



Paris - Ile de France Capitale Economique

ISLAMIC FINANCE ENHANCING ATTRACTIVENESS FOR GREATER PARIS

PRINCIPLES

« Got allowed trade but forbade interest» (Qur'an, Sura II, Verse 275)

1. Islam tradition condemned bank loans. However, since the 1960s different financial concepts have emerged that claim compatibility with the Qur'an: the most prominent are *mudaraba*, *musharaka mutanaquissa*, *murabaha*, *sukuks* and *ijara*.
2. Islamic finance tends to strongly restrict financial intermediation and aims to develop only the real economy. It is driven towards public and private real estate. According to Anouar Hassoune, Vice-President at Moody's, Paris this partly explains Islamic finance resilience in the face of the 2007 credit crunch.
3. Islamic finance also seeks to prohibit investments in relation with gambling, alcohol, weapons, pork and pornography. Sharia boards are a common review instrument in Islamic banking.

MAIN APPLICATIONS¹

- **Mudaraba** is a kind of contract pertaining to project finance whereby capital owners cover financial risks and promoters operational risks.
- **Musharaka mutanaquissa** is a contractual document pertaining to operations where one of the capital contributors will be the final owner of the project. It includes amortisation tables covering principal and benefits.
- **Murabaha** is a contract by which a person acquires an asset and re-sells it at an agreed price after a defined period. Beneficiary margins and payments are stated in the document.
- **Sukuks** are notes which remunerations are usually capped.
- **Ijara** is form of leasing.

¹ Ibrahim Zeyyad CEKICI (2009) « Développement de la Finance islamique en France : les premiers Pas de l'Administration fiscale », *Lamy Droit des Affaires*, n°35, février, pp. 77-81.

MAIN ACTORS

The main Islamic banks in the world are, in decreasing order of assets managed (2006)²

- Al Rajhi Bank (Saudi Arabia)
- Kuwait Finance House
- Dubai Islamic Bank (United Arab Emirates)
- Abu Dhabi Islamic Bank (UAE)
- Bank Al Jazira (Saudi Arabia)

Although the total assets under Islamic banking management were evaluated at US\$ 700 billions in 2007, or 10% of the total assets owned by Muslims worldwide, this sum is likely to have halved since.

GREATER PARIS: THE NEXT ISLAMIC FINANCE HUB

“There is no reason Paris could not become as attractive to Islamic Finance as London. French law has much in common with Sharia law: it prohibits usury and strictly controls gambling and pornography”.

Gilles Saint-Marc, Partner, Gide Loyrette

The rapid Advancement of Islamic Finance in Paris during the last four years:

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| 2006 | ▪ Société Générale introduced its first <i>sharia-compliant</i> product. |
| 2007 | ▪ The French Financial Markets Authority approved sukuk emissions. ▪ BNP Paribas introduced an Islamic tracker replicating the Dow Jones Islamic Index, the <i>EasyETF DJ Islamic</i> . |
| 2008 | ▪ The Finance Ministry, under the Aegis of the Minister, Christine Lagarde, halved taxation on murabaha operations, and sukuks were granted the most favourable fiscal regime. |
| 2009 | ▪ The Bank of France hosted the third IFSB (Islamic Financial Services Board) Forum. ▪ Strasburg School of Management and HEC School of Management introduced the first degrees in Islamic finance. |
| 2010 | ▪ Euronext to introduce Eurostock Islamic Index. ▪ Ijara to be authorised for households. ▪ First three Islamic banks to open in Paris |

² Standard&Poor's cité in *Agefi*, 23 octobre 2008.