thus, the role of our project is to facilitate the process of social integration, giving the Muslim community the opportunity to choose financial products and unconventional investments. This will address a real financial need that is otherwise often exacerbated by the inability to resort to conventional finance products. Worth noting is that Muslim residents' (amounting to approximately 1.3 million individuals) savings are estimated at over 500 million per year (excluding savings for remittances to their countries of origin).

So, we have a situation in favor of the development of Islamic finance. In the short term, however, we must address some of the issues already settled by other large EU countries, such as the lack of specific regulations and the need for changes to the Tax Code so as to not affect the transactions of Islamic finance. Then there are cultural factors and difficult to dispel myths, such as the belief that Islamic finance is only for Muslims, that it is a primitive financing method, that it is more risky and expensive than conventional finance, which is governed only by Shari'ah principles, and the mentality that the conventional system does not need replacing.

#### V. DEVELOPMENT PROJECT OF AN INVESTMENT FUND FOR SMES FINANCED BY ISLAMIC INVESTORS

The overview of the implementation of the model of Islamic finance outlined so far is necessary in order to assess the ways in which Italy can further open up to the Islamic investment funds' market. The objective is to contribute and to increase the flow of Arab capital and strengthen bilateral economic relations.

The current Islamic investment fund seems to be the instrument with the lowest degree of discretion among those proposed in a western market. To measure the performance of Shari'ah compliant investments, we have created some indices that summarize the performance of a basket of securities that, by their nature, may be subject to investment

by funds. We mention the main *Islamic Dow Jones market* index on the square in New York and the *FTSE Global Islamic Index* on the London market.

The Islamic indexes currently cover equities of companies in 46 countries. There are two Italian titles in the lists of titles compatible with Islamic finance: ENI and ENEL. To be included in these indices and overcome the difficult examination of Shari'ah compatibility allows access to a huge Islamic market, as well as providing an opening and the capacity for a dialogue with a different culture. A certification recognized by Islamists is not the prerogative of only large corporations. *A certification by a recognized Islamic body of an Italian company listed or not listed would make a great "business card" for companies that want to present themselves on the Islamic Middle Eastern markets or observant Muslims who would like to invest in Italy.*

Almost all Islamic funds on the market are equity funds, since the purchase of bonds that generate interest would itself be impossible. They are therefore usually risky instruments targeted at experienced investors with a time horizon extending over the long term. Which market in Italy? Also keeping in account that the majority of immigrants of Islamic faith in Italy come from North Africa, while the area of greatest spread of Islamic banks is in Asia. These immigrants often have contacts with western banks in their countries and so it is logical to assume that even here can be integrated into ordinary system. Furthermore, the social class of Muslims in Italy is not very well-off and has limited remittances to their countries of origin rather than using traditional banking services (except perhaps for their mortgage) or investment.

Other potential investors could be subscribers of "ethical funds", which are also not Islamic, or large investors in the Middle-East, to Islamic specialist funds such as Italian companies.

The only product currently located is an investment fund proposed by BNL BNP Paribas: BNP Paribas Islamic Fund - Equity Optimizer. It is an equity fund originally founded in France and Bahrain, subsequently brought to Italy by BNP (a French bank also present in our country through the branches of BNL). The fund selects, via the process of an annual review, 30 actions from the component securities of the Dow Jones Islamic Market Titans 100 Index, each with a weight of 3.33% on the entire portfolio. The selection is made according to the highest rate of return on equity and respects Islamic principles. The establishment of the fund and the investment process are validated by the Shari'ah Supervisory Committee.

Investment activities are addressed in order to comply with the directives relating to the criteria of the Islamic Shari'ah, so it is not permissible that the fund pays or receives interest, although it is permissible to receive dividends. If this happens, the amount of dividend income will be donated to charities.

The UK remains the hub of Islamic finance and Switzerland, the cradle of international banks, is willing to participate in Islamic finance in the future, at least in terms of collection, but Italy certainly has a prime location at least from the point of view of geography, potentially establishing itself as a protagonist on the world stage of the situation in the Mediterranean. The current political and economic situation, however, could represent an opportunity to regain lost ground.

While Islamic banks are located in Switzerland, the UBS has recently opened a branch in Bahrain, the Noriba, in accordance with the Shari'ah. Italy can be regarded in the same sense, and attract investments by institutions or sovereign funds belonging to Islamic States and use these investments as a means of financing for small and medium Italian enterprises.

Statistical analysis, theory and empirical tests have amply demonstrated the importance of small and medium-sized enterprises that compose the industrial structure of our country of approximately 4.5 million. Today, employment in large manufacturing firms appears to accommodate 16.3% of the total workforce, compared to 83.7% of small and medium businesses. In fact, in the Italian experience, the industrial districts are the spontaneous response to an economic system peripherally packed with great potential.

For an Italian company to be included in an Islamic index and overcome the difficult question of "Shari'ah compatibility", as well as potentially accessing a huge market such as the Islamic population, could provide an opening opportunity for dialogue with a different culture, and an additional card for

observant investors who would like to invest in Italy.

## VI. CONCLUSIONS

The opportunity to attract foreign capital to sustain economic progress, on the one hand, and the intensity of trade and financial links with the southern shores of the Mediterranean, on the other, make it increasingly important that our country and its financial system are well equipped with the knowledge and tools needed to interact with operating systems' statements that comply with the Shari'ah principles.

The positive aspects arising from the combination of "greater liquidity funding from the Muslim community and a strong message of social integration" on the basis of establishments in London, Berlin, Paris, and Amsterdam should originate from Italy as the source dispersing then into the European banking scene. In the end, to summarize, we can say that the project aims to identify what could be a unique opportunity and promote it in order to intrigue the young people through training courses on Islamic finance and attract foreign capital and funds in terms of retail and investment.

Also, the opportunity to attract investment remains of utmost importance. As the authors suggest, it is legitimate to think "Islamic finance could be an effective means to attract Islamic investment in Italy". This is not a game of little consequence, considering that, according to the estimates of the United Kingdom Islamic Finance Secretariat, the volume of activity in Britain was 509 billion dollars in 2006 and reached 1.290 billion by the end of 2011. In this framework, therefore, the goal is to bring out the fact that Italy can meet the restrictive requirements, such as to represent investment opportunities for financial institutions (sovereign wealth funds, banks, asset management companies and others) looking for good opportunities.







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# Italian SMEs: Development Opportunities in the Real Economy of Islamic Finance

By Dr. Gianni Gregoris

**Analysis of the size characteristics of Italian SMEs:** there are 3.8 million Italian SMEs with 12 million workers (Source Eurostat / SBA Small Business Act for Europe – estimated 2012), and are divided into three classes of size, consisting of micro, small and medium-sized enterprises, a classification developed on the basis of number of employees, turnover and total assets on the balance sheet. Only 10% of small and medium-sized Italian enterprises operate in the manufacturing sector, but they maintain a strong position of dominance with one in four employees working there, compared with the EU average of one in five. Nearly one-third of the value added is generated by small and medium-sized enterprises, compared with one-fifth in the EU. It must be said, however, that the incidence of micro-enterprises, or those with turnover of less than 2 million euro and not more than 10 employees, account for 94.6% of all small and medium-sized enterprises and contribute more to employment and value added than in other countries of the European Community, about half of total employment and one-third of value added. In general, Italian SMEs are characterised by strong know-how in all manufacturing sectors, as well as in high-tech sectors and renewable energy, although microenterprises focus on a medium-low level of technology and on less knowledge-intensive services. In the European Union in the period 2008-2013, large enterprises were better able to handle the economic and financial situation, returning to previous pre-crisis levels, registering only a modest decline in the number of employees. Small and medium-sized enterprises, however, which were at a disadvantage because of their dimensions, had an extremely negative impact in terms of a decrease in the number of workers, turnover and value added.

**The Islamic market and Halal certification:** Italy could aspire to become the leading

exporting country to new emerging markets such as the Islamic market, consisting of 57 Islamic States of the Organisation for Islamic Cooperation (OIC), to which only products with HQS (Halal Quality System) certification can be exported and covering the following sectors: food, cosmetics, body care and personal hygiene, chemicals, pharmaceuticals, healthcare, catering, hotel, hospitality, travel and territorial logistics, finance and insurance. The Islamic market, based on the real economy and financed by Islamic finance, is growing by 15% each year and involves about two billion Muslims in the world for a value estimated at 15 to 16 billion dollars a year. The main Islamic countries and areas affected by exports are Malaysia, Indonesia and Southeast Asia, but also the United States and Europe where there are many Muslims. Not to be underestimated are the opportunities presented by the Islamic market in Italy, with its five million Muslims, where turnover is gradually increasing thanks to Halal-certified products. There is also a growing share of the market which covers non-Muslim consumers, who are buying these products because they have understood that products with Halal certification mean greater controls and quality.

**Growth in size and business network:** the small enterprise must first initiate change projects oriented towards programmes of growth in size, which can be achieved through the best practice of business networks. It will also be necessary to work on development projects in digital communications such as e-commerce, web marketing and social networks.

**Islamic finance and mini-bonds to finance the growth and internationalisation of Italian SMEs:** growth in size and processes of internationalisation require investments in venture capital but also sources of debt financing, and Islamic finance may represent an important resource for financing business and play a key role if Italy were to adapt the Consolidated Law on Banking and Credit to the Shari'ah. The new financial instruments in force in Italy since 2012, such as mini-bonds, also supported by guarantee funds for



greater protection of investors, created to finance new SME development projects, diversifying from sources of alternative financing to the classic banking channel which has a funding-gap (negative difference between deposits and loans) of 200 billion euro. If we consider that small Italian enterprises depend on bank loans for a figure that is double that of competitors in northern Europe, we can understand how necessary it is for them to have a source of funding such as Islamic Finance as an alternative to the traditional banking channel which does not always employ capital for projects intended for the real economy. Five percent of the emissions of mini-bonds were allocated to internationalisation out of a total of 63 mini-bonds issued for a total of 635 million euro. On the other hand, there are 29 funds for mini-bonds with an estimated target collection target of 5.45 billion euro (source: Mini-Bond Observatory of the Polytechnic University of Milan). In order to strengthen the endowment of funds, it would be necessary to facilitate the introduction of Islamic funds to finance mini bonds. The processes of growth in size, structured finance operations and Halal certification are the main operational instruments that small and medium-sized enterprises will have to know how to equip themselves with in order to export successfully to the Islamic market.







Paul Lunde

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He is the author of *Islam: Culture, Faith and History*. With Caroline Stone, he has translated Mas'udi's *Meadows of Gold* and—forthcoming this fall from Penguin—*Travellers From the Arab World to the Lands of the North*, a collection of travel accounts. He lives in Seville and Cambridge, England, and is working on an Internet project to map pre-modern Eurasian cultural and intellectual exchanges.

# Caravans To Mecca

By Prof. Paul Lunde

Until the 19th century there were three main caravans to Mecca. The Egyptian caravan set out from Cairo, crossed the Sinai Peninsula and then followed the coastal plain of western Arabia to Mecca, a journey which took from 35 to 40 days. It included pilgrims from North Africa, who crossed the deserts of Libya and joined the caravan in Cairo. The other great caravan assembled in Damascus, Syria, and moved south via Medina, reaching Mecca in about 30 days. After the capture of Constantinople by the Ottoman Turks in 1453, this caravan began in Istanbul, gathered pilgrims from throughout Asia Minor along the way, and then proceeded to Mecca from Damascus. The third major caravan crossed the Peninsula from Baghdad.

The caravans were highly organized. An official, called Amir al-Hajj, was responsible for the safety of the pilgrims. He had a troop of soldiers under his command, as well as a phalanx of officials. The caravan was organized like a moving city, with the amir, a judge, two notaries, a secretary and an official charged with the care of the animals, another in charge of provisions, a saddler, a chef with a staff of cooks, and even an inspector of weights and measures. The caravans usually marched at night in order to avoid the heat of the sun, and pitched camp near wells where they could, posting sentries to guard against attack by bandits. Each watering place along the route was provided with a small fortress and a rest house. The pilgrims were grouped in the caravan according to their point of origin—all pilgrims from the same town traveled together—and maintained the same position in the line of march.

From the 13th century on, the Egyptian and Syrian caravans were each accompanied by a Mahmal, a kind of wooden litter, sumptuously decorated, that contained a copy of the Koran. The Mahmal itself was a symbol of political sovereignty over the holy places of Islam, the Koran inside symbolizing the unity of the religious and secular authorities of Islam. For centuries the Egyptian caravan also bore with it, each year, the new Kiswah or draping for the Ka'bah, but this is now prepared in Mecca itself (see p. 6).

Some of the medieval caravans were very elaborate. Arab historians have preserved the memory of a pilgrimage made by Harun al-Rashid and his wife Zubaydah. They are said to have walked all the way from Baghdad to Mecca wearing the Ihram. Rest houses were specially built for them at each stopping place, and the track upon which they walked was covered with carpets.

Ibn Jubayr, a famous traveler during the time of the Crusades, describes the encampment of the Amir of Iraq on the Plain of 'Arafat as follows:

"The encampment of this Amir of Iraq was beautiful to look upon and superbly



provided, with large handsome tents ... and wonderful pavilions and awnings, for it was surrounded by a linen screen like a wall, in form a sort of closed-in garden or an ornamental building. Within this were the pitched pavilions, all black on a white background and dappled and variegated as if they were flowers in a garden. ... In these wall-like screens were tall doors, like those of lofty castles, through which one entered into vestibules and mazes ... It is as if this Amir lives in a walled city that moves when he moves and settles when he settles."

One of the-most spectacular pilgrimages ever made was certainly that of Mansa Musa, the King of Mali. In 1324 he set off across the Sahara with 500 servitors, each carrying a golden staff weighing six pounds. He was followed by 100 camels, each carrying a load of gold weighing 300 pounds. Mansa Musa was truly pious and very generous—so much so that 12 years after his stay in Cairo, the price of gold had still not recovered. He distributed the bulk of his fortune in charity in Mecca and Medina, returning home practically a pauper, but having assured himself of the praises of posterity.

The return of the pilgrims from Mecca each year was anxiously awaited by their loved ones, and celebrated with great pomp by the citizens of Cairo and Damascus. George Sandys, the remarkable 17th-century poet, traveler and eventual member of the government of Virginia, left a unique description of the return of the Egyptian caravan in 1610, when he was touring Cairo:

"During our aboad here, a Caravan went forth with much solemnity to meet and relieve the Great Caravan in their return from Mecha; which consisteth of many thousands of Pilgrims that travell yearly thither in devotion ... every one with his ban-roll (bedding) in his hand: and their Camels gallantly trickt (decorated)—the Alcoran-carried upon one in a precious case covered over with needle-work, and laid on a rich pillow ... guarded by divers companies of souldiers, and certain field peeces. Forty easie (short marches) days journey it is distant from hence: divided by a wildemesse of sand, that lyeth in drifts, and dangerously moveth with the wind: thorow which they are guided in many places by stars, as ships in the Ocean."

In some areas, caravans continued to flourish through the end of the 19th century. One from Damascus, in whose train marched the famous Charles Doughty, counted 6,000 pilgrims and 10,000 camels. But in Cairo the end was in sight by mid-century. A sea route down the Red Sea, started when the Crusaders blocked the overland track from Cairo, had been luring some pilgrims away since the 12th century and with the introduction of fast, dependable steamships lit easily supplanted the overland route. The last major camel caravan set out from Cairo in 1883 with 1,170 pilgrims joining it.

In Syria and Asia Minor the end came with the construction of the Hijaz Railway, an 800-mile project designed to provide pilgrims with cheap fast transport as far as Medina, (Aramco World , September-October, 1967). The railway literally supplanted the caravans; the Turkish engineer surveying for the railroad simply followed a caravan from Damascus and mapped the route, reasoning with some justification that after all those centuries the caravan masters would certainly know the best way.

The Hijaz Railway—called the "Iron Camel" by Bedouins—was announced in 1900 by Sultan Abdul Hamid, started a few months later, finished in 1908 and virtually closed down 10 years later by the famous Lawrence of Arabia and his Bedouin raiders after the railway had begun to transport more soldiers than pilgrims. As Great Britain and France were not, in the Mandate period, anxious to promote any form of Arab unity, efforts to rebuild the railroad were quietly but effectively quashed. And when a commission to rebuild the railway excitedly reported in 1956 that reconstruction was feasible, it was too late. Improved roads—asphalted and lined with gasoline stations and food stores—air-conditioned buses, fast cars and booming air travel had made the railroad superfluous. Although a contract was eventually let, no substantial work has been done and immediate reconstruction now seems unlikely.

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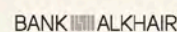
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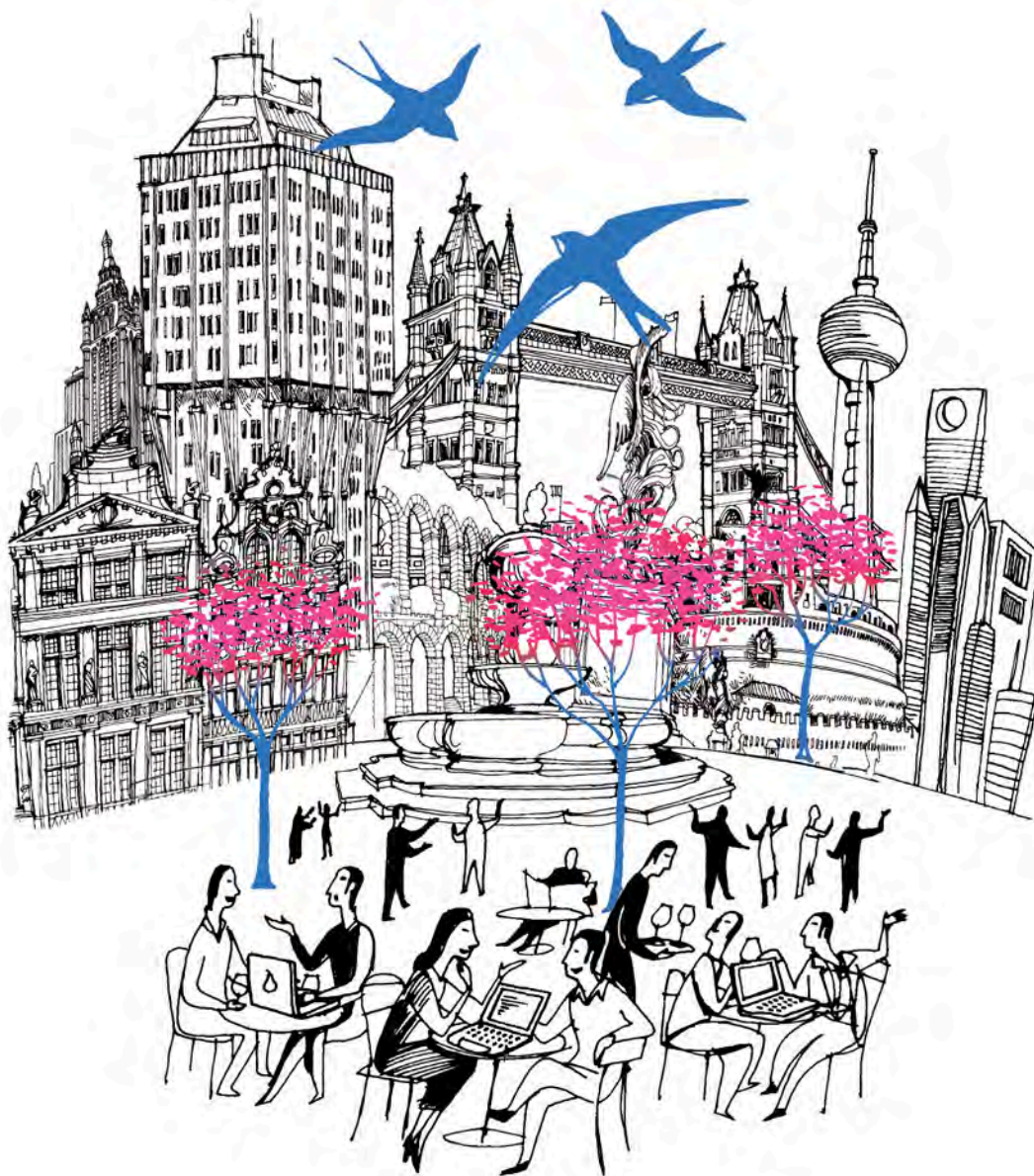


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