Islamic Trade Finance (IPD 03)

Course Synopsis:

Objective: To apply Islamic rules to the full trade finance cycle.
This course focuses on how the basic building blocks of Islamic banking and finance may be used to structure import and export transactions. It emphasizes on different tools applied by Islamic banks to finance import and export activities, manage currency risk, and fund post import activities.

This module is suitable for: corporate bankers, operations team members, lawyers, audit, Sharia'a and investment banking team members

Chapter 1: Key Sharia'a Reminders: In this session, we review the guiding principles of Islamic Finance as developed in the Foundations course. We examine how the rules preventing riba will affect our documentary cycle and claims on fees as well as pre-export and post-import financing. We also review how the rules seeking to reduce Gharar impact import-export transactions. We revisit the Theory of Contracts and its solutions for trade finance.

Chapter 2: Documentary Collections: In this session, we discuss the AAOIFI rules on fees for collections and guarantees or letters of credit. These rules will impact how we characterize our relationships in fiqh terms. The categorization will define what type of fee and how much, and this will have a clear impact on our capital adequacy.

Chapter 3: Letters of Credit: Once we have understood the basis for payment, we are able to examine the conventional letter of credit and related documents. How does a conventional letter of credit process differ from Sharia'a compliant approaches like kafala and Wakala. Then, we turn to review the required documents. Do the conventional rules relating to documents and discrepancies apply? We answer these questions with a view to knowing our limitations and opportunities when structuring Islamic alternatives.

Chapter 4: Islamic Alternatives: We construct clear models that apply core Islamic contracts like Murabaha to Purchase Order, Trade Wakala, and Trade Musharaka.

Chapter 5: Pre-Export Finance: One important challenge, especially in the SME sector is pre-export finance. In this segment, we show how to apply Murabaha to Purchase Order, Salam, and Istisna'a for pre-export finance. Musharaka, mudaraba/Wakala, and cash murabaha are also diagramed as pre-export funding vehicles. Back to back credits are covered.

Chapter 6: Post –Import Finance & Forfaiting: In this session, we discuss contemporary post import finance. Our discussion of forfaiting details the use of both Murabaha to Purchase Order and cash murabaha as means to either replicate the economic outcome, or the business steps. We also examine how istisna'a and musharaka may be fit into forfaiting concepts.

Chapter 7: Is there an Islamic Currency Hedge? In this session, we discuss the basic Sharia'a problem to engage in forward currency hedges and the common strategies to manufacture hedges using sales tools and other vehicles. Practical examples of common hedging tools are dissected.

Chapter 8: Common Trade Finance Problems: The final session covers the most common problems which creep into trade deals, or plague them post-closing. What does one do if there are hidden fees or rebates? How is default handled? When does the customer have an absolute obligation to the bank.

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