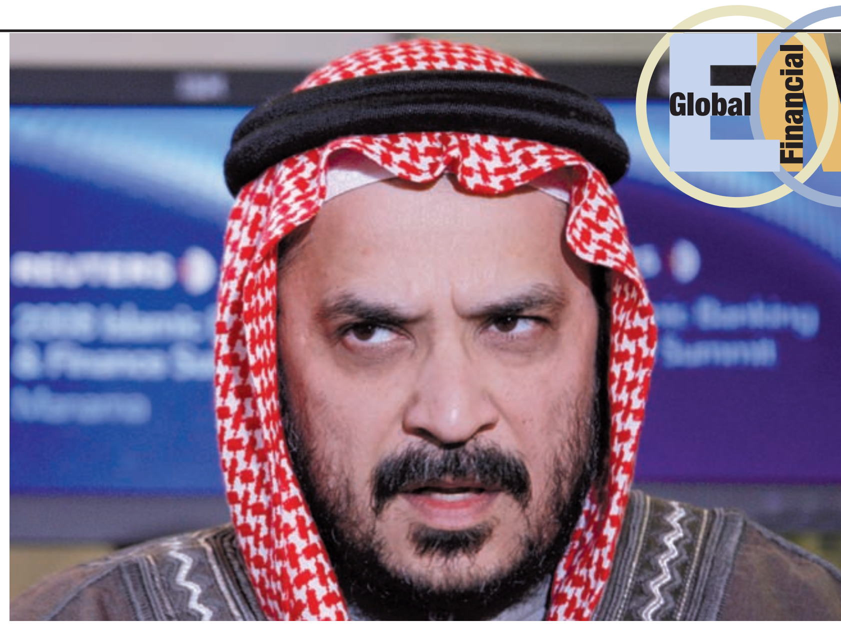
Sheikh Nizam Yaquby

Islamic finance scholar

The global financial crisis may act as a catalyst for Islamic finance, as the industry reaches out to the world's 1.3 billion Muslims. Shariah scholars will play an increasingly central role in this transformation



The majority of people who buy Shariah products, or park their money in Shariah accounts, want certainty that what they're buying or investing in is Islamic, namely that it doesn't pay or charge interest. Shariah scholars claim to provide this certainty – and in doing so, have become some of the most powerful people in one of the world's fastest growing financial sectors.

The estimated $1 trillion industry is thought to be growing between 10–15% a year, although hard data is poor. What's known is that the 100 biggest Islamic banks had $580 billion in assets at the end of 2008 – and that was a 66% increase on the previous year despite the global financial crisis. Many experts now believe that the global economic downturn and the financial turmoil – caused by credit excesses – can act as a catalyst for new approaches to finance based on Shariah principles.

Yet the industry's biggest challenge is a scarcity of well-trained, legally and financially literate and internationally-minded scholars. There are only half a dozen scholars on the advisory boards of the world's top Islamic institutions.

Bahrain-based Sheikh Nizam Yaquby is arguably the most highly regarded of such scholars; he's believed to serve on more than 40 Shariah boards from Citi Islamic and HSBC to Abu Dhabi Islamic Bank and the Dow Jones Islamic Index. Operating for years out of the back of an electronics store in the Manama souq, he exemplifies the speed with which the Shariah adviser role has evolved into a jet-setting profession on a par with commercial law. Sheikh Nizam now finds himself endlessly on the road addressing conferences to improve knowledge of Islamic finance and of the Shariah scholar discipline; he is widely considered at the cutting edge of financial innovation.

But this embrace of innovation is something of a double-edged sword. Nizam and his peers, like Mohd Daud Bakar in Malaysia and Yusuf Talal Delorenzo in the US, have become labelled as commercially-minded scholars, given their work in financial markets. A debate is growing over whether the products approved by these scholars – whether it be an Islamically compliant hedge fund or the tawarruq or reverse murabaha structure, which the OIC Fiqh Academy has declared non-compliant – breach the spirit of Shariah.

But Nizam denies that there's a split within the scholarship. "There is no perception among scholars that there is one more conservative and one more progressive," he says. "These are terminologies used by outsiders. Within our Islamic legal community different scholars reach different conclusions for different reasons. In the last five or 10 years more conventional products are being designed in a way to be acceptable from a Shariah point of view. "I believe if it is properly done, with proper approval and procedure, there is no harm in that, in giving Islamic bankers and investors more tools."

Whatever the case, the fact is that Islamic finance can't thrive without Shariah scholars, whose vocation needs recognition as much as development. But with the industry increasingly reaching out to the world's 1.3 billion Muslims – many of whom live in emerging economies in south-east Asia and the Middle East – the influence of such scholars cannot be overstated. —*Chris Wright*

Muhammad Yunus

Founder, Grameen Bank

By capitalizing on poverty, Yunus has boosted the purchasing power of millions in the developing world

There are roughly 140 million households in the world with access to microcredit, and a far bigger number with access to micro savings. Irrespective of who pioneered the idea of microcredit, there's no question who gave the idea momentum and had the greatest influence on building the powerful industry it is today. It's Muhammad Yunus, the Bangladeshi banker and economist, who, jointly with Grameen, the bank he founded, won the 2007 Nobel Peace prize.

The Grameen approach, developed with government and central bank backing from a research project by Yunus's team at Chittagong University in Bangladesh, was distinctive because it made lending to the poor a solid business model. Others had lent to the poor on the back of state subsidies but without worrying about its sustainability as a business practice.

Microfinance has emphasized its ability to alleviate poverty and to act for the general social good, and Yunus has been very much a key thinker behind it. But you wouldn't see banking groups as big as Citigroup building microfinance teams of their own if Grameen hadn't demonstrated that lending to people without collateral was not only good for the soul but the balance sheet too.

The global financial crisis has had some surprising impacts on the microfinance industry. Some have got into trouble.

Martin Holtmann, who heads microfinance initiatives at the International Finance Corporation (IFC), has developed an IFC-led facility that aims to raise $500 million to support microfinance institutions facing liquidity problems. In September it had already approved almost $140 million in disbursements. But that was chiefly for credit institutions suffering a knock-on effect of the liquidity crunch in commercial banks, not because of any lack of confidence in the microfinance institutions themselves.

"You wouldn't call it a full crunch, because microfinance institutions, like any prudent institutions, had secured medium-term financing. But eventually you hit the rollover risk," says Holtmann. In the main, particularly in the deposit-taking institutions, they have, if anything, outperformed. "Deposit takers have by and large escaped the liquidity crunch because deposits have been stable," he says. "In some cases, they have benefitted from the fact that commercial banks have had runs on deposits."

So in these exacting circumstances, individual borrowers have remained uncommonly reliable, and the management of these banks has held up better than their global heavyweight counterparts. Grameen illustrates these trends. This August Grameen had an almost 98% recovery rate; its return on equity in 2008 was 21% and its capital adequacy ratio 12%.

It's also notable that when Yunus speaks these days, more often than not he's calling for better regulation. He wants the industry to be properly governed and supervised, with the right environment for stable growth. Along the way other long-standing microcredit lenders have shifted their own models from state subsidy to free-standing sustainability, notably Indonesia's powerful rural lender, Bank Rakyat Indonesia.

Microfinance is not universally admired. Some feel it creates a culture of debt; some feel interest rates, which typically are higher than those in mainstream commercial banks, are unreasonably high; some claim that banks like Grameen can't operate sustainability without subsidies; and still others find them prescriptive.

But there's no question it has provided an opportunity to a vast part of world society that would not otherwise have received it and it will remain one of the fastest growing areas of financial services for years to come. —*Chris Wright*