

INTRODUCTION TO ISLAMIC CAPITAL MARKET OF MALDIVES

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What is Islamic Capital Market?

- ▶ Islamic Capital Market refers to the Capital market where activities are carried out in ways which does not contradict with the rules and principles of Islam



Capital Market Development Authority's Functions

- ▶ The Capital Market Development Authority (CMDA) is an independent institution responsible for developing and regulating the capital market and the pension industry in the Maldives.
- ▶ It has statutory powers to license securities market intermediaries including brokers, dealers, investment advisers, asset managers, custodians, credit rating agencies as well as stock exchanges and central depositories.
- ▶ The regulatory powers are derived under the Maldives Securities Act, 2006 and Maldives Pension Act 2009.



Basic Principles of Islamic Capital Market

- ▶ Eradication of riba
- ▶ Risk sharing
- ▶ Money as prospective capital
- ▶ Prohibition of excessive speculative behavior
- ▶ Maintenance of purity of contract
- ▶ Dealing in Shari'ah approved activities
- ▶ Elimination of Oppression



Eradication of Riba

- ▶ Riba shall be avoided in all types transactions

- ▶ In 1992, the Pakistan Syariah Court ruled that:

“It makes no difference whether the loan is for consumption purpose or for commercial purposes. It does not matter if the rate of interest is low or high, simple or compound for short or long times, between the two Muslims or between a citizen and a state or between two states. Any excess which is predetermined over the principal sum in a loan transaction will constitute riba in all circumstances”

- ▶ Islam only allows *qard al-hassan* (benevolent loan) whereby the lender does not charge any interest or additional amount for the money lent.



Riba Prohibition

First Stage

“That which you give in usury for increase through the property of (other) people, will have no increase with Allah...” (Al-Rum, 30:39)

Second Stage

“That they took usury though they were forbidden; and that they devoured men’s wealth wrongfully...” (Al-Nisa, 4:161)

Third Stage

“O ye who believe, devour not usury doubled and multiplied but fear Allah that ye may prosper.” (Ali-Imran, 130:132)

Final Stage

“... they say: trade is like riba, but Allah has permitted trading and forbidden (haram) riba (usury) ...” (Al-Baqarah, 2:275)



Types of Riba

- ▶ The prohibition of *riba* is not limited to merely interest-based gains in money-lending transactions (*Riba al-duyun*)
- ▶ but extends to situations where it involves identical commodities of no equivalence (*Riba al-buyu'*).
- ▶ In modern times, *riba* may occur as a result of many factors such as delay in time (*al-nasi'ah*) and excess in quantity (*al-fadl*).



Riba Al-Fadl (Riba al-Buyu')

“[Trading] gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt – like for like, equal for equal, and hand-to-hand (spot);

if the commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand or spot transaction.”



Analysis of the Hadith

- ▶ Gold ↔ Gold = Same Measurement + Spot Transaction
- ▶ Wheat ↔ Wheat = Same Measurement + Spot Transaction
- ▶ Gold ↔ Silver = Spot Transaction
- ▶ Wheat ↔ Dates = Spot Transaction
- ▶ Gold ↔ Dates = Free Trading



How the Hadith could be extended to modern practices...

Currency X	↔	Currency X	=	Same Measurement + On the Spot Transaction
Commodity Y	↔	Commodity Y	=	Same Measurement + On the Spot Transaction
Currency X	↔	Currency Y	=	On the Spot Transaction
Commodity X	↔	Commodity Y	=	On the Spot Transaction
Currency	↔	Commodity	=	Free Trading



Risk Sharing

- ▶ In Islamic transactions lending money is not the main activity from which the parties to a transaction could get benefit and it is not the debtor and creditor relationship which is formed between the parties.
- ▶ Suppliers of funds become investors instead of creditors.
- ▶ The provider of financial capital and the entrepreneur share business risks in return for shares of the profits.
- ▶ Hence, Islamic transactions encourage risk sharing rather than risk transferring between the parties.



Money as prospective capital

- ▶ Muslim Scholars deem money as possible capital only when it is invested in business/trade rather than being the capital itself.
- ▶ Money that is used as capital inoculation (loan) in any business venture is regarded as debt and not entitled to receive any returns like repayment of loans with an agreed rate of interest.
- ▶ This could be evident from the *hadith* of the Prophet S.A.W. which says *al-ghurm bil ghunm* (no reward without risk).
- ▶ Hence, for investors to gain some profits from their investments, Islam necessitates alliance between capital and effort to evade any unjustified enrichment



Prohibition of Excessive Speculative Behavior

- ▶ Under Islamic law, a valid transaction should be free from any elements of excessive uncertainty, risk or speculation.
- ▶ In this case, Islam prohibits any transaction of sale of probable item whose subsistence or features are not certain, due to the risky nature which makes the trade similar to gambling.
- ▶ This is significant to defend the less fortunate from being exploited.



Prohibition of Excessive Speculative Behavior

Cont...

- ▶ The result of excessive uncertainty is that it will render the contract null and void.
- ▶ *Gharar* will influence the validity of contract if it happens in these situations:
 - ▶ *gharar* in kind/type/attribute/quantity of the object
 - ▶ *gharar* due to time of delivery
 - ▶ *gharar* due to the price/mode of payment
 - ▶ doubt over the ability to deliver



Maintenance of purity of contract

- ▶ Islam maintains contractual obligations.
- ▶ Disclosure of information and transparency are considered as a sacred duty.
- ▶ This mainly to diminish the risk of miscommunication of information and ethical perils between the contractual parties and to boost confidence within the business community



Dealing in Shari'ah approved activities

- ▶ Islam prohibits entering into financial activities which are clashing with the principles of Islam.
- ▶ Any business transaction which involve liquor/alcohol, pork, casino or other business activities considered *prohibited*

“Muslims are bound by their stipulation or conditions except the condition that prohibit the lawful or the conditions that permit the unlawful.”



Elimination of Oppression

Oppression shall be eliminated in all types of Islamic transactions as Islam promotes equity and equality in all kinds of transactions.



Looming of Islamic Capital Market in Maldives

- ▶ Islamic Capital Market is emerging in Maldives.
- ▶ The vision of CMDA is to develop Islamic capital market parallel to the existing conventional capital market as this would create a competitive environment in the financial market of Maldives and this would also contribute to the stabilization of the overall economy of Maldives.
- ▶ CMDA has begun its daring journey to materialize an Islamic capital market from the year 2010.
- ▶ However, the first product of Islamic capital market has been launched in the mid 2011.



Looming of Islamic Capital Market in Maldives

- ▶ CMDA has also established an Islamic Capital Market Function on 15 June 2011 as a part and parcel of Market Regulation and Supervision Section to organize and facilitate the implementation of Islamic capital market related activities within the organizational structure of CMDA.



Milestones

- ▶ **CMDA strategic plan (2011-2014)**
 - ▶ Establishment of Shariah Advisory committee to advice on matters related to Islamic capital market
 - ▶ Innovate Islamic capital market products and promote them in the market
 - ▶ Capacity building on Islamic capital market related areas for CMDA staffs and other stakeholders
- ▶ **Workshops**
 - ▶ Workshop conducted in collaboration with IDB to give the basic understanding of sukuk and related products to stakeholders and government officials on 25th April 2011
 - ▶ In-house Islamic finance training conducted for CMDA staff on 14th August 2011
- ▶ **Establishment of Shari'ah Advisory Committee (April 2011)**
- ▶ **Approval of first Shari'ah compliant securities (June 2011)**



Products of Islamic Capital Market in Maldives

- ▶ Shari'ah compliant Securities:

These are securities (shares) of a stock exchange-listed company which have been classified as Shari'ah permissible for investment, based on the company's compliance with the principles of Shari'ah in terms of its primary business and investment activities.

- ▶ First Shari'ah compliant security was given permission to be listed in Maldives stock exchange in June 2011.



Products of Islamic Capital Market in Maldives

- ▶ Sukuk or Islamic Bond:

This is Islamic version of conventional bonds. Sukuk is a certificate evidencing ownership of an asset or its usufruct.

- ▶ Sukuk was a product extensively used during medieval Islam for transferring of financial obligations originating from trade & other commercial activities.

- ▶ This product is yet to be introduced in Islamic capital market in Maldives.



Advantages of Participating in Islamic Capital Market in Maldives

- ▶ Availability of Shari'ah compliant investment avenues
- ▶ Reasonably high returns
- ▶ Instead of entering into a debtor-creditor relationship, a more interactive relationship between the parties could be maintained
- ▶ Instead of risk transferring, risk sharing is emphasized



Process to participate in Islamic Capital Market of Maldives

- ▶ CMDA has established an Islamic Capital Market Function.
- ▶ This function would oversee and manage the activities of Islamic capital market in Maldives.
- ▶ Hence, the participation in Islamic capital market of Maldives could be done through this Function.



Way Forward

- ▶ It is hoped that in a near future, the country would have an Islamic capital market operating parallel to the conventional market.
- ▶ Definitely, the creation of this new market would contribute to the stabilization of the Maldivian economy.

