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Chicago Islamic Microfinance Project

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CHICAGO ISLAMIC MICROFINANCE PROJECT

The current global financial crisis and the resulting liquidity crunch demonstrate the vital need for a new approach to finance. We believe that Islamic finance offers a combination of social justice concerns and sensible risk management strategies well suited for investment in community development projects. Islamic microfinance offers the ability to stimulate small business development in a morally and financially sound manner. This proposal will outline a plan to support economic development for entrepreneurs while at the same time providing educational training to University students in the field of Islamic finance and law.

The Chicago Islamic Microfinance Project will offer Shariah-compliant investment financing in targeted areas in the City of Chicago, administered by professors and students at a Chicago-based university. We propose to endow two professors for a five-year pilot period at an academic institution of higher learning. This will enable one business school professor and one law school professor to teach together in a joint clinical project. In addition to offering courses in Islamic law and finance, the professors will supervise students in the actual administration of an investment fund providing small business financing on a profit and loss sharing partnership basis. The Chicago Islamic Microfinance Project will foster a sense of community and responsibility among participating entrepreneurs by additionally providing supportive services to encourage business development and success. By training University students in the practice of Islamic financial principles, the opportunity exists to positively impact the next generation of business people and lawyers. By directly investing in the targeted communities, we will generate opportunities for entrepreneurs to develop their own solutions to the economic downturn on a small, healthy scale, while simultaneously providing useful and necessary services to benefit the community.



What is microfinance?

- Provision of financial services to lower-income clients, including the self-employed.
- Community economic development through sustainable delivery of these financial services to entrepreneurs.
- Provision of support systems to business owners to educate and improve business and management expertise.
- Increases productivity and self-reliance of clients and benefits the community by providing potential employment opportunities for community members.



What is Islamic Finance?

- Combines Islamic principle of social justice with financial services.
- Eliminates *riba* (interest) and *gharar* (excessive speculation and risk taking) from financial transactions.
- Promotes business productivity by linking financial services to real economic activity.
- Investment activities must be consistent with Shariah, and promote industries that benefit the welfare of society.
- Prohibits contractual exploitation by encouraging finance providers and recipients to share in business profits and risk of loss.



The Chicago Islamic Microfinance Project hopes to raise \$10 million in charitable contributions for a direct investment fund (the "Fund"). We plan to incorporate the Fund as a distinct legal entity which will be able to join in partnership agreements with entrepreneurs under a Mudaraba structure, in which the Fund will provide the working capital as a limited partner and the entrepreneur will provide the day-to-day general partner management of the business activity. The Fund and the general partners will profit from this investment as the partnership receives profits and share in potential losses.

Each project investment will be funded in an amount determined by the requirements of the proposed project. The investment amount will typically be in the range of \$10,000 to \$25,000 with a cap of \$200,000. Profit and loss sharing allocations will be determined at the time of each investment according to preapproved underwriting criteria. All profits received by the Fund on project investments during the pilot period will be reinvested in the Fund as a revolving facility to make additional capital available for other economic development entrepreneurial projects. With \$10 million available for direct investment, we hope to generate at least approximately 50 Mudaraba partnerships during the five-year pilot period.

An additional endowment fund of \$5 million will be established in conjunction with a Chicago-based University to pay the salaries and benefits of two professors, two staff assistants and soft costs associated with the initiation of the project for the five-year pilot period. Anticipated soft costs include, but are not limited to, outside counsel fees, incorporation and filing fees, Shariah Board opinion fees, and other administrative overhead.



We plan to select one or two target areas for the five-year pilot period, depending on such variables as the academic institution selected and the availability of partnering mosques and banks for the project. Possible target areas include the area around the Muslim Community Center and Devon Bank on the northwest side, and the area around the University of Chicago on the south side. A project partner bank will open an account for each project investment, a critical tool for the monitoring of profits and losses for each Mudaraba transaction. We will develop supportive services such as computer, accounting and business development training to assist our entrepreneurs in meeting the business challenges they face. These supportive services can be provided through group meetings held at the project partner mosque for the target area. We intend that these supportive services will enhance the sense of community among our entrepreneurs, giving them a stake in the success of the Chicago Islamic Microfinance Project as a whole and a keen awareness that the profits they generate for the Fund will allow other entrepreneurs the financial opportunities they have enjoyed.

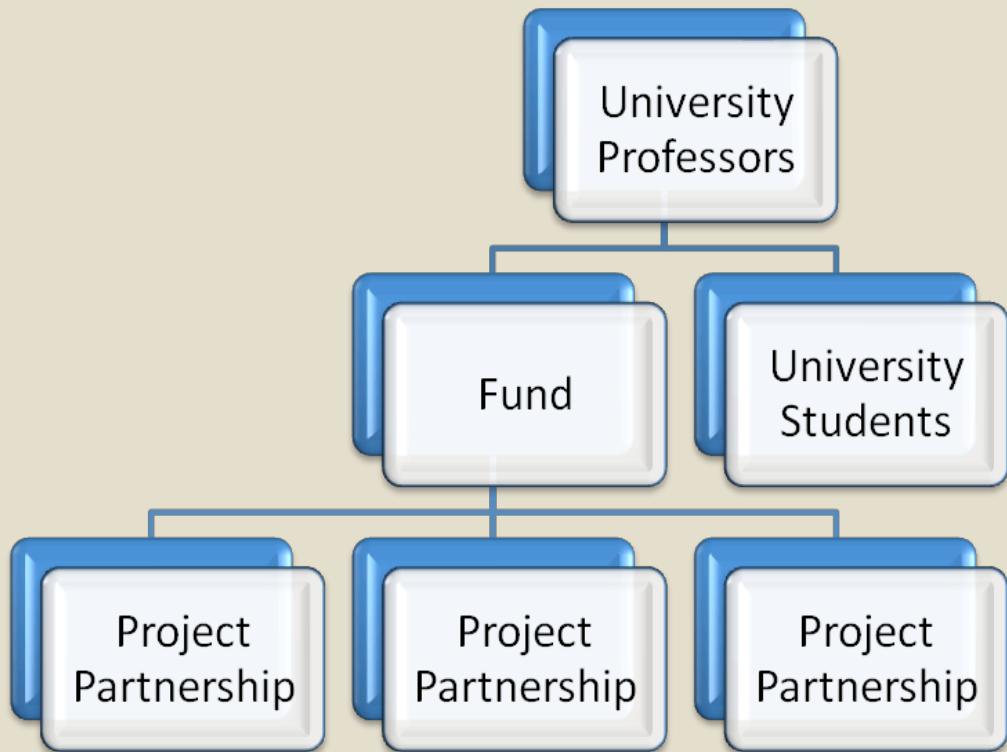
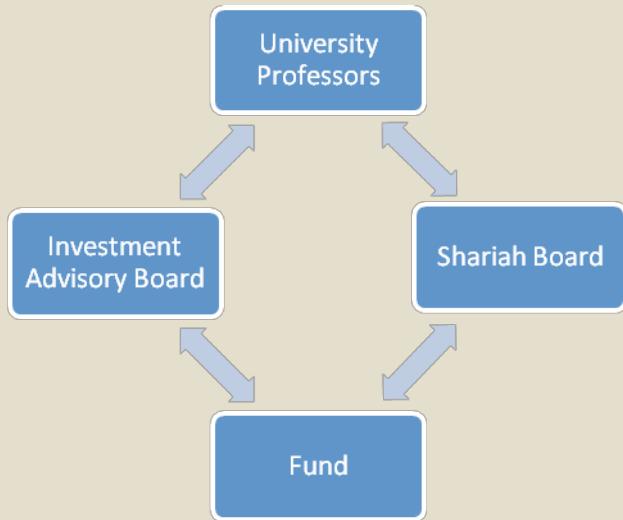




We plan to establish an Investment Advisory Board for the Chicago Islamic Microfinance Project. We will develop investment underwriting criteria, approved by Shariah Board scholars, to govern the selection of each investment project. Each proposed Mudaraba partnership project will be presented to the Investment Advisory Board for approval to ensure compliance with sound, Shariah-compliant underwriting investment criteria. The Investment Advisory Board will be composed of persons knowledgeable in the financial and legal aspects of entrepreneurship, joint venture funding, business development and community relations.



We intend to finance business operations which promote social and economic development. Our priority will be investments in businesses which are likely to increase community health, education, or the well-being of women and children. Examples of businesses we would like to fund might include child care, production of crafts, the sale of school supplies, children's books, clothing or food.





An example of a typical project we would like to fund would be an affordable, high quality child care business. An investment of approximately \$20,000 might finance the purchase of books, toys and equipment and the cover the costs of licensing and marketing. We would provide supportive services to the business, and expect to receive a return of approximately \$24,000 over a four year period, at which point we would dissolve the partnership, enabling the entrepreneur to continue on their own. We would then reinvest the return in another project.





We have proposed that Karen Hunt-Ahmed serve as the professor for the business school portion of the project. Dr. Karen Hunt-Ahmed is Assistant Professor of Finance and Management at DePaul University. She received her BA and MBA from Washington University in St. Louis and an MA and Ph.D. from the University of Chicago. Before receiving her Ph.D. she worked in the banking sector in Chicago and for a private equity fund in Dubai, United Arab Emirates. Her research interests include Islamic finance, globalization moral beliefs and business practice, ethical investing and the sociocultural implications of business practice. She is working on a book entitled: *The “Business” of Culture: Morality and Practice in Islamic Finance*. She is currently teaching Islamic Finance, Microfinance, Introduction to Finance and Foundations of Business Thought at DePaul University’s College of Commerce and Kellstadt Graduate School of Business. She is also on the advisory committee of DePaul’s Center for Financial Services. She lived in Dubai for many years and has practical experience in the field of Islamic finance and has traveled extensively in the Middle East, Pakistan, Africa and Europe.

Cynthia Shawamreh is the proposed professor for the law school portion of the project. She has taught courses in Islamic law as a Lecturer at the University of Chicago Law School and as an Adjunct Professor at Chicago-Kent College of Law. Cynthia is currently a senior counsel with the City of Chicago's Department of Law, Finance and Economic Development Division, where she has worked since 1992. Her practice area specializations are in layered financing of affordable housing development and economic incentives to stimulate job creation and retention. Cynthia's responsibilities for the City include training and supervising less experienced attorneys in sophisticated project finance transactions. Cynthia also serves as an appointed member of the Illinois State Advisory Committee of the United States Commission on Civil Rights. She has been involved in community development activities for many years in a variety of capacities, and has lived and traveled extensively in Europe, Asia and the Middle East. Cynthia has been married to a Palestinian since 1990 and is the mother of four children.



Each professor will teach courses related to Islamic law and finance and guide and supervise students in practical application projects for the Chicago Islamic Microfinance Project at the selected University. Business school students will assist with reviewing and preparing business plans in conjunction with the entrepreneurs and in the presentation of each investment proposal to the Investment Advisory Board. Law school students will prepare partnership documents on behalf of the Fund for each investment and be responsible for the necessary legal filings. Law school students will also review the due diligence required to ensure that the entrepreneur's proposal complies with all applicable law. Both law and business school students will assist in the tracking and monitoring of Mudaraba investments and in the provision of supportive services to the entrepreneurs. These clinical project activities, in addition to courses taught by the professors in Islamic law and finance, will provide students with both theoretical understanding and practical training in the practice of Shariah-compliant economic development transactions. Participation in the Chicago Islamic Microfinance Project will enable students to apply their studies in hands-on activities that are of immediate benefit to the community.



We plan to offer a sequence of courses in addition to supervising students in the administration of the Fund. Proposed courses include:

Introduction to Islamic Law: This seminar will introduce students to the basic theoretical principles of Islamic law and jurisprudence (*usul-i-fiqh*). The sources and methods of Islamic law (Qur'an, Sunna, consensus and reasoning by analogy) and the development of the four major schools of Sunni jurisprudence will be covered. We will explore the differences between Sunni and Shi'i legal theory, and the relationship between theories of Islamic jurisprudence and government. We will cover the impact of secular western legal systems in the Muslim world and the response of modern Islamist movements. We will also discuss the structuring of modern Islamic financial transactions and the growth of the Islamic finance industry. This seminar will familiarize students with the theoretical framework which underpins Islamic law, equipping students to better analyze and understand current events.

Islamic Law and Finance: This course will provide students with an overview of the modern Islamic finance industry. We will review the basic sources of Islamic law and jurisprudence and consider the prohibitions on interest (*riba*), and excessive risk (*gharar*). The development of Islamic finance and banking from the 1970's to the present will be summarized. We will explore the classical rules of Islamic contract and commercial law and their application in the modern context. The main Islamic financial products and legal questions in structuring transaction documentation will be reviewed. We will discuss economic and regulatory considerations, and the moral economy of Islamic finance. We will also consider the political environment in which Islamic finance currently operates. The course will familiarize students with the essential legal framework of the rapidly emerging market for highly technical and sophisticated Islamic financial products.

Advanced topics in Islamic Finance: In this course, we will expand upon basic concepts and structures covered in previous courses. We will explore debt and equity structures in depth, as well as discuss innovations in financial structures, such as Sukuk and Takaful. Advanced topics such as investments, treasury and liquidity management, private equity, commercial banking, real estate and economic development will be examined with reference to their interaction with international financial markets.