

WORLD BANK GROUP

Finance & Markets

Global Islamic Finance Development Center

# Islamic Finance Bulletin

Issue 7, January 2016



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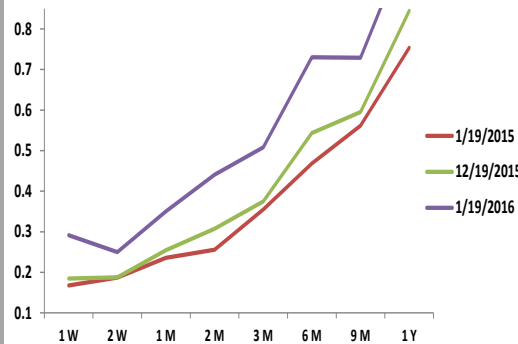
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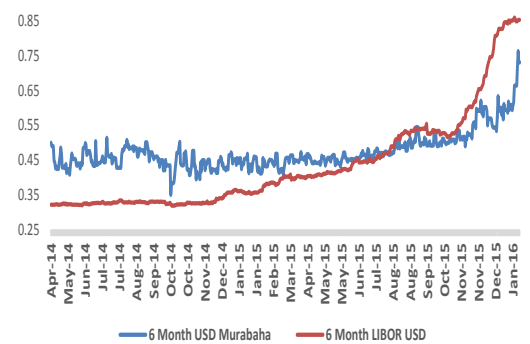
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	1/19/2016	12/19/2015	10/19/2015	1/19/2015
	Value	MoM	QoQ	YoY
<b>Equity</b>				
Dow Jones Islamic Index	2565.34	▼ -6.80%	▼ -8.77%	▼ -9.67%
Dow Jones Global Index	280.74	▼ -7.32%	▼ -10.35%	▼ -11.22%
MSCI Islamic Index	988.59	▼ -7.01%	▼ -10.65%	▼ -13.78%
MSCI World Index	1520.49	▼ -6.93%	▼ -9.49%	▼ -9.60%
MSCI Emerging Market Index	714.37	▼ -9.54%	▼ -17.63%	▼ -25.00%
<b>Fixed Income</b>				
LIBOR 6 Month	0.8533	▲ 0.046	▲ 0.335	▲ 0.497
Murabaha USD 6 Month	0.7304	▲ 0.187	▲ 0.222	▲ 0.262
Dow Jones Sukuk Index	99.73	▼ -1.13%	▼ -2.95%	▼ -4.28%
Bloomberg Emerging Market Bond Index	138.70	▼ -1.17%	▼ -3.50%	▼ -1.52%
<b>Insurance</b>				
Bloomberg Takaful Index	107.60	▼ -9.94%	▼ -23.54%	▼ -14.08%

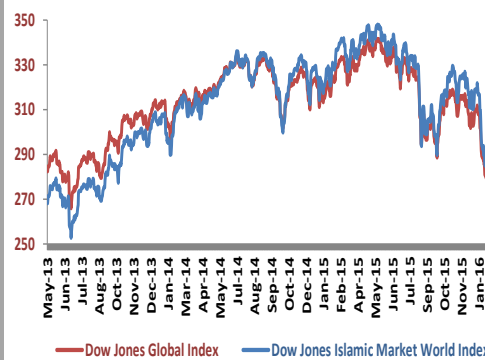
Mark-up Murabaha USD Rates



Murabaha Rate vs LIBOR



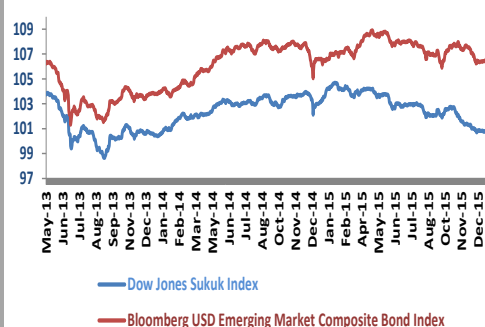
Dow Jones Global vs Dow Jones Islamic Indices



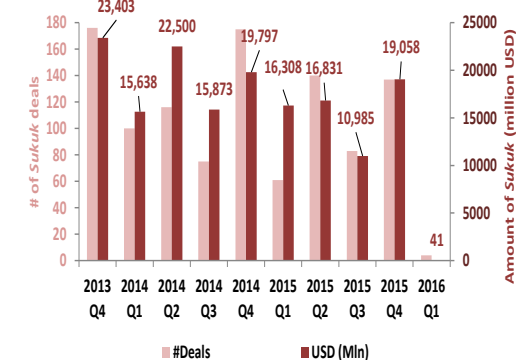
Bloomberg Takaful Index



Dow Jones Sukuk Index vs Bloomberg Emerging Market Composite Bond Index



Sukuk and Islamic Financing\*



\* Bloomberg

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## World Bank jointly with the AAOIFI hosted the 10th AAOIFI-World Bank Annual Conference on Islamic Banking and Finance

The World Bank jointly with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) organized 10th annual conference on Islamic banking and finance on December 6 and 7 in Bahrain. Held under the auspices of the Central Bank of Bahrain, the two-day conference was organized to shed light on the latest developments and achievement in areas related to Islamic banking and finance. The theme of this year's conference was in capital markets. More than 300 global financial industry experts including senior representatives from central banks, regulatory authorities, Shariah scholars, financial institutions, accounting and auditing firms, legal firms and academic institutions gathered to discuss issues relating to continuing development of international Islamic capital markets as avenues for greater financial inclusion, and further progress on standardization and harmonization of international Islamic finance practices.

Representing the World Bank, Zamir Iqbal, Lead Financial Sector Specialist at Finance and Markets GP delivered a keynote speech with the message that *Sukuk* markets have the potential of providing long-term financing provided there is enabling environment. Murat Cobanoglu, Financial Sector Specialist at the World Bank Global Islamic Finance Development Center in Istanbul, also made a presentation on 'Sovereign *Sukuk* Issuances and Turkey's Experience.' As part of AAOIFI's on-going consultative process with the international Islamic finance industry on the development and review of its standards on Shariah, accounting, auditing, ethics and governance, the conference served as a platform to launch AAOIFI's new publications as well.

### Key take-aways of the conference

- Standardization is very critical for the growth of *Sukuk* market. Standardization of *sukuk* does not mean that it prevents

innovative products but means to standardize core structures and practices underlying the issuance of *sukuk*.

- Current *Sukuk* issuance is mostly debt-like and is close substitute for bonds. Therefore, key aspects of risk-sharing finance in *sukuk* that should be reconsidered.
- Most of *sukuk* issued in the market so far are meant to manage the liquidity of the banking institutions rather than to produce some new assets for the real economy. *Sukuk* should use for developing infrastructure.
- The ownership of underlying asset is not clearly transferred to the SPV used for securitization and as a result the balance sheet does not reflect this transfer.
- There is a gap between written shariah standards and their implementations. These gap should be closed
- *Sukuk* may be a good instrument to transfer an economy from debt-based economy to equity-based economy. This has not been done so far.
- Sovereign *sukuk* issuances has outpaced by banking sector and corporate issuances. Sovereigns are very important to develop a domestic *sukuk* market as they provide *sukuk* reference curve for pricing of other securities. Sovereign also provide high quality instruments as collateral and facilitates Islamic inter-bank transactions and liquidity management.
- Credit rating of *sukuk* is very important. It helps to improve transparency and performance of institutions.

<http://www.aoifi.com/media/document/AAOIFI%20-%20WB%20Conference%202014%20-%20points%20for%20agenda%20topics.pdf>

## Bank of England joins IFSB Islamic finance body

The Bank of England has joined the Islamic Financial Services Board (IFSB), one of the main standard-setting bodies for Islamic finance, the second Western regulator to do so after Luxembourg.

The BoE joins as an associate member, the 65th regulatory body to join the Kuala Lumpur-based body, bringing total membership to 189, the IFSB said in a statement.

Britain's government has been keen to make London a centre for Islamic finance. In June of last year it became the first Western country to issue Islamic bonds (*sukuk*).

The move comes at a key time for Britain's domestic Islamic banks, as the BoE works to grow the number of sharia-compliant assets they can use in

their liquidity buffers, with progress expected by the turn of the year.

Currently, *sukuk* issued by the AAA-rated Islamic Development Bank are the only assets that meet the BoE's criteria for use in the liquidity buffers of the 22 Islamic financial institutions operating in Britain.

The BoE could expand this by allowing use of *sukuk* issued by sovereigns with lower credit ratings and other non-financial issuers, according to a consultation paper released last year.

<http://www.reuters.com/article/islam-financing-boe-idUSL8N13Y02E20151209#xraAelm8ASsZ7SOzO.97>



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## EY: Islamic banking growth on the increase across globe



The projected asset pool is set to increase considerably over the coming five years. For 2015 the estimated Saudi Arabia pool stands at \$343 billion, which will more than double to \$766 billion by 2020. The UAE pool will increase by more than \$100 billion, while Malaysia will see an additional \$70 billion. The total market will be worth more than \$1.6 trillion in the regions considered.

Islamic banking, termed participant banking, is outgrowing conventional banking in many of the world's predominantly Islamic countries. Today the total participant banking market is worth around \$920 billion, which is projected to grow to more than \$1.8 trillion by 2020, research by EY shows. Particularly the Gulf States are seeing rapid participant banking growth. RoE within the sector remains relatively robust at 12.6%.

In a recent EY study, titled 'World Islamic Banking Competitiveness Report 2016', the professional services firm explores the Islamic Banking landscape.

According to Muzammil Kasbati, Director at EY's Global Islamic Banking Centre: *"The external operating environment is certainly getting tougher, given the prevailing oil price and the resulting impact on banking system liquidity and infrastructure spend. Islamic banks are in a better position to weather this storm due to the simpler nature of their balance sheets, basic products and localised operations."*

<http://www.consultancy.uk/news/3102/ey-islamic-banking-growth-on-the-increase-across-globe>

*In the Gulf region, regulatory moves around Basel III have also been patchy. Saudi Arabia was deemed compliant with the rules by the Bank of International Settlements in September, while Kuwait has said it will implement them by December 2016.*

## UAE Central bank to start Basel III implementation process

The United Arab Emirates central bank is to start engaging with banks in the country for full compliance with the Basel III set of global banking regulations, the governor of the Gulf state's regulator said on Wednesday.

While Mubarak Rashid al-Mansouri didn't specify when this engagement would begin, he told a financial forum in Abu Dhabi that the aim was for full implementation by the end of 2018.

The Basel III rules, which are aimed at making the global banking system more resilient following the financial crisis, include forcing banks to hold

more and different types of capital to insulate themselves during downturns.

Mansouri's announcement is the first time the UAE has confirmed when it would comply with the rules, although it did set out rules for liquidity management which were linked to Basel III in May.

<http://www.reuters.com/article/emirates-basel-idUSL8N13Y20L20151209>



Kazakhstan's central bank is considering halving the capital requirement for Islamic banks to 5 billion tenge (\$16.3 million) from 10 billion tenge, part of a series of initiatives to attract foreign capital to Central Asia's largest economy.

## Kazakhstan studies lower capital requirements for Islamic banks

The majority Muslim state is keen to develop Islamic finance, a sector that currently holds less than 1 percent of total banking assets, according to a Thomson Reuters study released on Tuesday.

A proposed reduction in capital requirements for Islamic banks would apply for both local and foreign investors, deputy governor Nurlan Kussainov was quoted as saying in the study.

This could encourage new entrants in a market that now has one full-fledged Islamic bank, Al Hilal Islamic Bank, which holds less than 1 percent of total banking assets.

*"Large banking groups such as Al Baraka and May-*

*bank are showing interest in our market,"* Kussainov said, referring to Bahrain-based Al Baraka Banking Group and Malaysia's Maybank Islamic Berhad.

The central bank also plans to introduce insurance for Islamic deposits and allow conventional banks to establish Islamic windows, Kussainov said.

Legislative amendments have also been approved last month to allow the conversion of conventional banks into Islamic ones, which would come into force in January, he added.

<http://www.reuters.com/article/islam-financing-kazakhstan-idUSL8N13Q0AA20151201>

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Experts say Islamic capital market is uniquely advantaged in the current climate to create innovative Sharia-compliant debt and equity instruments that will address the increased demand for funding infrastructure projects in both developing and maturing economies.

## Sukuk has potential to be a key financing instrument in Europe

Huge demand for long term funding from the European corporate sector in the context of rising regulatory capital requirements faced by banks and financial institutions, there is a huge opportunity for *sukuk* to emerge as an alternate funding source, according to recent study by Deloitte.

While European corporates are looking for viable long term funding source, Asian and Middle Eastern investors are on lookout for western asset classes suitable for their portfolios. Experts say the complementarity of demand for and supply of such instruments makes *sukuk* an ideal financing solution.

*“The need from European corporate to finance long-term projects that require large capital upfront is challenged by the scarcity of debt finance. At the same time, there is a need from Middle Eastern and Asian investors with funding capacity for Sharia-complaint assets in maturing economies. This correlation between the needs of European corporates and investors in the Middle East and Asia points to strong potential for initiation of Sukuk products and market,”* said Joe Al Fadl, partner and Financial Services Industry leader at Deloitte Middle East.

<http://gulfnews.com/business/sectors/banking/sukuk-has-potential-to-be-a-key-financing-instrument-in-europe-1.1640610>

## Sukuk demand remains high despite slow down due to market uncertainty

*Sukuk issued up to Q3, 2015 dropped by 38.6% to stand at \$48.8 billion 13 jurisdictions issued 513 sukuk in Q3, 2015 in 12 different currencies Total global outstanding sukuk stands at \$295 billion*

A buoyant 2014 had *sukuk* market players optimistic for another robust year but market uncertainty, especially with the drop in oil prices and the expected increase in global interest rates, have dampened activity in the market. The global *sukuk* market in 2015 welcomed significantly fewer new issuers compared to 2014. In fact there was only one new issuer -- the Omani government, which issued its debut sovereign *sukuk* in October, 2015 (Oman's first *sukuk* was a corporate issuance from Al Tilal Development Company in 2013). Total *sukuk* issued in the first 9 months of 2015 dropped a drastic 38.6% to \$48.8 billion from \$79.5 billion for the same period in 2014. Another area the report highlights is the effect of the drop in oil prices to *sukuk*. In the era of low oil prices and antici-

tion of increasing interest rates the outlook for the global *sukuk* market remains positive. The drop in oil prices is a double-edged sword; many oil-exporting countries, such as Bahrain and Saudi Arabia, have started considering *sukuk* as a source of funding to cover their budget deficits. At the same time, the oil price drop could hurt their credit ratings; this has already happened - at the end of October Standard & Poor's downgraded Saudi Arabia's sovereign rating, citing a "pronounced negative swing" in the Kingdom's fiscal balance.

[http://www.zawya.com/story/Maret\\_uncertainty\\_slows\\_down\\_sukuk\\_market\\_Thomson\\_Reuters-ZAWYA20151202124435/](http://www.zawya.com/story/Maret_uncertainty_slows_down_sukuk_market_Thomson_Reuters-ZAWYA20151202124435/)

## Correction to stay in global sukuk market



The global market for *sukuk* will remain at below – peak levels in 2016, Standard & Poor's Rating Services forecast, predicting issuance to reach \$50 billion – \$55 billion in 2016, compared with \$63.5 billion in 2015 and \$116.4 billion in 2014.

The correction started last year, mainly because the central bank of Malaysia (Bank Negara Malaysia; BNM) – the largest issuers of *sukuk* worldwide – stopped issuing. Excluding the BNM effect, *sukuk* issuance dropped by around 5% in 2015 from 2014. According to S&P, three main factors will shape the performance of the *sukuk* market in 2016: monetary policy developments in the US and Europe, the drop in oil prices, and the possible lifting of sanctions on Iran. The first two factors are likely to drain liquidity from global and local markets.

*“We think that if oil prices remain weak, some*

*governments of oil – exporting countries in the Gulf Cooperation Council (GCC) and Malaysia may have no other choice than to reduce investment spending, resulting in lower financing needs and potentially lower issuances (conventional and Islamic). In addition, we think that several issuing countries might decide to go the conventional route, rather the Islamic route, because it is less complex,”* S&P noted.

<http://saudigazette.com.sa/business/correction-to-stay-in-global-sukuk-market/>



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**A series of new board appointments and a separation of governance responsibilities in the world's top Islamic accounting standards body will help boost transparency in the organisation, the group's secretary-general said.**

## Islamic accounting body changes mark shift to transparency, diversity

The Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), which issues guidelines that are followed by the world's Islamic financial institutions, on Monday announced new board appointments at the end of its annual conference co-hosted with the World Bank.

The appointment of 50 members across three technical boards, which followed a nomination process that began in August and drew 180 candidates from 37 countries, also marks an apparent

shift away from a reliance on Gulf-based scholars. "We wanted to make the selection process more transparent and we saw effectiveness in having separate technical boards. This is one of our main changes," AAOIFI secretary-general Hamed Hassan Merah told Reuters ahead of the announcement.

<http://www.reuters.com/article/islam-financing-accounts-idUSL8N13X05E20151208#515kGv7z61fqRMQc.97>

Thomson Reuters and the Toronto Financial Services Alliance launched a study on Islamic finance investment opportunities in Canada during a roundtable at WIBC 2015

## Canada ready to become the Islamic Finance hub of North America

Canada, which is considered one of the most effective and safest banking systems in the world according to the World Economic Forum, is looking to position itself as the regional hub for Islamic finance in North America. Its main competitor in the region, the United States, is a much larger market overall, but Canada has a proportionately larger Muslim population. This advantage is coupled with an arguably more favourable federal regulatory regime and an outward looking orientation that is potentially more favourable and conducive to the growth of Islamic finance.

The domestic Islamic banking system has a strong potential to develop, with a growing domestic Muslim population estimated to be more than 1.3 million (3 percent of the population) in Canada and expected to rise to 3 million (6.6 percent of the population) by 2030. Currently, there is a potential of over \$2 billion in Shariah-compliant mortgages in Canada, a figure that is expected to increase to \$18 billion by 2020, which provides a strong base to support the development of the domestic Islamic banking system.

<http://www.arabnews.com/economy/news/844986>

## WGC draft on gold standard for Islamic finance



**The World Gold Council is calling for interested parties active in Islamic financial services to submit their responses to the development of a Shariah Standard on Gold.**

The World Gold Council is exploring the creation of a Shariah Standard on Gold, which will provide guidance from the Shariah perspective on the usage of gold in financial and investment transactions for Islamic financial institutions and participants.

The Standard also aims to increase transparency and harmonisation regarding the use of gold in various market practices. A draft of the Standard has been prepared for the Council by Amanie Advisors, a DIFC-based consultancy and training agency specializing in Islamic finance.

As the Islamic financial services market grows in size and importance, so does the need for a greater understanding of the intricate matters of Islamic financial services and the application of *Shariah* guidance. The Islamic financial services industry is also witnessing greater implementation of internationally recognized and standardized Islamic finance guidance.

<http://www.islamic-wealth-management.net/2016/01/wgc-draft-on-gold-standard-for-islamic.html#ixzz3xkina2hL>

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Prime Ministry of the Republic of Turkey issued a circular on the formation of an Islamic Finance Coordination Committee (Faizsiz Finans Koordinasyon Kurulu) to accelerate the development of Turkey's Islamic finance markets and to strengthen Turkey's goal of becoming an international financial hub, new government's program.

## Turkey sets up Islamic finance coordination committee

The Islamic Finance Coordination Committee will be chaired by the minister responsible for the Undersecretariat of Treasury and will include top financial markets regulators from the Ministry of Development, the Ministry of Finance, the Central Bank, the Banking Regulation and Supervision Authority, the Capital Markets Board, Borsa Istanbul, and the Islamic Banks Association of Turkey. The Islamic Finance Coordination Committee will also consult with non-governmental organizations, academics and professional organizations.

Turkey has already been active in developing the Istanbul Financial Center initiative to bolster

Istanbul's status as a regional and international financial center and supporting the Islamic finance market in Turkey as part of this initiative. The composition of the Islamic Finance Coordination Committee emphasizes Turkey's aim to maximize its coordination at the highest level. As one of Turkey's goals is to diversify its financial markets, the Islamic Finance Coordination Committee will play an integral coordinating role between financial markets regulators and the government to harmonize the Turkish approach to Islamic finance.

<http://www.lexology.com/library/detail.aspx?g=5ae4ac8e-3b6d-46b2-bc5e-64c2c1e4efd1>

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## Making the Poor Prosperous through Islamic Microfinance

*With such a high success rate and an established sequence of programs, the BMT is an excellent social movement to help improve the overall welfare of Indonesians.*

BMT itself is a microfinance institution which also acts as a social enterprise, using the principles of Sharia economy to lift people out of poverty.

How does BMT work? They receive money from two sources; the first one is donors in the form of *zakat*, *shadaqah*, *wakaf*, and donations. Money received from this path will be channeled strictly for social activities, such as non-commercial financing and various "empowering the poor" social programs.

The second source is investments, which comprises of saving from the members, loan from Islamic banks, and funding from various investors, for commercial financing for micro and small enterprises. BMT deals with both Muslim and non-Muslim, but all deals must be made in accordance with Islamic finance principles.

<http://www.globalindonesianvoices.com/24131/making-the-poor-prosperous-through-islamic-microfinance/>



A new study from IFC, a member of the World Bank Group, has found that external risks, security concerns, and over-indebtedness are perceived as the most serious challenges facing the microfinance sector in the Arab World.

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## IFC finds Arab indebtedness serious challenge to microfinance

The survey, conducted in conjunction with Sanabel, the Microfinance Network of Arab Countries, said tackling those problems will be key to spurring the development of the industry. Microfinance, long considered an important tool in the fight against poverty, has grown at a much slower rate in MENA over the last six to seven years, than it has in other parts of the developing world. "Microfinance can be powerful catalyst for boosting economic growth and improving the

*lives of people in developing countries," says Sahar Tieby, Sanabel's Executive Director. "This study documents the key risks facing the sector as perceived by stakeholders in the hopes that they can work together to address them."*

<http://www.menafn.com/1094482504/IFC-finds-Arab-indebtedness-serious-challenge-to-microfinance>

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## Upcoming Events (Feb-May 2016)

The 10th International Takaful Summit  
<http://www.takafulsummit.com/2016/> United Kingdom, London 23-24 Feb

*Islamic Banking & Financial Institutions Summit*  
<http://islamicbankingsummit.com/> UAE, Dubai 09-10 Mar

*Islamic Microfinance and Social Responsibility* Saudi Arabia, Jeddah 27-28 Apr

2016 London Sukuk Summit  
<http://www.sukuksummit.co.uk/> United Kingdom, London 25-26 May



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## Description of Data:

**Dow Jones Sukuk Index:** The Dow Jones Sukuk Index is designed to measure the performance of global Islamic fixed-income securities—also known as sukuk. The index includes U.S. dollar-denominated investment-grade sukuk issued in the global market that have been screened for Shari'ah compliance according to the index methodology. The index was created as a benchmark for investors seeking exposure to Shari'ah-compliant fixed-income investments.

The Dow Jones Sukuk Index follows the same consistent, quantitative methodology as the Dow Jones Islamic Market™ (DJIM) indices, which are monitored to ensure their continued adherence to Shari'ah principles.

**Bloomberg USD Emerging Market Composite Bond Index:** The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities issued in emerging markets as identified by Bloomberg. Emerging market issuers can be found at function EMWH. The major components of the index are the Bloomberg USD Emerging Sovereign Bond Index, Bloomberg USD Emerging Market Corporate Bond Index, Bloomberg USD Investment Grade Emerging Market Bond Index and Bloomberg USD High Yield Emerging Market Bond Index. To be included in the index a security must have a minimum par amount of 100MM.

**LIBOR USD 6 Month: London - Interbank Offered Rate - ICE Benchmark Administration Fixing for US Dollar.** The fixing is conducted each day at 11am & released at 11.45am (London time). The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration. The top and bottom quartile is eliminated and an average of the remaining quotations calculated to arrive at fixing. The fixing is rounded up to 5 decimal places where the sixth digit is five or more.

**Dow Jones Islamic Market World Index:** The Dow Jones Islamic Market World Index is a global index of companies that meet Islamic investment guidelines. The index is quoted in USD.

**Dow Jones Global Index:** The index measures the performance of stocks that trade globally, targeting 95% coverage of markets open to foreign investment. It is float market cap weighted. It is quoted in USD.

**MSCI World Islamic Index:** The MSCI World Islamic Index is a free-float weighted equity index. It was developed with a base value of 1000 as of May 31 2007.

**MSCI World Index:** The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets.

**MSCI Emerging Markets Index:** The MSCI Em (Emerging Markets) Index is a free-float weighted equity index.

**Bloomberg Takaful Index:** Bloomberg Takaful Index is a capitalization-weighted index of all globally listed Takaful-recognized companies. Takaful is an Islamic term meaning mutual support, which is the basis of the concept of insurance or solidarity among Muslims. This is a form of insurance based on mutual assistance. The index was developed with a base level of 100 as of April 15, 2009.

**Murabaha Deposit Rates:** Murabaha Deposit An agreement that refers to the sale and purchase transaction for the financing of an asset or project where by the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or in installments, will be specified in the agreement. Use all prices available in the terminal and updated within the last three working days. Banks that do not price for more than 3 days are excluded from the daily calculation. Islamic Market Reference Rate is calculated by Bloomberg using contributed rates from several local and international banks. Reference rates are calculated by taking the average bid & ask of the contributing banks, after eliminating the 4 highest and 4 lowest values.

## Glossary Of Key Terms

<i>Ijara</i>	This is a lease contract wherein the Bank (lessor) leases the property to the customer (lessee) in return for a rental payment for a specified financing period. The Bank promises to transfer the title of the property to the customer at the end of the financing period, if all payments have been made.
<i>Mudaraba</i>	Trustee finance contract: One party contributes capital while the other contributes effort or expertise; profits shared according to a predetermined ratio; investor not guaranteed a return and bears any financial loss; no fixed annual payment; financier has no control on how venture is managed.
<i>Murabaha</i>	Sale with agreed mark-up: Financing purchase of assets for a profit margin; asset purchased on behalf of client and resold at a pre-determined price; payment could be lump sum or in installments; ownership of asset remains with bank till full payments made
<i>Musharaka</i>	Partnership; equity participation contract: Both parties contribute capital; profits shared by a pre-determined ratio, not necessarily in relation to contributions; losses shared in proportion to capital contributions; both parties share and control how investment is managed; each partner liable for the actions of the other
<i>Shari'ah Board</i>	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of Shari'ah compliance.
<i>Sukuk</i>	An Islamic financial certificate, similar to a bond in Western finance, that complies with Shari'ah, Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a sukuk sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the bonds at a future date at par value.
<i>Salam</i>	<i>Salam</i> is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The contract of Salam creates a moral obligation on the Salam seller to deliver the goods. The Salam contract cannot be cancelled once signed.
<i>Takaful</i>	The term 'takaful' is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a takaful arrangement, the participants contribute a sum of money as wholly or partially tabarru' (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the takaful.
<i>Istisna'</i>	<i>Istisna'</i> is the kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of <i>istisna'</i> comes into existence. But it is necessary for the validity of <i>istisna'</i> that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.
<i>Wakala</i>	<i>Wakala</i> is the agency contract which is used widely in Islamic Finance. The applications ranging from brokerages services in permissible activities, like certain stocks, as well as to be the agent in a <i>Murabaha</i> transaction. The client, who wants to be financed, acts as agent of the bank to acquire the asset, then sold to him on credit installments. Agents can be compensated for their assignment with a fixed, variable or performance model, which is frequently used to influence pay outs and cash flows in financial engineering.

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