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BOOK REVIEW

ISLAMIC FINANCE: A PRACTICAL GUIDE

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Islamic finance has seen unprecedented growth in recent years and the pace of this growth is accelerating. This is evidenced not only by the size of the Islamic financial market, but also by the increasing range of sophisticated products and services.

As Islamic finance has developed tremendously for the last decades, a practical guide such as this book is a welcome addition in understanding how the Islamic finance industry structures, implements and executes *Sharīʿah*-compliant transactions, ranging from working capital facilities to highly structured equity linked capital market offerings. This book, which consists of 14 separate articles, is accordingly a practical insight to the diverse contemporary application of Islamic finance.

This practical title features insightful chapters by leading practitioners in Islamic financing, and analyzes market trends, key developments and structures for *sukūk*, syndications, funds, project financing, Islamic liquidity management and *takāful*. It is essential reading for those who are already engaged in Islamic financing transactions or interested in understanding the Islamic finance market and structures underpinning the world's fastest growing finance sector. Besides, other people willing to learn more on the topic, of course, will get much benefit from this book as well.

Considering the diversity of discourse covered, this book is organized into six sections. Section 1 provides an overview of Islamic finance principles; Section 2 presents an analysis on asset management and equity investment generally; Section 3 considers the application of Islamic finance in the syndication market and deals specifically with project and trade finance; Section 4 moves to the capital markets and focuses on *sukūk*; Section 5 contains an overview and an analysis of the Islamic insurance market and products; and Section 6 provides a summation of the current of the Islamic finance industry and insight into what may come.

In section 1, Mustafa Hussain provides "A General Introduction to Islamic Finance," containing some notes on the nature and application of Islamic law. People have to distinguish between *Sharīʿah* which is the principles of Islamic law, and *fiqh* which is the interpretation of the *Sharīʿah*. Though the *Sharīʿah* always remains the same, *fiqh* or interpretation and application in certain circumstances may differ slightly. The various views among scholars have been one of the distinguishing features in Islamic finance.

Hussain also highlights the prohibition against interest and some basic contracts used in Islamic finance like *murābaḥah, muḍārabah* and *ijārah*. Based on these basic contracts, Islamic financial institutions (IFIs) have developed a wide range of *Sharīʿah*-compliant products and services for customers and investors.

The topic on 'equity and funds' in section 2 is discussed by three consecutive articles. Imtiaz Shah begins the topic with his article, "Overview of Islamic Asset Management," showing the characteristics, types and structures of Islamic funds and their main differences from conventional funds.

In the next article entitled, "*Sharīʿah* Screening and Islamic Equity Indexes," Kamal MA Mian, stresses the importance of *Sharīʿah* screening in developing instruments in various companies or projects. Since it is almost impossible to conduct financial activities of companies that fully comply with the principles of *Sharīʿah*, even for the companies whose line of business is permissible under the *Sharīʿah*, the approach adopted is to study carefully the non-compliant elements in a company and find the ways and means to either avoid them or deal with them in a manner that is consistent with *Sharīʿah* principles. The scholar furthermore presented the *Sharīʿah* screening criteria that have to be fulfilled, namely business activity screens and financial ratio screens.

The development of *Sharīʿah* screening criteria led to growth in the Islamic investment funds industry. This growing industry further arouses some versions of Islamic equity indexes with their respective main index and several sub indexes.

As the size and general scale of Islamic transactions increase, Judy Kawaf and Neil D. Miller criticize the rapid expansion and domination of debt-based products in the Islamic finance markets. They raise the question as to whether such transactions are merely *Sharīʿah*-"compliant" rather than truly *Sharīʿah*-"based". Kawaf and Miller, in their article, "Islamic Private Equity Funds," then propose a redirection of the focus towards areas of business with more *Sharīʿah*-based solutions, namely private equity, venture capital, and investment funds.

Section 3 presents the discussion on some other different types of Islamic financing structures. An article on "Islamic Syndications: Legal and Structuring Considerations." by Rustum Shah talks about contemporary Islamic financing syndication transactions viewed from legal and structuring perspective. According to him, Islamic syndication is a diversified product of current Islamic financial portfolios which attract not only Islamic financial institutions, but also a great number of conventional institutions. The mainstay structure is still the *murābaḥah*, but with increased familiarity of Islamic financing principles amongst banks, corporations and other users and providers of Islamic finance, there is growing willingness to venture beyond the *murābaḥah* to structures which receive greater *Sharīʿah* approval.

Meanwhile, for a long time there has been a misconception that Islamic funds could not be used in project financing. Pointing at this issue, Neil D. Miller and Mark Morris write on the Application of Islamic Finance to Project Finance," stating that the *Qur'ān* (24:33) promotes the concept that those who possess capital should contribute their wealth to schemes that will provide utilities and services for the greater good of the community. Basically, there are two phases in project finance: *construction phase* and *operation phase*. During the first phase when the project will generally not be capable of generating an income, Islamic products available are *istisnāʿ*, *mushārakah* and *wakālah*. For the next phase, when it starts to generate revenues, the Islamic instrument which is favored is leasing. Although Islamic finance allows investment in this project, some issues such as pre-payment, total loss, application of post-enforcement proceeds, and other inter-creditor issues are still evolving and it remains to be seen how they will eventually settle down.

Bilal Ahmed Khan and Abdul Rahman Al-Syaikh in their article, “Application of Islamic Finance to Trade Finance,” examine trade financing techniques and primarily focus on the concept of *murābaḥah* transaction and its procedure in domestic and international trade financing. It has been estimated that more than 60% of financial operations of some IFIs all over the world utilize this technique.

Another product of Islamic finance that has obtained great acceptance from the capital market is *sukūk*. Section 4 confers this interesting topic in three articles. Ehsun A. Zaidi who provides an ”Overview of Islamic Capital Market,” looks at a general concept of *sukūk* (Islamic bond) and the development of the *sukūk* markets which attract not only the private sector, but also many sovereigns from Islamic countries to launch this product. The *sukūk* market has continued to gain pace and has importantly widened its range of issuers. He also adds an analysis on the prospects for corporate issues and some challenges pertaining to the need for greater transparency and availability of credit rating agency.

Furthermore, Bilal Aquil and Imran Mufti talk about “Innovation in the Global *Sukūk* Market and Legal Structuring Considerations.” They underline the major distinction between *sukūk* and conventional bonds which lies on the existence of underlying assets. A key component of Islamic securitization is that the structure should be asset backed. In the context of *Sharīʿah*-compliant securitization, this means that some degree of ownership in the underlying assets should be transferred to the issuer (rather than a mere assignment of the cash flows). However, the transfer to the issuer (from the originator) of a package of rights, flowing from ownership, that allows the issuer to participate in the revenues generated by the underlying assets is enough to satisfy the constraints of the *Sharīʿah* (p. 112). As the most commonly used *sukūk* are *sukūk ijārah* and *sukūk mushārakah*, they focus the elucidation on these two.

Continuing the explanation on the above two most-utilized *sukūk*s, David Testa in his article “Fixed Income *Sukūk*: Prospect for Corporate Issuance,” tells that in 2006 both are accounted for 19.2% and 36.4%

of total issuance respectively. Both as well as other types of *sukūk* basically can be tailor-made to fit into a company's business and asset base, indicating that the *sukūk* is a highly flexible product.

The topic on Islamic insurance (*takāful*) is covered in section 5. Mohd. Ma'sum Billah writes two successive articles entitled, "Overview of Islamic Insurance (*Takāful*)," and "*Takāful* versus Conventional Insurance." Billah explains the foundations underpinning Islamic insurance and the governing principles of contemporary *takāful* and *re-takāful* products. Comparing *takāful* with conventional insurance, Billah presents the comparison in a tabular form so that it becomes easier to be understood even for beginners. The last article in this area, "Islamic Insurance Products: A Case Study," is written by Omar Clark Fisher. It discusses the history of *takāful* and its fundamental characteristics which create an integrated *takāful*. He also examines the current state of *takāful* especially in the Gulf Cooperation Council (GCC) countries. The *takāful* industry is a young, emerging segment of the worldwide conventional insurance industry, which represents less than 1% of total gross written premiums in 2006. Yet, the latent demand from Muslim communities across the globe (which account for 20% of the world's population) for a religiously acceptable alternative to conventional insurance, certainly means that *takāful* business will not be a passing phenomenon.

Finally, section 6 closes the book with, "A Reflection on Contemporary Islamic Finance Markets," by Rafe Haneef which is very fascinating to be highlighted. Different from previous developments, the Islamic finance industry has recently been receiving an increasing level of attention and focus in both Western and Muslim countries. It offers a wide range of products and services, often comparable with those in the conventional finance world. The involvement of conventional financial houses in Islamic finance through Islamic subsidiaries has also augmented its growth.

Nevertheless, there was an opinion that the current form of Islamic finance promotes too much debt in the economy and has failed to promote a more equitable form of financing based on a profit-and-loss-sharing model. The opponents firmly contend that since the Islamic products share the same risk-and-reward profile as their conventional counterparts and only differ in their form and structure, the Islamic finance model will not be materially different from the prevailing conventional financial model and may well end up inheriting the same troubles and tribulations.

Therefore, the proponents of Islamic finance industry seriously need to reflect upon the constructive views of the opponents. The lack of full appreciation of Islamic finance and, more importantly, Islamic economics in the marketplace results in the state of affairs that we witness today. The lead has to come from the Islamic economists who need to better articulate how Islamic economics should be implemented in the contemporary world. Likewise, the role and guidance of the *Sharīʿah* scholars is critical in ensuring that the design and implementation of the Islamic financial products meet the objectives of the *Sharīʿah*. A tremendous amount of work is still required in this area. Various institutions of higher learning and professional development bodies specializing in Islamic finance and economics play strategic roles in providing education and conducting research, imparting solutions to problems faced and giving redirection to a better development in the future. The Islamic finance industry now stands at a crossroads and it is time to decide whether to continue in its conformist approach or to travel the road that improves the current status quo.