Embracing Islamic Finance in Greece. *A preliminary analysis*

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Summary:

Nowadays Islamic finance is gradually becoming an important part of the international financial system. During the ongoing financial crisis, the role of Islamic finance for the stabilization of the international financial system appears to be strong and promising due to its ethical principles and religious foundation. This analysis focuses both on the quantitative and qualitative examples of the economic upheaval in the Eurozone and Greece and explores the prospects of introducing and developing possible prospects of Islamic finance in the Greek economy.

Key Words:

Islamic Finance, Islamic Banking, Islamic Insurance-Bonds, Economic crisis, Eurozone, Greece, European Union.

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Vocabulary

Fiqh	Knowledge of the legal rulings pertaining to conduct received from particular evidence from the Shari'ah.
Gharar	A risky or hazardous sale of an item the details about which are unknown or uncertain.
Hadith	Record of the traditions and saying of Prophet of Islam Muhammad.
Istisna'	A contract of exchange with deferred delivery, applied to specified made-to-order items.
Ijarah	An operating lease whereby the bank will buy and lease out equipment required by the customer for an agreed rental fee.
Ijma'	The consensus or agreement of Muslim scholars on religious issues.
Ijtihad	Independent reasoning. The utmost endeavor an individual can put forth in an activity.
Maysir	Gambling.
Mudarabah	A form of business contract in which one party brings capital and the other personal effort.
Murabahah	A sale where the buyer and seller agree on the markup for the item being sold.
Musharakah	A joint enterprise or partnership structure with profit/loss sharing implications instead of interest bearing loans.
Qiyas	Analogical reasoning to establish and obtain a decision and a judgment for a case due to a certain cause on the basis of existence of a similar cause in another particular case.
Quran	The central religious sacred text of Islam.
Riba'	Usury.
Shari'ah	Islamic law.
Sukuk	Financial Shari'ah compliant bonds.
Sunna	The verbally transmitted records of the teachings, deeds, sayings and silent permissions of the Prophet Islam Muhammad.
Takaful	Cooperative system of re-imbursement or repayment in case of loss, paid to people and companies concerned about hazards, compensated out of a fund to which they agree to donate small regular contributions managed on behalf by a takaful operator.

List of Abbreviations

CSD	Central security depository
ECB	European Central Bank
ECM	Emerging Companies Market
EEA	European Economic Area
EU	European Union
GCC	Gulf Cooperation Council
HCMC	Hellenic Capital Market Commission
IIFS	Islamic Financial Services Board
IFI	Islamic Finance Institution
IFSB	Islamic Financial Services Board
OCC	Office of the Comptroller of the Currency
SSS	Security settlement system
USA	United States of America

Introduction

Today at a time of global severe economic recession the international economic system is looking for ways to get out of the deadlock caused by the lack of capital and moral credit. One of these ways has been in the past decade and more the field of Islamic finance. The markets around the globe have already attempted to merge the two types of finance to overcome the crisis; in many cases they have succeeded. In this process some European countries have made the continent leader of the non-Muslim markets by inviting Islamic finance to invest in the Eurozone. Although the financial crisis is far from over in Europe, the role of Islamic finance could play a constructive role in stabilizing the Eurozone.

Greece which has been the negative protagonist of the Eurozone economic crisis in the past seven years is also challenged by European and global economic developments. For various, mainly domestic, reasons Athens has failed so far to overcome the hardships and adjust to the new global economic environment.

Nowadays Islamic finance is gradually becoming an important part of the international financial system. During the ongoing financial crisis, the role of Islamic finance for the stabilization of the international financial system appears to be strong and promising due to its ethical principles and religious foundation.

Such developments are of historical proportions both for the Eurozone and Greece as well as the rest of the world not only because of the quantitative dimension of the crisis but also due to the qualitative and moral aspects of this problem.

This analysis focuses both on the quantitative and qualitative examples of the economic upheaval in the Eurozone and Greece and explores the prospects of introducing and developing possible prospects of Islamic finance in the Greek economy.

The international recession

Apparently there is an ongoing global credit crisis. Since 2007 the world stock markets have been hit by recession, major financial institutions have collapsed, and governments bailed out their financial systems. Two issues of concern are involved here: on the one hand those responsible for the financial problems are the ones that have been bailed out by governments; and on the other hand, a global financial recession will affect everyone's livelihood.

Major banks were involved into investment banking dealing with buying, selling and trading risk. On their part investment banks focused on home loans and mortgages without appropriate management. Hence confidence collapsed when people finally perceived the problem. Various investment banks depended on highly risky loans that investors did not want. Assets were losing their value and thus lenders demanded their capital back. This was in vain because some investment banks collapsed swiftly since they had inadequate deposits and no secure retail funding. Thus banks ran out of reserves and they had to turn to governments for bail out. The rating agencies rated these products and their good ratings encouraged people to take them up. It was then that the banks came up with the securitization.

Securitization was an attempt at managing risk. Yet they implemented the method of creating more risk by trying to manage risk. Although there have been many legitimate attempts to ease risk, or insure against problems, the instruments that enabled this to happen, contributed to the current problems too. The deterioration of risk was a result of primarily greed, wrong theories and statistics and misinterpretation of probability.

Heading back to the beginning of the finance industry, it flourished as more people started looking into how to insure against the downsides when investing in something. In this process a derivative was produced giving the customer the right to buy something in the future at a price agreed now.[2] Hence a new unprecedented market of derivatives was born. It was then that greed emerged. Customers grew riskier to gain more money, i.e. speculating and gambling. Some institutions allowed people to make big profits and losses with little capital. Derivatives caused the destruction of that bank.

Hedge funds were heavily criticized for investing on products going badly and for shorting on banks, lowering their prices. Hedge funds may have been signaling weakness with banks, which were encouraging borrowing beyond people's capacity. By contrast the more this situation continued the more profit they could gain.[3]

The trade in these swaps caused a wide web of interlinked dependencies. Derivatives didn't cause this financial meltdown but they accelerated it once the subprime mortgage collapsed, because of the interlinked investments. Derivatives revolutionized the financial markets and will likely be here to stay because there is such a demand for insurance and mitigating risk.

The overall amounts that governments have spent on bailouts have skyrocketed. Given the unfair practice of "socializing the costs and privatizing the profits" some of the bail-outs have been accompanied with hypocrisy. Thus the bail-outs help the financial troubled institutions. The bailout should have been to help people with failing mortgages, not banks. The money should be directed at refinancing the mortgages and paying off the foreclosed ones. That would restore the value of the mortgage-backed securities which threaten the financial institutions. Thus the crisis would be over.

[2] Experts believed they had come up with a formula of how to price an option, the Black-Scholes model. See Black, Fischer; Myron Scholes (1973). "The Pricing of Options and Corporate Liabilities". Journal of Political Economy 81 (3): 637–654. doi:10.1086/260062. (Black and Scholes' original paper.)

[3] The credit default swaps market, i.e. a derivative on insurance on when a business defaults, was enormous, exceeding the global economic output of $50 trillion by summer 2008. AIG alone had credit default swaps of around $400 billion at the time. There was much exposure with restricted regulation. Additionally, many of AIGs credit default swaps were on mortgages and went downward.

http://www.globalissues.org/print/article/768

Copying with recession the question is what can be done to overcome the crisis. It is not healthy and ethical to have developing countries coming to the rescue of the global economy, a problem that was created by the advanced economies. Could the developing world save the West? As shown below, the answer could be positive in the case of Islamic finance.

Reshaping and reforming the international financial system

Many voices are now calling for major reforms of the international financial systems, including international banking and finance and the international financial institutions such as the World Bank and the International Monetary Fund. It is also suggested that more voice and power must be given to poor countries in shaping the global economy.

Various economic authorities have called for a fundamental rethink, including the increasing capital and liquidity requirements at institutions with "strong restraints on the build up of risk." Some of the new ideas are important, i.e. increasing the bank reserves. Restraint for an industry is a strong advocate of financial market liberalization and rapid growth. In other words, slower but more stable long term growth is sustainable in the long run rather than short bursts of high growth followed by disruptive bursts. Failures in financial markets are the result of inadequate incentive structures, poor competition and transparency. Better regulation is required to rule the financial markets and restore the system's trust.

According to some experts, another way of addressing the problem is to reform various Breton Woods institutions such as the International Monetary Fund and the World Bank, as well as other organizations such as International Trade and the World Trade Organization. Given the current situation, it is better say that it is time to rethink economics. During periods of boom, people do not want to hear of criticisms of the forms of economics they benefit from, especially when it brings immense wealth and power, regardless of whether it is good for everyone or not.

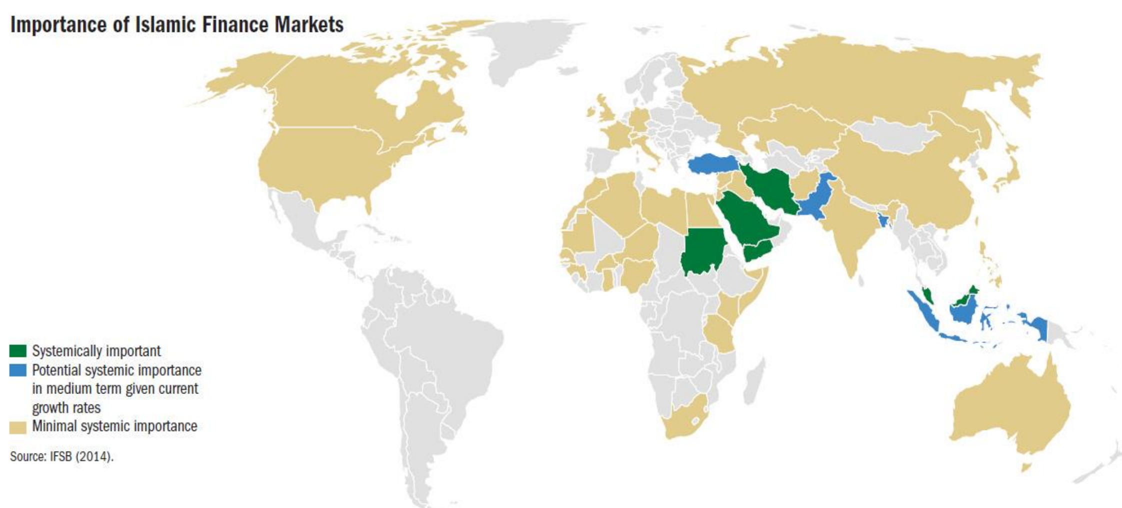
Apparently, in terms of ethics, markets suffer from human frailties, such as verification prejudice (supporting one's view facts, and not just facts) and supremacy prejudice (one is better than the others and is able to decide always correctly). These concepts are reflections of human individualism and arrogance, as a result of excessive materialism, a new form of post-modern capitalism. This ethical decline goes hand in hand with improper and less realistic and competitive finance as well as lack of liquidity.

Hence the current global declining economic system needs mainly two things: ethics and liquidity. This is actually where Islamic finance steps in to fill the vacuum.

Islamic Finance

Islamic finance is framed by four Quranic and Sunna main principles based in on Islamic law: i) *Usury (riba)*: Prohibiting interest of any predetermined payment over and above the principal. Hence conventional contracts are not approved by Islamic banks; instead the employ contracts promoting exposure to the real sector and ensuring productive risk management; ii) *joint* *partnership (musharaka)*: encouraging the profit and loss-sharing concept. Two or more parties in a contract must share both the risks and the rewards that may be come from it, thus minimizing excessive loss and profit; iii) prohibition in contractual terms of uncertainty (*gharar*) or speculation (*maysir*). By contrast risk-taking is allowed when all terms and conditions are precisely fixed and known to every party; iv) *using asset-backing:* Every transaction is based on a solid and/or exclusive primary asset, so that Islamic banks are connected to the real economic environment.

Albeit its global assets correspond to only 1% of the total capital globally, Islamic finance is getting stronger day after day. Islamic financial assets globally increased from USD 150 billion in the mid-1990s to an estimated USD 1.6 trillion by end-2012. Islamic banking market covers by 80% the global Islamic finance business and consists by Iran and five GCC member states (Saudi Arabia, the United Arab Emirates, Kuwait and Qatar), as well as countries in South-East Asia (e.g. Malaysia).



1. Importance of Islamic financial markets.

Islamic finance in the EU and the US

With respect to the EU, the involvement of Islamic finance is still at an elementary level. A key issue in this process is the conduct of monetary policy in an Islamic banking context. In conventional finance the framework of operating monetary policy is based on three factors: open market operations; a minimum reserve system and standing facilities. These factors deal with different monetary policy objectives which are though centered on interest rates. Hence there is a clear conflict between the prohibition of interest payments (*riba'*) and the conventional conduct of monetary policy.

As a result it is necessary to develop new instruments for a shari'ah-compliant monetary policy combined with liquidity management and creation of adequate Islamic interbank markets. Issues related to the collateral framework of the Eurosystem are considered from an Islamic point of view.

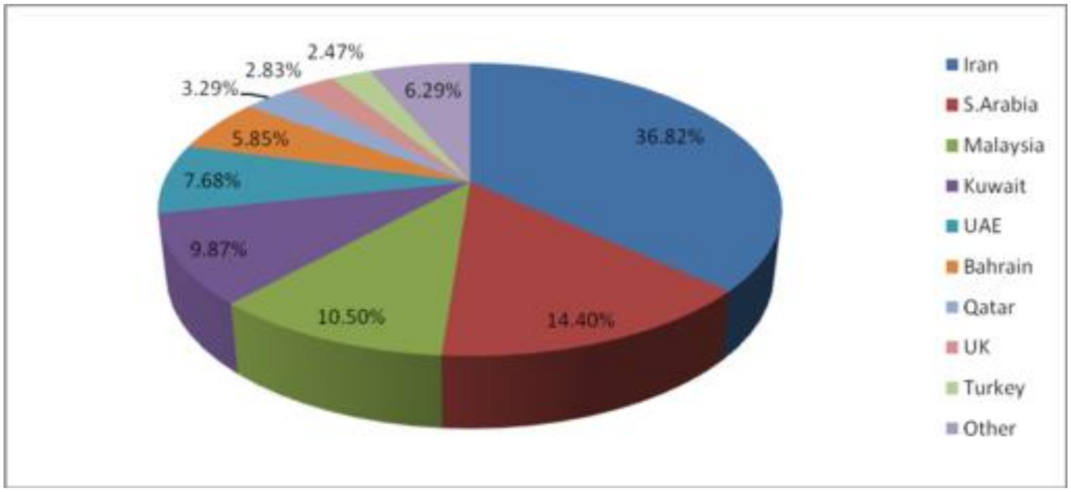
Despite the various obstacles between the conventional system of western finance and that of Islamic one, the need for liquidity in Europe has urged various EU countries to develop unilaterally close relations with the world of Islamic finance in the past decade and more. Countries such as the United Kingdom, Luxemburg, Ireland, France, Germany and Italy have been on the lead of developing relations with the Islamic financial system.[4]

The same is the case –but to a lesser degree- in the USA where the Islamic finance sector has traditionally been involved in financing transactions at the consumer level. The first systematic attempt to introduce Islamic finance to the USA retail market was made in the mid-1990s. The Office of the Comptroller of the Currency (OCC) formally recognized the *ijarah* and the *murabahah* models as being valid for transactions involving residential property purchases. There are presently a few IIFSs in the US that are able to ensure the proper supervision of the shari'ah advisers required by the national market, and which have established close partnerships with regulators and key financial institutions. These firms are bringing shari'ah-compliant products into the USA, and Islamic finance is quickly being recognized by major financial institutions as offering a strong, niche consumer market.[5]

In 1999 the Dow Jones Islamic Market Index was created for investors seeking equity investments in compliance with the unique principles of the shari'ah, combining principles of Islamic investment with the rules of the traditional Dow Jones Index. The interest and involvement of US-based entities in Islamic finance has grown continuously over the past 30 years. Since then, seven Islamic funds have been launched with total assets under management of USD 3.6 billion, which represents 7.9% of all Islamic funds managed around the globe. There are about 15 financial institutions that operate on an "usury-free" basis, offering a wide range of shari'ah-compliant products and services, including home financing, personal financing, mutual funds, business financing and investment services. Moreover, five different issuers have tapped the *sukuk* market in various jurisdictions, issuing *sukuk* worth USD 1.1 billion, of which USD 500 million by GE Capital. Islamic finance has grown differently in the US than in other parts of the world, being largely driven by domestic demand.

[4] Baljeet Kaur Grewal (2013), "Islamic Finance in the Global Financial System," in *Islamic Finance in Europe*, Filippo Di Mauro *et al.*, Occasional Paper Series No. 146, European Central Bank. 25.

[5] *Op.cit.* 27.

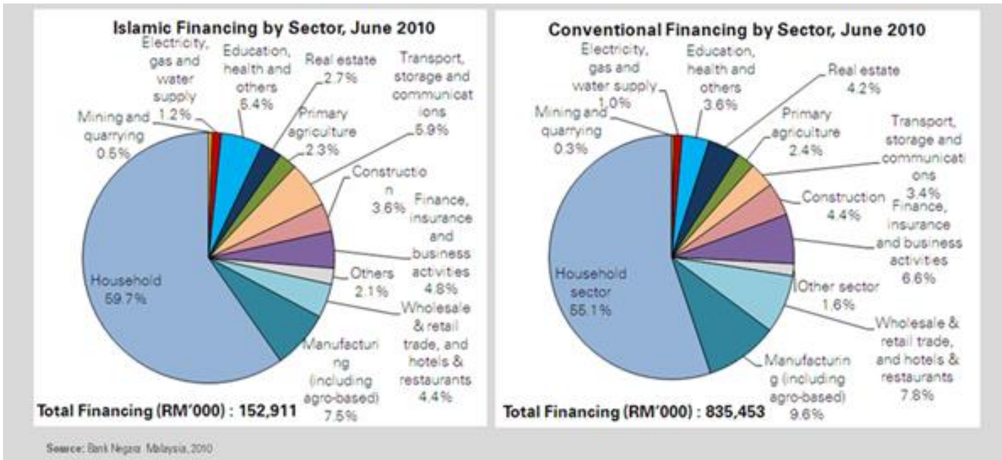


2. Sharia compliant assets, shari'ah Financial Watch

Greek economy

The weaknesses of the ailing Greek economy are related to the general symptoms of global economic crisis along with specific features of the Greek economic system: i) Political instability related to the reliability of Greek politicians to implement a systematic long term policy; ii) the lack of an overall development plan focusing on re-establishing the production model; iii) an ineffective public administration, and iv) the lack of a stable economic environment involving various aspects such as liquidity of banks and the market and safe taxation environment including the issue of double taxation. As a whole the improvement of economic relations between Greece and the MENA countries and the Muslim as a whole is together a simultaneous process, a prerequisite and a result of the involvement of Islamic finance in the Greek economy.[6]

[6] Evangelos Venetis, *Economic Relations Between Greece, the Middle East and North Africa*, ELIAMEP Middle East Research Papers (Athens, 2013).



3. Islamic Financing by sector.

I. Islamic finance: the return of metaphysics in the western economic life

In the past two centuries the West has managed to expand the geopolitical and economic influence globally with a few exceptions. In this process the role of capitalism has been instrumental and has been defined by the prevalence of profit rationalism and usury at the expense of ethics in finances. What defines the so-called conventional international financial system is the competition between liberals-new liberals supporting state-free trade and business and the conservatives, supporting state intervention in economy.[7] In the nineteenth century the rivalry between Capitalism and Communism monopolized the struggle for economic prevalence globally. In recent years the Third Way was unraveled with many expectations but it soon became clear that there could not be a middle way in a secular financial model.[8] Yet another more essential couple of concepts, actually the main one in history, were being formulated in the economic arena of the nineteenth, i. e. the conflict between materialism and religion.

Since the time of Enlightenment Movement the role of metaphysics and religion was sidelined and almost disappeared after centuries of predominance in the sphere of public life. In politics nationalism became the driving force replacing religion. In economy the rivalry between the Protestant and Catholic Christianity altered with the alliance between the liberals of finance and the Protestants, an alliance which gave rise to Capitalism.[9] Yet, in the late nineteenth-early twentieth century contrary to the main messages of the Enlightenment Movement, the Catholic Church attempted to halt the expansion of Capitalism by developing the concept of political Catholicism and the economic theory of Distributism.[10]

In regard to Distributism, based on the teachings of Pope Leo XIII and Pope Pius XI, property ownership is viewed as a fundamental right. In its effort to bring about just social order the theory also advocates a society marked by widespread property ownership.[11] Going against state socialism, plutocracy and corporatocracy, Distributists adhered that the means of production should be spread widely instead of being centralized under state control, corporations and certain

[7] Nikolaos Karagiannis (2001). "Key Economic and Politico-Institutional Elements of Modern Interventionism.". Social and Economic Studies 50 (3/4): 17–47.

[8] Jane Lewis, Rebecca Surender (2004). Welfare State Change: Towards a Third Way? Oxford University Press, 3-4, 16.

[9] S. O. Becker and Wößmann, L. (2009), "Was Weber Wrong? A Human Capital Theory of Protestant Economic History", *Quarterly Journal of Economics*, 124 (2), 531-596.

[10] Michael Coulter (2007). *Encyclopedia of Catholic Social Thought, Social Science and Social Policy*. 85.

[11] "Neither Capitalism nor Communism: Distributism," April, 15, 2014, On Religion: http://www.onreligion.co.uk/neither-capitalism-nor-communism-distributism/

individuals.[12] Obviously Distributism has been in opposition to both socialism and capitalism because both latter concepts are products of the European Enlightenment. In practice Distributists founded the Mondragon Corporation in Spain (1956), the Guild of St. Joseph and St Dominic in England (1920) and recently the Big Society in London (2010). Distributists seek to adjust economic activity to human life as a whole, to spiritual, intellectual life and eventually family life. In this context the similarities with Islam are striking.

Expectedly enough the religion of Islam shares the same outlook with the Catholic Church regarding the dialectics of philosophy of modern times in every field: politics and economy. Being both major international religious systems and especially belonging to the monotheistic family of religions, Islam and Catholic Christianity have been on the lead of the effort of powers of metaphysics to return to the foreground of economic and political activity.

In the case of Islam the answer to the rapid expansion of secularization and materialism in economy was Islamic Finance based on the long tradition of Islamic economy which stems from the time of the establishment of Islamic religion (7th c. AD). Indeed Islamic economy is not a new development but it is about a multidimensional economic system involving banking, insurance and the like. The principles of this system were laid from the very beginning of Islam and were formulated throughout the centuries. According to some Islamic historians the current so-called international economic system stems from the early Islamic tradition and practice which later on influence medieval Europe. There this system was enriched systematically with the concept of usury and followed a different path in the New World.

The concept of an Islamic financial system re-emerged during the initial decolonization of the Islamic world in the second-half of the 20th century. It was the time of creation of new states with a majority Muslim population that led to the formation of modern Islamic banking. Islamic finance is seen as a major sector of Islamic economy that would support an Islamic social, and gradually political, order, posing as an alternative to capitalism, communism and socialism and enabling the faithful to reconcile economic activity with religious belief.

As far as the principles and characteristics of Islamic finance are concerned, it complies with Islamic law (*shari'ah*) and attempts to reconcile a secular financial system with the basic principles of Islamic religion. In Islamic context, economy function based on religious criteria covering to every aspect of daily life. Thus business and faith go hand in hand. Islamic economy (*iqtisad*) and law (*shari'ah*) depends o the interpretation (*tafsir*) of the Quran and the Traditions (*hadith* or *sunna*), i.e. the life of the Prophet of Islam Muhammad. The interpretation is necessary because the Quran and the *hadith* do not cover every question that the Muslim community faces every time.[13] Similarly Muslim economists resort to secondary sources of law: jurisprudence (*fiqh*), based on *ijtihad*, i.e. the interpretation of experts in specific issues of unclear nature, on *qiyas*, i.e.

[12] Shiach, Morag (2004). Modernism, Labour and Selfhood in British Literature and Culture, 1890-1930. Cambridge University Press, 224; Zwick, Mark and Louise (2004). The Catholic Worker Movement: Intellectual and Spiritual Origins . Paulist Press, 156; Gibson-Graham, J.K. (2006). A Postcapitalist Politics. University of Minnesota Press, 224.

[13] Di Mauro, *op.cit.*, 12.

deductive reasoning, and on *ijma*‘, i.e. the expert consensus of the main schools of Islamic thought.[14]

The introduction of Islamic finance in the Greek economy has not been tested yet and thus it remains *terra incognita* operationally both for Greece and the prospective Muslim investors. In order to facilitate such an investment three main factors need to be taken in account: the experience of Islamic finance in Europe, the mentality and culture of Greek society, as well as the current economic environment of Greece.

[14] Mack Gregory, “Jurisprudence,” in Gerhard Böwering *et al.* (2012), *The Princeton Encyclopedia of Islamic Political Thought*, Princeton University Press, 290.

II. Aspects of Islamic Finance

II.1. Islamic and Conventional Finance

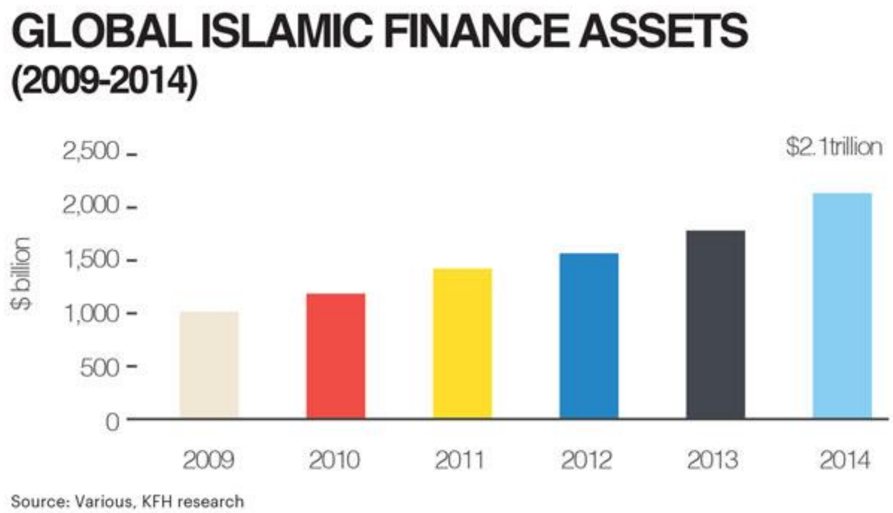
Contrary to the miscellaneous impact of the financial instruments offered by IIFSs on financial outcomes for stakeholders, Islamic finance is based on particular principles employed in varying combinations. Islamic finance shares the advantages of conventional finance but it is also distinct from it, especially in the case of risk.

II.1.i Risk-return profile of Islamic products and services

A wide range of instruments has been development based on shari'ah principles. In contrast to a conventional financial institution, an IIFS may extend its scope beyond the traditional role of financial intermediation by acting as a property developer, providing funding via equity injections for customers, or by trading in tangible assets.

The IIFS financial intermediation role entails mobilizing funds from depositors/investors via shari'ah-compliant contracts and providing these funds to firms or individuals to finance assets or business activities. The key distinguishing characteristic of an IIFS is its underlying contractual relationship with its customers.[15] This relationship is evident in various aspects of business risk, such as credit, market, liquidity, operational, legal, capital structure, interest rate and inflation. Below there are analyzed two fields related to risk.

[15] Baljeet Kaur Grewal, *op.cit.*, 32.



4. Global Islamic finance assets.

Liquidity risk: Similar to conventional institutions, IIFSs also face the challenge of managing their asset and liability mismatches. Typically, liquidity risk can occur under two scenarios. In the first, due to a lack of liquidity, the IIFS is constrained in its ability to meet liabilities and financial obligations by illiquid assets. In the second, the IIFS is unable to borrow or raise funds at a reasonable cost when required. Therefore, it is paramount to ensure that sufficient *shari'ah*-compatible money market instruments and interbank facilities are available to support IIFSs in their liquidity risk management.

Credit risk: Credit risk refers to the probability that a third party or counterparty fails to meet its obligations in accordance with the terms agreed, e.g. a customer fails to meet monthly repayments. As a result, loss of revenue and principal due to default on the part of customers may arise from financing, dealing and investment activities. The risk management techniques used by conventional banks can be used to mitigate this risk (for example, by using good-quality data on the past performance of the counterparty to gauge this risk and by determining the probability of default). Collateral and pledges can be used as security against credit risk, as well as personal and institutional guarantees.

II.1.ii Islamic-ethical investment vis-à-vis socially responsible investment

In conventional finance there is the concept of socially responsible investment in contrast to the ethical investment of Islamic finance. The term "socially responsible" refers to a serious of moral principles which under the influence of Enlightenment have been framed by the rational concept of social responsibility. Hence morality in conventional finance is detached by metaphysics and religion in contrast to the ethics of Islamic finance.

Expectedly enough there is common ground between Islamic and conventional finance, especially in investments. A socially responsible investment includes social and environmental issues in the investment decision-making process, whereby companies that meet certain standards of corporate social responsibility are identified and selected for investment. Islamic finance seeks to promote beneficial activities to nature and to remove the harmful ones. In this process the Islamic investment and the conventional Socially Responsible Investment evaluate both qualitative and quantitative factors.

Along with financial performance, when looking into firms from an investment point of view, an Islamic investment also considers various non-financial factors: corporate citizenship, diversity initiatives, environmental management, product safety and excludes firms in industries such as alcohol, tobacco, gambling, defense contracting and nuclear power. There is only a minimal difference between these two investment approaches, i.e. some elements are prohibited by *shari'ah* but not by a socially responsible investment, e.g. interest-based financial instruments and institutions. Nevertheless, the end objective of both is the same, i.e. to finance activities that are beneficial to humanity.

II.2. Monetary policy

In terms of monetary policy and liquidity management, it must be noted that the control of interest rates forms the foundation of monetary policy in a conventional financial system. In operational terms a monetary policy depends on an open market operations, minimum reserve system and standing facilities. Each of these factors is always centered on interest rates. As a result, there is a conflict between the prohibition of interest payments (*riba'*) and the normal conduct of monetary policy. Consequently, one needs to develop *ad-hoc* instruments for a *shari'ah*-compliant monetary policy.[16]

II.3. Islamic Corporate Finance

The corporate governance is a set of relationships between a company's management, its board, its shareholders and other stakeholders through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.[17] The importance of a resonant corporate governance system lies in the case of financial institutions, due to the sensitivity of their activities and the fiduciary duty that the managers who are responsible for these activities have towards investors. This is also the case of Islamic finance.

Conventional and Islamic corporate governance differ in philosophy and in their objectives. While the former is definitely "shareholder-centered", the latter is more inclined to deal with the interests

[16] Sergio Masciantonio et al., "Monetary Policy and Liquidity Management," in *Islamic Finance in Europe*, Filippo Di Mauro *et al.*, Occasional Paper Series No. 146, European Central Bank, 51.

[17] The Corporate Governance of Iconic Executives, 87 Notre Dame Law Review 351 (2011). http://ssrn.com/abstract=204092

of a wider number of subjects (e.g. employees or, more broadly, the "community"), and can thus be described as "stakeholder" or "community-centered."

Additionally, Islamic corporate governance plays has a major role in ensuring that an Islamic Finance Institution (IFI) is functioning and its business are in accordance with *shari'ah*. Stakeholder protection and *shari'ah* compliance are frequently mentioned in the preamble of the founding documents of an IFI, for example, in the articles of association or in a code or charter.[18]

[18] Prepared by Lauren Ho and Pierluigi Caristi. 2 OECD Principles of Corporate Governance, 2004, 11.

http://www.oecd.org/document/49/0,3343,en_2649_34813_31530865_1_1_1_1,00.html.

In the "Glossary of Statistical Terms" published on the OECD website (http://stats.oecd.org/glossary/detail.asp?ID=6778), "corporate governance" is defined using a quote from the ECB's Annual Report for 2004.

III. Islamic Finance in the Eurozone

Greece is member of the Eurozone; as a result, its economic and legal environment is framed by the laws and practice of the European Union. Thus from the point of view of a Muslim financier, the pros and cons of the Eurozone are normally the same for Greece with various exceptions related to the local Greek identity. Islamic Finance has already been tested in the western financial context both in Europe and the US. In Europe particularly there have been successful efforts both by the European Central Bank and certain EU members-states independently to establish a viable collaborative scheme with Islamic funds at a time of severe global economic recession and need for liquidity. The general size of Islamic finance is still limited in Europe. In some cases there are notable differences regarding the performance of various countries.

In the case of France, with a population of 3.5 million Muslims, authorities support Islamic finance and they have already established a suitable environment in this regard. The first step took place in 2007, when Paris Europlace established the Islamic Finance Commission. Over the years, the country has established favorable trade flows with a number of close neighbors with large Muslim populations, such as Morocco, Algeria and Tunisia. Additionally a significant proportion of the French population originates from North Africa, and this has been driving domestic demand for Islamic finance.[19]

Germany, the largest economy in Europe and featuring the largest Muslim population (4.1 million people) has solid success in Islamic finance. German exporters view institutions offering Islamic financing as alternative funding sources. In 2004 Germany was the first Western country to tap the Islamic capital market when the federal state of Saxony-Anhalt issued the country's first Islamic bond (*sukuk*).[20] The German market has also witnessed the offering of a new *shari'ah*-compliant investment product that is benchmarked to the WestLB Islamic Deutschland Index. This is comprised of shares in ten German firms whose business activities are conducted in line with the *shari'ah*. German financial institutions also actively participate in the Islamic finance industry via their subsidiaries in London, Dubai and Kuala Lumpur.

As for Italy, it is a swiftly developing European markets. Islamic retail banking deposits among Italy's diverse Muslim community reached USD 5.8 billion and generated revenues of USD 218.6 million in 2015. According to market estimates, these figures could rise to USD 33.4 billion and USD 1.2 billion by 2050.[21]

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[19] How does France count its Muslim population?, Le Figaro, April 2011.

[20] 60% of the issue went to investors in Bahrain and the UAE and the remaining 40% to investors in Europe, mainly in France and Germany. The €100 million ijarah sukuk (Islamic sale-and-leaseback debt instrument) was entirely redeemed in 2009.

[21] Baljeet Kaur Grewal, *op.cit.*, 27.

In the case of Ireland, it is home to more than 50 world-class fund service providers, which are all supported by over 11,000 industry professionals, and it offers the widest range of expertise in fund domiciling and servicing. The industry managed assets worth more than €180 trillion in 2010. It is a significant location for Islamic funds, with an estimated 20% of the Islamic funds market outside of the Middle East being located in Ireland. Of the total Islamic funds in Ireland, 63.8% have a global geographical focus; 23.4% the United States, 6.4% MENA, 4.3% Asia Pacific and 2.1% Europe. Together with Ireland, other European countries are promoting various initiatives, such as Malta.

Luxembourg is the second largest investment fund centre worldwide after the US. Luxembourg government supports strongly the prospect of attracting more Islamic funds as well as foreign investments from oil-rich countries and emerging wealthy nations. Based on competitive pricing, incentives and access to European clients, Luxembourg is one of the major financial markets in Europe. In 1982, a family-owned Islamic insurance operator was established. Luxembourg has a large life of assurance industry driven by international business. The Islamic insurance operator's strategy has been a cross-border one due to the small domestic Muslim population. In 2002 Luxembourg became the first European country to list a sukuk, there has been a total of 16 *sukuk* listed on the exchange. It became the first EU jurisdiction to adopt UCITS IV at the end of 2010. Concerning Islamic funds with USD 1 billion Islamic AuM, they are mainly equity funds based in Luxembourg, but managed and promoted by global investment companies.

Nowadays, Luxembourg is the leading non-Muslim hub for *shari'ah*-compliant investments funds. As far as *sukuk* is concerned, the Luxembourg Law of 22 March 2004 on securitization 19 (the Securitization Law) created a flexible and efficient regime for securitization vehicles. In 2009, the Central Bank of Luxembourg was admitted as the first EU Central Bank to become a member of the IFSB, thus strengthening the country's position in Islamic finance.

In the case of the United Kingdom (with 2.9 million Muslim population), Islamic financing activities started in the 1980s when the London Metal Exchange provided *shari'ah*-compliant overnight deposit facilities based on the *murabahah* principle. Islamic banking began in the UK in the 1990s when corporations from the GCC introduced Islamic mortgages (based on the *murabahah* principle). The City is the most advanced hub for Islamic financial markets in the Western world and an important destination for foreign *shari'ah*-compliant institutions. It hosts the first fully fledged *shari'ah*-compliant retail bank in the Western world and has five Islamic banks. The City is an important financial centre, with important international companies and the biggest traditional banks in the Middle East. In 2005, the Sanctuary Building Sukuk, the first corporate *sukuk* in Europe, was established. Five years later the second corporate sukuk was issued by International Innovative Technologies (IIT) Ltd. In March 2013, the UK Government established a first Islamic Finance Task Force. The UK is a major global provider of the specialist legal expertise required for Islamic finance, with around 25 major law firms providing legal services in this area. Specialist services are also available for advice on tax, listings, transactions, regulations, compliance, management, operations and information technology systems.

IV. Islamic finance in Greece

IV.1i. Greece: society and culture

Greek economy is not familiar with Islamic finance at all in spite of the fact that Greece shares half, mainly maritime, of its borders with Muslim countries and the Greek world has always had close historical contacts with Islam in a Mediterranean context. Additionally Greece enjoys a multicultural society in Thrace and Athens where indigenous Greek Muslims and Muslim immigrants reside respectfully. Moreover, Christian and Muslim families from the Arab world reside and operate professionally in Greece. In other European countries these factors would be more than enough to boost economic cooperation between the Greek conventional and the Islamic financial systems. In the case of Greece reality is more complex.

The main reason for the lack of cooperation between the two financial systems is the tendency of Greek society to consider itself as part of Europe and to look exclusive westward for the prospects of its development. On its part this tendency is a result of the Greek social elite to identify themselves with the West in a cultural and political context, a consequence of the Enlightenment Movement that overwhelmed the Greek secular intelligentsia at the time and the swift emergence of the Greek nation-state two centuries ago. The historical antagonism between the Greeks and Ottomans in the past millenium has accelerated this tendency of Greeks to look westward as a means to shape cultural identity and has resulted in the past century (after the Greek Catastrophe of 1922) in a deliberate indifference or even ignorance of Greek society about Islam and the developments in the region. Such ignorance has cost dearly to the Greek state in every sense: geopolitical, economic and cultural.

Contrary to the mentality of society in Greece, the mentality of the Greek society in Cyprus remains more ecumenical due to the different paths that the two societies followed in recent history. Additionally Greek Cypriots have seen the trauma of Turkish occupation of the northern part of the island not as a reason to look westward but as pretext to think globally in order to alter the current deadlock. Economy is a major area for thinking globally. As shown below, the efforts of Nicosia to draw Islamic investments to the Cyprus Stock Market clearly manifest the ambitious economic outlook of Greeks in Cyprus and are certainly a good example that Athens could emulate.

While a segment of the Greek society, mainly part of the urban upper class, has always been pro-West in cultural terms, the worldview of the majority of Greek people shares a common cultural outlook with the other peoples of the Mediterranean region, a major part of which is the Muslim world. The Greek society and culture have always been between East and West, sharing elements from both worlds. In terms of mentality and folklore there are various common aspects which have been over the millennia between the Greek and Muslim peoples.

The Greek society is a Christian Orthodox society with many commonalities and differences from the Catholic and Protestant societies of Europe. Although Protestants (Capitalism) and Catholics (Distributism) have been instrumental in participating in the materialistic economic development of the world in the past two centuries, the Greek Orthodox Church in Greece, Russia and elsewhere has not, failing to keep up with developments and giving its own answer-theoretical pattern to the economic and cultural challenges of modernity so far.

Nevertheless the principles of Islamic finance are close to the worldview of Greek peoples because they are defines by a monotheistic framework and the past historical links and common aspects of culture. Greek society remains culturally traditional and this enables its economic activity to combine other monotheistic aspects in terms of business spirit, trust and transparency. It is not a coincidence that Greece has vivid trade relations with most of Muslim countries and it can improve these trade flows further. As a result Islamic finance appears to have good potential to develop in Greece.

IV.1.ii. The current economic environment in Greece

The ongoing severe economic recession and liquidity crisis in Greece has caused the suffocation of real economy in Greece with multiple repercussions for the Greek society. As part of the Eurozone Greek economy operates based on Euro-rules which define every aspect of the financial reality, including the banking system (retail or investment), insurance and the like. Given the ongoing negative status of Greek economy, political and economic policy-makers are invited to enrich their policy and decision making by adding the choice of Islamic finance as a means t get out of the crisis sooner. On its part Islamic finance has a rich repertoire of financial credential and despite any deficiencies that a system may have, it can contribute considerably to the development of Greek economy, as shown below.

Islamic finance deals with real economy and does not deal with financing activities which are unfavorable to society. By promoting financial inclusion, it offers instruments suitable to multiple social and economic recipients. Apart from Islamic banking that meets the normal retail needs of consumers (e.g. mortgage and car financing, savings accounts), it also serves small and medium-sized enterprises. Moreover, it contributes to the improvement of the livelihoods of low-income groups by offering *shari'ah*-compliant microfinance packages relying on profit-sharing. The principle of partnership and cooperation, which calls for a system of equity participation and risk-sharing, is something that Greek economy needs and Islamic finance offers. Athens must be after a system promoting equal distribution of risk and cooperation between the investors and the entrepreneurs. Greece must compare the risks associated with Islamic finance with those faced in the conventional financial system, comparing also ethical and Islamic investments, and highlighting the proximity of Islamic finance to socially responsible investment. Having these and other aspects in mind, Athens will be able to evaluate positively Islamic instruments and principles which can be incorporated into conventional finance.

In this context and given the proximity of Islamic finance to socially responsible investment, there are various promising factors concerning the establishment and development of Islamic finance in Greece. These factors include:

- *the necessary government incentives and the measures introduced to create an environment conducive to a growing and thriving Islamic finance industry;*
- *the increased emphasis on alternative financial solutions following the financial crisis;*
- *the substantial appetite for attracting liquidity from emerging markets. While Islamic financial instruments share the merits of conventional ones, they have certain distinct features that differentiate them from their counterparts.*

IV.2. Proposed fields and initiative of Islamic finance in Greece

Having the above thoughts in mind, the time is ripe both for the Greek state and prospective investors of Islamic finance to collaborate in certain fields. Here it is proposed that retail banking and insurance are two areas where Islamic finance would be introduced in the Greek financial market at an experimental level of restricted extent at least in the beginning. In this context a number of initiatives must be taken by Greek authorities to study the issues related to an expanded presence of Islamic finance.

Prior to any drastic decisions in this process the Greek state and financial world must be informed about the merit of Islamic finance in various fields, in particular those of banking and insurance. In this context it is necessary for the Greek Banking Association to coordinate a working group related to various aspects of Islamic finance, such as insurance of a corporate or sovereign *sukuk*. The next step is to hold a conference on Islamic finance with a special focus on *shari'ah*-compliant capital market products (Islamic funds, *sukuk* and asset-backed securities). In the same process it is also of utmost significance for Greece to establish cooperation with European and other institutions that could play a key role in attracting *shari'ah*-compliant funds to Greece through their established networks and expertise.[22] Additionally Islamic trade finance products could strengthen trade ties with MENA trading partner countries, having a growing Islamic finance sector.

Once these steps are made, Greece could proceed to the next and more substantial stages of promoting cooperation with Islamic finance. There is a need to develop a strong foundation for the Islamic finance industry, including a comprehensive tax treaty network with Muslim nations and a

[22] For instance, in 2009 a major German bank launched a trading platform, al-Mi'yar, in Luxembourg to facilitate the issuance of Islamic securities. Other European countries have also been trying in a similar fashion to attract foreign funds. Also Financial institution supporting the development and promotion of Italian enterprises abroad is working on the possibility of launching a "Mediterranean Partnership Fund", part of which would be Shari'ah-compliant. Ireland as a leading centre for internationally distributed Undertakings for Collective Investment in Transferable Securities (UCITS) funds. Baljeet Kaur Grewal, *op.cit.*, 25-28.

provision in its tax code specifically for Islamic financial instruments, such as those involving *ijarah* (leasing), *murabahah* (sale on the basis of cost plus mark-up) and Islamic insurance (*takaful*).[23]

The Bank of Greece and the Hellenic Capital Market Commission (HCMC), the two financial industry regulators, are invited to be open to the development of Islamic finance in Greece. The Islamic finance sector could operate under a single piece of legislation applying to all sectors under a specific name, such as "The Financial Services and Markets Act 2016." Thus there could be a level playing field for Islamic and conventional financial products, enabling the market to accommodate the needs of ethnic minority consumers. The Greek state's regulatory and fiscal framework for Islamic finance could include the following: i) the abolishment of capital gains tax and stamp duty (land tax) for *sukuk* issuances and *shari'ah* compliant home mortgages; ii) the reform of arrangements for bond issues so that returns and income payments are treated in a similar manner to interest; iii) HCMC initiatives to ensure that the regulatory treatment of Islamic finance is consistent with its statutory objectives and principles.

Additionally the HCMC can set up a team to deal with the establishment of *shari'ah*-compliant investment funds. A supportive tax and legal environment can offer easy access to the European market, a skilled workforce, an investor-friendly transfer pricing regime, supportive infrastructure, business friendly policies and a stable regulatory environment make Greece well-positioned for further development of *shari'ah*-compliant business.

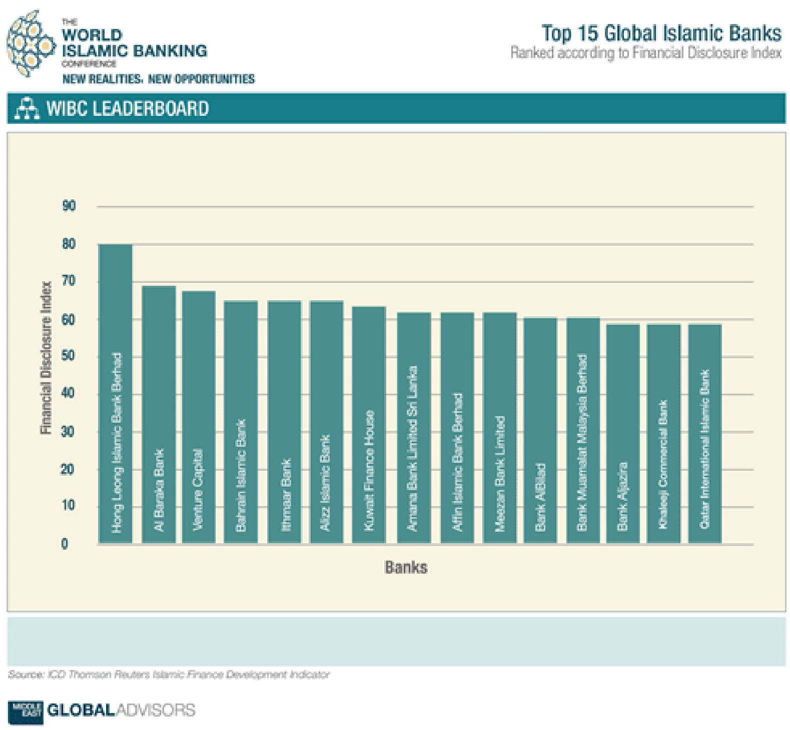
IV.2.i. The banking sector

In Greece the banking sector is in a very bad shape because of the severe lack of liquidity resulting from the lack of a stable political and public administration environment. Additionally this negative climate results in lack of economic growth and unemployment. Moreover it is estimated that around 20 billion Euros in cash are kept in Greek houses whose owners do not trust the banking sector and the political insecurity of the country. As long as Greek banks are under severe scrutiny and capital controls they will not be able to get themselves out of this false cycle. In this context the offer of new sources of liquidity is more than important for the Greek banks and financial system. Hence Islamic finance can play a major and direct role in the gradual recovery of Greek banks and indirectly the restoration of trust between Greek banks and their customers. The field of retail banking can be the starting point of the involvement of Islamic finance in Greece.

While Greek banks face huge problems with their pending mortgages (business, house and consumption), there is a need to address the problem radically and immediately in order to proceed to the restart of the economy. Islamic funds could step in and participate in the future layout of new mortgages both in retail banking (house loans, saving accounts, credit cards etc) and business investment. The involvement of the Islamic funds cannot be necessarily extended. Selecting a specific area with restricted funds and goals would be a realistic beginning for the Islamic financial institutions to act in Greece.

[23] The abolition of the double taxation regime in 2004 increased demand for Islamic home financing. https://www.gov.uk/government/news/government-launches-fi rst-islamic-fi nance-task-force--2

Islamic banking can be introduced in Greece if corporations from the MENA region introduce Islamic mortgages (based on the *murabahah* principle) and offer mortgage financing (based on the *ijarah* principle) shortly thereafter. However, these instruments are perceived to be very expensive due to the double stamp duty applicable (i.e. first, when a bank purchases a house, and, second, when a buyer/client purchases this house from the bank concerned).



5. Top 15 Global Islamic Banks.

The ethical nature of Islamic finance investments is necessary in Greece. The Greek market needs real economy investments with zero interest and risk sharing. The deficiencies of the international conventional financial system have led Greek mortgages to a total negative result because of the inability of the customers to pay off their mortgage as a result of the economic recession. In theory an Islamic mortgage would have addressed the severe change of economic environment in Greece more effectively in terms of time and labor with realistic provisions and respect to the customer.

With a few exceptions, according to studies predating the crisis, there are no major differences between conventional and Islamic banks regarding their business orientation and efficiency.

Moreover during the financial crisis, empirical evidence based on firm-level data manifests that Islamic financing is less than half as risky as conventional financing regarding their efficiency and profitability. Additionally, various studies have documented the high growth of Islamic bank assets during the financial crisis.

Customers who have savings accounts at participating banks do not receive monthly payments of interest on the basis of a given interest rate. The banks use funds for the direct provision of goods and services in accordance with an investment profit / loss model.

The savings funds are invested in tangible goods, real estate, or industries, and at the end of the month the customer participates in the profits or losses. There are no guarantees of profit margin and not investing in companies that sell pork, alcohol or other prohibited goods, according to the Association of Banks Involved Turkey.

While the car finance market in traditional bank involves repayment, with interest, the Kuveyt Türk buys automobiles on behalf of customers and then resell them at a higher price. Instead of charging interest, they see as profitable transaction the hire-purchases.

In this process, Hellenic Capital Market Commission (HCMC) can accept a request from a foreign institution to conduct banking operations within the country in accordance with Islamic principles. Full banking license is needed to boost the range of offerings.

Hence there cold be the introduction of the first Islamic deposit scheme operating via the Islamic window of an existing conventional bank. Following this successful launch, an Islamic home finance product, a 10-year *murabahah* contract, could be introduced. Such an initiative can be met with strong demand due to the fact that home financing has been a key expectation of Greek retail clients.

Aiming at small and medium-sized enterprises, it could be important to launch a *shari'ah*-compliant deposit scheme. The Greek tax authorities could plan to issue additional guidelines dealing with other Islamic finance concepts, including *musharakah* and *mudarabah*, in the foreseeable future.

Greek banks can also be active gradually in the MENA region, more specifically in private-public partnerships. In the wholesale banking area, a number of institutions can be involved in the Islamic capital market (mostly in terms of trade finance, *murabahah* and participation in syndication facilities) via foreign offices or wholly-owned foreign subsidiaries.

IV.2.ii.The insurance sector (sukuk)

The case of Cyprus and the Islamic Bonds (sukuk)

Cyprus has always been interested in introducing Islamic finance in its market. The geographical proximity of Cyprus to the Middle East and the good relations with the region could enable Nicosia to enter this market.

On 28 January 2016, the Cyprus Stock Exchange was engaged in talks with foreign bourses in a bid to list Islamic bonds on the Cypriot stock market.[24] The listing of Islamic bonds, also known as *sukuk*, is considered a way to attract liquidity in the crisis-hit CSE, whose trading volume declined to record low levels due to the financial meltdown of 2013 in Cyprus.[25] "The listing of such bonds (in the CSE) could yield millions of dollars as well as significant liquidity in our market, with multiple benefits through the attraction of considerable capital," CSE CEO Nondas Metaxas said in an interview with CNA. Metaxas said. "We are holding contacts with Cypriot companies and foreign firms in the north as well as in the East and South and we are discussing possible cooperation through alliances of bourses on the introduction of Islamic bonds, which are very important. It is not an easy matter, as there are many issues to be resolved." Metaxas also said the CSE is in discussions over possible cooperation with two large groups of European stock markets which, he explained, would assist in resolving basic growth problems facing the Cypriot economy and the stock market. He said there was great interest from Cypriot-owned and foreign companies on the CSE`s Emerging Companies Market (ECM), noting that he is currently in talks concerning the listing of a Greek large energy company, whereas the CSE board has approved the listing of a UK company. The ECM market has companies from Russia, Ukraine, Israel, China, Greece and Cyprus, he said, adding this market represents "the internationalization of the Cypriot economy and we all should support this effort."

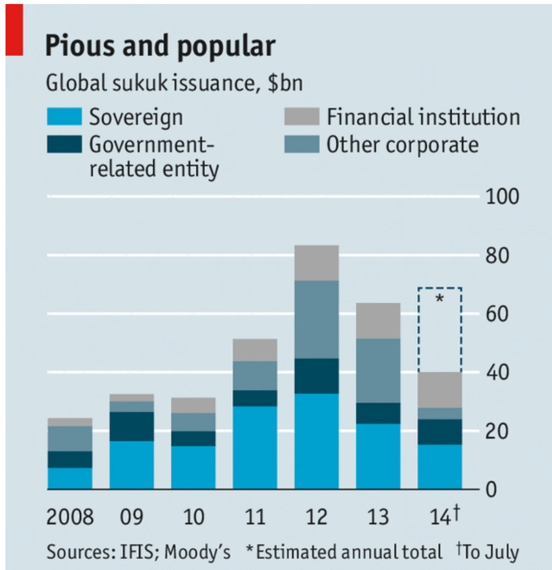
This is Cyprus's second attempt to introduce Islamic finances, comprised of *shar'ia*-law compatible securities, also known as *sukuk*. In 2009, an initiative by the Cyprus Investment Promotion Agency, a government-sponsored agency tasked with attracting foreign investment to Cyprus, ran into a dead-end. In 2014 The Cyprus Investments Funds Association urged the state to consider issuing Islamic bonds (*sukuk*) similar to a 5-year issue by the UK government that raised nearly €200m, while Luxembourg was also planning something similar.[26] At the time Gregoriades had also called for the Cyprus Securities and Exchange Commission (CySEC) to be enhanced, at a moment that it would undertake the supervision of all investment funds, so that new applications were processed much faster and to allow Cyprus to remain competitive in this area.

[24] "CSE mulls Islamic bonds," *Cyprus Mail*, 28/1/2016

http://cyprus-mail.com/2016/01/28/cse-mulls-islamic-bonds/

[25] In bid to avert the collapse of its banking sector, the Cypriot government in March 2013 concluded on a €10 billion bailout with the EU and the IMF. However the program included the conversion of deposits over €100,000 to equity, to save the island's larger lender, Bank of Cyprus, whereas Laiki Bank, Cyprus second largest bank was wound down. These developments took their toll on the CSE trading volume. "Cyprus asks EU for financial bailout – Europe". 25/6/2012, Al Jazeera English.

[26] "Fund managers in Cyprus propose issuing Islamic bonds," 9/7/2014.



16. Global sukuk insurance, 2014.

Today there are only 102 funds in Cyprus that manage about €3 billion, compared to 12,889 funds in Ireland with €2.5 trillion under management and Malta catching up with 600 funds and €9.4 billion. He added that although Cyprus boasts a high level of services providers, such as lawyers and accountants, we still lack in specialized fund managers and trustees.

Greece and Islamic finance investment bonds (sukuk)

Another important field where the Greek and Islamic investment systems could be active is that of bonds (*sukuk*). At the current stage it would be a timing move for the Greek state to issue the first Islamic bond (*sukuk*). This act in combination with further developing bilateral trade ties between Greece and MENA-based institutions could boost investments, by introducing also Islamic insurance products for group employee benefit purposes.

The Greek government can proceed to certain amendments to its laws in order to facilitate *sukuk* issuances. There must be also significant tax and regulatory measures aiming at boosting Islamic finance in Greece, e.g. the amendments can involve the removal of double stamp duty, the payment of a capital gains tax on property and streamlined the regulations governing estate agents. The Greek financial market regulator could issue at least two positions allowing *shari'ah* compliant investment funds and *sukuk* listings. As such, the Greek stock exchange can create a sukuk segment and four tax regulations (relating to *ijarah, murabahah, istisna'* and *sukuk*) to confirm an equality of the tax treatment with conventional financial products. Hence, compensation paid by *sukuk* issuers is treated for tax purposes just like the interest on a bond offering and can be deducted from taxable income. Additionally, the compensation which is paid to non-resident *sukuk* investors is exempt from withholding tax in Greece; this is not relevant to whether an offer is administered by Greek or any other country's law.

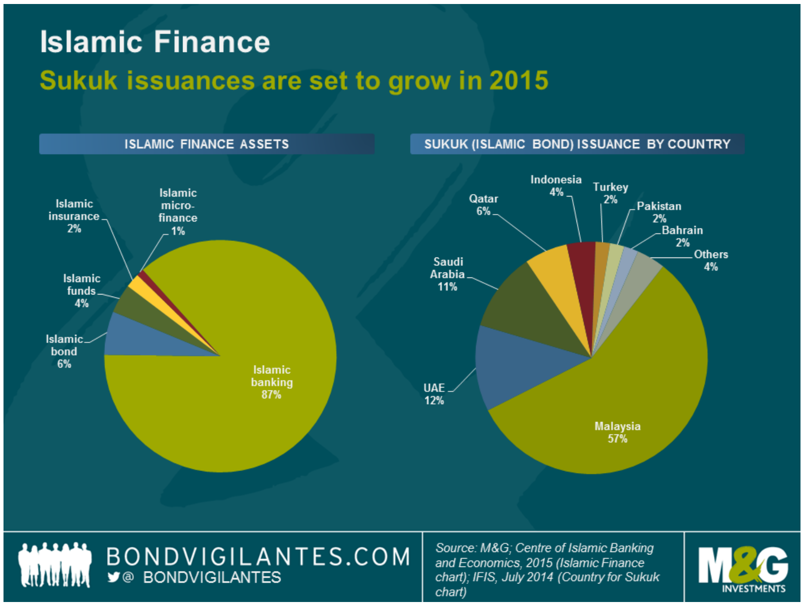
Moreover, the Greek government could ask for consultation on the issue of legislation for alternative *sukuk* that have similar economic features to conventional debt instruments. Following the consultation, the government can adopt measures explaining the regulatory treatment of corporate *sukuk*; thus it reduces the legal cost for such a kind of investment and get rid of needless obstacles to their issuance.

Sukuk and its eligibility for Greece

Greece is part of the Eurozone monetary policy scheme which is featured by a broad range of eligible guarantees.[27] This broad set of collateral reflects the Eurozone's aim to house variety in the Euro markets and its counterparties' business models, to keep away from central-bank provoked twists among market sections and to diversify risk. The swift development of Islamic finance is a relevant development for the Eurozone, deserving careful monitoring. In addition the Statute of the ESCB demands that every credit operation by the Eurosystem to be based on "adequate" collateral. Such a demand is featured by strict Eurosystem eligibility criteria.[28] Among these are the following: i) a *sukuk* must meet all significant Eurosystem collateral eligibility requirements. The issuer can be a private sector entity (credit institution, corporation) or coming from the public sector (central or regional government international organization); ii) The issuer must be part of the European Economic Area (EEA) as well as Canada, Japan, US and Switzerland; iii) international institutions are eligible issuers regardless of their place of establishment. Along with being in agreement with the Eurosystem requirements, the Eurosystem too must recognize this type of institutions as international institutions; iv) The assets must be normally denominated in Euro. Yet, according to an ECB decision in 2012, marketable debt instruments denominated in US dollar, pound sterling and Japanese yen, are also eligible temporarily, as long as they are issued and held in the euro area in a central security depository (CSD), fulfilling the ECB standards or in a central bank; v) they must be held and settled in the euro area, through an account with the Eurosystem or with a security settlement system (SSS) meeting the ECB standards; vi) concerning tts credit assessment, the sukuk must meet high credit standards for marketable assets specified in the Eurosystem Credit Assessment Framework (ECAF).

[27] In 2012, eligible marketable assets in the Eurozone monetary policy operations reached €14.1 trillion, and the total use of collateral was €2.5 trillion.

[28] See the ECB Guideline 'General Documentation' (20 September 2011) on the Eurosystem monetary policy instruments and procedures (ECB/2011/14).



6. Sukuk insurances expected growth in 2015.

Furthermore, in order to retain eligibility as Eurosystem collateral, the Eurosystem must receive rating agency surveillance reports containing up-to-date information relating to the latest coupon payment which must be produced within four weeks in order for the transaction to retain eligibility; such report must contain, amongst others, updated information on the main transaction participants and the composition of the collateral pool.

Amongst other things, a balancing act is necessary to reconcile *shari'ah* compliance issues and conventional-secular Eurosystem preconditions. Hence there is a need for a *shari'ah* advisory committee with knowledgeable *shari'ah* scholars having a sound financial background to advise the issuer. The task of this committee will be to reconcile both *shari'ah* compliance and Eurosystem compliance.

The fast development of *sukuk* is relevant for the Eurosystem despite the important obstacles remaining with regards to insufficient standardization, lack of liquidity, the small size of issuances, the insufficient number of high quality issuers and the focus on domestic markets. The Eurosystem keeps an eye on these developments and promotes an active dialogue and cooperation with the Islamic financial institutions.

Epilogue

As a whole, going forward, Islamic finance appears to have good potential to develop in Greece. The economic recession and the urgent need for a secure financial system have sparked vivid interest in Islamic finance in Greece. This interest has prompted a discussion on the features of this type of finance and its future potential. This preliminary analysis unfolded the basic aspects of Islamic finance, the limitations on its development in the past years and its future prospects in Greece. In order to evolve Islamic finance will need to keep up with the specific features of various regal systems; it will also develop small pockets of Islamic finance combining conventional institutions, providing similar instruments and incorporating Islamic finance practices into its *modus operandi*. Athens must also include adjustments in the regulatory environment to ensure a standard level co-existing area with conventional financial institutions. Islamic financial institutions have performed effectively in relation to conventional ones in terms of efficiency and profitability as well as the stability and resilience of Islamic institutions.

Islamic finance is an example of ethical finance. What affiliates the Greek society and Islamic finance is the fact that the latter is community-oriented and entrepreneur-friendly, focusing on productivity and the physical growth of economic production and services. Hence, it highlights the entrepreneur's credibility and the feasibility of the project as well as usefulness instead of the financial collateral or the financial worth of a borrower which is the ongoing practice. These characteristics have major repercussions for the allocation of credit risk as well as the stability of the system. What is interesting and promising in Islamic finance is that it grows in size because it attracts morally responsible investors, thus making the difference in regard to the impact financial decisions on society.

The prospects for the further development of Islamic finance in Greece are promising in the banking and *sukuk* sectors, if the Greek market opens its gate to Islamic funds. So far there have been various attempts by Islamic finance institutions in these fields but Greek banks have been skeptical in breaking ground in such fields. The reasons are actually two: lack of knowledge for Islamic finance and bureaucratic commitments of the Greek banks and financial system to the international conventional system. Yet given that the latter is also open and thriving gradually to Islamic finance, the Greek market should act similarly in order to get a tiny piece of share in the global market. The main gain for the Greek market and economy can be gaining more liquidity which is the foundation which development can be built upon. This type of development is that all governments in Greece have failed so far to achieve. In order to proceed, the Greek market must be bold and take into account that without breaking ground, it is impossible to exit any deadlock.

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