

ISLAMIC FINANCE TODAY

The Pulse of Ethical Business

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A BRIGHT **NEW** DAWN FOR ISLAMIC FINANCE TODAY

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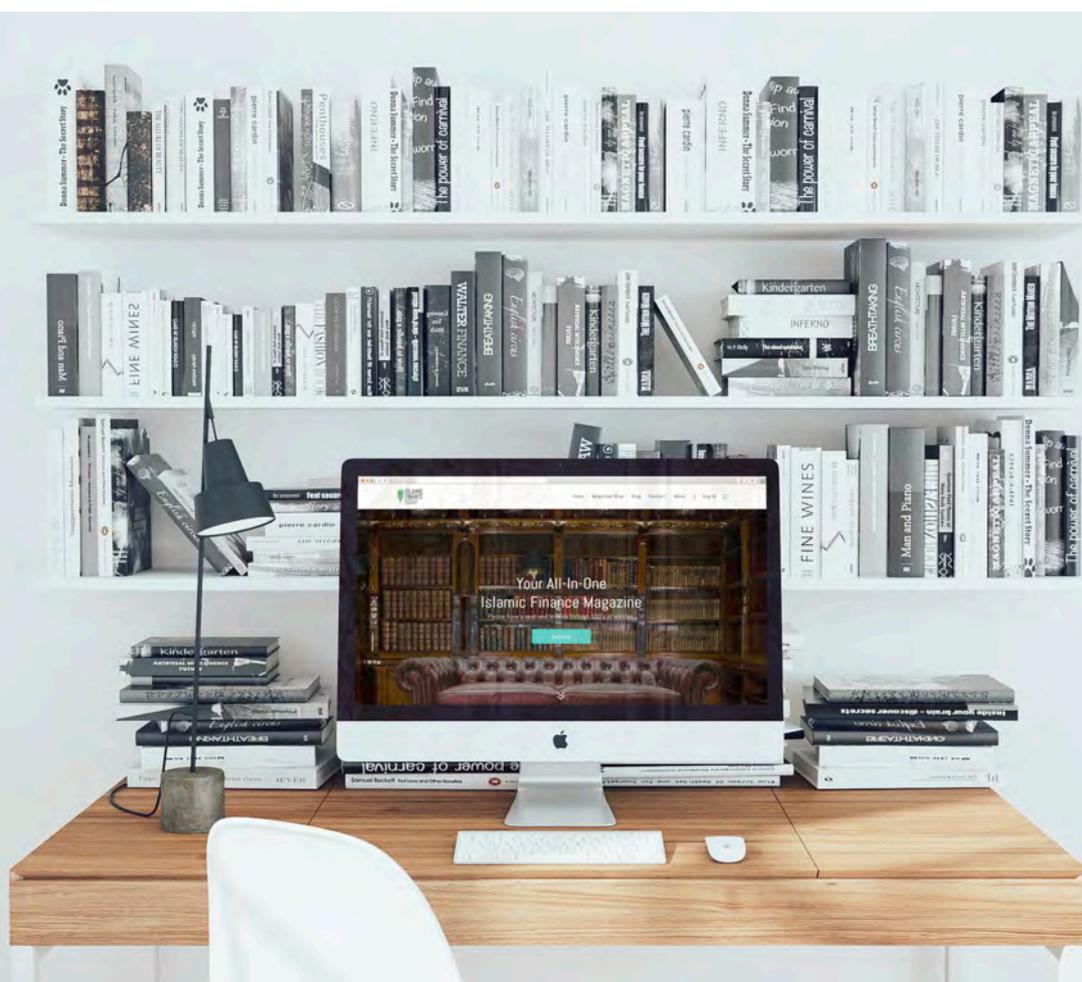
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“Talent is universal; opportunity is not”

Human Capital Mudaraba
for expanding higher education opportunities

By Charles Selestine

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Imagine this

You are a young lady from rural Cambodia who has just completed high school. Your parents support your keen desire to go to college, but do not have the means to support you. Your father decides that if you choose to go to college, you should study Accountancy – he deems this a suitable job for a young woman, based on existing social mores. Your dad, a subsistence farmer, scrapes together enough money for the first of eight semesters, and says, that is all he can do to support your dream. You have no idea if you will ever get the funds to pay for the remaining 7 semesters.

Would you enrol? Would you plunge in, without any plan beyond the first semester? Wouldn't that be imprudent and reckless? What if you were very eager to study?

There was no fairy tale ending in the above instance. Thida* did enrol, and when the semester came to an end, she had to drop out. She struggled, worked as a waitress among other jobs, and scrimped for two years to try and re-enrol. All the while, she kept looking for any kind of financing for her education.

The purpose of this article is not to highlight a story of a determined student overcoming odds, though I reckon we have all come across such stories and have been inspired by them. Our purpose is to explore solutions - particularly, one that should resonate with the Islamic Finance community.

Sources of funding

Typical sources of funding for higher education are self-funding, scholarships/bursaries and loans. Let's look at these from the perspective of a student from a low income family, in a less developed country.

First, self-funding - in most instances the family simply doesn't have the money to fund a young person's higher education. Second, scholarships - these few are between, and it is very difficult for a vast majority to secure these.

Third, loans - many financial institutions consider education loans risky, and choose not to provide such longer term loans. Even where such an option may be available, the conditions are typically stringent – high interest rates, need for real assets as collateral, a guarantor who has a steady income etc.

It has been found that even in affluent countries, with reasonable terms for education loans, students from lower income families are reluctant to avail of these loans, as their families consider it too risky.

Investing in potential

What if you are willing to invest in Thida's potential, and benefit from it too? You determine Thida's willingness and ability to pay. Satisfied with your analysis of Thida's character and future income potential, you decide to fund her education, in return for a share of her future income. For example, in return for USD 1000 to pay her fees, she agrees to share 5% of her future monthly income, for a period of 3 years.

From Thida's perspective, this is an excellent solution. Without depending on her family, she is able to finance her education and share the fruits of her enhanced opportunities.

From an investor's perspective, it is an opportunity to back the potential and change the lives of young people, while sharing with them the financial risks and rewards of higher education.

From society's perspective, it is an effective way of spreading access to higher education, without depending on scarce public resources. So, are Income Sharing Agreements (ISAs) a viable way to finance higher education?

Inclusive Education

I was in Phnom Penh to attend a financial inclusion conference earlier this year, and was privileged to meet Thida and two other 'Rising Stars'. All of them are socially conscious, dynamic young women who had engaged in social work and volunteering from a young age.

They viewed a university education as critical to their personal development and growth. They had used ISAs to finance part of their college education. Over coffee, they shared their struggles, experiences and views on Income Share Agreements.

Wedu, which provided Thida and the others with the ISA financing, is a non-profit social enterprise based in Bangkok. Wedu unlocks the leadership potential of young women in 'less developed' countries, towards becoming leaders of social change in their communities.

“It is an opportunity to back the potential and change the lives of young people”

These inspiring young women, called 'Rising Stars', are engaged through a leadership development program which includes one-on-one mentoring, combined with financial support to complete their higher education.

Wedu is pioneering the use of ISAs in Asia. Lumni, has been providing ISAs since 2002 in South America and expanded their operations to the USA. Purdue University launched an ISA programme this year. There are other for-profits and not-for-profit organizations providing ISAs.

There are challenges in developing an innovative financial product, which can provide immense benefit to society. Discussing these challenges are beyond the scope of this article. At Wedu, with our current focus on Asia, we strive to source and collate reliable information to base funding decisions. We seek ways to harness the social collateral developed through our community of Rising Stars, Mentors, Talent Spotters, Partners and others, as a risk mitigation tool.

In conversations with Rising Stars who apply for FISA financing (in Wedu, we call our product Future Income Sharing Agreements), they highlight the flexibility and affordability of FISAs. It is heartening to note that the Rising Stars are keen that their income shares go to support future applicants, in a growing, revolving pool. We aspire to build such a Fund.

Enter Islamic Finance

Over the past decade, I have attended many Islamic Finance conferences – Banking, Takaful, Investments, Funds etc. Invariably, some speakers would bring up the socially beneficial ideals of Islamic Finance.

Other speakers would espouse risk-return sharing as keeping with the strictures of Islamic Finance, and as a principle and practice to be encouraged.

ISAs tick both these boxes. Income Share Agreements are not a theoretical construct, but a live solution that is right now, helping lower income students get a university education.

Commenting on the Sharia Compliance aspects of Human Capital Mudaraba is beyond my competence. Rakaan Kayali has done an excellent piece on HCI entitled “*The Coming Revolution*”, published in the October issue of Islamic Finance Today. Further, in his blog *Practical Islamic Finance*, Rakaan has delved in-depth into Human Capital Investments, in a discerning, straightforward and clear manner.

If you are a Sharia Scholar, Academic, Practitioner or anyone else who is interested in supporting Wedu's exploration of the Sharia Compliance of Human Capital Investments / Income Sharing Agreements, you are most welcome.

The title of this article is a phrase from Rye Barcott's 2011 book, *It Happened on the Way to War*. There are many capable, talented, deserving students from low income families, for whom finance is the only obstacle to higher education and the life changing possibilities it offers.

If there is a solution that aligns closely with the values and ethos of Islamic Finance, shouldn't we develop and promote it?

*Name changed to protect identity