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## LEADING CONVERSATIONS WITH FBNQUEST:

*Being Ethical With Your  
Investments*

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# Ethical Vs Non-interest Finance

- Globally, Ethical Investments are equated to Socially Responsible Investing (SRI), an investment management approach which integrates environmental, social and governance criteria in traditional financial analysis.
- Ethical Investments screen-out investment universe with any business that is harmful to the environment (e.g. weapon of mass destruction), social (e.g. terrorism, injustice, tobacco, intoxicants,) and governance (e.g. corruption and bribery).
- The principles of Non-Interest (Islamic) Finance apply ethical and extra-financial criteria in financial services in both deposit/investment and financing.
- Non-Interest Finance (NIF) is a financial system that operates according to Islamic rules, principles and code of practices (which is called Shari'ah) and is, therefore, Shari'ah-compliant.
- The purpose of NIF is to improve living conditions and well-being, establish social equity and prevent injustice in trade and business relationships.
- The NIF is an ethical underpinning that puts stewardship and societal value creation at the forefront of finance.
- Certain Islamic prohibitions can be seen as consistent with a negative screening approach under Ethically, Socially Responsible Investing.

## Ethical Vs Non-interest Finance

- Non-Interest finance features Institutions and Instruments - banks, capital markets, fund managers, investment firms, and Takaful (insurance) companies etc.
- Both fund generation (deposits) and utilization (asset creation) must follow the Islamic Finance principles
- Certain activities, products, risks or rewards are either prohibited or promoted.
- According to IFSB Stability Report 2019, the total global assets under management of NIF was USD 2.19 trillion (N985 trillion i.e over 90 times of FGN revised budget 2020) as at 2Q18.
- NIF is asset-oriented system of ethical financial intermediation, thus developmental in nature.
- Resilience

# Impacts Of Non-interest Finance

## DEVELOPMENTAL ISSUES

- Infrastructural financing and acquisition of assets
- Direct relation with real sector – hence increase Growth & Development
- Attract FDI
- Creation of Employment and reduction of Poverty
- Promotes ethical living and Social justice
- Trade Facilitation
- Financial Inclusion

## SUKUK and I-FUNDS

- Alternative sources of funding
- Inv. instruments to Bond Investors
- High demand as VaR is low
- Liquidity Mgt Instruments

- NIFIs
- CBN
- NDIC
- PFAs



### 550 - 1800 AD

- Interest Loans was order of the day
- Emergence of Islam & prohibition of Riba
- Mudaraba, Salam Transactions
- Trade spread over Rome, Spain
- Financial instruments like Sukuk were also used and practiced.



### 1800 - 1970

- Suez Canal project -Barclays Bank branch in Cairo
- Critique of bank interest spread from Cairo to Middle east.
- Two-tier Mudaraba model was introduced by Mit-Ghamr from 1963 -1967,

## 1970 - 1990

- Oil Boom increased NIF growth
- Establishment of Dubai IB & IsDB, Bahrain IB.
- IMF started publishing working papers on IBF.
- Establishment of AAOIFI
- Launch of DJ & FTSE I-Indexes.



## 2000 - Date

- Emergence of corporate and Sovereign Sukuk
- Establishment of IFSB, etc
- UK extend tax neutrality to Islamic fin. products.
- Sukuk sovereign issuance by Hong Kong, Lux, UK, South Africa, Senegal, Nigeria among others

# NIF Prohibitions



**Prohibition of Interest (Ribah)**



**Prohibition of Excessive Uncertainty (Gharar)**



**Prohibition of Gambling (Maysir)**



**Prohibition of dealing in Unlawful Products & Services**



**Prohibition of Unfairness, Injustice and Unethical Practices**

## NIF Prohibitions - Ribah

- Ribah technically means increase taken as a premium from the debtor in a debt or on account of delay of payment or increase on account of exchange of money of the same kind or exchange of certain fungible items.
- Simple interest and compound interest are both prohibited (Quran 2:275-6; 2:278-9; 3:130 etc).
- Interest is prohibited in the other revealed religions of Judaism and Christianity (Exodus 22:25; Deuteronomy 23:19; Leviticus 25: 36, 37; Luke 6: 35: etc)

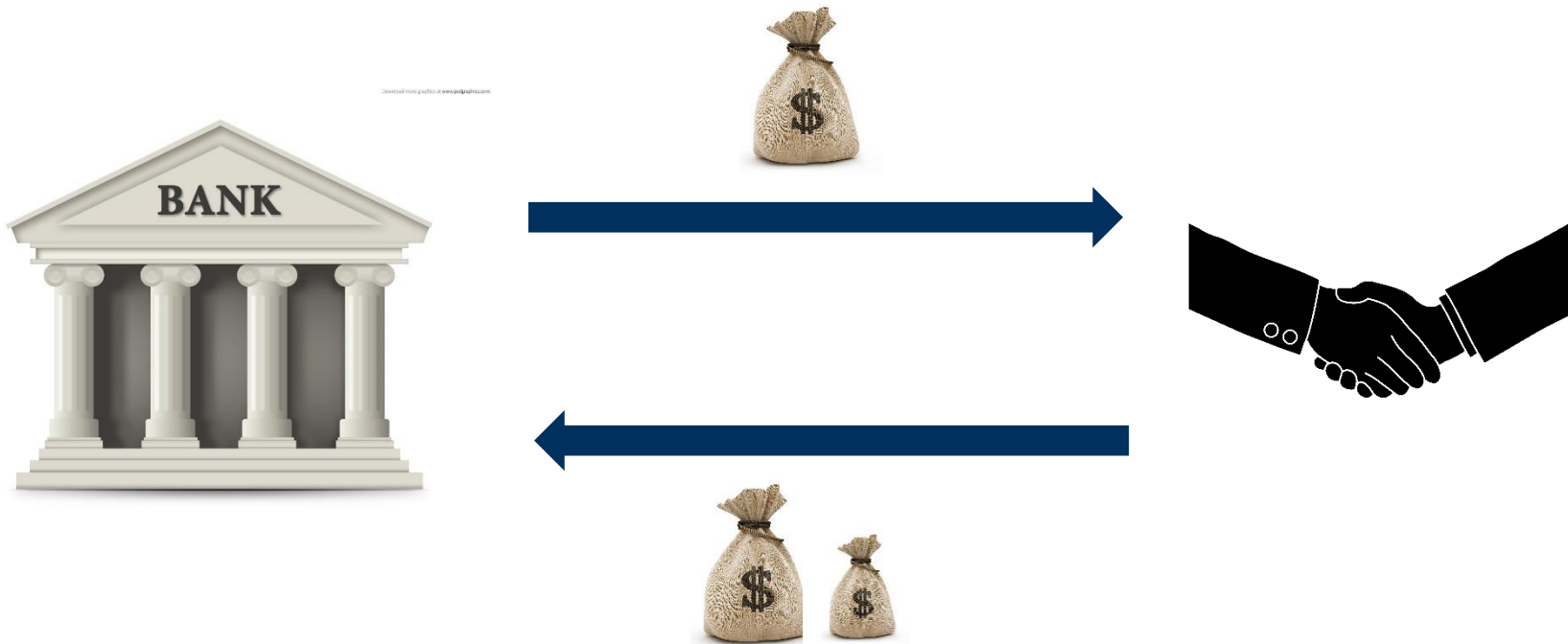


## NIF Prohibitions - Others

- **GHARAR** is Uncertainty (excessive), Speculation, Ambiguity, Information asymmetric, Deception (USAID) that leads to exploitation of any of the parties to a transaction, hence potential for dispute (Qur'an 3: 29; Psalm 24:3-5; 101:7).
- **GAMBLING** means activity involving betting such as gambling or games of chance where a party gains at the expense of the other party. High tendency of dispute eruption (Quran 5:90).
- Activities related to **PORK** (Quran 2:173 and Lev. 11:7-8), **ALCOHOL** (Quran 5:90; Corinthians 6:9–10), **PORNOGRAPHY** (Quran 17:32; Matthew 5:28), and **INJUSTICE** (Quran 4:135; Exodus 23:1-3).

## NON-INTEREST VS CONVENTIONAL FINANCIAL PRODUCTS

### CONVENTIONAL FINANCIAL PRODUCTS



“.... Allah permitted trading and  
prohibited Ribah”  
(Quran 2:275)

**BASIC DIFFERENCES:  
NON-INTEREST VS CONVENTIONAL FINANCIAL PRODUCTS**

**NON INTEREST FINANCIAL PRODUCTS**

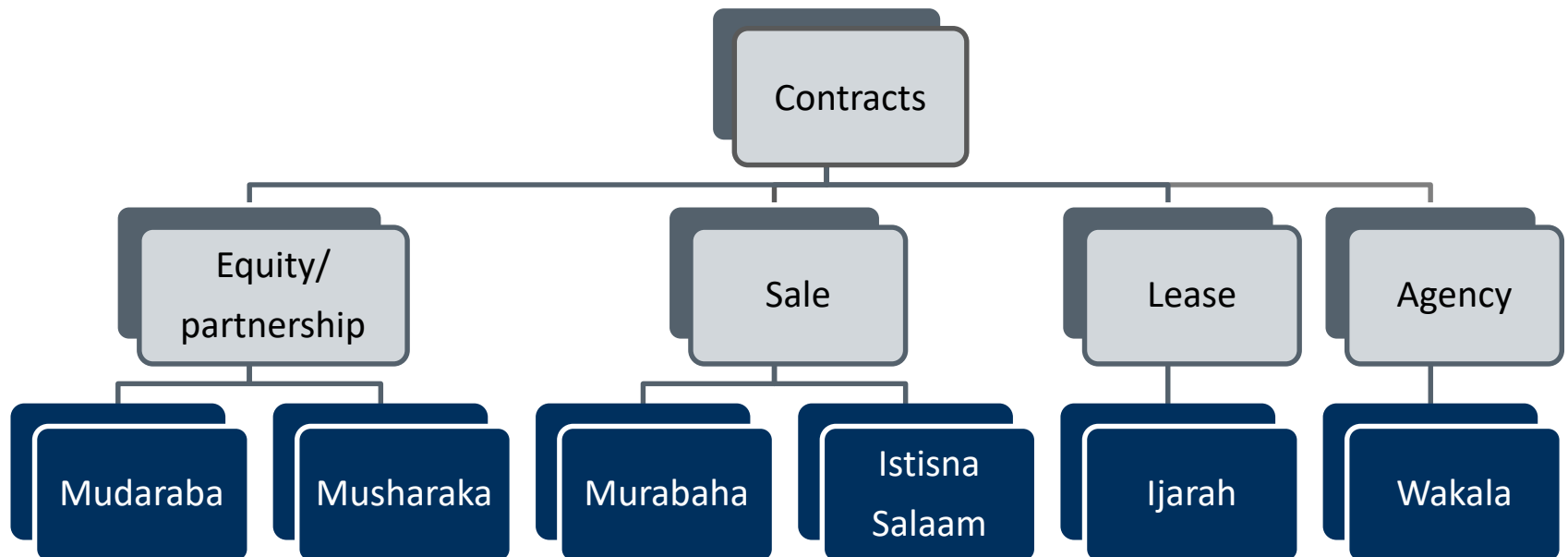


# Non-interest Financial Products

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# Non-interest Financial Products



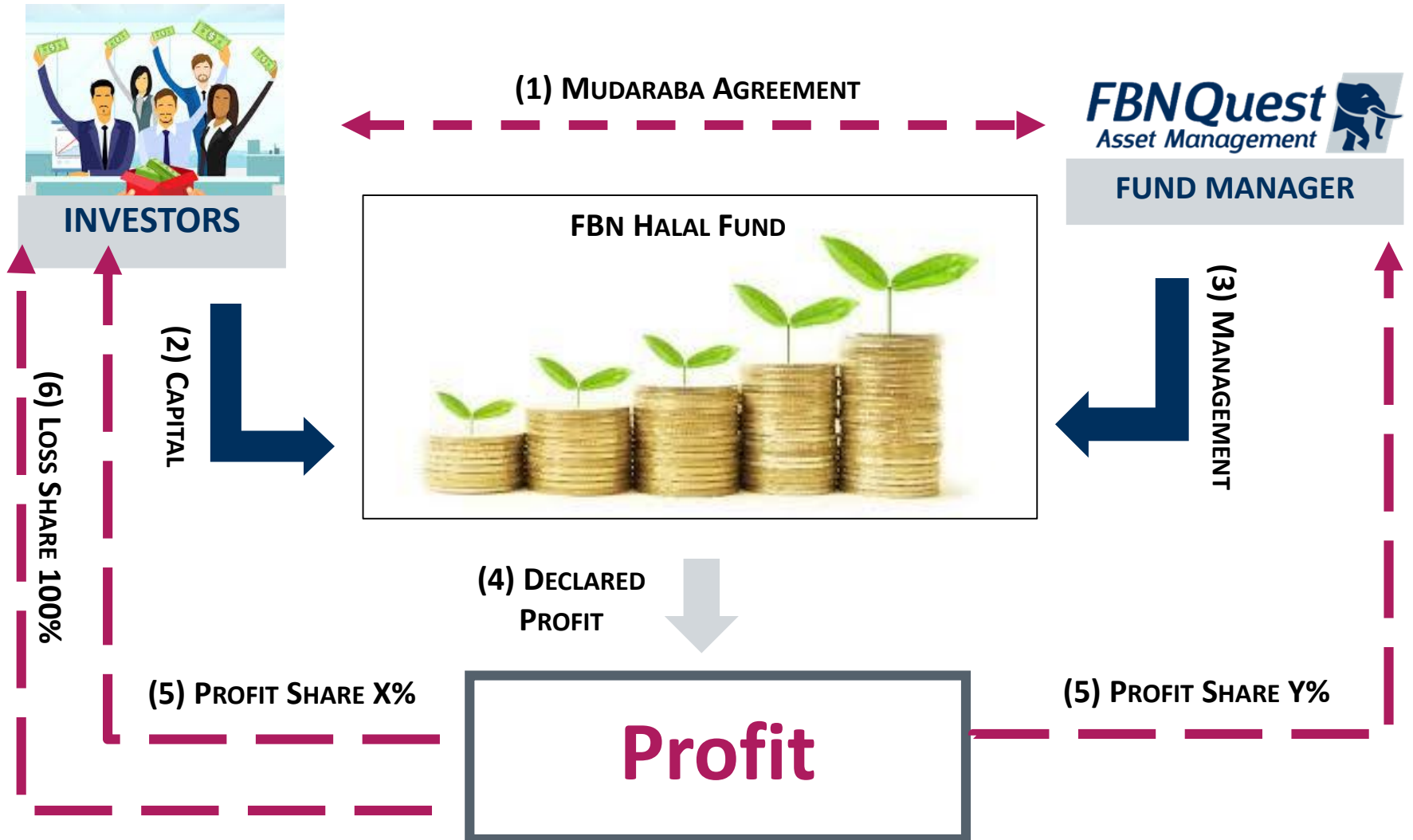
## Mudaraba Principles

**Mudaraba (profit sharing and loss bearing) is a partnership in business whereby one party provides capital (Rabbul Maal) and the other party provides labour (Mudarib).**

*AAOIFI Shari'ah Standard No 13, Par 2 (2017)*

- Pre-agreed profit-sharing ratio at the beginning of the contract
- Only the provider of capital will suffer the loss
- Mudarib is liable for capital on negligence & breach of contract
- Similar to Silent-partnership in Common Law

# Mudaraba Principles



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# Ijara

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## Ijara Principles

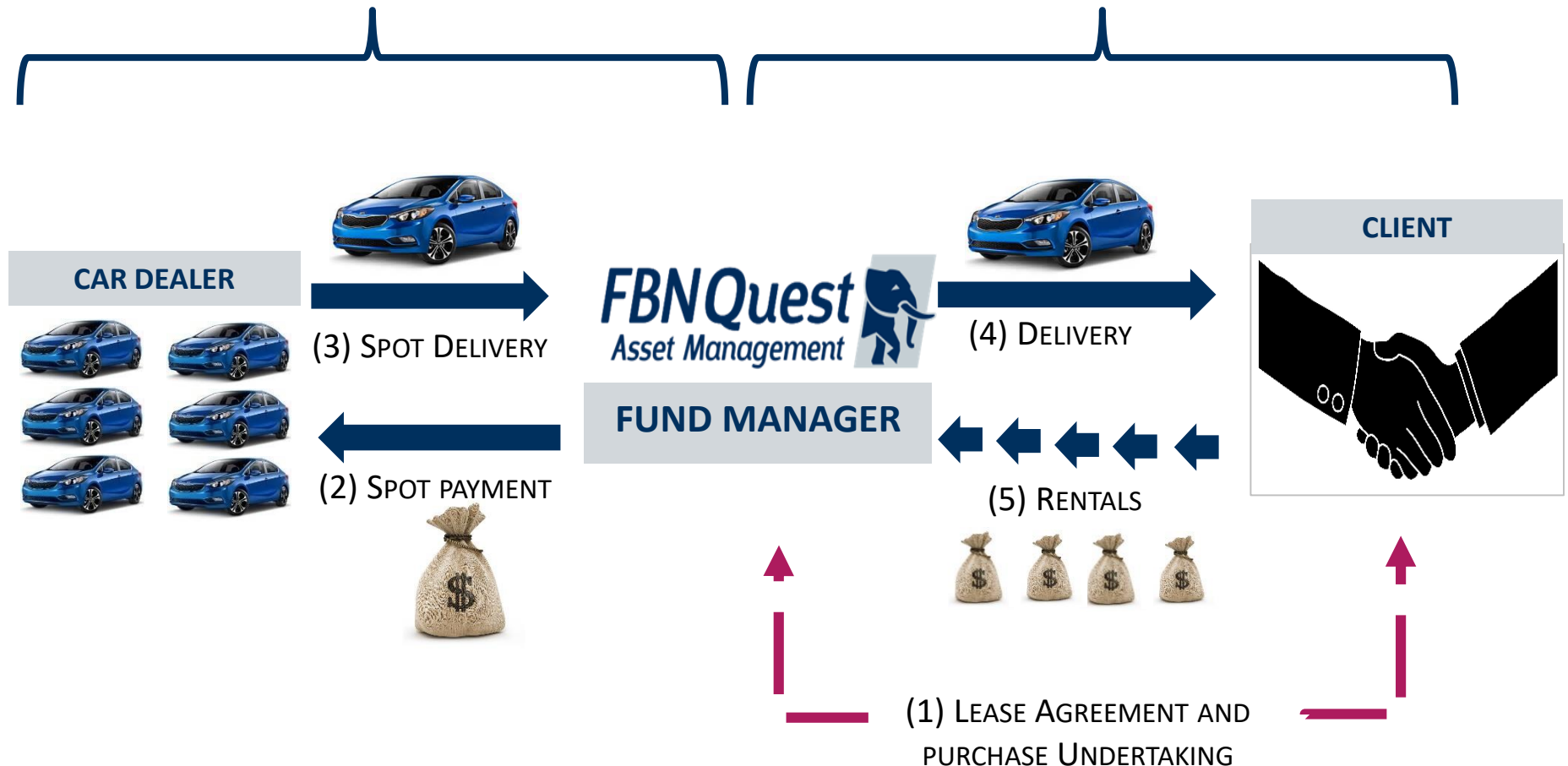
Ijara is the transfer of the usufruct/benefit of a particular property or asset to another party in exchange for a pre-agreed rental for an agreed period.

- Assets for Ijara leasing include tangible/intangible, existing/non existing but fully describable and services
- Transferring use of asset, not transferring ownership
- Lease asset should be valuable, identifiable & quantifiable
- Consumables cannot be leased out
- The Lessor may transfer the asset - the ownership to the Lessee at the end of the contract either via a gift; final rental payment or at a nominal value.
- Rental - Fixed Rate or Floating Rate

# Ijara Structure

## Spot Transaction

## Lease Transaction

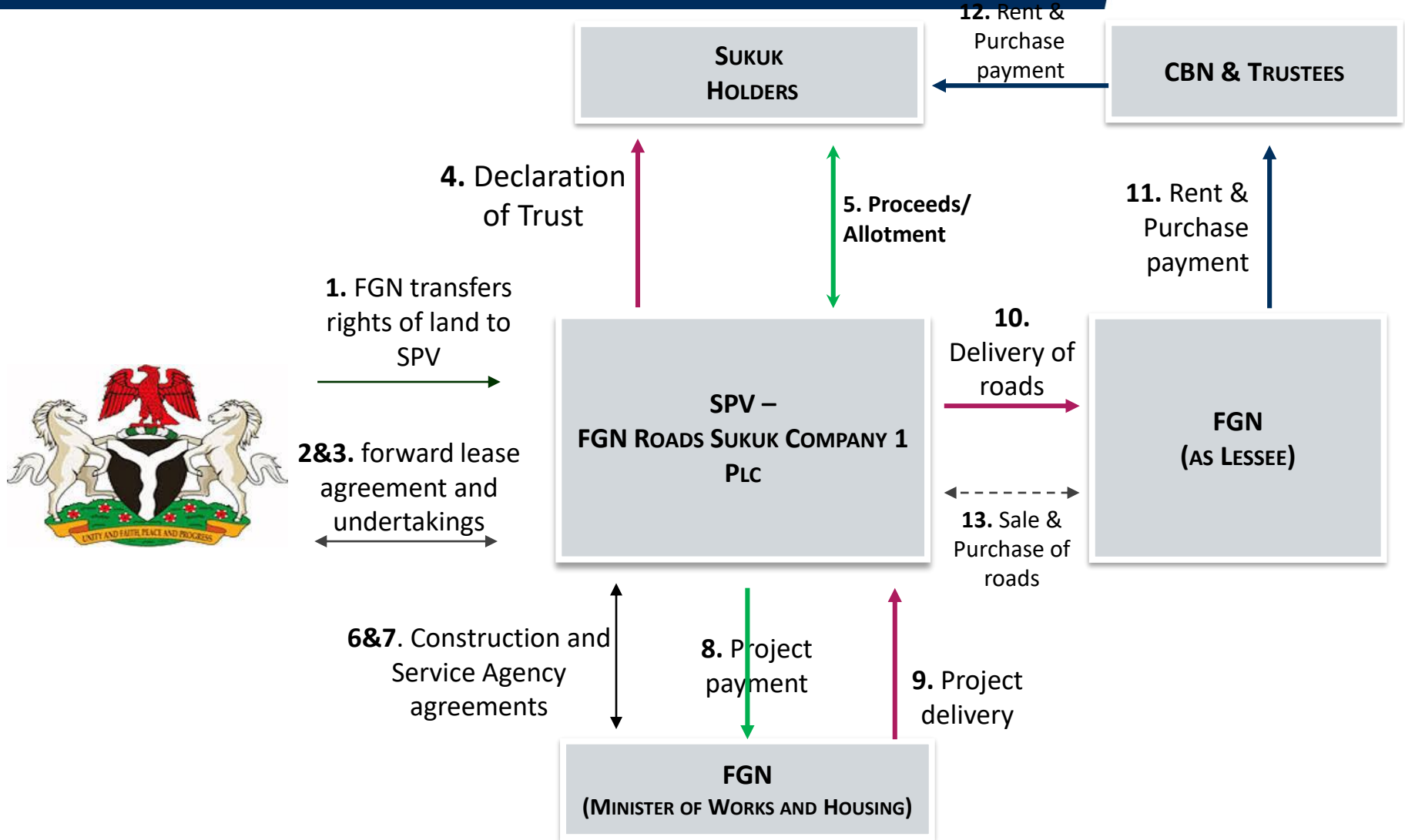


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## FGN Ijara Sukuk

TERMS	
<b>Obligor:</b>	Federal Government of Nigeria
<b>Issuer:</b>	FGN Roads Sukuk Company 1 Plc, wholly-owned by the FGN
<b>Instrument:</b>	Sukuk Al Ijarah (Lease)
<b>Issue Size:</b>	<del>₦</del> 150billion (Subscription Size <del>₦</del> 669 billion)
<b>Rental Rate:</b>	11.20% p.a payable semi-annually
<b>Minimum Subscription Amount</b>	Minimum of N10,000 and in multiples of N1,000
<b>Tenor:</b>	Seven (7) Years
<b>Repayment</b>	Bullet sum at maturity
<b>Use of Proceeds:</b>	Roads construction and rehabilitation
<b>Security:</b>	Backed by the full faith and credit of the FGN
<b>Distribution:</b>	Public offering to all classes of investors
<b>Listing:</b>	The NSE and FMDQ OTC

# FGN Ijara Sukuk



# FGN Ijara Sukuk



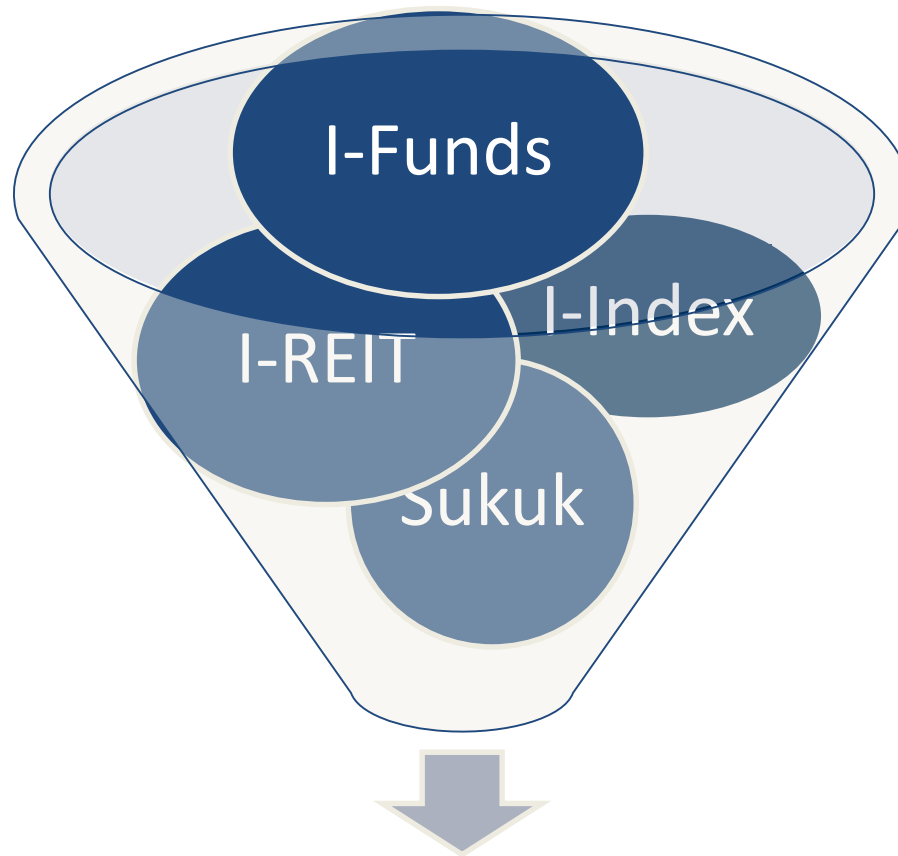
Abaji - Lokoja Road funded with FGN Debut Sukuk

Gwagwalada – Kwali Road funded with FGN Debut Sukuk



# Other Investment Vehicles

## ICM Products

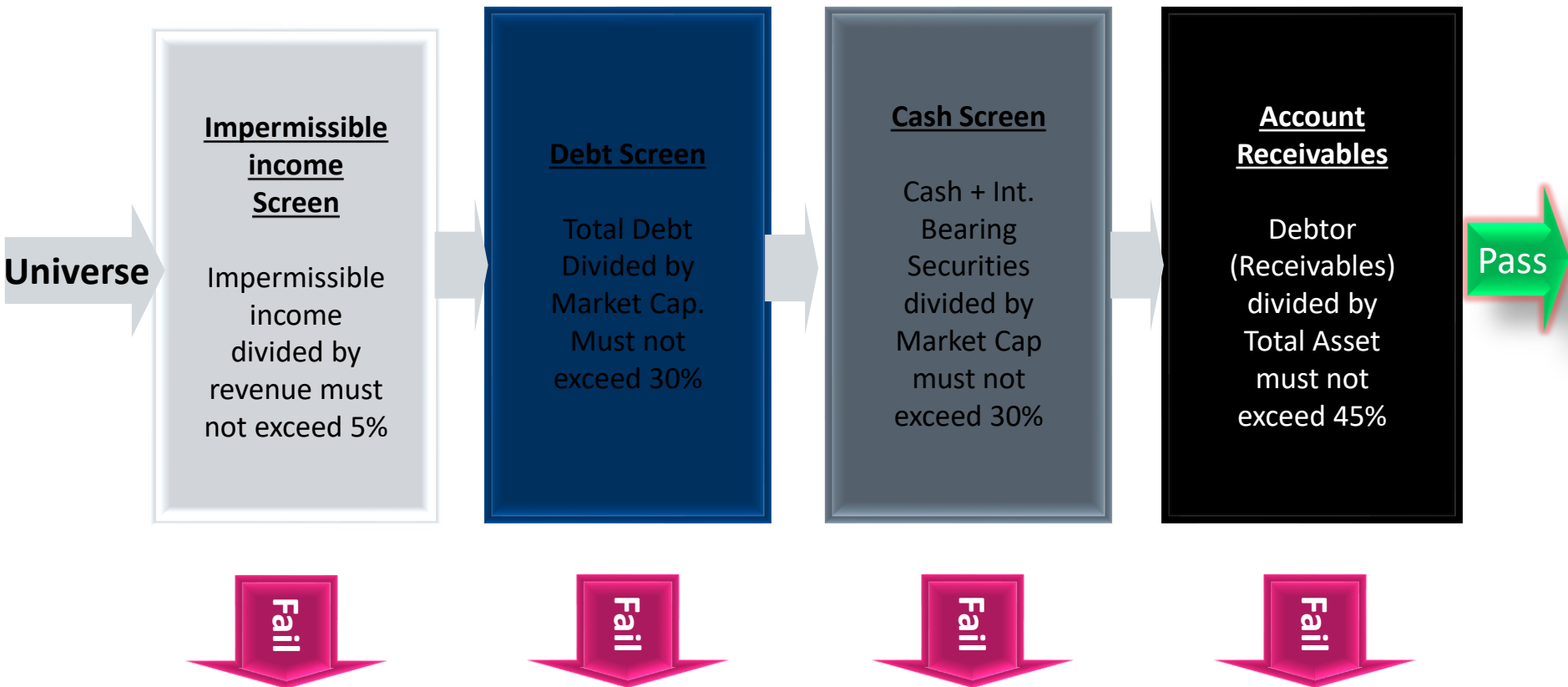


***Islamic Capital Market***



# Investing In I-shares

- 1<sup>st</sup> Screening: Qualitative Screening i.e exclusion of impermissible sectors
- 2<sup>nd</sup> Screening:



## Investing In I-funds

- Islamic Funds (I-Funds) are Mutual Funds/Unit Trust Funds structured in line with Islamic Finance Contracts.
- Funds take the form of equal participating shares/units, which represent the shareholders'/unitholders' share of the assets and entitlement to profits or losses.
- Relationship (contract) between the Manager and Investors:
  - ✓ Mudaraba or
  - ✓ Agency or
  - ✓ Musharaka

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- **Types of I-FUNDS**
  - ✓ Shari'ah equity funds
  - ✓ Assets financing funds
  - ✓ Sukuk funds
  - ✓ Shari'ah compliant ETFs
  - ✓ Islamic REITs
  - ✓ Hybrid funds
  - ✓ Fund of funds

- **Responsibilities of the I-Fund Managers**
  - ✓ Fiduciary duty as Trustees
  - ✓ Professional Management of Funds
  - ✓ Shari'ah Screening
  - ✓ Approval from ACE
  - ✓ Purification & Distribution
  - ✓ Constant review of Shari'ah-acceptable universe
  - ✓ Periodic Report
  
- Benefits of investing in I-Funds are Active Portfolio Management; Competitive Returns; Regular Income; Diversification and Liquidity.

### INVEST SOCIALLY & RESPONSIBLY AND INVEST IN LINE WITH YOUR VALUES

Send your further enquiries on FBN Halal Fund to

#### **FBNQuest Asset Management Limited**

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Thank you

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