



## Islamic leasing: The more realistic choice

**In recent years, the demand for Islamic finance and its Shariah compliant instruments have increased substantially. This increase can be attributed to the rise in the Muslim population across Asia, Africa, the Middle East and South America, which currently account for over 95% of the world's Islamic population. Another factor is the growing demand from the non-Muslim population who also has realized the benefits derived from these services.**

Ijarah leasing has proven to be a more realistic product in terms of complying with Shariah requirements, hence the high popularity for this Islamic financial instrument. Analyzing countries in the GCC and Asia, it is observed that changes to legislation have enhanced total leasing Ijarah portfolio compared to conventional leasing. As far as the other regions are concerned, the UK, Europe, and South America, the Ijarah leasing market has not been able to capture a commendable market share due to contradictions existing between various elements within legislative frameworks that may prevent Ijarah leasing from being effectively implemented.

### 2013: A review

The size of the Islamic leasing industry is generally small by international standards, although it may have been underestimated

due to the lack of reporting by countries involved in Islamic leasing and the poor coverage of sources of information. The top four leasing markets are the UAE, Iran, Kuwait and Saudi Arabia. Each of these markets has an annual leasing volume exceeding US\$2 billion. These four countries constitute 60% of the total leasing market in the Middle East and Africa. The dominant types of lessors are banks which constitute 65% out of the total number of lessors while 30% are standalone leasing companies. Leasing companies are often faced with the challenge of financing their business growth while competing with banks who offer relatively attractive lease installment.

In some Islamic countries, leasing is only allowed to banks and bank affiliates – posing a challenge for other leasing institutions offering Islamic financial services. Movable assets are the most common types of asset leased under Ijarah in many Islamic

countries; leasing of immovable assets is very limited. This is mainly due to legislative constraints. In some countries there are no legislative constraints on the types of leased assets. In Jordan, real estate leases constitute of 66% of total leasing market and similarly, in the UAE, 80% of leased were directed to real estate.

In 2013, commercial aircraft leasing became more popular with several Middle Eastern countries utilizing the Ijarah concept to lease aircraft. According to market reports commercial aircraft leasing will continue to expand despite the sluggish performance of the global economy.

Sri Lanka is one of the growing Islamic markets in the Asian region. One of the more popular Islamic financial instruments is Ijarah which is mainly used to finance brand new/unregistered commercial vehicles. Volume of Ijarah transactions totaled to LKR8 billion (US\$61.05 million) as of October 2013, or 40% of the total Islamic portfolio in the industry.

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**2014: A preview**

It is expected that the Islamic leasing sector and the Islamic finance industry as a whole will continue to grow as new players enter the industry seeking to reap the benefits of the increasing demand. This potential increase in competitors will lead to intense competition among the Islamic leasing and finance providers as well as the conventional counterparts. This in turn might compel us to realign our strategy and move onto a differentiation perspective rather than just following conventional leasing providers.

Financial institutions will focus their strategy on innovation in order to provide more innovative financial products and services to gain competitive advantage in the industry. Micro-leasing, an increasingly attractive option for financing small equipments, may be another product Islamic leasing providers can consider.

Ijarah lease can be a source of financing to improve infrastructure facilities in developing countries including in their public transportation system and as a means for municipal authorities and local entrepreneurs to acquire quality construction and maintenance equipments.

A sound legal framework for Islamic leasing requires a well-written specialized Ijarah leasing law and appropriate changes in legislation with regard to repossession procedures of leased asset when a lessee default, effective treatment of lessors and lessee under bankruptcy and the enforcement of contractual proprietary rights and delay in meeting monetary obligation by lessee and compensation for lessor, etc.



**Conclusion**

The Islamic economies of the world represent more than US\$8 trillion in GDP, a 1.6 billion population growing at twice the rate of the global population and some of the fastest-growing global economies. More than 350 million Muslims reside as minorities in many nations, with largely affluent ones living in the West and large populations residing in the emerging nations of India, China, and Russia. The young population of Muslims is increasingly asserting their Islamic sensitivities and looking for Islamic financial instruments for their financing transactions.

In this context in 2014, the industry will witness an expansion of growth and undoubtedly, Ijarah leasing will become an innovative financial solution for the procurement of various types of assets which are needed for day-to-day business and to fulfill the working capital of organizations. Islamic leasing can play a role in fighting against global climate change through renewable energy projects and cleaner production equipments. Banks and leasing companies are also able use the Ijarah concept to raise capital for their expansion by way of issuing Sukuk. ☺

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