

INTRODUCTORY TO ISLAMIC FINANCE IN ALBANIA

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INFORMING SPACE: On December 2011, Boga & Associates became the sole member for both Albania and Kosovo jurisdictions of the **Islamic Finance Lawyers (IsFin)** -“*The world’s leading network of Islamic Finance Law specialists*”.

Since years, Islamic Finance is experiencing an increasing popularity far outside the Muslim World’s frontiers. Considering this growing importance of Islamic finance in the global financial system, and therefore seeing it as an up coming opportunity directly linked with Boga & Associates activities, we took the decision to become part of this important network. IsFin represents a global organization of legal practitioners working in member firms each of which is an independent legal entity. *IsFin members are all specialists from elite law firms with an international focus and deep understanding of Islamic finance.*

Albania in Figures

Total Area	28,748 km ²
Population	¹ 3,215,988
Capital	Tirana (Tirane)
Official Languages	Albanian
Currency	Leke (ALL)
Religions:	Muslim 70%, Albanian Orthodox 20%, Roman Catholic 10%

**Arul Kandasamy, Head of Islamic Financing Solutions,
Barclays Capital**

"Everyone has this impression that Islamic Finance is this pot of money with nothing better to do than just to throw money at everything. But that is far from the truth. Islamic investors are sophisticated people who know the market, know where spreads are. It is a misconception that it is easy to get money from there."

¹ Data from [World Bank](#); Last updated: Jul 13, 2012

Foreword

Through this introductory editorial, we are aiming to inform about some of the key products and financing techniques utilized in the modern day of Islamic financial services sector. It is through the use of such techniques that many of the more complex structures and products evolve. As one of the premier law firms in Albania, we represent a range of insurance companies, banks, fund sponsors, investment advisors etc. Following this, through this editorial we are trying to show based on our up to date experience too, some of the changes that the financial system is currently experiencing as a consequence of Islamic principles. There is no single definition of Islamic Finance, the philosophy is as follows: *“The funds and deals in general are structured to fall within strict teaching of Islamic religious principles, in adherence with the so called Shari’ah, meaning “the way.””*

INFORMING SPACE: Islamic banking and the field of Islamic finance has grown appreciably since 1960. In 1975, the Islamic Development Bank (IDB) was established to provide financing to projects in the member countries. Dubai Islamic Bank was the first modern Islamic commercial bank founded in 1975. Indonesia's first Islamic bank was Bank Muamalat, established in 1991. In Bahrain, first Islamic commercial bank was established in 1978.

Importance and principles of Islamic banking and finance development

HIGHLIGHTS: Features of an Islamic Monetary Regime

Monetary policy guidelines extracted from the Islamic economic principles can be categorized under the following heads.

1. Interest free economy
2. Low to moderate inflation
3. Stable exchange rates
4. Increased Savings

Islamic banking and finance continues to advance and mature responding to the seemingly ever rising demand for financial products and services that fulfill Islamic principles. With Islam generally considered as the world’s fastest growing religion, financial and legal institutions worldwide are quickly creating Islamic alternatives to address rising expectations and requirements. Much has been accomplished in this early stage, and yet the opportunity for both quantitative and qualitative progression remains robust.

²Based on statistics, the market for funds and financial products that comply with the Shari’ah is enormous and growing constantly. This can suggest us, that if one or more of your client is a bank or fund sponsor, the subject will come sooner or later, as many of them are steadily shifting towards Islamic religions, because that is where so much money is these days.

² <http://www.isfin.net/node/21>

Definition of Sukuk -³Sukuk commonly refers to the Islamic equivalent of bonds. However, as opposed to conventional bonds, which merely confer ownership of a debt, Sukuk grants the investor a share of an asset, along with the commensurate cash flows and risk. As such, Sukuk securities adhere to Islamic laws sometimes referred to as Shari'ah principles, which prohibit the charging or payment of interest. Sukuk instruments act as a bridge. They link their issuers, primarily sovereigns and corporations in the Middle East and Southeast Asia, with a wide group of investors, many of whom are seeking to diversify their holdings beyond traditional asset classes. In this way, funds raised through Sukuk can be allocated in an efficient and transparent way to deserving projects.

Shari'ah Compliance as the key rule of the Islamic Finance structure

Compliance with the *Shari'ah* (Islamic principles) stands as the paramount consideration. It is this compliance (including related "audit" functionalities), brought about through closely working with trained Muslim jurists, that differentiates conventional or traditional finance from the Islamic. In simple words, the Islamic based mutual fund looks like any other with only one exception – *the presence of an advisor, called Shari'ah Advisor (example consultant) that gives the advice regarding the investment and the financial activity that can and can not be made by the fund, based on religious laws related to it.*

As Islamic financial marketplaces expand, debates and discussions within the industry now speak to principles of transparency, fundamental fairness, service and standardization, together with the more technical rules relating to *riba* (unjust enrichment) and *gharar* (inappropriate uncertainty), among others.

Prohibitions concepts related to implementation of Islamic Finance

Generally there is a concept to agree on the following set of prohibitions: manufacturing, packing or distribution of alcohol or pork products for human consumption; gambling casinos or the manufacture of gambling machines; movie theaters; pornography; hotels; financial services, including banks, insurance companies, brokerage firms; charging or paying of interest; restaurants that derive their core revenue from the sale of alcohol; airlines are generally a problem because a substantial part of their revenue of such companies is from alcohol sales, and duty free sales of tobacco.

⁴Central Banks (CB) main role in the Islamic finance implementation

The field of Islamic finance has grown appreciably and is continuing to do so. The most important and active component of this chain is Central Banks (CB), which are responsible to regulate and supervise Islamic banks (referred here as implementation subject of Islamic finance) as well as other conventional banks. Ensuring monetary stability, financial stability, building institutional structure, creating the sound payments system, playing the role of economic adviser to the government as well as ensuring *Shari'a* compliance by all entities involved in Islamic Banking and finance; and monitoring the compliance of Islamic banks to regulatory requirements are important segments which belongs to the CB's main function as facilitator to the Islamic Finance occurrence.

Retail and Consumer Banking/Role of the second tier banks

Retail banking stands as a core function of Islamic banking throughout the Muslim world. A number of conventional banks have Islamic windows or have converted their operations entirely. In this regards, our

³ <http://thatswhy.isdb.org/irj/go/km/docs/documents/IDBDevelopments/Internet/thatswhy/en/sukuk/what-is-sukuk.html>

⁴ <http://www.islamiceconomics.jigsy.com/monetary> ;
http://staff.uob.edu.bh/files/620922311_files/RegulatoryIssues-IB&F.pdf

lawyers have the experience needed and recognize the potential of this important market; and is engaged and ready to become part of the designing process of some of Albania's first Islamic products, including standardized commercial and residential real estate financing and construction and business finance programs.

WHAT WE AIM:

Boga & Associates provides full legal services, to a wide range of domestic and multinational institutions and not only, by covering all phases of corporate and financing transactions. Our multidisciplinary expertise in the legal, tax and accounting spheres together with the expertise which derives from an experienced and integrated professional staff, continually improve the quality of service offered and is testimonial of an constructive and proactive attitude towards a variety of transactions, including private equity investments, real estate, acquisitions and other financings, secondary market transactions as well as banking and insurance products development. This makes us led to the forefront as initiator to important process of the structuring of Islamic financial products and being part in the necessary process of designing more efficient existing mechanisms. We are the law firm of choice for clients who recognize the value of comprehensive representation and we remain committed to positively contributing to their businesses and thereby if there would be the situation, continuing the growth and substantive development of Islamic finance.

“There is much to be learned from the Islamic finance point of view and much that can be adapted into alternative types of financing. Hedge funds and other investment vehicles can rapidly provide the capital needed which, when structured in accordance with the principles of Shari’ah, can be profitable and serve the social good simultaneously”.

INFORMING SPACE: Testimonials of the presence of Islamic Finance development in Albania

BANKING - Bank Asya press conference regarding the finalized research on possibilities to purchase a finance company in countries such as Kosovo, Bosnia-Herzegovina, Albania, or Macedonia. *Source:* <http://islamicfinanceurope.blogspot.com/2012/02/turkey-banking-bank-asya-press.html> - February 14, 2012.

ALBANIA - FINANCE - PM Berisha welcomes participants in International Conference on Foreign Investments in Albania

Source: <http://islamicfinanceurope.blogspot.com/2012/06/albania-finance-pm-berisha-welcomes.html> - June 8, 2012.

IDB finances Albanian roads

The Islamic Development Bank has contributed a ALL 21.6 billion (US\$222.7 million) financing to Albania for a road building project. The 17-year project has a total cost of ALL38.8 billion (US\$400 million) and aims to link the southern town of Elbasan with Tirana, Albania's capital. *Source:* http://www.islamicfinanceasia.com/article.asp?nm_id=18893 - May 2011.

ALBANIA - Saudi Arabia and Albania signs 25 Million USD loan agreement

Source: <http://islamicfinanceeurope.blogspot.com/2011/06/albania-saudi-arabia-and-albania-signs.html> - June 26, 2011.

ALBANIA - FINANCE - ICD poised to boost activity with SR1 billion SME fund - Ijara / Leasing company for Albania in the pipeline

Source: <http://islamicfinanceeurope.blogspot.com/2011/11/albania-finance-icd-poised-to-boost.html> - November 21, 2011.

ALBANIA - Albania gets \$223 million loan from Islamic Bank

Source: <http://news.ph.msn.com/business/article.aspx?cp-documentid=4763108> - April 7, 2011.

ALBANIA - TURKEY - IDB Gives \$511 Mln in Loans, Grants for Member States' Projects

Source: <http://islamicfinanceeurope.blogspot.com/2011/03/albania-turkey-idb-gives-511-mln-in.html> - March 2, 2011.

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