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Development of Islamic Finance in Bosnia and Herzegovina

Edib Smolo¹, Mirzet Šeho² and M. Kabir Hassan³

This paper represents the analysis of Islamic finance development in Balkan with a case study of Bosnia and Herzegovina (B&H). In this analysis we will use the data from the local Islamic financial institutions and global reports with regard to the Islamic finance industry. Since Islamic finance has been practiced in B&H for years, its development has seen a remarkable success. Islamic banking, led by Bosnia Bank International (BBI), is the major player in the field. However, the industry faces a number of issues and challenges that impede its further development. Among major issues are a lack of legal and regulatory framework(s), a low level of public awareness about Islamic finance that leads to a low demand for its products, and a lack of government support for its development. Thus, in order for Islamic finance to develop further within the Balkan countries there is a need for a better promotion, legal and regulatory framework that will facilitate this endeavor and new players that will increase competition and add additional value to this market.

Key words: development, Islamic banking, halal industry, Islamic microfinance, microcredit, Shari'ah-compliant, Bosnia and Hercegovina

JEL Classifications: D02, D53, F65, G2

Introduction

Ever since the Mit Gharm experimented with Islamic finance principles that led to an establishment of Islamic financial institutions, the Islamic finance industry (IFI) evolved into a decent and indispensable part of the global financial system. The global financial crisis, that shook financial world, brought Islamic finance into the limelight as an alternative to the mainstream conventional finance. Although Islamic finance had been affected by the crisis, the true impact on Islamic finance is more indirect

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through the worsening economic conditions in general. Nevertheless, the industry showed some degree of resilience to the economic shocks.

The IFI is seen by certain pundits as a subset of the global financial system that is operating under certain procedures and principles that may not be in accordance with the Shari'ah. These pundits propose that duplicating regular instruments and applying the "Shari'ah make-up" does not do justice to Islamic finance.⁴ Or maybe, Islamic finance is being made subordinate to traditional finance and along these lines not permitted to play out its significant capacity of *risk sharing* activities.⁵

The principles of Islamic finance are not novel at all as they have been around in the Muslim world for quite a long time. The expression "Islamic financial system" (IFS), be that as it may, is very young industry that started in the second half of the last century (Iqbal, 1997; Zaher & Hassan, 2001). Ahmad and Hassan (2007) discusses regulation and supervision of Islamic banking in Bangladesh. Hassan and Chowdhury (2010) discusses Islamic banking regulation in general. Brown, Hassan and Skully (2007) examines operational efficiency of Islamic banking globally. Hassan, Sanchez and Safa (2013) examines the impact of foreign bank entry on Islamic banking performance in the Muslim world. Hassan, Brodmann and Rayfield (2017) examines the current status of Islamic banking regulation in the world. Hassan and Aliyu (2018) provides a contemporary review of Islamic banking literature. Kaakeh, Hassan and Van Hemman (2019) examines the factors affecting Islamic banking adoption in UAE.

Ever since then, the IFS developed into Accordingly, IFS today is involved Islamic banking, takaful (Islamic protection) and capital markets (IFSB, IDB, & IRTI, April 2010).

Development of Islamic Finance: An Overview

By and large, the term Islamic finance alludes to financial activities that are guided by Shari'ah principles (Islamic law). Semantically, the word

⁴ 'Islamic finance' is a general term referring to the Islamic economy, finance and banking. In this book, this term will be used in this sense.

⁵ Whether and how much Islamic finance should be based on the principle of risk-sharing and whether this is the only modality applied in the Islamic financial system is an ongoing debate among scholars without a consensus.

Shari'ah is an Arabic expression that actually signifies 'the way' or 'the way to the watering place', 'a clear path to follow', or all the more unequivocally 'the way which leads to a source'. From this we can comprehend that Shari'ah is the way a devotee ought to follow so as to get directions in this world and salvation in the Hereafter.

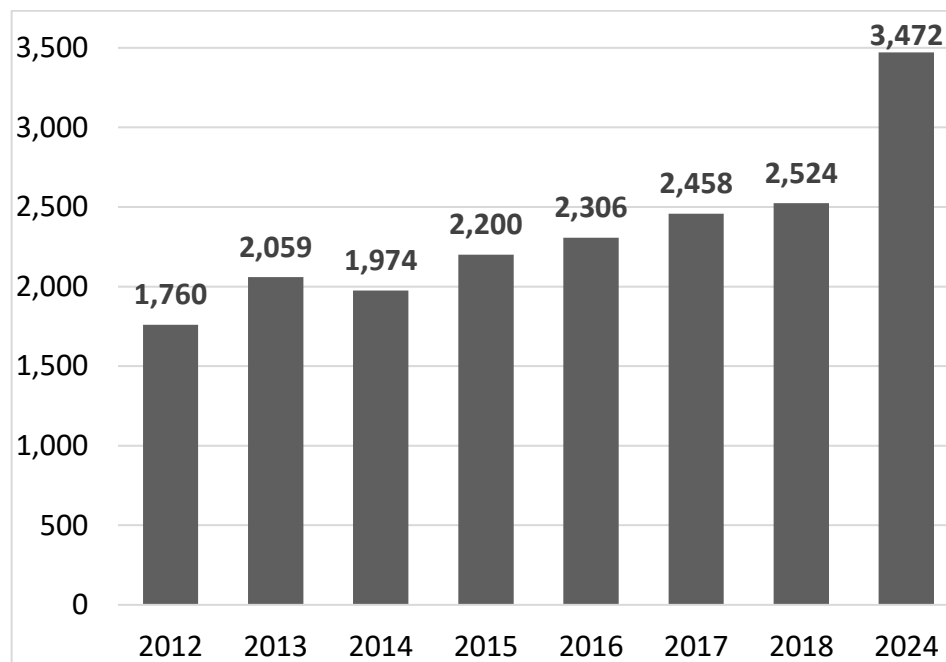
The primary sources of Shari'ah are the Qur'an and the Sunnah. Sunnah is an Arabic word meaning 'custom', 'action' or 'practice.' Technically, this term refers to what is conveyed that Prophet Muhammad, peace be upon him, said, did, or tacitly approved. The Qur'an and the Sunnah are followed by the consensus of the jurist (*ijma'*) and the analogy (*qiyas*). Shari'ah law strictly prohibits paying and receiving interest (*riba*). However, describing the Islamic economic and financial system simply as "interest free" does not reflect the true and complete picture of this system (Iqbal, 1997). Islam in general, and Islamic finance and banking in particular, are committed to safeguarding property rights, emphasizing ethical standards, sharing risks, and promoting socio-economic justice (Askari, Iqbal, & Mirakhor, 2010; Mirakhor & Smolo, 2011, 2012; Shanmugam & Zahari, 2009, p. 5; Smolo & Mirakhor, 2014). Besides, not just that venture exercises must be as per the moral standards of Shari'ah, they should likewise consider the overall public interest (*maslahah* pl. *masalih*).

Albeit Islamic financial practices have been utilized since the very beginning of Islamic history, the primary trials with Islamic banks happened a lot later, specifically during the 1960s and 1970s. Mit Ghamr, which was established in Egypt in 1963, is viewed as the first ever Islamic bank. After that the Nasir Social Bank was built up in 1967 and it was the first social bank to operate as per Shari'ah standards (Tahir, 2017).

Today, Islamic finance attracts both Muslims and non-Muslims around the world. The global Islamic finance industry's assets grew to about US\$ 2.5 trillion in 2018 from US\$ 2.4 trillion in 2017, a rise of 3% – according to the *Islamic Finance Development Report 2019* – see Figure 1 below. This growth is much slower than it was in previous years, although it is projected to grow to about \$3.47 trillion by 2024. According to some reports, the global Islamic finance assets are projected to grow at 6% growth rate, a growth rate that is far higher than the conventional financial industry's annual growth rate (Deloitte, 2019). The market for so-called 'Shari'ah-compliant' financial products is dominated by Iran, Saudi

Arabia and Malaysia each one recording more than US\$ 500 billion in assets. Still, the share of Islamic financial industry in the global finance is very low (ICD-REFINITIV, 2018; IFSB, 2019). Table 1 below shows global breakdown of the IFI by major sectors and regions. In addition, Figure 1 shows the major factors contributing to the global growth of the IFI.

Figure 1: Islamic Finance Assets Growth 2012-2018 (US\$ Billion)



Source: Islamic Finance Development Report 2019

This growth, however, depends from a country to a country as their approach to and development of Islamic finance depends significantly. As indicated by *Islamic Banker*, there are two approaches of Islamic finance. To begin with, there is a methodological approach to deal with Islamic finance as executed by Malaysia and its dual-banking model. Under this approach, conventional and Islamic finance work next to each other with discrete (yet comparable) rules and guidelines administering them. Second, there is the “*ad hoc* approach”, *Islamic Banker* further claims, “where neither the government nor the regulator even acknowledge the need for a stand-alone Islamic banking and regulatory framework, let alone enabling laws” (*Islamic Banker*, 2010, p. 2).

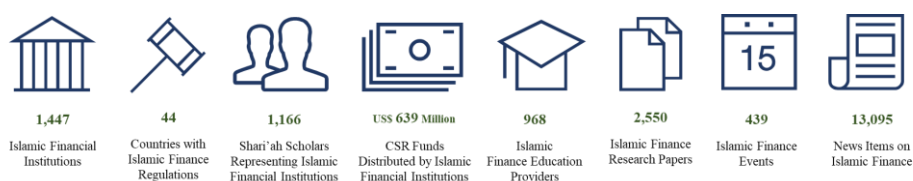
Table 1: The Global IFI according to Sectors and Regions (US\$ billion, 2018)

Region	Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Takaful Contributions	Total	Share %
Asia	266.1	323.2	24.2	4.1	617.6	28.21%
GCC	704.8	187.9	22.7	11.7	927.1	42.34%
MENA (ex-GCC)	540.2	0.3	0.1	10.3	550.9	25.16%
Africa (ex-North)	13.2	2.5	1.5	0.01	17.21	0.79%
Others	47.1	16.5	13.1	--	76.7	3.50%
Total	1571.4	530.4	61.6	26.11	2189.51	100.00%

Notes:

- Data for *sukuk* outstanding and Islamic funds are for full-year 2018; for Islamic banking are as at June 2018 (1H18); and for *takaful* are as at end-2017.
- Data are mostly taken from primary sources (regulatory authorities' statistical databases, annual reports and financial stability reports, official press releases and speeches, etc. and including IFSB's PSIFI database).
- Where primary data are unavailable, third-party data providers have been used, including Bloomberg.
- Takaful* contributions are used as a basis to reflect the growth in the *takaful* industry.
- The breakdown of Islamic funds' assets is by domicile of the funds, while that for *sukuk* outstanding is by domicile of the obligor.

Source: IFSB, Islamic Financial Services Industry Stability Report 2019

Figure 2: Factors that led to the growth of IFI in 2018

Source: Islamic Finance Development Report 2019

Today, Malaysia is recognized as the leader within IFI for its comprehensive and systematic approach. This comprehensive approach bravely taken by the Government of Malaysia and the Central Bank of Malaysia facilitated the development of the Islamic finance in Malaysia. As a result, Malaysian Islamic financial system consists of the Islamic banking, *takaful* (Islamic insurance), Islamic debt and equity capital

markets, Islamic money market, Islamic derivatives, and non-banking financial institutions (NBFIs).

Simultaneously, Malaysia revised applicable laws and made far reaching regulatory and supervisory frameworks to help its objective of turning out to be the global Islamic financial hub. Furthermore, as human capital plays an important role for future growth of the industry, Malaysia took proactive steps in establishing various educational, training and research institutions to meet the industry's needs for highly educated and professional human capital.

Apart from Malaysia, Islamic finance is the most developed in Iran and majority of Middle Eastern countries. However, Islamic finance is making great progress in other countries as well, such as Pakistan, Bangladesh, Indonesia, Turkey, Sudan, Egypt, Jordan and Syria.

The term 'Islamic finance' may persuade that it is just for Muslim countries with greater number of Muslim populations. Nevertheless, it is been contended that larger part of Islamic fund clients are really non-Muslims.

Actually, United Kingdom is driving the western, non-Muslim, nations in creating Islamic finance related services. With around \$4.7bn of reported banking assets in 2017, the UK is ranked 17th out of 48 countries and the first among non-Muslim-majority nations making it as Europe's premier place for Islamic finance. This was achieved by joint endeavors of UK Government, Bank of England and Financial Services Authority (FAS) who recognized fundamental boundaries for presentation of Islamic finance and made proactive steps in making level playing field for IFI (TheCityUK, 2019).

Different nations are joining temporary trend. For instance, France, Germany, Luxembourg, Ireland, Hong Kong and Singapore - just to name a few - every one of them either changed laws or are about to do so to encourage the expansion of IFI (Piotr, 2017).

It seems that there is a trend among EU countries to introduce legal and tax neutrality measures with regard to Islamic finance. This is especially true for Islamic capital market products such as Sukuk (Islamic bonds). In this regard, Luxembourg is considered as a leader in tax neutrality

proactiveness. Apart from Luxembourg and UK, Irish Ministry of Finance introduced the Finance Bill 2010 that brought along several amendments to facilitate development of Islamic financial services in Ireland. Malta, Gibraltar, Cyprus and Turkey are also reported undergoing review of their laws and drafting new ones that will facilitate Islamic finance. When it comes to South-East Asia, Singapore has already amended its laws to avoid a double taxation of some Islamic financial products and treats Sukuk as conventional bonds. On the other hand, Hong Kong is currently changing its laws to facilitate development of Islamic finance.

Islamic Finance Development in Bosnia and Herzegovina

Islamic Banking & Finance

Islamic finance was introduced in Bosnia and Herzegovina (B&H) back in 2000 when Bosna Bank International (BBI) was set up. This was the first Islamic bank in Southeast Europe whose operations and activities are implemented in accordance with the Shari'ah standards. Aside from BBI bank, there are 23 commercial banks in B&H. The founders of BBI are Islamic Development Bank (45.46% offer), Dubai Islamic Bank (27.27% offer) and Abu Dhabi Islamic Bank (27.27% offer). Currently, there are 23 branches of BBI bank across B&H.

During the financial crisis, BBI bank showed signs of resilience and has been one of the banks least influenced by the crisis and regardless of it, BBI bank recorded positive growth. In recent years the bank is registering best outcomes since its origin. In addition, being education-oriented BBI is regularly organizing educational classes and trainings for its workers and offers grants and scholarships to all levels of studies and students.

Prior to the establishment of the first Islamic bank in Bosnia and Herzegovina, the market was faced with a number of challenges and issues. First, Islamic banking concept was completely unknown in the market which is completely understandable due to 50 years of socialist regime in the country. Second, no particular laws and regulations exist when it comes to implementation and practicing of Islamic finance. As a result, BBI works under regular laws and is dependent upon same

principles and guidelines as their conventional counterparties.⁶ Third, the market lacked educated professionals with necessary skills in Islamic banking and finance. Not only that, there were no educational institutions that offered specialized programmes in field of Islamic economy and Islamic Banking. Fourth, majority of people had adverse attitude towards “Islamic” prefix and this was further exaggerated after 9/11. Fifth, limited or no exposure to principles of Islamic banking and finance within Bosnia and Herzegovina led to misunderstandings of Islamic products and services by potential clients and general population. Six, there is no government support for establishment and promotion of Islamic finance in the country as is the case with some other countries worldwide.⁷

In spite of lack of concern of the Bosnian government with regards to the advancement of the Islamic finance and the fact that current regulations are completely conventional, BBI bank has made astounding progress up until this point. In addition, BBI’s solution overcame those challenges, despite the fact that local market was overbanked with large European banks. This was accomplished through integrated approach to public education, marketing strategy, business club, and PR activities. This approach is the core of BBI’s solution for success and has propelled BBI to launch an inclusive model of Islamic finance development (IFN, 2016).

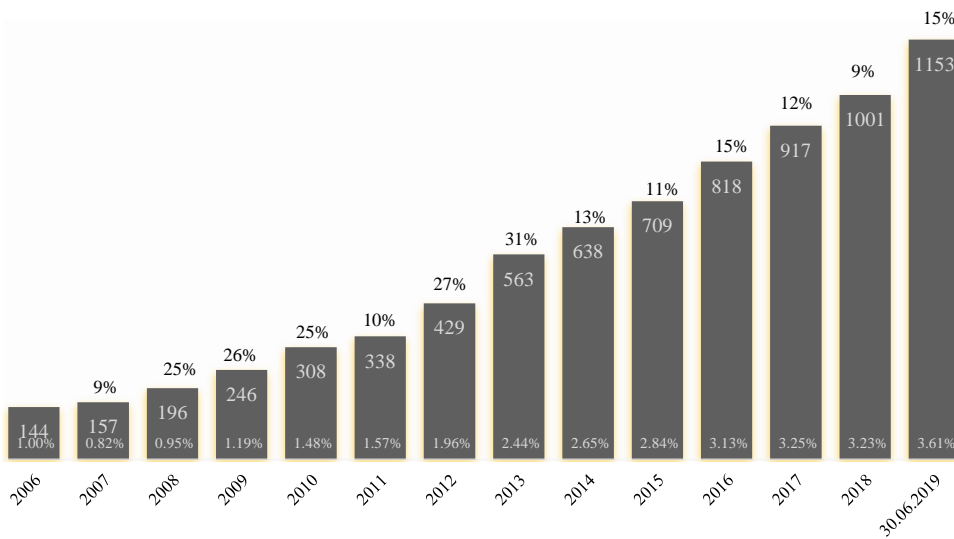
During the last year Sarajevo Halal Fair, the CEO of BBI, Amer Bukvic, presented the BBI Business Model showing its impressive development and successful trajectory. Figure 3 below shows summarized version of few highlighted points. As can be seen, over the years, the total assets of BBI bank increased from BAM 144 million (approximately EURO 73.6 million) to BAM 1,153 million (EURO 590 million). The percentages above the columns represent the *y-o-y* asset growth rate which went from 9% in 2007 up to 31% in 2013 and to 15% as of 30 June 2019. During the same period, the BBI asset market share increased from 1% in 2006 to 3.61% as of 30 June 2019 (see percentages at the bottom of the columns in Figure 3 below). The compounded average growth rate (CAGR) for this

⁶ For a brief discussion about legal limitations on implementation of interest free banking in B&H see Göksu and Becic (2012). A lack of legal and regulatory support for the development of Islamic finance is not specific issue related to B&H but it is something that other countries are faced with as well. For example see Lujja, Mohammad, Hassan, and Oseni (2016).

⁷ A number of challenges faced by the Islamic financial industry are elaborated in Abozaid (2016).

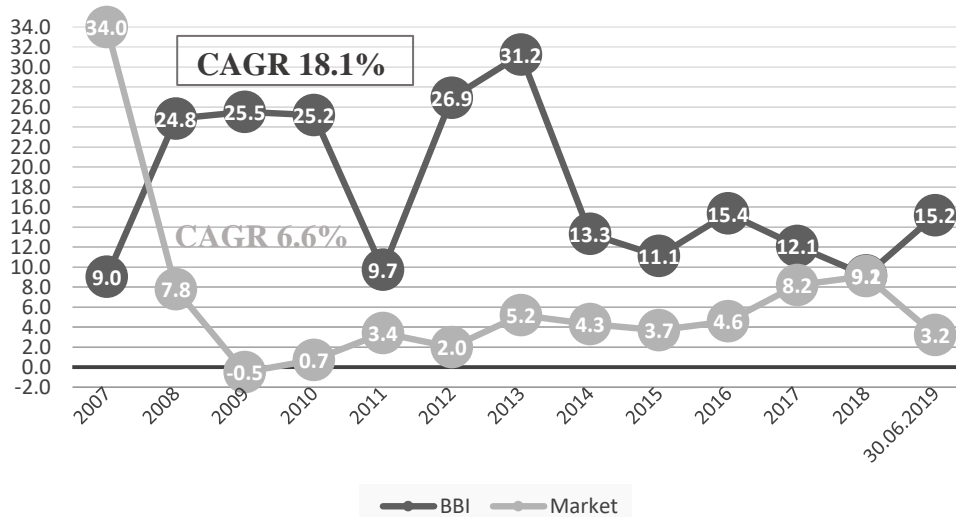
period is presented in the Figure 4 below. As can be seen, over the same period BBI witnessed almost three times larger CAGR than the B&H market as whole. BBI experiences CAGR of 18.1% while that of the B&H market was only 6.6%.

Figure 3: BBI Total Assets Growth & Volumes in BAM (millions)



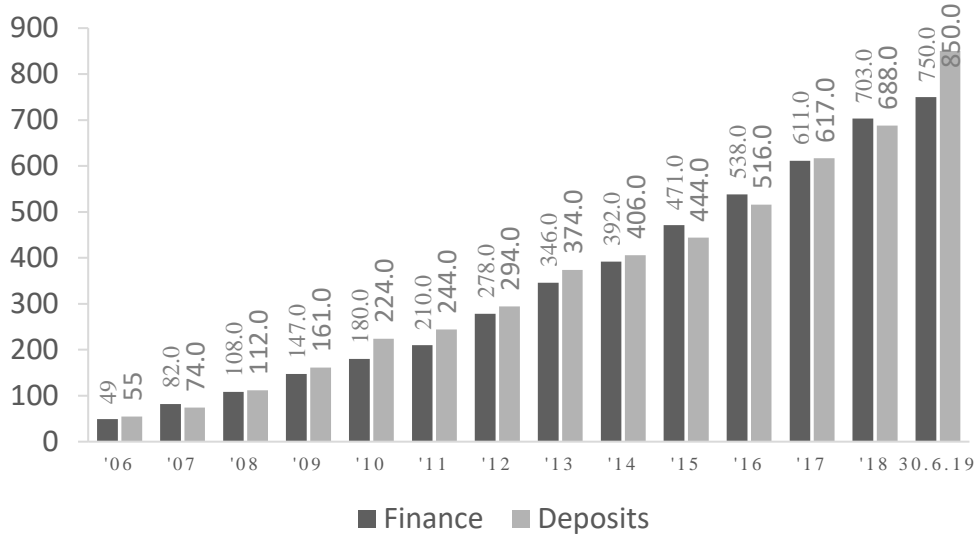
Source: The BBI Business Model – presented on 28 September 2019

Figure 4: Total Assets and Growth Rate: BBI vs. Market



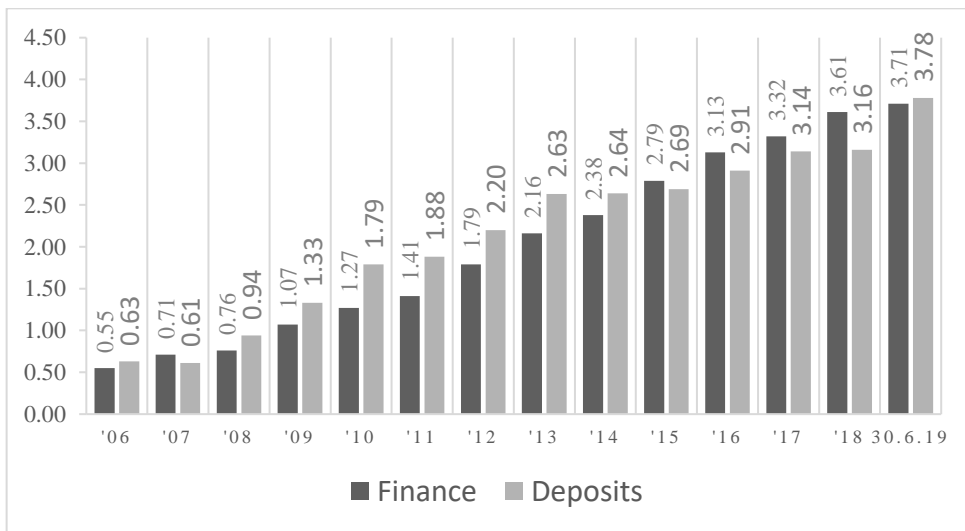
Source: The BBI Business Model – presented on 28 September 2019

Figure 5: BBI Finance & Deposits (in BAM millions)



Source: The BBI Business Model – presented on 28 September 2019

Figure 6: BBI Share in B&H Finance & Deposits

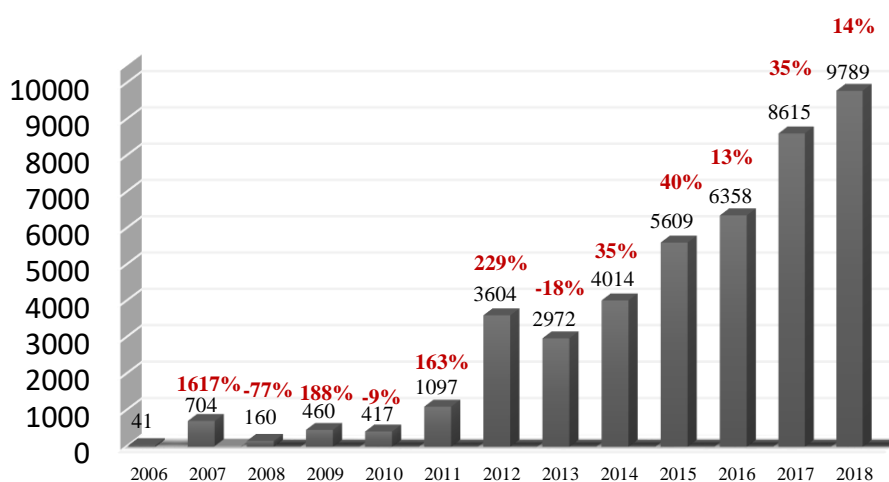


Source: The BBI Business Model – presented on 28 September 2019

Figure 5 above shows the BBI finance and deposits growth for the period 2006-2019. It shows an increasing trend. In general, BBI CAGR for finance was 24.4% as compared to the market CAGR of 6.9%. Similarly, BBI deposit growth was much larger than the market growth. In

particular, BBI CAGR for deposits was 24.5% while the market CAGR was 7.8%. The share of BBI finance and deposits in the market experiences also increasing trend (see Figure 6). Finance and deposits share of BBI increased from 0.55% and 0.63% in 2006 to 3.71% and 3.78% as of 30 June 2019 respectively.

Figure 7: BBI Net Profit and Growth (in BAM thousands)



Source: The BBI Business Model – presented on 28 September 2019

All these increasing trends led to rising net profits of BBI bank year after year as well. Although net profits have been going up and down since 2006, BBI bank recorded mainly rising net profits over the period. In this regard, as is the case with other parameters discussed earlier, BBI CAGR, when it comes to net profits, was 55.0% compared to the market CAGR of 9.4% (see Figure 7). All in all, BBI bank ranks 7th based on total assets, 8th based on total financings and 6th based on net profit results as of 31 December 2018.

In order to achieve all this, BBI bank used a comprehensive approach through raising public knowledge and awareness about benefits of Islamic finance. At the same time, it was facing significant challenges along the way. Consequently, BBI was obliged to fulfill both State banking guideline and Shari'ah standards simultaneously, while educating the public that Islamic finance is a viable, ethical and beneficial form of finance. Competing for reliable workforce with relevant expertise was an

ongoing challenge given a small market with limited economic activities and small population and where at some point 55 more banks existed.⁸

BBI's strategic vision and approach resulted in key tangible effects for the country and the economy including systematic entrepreneurial solutions by creating Sarajevo Business Forum (SBF) as an ongoing generator of future entrepreneurs and mentors. Every year, more than 1,000 participants are gathered at the SBF with a sole aim to advance and encourage economic development of B&H and the region through presentation of business ideas, offering networking services and paving ways for FDIs. While using SBF as a platform, BBI bank is able to get new and retain existing corporate customers by matching investors from all over the world with new business opportunities and projects in developing markets of the Balkans.

Furthermore, BBI's solution model works in a way that it consistently brings investors through VIP Business Club. It maintains public awareness about benefits of Islamic finance. BBI Academy and Master's Program continuously grow and educate experts. Beginning in 2013, students have the opportunity to pursue one kind of dual Master's program in Islamic Banking with University of Sarajevo, B&H and Bolton University, UK. Internally, BBI continuously trains its personnel on the principles of Islamic finance and banking operations through BBI Academy. Internal marketing and design experts execute on the principles of Islamic finance. Finally, PR journalists publish about the values and benefits of Islamic finance to complete BBI's solution approach. In other words, BBI Management was able to find a compromise that will satisfy client needs, the legal framework that will satisfy the country and state laws and provide alternative to interest.

Thus, BBI management board through its internal experts have defined internal business model of Islamic law pillars. In order to satisfy minimum regulatory requirements, BBI was able to set up parameters for its financings by implementing six Islamic commercial law pillars:

1. **All contracts between BBI and the client are Sharia based** - Bosnian regulatory framework does not authorize full-capacity Islamic banking.

⁸ There are 24 banks in Bosnia and Herzegovina right now: 16 in Federation of Bosnia and Herzegovina and 8 in smaller entity.

Prominent BBI Shari'ah board scholars have sought to ensure that all of BBI's financial arrangements comply with Shari'ah principles. Within the state's legal system, such contracts are appropriate (IFN, 2016).

2. **Development of Shari'ah-compliant products** - current products and services are designed to fulfil consumer requirements. BBI management, in partnership with experts from economics and Islamic commercial law, developed products and services that meet all contemporary banking needs in compliance with Shari'ah principles.
3. **Wakalah/Mudarabah contract on deposit side** - To its depositors, BBI guarantees that it will act as their agent or manager, invest in *halal* profitable projects and bring profit for both the client and the bank.
4. **Diminishing Musharakah (partnership) model and Ijarah (leasing) on financing side** - On the financing side BBI offers its clients – financing real economic value and *halal* projects.
5. **Financing *halal* projects** - BBI took approach of financing *halal* projects that bring additional value for the population with shared risk for the bank and the client. BBI is the first and only financial institution in the country that instituted a new ethical approach of ensuring client success. Its business operations are based on no cash selling, no speculation and offering non interest based services.
6. **Socially responsible projects** - BBI has been focused on socially responsible initiatives all the time and has spent a lot of its resources in structuring and executing other charity initiatives:
 - a. It constantly distributes scholarships to economically disadvantage students with great potentials. Starting in 2010, BBI has allocated a few million Euros for this purpose in cooperation with its affiliates.
 - b. BBI has introduced new funding lines with sole objectives of sustainable refugee return financing, based on Qard Hasan, agricultural financing line and others.

Due to mainly political reasons, BBI is yet unable to get updated State Law on Banks to pass that would allow Islamic Banks to operate under normal and acceptable conditions. With these six pillars, BBI managed to offer alternative and satisfy optimum needs and expectations on deposit side, financing side and services side.

Besides all of this, in October 2016, Sarajevo Stock Exchange (SASE) and BBI bank joined hands with an aim of establishing a list and index of companies listed on SASE and whose market practices are in line with Shari'ah values. BBI bank first developed a registry of firms, including those listed on SASE, whose activities comply with Shari'ah. This list is called “BBI list of companies – in cooperation with SASE.”

Initially, BBI bank's Shari'ah board evaluated and reviewed 177 companies. Out of 177 companies, 117 companies or 66 per cent of evaluated firms were eligible to be included in the index after both qualitative and quantitative evaluation. This led to creation of the Islamic index called “SASE Islamic Index Co-Created with BBI”.

All this is done in response to the growing demand for investment products which comply with Shari'ah. According to the management teams of both BBI bank and SASE, it is expected that this initiative would foster additional investments and activities in companies and the B&H stock market.⁹

Halal Industry

As part of its goal, the Islamic Community of B&H has undertaken a project to develop an Agency for Halal Quality Certification with the sole objective of developing a mechanism in B&H that will enable manufacturers to certify their manufacturing processes and market them with the label “*halal*”.

Islamic values and/or Islamic law provide the basis for the Agency's corporate objectives and policies. Founded in 2006, the Agency has responsibility for the halal certification of goods and services, training and promotion of the halal industry. The Company gained the status of an autonomous legal entity in 2007 by registering with the Bosnian Ministry of Justice.

In the process of establishing and developing this agency, experts from different scientific fields (Faculty of Islamic Sciences, Faculty of Agriculture, Veterinary, Medical and Technological Faculty) were hired.

⁹ For details about the index and its methodology see: <http://www.sase.ba/v1/en-us/SASE/About-SASE/SASE-Press/aid/31>.

This was done in order to apply modern scientific achievements and meet international requirements from the field of standardization in addition to full reliance and implementation of Islamic principles related to *halal* (permissible) and *haram* (impermissible). The product of their work is the drafting of basic acts of the Agency that form the legal basis for carrying out the process of certification and control of the application of halal quality requirements during the validity period of the certificate. These acts have been drafted to ensure that they comply with other internationally recognized standards such as ISO, HACCAP and CODEX ALIMENTARIUS.

The Council for the Fatwa of the Islamic Community in Bosnia and Herzegovina, comprised of the most prominent Shari'ah law authorities responsible for establishing positions and giving opinions on all Shari'ah issues in B&H, reviewed all the Agency's core acts and found that the provisions contained therein are all in accordance with Islamic principles. In its decision no. 54/05, dated 30 December 2005, the Fatwa Council approved that products manufactured in accordance with the basic acts of the Agency may bear the label '*halal*'.

Based on its competencies, and bearing in mind that the necessary preconditions were provided, the Islamic Community of B&H, at its session held on 22 February 2006, adopted the Decision on the commencement of work of the Agency for Halal Quality Certification. The Agency's headquarters are in Tuzla.

Article 5 of this Decision provides:

“The Agency's activity is to establish, monitor and verify standards, procedures, rules for production, monitoring and control of production in firms and companies that choose to have their products Shari'ah-approved - HALAL. The Agency will also be involved in scientific work, organizing scientific meetings and seminars, participating in scientific meetings, scientific and laboratory analyzes in its and other laboratories, and promoting the production of healthy and halal foods.”

The Agency for Halal Quality Certification is, according to the provisions of Codex Alimentarius, the world-accepted code for halal food, and under the provisions of the Law on the Position of Religious Communities and Churches in Bosnia and Herzegovina, the only institution in Bosnia and

Herzegovina authorized to issue certificates for halal quality and approving the use of the halal trademark on products.

The Halal standard is a document that clearly defines halal certification procedures. The Halal standard establishes:

- what is allowed and what is forbidden to Muslims;
- how the provisions of the Halal Standard are certified and verified;
- how halal slaughtering of animals is done;
- how halal products are labeled; and
- which are halal additives and which are not.

The Halal standard sets the same criteria for large, medium and small companies / enterprises in the process of request implementation. As such, the Halal standard is registered with the BiH Standardization Institute as a national standard called Halal Food - Requirements and Measures, BAS 1049: 2007, and is the second Halal standard in the world and the first in Europe to be registered.

The Halal standard is compatible with other international standards governing the area of quality production management (ISO, HACCP and others). In the previous period, the first edition of the Halal standard BAS 1049: 2007 was successfully audited and the second edition of the Halal standard BAS 1049: 2010 was registered. Considering previous experience in the process of halal certification, significant changes have been made in the content and scope of the Halal standard, and adjustments have been made to the requirements of the unique international halal standard of OIC countries.

According to the Agency, halal certificate is a declaration that declares product / service halal status, prepared individually for each customer and valid for 12 months. The certificate Halal includes the following details:¹⁰

- a) the name and geographic location of each client whose management system is certified (or the geographic location of the headquarters and any sites within the scope of a multi-site certification);
- b) the dates of granting, extending or renewing certification;

¹⁰ The following list is extracted from the Agency's website. For details, see: <http://www.halal.ba/index.php/en/faq-2>.

- c) the expiry date or recertification due date consistent with the recertification cycle;
- d) a unique identification code;
- e) the standard and/or other normative document, including issue number and/or revision, used for audit of the certified client;
- f) the scope of certification with respect to product (including service), process, etc., as applicable at each site;
- g) the name, address and certification mark of the certification body; other marks (e.g. accreditation symbol) may be used provided they are not misleading or ambiguous;
- h) any other information required by the standard and/or other normative document used for certification;
- i) in the event of issuing any revised certification documents, a means to distinguish the revised documents from any prior obsolete documents.

As of February 2020, there are 6,867 halal products, 120 halal producers, and 17 halal services.¹¹

Islamic Microfinance

After signing the *Dayton Peace Accord* in 1995 that led to the end of aggression on Bosnia and Herzegovina, the country was devastated and needed to be rebuilt. During this process, microfinance in general played an important role. In particular, microfinance sector provided necessary funds to support economy, especially small and medium enterprises (SMEs) and led to poverty eradication to some extent (Smolo, 2011).

The first Islamic Microcredit Foundation (MFI) in Bosnia and Herzegovina was established in 2001 by the Islamic Relief charity organization with headquarters in Birmingham, United Kingdom. Islamic Relief has existed in BiH since 1992 and has helped thousands of citizens across B&H with its major and significant humanitarian projects.¹²

The first Islamic MFI is the only microcredit foundation in B&H operating based on principles of Shari'ah and in accordance with Islamic banking principles. The Foundation does not use interest in its operations; therefore, it does not have a nominal interest rate, it does not use default

¹¹ Ibid.

¹² See <http://www.islamic-relief.ba/>.

interest rates, and it does not take the court interest rates associated with it.

In 2013, the Foundation was the subject of a Shari'ah audit by the IFAAS Shari'ah audit house in England, which issued a certificate stating that the Foundation's entire business operations were in accordance with AAOIFI Shari'ah Standards.

Since its inception in 2001 until 2017, the Foundation has placed more than 17,000 interest-free *Qard Hasan* loans to the B&H market and helped many citizens improve their standards of living. With interest-free micro-credit, our clients have started small businesses, completed schools, renovated their homes, etc. The maximum amount that a client may get is 10,000 BAM.

The Foundation places its loans on the territory of B&H and to all B&H citizens. The Foundation's microcredit program is designed to help the socially disadvantaged population obtain an interest-free loan with a simple application procedure. The target groups are: yatims (children without parent(s)), widows, people with disabilities, farmers, socially disadvantaged categories, pensioners, employees, etc.

The Foundation pays great attention to empowering women and improving their position in B&H society. Women are the pillar of the family and should play an active role in society and the decision-making process. By 2017, the Foundation has offered more than 8,000 loans to women with interest-free lending projects, many of them starting their own businesses or completing education. The Foundation sees the future of micro-credit through investment in agriculture, and plans to implement a number of projects in agriculture in the coming period.¹³

Islamic Insurance (Takaful)

While 25 traditional insurance companies currently operate in Bosnia, there is still no Takaful operator. That does not, however, mean that no steps are taken to arrive at a feasible solution. Talks and consultations were held in a variety of occasions and between different parties.

¹³ For details see: <http://mfi.ba/index.php/bs/pocetna/>.

There are some reports that a feasibility analysis has been conducted and that a major donor is likely to shore up this initiative once a potential company is ready for business entry. The lack of the mandatory laws and regulations, the political and economic turmoil and the limited scale of the market are clear hurdles for this to occur in the coming years.

However, it should be remembered that while the Bosnian economy is comparatively insignificant it can be used as an entry point for a wider, stronger European economy. Consequently, there is a great potential for growth and expansion for a company that may decide to enter this market and take advantage of a first-mover.

Conclusion

In this paper we showed that the IFI in B&H is faces with a number of issues, namely: (i) unawareness of Islamic banking and finance concepts; (ii) non-existence of legal and regulatory framework(s) for the IFI; (iii) a lack of skilled manpower; (iv) hostility towards ‘Islamic’; (v) misunderstanding of Islamic products and services; & (vi) no government support whatsoever.

Despite all of this, the IFI is experiencing increasing trends, especially Islamic banking sector and halal industry. Non-existence of *takaful* operators as well as the presence of a single Islamic bank can be seen as a consequence of the existing business landscape that does not fulfill the unique needs of this sector, as well as future prospects for new entrants in the market. Islamic microfinance, although since 2001, is lagging behind its conventional counterparts.

Having said that, there are at least two steps that need to be taken if this sector is to expand faster and to be more competitive. First, the government must play a decent and better role in supporting the industry and also in establishing an effective legal and regulatory environment that will promote the growth of not only BBI but also other Islamic banks and financial institutions in the market that want to penetrate the B&H market.

Second, we need a systematic approach to branding, public education and awareness regarding the marketplace and its values. This is undoubtedly the greatest barrier to the potential growth and progress of Islamic finance in, and beyond, Bosnia and Herzegovina.

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