THE EMERGENCE OF ISLAMIC FINANCE
An Exploratory Study of Brazil
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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Economia e Finanças Internacionais

Adviser: Prof. Dr. Lauro Emilio Gonzalez Farias

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I’m very thankful to Allah above all, for giving me the opportunity to continue to learn more and being able to share my knowledge.

A special thank you to every person that has crossed my path throughout this journey and has helped or supported me in some way, until the very end. I would not have done it without all the love, patience and comprehension I got, so this is yours as much as it is mine. Thank you.
ABSTRACT

Islamic finance has been a trendy topic globally, gaining the attention of Muslims and non-Muslims. It stands for a financial system that follows the *sharia* (Islamic law), which is guided by ethical principles and social justice. The main prohibition usually linked to Islamic finance is of interest, but there is much more to it. It offers a portfolio of products and services which compete with the ones present in the conventional system, however these preserve the Islamic principles. Despite the global reach, Islamic finance did not set foot in Brazil or Latin America overall as it did in Europe and Asia especially. Therefore, this paper tries do unveil what’s behind this financial system and try to find ways to make it’s introduction in Brazil possible. In order to reach this, a qualitative research guided by the presentation of countries that have introduced Islamic finance, and interviews conducted with main players in Brazil linked to Islamic finance.

The results of the research reflected partially the perspective of the academia, the expert, the Brazilian market and the Islamic finance industry, given that each interviewee represented one or more of these categories. This was completed with the overall conclusions drawn from the case studies presented, taking the main lessons form their experience. A coding system was developed to filter and organize the results. In terms of the opportunities Islamic finance has in Brazil, what stands out the most is the strong relation between Brazil and the Arab countries (adopters of Islamic finance), especially in exports, which represent situations in which Islamic finance could be adopted to intermediate the financing. The obstacles preventing this from happening are many, and are mainly linked to the unfamiliarity of the subject in the market and the delicate environment Brazil finds itself in, which is not favorable for new projects or investments. The Islamic finance procedures themselves are complicated and difficult, which makes the introduction process more complex.
Given all that, there are many measures that can be taken already in order to incentive the introduction of Islamic finance in Brazil or even conduct some isolated Islamic finance operations. *Murabaha* is an example of a cost plus contract that can be used by exporters to sell their commodity abroad and *sukuk* is an alternative method for raising money with certificates backed by assets. These two operations can be adopted by Brazilian companies, however need to be conducted abroad due to regulatory complications. For the long term, having experts and professionals interested in Islamic finance ‘spreading the word’ and digging deeper into the subject in their workplace will open opportunities for the companies they work for and be an incentive for future adoption of Islamic finance by others. Entities also working towards the promotion of the *halal* (*sharia*-compliant) industries, which can be considered a fuel for Islamic finance, and tightening the relations between Brazil and the Arab countries, will help close the gap and familiarize both sides with the opportunities available.

**KEY WORDS:** Islamic finance, *sharia*-compliant, ethical finance, *murabahah, sukuk, halal* industry, Brazil.
RESUMO

As finanças islâmicas têm sido um tema recorrente a nível mundial, chamando a atenção dos muçulmanos e não-muçulmanos. Defende um sistema financeiro que segue a sharia (lei islâmica), que é orientada por princípios éticos e justiça social. A principal proibição geralmente ligada às finanças islâmicas é a dos juros, mas há muito mais para isso. Oferece um portfólio de produtos e serviços que competem com os existentes no sistema convencional, no entanto estes preservam os princípios islâmicos. Apesar do alcance global, as finanças islâmicas não entrar no Brasil nem na América Latina como aconteceu na Europa e na Ásia especialmente. Portanto, este artigo tenta revelar o que está por trás desse sistema financeiro e tentar encontrar maneiras de tornar possível a sua introdução no Brasil. Para alcançar isso, realizou-se uma pesquisa qualitativa orientada pelo estudo de países que introduziram as finanças islâmicas, e entrevistas feitas com os principais atores do Brasil ligados às finanças islâmicas.

Os resultados da pesquisa refletiram parcialmente a perspectiva da academia, do ‘expert’ do mercado brasileiro e do setor financeiro islâmico, dado que cada entrevistado representava uma ou mais dessas categorias. Isso foi aprimorado com a junção das conclusões gerais extraídas dos estudos de caso apresentados, tirando as principais lições de suas experiências. Um sistema de codificação foi desenvolvido para filtrar e organizar os resultados. Em termos de oportunidades que as finanças islâmicas têm no Brasil, o que mais se destaca é a forte relação entre o Brasil e os países árabes (praticantes das finanças islâmicas), especialmente nas exportações, que representam situações em que as finanças islâmicas poderiam ser adotadas para intermediar no financiamento. Os obstáculos que impedem que isso aconteça são muitos e estão principalmente ligados à falta de familiaridade com o assunto no mercado e ao ambiente delicado que o Brasil se encontra, o que não é favorável a novos projetos ou investimentos. Os próprios procedimentos das finanças islâmicas são complicados e difíceis, o que torna o processo de introdução mais complexo.
Diante disso, há muitas medidas que podem ser tomadas já para incentivar a introdução das finanças islâmicas no Brasil ou mesmo realizar algumas operações financeiras islâmicas isoladas. *Murabaha* é um exemplo de um contrato de ‘cost plus’ que pode ser usado pelos exportadores para vender suas commodities no exterior e o *sukuk* é um método alternativo para arrecadar dinheiro com certificados respaldados por ativos. Essas duas operações podem ser adotadas por empresas brasileiras, porém precisam ser conduzidas no exterior devido às complicações regulatórias. Para o longo prazo, ter especialistas e profissionais interessados nas finanças islâmicas, compartilhando seus conhecimentos sobre assunto e explorando mais profundamente o assunto em seu local de trabalho abrirá oportunidades para as empresas para as quais trabalham e será um incentivo para a futura adoção das finanças islâmicas por parte de outros. As entidades que também trabalham para a promoção das indústrias *halal* (compatíveis com a *sharia*) – que podem ser consideradas um combustível para as finanças islâmicas – e aprimorando as relações entre o Brasil e os países árabes, ajudarão a reduzir a lacuna e na familiarização dos dois lados com as oportunidades disponíveis.

**PALAVRAS CHAVE:** finanças islâmicas, ‘*sharia-compliant’*, finanças éticas, *murabahah*, *sukuk*, indústria *halal*, Brasil.
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1. INTRODUCTION

Islamic finance (IF) has gained strength and importance globally over the last two decades. It represents a financial system based on the Islamic laws and principles – known as sharia. These principles are a full guideline for an Islamic lifestyle, which also includes the financial aspects. Sharia is based on the main sources of the religion: the Quran (Muslims’ holy book), hadiths (the sayings and lifestyle of Prophet Muhammad) and fiqh (Islamic jurisprudence of the scholars based on the first two sources). Based on the understanding of the previous sources, Islamic finance has certain rules and prohibitions. All these follow the core idea behind this system: social justice. It promotes only lawful activities, ethical values, sharing risk and avoiding speculation. It is also usually known for the prohibition of riba (Arabic term for usury; interest).

Even though it is not as big and popular as the conventional financial system, Islamic finance has conquered its place in the Asian, African and European markets. “The global market for Islamic finance services, as measured by Sharia compliant assets, increased by 7.5% year on year in 2015 to a record $2trn. Global assets of Islamic finance grew by 18% during the period 2012-2015” (THE CITY UK, 2017, p. 8). Although the Muslim population accounts for roughly one quarter of the global population, Islamic finance assets account for 1% of the total global financial assets (THE CITY UK, 2017). However, over the last couple of years, the Islamic finance industry has taken a downfall, and according to S&P Outlook on Islamic Finance, the growth rate of the industry will stabilize in 2017 and 2018 at approximately 5% (S&P GLOBAL, 2017). This outlook is mainly a consequence of the lower oil prices that are weighing on the GCC (Gulf Cooperation Council) countries, those who control the majority of banking assets of the industry.

Despite its potential for growth in new markets, Islamic finance is still vulnerable due to its very recent development over the last decades, the lack of accessibility still in many markets around the world, and the huge dependence on its main stakeholders – the GCC countries. However, these geopolitical challenges can be seen as opportunities to develop new markets and open new possibilities for this niche industry.
This paper proposes an exploratory approach to analyze the possibilities of introducing Islamic finance in Brazil, given experience in other countries that have gone through this, and the opinion of important stakeholders on Islamic finance in Brazil. Followed by a presentation of the international experience of Islamic finance in different countries, exposing the overall difficulties, adaptation, and benefits from the experience.

Therefore, the objective of this research is to investigate whether it is possible to apply Islamic finance in Brazil, given all the differences and difficulties, and if so, present ways to make Islamic finance achievable for Brazilian companies.

This research can be considered relevant for many reasons. Firstly, the subject is not widely explored or practiced in Brazil, so it can help reduce the gap and promote the diversification of practices in the financial environment for the players. And why the Brazilian players would be interested? Brazil has strong commercial relations with the Arab countries, which commonly practice Islamic finance in their operations, so this could represent another pull factor to attract investors and traders into business with Brazil. In the short term, agribusiness may be the biggest gateway to Islamic money in Brazil, especially export-related activities. In the government, opportunities could come through investments of Islamic assets in infrastructure works or in the structuring of public debt. And in terms of commercial banking, the significant and growing Muslim population in Brazil, of approximately 1.5 million (according to estimates done by Islamic institutions, as the Brazilian census is relatively off), represent a potential demand for Islamic finance products. Appendix 1 illustrates data and figures relative to Islam in Brazil.

Nevertheless, these motives can also represent gaps for the research. Being so distant and different from the Brazilian reality, data collection and approximations will be much more complicated to obtain and process. Still, this research gap is only a reminder of the necessary steps that have to be taken in the methodology in order to obtain the best data given the sources available to work with.
This paper will present a brief literature review of the recent academic publications on the subject, in order to keep track of any developments in the market, other than presenting with more details what does Islamic finance stand for. Later on, the methodology will present and explain the qualitative approaches chosen for this research given its difficulties and peculiarities. The following section will be a presentation of the experience of different countries with Islamic finance. From that point onwards, the results of the interviews will be presented and thoroughly processed with all the information presented in order to determine a resolution for the given question and objective.
2. LITERATURE REVIEW

2.1 The Concept: Islamic Finance

Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally- and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare (WORLD BANK, 2015).

Islamic finance has certain principles and prohibitions, all guided by the sharia (Islamic law). This is why usually products, operations and practices that are under the Islamic finance system are denominated as sharia-compliant. Before presenting the prohibitions, it is important to indicate a few principles guided by the sharia, which will help understand better the reason behind the prohibitions. All resources available are viewed as things entrusted to us in order to take care of them the best way possible, which fosters human development and wellbeing and preserves the sustainability of these resources. There must always be equilibrium between the spiritual and material needs of a human being. Work, profit, entrepreneurship, trade etc. are all allowed, as long as it is all based on licit and non-harmful activities for individuals and society. It also fosters donations and good deeds through some obligatory money-transfer mechanisms for the deprived (zakat and waqf). Therefore, it promotes also equilibrium between the individual’s needs and society’s. No one should be harmed or get unjustly in disadvantage throughout the operation. Social justice can be considered as an overall guideline.

Given the principles that sharia presents, these prohibitions are the essential check-list for any product, transaction or institution to be considered as sharia-complaint, which means it is accepted in the IF system (LONE; AHMAD, 2017):

a) Prohibition of interest or usury (riba) – the use of interest is not allowed, as it does not generate money from any productive activity, it is money generated from money, and this is not permissible. This condition stimulates the rich of becoming richer and the poor of becoming poorer. “Islamic law does not recognize money and money instruments as a commodity but merely as a medium of Exchange” (WORLD BANK, 2015).
b) Prohibition of uncertainty (*gharar*) – the term in Arabic is specifically related to the uncertainty for deceiving. This prohibition tries to protect the weaker part in the negotiation, by making sure all have access and are aware of the same information. This includes gambling, betting and speculating.

c) Prohibition of illicit products/industries – this refers to products/industries that are harmful to society and are a threat for social responsibility. Industries like tobacco, alcohol, weapons, prostitution and pornography fall under this category. The swine industry is also prohibited as it goes against Islamic laws (for health reasons).

Other than these prohibitions, there are two main rules that are also important to define this system: (1) the concept of sharing risks as well as profits and (2) asset-backed financing (ILIAS, 2010). The first refers to the condition of sharing the risk between parties involved in any IF transactions, as well as they share profits. “Thus, return on capital is legitimized by risk-taking and determined ex post based on asset performance or project productivity, thereby ensuring a link between financing activities and real activities” (HUSSAIN; SHAHMORADI; TURK, 2015, p. 6). The second important point is that all transactions must be related to a real asset backing it, to give the operation more certainty. This creates a stronger link between the financial industry and the economy.

Hussain, Shahmoradi and Turk classified the main IF instruments under three categories: “profit-and-loss sharing (PLS), non-PLS contracts, and fee-based products” (2015, p. 7). PLS financing products are *musharakah* and *mudarabah*. *Musharakah* is a partnership contract with profit-and-loss sharing, when two parties or more are the providers of capital for financing projects or assets. Here management is allowed to the partners, as the losses are divided accordingly to their participation in capital investment, and profits are given the ratios settled previously. *Mudarabah* contract is when one party enters responsible for financing the project and the second responsible for the knowhow and management, in order to obtain profit. Here is applied ‘profit-sharing and loss-bearing’, which means that the losses if occurred are entirely the financier responsibility, except if the negative results are due to negligence from the manager’s part, as the financier has no interference in the management under this contract. Profits are shared according to what was agreed upon. (HUSSAIN; SHAHMORADI; TURK, 2015).
The most used contracts are the non-PLS, which include *murabahah, ijarah, salam* and *istikna*. These are usually sales contracts that allow the trade of goods, credit and assets. *Murabahah* contracts are one of the most common IF instruments used in sales transactions. Its purpose is to postpone the payment on a sales transaction in order to ease the purchase of merchandises (not money in exchange of more money over time). What usually happens is that

The bank purchases the goods and delivers them to the customer, deferring payment to a date agreed by the two parties. The expected return on *murābahah* is usually aligned with interest payments on conventional loans, creating a similarity between *murābahah* sales and asset-backed loans (HUSSAIN; SHAHMORADI; TURK, 2015, p. 8).

*Ijarah* can be considered a leasing contract, for operational or financial purposes. So either the leaser owns the asset and leases it for a determined period and the ownership remains his until the end, or the leaser is to sell the asset to the leasee at the end of the contract, with the residual price of the asset being settled previously. *Salam* is a forward contract of sale, where the buyer or IF institution pays for the goods in advance and they are delivered in the future. “A vital condition for the validity of a *salam* is payment of the price in full at the time of initiating the contract, or else the outcome is a debt-against-debt sale, which is strictly prohibited under Shari’ah” (HUSSAIN; SHAHMORADI; TURK, 2015, p. 9). Finally, *istikna* is another forward contact of sale, which allows a project that is still non-existent, or in progress to be transacted. However, both obligations of buying and delivering are in the future. It can also become a three-party contract if a financial institution acts as an intermediary.

The third group consists of the fee-based products, which are services offered by IF institutions under *wakalah, kafalah or ju’ala* contracts. They help these institutions to charge for services like transfers, credit cards, letters of credit and guarantees issuance, within other mechanisms that help clients to protect their funds.

*Wakalah* results from the bank acting as the agent of a customer in a trade transaction or issuing a letter of credit facility. *Kafalah* is a financial guarantee whereby the bank gives a pledge to a creditor on behalf of the debtor to cover fines or any other personal liability. It is widely used in conjunction with other financing modes or documentary credits. *Ju’ala* is essentially an *istikna*’ contract that is applicable for rendering a specified service as opposed to the manufacturing of a product (HUSSAIN; SHAHMORADI; TURK, 2015, p. 10).
Sukuk are a very trendy IF product in the global markets, and basically represent certificates of proprietorship. “Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, or (in the ownership of) the assets of particular projects” (WORLD BANK, 2015). Their rate of return is based on the returns that that specific asset has given. The sukuk market has been adopted by private companies and by governments as an alternative for bonds to capture investments.

Other products that are less common and not very comparable to the conventional financial system are the ones related to financial inclusion (zakat, sadaqah, waqf and qard al-hassan). Zakat is an annual obligatory money transfer mechanism on wealthy Muslims to the poor. Sadaqah is a voluntary act of donation to the poor. Waqf is an endowment made to a religious or charitable cause, inalienable, and with no reclaiming rights. Qard al-hassan is an interest-free loan, or a benevolent loan, envisioning social welfare and financial inclusion.

Through Zakah, Sadaqah, Waqf and Qard al-Hassan, these unemployed disadvantaged people can be socially included by providing them with the necessary needs before taking them to the next step of the microcredit. However, Islamic social intervention tools will pave the roads to effective microfinance. Thus by empowering extreme poor and disadvantaged people, Islamic microfinance is moving beyond financial inclusion to social inclusion and is preserving human dignity (ALI, 2015, p. 309).

What makes IF (especially Islamic microfinance) socially and financially inclusive is that it targets not only the low income, but fits more for the unemployed, students, farmers, and other who are more excluded from the system (IF doesn’t separate by poverty line, but enters in more details about their daily necessities over time), having a broader scope (ALI, 2015).

There is evidence to suggest that Islamic micro-finance has a comprehensive approach towards human empowerment, leading to human development in Muslim societies. The products of Islamic micro-finance are designed on the assumption that human abilities are diverse in the face of opportunity. The potentialities are noteworthy in the way it mobilizes factors of production, encourages risk sharing and the capacity for distributive equity in income and wealth. It seeks to achieve socioeconomic objectives, which include social justice, economic growth, efficiency and stability. Zakat and Awqaf are requisite for generating community assets, productive capacity building, wealth creation, and knowledge and skills that will enhance the technical standing of entrepreneurs. This approach
towards financial inclusion could bring improvements in human capital development, education and skills development, better provision of physical capital and wider access to micro-credit for the productive poor (USMAN, A.; TASMIN, R, 2016, p. 59).

For a financial institution to offer IF products, it has to have a *sharia* board, made up of scholars and experts in finance and *sharia* that are authorized to give the ruling on the operations, analyzing in order to approve the instruments that are compliant with the principles of the system. As it has been more popular internationally in the recent years, organizations like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have been working on a global standardization of the system to facilitate and increase its attractiveness especially in non-Muslim countries. Although this has been under progress over the last years, it is important to highlight the fact that there are different views and comprehensions of Islamic finance between countries, as their scholars will usually have different backgrounds and orientation. It does not put the system in contradiction; it just gives more options given the distinct realities of each region, thus making the standardization more complicated.

### 2.2 Islamic Finance Industry

Despite its recent active and relevant presence in the international market, Islamic finance has gone through different phases and received different interpretations. Since its emergence in the 1970s, Islamic finance had its share of controversies, successful ‘boom’ periods and others more stagnant. It is important to highlight firstly that, even though the concept of Islamic finance exists since the existence of Islam itself and *sharia* for more than 1400 years ago, this sudden onset was brought by the oil crisis in the 1970s, which led to an overflow of ‘Gulf’ money looking for alternative investments.

Fang (2016) tried to study in his paper how IF was being ‘packaged’ or portrayed over the last three decades in the international market. Figure 1 illustrates Fangs’ findings. In the beginning, the struggle was big in trying to introduce this system, in both Muslim and non-Muslim countries. In Muslim countries the struggle was within getting to know how to put the theory into practice, getting human resource prepared for the demand, and meanwhile some
fraud scandals occurred as some informal institutions who called themselves as “IF houses” used the opportunity and the name in order to get there schemes going. This lead to a certain lack of trust in the system. Then there was a change in the perception of the market when some conventional institutions began to offer IF and they noticed the potential market they could have access to. So it went from being something shameful and avoided to something of big interest and attention.

![Diagram](image)

**Figure 1 – “Emergence of concurrent narratives on Islamic finance in Western media”**
Source: FANG, 2016, p. 52.

During the phase of a better perception about Islamic finance, 9/11 happened and brought its consequences. However, they were not as negative as one might expect. People’s awareness about Islam grew in a way that could differentiate the religion from negative associations that were not true. And no correlation was made between those types of incidents and Islamic finance itself. In addition, Muslims got more engaged in being better at practicing their religion, which got a demand growing for the Islamic commercial banking sector. The decade that follows was the highlight of IF evolution. More and more non-Muslim countries and institutions began offering Islamic finance products, its international presence was getting bigger, and this period that Fang called “mainstreamization” registered double-digit growth.

The final period was marked by the sub-prime financial crisis, where the market felt the effects of the ‘misconducts’ of the conventional system. Islamic finance was becoming more attractive to be sold as the ethical alternative. As all other industries, IF suffered the
consequences of the global slowdown and after all the attention it gained from its rapid and unusual growth records, these became ‘disappointing’ as the growth numbers dropped slowly especially in the last years, when the oil prices dropped and impacted investment from the Gulf region. From this point onwards, slow growth is considered the new normal for IF (S&P GLOBAL, 2017). Studies and researches grew as the interest grew in comparing both systems, especially after the crisis, trying to understand better IF, explore its opportunities and tackle its weaknesses.

In terms of numbers, Islamic finance industry has shown different trends over the past decade. Figure 2 shows a comparison between asset growth in Islamic and conventional banks, and although both follow almost the same trend, in terms of scale, asset growth in Islamic banks (IB) has registered bigger numbers over the past years (e.g. in 2014, IB was above 12% and CB was about 3%). But the recent drop especially in IB asset growth has followed the trend of the average GDP growth in GCC countries, which have a high influence on money influx in IB.

Figure 2 – “Asset Growth Comparison: Islamic Versus Conventional Banks”
In terms of the portfolio of assets of the IF industry and its composition over the years, Figure 3 shows that the banking assets account for the majority of total IF assets, surpassing 1,500 billion dollars in 2016, however, the *sukuks* have been conquering a bigger share in the total asset composition over the last years.

Figure 3 – “Global Islamic Finance Industry Assets (2013-2016)”

To have a better understanding of the main players in the market, Figure 4 demonstrates a simplified balance sheet with some GCC (Gulf Cooperation Council) Islamic bank markets. Saudi Arabia and United Arab Emirates have the highest representative weight in the sample composition, given their strong presence and action in IF. In terms of annual growth rate, most had double-digit growth registered, however all with a decline tendency (e.g. Qatar annual growth rate 19% in 2014 and 8% in 2016).
To put into perspective with the rest of the world, Figure 5 shows the distribution of the investors of *sukuk* (given that it is one of the most popular IF products). Europe represents a significant percentage in all averages calculated, given its big interest and important role. However, the U.S. does not have that much of representation, especially if averaged only for GCC.
Figure 5 – “Investors in Sukuk”
3. METHODOLOGY

Qualitative business research is considered “as an adequate method of knowledge production” (ERIKSSON; KOVALAINEN, 2008, p. 5). And in the case of this paper, this exploratory method has the best fit given the nature of the research and its object of study. Ghauri and Gronhaug explain:

Qualitative research is particularly relevant when prior insights about a phenomenon under scrutiny are modest, implying that qualitative research tends to be exploratory and flexible because of ‘unstructured’ problems (due to modest insights)” (2005, p.202 apud ERIKSSON; KOVALAINEN, 2008).

Given the recent nature of Islamic finance, studies have not been numerous on the subject nor precise in their conclusions, as it is still under development, and not much historical background data exists for processing and analysis. Therefore, most approaches in these studies are of qualitative orientation, due to the necessary flexibility in the research. Specifically in the case of Brazil, which is the determined area of application of the subject in study, it is safe to say that the subject is not very known, professionally nor academically, and consequently studies and practical applications of it are rare. This takes the research towards a more exploratory and malleable style in order to tackle as mentioned previously the ‘unstructured’ problem proposed.

The data collection is based on two main sources. Firstly, international experience of different countries that have introduced Islamic finance to their market will be briefly presented to create an initial base scenario for the possibility of the Brazilian case. In order for this information to gain relevance for this study, it needs to be applied under the Brazilian perspective. As there are not major data or studies available, a few key players acting in the Brazilian market that understand the subject were interviewed. The interviewees were selected so that multiple perspectives could be collected on the subject. This means that every interviewee has a special knowhow or description that made his/her contribution different that than other but still, as relevant as.

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The profile of the interviewees is divided under four categories: expert, academic, market representative and industry representative. Table 1 categorizes the interviewees and shows their current positions, however their identities were preserved for privacy preferences.

<table>
<thead>
<tr>
<th>Category</th>
<th>Interviewee</th>
<th>Position</th>
</tr>
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<tbody>
<tr>
<td>Academic</td>
<td>#1</td>
<td>Lawyer at JVA Advogados and Law Professor at Universidade de Brasília</td>
</tr>
<tr>
<td>Expert</td>
<td>#2</td>
<td>Chief Representative and Country Manager for Latin America at First Abu Dhabi Bank</td>
</tr>
<tr>
<td>Market representative</td>
<td>#3</td>
<td>Senior Relationship Manager at Banco Santander</td>
</tr>
<tr>
<td>Industry representative</td>
<td>#4</td>
<td>Presidency Advisor for Strategic Affairs at CCAB (Arab-Brazilian Chamber of Commerce)</td>
</tr>
</tbody>
</table>

Table 1 – Interviewees presentation
Source: Table elaborated by the author.

All four interviewees are unique and relevant in terms of the content they will present. And given their distinct nature, the interviews followed an informal semi-structured script, which kept the interviewee more comfortable to address the subject in his/her own terms, but with subtle guidelines of the subtopics of the conversation given. These guidelines followed approximately this order: personal introduction and background, familiarity with Islamic finance, personal experience with the subject, and perspective for its future in the Brazilian market. As every interviewee has his/her own specificities, all have very limited time and disposition, the structure of the interview overall maintained the same level of flexibility as long as all the main information were obtained from each party. The interviews were recorded and transcribed (except interviewee #3, which had confidential information and could not allow). The main points guiding each one of the four interviews can be found in Appendix 2.

To be able to construct an analytical narrative for the data collected, the best approach will be to trail a coding system, which will group the key data by the main topics presented to the interviewees (plus any additional relevant topics mentioned). As the information collected did
not follow a similar script for all sources, a coding system will link information under the same topic, helping to trace the conclusion under a guided optic. In order to obtain this coding system, the transcript of all four interviews were read and compared, tracing initial common points that were highlighted and color-coded accordingly, providing an initial ground for the further development of the code.
4. INTERNATIONAL EXPERIENCE WITH ISLAMIC FINANCE

4.1 United Kingdom (UK)

The Islamic finance industry accounts for nearly 11% of the United Kingdom’s total economic output, employs over two million people, is the largest tax contributor and the biggest exporting industry, generating a trade surplus that surpass all the other exporting industries together (THE CITY UK, 2017). There are over 20 banks in the UK that offer Islamic finance services, where 5 are fully sharia-compliant licensed banks, and accumulates $ 728 million in net assets of Islamic funds in the UK (THE CITY UK, 2017). “Total Sharia compliant banking assets in the UK were around $4.5bn in 2016” (THE CITY UK, 2017, p. 7). Figure 6 illustrates the main figures for IF in the UK.
Since the 1980s, the London Metal Exchange recorded numerous commodity transactions of *murabahah* contracts, which meant that financial institutions were providing *sharia*-compliant options for the growing demand for Islamic finance in the UK. This was greatly due to the English law being one of the best legal jurisdictions to operate Islamic contracts on. From 2003 onwards, the UK introduced a series of Finance Acts, specially related to the double stamp obligations, the legislation was adapted to remove the double taxation. There was also a
relief on taxes on IF products so they could be leveled to the conventional transactions (IMF STAFF, 2017). Figure 7 shows the development of initiatives towards Islamic finance in the UK.

Figure 7 – The development of Islamic finance in the United Kingdom
Source: DI MAURO et al., 2013, p. 30.

Besides the expertise needed in the financial area, due to legal adaptations and flexibilities created for IF contracts, this raised the need for specialized legal advisors in the matter. Most of the important law and accounting firms in the UK offer services in all matters of IF. In addition, offers in training and education in IF have been numerous in the UK, being considered one of the largest providers of this subject, in range of courses and qualifications (IMF STAFF, 2017). All efforts made by the UK have been towards making London as the IF hub in the Western world, making the UK one of the top choices for Islamic investments and business deals.

The UK was the first Western nation to issue a sovereign sukuk. In 2014, the UK government sold £200m of sukuk, maturing in 2019, to investors based in the UK and in major global hubs for Islamic finance. The UK’s first sovereign sukuk was
oversubscribed with very strong demand and orders totalling around £2.3bn (THE CITY UK, 2017, p. 7).

The LSE (London Stock Exchange) is also a central marketplace for the issuance of *sukuk* for different multinationals, like Airbus and Emirates. “To date a total of 65 sukuk have been listed on LSE with a total value of $48bn” (THE CITY UK, 2017, p. 7). Figure 8 shows the active *sukuk* listing at the LSE.

![Figure 8](image)

Figure 8 – “Active *sukuk* listing at the LSE”

Overall, the UK has been leading the way in the Western world in the Islamic finance industry. “Industry growth is facilitated by a flexible but secular unitary framework that promotes a level-playing field among all financial institutions” (IMF STAFF, 2017, p. 94). The English government has been a key player in the fostering of IF locally, as it recognizes the importance of this industry for the prosperity of their economy, therefore maintaining a flexible and fair framework for all in the financial industry. As a result, Islamic banking asset growth in 2015 surpassed 30 percent, while the conventional banks registered a decline of 0.7 percent (IMF STAFF, 2017).
4.2 Germany

Germany is considered one of the European predetermined key markets for Islamic finance, due to its increasing Muslim population with the immigrants’ influx. “According to the latest statistical data, the number of Muslims present in Germany amounts to 4.7 million (5.9% of the total population)” (CASPER; AIT ALLALI, 2017, p. 4). Therefore, they represent a potential demand for sharia-complaint financial products. It was not until 2004, when they issued the first Islamic bond (sukuk) for the federal state of Saxony-Anhalt of € 100 million, that they paid more attention to the subject. For this issuance, 60% of the demand came from investors in UAE and Bahrain and 40% from European investors (DI MAURO et al., 2013).

After the Federal Financial Supervisory Authority (BaFin) gave a license for the first sharia-compliant bank to operate in 2015, the KT Bank (subsidiary of a Turkish bank), “it became apparent that Islamic banking does not only fulfill the requirements of the Muslim community, but also the ethical standards of the majority of German society” (IFN, 2017, p. 63). KT Bank stated that they have doubled their assets in 2016, in comparison to 2015, with a balance sheet of € 108.3 million at the end of 2016, which is relatively small if compared to the other similar sized banks (CASPER; AIT ALLALI, 2017).

Despite the increasing political and social tensions rising with the right-wing front, there was a strong response by the market to this banking system, as it is being classified as a new area under the socially responsible investment, given “the universally ethical qualities of Islamic banking’s Quran-based values, thus attracting value-conscious clients of all beliefs” (IFN, 2017, p. 63).

The demand from importers of the halal food industry grew after an increased focus on product portfolio diversity and competitiveness for sharia-compliant contracts for import financing.

German exporters could use institutions offering Islamic financing solutions as alternative sources of funding and thereby further enhance their funding profiles. Third, Islamic trade finance products offer the potential to strengthen trade ties with countries such as Turkey; a country which is an active trading
partner of Germany and that has a budding Islamic finance sector (DI MAURO et al., 2013, p. 26)

KT Bank is the first German completely developed sharia-compliant bank. Furthermore, Germany’s efforts will be towards improvements in the online Islamic banking infrastructure (mostly focused on commercial banking).

Post-financial crisis, the world community is generally more aware of value-based finance models, banking regulations and undue risk-taking. Islamic banking thus captures the contemporary economic zeitgeist and can help to shape a cultural change in the eurozone banking industry in favor of the SRI segment (IFN, 2017, p. 63).

4.3 Singapore

Singapore has “adopted a level-playing field approach toward Islamic finance and accommodated this sector within its existing single regulatory and supervisory framework” (IFN, 2017, p. 93). This is one of the main reasons for the slow development of IF as it is clouded by the dominant conventional system. However, many players in the industry identify areas compatible with risk and profit sharing and asset backing which have the potential for developing Islamic finance, like real estate, funds, asset management, etc. Many IF institutions consider Singapore as their Asian hub (given the straight relationships with the Gulf region in trade), however, Malaysia and Indonesia are neighboring competitors for Singapore with much more proactive ground on IF.

Although not many positive points are to be highlighted from the Singaporean experience, the potential is there and these points should be taken into consideration to foster its development (IFN, 2017, p.93):

- Increasing the knowledge of local players in the financial market and Islamic scholars on how can IF add to Singapore’s economy;
- Stimulate the demand of sharia-compliant products by spreading awareness;
- Use successful case studies of countries which have introduced IF and identify the measures that lead to that;
- Work towards an international effort to ‘humanize’ and make the financial system more ethical, more inclusive & accessible and efficient;
- Create synergies with international organizations involved in IF like the IMF and World Bank to promote a trend of ethical finance globally;
- Increase the legal support and flexibility towards including IF in the regulatory framework.
5. THE BRAZILIAN CASE STUDY

The results presented in this section will describe the data collected from the interviews with the four key ‘stakeholders’, relative to Islamic finance in Brazil.

Interviewee #1 is the academic reference for Islamic finance in Brazil. His background in law with specialization in finance led to this interest in studying an alternative arrangement of financial system. In his PhD dissertation on Islamic finance, he studied the principles and foundations of this system, traced the differences between the Islamic and conventional markets and finally discusses the possibility of dialogue between non-Muslim countries and the Islamic financial operations (JANTALIA, 2016). After analyzing the system and perceiving that IF has a certain dynamic and logic behind its operations, being value-oriented, and still present valid functions for the economic system. Also despite the difference, he concluded that it is possible that the interaction of the two systems exist in the same country with benefits for both. And in terms of Brazil, the best way to approach IF is by fostering accessibility to the financing products abroad and overcoming some important regulatory challenges. “It’s not only the non-collection of interest rates. I tried to show in my study that Islamic finances are more than just that, and that they can interact with the traditional system” (#1 apud BARROS, 2016).

Throughout the interview, he mentioned the academic difficulties he faced during the research phase in Brazil, and how he had to go for the foreign sources, in the UK mainly, to complete his study and get the true meaning behind Islamic finance: “It was not until I got to do the summer course on Islamic finance in Durham that I was able to truly understand Islamic finance” (Interviewee #1, 2018). He mentioned how the UK was such an important hub for Islamic finance in the West, with advanced operations going on, adapted legislation and leading education movement in IF. Given that, he felt that there was potential to begin this introduction in Brazil: “My goal always was to contribute to the promotion of Islamic finances in Brazil. I wish that my thesis will serve as a basis for other researchers to take the opportunity and expand the topic” (#1 apud BARROS, 2016).
Regarding his discoveries after all his research, he suggested that the market needs a more “practical” approach on the subject in terms of future publications on the subject, in order to give them a better notion of how this new and different option can be put into practice.

Interviewee #2 is the face of Islamic finance in Brazil. She had years of experience in Islamic banks and conducting IF operations here in Brazil, and now represents one of the most important banks of the Emirates in Brazil and Latin America, the First Abu Dhabi Bank (former National Bank of Abu Dhabi – NBAD). There has not been any significant progress over the last years on Islamic finance in Brazil. Many big banks and financial institutions were preparing ground to enter the Islamic finance market in Brazil, however after the crisis in Brazil (political and economical) over the past years and the recent downgrade the country received, these projects were archived, according to her.

Whilst talking about her previous experience with IF operations, Interviewee #2 focused on the murabahah contracts. A quick reminder to what they are: when a financial intermediary follows a contract of “cost plus” the margin to sell a commodity for the buyer (who would be the client to solicit this operation from the institution). Following an example she gave, take for instance, a Brazilian exporter of halal (sharia-compliant) goods or any neutral industry that does not go against Islamic principles, he would be able to export his merchandise using a murabahah contract. The exporter would get in contact with an Islamic financial institution, sell his products and receive cash, then the IF institution sells the goods to an importer with deferred payments (the exporter sells cash and importer finances the payment).

By using the IF institution as an intermediary, the exporter would not need to credit his importer in order to guarantee the payment, the IF institution in that location will certainly know the importer and deal with these terms instead of the exporter having to do so (Interviewee #2, 2018).

This makes the exports for the traders easier and with fewer risks. This is one way of utilizing IF without having to necessarily introduce it into the country. If this contract was applied within Brazilian territory, a double taxation of the goods would occur due to the taxing system, making this procedure unviable, she explained.

Another example of something that was already conducted in her previous experiences and works is related to the attraction of Islamic investments to Brazil. This happens through
activities and projects that can be considered *sharia*-compliant. She mentioned a fund that used to act here in Brazil, and they invested in cattle fattening. So this fund practically bought newborn cattle and would sell them later on when adults, and profit from the process. Not only cattle fattening, but also any other activity of similar nature could be open to the same opportunity. Real-estate investments are also eligible for IF.

The other very plausible instrument that did not reach its maturity in Brazil is the issuance of *sukuk*. This was due to bad timing, as Brazil was downgraded and this scared off investors, she explained. In this case, in order to carry out a *sukuk* issuance of a Brazilian company or even the government, the ballast would be outside Brazilian territory, however the issuance would be done by big Brazilian institutions that have assets internationally (the main issuers usually do have assets abroad) in order to structure the *sukuk*, as the *sukuk* is a certificate linked back to an asset. These assets could be fixed like real estate, production plants, or even shares (participation in companies). It could also be metals depending on the nature of activity of the company, if it deals with metals as commodities for instance.

One of the biggest reasons why these examples of ‘doable’ IF procedures in Brazil are not happening is that “the companies themselves are not aware of these possibilities so they do not demand for them” (Interviewee #2, 2018). All the examples given of these operations happening were due to an external introduction of the subject (usually done by Interviewee #2 herself) to the companies. Whenever she saw an opportunity depending on the timing and the conditions of the company, she would go after and structure the operation. Professionals in the Brazilian financial market are not that aware of it either, and if they are, they will not be qualified enough in order to structure a proposal for the clients. This is even a bigger mystery for the companies themselves, whom would benefit from such offering. One way of disseminating the subject is through the *halal* industries (food, tourism, etc.) she explained, which means promoting *sharia*-compliant goods and services in order to attract foreign investment interested in it. But overall, all industries (that do not go against Islamic principles) can benefit from IF operations once it is has conquered a strong presence in Brazil.

However, this has been something that Interviewee #2 is working on for more than 10 years, and she affirms: “for us here (Brazil), it (Islamic finance) is still a seven-headed monster”. People do not really know the concept or the practices of the industry, and when the
opportunity opens for such thing, the timing is bad. It has been a complicated subject to deal with in Brazil, and there is the issue with the timing. First the market was happy with the intensity of the flows and returns and did not want to divert its attention to anything else since this was being profitable. Then after the last global financial crisis, budgets got scarce and projects are limited to what is known and familiar (which makes it less costly). The market has to see that IF represents a very large “liquidity pocket”, opening up a niche market that has been underserved compared to the others. It is complicated, it is laborious and it is more difficult and complex than the operations in the conventional market. Nevertheless, it is worth it because of the access gained to a new market, with robust liquidity, even more for a country that is a relevant producer of halal food (Brazil). Despite those challenges, she announced: “I think this year we might be able to see a company issuing sukuks” (Interviewee #2, 2018), and this can be a key event to the Islamic finance industry in Brazil. As she had explained, once the first is launched, it serves as an incentive for other to come after and look more into the subject. “After first players ‘get their hands’ on this liquidity pocket, there will be a shortage of specialized labor with Islamic finance expertise to manage and supply the demands and operations” (Interviewee #2, 2018).

Interviewee #3 has been working in the financial market for the last 13 years, and got introduced to Islamic finance after a talk that Interviewee #2 gave at her work about five years ago. Ever since she has been involved, due to her interest in “developing relations were the money is present in alternative structures” (Interviewee #3, 2018) and IF seemed like the perfect window for that. In her opinion, the current Brazilian political and economic scenario has not been very favorable towards the introduction of IF. In addition, she stated that Brazil has a culture that is very different for the Middle Eastern and Asian banks overall.

Before the downgrade, the important banks of the ‘East’ were paying more attention to Brazil, but after the last doings, Brazil will still have a big challenge in order to incentive these institutions to open up to the local market (Interviewee #3, 2018).

Most of the information shared by Interviewee #3 cannot be shared for confidentiality issues. But the good news is that there have been ‘rumors’ in the market about big banks like Banco do Brasil and Banco Pine, which have been structuring IF operations and preparing the ground to launch as soon as the market opens up.
Finally, Interviewee #4 works for an important organization that intermediates many trade and commercial relations between Brazil and the Arab countries (CCAB). He began the interview by highlighting the importance of the Arab countries for the Brazilian commerce, where:

- “Trade between Brazil and the Arab countries increased from 2016 to 2017 by approximately 17% in the trade balance;
- The Arab countries ‘bloc’ is considered the fourth major partner in terms of Brazilian exports;
- Individually speaking, Saudi Arabia is considered the biggest country to import *halal* chicken meat from Brazil (35.000 to 40.000 ton. per month);
- And finally, but most importantly – Brazil is the biggest producer and exporter of *halal* protein to the world” (Interviewee #4, 2018).

Given these data, he explained that in terms of IF, these procedures do not exist yet between Brazil and the Arab countries, however some financing operations of Brazilian companies have occurred via IF operations (through the foreign office of Banco do Brasil in the Emirates, and the NBAD, for instance). He also mentioned the presence of the biggest expert and important representative of IF in Brazil: Interviewee #2. And he added that many funds have been acquiring Brazilian companies (mainly food related), like the Sallik UK that has a participation in Minerva (meat producer). He also mentioned an Abu Dhabi government investment company – Mubadala – which opened a branch in Rio de Janeiro (but not necessarily under IF operations). All to show the clear interest and movement towards Brazil from the Arab countries.

When talking about the flow of investments, he revealed the main point that attracts Arab investments to Brazil: food security. “These countries want to invest more and more in order to guarantee food supply” (Interviewee #4, 2018). However, this is still a premature subject as for them, Brazil is still a ‘closed country’, as there is no taxation agreements or adaptations in the financial regulations. So the investments are still considered small (which means they have the potential to grow).
It is expected that over time, with the work that the CCAB is doing, more development on this subject will happen. The CCAB is trying to bring the concepts of IF to Brazil (halal products and halal tourism), in order to open this market, which has potential and is partially adept to it in some segments. They are preparing the ground in order to open up the Brazilian market for the Arab investors. For instance, in 2018, the CCAB has a calendar packed with events aimed at spreading the knowledge on the subject, and the two main ones are: (1) Brazilian Festival, which happens now in February in Abu Dhabi, where they offer a tasting opportunity for the final consumer and (2) Economic Forum Brazil-Arab Countries, which happens in April and brings together more than 100 Arab businessmen, local and foreign authorities, important entities, with one specific panel on the halal industry, as he explained.
6. COMPARISON BETWEEN CONVENTIONAL AND ISLAMIC FINANCE

Before comparing in details instruments in both systems, Table 2 presents the main differences between the banking two banking systems whilst mentioning some products.

<table>
<thead>
<tr>
<th>Conventional Banking System</th>
<th>Islamic Banking System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money is a product besides medium of exchange and store of value</td>
<td>Real Asset is a product. Money is just a medium of exchange</td>
</tr>
<tr>
<td>Time value is the basis for charging interest on capital</td>
<td>Profit on exchange of goods &amp; services is the basis for earning profit</td>
</tr>
<tr>
<td>The expanded money in the money market without backing the real assets, results deficit financing</td>
<td>Balance budget is the outcome of no expansion of money</td>
</tr>
<tr>
<td>Interest is charged even in case, the organization suffers losses. Thus no concept of sharing loss</td>
<td>Loss is shared when the organization suffers loss</td>
</tr>
<tr>
<td>While disbursing cash finance, running finance or working capital finance, no agreement for exchange of goods &amp; services is made</td>
<td>The execution of agreements for the exchange of goods &amp; services is must, while disbursing funds under Murabaha, Salam &amp; Istisna contracts</td>
</tr>
<tr>
<td>Due to non existance of goods &amp; services behind the money while disbursing funds, the expansion of money takes place, which creates inflation</td>
<td>Due to existence of goods &amp; services no expansion of money takes place and thus no inflation is created</td>
</tr>
<tr>
<td>Due to inflation the entrepreneur increases prices of his goods &amp; services, due to incorporating inflationary effect into cost of product</td>
<td>Due to control over inflation, no extra price is charged by the entrepreneur</td>
</tr>
<tr>
<td>Bridge financing and long term loans lending is not made on the basis of existence of capital goods</td>
<td>Musharakah &amp; Diminishing Musharakah agreements are made after making sure the existence of capital good before disbursing funds for a capital project</td>
</tr>
<tr>
<td>Government very easily obtains loans from Central Bank through Money Market Operations without initiating capital development expenditure</td>
<td>Government can not obtain loans from the Monetary Agency without making sure the delivery of goods to National Investment fund</td>
</tr>
<tr>
<td>Real growth of wealth does not take place, as the money remains in few hands</td>
<td>Real growth in the wealth of the people of the society takes place, due to multiplier effect and real wealth goes into the ownership of lot of hands</td>
</tr>
<tr>
<td>Due to failure of the projects the loan is written off as it becomes non performing loan</td>
<td>Due to failure of the project, the management of the organization can be taken over to hand over to a better management</td>
</tr>
<tr>
<td>Debts financing gets the advantage of leverage for an enterprise, due to interest expense as deductible item form taxable profits. This causes huge burden of taxes on salaried persons. Thus the saving and disposable income of the people is effected badly. This results decrease in the real gross domestic product</td>
<td>Sharing profits in case of Mudarabah and sharing in the organization of business venture in case of Musharakah, provides extra tax to Federal Government. This leads to minimize the tax burden over salaried persons. Due to which savings &amp; disposable income of the people is increased, which results the increase in the real gross domestic product</td>
</tr>
<tr>
<td>Due to decrease in the real GDP, the net exports amount becomes negative. This invites further foreign debts and the local-currency becomes weaker</td>
<td>Due to increase in the real GDP, the net exports amount becomes positive, this reduces foreign debts burden and local-currency becomes stronger</td>
</tr>
</tbody>
</table>

Table 2 – Islamic Banking and Conventional Banking: Major Differences
In order to understand better how the instruments differ between the IF and conventional system, some examples will be presented comparing the main products of each system.

**Conventional Bonds vs. Sukuk**

As mentioned previously, *sukuk* are the Islamic version of bonds, being that the main difference is that it is linked back to ownership of something real (nothing debt-based). Table 3 presents more comparisons of details related to both instruments.

<table>
<thead>
<tr>
<th></th>
<th>Conventional Bonds</th>
<th><em>Sukuk</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset ownership</strong></td>
<td>Bonds don’t give the investor a share of ownership in the asset, project, business, or joint venture they support. They’re a debt obligation from the issuer to the bond holder.</td>
<td><em>Sukuk</em> give the investor partial ownership in the asset on which the <em>sukuk</em> are based.</td>
</tr>
<tr>
<td><strong>Investment criteria</strong></td>
<td>Generally, bonds can be used to finance any asset, project, business, or joint venture that complies with local legislation.</td>
<td>The asset on which <em>sukuk</em> are based must be sharia-compliant.</td>
</tr>
<tr>
<td><strong>Issue unit</strong></td>
<td>Each bond represents a share of debt.</td>
<td>Each <em>sukuk</em> represents a share of the underlying asset.</td>
</tr>
<tr>
<td><strong>Issue price</strong></td>
<td>The face value of a bond price is based on the issuer’s credit worthiness (including its rating).</td>
<td>The face value of <em>sukuk</em> is based on the market value of the underlying asset.</td>
</tr>
<tr>
<td><strong>Investment rewards and risks</strong></td>
<td>Bond holders receive regularly scheduled (and often fixed rate) interest payments for the life of the bond, and their principal is guaranteed to be returned at the bond’s maturity date.</td>
<td><em>Sukuk</em> holders receive a share of profits from the underlying asset (and accept a share of any loss incurred).</td>
</tr>
<tr>
<td><strong>Effects of costs</strong></td>
<td>Bond holders generally aren’t affected by costs related to the asset, project, business, or joint venture they support. The performance of the underlying asset doesn’t affect investor rewards.</td>
<td><em>Sukuk</em> holders are affected by costs related to the underlying asset. Higher costs may translate to lower investor profits and vice versa.</td>
</tr>
</tbody>
</table>

Table 3 – “Distinguishing *Sukuk* from Conventional Bonds”


**Joint Venture vs. Musharakah & Mudarabah**

These two IF products are both partnership products and very similar in nature to a joint venture, but have some peculiarities and specificities to it. In the *musharakah*, all parties enter as ‘working’ partners not only financial, while in the *mudarabah*, there is the financing partner and the working partner. Therefore, in the *musharakah*, all parties are responsible for losses as they are for profits, whereas in *mudarabah*, on the financial partner is responsible
for the loss (if the working partner didn’t neglect his part as a good manager of the project). Figure 9 shows a basic illustration of a *musharakah* contracts.

![Diagram of a musharakah contract transaction](image)

**Figure 9** – An illustration of a *musharakah* contract transaction

In the *musharkah* contracts, it is also possible to determine if it is a consecutive or diminishing one. In the first case, partners can have their share the way it is until the end of the project, and if one withdraws from it doesn’t terminate the partnership. The second is when one partner can buy the other’s shares over time until the whole ownership is of one of the partners only.

**Conventional Loans vs. Murabahah**

*Murabahah* contract was mentioned in the interviews frequently, and its operation can be compared to a conventional interest-based loan in the conventional system. Figure 10 illustrates the main operations of a *murabahah* contract, where the Islamic bank enters as an intermediary between the buyer and the seller to ‘finance’ the commodity, by purchasing it from the seller and selling it back in deferred payments to the customer.
The banks profit here comes from the ‘plus’ margin it charges for the economic activity it is generating and promoting. Besides all the intermediary work and risk it carries by following this operation. Whereas a conventional loan simply charges interest for the amount borrowed for no justified economic activity behind it (charges money over money, which is not permissible. Table 4 shows more details in the differences between a conventional loan and a murabahah contract.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Conventional loan</th>
<th>Murabahah</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject matter</td>
<td>Amount of money</td>
<td>Commodity</td>
</tr>
<tr>
<td>Parties</td>
<td>Lender and borrower</td>
<td>Financier and finance and/or expertise seeker</td>
</tr>
<tr>
<td>Rollover</td>
<td>Typically applicable</td>
<td>Impermissible</td>
</tr>
<tr>
<td>Collateral</td>
<td>Put up before the loan is processed</td>
<td>May be posted but after the commodity is purchased</td>
</tr>
<tr>
<td>Cost transparency</td>
<td>Not a condition</td>
<td>Stipulated/ a condition</td>
</tr>
<tr>
<td>Compensation</td>
<td>Interest</td>
<td>Profit</td>
</tr>
<tr>
<td>Ownership</td>
<td>The lender remains the owner of funds, while the borrower becomes liable for the amount of loan in addition to interest (repayment plus interest)</td>
<td>The purchaser becomes the owner of the commodity, and at the same time becomes liable for its full price (cost plus profit)</td>
</tr>
</tbody>
</table>

Table 4 – Differences between Conventional loan and Murabahah
7. DISCUSSION AND ANALYSIS

This section will be divided into two parts, the first will present the analysis method used to process the interview data and discuss the results, whilst the second will briefly present the main conclusions from the case studies of Islamic finance in different countries. Afterwards, given that the data will be more processed and organized, both data will be crossed to be able to draw a broader and more complete conclusion.

In order to process all the information and data given by the four interviewees in a structured and organized way that could help lead into plausible conclusions, a coding system was developed. This coding system refers to main topics that can join many ideas presented, in order to filter and reorganize the process. From this, three main points were highlighted: (A) Opportunities, (B) Obstacles and (C) Solutions. Under these three main topics, all relevant information collected could be classified and belong to at least one. However, this still leaves the data very generalized, so a second code or filter was created to subcategorize the information in each main topic. Therefore, each of the three previously mentioned topics has three subtopics to it: (a) Academic (knowhow/expertise), (b) Market-oriented (Brazil) and (c) Industry-oriented (IF and Arab countries). The coding system was elaborated into Table 5, which presents the complete view in summarized points.

What do these topics and subtopics stand for? The main topics stand for what they read, opportunities, obstacles and solutions presented during the interviews related to IF in Brazil. The subtopics try to divide these ideas into more specific groups, in order to facilitate the understanding and application. These subtopics happen to follow similar ‘labels’ as to the ones given to the interviewees. This happened due to two reasons: (1) the information given by the interviewees will have a subjective perspective reflected in their speech, thus the information and the messenger of the information will mostly fall under the same category, and (2) the interviewees were chosen specifically and on purpose for the ‘label’ they carry – this diversification in perspectives and opinions, all coming from backgrounds that are extremely relative and sensitive to the subject (knowledge creation, internal market and overall industry). This might be an indication (independent of the overall conclusions drawn after) of the reliability of the research’s methodology.
<table>
<thead>
<tr>
<th>Topic/Subtopic</th>
<th>Opportunities</th>
<th>Obstacles</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic</strong> (knowhow/expertise)</td>
<td>Presence of Interviewee #2 + interested researchers + entities dealing with the subject</td>
<td>Biggest sources are foreign</td>
<td>First PhD paper in Brazil on IF</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of awareness on the subject</td>
<td>Events and educational initiatives on IF</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Interviewee #2* (shared by all three subtopics)</td>
</tr>
<tr>
<td><strong>Market-oriented</strong> (Brazil)</td>
<td>Financial institutions preparing ground for IF</td>
<td>Unqualified professionals and institutions for IF</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strong financial institutions in Br with strong international presence</td>
<td>Current political and economical situation</td>
<td>Market structures IF operations and offers to the clients</td>
</tr>
<tr>
<td></td>
<td>Existence of activities and projects that can be considered sharia-compliant</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Industry-oriented</strong> (IF and Arab countries)</td>
<td>Strong relations between Brazil and Arab countries</td>
<td>Complicated</td>
<td>Interviewee #2* (shared by all three subtopics)</td>
</tr>
<tr>
<td></td>
<td>Easier and fewer risks for traders with IF procedures</td>
<td>Laborious</td>
<td><em>Murabahah contracts</em></td>
</tr>
<tr>
<td></td>
<td>IF represent large &quot;liquidity pocket&quot;; niche market that has been underserved</td>
<td></td>
<td><em>Sukuk certificates</em></td>
</tr>
<tr>
<td></td>
<td>Strong interest of Arab countries in food security investments</td>
<td>More difficult and complex than conventional system</td>
<td>Promoting <em>halal</em> industries (<em>sharia</em>-compliant goods and services)</td>
</tr>
<tr>
<td></td>
<td>These investments are still small, have potential to grow</td>
<td></td>
<td>Forums and festivals interacting both regions, exposing the opportunities for both (CCAB)</td>
</tr>
</tbody>
</table>

Table 5 – Coding system developed for the analysis of data collected from interviews
Source: Elaborated by the author.
Given the coding system and its overall frame, the analysis will be presented following the same logic. In terms of the opportunities, not many are linked to the academic part, meaning the knowledge spreading. Here, the only opportunity related to the knowhow is: having in Brazil the presence of people and entities that are interested in Islamic finance and are willing and working on spreading the knowledge. All four interviewees and the entities they represent fall under this description. Moving towards the market-oriented opportunities, the financial institutions show potential to become ‘advocates’ of IF due to their robustness, connections and global reach. In addition, the Brazilian market offers many activities and projects that are compliant with Islamic principles (e.g. halal meat production), which are the main source of attraction of Islamic investments. Finally, in terms of industry-oriented opportunities, the most important one is the strong commercial relations that Brazil has with the Arab countries\(^2\), which is driven by their goal of securing their food supplies. They have a strong demand, Brazil has the potential to supply it and Islamic finance can be the approach.

Moving to the obstacles, which are strongly linked to the knowhow subtopic. The biggest obstacle for introducing IF in Brazil is the lack of knowledge of companies and lack of interest by the financial institutions to change that. Plus, Brazil does not offer any educational center with sources on IF, making research and accessibility more difficult. This implies also that the professionals in the market do not have the knowledge nor the qualification to give the initial start up. Another major issue related to the market and was unanimity between all interviewees, is the current political and economic situation Brazil has been going through, and the downgrade. Not only for IF, any complication of this sort in the market scares off investments naturally. The Brazilian regulatory framework (taxation system) is also a huge impediment for many IF procedures and are usually the most common obstacles mentioned by the market and media. The final obstacle is related to the Islamic finance procedures themselves. They are more detailed, more complex, and very different to the conventional system. This makes the learning process and adaptation more difficult, plus, this initially might scare off financial institutions from getting to know and wanting to adopt it.

Now, the main part of the research: what solutions can be presented now in order to introduce or help in the introduction of IF in Brazil. They will be mostly related to tackling the obstacles and grabbing the opportunities, naturally. Academic-wise, having researchers like Interviewee

\(^2\) ‘Arab countries’ is being used to represent most of the Arabic speaking countries which have a strong presence of Islamic finance in their financial system, if not predominantly.
publishing papers on IF in Brazil (especially coming from a non-Arab and non-Muslim) sparkles the interest in people, makes the subject more appealing and popular in the academic ground, and at one point it will be taken to the market and media. In addition to that, having experts like Interviewee #2 giving talks (like she did in Santander for Interviewee #3 and does continuously in different occasions) in events which promote the subject and demystify its nature, will have the same effect on people like Interviewee #2 had on Interviewee #3 and so on. Having Brazilian financial institutions structuring some IF operations can also be seen as a solution as it serves as a proof for others that it is not something neither impossible nor unsuccessful. Examples of these operations are murabahah and sukuk (no sukuk issuance happened already, only murabahah deals). This IF instrument is very promising, given that the focus on opportunities was on the trade and export segment, and these commodity traders are the ones to benefit the most from this type of transaction, especially when dealing with Arab or Muslim importers. It is important also that the financial institutions take the initiative in seizing the opportunity for clients and offering them structured IF operations that best fit their needs (just like Interviewee #2 does). The other way around will be much more difficult to happen.

In terms of sukuk issuance, the market conditions have not been very favorable for it to develop, however, it is the one of the most popular IF operations globally. Figure 11 shows an illustration of a sukuk based on equity partnership (sukuk al mudarabah). Governments and private corporations both have been adopting it, and it has been growing more popular within the non-Muslim countries. Instead of issuing bonds, they can issue certificates, which are backed up by a real asset, which reduces the risk and increases the guarantees for all parties.
Another recurrent topic mentioned by most interviewees is the halal industry. Another solution can be linked to promoting the halal products and services that are available in Brazil in order to attract the Islamic investments. Brazil being one of the main producers of halal meat is a great first step towards that. In addition, the events promoted by the CCAB offer the opportunity of both ends to interact and get to know more of the future prospects.

Finally, ‘Interviewee #2’ was referenced in Table 5 as a solution in all three subtopics, and here is the reason why. She is the common ground for all the people, resources and knowledge related to Islamic finance in Brazil. All three interviewees mentioned her, she is a reference in IF in Brazil and the Arab countries, has experience in the subject and knowhow like no one else does, and is one of the main advocates of introducing IF to Brazil. Having a person like her in Brazil, with all her work, knowhow, availability and reach, makes this task more realistic. During all this time of research, the focus and importance that Interviewee #2 appears to have is of huge importance and serves as an incentive: a non-Arab, non-Muslim woman leading an important Emirati bank in Brazil successfully and for such a long time,
with a book published on the subject, and a continuous drive to promote IF in Brazil is a symbolic figure that unites the academic, market and industry aspirations in one. Without her, this process would be much more complicated. She represents that first successful case that will bring others to the same road.

Given the information presented in the different cases of Islamic finance in the UK, Germany, and Singapore, Table 6 was created to illustrate the main factors that were important for the implementation of IF in the countries and the green boxes indicate that the country had that factor. Visually speaking, the UK and Germany are the two countries with highest presence of factors that help in the fostering of IF locally, which also explains their strong performance in the IF industry, especially the UK. And the factor that they all have in common is the presence of a significant Muslim community locally, which pushes the demand for sharia-compliant options financially.

<table>
<thead>
<tr>
<th>IMPORTANT FACTORS</th>
<th>UK</th>
<th>GERMANY</th>
<th>SINGAPORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant Muslim community</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Important changes in legislation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizations and government working towards IF inclusion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Important IF education centers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value socially responsible investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presence of halal industry</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6 – Summary of main points from Section 4
Source: Elaborated by the author.

When comparing these points to the Brazilian reality extracted from the four interviewees, some things cross and are relatable. Using the same coding for the interviews, the opportunities that these countries share with Brazil are: (1) presence of a very important and growing Muslim community, which is very active in the commercial activities and has a strong input in the business environment (market-oriented opportunity); (2) the halal industry is also a very strong factor in the Brazilian reality, as it is one important driver of the Brazilian exports with the Arab countries, which implies in a favorability in the enhancement of IF procedures within the processes (industry-oriented opportunity); and finally (3) the growing interest in alternative financing methods which are less risky, more sustainable and
socially responsible (market-oriented opportunity). In terms of obstacles: (i) the regulatory framework complexity that prevents the development of IF; (ii) the lack of awareness of the subject and (iii) the lack of initiative from the market and government to make the marketplace more inclusive towards IF.

Therefore, the main points drawn as crucial for the implementation of IF in the countries was due to an adapted and more flexible regulatory system which was inclusive and fair towards IF, a strong interest and proactive initiative internally from important governmental bodies and institutions to make the market more aware and create the necessary changes to introduce IF, and have a significant tie with the Muslim and Arab countries in order to attract the primary focal group of interest. The development of education programs and the widespread of experts on IF in all areas comes as a consequence of these points, given the growing demand for people with knowhow in the subject, as in the case of the UK.
8. CONCLUSION AND LIMITATIONS

This paper was guided by the following premise: Islamic finance is a system that has been growing internationally but has not had its moment in the Brazilian market, even though the potential synergy between the two is promising, so how can this introduction be made? The overview on Islamic finance revealed this ‘unknown’ subject and showed that in essence, its core ethical principles and operations can be followed and might be a ‘healthy’ alternative and diversification to the current conventional system.

After the data collected from the qualitative research (case studies + informal unstructured interviews with key players), a better picture could be drawn, with a more practical and realistic approach. Brazil does have many reasons to integrate IF into its financial system from all the benefits it could gain in terms of trade and exports of commodities (mainly halal meat), the investments in halal industries, especially the ones related to food (and agribusiness is one of the main drivers of the Brazilian economy), and the opportunity to explore and develop its robust financial system, which counts with many big institutions and a functioning regulated marketplace. Even when compared to the cases of other countries and their introduction to IF, the same points arise in terms of the opportunities taken (Muslim community, ties with Arab countries, interest in ethical finance) and the obstacles that inhibit (unfriendly legal framework, lack of awareness, lack of initiative).

Overall, the main immediate and plausible solution is linked to the murabahah contracts (cost plus). These contracts can be structured mainly for the commodity exporters, whom would mostly benefit from this type of operation, and which does not have any complications with the regulations if practiced abroad (until the ‘double’ taxation problem is not solved, it will not be possible to structure a murabahah contract from Brazil). Sukuk is also another possibility, although more complex than a murabahah contract, but still possible, again, if the asset-backing is done on international assets of the institutions. Given its size and complexity, the negative political and economic environment in Brazil definitely discourages the ongoing with such operation. But still it is something to look forward to in the future, given the improvement in the country’s prospects.
Therefore, yes there is room to introduce and develop some Islamic finance operations in Brazil, despite the legal complication. It has been done already, but it has not been adopted or viewed as a current reliable financing method. The doubt and uncertainty that this topic raises need to be addressed in order to open space for Islamic finance’s development in the Brazilian market. Before operating an IF transaction, the professionals, the companies and the institutions need to be well aware of the system, familiarized with its rules and principles, thus realizing the potential market it could open up. If academics like Interviewee #1 keep on the research and publications, if experts and executives like Interviewee #2 keep persisting on the subject, offering their knowhow to share it with others and be a reminder that it is possible, if professionals like Interviewee #3 who benefit from that shared knowledge and try to apply it to their professional realities, and if people like Interviewee #4 and the entity he represents keep on strengthening and tightening the network between potential stakeholders of IF, through events and connections – Islamic finance operations will be a reality (more frequent than the few ones that occurred) soon enough. It is all about timing, obtaining the knowledge and seizing the right opportunities.

It is important to state that this research had its limitations, like any other. Islamic finance is a rare topic in Brazil and the bibliography is not as vast and rich as the Asian or European schools, however recent papers of good research and varied topic range were obtained and reviewed. The international experiences presented tried to be as close to the Brazilian situation as possible, or at least bring a variety that would help present a broader picture (non-Muslim majority, emerging country, strong financial market, important trade ties with Gulf region etc.). The biggest complication lies in the access to human resource, people with knowledge and experience in Islamic finance in Brazil. Their perspective is important as they carry both perspectives of the conventional and IF systems thus have a better picture to share bearing in mind the two. Therefore, having four interviews as a part of the main source of the qualitative data is neither as resourceful nor as representative as should be, but this limitation itself is already an indicator of the scarce reality of IF in Brazil.

The other limitation is related to the way the interviews were conducted. Given that most of the interviewees have had previous contact with the researcher (during other researches), a more informal base ground gets established, and less rigorous scripts are followed or needed (given that the basic information is already known), especially as they all have such tight
schedules. Therefore the guiding topics of the script had to be as succinct and direct as possible but still right on point in order to extract the necessary information from them. Here lies the risk of this informality and briefness getting some bias in the narrative or not getting the complete picture. Nevertheless, the different backgrounds and raisings help neutralize and complement the information.
9. REFERENCES


10. APPENDICES

8.1 Appendix 1

Source: CARDOSO, 2016.
8.2 Appendix 2

**Guiding Topics for Interviewee #1**

- Introduction to IF and academic interest in the subject
- Academic opportunities seen in studying the subject
- Academic challenges faced studying the subject
- IF in Brazil and overall opinion

**Guiding Topics for Interviewee #2**

- Experience with IF in Brazil
  - Most common operation
  - Top industries involved
- Latest updates of IF in Brazil (if any)
- Current perspective of the situation in the Brazilian financial market
- Realistic possibilities on introducing IF to Brazil

**Guiding Topics for Interviewee #3**

- Introduction to IF and interest in the subject
- Experiences with IF practices in Brazil
- Tendencies of the Brazilian financial market relative to its opening to IF
- Fit between IF and the internal demands
- Main challenges of IF in Brazil

**Guiding Topics for Interviewee #4**

- Current situation of the relationship between Brazil and the Arab countries
- Most common requests to the chamber in terms of connections and financing
- Which industries have the biggest ties and connections between the two regions
- What mostly attracts IF investments to Brazil
- Measures taken by CCAB to open up Brazil for IF