

Wealth Creation and Wealth Management in an Islamic Economy

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Outline

Material wealth, spiritual fulfilment and accountability to the Creator

Public wealth, *bait al-maal* and sovereign wealth funds

Private wealth, *raab al maal* and entrepreneurial financing

Conditions for *shari'ah* compliant wealth creation avoiding *riba* and *gharar*

Wealth management and risk sharing

Asset classes in a *shari'a* compliant portfolio

Material wealth and spiritual fulfilment

Possible conflicts

- Is there a trade off between accumulating wealth and spiritual development?
- The worship of wealth as a false God: a pagan practice
- Thanks for natural wealth as the bounty of Allah
- Spiritual fulfilment possible only when believers strive with their bodies, minds and souls to live in accordance with Allah's will
- Is material wealth enabling, or is its pursuit a distraction from worship?

Human development

- Human development involves *tazkiyah*, purification of the soul, and worldly wealth cannot be a substitute
- Aim of the believer is *falah*, success from self improvement, which results in satisfaction and well being
- *Falah* achieved through conforming to Allah's commands and respecting *shari'ah*

Public wealth, *bait al-maal*

House of money or house of wealth

- Historically royal treasury for Caliphs and Sultans
- Modern secular Ministries of Finance
- Administration of taxation and public expenditure determined socially or in conformity with *shari'a*

Arrangements for the collection and disbursement of *zakat* and administration of *waqf* endowments

- Private foundations
- National administration through religious affairs ministries

Muslim G20 member states

G20 member	GDP \$ billion, 2009
Indonesia	960
Turkey	869
Saudi Arabia	597

GDP per capita of richest Muslim countries

Country	\$ GNP per capita	World rank
Qatar	88,232	1
Brunei	47,200	5
Kuwait	38,293	13
United Arab Emirates	36,973	16
Bahrain	26,807	33
Oman	26,170	34
Saudi Arabia	23,742	39
Libya	14,874	56
Malaysia	14,003	58
Turkey	13,392	63

GDP per capita of poorest Muslim countries

Country	\$ GNP per capita	World rank
Afghanistan	998	170
Bangladesh	1,565	155
Tajikistan	1,907	147
Mauritania	2,099	144
Kyrgyzstan	2,162	143
Sudan	2,466	137
Yemen	2,595	135
Pakistan	2,789	133
Uzbekistan	3,022	129
Iraq	3,599	125

Sovereign wealth funds

Organisation for the management of state financial assets

Long term objectives: funds for future generations

Alternative to holding budgetary surpluses in US treasury bills

Balance risks with returns

Extent of autonomy and independence from governments

Largest in GCC countries

Investment mainly in *shari'a* compliant assets but no process for formal supervision

Islamic national sovereign wealth funds

Fund	Assets \$billion	Inception	SWF/FX	Transparency
Abu Dhabi Investment Authority	627	1976	13.9	3
SAMA Foreign Holdings	439	2007	1.1	2
Kuwait Investment Authority	203	1953	10.6	6
Investment Corp of Dubai	82	2006	1.8	4
Libyan Investment Authority	65	2006	0.8	2
Qatar Investment Authority	65	2003	8.6	5
Algeria Revenue Regulation Fund	47	2000	0.3	1
Kazakhstan National Fund	38	2000	1.1	6
Brunei Investment Agency	30	1983	n/a	1
Khazanah National, Malaysia	25	1993	0.3	4

Source: Sovereign Wealth Institute

Private wealth *rab al maal*

Concept of participatory finance in Islam

- Role of *rab al maal* in *mudaraba* investment
- Contrasts with entrepreneurial role of *mudarib*
- Risk exposure compared with partners in *musharaka*

Islamic bank *mudaraba* deposits facilities

- Unrestricted investment accounts with profit shares
- No deposit guarantees, but profit equalisation reserves
- Returns recognise liquidity sacrifice
- Restricted investment accounts with higher returns and volatility

Conditions for *shari'ah* compliant wealth creation

Capital accumulation without *riba* based finance

- Debt finance through *murabaha*, *ijara*, *salam* and *istisna*
- Equity finance through *musharaka* and *mudaraba*

Finance vehicles

- Islamic banks as sources of finance
- Raising funding through *sukuk* issuance in capital markets and *shari'a* compliant equity

Avoidance of *gharar* in contractual documentation

Top ten Islamic banks

<i>Bank</i>	<i>Assets, \$ million</i>	<i>Profits, \$ million</i>
Bank Melli	57,003	266.1
Al Rajhi Bank	45,528	1,804.6
Bank Mellat	43,109	n/a
Bank Saderat	41,981	319.0
Kuwait Finance House	40,318	105.9
Bank Tejarat	34,546	396.0
Bank Sepah	22,834	396.0
Dubai Islamic Bank	22,835	136.9
Bank Sepah	22,502	388.0
Parsian Bank	19,783	405.2



Durham
University

Source: *The Banker*, London, November 2010

Top ten countries for *shari'ah* compliant assets

<i>Country</i>	<i>Rank</i>	<i>Assets, \$ million</i>
Iran	1	314,897
Saudi Arabia	2	138,238
Malaysia	3	102,639
United Arab Emirates	4	85,622
Kuwait	5	69,089
Bahrain	6	44,858
Qatar	7	34,676
Turkey	8	22,561
United Kingdom	9	18,949
Bangladesh	10	9365



Durham Source: *The Banker*, London, November 2010
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Wealth management and risk sharing

Musharaka

- Potential for private equity and venture capital finance using *musharaka* structures
- Scope for syndications using *musharaka*
- Diminishing *musharaka* provides exit route
- Sharing profits and exposure to capital gains and losses

Risk sharing versus risk transfer

- Exploitation can result from risk transfer
- *Takaful* based on risk sharing

Composition of *shari'a* compliant asset portfolios

Weighting

- Ratio of equity to bonds or *sukuk*
- Ratio of money holdings to investments

Liquidity

- Proportion of real estate and property
- Notice *mudarabah* deposits, unspecified and specified
- Family *takaful* investment

Balanced or skewed

- Aim of regular, modestly rising income while capital maintained
- Opportunistic, with focus on possible capital gains, but possibility of losses

Risk assessment

