

# QUARTERLY NEWSLETTER



## 6TH WIEF 2010: KL'S BIGGEST SHOW

THE 6TH WORLD ISLAMIC ECONOMIC FORUM, ONE OF THE MOST IMPORTANT BUSINESS FORUMS IN 2010, IS COMING TO KUALA LUMPUR FROM 18-20 MAY 2010 AT THE KUALA LUMPUR CONVENTION CENTRE.

The Forum, a niche platform to address the business agenda of the Muslim world, is an important vehicle to forge strong business partnerships between the Muslim and non-Muslim world.

The 6th WIEF in 2010 features a vast array of speakers from various continents including several prominent CEOs of reputable corporations worldwide. Some of them are Tan Sri Dr. Mohd Munir Majid, Chairman of Malaysia Airlines Berhad, Dato' Mohd Nadzmi Salleh, Chairman of Proton Berhad, Dato' Tony Fernandes, Group CEO of AirAsia Berhad, Sir Martin Sorrell, Group Chief Executive of WPP UK, Dr. Abdulrahim Abdulwahid, Chairman of Media Hub International LLC of the UAE, Martin Roll, CEO of Venture

Republic Singapore, John Defterios, President of FBC Media UK, James Beltran, CEO of International Operations, MAA Holdings Berhad Malaysia, Datuk Badlisham Ghazali, CEO of Multimedia Development Corporation Malaysia, Dato' Johan Raslan, Partner and Executive Chairman of PricewaterhouseCoopers Malaysia and Sigve Brekke, Executive Vice President and Head of Asia Operations of Telenor Group.

The 6th WIEF bears the theme of 'Gearing for Economic Resurgence' reflecting the world's post-crisis mode for change. The first day of the main event features the Opening Ceremony with key messages from invited world leaders. The subsequent Leadership Panel host influential key personalities to discuss leadership challenges in the new era. The Forum also features a signature session on 'Countries in Focus' showcasing investment opportunities in selected developing countries and parallel sessions on popular topics

such as tourism, logistics, SMEs, water management, branding, technology for education, entrepreneurship and business ethics, innovation and Islamic banking and finance. There will also be a special session called 'Global CEO Panel', which will host a line-up of renowned CEOs of reputable corporations across the globe.

A day before the main Forum, there will be the Young Leaders Forum and the Businesswomen Forum. Themed 'Defining the Muslim Youth in the 21st Century', the Young Leaders Forum features sessions on the role of the youth in connecting cultures and communities, the prospect of the green industry and the creative arts industry and entrepreneurship in Islam. The Businesswomen Forum, themed 'Capitalising on Women Potentials', includes sessions on women and success, opportunity in crisis, promoting professionalism and talent, business breakthroughs and an industrial focus session on the food, education, tourism and healthcare industries.

## WYN INTERNSHIP PROGRAMME: EMPOWERING FUTURE LEADERS



On 18 November 2009, a reception hosted by Tun Musa Hitam, Chairman of the World Islamic Economic Forum (WIEF) Foundation was held to celebrate the progress of the WYN Internship Programme, an initiative of the WIEF Young Leaders Network (WYN). The reception was attended by successful interns for the year 2009 and corporations participating in this Programme.

The global internship programme, the first of its kind in the Muslim world, takes internship in this part of the region to the next level. The WYN Internship Programme, established in 2007, is the first global attempt to make internship a widespread phenomenon in the Muslim world, giving an opportunity to the Muslim youth to experience life in the corporate world.

The Programme operates under one important premise: Around 65% of the total Muslim population consists of young

people below the age of 30. In the next few decades, these young people will be leaders who will determine the future of the Muslim world. Their skills, expertise and connectivity to each other are crucial for the Muslim world to survive the challenging 21st Century.

The Chairman of the WIEF Young Leaders Network is Dato' Sri Nazir Razak, and under his tutelage, the WYN Internship Programme has attracted several big corporations: CIMB Group, Sime Darby Group, Ethos & Company, Al-Ghurair Group of Dubai, Unicorn International Islamic Bank Malaysia and Rio Tinto Alcan of Australia. The Programme has received more than 100 applications from various universities worldwide but only a few students are selected for 2009 placements during which they will undergo training and undertake real time projects to enhance their career development.

## WYN INTERNSHIP AND SCHOLARSHIP PROGRAMME UPDATE



WYN Internship Programme is steadily picking up momentum and has received a markedly positive response from universities and corporations across the globe. The applications for the WYN Internship Programme has thus far come from Malaysia, Pakistan, Turkey, Canada, Algeria, Comoros Island, Philippines, India, Indonesia, Somalia, Sudan, Nigeria, Sri Lanka, Benin and Senegal.

Applications under the Programme are screened by the Foundation weekly before submitting them to companies that are relevant to the student's preference and academic or work background. Students are assessed according to their academic performance, command of English, work experience and clarity of goals and plans. So far, 5 students have been successful for internship placements for the year 2009 while Rio Tinto Alcan of Australia has offered 2 internship placements for the year 2010.

### Successful Interns for 2009:

1. Fatimah Omotayo Salami (Canadian Nigerian) at Ethos & Company in KL
2. Ibrahim Abdirahman H. Adam (Somalian) at Al Ghurair Group in Dubai
3. Mohamed Mahees Raheem (Sri Lankan) at Al Ghurair Group in Dubai
4. Umer Altaf (Pakistani) at Al Ghurair Group in Dubai
5. Muhammad Adnan bin Hasan (Indonesian) at Unicorn International Islamic Bank Malaysia

On scholarship, the WYN Scholarship Programme has confirmed its recipient for 2009, Ainur Hana binti Abu Bakar who is pursuing her undergraduate studies in law at the Multimedia University in Malacca. This scholarship placement was provided by the Yayasan Telekom Malaysia (Telekom Malaysia Foundation).



## CREATIVE ARTS IN THE WIEF YOUNG LEADERS FORUM PROGRAMME

Giving life to the content of the fourth session of the WIEF Young Leaders Forum on creative arts, a special exhibition themed 'The Marketplace' will be hosting a vast array of creative artists specialising in different fields such as calligraphy, 3D visuals, painting, film and theatre, graffiti, poetry and many other creative expressions.

The exhibition is aimed at showcasing creative arts as a means of expression and a vehicle of change in society and, in the

context of the WIEF Young Leaders Forum, seeks to explore the identity of the modern day Muslim youth and its role in the 21st Century through creative expressions. The one day event on 18 May 2010 will be hosting all these artists in one single place, each showcasing their creative artwork. In between these activities, there will be scheduled workshops by selected artists on their works. Plenary session 4 on creative arts will also be held in the same hall.

“All a woman needs to be successful in business is faith in oneself, hard work, knowledge and the desire to succeed”

– Dato' Dr. Norraesah Mohamad, Chairman, WIEF Businesswomen Network (WBN)

## WIEF BUSINESSWOMEN NETWORK (WBN) WOMEN ENTREPRENEURS WORKSHOP 2010

The WBN Workshop for Women Entrepreneurs, with the theme “Women in New Business Frontiers” will be held on 17 – 29 January 2010 at the INTEKMA Resort & Convention Centre, UiTM Shah Alam, Malaysia. The Workshop, an initiative of

the WIEF Businesswomen Network, is open to emerging Muslim women entrepreneurs from any country across the globe. The Workshop includes a series of lectures and special talks by guest speakers who are industry practitioners and successful

entrepreneurs, group roundtable discussions, e-business sessions, a 'Bring Your Own Case' experiential workgroup and industrial study excursions to various local businesses in the country. The participation fee of this 2-week entrepreneurial course is US\$ 1500.

# The Need for Islamic Finance Stress Test

– Rushdi Siddiqui, Global Head of Islamic Finance & OIC Countries, Thomson Reuters

The US Treasury's recent stress test of the 19 US banks was positioned as a confidence building measure, not a solvency ensuring one. An IMF official visiting the GCC region recently suggested stress tests for financial institutions in oil-exporting countries. Interestingly, at the recently concluded World Economic Forum (WEF) in Amman, Jordan, very little was mentioned on stress testing financial institutions in the region and more on acquisitions and geographic expansion as valuations were attractive. Where do Islamic financial institutions, which have presently avoided the bailouts and bankruptcies in G-7 countries, fit in the stress test phenomenon?

Islamic banks, within their capacity of 'Amanah' (or trust), need to undertake a similar, but customised, stress test exercise consistent with the uniqueness of the home country. Does the Board of Directors of an Islamic bank have a fiduciary duty, as part of a confidence building measure, to start the process of undertaking a stress test or should it be imposed by regulators as part of governance and risk management? The stress test should showcase, and not cheerlead, that a different banking model that has so far avoided the need for government financial support merits consideration for the conventional banking system.

The sub-prime (or rather, a more appropriate term, sub-'crime') induced credit crisis has aptly flushed out the false premises and assertions of the

disconnect between Islamic banking and finance to conventional finance. Islamic finance operates in the same macro 'conventional' tax, regulatory and legal environment, and has the same present vulnerabilities of liquidity and confidence crisis. Query: do the suggestions from the US Treasury's stress test have application for Islamic banks? Additionally, because of the Shariah prohibitions on *riba* (interest), *gharar* (uncertainty) and *misyr* (speculation), the Islamic bank ecosystem has greater exposure to real estate and stock 'loans', fewer risk and liquidity management tools, as well as excessive reliance on commodity *Murabaha*.

Finally, Islamic finance has been accused of being non-transparent and opaque, which may be attributed to a combination of the embryonic nature of the industry. While the Islamic finance industry rose globally on the back of the oil prices, it still has incomplete information offering for customers (with its continued emphasis on education), requires more qualified personnel and suffers from the usual complaint about lack of standards.

Thus, the 'take away' lesson from the sub-prime induced credit crisis is the impact on Islamic banks, rather than forward looking scenario tests of declining oil prices, contraction of economy, increasing unemployment and higher cost of Islamic 'credit' and reduction in government support.

## POTENTIAL STRESS FRACTURES IN ISLAMIC FINANCE

Islamic financial institutions have indeed captured negative headlines since the days of peak of oil prices, easy, compliant credit and government support. A few recent examples include:

- The Kuwait-based Islamic firm Investment Dar acquiring the car manufacturer Aston Martin and recently defaulting on US\$ 100 million Islamic debt issue and is now undergoing restructuring
- Dubai's two Islamic mortgage offering entities Amlak and Tamweel suspended operations and are in advanced stage of merger discussions
- Government of Qatar purchasing strategic interests in banks, including Islamic, in Qatar
- Bahrain-based Gulf Finance House receiving a negative outlook by S&P in early 2009 because of excessive leverage and worsening operating environment for 2009
- Emirates Islamic Bank first quarter income (2009) declining 56% compared to a year ago due to losses from its investment securities and lower fee income
- Dubai Islamic Bank first quarter profit (2009) plunging 33% to AED 370 million (US\$ 101 million) following provisions for bad loans

These examples showcase the impact on Gulf-based Islamic financial institutions, notwithstanding the crisis started in US, and from the conventional financial industry.

## APPLICATION OF THE ISLAMIC FINANCE STRESS TEST

The application of the Islamic finance stress test should be top-down from central banks and bottom up from organisations like Union of Arab Bankers, and directed towards those entities dealing directly with the 'man on the street'. The methodology must not be seen as initiated or heavily lobbied by Islamic banks, as it will result in a variety of tests, erode confidence and contribute to assertions of opaqueness of the industry.

It should apply to Islamic commercial banks of all sizes and based in the GCC and *takaful* operators. But should it also be extended to Islamic investment banks on the wholesale side, which are more 'private equity and real estate bank plays' than 'traditional' Islamic investment

banks? The confidence cuts across sectors, hence, a 'seal of approval' would confirm the 'positive' spin of cheerleaders of Islamic finance and objectively showcase that the model works better or differently than its elder conventional counter-part in crisis mode environment.

The methodology of the stress test will be more important than the suggestions, hence, it must be transparent, comprehensive, and flush out the impaired Islamic assets. This naturally leads one to ask if a 'bad Islamic bank' or even asset management company should be set up to buy these off-loaded assets as part of the cleansing process, assuming no Shariah prohibition issues, such as discounting.

## POTENTIAL TOP-LINE OUTCOMES OF ISLAMIC FINANCE STRESS TEST INCLUDE

- The encouragement of consolidation amongst smaller, capitalized banks. Perhaps it will make more sense for governments to acquire minority stakes in Islamic banks (such as QIA has done in Qatar) with the bank using the proceeds to acquire stakes in smaller Islamic banks. Consolidation could lead to the fostering of back-door economic and financial integration within the GCC
- Sale of non-core assets, reduction/elimination of dividends for period of time, sell additional shares, etc.
- The diminishing role of the Islamic Development Bank (IDB) acting as a co-lender (along with host country's central bank) of last resort for 'stress-test failing' Islamic banks
- The need for more and better risk and liquidity management tools
- The need for better corporate governance, including independent Board of Directors
- Islamic accounting rules harmonisation with IFRS (International Financial Reporting Standards)
- The fast tracking of trust laws to off-load asset backed securitisations as *sukuk* bonds
- Islamic depositor protection, as capital protection is already Shariah-acceptable
- Unaudited financial reporting every six months
- Stress testing becomes a periodic undertaking, say, every 35 years



## CONCLUSION

In crisis, there are opportunities to build confidence. The sub-prime crisis presents a compelling window of opportunity for Islamic finance to showcase the merits of asset-based or backed financial intermediation as well as the deployment of savings into real investments without the so called 'financial weapons of mass destruction', leverage and derivatives. The petro-liquidity spike, easy credit and the government-encouraged *sukuks* environment may be over, but these events did not define Islamic finance, they just boosted its profile globally. Islamic finance can make friends and influence people, but it must undertake confidence building, within Islamic finance and cross sell to non-Islamic users, by way of a customised stress test for 'stability and resiliency', words of US Treasury Secretary, Timothy Geithner. It could be a good beginning for convergence.

*The views expressed here are of Rushdi Siddiqui and not necessarily those of Thomson Reuters.*

# REAPING GOOD INVESTMENTS IN PALESTINE:

## A Case of the Telecoms Industry

– Ghassan Anabtawi, Board Member, Young Arab Leaders (YAL) Palestine

A place for investment! Someone could say that it is not realistic, adequate and even may say it is absurd. However, things on the ground prove that it is. Despite the Occupation and incessant construction of barriers, the Palestinian market is witnessing an increasing attraction to investors, especially international ones.

The Palestinian market is relatively small, with a population of 3.8 million people in 2008, a US\$ 4.2 billion GDP, about US\$ 1200 per capita GDP. Young people represent the largest part of the population, with about 57% below the age of 20 and 66% below the age of 25. The Palestinian economy is and has been for quite a long time, operating below potential.

Today, the Palestinian economy faces a real challenge to its integrity and solvency due to the low level of its activities, the structural weaknesses it exhibits and the hostile policy environment in which it operates.

The Israeli occupation and its measures affect all aspects of Palestinian life and hinder the living conditions and prospects of the Palestinian nation in general, particularly those Palestinians living in Palestine.

The Palestinian economy suffers from continuous heightened internal

and external barriers to movement, persistently imposed by Israel. Such restrictions are the main factors undermining the recovery of the Palestinian economy as a whole. This gets even worse when examining the economic conditions in Gaza which is devastated from years of Israeli blockade and was further ravaged by the recent Israeli war on Gaza.

As a result, real GDP is estimated to have grown by only 2% in 2008. The cumulative effect is a 34% drop in real per capita GDP between 2000 and 2008. Gross domestic product growth was well below potential despite substantial foreign aid and institutional reforms carried out by the Palestinian Authority. Also, unemployment rate raised from 28% in 2007 to 32% in 2008. It is estimated at an average of about 40% in Gaza and 19% in the West Bank, up from an average of 30% and 18% respectively, in 2007. The sharp rise in unemployment in Gaza reflects the tighter blockade compared to 2007. Poverty has continued to widen and deepen since 2000. The percentage of households living in the occupied Palestinian territory in relative poverty jumped from 20% in 1998 to 57% in 2007.

Nonetheless, the private business activities have been vibrant for decades in Palestine, with about 90 thousand

firms taking up about 80% of total employment, contributing about 75% of the GDP in 2008. Few investors are willing to take risks under the current adverse investment environment.

A key asset of the Palestinian people is the relatively abundant labour supply with a versatile base of educational levels and skills. The labour force in the Palestinian Territory is highly educated, which has huge potential for investors. Paltel Group (PG), the largest private sector employer and investor in Palestine, pursued an investment opportunity to benefit from such abundant labour pool. One of the PG's investments was the formation of the REACH Company, the first specialised Call Center in Palestine with 350 employees of female and male graduates, 10% of which are physically challenged employees.

The company is competitive in terms of efficiency and offered prices, and is now fully operational and assumed business from within the Paltel group companies and from external markets. It is now exploring the possibilities of attracting outsourcing businesses to come to Palestine from different countries, mainly countries with a different time zone. REACH offers competitive prices and is now entering the Jordanian



market and the Levant in an attempt to reverse the wheel and be proactive in promoting work with Palestine, if not investment in Palestine.

During the past year, several international companies expressed interest in partnering or acquiring Palestinian companies, mainly in the ICT sector. Zain Company, the second largest telecom operator in the Arab world, expressed interest in partnering with Paltel Group through a share swap with a total value of about US\$ 2.3 billion. Alwataniyah Company on the other hand, was awarded the

second telecom operator license in a total value of US\$ 350 million and is expected to create hundreds of direct and non-direct jobs. These investments are taking place while realising the associated risk of the Israeli occupation and its possible impact on investments, but can anyone imagine what will happen if the political / economic conditions improve and stability prevails?

The Palestinian economy is still in its infancy, with its labour, resources and capacities waiting for the right move.

“Building bridges through business is a novel idea. It’s high time that we think of business as not only a means for prosperity, but also a means to understand different people and cultures.”

– Sir Iqbal Sacranie, Former Secretary General, Muslim Council of Britain

## HIGHLIGHTS

### 6TH WIEF CONFIRMED SPEAKERS

Going well under way, the 6th WIEF next year has already confirmed several speakers, among which are personalities such as the Prime Minister of Malaysia, HE Dato’ Sri Najib Tun Razak, former Prime Minister of Pakistan, HE Shaukat Aziz, President of FBC Media, Mr. John Deferios, Chairman of Proton, Dato’ Mohd Nazmi Salleh, President of Ogilvy Group for Southeast Asia, Mr. John Goodman, Executive Vice President of Telenor Group, Mr. Sigve Brekke, Executive Chairman of PricewaterhouseCoopers Malaysia, Dato’ Johan Raslan, Group Chief Executive of WPP UK, Sir Martin Sorrell, Dato’ Tony Fernandes, Group CEO of AirAsia Berhad, and Martin Roll, CEO of Venture Republic Singapore.

### 2010: A YEAR OF CREATIVITY

The year 2010 is earmarked to be the Malaysia Year of Innovation and Creativity by the Ministry of Science, Technology and Innovation (MOSTI) and is scheduled to showcase a plethora of creative and innovative inventions in the country. Supporting the agenda on the importance of creativity and innovation especially in the context of business, the 6th WIEF, in conjunction with MOSTI, will have in store a special plenary session on creativity, a MyCNI exhibition space, as well as a creative art space called ‘The Marketplace’ during the 3-day event in May 2010.

### JOINING THE WIEF FRATERNITY

Two new corporations have joined the WIEF Foundation’s exclusive corporate members fraternity. They are MyEG Services and the Middle East & Asia Capital Partners. Both have joined in as Platinum Members.

# PM MALAYSIA MEETS CORPORATE MEMBERS



On 27 August 2009, the Prime Minister of Malaysia, Dato' Sri Najib Tun Razak, made an official visit to the Permanent Secretariat of the WIEF Foundation at Kompleks Antarabangsa, KL. The Prime Minister was briefed on the preparation for the upcoming 6th World Islamic Economic Forum to be held on 18-20 May 2010 in KL, including invitations to the Heads of State and Government to attend the Forum. The meeting also affirmed the Prime Minister's status as the Patron of the Foundation. The Prime Minister also met with some of the

corporate members of the Foundation. The corporations present were Amanah Raya, Ambank Group, Asian Finance Bank, CIMB Group, Khazanah Nasional, Kuwait Finance House, MAA Holdings, Maybank Group, Middle East & Asia Capital Partners, MMC Corporation, Multimedia Development Corporation (MDEC), MyEG Services, RHB Islamic, Rio Tinto Alcan and Sime Darby Group. The meeting discussed prospects of how the corporate members can leverage on the global platform of the 6th WIEF.

## CORPORATE MEMBERS



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