CHANGING WORLD, NEW RELATIONSHIPS

9TH WIEF

EXCEL LONDON, UNITED KINGDOM

29 - 31 OCTOBER 2013

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Creating a knowledge-based economy

As seen in The Book of Travels exhibition – from the Nasser D. Khalili Collection: MSS 152.1.
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There has been a constant conversation between Islam and Muslim communities and Europe and its communities. It is a mutual history woven together through the trade in goods and ideas. This knowledge economy has been vital in the progress of societies across the world and new insights into science, arts, theology, architecture and finance.

The Book of Travels exhibition (see www.thebookoftravels.org) explores this exchange. We illustrate how the Ottoman Empire socially, culturally, and financially touched the lives of English people directly in the 17th century. This thriving ecosystem of diverse perspectives, skills and talents is a heritage that we keep alive.

'Maslaha' translates from the Arabic as 'for the common good' and this is the driving force behind all our work. We tackle social issues affecting Muslim communities as well as creating a greater understanding of Islam from a cultural and historical perspective. We combine religious and cultural understanding with social enterprise to work in areas of health, education and aspiration.

Central to the success of our work is our diverse network. Professor Michael Sandel, a leading thinker on political philosophy and a professor at a Harvard University, explained in a lecture at the London School of Economics how true democracy happened when we learned to live with each others' differences and learned to bump up against one another. Historically, this country has been adept at this often messy 'bumping' for centuries, with a constant flow of migration of people and ideas.

This kind of rich diversity, this mix of communities, leads to unexpected innovation and new ways of addressing long-standing problems. During the course of our projects, which straddle a number of sectors, the mix of people are our most valuable asset and lead to new networks of collaboration.

Our online health resources, which tackle conditions such as diabetes, heart disease, pregnancy and depression (see www.caringforyourheart.org and www.talkingfromtheheart.org) have welcomed the participation of GPs, patients, Islamic scholars, therapists, dieticians, film-makers, Sure Start centres, supermarkets and schools. We have been fortunate enough to win awards for examples of good practice and have been endorsed by national organisations such as the Royal College of General Practitioners, Diabetes UK and Mind. We have also been approached by organisations and government agencies in other European countries, the US, Canada, India and the Gulf, who are also interested in using our health resources in their own context.

"I have been a GP in this area for 10 years and this has been the most successful health intervention I have used"

– Dr Nadim Khalid, GP

The approach of creating knowledge locally with relevant communities to tackle a particular social issue, whether this is in London, Birmingham, Paris or Marseille, then diffusing this through online and offline networks, is a strategy we are looking to expand.

Financing these projects is vital, otherwise they would not happen. But what is also important is an investment of knowledge and skills into communities so that they are able to lead change in their societies. They appear to be members of voiceless communities because they do not have a significant public profile, but are potentially far more innovative and useful in tackling social issues than the more established or 'creative hubs of the moment'. In fact, they have a huge voice in the cities they work in through the impact of their beliefs and actions. Less well-connected organisations need to learn how to leverage social, political, financial and cultural capital in order to help create systemic change.

The endlessly evolving DNA of our public imagination needs to be fed by the images and stories of the past and the present, and this is, above all, an open invitation. Our communal imagination contains timeless messages to be used and reused, not to be shelved in a dusty corner of our collective memory.

Historically, religion and the imaginative arts have a heavy presence in this global and timeless archive and we all have a right to access this rich collection. It will lead to a more profound understanding of the world.

As the poet Seamus Heaney writes in his collection of essays entitled, *The Government of the Tongue*:

"Art is not an inferior reflection of some ordained heavenly system but a rehearsal of it in earthly terms; art does not trace the given map of a better reality but improvises an inspired sketch of it."

Raheel Mohammed,
Founder and Director of Maslaha
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maslaha

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9TH WIEF
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Printed by Cambrian Printers, managed by TU Ink
ISBN: 978-1-906940-82-9

Published in conjunction with the 9th World Islamic Economic Forum (WIEF), ExCeL London, 29-31 October 2013

www.wief.org
www.9thwief.org

Published by
newsdeskmedia
www.newsdeskmedia.com

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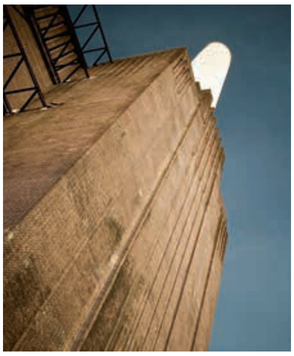

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Trade and investment: creating ties


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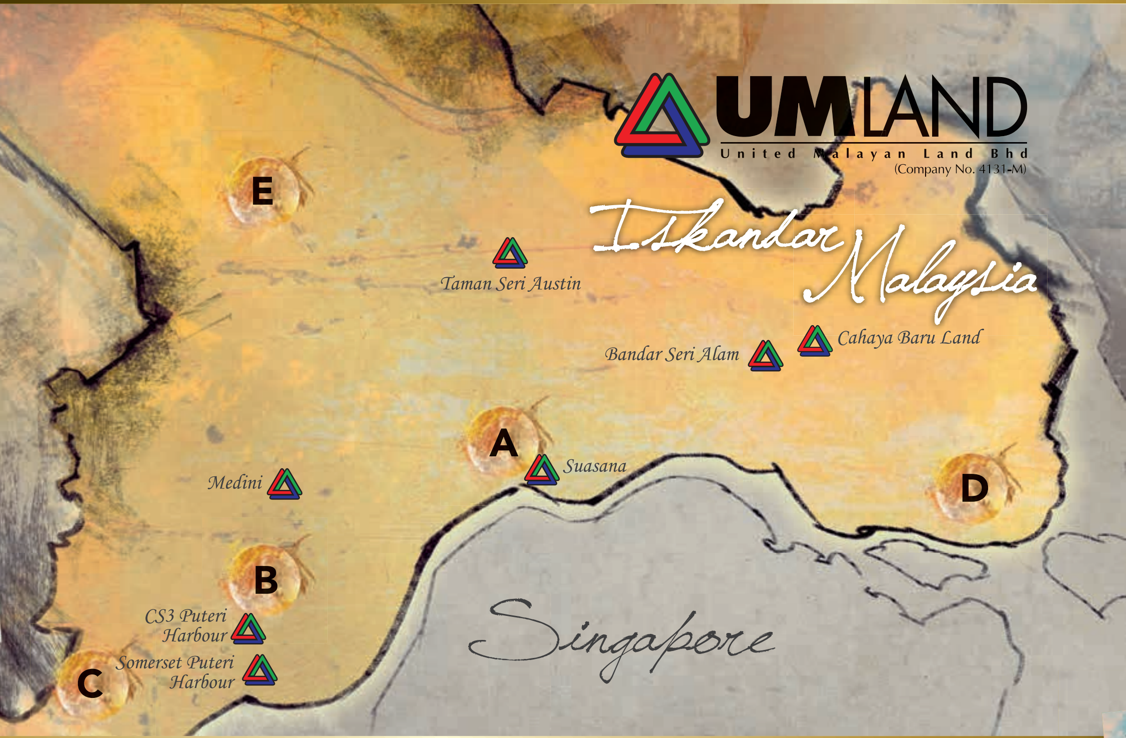

UMLAND
United Malayan Land Bhd
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Iskandar Malaysia

presents an all-encompassing region at the Southern Gateway of Malaysia. Covering an area of 2,217 square kilometres; stretching from West to East - the town of Pontian to Pasir Gudang, and from North to South - Senai to the city of Johor Bahru, this behemoth vibrant development zone is an economic gemstone for Malaysia, a towering achievement and a magnet for a multitude of investments.

UMLand is one of the largest property developers in Iskandar Malaysia with a total land bank of more than 1,600 acres within this region. The Group's development blueprint underscores its current and future focus in Iskandar Malaysia with projects in four out of the five flagship zones.

A Johor Bahru City B Nusajaya C Western Gate Development D Eastern Gate Development E Senai-Skudai

TOP INVESTMENTS IN ISKANDAR MALAYSIA

TAMAN SERI AUSTIN TOWNSHIP

Located within the popular growth corridor of Tebrau in Johor Bahru, the gateway to a bustling township with an abundance of surrounding amenities such as Aeon, Tesco, Sunway College, international schools and a golf course where vibrance and serenity are at your fingertips.

BANDAR SERI ALAM TOWNSHIP

Apart from City of Knowledge, Bandar Seri Alam's property developer, Seri Alam Properties Sdn Bhd has been awarded with 3 prestigious international Asia Pacific Property Awards 2013-2014 on their Sapphire 8 development.

The Newly launched Fortuna Hub Premier, 4-Storey Shop Offices complete with individual lifts is set to be the CBD of Bandar Seri Alam.

CS3 PUTERI HARBOUR

Parcel CS3 is a 6.7-acre land near Somerset Puteri Harbour. Riding on the success of Somerset Puteri Harbour, UMLand is set to grow its niche development plans in Puteri Harbour, with the proposed mixed development in CS3.

SUASANA

Suasana is a new multi-million ringgit mixed-development project comprising a hotel block, a service apartment tower and a retail podium on 1.5-acres of freehold commercial land.

It is strategically located in Johor Bahru Central Business District (CBD) - a prime area earmarked for transformation of JB into a world-class city under the Iskandar Malaysia RM1.8 billion masterplan.

MEDINI

Medini, Iskandar is primed to be the next focal point of international interest with catalytic projects of health, education and wellness as well as high-tech media parks and villages. Located at the main gateway into Medini, the UMLand Medini Lakeside project will be a showcase development of innovation and sustainability suited to an international audience.

SOMERSET PUTERI HARBOUR

This niche development consists of twin blocks of 168 units of luxurious boutique concept serviced apartments of residence at the scenic waterfront and marina of Puteri Harbour.

CAHAYA BARU MIX DEVELOPMENT

Cahaya Baru is a mixed-development project located in Pasir Gudang, the Eastern Gate of Iskandar Malaysia. This development comprising industrial, commercial, logistics, transportation hub and residential units on 347-acres of freehold land is sited at the southern side of the newly completed Senai-Desaru Expressway (SDE), an expressway linking Senai, Pasir Gudang and Desaru development.

ASIM HAFEEZ/BLOOMBERG VIA GETTY IMAGES

REUTERS/SUPRI

A new relationship: marrying Sharia and responsible investment

By Hasan Al-Jabri, chief executive, SEDCO Capital

Tun Musa Hitam, chairman of the World Islamic Economic Forum Foundation, has said that "when people get together for business, they forget their political, religious and ideological differences because there is one compelling commonality that matters most before them – and that is the impetus to be peaceful and prosperous". Nothing could be truer for responsible investors around the world. Responsible and ethical investors want to create real value for economies and improve quality of life for people, wherever they live. This goal is shared by Sharia investors, the first-ever responsible investors, who have long been focused on building a more sustainable financial system and creating wealth for the world's citizens.

The theme for the 9th World Islamic Economic Forum is 'Changing World, New Relationships'. This resonates deeply with SEDCO Capital's philosophy of linking the principles of Sharia to those of ethical and responsible investment. A new relationship is emerging that marries the industry's definition of what makes a responsible investor with what Sharia scholars have always seen as principled investment.

At SEDCO Capital we conducted extensive research to establish what we instinctively thought would be a symbiotic relationship between two sets of principles: socially responsible investment (SRI) and Sharia. We were delighted to find that Sharia-compliant companies are more than 90 per cent aligned with those that an asset manager applying UNPRI principles can invest in. Sharia and SRI both focus on sustainable economic development, avoiding alcohol, tobacco, gambling and firearm companies, as well as companies that hurt the environment, while partnering risk and reward.

Meanwhile, the socially responsible investment industry of $6 trillion and the Islamic finance industry with $1.6 trillion have both been on a growth trend over the past 10 years. SRI assets under management have grown by 26 per cent a year in Europe since the financial crisis, compared to only 0.4 per cent for all assets under management[1], while global Islamic financial assets under management have risen by 20.2 per cent from 2011 to 2012[2].

We recognised that by satisfying the SRI criteria in our funds, the universe of investors we could serve would quadruple – opening up a market of more than $7 trillion globally. To meet this demand, SEDCO Capital created the first-ever investment funds (two funds) that provided investors with the benefits of Sharia compliance and socially responsible investment. It was clear that the integration of environmental, social and governance (ESG) criteria adds a more universal approach, as well as an active involvement role to ensure compliance with ethical values to a Sharia-compliant investment strategy, while the principles of Sharia have a positive impact on the performance of SRI-compliant portfolios.

Bringing ESG into the equation changes all that. For the first time ever, investors can take steps to preserve the wider environment while benefiting from a Sharia-compliant approach. Equally, socially responsible investment builds on Sharia investment by adding in the element of active engagement with companies, while Sharia delivers investment in strong, de-levered companies, at the same time excluding usury and speculative products that do not add value to the real economy.

The 'new relationship' of Sharia and socially responsible investment has the potential to meet the demand of a wide range of long-term investors who are working towards the same goal: adding value to the real economy and improving people's lives. Responsible investors who may have never considered a Sharia-compliant investment strategy before can now reap the rewards of an approach that integrates both Sharia and responsible investment principles.

For the first time ever, investors can take steps to preserve the wider environment while benefiting from a Sharia-compliant approach

1. *European SRI Study,* Eurosif, 2012
2. *Global Islamic Finance Report,* Edbiz Consulting, May 2013

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SEDCO CAPITAL GLOBAL FUNDS

Helping to sustain communities is a fundamental ingredient of everything we do.

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To learn more about our community efforts around the world, visit www.thecoca-colacompany.com and download our 2012 sustainability report.

The Rt Hon David Cameron MP

Prime Minister of the United Kingdom

The future of Islamic finance in the global economy looks bright. With 10 of the world's 25 fastest growing markets in Muslim-majority countries, industry forecasts estimate that Islamic investments might grow to £1.6 trillion by 2015.

The UK – and London in particular – has already become a centre for Islamic finance. More than a dozen banks deliver Islamic finance transactions. There is hardly a large professional services firm that does not have specialist Islamic finance teams. And Islamic finance has helped transform London's skyline by financing in whole or in part developments such as The Shard, Chelsea Barracks, Harrods and the Olympic Village.

I am therefore delighted that London is the first city outside of the Islamic world to host the World Islamic Economic Forum (WIEF), demonstrating the UK's position as a global partner of choice for Islamic finance with the expertise, innovation and services fundamental to the industry's growth.

An international conference for an international industry

Kamal bin Ahmed
Minister of Transportation and Acting Chief Executive, Bahrain Economic Development Board

We are very pleased to be a partner of the World Islamic Economic Forum and are particularly pleased to be involved this year; the first time that the conference is held in London.

While the historical centres of Islamic finance may be in the Middle East and South-East Asia, the industry is now an international one – something that is becoming increasingly apparent in the number of countries represented at the major conferences across the world. Given this, it is only fitting that we should be here in London.

From a very small starting point a few decades ago, the Islamic finance industry is now, by some estimates, worth more than $1 trillion. This growth reflects not only the increasing appeal of an industry based on ethical finance, but also a growing demand for financial products in the regions in which Islamic finance has been strongest. Economic growth in South-East Asia, the Middle East and, in particular, the $1.5 trillion Gulf market, has seen demand for financial services grow at a rapid pace and Islamic finance has been an important part of that mix.

This growth in traditional markets has been complemented by nascent sectors emerging in a large number of other regions across Africa, Asia and Europe.

Alongside this internationalisation, the industry has also seen expansion in the range of the products and services that it offers. From investment banking to retail banking, from takaful to fund management, from sukuk to microfinance, the increasing sophistication of the Islamic finance industry has been an important part of its growth so far, and will be a crucial factor in its growth in the future.

Importantly, as the industry becomes more international and sophisticated, this also increases the need for institutions across the world to work together. Twenty years ago, when we first hosted the World Islamic Banking Conference in Bahrain, you could fit all the people who mattered in the Islamic finance sector into a room considerably smaller than the ExCel London. But as the industry expands globally and as it encompasses more products and asset classes, so too must the way that the industry meets change to reflect this.

The challenges that the industry needs to address can no longer be addressed by a few dozen people. If we are to know what products need to be developed, which standards need updating or which sectors are seeing the strongest demand for qualified, highly skilled staff, then we need to know not only what is happening in the Gulf and Malaysia, but also what is happening in Central Asia, East Africa and Europe.

This is why I am particularly pleased to be meeting you in London this week. The UK has a long, proud history as a financial centre. The clear commitment shown by the UK government and the City of London to build on its existing position with the aim of becoming a leading player in the international Islamic finance sector is a very encouraging sign for the industry as a whole and one that can only help its development.

Bahrain has been a part of the modern Islamic finance industry for more than three decades, and we have been proud to play a role in helping to develop the industry to where it is today.

We are delighted to be a part of both the World Islamic Economic Forum this week and the world of Islamic finance as it enters its next phase of growth in the coming decades.

Islamic finance in Bahrain

A regional centre at the heart of one of the world's most exciting markets

A REGIONAL HUB WITH EXCELLENT OPPORTUNITIES FOR GROWTH

The $1.5 trillion Gulf market – one of the world's biggest opportunities

- GCC economy is worth $1.5 trillion and is set to grow to $2 trillion by 2020
- A young and expanding population, coupled with growing economy is creating strong demand for financial services – with Islamic finance at the heart of this
- Bahrain's low operating costs, highly skilled local workforce, excellent regional connectivity and tried and tested regulation make it an ideal location from which to access this market

Islamic banking – a central part of the financial sector

- Islamic retail and wholesale banks account for 13.5 per cent of banking assets in Bahrain – a share that continues to increase
- Home to 24 Islamic banks with assets of $26.2 billion – up from $1.9 billion in 2000 and set to expand as consolidation helps to create an increasingly mature sector with greater scale

Takaful and funds – diversification of growth

- Eight locally incorporated takaful firms and growing demand as insurance penetration in the region begins to catch up with international averages
- Several conventional insurance providers are responding to this demand by creating takaful arms, including Legal & General Takaful, Medgulf Allianz Takaful, Chartis Takaful Enaya and Solidarity General Takaful
- Retakaful, the reinsurance arm of takaful, is also growing strongly and Bahrain is home to several international names in the sector, including Hannover ReTakaful
- Bahrain is home to 50 locally domiciled Sharia-compliant funds and the sector is set to expand as a growing and affluent population looks to more sophisticated financial products, and as rapid economic growth drives more investors to put their money to work locally

A GLOBAL PIONEER

A global content and knowledge hub

- Bahrain is home to the largest concentration of Islamic financial institutions in the world
- A content and knowledge hub home to:
  - The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)
  - The International Islamic Financial Market (IIFM)
  - The General Council for Islamic Banks and Financial Institutions
  - The Islamic International Rating Agency (IIRA)
  - Thomson Reuters Global Islamic Finance Hub
  - Deloitte's Islamic Finance Knowledge Center

Sovereign sukuk – a global pioneer

- The first central bank in the world to develop and issue sukuk in 2001
- Regular short-term issuance, which are often oversubscribed
- Long-term issuance at benchmark levels – in 2011, the CBB raised $750 million through a seven-year sovereign sukuk

Regulation and research – helping to develop industry standards

- The first country in the world to develop and implement regulations specific to the Islamic banking industry – 2001
- The first comprehensive regulatory framework specific to takaful and retakaful companies – 2005
- Investment in training and research through the Waqf Fund and engagement with industry and stakeholders in developing industry standards and the standardisation of market practices

For more information on Bahrain visit www.bahrain.com; for further information on the EDB visit www.bahrainedb.com

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HE Dato' Sri Mohd Najib bin Tun Abdul Razak

Prime Minister of Malaysia and Patron of the World Islamic Economic Forum

I am very pleased that London is hosting the 9th World Islamic Economic Forum on 29-31 October 2013.

For the past eight years, the forum has met in Asia. But this year it will meet in the West. London will hold the first World Islamic Economic Forum in a non-Muslim country.

It is a recognition not only of London as a place of ideas and discourse; but also as a bastion of tolerance and inclusivity amidst an often divided world. This reputation stretches back centuries. Throughout its history, London's commercial ambition has shaped its world view.

It is also a chance for Malaysia to bring a new perspective to London. The rise of the Islamic economy and financial services industry, for instance, is one of the more important stories of the past few decades.

In less than 40 years, Islamic banking has gone from an obscurity to a trillion-dollar industry registering annual growth rates that have surpassed the conventional financial system, and offering a full range of Islamic financial products and services. Halal, which most people associate with food, covers everything from pharmaceuticals and logistics to cosmetics and tourism; a $2.3 trillion dollar market providing for more than 1.6 billion Muslims.

The opportunities for London, an open city with unparalleled financial expertise and a diverse population, are clear. That is one of the reasons why, in October, the World Islamic Economic Forum will bring business and government leaders from both the Muslim and non-Muslim world here to talk inter alia about the role of women in business; about how to help our cities meet the challenge of growth. About the potential for collaboration on technology and education, about the role governments have in promoting economic growth, and about the importance of moderation and tolerance within Islam, as well as in the wider world.

I thank and pay tribute to Tun Musa Hitam and his team for their work over the last eight years, and for their inspirational proposal to bring the forum to London. I would also like to thank UK Prime Minister David Cameron and his government, and the Mayor of London, Boris Johnson for agreeing to host the World Islamic Economic Forum in London and for their cooperative work with the Forum's secretariat.

By working together on projects that benefit both the Muslim and non-Muslim worlds, I believe we can find the best in each other, including in business; and find common ground between our cultures.

Embracing Global Recognition

The RAM League Awards epitomise the recognition of accomplishment and leadership that are bestowed on exceptional trailblazers and stakeholders who have raised the bar in advancing the Malaysian and global sukuk and bond markets.

With 23 years of track record, RAM Rating Services Berhad is the leading credit rating agency in ASEAN. RAM has been rating sukuk since 1994 and has grown in tandem with the development of the global sukuk market. Experience with global sukuk issuance has equipped RAM with vital understanding and knowledge, positioning us as a major player in the global sukuk market. Since 2008, RAM has rated numerous companies from the GCC who have raised sukuk in Malaysia.

With RAM's unique experience and technical capabilities, we have rated 90% of the financial institutions in Malaysia and have a dominant 60% share of the Malaysian sukuk and bond markets. We have leveraged on this extensive experience and expertise to share our pioneering experience to help develop nascent markets in Sri Lanka, Bangladesh and Kazakhstan.

Provide insightful credit opinions and service of exceptional quality, integrity and objectivity - domestically, regionally and internationally

As a domestic leader and an influential sukuk rating agency in the ASEAN region, we strive to maximise our potential and make a bigger mark on the global front. To date, we have rated 23 foreign entities across 12 countries and 5 of the largest sovereigns in ASEAN. With in-depth understanding of the sukuk market, underscored by our established credit rating methodologies, we aspire to rise alongside the growing Islamic financial landscape and play a significant role in shaping the global sukuk market.

RAM is a member of the Malaysian Islamic Financial Centre and the Securities Commission of Malaysia's Islamic Capital Market committees. We are also associated with the Islamic Financial Services Board (IFSB) and the Bahrain-based International Islamic Financial Market (IIFM) and we are regularly invited to share our expertise at local and international conferences, including the World Islamic Banking Conference and the Oxford Centre for Islamic Studies' Roundtable Dialogue.

Shape the Future

with the world's eminent palm oil group

The Felda Group is the world's largest oil palm plantation operator that manages 850,000 hectares of land bank.

The establishment of **Federal Land Development Authority (FELDA)** in 1956 to undertake the world's biggest and most successful national land development and poverty eradication programme has since expanded into various business ventures, giving birth to a number of private corporate entities.

The largest of these, **Felda Global Ventures Holdings Berhad (FGV)** has over 90 subsidiaries and associate companies across four continents. Aspiring to be the leading globally diversified integrated agri-business, FGV is principally involved in three main business segments of oil palm plantation, downstream and sugar.

As an entity with profit-oriented target but with a social mission, the Felda Group accentuates sustainability in all three areas of people, profits and planet. These include 112,635 settlers and around 27,000 employees, steady growth of income, and being an active member of the Roundtable on Sustainable Palm Oil (RSPO) since 2004. A strong advocate of green energy, our Power Plant in Sabah is the world's first 'Green Electricity' project that uses empty fruit bunches as fuel. FELDA currently has evolved via its transformational initiative of becoming the "Economic Powerhouse" by year 2020.

With a solid foundation and proven achievements, Felda Group is poised to chart the next phase of growth. Be our partner in shaping the future of the world's largest agri-based industry.

Together, we ensure the sustainability of the world we live in.

www.felda.net.my

www.feldaglobal.com

Boris Johnson

Mayor of London

It is an honour to welcome you to London for the 9th World Islamic Economic Forum in what is an historic first for a city outside the Islamic world.

Staging this prestigious international event gives London an ideal platform to promote our credentials as a hub for Islamic finance. London's growing strength in this prospering sector, combined with a one-stop-shop of first-class professional services, is helping to ensure that the city remains an attractive prospect for overseas businesses and investors.

Driven by global market demands, there's a voracious appetite for Islamic products. London is already Europe's foremost centre for the sector, and propelled by the arrival of the World Islamic Economic Forum, we want to do all we can to ensure this momentum continues.

Islamic finance is already playing a major role in shaping the economic and physical landscape of our capital city. The newly opened Shard, the extraordinary redevelopment of Battersea Power Station and the Olympic Village were paid for at least in part by Sharia-compliant finance. These developments are catalysts for high-profile, ambitious regeneration schemes, and as such, are driving significant economic growth and creating tens of thousands of jobs.

There is enormous scope for overseas investment of this type in London. We have identified 33 key opportunity areas around the city and we are home to world-leading financial, technology, life sciences and creative sectors. Billions of pounds is being invested to improve our transport networks in order to unlock every corner of the city, whilst our fast-growing population is projected to reach almost 10 million people by 2030, creating a demand for 400,000 new homes and commercial spaces for the next generation of businesses.

We have worked hard to ensure that you have a productive and enjoyable stay during your time here. I hope this enables you to find out more about our great city and that this marks the start, or the deepening, of a continuing mutually beneficial relationship.

A forum built on inclusivity reaches out to new markets

Chairman of the WIEF Foundation **Hon Tun Musa Hitam** outlines a new direction for the forum, which has turned its attention to reinforcing business ties between the Muslim and non-Muslim worlds

The 9th World Islamic Economic Forum (WIEF) convenes at London's Excel Centre on 29-31 October 2013. The theme for WIEF 2013, 'Changing World, New Relationships', articulates the inclusiveness behind the event's objectives of promoting business ties not only between the Muslim world, but also with the world at large, especially the United Kingdom, Europe, Asia and Africa.

The forum was originally formed to facilitate business within the Muslim world and for the past eight years, it has met in Asia. However, we've discovered that when people get together for business, they can put aside their political, religious and ideological differences because there is one compelling commonality that matters most – the impetus to promote peace and prosperity. That's why we have chosen to meet outside the Muslim world in 2013.

The rationale behind why London was chosen to host WIEF 2013 is clear. We chose London because it is a truly global city, which embraces international partnerships. But we also chose London because of its status as a leading financial and cultural centre of the world, and a business gateway between the Muslim and non-Muslim worlds.

The topics that will be discussed at WIEF 2013 are many and cover a wide spectrum

There is also a historic relationship between the UK and Islamic economies, as well as strong current investment links. The new development at London's iconic Battersea Power Station is evidence of Malaysia's commitment to the UK, for example. The UK, too, is a great investor in Islamic economies, through companies such as British Petroleum, Rolls-Royce, GlaxoSmithKline and Dyson.

Islamic economies are among the fastest growing in the world. But it would be complacent and short sighted to only concentrate on trade between markets that already know each other well.

When innovation, communication and technology is bringing our worlds closer together, we have to look beyond our borders and reach new markets in order to ensure that we are ready to face the challenges of a truly globalised world in the years ahead. And WIEF 2013 will showcase the very best that the Islamic world has to offer as a lucrative trade and investment hub.

The potential of Islamic economies

Let us not undersell the potential of Islamic economies. The Islamic finance sector is worth an estimated £1.2 trillion ($1.9 trillion), and is expected to grow to £1.6 trillion by 2015. Islamic economies contain 25 per cent of the world's total population and rank among half the world's fastest growing economies. Therefore, Islamic economies have the potential to bring great growth prospects to businesses all over the world. This is where WIEF can add great value.

We offer something unique – we are bringing together leaders from across the world, as well as more than 1,500 captains of industries, academic scholars, regional experts, professionals and corporate managers from 120 countries. These delegates will discuss innovative solutions to global problems, from healthcare and education, to nurturing future female chief executive officers, to boosting trade partnerships.

The forum is more than a talking shop. Last year, at the Eighth WIEF, deals worth an estimated RM28 billion ($8.8 billion) were struck. So we can add great value as an organisation.

The topics that will be discussed at WIEF 2013 are many and cover a wide spectrum, including urbanisation, trade and investment, Islamic finance, the role of women in development, promoting youth employment, the role of small and medium-sized enterprises, collaboration in technology, biotechnology, biodiversity and education.

There is a lot to cover. But we have a comprehensive set of keynote speeches, panel discussions, workshops, networking breakfasts, evening receptions and dinners, so delegates will have plenty of time to discuss the challenging agenda. WIEF also runs a series of seminars and workshops throughout the year and around the world, which seek to find solutions to the global challenges we face.

The commitment and support from governments and businesses globally that we have secured during our short nine-year history is a great achievement. WIEF has an exciting future and we look forward to growing further in the years ahead.

Islamic finance is one of the very few original concepts to emerge from the South. Its proliferation has been remarkable over the past three decades, with Malaysia leading the way. It is undoubtedly an important element of the WIEF mandate.

London will use the opportunity to seek to extend its role as a Western hub for Islamic finance, building on the £22.3 billion that has been raised to date, by promoting its status as the leading exporter of financial services across the world.

But WIEF 2013 will be discussing opportunities beyond Islamic finance, which is only one part of what we offer. There will be an opportunity to hear from global leaders, such as Honorary Fellow of the WIEF Foundation and President of the Islamic Development Bank, HE Dr Ahmad Mohamed Ali; Patron of the WIEF Foundation and Prime Minister of Malaysia, HE Dato' Sri Najib Tun Abdul Razak; HM Sultan Hassanal Bolkiah of Brunei; HM King Abdullah II of Jordan; President of Afghanistan, HE Hamid Karzai; President of Kosovo, HE Atifete Jahjaga; President of Bangladesh, HE Abdul Hamid; Vice President of Indonesia, HE Boediono; Member of the Presidency of Bosnia and Herzegovina, HE Bakir Izetbegovic; Prime Minister of Morocco, HE Abdelilah Benkirane; Prime Minister of Pakistan, HE Mian Muhammad Nawaz Sharif; Deputy Prime Minister of Iraq, HE Dr Rowsch Nuri Shaways; Deputy Prime Minister of Kazakhstan, HE Asset Issekeshev; Premier of Bermuda, HE Craig Cannonier; Crown Prince of Bahrain, HRH Prince Salman bin Hamad bin Isa Al Khalifa; Crown Prince of Dubai, HH Sheikh Hamdan bin Mohammed bin Rashid Al Maktoum; Prime Minister of the UK, HE David Cameron; and Mayor of London, Boris Johnson.

Networking opportunities

Delegates can also network with organisations including BDA China, Jaguar Land Rover, the Islamic Development Bank, Xenel Group, the World Health Organization, Halal Food Festival, JS Comsa Corporation, SEDCO Capital, PricewaterhouseCoopers and the Aga Khan Development Network.

Islamic finance has proliferated remarkably over the past three decades. Its connectivity with the multi-trillion-dollar global halal business sector is important and a core component of our mandate.

Halal trade is among the fastest growing global businesses in the world. The total value of the worldwide halal market is estimated at $2.3 trillion a year. In the halal food sector alone, the market is estimated at $610 billion annually. We will therefore be devoting significant parts of this year's programme to the halal industry, and workshops that will explore how we develop the provision of halal tourism in hotel, food and entertainment. We will be joined by experts such as Datuk Jamil Bidin, chief executive officer of the Halal Industry Development Corporation and Fazal Bahardeen, founder and CEO of Crescentrating.

This year's forum will address several new issues in an effort to modernise the WIEF structure and take account of developments in economic management and free markets, advances in technology and the proliferation of social media and its use in poverty alleviation, as well as the promotion of microfinance.

We will, for instance, cover harmonising global standards on Islamic finance, and how a concerted effort is required in order to push the Islamic finance industry forward. What are the policy-making steps we need in order to achieve that?

Jeff Lynn, CEO of Seedrs and global leader in the democratisation of investment, will be discussing how to capitalise on the online market – an area in which the UK leads globally. Our digital experts will consider how advancements in digital technology and innovation can enable countries to develop rapidly and connect the world in new ways. How can we learn lessons form London's Tech City and what are the prospects and opportunities for collaboration between these clusters around the world?

REX/JULIAN MAKEY

Chairman of the World Islamic Economic Forum Foundation Hon Tun Musa Hitam

Our sessions led by the world's leading female businesswomen, such as Raja Teh Maimunah, CEO Hong Leong Islamic Bank, Helena Morrissey CBE, CEO Newton Investment Management and Samia Bouchareb, general manager of The Coca-Cola Export Corporation (Morocco and Equatorial Africa) will explore the abundant opportunities for businesswomen to build relationships across sectors locally, nationally and internationally.

We will also have a major section on exploring microfinancing in social enterprise. We have seen how small-scale lending can be an effective way to support social businesses. We will also address youth unemployment and apprenticeships, and how the power of philanthropy can shape economies.

Stimulating dialogue and generating growth

WIEF 2013 will bring together key stakeholders, providing an opportunity for discussion and partnership, says Secretary General of the WIEF Foundation **Tan Sri Ahmad Fuzi Abdul Razak**

Our expectations for the World Islamic Economic Forum (WIEF) 2013 are to do something positive for the Ummah (Muslim nation) by providing a platform for interactive dialogue, as well as networking, on relevant economic issues – essentially what we have been doing for the past nine years.

I believe there is a good chance to further strengthen relations between Muslims and the non-Muslim world. We have noted that, when people get together for business, for example, they can put aside their political, religious and theological differences because there is one compelling commonality for most of them – the impetus to promote peace and prosperity.

So, at the London forum, we will showcase to a global audience the very best that the Muslim world has to offer as a trade and investment destination. Beyond that, it is also our hope to see some tangible outcomes arising from the forum that would be beneficial to all the participants.

We have structured the London Forum to allow for multilayered discussions, in particular we have plenary sessions, master classes, special programmes, a marketplace of creative arts, a Business Expo, business networking breakfast, as well as a British Pavilion, showcasing what Britain has to offer.

We have an impressive line-up of more than 200 speakers, including some 17 global leaders, a number of ministers, central bank governors, captains of industry and decision-makers, not only from the government side, but also from the private sector. We expect to see more than 1,500 participants, and have already registered more than 1,200 participants.

We feel we have a comprehensive set of pertinent issues to be discussed at the various sessions and we are confident that there will be tangible outcomes in the form of actual business collaboration. Issues covered at the forum will include harnessing the potential of women as critical growth drivers, harmonising Islamic and conventional banking, exploring the export potential for high-quality education in developing economies, microfinance and developing technological collaboration between Islamic and European economies. Inclusivity and outreach are also important themes for WIEF 2013.

Secretary General of the WIEF Foundation Tan Sri Ahmad Fuzi Abdul Razak

If we look at the potential within the Muslim world, and especially the potential for Islamic finance, for example, it is on the increase due to a growing Muslim population, especially in Asia and Africa. There is a potential, also, for increased intra-Islamic trade as a result of the higher population numbers within the Muslim world.

Growth areas in Muslim countries

In the Muslim countries there is a large unbanked population, for example, that could be harnessed by Islamic banking solutions. Another area of growth within the Muslim world is the retirement market, particularly for pension- and asset-management products. Then there is the huge potential for the halal business market, which is estimated at a staggering $2.3 trillion and growing at a very rapid rate.

However, having said that, it is also important for Muslim countries to look beyond their borders at other markets and partners, including the non-Muslim countries. This is where WIEF and the London Forum come in. It is our intention to use London as the gateway to the world economy, leveraging it as the centre for global business and finance. Through this, we hope to be able to harness new technologies, for example, and also to develop new business models that we believe would bring benefits to the Muslim community as a whole.

In this respect, the forum, I believe, will make a difference to those attending it, providing new openings and new opportunities for collaboration in the fields of trade, business and investment.

We are confident that WIEF 2013 in London will contribute towards achieving this objective. What we need, especially for the Muslim world, is more of this type of platform.

Human capital development is of major importance to the WIEF mandate and process. Women in particular are faced with many barriers to entry into the labour market, especially in Muslim countries. We feel that much more should be done to empower women. So, at the London Forum, we will be holding a number of sessions that focus on women in business, led by some of the world's leading businesswomen.

The idea is to use the forum not only to dissect and discuss, but also to implement suitable ways in which we can develop together to overcome these issues that hinder humans from developing and progressing. The key, of course, to harnessing the potential of women is education. And if we look at many countries, including Malaysia now, we are somewhat of a global leader in wanting to further develop the potential of women. Some 55 per cent of our university student intake, for example, is female.

Euro-Islamic business ties

This 9th Forum also offers huge scope for enhancing Euro-Islamic country trade, investment and overall business ties.

I must say that there have been some encouraging developments, especially in UK trade with Muslim countries. Britain has made a commitment to double bilateral trade in goods and services with Malaysia to £8 billion ($13 billion) by 2016.

Saudi Arabia is the second largest foreign investor in the UK after the US, and the UK's largest trading partner in the Middle East. There are approximately 200 UK-Saudi joint ventures with a total investment estimated at around $17.5 billion. UK bilateral trade with Turkey reached £9.1 billion in 2011, with UK exports totaling £3.7 billion. At the same time, the UAE-UK Joint Economic Committee have agreed to increase bilateral trade by 60 per cent by 2015.

As far as the legacy of WIEF 2013 in London is concerned, we have our expectations. In many ways, the London Forum is, for us, a major turning point because it is the first time we are bringing the forum to a non-Muslim European country. This is taking place at a time when WIEF is evolving into an internationally recognised global forum.

In the context of the UK's Islamic finance proposition, we take note of the significant step that the British Government is undertaking by setting up an Islamic Finance Task Force, which it did in March of this year in conjunction with WIEF 2013. We have also noted that the regulatory environment has been subject to a lot of changes, which perhaps do augur well for the UK in developing the various aspects of Islamic finance. Indeed, London has already made progress in extending its role as a Western hub for Islamic finance, building on the £22.3 billion that has been raised to date, and also in promoting its status as a leading exporter of financial services across the world. These are all positive developments. But what we are planning to do is bring together key decision-makers from the central banks, Islamic banks and Islamic institutions of developing countries at the 2013 London Forum.

We are also aware of what is happening in other parts of Europe, such as France and Germany, with regard to the issuance of sukuk. There is also a lot of interest in this respect in Islamic finance from Europe as a whole. Cumulatively, this could be an added platform that would promote the development of Islamic finance not only in the UK, but also in other parts of Europe as a result of the holding of the forum in London.

I think we can make a difference in this respect, which in my opinion could be one of the most significant legacies arising from the forum in London.

WIEF is a two-way process, representing not only what the Muslim world can offer to the rest of the world, especially Europe, but also vice versa. If you look at this historically, trade and investment have always travelled from the developed countries into the Muslim world in general, and in particular for those Muslim countries that were once colonies.

In many ways, the London Forum is, for us, a major turning point

Investment flows from the developing Muslim countries into the Western world, including the UK and Europe, is indeed a new phenomenon. But if it is managed well, such investment flows can be mutually beneficial. What I mean by this, is that it could also benefit the country that is investing into the UK. For example, Malaysia is investing in the iconic Battersea Power Station redevelopment project and there are going to be substantial benefits for Malaysia in the long term. So it should be seen as a two-way process.

This process has to be managed appropriately so that investment flows would not be seen to be only from one direction, which would be at the expense of that particular country.

In the case of Malaysia, I would say that we are continuing to promote the country as a major investment destination for the UK. There are already big names in Malaysia, such as Shell, British Petroleum, BAE Systems, Rolls-Royce, Prudential, Standard Chartered Bank, HSBC, GlaxoSmithKline and Tesco, just to name a few.

If you look at all these entities in terms of the amount of investment that they have undertaken, what we are doing now in the context of our investment in the Battersea Power Station project is essentially very small indeed. We still have a long way to go. It is only now that we are developing this capacity to enter into the British and the European market.

The age of opportunity and cooperation

Honorary Fellow of the WIEF Foundation and President of the Islamic Development Bank **HE Dr Ahmad Mohamed Ali Al Madani** writes on the potential of the forum, highlighting areas where greater cooperation between industry and Islamic finance could yield profit

The World Islamic Economic Forum (WIEF) is a very important platform and process for the Islamic Development Bank Group.

The world is changing rapidly, driven by openness, technology, connectivity, dialogue and integration. This is the age of possibility and opportunity. And the 9th WIEF, which is being held in London at this critical time, is relevant because it helps both Muslim and non-Muslim businessmen work together and adapt themselves to that wondrous world.

In the future, WIEF may also consider organising forums in other Western countries in order to expand the opportunity to build bridges towards peace and prosperity between the Muslim and non-Muslim worlds through the common language of business. In this respect, the 9th WIEF in London is a great opportunity to enhance our understanding of the common strategic interests of the East and West, opening new doors on working cooperatively to address key economic challenges in achieving a more open and rules-based global economic system.

20

international banks in the UK offer Islamic products

49

sukuk are listed on the London Stock Exchange

The 9th WIEF, which is taking place for the first time outside the Muslim world, comes at a time when it is possible to encapsulate the emergence of new economic linkages between countries and across borders, religions and cultures. This is a good initiative for reaching beyond the borders of Islamic countries and our traditional trading partners in order to connect with the increasingly global economy. Now, more than ever, we need to create stronger global relationships between the Muslim and non-Muslim worlds.

London has tremendous potential to be one of the leading global financial and cultural centres and the business gateway between these two worlds. This forum is a very good opportunity to boost trade partnerships between Islamic and European markets, and explore London's future as a global hub for Islamic finance.

Of course, there has always been always cooperation between the West and Muslim countries. But more important, as witnessed by the staggering growth in the Islamic finance industry, is the exchange of ideas and philosophies between Muslim countries and the West – with the United Kingdom a major gateway for such exchange.

In this rapidly changing world, we have much to offer in the fields of business and economics. For example, Islamic finance has the potential to contribute to a more resilient financial system.

The London Stock Exchange is a key global venue for the issuance of sukuk. To date, over $34 billion has been raised through 49 issues of these sukuk by banks and corporates in the Islamic countries that are listed on the London Stock Exchange. There are more than 20 international banks in the UK that offer Islamic products, of which six are Sharia-compliant. This is more than any other Western country.

London's potential

This positioning helps reaffirm and augment London's place as one of the overall global financial hubs, but also promises to bring with it much-needed capital and associated economic activity. The UK Government, mindful of this great potential, has already put in place a Task Force to further promote London as one of the leading centres of Islamic finance. The Task Force is lead by the Financial Secretary to the Treasury, Greg Clark and Foreign Office Minister, Baroness Warsi, with support from other stakeholders.

The UK Government and the Islamic finance industry can further promote London as a centre of Islamic finance by:

- engaging with the United Kingdom Islamic Finance Secretariat and other Islamic finance and industry infrastructure institutions to promote and raise the international profile of the industry;
- ensuring a level playing field with conventional banks in terms of regulation, supervision and taxation;
- targeting key geographic markets and sectors that will support market engagement and industry growth;
- providing a central basis for industry comment, research and insight;
- facilitating inward investment to strengthen the UK economy, including through ongoing

REUTERS/ZAINAL ABD HALIM

Honorary Fellow of the WIEF Foundation and President of the Islamic Development Bank HE Dr Ahmad Mohamed Ali Al Madani

support for sovereign wealth funds looking to invest in UK infrastructure;

- encouraging Sharia-compliant funds to invest in sectors and areas that will support jobs and growth, such as infrastructure and credit for business start-ups and small and medium-sized enterprises; and
- supporting increased education and awareness about Islamic Finance in the UK.

The issuance of a sovereign sukuk is very much relevant for the UK Government in reinforcing and reiterating the UK's position as an Islamic-finance hub, especially for Europe. Such an issuance could be used to fund infrastructure and/or regeneration projects that have already been approved by the UK Government.

The issuance of the sukuk would also bolster the Islamic financial institutions in the UK and Europe by making available Sharia-compliant instruments for liquidity management. The Islamic Development Bank (IDB) could potentially play the role of a strategic partner for any such arrangement, facilitating subscription from IDB member countries for the proposed sukuk. The IDB's participation would further enhance the uptake and attractiveness for the market.

IDB can also play a supportive and facilitative role for the further development of Islamic finance infrastructure in the UK. This can be achieved through the sharing of expertise and experience in order to ensure the industry is well-supervised, with issues being heard and addressed, and, most important of all, is to have the same playing field as the conventional banking industry.

The IDB can also provide technical advice to the UK Government on establishing an International Research and Development Centre in Islamic Economics and Finance (IRDC-IEF) to promote research, innovation and experimentation in product development and knowledge. The research centre should comprise researchers in Islamic economics and finance from different jurisdictions. Naturally, this IRDC-IEF would be supportive of the efforts of Islamic Research and Training Institute, Islamic finance product development centre of the IDB Group and other research institutions. Its main advantage would be its proximity to one of the most active and innovative financial centres.

While Islamic finance as a concept has emerged from the South, it also resonates deeply with the teachings of other Abrahamic faiths and the need for ethical, equitable and socially responsible financing and investment.

Transcending boundaries

It is of paramount importance for global platforms such as WIEF to create awareness of the wider appeal and universal approach of Islamic finance that transcends geographical and religious boundaries. The forum should serve as a venue for the exchange of ideas and solutions to issues that we face globally. Such a platform, if properly strategised, can serve to bring together regulators, academics, service providers and clients to think of new approaches to shared challenges. In order to maximise its impact on the Islamic finance industry, WIEF should consciously promote this global dialogue, thereby making Islamic finance relevant to global economic issues.

The platform should not only serve as a venue for debate and discussion, but also encompass effective tools to measure the developmental impacts of the Islamic financial services industry and design means and policies to enhance its contribution in alleviating the biggest economic problems facing the world, such as poverty, hunger, unemployment, access to water, sanitation, housing, education and the like.

> The forum should serve as a venue for the exchange of ideas and solutions to issues

Despite the proliferation of Islamic finance over the past 30 years, its connectivity with the global trillion-dollar halal business sector is generally still minimal. We would like WIEF to continue to pursue this agenda vigorously.

There are very good reasons, as well as room, for the halal economy and Islamic finance to work towards greater connectivity with one another; and WIEF paying this issue more attention at the 2013 forum may provide additional support in this direction.

The comfort zone of Islamic banks seems to be in the real-estate/infrastructure sectors, as this is a business model that Islamic banks understand (risk exposure and control), and which has been proven to perform. Islamic banks' balance sheets are small, hence, exposure will be minimal to other new sectors.

On the other hand, the halal economy/industry needs to explain its business model, its focus and demonstrate that it can perform. The halal industry and its supply chain, starting from certification bodies to government bodies and companies, have been focusing on the 'halalness', or compliance to certifications. The industry/economy has put less focus on generating hard assets, growth revenue, repeat orders and consumer non-cyclical trends. The Halal economy/industry is fragmented with small and medium-sized companies in the supply chain. Critical mass and economies of scale have not yet been achieved, for example consolidation is needed for halal to be viewed as 'bankable' opportunity.

In summary, both Islamic finance and the halal economy/industry have to overcome certain challenges in order to benefit from the opportunities that the other can provide. And WIEF could certainly become a platform to help clarify these challenges and provide solutions.

The essence of Islamic finance is the fulfilment of the 'Maqasid Al Shariah', which is to serve the economic and financial needs of human beings. This is and should be a key differentiator between Islamic and conventional finance. The emphasis on asset-based financing is to tie in the flow of financial wealth with real economic activity. This, in turn, creates businesses, jobs and opportunities in the wider economy.

Financing and the real economy

There is no room for profiting from money-for-money transactions in Islam. Financing earns a return only through direct involvement in economic activity. Therefore, financing and the real economy are expected to be tightly connected in the Islamic system. This paradigm is important for the stability of the financial system as well as for the well-being of ordinary citizens in the streets.

There has been growing realisation among policy-makers as well as the general public that many of the past and present financial crises have their origins in excessive debt and the resultant de-link of finance from economic reality. WIEF can bring this aspect into focus through its discussions among policy-makers for the betterment of the global economic and financial system and the well-being of citizens.

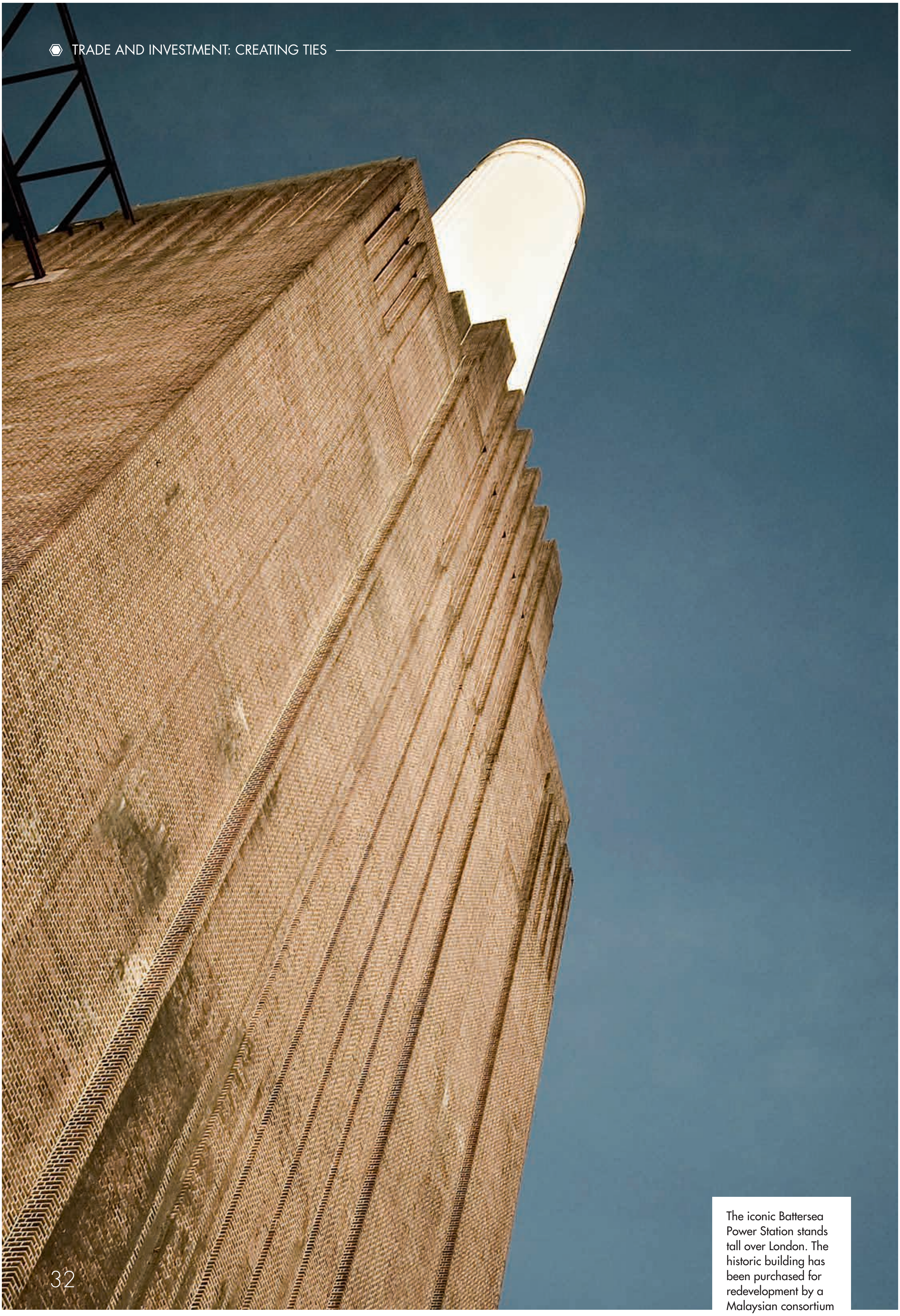
To promote the interests of ordinary people is effectively to promote the true essence of Islamic finance and its true spirit and intention.

In addition to the main components of Islamic finance (banking, sukuk, investment funds, takaful and so on), forums such as WIEF should also highlight and promote the Islamic institutions of waqf (endowment trusts) and zakat (obligatory tithes), which have a direct bearing on the welfare and well-being of people.

Two other important issues also need to be highlighted during the WIEF event:

- affordability of Islamic financial products; and
- simplification of the process of introducing Islamic financial products

Finally, it is important to increase awareness of the strong connectivity between the emerging halal industry and Islamic finance, and the importance of creating synergies between the two. This will effectively tap into Muslim markets in Europe, particularly in the UK. Furthermore, it might also help in tapping a significant percentage of Muslim communities who are still sceptical about the 'halalness' of the operationalisation of Islamic finance.



MARC BARKER/GETTY IMAGES

The iconic Battersea Power Station stands tall over London. The historic building has been purchased for redevelopment by a Malaysian consortium

Europe: a favoured location for Islamic investment

With many high-profile examples of Islamic investors funding projects in the UK, Europe is clearly considered a safe prospect, but there is room for growth on the continent, writes **Mushtak Parker**

The Shard, Chelsea Barracks and Battersea Power Station are among the current crop of iconic British developments that have attracted inward foreign direct investment (FDI) from Islamic countries. The reality is that Europe, especially the UK, has long been a favoured region for investors from the Gulf Cooperation Council (GCC) states, Malaysia, Turkey and Brunei.

At one point, Kuwait Finance House owned Malin Holdings – the parent company of the Swedish post office's warehouses – and a large commercial property portfolio in the UK; Bahrain-based Noriba Bank owned the Grand Buildings in Trafalgar Square; Saudi-owned, Bahrain-based Arcapita Bank had major stakes in Shurgard's storage business in the EU and UK, where it owned a water utility as well as a wind farm, and a transport logistics warehouse in Germany; similarly, Qatar Islamic Bank owned a huge mixed-use property portfolio in the UK; and several of the current crop of Sharia-compliant banks incorporated in the UK, including Bank of London and Middle East (BLME) and Gatehouse Bank have thriving real-estate portfolios – both commercial and residential.

Scope of interest in Europe

Earlier this year, Gatehouse Bank even launched the first UK sterling leasing sukuk (lease certificates) platform, albeit with a modest first tranche of £6.9 million ($11 million), which was aimed at investors from Kuwait and the other GCC countries. According to Richard Thomas, Malaysia country representative of Gatehouse Bank, the sukuk has the advantage of being low risk because it is backed by a property that is leased to Fujitsu of Japan in the UK. The returns on the sukuk will mainly be generated from the rental income on a periodic distribution date, and certificate holders will have the option to redeem their investment on a quarterly basis, which will enhance the liquidity for the issuance.

Islamic investment, to a lesser extent, has also been active in Switzerland, Germany, Spain, Italy and the new markets in Eastern Europe, including Croatia and Montenegro. However, some investors have felt the effects of the eurozone crisis in the real-estate markets of southern Europe, particularly in Spain.

Qatari Diar Real Estate Company, which was established in 2005 by the Qatar Investment Authority and is capitalised at $4 billion, has invested in 13 projects in Europe, including five in the UK, three in Switzerland, two in France, and one each in Italy, Spain and Montenegro. In the UK, Qatari Diar's investments include the iconic Chelsea Barracks development, the Grosvenor Waterside, the East Village in the Queen Elizabeth Olympic Park, which the company says "is the first leading legacy neighbourhood for London arising from the London Olympics", the redevelopment of the Shell Centre and the Chancery Building, which used to house the US Embassy in Grosvenor Square in the heart of Mayfair in London.

The tide is turning on infrastructure

Qatari Diar has over 49 projects under development or in planning in Qatar and in 29 countries around the world with a combined value of over $35 billion.

Bankers in London stress that while real estate dominates the investment asset class for Islamic investors, there are increasing signs that investment is being diversified into other asset classes, including technology and the energy sector.

13

– the number of projects the Qatari Diar Real Estate Company has sponsored in Europe

"If we set aside the insatiable interest in real estate investment in the UK (and mainly London)," explains Massoud Janekeh, director and head of Islamic capital markets at BLME, "then we have seen relatively limited interest from emerging markets in infrastructure investment opportunities in recent years. However, I sense the tide is changing. A number of Middle Eastern funds, for example, have invested in the UK's growing student accommodation sector, and I am aware more are looking at the long-term residential healthcare sector.

"In April this year, Abu Dhabi's Masdar and UK Green Investment Bank formed an alliance for investing in UK's renewable energy sector. All these examples show a return of capital flows between the regions. The stability and mature demand in countries such as the UK provides good opportunities for institutional investors.

"Similarly, the infrastructure investment opportunities in GCC will continue to attract British investment and expertise. I have no doubt that Islamic finance will have a role to play in financing these projects. There is appetite amongst institutional

Islamic investors for UK assets and, provided that it offers a commercial and viable alternative to conventional financing, it will continue to be of interest to borrowers."

Others, such as Raja Teh Maimunah Binti Raja Abdul Aziz, chief executive officer of Hong Leong Islamic Bank, would like to see a two-way investment flow between the UK/Europe and Islamic countries. London, she adds, has always been the landing plain for Asian investors going West. Likewise, Middle Eastern investors have always regarded London as their home base when placing funds for onward deployment globally. "If London is successful in developing and promoting itself as a financial centre that can intermediate Islamic fund flows from the West and the MENA [Middle East and North Africa] to Asia and vice versa, there will be greater cross-border activities between Islamic economies and the rest of the world. It has to take that step to develop sukuk benchmark issues to facilitate the development of the US dollar/euro sukuk market worldwide," she says.

BANK OF LONDON & MIDDLE EAST

Massoud Janekeh of the Bank of London and Middle East says that Middle Eastern funds are looking at the UK's residential healthcare sector

Not surprisingly, British Prime Minister David Cameron, as well as his ministers Greg Clark, financial secretary to the Treasury, Baroness Warsi, senior minister of state at the Foreign and Commonwealth Office, trade and investment minister, Lord Green and London Mayor Boris Johnson, are all keen to leverage the World Islamic Economic Forum (WIEF) 2013 to showcase London and the UK both as an investment location and as an international hub for Islamic trade, investment and finance.

Scottish involvement

Scotland is also keen to get involved. At a recent conference in Edinburgh, Scottish First Minister Alex Salmond stressed that his government would be keen to pursue Islamic financial solutions such as sukuk and other structures to attract inward FDI and to develop the Scottish economy.

Graham Burnside, head of banking and finance at Tods Murray LLP and executive board member of the Islamic Finance Council UK, stressed during a conference in August that "recent high-profile projects in London have attracted Islamic funding and there is no reason why Scotland should not gain in the same way. The Scottish Government has made it clear that there are a range of infrastructure and renewables projects in the offing, which are in search of funding, and it is the view of the Council that there is now a window of opportunity to attract major Gulf and Asian investment to these areas."

Tangible investment

A key objective of WIEF is to deliver tangible investment. At last year's forum in Malaysia, deals worth an estimated RM28 billion ($8.8 billion) were struck. The promoters of the Forum expect WIEF 2013 to deliver an even greater volume of business. Some of the big names that will be present at this year's forum include Abu Dhabi Commercial Bank of the United Arab Emirates, Coca-Cola Export Corporation of the United States, London Stock Exchange Group, Xenel of Saudi Arabia, Thomson-Reuters of the UK, Saudi Economic and Development Company, JS Comsa Corporation of Japan, BDA China and Khazanah Nasional Berhad, the Malaysian SWF.

As far as the UK is concerned, the above objective is underpinned by successive governments' trade and investment policy towards Islamic countries. Prime Minister David Cameron, during a visit to Kuala Lumpur in 2012, made a commitment to double bilateral trade in goods and services with Malaysia to £8 billion ($13 billion) by 2016.

Turkey is the UK's second largest bilateral trading partner in the MENA region. Bilateral trade reached £9.1 billion in 2011, of which UK exports totalled £3.7 billion. On the other hand, Saudi Arabia is the second-largest foreign investor in the UK after the US. There are approximately 200 UK-Saudi joint ventures, representing a total estimated investment value of $17.5 billion.

London Mayor Boris Johnson is all too aware that the city can ill-afford to let the opportunity that WIEF presents pass by. He sees it as a chance to promote the capital "as a world-beating business hub, highlighting our status as a major centre of Islamic finance and as a compelling destination for foreign investors."

At the official announcement of WIEF 2013, at City Hall in June, the Mayor explained that the forum is a symbol of the growing ties between the UK, Malaysia and the wider Islamic World. "Given the huge attraction that London, especially the real-estate sector, has for investors from the Middle East and South-East Asia, its relationship with the Muslim world is going to be ever-more important. The City of London, despite the economic downturn, remains the number-one financial centre of the world," he said.

The forum comes at a time when the iconic Battersea Power Station has recently been acquired for £400 million by a Malaysian consortium, which includes the Malaysian pension fund, Employees Provident Fund, Sime Darby, one of the largest diversified industrial groups of Malaysia, and

Collegelands student accommodation in Glasgow, Scotland, was acquired as a real-estate investment by Sharia-compliant Gatehouse Bank on behalf of clients based in the Gulf

SP Setia, the leading property developer in Malaysia. The Battersea Power Station investment is the largest of its kind in the UK, with a development value of around £8 billion, and is expected to create 15,000 new jobs as well as 3,500 new homes.

At the groundbreaking in July, Prime Minister David Cameron emphasised: "We are competing in a tough global race and the work that starts today, that will see the iconic Battersea Power Station restored ... shows that Britain is open for business ... I am committed to encouraging more overseas businesses to invest in Britain because I am clear that this is one of the best ways to get the growth and jobs we need."

BLME's Massoud Janekeh, feels that European governments, could be more proactive, particularly in pursuing growth, and believes that Islamic finance could be an ideal investment synergy in sectors such as housing, healthcare and transport because of their real-economy impact.

After nearly half a decade of austerity measures, he stresses, governments across the world feel more confident in starting to spend, with a dash of the Keynesian model. In Europe, the driving force is a desire to fuel growth and create employment. In the developing markets of Middle East, government expenditure is borne out of trade surpluses and is in response to increased demand from population growth and the Arab Spring.

Government spending

"The health sector is a good example for government spending in both developed and developing economies. Europe is facing an ageing population with more healthcare demand. GCC, on the other hand represents some of the highest GDP per head statistics, yet its health spending of between two to four per cent of its GDP is a fraction of European countries that spend eight to 10 per cent. These types of investments carry long-term demand and are well suited to the ethos of Islamic finance because of their socio-economic dimension," Janekeh adds.

Mushtak Parker is a financial writer with over 30 years' experience covering the OIC countries and the global Islamic finance industry. He is the Editor of *Islamic Banker* and heads a consultancy in finance and governance

Dubai has developed arbitration centres that apply international commercial law to help with cross-border transactions and investment disputes

JOHN KELLERMAN/ALAMY

Islamic countries hold their appeal to European investors

Building on a long tradition of trade links, Islamic countries represent an enduring prospect for European investors. **Digby Lidstone** investigates how those economic ties are developing

The legacy of Europe's maritime and trading empires can still be traced across the Islamic world. The UK remains one of the biggest foreign investors in Persian Gulf states, such as the United Arab Emirates (UAE), while the Netherlands retains close business links with Indonesia, harking back to the early days of the spice trade. Colonial history aside, the sheer geographical proximity of Europe to the Middle East has naturally encouraged trade and investment between the two regions over the centuries.

That relationship has gone from strength to strength in recent decades. With the southern European states increasingly reliant on natural gas and oil from North Africa, there has been a gradual integration of physical infrastructure around the Mediterranean rim, from oil and gas pipelines to transport links. Major oil companies such as British Petroleum (BP), BG Group and Shell, which has been operating in Egypt since 1911, continue to benefit from their long-standing presence in the Middle East.

As it has expanded and consolidated, the European Union has increasingly drawn its southern neighbours into its orbit. Turkey, an aspiring member of the bloc, has become a significant trading partner since it joined an EU customs union in 1995, and is now Europe's fifth-biggest market for exports. Some $77.9 billion of European investment flowed into the country in 2010.

Forging new links

The Euro-Mediterranean (Euromed) partnership provides the formal framework for cooperation agreements between the two regions. Formerly known as the Barcelona Process, the current 'Union for the Mediterranean' was created in 2008 with the aim of promoting economic integration and democratic reform across 16 countries in North Africa and the Middle East. Areas earmarked for investment include renewable energy and transport.

The project has proceeded in fits and starts, hampered by tensions and conflict in the Middle East as well as changes of government and foreign policy within the EU, itself beset by the repercussions of the 2008 financial crisis and becoming a more inward-looking entity than in years past. Nevertheless, the process has opened up funds for cross-border investment. In June 2012, the European Investment Bank (EIB) set aside $676 million to support projects with the Union for the Mediterranean's seal of approval. It is also beginning to work with similar institutions in Islamic countries. Earlier in 2012, the EIB and the Saudi Arabia-based Islamic Development Bank (IDB) signed a memorandum of understanding to support commercial initiatives in four pilot countries – Egypt, Jordan, Morocco and Tunisia. The aim of the deal, which will involve co-financing projects, is to encourage private-sector growth regionally.

Since it was established in 1975, the IDB has approved a total of about $90 billion in financing for its 56 members. Like its European counterpart, much of the bank's emphasis is on small and medium-sized businesses, often filling gaps not typically covered by government spending or by commercial banks, which in many developing countries remain reluctant to lend to smaller enterprises. Pakistan, Bangladesh and Turkey have been the IDB's main beneficiaries.

> The Euromed project has opened up funds for cross-border investment

For many, if not most, Islamic countries, government expenditure is still the prime mover of the economy and the main draw for foreign investors. This is particularly true of the major oil and gas producers. A working paper published by Stanford University in 2009 identified the UAE, Turkey, Qatar, Malaysia and Saudi Arabia as the most attractive of the IDB's members for investors in private-sector infrastructure. It is notable that four of these countries are significant energy exporters.

Saudi Arabia is a case in point. Each day, state-owned Saudi Aramco generates some $1 billion in revenues, which have increasingly been diverted into new infrastructure and the development of downstream industries. This spending has, in turn, opened up areas of the economy to foreign investors for the first time. Education, healthcare, petrochemicals, water and electricity are among those sectors identified by the Saudi Arabian General Investment Authority as ripe for foreign partnership. The Capital Market Authority, meanwhile, is working on regulations to allow direct foreign ownership of stocks on the region's largest exchange. According to

AMR NABIL/AP/PA IMAGES

Capital markets in Islamic countries such as Egypt remain relatively underdeveloped, which can leave them vulnerable to global economic shifts

Bloomberg, Deutsche Bank and HSBC Holdings are among the banks that have predicted that the Saudi market may open to foreigners as early as next year.

The high crude prices of the past few years have further galvanised investment in oil-producing states. More than $1.1 trillion of contracts have been awarded in the six Gulf Cooperation Council (GCC) states in the past decade, with $150 billion of deals expected this year alone, according to the *Middle East Economic Digest*, which tracks projects in the region. While the biggest cross-border deals tend to occur in high-profile industries such as energy, defence, finance or construction, a significant amount of the investment traffic is on the smaller end of the scale, in areas such as technology and healthcare. Since 2003, the majority of all investment in the Middle East – 79 per cent of foreign direct investment projects – has gone to the GCC, according to a survey published in October 2012 by consultancy EY.

$1.1 trillion

of contracts have been issued in the GCC states in the past 10 years

Investment opportunities do not always translate into investment security, however. The unrest unleashed by the Arab Spring uprisings of 2010 and 2011 has brought into sharp focus the hazard of investing in certain Middle Eastern states. The list of European companies that have cut or suspended operations in Egypt, sold off businesses or pulled out staff in recent months includes Electrolux, BASF, BG Group and BP, although the latter two have affirmed their long-term commitment to the country.

Many Islamic countries also struggle with deeper rooted institutional problems. In Indonesia, anti-corruption investigations in the oil sector and a purchasing drive by state-owned Pertamina have helped to deter foreign investors in the industry, which has been in decline for several decades despite some evidence that local resources may not be entirely exhausted – the government points out that only 60 of the country's 128 oil basins have been fully explored.

The legal environment in many countries can also have a deterrent effect – one example being Egypt where, even before the 2011 uprising against Hosni Mubarak, dispute settlements would often drag on for several years in the local courts. But foreign investment can be a catalyst for legal reform. Dubai has been working to ease the passage of cross-border legal disputes by developing independent arbitration centres based on international commercial law. Dubai International Finance Centre, a financial free zone within the emirate and one of several centres with its own civil and commercial laws, works in conjunction with the London Court of International Arbitration.

Market response to global trends

The capital markets of many Islamic countries remain comparatively underdeveloped, and as such are highly susceptible to shifts at the global level. This has been particularly evident since the 2008 financial crisis, with the process of 'quantitative easing' in the US having a buoying effect on investors in emerging stocks and currencies.

Such forms of foreign investment can be fickle, however, which is likely to become apparent when the US Federal Reserve (the Fed) tightens monetary policy again. The febrile nature of the market was evident in mid-September 2013, when the Fed delayed plans to taper its bond-buying programme. Global equity funds saw their biggest weekly inflows on record, with $26 billion put into exchange-traded funds that track stocks, according to Bank of America Merrill Lynch. The Indonesian market rose by 4.8 per cent. However, the liquidity is likely to flow out just as quickly when quantitative easing comes to an end, as, inevitably, it must.

The rapid influx of capital has also obscured the structural deficiencies of many emerging markets, particularly in parts of Asia where corporate balance sheets are highly leveraged. The loan quality in Asia has fallen sharply this year, according to the latest quarterly report from the Bank for International Settlements, published in September. This follows a $267 billion rise in cross-border credit to emerging markets in the first quarter, which is the largest such quarterly increase on record.

As is the case for investors in any part of the world, Europeans who are looking to invest in Islamic countries would do well to remember the old adage that, if something looks too good to be true, it probably is. The 2009 debt crisis in Dubai is a salient example. In the long term, however, the Gulf states in particular remain attractive destinations for European companies, offering, in the words of EY, "many of the qualities that companies look for in an FDI destination: solid investment fundamentals, strong demographic trends and vast natural resources".

Digby Lidstone has written for *Bloomberg News* and the *Financial Times;* he specialises in the Middle East region

CULTURA TRAVEL/RICHARD SEYMOUR/GETTY IMAGES

The complementary paths of Islamic and conventional finance

As cooperation deepens across the banking spectrum – from trade finance to insurance – the future looks lucrative, and several pillars of leadership are emerging, writes **Mushtak Parker**

Islamic banks and conventional banks have co-existed for the past four decades of the contemporary Islamic banking movement, despite being premised on diametrically opposed ideas, particularly regarding riba (interest). They have cooperated and innovated on products and services without compromising the principles of Fiqh al-Muamalat – Islamic law relating to financial transactions – which have been the basis of the proliferation of Islamic banking.

Today, that industry has estimated assets of $1.2 trillion under management and the potential, according to international credit rating agency Standard & Poor's, to expand its assets to the value of $3 trillion by the end of the decade.

In fact, Europe and European banks have played a pivotal role in the development and evolution of contemporary Islamic finance and will continue to do so because of the historical ties between major European powers, such as the United Kingdom,

Railway tracks enter London, passing by the Shard. Long-established links between European countries and the MENA region have led to Europe being pivotal in the evolution of Islamic finance

France and Germany, and the Middle East and North Africa (MENA) region, South and South-East Asia and Sub-Saharan Africa.

Luxembourg and Denmark were two early European pioneers of the Islamic banking movement. The former was the incorporation domicile of the first Islamic finance company in Europe – Islamic Banking System Holdings Limited Luxembourg – in 1979. Subsequently, the latter licensed the first Islamic bank in Europe and the first in a non-Muslim jurisdiction – the International Islamic Bank of Denmark – which was a subsidiary of the Luxembourg holding company. Since those early years, the landscape has changed dramatically – Islamic banking is now proven, scalable and for everyone with an interest, irrespective of faith.

London's leading role

European banks – both conventional and Islamic – have carved out niche businesses in Islamic services, but the UK leads the pack by far with six banks incorporated by the erstwhile Financial Services Authority (FSA): Bank of London and Middle East (BLME), the Islamic Bank of Britain (IBB), Oakstone Merchant Bank, European Islamic Investment Bank (EIIB), Gatehouse Bank and Qatar Islamic Bank (UK). Meanwhile, another 20 or so conventional banks offer Sharia-compliant products, either through Islamic banking windows or departments.

The global Islamic financial market is projected to grow to $1.6 trillion by 2015

"London's conventional banks have long played a role in Islamic finance, initially by providing Sharia-compliant overnight deposit facilities for the first Islamic banks in the Gulf, and now as the leading arrangers of sukuk worldwide (six of the top 10 arrangers are UK banks)," explains Farmida Bi, head of Islamic finance (Europe) at Norton Rose Fulbright, a City-based international law firm with an established expertise in structuring Islamic finance transactions. "One reason for this dominance is the global standing of English law and regulatory systems, which have a unique reputation worldwide and are flexible enough to be adapted for Sharia-compliant structures, and such flexibility is shared by the conventional banks."

With the global Islamic financial market projected to grow to $1.6 trillion by 2015, the potential for London is huge. Already, $34 billion has been raised through issuance of sukuk on the London Stock Exchange, and in terms of total assets, London accounts for five per cent of global Islamic finance, making it the largest such market outside the Muslim world. Islamic countries account for nearly 25 per cent of the world's total population. London will, therefore, seek to extend its role as a western hub for Islamic finance by promoting its status as the leading exporter of financial services across the world.

As Malaysian Prime Minister Dato' Sri Mohd Najib bin Tun Abdul Razak recently explained, hosting the World Islamic Economic Forum 2013 in London – the first time the event has been held in the West – is "a recognition not only of London as a place of ideas and discourse, but also as a bastion of tolerance and inclusivity amidst an often divided world".

The potential and prospects for the UK and Europe, including the banking sector in the Organisation of Islamic Cooperation (OIC) countries, are huge. Indeed, the rise of the Islamic economy and financial system is one of the more important global stories of the past few decades. "In less than 50 years," explained Prime Minister Mohd Najib, "Islamic banking has gone from an obscurity to a trillion-dollar concern, with a full range of Islamic financial products and services. Halal, which most people associate with food, covers everything from pharmaceuticals and logistics to cosmetics and tourism. It is a $2.3 trillion market providing for more than 1.6 billion Muslims."

With recent investment in London by prominent Qatari, Kuwaiti and Malaysian sovereign wealth funds (SWFs), Norton Rose's Farmida Bi maintains that it is critical that banks in London maintain existing links – and establish new ones – with financial institutions in the Middle East and Asia. London's cosmopolitan outlook has always made it a key player in cross-border finance, which is a substantial strength in an international discipline such as Islamic finance, and its global reputation in financial expertise, law and regulatory sophistication continues to make it an attractive destination.

The business case is proven. Some 24 SWFs from OIC countries owned assets under management totalling a staggering $2.1 trillion at the end of February 2013, which represented about 40 per cent of the total SWF assets of $5.3 trillion ranked by the US-based SWF Institute. According to World Bank projections, net foreign direct investment (FDI) inflows to sub-Saharan Africa are set to rise in 2013 to $40 billion, with high commodity prices contributing to the growth of FDI in the natural resources sector. Net FDI inflows in the Middle East and North Africa are projected at $15.5 billion for 2013. As the political situation in the Arab Spring countries subsides, stronger FDI flows are expected to resume.

Cooperating on finance agreements

The Islamic Development Bank (IDB) Group is spearheading the multilateral effort in financing trade, investment and development in the OIC countries. The IDB has entrenched links with the UK and European Union countries through co-financing arrangements, technical assistance agreements and it has even set up a $2 billion fund with the Asian Development Bank targeting infrastructure, public utilities and the urban sector, as well as education and health.

In 2012, the IDB was involved in 31 operations in 20 countries that were co-financed with other institutions including the World Bank, the Japan Investment Corporation, the African Development Bank, the European Investment Bank and several of the Arab development banks. The total cost of these projects was $5.7 billion, of which the IDB contributed around $1.3 billion.

In September, and while in London, the president of the IDB, Dr Ahmad Mohamed Ali Al Madani, called on the international community to develop a concrete special programme for recovery in the so-called Arab Spring countries and pledged the continued support and cooperation of the IDB in such an initiative.

The Deauville Partnership

Dr Ali was attending the G8 Deauville Partnership with Arab Countries in the Transition Investment Conference in London, which was organised by the UK Foreign & Commonwealth Office in partnership with the European Bank for Reconstruction and Development (EBRD) and the IDB Group. The Deauville Partnership itself was formed during the G8 Summit in France in May 2011, which endorsed a framework to support countries in MENA in governance; social and economic inclusion; economic modernisation and job creation; private-sector led growth; and regional and global integration.

The Deauville initiative puts great emphasis on the involvement of international financial institutions (IFIs), including the banking majors and Islamic banks. As such, the IDB and EBRD lead the Deauville Partnership IFI Coordination Group, which has subsequently visited Tunisia, for instance, and identified projects worth $3.2 billion in which both multilaterals are participating.

In the field of export credit and investment or political risk insurance (PRI), the Jeddah-based Islamic Corporation for the Insurance of Export Credit and Investment (ICIEC) – the export credit agency of the IDB Group – is setting the pace. Unsurprisingly, demand for PRI has increased dramatically given the period of political and economic transition that Arab Spring countries are experiencing.

According to the Multilateral Investment Guarantee Agency (MIGA) – the political-risk insurance and credit-enhancement agency of the World Bank Group – members of the Berne Union, which include official export credit agencies (ECAs), private ECAs and multilaterals such as MIGA and ICIEC, issued $75 billion in investment insurance in 2011. This figure reached $47 billion in the first half of 2012, and was projected to surpass the 2011 figure. MIGA alone issued a record $2.8 billion in political risk guarantees in the fiscal year ending June 2013, underpinning investments across diversified sectors and regions. ICIEC's business insured, according to Dr Abdul Rahman El-Tayeb Taha, chief executive officer of ICIEC, is expected to reach $3.5 billion in 2013, rising to $4 billion in 2014.

"In the wake of the Arab Spring, the eurozone sovereign debt crisis, and the on-going challenging business environment globally that is continually changing at an increasingly rapid pace, the demand for political risk and sovereign risk insurance especially is not surprisingly also increasing. In fact, next year, our strategy is to focus more on investment insurance and project finance," explains Dr Taha.

ICIEC is also expecting more business to come from industrialised countries' ECAs, and has signed agreements with Atradius, the Dutch ECA, and with Ducroire Delcredere, the Belgium ECA. This is a direct result of a change in ICIEC's mandate to also support the imports of capital goods into its member countries. "This has got the ECAs in industrial countries interested. We have already done some transactions with SINOSURE, the Chinese export credit agency, which is the biggest in the world in terms of volume. And we are doing things with these European export credit agencies. So we expect more business to come from that area. And hopefully if things start improving in Egypt, Libya, and Tunisia we expect more business to come from them," adds Dr Taha.

Dr Taha is optimistic of greater cooperation between ICIEC and the Western insurers and reinsurers – both national agencies and private ECAs. "We work with a lot of brokers, not only in London (the Lloyds market), but also in Singapore and New York, so ICIEC is now a known name in the international credit and political risk industry. Despite the fact that in terms of capital resources we are a small player, our role has become much bigger because we bring to the table certain areas of strength that the private sector lacks.

"Even for an insurer like Zürich, the largest private PRI insurer, to go into these countries they will definitely feel comfortable if an IDB Group entity is with them. Because an important part of our role, and this applies for the three multilateral insurers, is not simply to pay a claim if there is a problem, but to act as a deterrent."

REX/JULIAN MAKEY

Malaysian Prime Minister Dato' Sri Mohd Najib bin Tun Abdul Razak says that in fewer than 50 years, Islamic banking has grown from obscurity into a trillion-dollar market

Nigeria's step into non-interest banking

Sanusi Lamido Sanusi
Governor, Central Bank of Nigeria

With a population of about 78 million Muslims, Nigeria currently has the world's sixth largest Muslim population, and with a growth rate of about 2.8 per cent, Nigeria's population is projected to double in less than 24 years. A large population implies a significant market for goods and services, as well as a sizeable pool of human resources available for development. Therefore, due to its large population, Nigeria has always been, and will continue to be, an attractive destination for investors from all over the world.

As a consequence of wide-ranging and successful reforms in Nigeria's finance sector, investor, as well as consumer confidence has risen, which has given way to more initiatives and policies that promise a brighter future for the country's financial system. Conscious of being Africa's second largest economy after South Africa, Nigeria launched a project in 2005 that is expected to catapult it into the league of the 20 largest economies in the world by the year 2020. The financial-sector dimension of this is known as The Financial System Strategy (FSS2020). A major component of this blueprint aims to launch a major International Financial Centre (IFC) in Nigeria, with the objective of making the country Africa's financial hub.

To achieve this, the Central Bank of Nigeria (CBN), which regulates the financial sector in the country, introduced, among many other initiatives, non-interest banking, an alternative financial product, as part of the drive to propel Nigeria's economy and promote financial inclusion. Non-interest banking (NIB) offers veritable incentives and attractive options for both investors and consumers of financial products. It also helps to bring into the formal financial system a significant section of the Nigerian community that has strong ethical considerations in its banking practices.

Regulating NIB

In 2010, the CBN introduced a new banking model, which replaced the Universal Banking model.
This new model categorised banks into those with international, national and regional authorisation, and the specialised banks. The NIB, which falls under the specialised category, gives scope for banks to operate either regionally or nationally.

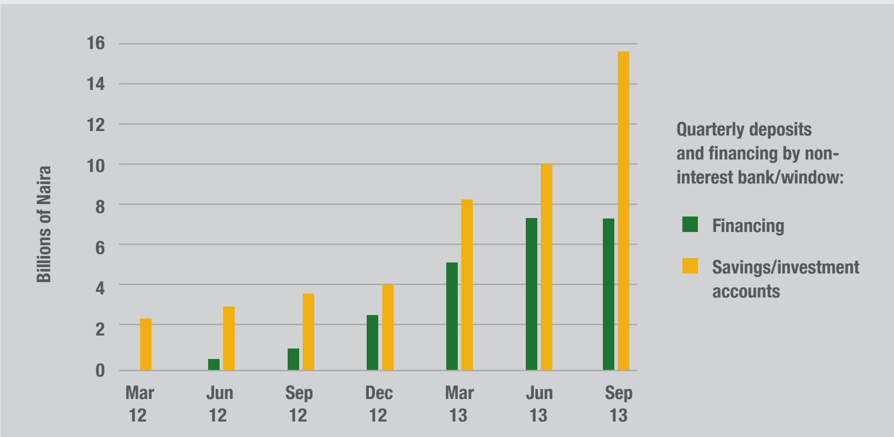
NIB kicked off with the establishment of a framework for the regulation and supervision of institutions offering non-interest financial services in the country. Based on the provisions of Sharia Governance, the framework facilitated the successful licensing of the Jaiz Bank, a full-fledged non-interest bank. Stanbic IBTC, a deposit money bank, was also granted a licence for an NIB window.

In its effort to create a level playing field for these new institutions, the CBN joined other central banks and multilateral organisations to form the International Islamic Liquidity Management Corporation (IILM) with its office in Malaysia. The IILM was established to provide liquidity management instruments for those institutions offering non-interest financial services. The IILM issues short-term, high-quality, Sharia-compliant financial instruments that facilitate cross-border liquidity management for banks that are involved in related transactions.

The CBN is also a full council member of the Islamic Financial Services Board (IFSB) – the international standard-setting organisation of the Islamic financial services industry.

CBN's membership of this body, as well as the participation of its staff in the various committees and working groups of the IFSB, indicates its commitment to the application of international standards of best practice in the effective regulation of the institutions under its purview. In compliance with best practice for the governance of non-interest financial institutions, the CBN inaugurated the Financial Regulatory Advisory Council of Experts (FRACE) to serve as an advisory body to the bank and other regulatory agencies of the financial system, including National Insurance Commission (NAICOM), Securities and Exchange Commission (SEC) and Debt Management Office (DMO) in matters relating to compliance of products and services offered by the non-interest financial institutions to Sharia requirements, so as to maintain public confidence in the institutions.

The CBN has carried out some ambitious reforms in the banking sector, which have seen the bank strengthen its supervisory framework




Central Bank of Nigeria Headquarters, Abuja, Nigeria

The drive to introduce non-interest financial services has had its positive impact on other regulatory institutions in Nigeria, such as the NAICOM and SEC, which also successfully licensed various takaful and Islamic fund managers respectively.

The CBN has engaged in intensive training of a large number of examiners and staff from other regulatory bodies on Islamic finance, partnering in this respect with organisations like the Islamic Development Bank, the IFSB and the Bank Negara Malaysia.

Driving the sector

Non-interest banking, as an alternative banking product, could not have recorded much success on its own without the regulator pushing for more access to financial services for Nigerians. In pursuance of its mandate of ensuring monetary and price stability, as well as promoting a sound financial system, the CBN launched projects aimed at making access to finance for all its topmost priority. Financial inclusion and financial literacy thus became a two-in-one initiative, pursued with vigor over the past three years.

As part of its developmental role in the Nigerian economy, the CBN has pursued financial literacy as one of its cardinal strategies in achieving financial inclusion. This initiative has a strong bearing on financial stability, economic growth and development. The CBN believes that inclusive growth can only be achieved when a large proportion of the population partakes in the formal financial system. Before the populace can make informed choices on commercial and non-interest banking, or even participate in financial markets and buy any insurance cover, they must have a general knowledge of the benefits of those products and services.

The CBN thus embarked on rigorous grassroots sensitisation campaigns, targeting rural folk, women, schools and universities, as well as all other disadvantaged groups. These campaigns disseminated information on financial products using print, electronic and online media, pamphlets, and other third-party publications.

The CBN Governor, Mr Sanusi Lamido Sanusi, has been a part of this sensitisation programme, aimed at imparting basic financial management knowledge on secondary school students in different locations across Nigeria.

The bank also engaged regulators, regulated banks and other financial institutions to create platforms for disseminating such information that helps to reverse the staggering statistics on financial inclusion – of 46.3 per cent of Nigerian adults were excluded from the financial system in 2010.

The CBN also registered more microfinance banks in the country, particularly in areas considered to be more disadvantaged. It again picked women as the more critical half of the population that requires special attention. The bank's recently launched Micro, Small, and Medium Enterprises Development Fund (MSMEDF) favoured women, for whom 60 per cent of the total ₦220 billion ($1.4 billion) fund was set aside and at a single digit interest rate.

Youth equally received similar attention as the CBN established Entrepreneurship Development Centres (EDC) in six geo-political zones of the country. Access to MSMEDF was restricted to institutions able and ready to give financial services to the graduates of these centres.

Sound financial system

The years since the global economic meltdown have been fruitful at the CBN. After emerging unscathed from those tumultuous years, the CBN has carried out ambitious reforms in the banking sector, which have seen the bank strengthen its supervisory framework. The result has been stronger banks and a more stable financial system. The Asset Management Corporation of Nigerian was established as an innovative crisis-resolution vehicle to mop up toxic assets and deal with non-performing loans in the banking industry.

To sustain the tempo, the CBN launched a ₦620 billion intervention programme in the real sector of the economy. The programme was meant to push for growth in the economy by creating more employment. The CBN also launched a cashless policy to reduce the number of cash transactions. The most laudable achievement of the CBN remains the inflation figure, which reduced to 8.2 per cent (as at September, 2013); the nation's foreign reserves stabilised at $45 billion and has continued to rise, while the monetary policy rate has remained at 12 per cent for about two years. All these have resulted in, among other things, a stable exchange rate of $1 to ₦158-₦160 (as at October, 2013).

With the government showing strong commitment to overcoming security challenges, and fiscal responsibility, maintaining political stability as well as handing over assets in the power sector to private investors, the Nigerian investment climate has never looked more promising.

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PETE TURNER/GETTY IMAGES

Saudi Arabia, which is the world's biggest crude oil exporter, has recently reaffirmed its ability to meet any global shortages

Shared interests in the oil and gas sector

With oil prices remaining volatile and demand for gas increasing, **Digby Lidstone** explores how mutually beneficial interactions between Islamic and world markets are responding to these trends

Only a decade ago, the concept of a $100 barrel of oil would have seemed outlandish to many in the industry. Five years after the price of crude first crossed that threshold, it is beginning to look, rightly or wrongly, like the norm.

The Organization of the Petroleum Exporting Countries (OPEC), whose member countries, nine of which are Islamic, control 81 per cent of the world's oil reserves, had long argued that its products were undervalued. But the price increases of the past few years have not brought stability to producers or their customers. Even as oil has hovered above the $100 a barrel mark this year, memories linger of the economic crisis of 2008, when prices slumped from a peak of $147 a barrel to less than $40 in a matter of months, before recovering again.

The volatile nature of the market has been particularly evident this year, as events in the Middle East raise concerns about supply disruptions. In August and September, oil prices closely tailed the debate over US military intervention in Syria. When Washington said that it was considering military strikes, Brent oil futures rose by more than $5 a barrel in two days to $116. When Russia offered to broker a diplomatic solution to the Syrian crisis, prices fell back to $109 within a week.

Outages in production have created a headache for the refining industries of industrialised countries, which operate on slender profit margins. A steep decline in Libyan oil production this year has had a knock-on impact on the market that might seem disproportionate to the country's size – even at its peak production of 1.6 million barrels a day, Libya is a comparatively small contributor to the 90 million or so barrels of daily global output.

Yet the country is one of the few to export high-quality crudes, specifically the 'light sweet' varieties with low sulphur content relied on by a number of European refineries, many of which lack the equipment to process heavier grades.

The refining industry has also been hit by outages in Nigeria, which is another exporter of light crude, where output has fallen to a four-year low. As premiums for the lighter, sweeter grades soared in the late summer of 2013, some Mediterranean refineries were losing $2 for every barrel that they processed in early September, according to Wood Mackenzie, an energy and mining consultancy.

The fabled ability of the oil producers in the Middle East to ameliorate supply disruptions is limited in such cases. Saudi Arabia, the world's largest exporter and OPEC's main 'swing producer', has been pumping oil at its fastest rate in more than three decades, but global stocks still fell by about one million barrels a day in August, according to the International Energy Agency (IEA). In addition, most Saudi production is medium, heavy and sour, meaning that its ability to plug the gap in the market for lighter crudes is restricted.

Supply solutions

As ever for Saudi Arabia and other producers, the onus is on finding new and more varied supplies of oil and gas. The high prices – and therefore increased revenues – of recent years have at least enabled them to redouble their exploration and production efforts. Since the start of production late last year at the giant Manifa field in Saudi Arabia, for example, the country's sustainable production capacity has increased by more than 400,000 barrels to 12.4 million this year, according to the IEA. This has given the Saudi government the confidence to reassert that it can still meet any upturn in global demand.

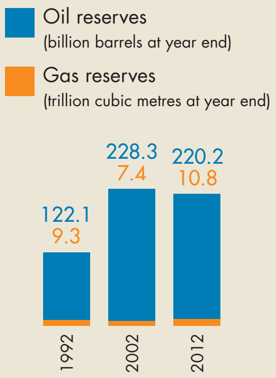
"For the record, oil market fundamentals are good," Saudi Arabia's oil minister, Ali al-Naimi, said in early September 2103, according to Reuters. "I repeat the message that Saudi Arabia is willing and capable for meeting any demand."

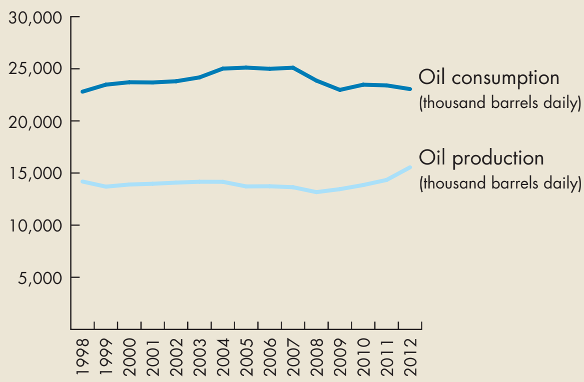
Where Middle East producers have been less successful, however, is in finding new supplies of gas. As in many emerging markets, domestic demand for natural gas is soaring, as rapid industrialisation and the development of energy-intensive industries, such as petrochemicals and metals, put a strain on local supplies and threaten to restrict exports.

A glut of gas in the oil-boom years of the 1990s now threatens to turn into a famine. And an enthusiastic commitment to exports of liquefied natural gas in the days when resources were relatively abundant has compounded the problem for countries such as Egypt and Oman. Both have struggled to meet the demands of the long-term supply contracts typically involved in liquefied natural gas – an industry

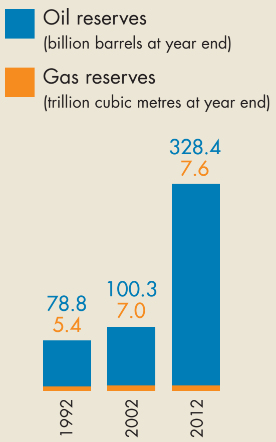
Global oil consumption and production, and oil and gas reserves by region

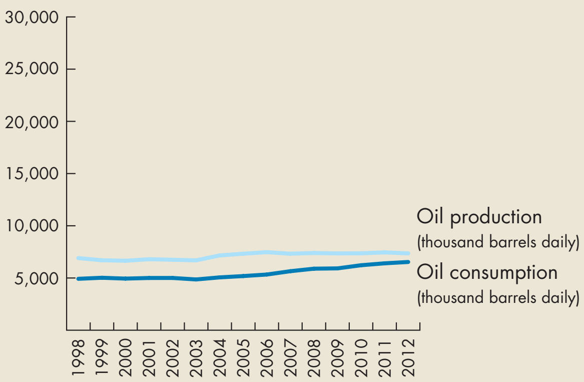
North America



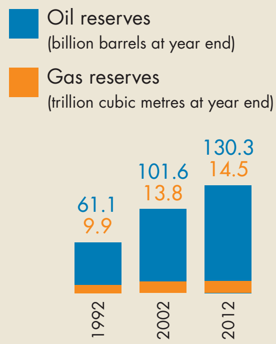


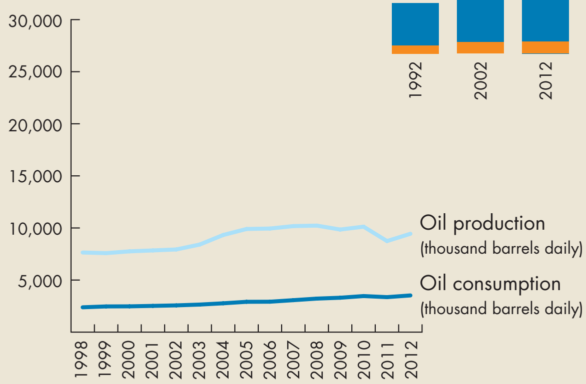
South/Central America

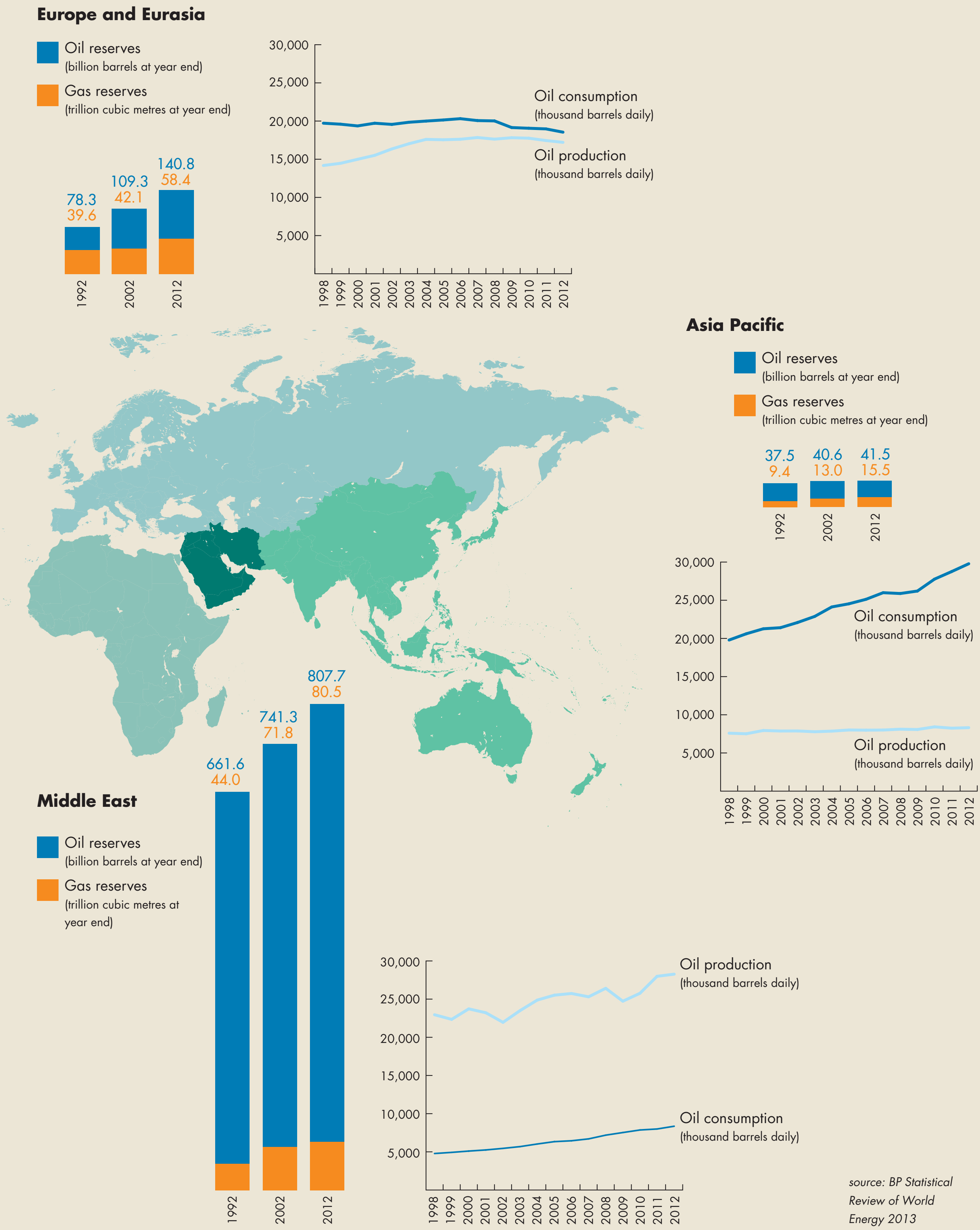




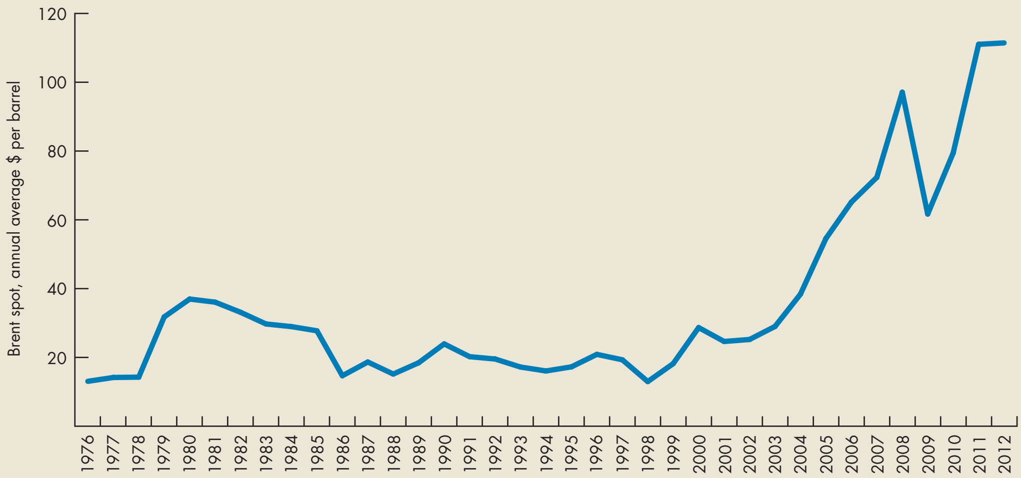
Africa






Europe and Eurasia
Oil reserves
(billion barrels at year end)
Gas reserves
(trillion cubic metres at year end)
78.3
39.6
109.3
42.1
140.8
58.4
1992
2002
2012
30,000
25,000
20,000
15,000
10,000
5,000
Oil consumption
(thousand barrels daily)
Oil production
(thousand barrels daily)
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Asia Pacific
Oil reserves
(billion barrels at year end)
Gas reserves
(trillion cubic metres at year end)
37.5
9.4
40.6
13.0
41.5
15.5
1992
2002
2012
30,000
25,000
20,000
15,000
10,000
5,000
Oil consumption
(thousand barrels daily)
Oil production
(thousand barrels daily)
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Middle East
Oil reserves
(billion barrels at year end)
Gas reserves
(trillion cubic metres at year end)
661.6
44.0
741.3
71.8
807.7
80.5
1992
2002
2012
30,000
25,000
20,000
15,000
10,000
5,000
Oil production
(thousand barrels daily)
Oil consumption
(thousand barrels daily)
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
source: BP Statistical Review of World Energy 2013

Oil prices since 1976



source: BP Statistical Review of World Energy 2013

that requires intensive investment in infrastructure from both producers and consumers alike.

As a result of this dearth of gas, even energy-rich countries, such as Saudi Arabia and the United Arab Emirates, have found themselves burning fuel-oil in power stations designed to receive natural gas. Crucially, funnelling more gas to the domestic market would free up precious supplies of crude for export.

The problem is particularly acute for countries whose heyday as oil producers is behind them. Crude output in Indonesia, once a founding member of OPEC, has been in decline for several decades, with its proven reserves of four billion barrels expected to run out in about a decade. Even the energy-rich Persian Gulf, Bahrain, which started producing oil in the 1930s, has seen its supplies dwindle, forcing it into negotiations with neighbours, such as Qatar and Iran, over possible gas supplies. In Oman, where oil has been the mainstay of the economy since production began in the 1960s, government revenues have suffered from a collapse in output over a decade ago.

Innovating for growth

However, technology and foreign investment are enabling some producers to temporarily arrest decline. Oman is a case in point. State company Petroleum Development Oman and its foreign partners have fought with some success to restore export levels using enhanced oil recovery techniques and by venturing into new areas such as heavy-crude extraction. Oman also boasts considerable proven reserves of natural gas – about 0.5 per cent of the world total – though much of the remaining gas lies in isolated fields that are hard to access and harder still to process.

Much of the technology and expertise required to develop these resources is coming from the West. In North America and Europe, companies have been pioneering new techniques to access remote fields and process heavy grades of oil or sour gas. The commercial success in the United States of hydraulic fracturing, or fracking, is a good example. In early September, the country's oil production leapt to its highest level since May 1989, Bloomberg reported. Texas alone pumped 2.6 million barrels a day in June, according to the Energy Information Administration. This was enough to rank it ahead of seven members of OPEC – including Iran, which has been hobbled by US and European sanctions.

By bringing in foreign partners, producers may be able in some cases not only to arrest but also reverse declines. In Oman, BP's fracking project at the Khazzan and Makarem fields is expected to produce at least one billion cubic feet of gas a day starting in 2017, which is an increase of one-third in current production levels. Bahrain, by contrast, has turned its paucity of resources into a virtue by looking downstream, refining oil piped from Saudi Arabia into high-grade products, such as diesel and lubricants, for the European market. Here, too, European companies such as Neste Oil, based in Finland, have been working in partnership with state-owned Bahraini entities.

In some respects, these so-called little-league producers are forging a path for their larger neighbours. Even in those states with little imminent fear of 'peak oil', energy producers have begun to diversify – not only branching into new areas, such as heavy oil and sour gas, but also investing in renewable energy technologies.

International oil companies are playing a vital role in this process, often lured not by the prospect of huge profits, but by the chance of gaining a foothold in territories that have been guarded jealously by national oil companies in the past.

Abu Dhabi, which is one of the world's largest gas producers, recently awarded to Shell a 30-year concession to develop sour-gas reservoirs in the giant onshore Bab field. The high costs (estimated at more than $10 billion), added to the fact that from 2020 the gas will be sold into the low-priced domestic market, mean that the project's economics are strained for both parties. But there are strategic interests at stake: Abu Dhabi can fulfil its commitments to local industry and hedge its more conventional forms of oil and gas production, while Shell can demonstrate a long-term commitment to the emirate and is in a leading position to secure stakes in future projects when they arise.

Crossing borders

The increasing integration of the upstream and downstream energy markets will further encourage cross-border investment. While international oil companies have been making inroads in the Persian Gulf, national oil companies have been ramping up their investments downstream in Europe and Asia. Saudi Aramco announced in 2012 that it would be investing as much as $120 million a year in European start-up companies. The company was also one of the first Middle Eastern majors to see the potential of China; it is a partner in an integrated refinery and petrochemicals plant in the Chinese province of Fujian and recently committed to building another refinery in Yunnan province. Chinese companies such as Sinopec have, in turn, been invited to take part in refining projects in Saudi Arabia, where Aramco is increasingly integrating its refining and petrochemicals industries.

The same process of reciprocal investment can be seen in the liquefied natural gas market. European and Asian companies such as BG Group, Petronas and Gas Natural are investors in gas export facilities in Egypt, while in the other direction, Qatar Petroleum has a taken a majority stake in the South Hook import terminal in Milford Haven in the United Kingdom, which is one of the major customers of Qatari gas.

The flexibility of the liquefied natural gas market has helped producers to come to its aid in times of need. As gas demand soared in Egypt this summer and authorities struggled to meet export demand due to unrest and supply disruptions, Qatar persuaded foreign partners in its liquefied natural gas export projects to take a discount on cargoes which it then donated to the North African country.

In the near term, greater diversification of supply, particularly from non-OPEC countries, is likely to take some of the pressure off oil markets even as overall global demand increases. World demand is forecast to average 92 million barrels a day in 2014, up from 90.9 million barrels this year, according to the IEA.

World demand is set to average 92 million barrels a day in 2014

Looking further ahead, much of the growth in demand in the coming decades will come from developing markets outside of the Organisation for Economic Co-operation and Development (OECD). According to 2013's *BP Statistical Review of World Energy*, global energy consumption in 2030 is expected to be 36 per cent higher than in 2011, with virtually all of the growth – some 93 per cent – accounted for by non-OECD countries.

"Non-OECD oil demand, led by Asia and the Middle East, looks set to overtake the OECD for the first time as early as [the second quarter of] 2013 and will widen its lead afterwards," states the IEA in its latest five-year market outlook. "Non-OECD economies are already home to over half [of the] global refining capacity. With that share only expected to grow by 2018, the non-OECD region will be firmly entrenched as the world's largest crude importer."

Milford Haven's gas import terminal is an example of a European facility that has received investment from the Middle East

STEPHEN SANDON/ALAMY

A light-rail train passes through a station in Kuala Lumpur, where the state-owned transport company issued sukuk in September to fund infrastructure improvements

EVGENY PROKOFYEV/ALAMY

Picking up speed: infrastructure financing through sukuk issuance

Islamic financing is a perfect match for infrastructure development projects, which are on the increase across Europe and the Muslim world. **Leila Badawi** analyses the dynamics at play

At the end of September 2013, Saudi Arabia's state-owned airport operator, the General Authority of Civil Aviation (GACA), successfully closed the latest of its sukuk offerings, totalling SR15.2 billion ($4 billion). The sukuk issuance was designed to finance the expansion of King Abdul Aziz International Airport in Jeddah and the King Khaled International Airport in Riyadh, and is yet another reminder of the huge investment required in infrastructure projects in Islamic countries.

This is GACA's second sukuk issuance after its successful debut offering of SR15 billion in 2012, the proceeds of which were used to part-finance the first phase of the SR27 billion King Abdul Aziz International Airport expansion project.

Infrastructure financing is a natural fit with Islamic finance. Large swathes of infrastructure projects have been financed either wholly or partly through Islamic finance, including in the transport, healthcare, education, oil and gas, petrochemicals, power generation and even in the agricultural sector over the past three decades. Yet, judging by the infrastructure spend to date and future demand, which runs into trillions of dollars for the 56 member countries of the Organisation of Islamic Cooperation (OIC), the Islamic finance industry lags well behind its conventional counterpart in terms of market share in financing infrastructure and development.

Inroads into project financing

The good news is that in some markets, such as Saudi Arabia, Malaysia, the United Arab Emirates (UAE), Indonesia and Turkey, this trend has been reversing with Islamic finance making inroads into project financing sectors that would have been unheard of only a few years ago. This is partly thanks to the emergence of sukuk as a major project-financing instrument. In the transport sector, for instance, sukuk issuances to finance airport and rail infrastructure have been prominent in recent weeks.

But while Western banks, engineering companies and contractors are heavily involved in infrastructure development in the above countries, investment, especially through the increasingly preferred project sukuk (trust certificates) in European countries, for instance, has been virtually non-existent. Yet the potential is huge given the ageing transport, road, sewage and other infrastructure in Europe, which would require billions of dollars of investment to restore over the next few decades.

The London offices of Goldman Sachs International and Deutsche Bank, for example, were two of several lead managers and investors in the recent $450 million sukuk al-wakala (or investment management contract) issued by Dar Al Arkan Real Estate Development Company, which is one of Saudi Arabia's largest housing stock developers.

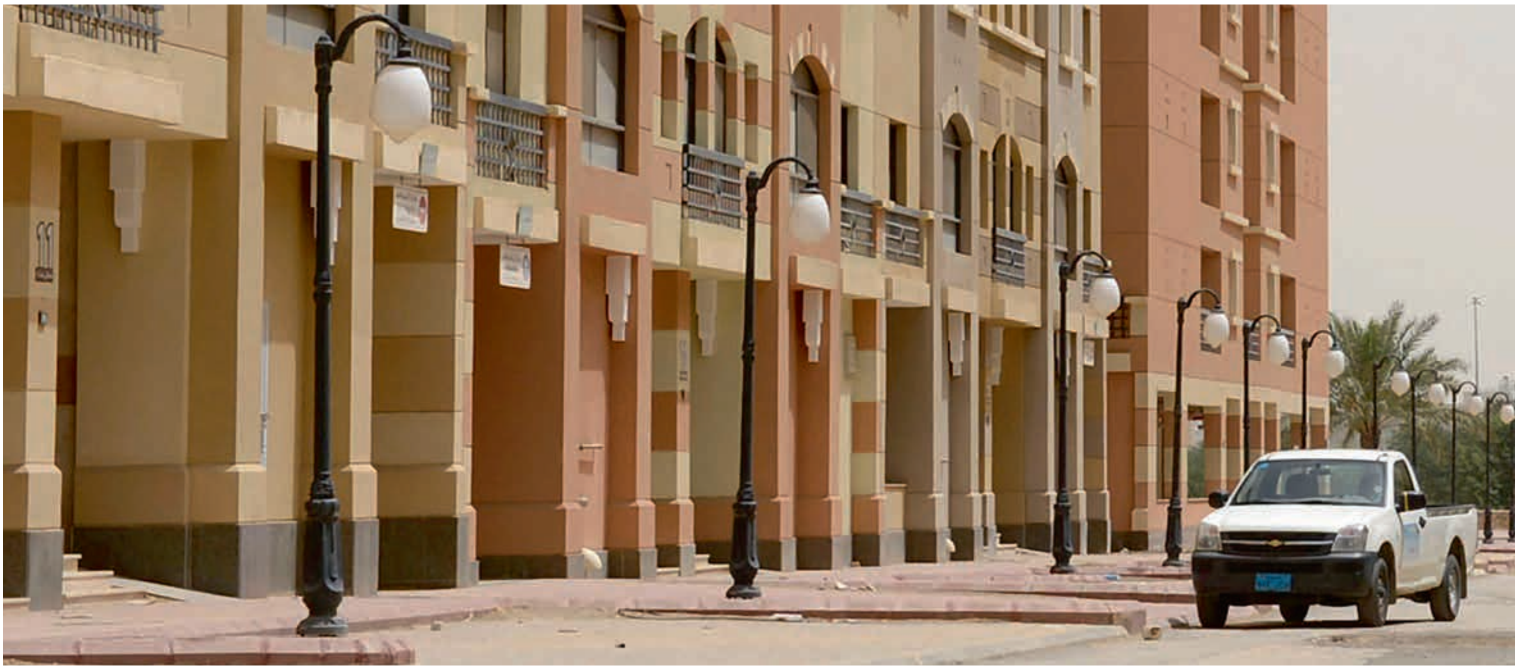
European infrastructure

The Luxembourg Government has been exploring the possibility of issuing a sovereign sukuk designed to finance a new student accommodation building at the University of Luxembourg on state-owned land. Similarly, the Electricity Supply Board of Ireland recently announced that it too was looking at the possibility of issuing a debut sukuk to finance its grid expansion and balance-sheet requirements.

In 2012, French consultants Legendre Patrimoine and Hassoune Conseil issued their debut sukuk, Orasis, through participation companies (Société En Participation) and limited liability companies (SARL). Orasis took the form of musharakah-cum-ijara sukuk (equity and leasing sukuk), allowing investors to buy into green renewable energy, including a solar panel manufacturing plant. The panels are then leased to the green energy operating companies, France Energies Finance, Solstice Group and P.Volteus, and the energy produced is sold to French energy company, EDF, which is contracted to uptake the energy for 20 years at a pre-agreed rate.

Robert Fresco, development director of Legendre Patrimoine, is confident that the Orasis sukuk will take off not only because of its ethical basis, but also because of the impact on the real economy. "This product is 100 per cent French-made. This investment serves our economy, not the American real estate market, nor highly speculative strategies on derivatives or other virtual instruments. Sukuk Orasis is an industrial investment solution that offers a good return," he maintains.

In the United Kingdom, several government developments bode well for cooperation with Islamic countries, and for attracting inward investment into



local infrastructure projects in the transport, energy and housing sectors. Once again, the Islamic finance industry is expected to play an important role, and the UK is set to encourage the involvement of Islamic finance in its infrastructure projects.

Mobilising investors

The UK Government, according to Baroness Warsi, co-chair of the UK Task Force on Islamic Finance and senior minister at the Foreign and Commonwealth Office, will support the Islamic finance industry in its aim to broaden the range of products and services that are available to British customers. The government's role, she explains, is to create the regulatory and tax frameworks to allow the market to thrive and stimulate growth. One method for doing this is through the mobilisation of Islamic funding and investment in UK-based infrastructure projects.

"We are looking at ways the Task Force can mobilise funding, for example into the top-40 priority infrastructure projects identified in the UK National Infrastructure Plan. This is a huge opportunity for the UK, and is a cross-government effort. The Financial Secretary of Treasury, the Commercial Secretary to the Treasury and I are looking at this in great detail. We will be engaging with private investors, sovereign wealth fund investors and major stakeholders, including the Islamic Development Bank, in order to realise this vision," explains Baroness Warsi.

> Infrastructure financing is a natural fit with Islamic finance

The Financial Services, Trade and Investment Board, created by the 2013 UK Budget, will have the authority and expertise to identify trade and investment priorities, and to support UK firms in pursuing these vigorously across the globe. This board is the clearest indication of the government's ambition to promote the financial services industry.

Similarly, the lord mayor of London, Alderman Roger Gifford, speaking at the 2013 London Sukuk Summit, reminded attendees that London, as a centre for business and finance, has always thrived on an openness to the movement of capital and ideas, talented people and global business. As such, London's evolution as a centre for Islamic finance, complementing the role of centres in North Africa, the Gulf and Asia, reflects that same global approach.

"In the twenty-first century, Islamic finance is as British as fish and chips and the FA Cup Final. It is an integral part of London's competitive offer. I look forward to seeing this market thrive and grow in the years to come," the lord mayor said. He also reminded delegates that the UK's National Infrastructure Plan provides fantastic opportunities for investors as the country looks for new capacity and renewal of chaold networks – across power, water, housing, transport and waste disposal. "All of these offer opportunities which can be met though sukuk issuance, or other Sharia-compliant means, by sovereign wealth funds and other pools of assets in state, corporate or individual hands," he added.

The business case for infrastructure investment in the Islamic countries is proven. Take, for instance, three sectors – housing, airports infrastructure and transport. According to the Saudi Arabian Monetary Agency (SAMA), the Kingdom's total population has almost doubled in the past two decades, rising from 16 million in 1991 to 28.4 million in 2011, of which approximately nine million are non-Saudi nationals. In addition, over 60 per cent of the Saudi population is under the age of 25 years old and the average household sizes are declining. These factors are expected to create a need in the Kingdom for

REUTERS/FAISAL AL NASSER

Newly constructed housing in Riyadh, the Saudi Arabian capital city. The country's population has doubled in size over the past two decades, reaching 28.4 million people

approximately 1.25 million new homes by 2015, according to the Saudi Ministry of Economy and Planning and the Ninth Development Plan.

Airport authorities in the Middle East and Asia continue to find recourse to fund expansion and construction activities through project sukuk. Malaysia Airports Holdings Berhad (MAHB) is the latest such authority, having successfully closed a RM500 million ($156 million) dual-tranche senior sukuk al-musharakah in August 2013. The issuance was made to finance the final phase of Kuala Lumpur International Airport 2 – the new terminal for the budget airline carriers, such as AirAsia.

Sukuk-funded transport projects

In September, Malaysia's public-transport utility, Syarikat Prasarana Negara Berhad (Prasarana), also issued RM1 billion of sukuk al-ijarah (lease certificates). The Malaysian Ministry of Finance guaranteed the sukuk and the proceeds will be used to part-finance the Kelana Jaya and Ampang LRT line-extension project in Kuala Lumpur, as well as other infrastructure improvement initiatives undertaken by the company.

HSBC Bank, with its major presence in the Islamic finance markets of Saudi Arabia and Malaysia, was involved, as lead manager and investor, in the three major sukuk issuances involving GACA, MAHB and Prasarana. Another British bank, Standard Chartered, also participated in the GACA offering.

Sukuk has featured as part of the financing mix in several Malaysian development projects, including transport infrastructure, the oil and gas sector, power generation, plantation development, telecoms networks, and in sectors such as electricity generation and petrochemicals in the Gulf Cooperation Council (GCC) states and Pakistan. However, most of the sukuk issuances over the past few years have concentrated more on raising finance for balance-sheet purposes, refinancing existing debt that is more expensive (including, very often, conventional finance debt), overcoming the mismatch between short-term deposits and longer term liabilities by raising longer term financing, and providing working capital and funds for expansion.

Pure project sukuk for development, infrastructure and manufacturing has featured very little in the sukuk space, although there have been a few exceptions. The potential, according to market players, is huge given the estimated multi-trillion dollar infrastructure and project spend in the member states of the Islamic Development Bank, with countries such as Indonesia, Turkey, Iran, Egypt Malaysia and the GCC countries at the forefront.

They stress that some of the huge liquidity and surplus funds in Asia and the Middle East can also be channelled towards the real economy to meet the demand for infrastructure, such as power plants, hospitals, roads and rail networks. The Asian Development Bank estimates that Asia will need $8.2 trillion in infrastructure investment between 2010 and 2020. Similarly, the figure for the Middle East and North Africa region also runs into trillions of dollars, with Saudi Arabia leading the way with a spate of new economic cities complete with industrial, commercial, housing, transport and educational infrastructure.

Saudi Aramco, the world's largest oil producer and exporter, alone has earmarked over $120 billion for infrastructure spend over the next decade for the new generation of exploration projects, refineries and desalination plants.

Leila Badawi is a London-based freelance writer, journalist and researcher. She has contributed to the BBC, *The Guardian* and several other publications.

A bridge in Dubai that makes reference to the Eiffel Tower in its architecture. European-Islamic cooperation is most visible in project funding arrangements

FELDMAN/GETTY IMAGES

Building bridges between Islamic and non-Islamic markets

The relationship that exists between European and Islamic markets is long established, but the two regions also collaborate in third markets, says **Solomon Teague**

Cooperation between independent institutions in third parties can be difficult to define and quantify. "Trade is conventionally a bilateral discipline," says Douglas Johnson, chief executive officer at Codexa Capital, a boutique investment bank that focuses on Islamic finance. "Approaching 'cooperation' from a trilateral perspective creates material analytical challenges."

Arab countries traditionally consider trade as a matter of selling oil, while South-East Asian economies are historically orientated towards export growth, Johnson explains, making 'cooperation' ambiguous.

Yet, viewed in another way, cooperation is now so widespread, it is almost invisible. Financial markets and relationships are now so dispersed and interrelated that looking along national lines is increasingly arbitrary and irrelevant.

Technological advances and increased travel have broken down cultural barriers, and greater understanding between the Islamic world and the West has made doing business easier.

As deals have grown in size over the decades, more of them have been syndicated among groups of banks and investors. Islamic and European institutions routinely invest jointly in companies, governments or projects anywhere from Latin America to Asia. The wealth that exists in the Arab world ensures that Muslims are represented in many big transactions, wherever they occur.

Where there has been clearly identifiable cooperation between the Islamic world and the West in third countries, development banks have often been at its heart. The Islamic Development Bank is active in many sectors and types of project that involve such cooperation, particularly in infrastructure, but also in areas such as healthcare and education.

Development banks stand between governments and private-sector entities of many sizes, with bids for mandates on projects coming from all over the world. Deals can emerge in various ways. Islamic governments may look to invest in an infrastructure project in a third country, or, alternatively, a project's promoters can bring it to the development bank in search of expertise or assistance. In this instance, "The projects need to be bankable and feasible, and the parties involved reputable, for us to be involved," says Mohamed Hedi Mejai, chief of investments at the Islamic Development Bank.

A strong pan-Islamic sentiment among many Muslims ensures also there is considerable investment between Muslim countries, particularly in the form of richer countries, such as the United Arab Emirates and Saudi Arabia, investing in poorer Islamic countries, for example Yemen and Sudan.

Islamic development funding

The Islamic Solidarity Fund for Development (ISFD) exemplifies this trend. It was launched in 2007 by the Islamic Development Bank to combat poverty and illiteracy and eradicate disease. It operates a number of programmes for poverty reduction, including the Vocational and Literacy Program, Microfinance Support Program and Sustainable Villages Program. The IFSD is also launching programmes dedicated to renewable energy and healthcare for mothers and children. By the end of 2012, IFSD had $1.74 billion in assets under management, and $2.68 billion in total pledges from 44 member countries that invested in a range of projects associated with these programmes.

> Islamic and European institutions routinely invest jointly in companies

This is just one of a huge list of initiatives undertaken by the IDB that enable Muslim countries to work together to invest in the poorer corners of the Islamic world. Other examples include the International Centre for Biosaline Agriculture, which promotes agricultural development in arid regions, and the Youth Employment Support Program, which aims to tackle the estimated 25 per cent youth unemployment rate across the Arab world.

The most visible form of European-Islamic cooperation is arguably the assistance provided by European institutions in arranging the financing of projects, either by the banks, lawyers or accountants based in London and elsewhere.

European and other Western institutions also actively invest alongside Muslim parties in a range of countries and projects. Private-equity companies can be based in one country, draw investors from 10 others and make investments in a further 10 destinations. In 2007, for example, Arcapita Bank – a diversified financial services company based in Bahrain – formed two joint ventures with Layetana Developments – a Spanish residential developer – to construct 1,500 apartments in Warsaw, Poland, for a total development cost of over PLN1.1 billion ($356 million).

This cooperation extends into the manufacturing sector, too. For example car-maker Renault Pars is a joint venture between French company Renault and Iran Khodro Company (IKCO). In this case the French company owns 51 per cent and the remaining shares are jointly owned by IKCO, Iran's Industrial Development and Renovation Organization and Saipa, another Iranian firm. This facilitates growth beyond France and Iran, via suppliers, with the fully manufactured cars exported around the world.

The increasing use of public-private partnerships for financing means that governments often have relationships with companies dating back to former projects that they can fall back on. And, in today's globalised world, these relationships are not shackled by national borders, with technical expertise often the deciding factor in the awarding of projects.

The most visible form of European-Islamic cooperation is the assistance provided by European institutions in financing projects

Islamic banking is another system that is of increasing interest to ethical investors beyond the Muslim world. The IDB advises private or central banks that want to write legislation and create a hospitable environment in which an Islamic banking sector can flourish. Depending on the circumstances, this assistance may be offered with input from its sister organisations, such as the European Bank for Reconstruction and Development or the African Development Bank, with which the IDB has agreements intended for just such purposes.

Forging links through banking

Alongside countries such as Saudi Arabia and Kuwait, the IDB has been keen to promote the emergence and success of Islamic banking in Europe. Equally, European countries have been encouraging this development, in large part for the benefit of their own Muslim populations. However, by catering to citizens with ties to other countries, European states also hope to facilitate greater trade with those regions.

In Russia, the Tatarstan Investment Development Agency and the Thomson Reuters Agency are seeking to promote Islamic banking through the formation of the Regional Center for Islamic Finance of Russia and the Commonwealth of Independent States.

The IDB helped BTA Bank to introduce Islamic finance into Kazakhstan more than 10 years ago, although it was not until 2009 that the status of the Islamic finance market was formalised. In preparing this bill, Kazakhstan solicited the advice and input of the United Arab Emirates and Malaysia, among others.

"A lot of socially responsible investing [is] very close to Islamic banking products and we have seen increasing cooperation between the Islamic and non-Islamic banking world in this area," says Mejai. There have been conferences to discuss the development of products spanning both markets, for example. "Since the financial crisis, especially, we have seen a growing interest from central banks and financial authorities, which noticed that Islamic banks were not as severely affected as many conventional banking institutions."

Sub-Saharan Africa

Recently, there has been a resurgence of interest in Sub-Saharan Africa from the Arab world, with Dubai "essentially acting as the new entrepot for Africa," says Johnson. This sentiment was reinforced by the director general of the Dubai Chamber of Commerce & Industry, Hamad Buamim, who set out a vision for Dubai's future role as the gateway to Africa in an interview with *How We Made it in Africa*. "Historically, Dubai has always been a major transit point for goods and trade flows from Africa, and this is a role that we are seeking to build on over the coming years," he said. Buamim also indicated that, in order to encourage more trade and investment flows, Dubai will open a series of offices in Africa, the first of which will be in Addis Ababa, Ethiopia.

The IDB's work in Africa has often been done alongside that of other development banks, such as the World Bank or the European Bank for Reconstruction and Development (EBRD), and private European companies can bid for mandates on such projects.

The IDB made investments worth $1.2 billion within its Special Programme for the Development of Africa (SPDA) in 2012, including projects, trade finance and technical assistance. A large part of this investment was made alongside partners, including other development banks and private companies from around the world, with Mauritania, Sudan, Senegal and Nigeria being the four biggest recipients of this assistance.

In 2009, the International Islamic Trade Finance Corporation, which is the trade finance arm of the IDB, arranged a $25 million trade financing, structured as a murabaha (or sales contract), for the Indonesian raw sugar refiner, PT Angels, in conjunction with Czarnikow Group, a UK-based sugar and ethanol supply-chain management firm.

Multiple development banks can also work in conjunction with each other. For example, in Azerbaijan the World Bank completed projects designed to improve the irrigation distribution and drainage systems. The IDB largely financed the construction of the Khanarc Canal, with Turkey's Su Yapi Engineering and Consulting leading on the construction itself.

However, cooperation with Islamic institutions in third countries is not confined to the West, with

RICHARD BRYANT/ALAMY

The Islamic Development Bank building in Saudi Arabia. The IDB has worked with European firms to finance projects in other regions

China playing an increasingly active role in such projects, especially in Africa. The bridge over the river Niger in Gao, Mali, for example, was financed by the IDB, but constructed by the China State Construction Engineering Corporation.

Such cooperation is constantly under discussion as participants look to find new ways of promoting growth. In September, the EBRD and IDB, along with the United Kingdom, acting in its capacity as president of the G8 group of countries, jointly hosted a Deauville Partnership Investment Conference in London. Government representatives and businesses from the G8 met with financial institutions and representatives from Kuwait, Turkey, Qatar, Saudi Arabia and the UAE to discuss how best to stimulate investment and trade in Egypt, Tunisia, Morocco, Libya, Jordan and Yemen. Elsewhere, the EBRD, International Shari'ah Research Academy for Islamic Finance, Standard & Poor's and the Central Bank of India hosted a conference in Egypt in late 2012 designed to discuss how best to assist small and medium-sized companies in the Middle East and North Africa.

With greater cooperation on the agenda of European and Islamic development banks and private partnerships springing up that stretch out to other regions, a mutually rewarding path lies ahead.

Solomon Teague is an experienced finance journalist. He is assistant editor of *International Financing Review* and also writes for *Euromoney*.

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The ICD: delivering success to our member countries

The Islamic Corporation for the Development of the Private Sector is a multilateral development financial institution and is part of the Islamic Development Bank (IDB) Group.
ICD was established in November 1999 to support the economic development of its member countries through the provision of finance for private-sector projects, promoting competition and entrepreneurship, providing advisory services to the governments and encouraging cross-border investments.

ICD has an authorised capital of $2 billion, of which $1 billion is available for subscription. Currently, the shareholders of ICD are the IDB (50 per cent), 52 Islamic countries (30 per cent) and five public financial institutions (20 per cent).

ICD products and services

1. Long and short-term

Financing ICD's mandate, to serve the private sectors of member countries, is carried out through the provision of a variety of products offered to its clients. ICD finances private-sector entities and Greenfield or expansion projects directly through equity participation, the purchase of assignable bonds and term financing. ICD also extends short-term finance to cover working capital and/or raw-materials requirements of private-sector entities through Murabaha or Purchase and Lease-Back for a tenor of up to 24 months. ICD can also play a role in mobilising resources for financing a project through co-financing or syndication.

2. Developing Islamic financial institutions and extending lines of finance

ICD strives to nurture and empower identified channel partners by setting up or aiding existing development banks in driving development and growth in the Islamic world. This vertically leverages two key instruments in order to extend financial aid: institutional equities and lines of finance.

ICD extends lines of financing to selected banks and financial institutions in its member countries as a means to improve the access of small and medium-size enterprises (SMEs) to medium-term financing and concurrently strengthening the balance sheet positions of the beneficiary banks.

3. Advisory services and asset management

ICD provides a wide variety of advisory services to governments, public entities and private entities of member countries with an aim to create the ideal environment to facilitate private-sector investment and also to assist companies in achieving their potential. The range of services include issues such as assessing the business environment of member countries, along with the required reform actions, plus advisory services at project level in issues such as project financing, restructuring/rehabilitation of companies, privatisations, Public Private Partnership (PPP), project finance advisory, raising funds though the issue of Sukuk, development of Islamic capital markets and encouraging the development of the business environment for SMEs.

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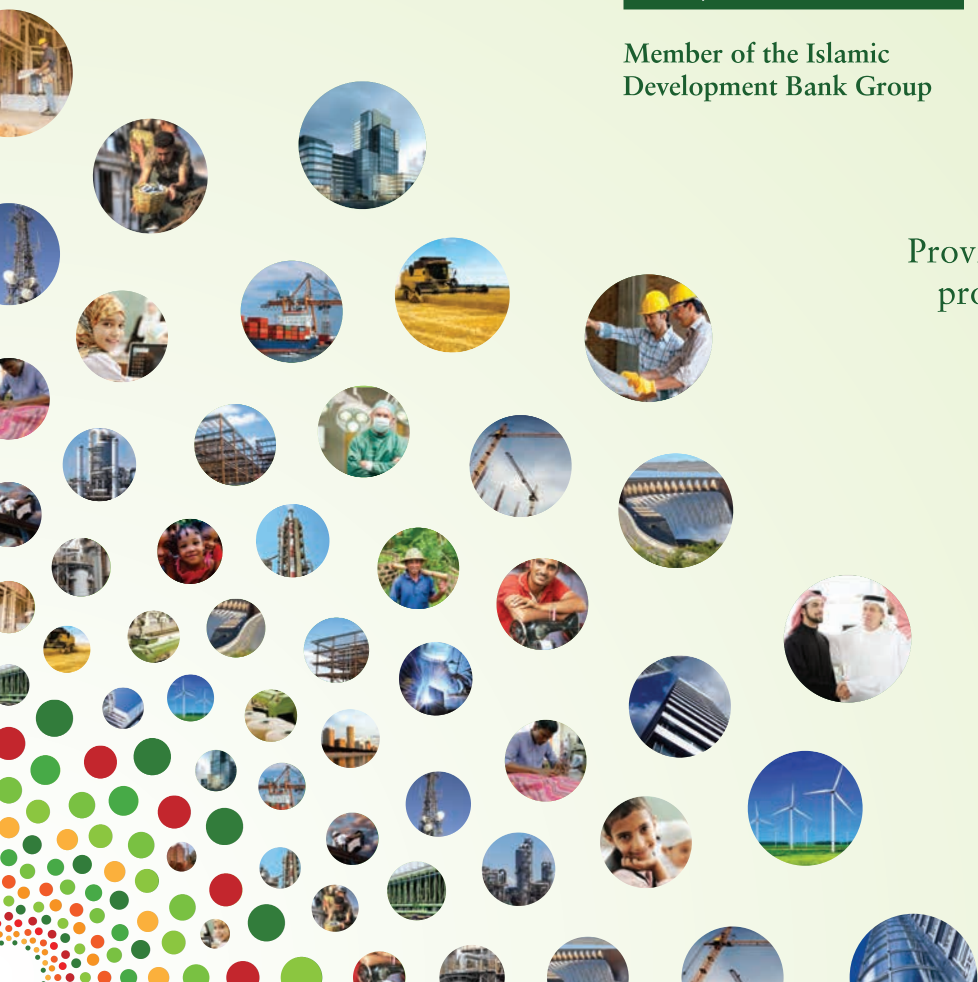


Traders work the morning session at the Borsa Istanbul, which launched a pioneering Participation Bank Index in 2012

REUTERS/MURAD SEZER

Islamic exchange-traded investments in the ascendant

The relatively nascent exchange-traded investment markets of Islamic countries are developing, as are interactions with Europe-based companies, yielding much potential, writes **Mushtak Parker**

Exchange-traded investment and activities in and between the countries of the European Union (EU) and Organisation of Islamic Cooperation (OIC) are characterised by two different cultures and market sizes.

While the exchange-traded investments in the EU, which include equities, derivatives, money-market instruments, exchange-traded funds (ETFs), exchange-traded commodities (ETCs) and exchange-traded bonds (ETB), run into trillions of dollars, with the London Stock Exchange one of the largest in the world, the figures for the OIC countries are far more modest for manifold reasons.

These include a developing regulatory architecture; a nascent asset-management culture and infrastructure; a developing but conservative investment culture among both high net worth and institutional investors and their retail counterparts; inadequate wealth and estate planning; a cultural attachment to tangible 'bricks-and-mortar' real-estate asset class as opposed to intangible equities, ETFs, bonds and gilts asset classes; underdeveloped stock, commodities and futures exchanges with limited trades and settlement; a lack of a secondary markets for bonds and sukuk because investors prefer to hold on to them until maturity; barriers to entry, especially of direct investment in the local stock markets, in some countries; and underdeveloped legal and technology frameworks for capital markets.

Remarkable progress

However, over the past decade or so, there has been remarkable progress in some of the Islamic countries, especially Malaysia and Saudi Arabia – the two most important markets for Islamic finance – and in fast-moving markets such as Turkey.

According to the Securities Commission Malaysia (SC), the size of the Malaysian capital market reached RM2.5 trillion ($780 million) at end 2012, which is a 16.4 per cent increase from the RM2.1 trillion in 2011. The large amount of funds raised through the issuance of corporate bonds, sukuk and initial public offerings (IPOs) in 2012, sealed Malaysia's ranking as the world's biggest sukuk market, the fifth-largest IPO destination globally and the fourth most active in Asia for corporate bond issuances. The corporate bond and sukuk market exceeded the RM1 trillion mark for the first time, and positioned Malaysia as the third-largest bond market in Asia.

An interesting trend, not only in Malaysia but also elsewhere in the OIC countries, is that the Islamic Capital Market (ICM) is growing at a faster pace. In Malaysia, for instance, the ICM increased year-on-year by 22.6 per cent to reach RM1.4 trillion at the end of 2012, with Malaysia accounting for 76.9 per cent of global sukuk issuances, as well as 69.2 per cent of global sukuk outstanding.

The Islamic capital market is also enjoying greater internationalisation through wider participation of foreign sukuk issuers in Malaysia from countries such as Singapore, Saudi Arabia, United Arab Emirates (UAE), Kuwait, Bahrain and Kazakhstan. Local issuers are also issuing in the renminbi and Singapore dollar markets.

In Turkey on the other hand, says Avsar Sungurlu, assistant general manager, BMD Securities, one of the country's largest fund management and brokerage companies, "the total Islamic fund size in Turkey is around $180 million, which is approximately 6/1000 of total investment fund size in Turkey. Most of these funds (nearly $150 million) are pension funds and they just started two years ago. So even if we assume that the market share of Islamic funds will reach the very modest market share of Participation Banks (Islamic banks) of five percent, there is large growth potential. This growth will be primarily in the pension fund side because of government incentives and the fact that it is a totally untouched market."

22.6%

– 2012 year-on-year growth in Malaysia's Islamic Capital Market

Last year, the Borsa Istanbul, which combines the former Istanbul Stock Exchange, the Istanbul Gold Exchange and the Derivatives Exchange of Turkey under one umbrella, launched a pioneering Participation Bank Index, and, according to Sungurlu, a number of licensees have been launched by BMD Securities on the index. "We have seen an increased interest, particularly from pension fund companies, since there is no local alternative for compliant equity portfolios. For the next few years we expect increasing numbers of pension fund companies licensing the index as the Islamic pension-fund business improves," Sungurlu adds.

Of equal importance last year was the launch by international rating agency and index provider, Standard & Poor's (S&P), with the OIC of the S&P/OIC COMCEC 50 Sharia Index. The index is designed to measure the performance of 50 leading Sharia-compliant companies from the member states of the OIC. Stocks are selected in accordance with Sharia-compliance screenings, as determined by the S&P Shariah Indices Methodology.

Sharia index filling a void

The coordinator of the index is the Borsa Istanbul, on which the index is listed. Ibrahim M Turhan, chairman and chief executive officer of the Borsa Istanbul, strongly believes that "the S&P/OIC COMCEC 50 Sharia index will fill a principal gap; since so far, there have been only a few measures to gauge the performance of Sharia-compliant companies. This new index is a product of the collective efforts of our colleagues in the OIC Member States' Stock Exchanges Forum and S&P Indices. The index is also important in the sense that it will offer a benchmark for a variety of financial products, such as ETFs and likewise."

The most vibrant of the stock exchanges in OIC countries are Bursa Malaysia, Borsa Istanbul, Nasdaq Dubai, Bahrain Bourse, Tadawul (the Saudi Stock Exchange), albeit with products, volumes and trading cultures that vary markedly depending on the market.

> Malaysia is pioneering financial inclusion in exchange-traded investments

Outside of the OIC countries, the most active listings and trading of Islamic products, such as equities, sukuk, ETFs and real-estate investment trusts, are on the London Stock Exchange (LSE), Irish Stock Exchange, Luxembourg Stock Exchange and Channel Islands Stock Exchange.

LSE is a key global venue for the issuance of sukuk. According to official data, to date over $34 billion has been raised through 49 issues of these alternative finance investment bonds on the LSE, which offers the choice of two routes to market – the Main Market or the Professional Securities Market. The downside, however, is that very little secondary market trading of sukuk takes place on the LSE. Most of the trades are over the counter or through private deals.

The LSE's Alternative Investment Market for smaller, growing companies lists the company shares of four Sharia-compliant institutions: Islamic Bank of Britain plc, European Islamic Investment Bank plc, The Family Shariah Fund Ltd and Shariah Capital Inc.

However, in terms of Islamic unit trusts, mutual funds and other such equity-based funds, the overall global market is very modest and not even reaching $80 billion in size. The market's development, to a certain extent, has been stunted by the spectacular and rapid proliferation of sukuk as an investment asset class and the sustainability of real-estate market segments, especially in London, Switzerland, Germany and Hong Kong.

There is also an important trend emerging in markets such as Saudi Arabia and Malaysia – the two largest markets for Islamic mutual funds – that is, the shift towards investment in Sharia-compliant equities. Take, for instance, National Commercial Bank, the largest bank in the Kingdom, which is not an Islamic bank. Its entire AlAhli family of 26 funds listed on the Tadawul is Sharia-compliant.

In Malaysia, the fund-management industry continued to play a key role in savings mobilisation, recording a significant expansion of 19.2 per cent in assets under management (AUM) in 2012, valued at RM505.1 billion. Islamic AUM accounted for approximately 16 per cent or RM79.6 billion of the market share of the total industry, which is valued at RM505.1 billion in 2012.

Nevertheless, UK and global asset managers and fund companies have been pioneers in the Islamic space going back to the 1980s. Wellington Management, Pictet et Cie, Nomura, Citibank, HSBC, Commerzbank and Deutsche Bank are just some of the pioneers in this respect. Over the past two decades or so, new entrants could simply not afford to stay away from the market. The latest fund company to launch Islamic unit trusts in Malaysia, for instance, is Aberdeen Islamic Asset Management Sdn Bhd, a wholly owned subsidiary of Aberdeen Asset Management Sdn Bhd. The company launched its debut Sharia-compliant retail funds – the Aberdeen Islamic Malaysia Equity Fund and Aberdeen Islamic World Equity Fund – in Malaysia in early 2013.

Malaysia as a viable market

The ultimate owner of Aberdeen Islamic, UK-listed Aberdeen Asset Management PLC, has been investing client money in Malaysia for over 25 years. With RM13 billion of Bursa Malaysia-listed equities under management, it is among the largest foreign investors in the local equity market. According to Hugh Young, managing director of Singapore-based Aberdeen Asset Management Asia Limited, who oversees Aberdeen's regional business, "Malaysia has been a core market for us in the region and it has worked hard to develop a viable market for Islamic investments. We have been really impressed by how Malaysia's capital markets have progressed over the years and have high hopes, with these two new funds, for continued success in asset gathering over the medium to long term."

Ever since Borsa Istanbul launched the world's first Islamic ETF, which tracked the Dow Jones Islamic Market Turkey Index, Islamic ETFs have gained some traction. Malaysia followed with its i-Value Cap ETF and even Daiwa Securities and the UK's ETF Securities launched their own Islamic ETF offerings on the Singapore and London Stock Exchanges. The latter has a vibrant market in ETFs, including seven Sharia-compliant ETFs that are based on either the FTSE Shariah Global Equity or the Dow Jones Islamic Market indices.

ETFs are open-ended index tracking funds, listed and traded on exchanges in the same manner as shares. According to BMD Securities' Sungurlu,

PHIL WEYMOUTH/BLOOMBERG VIA GETTY IMAGES

Businessmen consider financial data at the Bahrain Bourse – one of the most vibrant stock exchanges in the OIC countries

"We are the issuer and manager of the first Islamic ETF in the World, and currently have two compliant equity ETFs and physical gold and silver ETFs. Unfortunately, the AUMs of these funds remained less than expected, but this is not an issue specific to Islamic instruments.

"The total size of the Turkish fund market is $30 billion, including pension funds at the moment, which forms only 3.5 per cent of GDP; a figure that is only a fraction of even that of the developing countries. There are a lot of reasons behind this; lack of institutional investors is one of them. But as the pension fund business is the fastest growing area in the investment industry in Turkey, we can expect a change in the current picture."

The global exchange-traded market

In contrast, the global ETF industry alone is worth about $2 trillion and, according to an ETF Securities report earlier in the year, the industry is expected to surpass that figure in 2013, with allocation to industrial metals such as copper, high on the agenda of senior investment managers in Europe.

There are seven London/Europe-listed Sharia ETFs that are cross-listed and traded on several exchanges, including the LSE, Deutsche Borse, New York Stock Exchange (NYSE), Euronext Amsterdam and NYSE Euronext Paris, and the Stuttgart Stock Exchange.

Elsewhere, HSBC Saudi Arabia has also launched the HSBC Amanah Saudi 20 ETF – the first ETF from HSBC in the region. The index, created by S&P, is made up of the top 20 Sharia-compliant Saudi companies that are listed on Tadawul.

One country that is pioneering financial inclusion in exchange-traded investments is Malaysia. "With a view to facilitating greater direct retail participation in the corporate bonds and sukuk market," explains Nik Ramlah Mahmood, deputy chief executive of the Securities Commission Malaysia, "the Commission, in 2012, developed the framework for retail bonds and sukuk as envisaged under the Capital Market Masterplan 2. Under the Exchange Traded Bonds and Sukuk (ETBS) Framework, retail investors have direct access to sukuk, thereby broadening the range of low-risk investment products available to them and facilitating diversification for risk management purposes," adds Mahmood.

Indeed, Malaysia's first retail exchange-traded sukuk was issued earlier this year by a government-owned entity, Danainfra Nasional Berhad, a company tasked to undertake the development of the country's first mass rapid transit (MRT) project at a cost of RM36.6 billion. The retail-sukuk tranche was part of a RM1.5 billion government-guaranteed issuance, of which 20 per cent, or RM300 million, was allotted to retail investors and listed on the Bursa Malaysia.

ALENGO/ISTOCK

Some ICT product vendors have sought Sharia certification for their core Islamic banking solutions

ICT advances facilitate market development

Leila Badawi surveys the landscape of product offerings from the ICT sector, which has been quick to recognise the differences in requirement between conventional and Islamic finance

At a touch of a button, billions of dollars can be moved in a single transaction in real time from one location to another. At the stroke of a key, traders, analysts and investors can see in real time the latest data on a screen in the office or at home, tracking the performance of a particular product – whether it be an equity fund, exchange-traded fund (ETF), a money-market fund, a real-estate investment trust (REIT) or any type of derivative offering.

Equally, no new financial product would come to market without the requisite technology solution or management system. With the proliferation of online internet banking and mobile telephony banking, a whole new area in information and communications technology (ICT) has emerged. This new discipline covers both customer products and services, as well as the associated cyber security to contain cyber crime and fraud, particularly in relation to banking and credit card accounts.

All this would not have been possible without the remarkable advances that have been made in ICT over the past few decades, and which have transformed the asset management, wealth creation and financial services industry beyond recognition.

Over the past four decades, a new financial intermediation phenomenon has gripped the global financial system – a system of banking which proscribes interest (the core ethos of the conventional banking system), promotes risk-sharing and requires transactions to be backed by real assets.

Too big to ignore

The spectacular rise of Islamic finance, which has amassed assets under management (AUM) of over \$1.2 trillion in a mere 38 years, and is projected to increase to \$3 trillion by the end of the decade, has meant that the sector has become too big to ignore.

Not surprisingly, conventional banks, driven initially by the investment demands of their private banking clients from Islamic countries, have been involved in the industry virtually from the outset. And ICT and financial information vendors are no exception, although they were late starters.

ICT companies, for instance, have embraced the Islamic finance industry with a robustness that perhaps is lacking in other industry segments, and most ICT operations are outsourced to specialist vendors as a result.

According to Inntron, a leading global information technology advisory service in the banking and finance sector, there are 35 core banking systems that serve the Islamic finance industry by the same number of vendors. Some of those companies cater for the entire spectrum of banking services – universal, retail, wholesale and private banking. One or two also have ICT systems for Islamic microfinance.

The core banking systems serving the Islamic finance industry include T24 of Temenos Systems; the SAB Group's AT Islamic Banking solutions; the iMAL system of Path Solutions; Equation Islamic Banking Version of Misys International Banking Systems (formerly Midas Kapidi, which was one of the first ICT vendors to cater for the Islamic banking industry); and the ETHIX Financial Solutions Platform of International Turnkey Systems (ITS).

35
– the number of core banking systems serving Islamic finance

Given the specific requirements of Islamic finance and its financial reporting, especially in the treatment of deposits (which in Islamic banking is not a liability but a profit-and-loss sharing investment account fiduciary item, for instance), core banking solutions have to reflect these characteristics. As such, harmonisation of existing, conventional, ICT with Islamic financial services is more complex than it would at first seem.

The SAB Group, which is more active in francophone countries but looking increasingly towards the Gulf Cooperation Council (GCC) markets, is adamant that its "SAB AT Islamic Banking solution is neither an enhancement nor a modification to an existing conventional banking solution, but it is a full-fledged, indigenously-developed, next-generation Islamic banking system designed to cater to the basic, and the most advanced, requirements of Islamic financial institutions.

"SAB AT Islamic Banking solution is modular and yet fully integrated with SAB AT modules to enable Islamic financial institutions to benefit from the overall architecture, coverage and functionality of the system."

REUTERS/JUMANA EL HELOUEH

Investors look on at screens displaying data at the Dubai Financial Market. A new field has opened up in ICT to serve the specific requirements of the Islamic finance sector

Segregated ICT solutions are a key issue for Islamic financial institutions. Mohammed Soud Al Naamani, IT Manager of Bank Sohar, Oman, which last year launched an Islamic-banking window (IBW) and opted for the iMAL Islamic core banking system of Path Solutions, explained that the bank "had decided to implement a new system to launch a new Islamic banking window through a system which is completely segregated from the conventional one."

Interfacing with essential systems

Some banks, such as Bank Muscat in Oman, which was the first one to get an IBW licence from the Central Bank of Oman, uses Temenos T24 for its conventional banking operations, but iMAL for its Islamic banking operations. Most of the systems also allow for customisation, although the less the better. What is important, though, is interfacing with other essential systems in banking, such as payments (RTGS, ACH, SWIFT), electronic cheque clearing and ERP and ATM switch.

Vendors, such as Kuwait-based Path Solutions and ITS, have even sought Sharia certification for their core Islamic banking solutions from Bahrain-based industry standard setter Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Recently, AAOIFI announced that it was withdrawing the AAOIFI Certification Programme for Islamic Banking and Finance Information Systems it had accorded to Path Solutions and ITS effective September and October respectively. "Therefore," the statement said, "AAOIFI no longer certifies that the Islamic banking and finance information systems offered by Path Solutions and International Turnkey Systems (ITS) as being compliant to AAOIFI standards, and bears no responsibility on the Shariah compliance of their systems."

Path Solutions has already announced that it is in the process of recertifying its Islamic core banking system – iMAL – through a leading independent Sharia supervisory body.

Given that none of the other vendors have sought this Sharia certification, it is not clear to what extent the AAOIFI certification is actually required.

In fact, AAOIFI signed an exclusive agreement with international accounting and advisory firm, EY, earlier in 2013 to carry out certification of financial software products or core banking systems for the Islamic banking and finance industry.

The certification programme will see AAOIFI and EY working together in benchmarking financial software products or core banking systems against AAOIFI's Sharia and accounting standards. Under the certification programme, banking and financial information technology providers will have the opportunity to properly incorporate the AAOIFI standards into their products and systems.

According to AAOIFI's secretary general and chief executive officer, Dr Khaled R Al Fakih the organisation's "certification ensures that information technology systems in Islamic financial institutions can give further support to those institutions and mitigate risks of Sharia non-compliance."

The certification process, which has a five-phase approach, involves the two stakeholders – AAOIFI/EY and the ICT vendor – and includes regular periodical reviews. The reviews will be carried out under the supervision of a committee of Sharia scholars from AAOIFI standards boards.

Whether it will be a game changer for the Islamic banking industry as Essa Al Jowder, managing partner at EY claims remains a moot point. "Regulators," he explains, at the signing of the agreement in Manama, Bahrain, "are becoming increasingly stringent when it comes to Sharia compliance. Core banking vendors have to adapt their systems to incorporate the unique features and processes of Islamic products. Such an endorsement should ideally come from a credible organisation like AAOIFI. Given the need for a combination of Sharia, IT, accounting and banking skills, and experience, EY's industry credentials are the ideal fit for this joint initiative. We believe that this is an important step for the industry and will go a long way to help reduce operational risk of Islamic banks."

In response to the global proliferation of Islamic finance, ICT vendors are positioning themselves to leverage competitive and IT advantages. Path Solutions, for instance, has recently set up an Indian subsidiary in InfoPark, Kerala.

Geographical considerations

"The Indian IT sector," explains group chairman and chief executive officer of Path Solutions, Mohammed Kateeb in a statement, "has built a strong reputation for its high standards of software development ability and service quality, which have been acknowledged globally. The industry continues to set benchmarks through a series of strategic initiatives backed by a strong ecosystem of tech-savvy and multi-skilled workforce. We believe that, going forward, it is imperative and beneficial to have a flourishing India operation. Hence, with the opening of our first office in Kerala, we are determined to take advantage of local skilled resources to build on our heritage of delivering value-added software solutions and services to our esteemed clients".

Financial information vendors such as Thomson-Reuters, Bloomberg and Morningstar Workstation, have all capitalised on the growth of the Islamic finance industry by providing real-time data, trading platforms, specialist reports and rolling news feeds on the latest developments in the industry. In addition, there are also a number of Islamic index providers focusing on equities, ETFs, ETCs and REITs. The largest is Dow Jones Islamic Market (DJIM) Index, and others include the FTSE Shariah indices, MSCI, Standard & Poor's indexes, Russell and Thomson-Reuters. There are also a number of much smaller regional index providers.

Thomson Reuters, for the purpose stated above, has teamed up with Ideal Ratings Sharia Fund Management & Purification Services, to provide a global range of Sharia-compliant indices for countries, regions and sectors that are key to Islamic finance. They complement existing Thomson Reuters Islamic finance content and services, and are independent, transparent benchmarks for investors seeking exposure to Sharia-compliant equity and fixed-income investments.

Managing compliance

The Thomson Reuters IdealRatings Sharia Fund Management and Purification Service, according to the information vendor, "screens and manages the compliance cycle for Sharia-compliant products, such as funds and indices," enabling users to "make investment decisions with up-to-date information and analysis on publicly listed securities with regard to their Sharia-compliance and performance."

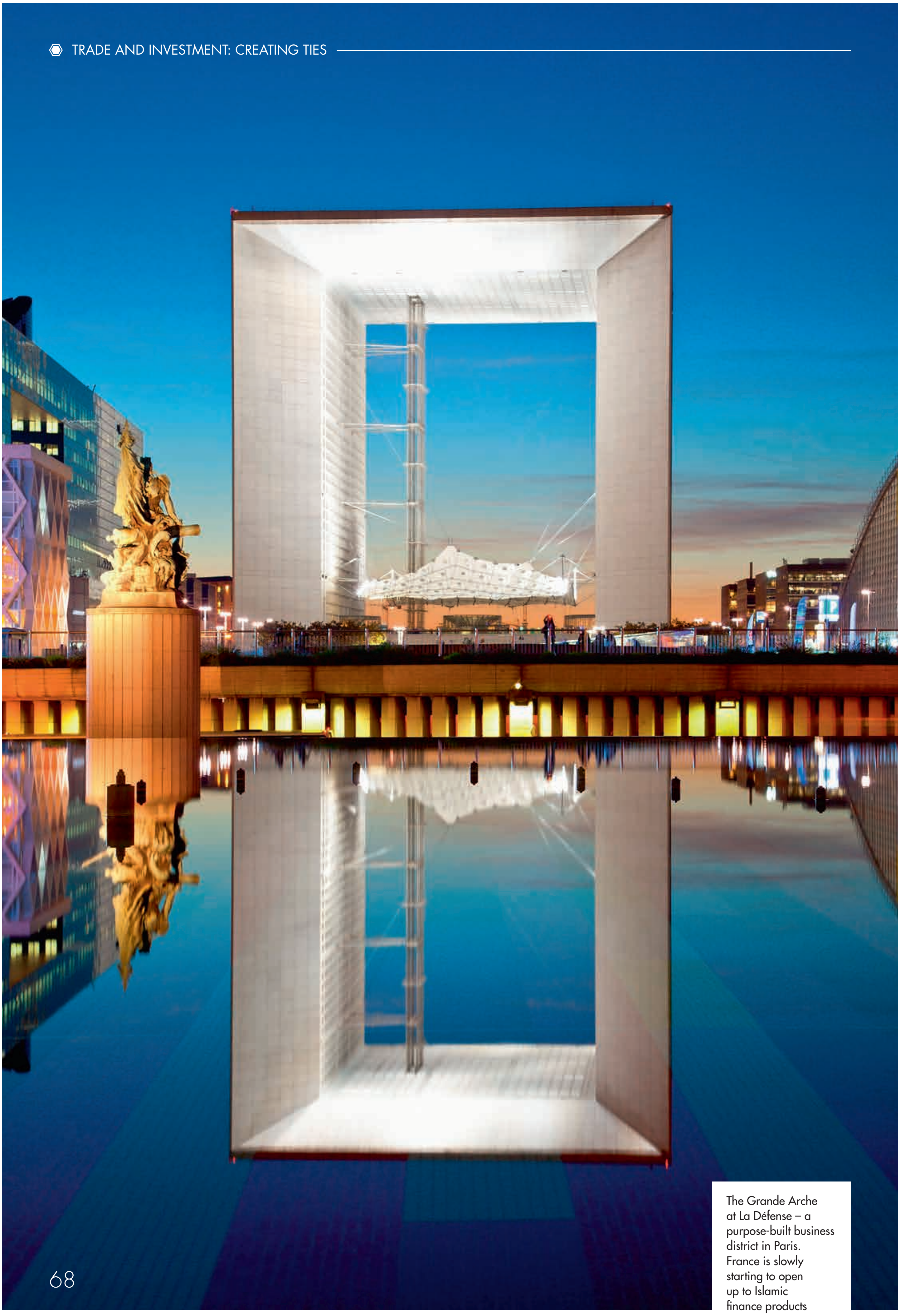
> Most of the systems also allow for customisation, although the less the better

The indices have a universe of 40,000 stocks covering over 100 countries, including those in the Middle East and North Africa (MENA) and Brazil, Russia, India, China and South Africa (BRICS) regions.

Thomson Reuters also recently teamed up with Dubai-based news provider, Zawya, to launch the Islamic Finance Gateway (IFG) Community, which, it claims, "is the one dedicated knowledge gateway [where] professionals from across different countries and regions converge and interact on industry issues that matter in order to generate actionable outcomes to shape and speed up the industry's growth. IFG community is the place where market professionals obtain reliable information, and discuss breaking news, industry issues and the latest research."

Thomson Reuters has also developed sukuk Indices with the Bond Pricing Agency Malaysia, which has extensive experience of independently valuing bonds and sukuk. Sukuk indices are available for both Malaysian and global markets, covering a wide range of bond classes and maturities.

Last year, Thomson Reuters also launched the Islamic Interbank Benchmark Rate (IIBR) in collaboration with independent stakeholders/associations and high-profile Islamic banks and IBWs. Utilising contributions from up to 18 of the major Islamic banks and IBWs, the IIBR provides a robust indicator of the average expected cost of short-term interbank market funding for the Islamic finance industry.



The Grande Arche at La Défense – a purpose-built business district in Paris. France is slowly starting to open up to Islamic finance products

JOHN KELLERMAN/ALAMY

The adoption of Islamic financing tools across Europe

Nicholas Bray finds that although Islamic finance has made slow progress in much of Europe, there have been encouraging developments in its adoption beyond London

Beyond the United Kingdom, the market for Islamic finance is developing slowly in most of Europe. But as one of the sector's key players in France, a country with one of Western Europe's largest Muslim populations, Vincent Liégeon is far from discouraged.

"It's a question of supply stimulating demand," says the commercial director for Swiss Life France, which just over a year ago launched France's first sharia-compliant life-insurance product. Drawing comparisons with sales in French supermarkets of halal foods, he says: "Initially, there were few halal products on the market, and demand was thin." As the availability of halal products grew, however, so too did customer demand. "I am convinced that the same will be the case for Islamic finance," he affirms.

Emerging centres

Across Europe, Islamic finance is attracting growing interest from governments and companies thirsty for capital and from banks and financial services firms looking to develop new sources of business. While a few adventurous companies, such as Swiss Life, are in the vanguard, significant volumes of business have yet to materialise.

In part, that is a reflection of the continent's financial scene, which is less developed than global centres such as London and New York. However, low volumes of business are also a consequence of cultural, regulatory and legal obstacles to the development of Islamic finance.

In France, for example, the way in which many sharia-compliant real-estate deals are structured led, until recently, to fiscal penalties when the ownership rights were transferred from the lender to the borrower as part of the normal course of the contract. Furthermore, the cost and complexity of setting up often relatively small operations can be a deterrent to banks and other financial institutions that are struggling to meet prudential requirements.

That is not to say that London has undisputed domination of Europe's Islamic finance stage. In the investment market, Ireland and Luxembourg have both emerged as major European centres for the management of Islamic funds. In 1978, Luxembourg hosted the first Islamic finance institution to set up shop in Europe and, in 1983, the first sharia-compliant insurance company in Europe. In 2002, Luxembourg's stock exchange was the first in Europe to list a sukuk (a certificate similar to a bond); in 2009 its central bank became the first in Europe to be accepted as a member of the Islamic Financial Services Board.

Ireland, meanwhile, has backed Islamic finance by setting up a dedicated regulatory team to deal with the establishment of sharia-compliant investment funds. It has also developed a comprehensive tax treaty network with Muslim nations and has included provisions in its tax code that are specifically for Islamic financial instruments.

According to a June 2013 paper published by the European Central Bank (ECB), European Islamic funds currently represent 8.3 per cent of the global Islamic fund industry, with Ireland and Luxembourg together accounting for seven per cent. In 2012, according to figures from Bloomberg and KFH Research cited in the ECB paper, Ireland hosted 47 Islamic funds, with assets of nearly $1.9 billion, while Luxembourg was home to 68 Islamic funds, managing assets totalling $1.35 billion.

> Luxembourg hosted Europe's first Islamic finance institution

On the capital markets front, by contrast, activity has been less dynamic. European government and corporate borrowers have proven slow to tap into Middle East oil wealth through sharia-compatible fund-raising structures. In 2004, Germany's Saxony-Anhalt region became the first and so far only European public authority to raise funds through a sukuk issue. Out of a total €100 million ($136 million), nearly 60 per cent was subscribed by investors from Bahrain and the United Arab Emirates. Since then, a variety of other European borrowers have been rumoured to be considering sukuk issues, but only a handful have actually advanced along this path.

In 2011, HSBC raised $500 million through a sukuk issue to finance its regional operations in the Middle East. In Germany, Munich-based financial-services company FWU Group announced in December 2012 that it had raised $55 million through a private sukuk placement with a group of institutional treasury investors in the Middle East to finance its sharia-compliant international factoring services. More recently, France's Société Générale has reportedly been planning to raise funds through a sukuk issue in Malaysia in order to finance its Middle East operations. However, such operations are drops in the ocean for a market that some analysts reckon could reach $200 billion annually by 2015.

At the retail level, meanwhile, limited progress has been made in offering Sharia-compliant financial services to European businesses and investors. In Germany, a subsidiary of Kuveyt Türk, which is the Turkish branch of the Kuwait Finance House group, announced plans more than three years ago designed to provide Islamic banking services aimed at Germany's Turkish community. However, meeting the necessary regulatory and licensing requirements has taken time and the project has proven slow to materialise. In June 2013, a business roundtable organised in Berlin under the auspices of the Arab Financial Forum concluded that "current activity in Islamic finance in Germany is still nascent".

Overcoming political obstacles

With a Muslim population variously estimated at between five per cent and 10 per cent of its total 65 million population, France would seem a natural market for Islamic financial products. Official statistics are not available, as France's secular constitution prohibits census agencies from asking questions about religion, but according to recent surveys, about two million French residents consider themselves practising Muslims – a potentially significant constituency.

$200 billion

– the market potential of sukuk issuance by 2015

Nonetheless, Islamic finance faces challenges in France that go beyond purely commercial considerations. At their root are social and political concerns caused by the emergence in French suburban districts of a disadvantaged grouping of unemployed young people, largely of North African origin, coupled with the discomfort felt by some French citizens regarding practices associated with Islam. A 2010 legal ban on full-face veils, for example, has added to the tensions. Fears of antagonising existing clients have discouraged some French financial institutions from venturing into Islamic finance.

Although France is hardly representative of all of Western Europe, the hurdles facing Islamic finance in the French market provide lessons for other countries. Chief among these is the need for education in the nature and merits of Islamic finance. In France, this role has been assumed, among others, by Paris EUROPLACE, the organisation that promotes the French capital as a financial centre.

In 2007, taking a cue from then Finance Minister Christine Lagarde, who had launched a drive to encourage French banks and companies to reach out to Muslim investors in the Middle East, Paris EUROPLACE established an Islamic finance commission, which was charged with clarifying the legal framework for Sharia-compatible financial products. In 2009, meanwhile, the University of Strasbourg and Paris's Dauphine University launched executive degree programmes in Islamic finance.

However, efforts to stimulate French initiatives in the field of Islamic finance quickly ran into political opposition. When draft legislation was introduced into parliament in 2009 as a step towards putting Islamic finance on an even footing with conventional finance, the extreme-right-wing party National Front responded by fanning the flames of anti-Islamic sentiment with accusations of communitarian discrimination. Simultaneously, leading members of France's then opposition Socialist Party attacked what they perceived as moves that ran counter to French secularism. "We must not allow principles of Sharia law or the ethics of the Quran to be introduced into French law," Socialist politician Henri Emmanuelli was quoted as telling Agence France Presse.

In 2010, French authorities finally dismantled fiscal dispositions that had previously rendered the use of Islamic financial mechanisms unviable in economic terms. But that hardly opened the floodgates. Only a handful of sukuk issues have been launched in France since then, including a €500,000 sukuk launched last year for a French distributor of halal products and others that offer investors the opportunity to invest according to Islamic principles in such activities as film production and solar energy. But their impact in terms of overall market share remains marginal, and, despite much speculation, plans for the launch of France's first Islamic bank have so far failed to materialise.

Nonetheless, and despite having gone into a virtual freeze during France's tense presidential electoral campaign in the spring of 2012, prospects for Islamic finance in France seem finally to be improving. Programmes in Islamic finance are under way at leading French business schools and new commercial initiatives are being hatched. In 2011, Chaabi Bank, the French subsidiary of Morocco's Banque Populaire group, broke new ground in France by opening an Islamic banking window in the form of a current account operating according to Islamic principles. Last year, it introduced murabaha-based residential real-estate financing, offering terms of up to 10 years. Such initiatives have helped to broaden its clientele from a mainly working-class immigrant population to include a range of well-heeled Muslim businesspeople and entrepreneurs.

A Qatari courtship

France's Socialist president, François Hollande, meanwhile, has been at pains to patch up relations with the government of Qatar, which has long been one of France's largest sources of Middle East money.

In 2011, Qatar, already a major investor in prestigious French real estate, had made headlines by acquiring France's ailing but iconic Paris Saint-Germain football team. At the same time, apparently as a gesture to France's then president, Nicolas Sarkozy, it mooted the launch of a €50 million fund to finance projects in France's 'problem suburbs'. The project quickly came under attack, however, with right-wing politicians accusing its backers of

OWEN FRANKEN/CORBIS

A burger restaurant in a Paris suburb serving only halal meats. Islamic financing tools have been slow to take off in France, but in 2012 a €500,000 sukuk was issued for a French distributor of halal products

undermining France's independence. In the run up to the presidential election, it was quietly shelved.

Since then, the project has re-emerged in a new guise, though without any reference to France's problem suburbs. Following a state visit by Hollande to Qatar in June, the two governments are now committed to creating a €300 million fund to finance French small and medium-sized enterprises. In the meantime, French finance ministry officials are showing renewed interest in Islamic finance.

"The pendulum is beginning to swing the other way," says Alain Pithon, a former official of the French Asset Management Association who joined Paris EUROPLACE last year as its secretary general and now spends a fair share of his time encouraging the development in France of Islamic finance.

Earlier this year, as part of what Pithon describes as a "pragmatic approach" to the topic, Paris EUROPLACE published the first part of a guide to the sector, and a second volume is due out next year. Among other initiatives, the organisation is working with Morocco's emerging financial centre in Casablanca on Islamic finance topics. It is also in contact with Algeria, and Pithon is now looking at possible initiatives in collaboration with French-speaking countries in sub-Saharan Africa.

In France, Pithon considers commercial real-estate financing as one likely area for expansion in the field of Islamic finance. France has the necessary expertise, he says, and the French financial industry needs to face up to the competition coming from London and Luxembourg. "Our competitors are moving, and so must we," he says.

In parallel, Pithon predicts, demand from investors for Islamic finance products will grow as the available range is enlarged. "This market is going to expand because people need it," concurs Kader Merhoub, who is co-head of Dauphine University's Islamic finance masters degree. "The key lies in helping people to get to know it and understand how it works," he adds.

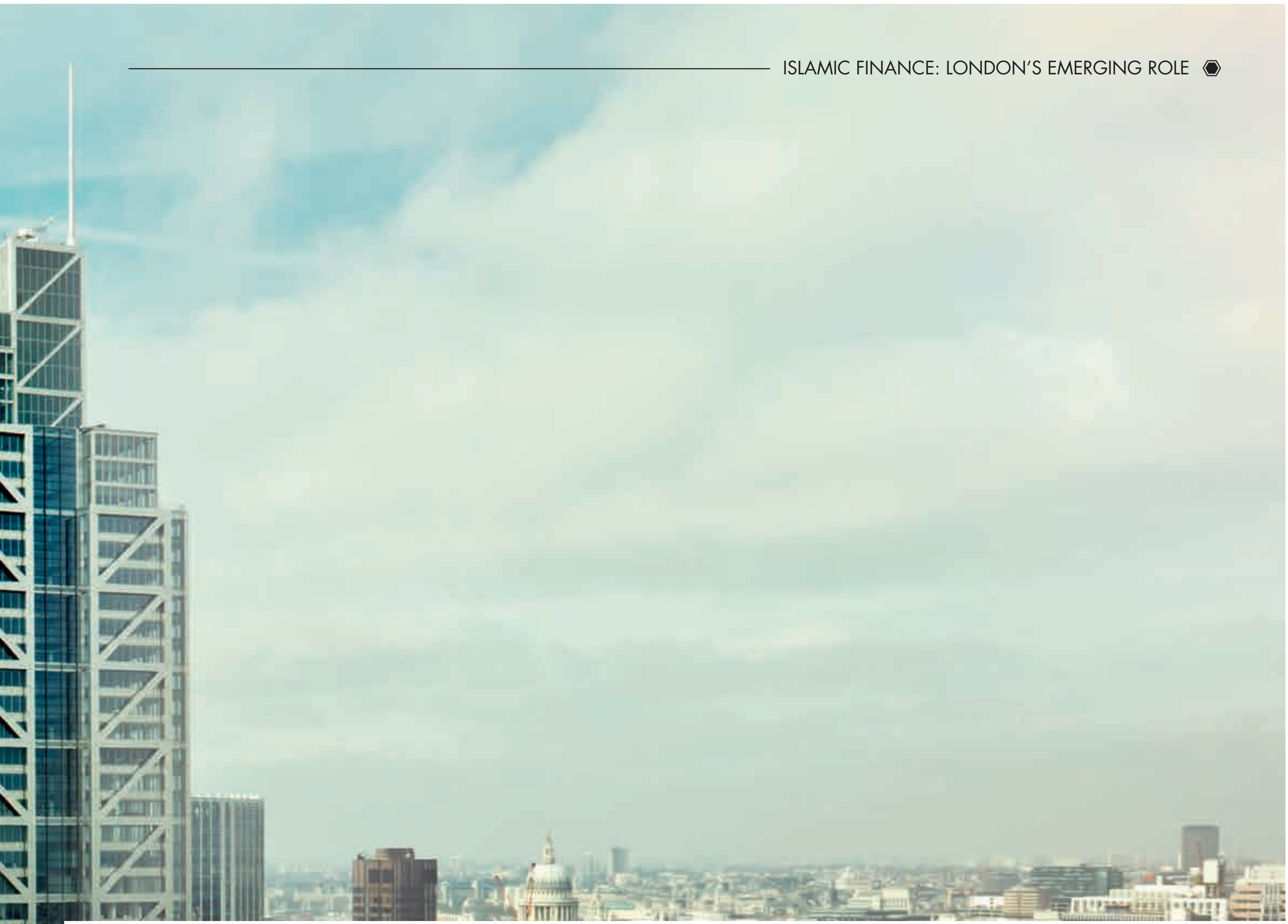
Expanding services

That is one of the prime objectives of Liégeon at Swiss Life France. In 2012, the French subsidiary of the Zurich-based investment and insurance group Swiss Life became the first company in France to offer a life-insurance product, Salam-Epargne & Placement, that gives access to tax-efficient savings based on sharia-compliant investment funds. Sales initially proved slow, not least because of the challenge of educating an army of financial advisers in the complexities of Islamic finance. To date, about 200 customers have signed up for programmed monthly savings or lump-sum cash investments.

Still, Liégeon is undeterred by what he acknowledges is a timid start. He is a regular participant in conferences designed to promote Islamic finance, and he says that Swiss Life will soon launch other new sharia-compliant financial products, including a tax-efficient stock market investment vehicle and a remunerated current account. "We have innovation in our genes," he says.

Nicholas Bray is an independent communications consultant and journalist based in Paris.

HOWARD KINGSNORTH/GETTY IMAGES



London's history and wealth of diverse financial expertise

The City of London has played an important role in the growth of Islamic finance, with the City's resources and expertise helping to drive its inevitable expansion worldwide, writes **Nigel Gibson**

When the modern age of Islamic finance was born in the 1970s, few imagined how far it would come; nor, for that matter, how direct a role the City of London would play in the development of the industry.

True, the City of London is one of the world's largest and most diverse financial centres. True, at the last count some 49 sukuk, or Islamic bonds, were listed on the London Stock Exchange (LSE), with a combined value of more than $34 billion. True, too, the City is without doubt Europe's leading destination for Islamic banking, with known assets of more than $19 billion.

Yet, with fewer than three million Muslims in Britain, can the United Kingdom claim to be a centre for Islamic finance? The answer is undoubtedly yes. For starters, the country boasts more than 20 banks providing Islamic services of various sorts. Of those banks, at least a quarter specialise in such services and offer no conventional finance.

In addition, there are no fewer than 25 law firms in the country that are qualified to advise on Islamic finance. The four largest accounting and professional-services firms are also experts in the industry, all of them operating around the world. And students seeking qualifications in finance complying with Sharia, or Islamic law, may choose between at least four professional institutes and as many as 10 universities and business schools for their further education.

The cityscape of London, Europe's leading destination for Islamic banking

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London's Shard building was partly financed by capital raised according to the principles of Sharia law

Indeed, even some of London's landmarks, such as the Shard and Chelsea Barracks, were financed wholly or in part with finance raised according to the principles of Sharia. Those who trade in commodities as part of investments tied to the real economy, a tenet of Islamic finance, may do so through the London Metal Exchange. What is more, few dispute the expertise and experience of institutions that operate from London in wholesale banking around the world.

Europe's gateway to Islamic finance

Successive governments, of course, have done much to underpin London as Europe's gateway to Islamic finance, while, at home, doing much to ensure that nobody is denied access to finance at competitive rates simply because of their faith. The removal in 2003 of double taxation on mortgages that comply with Sharia, as well as the extension of relief to companies, did much to boost the market for such finance, as did measures to ensure that income paid to holders of Islamic bonds escaped undue tax.

Ensuring that finance houses complying with Islamic law were regulated in the same way as conventional ones also played a part in cementing the industry's future. Indeed, regulators in the UK have gone out of their way to ensure not only that Islamic banking is placed on a similar footing to conventional finance, but also that every opportunity is made to extol its strengths and virtues to a wide audience.

Granted, London is by no means immune to industry concerns. Many believe, for example, that more should be done to ensure that, as in accounting, audits of an institution's compliance with Sharia are independent and rigorous. A joint report on the subject by the Islamic Finance Council UK and Malaysia's International Sharia Research Academy (under the auspices of Bank Negara, the country's central bank) found evidence of a lack of robustness in such practices. Without rigour, of course, the independence of audits may come into question.

Indeed, some within the industry are concerned not just about the need for greater standardisation between international jurisdictions hosting Islamic finance, but also for safeguards when it comes to what is, and what is not, regarded as Sharia. For instance, the long-term future of the industry could be jeopardised, according to some observers, by attempts to engineer fiduciary sales on the basis of what are known as commodity murabaha (a form of credit that enables customers to make a purchase without having to take out a loan that bears interest, or riba, which is prohibited in Islamic law).

Many in London, as well as those in other centres for Islamic finance, believe that, sooner or later, the industry must embrace a greater degree of transparency, as well as the notion of independent audits for Sharia. Just as the Sarbanes-Oxley Act was introduced in the United States in 2003 to ensure the independence of auditors, so similar safeguards should be considered, some believe, to guarantee the authority of Sharia scholars. Many not only sit on the boards of several institutions but, in some cases, audit their own decisions.

What is certain is that, as an international centre for such finance, London is sure to play a role in the debate. Indeed, the Islamic Finance Council UK has already urged standard-setting bodies, such as the Accounting and Auditing Organization for Islamic

20
banks in the UK provide Islamic services

25
law firms are qualified to advise on Islamic finance


KONSTANTIN32/ISTOCK

Paternoster Square in London. The City continues to be a source of expertise that helps to bring deals to fruition

Financial Institutions and the Islamic Financial Services Board, to introduce minimum disclosure requirements for scholars and consultancies that are operating in the field.

The Islamic Finance Council UK has also taken the lead in introducing continuous training for professionals, so that they remain in touch with developments within their field. This is particularly important as the industry grows. The council has also supported efforts to establish an international body that represents Sharia scholars and seeks to uphold their independence.

Expertise in plenty

London, unsurprisingly, offers everything those seeking Sharia-compliant finance could hope to find. Yet it is not so much the depth of the capital as its breadth, which is the main selling point for those drawn to the City of London as a financial centre.

Ever since Dubai Islamic Bank was formed in 1975, so becoming the modern embodiment of a philosophy of finance that goes back generations, London has proved an attraction. Partly it was the UK's links with the Middle East, particularly the countries of the Gulf Co-operation Council, where (with the exception, until recently, of Oman) Islamic finance took root. Partly also it was the UK's association with Asia, particularly Malaysia, which provided the other engine for growth.

Small wonder therefore that, even if Britain is not the ultimate destination for much of the investment that flows from those parts of the world, it is often a source of knowledge and expertise that helps to bring deals to fruition. The UK government's decision earlier this year to form an Islamic Finance Council to advise it on how best to shape the future of the industry suggests that it still has much to offer. Indeed, there is even talk that Sharia-compliant finance could help the government to raise the money needed to build infrastructure across the UK.

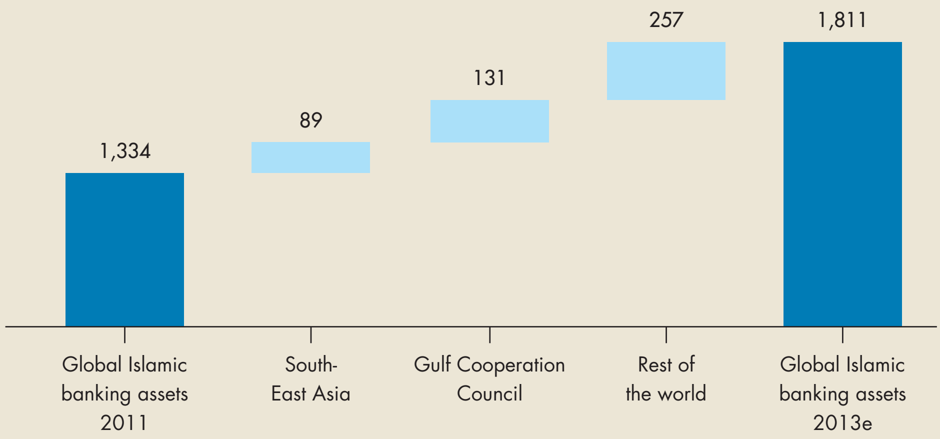
True, the decision last year by HSBC to scale back the operations in many countries, including the UK, of its Islamic offshoot has left retail customers in Britain with few options. Most can now look only to the Islamic Bank of Britain, which is not particularly profitable and does not serve much of the country. The bank, launched in 2004, has yet to make its mark in the way its parent, Qatar International Islamic Bank, no doubt hoped it would.

It is in the realms of wholesale and investment banking that London's strengths lie. Institutions such as Bank of London and the Middle East (BLME), Gatehouse Bank and European Islamic Investment Bank have taken a lead in brokering deals and helping to raise Islamic finance, particularly for property. The fact that BLME reported healthy operating profits for 2012, up by more than a half on the previous year, suggests that its expertise is in demand.

It is in wholesale and investment banking that London's strengths lie

Trade finance linked to commodities, leasing and other ways to structure deals around property is a buoyant source of income as London leads a recovery in Britain's economy. Indeed, Takaful Malaysia, an Islamic insurer, this year made its first foray abroad by investing in a commercial property in London.

Estimated Islamic banking asset growth (billions of dollars)



Extracted from EY's report The World Islamic Banking Competitiveness Report 2012–2013. *Sources: IMF, The Banker, Central Bank reports and EY Universe*

However, the capital and its office developments are not the only focus for investors. Many tap into Islamic finance and the skills that accompany it to grasp opportunities elsewhere. For example, 90 North Real Estate Partners, a specialist in Sharia-compliant real estate investment, last year arranged deals for investors involving student accommodation, a maintenance plant for gas turbines and a warehouse, all of them outside London. The aim in most cases was to create value over time, not just to generate income.

A hub for investors

Thanks to the reforms and regulations governing Islamic finance that have been introduced over the past decade, London has also demonstrated that it is a useful hub for investors looking elsewhere in Europe. International banks prefer to use the City of London as a base from which to execute deals that may have originated in the Middle East or in Africa, and which may involve assets in other jurisdictions.

Often, too, the buyers or sellers come from emerging markets. With the lack of a robust regulatory or statutory regime in their own countries, investors such as these often prefer to do a deal in London that may involve Islamic finance or a structure that complies with Sharia.

Last year, Gatehouse Bank was the first in London to offer sukuk denominated in sterling. The bonds were linked to an office building in Basingstoke that had been let to Fujitsu Services for 70 years. With yield hard to find at the time, such bonds proved popular with investors, particularly those from the Gulf in search of opportunities to invest in securities compliant with Sharia, and which are tied to assets in the UK.

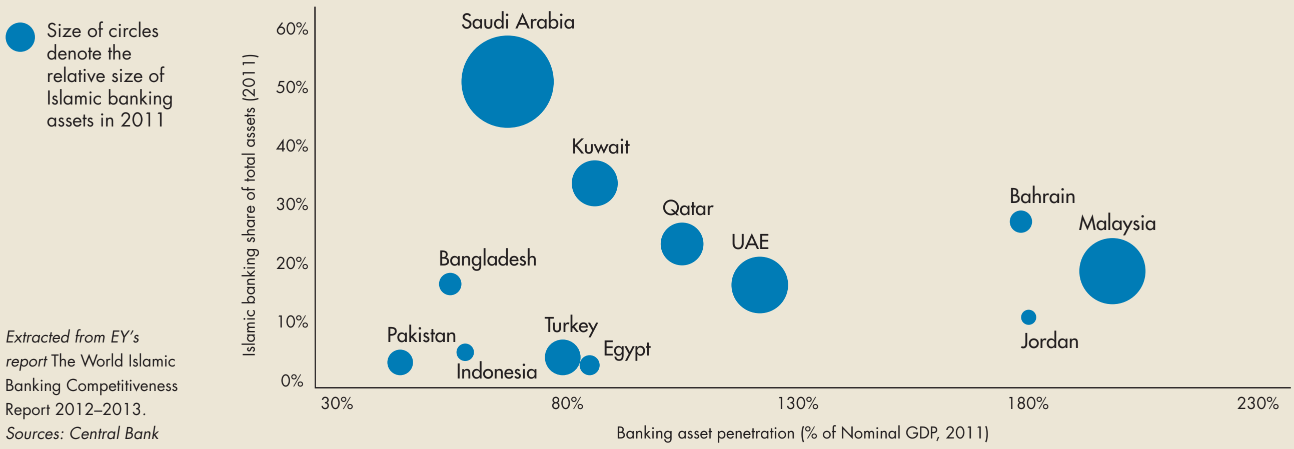
The LSE continues to benefit from the growth in the market for sukuk, but for reasons that are not immediately obvious. Until issuers paused for thought in May, when the US Federal Reserve pondered 'tapering' its purchases of treasury bonds and so its monetary stimulus, the value of sukuk issued worldwide this year showed every sign of equalling, or even beating, the record total in 2012 of more than $120 billion.

The UK's Islamic banking portfolio

With its depth of expertise and breadth of services, the City of London, and the UK as a whole, has much to offer both those already within Islamic finance and those who are seeking it. The UK's merits as an Islamic finance centre include:

- around 20 banks offering Islamic finance, of which six are wholly Sharia-compliant;
- 49 Islamic bonds, or sukuk, listed on the London Stock Exchange with a combined value of $34 billion;
- seven exchange-traded funds and two further exchange-traded products, which are also listed on the London Stock Exchange;
- around 25 law firms supplying advice and services on Islamic finance;
- advisory services on Islamic finance provided by the four largest accounting and professional-services firms and others in the country;
- a growing number of developments – including the Shard and Chelsea Barracks – which were built or acquired using Islamic finance; and
- a range of qualifications in Islamic banking and finance offered by four professional institutes and 10 universities and business schools across the country.

Banking asset penetration in 2011



Extracted from EY's report The World Islamic Banking Competitiveness Report 2012–2013. *Sources: Central Bank reports and EY Analysis*

Since then, yields have risen and with them the cost of borrowing, in the form of both conventional and Islamic bonds. As a result of this, many firms planning to issue sukuk have either delayed a decision or are looking for alternative and cheaper ways to raise money. Those that do issue Islamic bonds are still likely to consider listing them on the LSE. Why? Because they value the City's reputation for sound regulation and for generating liquidity within its financial markets.

So much so, in fact, that many issuers in the Gulf list their shares on, say, the Dubai Financial Market (DFM), yet insist that their bonds are traded through the LSE. Indeed, the DFM lists fewer than half a dozen sukuk, all of them issued by the Emirate's own government.

Binding economies together

London's reputation for propriety and the rule of law, it seems, continues to win it friends around the world. Indeed, with unrest in the Arab world continuing to worry investors and many of the European Union's own economies still struggling to recover from the financial crisis of 2008, there seems little prospect for change at the moment.

Granted, Malaysia and its currency, the ringgit, continue to dominate the international market for Islamic bonds. Because of the breadth and depth of its market, the ringgit has confirmed its status as the currency of choice for sukuk issued by non-Malaysian entities. Last year, for the first time, the value of Islamic bonds issued in ringgit worldwide exceeded the amount offered by Malaysian issuers in all currencies.

As Standard & Poor's, a financial services company, observes, the strength of the Malaysian model for Islamic finance is an alluring proposition for issuers and investors alike, especially in the countries of the Gulf Cooperation Council. This, together with favourable trade policies, may serve to bind together the economies of the Gulf and Asia.

If that happens, then London as a financial centre, thanks to its links with countries in both regions, is still likely to benefit.

With a pressing need for infrastructure in countries such as Turkey, Qatar and Malaysia itself, their governments are likely to seek fresh finance from the market for Islamic bonds. Again, if that should happen, then London could well receive an additional boost.

With the market for Islamic funds aimed at retail investors growing strongly and takaful, or Islamic insurance, gaining momentum worldwide, there is little doubt that Islamic finance as a whole is set to expand at a steady rate, even if it fails to match the more optimistic targets that were set by some observers at the beginning of the year.

Consultancy and services firm Ernst & Young earlier this year estimated that the total value of Islamic assets worldwide was likely to soon reach \$1.8 trillion, up from \$1.3 trillion in 2011. Since then, capital markets, both conventional as well as Sharia-compliant, have paused for thought as the US Federal Reserve considers when and by how much it should scale back its quantitative easing.

There is little doubt that Islamic finance in all its forms is here to stay

Whatever the outcome on emerging as well as developed markets in the West, there is little doubt that Islamic finance in all its forms is here to stay. The question is, will its practitioners and customers continue to draw on London's expertise and resources? The answer, given its combination of geography, regulatory prowess and talent, must be yes.

Nigel Gibson is a consultant writer. He has edited quarterly magazine, *The Bahrain Banker,* and authored *The Handbook of Islamic Banking & Finance.*

Central banks and financial regulators across the non-Muslim world look to the UK for an example of good Islamic banking supervisory infrastructure

H. MARK WEIDMAN PHOTOGRAPHY/ALAMY

Setting the benchmark for financial-sector governance

Mushtak Parker examines how the UK has adapted its laws to accommodate Islamic finance products, and its leading role in setting standards for governance outside the Muslim world

Ask any central bank or financial regulator from the non-Muslim world who they follow in terms of Islamic banking regulatory or supervisory infrastructure, and almost inevitably the answer will be the UK and the Bank of England.

The UK model for authorising deposit-taking Islamic financial institutions is now part of the architecture of the global Islamic financial system; there are two primary reasons for this. Firstly, the UK's model is now proven through six authorised banks operating not only under Sharia principles, but also under the UK Banking Act and subsequent European Union directives. Secondly, the UK has set the precedent of regulating and supervising such institutions in a non-Muslim legal jurisdiction. This is in addition to another 20 or so financial institutions in the City offering a motley of Islamic financial products through Islamic Banking Windows or special departments.

Ironically, a number of Muslim jurisdictions partly or largely follow the UK's lead and English law, with its basis in common law and its freedom to contract (which is also a cornerstone of Islamic law). English law is widely accepted as the 'law of choice' for most international Islamic financial transactions, including commodity murabaha, syndicated murabaha, sukuk (or Islamic trust certificates), real estate investment trusts (REITs) and leasing contracts.

Leveraging expertise

Not surprisingly, London-based law firms ranging from Clifford Chance, Linklaters, Norton Rose Fulbright, Trowers & Hamlins, Simmons & Simmons, Stephenson Harwood, Ashurst and KL & Gates have amassed an expertise in Islamic finance transactions and documentation that is the envy of the world.

The same applies to accounting and financial reporting, as well as advisory services, in which KPMG, EY, PwC and Deloitte have played major roles. They have helped to develop accounting standard-setting bodies for the Islamic financial industry, in particular the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), based in Bahrain.

Much of the credit for putting UK plc on the Islamic finance map must go to Eddie George, who as Governor of the Bank of England in the 1980s and 1990s, laid the ground work for the development of UK Government policy on Islamic finance. George was later assisted by Howard Davies, chief executive officer of the Financial Services Authority (FSA), which was set up in 2001 specifically to deal with authorisation and regulation of the industry.

"In 2000," explains Stella Cox, managing director of London-based DDCAP Limited – one of the more established intermediation and commodity brokerage firms, having served the global Islamic finance industry for nearly two decades – "Andrew Buxton, former chairman of Barclays Bank, and Governor Eddie George of the Bank of England co-chaired a working group established to promote the development of the UK's Islamic financial services proposition. The group included representatives from then regulator the Financial Services Authority, HM Treasury and the Council of Mortgage Lenders and, with added political and regulatory support, momentum in the UK Islamic finance industry began to build."

> To date, some 49 sukuk have been listed on the London Stock Exchange

In the UK, explains Cox, there is no separate regulatory framework for Islamic financial services, but, for over a decade, the relevant UK authorities have engaged in initiatives to review and address impediments to the further development of the industry. During that time, six wholly Sharia-compliant banks have been authorised, legal and taxation reforms have ensured that Sharia-compliant financing contracts and sukuk can be offered or issued on terms equivalent to conventional alternatives and Islamic mortgages have become available.

Indeed, to date, some 49 sukuk have been listed on the London Stock Exchange (LSE), raising over $34 billion, including the first sukuk in the world with a face value in excess of $1 billion. Two Islamic exchange-traded products and seven exchange-traded funds (ETFs) are also quoted on the LSE. The total size of Sharia-compliant assets in the UK financial sector is estimated in excess of $18 billion.

This policy was confidently pursued by the successive Blair Labour Party administrations of the 1990s and was fine-tuned by then-Chancellor of the Exchequer Gordon Brown under the Labour Government's Financial Inclusion policies.

Through subsequent amendments and inclusions in successive finance bills, the UK built up a corpus of enabling laws that, in some respects, was once again pioneering. An example of this leadership was seen in the introduction of tax-neutrality measures in legislation for Islamic financial contracts, such as housing mortgages based on ijarah (leasing) and diminishing musharakah (diminishing equity), which had the same end economic effect as conventional mortgages, thus creating a level playing field for equivalent products serving both financial systems.

UK Islamic finance policy has support from all major parties

Here, the UK Finance Bill removed the double stamp duty requirement on such mortgages because of the structure of the Islamic contracts (which involved two separate contractual stages in terms of ownership of the title deeds). This step was taken because the previous system was deemed to be unfair to anyone who took out such a mortgage.

Several jurisdictions, both in Muslim and non-Muslim countries, have subsequently followed the UK example by introducing similar amendments to their laws, especially relating to land-based financial transactions whether for mortgages, other real estate structures, including REITs, or sukuk. Tunisia and Hong Kong are the latest two countries to introduce such laws, which came into effect in June this year.

Governor Eddie George was also a major influence in helping to steer Muslim countries such as Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Kuwait and Malaysia, and multilaterals such as the Islamic Development Bank, towards developing and introducing mechanisms for the management of Islamic bank reserves and short-term liquidity in a nascent inter-bank and money market.

REX/MARK THOMAS

Baroness Warsi, senior minister of state at the UK Foreign and Commonwealth Office says the UK will support the Islamic finance industry in broadening its offerings

An encouraging aspect of the UK policy on Islamic finance is its sustainability. The policy has support from all major political parties – the Conservatives, Labour and the Liberal Democrats – and it is their stated ambition to develop London as an international hub for Islamic trade, investment, banking and finance education.

The UK's role in broadening access

Earlier this year, the UK business, skills and innovation secretary, Dr Vince Cable, reassured the attendees of a reception on Islamic finance at the Palace of Westminster (organised by law firm Norton Rose Fulbright) that "Islamic finance can help to promote growth in the UK economy and provide much-needed revenue and investment at a time when conventional liquidity is in short supply.

"In the current economic climate, there is merit in exploring alternative forms of funding, and harnessing Islamic finance could be a source of enormous benefit to the UK. London is recognised as the international centre for Islamic finance because of our ongoing commitment to policies that will help create a level playing field for both retail and wholesale Islamic finance. This has resulted in the UK becoming the number-one jurisdiction in the Western world in terms of Sharia-compliant assets," he added

This Coalition Government's commitment to developing the Islamic finance market in the UK was reiterated by Baroness Warsi, senior minister of state at the Foreign and Commonwealth Office and minister for faith and communities, in a recent speech in Oxford. The UK Government, Warsi maintained, "will support the Islamic finance industry in its aim to broaden the range of products and services, reducing the risk of over-exposure and ensuring that high-quality Islamic [product] alternatives are available to [UK] customers. The government's role is to create the regulatory and tax frameworks to allow the market to thrive, and, ultimately, help to produce the growth that Britain needs. By championing Islamic finance, I believe we are doing just that."

On the international front, too, the UK plays an important role in supporting initiatives designed to 'mainstream' Islamic finance in the international financial system. Earlier this year, the Group of Governors and Heads of Supervision of the world's top banking regulators launched the 'Basel III: the Liquidity Coverage Ratio (LCR) and Liquidity Risk Monitoring Tools' standard at a meeting chaired by then-Governor of the Bank of England, Sir Mervyn King.

One of the key reforms of the Basel Committee on Banking Supervision – a grouping of supervisory authorities – is the LCR standard. The standard is aimed at developing a more resilient banking sector, with the central objective of promoting the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30-calendar-day liquidity stress scenario.

BANANA PANCAKE/ALAMY

Traffic passes by the Royal Exchange and the Bank of England, which was instrumental in laying the foundations for UK Islamic finance policy

The Basel Committee, encouraged by the UK and others, allowed "national supervisors in jurisdictions in which Sharia-compliant banks operate [to] have the discretion to define Sharia-compliant financial products, such as sukuk, as alternative HQLA applicable to such banks only, subject to such conditions or haircuts that the supervisors may require." This is the first time that the Basel Committee has included liquidity treatment and requirements for Islamic banks in a global public document.

While the working agenda (in the UK) is still in progress, DDCAP's Stella Cox maintains that "the development of the UK marketplace is evidence that a collaborative relationship between market participants, financial sector regulators and government delivers results.

"Similar positive interaction has been an essential component of the successful emergence of the Islamic financial system in other market hubs, including Malaysia and Dubai. Expanding international membership of industry bodies, such as the Islamic Financial Services Board, demonstrates that financial regulators and authorities throughout the international markets are seeking to interact with their counterparts from the Muslim world as the system moves from being a significant niche to mainstream," Cox adds.

The City of London remains a magnet for foreign financial institutions, including those that are Sharia-compliant. The two latest institutions to enter the UK market with a statement of intent are Oasis Group of South Africa and Abu Dhabi Islamic Bank (ADIB). The former is one of the largest Islamic-asset management firms in the world, with funds under management of R35 billion ($3.5 billion), while the latter is one of the largest Islamic banks and was one of the first from the UAE to be licensed by the now-disbanded FSA.

It is no surprise that the ADIB UK launch ceremony was attended by Sheikh Khalid bin Zayed Al Nahyan, a member of the Abu Dhabi Royal Family, and the Duke of York, Prince Andrew, who was formerly the UK's trade ambassador and is a keen promoter of the UK's Islamic finance proposition.

"This launch signifies the merging of our Islamic financial values with the advanced financial infrastructure and ecosystem of the UK," said Tirad Al-Mahmoud, chief executive officer of ADIB. Besides demonstrating the bank's commitment to reach out to its customers wherever they are, ADIB London will contribute to the development of the Islamic finance industry in the UK.

£140 billion

– the potential size of the UK Islamic investment market

According to Adam Ismail Ebrahim, chief executive officer of Oasis Group, which already has an established fund management company in Dublin, the reasons for entering the UK market are indeed compelling.

"London remains a world-class, regulated, transparent and investor-friendly financial market. We see a major opportunity in the Islamic finance space in the UK, which has a total population of 63 million, of which just under two million are Muslim, and which also gets an additional two to three million transitional Muslim tourists or those owning properties or studying in the country," says Ebrahim.

While the total UK investment management industry boasts funds under management of a staggering £4.4 trillion ($7.1 trillion), Ebrahim projects that the potential Islamic investment market size in the UK to be up to £140 billion. This, he thinks, is "an emerging growth opportunity," because there is a "lack of [Islamic investment] products on offer" with "opportunities in the pension and savings market".

From London to Riyadh: expanding into Islamic finance

Mushtak Parker explains how conventional London-based finance institutions have integrated Islamic banking and financial services, both at home and throughout the Islamic region

There was a time in the 1980s when the then-nascent Islamic banking and finance industry was driven not by Islamic financial institutions but by London and Swiss-based banking majors.

Contrary to the popular myth that it was the resurgence of Islam and the advent of the Islamic Revolution of Iran in 1979 that drove the demand for Islamic financial products, the major demand drivers for such products came from wealthy private families from the Middle East, South and South-East Asia who were starting to demand from their private bankers in London, Geneva and Zurich investment portfolios that included Sharia-compliant products – either in part or in full.

In addition, multinationals including Daewoo, General Electric, General Motors, Alcatel, Shell and a host of others were regularly accessing murabaha (cost-plus financing) based on contracts on the London Metals Exchange, as a cheaper way to raise short-term funds to manage liquidity.

Big-name involvement

The 'conventional' banks leading the initiative at that time included Kleinwort Benson, Citibank and ANZ Grindlays (now part of Standard Chartered). A number of UK merchant banks, and other institutions with an evolved trade finance capability, such as J Aron (now the commodity-broking part of Goldman Sachs), Cargill, Engelhard and so on, were active in remodelling transactions to enable participation by Islamic banks. Other major international names, meanwhile, were attractive credit counterparties for Islamic banks' liquidity-management requirement.

Stella Cox, managing director of DDCAP Ltd, was on the front line of the phenomenon, working at the time on the trade desk at Kleinwort Benson. She says: "From the late 1970s, conventional banks, mostly from London-based offices, became active in wholesale Islamic financial services. Fledging Islamic banks and financial institutions were limited in access to bank counterparty relationships, and origination of assets, liquidity management and risk diversification presented major challenges. Given that there were so few Islamic financial institutions, conventional banks were called upon to assist with asset origination and, in particular, to enter into bilateral liquidity arrangements and offer balance-sheet capacity to Islamic banks. The principal, additional requirement of them was that they should be willing to adapt their structures and services and transact in compliance with their counterparts' Sharia stipulation."

The fallout of the 1973 oil price rises took almost a decade to work its way through to Gulf government coffers, corporates, financial institutions and high-net-worth individuals, which in the 1980s and 1990s meant a sudden tide of liquidity that was looking for a home in new investment outlets and vehicles.

The Islamic finance industry, which in its contemporary phase started in earnest in an organised way in 1975 with the establishment of the Islamic Development Bank (IDB), the multilateral development bank of the Muslim world, simply could not absorb this amount of liquidity. It was not sophisticated enough and lacked the suite of investment products required.

Not surprisingly, the IDB in those heady days parked its excess liquidity in riba-based (interest-based) accounts at western banking majors ranging from Merrill Lynch, UBS, Citigroup, Credit Suisse, Barclays and so on. The IDB had obtained a legal opinion from its Sharia scholars to allow them to do this on the justification that they could not get equivalent Sharia-compliant investment facilities from Islamic banks.

London, Geneva, Zurich and to a lesser extent Wall Street duly obliged. The rest is history, for the involvement of conventional banks in the development of contemporary Islamic finance not only flourished but has also contributed to several milestones in the development of the industry.

Citibank International in London, for instance, pioneered the first Islamic corporate-finance transaction for Shell Malaysia in the early 1980s. The Saudi International Bank, a conventional Saudi-owned UK-incorporated bank, closed the first Sharia-compliant structured finance deal a few years later. In 1995 Wellington Management pioneered the first Islamic equity fund, the Al-Ahli Global Trading Equity Fund, for the National Commercial Bank of Saudi Arabia, which in its heyday was the single largest Islamic equity fund in the world, with assets

Gold mine: in the 1980s a sudden flood of liquidity from the Middle East led to demand from established financial institutions for Sharia-compliant banking facilities

HASSAN AMMAR/GETTY IMAGES

under management approaching $2 billion; by August 2013, however, the fund's assets under management had dwindled to $273 million.

"For the conventional bank participants," explains DDCAP Ltd's Stella Cox, "the initial incentive was either in maintaining valued long-term relationships with clients now realigning their financing and asset management criteria and preferences, or the opportunity to access additional and potentially sizeable liquidity flows. As business flows and opportunities developed, conventional commitment grew, with international banks establishing divisions – or 'windows' – for Islamic financial services. Citibank and UBS took their proposition still further by forming Sharia-compliant banks as subsidiaries."

Islamic finance was becoming too big to ignore, and several London and EU-based banking majors were either enhancing the capacity of their Islamic banking windows or going down the dedicated, stand-alone subsidiary route. In the 1990s, Barclays Capital, Standard Chartered Bank, Citibank International, UBS and Deutsche Bank were all operating Islamic banking windows at their London operations.

A potential gamechanger also appeared in the 1990s when HSBC – run at the time by (now Lord) Stephen Green, the current Minister of State for Trade and Investment – launched HSBC Amanah, its dedicated Islamic finance division. At around the same time, Citigroup launched the first stand-alone Islamic bank in Bahrain, called Citi Islamic Investment Bank. This was followed by UBS's launch of its own dedicated Islamic bank, Noriba Bank, also in Bahrain.

Last year, however, HSBC restructured its Islamic banking business as part of a wider review of its global business, saying that "following a strategic review of our operations around the world, the HSBC Group has taken the decision to restructure its Islamic banking business and will no longer offer Sharia-compliant products and services in the UAE, the UK, Bahrain, Bangladesh, Indonesia, Singapore and Mauritius. HSBC will continue to offer Sharia-compliant products and services in Malaysia [and] Saudi Arabia. HSBC will continue to offer wholesale banking (Islamic financing/sukuk) products in these jurisdictions and globally through Saudi Arabia and Malaysia."

The growing appeal of sukuk

Saudi Arabia and Malaysia, where demand for Islamic financial products is continuing to grow, are huge profit bases for HSBC. The bank is also one of the lead arrangers of sukuk (financial certificates) in the international market. According to Mohammed Dawood, managing director of global capital financing, HSBC Amanah, the outlook for the international sukuk market is encouraging. It is steadily becoming a mainstream product, and international investors from the UK, Europe and the US are increasingly investing in it.

Sukuk is steadily becoming a mainstream product

"Their understanding of and familiarity with sukuk is increasing," says Dawood. "In fact, what was interesting when we went on a roadshow about 18 months ago, was meeting many international investors who told us that they preferred to buy sukuk – especially for issuers outside of the Middle East region – because the sukuk instrument is less volatile and, should they need to sell, there is a far greater buyer base in the region, which is ready to support and provide that liquidity and to pick up supply that is being sold outside."

Luxembourg is on the record saying that it may issue a debut sovereign sukuk if the market conditions are right. Furthermore, Ireland's Electricity Supply Board has announced that it is exploring the possibility of issuing a sukuk, subject to the appropriate market conditions.

"I think that, internationally, there are a lot of issuers taking a good hard look at this market," explains Dawood. "It's really about how prepared they are – is the environment friendly? Is the enabling legal and tax framework in place to allow them to issue? Does the company/issuer have the necessary assets to be able to issue an Islamic structure? At a more macro-level, does the environment from a legal and technical tax and regulatory perspective also allow them to issue?"

Since then, Standard Chartered Bank has also set up its dedicated Islamic-finance entity, Saadiq, and BNP Paribas its Najmah entity. In some respects, Standard Chartered Bank Saadiq is setting the pace in several markets – especially in Asia, Africa and the countries of the Gulf Cooperation Council.

Standard Chartered Bank Saadiq is expected to enter the Kenyan market imminently in order to springboard its Islamic banking offerings both in Kenya and in sub-Saharan Africa. Similarly, Barclays Africa Group Limited was this year formed by the merger of Absa Group and Barclays Africa, creating a major retail-banking presence in the region and beyond, and including Islamic consumer banking.

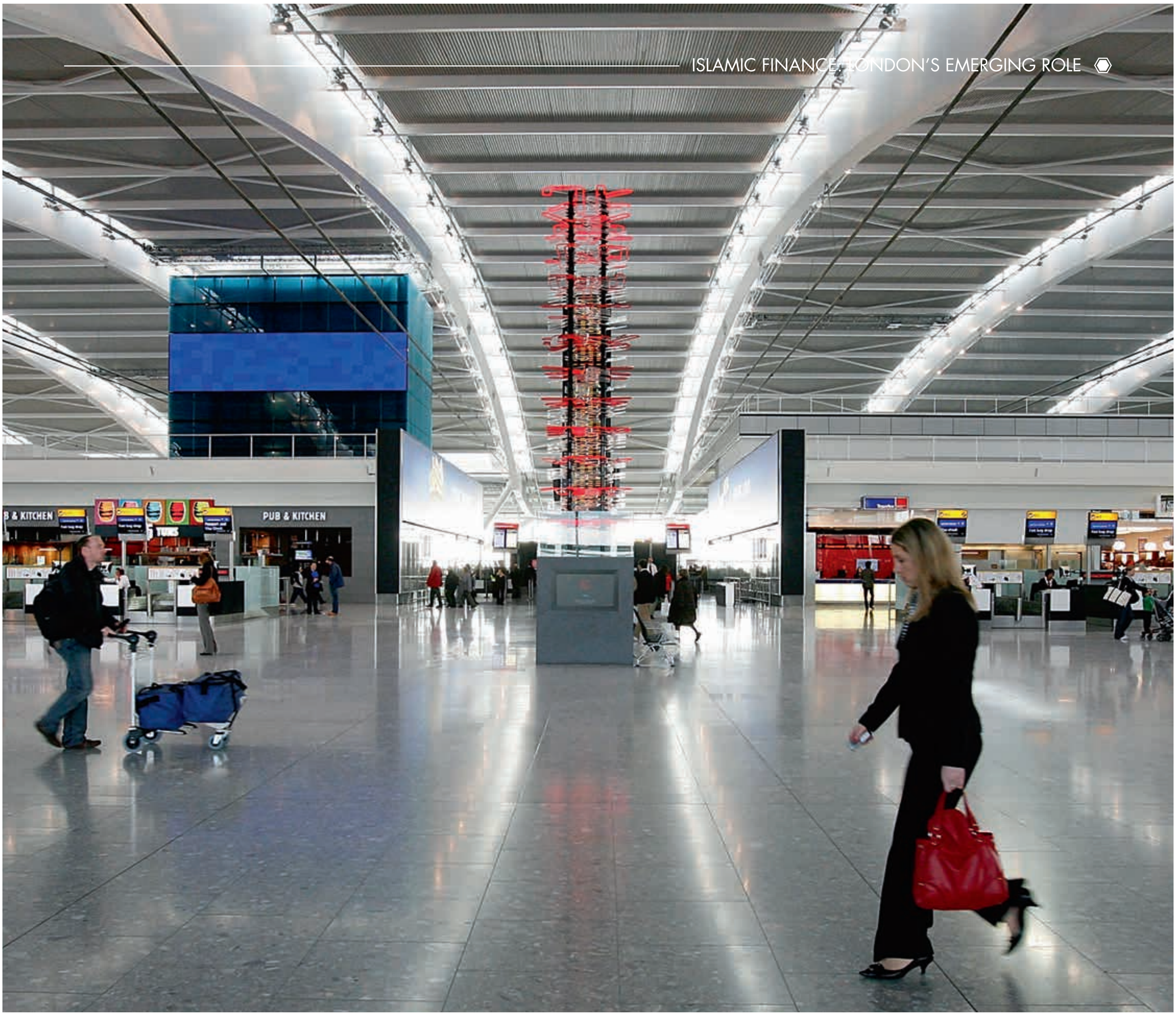
"One of the main reasons for entering the Kenyan market is the fact that the local marketplace for Islamic banking is already well developed," explains Wasim Saifi, global head of Islamic consumer banking at Standard Chartered Bank Saadiq at a recent conference in Nairobi.

Stella Cox's DDCAP Ltd is one of the more established intermediation and commodity brokerage firms in the world, having set the benchmark for UK and international companies (irrespective of size) serving the global Islamic finance industry for almost two decades and successfully integrated into the Islamic finance sector in Turkey, Malaysia and the Gulf Cooperation Council countries.

DDCAP has taken its business style one step further – the first for a British and Western institution doing business in Saudi Arabia. Recently it pioneered a unique dialogue in Riyadh to introduce its Sharia Supervisory Board to its Saudi-based banking clients and to demystify Islamic finance and products such as commodity murabaha (tawarruq) to its clients. The global tawarruq business is a key financing structure of the $1 trillion Islamic financing industry, with the direction of financing traditionally weighted heavily towards murabaha business – it is generally considered to comprise about 80 per cent of all Islamic finance transactions, although this figure is thought to be dropping significantly because of the emergence of new asset classes such as sukuk, evolving asset management capability and the expansion of development and project finance.

According to bankers in London, one development that would give a massive boost to the UK proposition in Islamic finance is the issue of a debut benchmark UK sovereign sukuk issuance, which has been on the cards for the past few years.

"The fact that there's been no debut sovereign issuance out of the UK in the last couple of years isn't necessarily an indication that there will be no issuance," says Mohammed Dawood. "But I think that as the market continues to grow and it increases in depth, you may well see more opportunities come up in the UK."



CATE GILLON/GETTY IMAGES

Sovereign wealth funds head to London

The UK is proving to be the destination of choice for Islamic sovereign wealth funds that are seeking to diversify their portfolios, finds **Dave Rothnie**

Islamic sovereign wealth funds (SWFs) have played a dominant role in redrawing the UK's economic landscape since the start of the financial crisis in 2008, taking advantage of attractive valuations to make investments in the country's real estate and infrastructure, as well as some of its most prestigious brands and landmarks.

In a five-year period, Islamic SWFs have invested in retail brands J Sainsbury and Harrods, and transport giant BAA (now Heathrow Airport Holdings). Furthermore, it has snapped up some of London's most iconic real estate: the 2012 Olympic Village; the Shard, which is Europe's tallest building; and Songbird Estates, which owns Canary Wharf, the financial heartland of London. This year, work began on the redevelopment of Battersea Power Station, on the River Thames in London, which has been vacant since 1983. Bought by a Malaysian consortium, backed

Qatar Holding bought a 20 per cent stake in BAA – now Heathrow Airport Holdings – for $1.4 billion in 2012 by one of the country's SWFs, for $650 million, it will be home to hundreds of new homes, shops and offices, and even a new London Underground extension.

There are 16 Muslim countries with SWFs, but the biggest and most active investors in the UK come from the Gulf Cooperation Council (GCC) countries – particularly Abu Dhabi, Qatar and Kuwait. The biggest, the Abu Dhabi Investment Authority (ADIA), was established in 1976 and has more than $600 billion of assets under management, but it is the Qataris who have been the most active investors in the past five years as they seek to play catch-up with bigger rivals.

SWFs exist to diversify the wealth of oil- and gas-rich countries by investing income from commodities in long-term investments. They are global in reach and are currently focusing their attention more on fast-growing markets such as the US, where the shale-gas revolution is reshaping the world's biggest economy, and Asia. But the UK – especially London – remains a magnet for investment. In September 2007, Qatar Holding, the direct investment arm set up a year previously by the Qatar Investment Authority (QIA), bought two stakes in the London Stock Exchange that amounted to 24 per cent and were worth more than $1.5 billion.

6.7%

Qatar's share of Barclays – the single largest stake in the bank

38%

of investments made in Europe in the past decade were by Islamic SWFs

At the time, these deals marked the biggest investments by Islamic SWFs in UK plc, and they triggered a buying spree that has seen Islamic SWFs make $31 billion of asset purchases in the UK, according to data from Dealogic – 38 per cent of all investments made in Europe in the past six years.

Since then, Qataris have dominated the UK investment landscape as the emirate's profile on the global stage has risen. The leading liquid natural gas exporter, with massive natural gas reserves, Qatar is the world's richest country measured by GDP per capita. And now it is looking to diversify its vast wealth. According to a speech in April 2012 by QIA board member Hussain al Abdulla, QIA's total assets under management exceed $100 billion.

In its various guises, Qatar has been responsible for 14 of the top 20 biggest investments by Islamic SWFs in the UK since 2007, including high-profile real estate. In 2011, another subsidiary of QIA, real-estate investment fund Qatari Diar, bought the London 2012 Athletes' Village with a developer for $906 million. QIA also led the development of the Shard and, in 2009, it acquired the soon-to-be-former US embassy building in the capital's Grosvenor Square.

Backing the banks

SWFs rose to global prominence in the immediate aftermath of the global financial crisis in 2008, when they stepped in to provide capital and liquidity to stricken Western banks as the credit crunch took hold and the collapse of Lehman Brothers caused financial markets to seize up. In a series of investments, Qatar Holding, QIA and International Petroleum Investment Company, which is an SWF linked to the United Arab Emirates, bought warrants and stakes in troubled banking giant Barclays plc worth a combined $20 billion.

In November 2012, Qatar Holding sold its Barclays warrants as part of its 'active portfolio management'; however, its overall investment strategy – and that of most Islamic SWFs – is based on a long-term 'buy-and-hold' approach. At the time of the Barclays warrants sale, Qatar Holding restated its commitment as the largest single investor in Barclays, with an unchanged 6.7 per cent stake. "Barclays continues to be a long-term strategic investment for Qatar Holding and an important commercial partner," according to the fund.

There are signs that the partnership is bearing fruit. In August 2012, when Qatar Holding announced its $1.4 billion purchase of a 20 per cent stake in BAA, which owns and operates Heathrow, Glasgow, Aberdeen and Southampton airports, Barclays acted as financial adviser. Announcing the investment, Qatar Holding outlined its bullish stance: "Qatar Holding maintains its view that the United Kingdom remains an attractive investment destination and there is long-term fundamental strength in the British economy. This acquisition is a key element in our exposure to the infrastructure sector, and helps to further diversify Qatar Holding's global investment portfolio."

Transparency matters

SWFs have a reputation for secrecy. Aside from official statements made at the time of investments, they do not comment on their approach. But they are increasingly willing to wield their influence on big deals. Last year, Qatar Holding played a decisive role in the outcome of commodities trading giant Glencore's $48.4 billion acquisition of mining group Xstrata when it amassed a 12 per cent stake in the UK-listed takeover target.

Its emergence as a leading shareholder culminated in Qatar's then Prime Minister Sheikh Hamad bin Jassim bin Jabr al Thani mediating secret talks with Glencore Chief Executive Ivan Glasenberg last September. As a result of the talks, Glasenberg agreed to re-cut the deal and increase the offer by nine per cent. A banker close to the Qataris says: "The Xstrata deal looked like it was taking a stance as an active investor, but in fact, it was just looking for value."

Despite its role on Glencore-Xstrata, Qatar has a way to go to boost its transparency, placing in the bottom five of the International Forum of Sovereign Wealth Funds' transparency rankings. According to one source, the launch of Qatar Holding was intended to allay fears over political independence because it is separate from QIA and positions itself as "a purely financial fund".

Now, there are signs that investment is slowing down, with asset prices recovering in the UK and stock markets enjoying strong momentum. This year, Islamic SWFs have made five investments worth $2.2bn in the UK, the lowest level since their initial splash in 2007.

NICK POTTS/PA WIRE

The London 2012 Athletes' Village was bought by Qatari Diar in 2011 and will be redeveloped as a residential area

There is also evidence of a shift in approach: "SWFs are long-term investors in London and the UK, but they changed emphasis in recent years," says one banker who has advised funds. "They have exploited the fall-out from the financial crisis and are focused more on value-enhancing propositions and in particular on those where there is a strategic angle back into the region. For example, they like the steady returns from infrastructure, but also because they can apply the knowledge and project experience to their own infrastructure needs at home."

There are also signs of a shift in geographical focus. Throughout the summer of 2013, QIA hired bankers and other financial industry executives in order to diversify its investment portfolio and move assets out of their current European exposure. A Reuters report said that the fund had hired Ugo Arzani, most recently a managing director at Bank of America Merrill Lynch in London, as its new head of consumer and retail investments. Meanwhile, Jason Chew, who was previously the head of Greater China operations at Pramerica Real Estate Investors, is also believed to have joined as the head of Asia real estate.

This influx of in-house expertise mirrors similar moves at other funds such as the Abu Dhabi Investment Authority and shows that their eye for a deal remains sharper than ever. The fact that they are hiring deal-makers suggests that Islamic SWFs will continue their recent investment binge as they continue on the path of diversification. And while exposure to Europe may be waning, London remains on the investment radar. ◉

Dave Rothnie is a financial journalist specialising in economics and investment banking.

SYAHREL AZHA HASHIM/GETTY IMAGES

Preparing for a rainy day: umbrellas on display in Kuala Lumpur. Malaysia's takaful sector has seen annual growth of 20 to 25 per cent in the past five years

Takaful: preparing for take-off

The market for Sharia-compliant Islamic insurance has been slow to get off the ground, but it has huge potential and is now in the ascendant, says **Nigel Gibson**

Based on the principles of Sharia, takaful is a form of mutual insurance whose participants contribute to a pool that then guarantees them against loss or damage. With a projected value by the year 2015 of $25 billion – representing about one per cent of the global insurance market – takaful is attracting the attention of global insurance centres. Those centres are starting to recognise that, as a young market that is, so far, lagging behind much of the rest of Islamic finance, it possesses immense untapped potential.

As the industry matures, with better distribution, more consistent regulation across regions and greater expertise, takaful will surely increase its share of a huge market. So far, it has attracted only a small percentage of the world's 1.6 billion Muslims. This may be because insurance of any kind is still not widespread in developing economies. It may also be a result of regulators in many countries being slow to put takaful on the same footing as conventional insurance which, largely, still achieves better returns.

Whatever the reasons, there are signs that takaful will start to fulfil its potential – provided the industry can agree on a way forward. Although in some markets, for example the United Arab Emirates (UAE) and Malaysia, Islamic insurance has grown at the rate of between 20 and 25 per cent a year and an increasing proportion of operators have become consistently profitable, there is still uncertainty in some countries about how the industry should operate.

Different models

Takaful has several fundamental elements, some of which may change depending on the business model used. At the heart of every takaful fund is a determination to pay a defined loss from a defined fund. This fund, in turn, is created from the donations of policyholders, among which liability is spread and the losses divided. In effect, therefore, the policyholders are both the insurer and the insured.

Since they donate to it, the policyholders become owners of the fund and are, therefore, entitled to any profits (though the extent may vary depending on the model employed). Under one model, the operator receives a combined fee that reflects not just the profit, if any, from the underwriting, but gains from investment. Under another model, the operator receives a percentage of the policyholders' contributions. To complicate things further, some operators combine the two models. Even in markets where the tenets of Sharia are deemed key and are therefore a selling point, takaful has faced complications. Take Saudi Arabia, for example – in 2011, the monetary authority decided that all operators should shift away from a 'pure' takaful model to a cooperative model. Under this model, takaful operators must segregate policyholders' and shareholders' funds and charge all management expenses to the former. Some 10 per cent of profits must be allocated to policyholders directly. Similarly, any deficit is the responsibility of the policyholders.

The ramifications of change

It is too early to tell how the change will affect profits in years to come. Yet it has raised questions in the minds of policyholders about the nature of Islamic insurance, and among operators as to where in the market they should position themselves. In Saudi Arabia, as in many markets, there is stiff competition for new business, particularly in what is called family takaful (savings, often linked to education). Some fear that the changes could lead to yet more competition, which will erode margins and therefore profits.

If that were not enough, takaful operators everywhere have had to contend with the difficulties of switching to new rules under the International Financial Reporting Standards, as well as those affecting insurers under Solvency III. For takaful operators, there is a need not just to change accounting systems and the technology that accompanies them because of the different business models, but they also have to make sure that everything is properly allocated between the shareholders' and participants' funds.

Even so, few dispute that Islamic insurance has potential – particularly in parts of Asia and the Middle East. Consider family takaful, one of the fastest-growing elements of the industry. Even in Malaysia, probably the world's largest single market for Islamic insurance of all kinds, only 11 per cent of the population buys such cover. That compares with a figure of 43 per cent for conventional life assurance.

Also offering good prospects are medical and health cover, particularly in countries such as Saudi Arabia, where the former is compulsory. Engineering and construction, both in demand thanks to the need for infrastructure in emerging economies, also offer good prospects for professional indemnity and other such cover. Meanwhile, energy – particularly onshore oil and gas – looks promising for those offering takaful.

In addition to more consistency in regulation, many believe that the industry would benefit from

AHMAD FAIZAL YAHYA/ALAMY

Pilgrims at Al-Masjid Al-Nabawi mosque in Saudi Arabia. The country has the largest takaful market of the Gulf Cooperation Council member states

1.6 billion Muslims worldwide

11% of Malaysians buy family takaful

easier access to funding. One headache is the lack of instruments, such as sukuk (financial certificates), which comply with Sharia. Not only does this make it tough for operators to manage their balance sheets, it is also difficult to find instruments in liquid markets with maturities that are long enough. Although the volume of sukuk issued worldwide has grown of late, few still have what are known as long tenors.

As a result, Islamic insurers and reinsurers have turned to alternatives, including property. Even Takaful Malaysia, which this year bought its first offices in London, hopes it will provide an answer. That said, Bank Negara, the central bank of Malaysia, restricts overseas investment, including in property, for takaful funds to five per cent of the total. This is due to the fact that, although commercial property may provide a reasonable yield, it is not easy to sell – particularly at short notice.

Questions for the future

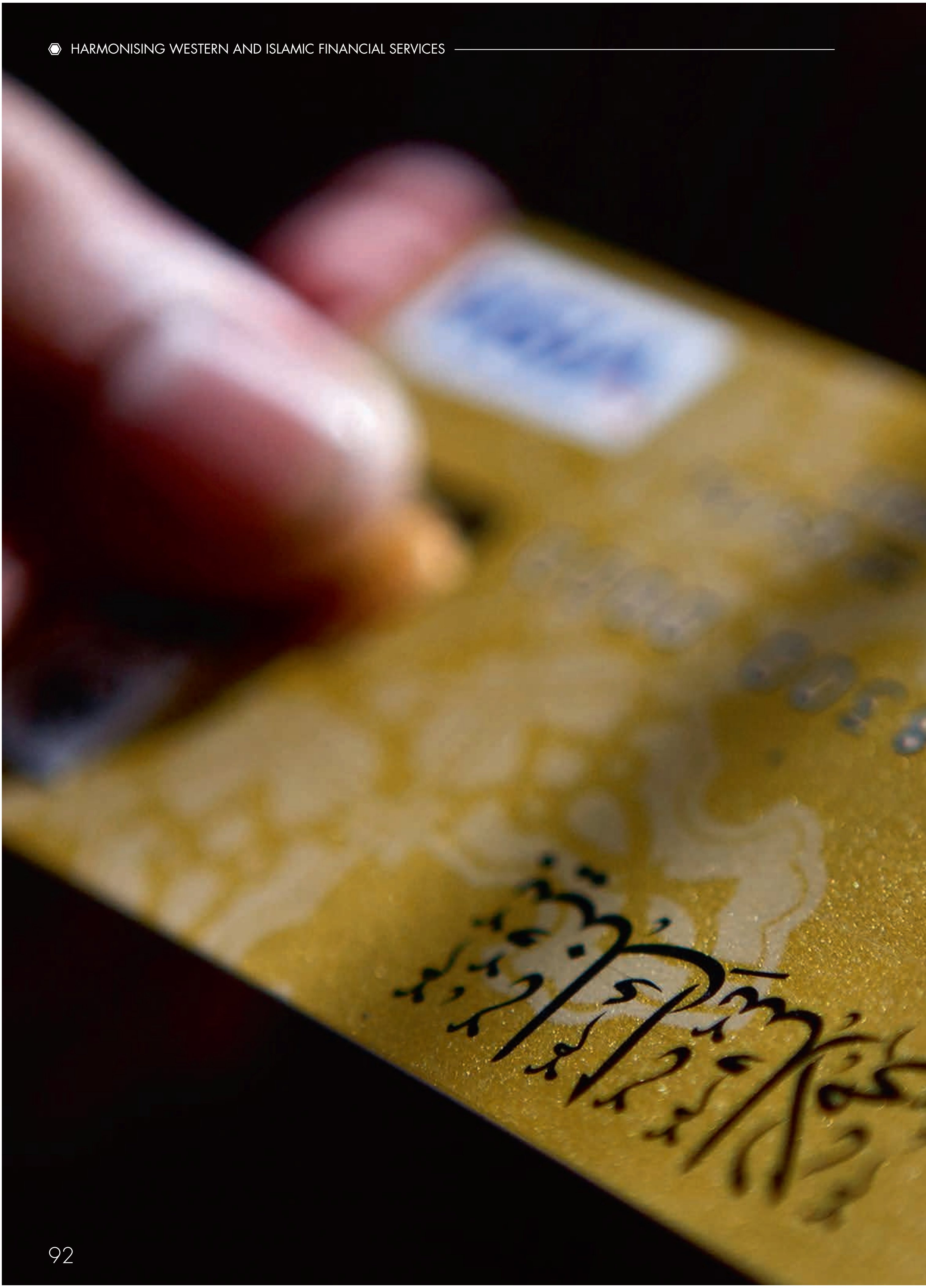
Rating agency Standard & Poor's is also sceptical. Is there a danger, it asks, that a legitimate desire for Sharia-compliant investments constrains a takaful operator's ability to diversify its portfolio? And could such compliance encourage a firm to rely too heavily on illiquid investments in property? Judging from the fallout from the financial crisis of 2008, the answer to the latter is probably yes. Even in well-regulated markets, such as Bahrain and Malaysia, where the government issues regular amounts of Sharia-compliant debt, takaful operators complain that there are still not enough bonds with sufficiently long tenors in which to invest.

What of the future? Research indicates that, as long as it is deemed to comply with Sharia law, few households or retail customers, even those in Muslim countries, admit to having been influenced by the structure of a product or service. What those customers require, particularly in relation to the longer term family products, is a decent return. So the differences over business models and structures may be resolved over time without too much damage to the industry. A hybrid model recommended by the Accounting and Auditing Organisation for Islamic Financial Institutions has already been adopted by regulators in Bahrain, and is also gaining support in other countries. The model is a mixture of the wakalah and mudaraba contracts, whereby the fees are charged upfront (as with wakalah), but the operator is also paid a percentage of the surplus in order to encourage performance. A mudaraba contract is also applied to investments.

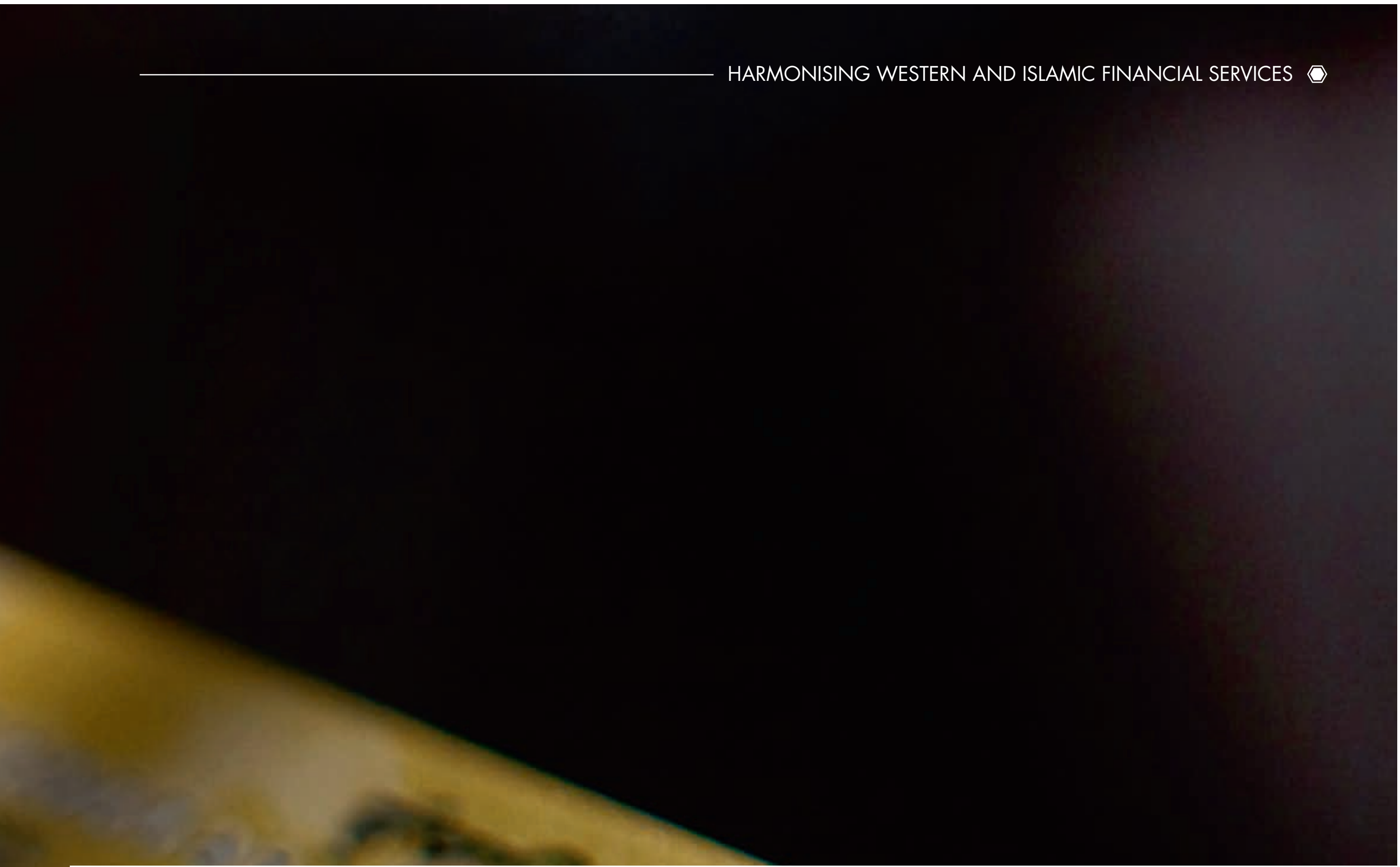
Granted, companies operating in more than one country may continue to face different regulatory systems, which will add to their costs. But ingenuity and technology have a way of circumventing problems. One such solution is a syndication panel in London that spreads risk across a panel of underwriters. The system was launched earlier this year by Cobalt Underwriting, a firm supported by Capita and Bank of London and the Middle East.

"What we are about," says Richard Bishop, Capita Underwriting's chief executive, "is developing an Islamic alternative in London for Islamic insurance." Under the system, risks are priced by a senior underwriter and other firms must then subscribe over the panel on similar terms. All financial security must be rated at least A, according to Cobalt Underwriting, so that buyers and their backers alike can be satisfied. At the last count, the firm had secured capacity to cover property risks of up to $425 million and construction risks of $160 million.

Over time, the firm hopes to cover risks such as casualty, trade finance, energy and even aviation. It is this kind of vision that enables international capital to back projects and businesses that are vital to the prosperity of developing economies while also meeting the tenets of Sharia.



ASIM HAFEEZ/BLOOMBERG VIA GETTY IMAGES



Pakistan's BankIslami has its sights set on a 50 per cent profit increase, as branches are doubled to meet rising demand for services that comply with Sharia law

Learning to coexist: Islamic and conventional finance

Sharia-compliant financing has developed alongside conventional financial instruments, but harmonising standards across Islamic banking would increase its market share, says **Nigel Gibson**

"The tenets of Islamic banking have stood the test of time. Our emphasis on equity, risk-sharing and partnership enforces discipline on the financial system, allowing us to lift more of our people out of poverty." So said HE Dr Ahmad Mohamed Ali Al Madani, president of the Islamic Development Bank, earlier this year when the organisation more than tripled its authorised capital to about $150 billion and announced that it would raise an additional $1 billion by offering sukuk, or Islamic bonds, maturing in five years.

It is no surprise that Dr Ali should link the alleviation of poverty to the principles of Sharia, or Islamic law. Nor should it be. Even since it came to fruition in its modern form in the 1970s, Islamic finance has held at its heart the tenets of fairness, risk-sharing, economic purpose and the avoidance of prohibitive and non-productive activities.

Indeed, to many eyes, such an approach could be no further from the excesses of risk-taking and speculation that characterised the era of investment banking by conventional entities and which led to the financial crisis of 2008. For that reason, Islamic finance has much in common with cooperative banking. However, as we also know from the events of the past few years, without suitable safeguards neither approach is immune to the pitfalls that can bring down banks and injure their deposit holders or the taxpayer.

Perhaps the most salient of the principles of Sharia is the prohibition of interest, or riba. Instead of lending and borrowing at interest, Islamic banks and their customers agree to share the risks and rewards. Transactions must be tied to tradeable and tangible goods or some other underlying asset that is real. Also forbidden is maysir, or games of chance. Another is gharar, or uncertainty, a notion which includes deception as well as betting.

STR/AFP/GETTY IMAGES

HE Dr Ahmad Mohamed Ali Al Madani, president of the Islamic Development Bank, has linked the principles of Islamic law to the alleviation of poverty

Retail banking based on Islamic law is one of the faster growing parts of the industry, and one of the most profitable. Thanks partly to favourable demographics in much of the Arab world, such assets have grown at an average rate of 25 per cent a year during the past decade or so. A low cost of funds widens the spread of the bank (the difference between the cost of the deposit and what the institution can earn from lending it on).

Yet many Islamic banks have been slow to capitalise on the opportunity. Too few, according to analysts, differentiate themselves from the competition or develop a range of products that customers want. Indeed, some of the most successful retail institutions are what are known as 'Islamic windows', opened by conventional banks. Part of the problem is that, under Sharia, even consumer finance can be complicated – it takes several steps to structure, for example, a mortgage. A customer may own the property jointly with the bank and then lease or rent a varying proportion of it over time.

Islamic finance had its genesis in commercial banking: there exists a long tradition of Islamic institutions serving traders in pursuit of profit. Unlike conventional banks that lend money in return for interest, sometimes with guarantees against the collateral in question, banks that comply with Sharia become partners with their customers.

So, instead of simply providing credit to export goods, an Islamic bank becomes part of the transaction: it first buys the goods in question and then sells them on to the customer. Its fee is often a proportion of the profit.

Most trade finance complying with Sharia uses what is known as the murabaha contract, a form of cost-plus financing that involves a predetermined rate of return to the lender. Such contracts are similar to a letter of credit issued by a conventional bank. However, because of the relative scarcity (in comparison with conventional finance) of Sharia-compliant instruments, for example sukuk, specialised banks often find it harder to match their assets or loans with the funds supporting them. This means that liquidity can be a problem. As a result of the need to link their lending to the real economy, Islamic banks often lean towards property, too.

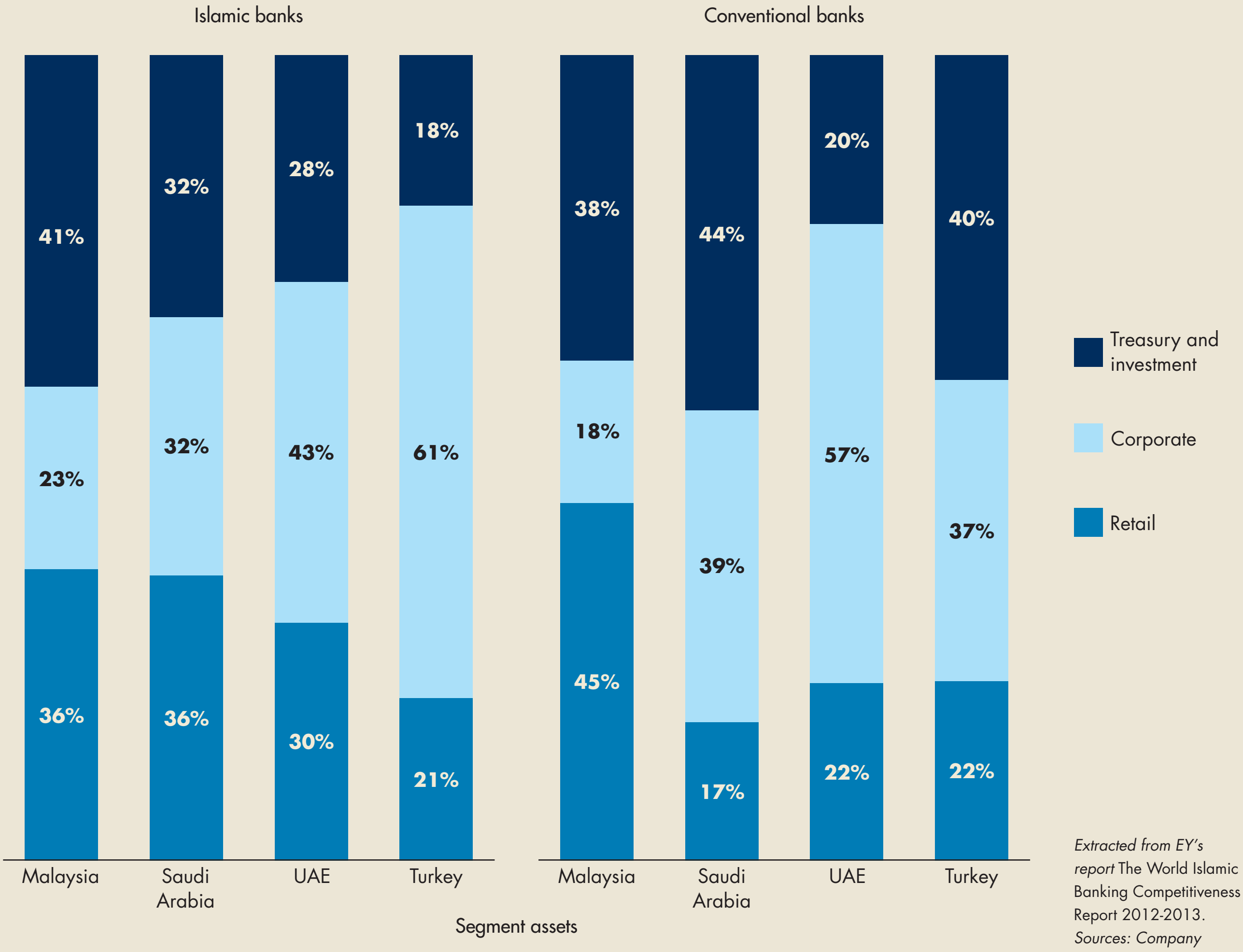
Like its conventional counterpart, the market for Islamic bonds has had its ups and downs. In recent years, Malaysia and its currency, the ringgit, have led the way in terms of both value and volume. Yet the London Stock Exchange, with its reputation for prudential regulation, has proved popular as a place to list them. For sukuk, as with commercial banking, how offerings are structured is paramount. There are six principles, according to the Accounting and Auditing Organization of Islamic Financial Institutions (or AAOFI), which must underlie all Islamic bonds that are offered to the market.

The principles of Islamic finance

- Interest, or riba, is prohibited. Riba means 'an excess', and is usually interpreted as any unjustifiable increase in capital or any return on the use of money, whether that be in loans or sales.
- Money is not a commodity nor a store of value, but instead is a medium of exchange and a unit of measurement. Money represents purchasing power and it cannot be used to increase such power without any productive activity taking place. Islamic finance advocates the creation of wealth through industry and labour via trade and commerce.
- Because interest is prohibited, suppliers of funds become investors rather than creditors and so share the risks.
- Speculative behaviour is prohibited. Islamic finance discourages hoarding and prohibits transactions that feature extreme uncertainty, as well as gambling.
- Excessive borrowing or leverage in capital structures or investments is prohibited since this promotes debt.
- Only those activities that do not violate the rules of Sharia qualify for investment. For example, any investment in a business that deals with alcohol, pornography, arms, tobacco or gambling is prohibited.
- Any transaction leading to injustice or exploitation is prohibited.
- Islamic finance upholds contractual obligations and the disclosure of information as a sacred duty. This is intended to reduce the risk of asymmetric information and moral hazard.

source: adapted from Askari et al, 2010.

Assets by segment in Islamic and conventional banks



Extracted from EY's report The World Islamic Banking Competitiveness Report 2012-2013. *Sources: Company Reports, Ernst & Young Analysis, EY Universe*

Includes selected banks from each country based on the availability of data

An important difference between Islamic bonds and conventional ones is that the former entitle the holder to own a specific asset (or its usufruct – a legal right to derive profit from a property). A conventional bond, by contrast, entitles the holder only to interest and so makes him or her a creditor with a claim against the assets of the issuer.

Granted, international issuers have transformed the market for Islamic bonds: in 2009, for instance, General Electric became the first American company to raise money that way. Since then, the trend has continued. In their efforts to raise extra capital to comply with the requirements of Basel III, both regional and international banks have chosen of late to issue sukuk. Yet, say investors and practitioners alike, the market would still benefit from a greater degree of standardisation between jurisdictions with active markets in sukuk.

Asset managers complying with Islamic law have fewer difficulties navigating between jurisdictions. One of their problems is scale, or the lack of it. Most retail investors in countries where Islamic finance is popular still tend to place their savings with banks, not with asset managers. So, Islamic funds under management worldwide account for only around six per cent of total assets complying with Sharia.

In many countries, conventional and Islamic forms of finance often operate in parallel with each other

Most of these investment funds employ an agency contract under which the manager appoints an institution to invest an amount of money for a specified period of time. The manager is usually paid according to a fixed schedule. Under what is known as an ijarah contract, a fund acquires assets, such as property or industrial equipment, which is then leased out to end users. This generates a stream of income that is credited to the fund.

Also popular are funds that invest in commodities. Many are closed-end funds (similar to a conventional fund that issues only a limited number of shares to investors). The fund may buy commodities and then sell them on to clients at an agreed mark-up. As with Islamic banks, asset managers must appoint a board of advisers to audit their compliance with Islamic law. This often means screening stocks on different levels – first, to make sure the company is not in industries considered haram, or prohibited, such as munitions; and second, to ensure that they are not too heavily indebted, which is also prohibited under Islamic law.

Business models

Islamic insurance, or takaful, faces even more uncertainties, despite the fact that it is growing fast, particularly in the Gulf and parts of Asia. For starters, there are different business models. Under one, the operator manages the underwriting and investment for the policyholder. Under the other, the operator acts as an agent on behalf of the policyholder. Using the first model, the operator receives a combined fee reflecting not just the profit or loss from underwriting, but the return, if any, on investment. Adhering to the second model, the operator receives a percentage of the policyholders' contributions. To complicate things still further, some takaful operators combine the two models. Also unusual is the fact that the Sharia board is responsible in law for representing the policyholders, yet often has no direct influence over the operations of a firm or its governance.

Why liquidity matters

A perpetual problem for Islamic banks is how to manage their liquidity. If they have too much cash, institutions complying with Sharia have fewer options than their conventional counterparts to deposit it and earn a return. If Islamic banks find themselves with too little cash, the options open to them are, again, limited.

This is partly because, unlike the interbank markets enjoyed by conventional banks, those complying with Sharia cannot simply lend money to one another at the prevailing rate of interest since this is forbidden. Partly, too, it is because there are fewer instruments qualifying as Sharia that Islamic banks can buy and sell.

Some central banks issue Islamic bonds that banks and other such institutions can trade in order to maintain their liquidity. Yet such facilities are still few and far between even though, since 2011, a consortium of banks that comply with Sharia joined together to offer an Islamic interbank benchmark rate.

To help maintain stability among financial institutions complying with Sharia, regulators must strive to reduce the cost of intermediation – the price of matching those that have money to lend with those who need it. Often, during difficult times, this may mean the central bank stepping in to oil the wheels of financial markets and so commerce.

Islamic insurance strengthening

Even so, there is little doubt that Islamic insurance is gaining ground. What is known as family takaful – protection for life and individual savings, sometimes linked to education – has proved increasingly popular. Compulsory health cover, particularly in countries such as Saudi Arabia, has also given the industry a boost. So much so, in fact, that it has grown by as much as 40 per cent a year in some markets.

Even at the most optimistic of forecasts for growth this year, the combined value of finance that complies with Sharia law is still likely to account worldwide for less than two per cent of total financial assets. The point is not that the industry remains small, but that it is gaining traction in those markets where a combination of demographics and changing attitudes to finance could open the door to another decade of rapid growth.

Look no further than Saudi Arabia, where Islamic finance accounts for more than half of total assets in the banking system. Recent legislation on mortgages is likely to give the industry a further boost. Unusually, too, conventional banks in the country hold large books of assets complying with Sharia, which are often even bigger than those of the 'Islamic windows' of western banks operating in such regions.

Is it unsurprising, then, that conventional and Islamic forms of finance coexist. In many countries, the two systems often operate in parallel with each other. Take Malaysia, for example, where successive governments have taken measures to develop the market for Islamic finance. So much so that finance complying with Sharia now comfortably exceeds the government's initial target of 20 per cent of total assets. The administration now aims to increase that share again by 2020.

Indeed, most customers of Sharia-compliant banks in Malaysia are non-Muslims. Under the rules of the government, foreign investors may hold up to 70 per cent of an Islamic institution, which is significantly more than in a conventional bank domiciled in the country. This has not only helped to bring in fresh capital for Islamic banks; it has also served to broaden the base of the industry and so has helped it to grow.

With one of the largest markets for all types of bonds in East Asia, Malaysia has managed better than most to develop conventional and Islamic finance in tandem. The market for government bonds of all types accounts for well over half the value of the country's total debt. It is interesting to note that studies have shown there is little difference in returns for investors between some conventional and Islamic bonds.

One difficulty that Islamic banks face is higher operating costs. The latest study by consultancy and services firm Ernst & Young found that the operating expenses as a proportion of assets for Islamic banks are 50 per cent higher than for conventional ones. For medium-sized to smaller institutions complying with Sharia, the proportion is often even larger.

This is partly due to the cost of human capital. Islamic banks tend to rely more on people and less on technology, which can push up their expenses. Although they fell in the aftermath of the financial crisis in 2008, such costs have begun to rise again for Islamic banks in many markets compared with those of conventional banks.

These costs must be contained if the industry is to continue growing. It is not just a question of reduced returns for shareholders. As Dr Zeti Akhtar Aziz, governor of the Central Bank of Malaysia, said in an address to the Islamic Development Bank at the annual gathering in 2010 of the International Monetary Fund and the World Bank, Islamic finance has grown as a sustainable form of funding precisely because it is so competitive.

Such competitiveness is vital, she said, if Sharia-compliant finance is to continue serving economies and contributing to growth, particularly across developing economies. Since a principle of Islamic finance is that it is linked directly to the economy, one cannot thrive without the other. Indeed, the internalisation of Islamic finance has led not just to more trade between Asia and the Middle East, it has brought the economies of the two regions closer together in other ways, too.

As well as facing difficulties in managing their liquidity, Islamic banks and other similar institutions also find it harder than conventional banks to hedge their risks. This, says Ernst & Young, is partly because many Islamic banks have failed to give risk officers sufficient influence or to define the level of risk they should live with; partly also because derivatives, a convenient way to shed or redistribute risk for conventional banks, are closed to most institutions complying with Sharia law.

At least, that was the case until recently. Though it remains controversial, some Sharia scholars now accept that being able to hedge actual expenses is an important element in managing risk, and, without using such methods, Islamic institutions inevitably face additional costs. It was to this end that, in 2010, the International Islamic Financial Market based in Bahrain and the International Swaps and Derivatives Association published a tahawwut, or hedging, agreement. This standardises the documentation for a form of derivatives that is negotiated between two parties and so, if their boards of directors endorse it, enables Islamic banks to offset some of their risks. However, it is only a tentative step along that road.

Some Sharia scholars now accept that being able to hedge actual expenses is an important element in managing risk

GOH SENG CHONG/LANDOV/PA IMAGES

Dr Zeti Akhtar Aziz, governor of the central bank of Malaysia, Bank Negara, says that Islamic finance has grown as a sustainable form of funding because it is so competitive

It is perhaps significant that the plan of the Malaysian government to develop its financial sector, both retail and wholesale, by 2020 includes a desire to internationalise Islamic finance. In order to do this, says the document, a greater degree of standardisation of agreements is required. However, the paper does not say how or when this standardisation should be done.

And therein lies a difficulty. That the AAOFI has hammered out common standards to govern transactions across most forms of Islamic finance neither implies that everybody agrees with them, nor that those standards will be honoured.

Resolving differences

Some argue that the Organisation of Islamic Cooperation, which represents 57 countries on four continents and is regarded by many as the collective voice of the Muslim world, should take the lead. It should resolve the differences, they argue, between standards in the Gulf, Asia and other countries where Islamic finance is already a force to be reckoned with and one that is gaining in strength and commitment.

This much is clear. If Sharia-compliant finance has managed to develop to the point it has without standardisation, then it is likely to do even better with a common approach. There will always be those who question practices and who argue for change. That surely is no bad thing. No system of finance, as with any industry, can remain rooted forever in the past. It must surely evolve, within boundaries, over time.

A businesswoman talks on her phone outside Petronas Towers in Kuala Lumpur, Malaysia. In terms of female representation, it is Malaysian women who dominate Islamic finance

BUENA VISTA IMAGES/GETTY IMAGES

Female participation on the rise at all levels of Islamic business

Mushtak Parker and **Leila Badawi** consider the importance of female representation in Islamic trade and commerce, highlighting women within the business elite and the precedent they have set

The rapid growth of the global Islamic finance industry has, in many respects, opened new doors for the empowerment of women in business and finance in the Organisation of Islamic Cooperation (OIC) countries. Although new opportunities are now arising, Muslim women have long been involved in finance and business activities.

According to Halima Krausen, a Sharia scholar and academic from Germany, women have been actively involved in trade, financial and investment matters throughout Islamic history. In fact, the Prophet of Islam, Muhammad, worked for a prominent businesswoman of the day, Khadija. The two later married.

It follows that in countries such as Malaysia, women have not only come to the fore, including in areas hitherto largely closed to them, such as Sharia advisory in finance, but indications show that they are also outperforming their male counterparts in many respects.

Since its inception in 1975, the Islamic Development Bank (IDB) has been financing operations that are of direct or indirect benefit to women. These operations cover various projects, such as those aimed at providing women with access to finance in order to generate productive activities and nurture female entrepreneurs.

The IDB supports the Multilateral Development Bank Working Group on Gender, which focuses on the economic empowerment of women, promoting access to work for women and addressing gender disparities within the labour market. The IDB also awards an annual Prize for Women's Contribution to Development, which was established in 2006.

Positions of power

A few years ago, Transparency International in its *Global Corruption Report*, which included a special section on Gender and the Workplace, concluded that in general, women have a better record in positions of power whether in government, international organisations or in the corporate boardroom, because they are less prone to engage in internecine boardroom battles and corruption.

Raja Teh Maimunah, CEO of Hong Leong Islamic Bank (HLIB), the latest woman to be appointed chief executive of a bank in Malaysia, is sanguine about the challenges of being a young female chief executive of a major bank. "I have been rather fortunate. I have never felt inhibited by any glass ceilings. The challenges I face are no different than my male counterparts. The key challenge for me is balancing between family and work. Some compromises have had to be made over the years. People often ask me if I feel pressured into being hard so as to be taken seriously. I believe that women should embrace their femininity and differences in managing people rather than trying to be 'male'. Being firm and decisive does not have to entail banging tables. Breaking into the boys' club is all about picking the club you want to break in."

Contributing to growth

The current landscape and experience of women in business and commerce depends largely on the countries in which they are based or operate. This also applies to women's roles in and contributions to growth in the Islamic countries, and in developing trade and investment links with non-Islamic countries.

Muslim women have long been involved in finance and business

This variation is a result of manifold reasons that relate to the law and gender, political governance and socio-cultural considerations, which are not unique to the Islamic countries, but are pervasive globally. Certainly, they exist in the industrialised countries, albeit to varying degrees.

In fact, there is growing evidence showing the links between women's legal rights and economic and business opportunities. A report published by the World Bank Group, *Women, Business and the Law 2014,* has shown that "although much progress has been made in recent decades in gradually dismantling many of the legal restrictions which have hampered women from more fully contributing to national prosperity, there is a large unfinished agenda of reform".

This report and the World Bank's Enterprise Surveys show that lower legal gender parity is linked to lower female participation in firm ownership, and has a negative impact on economic efficiency.

The World Bank maintains that "legal gender equality matters for women's economic opportunities. It matters for women's access to finance and entrepreneurial activities. And it matters for increasing equality of opportunity in economies. Whether by easing restrictions on women's employment and business activities or by adopting policies increasing women's ability to take up economic activities, gender equality is smart economics."

In the Gulf Cooperation Council (GCC) countries, many of the established and rising female business executives and entrepreneurs owe their corporate ascendancy to the fact that they are either members of the royal family or hail from prominent merchant and professional families who can afford to educate their offspring at top international universities.

In the Islamic finance space there have been some remarkable developments, although even here there is room for improvement. While Malaysian women dominate the Islamic finance landscape from a gender perspective, more women in other markets are also emerging in the sector, including those from the GCC, Turkey, Egypt, Tunisia, Brunei, Pakistan, Jordan and in several other Asian countries. Women – both Muslim and non-Muslim – are heavily involved in the Islamic finance sector, particularly in allied professions such as law firms, intermediation companies and auditing firms. They include, among others, Farmida Bi and Susan Dingwall, partners at international law firm Norton Rose Fulbright; Sarah Gooden at Trowers & Hamlins, another international law firm; Stella Cox, managing director of DDCAP Limited, who has almost two decades of experience in Islamic finance; Baljeet Kaur, CEO of KFH Research; and Noripah Kamso, former CEO of CIMB Islamic Asset Management Company and now senior adviser to CIMB Islamic bank in Malaysia.

REUTERS/JUMANA EL-HELOUEH

A women-only branch of Dubai Islamic Bank. The presence of such facilities reflects the increasing number of female business owners looking for tailored services

"Banking," explains Raja Teh Maimunah of HLIB, "is generally male-dominated worldwide. This is no different in Islamic banking. The biggest challenge for most women is having to juggle between family and work. In countries where domestic help is affordable and families live in extended households, this becomes more manageable. Women can then continue working while raising a young family. Those who do not have access to domestic help or family support would find continuing a career extremely difficult. Another great challenge is where culture dictates women to be confined to domestic roles. In those countries, defying culture is a tumultuous task."

The government of Malaysia, she adds, undertakes a conscious effort "to enlist women in the workforce and targets to increase women in managerial and senior roles. This has made it possible for Malaysian women to break the glass ceiling. It is reported that out of the list of 20 top women in Islamic finance, 15 are Malaysians."

Senior banking posts

Malaysia has three women CEOs of Islamic banks: Jamelah Jamaluddin – the first woman to head a Malaysian Islamic bank, namely RHB Islamic Bank, and who is now CEO of Kuwait Finance House (KFH) Malaysia; Fozia Amanulla, CEO of EONCAP Islamic Bank; and Raja Teh Maimunah. Women occupy several senior managerial posts at banks, insurance firms, pension funds, asset management companies and within major corporates.

"Just as in conventional finance," explains Farmida Bi, partner at Norton Rose Fulbright and a high-powered female lawyer with vast experience in structuring Islamic finance transactions, "women are occupying an increasingly prominent role in Islamic finance. In the Muslim world, Malaysia leads the way, and Dr Zeti Akhtar Aziz has been the governor of its central bank since 2000.

"Although women are better represented in managerial roles, there is still a notable lack of female Sharia scholars. In 2012 there were around 10 female Sharia advisers operating in Malaysia, and although women have also sat on the expert panel of Indonesia's National Sharia Council, there remains substantial work to be done. However, with women forming the majority of graduates in many western countries and beginning to do so in Muslim countries as well, I believe that we will see improvement in the representation of women at all levels in the Islamic finance industry," continues Farmida Bi.

The rising star of Sharia advisory in the Islamic finance industry is a woman – Dr Rabiah Adawiah Binti Engku Ali, an academic at the International Islamic University of Malaysia, who is the first registered female Islamic finance Sharia advisor with the Securities Commission of Malaysia. She also sits on the National Sharia Council of Bank Negara Malaysia – the central bank – which is effectively the Sharia body of last resort serving the Islamic finance market in Malaysia.

Perhaps some of the most high-achieving women in OIC countries have come from the corporate sector, especially in countries such as Malaysia, Turkey and Egypt. In Malaysia, Datin Paduka Siti Sa'diah Sheikh Bakir has been the powerhouse behind the establishment and

Farmida Bi – Partner and European Head of Islamic Finance, Norton Rose Fulbright, London

As European head of Islamic Finance at Norton Rose Fulbright, Farmida Bi helps to structure Sharia-compliant transactions for a range of clients, primarily in the UK and the Middle East. Educated in England and trained as a City lawyer, she began to specialise in Islamic finance just over 10 years ago and is now widely recognised as an expert in her field.

"I have never had a problem being taken seriously by anyone I work with. People don't have to choose me as their legal advisor and those who do take me on because they think I can do a good job for them," she says.

"I think it is worth noting that women play a prominent role in several Islamic countries, particularly Malaysia and Indonesia. In the Gulf, women are relatively new entrants to the work place but the situation is changing fast. It is increasingly recognised that women can make a meaningful contribution to the workforce, benefitting themselves and the wider economy. Also, fathers are educating their daughters and find it upsetting to think they may be discriminated against because of their gender. This encourages change too," she adds. A recognised expert in the Islamic capital markets, Farmida is the only female named as a 'leading individual' for Islamic finance in the legal industry guide, Chambers UK 2012, which ranks solicitors in legal specialisms.

Farmida structures and documents transactions ranging in size from several billion dollars to tens of millions of dollars.

"I enjoy it very much. As an English lawyer, you are hidebound by tradition and precedent, but Islamic finance is a new field so you can be a lot more creative," she says.

A graduate of Downing College, Cambridge, Farmida has acted on many ground breaking Islamic finance transactions, including the $3.5 billion Dubai Port Sukuk and Tamweel, the first Islamic true sale securitisation.

She also advised Her Majesty's Treasury and the Secretary of State for Transport as issuer on the structure and Sharia compliance of a proposed UK Government sukuk in the form of Treasury bills; and worked with the Government of Indonesia on its $1billion debut sukuk in 2012.

Arwa Hamdieh – co-founder, UAE Financial Services Association

Arwa Hamdieh was born in the Palestinian city of Hebron, but grew up in the United States and Jordan. With a background in law and business, she has spent the past 15 years working in finance in both Jordan and the UAE.

Hamdieh now runs the UAE Financial Services Association (FSA), which she co-founded as a lobbying group for the industry.

"When the financial crisis erupted, I had a very strong belief that the emphasis on regulatory scrutiny would spread to the Gulf sooner or later. I wanted to encourage financial institutions to get organised and work collaboratively to prepare for this new era. It was a completely new concept here as most organisations were used to engaging with regulators on a one-to-one basis, but gradually people realised that collaboration would work for them and they began to rally behind the FSA UAE," she explains.

The process has not been easy, but Hamdieh believes that being a woman was helpful in certain respects. "It was easier for me to get doors opened with market participants and the authorities. They did not see the Association as a threat because it was spearheaded by a woman – so they were more prepared to listen to what I had to say.

"On the other hand though, it was harder to obtain decisions on funding from financial institutions because it is a new project and it is spearheaded by a woman," she says.

In the long run, Hamdieh's perseverance paid off, and the Association has been up and running for two years.

Looking ahead, Hamdieh says: "I would like to see the FSA UAE grow and flourish and I would like to see the whole area of public affairs develop further across the Gulf. It is a passion of mine."

Sheikha Hanadi Nasser Bin Khaled Al-Thani – founder and chairperson, Amwal; chief executive officer, AL Waab City Real Estate; deputy chief executive officer, Nasser Bin Khaled Al Thani & Sons, Qatar

Sheikha Hanadi Al-Thani is one of the most successful business-women in the Arab world. Her career began in the early 1990s when, she says, Arab women were a rarity in business. "Women did not have a lot of choice back then. They became teachers, doctors or nurses and that was about it. I studied economics at Qatar University, but when I graduated I could not find a job anywhere so I went back to do a masters, hoping that would make me more employable. It didn't, so I became an assistant lecturer at the university," she says.

While lecturing, Hanadi wrote articles about women and finance, suggesting that women should take more control of their finances. One article caught the eye of HE Sheikha Mozah Bint Nasser Al Missned, wife of HH Sheikh Hamad, who had just become the Emir of Qatar.

"HH Sheikh Hamad and HE Sheikha Mozah were keen to encourage women to contribute more to society in Qatar, so we founded the Qatar Ladies Investment Company to help women manage their wealth and savings," says Hanadi.

Hanadi has since become a serial entrepreneur, managing her own businesses and sitting on the boards of several companies. A mother of three, she is passionate about fostering entrepreneurship and financial education among young Arab people and women.

"Being a woman in business has advantages and disadvantages, but it is up to us to benefit from the advantages and mitigate the disadvantages. Women have always been involved in family finances, but they have been in the background. Now, society is changing and it is crucial that women play a part in that," she says.

"The Prophet Muhammad himself was supported by his wife, so women have been involved in finance for more than 1,000 years," Hanadi adds.

Raja Teh Maimunah – managing director and chief executive officer, Hong Leong Islamic Bank, Malaysia

Raja Teh Maimunah is the managing director and chief executive officer of Hong Leong Islamic Bank, which is owned by Malaysia's diversified Hong Leong Group and has substantial interests in financial services. Maimunah is the latest woman to join the crop of female CEOs at banks in Malaysia. She is also the current adviser on Islamic Banking and Finance to the World Islamic Economic Forum Foundation.

Prior to her current appointment at Hong Leong, Maimunah was the global head of Islamic Markets at Bursa Malaysia, the national stock exchange, where she was also involved in launching the exchange's Bursa Suq Al Sila Commodity Trading Platform, which was based initially on palm oil contracts.

Before joining Bursa Malaysia, Maimunah held the role of chief corporate officer and head of international business at Kuwait Finance House Malaysia, which is a wholly owned subsidiary of Kuwait Finance House (KFH) – one of the largest Islamic banks in the world.

She was also chief executive officer of Bank AlKhair Malaysia (previously Unicorn Investment Bank) and head of investment banking at RHB Sakura Merchant Bank, which is now RHB Investment Bank.

Maimunah also spent time working at Pengurusan Danaharta Nasional Berhad, during the Asian financial crisis, and was with CIMB Investment Bank over a period of almost 10 years. During this time, she covered debt and equity origination and equity sales. She spent her early days at KPMG Peat Marwick Consultants.

She was awarded an Honorary Doctorate of Laws from the University of East London, United Kingdom and holds an LLB (Hons) from the same university.

Dato Dr Nik Ramlah Mahmood – deputy chief executive, Securities Commission Malaysia

Dato Dr Nik Ramlah Mahmood is deputy chief executive of Securities Commission Malaysia (SC), a core member of the Organisation for Economic Co-operation and Development Asia Roundtable on Corporate Governance and is a formidable capital markets regulator. A former law don educated in Malaysia and the UK, Dr Ramlah has been at the SC for almost two decades and has helped make the commission a world-class securities regulator.

In June this year, Dr Ramlah was honoured with The Award of Excellence for Outstanding Leadership in Islamic Capital Market Regulation in 2013 by the seventh London Sukuk Summit Awards. The award recognises "her more than 18 years' contribution to the development of Islamic capital markets regulation and enforcement; regulatory reform, product and market development; and investor education in Malaysia".

More recently, Dr Ramlah has been putting efforts into championing the democratisation of participation in the capital market. She has also been working to endorse good corporate governance in the capital markets industry in her capacity as a member of the Corporate Law Reform Committee and as chair of the Working Group on Corporate Governance and Shareholder Rights.

Dr Ramlah was appointed deputy chief executive of SC in April 2012. Prior to that, she was managing director and executive director of the SC's Enforcement Division.

Over more than 18 years at the SC, Dr Ramlah, who was educated in Malaysia and at the University of London, has worked in areas ranging from legal and regulatory reform, product and market development, Islamic capital market, investor education and enforcement.

Dr Ramlah is also passionate about the training and education of the next generation of securities regulators. She sits on the board of the Securities Industry Development Corporation (SIDC), which is the training and education arm of the SC. She is also a member of the Professional Development Panel of the International Centre for Education in Islamic Finance (INCEIF) and the global University of Islamic Finance, and is an EXCO member of the Asian Institute of Finance (AIF).

Dr Nahed M Taher – co-chief executive officer, Gulf One Investment Bank, Bahrain

Dr Nahed M Taher is the doyen of Arab bankers who, despite the gender-separation culture in her native Saudi Arabia, has risen through the ranks to become the first woman CEO of a bank in the Gulf Cooperation Council (GCC) states.

She is the founder, CEO and executive director of Gulf One Investment Bank in Bahrain, from where she has steered the institution into a proactive player in the financing of several major infrastructure projects, including the terminals in the Muslim holy cities of Makkah and Madinah in Saudi Arabia.

A British-educated economist specialising in financial and monetary economics, Dr Taher worked at the International Monetary Fund (IMF) for some time, only to turn down a major promotion to return home to work in the banking industry. She took a position at National Commercial Bank (NCB), the largest Saudi bank, and became the first woman to be employed at a managerial level.

Dr Taher was chief economist and chairman of the Risk and Portfolio Management Committee at NCB before taking over the mandate of restructuring the retail business of the bank. The task was more complex than it seemed, because NCB had decided to convert its entire retail business into an Islamic banking business. Today, NCB's Islamic retail offerings are second to none – not only in the Kingdom, but globally. NCB's Islamic retail funds are the largest and most diversified in the world.

Dr Taher is also a distinguished academic, having served as the dean of the Economics Faculty at the King Abdulaziz University in Jeddah, Saudi Arabia. Another gender milestone is the fact that she was the first female licensed financial advisor in Saudi Arabia.

In her distinguished career, Dr Taher has received many accolades and sits on the boards of several companies. She is also involved in organisations promoting the education of youth.

spectacular growth of KPJ Healthcare Berhad (KPJ), one of the leading private-healthcare providers in the region with a network of 21 hospitals in Malaysia and two in Indonesia. She served as managing director for almost two decades, and even in retirement she has been serving KPJ as a non-executive director and corporate adviser since early 2013.

In January 2013 Güler Sabancı, a third-generation female member of the renowned Sabancı business family of Turkey, and currently chairperson of Sabancı Holding, the second-biggest industrial and financial conglomerate of Turkey, was appointed to the Supervisory Board of German engineering giant, Siemens. Sabancı has attracted international acclaim for the way she has guided the company, especially in today's highly competitive global business environment.

Perhaps this is unsurprising, as she has had an excellent role model in her grandmother, Sadika Sabancı, the matriarch of the Sabancı family who was renowned for her pioneering philanthropy in women's education and business.

In Pakistan, Begum Salma Ahmed has been a pioneering entrepreneur and business doyen for many decades. She launched the country's first major ship-breaking business at Gadani Beach in Balochistan, because her cricket-playing husband "did not have much time for her and her children", as well as Imperial Rubber Industries Ltd, which produced aprons, cots, and rubber accessories used in textile machinery. Begum Salma, born in London before the Partition of India, has been a prominent figure in Pakistan's corridors of power since the establishment of the Islamic republic.

In financial services, several women in the Arab world have reached the top of the ladder, albeit with a number of caveats in some cases. Harvard-educated Shaikha Al Bahar is probably the most high-ranking banking executive in the Middle East and North Africa (MENA) region. As CEO of National Bank of Kuwait (NBK), the country's largest bank and one of the largest in the region in terms of size of balance sheet, she manages a portfolio of more than KWD4.5 billion ($16 billion).

Other stalwarts in banking and financial services include Dr Nahed M Taher, the former chief economist of National Commercial bank of Saudi Arabia, the Kingdom's largest bank, who had to go to Bahrain to become the first Saudi woman to become a CEO of a bank – specifically Gulf One Investment Bank. From her base in Manama, she and her colleagues have been structuring transactions for financing public-sector projects, including the expansion of the Hajj Terminal at King Abdulaziz International Airport in Jeddah.

The two celebrity bankers in the GCC are Lubna Suliman Olayan, CEO of the Riyadh-based Olayan Financing Company, and Maha Al-Ghunaim, chairman of Global Investment House (GIH), a Kuwaiti-incorporated investment bank, which she founded in 1998 and which a decade later she listed on the London Stock Exchange (LSE), making it the first Kuwaiti company to list on the LSE.


REUTERS/SUPRI

A female stock dealer monitors trading prices in a dealing room of Bank Negara Indonesia

Lubna Olayan is internationally know as an astute and fiery business operator who has broken several glass ceilings in support of the advancement of Saudi women in business and entrepreneurship, while US-educated Maha Al-Ghunaim has presided over the restructuring of a debt programme, which her company, GIH, suffered as a result of the impact of the global financial crisis. Today, GIH has assets under management exceeding SAR26 billion ($7 billion) and is eyeing expansion in Saudi Arabia and Qatar.

Making their mark

Increasing numbers of women are making their mark. They include Samra Al Kuwais, managing director of the women's division of Osool Capital, Saudi Arabia's first brokerage house; Suad Al Humaidi, a board member of Audi Bank in Lebanon who has diversified investments spread across several Arab countries, including holdings in the National Bank of Kuwait; Sabah Khalil Almoayyed, a member of the board of Eskan Bank in Bahrain; and Sahar El-Sallab, deputy CEO of Commercial International Bank, one of Egypt's largest private banks.

Several women in the Arab world have reached the top of the ladder

Women are also carving out careers in the corporate sector. For many years, Nabilah Tunisi was head of procurement at Saudi Aramco, the world's largest oil producer and exporter; Lale Saral Develioglu holds the position of deputy general manager and chief international business officer of Turkcell, which is Turkey's communication and technology giant and a company that has pioneered equality both in terms of recruitment and pay; and Imre Barmanbek runs one of Turkey's largest multinationals, Dogan Holding, with investments in more than 40 companies.

Supporters of former Indonesian president, Megawati Sukarnoputri, who was the fourth woman to lead a predominantly Muslim country

BEAWIHARTA BEAWIHARTA/REUTERS

No longer a man's world: women in public life

With the three most populous Islamic countries – Indonesia, Pakistan and Bangladesh – having been led by women, **Mushtak Parker** finds that, where female participation in public life is concerned, Muslim countries continue to challenge the stereotypes

The popular stereotype in non-Islamic countries holds that women in the Muslim world simply do not partake in government or in the affairs of state. The reality, of course, is far more complex. Comprising 56 member countries, the Organisation of Islamic Cooperation (OIC) is a grouping of countries with Muslim majorities and sizeable minorities. It is as diverse politically, economically and socio-culturally as any other country grouping – for example, the European Union.

In the past four decades or so, five Muslim women have been either heads of their governments and/or their states. These women include Megawati Sukarnoputri, president of Indonesia between 2001 and 2004; Tansu Çiller, prime minister of Turkey –the 16th and sixth largest economy in the world and Europe respectively – between 1993 and 1996; Sheikh Hasina Rahman and Begum Khaled Zia, current and former prime ministers of Bangladesh; and the late Benazir Bhutto, who was prime minister of Pakistan for two terms in the 1990s.

In fact, over the past few decades, women have played a critical role in driving economic, financial, trade, development and investment policy in a significant proportion of OIC countries. Perhaps the minister who particularly stands out is Malaysia's Rafidah Aziz, who served as minister for international trade and investment for more than 20 years. Aziz presided over the remarkable expansion of Malaysia's foreign trade and inward foreign direct investment, which became one of the platforms for the launch of the country's Vision 2020 policy, laying the groundwork for Malaysia to be a fully industrialised, self-sufficient country.

A rapidly improving picture

Come 2013, and the elevation of Sheikha Lubna Al Qasimi as the minister for foreign trade of the United Arab Emirates (UAE) is testimony that countries such as Malaysia are becoming the rule rather than the exception in terms of women taking key government positions in the OIC countries.

As minister of economy, prior to her current portfolio, Sheikha Lubna had already shown that she could succeed in a 'man's world'. At the time, she was the first woman to be appointed as a government minister in the UAE. As minister of economy, she pushed through tough new rules governing disclosure, transparency and corporate governance relating to stock exchange listings and transactions.

Sheikha Lubna's current brief is hugely significant to the country. It includes the creation of a United States-Middle East free-trade area by 2014 and the promotion of the UAE's foreign trade – both of which are part of the Emirates' economic and trade diversification strategy. Here, her previous business experience has been a major boon; in 2000, she launched Tejari, the Middle East's first business-to-business online marketplace, which today has several franchises across the region.

The country that currently has the largest number of women in ministerial positions is Indonesia, which with its population of more than 240 million, is the world's largest Muslim country. Those women include Nafsiah Mboi, health minister; Linda Amalia Sari, women's empowerment minister; Armida Alisjahbana, minister of national development planning; and Mari Elka Pangestu, minister of tourism and creative economy.

> Indonesia currently has the largest number of women in ministerial positions

Other women serving as ministers in OIC governments include Fatma Şahin, Turkey's family and social policy minister, who is the sole female in Prime Minister Recep Tayyip Erdogan's government; Rohani Abdul Karim, minister of women, family and community development and Nancy Shukri, minister in the Prime Minister's Department, in the Malaysian cabinet; Lilia Labidi, minister of women's affairs in the government of Tunisia, who is an acknowledged world expert on the development of women's rights; and Dorreya Sharaf El-Din, the information minister, Inas Abdel Dayem, the minister for culture and Laila Rashed Iskander Kamel, minister of state for environmental affairs – all of whom are members of the interim government of President Adly Mahmoud Mansour in post-Mohammed Morsi Egypt.

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Salma Hareb, CEO of Jebel Ali Free Zone Authority and its parent company Economic Zones World in Dubai, is the first woman in the Middle East and North Africa to be appointed head of an economic free zone

In the international financial system, one of the most powerful and influential regulators is Dr Zeti Akhtar Aziz, the governor of Bank Negara Malaysia, the country's central bank, who is also a member of the Johor royal family. Over the past 13 years, Governor Zeti has been responsible for steering the country's monetary and inflation policy and guiding its dual-banking model – a conventional banking system that operates side by side with an Islamic banking system, cooperating but not intermingling. Unsurprisingly, accolades have poured in – she was named by US-based *Global Finance* magazine as one of the world's top central bankers in the four years to 2012, and has received similar awards from *The Asset*. Governor Zeti has also won the coveted IDB Prize for Islamic Banking, which is awarded every two years by the Islamic Development Bank.

Breaking down barriers

While Governor Zeti's achievements have been based on pure merit, she also keenly supports the of dismantling the barriers to entry into public and commercial life that are faced by women. At a recent 'Women in Leadership' forum in Kuala Lumpur, Governor Zeti made this priority quite clear in her keynote speech.

"In this 21st century," she stressed, "it is human capital rather than physical capital that will define performance and progress. Women represent half of the world population and therefore half the potential resource that can drive such performance. This is reinforced by the more recent trend that increasingly, the majority of those with college educations are women. Increasingly, therefore, this group represents a more significant resource potential that can rise to leadership positions. In emerging economies, where such high-powered talent is scarce, gender has not been an issue. Women have risen to leadership positions based on their merits and capabilities."

Women in Malaysia, she pointed out, have made significant strides in their participation in all segments of the Malaysian economy and have demonstrated their ability to lead and succeed in both the public and private sectors. In Asia, in particular, women have risen to key positions and have been given the opportunity to contribute to their countries' progress and development.

Governor Zeti is also a strong proponent of financial inclusion. At the fifth AFI Global Policy Forum, which was held in Kuala Lumpur in September 2013, Governor Zeti reminded the audience that: "In building a financial system that is resilient against crises and abuse, we cannot neglect the socio-economic impact of policies pursued. Our efforts to build a stronger and more stable financial system would also work to strengthen linkages between finance and development and not to weaken it."

Financial inclusion, she added, has now progressed from access to financial services to also being concerned with whether the financial services are appropriate to individual circumstances, and are being used effectively to improve individual welfare. In addition, it needs to be concerned with whether vulnerable groups face increased risks of financial exclusion. This, she emphasised, is particularly important in a rapidly changing financial and social landscape. "Sophisticated risk-profiling methods employed by financial institutions can make it more difficult for deserving individuals and small businesses to qualify for financial services. Aggressive marketing practices by financial institutions and more complex financial products can also lead to poor financial decisions."

Outstanding leaders

Another regulator who has made her mark is Dr Nik Ramlah Mahmood, deputy chief executive of the Securities Commission Malaysia and a core member of the OECD-Asian Roundtable on Corporate Governance. A former academic, educated in Malaysia and the UK, Dr Ramlah has been at the Securities Commission for almost two decades and has helped establish it as a world-class regulator. In June this year, Dr Ramlah was honoured with the Award of Excellence for Outstanding Leadership in Islamic Capital Market Regulation by the Seventh London Sukuk Summit Awards in recognition of her "more than 18 years' contribution to the development of Islamic capital markets regulation and enforcement; regulatory reform, product and market development; and investor education in Malaysia".

More recently, she has been championing the democratisation of participation in the capital market. At the London Sukuk Summit, she emphasised that "widening access to the Islamic capital market is critical to the development of a successful and inclusive Islamic finance industry. Key stakeholders, such as policymakers, supervisory authorities, Islamic financial institutions and scholars, have to explore innovative and inclusive financial solutions that serve the needs of both high finance and the high street. For individual investors, widening financial access provides them with investment choices commensurate with their risk appetite."

In the quasi-government space, there are numerous female high achievers. They include Salma Hareb, who is the chief executive officer of Jebel Ali Free Zone Authority (JAFZA) and its parent company Economic Zones World (EZW) in Dubai, which makes her the first female in the Middle East and North Africa to be appointed head of an economic free zone; Lama Al Sulaiman, the deputy chair of Saudi Arabia's influential Jeddah Chamber of Commerce & Industry; Fatima Al Jaber, the first Emirati woman to be elected to the board of directors at the Abu Dhabi Chamber of Commerce, and her fellow director, Noura Al Nowais; Rola Dashti, a senior economist with the Kuwaiti government and one of the first female MPs in the Kuwaiti National Assembly in the 2009 elections; and Raja Easa Al Gurg, the president of the Dubai Business Women's Council.

Outside the Muslim world, the most prominent government figures in the Islamic finance, trade and investment space are the two 'first ladies of Islamic finance' in the UK. The first is Baroness Sayeeda Warsi, a senior minister of state at the Foreign & Commonwealth Office and the minister for faith and communities and the co-chair of the UK government's Task Force on Islamic Finance, which was launched in March 2013. The second is the Baroness Morris of Bolton, Prime Minister David Cameron's trade envoy for Kuwait, Jordan and the Palestinian Territories.

In a speech delivered in Oxford in June 2013, Baroness Warsi maintained that "Islamic finance could be a sensible, measured banking option, at a time when confidence remains low and the government is working with the G8 to improve the transparency of financial institutions ... in the wake of the financial crisis, the principles upon which Islamic finance are based seem more important, more attractive, than ever before. Principles of balance; shared risk; fairness; due diligence; oversight and transparency. Principles that prevent you from selling what you don't own or attaching a value to assets that do not exist ... So this is a case of right time, right place for Islamic finance. I am proud to say that the Coalition Government agrees."

Influencing Islamic finance

Baroness Warsi urged the City of London to respond to the challenges and opportunities presented by the global Islamic finance industry. London is already a major global centre for murabaha and commodity murabaha transactions based on warrants on the London Metals Exchange, and English law is the preferred legal jurisdiction for the documentation of most international sukuk and murabaha transactions.

> Women have risen to leadership positions based on their merits and capabilities

Britain also features strongly in Islamic finance education through its universities and professional bodies, with a number offering a qualification in Islamic finance. The Task Force on Islamic Finance is supporting the promotion of UK institutions abroad and encouraging links with partners in Muslim majority countries. Baroness Warsi, however, confirmed that the UK government is also looking "at the introduction of accreditation for Islamic finance education as well as a regulatory body for training providers".

The UK government will also support the Islamic finance industry "in its aim to broaden the range of products and services, reducing the risk of over-exposure and ensuring that high-quality Islamic [product] alternatives are available to (British) customers. The government's role is to create the regulatory and tax frameworks to allow the market to thrive, and, ultimately, help to produce the growth that Britain needs. By championing Islamic finance, I believe we are doing just that," adds Baroness Warsi.

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Published in conjunction with the 9th World Islamic Economic Forum (WIEF), ExCeL London, 29-31 October 2013