

ucts that have equity rather than debt characteristics.

Some of the keenest African custom for Islamic products is in countries like South Africa, where Muslims are a small minority, as it provides Muslims with a way of affirming their cultural heritage. Hamza Farooqi, who heads South Africa's CII Holdings, a diversified business group, has gradually been moving his own and his company's finances from conventional banks to Absa's Islamic division. CII Holdings asked Absa to help finance the first "dry" five-star hotel in Cape Town.

23.7. Islamic retail banking: Nigeria

Nigeria is not only the most populous country in West Africa, with a population of 150 million people, of whom about 65% are Muslims, but it is also the largest economy.²⁵⁸

In response to the demands by Nigerian Muslims to have a bank that meets their religious, moral and ethical aspirations, concerted efforts are in progress by a number of corporate bodies, individuals and Islamic organizations to achieve this goal. And with the release of the regulatory frame work of Islamic banking by the Central Bank of Nigeria in February 2009, all is now set for the first Islamic bank in Nigeria to commence full commercial operation as soon as possible.

JAIZ Islamic Bank is the first fully fledged Islamic bank in the country and its Managing Director, Alhaji Mohammed Mustapha Bintube, recently confirmed that the bank will now commence full operations in Nigeria before end of 2009.

Nigeria is one of the largest and richest of the African economies. Its Islamic financial sector is expected to flourish within two years, after the Central Bank of Nigeria passed legislations permitting the establishment of Islamic banks in the country in 2009. This legislation is expected to have a significant impact on growth in Islamic banking in this part of Africa.

Some countries, such as Nigeria, with almost 70 million Muslims and a booming banking sector should be fertile ground.

23.8. Islamic retail banking: Tunisia – Zitouna case study

Banque Zitouna, a fully-fledged Islamic bank, is to open at the beginning of 2010. Its head office will be situated in Les Berges du Lac, near the country's capital, Tunis. The chairman of the board of directors is Mohamed Sakhr El Materi, a well-known businessman in Tunisia and the owner of Princesse El Materi Holding, which specialises in the automotive industry, cruise and port management, real estate and media broadcasting. He is also a son-in-law of Tunisia's current president, Zine El Abidine Ben Ali.

Princesse El Materi Holding will have a 51% stake in the new venture. Other shareholders include Groupe

La Carte (insurance provider), Groupe Poulina Holding (a group of companies that covers the agricultural, food, industrial and service sectors), Groupe TTS (tourism services group), Groupe Délice-Danone (an agro-food company), Groupe UTIC (distribution) and Groupe Bouchamaoui.

Zitouna's authorised capital is US\$ 22.8 million. It was granted a banking licence by the Central Bank of Tunisia in January 2009 and was expected to open in early November 2009. However, due to some technical problems with the computer network the official opening has been postponed to March 2010.

All banking products and services offered by Zitouna will be fully Shari'a-compliant and will focus on lending and deposits. They will be based on various PLS mechanisms, including murahaba, ijara, mudaraba and musharaka.

CHAPTER 24 Road to Islamic Finance in India

Islamic banking and financial services currently has a presence in over 75 countries worldwide; these include the secular countries of Europe, North America and South East Asia.

India too, having sensed the momentum and industry buzz globally, has got off the ground with its own activity. Indian regulators, unlike much earlier when they were averse to entertaining anything vaguely 'Islamic', have started to look at the positive side of such an undertaking, and have allowed schemes that lay claim to Shari'a compliancy. Figure 113 below gives us a glimpse of the important actions that the Indian Government and its important institutions have taken most recently. These actions are seen to have important ramification for the Islamic finance business in the country.

These actions indicate a cautious but systematic approach by Indian policy makers in allowing Islamic financial products and services in the country. Many play-

ers from the private sector have come up with Shari'a-compliant products abroad as well as in India. A leading private sector player has created an entire vertical for distributing Shari'a-compliant products. Financial institutions like HSBC, Benchmark, TATAS, Taurus, UTI, Kotak, Reliance, Bajaj Allianz, all have some kind of Shari'a-compliant product already available in the market or in the pipeline.

24.1. The potential of Islamic finance in India:

Muslims constitute 13.4% of India's total population - In absolute terms this number translates into the second largest Muslim population in the world, after Indonesia. One current official estimate puts this figure close to 175 million Muslims. 60% of this population is below the age of 25 and over 35% of them live in urban areas;

ACTION	YEAR
Establishment of Anand Sinha Committee under the Reserve Bank of India for studying Islamic financial products	2005
Appointment of Justice Rajinder Sachar Committee to report the social, economic and educational status of Muslim community of India	2005
Raghuram Ramrajan Committee recommends Islamic banking for financial inclusion of Muslim community in India	2008
Government of India calls for bid in connection with reconstruction of National Minority Development Finance Corporation (NMDFC) on Shari'a principles	2008
SEBI permits India's first Shari'a-compliant Mutual Fund	2009
SEBI permits India's first Shari'a-compliant Venture Capital Fund	2009
GIC (Re), a government of India owned company, appoints TESIS for Shari'a advisory	2009
Government of the state of Kerala announces the launch of an Islamic Investment company	2009

Figure 113: Indian Government action for the Islamic finance development

²⁵⁸ Pop. Data - 2009 CIA World Factbook

make Islamic compliant instrument unviable.

Prohibition of investments

Prohibition to invest more than 10% of Net Owned Fund in real estate;

Prohibition to invest in unquoted shares; and

Requirement of finance companies to maintain at least 15% of their public deposits into commercial banks.

Low public trust

Public trust in the Islamic finance company route is quite low because of failures of several prominent Islamic finance companies in the country.

that fall under the waqf act or related to the performance of Hajj.

An important committee which submitted its report to the Indian government about India's future financial structure has mentioned Islamic banking in the following paragraph;

"While interest-free banking is provided in a limited manner through NBFCs and cooperatives, the Committee recommends that measures be taken to permit the delivery of interest-free finance on a larger scale, including through the banking system. This is in consonance with the objectives of inclusion and growth through innovation. The Committee believes that it would be possible, through appropriate measures, to create a framework for such products without any adverse systemic risk impact."

(Raghuram Rajan Committee, Chapter 3: Broadening Access to finance Page 35)

Looking at overall developments at private, governmental and international levels it can be expected that very soon, India will be formally opening its economy to the Islamic finance business, for which many Indian institutions in the private sector have started to prepare.

24.6. Capital markets

As of now this is the most preferred route adopted by Shari'a-compliant investors in India. In the post Shari'a screening scenario India has become one of the preferred destinations for Shari'a compliant investors. Even the most conservative screening process would throw at least a thousand stocks which are compliant under the Shari'a screening process. The following chart gives a glimpse of Shari'a-compliant stocks in India at its two stock exchanges namely Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Qualifying stocks come from various industries such as Steel, Automobile, Pharmaceuticals, IT, Consumer goods, Cement, petroleum, hydroelectricity etc.

24.7. Conclusion

The Indian government is showing an interest in the Islamic finance business, and this is reassuring. Various players in the corporate sector have launched Shari'a compliant products and several state governments are looking at exploring and capitalising on Shari'a-compliant financing options. The Ministry of Minority Affairs is keen to bring its financing arm - National Minority Development Finance Corporation (NBFC) under the Shari'a rules and regulations, and they are further looking to strengthen Shari'a compliance of various Islamic activities

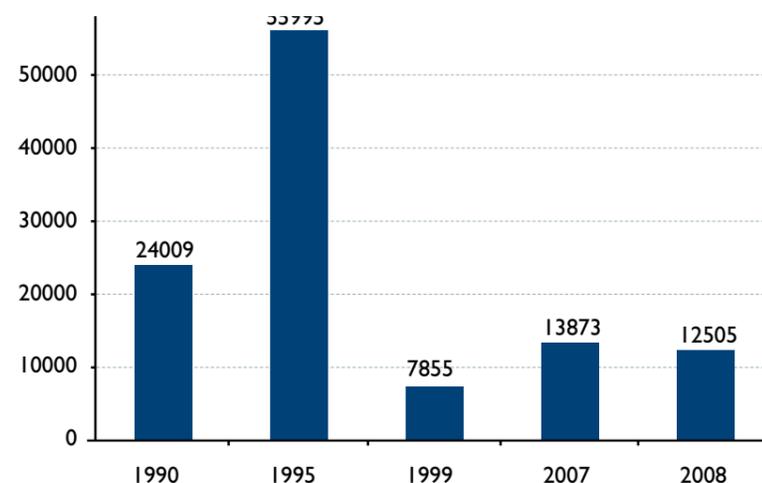


Figure 117: Number of financial companies in India

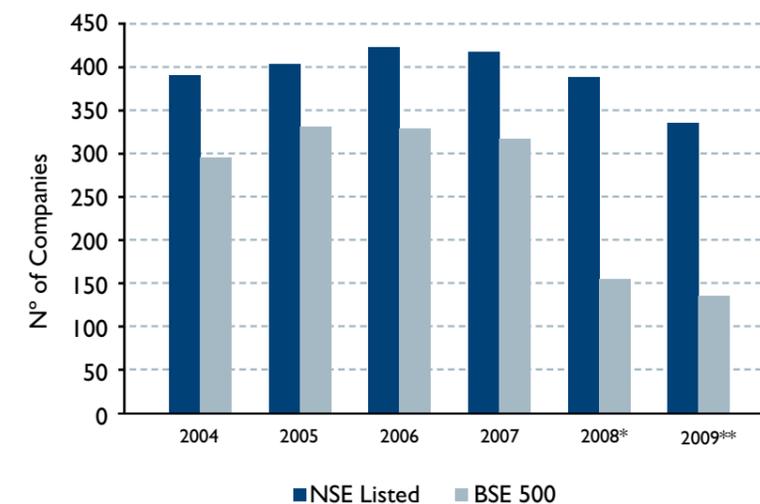


Figure 118: Shari'a-compliant stocks in India

	PROJECTS	PARTNER	US\$ MILLION	LEAD ARRANGER
DECEMBER 2007	Economic Development Zone (EDZ)	Maharashtra State	10,000	Gulf Finance House
NOVEMBER 2007	SREI Projects	SREI Infrastructure Finance Ltd.	50	HSBC Amanah / KFH
AUGUST 2007	Bearys Global Research Triangle	Bearys Groups	20	SEDCO
JULY 2007	Velcan Hydro Electric Dam	Velcan Energy Holdings	275	National Bank of Dubai
OCTOBER 2006	Energy City of India	Maharashtra State	2,000	Gulf Finance House

Figure 119: Islamic finance projects in India