

“Helping people is at the core of our beliefs as Muslims; you have to contribute to charity and do something in your community and in other communities in order to feel balance in your life.”

Yasser Mohammad Abdo Yamani
Managing Director
Iqraa Foundation

Kingdom of Saudi Arabia

INVESTING IN HUMANITY

When the United Nations World Food Program (WFP) last year issued an urgent call for assistance, the largest contribution by far came from the Kingdom of Saudi Arabia. Its donation of \$500 million exceeded the combined contributions of thirty-one other nations, continuing a tradition of Saudi Arabian foreign aid spending, which is one of the highest in the world—at an average of 4 percent of GDP annually. Western perception is little aware of these levels of commitment and of Saudi Arabia’s generosity in the face of hunger, poverty, and human need, be it at home or abroad. Instead, Saudi Arabia is often viewed with skepticism. Following the events of 9/11 in particular, Saudi Arabian charities were met with much scrutiny, seriously tainting the reputation of an entire sector, despite the charities’ significant contribution to development and emergency relief. Only slowly are these misperceptions receding.

Indeed, charitable giving, or zakat, is an integral part of the Muslim belief system. Zakat is the idea that those who are able should give to those in need, either in money or in kind. So firmly is this rooted in

“Our main goal is to help society, to help humanity, to progress.”

HH Prince Bandar bin Saud bin Khalid Al-Saud

Deputy Managing Director
King Faisal Foundation

society that Saudi Arabia has institutionalized zakat, by levying a tax on individuals and businesses, corresponding to 2.5 percent of annual income. In addition, Saudi Arabia also embraces the concept of sadaqa, or voluntary giving. The kingdom’s wealth supports a widely shared sentiment of responsibility toward those less fortunate. Individual contributions can be sizeable, such as the \$130 million donation made by a Saudi national

last year in support of cyclone-hit areas in Bangladesh. The donor, however, chose to remain anonymous. And this is not unusual; many Saudi Arabian individuals and businesses would find it immodest to advertise the extent of their philanthropic commitment.

The work and dedication of more than 500 charitable organizations in Saudi Arabia is but the strongest indicator of this commitment. Many of these have a strong domestic focus. Unemployment, poverty, and access to education and health services remain a challenge to society, despite a rapidly developing economy. These therefore are priority areas for intervention for many Saudi charities. Others make no distinction between the domestic and the international agenda and are fully committed to providing aid services anywhere in the world. Some indeed have grown into major global development organizations, held in high esteem for their impact and quality of work. 🌱

FOUNDATIONS OF COMMUNITY

The King Faisal Foundation is one of Saudi Arabia's oldest philanthropic organizations. Established by the sons of late King Faisal in 1976, in honor of their father's work, the foundation has grown to world renown and into the largest organization of its kind in the region. In keeping with King Faisal's efforts, the foundation focuses on education. "We think that helping societies should be done through educating them," says HH Prince Bandar bin Saud bin Khalid Al-Saud, deputy managing director of the King Faisal Foundation. "We look at education as an agent of change. It is the only

way for societies, countries, even individuals to uplift themselves," he explains. Among the foundation's most visible activities count the Alfaisal University, King Faisal primary and secondary schools, and the King Faisal Center for Research and Islamic Studies. The foundation furthermore awards grants to schools, universities, and other educational facilities around the world, and it engages in direct development projects with a broader mandate. "We never give out money. If an area needs help, we go and do the project ourselves," says Prince Bandar. This, incidentally, is a practice that has

not only ensured transparency in operations, but has kept the foundation free of any accusation. "You want to make sure that the money that you donate as an individual to an organization, or the money that an organization donates to a project, reaches its target," insists Prince Bandar.

The Iqraa Foundation, a charitable organization linked to the Dallah Al-Baraka Holding Group, follows a

similar approach. "We treat charity work like business. We do everything transparently," says Yasser Mohammad Abdo Yamani, the foundation's managing director. Its

"We are helping communities irrespective of race, color, or creed."

Yasser Mohammad Abdo Yamani
Managing Director
Iqraa Foundation

management expertise is widely recognized. Iqraa is active in Saudi Arabia but also has a strong international presence, in Africa and Asia, and it maintains branch offices in the United States, the United Kingdom, and South Africa. Healthcare is but one focus area. "In Kenya, we started a hospital in a poor area. We subsidize this hospital so that the cost to see a doctor is \$1," says Yamani. Similar projects exist in India. In Saudi Arabia, Iqraa works in cooperation with the government, providing the poor with access to clinical treatments. Nondiscrimination is an important element in Iqraa's work. "All our hospitals treat Muslim and non-Muslim the same way. We focus on poor people. A human is a human," underlines Yamani. This is "the essence of charity work," as Yamani calls it. Human development comes first, and Iqraa applies this same philosophy to dedicated programs for education, housing, community building, and vocational training.

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MORE THAN RHETORIC

>>CSR IN THE KINGDOM

Above and beyond the commitment to philanthropic action, the practice of corporate social responsibility (CSR) is also quickly gaining ground among Saudi Arabian businesses. Very much a Western expression of corporate behavior, CSR is a novelty mostly in terminology. “Nobody in Saudi Arabia, I think still to this very day, can clearly tell the difference between charity or philanthropy and corporate social responsibility,” says Dr. Nadia Baeshen, general manager of the CSR division of the Dallah Albaraka Group, “although they practice both.” Companies indeed tend to have long traditions of investing in socially responsible activities, but have only started labeling and planning these as CSR activities in recent years.

The Dallah Albaraka Group, a holding company with business activities in sectors such as real estate, finance, and media, and with investments in over forty countries worldwide, is an industry leader. Its CSR activities are a benchmark for the way companies can support their communities. For example, Dallah Albaraka provides a facility for employees that offers personal loans at hugely preferential rates. A popular measure, as Dr. Baeshen confirms: “More than 50 percent of company staff utilizes the services of this fund.” Externally, Dallah Albaraka supports a wide range of initiatives. It invests heavily in the development of small- and medium-sized enterprises, contributing financially to the Centennial Fund and training and advising entrepreneurs in business strategy and the use of funds. Other equally important programs are carried out in support of education, employment, and health, each delivering tangible benefits to the larger community. Dr. Baeshen is very clear about her role as a corporate player in Saudi Arabia. “I am not a donor. I am a long-term strategic partner.”

The core values that continue driving Dallah Albaraka’s CSR policy are those of its founder, Sheikh Saleh Kamel. “Saleh Kamel believes that we could not grow into a huge conglomerate organization if it weren’t for the people of our society. So we are paying back a debt we owe to society,” says Dr. Baeshen. 

We are committed...

Our firm belief is in our strength to transform challenges into opportunities. We aspire to play an effective role in the social development of communities where we invest. We strive to achieve further success in various fields and continue taking initiatives to explore new horizons.



دله البركة
Dallah Albaraka

Islamic Banking and Finance Explained

By Dr. Mohamed A. Elgari, SEDCO Shariah Advisor

A bank is a financial intermediary, intermediating between two groups in the community served by the bank: those who have more financial resources (savings) than they need today and those who need today more than they have. With the presence of such an intermediary the economy becomes more efficient as the utilization of available real resources becomes higher, thus resulting in more economic development and welfare for all. For centuries the function of financial intermediation was rendered by banks on the basis of a simple yet very effective *modus operandi*: banks borrow from a surplus group and lend to a deficit group. Clearly bankers can only make money if they charge interest for loans and in a competitive environment can only attract savings by paying interest. This model of financial intermediation started in Europe, maybe in ancient Greece, before then spreading to the rest of the world.

Muslims were well aware of the importance of financial intermediation. However, this model of banking, introduced into Muslim countries during colonial times, contradicts a basic tenet of Islam relating to usury. The definition of usury in Islam is unambiguous, it is simply the increase stipulated in a contract of loan. An interest based loan, no matter how little, is usurious in Islamic law. Hence, it was not possible for Muslim countries to assimilate this institution into their economic system. In the early Islamic civilization, Muslims knew many arrangements that served the purpose of channeling savings to useful uses in investment and trade. Such arrangements were personal and individual as was then the norm, but not institutional, although the aspect of intermediation was very clear.

The business concept pioneers of Islamic banking tried to develop was to simply institutionalize these arrangements into an alternative financial intermediation. Thus we ended up with what in the 1950s was called simply interest free banking and then became known as Islamic banking.

The concept of Shariah-compliant Banking

An Islamic bank is one that abides by Shariah (Islamic law) in all its dealings, however, like other banks, it has assets and liabilities. The liabilities or sources of funds in addition to its capital are savings received on profit and loss sharing and current accounts which are interest free. On the other side of the balance sheet the bank advances credit to its customers on the basis of *Murabaha* in which the bank purchases assets such as houses, vehicles or furniture, on cash basis from suppliers and sells back to its customers on installments with a profit. Islamic banks over the course of three decades were able to develop many products and financing schemes on the basis of either sale, lease or partnership. The form of sale contract in Shariah is much simpler than in other legal systems. Exchange and acceptance of an offer relating to an existing asset or commodity immediately transfers legal ownership. Payment of a price is only an outcome of the contract and is not a requirement for validity or enforceability unless the contract is made conditional on such payment. Furthermore, validity of a sale contract only requires a description of the commodity which could be beyond the immediate reach of the purchaser. The ability to use sale, lease and partnership as basis for the development of bank products offers limitless opportunities. Islamic

banks now have substitutes for credit cards, foreign exchange swaps, call options, etc., all founded on a non-interest basis and without creating a money for money relationship between the bank and the customer. Clearly such an approach means no monetary transaction can grow apart from real goods and services.

It is clear, therefore, that Islamic banking is a “legalistic” concept. From an economic point of view the same outcome may be delivered by an Islamic bank, except that it will not be usurious (as defined by Shariah) and will have a self-regulating mechanism to assure economic stability.

Islamic Banking in practice

What is the economic logic of Islamic banking? Simple: whenever money is exchanged it must be against real goods and services and never money for money. With money for money comes huge debt trading and with non-real goods and services come financial derivatives. These were the two villains that brought havoc to the world financial system.

Justice and fair play are the essence of Shariah rules relating to the economy. Therefore, Shariah requires the sharing of risks and rewards in the form of different partnerships. Hence partnerships in which parties do not share risks and rewards on an equal basis are questionable if not outright forbidden under Shariah guidelines. On the other hand social responsibility and ethical principles are embedded in the way Muslims do business according to Shariah.

Thus, investment in certain industries, such as alcohol, gambling, weaponry, and tobacco is prohibited. These industries benefit one partner at the risk of harm to other partners and thus risk and reward are not shared.

In addition, the guidelines involve a quantitative review. Investments cannot be made in a company that has debt financing, cash plus interest-bearing securities, or accounts receivable that are more than 33 percent of its market capitalization. Shariah also applies to trading and investing practices: an investor cannot borrow money on interest or make a short-term investment decision for purpose of speculation.

An interesting case study of the implementation of Shariah guidelines is preferred shares. Preferred shares are not permitted since they give an advantage to one partner over the others. But when the partnership (the deal) is important to an Islamic Investor then the Shariah advisor would permit the deal with the provision that any proceeds resulting from the preferred shares go to charity. This perspective places partners on equal footing thus enhancing the chances of success and at the same time benefiting Corporate Social Responsibility (CSR).

Please refer to the website of **Dr. M. Elgari** for further information: www.elgari.com



FOR A BETTER TOMORROW

>>WIN-WIN-WIN PARTNERSHIPS

Increasingly, companies are finding that corporate values, economic success, and greater communal good go hand in hand. The Tamer Group, for example, invests in education and raises awareness on health-related issues. It is one of Saudi Arabia's leading traders, investors, and manufacturers in the healthcare sector and is growing with the demand for more and better health services. By improving the quality of health education, Tamer is also able to boost its economic performance. "The health education program looks at certain chronic diseases, such as cardiometabolic syndrome and diabetes, where we have severe problems. It helps the community through education and it supports preventive medicine," explains Ayman Tamer, chairman of the Tamer Group. The company collaborates with universities, private and public hospitals, and other healthcare companies in delivering an educational program that highlights the importance of regular monitoring, testing, and preventive care. This serves the interests of all. "The

community is winning, companies are growing their business and spending more on corporate social responsibility, and universities, public, and private institutions are



■ The Tamer Group happy to support these campaigns, because they are also sending a message and educating the community," underlines Tamer. "It's a win-win-win situation."

Other Saudi entities, such as the Saudi Economic and Development Holding Company (SEDCO), have turned adherence to strict ethical principles into a distinct and successful business model. SEDCO ap-

plies sharia-compliant principles to a diversified and hugely successful investment business. "This is what is usually termed 'socially responsible investing,'" says Ahmed Sulaiman Banaja, the company's CEO. And he is certain of the long-term advantages of an approach that precludes investment in sectors that are seen as having a negative impact on society. "There are strong indications that [socially responsible investing] will grow exponentially over the next five to ten years because people are realizing it's no longer just ethics; it's good business sense," he says. The success of such values-based business models will certainly also influence the wider corporate landscape in Saudi Arabia, particularly in a society that assigns so much importance to the welfare of the community. 🌴

Strategic Media

Directors: Maja Lapcevic, Elodie Piat, Stephen de Vasconcellos-Sharpe

Project Director: Clara Figares

Project Coordinator: Brian Heyel

Project Assistant: Christoph Courth

Managing Editor: Stefan Chrobok

Production Manager: Anastasia Caramanis

For more information contact: info@smlstrategicmedia.com