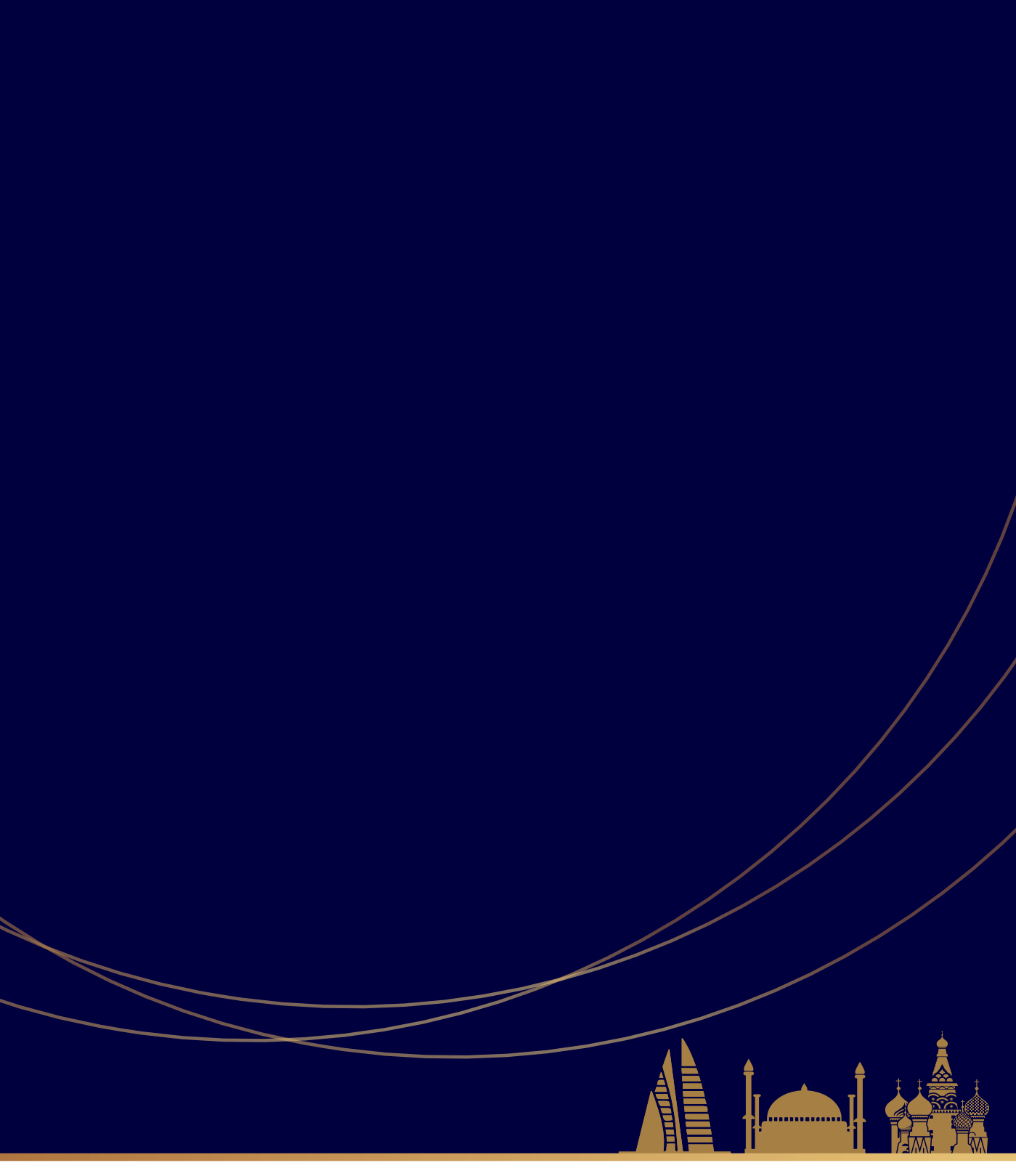
WIEF ROUNDTABLE REPORT

2014

WIEF
WORLD ISLAMIC ECONOMIC FORUM
FOUNDATION



1st WIEF Roundtable

MANAMA 2011

2nd WIEF Roundtable

ISTANBUL 2011

3rd WIEF Roundtable

MOSCOW 2011

WIEF
ROUNDTABLE SERIES

The WIEF Roundtable is a unique extension of the WIEF annual forum to help a specific market address economic challenges and explore new opportunities.

Since its launch in Bahrain in February 2011, the WIEF Foundation had organised similar Roundtables in cities including Istanbul, Moscow, Johannesburg, Dhaka, London, Madinah, Jakarta and Gangwon.

4th WIEF Roundtable	5th WIEF Roundtable	6th WIEF Roundtable	7th WIEF Roundtable	8th WIEF Roundtable	9th WIEF Roundtable	10th WIEF Roundtable
JOHANNESBURG 2011	DHAKA 2012	LONDON 2012	MADINAH 2013	ISTANBUL 2014	JAKARTA 2014	GANGWON 2014

8th WIEF Roundtable | Istanbul, Turkey

Transforming Islamic Finance in Turkey: Promise of Growth

May 2014

Overview

Turkey, the world's 17th largest economy with a predominantly Muslim population of 76 million, has the potential to become a leading driver of Islamic finance globally not merely due to its role in the Islamic banking boom but also because of its geographical and political strengths as a bridge between Muslim nations and Europe, and between the developed and developing worlds.

In 2013, Participation Banks reached a combined US$36 billion in assets representing a five per cent share of total banking assets, marking a 25 per cent rise from a year earlier—versus 13 per cent growth for conventional financial institutions over the same period.

A recent study estimated that Participation Bank assets could reach between US$80 billion and US$120 billion by 2017 in line with the Government's 2023 Islamic finance target of 15 per cent share of total banking assets.

Based on this dynamism, the Government of Turkey is actively promoting the country's Islamic finance industry as part of its plan to boost commercial ties with the Gulf and to diversify the country's investor base.

The 8th WIEF Roundtable was held in Istanbul on 20 May 2014 to explore the challenges faced by Turkey in the pursuit of these objectives. Roundtable participants addressed the key priority development areas to expand and deepen Turkey's Islamic financial ecosystem and to promote sustainable industry practices.

Programme

20 May 2014
Ceylan Intercontinental Hotel, Istanbul

10.00am Welcome Address by Nail Olpak, President of MUSIAD

10.10am Speech by The Hon. Tun Musa Hitam, Chairman of the WIEF Foundation

11.00am Panel Discussion: Transforming Islamic Finance in Turkey: Promise of Growth

Speakers

- Murat Çetinkaya, Deputy General, Central Bank of Republic of Turkey, Turkey
- Professor Humayon Dar, Adjunct Professor, INCEIF & Chairman, President & CEO, Edbiz Consulting Limited, United Kingdom
- Muzaffar Hisham, Chief Executive Officer, Maybank Islamic Berhad, Malaysia
- Dr Nihat Gümüş, Assistant Director,Research Department, Borsa Istanbul, Turkey

Moderator

- Osman Çelik, Executive Vice President, Turkiye Finans Participation Bank, Turkey

Nail Olpak, President of MUSIAD, who is also a member of the WIEF International Advisory Panel, delivering his welcoming address at the opening session of the Roundtable. MUSIAD was the co-organiser of this gathering

Islamic Finance "Catching Fire"

WIEF Foundation Chairman Tun Musa Hitam described the growing global popularity of Islamic banking and Islamic finance as having "caught fire" in both Muslim and non-Muslim countries.

"Islamic finance has excited quite a lot of people, especially from business sectors all over the world," he said.

According to Moderator Oman Çelik, Executive Vice President, Turkiye Finans Participation Bank, Turkey, the figures solidly backed this claim: "As of the end of 2013, the Islamic Finance industry in the world exceeded a volume of US$1.7 trillion [in assets] and is expected to reach a volume of US$4 trillion in 2020."

Today, Islamic finance has achieved greater universal acceptance compared to 10 years ago when it was relatively unknown and untested.

The strengths of Islamic finance became apparent after the 2008 financial crisis, during which mismanagement of funds within the conventional financial system resulted in the loss of trillions of dollars and a great deal of suffering.

Musa listed the fundamental characteristics of Islamic finance that made it a unique economic model: "Number one: the mentality of putting aside greed. Number two: the apparent demonstration of accountability and transparency. Number three: the fact that the system shares risk together [...] is something that has become very, very attractive."

Deputy Governor of Turkey's central bank, Mr Murat Çetinkaya, also noted several other attractive features of Islamic finance: "It is non-speculative, asset-backed, promotes trade, and is real-sector driven."

The strengths of Islamic finance have led to increasing global coverage. Today, Islamic finance is no longer restricted to the Middle Eastern and North African region as there are more than 300 Islamic financing institutions operating in almost 80 countries.

Çetinkaya agreed that Islamic finance had the potential to contribute to financial stability as it encouraged financial inclusion and prevented excessive risk-taking and speculation. However, he was cautious in assessing the resilience of Islamic finance against crises, adding that this needed to be tested. The convergence between Islamic and conventional finance would be a factor in this test, as was the need for further sophistication in Islamic financial products.

Challenges and The Way Forward

There were several challenges to be addressed in developing Islamic finance. An important issue was the competition that Islamic finance faced from conventional finance, which had stronger fundamentals in terms of product coverage.

"Another issue, which is critical for both regulators and industry players, is maintaining the basic principles of Islamic finance," said Çetinkaya. "With harsh competition (from conventional finance), this can sometimes lead to compromise."

Finally, there were regulatory challenges to be considered in order to maintain the strong growth of Islamic finance.

Looking ahead, the key driver for the growth would likely come from increasing consumer demand worldwide. To meet this demand, Islamic finance had to provide competitive products and services to its customers.

"There is still room for growth," Çetinkaya said. "Islamic finance is still a small part of the global financial industry. It is currently bank-dominated, so there is still room for growth in capital markets, insurance and other items of finance."

There are also opportunities for geographical diversification to countries, such as those in the European Union, that do not currently have strong Islamic financial services.

To enable the stable functioning of Islamic finance, regulators should be ready to seek a better understanding of the Islamic business model and its products. There should also be strategies to provide Islamic finance entities with risk-hedging policies and other instruments, and this can be achieved through liquidity management and new product development.

Çetinkaya emphasised the need to improve regulatory oversight, especially in view of the industry's rapid growth. He also spoke about the importance of implementing industry standards - both domestically and globally - to enhance customer confidence and protection while maintaining flexibility to meet customer demand.

Lastly, he touched on the new global regulatory structure which appeared to be driven by a strong reform agenda. He noted that Islamic finance had yet to make a major contribution to this discussion, so more effort needed to be made beyond the efforts of the Islamic Financial Services Board.

Innovation, Leadership and Education

Prof Humayon Dar, Adjunct Professor at INCEIF and CEO of Edbiz Consulting Ltd, gave an overview of the different phases of innovation in Islamic finance.

"Phase one of the development of Islamic banking and finance, which has taken place over the past 35 to 40 years, has been focused on coming up with new products. These include Shariah-compliant banking and financial products to replicate the economic effects of conventional products," he said.

Prof Dar then offered a bold idea: in "Phase Two", **the focus of innovation should be to develop a new financial system with products and financial services that can replace those in the conventional financial system.** This is relevant for countries that have matured in terms of their institutions and financial products.

Also, leadership in Islamic banking and finance was crucial in ensuring continued growth in the global economy. Prof Dar quoted the Global Islamic Finance Report, which had devised what it called the "2020-6-50" goal: "By the year 2020, there will be at least six countries in the world which will have at least a 50 per cent share of Islamic banking. These countries are Brunei Darussalam, Saudi Arabia, the UAE, Qatar, Kuwait and Malaysia."

Once Islamic finance was the leader in the market, it would be the one setting the benchmark - not its conventional counterpart.

Prof Dar also touched on the topic of education, singling out the UK as a country that has played a tremendous role in streamlining Islamic banking and financial education. "In the UK, there are 16 institutions, including institutions of higher learning, which are offering different levels of qualifications in Islamic finance and which are actually injecting human resources into other parts of the world."

Other important players in Islamic financial education were Turkey, Malaysia, Pakistan, Bahrain and the UAE, which offered quality instruction and qualifications in this discipline. Prof Dar emphasised that these five countries gained importance in Islamic finance education because their medium of instruction was English, which provided a wider reach for the programmes.

Malaysia has also established a Finance Accreditation Agency (FAA), jointly set up by Bank Negara Malaysia (the central bank) and the Securities Commission of Malaysia, to develop a comprehensive standardisation programme for the accreditation of Islamic financial qualifications offered by any institution in the world.

The Turkish Proposal

Islamic finance has had a relatively short but dynamic history in Turkey. Islamic banks were first established in the mid-1980s and experienced strong growth since then, resulting in four Participation Banks today.

Celik described Turkey as one of the most appropriate centres for Islamic finance development and cited the success of the Turkish economy as one of the main factors for growth, along with a strong financial structure that made it resilient to crises.

Celik noted that the Turkish banking system was able to pass the stress test of the financial crisis due to its young, dynamic and rich Muslim population, competitive labour force, positive investment climate, large domestic market, incentives for foreign investors and a strong overall banking system.

Turkey's Islamic banking sector was currently dominated by loans from SME banks, but there were also exciting new developments in the capital market.

Dr Nihat Gümüş, Assistant Director of Research at Borsa Istanbul, said that some of these developments included the country's first sukuk market in 2012, as well as the three main Shariah-compliant indices. Furthermore, the Capital Markets Board has introduced regulations governing private equity funds, real estate funds, infrastructure real-estate investment trusts and participation funds, as well as a new capital markets code.

Dr Gümüş noted that there were many growth opportunities for Islamic finance in Turkey: "The main opportunity is in infrastructure finance. The Turkish Government's urban transformation plan needs US$800 billion, which can be financed by Islamic capital markets."

He also noted that Borsa Istanbul planned to address the liquidity needs of Islamic institutions through a proposed Sukuk Repo Market, and added that the Borsa would initiate plans for the World Bank Global Islamic Finance Development Centre to promote research and development, market development and innovation in Islamic finance.

In this light, Turkey has been successful in achieving a smooth development of Islamic financial institutions and in levelling the playing field for competition with conventional institutions - but more appeared to be in store for the country.

"Given the size of the economy and now the huge interest in Islamic banking and finance by the Government and other stakeholders, I believe that Turkey can be much more significant in years to come," said Prof Dar. He added that, apart from domestic policies and initiatives to enhance Turkey's role in Islamic finance, there were also things that could be done on the international stage, such as an "MPT Alliance" of Malaysia, Pakistan and Turkey.

"With the synergy between Malaysia, Pakistan and Turkey, and the leadership role that Malaysia has been playing in Islamic banking and finance, an alliance can be constructed to bring Turkey into the mainstream global Islamic financial services industry. Once that happens, Turkey's leadership role will be established," he said.

Muzaffar Hisham, CEO of Maybank Islamic Berhad, shared with the audience some of Malaysia's best practices in the Islamic finance industry

Malaysia's Winning Moves

In the light of Malaysia's leading position in Islamic finance, Mr Muzaffar Hisham, CEO of Maybank Islamic Bhd, provided a snapshot of how the country achieved this position.

Malaysia's journey in Islamic finance began with the establishment of the Pilgrimage Fund Board in the late 1960s to serve Muslims desiring to perform their Hajj obligations. This was followed by the establishment of the first Islamic bank, Bank Islam. Other banks, such as Maybank, started with Islamic "windows" before setting up full-fledged Islamic institutions.

Muzaffar outlined the six main thrusts behind the development of Islamic banking in Malaysia: "First, we had a sound and clear regulatory framework that was provided by the central bank and the Securities Commission. We are now regulated under the Islamic Financial Services Act, 2012."

Secondly, Malaysia benefited from the strong vision of, and support from, the Government and Bank Negara in Islamic finance initiatives. Thirdly, the Islamic finance industry in Malaysia developed of a wide range of products and services with certain key added advantages in tax and liquidity.

Malaysia was also guided by a very clear Shariah framework: "We believe that we should maintain the best practices of what the existing financial regulatory framework is, in the respective countries," Muzaffar said.

The large and diverse number of Islamic finance players in Malaysia also contributed to the success of the industry. According to Muzaffar, the liberalisation of Islamic finance in Malaysia, particularly in the approval of three foreign Islamic banking licences-for Saudi Arabia's Al Rajhi Bank, Kuwait Finance House and Qatar's Islamic Bank of Asia-allowed domestic players to run faster and to exchange knowledge with other industry players.

"Finally, Malaysia has invested in human capital development, not only in terms of developing Islamic bankers, but [also] true, sound bankers who know of both conventional as well as Islamic banking and finance," Muzaffar said.

As a result of these initiatives, the growth of Malaysia's Islamic banking sector has outstripped that of conventional banking. According to Bank Negara, Islamic financing would account for 40 per cent of total financing in Malaysia by 2020.

Muzaffar also shared Malaysia's aspirations to further its relationship with Turkey:

> "We're excited about the potential opportunity to trade with Turkey, not just between our two countries, but between Turkey and ASEAN."

& Question Answer

Q: What can Islamic finance contribute to microfinancing for SMEs?

Muzaffar: Instead of approaching SMEs like corporate banking, we manage it as a portfolio. We are looking at putting aside US$50 million or US$100 million for certain portfolios, for example: small-medium enterprises in plantation, industry and agriculture. We note that by managing this as a portfolio, our turnaround time to leave the financing to the folks will be much faster.

We are exploring the various models of waqf: how can waqf contribute to microfinance, whereby we can charge and look at the returns to this microfinancing way below the benchmark financing level of five per cent or three per cent. The returns will be contributed back to the waqf-to a cash waqf-in order to sustain the waqf foundation.

Another point is to avoid moral hazards. When we give out cheaper microfinancing, the issue of moral hazard is always a fundamental issue on the ground.

Çetinkaya: We need innovation in investment-banking project financing as well as in microfinancing. This will help ensure inclusive economic development.

Q: There is a currency war going on in the world, with so much fluctuation in currencies. If we can swap our Islamic finance instruments, can we help to make progress in Islamic products?

Muzaffar: We do have some challenges in the fluctuation of the currencies. It does affect the cashflows in the returns because some of it is from state funds and must be converted into US dollars. That has always been a challenge within ASEAN as well, where we have companies in Indonesia, Malaysia or Singapore, and our local currencies are not openly traded and are not allowed to trade outside the country. For example, the ringgit is a non-traded currency outside Malaysia. But if we have a trading partner, such as Turkey, it would be good if the ringgit were allowed to trade for specific purposes in Turkey. This is our recommendation to the central bank.

Q: When you look at China, India, Russia, and the European Union, and even the United States, there is still very minimal discussion on Islamic finance. How do you see the WIEF playing its role in the same way that it managed to get the powerful message of Islamic finance through to the UK, and take it forward in other countries?

Tun Musa: Reality demands that when we want to go to a country and initiate an activity, we must be aware of the policies of the Governments concerned. Especially when we talk about Islamic banking, one has to accept the reality that in that country, there have to be regulations to allow that institution to exist. Where the United States, India, China and a number of European countries are concerned, many of them are currently still very lukewarm about Islamic banking and Islamic finance, unlike the UK, Spain and South Korea, who reached out to us. We have to be very patient. I think a single mistake we make in terms of approaching these countries - a single misunderstanding - can spoil our constructive efforts. But we are very confident that we will demonstrate [the benefits] through our results and through our popularity.

Nail Olpak, President of MUSIAD, presenting a token of appreciation to Tun Musa Hitam, Chairman of the WIEF Foundation

The 8th WIEF Roundtable had gathered about 100 policy-makers and experts in the finance industry to discuss and accelerate the development of Islamic finance in Turkey

Q: Is interest-free microfinancing, coupled with zakat and waqf institutions, the way forward for inclusive growth and distribution in countries like Indonesia and Bangladesh, as well as North Africa?

Dar: Local microsavings programmes are essential for successful microcredit and microfinance programmes. Given that you have a rural banking system in Indonesia, if you combine rural banking with the microsavings programmes-probably with the help of some mainstream banks as well-you can come up with a comprehensive model which on the one hand creates and develops savings, while on the other hand, there are users of these savings. Only then can you come up with a sustainable microfinance programme.

Co-Organiser

MÜSİAD

MÜSİAD is a non-profit, voluntary based "Businessmen's Association" founded in Istanbul on 5 May 1990, by a group of mindful businessmen who set out with the dream of an integrated Turkey that is economically and politically efficient in its region, and is prestigious at the global scale; a Turkey where rights, law, justice, equality, peace, trust, prosperity, and happiness prevail; and where local and universal values entrenched in history and society are closely observed.

With more than 7,000 members, MÜSİAD stands as a powerful NGO that;

represents approximately 35,000 companies, contribution to 18 per cent of Turkey's GDP with US$17 billion of exports, US$5 billion of investment and employing 1,500,000 people; has branch offices and representatives in 76 cities nationwide; serves internationally in 148 allied contact points in 56 countries with 4 active representatives.

Bearing the status of a "public benefit society", MÜSİAD is a model education, guidance, and consultancy centre not only for the business world but also for all other segments of the society, and that carries out its practices and work on strictly professional grounds.

At a Glance

1

As of the end of 2013, the global Islamic finance industry exceeded an asset volume of US$1.7 trillion and has achieved greater universal acceptance.

2

Islamic finance, being risk-sharing, asset-backed and non-speculative, is seen as an economic model that is resilient to financial crises.

3

Islamic finance faces the following challenges: Competition from conventional finance, maintaining its fundamental principles while being competitive, and maintaining a regulatory framework.

4

Islamic finance can grow by leveraging on consumer demand for more competitive products, geographical diversification, as well as expansion of capital markets and insurance.

5

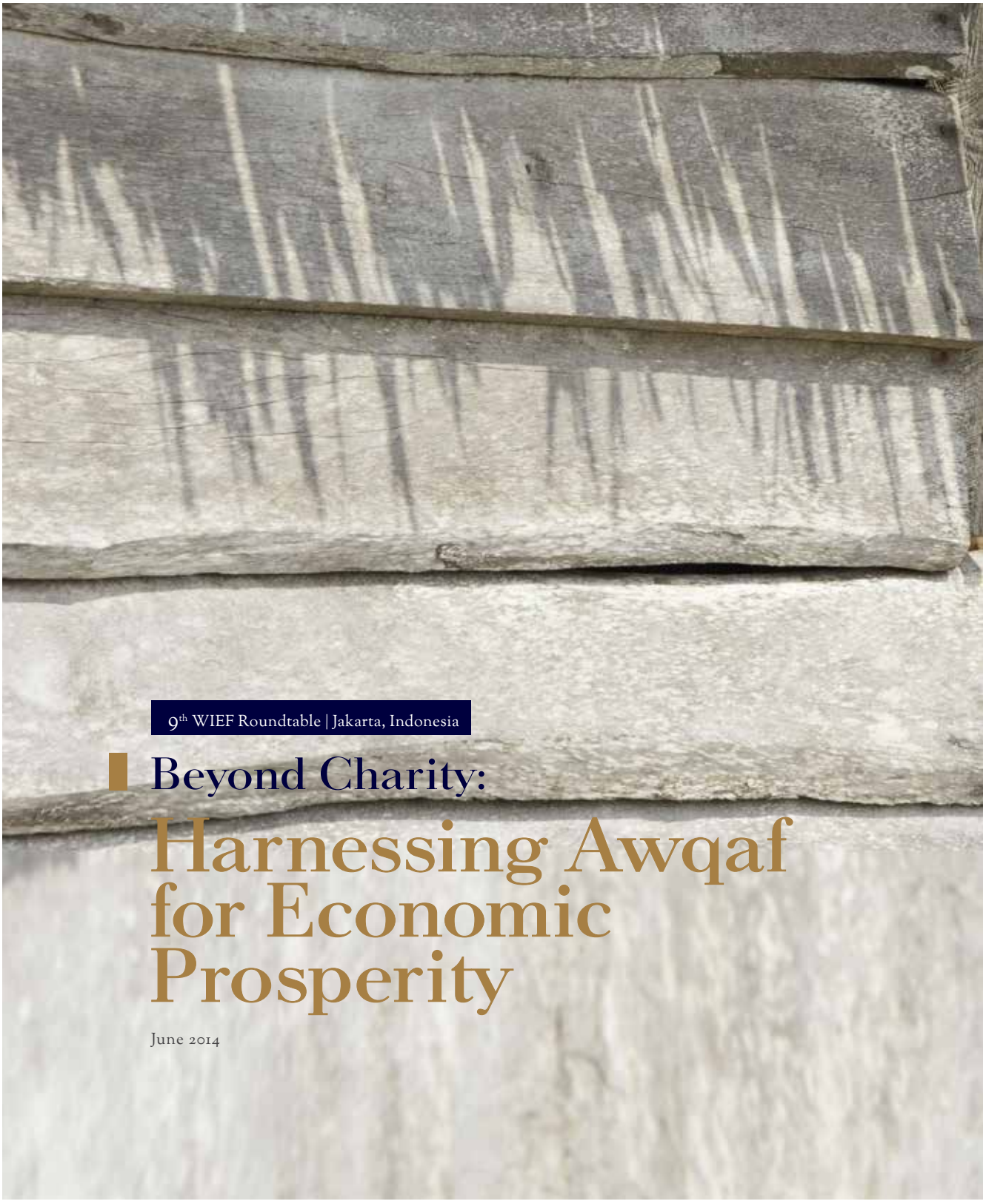
Turkey has been successful in achieving a smooth development of Islamic financial institutions and in levelling the playing field for the competition with their conventional counterparts.

6

Turkey can go on to become a more significant player in the Islamic finance industry through domestic and global initiatives.

7

Malaysia has achieved a leading position in Islamic finance due to six main thrusts: a sound regulatory framework; vision and support from the Government and central bank; a wide range of products and services; a clear Shariah framework; a large and diverse number of players; and investment in human capital development.



9th WIEF Roundtable | Jakarta, Indonesia

Beyond Charity: Harnessing Awqaf for Economic Prosperity

June 2014

Overview

In recent years, waqf has increasingly become the focus of various development-based discussions in the Muslim world, not only for its religious significance but also for its socioeconomic benefits.

Waqf is defined as a permanent or temporary donation of an asset for a charitable cause. It has its own legal personality that entails specific rights and obligations, and waqf asset managers are not owners but trustees who must abide by all conditions set by the waqf in the first instance.

Due to its perpetual nature, waqf activities have resulted in the accumulation of waqf assets devoted to providing an increasing flow of revenue to aid the socioeconomic development of the Ummah. However, its benefits are not restricted to the Muslim community alone but go beyond religious, cultural, racial and sectarian boundaries.

Nonetheless, there is still a great deal of untapped potential in waqf assets, and thus the WIEF-IDB Awqaf Roundtable in Jakarta, Indonesia, on 5 June 2014 discussed opportunities as well as challenges in promoting waqf activities.

The discussions aimed at encouraging governments, religious councils and waqf management organisations to be more proactive in unlocking the economic potential of awqaf, and the participation of role players from various countries allowed for the sharing of experiences and best practices in the pursuit of excellence.

Programme

5 June 2014
Le Meridien Jakarta

9.00am Welcome Address by Kunrat Wirasubrata, Acting Director, Islamic Development Bank Group Regional Office in Kuala Lumpur, Malaysia

9.10am Speech by the Hon. Tun Musa Hitam, Chairman, WIEF Foundation

9.25am Keynote Speech by Dr Mulya Effendi Siregar, Deputy Commissioner of Banking Supervision, Indonesia Financial Services Authority (IFSA)

10.15am Session 1: Islamic Philanthropy: Role of Waqf in Poverty Alleviation and Socio Economic Development

Speakers

- Dr H.M. Anwar Ibrahim, Head, Executive Council, Indonesian Waqf Board, Indonesia
- Prof. Datuk Dr Mohd. Azmi Omar, Director General, Islamic Research and Training Institute (IRTI), Islamic Development Bank Group

Moderator

- Zeinoul Abedien Cajee, Founding CEO, Awqaf South Africa

11.30am Session 2: Management Challenges of Waqf Assets

Speakers

- Tan Sri Muhammad Ali Hashim, President, Malaysian Islamic Chamber of Commerce, Malaysia
- Husain Benyounis, Secretary General, Awqaf New Zealand

Moderator

- A. Riawan Amin, Honorary Chairman, Supervisory Board, Indonesian Islamic Banking Association (ASBISINDO)

2.00pm Keynote Speech by H.E. Prof. Bambang Permadi Soemantri Brodjonegoro Ph.D, Vice Minister of Finance, Ministry of Finance of the Republic of Indonesia

2.15pm Session 3: Traditional and Contemporary Financing and Investment in Waqf Assets

Speakers

- Mohamed Azam bin Abdul Aziz, Director, Finance & Asset Development, The Islamic Religious Council of Singapore (MUIS)
- Engr. Syed Muhammed Asim Raza, Senior Project Specialist, Islamic Financial Services Department, Islamic Development Bank

Moderator

- Tanri Abeng, Founder & Chairman, Executive Centre for Global Leadership, Indonesia

3.30pm Session 4: Waqf Development: The Way Forward

Speakers

- H.E. Yasmin Busran-Lao, Secretary (Minister), National Commission on Muslim Filipinos, Office of the President, Republic of the Philippines
- Zeinoul Abedien Cajee, Founding CEO, Awqaf South Africa Moderator

Moderator

- Dr Aznan Hasan, President of Association of Shariah Advisors in Islamic Finance and Deputy Chairman of Shariah Advisory Council, Securities Commission of Malaysia

4.45pm Closing Remarks by Kunrat Wirasubrata, Acting Director, Islamic Development Bank Group Regional Office in Kuala Lumpur

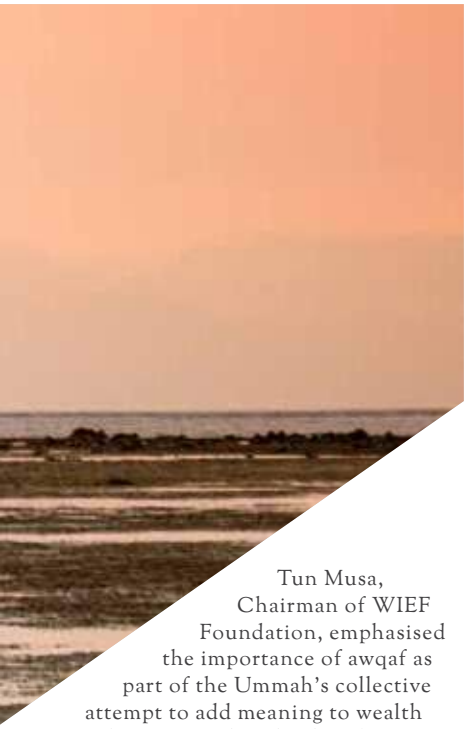

WIEF-IDB AWQAF
ROUNDTABLE

Untapped Potential of WAQF

Dr Mulya Effendi Siregar, Deputy Commissioner of Banking Supervision, Financial Service Authority of Indonesia explained in his Keynote Speech that waqf has the intrinsic abilities to alleviate poverty and help meet social needs

In his welcoming remarks, Mr Kunrat Wirasubrata, Acting Director, Group Regional Office, Islamic Development Bank, Kuala Lumpur, Malaysia, recalled the socioeconomic significance of awqaf in the Ottoman Empire, where they played a role in maintaining the stability of society as well in providing welfare services to the community.

Wirasubrata hailed the use of awqaf in modern society as drivers for growth and stability, and to support the development of Islamic finance towards the sharing of prosperity both in the Muslim world and globally.



Tun Musa, Chairman of WIEF Foundation, emphasised the importance of awqaf as part of the Ummah's collective attempt to add meaning to wealth and to ensure that the distribution of wealth reaches the neediest: "Waqf is an important Islamic instrument of wealth distribution, and one that can narrow the gap between extreme poverty and deprivation on one hand, and the increased wealth and prosperity of the rich on the other hand, particularly in the Muslim world today," he said.

However, he lamented that waqf had become a neglected part of Islamic practice and said that it should be given a greater push and a higher profile in respect of implementation. "While there is now an increasing awareness of waqf, its potential remains untapped," he said, quoting the 26th issue of Islamic Finance News, published in September 2013, which reported that the waqf sector could be worth up to US$1 trillion globally.

The untapped potential of waqf assets was apparent even in the Southeast Asian region, he said, noting that Malaysia had waqf land worth RM116.5 million, of which only 0.72 per cent had been developed, while Indonesia had an estimated of 1,400 sq km of waqf land with an equivalent market value of US$16 billion.

> "The absence of an effective centralised structure to capitalise on waqf opportunities and maximise the benefits to the rightful beneficiaries is another issue to resolve."
>
> Dr Mulya Effendi Siregar,
> Deputy Commissioner of Banking Supervision,
> Financial Service Authority, Indonesia

"Imagine how beneficial it would be if all such waqf land could be deployed for sustainable development," he said.

In his keynote address, Dr Mulya Effendi Siregar, Deputy Commissioner of Banking Supervision, Financial Service Authority, Indonesia, said that along with zakat and sadaqah, waqf was a part of Islamic finance and played a central role in optimising the distribution of wealth in the Islamic economy, particularly in eradicating poverty.

He explained that waqf generally referred to voluntary charity by a donor, or a "waqif", who had set aside his or her assets for the purpose of serving the religious or socioeconomic interests of society.

"It has distinct characteristics compared to other Islamic socio-finance instruments, as the asset needs to be preserved, commonly in perpetuity, so that these benefits continuously flow to a specific group of beneficiaries or a community. Essentially, waqf creates community assets that can potentially be used to address problems of education, healthcare, financial aspects, or other social needs of poor communities," he said.

It was estimated that waqf assets in Indonesia in 2013, including land and cash, could generate an annual cashflow of US$6 billion, which was equivalent to 0.85 per cent of Indonesia's GDP and was more than enough to lift all Indonesian poor above the US$1.25 per day poverty level.

Both Tun Musa and Dr Siregar presented convincing arguments about the latent potential of waqf assets but also agreed that more needed to bedone to channel waqf assets productively for the benefit of the poor.

The evolution of waqf models, from land and cash to shares and now corporate waqf, has provided a wide range of options for awqaf to be dispersed by benefactors.

Towards this end, Tun Musa emphasised the importance of creating a socially beneficial wealth distribution mechanism as well as the development of a strong and credible waqf institution in order to help reduce government expenditure, prevent government borrowing through deficit-financing, promote greater private sector participation through voluntary action, and contribute to national economic progress.

Dr Siregar provided the example of how Indonesia had modernised the waqf system through the promulgation of the national Waqf Act in 2004 followed by the establishment of the Indonesian Waqf Board "Two, the absence of an effective centralised structure to capitalise on waqf opportunities and maximise the benefits to the rightful beneficiaries is another issue to resolve.

"Three, there is a lack of a proper legal and regulatory framework to ensure good governance in developing specific waqf assets.

"Four, poor management and accounting, and the lack of qualified, knowledgeable professional trustees and managers to provide the necessary confidence to waqf stakeholders and potential donors is a huge factor for us all to consider."

ISLAMIC PHILANTHROPY

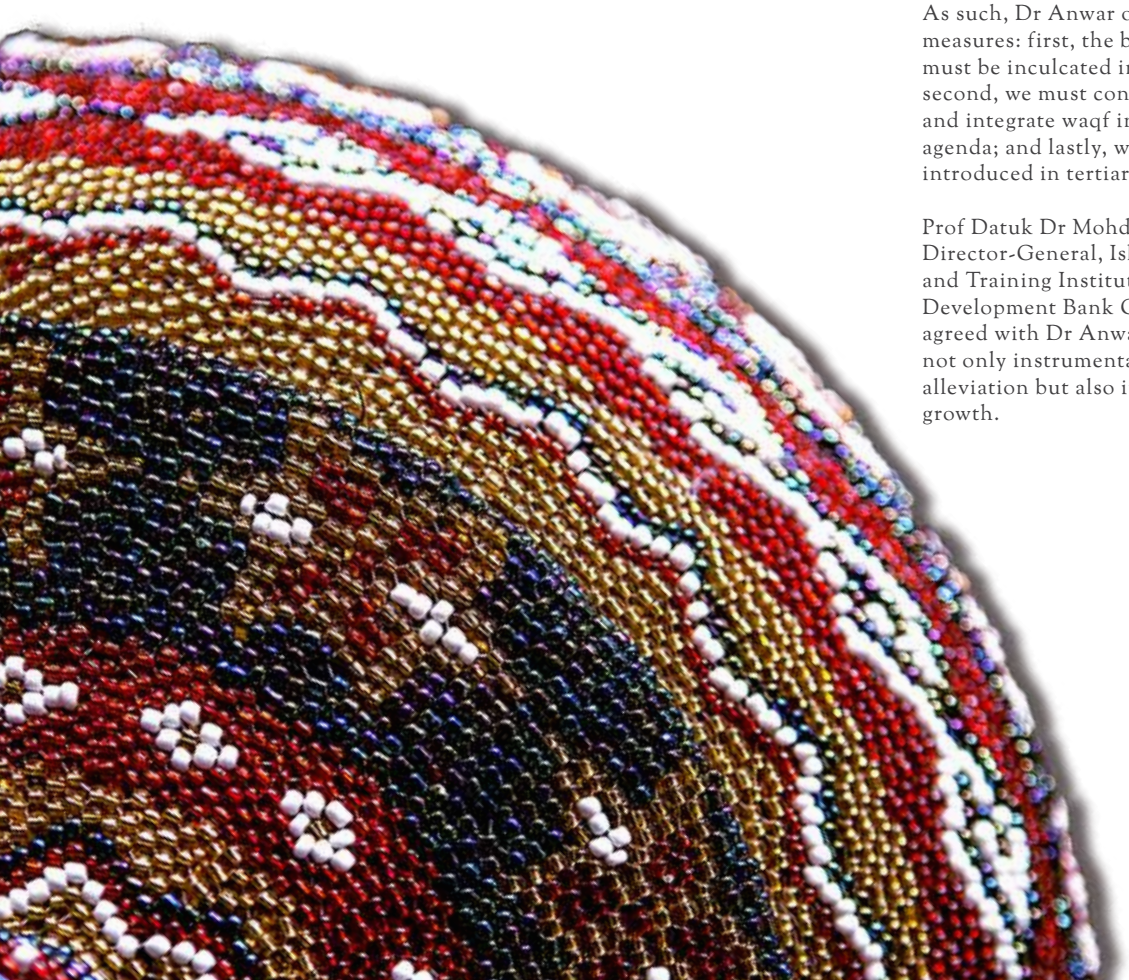
The Role of Waqf in Poverty Alleviation & Socioeconomic Development

Waqf comes in many forms: direct forms of assets donated to fulfil a community needs; investment waqf where earnings are used for the benefit of specific communities; religious waqf for schools and mosques; philanthropic waqf to address the social needs of the poor and underprivileged; family waqf where descendants of the waqif have first rights to receive the benefits and revenues of the waqf; and Irsad which is an endowment by a sovereign for designated beneficiaries.

Dr H. M. Anwar Ibrahim, Head of the Executive Council of Indonesian Waqf Board, strongly believed that waqf could play important roles in social development, as well as in the building of an economy. While presenting an overview of the waqf landscape in Indonesia, Dr Anwar said, despite being the world's largest Muslim country and considerably rich in waqf assets, Indonesia's waqf system was rather underdeveloped.

As such, Dr Anwar offered three key measures: first, the benefits of waqf must be inculcated in the society; second, we must continue to promote and integrate waqf into our economic agenda; and lastly, waqf study must be introduced in tertiary education.

Prof Datuk Dr Mohd Azmi Omar, Director-General, Islamic Research and Training Institute, Islamic Development Bank Group (IDBG) agreed with Dr Anwar that waqf is not only instrumental for poverty alleviation but also in economic growth.



> "The legal framework must clearly articulate the permanent nature of waqf arising from the principle of 'once a waqf, always a waqf'."
>
> Prof Datuk Dr Mohd Azmi Omar, Director-General, Islamic Research and Training Institute, Islamic Development Bank Group (IDBG)

In his presentation, Prof Azmi focused on the need for new and innovative waqf products and approaches, such as using other financing instruments to implement microfinance.

"Cash waqf can be used for microfinance activities and, at the same time, zakat and sadaqah are used to provide technical assistance, such as skills-training, to the borrowers. In this way microfinancing and capacity-building are provided simultaneously," he explained.

"Furthermore, to address the issue of depletion of the waqf fund, group members are encouraged to form a takaful fund to provide micro-insurance against unforeseen risks and uncertainties resulting in loss of livelihood, sickness and so on," he added.

Noting that the IDBG has implemented several programmes integrating philanthropy with microfinance, including the Deprived Families Empowerment Programme in Palestine and the Fa'el Khair Programme in Bangladesh, Prof Azmi said there were several lessons that could be learnt from these pilot projects: "First, we need to have a good regulatory framework, which must seek to strike a balance between concerns about preservation and development."

Dr H. M. Anwar Ibrahim, Head of the Executive Council of Indonesian Waqf Board, urged for more efforts to be invested in developing the waqf system in Indonesia

He also observed that waqf law should provide a comprehensive definition of waqf that included both permanent and temporary waqf. "The legal framework must clearly articulate the permanent nature of waqf arising from the principle of 'once a waqf, always a waqf'," he said, remarking that there was a tendency for certain governments to utilise awqaf without replacing them.

Prof Azmi also suggested that waqf be incentivised in a manner similar to secular trusts and other not-for-profit instruments. "For instance, providing tax rebates for the donor or endower on contributions would make the system both efficient and fair," he explained.

Another lesson learnt was that the legal framework should not restrict making a waqf available only to Muslim individuals, and the definition of the endowed asset should not be restricted to immovable tangible assets, such as real estate, but should also explicitly recognise movable, financial and intangible assets.

As for the question of whether awqaf should be placed under state or individual ownership, Prof Azmi admitted that there was no clear-cut answer. "Waqf is originally an institution, and is always meant to be in the voluntary sector with management of the waqf entrusted to private parties. At the end of the day, it depends on the professional management and the regulatory framework. If it is under private ownership, then clear-cut KPIs and performance evaluation must be put in place in order to ensure that the waqf is really managed according to the terms and conditions," he stressed.

Prof Azmi reiterated the importance of not relying on waqf alone to alleviate poverty but combining it with zakat, sadaqah and Islamic microfinance.

Wrapping up the session, moderator Zeinoul Abedien Cajee, Founding CEO of Awqaf South Africa, proposed that the waqf system be reverted to civil society, as civil society was originally the main driver of the system when it started in Medina.

Management Challenges &

Waqf Assets

Whereas the previous session examined the enormous potential of waqf assets in developing the economy and alleviating poverty, this session explored the practicalities of managing those assets.

One model, presented by Tan Sri Muhammad Ali Hashim, President of the Malaysian Islamic Chamber of Commerce, was "corporate waqf". He described corporate waqf as a tool of "business jihad", a phrase he coined to articulate the key ideological strategy in the struggle for Islamic economic transformation.

"Corporations rule the world today, with most of the highly valuable assets in their hands," he said, but with the rich getting richer and private sector interests crowding out the people's interests, this has created severe global problems.

"The divide between the rich and the poor is expanding all over the world, and there is no solution from the Western capitalist side. The Wall Street culture is damaging societies everywhere...more so in Muslim countries, because Muslim countries are more sensitive towards inequality."

Muhammad Ali proposed that the Muslim world address this problem through corporate waqf, explaining that the agenda of corporate waqf was to reform capitalism by shifting away from the dominant shareholder-centric system to a community-centric system.

"Corporate waqf is aimed at building corporate capacity using Islamic motivational force and spiritual energy. Corporate waqf can become a 'mother corporation' for developing entrepreneurs, identifying talents, spawning new enterprises and creating business opportunities for marginalised groups," he said, emphasising that the ultimate aim was to reduce socioeconomic disparity.

He shared his experiences in Johor Corporation (JCorp) in Malaysia (of which he was former President and CEO), which had undertaken the major process of converting its billion-ringgit assets into waqf. As a government-linked corporation with a market capitalisation of about US$7 billion, JCorp had to strike a balance between profit-making and social responsibility, and it identified several management challenges to be addressed in the practice of corporate waqf.

"For waqf, you hand over the ownership to Allah, so you need to have established the ownership structure for the practical management of the assets," he said.

A business-driven waqf entity also had to redefine the entrepreneurship platform and convert the system from an owner-driven business to a waqf-driven system; and here Muhammad Ali referred to the waqf manager as an "intrapreneur", that is, one who did not own the business but still had to deliver in terms of business objectives.

He explained that the concept of waqf intrapreneur or "amanah entrepreneur" also allowed young Muslim entrepreneurs to access business opportunities that might otherwise be denied in the mainstream (and more exclusive) corporate world.

Apart from corporate waqf, another model that could promote the use of waqf assets was "waqf engineering". Mr Husain Benyounis, Secretary-General of Awqaf New Zealand, elaborated on the model that his organisation had developed, called World Awqaf Qard Fund Services (WAQF-S), which sought to bridge the gap between the profit and non-profit sectors.

"To turn wasted charitable resources into waqf revenue, we established waqf farms for livestock to supply five million sheep a year for the qurbani industry for Muslims in the West," Husain explained.

"WAQF-S will not only bridge the gap between the banking and non-banking sectors of the Islamic economy, it will also help to balance the Islamic economy, enhance the efficiency of the non-profit sector and revive the sunnah of qard al-hassan," he added.

WAQF-S also develops new Islamic finance tools for the non-profit sector, provides secured infrastructure to globalise the waqf industry, and ensures a high degree of transparency via waqf sukuk.

Husain was confident that this model would be able to help overcome management challenges of waqf assets, such as taxation, cross-border relations, transparency, efficiency and Shariah compliance.

Tan Sri Ahmad Fuzi Abdul Razak, Secretary General of WIEF Foundation, speaking to the participants at the Roundtable

"Together with contries like Bahrain, Qatar, Saudi Arabia, Malaysia, the United Arab Emirates and Turkey, Indonesia could play a vital role in the future development and internationalisation of Islamic Banking Industry."

H.E. Prof Bambang Permadi Soemantri Brodjonegoro, Vice Minister of Finance, Indonesia

Keynote speech by H.E. Prof Bambang Permadi Soemantri Brodjonegoro, Vice Minister of Finance, Indonesia

H.E. Prof Bambang Permadi Soemantri Brodjonegoro, Vice Minister of Finance, Indonesia, spoke on the development of the Islamic finance industry in his country and specifically the role of waqf funds in the Indonesian economy at a time of increasing global economic adversity.

"The global economy has been in a state of imbalance and emerging countries have been experiencing pressure. For countries like Indonesia and most of the OIC members, the era of the commodity boom has seemingly come to an end. Higher commodity prices used to give a significant economic boost to countries with natural resources but weakening global demand has pushed down commodity prices, in turn lowering export value from countries rich in natural resources," he said.

He noted that despite these economic conditions, Indonesia has been blessed with relatively strong and stable economic growth. However, economic development remained an issue, particularly in terms of poverty and unemployment.

Prof Brodjonegoro acknowledged the significant role that Islamic finance could play in this regard. "In Indonesia, Islamic finance has grown quite significantly over the last few years. The Islamic financial service industry is not only good from a business standpoint, but it can also provide good support for the public sector," he said, sharing details about Indonesia's sukuk issuance.

"The fundamentals of Islamic banking remained sound during the recent global financial turmoil. Encouragingly, the specific characteristics of the Islamic financial system appear to have facilitated stability within the economies that were initially prone to external shocks," he observed.

Prof Brodjonegoro then highlighted the potential of waqf funds to help governments address poverty and inequality problems. "The role of waqf in alleviating poverty and promoting economic growth is still limited in Indonesia. People still think of waqf within a strict definition... related to property," he said.

"To improve and develop the national waqf, the Government of Indonesia issued the national Act 41/2004 on waqf and subsequently established the Indonesian Waqf Board, or Badan Wakaf Indonesia. Private sector involvement in waqf practices has also been increasing," he said.

Overall, however, the progress of Islamic finance investment in Indonesia has not been without challenge, particularly from regulatory and legal points of view: "We are currently working on how various instruments and regulations can be further shaped to help the Islamic finance sector achieve its potential, including creating a more equal playing field between the Islamic finance sector and conventional financial services," Prof Brodjonegoro said.

He added that the Government was currently focusing on ensuring stability across the financial sector, including Islamic finance. "We are closely reviewing and identifying the issues in each element of Islamic financial services, specifically banking, insurance and pension funds. We believe that by mapping the problems and challenges of each element separately, we will be able to generate better and supporting policies."

Prof Brodjonegoro expressed his hope for continued collaboration between the private sector and policymakers to synergise opportunities that would maximise the potential of the Islamic financial system.

"Together with countries like Bahrain, Qatar, Saudi Arabia, Malaysia, the United Arab Emirates, and Turkey, Indonesia could play a vital role in the future development and internationalisation of the Islamic banking industry," he said.

H.E. Prof Bambang Permadi Soemantri Brodjonegoro, Vice Minister of Finance, Indonesia, delivering his keynote address at the Roundtable

Traditional and Contemporary Financing & Investment in Waqf Assets

The speakers of the third session explored the wide range of options available in financing and investment for waqf assets.

Syed Muhammed Asim Raza, Senior Project Specialist, Islamic Financial Services Department, Islamic Development Bank, examined traditional modes of financing, including the substitution or exchange of waqf, hukr, ijaratain, the establishment of new waqf to support old waqf, and borrowing to finance the operational needs of the waqf.

Explaining briefly how each mode of financing worked, he said that the substitution or exchange of waqf could be used when a property was depleted—because waqf property cannot be sold, substitution or exchange with another property enables the generation of sustainable revenue.

"Ijaratain means two ijarahs. Rent is collected in two parts: a lump sum first, then a small portion of the payment at a later stage, as monthly or quarterly payments," he said. The waqif or the organisation that owns the waqf also has the option of borrowing small amounts in order to make small rehabilitations or to continue the functions of the waqf.

Syed Muhammad examined various contemporary modes of financing that have helped Islamic financial institutions provide financing for the development of waqf assets and to make them sustainable.

"Some of these modes of financing are the refinement of traditional modes. However, a number of new innovations were also introduced," he said, adding that these included leasing, istisna'a, murabahah, diminishing musharakah, build-operate-transfer (BOT) and line of financing.

"Leasing is when the sale of the usufruct of an asset has been done in order to finance a waqf project. The lessor retains the ownership of the asset together with all the rights and responsibilities that go with the ownership. However, the lessee will receive the benefits associated with the asset, and is responsible for the payment of the predetermined rental," he explained.

According to Syed Muhammad, out of 64 projects developed by IDB around the world, 80 per cent had been financed this way.

"The istisna'a mode of financing is usually used in non-IDB OIC-member countries. Istisna'a is a contract signed with the bank to provide financing for the development of the waqf, and the construction work is assigned to a contractor, or a project sponsor is appointed as an agent for the construction of the project. Upon completion of the project, it will be transferred to the owner of the project."

Murabahah financing was usually used for the purchase of buildings, while the BOT model was used for big-ticket projects, and that "line of financing is where we provide financing to a local bank, which becomes our agent. They meet with the waqf directors and gather the good-quality projects," he said.

Finally, Syed Muhammad spoke about the IDB's Awqaf Property Investment Fund, which was playing a pivotal role in the development of waqf properties worldwide.

"The mandate of the fund is to provide financial assistance to transform idle waqf lands, for the procurement or purchase of constructed buildings, and to create an enabling environment for the development fund. We have been able to develop 64 waqf projects with an aggregate value of US$1.3 billion in almost 30 countries," he said.

After the overview of IDB's various financing methods, Mr Mohamed Azam Abdul Aziz, Director of Finance & Asset Development, Islamic Religious Council of Singapore (MUIS), presented specific case studies of how Singapore had upgraded its waqf assets.

According to Mohamed Azam, Singapore had 157 waqf properties amounting to almost 450,000 sq ft of lettable area valued at SG$635 million.

"Most of the awqaf in Singapore were created close to a century ago. Given the age of these properties and the way waqf management was interpreted in the past, we had a lot of waqf properties which were not in good shape and a few that were liabilities," he said.

When MUIS embarked on the process of upgrading waqf assets about 25 years ago, it had to look into various ways of financing the upgrading programme. MUIS began with baitulmal financing, but there were limited funds available and the cash was tied up for long periods of 10 to 20 years. "This was not a sustainable form of financing," Mohamed Azam said.

Tenant financing was also limited due to difficulties in finding people willing to pump in the money for upgrading the assets. For bigger projects, MUIS dealt with musharakah bonds, but these came with dramatically higher risks.

Today, MUIS is also pursuing a mode of financing that draws on the concept of Singapore's mosque-building fund. "Some of the newer mosques in Singapore are 100 per cent funded by the community. Every Muslim worker in Singapore donates a very small amount, 50 cents or so. The 50 cents will translate to millions," he explained.

This demonstrated the power of the democratisation of profit, which MUIS would then apply to waqf development and waqf investment. Mohamed Azam provided the example of two specific financing models: one was a cash waqf called "Waqf Ilmu" to benefit full-time and part-time Islamic education, while the other was a form of collaborative financing for a redevelopment project.

For the latter, financing came from individuals and institutions contributing to Waqf Ilmu, five mosques that each contributed SG$1 million, a madrasah purchasing several units, as well as the original waqf of Sherrifa Zain Alsharoff partnering with the MUIS subsidiary Warees Investment Pte Ltd. The property was owned by an SPV waqf, WRH Pte Ltd.

"This is a very collaborative effort, and through this mechanism, we will not need to go through the financial markets for borrowings," said Mohamed Azam.

Mohamed Azam bin Abdul Aziz, Director, Finance and Asset Development, The Islamic Religious Council of Singapore, shared that proactive management, transparency and strategic planning are the critical success factors in handling waqf assets

He noted that Singapore's experience showed that financing structures and mechanisms were not difficult to put together. "The success of the project really is dependent on the trust and confidence that people have in you. The critical success factors are proactive management, transparency and strategic planning," he said.

Mohamed Azam concluded his presentation with the point that the waqf investment and redevelopment taking place in Singapore was not just about generating returns but about preserving a sense of heritage.

"We're looking for niche branding. It's about heritage and giving back to the community underscored by proven financial investment management," he said.

Waqf Development

The Way Forward

The development of waqf varies from country to country due to differences in structures, Shariah and legal frameworks, and regulations. To overcome these obstacles, two country case studies were presented in the fourth session: the Philippines and South Africa.

Yasmin Busran-Lao, the Secretary (Minister) of the National Commission on Muslim Filipinos, provided an interesting perspective on the Philippines, where Muslims are a minority composing approximately 10 to 15 per cent of the general population.

She spoke on how Philippine Muslims have been struggling for the right to self-determination and have been doing their best to live a fully Islamic way of life within the little space that they had: "We lack policy guidelines at the national, local and community levels. As there is a very strong separation of Church and State in our Constitution, the majority Christian community is wary of looking into policies for religious practices," she said.

"At the local and community levels, we still need to strengthen Islamic institutions that can really take care of Islamic practices, particularly waqf, halal [products] and the Hajj."

While the Government created the National Commission under the Office of the President to look into the welfare of Muslims in the Philippines, Yasmin admitted that the Commission was not fully engaged in the institutionalisation of Islamic practices. However, the Commission was in the process of advocating the adoption of national laws that would help Philippine Muslims, particularly in terms of institutionalising Islamic practices.

"Another challenge is corruption in governance. The lack of clear accountability and transparency measures leads to misuse of waqf and it often ends up in the hands of families who donated the land; and it becomes their own family property," she added.

"The Commission is currently profiling the waqf funds that have generated support for the various socioeconomic needs of the Muslim Filipinos. Traditionally, the beneficiaries of awqaf in the Philippines have been poor and deserving students (through scholarships), communities (through goat-raising projects), Islamic schools, Muslim cooperatives and academic institutions," Busran-Lao said.

Thus, the Commission is embarking on several initiatives to develop waqf in the Philippines, including collaborating with Universiti Utara Malaysia and the Asian Institute of Management Executive Learning Center; signing Memoranda of Understanding with experts from other ASEAN and OIC nations; as well as sharing technology with other countries.

"One very important way forward is the signing of the comprehensive agreement on the Bangsamoro, which will create a Bangsamoro political entity that will have the power to establish awqaf in the majority-Muslim communities," said Yasmin.

She stressed the importance of empowering the Muslim community by strengthening Islamic institutions in the community: "People's empowerment is very important to ensure sustainability. When they are empowered, they can take care of their own religious institutions without relying on the Government."

The South African perspective was presented by Mr Zeinoul Abedien Cajee, Founding CEO of Awqaf South Africa. He described his country as having a diverse and cosmopolitan—albeit small—Muslim population of one million.

"The Muslim community is in a strategic but difficult situation. On the ground, we have very huge wealth gaps. We also have issues around marginalisation. As a minority,

we are not involved directly in the main political arena or in the main economy," he said.

He noted that the marginalisation of Muslims was a crucial challenge to overcome. "It's important for Muslim communities all over to be part and parcel of the broader majority; that they are seen to be charitable and benevolent; and that they are contributors to the broader society rather than being isolated and marginalised."

Cajee noted that the first waqf in South Africa was created around 1804, approximately 150 years after the first Muslims came to the country. Since then, South African awqaf have been mainly in the form of mosques.

He believed it was important to look at waqf as promoting a holistic view of development. "Community development is not only about religious development, it's also about education, socioeconomic development, art and culture, women's development, youth development, and various other forms of development that will really enhance and empower the community."

Cajee observed that people would only donate to Awqaf South Africa or pass on their assets to the organisation if it was built on a platform of trust and integrity. "Between 2001 and 2014, it's been a long uphill struggle, convincing people, developing our international relations, building our networks, training people in the process and building up assets."

Awqaf South Africa does not concern itself just with collecting funds, and "we have to look at downstream projects as well, so the income generated out of all these assets and investments needs to be spent appropriately in terms of education, healthcare, social welfare, and other needs as well," Cajee said, providing examples of activities such as awqaf funds for the Hajj and Palestine.

He also noted the organisation's success factors: "We need to have best-practice corporate governance as well as adequate operational funding and capacity. There must be community ownership of awqaf, to make it very feasible for people to donate."

He added that there should be innovation and creativity in developing waqf assets, as well as competent management and supportive state legislation, and noted that the challenge facing waqf development in the future included the growth and proliferation of waqf assets.

Cajee envisioned expanding awqaf so that every Muslim was aware of it and every family was able to establish their own waqf. These objectives, he said, required all the institutional mechanisms to be in place, as well as education and awareness.

He believed that it was important for waqf to be decentralised instead of being controlled by the state. However, government regulations were needed, as well as a waqf services board that supervised awqaf instead of controlling their assets.

Finally, Cajee said that the Islamic financial sector must develop a better understanding of the needs of the waqf sector in order to facilitate the paradigm shift from using waqf for religious affairs to their use as investments.

Session moderator Dr Aznan Hasan, President of the Association of Shariah Advisors in Islamic Finance and Deputy Chairman of the Shariah Advisory Council, Securities Commission of Malaysia, wrapped up by saying that the waqf sector was currently lacking good management.

"We may want to have people from finance and management to show us how good management of waqf can help us moved forward, not only in our own situations, but all over the world as well," he said.

H.E. Yasmin Busran-Lao (left) from The Philippines and Zeinoul Abedien Cajee (right) from South Africa presented their respective case study on waqf. The session was moderated by Dr Aznan Hasan from the Securities Commission of Malaysia (middle)

Question & Answer

Q: In the case of a foundation, such as Waqf Al-Azhar, Indonesia, should the waqf be managed by the corporation or should there be a third party?

Tan Sri Muhammad Ali: The corporate waqf concept that I was talking about starts as a business, built through stakeholder enterprise or under the private sector. Then you transfer it to waqf, and by that time you must already have a management team running the business. So this is the advantage. But if you're running a foundation, you can invest in companies and then run them as waqf entities in the future. That would be a better approach because, when you're buying over a company, usually you'll be selecting a company that already has a management team. So that will help to solve your management challenges.

Q: There is very little awareness about waqf. The time has come that all universities, particularly Islamic universities, should think about introducing, at undergraduate as well as postgraduate level, courses on waqf.

Cajee: Yes, it is absolutely vital. Waqf is becoming so relevant today that, in the past five years, I think we've had maybe 20-odd conferences on waqf. So a lot of people learn through the conferences as well. But I think that the whole idea of creating that pipeline of people should be down to proper academic processes.

Q: Is it possible to build a waqf bank for the OIC countries or maybe the Asian countries to finance projects for economic development?

Cajee: Yes, economic growth and development—I think that's what awqaf are all about. I don't think waqf is only about charity. Waqf is about building houses and factories, looking after the needs of the poor, the community and the country. Waqf is actually a form of savings; it's not something that is spent and poured down the drain. We need a "mega-bank" to finance the 400,000 properties that are lying idle in Indonesia, for example. Why can we not have banks that can look at waqf properties that are not productive? If we can develop those, then all the better.

Q: What is the Islamic Research Training Institute doing about waqf management training, which seems to be one of the major shortcomings within the waqf sector?

Prof Azmi: We support member-countries through capacity-building. We provide various aspects of training. Not only that, we have gone even beyond training: we are also advising governments in terms of the best ways to manage waqf. Currently we are advising the Maldives government to develop a zakat management system.

Co-Organiser

The Islamic Development Bank (IDB)

The Islamic Development Bank (IDB) is an international financial institution who commenced operations on 20 October 1975.

The mission of IDB is to promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.

By the year 2020, the Islamic Development Bank shall have become a world-class development bank, inspired by Islamic principles, that has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity.

The present membership of IDB stands at 56 countries spanning many regions. IDB Group comprises five entities: the Islamic Development Bank (IDB), Islamic Research and Training Institute (IRTI), Islamic Corporation for the Development of the Private Sector (ICD), Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and International Islamic Trade Finance Corporation (ITFC).

Headquartered in Jeddah, the Kingdom of Saudi Arabia, IDB has four regional offices in Rabat, Morocco; Kuala Lumpur, Malaysia; Almaty, Kazakhstan; and Dakar, Senegal.

At a Glance

1

The waqf sector is estimated to be worth up to US$1 trillion globally. There is still a great deal of untapped potential in waqf assets for the socioeconomic development of Muslim communities by alleviating poverty and reducing disparity.

2

Key challenges facing the development of a truly globalised institution of waqf include: cash, shares and corporate waqf, runcoordinated strategies and capital allocation; lack of an effective central structure; lack of legal and regulatory frameworks; and poor management and accounting.

3

Waqf assets, which include property, cash, shares and corporate waqf, provide a wide range of options for awqaf to be dispersed by benefactors.

4

Traditional modes of financing for waqf assets have their limitations. The development of contemporary modes of financing helps Islamic financial institutions to support the development of waqf assets in a sustainable manner.

5

Strategies to develop waqf for the future include strengthening Islamic institutions, increasing education and awareness, and improving the management of waqf assets.

6

Waqf is more effective in alleviating poverty when it is combined with zakat, sadaqah and Islamic microfinance.

10th WIEF Roundtable | Gangwon, Republic of Korea

Glocalising Korea

December 2014

Overview

The city of Pyeongchang in the Gangwon Province, Republic of Korea, was considered an apt venue for the WIEF Roundtable themed "Glocalising Korea". The name Pyeongchang, meaning "peace" and "prosperity", reflected the aim of the Roundtable to bring together two different worlds— Muslim and non-Muslim—in business partnerships that would foster global peace and prosperity.

The Republic of Korea is one of the latest Northeast Asian countries to pursue the economic potential of Islamic finance and the halal industry. A country with only a small population of Muslims, Korea sees the long-term prospects of attracting Muslim capital and tourists by opening up its markets.

The Gangwon province is an ideal location for Korea to realise these ambitions. Its natural attractions, such as clean seas, forests, islands, national parks and ski resorts, are popular tourist spots, making it a prime candidate for the halal tourism industry. Pyeongchang will also host the Winter Olympics in 2018.

Furthermore, Gangwon is a leading business hub for the ICT, biotech, food manufacturing and medical industries in Korea. It is also a prime location for investment and trade due to its East Coast Free Economic Zone (EFEZ) and Greater Tumen Initiative (GTI) Expo developments.

The Roundtable provided a platform for investors and business leaders from various countries to learn of Gangwon's potential in the areas of banking and finance, the halal food industry, property and infrastructure.

Programme

15-16 December 2014
Alpensia Convention Centre

Day 1: Monday, 15 December 2014

9.30am-10.30am

Opening Session
Welcome Addresses by

- H.E. Moon-Soon Choi, Governor of Gangwon Provincial Government, Republic of Korea
- The Hon. Tun Musa Hitam, Chairman, WIEF Foundation

Special Addresses by

- H.E. Woong-Seob Zhin, Governor, Financial Supervisory Service, Republic of Korea
- H.E. Sanad Al Meqbali, Chairman, Emirates Entrepreneurs Association, United Arab Emirates
- H.E. Essa Al Ghurair, Board Member, Dubai Chamber of Commerce & Industry, United Arab Emirates

10.30am - 11.40am

Challenges and Opportunities of Financial Cooperation amongst Regions

- Global macroeconomic landscape & fundamentals of Korean Policy
- Strengthening Korea's competitive edge in global finance
- The growth of the Islamic Finance industry and prospects for globalisation
- Measures to establish a financial cooperation system between East Asia & the Middle East to promote inter-regional trade and investment

Keynote Address

- H.E. Dr Oh-Seok Hyun, Distinguished Professor, Korea National Diplomatic Academy; Former Deputy Prime Minister and Minister of Strategy and Finance, Republic of Korea

Speakers

- Dr Dong-Hyun Ahn, Professor of Economics, Seoul National University,Republic of Korea
- Badlisyah Abdul Ghani, CEO, CIMB Islamic Bank, Malaysia
- Dr Osman Babiker Ahmed, Lead Economist/Training Specialist, Islamic Research & Training Institute (IRTI-IDB), Kingdom of Saudi Arabia

Moderator

- Dr Beom-Sik Jang, Executive Vice President for Academic Affairs, Soongsil University, Republic of Korea

12.10pm - 1.10pm

Tourism and Korea's food industry: Capturing the Muslim market

- The features of the global halal industry and its prospects
- Halal potential of Gangwon's food industry - increasing tourism and Halal exports

Speakers

- Dr Hee-Yul Lee, Professor of Foodservice Enterprises, Franchise Department, Sejong Cyber University, Republic of Korea
- Dato' Seri Ibrahim Hj Ahmad, Executive Chairman, Dewina Holdings Sdn Bhd, Malaysia
- H.E. Essa Al Ghurair, Vice Chairman, Al Ghurair Investment Llc, United Arab Emirates and Member, WIEF International Advisory Panel

Moderator

- Dr Hee-Soo Lee, Professor of Cultural Anthropology, Hanyang University and Director, Museum University, Republic of Korea

Day 2: Tuesday, 16 December 2014

2.30pm - 3.30pm

Investment opportunities in Gangwon's property sector

- Highlight of Gangwon's major development projects & investment incentives
- Islamic Finance's pivotal role in property investment
- Possibilities of alternative investment products for project financing

Speakers

- Dato' Seri Abdul Wahab Maskan, COO, Sime Darby Berhad, Malaysia Sang-Bok Lee, Representative Director and Executive Managing Partner, STIC Investments, Inc., Republic of Korea
- Gökhan Murat Kalsin, Vice President, Istanbul Chamber of Commerce, Republic of Turkey
- Dr Bee-Ho Chun, Ambassador for International Relations, Gangwon Provincial Government, Republic of Korea

Moderator

- Salahuddin Kasem Khan, Managing Director & CEO, A.K. Khan & Co. Ltd., People's Republic of Bangladesh and Member, WIEF International Advisory Panel

3.30pm - 5.30pm

Tour of Alpensia

8.30am - 10.00am

Business Networking Breakfast (BNB)

BNB is developed to encourage greater business networking opportunities for the Roundtable participants. The BNB brings together individuals of the same industry to get to know each other in an informal setting and resume discussion on business opportunities.

10.00am - 3.00pm

1st Option
Ski Experience in Alpensia Resort

2nd Option
EFEZ Tour & Korean Tea Ceremony "Dado"

CAPITALISING ON Islamic Trade Opportunities

The 10th WIEF Roundtable saw a gathering more than 200 experts from East Asia, Southeast Asia and the Middle East to discuss collaboration opportunities in the Province of Gangwon of Korea

The Gangwon Province and the city of Pyeongchang received a brief introduction from Mr Moon-Soon Choi, Governor of Gangwon Province. Despite the geographical differences between Gangwon and most of the Islamic world, Choi believed that business partnerships between his province and other nations could build bridges towards peace and prosperity.

"Our province is a major producer of eco-friendly agricultural products in Korea," he said, adding that potatoes and lilies were the country's major products in this sector.

Gangwon also had a great deal to offer in terms of the halal industry and tourism, with strengths including healthcare (such as medical devices and anti-aging) and waste-disposal industry.

WIEF Foundation Chairman Tun Musa Hitam presented a rousing argument in favour of Korea's potential in Islamic finance and trade: "After the Korean War, Korea was one of the poorest countries in the world. However, within a short period of time, the country managed to industrialise rapidly, expanding its GDP by an average of eight per cent a year from a mere US$2.7 billion in 1962 to US$230 billion in 1989, and subsequently breaking the trillion-dollar mark in 2007 .

"The Koreans used their own strength to turn the country into a powerful democracy and one of the greatest economic powerhouses the world has ever known. Their success all boils down to the people's determination," he added.

Musa believed that the Koreans' hard work and sacrifices, stemming from a clear vision of the future, have enabled them to turn their ambitions into tangible reality.

"True to their nature of having an open mind, the Koreans are now exploring the huge opportunities found in developing linkages with the Muslim world. They know it is impossible to ignore the tremendous growth of Islamic finance, valued today at US$1.6 trillion [annually], and the burgeoning halal industry, valued at US$2.3 trillion [annually]," he said.

Korea does not intend to cater only to its own Muslim population but also to the ever-increasing number of Muslim tourists and businesses that enter the country every year, as well as the huge potential for related trade and investments.

"Korea, due to its solid financial infrastructure and strong agri-food industry, is poised to become a strong player in Islamic finance and the halal industry," Musa said.

Mr Woong-Seob Zhin, Governor of Korea's Financial Supervisory Service, elaborated on the opportunities in Islamic finance, saying it "has been growing at a robust pace of about 20 per cent a year. It is also said that sukuk issuances worldwide surpassed US$120 billion last year. We also see the growth of the sukuk market spreading from the Middle East and Southeast Asia to the US and EU."

Zhin spoke on the virtues of Islamic finance, including its potential to contribute to greater balance between

H.E. Woong-Seob Zhin, Governor Moon-Soon Choi, the Hon. Tun Musa Hitam, H.E. Sanad Al Meqbali and H.E. Essa Al Ghurair at the opening session of the Roundtable

finance and economic activities as well as its focus on the collective wellbeing of the masses, which is why Islamic finance was considered a viable alternative to safeguarding financial stability in the wake of the 2008 financial crisis.

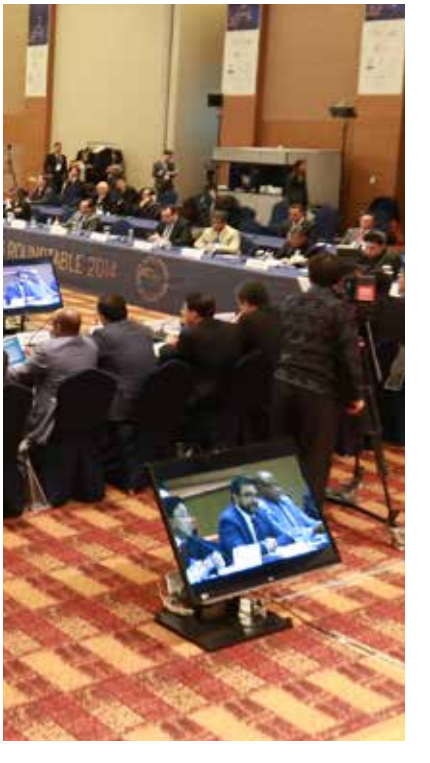
Citing the active presence of Korean companies in the Middle East, Zhin recommended that these companies should diversify their capital formation and investment portfolios through Islamic finance (and also dilute their portfolio concentration in the US and Europe) in order to take advantage of the abundance of petrodollars in the region.

Essa Al Ghurair, Board Member of the Dubai Chamber of Commerce & Industry, welcomed the expansion of Islamic finance in countries such as Korea and credited leadership as one of the important factors of its success.

"Korea has prospered because of people like your leaders," he said, expressing his hope that such leadership qualities would inspire the development of a more comprehensive and sustainable way for Islamic finance to go forward.

H.E. Sanad Al Meqbali, Chairman of the Emirates Entrepreneurs Association in the United Arab Emirates, applauded the holding of this Roundtable as an important platform to initiative more meaningful collaboration between Korea and the Muslim world.

He expressed his appreciation for business leaders around for the world for acting swiftly in finding new processes, markets and innovations, despite the current economic pressure and uncertainly. H.E. Sanad concluded by urging for deeper cross-border cooperation as we definitely have much to learn from each other.



Challenges and Opportunities

Financial Cooperation Amongst Regions

Economic and financial cooperation among regions is the key to fostering greater understanding among nations. Korea is no stranger to financial cooperation with other countries but its ties to the Islamic region are still limited.

According to session moderator Dr Beom-Sik Jang, Executive Vice President for Academic Affairs, Soongsil University, Korea, attempts to bring Islamic finance into Korea began in 2009 with legislative attempts to establish the foundations of Islamic finance in the country.

Although there was little success at the time, Dr Jang said that progress was still possible as "the demand for Islamic finance is growing stronger than ever before in this country."

The first session began with a keynote speech by Prof Dr Oh-Seok Hyun of the Korean National Diplomatic Academy. Prof Hyun was previously Deputy Prime Minister of Korea and Minister of Strategy and Finance.

Prof Hyun provided an overview of the global economic outlook emphasising that economic recovery had not been as positive as previously forecast.

"Uneven global recovery continues due to the fact that the legacies of the crisis, such as high private and public debt, still cast a shadow. The pace of recovery is becoming more country-specific," he said.

Prof Hyun also warned of the increase in downside risks such as worsening geopolitical tensions, stagnation and low-growth potential, adding that raising actual and potential growth must remain a priority.

Focusing on Korea, he noted that the country had fared relatively well compared to other countries: "We have

maintained about average growth and recorded an annual growth rate of three per cent last year. We have one of the lowest levels of government debt in the world."

He stressed, however, that it was time for decisive action and new policies to steer the Korean economy away from potential stagnation, adding that the Government had a three-year plan for economic innovation based on the philosophy represented in five "Cs": change, carry out, concentration, core and creative ideas.

"The three-year plan consists of three key strategies: achieving healthy economic fundamentals, an innovative and dynamic economy, and balanced growth between domestic demand and exports," Prof Hyun said.

Finally, he presented a "report card" on the Korean financial market, giving it the thumbs up for having made steady progress through the financial crisis. "Korean financial firms are now actively expanding their businesses into new areas such as retirement pensions and private banking, as well as expanding overseas. However, the economic value added by the financial sector has been stagnant for some time and overseas expansion has not been that successful."

Dr Dong-Hyun Ahn, Professor of Economics at Seoul National University, spoke on the remarkable growth of the Korean financial market: "In 1991, the Korean Government developed the financial industry as a strategic industrial sector for further economic growth by liberalising the interest rate and providing a roadmap to globalise it."

"The Korean banking industry's total assets have grown from US$1.8 trillion to more than US$2 trillion. The insurance industry's total assets under management are as large as US$740 billion, growing more than double in the past five years," he said.

One of the strategies that Dr Ahn highlighted for developing the financial sector involved increasing economic and financial cooperation with the Middle East and other Islamic countries beyond the current focus on oil and gas.

"There is much potential to be unlocked within the Islamic region and the benefits from greater financial and economic cooperation are mutual for both Korea and the Islamic countries," he said.

Dr Ahn made a compelling argument for why Korea would be an attractive foothold for Islamic finance in East Asia: "Korea is one of the leading countries in manufacturing industries and is also quite strong in other major industries such as shipbuilding, petrochemicals, electronic appliances and information technologies."

He added that the Korean financial market was attractive because it was well-advanced and complemented by a top-notch financial IT sector and a robust legal system. "More importantly, from a political standpoint, Korea is well-balanced and neutral," he stressed.

With these characteristics as well as a long historical relationship with the Islamic world, Korea could be a regional satellite hub for Islamic finance in East Asia, he said.

The session's next two speakers examined at the other side of the coin—the virtues of Islamic finance.

Describing Islamic finance as a Shariah-compliant form of intermediation between the haves and have-nots, CIMB Islamic Bank Malaysia CEO Badlisyah Abdul Ghani said that Islamic finance filled a gap in the market by catering to the world's 25 per cent population of Muslims and also provided alternative choices for other consumers.

"From a regulator's or government's perspective, they expect the financial market to support national development and facilitate trade within the country as well as external trade with other countries. Governments and regulators also look at the protection of systemic as well as financial stability and integrity.

"They also go for optimal wealth distribution among the population," Badlisyah said, highlighting the four segments of Islamic finance: commercial banking, sukuk, takaful and Islamic investment funds.

Islamic banking assets worldwide were valued at US$1.5 trillion with a compounded annual growth rate of 17 per cent between 2009 and 2013, said Dr Osman Babiker Ahmed, Lead Economist/Training Specialist, Islamic Research & Training Institute (IRTI-IDB), Saudi Arabia.

The majority of Islamic commercial banking institutions were hosted in the Middle East, while in Southeast Asia, Malaysia and Indonesia dominated the market.

"The global gross takaful contributions are estimated to have amounted to US$21.5 billion towards the end of 2014, and the annual growth in contributions for Islamic insurance is forecast to be more than 15 per cent by 2014 and early 2015," said Dr Osman,

Badlisyah Abdul Ghani, CEO of CIMB Islamic Bank, Malaysia, stressed that, in order for Islamic finance to benefit the people and the economy, enabling legislations must be put in place

"Islamic finance also requires a cost-efficient environment for i t to be able to fulfill the needs of consumers. We need to have tax neutrality to allow Islamic finance and conventional finance to be available to consumers in the real sense."

Badlisyah Abdul Ghani
CEO, CIMB Islamic Bank, Malaysia

adding that "Saudi Arabia generated an estimated US$4.6 billion in gross takaful contributions in 2013, and Malaysia gathered about US$2.3 billion in Islamic insurance premiums."

While Badlisyah believed that the 140,000-strong Muslim population in Korea justified the presence of Islamic finance, he said that several measures had to be put in place for Islamic finance to operate.

"The first is about having an enabling environment. This can only be achieved if governments and regulators in a particular jurisdiction decide to put in place the necessary legislation or regulations that can facilitate Islamic financial transactions," he said.

"Islamic finance also requires a cost-efficient environment for it to be able to fulfil the needs of consumers. We need to have tax neutrality to allow Islamic finance and conventional finance to be available to consumers in the real sense." Badlisyah added.

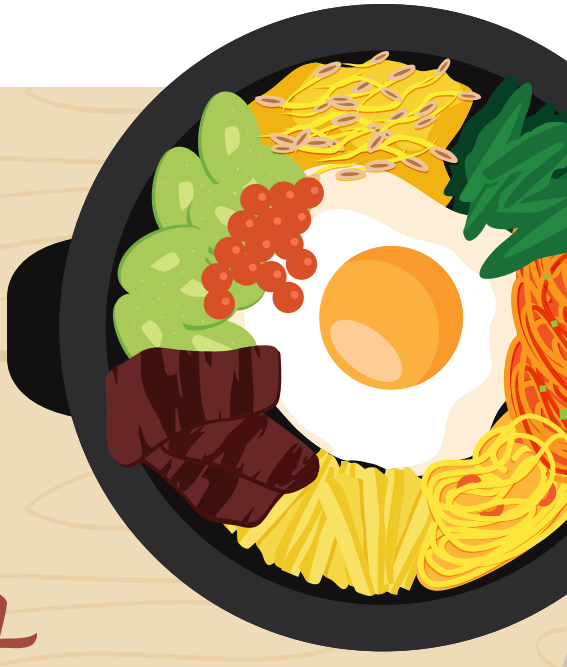
When Korea has a conducive environment in place, the final step is "to just do it". To this end, Badlisyah recommended that Korea should collaborate with organisations in Malaysia and the GCC or participate directly through the marketplace for Islamic finance in Malaysia.

Moderator Dr Jang wrapped up the session by encouraging Korea to continue pursuing research in Islamic finance in order to understand its philosophical functions, structural and legal features, banking regulations, as well as market trends.

"Islamic finance could complement (the conventional financial sector) in providing financial stability throughout the world; and I hope Islamic finance will be pursued more thoroughly and actively in the coming years," he concluded.

Tourism and Korea's Food Industry:

Capturing the Muslim Market



The global halal market, which includes food, finance, tourism, pharmaceuticals and cosmetics, is estimated to be worth more than US$2.3 trillion annually. The second session of the Roundtable explored opportunities available for Korea to participate in this market, particularly in tourism and food.

Moderator Dr Hee-Soo Lee, Professor of Cultural Anthropology and Director of the University Museum, Hanyang University, noted that the halal food sector alone has reached the value of US$700 billion annually and is a ripe market for Korean businesses to tap into.

Dr Hee-Yul Lee, Professor of Foodservice Enterprises with Korea's Sejong Cyber University, observed that the Gangwon Province was an ideal location to explore opportunities for halal industries.

"Gangwon-do is Korea's most popular tourist destination, enjoying a reputation for having wonderful tourist resources, a pristine natural environment and various kinds of foods made from fresh and uncontaminated ingredients," he said.

Prof Lee noted that Gangwon Province attracted 1.8 million foreign visitors in 2012, a 36 per cent increase compared to 2011.

"When talking about Islamic tourism and this province, Gangwon-do's comparative advantage lies within its natural surroundings, which are fresh and pure. Based on this platform, Gangwon-do can build a food industry that includes halal commercialisation. This business opportunity has the potential to generate multiple layers of benefits, including local manufacturing jobs, growth in domestic tourism as well as the export of raw materials and processed food," he added.

To attract Muslim tourists, the Gangwon Province must develop global food choices and adapt local foods to meet the tastes of foreign tourists, increase the number of restaurants serving halal food and strengthen training and education of workers in the hospitality and tourism sector.

Prof Lee identified five critical factors that needed to be addressed in order to build an export-oriented halal food industry in the Province: "First, there is a need to build foundation of supply. Building a halal slaughterhouse to produce high-quality halal meat would provide Gangwon-do with a significant competitive advantage," he said.

Second, Gangwon should develop systemic and technical capacity that offers halal certification for locally-produced raw materials and ingredients, which can be sold into the domestic food production industry or exported as halal-certified ingredients.

"Third, we need to manufacture a variety of processed halal food, which would be available locally as well as be exported to Islamic countries. Fourth, there is a need to strengthen education programmes managed by the local government, targeting workers of the food industry, to improve our understanding of Islamic culture and the halal industry," he said.

Finally, Prof Lee noted that the province should look into coordinating halal certification and product marketing. He believed that these five factors could build the foundation for growth and opportunities in the domestic halal industry, making Gangwon Province a leading exporter of halal products and a promoter of Islamic tourism.

Dato' Seri Ibrahim Ahmad, Executive Chairman of Dewina Holdings Sdn Bhd, Malaysia, provided an overview of the global halal market and its prospects and reminded participants that the areas of halal influence went beyond food.

"Hospitality and tourism is a major area of halal development, with the increasing number of Muslim travellers and Muslim airlines," he said.

Dewina's Brahims flight kitchen in Kuala Lumpur, he said, supplied halal meals to airlines such as Emirates, Qatar Air, Etihad and Turkish Air, and was one of the largest flight kitchens in the world.

Ibrahim also spoke about halal logistics and supply-chain management, which were crucial in the maintenance of halal integrity, and that a key factor in the halal business was the establishment of halal industrial parks where industries could be housed together with all the necessary services and infrastructure to facilitate halal certification.

Ibrahim also shared Malaysia's experience in encouraging the development of halal industries, both domestically and internationally: "Malaysia has established a formalised halal certification programme through the Department of Islamic Development, Malaysia, and formed the Halal Development Corporation to promote halal activities and provide training.

"Malaysia has [also] been involved in the propagation of global halal standards. About three years ago, the halal standards were proposed to the OIC, and they were accepted and accredited as acceptable standards for halal status. Malaysian businesses also co-venture with foreign companies to get into the manufacturing of halal products."

The Dewina Group's wide range of activities showcases the myriad opportunities available within the halal trade, including food manufacturing, halal catering for international airlines, industrial catering for the Malaysian military, franchising, in-house training and monitoring, as well as certification.

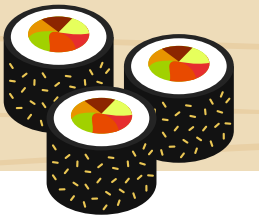
Ibrahim encouraged Korea to tap into opportunities for halal trade, such as supplying halal food for the 2018 Winter Olympics as well as halal food manufacturing, cosmetics, pharmaceuticals and halal-certified ingredients for the export market.

Essa Al Ghurair, Vice Chairman of Al Ghurair Investment in UAE and member of the WIEF International Advisory Panel, stressed in his presentation that countries around the world, from Australia to America, were eager to develop the halal industry not only for export but also for domestic consumption.

"Halal food comprises nearly 16.6 per cent of the global food and beverage market," he said, "while 91 per cent of the OIC countries' meat and livestock imports come from non-OIC countries. We are positioning the UAE to become the third-largest halal meat importer for redistribution to the rest of the world."

Moderator Prof Lee wrapped up the session with a reminder that, with all the halal sectors being closely interrelated, there needs to be a holistic understanding of the halal system based on the Islamic tenets.

"Korea, which is still in the initial stages [of the halal business], has to prepare from the basic Islamic understanding to catch up with the huge global halal market," he said.



Investment Opportunities
in Gangwon's Property Sector

As the world becomes increasingly urbanised, the real estate sector will become a major focus for investment. In the third session of the Roundtable, panellists explored the potential market for real estate projects around the world as well as in Gangwon Province, and the strengths of Islamic financing in this sector.

Session moderator Salahuddin Kasem Khan, Managing Director and CEO of A.K. Khan & Co, Bangladesh, said that nearly 80 per cent of the world's population currently lived in cities:

"This is a huge problem, particularly in the 57 developing OIC countries. We need new housing, universities and workplaces for these people entering the cities. The time for smart cities has come, and I believe Korea, with its cutting-edge technology, can play an important role in this new concept of smart cities across the world," said Salahuddin, who is also a member of the WIEF International Advisory Panel.

Dato' Seri Abdul Wahab Maskan, COO of Sime Darby Berhad, Malaysia, shared his country's experience in foreign real estate investment: "For Malaysian companies that invest overseas, number one is the potential for development and regeneration development. In particular, regeneration development in big cities is definitely much sought after.

"The second is having quality assets in prime locations as well as stable earnings and good returns. This is demonstrated by the trend of Malaysian and Asian companies moving beyond the shores of their normal territories and going to very mature economies or cities, like Tokyo."

The third criterion, he said, was the diversification of sectors and geography to include developed as well as emerging economies in order to sustain investor or shareholder requirements.

"The fourth point is the use of Islamic financing, which is preferred by many companies around the world.

Finally, another aspect that is required by real estate and investment companies, as well as their shareholders, is sustainability," he said.

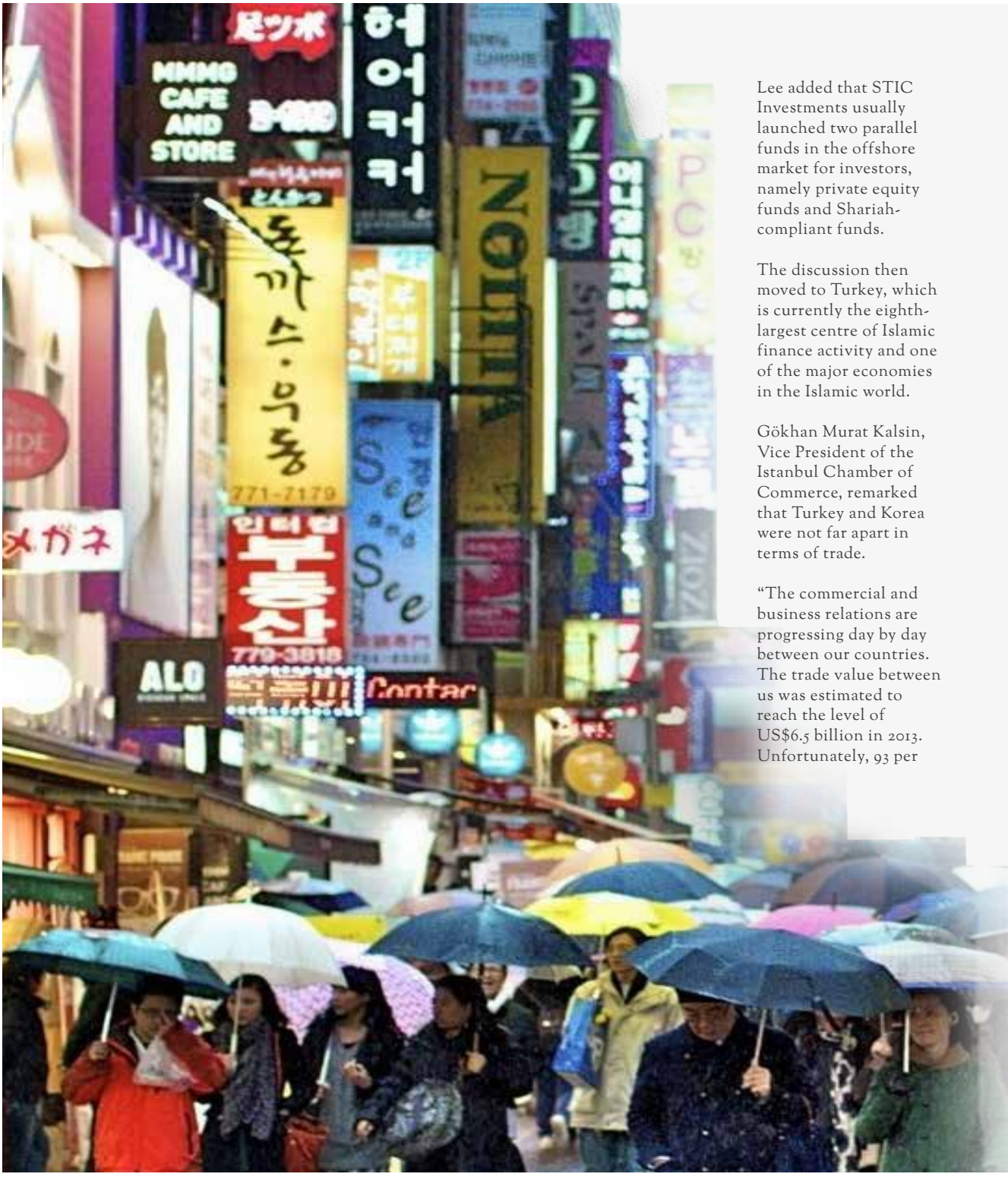
Dato' Seri Abdul Wahab noted that the WIEF had a role to play in promoting real estate investments internationally by providing a platform for networking and showcasing real estate opportunities, which could include ASEAN-Korean collaboration.

Sang-Bok Lee, Representative Director and Executive Managing Partner of STIC Investments Inc., Korea, said that his firm served as a financial partner helping invested companies achieve further growth.

He explained that his firm's main investments were in the ICT, automotive, shipbuilding and bio-health sectors, as well as green energy focusing on technology-based manufacturing companies in Korea and China.

"Our accumulated assets under management are US$3.3 billion, out of which US$830 million came out of Korea. US$730 million came from the Middle East, and some from Malaysia," he said.

"Our domestic investors include the national pension service and the government employees' fund, military employees, teachers and notable financial institutions in Korea. Outside Korea, we have very notable names as our investors, including the United Arab Emirates sovereign wealth fund, the Singapore sovereign wealth fund, and the Malaysian pension fund."



Lee added that STIC Investments usually launched two parallel funds in the offshore market for investors, namely private equity funds and Shariah-compliant funds.

The discussion then moved to Turkey, which is currently the eighth-largest centre of Islamic finance activity and one of the major economies in the Islamic world.

Gökhan Murat Kalsin, Vice President of the Istanbul Chamber of Commerce, remarked that Turkey and Korea were not far apart in terms of trade.

"The commercial and business relations are progressing day by day between our countries. The trade value between us was estimated to reach the level of US$6.5 billion in 2013. Unfortunately, 93 per

cent of this trade value was composed of Turkish imports from the Republic of Korea, while only seven per cent was Turkish exports to the Korean market," he said.

Korea had a significant presence in Turkey, with 256 Korean companies operating in Turkey as of January 2014, with about US$500 million in investments.

"Turkey is also considered to be one of the most attractive countries for foreign direct investment. Turkey's educated and qualified labour force—reaching 27 million; its developed infrastructure in the telecommunications and energy sectors; its geographical location; and its low-cost transportation opportunities are the factors that make investment in Turkey advantageous," said Kalsin.

For foreign investors interested in entering the Turkish market, construction and real estate activities were the most lucrative. "The share of this sector in Turkey's GDP reached 15 per cent in the first half of 2014. Foreign real estate investments contributed only 13 per cent of total foreign direct investment in 2011 but rose to 34 per cent in three years. An essential part of foreign investment in real estate, worth over US$3 billion in 2013, was made in Istanbul," he added.

Concluding his presentation with a view towards future investments in Turkey, Kalsin noted that urban transformation needs would shape demand in the next 20 years as one-third of the present buildings in Istanbul—500,000 houses as well as their infrastructure and social equipment—would undergo a process of renewal.

Finally, the discussion returned to the Gangwon Province with a presentation by Dr Bee-ho Chun, Ambassador for International Relations, Gangwon Provincial Government.

Dr Chun began with a simple message: "Come to Gangwon, invest in Gangwon" and addressed the province's investment environment, Government incentives as well as the potential investment projects.

He identified several investment success stories in Gangwon, including the data centre Naver (awarded the leadership in energy environment design platinum prize in 2009), Legrand Korea (which attracted US$450 million in total investment) and Chinese investment in a resort complex on the east coast.

Dr Chun believed that national and foreign companies selected Gangwon as their investment destination due to its conducive environment. "Gangwon has a population of 1.55 million and 21 universities. The territorial space of Gangwon is the second largest in South Korea and the population density is the lowest in the country. There are 100 million national tourists and 2 million foreign tourists annually."

He added that Gangwon's transportation network to and from neighbouring countries, including China, Japan and Russia, was well-organised and interconnected via air, high-speed rail, expressways and cruise ships.

"The Gangwon Provincial Government is also developing strategic industrial clusters including the Pyeongchang Winter Olympics specialised zone, the bio-industrial belt, the EFEZ, the foreign investment zone and the ICT industry belt," he said.

Investment activity has been driven largely by incentives provided by the Gangwon Provincial Government: "Korea has signed a series of free trade agreements with the United States, the European Union, ASEAN countries, China, Canada and others, which provides benefits such as removal or reduction of tariff and non-tariff barriers," said Dr Chun.

Other investment incentives include tax holidays, cash returns, permanent residence status and infrastructure.

Dr Chun added that there were several key potential investment projects in the province, including the 2018 Winter Olympic Games, the Alpensia Resort project, the Wonju Enterprise City and medical complex, and the EFEZ development.

Wrapping up the session, moderator Salahuddin quoted a PricewaterhouseCoopers study presented at the 10th WIEF in Dubai: "Smart cities are not just places where smart technologies are adopted, they are places where basics, safety, security and environmental needs are met."

Salahuddin was confident that the framework presented in Gangwon would lead towards the eventual birth of a smart city.

Q: What are the prospects regarding the issuance of sukuk in Korea?

Dr Ahn: Unfortunately, in the near future, Korean firms and financial institutions may not be able to issue sukuk. The structure of sukuk requires sale and re-sale, which incurs additional tax burdens such as capital gains tax as well as stamp taxes, which are exempted for generic bonds in Korea. So, given this additional tax burden, the issuance of sukuk will be detrimental to the issuers.

Korean firms are not well-informed about the pros and cons about issuing sukuk. I hope that the Korean National Assembly will pass the Bill that failed back in 2009. In such a case, I'm pretty sure that the demand for issuing sukuk will skyrocket in order to utilise the lower interest rate as well as to diversify funding sources from the perspective of Korean firms and financial institutions. Korean issuers will benefit from the steady flow of demand from Islamic investors even during potential global financial crises.

Badlisyah: To give a full picture of the scenario in the global market: the Hong Kong Government has done the necessary changes in law to facilitate Islamic finance particularly for sukuk in Hong Kong. Singapore, the UK and Luxembourg have done the same thing, and a few other jurisdictions in Europe are looking at facilitating Islamic finance itself in the same manner as UK. The Philippines, which is the largest Catholic nation in Southeast Asia, has facilitated Islamic finance since the 1970s although the activity is still not as big as it is in Malaysia. So, at the end of the day, it's all about doing business and facilitating trade. It has got nothing to do with religion. It's about encouraging a new avenue for finance, investment and trade.

& Question Answer

Q: The understanding of Islamic principles in Korea is still at the initial stage. How can we design a halal training programme and to increase human resources in halal industries?

Al Ghurair: There are two ways. One is to educate Koreans by going overseas, for example to Malaysia or the Middle East, and looking at examples there. Or international students who are living here in Korea can contribute and share their knowledge with the Korean people.

Q: What is your advice to Korean business sectors in terms of the halal industry as a new or potential market?

Ibrahim: Korean businesses that want to get involved in the halal industry need to have a good understanding of where they are going to export the products to, and the kinds of rulings on halal status in that country.

Much as there is a lot of talk on unifying halal standards among all countries, it is still a work-in-progress. Also, look for a partner that understands this and can assist in terms of getting approvals locally.

If you are a restaurant or franchise business and you are going overseas, you can go into a joint venture with some local companies, because it is quite important to have some local input.

One of the areas that Korea needs to look into is its strengths. What are the best products that you can produce here, which will give you an advantage over other countries producing the product? You might be working on the beef or dairy industry, or Korean noodles. Having good halal certification is very important.

Q: What alternatives for financing exist, such as sukuk plus conventional, pension funds, takaful, institutional funding, or funding with guaranteed returns?

Abdul Wahab: There are two kinds of funding: one is traditional banking and another is what they call participative funding, which means taking a bit of the risk. There are other forms of funding, involving one of the pension funds or institutional funds. One way they approach it is by not becoming directly involved in any of the investment risks. That means no equity but they provide funding where the payment is structured either in total or partly in terms of guaranteed returns through the development.

Q: Is there a developed Real Estate Investment Trust (REIT) in Turkey, since Turkey has a developed real estate market?

Kalsin: There is a lot of new land to be developed. We have a lot of support from the Government to establish new cities. Additionally, cities like Ankara, Izmir, Gaziantep—especially in the southeast of Turkey—need to be renewed by developers. Unfortunately, the Islamic finance capacity is not enough in Turkey. It also costs more compared to the other banking systems. So I recommend that Islamic bankers from Malaysia or from the other countries come to Turkey and establish their own companies for new opportunities. There are only four Islamic banks in Turkey and their capital is not enough. This is a good opportunity for bankers, especially from Malaysia.

Q: Can we have strategic cooperation with the Islamic countries, using Islamic financial instruments for development projects?

Prof Oh-Seok Hyun: The world economy is already uncertain. So in that context, some kind of cooperation between Korea and Islamic regions is really important not only to improve the economic situation of each country but also to have some kind of risk-aversion behaviour. But there might be some lack of knowledge on Islamic finance, so I think this WIEF Roundtable is a very good occasion to show one another what are the issues and how we solve these kinds of issues.

Co-Organiser

Korea Tourism Organization (KTO)

Korea Tourism Organization (KTO), a national tourism board for Korea has contributed to the stunning growth of Korea's tourism industry over the past 52 years. KTO has worked together with central and regional governments, companies and academies to develop the tourism industry in Korea. Since its establishment in 1962, KTO has created and supported necessary tourism facilities and services such as tourism complexes, traditional and modern tourist attractions and accommodations to better serve a larger number of tourists.

With 31 KTO overseas offices worldwide, KTO contributed in attracting over 12 million international travelers last year and expects to have over 14 million this year.

KOREA
TOURISM
ORGANIZATION

At a Glance

1

The criteria for real estate investment abroad are: potential development and regeneration development; quality assets in prime locations as well as stable earnings and good returns; diversification of sectors and geographical focus; the use of Islamic financing; and sustainability.

2

Gangwon's tourism sector, well-developed transportation network, incentives for investors and potential for future investment provide a solid framework for cooperation with investors from Islamic countries.

3

Home to some of Korea's biggest industrial districts, Gangwon Province is on ideal location to explore halal opportunities, including tourism and halal food production.

4

Five critical factors must be addressed to build an export-oriented halal food industry in the Gangwon Province: establishing halal supply foundations; developing comprehensive halal certification systems; manufacturing a variety of processed halal food for domestic and export markets; strengthening local education in Islamic culture and the halal industry; and coordinating halal certification and product marketing.

5

One of the strategies that Korea plans to undertake for financial-sector development is to increase economic and financial cooperation with the Middle East and other Islamic countries beyond the current focus on oil and gas.

6

Islamic finance has been growing at a robust pace of about 20 per cent a year and is valued at US$1.6 trillion annually while the halal industry is valued at US$2.3 trillion annually.

7

The Korean Government has a three-year plan for economic innovation consisting of three key strategies: achieving healthy economic fundamentals, an innovative and dynamic economy, and balanced growth between domestic demand and exports.

8

Several measures must be put in place for Islamic finance to operate in Korea: an enabling environment (including the necessary legislation), cost-efficiency and tax neutrality.


WIEF
FOUNDATION

About the Organisation

WIEF Foundation

The World Islamic Economic Forum (WIEF) Foundation, established in 2006, is the organising body of the annual World Islamic Economic Forum. The Forum serves as a focal point where country leaders, captains of industry, emerging entrepreneurs, academics and other stakeholders from the Muslim World and beyond, meet to build bridges through business. The Foundation also undertakes various capacity building programmes under the WIEF initiatives of the Businesswomen Network (WBN), Young Leaders Network (WYN), Education Trust (WET) and Roundtable Series.

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WIEF
WORLD ISLAMIC ECONOMIC FORUM
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