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GLOBAL ISLAMIC CAPITAL MARKETS

CONTENTS

MESSAGE FROM THE EDITOR-IN-CHIEF

Assalamualaikum warahmatullahi wabarakatuhu

Dear Esteemed Readers,

I am delighted to welcome you to the second issue of the IIiBF-ICIFE *Islamic Finance Bulletin.*

The Islamic Finance Bulletin aims at providing a common platform for Islamic Finance community to exchange ideas and innovate practices of Islamic Economics, Banking & Finance that promote both global industry, academia and community development. As a conduit to encourage academic discourse as well as engaging in emerging industry technologies, a symbiotic as well as synergistic learning experience is aspired.

This issue presents the **Global Islamic Capital Market** updates as well as the opportunities that have been availed, and the challenges that have been overcome and that are yet to be addressed.

Given the need to consolidate the Islamic financial industry to better serve the Islamic finance community increased emphasis on the comprehensive breadth and in-depth development of the capital market is anticipated.

With Malaysia acquiring the largest share in the global Sukuk market, particularly with significant component of sovereign rating or Sukuk issuance the journey ahead is envisaged to anticipate a broader representative participation of the Global Financial community for better stability and sustainability for the Islamic Financial System. While ensuring it to be promoted as a viable platform for financial operations, Islamic capital market has portrayed its efforts to promote Islamic Finance 'Maqasid' by engaging in innovative Sustainable and Socially Responsible Investment Sukuk.

With these developments, we would like to introduce the 2nd issue of *the Islamic Finance Bulletin* on the theme of Islamic Capital Market to be current with the contemporary and continual development of capital market environment for Islamic financial services industry which is pertinent in the wake of globalization of the industry.

I would like to express my considerable appreciation to the article contributors and readership for their continuous support to realize the goal envisioned in this issue of *the Islamic Finance bulletin*.

Thank you,

Assoc. Prof. Dr. Syed Musa Alhabshi

Editor-in-Chief

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CHAIRMAN'S SPEECH AT 2ND ICIFE AGM

The Islamic financial system needs to be reinforced with golden Dinar, said Rais Yatim

The Speech by Tan Sri Rais Yatim at ICIFE 2nd AGM at Seri Pacific Hotel KL on 30th January 2016

The Islamic financial system needs to be further strengthened through the use of the gold dinar as an alternative in the world financial system, as mmoted by the chairman of the International Advisory Board of the International Islamic Financial Educators Council (ICIFE), YBhg. Tan Sri Dr Rais Yatim.

Rais, who is also Malaysia's cultural adviser, highlighted that the current financial system should not be limited to the use of United States Dollars (USD) alone, but to consider in view of the glories of Shariah-based financial systems, the use golden Dinar, as proven by the Islamic governments in the past.

"Islam is capable of creating alternative financial (system), but by reason of disunity among us in many ways, especially political, economic, religious and others, we fall behind in the use of dinar as the denominated currency in this part of the world."

"We need to find alternatives for the Islamic system since the Islamic banking and financial industry has received recognition worldwide," he said further.

Rais, who is also the President of the International Islamic University Malaysia (IIUM), gave the speech at the opening of the 2nd General Meeting ICIFE attended by 120 participants representing 21 countries.

He said, ICIFE will propose the use of golden Dinar to the international level such as the relevant Organization of Islamic Cooperation (OIC) agencies, and it will need to be discussed further among the members.

"Actually reserves (gold dinar) have been discussed since 1982, but no one has brought it to the international level such as the OIC, to organize a convention, or to the finance and banking (sectors). At least OIC can determine which direction we want to go," he iterated.

Rais is confident that the use of the Dinar is logical to be positioned in the Asean level, as more than half of the 500 million Asean populations are Muslims.

(Translated and adapted from original Malay language article from Bernama on January 30, 2016)

OPINIONS

DEVELOPMENTS IN THE ISLAMIC CAPITAL MARKET – THE 'THEN', NOW AND THE 'FUTURE'

By Dr. Aznan Hassan[1]

The Islamic capital market is the forerunner of the Islamic finance industry and Sukuk have been in the limelight. Commonly referred to as 'Islamic bonds', Sukuk are securities that are structured in compliance with the Islamic Law that prohibits the charging of interest and speculation, and are generally structured by involving a tangible asset in the issuance.

Initially, the issuance of Sukuk was introduced to the market by corporate entities as a fund raising instrument for their funding requirement. At the beginning, these issuances used relatively straight forward structures like Murabaha and Ijarah.

Over the period, Sukuk has evolved into sophisticated and elaborate structures. Specifically, two major innovations can be traced viz. in terms of the features such as Perpetual Sukuk (certificates that do not have a maturity date) and Exchangeable Sukuk (securities that are exchangeable into shares). Other significant innovation can also be identified in terms of the sophisticated structures involved , such as the Wakalah Sukuk as well as the expansion into new areas of Shariah Structuring based on intangible assets (such as airtime and right travel) forming the asset base for Sukuk issuances.

Moreover, emerging trends have been seen in the banking space in particular - such as the Basel III compliant Sukuk that provides for stronger base for Tier 1 and Tier 2 capital requirements, aircraft-financing Sukuk, Green Sukuk and Social Responsible Sukuk.

Where the Sukuk heavyweights still remain in the Malaysian, United Arab Emirates and Saudi Arabian markets, new markets such as the UK, Hong Kong, Luxembourg, South Africa, Thailand, Japan and numerous other African countries are opening up to the alternative option of Sukuk.

Sukuk has portrayed its resilience and ability towards sustainability in the global capital market per se as a robust and viable option for fund raising for both Corporate and Governments. Latest development is the introduction of SRI Sukuk, combining financial objectives with environmental, social and corporate governance (ESG) factors to ensure sustainability and ethical impacts of a particular investment. It should be noted that this philosophy sits at the core of Islamic finance principles.

In special reference to the recently incepted concept of Sustainable and Responsible Investment (SRI), the Social Impact Sukuk of IFFIm for immunization as well as Khazanah Nasional's SRI Sukuk for infrastructure financing portray the potential towards contributing to the enhancement

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of social and environmental value for the betterment of humanity.

Noting such initiatives, Sukuk has not only provided for a feasible alternative to fund-raising to meet the needs of the issuers and the investors but also maintains the 'Maqasid' of providing benefit to society and betterment of the people. Hence, we should not only look at the structures of the issuance, but also concern about the purpose of the issuance and how the proceeds are utilised in accordance to the principles of Shariah in realising the broader objectives of the Shariah, the Maqasid. This should be one of the main criteria in assessing Sukuk issuance.

Having completed the journey thus far, Islamic capital market, especially the Sukuk still requires a long way ahead to fully explore the potential of the market. Moving forward, we should look at the innovation in Sukuk issuance, not just from the structural point of view. We should also envisage seeing Sukuk as sustainable investment options that essentially contribute not only to the advancement of the economic, but also to the sustainable development with more emphasis on social, environmental and ethical development.

INVESTING IN COOPERATIVES: INVESTMENT AVENUES WITH FINANCIAL AND NON-FINANCIAL RETURN FOR COMMUNITY DEVELOPMENT

By Dr. Zurina Shafii[2]

Introduction

Cooperative operation is not a new phenomenon in Malaysia. Cooperatives in Malaysia were first established in 1922, the year which the Cooperative Societies Enactment 1922 was enacted. Early objectives of cooperatives were to improve the standards of living in the rural areas and to eradicate poverty. Cooperative members (also known as user-owners) are responsible in running the cooperative businesses in order to improve their socio economic well-being (National Cooperative Policy II (NCP II), 2011-2020). The increasing number of cooperatives in Malaysia is a good indication that people are more confident with cooperatives as a way to improve their standard of living.

The efforts by the government to accelerate the growth of cooperative development is evident with the formulation of the National Cooperative Policy II (NCP II) 2011-2020 that was launched by the on 16th July 2010. The formulation of both the NCP I (2002-2010) and NCP II (2011-2020) is to provide guidance for cooperatives to improve its performance, thereby helps to contribute to the economic growth. Cooperatives sector in Malaysia was targeted as the third engine of the nation's economic development in the ninth Malaysian plan, and by year 2013, the contribution increased to 5% of (Yearly Financial Report of Cooperatives).

Cooperative sector is monitored by a formal institution, namely Cooperative Commission of Malaysia (Suruhanjaya Koperasi Malaysia (SKM)), which supervises and monitors cooperatives by introducing regulations and guidelines to be adopted by the cooperatives. The measures raise the adoption of best practices in governance and management of cooperatives. This in turn improves cooperative performance, accountability of board and management to members and stakeholders and enhances transparency and reporting.

Since their introduction in 1922, cooperatives have always been recognized as a vehicle to elevate the standard of living of the poor and low-income earners by improving their ability to mobilize resources among the people within the urban and rural sectors of the population (Cooperatives Development Department, 2004). As a spillover effect of cooperative development and growth, a new asset class investment is born. Households could become members or invests as non-members in cooperatives to invest in real economic sectors which the cooperatives involve in.

This article reviews cooperative investment as an emerging investment with growth prospects. The article introduces cooperative operation; how it's defined, what it does, and risk and return

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characteristics of cooperative investment. The article also highlights a feature of cooperative investing; Impact investing for community empowerment, sustainable growth of real economic sector and job creation. Finally, the article discusses the challenges to cooperative growth and investing from the aspects of governance and monitoring, transparency and human capital.

Cooperative Operation Defined

The International Cooperative Alliance (ICA) has defined cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise based on the cooperatives principles”.

The International Cooperative Alliance has adopted seven cooperatives principles accepted by cooperatives around the world as foundational principles for establishing cooperatives. The cooperatives place these values into their cooperative practices. These seven cooperatives principles are: (1) voluntary and open membership, (2) democratic member control, (3) members economic participation, (4) autonomy and independence, (5) education, training and information, (6) cooperation among cooperatives and (7) concern for community (Cooperative Societies Act 1993).

What are Activities of Cooperatives?

Cooperatives are founded to provide products and to render services to the members. In Malaysia, cooperative activities are banking, credit and finance, agriculture, housing, industrial, consumer (adult and school), construction, transportation and services. To invest in these cooperatives householders could become members of the cooperative, joining some 7 million of members of various cooperatives in Malaysia (Malaysia Cooperative Society Commission, 2011) and contribute to get member shares in exchange of the capital invested. The statistics reported in by Malaysia Cooperative Society Commission in 2011 indicated that the total numbers of cooperatives are 9,074 with membership of 7,040,309. The shares of these members are 10.5 billion. These cooperatives have mobilised 92.8 billion assets and 23 billion turnover as in 2011. The cooperative sectors that have largest members are the credit and finance cooperative and consumer section of 1.9 million members and 2.5 million members respectively.

How Cooperatives Are Financed?

Cooperatives are finance via its members, business surpluses and from external funds. Members help finance the operations and growth of the cooperative through:

i. one-time or annual membership fees
ii. member contributions with no individual ownership attached, such as service fees
iii. member share capital
iv. individual member deposits with the cooperative which may be used for business in case of savings cooperatives

Significant amount of capital usually consists of member share capital. Share capital represents individual member’s financial stake in the cooperative. It is withdrawn only when the member leaves the cooperative. Some other forms of member contributions, usually related to patronage, are more variable but once given cannot be withdrawn and hence are a particularly useful form of cooperative capital.

Similar to business organisations, profit from cooperative operations could be retained to finance growth plan of the cooperatives. This is a long term source of funds since most cooperatives’ rules allow these funds to be distributed only when a cooperative is liquidated. Unlike loans, or individual member deposits, the cooperative does not have to pay interest to use these funds.

In addition, cooperative could be getting the capital from external sources. These non-member sources of funds may include cooperative or commercial banks, suppliers, government or donor agencies. Examples of external fundings are:

i. Grants from government and foundations

ii. short-term finance from government and commercial fund providers
iii. long-term finance from government and commercial fund providers
iv. trade credit offered by a supplier

Cooperative Investment As An Asset Class

There are considerations before one embarks into cooperative investing. From my view, cooperative investment could be considered as an investment that has growth potential with more than average risk profile when compared to listed equity investment such as quoted shares and unit trusts. Cooperatives usually involved in growing economic sector, which lends the proscpect of growth of assets and revenues to the members/ investors. In Malaysia, banking, credit, consumer cooperatives usually pay out double-digit returns to members. The returns was near to 20% in the previous years, but shrank to around 12-15% in current years. The scenario is similar Islamic cooperatives inThailand. From my interview with Board members and top management of Sakofah Savings Cooperative in Krabi on September 2015, I learnt that the return to members is around 15% per year.

The return on investment to members are obtained from profit of the cooperative operation. In Malaysia, majority of members involved in credit and finance cooperatives. These cooperatives are able to generate high return on investment to members as credit activities are booming in Malaysia to fill in the gap of financing facilities not served by banking institutions; stringent banking regulations in the current years results to inviduals taking finance from cooperatives. High growth in this enhances return to credit/finance cooperative.

In addition, the emergence of Shariah-compliant finance facilities by cooperatives also boost cooperatives stakes as providers of Shariah-compliant finance to Muslim population. The same also was observed in Thailand. Savings cooperatives satisfies the need for Shariah-compliant business and consumer financing in the Muslim minority country. In areas where Muslims forms significant population base such as in Krabi, Satun, Yala, Narathiwat and Pattani, the emergence of Islamic cooperatives is significant. The Muslims in Thailand are using cooperative movement as a vehicle to raise finance to expand businesses and to finance consumption to makes them financially included, unlike before when there was no Islamic bank and Islamic cooperatives in Thailand.

The risks of cooperative investment lies in several critical areas, namely management, cash flow and limited capital. As for cooperative management, it is a practice that cooperatives are managed by its members. The efficiency of the management is determined by the competence of the elected Board and appointed management team in the annual member meetings. Members of cooperatives are usually not professional managers, with some of them serve on voluntary basis. This give rise to management inefficiencies when making investment, capital expansion and asset acquisition decisions. This fact is acknowledged by Malaysia Cooperative Society Commission, that professional management is a challenge to cooperative movement in Malaysia.

In the case of credit and finance cooperative, there is risks that members are using cooperatives as a vehicle to obtain financing. If the management of cooperative is not competent to screen the members' ability to pay back cooperative financing, this will give rise to urrecoverable financing, which in turn will negatively impact cash flow of cooperatives. The cooperative also may invest in risky ventures that would collapse or the cooperative may be defrauded. For example, some cooperatives invest in shares when the stock market was booming. Financing decision of the management also could negatively impact members of cooperatives. Cooperatives could become heavily indebted from the short tern and long term finance.

Another limitation of investing in cooperatives is that cooperatives have limited sources of capital as compared to listed companies. Quoted companies have access to funds from various sources, which enables it to raise funds and embark on various lines and scale of businesses. Hence, they are able to generate robust profitability and returns for shareholders. This usually is not always the same for a cooperative, especially during the infancy stage. All that the cooperative has is usually the contributions of members, and this limits its ability to employ competent staff, and embark on some very lucrative business, which requires huge capital. This, in turn, constraints the income of the cooperative and returns to members.

Human capital shortage in the cooperative sector is another challenge to cooperative movement. To address this, Malaysia Cooperative Society Commission is offering a diploma program of cooperative management to produce competent human capital to the industry. Thus, we could expect professional management in cooperatives in Malaysia in the near future.

As lucrative as cooperative investments are, investors have to choose reliable and stable cooperatives to invest in. In general, a government cooperatives are stable compared to private owned cooperatives as these cooperatives enjoy government grants and assistance. To help prospective investors to make investment decision, Malaysia Cooperative Society Commission produced annual lists of 100 best cooperatives in Malaysia. Prospective investors could view and analyse the the annual reports of these cooperatives from the commission's website.

Cooperative Investment: Impact Investing to Community

In a US publication, the Democracy at Work Institute reports that worker cooperatives are "an effective tool for creating and maintaining sustainable, dignified jobs, generating wealth, improving the quality of life of workers and promoting community and local economic development, particularly for people who lack access to business ownership or even sustainable work options." Investment in cooperatives is more than mere getting financial benefits from investment. The followings are the reasons why investors should consider to invest in cooperatives, beyond dollar returns:

i. Promotion of Financial inclusion

In the case of Malaysia, the cooperative model could promote economic participation of economically disadvantaged groups such as the rurals. In the case of Thailand, cooperative could increase economic participation of minority Muslim communities to get access to finance and financial services in order to acheive the potential to overcome barriers that limit their economic opportunities.

ii) Cooperatives Help Build Resilient Local Communities

In Malaysia, since the highest numbers of cooperatives members are in consumer sector, investors when investing in cooperatives are also investing to develop underserved communities. In addition, cooperative movement is creating jobs to the local communities and empower women economically. For example, in the case of Koperasi Peneroka Sawit Felda Lubuk Merbau Kedah Berhad (incorporated in 2012), that conducts the business of oil palm agriculture. The cooperative is empowering the local settlers to purchase oil palm fruits from members and non-members so that they could sell their products at better price. The dividends from cooperative shares are helping the coomunity to finance living expenses.

iii) Potential to Scale

Cooperatives movement, especially in the agriculture, housing, industrial, consumer (adult and school), construction, transportation and services sector could be further developed for growth. When cooperatives are able to produce basics infrastructure, goods and services, cost of living inflation could be managed. Potential growth in these sectors indicate that there is great potential for scale and growth for cooperative.

iv) Shariah-compliant Cooperatives

To respond to the demand of Shariah-compliant asset class, Malaysia Cooperative Society Commission has facilitated Shariah-compliant cooperative via the establishement of Koperasi Syariah (Kopsya) to promote the growth of cooperatives of Shariah-compliant operations. As in 2015, 655 are identified as Shariah-compliant cooperatives. With the screening, Muslim investors could easily identify the cooperatives that they coud invest in.

Conclusion

Cooperative investment could be an asset class in a household's portfolio due to the sector's growth and increasing importance in Malaysia's economic growth. This class of investment, however should be carefully selected so that investors could rate the risks involved. In addition to financial returns, investors might want to consider putting capital in this sector as cooperatives' operation directly impact the community.

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YOUTH VOICE

THE ASEAN DISCLOSURE STANDARD SCHEME: PROSPECTS FOR DEVELOPMENT OF ISLAMIC CAPITAL MARKET

by Horiya Hussain

Background

The initiative for regional capital market integration under AEC Blueprint 2015 has led to the standardization of disclosure standards for issuance of securities in the ASEAN capital markets. In pursuant to the ACMF Master plan for capital market integration, subsequent adoption of ASEAN Disclosure Standards Scheme by Malaysia, Thailand and Singapore has been witnessed in the first quarter of 2013. The scheme, while providing a promotional base for conventional capital market, has significant relevance to Islamic capital market growth. Pursuant with these developments, the "Handbook for Issuers making cross border offers using ASEAN Disclosure Standards" was published in September 2015 – which is the first step towards the integration of capital markets of these three countries through the signing of a MoU in early March 2015. The MoU being for the purpose of establishing a Streamlined Review Framework for ASEAN Common prospectus framework - shorter time-to-market and faster access to capital across signatory countries through a streamlined review process is expected.

However, how facilitative is this initiative for issuance of Islamic capital market instruments, among them the most famous being the Sukuk. While Zainal Izlan, the executive director of SC Malaysia highlighted that Islamic capital market has tremendous opportunities within and across ASEAN jurisdictions (SC press release, 18 January, 2013), an insight into the 'Common Prospectus' is intended in this article.

The information disclosure and transparency related to the Islamic Capital market players play impactful role on the growth, efficiency and potential of a capital market as it involves the fund raising activities mostly related to rational investors looking for cost-benefit appraisal. As such, proper disclosures within the context of issuance of securities are expected to enhance market liquidity and lower the cost of capital for the issuer. Increase in the relevant information disclosure improves corporate governance, affects investment decisions and thus help in attracting investor clientele.

In addition to this, Islamic securities require another layer of disclosure with regard to the Shariah compliance of the issued security. Therefore, disclosures of Shariah requirements are needed in order to avoid hazardous outcomes as a result of 'Shariah risk'. In other words, in order to avoid the Shariah non-compliant structures branded as Shariah compliant, utilization of non-permissible proceeds, legal misrepresentations and disputes which can prove damaging to the confidence of the investors, proper disclosures pertaining to Shariah compliance are essential.

The issuance of prospectus for fund raising through issuance of shares and Sukuk, thus play a vital role in communicating the necessary information in order to achieve investor confidence to raise the money required by the issuer. The disclosure of historical information of the issuer related to the financial performance, the ability to meet future goals and the tangible statistics help in elucidating upon the viability of the issuer as well as provide for the fundamental evaluation criteria.

Therefore, in the light of above, the cross border issuance of Islamic securities requires efficient disclosure in order to maintain the integrity and confidence of the market. Many impediments can arise related to disclosure for securities issuance due the difference in requirements by different jurisdictions.

The ASEAN and Plus Standard Requirements:

The ASEAN and Plus Standards Scheme (Scheme) is one from amongst the many capital market integration initiatives undertaken by the ASEAN Capital Markets Forum (ACMF) under the ASEAN Economic Community. The Scheme focuses on facilitating cross-border offerings of securities within the ASEAN region by harmonising disclosure requirements.

The Scheme introduces two levels of standards, viz. a set of common ASEAN Standards, and a set of limited additional standards known as the Plus Standards. The ASEAN Standards are a set of common standards providing disclosure requirement for plain equity and debt offerings. These are based on international standards on cross-border offerings set by the International Organization of Securities Commissions (IOSCO). The Plus Standards are additional standards that may be prescribed by respective individual ASEAN jurisdictions for such requirements where harmonisation is not yet possible due to their individual market practices, laws or regulations.

The New Harmonized ASEAN Disclosure Standard Scheme:

The new disclosure standards are again based on IOSCO disclosure standards for cross border offerings in addition to IFRS and ISA. The standards are basically an up-gradation of the previous Plus standards in terms of eradication and harmonization of the provisions that were required earlier under the plus standards. Therefore, the Disclosure Standard Scheme now provide for one comprehensive framework for prospectus formation.

The scheme is only applicable to plain equity and debt and excludes any other instruments like warrants, options, any other rights in shares or debt securities, and also debt securities that are not plain vanilla (ASEAN, 2014) for the issuance of plain equity and debt within ASEAN.

Standards applicable to Islamic Securities

The ASEAN Disclosure Standards are divided into two categories viz. standards for plain equity and standards for plain debt.

With regard to the standards related to plain equity, no exclusive mention with regard to Shariah contracts in use and the number of Shariah advisors, their names, approval of the Shariah compliance of the share by the Shariah board/ advisor etc. can be found in the standards. This implies that no recognition of the Shariah governance framework as a separate advising entity to the issuer has been made in the standards. However, the specification of the management reporting structure, the statement by experts, and consent from the person advising the issuer in the preparation of the prospectus as disclosure requirement shall provide for the advice and statement of Shariah compliance of the securities offered (ASEAN Equity Securities Disclosure Standards, April, 2013). Therefore, it can be stated that no special emphasis has been made in respect of Islamic securities offering and thus the individual jurisdiction shall have the authority over such disclosure requirements as deemed fit by them. Such blithe practice can hinder the integrity of Islamic securities offering thus impacting Islamic capital market growth. Also, the previous Plus standards lacked any such specific disclosure requirements for Islamic equity products.

As for the Standard related to plain debt securities, the disclosure requirement for Sukuk Ijarah have been provided for comprehensively. The disclosure standards define the meaning of Sukuk Ijarah and provide for the requirements related to disclosure on the structure, the underlying asset, the Shariah advisor and all the principles related to issuance of Sukuk Ijarah under the principles of Shariah contract of Ijarah (leasing)(ASEAN Debt Securities Disclosure Standards, April, 2013). It should be noted that these requirements have been exclusively spelt for in the standards, and thus the Sukuk Ijarah is subject to compliance with other general criteria relating to issuance of plain debt. Such requirements were not spelt out in the earlier standards and thus the present standards are an improvement and provide recognition to Islamic plain debt securities.

However, it is worthwhile to mention that the standards only deal with one structure of Sukuk. This is because of the resemblance of Sukuk Ijarah to that of fixed coupon bond, which is amongst one of the criteria's highlighted under the standards. This could prove to be detrimental to other sophisticated structures of Sukuk (e.g. Musharakah, Wakalah, Murabaha etc.) which can influence the uniqueness of variety of Sukuk structure available in the industry. One of the reasons for disclosure for Sukuk Ijarah alone, however, can be the achievement of a certain level of Sukuk market capitalization which can provide as a base for other high level Islamic securities offering within ASEAN. Also, owing to the fact that the level of Islamic capital market differ significantly across the three jurisdictions and thus the offering of plain debt securities would be a wiser step towards larger integration.

Conclusion

ASEAN disclosure standards and the initiatives such as the 'Handbook for disclosure on 'Collective Investment schemes' and 'equity and plain debt scheme', following the set-up of the ASEAN Capital Market Forum hold substantial potential for the development of Islamic Capital market in and across the region.

Statistics on cross broader offerings among the three main jurisdiction signatories– Malaysia, Thailand and Singapore, reveal the increase in cross broader issuances of Sukuk in the 2014-2015. Majority of the offering are denominated in the Malaysian Rinngit, clearly portraying the lead of the Malaysian Sukuk market, locally, regionally and globally. While Singapore following the footsteps and strategically using the Malaysian Sukuk platform to develop is market, Thailand on the other hand has shown a dormant stance. Although the Securities and Exchange Commission of Thailand issued the Sukuk Regulation in January 2011, no information is traceable on any Sukuk issuances following the initiative.

Nevertheless, a viable platform conducive for maiden Sukuk issuances in the ASEAN member countries has been provided. However, increased and relevant support from the regulating authorities to facilitate the growth is inevitable. Nonetheless, Islamic Capital market has proved its resilience as an innovative market at the same time contributing to the global financial system stability and efficiency as well as highlighting the sector as a promising avenue for not only ASEAN member countries, but also the global players to – making the segment the attention of keen eye keepers!

ARABIC Ph.D ABSTRACT

تعثر الصكوك: دراسة فقهية واقتصادية تطبيقية

ضياء الدين محمد العطيات

ملخص البحث

يهدف البحث إلى تسليط الضوء على الصكوك الإسلامية والتي تعد أحد أهم منتجات الصناعة المالية الإسلامية في هذا العصر، وبيان هياكلها وتصنيفاتها. وحيث أن سوق الصكوك قد شهد نمواً كبيرا وانتشارا في أسواق رأس المال العالمية، فهي تعتبر من الأدوات المالية منخفضة المخاطر، وذلك لوجود أصول حقيقية لتلك الصكوك، إلا أن السنوات الماضية شهدت تعثراً لعدد من إصدارات الصكوك في دول مختلفة، ممّا أثار الكثير من المخاوف والتساؤلات حول مدى كفاءة وشرعية هذه الأداة التمويلية المهمة، ومدى ثقة المستثمرين فيها كبديل منافس للسندات التقليدية، لاسيما بعد سلسلة الإخفاقات التي أعقبت أزمة الائتمان العالمية في العام 2008 والتي أوضحت أن تلك الصكوك ليست بمعزل عن الآثار المالية والاقتصادية. فكانت ظاهرة التعثر جديرة بالدراسة، للوقوف على حقيقتها وأسبابها، وأنواع المخاطر التي تهدد إصدارات الصكوك وتودي بها للتعثر، وعلامات الإعسار المالي وأسبابه، وآثاره، إضافة للتأصيل الفقهي، والمعالجة الشرعية لمشكلة التعثر وإفلاس المؤسسات المصدرة للصكوك، وصولا إلى المقترحات والتوصيات التي تسهم بإذن الله في معالجة الظاهرة، وذلك من خلال دراسة نظرية، تبعتها دراسة تطبيقية شملت خمسة إصدارات شهيرة من عدة دول تعتبر نماذج للصكوك المتعثرة. وقد جمع البحث بين المنهج الاستقرائي والوصفي إضافة إلى المنهج التحليلي لاسيما في دراسة الحالات العملية للتعثر، حيث تم استعراض تفاصيل كل إصدار من حيث المنشأ ونوع الصكوك وهيكلها، والأسباب التي أدت إلى التعثر، مع تحليل لأهم القضايا المتعلقة بكل إصدار، والإشارة إلى الإشكالات الشرعية والقانونية في إصدارات الصكوك وعلاقتها وأثرها في التعثر، وفي ختام البحث عرض لأهم النتائج والتوصيات.

ARABIC ARTICLE

تَوَافر المُلكيَّة الْحَقِيقيَّة هُوَ الْفَيْصَلُ بَيْنَ الصُّكُوكِ الْمَشْرُوعَةِ، وَالسَّنَدَات الْمُحَرَّمَة

بقلم / أ.د. علي محيى الدين القره داغي

الأمين العام للاتحاد العالمي لعلماء المسلمين

نائب رئيس المجلس الأوروبي للافتاء والبحوث

في ظل المنتجات المالية الإسلامية ظهرت الصكوك محققة مجموعة من المقاصد والأهداف، من أهمها: إيجاد البدائل المشروعة عن السندات المحرمة، والمساهمة في تحقيق التنمية الشاملة والبنية التحتية، والمشروعات الضخمة، وتوفير السيولة ونحو ذلك.

ومما لا شك فيه أن هناك فروقاً جوهرية بين الصكوك المشروعة والسندات المحرمة، ولكن الفيصل بينهما هو أن الصكوك تمثل الملكية سواء كانت ملكية الأعيان أم المنافع، في حين أن السندات تمثل الديون مع فائدتها، ولذلك يجب علينا في هذا المقام السعي لتحقيق أمرين:

الأمر الأول: التوسع في دائرة الملكية من خلال اجتهادات جديدة، حيث إن ما ذكره الفقهاء في القرون السابقة حول الملكية لم يضف إليه أي اضافة جوهرية.

الأمر الثاني: هو ضرورة بذل العناية القصوى من قبل مُصدر الصكوك بتحقيق الملكية فيها، بحيث تكون ممثلة لها، ومراعاة مجموعة من الضوابط المهمة.

وقد وضع مجمع الفقه الإسلامي الدولي في قراره رقم 30(4/5) مجموعة من الضوابط لإجازة الصكوك، نوجزها فيما يأتي:

1- أن يمثل الصك ملكية شائعة في المشروع الذي أصدرت الصكوك لإنشائه أو تمويله، وتستمر هذه الملكية طيلة المشروع من بدايته إلى نهايته.

2- أن تتوافر الأركان والشروط المطلوبة في العقود التي قام الصك عليها، وأن تنتفى الموانع لصحتها، وأن تشتمل نشرة الإصدار على جميع البيانات المطلوبة شرعاً في تلك العقود.

3- أن لا يتم تداول الصكوك إلاّ بعد أن تتحقق الغلبة للأعيان والمنافع.

وبالتالي فلا يجوز تداول صكوك المرابحة، أو التي كان محلها الذهب، أو الفضة مطلقاً إلاّ بشروط عقود الصرف وبيع الديون.

4- أن يد المضارب، والشريك، والوكيل يد أمانة، ولا يضمن إلاّ بسبب من أسباب الضمان المشروعة.

5- لا يجوز أن تشمل الصكوك على نص بضمان المضارب لرأس المال (وكذلك الشريك والوكيل)، ويجوز لطرف ثالث أن يقدم ضمانات لرأس المال على أن يكون التزاماً مستقلاً عن عقد المضاربة.

6- لا يجوز أن تتضمن على نص يلزم بالبيع ولو كان معلقاً أو مضافاً للمستقبل، ولكن يجوز أن تتضمن وعداً ملزماً بالبيع بالقيمة المقدرة من الخبراء ويرضى بها الطرفان.

7- ولا يجوز أن تتضمن نصاً يؤدي إلى احتمال قطع الشركة في الربح، وإلاّ كان العقد باطلاً[1].

وقد فصّل هذه المعاني بصورة واضحة المعيار الشرعي الصادر عن هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية، المعيار رقم 17 الخاص بصكوك الاستثمار كما أكده قرار المجلس الشرعي لـ AAOIFI، نذكره لأهميته:

(أولاً: يجب أن تمثل الصكوك القابلة للتداول ملكية حملة الصكوك بجميع حقوقها والتزاماتها، في موجودات حقيقية من شأنها أن تتملك وتباع شرعاً وقانوناً، سواء أكانت أعياناً أم منافع أم خدمات، وفقاً لما جاء في المعيار الشرعي رقم (17) بشأن صكوك الاستثمار، بند (2) وبند 5\1\2. ويجب على مدير الصكوك إثبات نقل ملكية الموجودات في سجلاته وألا يبقيها في موجوداته.

ثانياً: لايجوز أن تمثل الصكوك القابلة للتداول الإيرادات أو الديون، إلا إذا باعت جهة تجارية أو مالية جميع موجوداتها، أو محفظة لها ذمة مالية قائمة لديها ودخلت الديون تابعة للأعيان والمنافع غير مقصودة في الأصل وفق الضوابط المذكورة في المعيار الشرعي رقم (21) بشأن الأوراق المالية.

ثالثاً: لا يجوز لمدير الصكوك، سواء أكان مضارباً أم شريكاً أم وكيلاً بالاستثمار أن يلتزم بأن يقدم إلى حملة الصكوك قرضاً عند نقص الربح الفعلي عن الربح المتوقع، ويجوز أن يكون احتياطي لتغطية حالة النقص بقدر الإمكان، بشرط أن يكون ذلك منصوصاً

عليه في نشرة الاكتتاب. ولا مانع من توزيع الربح المتوقع تحت الحساب وفقاً للمعيار الشرعي رقم (13) بشأن المضاربة، بند 8\8. أو الحصول على تمويل مشروع على حساب حملة الصكوك

رابعاً: لا يجوز للمضارب أو الشريك أو وكيل الاستثمار أن يتعهد بشراء الأصول من حملة الصكوك أو ممن يمثلهم بقيمتها الاسمية عند إطفاء الصكوك في نهاية مدتها ويجوز أن يكون التعهد بالشراء على أساس صافي قيمة الأصول أو القيمة السوقية أو القيمة العادلة أو بثمن يتفق عليه عند الشراء، وفقاً لما جاء في المعيار الشرعي رقم (12) بشأن الشركة (المشاركة) والشركات الحديثة، بند 3\1\6\2.، وفي المعيار الشرعي رقم (5) بشأن الضمانات، بند 2\2\1 و 2\2\2.

(1) يراجع مجلة مجمع الفقه الاسلامي الدولي، ع 4، ج 2، قرار رقم 30(4/5)

علماً بأن مدير الصكوك ضامن لرأس المال بالقيمة الاسمية في حالات التعدي أو التقصير ومخالفة الشروط، سواء كان مضارباً أم شريكاً أم وكيلاً بالاستثمار.

أما إذا كانت موجودات صكوك المشاركة أو المضاربة أو الوكالة بالاستثمار تقتصر على أصول مؤجرة إجارة منتهية بالتمليك، فيجوز لمدير الصكوك التعهد بشراء تلك الأصول _عند إطفاء الصكوك_ بباقي أقساط الأجرة لجميع الأصول، بإعتبارها تمثل صافي قيمتها.

خامساً: يجوز للمستأجر في التعهد في صكوك الإجارة شراء الأصول المؤجرة عند إطفاء الصكوك بقيمتها الاسمية على ألا يكون شريكاً أو مضارباً أو وكيلاً بالاستثمار.

سادساً: يتعين على الهيئات الشرعية أن لا تكتفي بإصدار فتوى لجواز هيكلة الصكوك، بل يجب أن تدقق العقود والوثائق ذات الصلة وتراقب طريقة تطبيقها، وتتأكد من أن العملية تلتزم في جميع مراحلها بالمتطلبات والضوابط الشرعية وفقاً للمعايير الشرعية، وأن يتم استثمار حصيلة الصكوك وماتتحول تلك الحصيلة إليه من موجودات بإحدى صيغ الاستثمار الشرعية وفقاً للمعيار الشرعي رقم (17) بشأن صكوك الاستثمار، بند 5\8\1\5.

هذا ويوصي المجلس الشرعي المؤسسات المالية الإسلامية أن تقلل في عملياتها من المداينات، وتكثر من المشاركة الحقيقية المبنية على قسمة الأرباح والخسائر، وذلك لتحقيق مقاصد الشريعة. وآخر دعوانا أن الحمدلله رب العالمين).

الصكوك الفاسدة:

وبناءً على ذلك فإن أي صك لا يحقق شرط تمثيل الصك للملكية، أو نحوها من الشروط الأساسية فإن ذلك الصك باطل، وأن أي وسيلة تؤدي إلى الالتفاف حول هذه الشروط والأركان فهي وسيلة محرمة يجب سدّها.

ونذكر هنا مجموعة من صور الصكوك التي لا تحقق هذه الأركان والشروط التي ذكرناها سابقاً:

(أ) الصكوك التي في جوهرها وحقيقتها لا تمثل الأعيان، أو المنافع، أو الحقوق المالية على سبيل الحقيقية، وإنما تمثل التزامات وديوناً، وبالتالي فهي في جوهرها سندات محرمة، لأنها تترتب عليها الزيادة التي هي الفائدة المحرمة، كما أنها يتم تداولها مع أنها تمثل الديون.

(ب) الصكوك التي تقوم على المضاربة، أو المشاركة أو الوكالة، والتي يشترط فيها استرداد القيمة الاسمية، وقد لا يعبر عن هذا الشرط، ولكن تذكر مادة ترتب استرداد القيمة الاسمية بعملية حسابية، أو أن يكون الاتفاق بسعر يحدده أحد الطرفين من خلال

وعد ملزم، فهذا الشرط سواء كان منصوصاً عليه، أو مدلولاً عليه بأي لفظ هو شرط باطل يجعل العقد باطلاً او فاسداً ؛ لأن هذا الشرط يترتب عليه ضمان رأس المال في العقود المذكورة، وهذا مخالف للنصوص الشرعية والاجماع المنعقد على ذلك، كما أن ذلك يقطع المشاركة في باب الشركة والمضاربة، وهو أيضاً ممنوع، ولكن إذا كان الوعد بضمان القيمة الاسمية، أو أي قيمة محددة من طرف ثالث، فهذا جائز حسب القرار السابق لمجمع الفقه الإسلامي الدولي.

(ج) الصكوك القائمة على موجودات غير قابلة للبيع حسب قانون البلد، حيث صدرت صكوك على أساس المطار في دولة لا يجيز قانونها بيع المطار.

(د) عدم إخراج موجودات الصكوك من ملكية المصدر في ظل القوانين التي لا تعترف بملكية المنفعة، حيث إن القوانين الفرنسية، ومعظم القوانين العربية المنبثقة منها لا تعترف بالملكية النفعية، فإذا أصدرت الصكوك بناء على قانون لا يعترف بملكية المنفعة مثل القوانين الفرنسية والتي انبثقت منها فإن الذي سجل باسمه الأصل وهو المالك الحقيقي في القانون (على تفصيل ليس هذا محله) [2].

(هـ) الصكوك التي يلتزم فيها مصدر الصكوك، أو مديرها بالإقراض لحملتها عند نقصان رأس المال، أو الربح الفعلي عن المتوقع ثم يسترده فيما بعد من الأرباح التالية، أو عند شراء الصكوك عند اطفائها بقيمتها الاسمية، وحينئذ يحسب القرض منها.

وهذا النوع يجمع بين عقد قرض وعقد معاوضة، وهذا الجمع غير جائز لورود أحاديث صحيحة في النهي عن الجمع بين سلف وبيع[3] كما أن هذا الشرط يقرب الصك عن السند تماماً من حيث ضمان رأس المال والفائدة[4].

فهذه الأنواع الخمسة ونحوها ممنوعة شرعاً، وبالتالي فأي وسيلة (من خلال العقود والوعود والشركات ذات الغرض الخاص) تؤدي إلى واحد منها فهي ممنوعة يجب سدّها، بل إن تلك الوسيلة داخلة في الحيل غير المشروعة.

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(2) يراجع لمزيد من التفصيل: كتابنا: إجارة الأعيان وتطبيقاتها المعاصرة ط. دار البشائر الإسلامية، بيروت 2015م.

(3) يراجع للمزيد حول هذه المسألة، بحثنا: أحاديث النهي عن صفقتين في صفقة واحدة، سندها، ومتنها، وفقهها، منشور ضمن الحقيبة الاقتصادية ج 6، ص 241-288.

(4) قرار المجمع الشرعي للأيوفي (السابق ذكره)

EVENTS UPDATES

CONFERENCE DETAILS	WEBSITE
The 4th International Conference on Accounting, Business and Economics (ICABEC 2016) 28 – 30 August 2016 Kuala Terengganu, Terengganu, Malaysia Submission of full paper: 15 May 2016	http://submit.confbay.com/conf/icabec2016
The 4th International Conference on Accounting, Business and Economics 28th - 30th August 2016 Primula Hotel, Kuala Terengganu, Malaysia Abstract Dateline: 15 Apr 2016	http://submit.confbay.com/conf/icabec2016
The 18th Malaysian Finance Association Annual Conference (MFAC) 2016 and The 7th Islamic Banking, Accounting and Finance Conference (iBAF) 2016 29th - 31st May, 2016 Equatorial Hotel Melaka, Malaysia Full Paper Dateline: 31 March 2016	http://submit.confbay.com/conf/mfaibaf2016
11th INTERNATIONAL CONFERENCE ON ISLAMIC ECONOMICS AND FINANCE (11th ICIEF) 11th October - 13th October, 2016 Kuala Lumpur, Malaysia Submission of Papers 1st March 2016 to 31st May 2016	http://www.iium.edu.my/cie/icief

IIiBF at CIFEMA 2015, Agadir, Morocco, 11-12 Dec 2015

Prepared by Norzitah Abdul Karim

The 3rd International Conference on Entrepreneurial Finance (CIFEMA 2015) is a successful conference, which is a result of collaboration among University of Ibn Zahr, Agadir, Morocco with the International Islamic University Malaysia, through its IIUM Institute of Islamic Banking and Finance (IIiBF) and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The CIFEME 2015 was held on Dec 11 to 12 2015 with the theme of 'Transition to Islamic Finance: Approaches & Challenges". The theme is timely giving the current banking scenario in Morocco, which a shifting toward Islamic Finance in the near future. The IIiBF is delegated by a team of Deputy Dean, 4 academic staff and 2 postgraduate students with a total of 10 research papers and presentations. It is a good platform for both universities to exchange experience and expertise. A separate meeting, to discuss on the joint teaching and more collaborations between the two universities, is also being successfully carried out.

The Deputy Dean of IIiBF, Assoc Prof Dr Salina Kassim giving her speech during the opening ceremony.

Discussion between IIiBF and University of Ibn Zahr of future Collaboration.

Assoc Prof Dr Salina (purple scarf), some of conference participants from IIiBF and organizer, Prof Dr Chekir (greenish tie) of University of Ibn Zahr

PUBLISHED RESEARCH AT IIiBF

This paper has been presented at the 3rd ASEAN International Conference on Islamic Finance (AICIF 2015) in Semarang, Indonesia on the 18-19 November 2015

THE POTENTIAL ROLE OF SOCIAL IMPACT BOND (SIB) AND SOCIALLY RESPONSIBLE INVESTMENT (SRI) SUKUK AS FINANCIAL TOOLS THAT CAN HELP ADDRESS THE ISSUES OF POVERTY AND SOCIO-ECONOMIC INSECURITY

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Abstract

Purpose: The purpose of this paper is to highlight the potential of Social Impact Bond (SIB) as a financial model that can be used to help alleviate the social problem of poverty, and also potentially provide economic security for the society.
Design/Methodology/Approach: Using various reports and other literatures, this paper takes case studies of SIB programmes in the UK and relates them as programmes that can be used to address the issue of poverty alleviation and economic security,
Findings: From literature review, this paper finds that there is a growing global interest in innovative financial tools such as SIB. Furthermore, the paper explicates that SIB model embodies the spirit of social responsibility which is one of the major essence that is currently missing in the Islamic Finance industry practice. Among others SIB can potentially be used to alleviate poverty, and help provide economic security for the society through training and job creation programmes.
Research Limitations/Implications: This paper is conceptual and exploratory in nature. Therefore, further empirical research can be done to provide better understanding and knowledge.
Practical implication: Findings from this paper can be used as a reference to understand the concepts and mechanisms involved in a SIB model. This paper also contributes to the awareness of the emerging global interest in SIB. In addition, it highlights the potential of using SIB to help alleviate poverty and economic security, as well as its potential contribution towards Islamic Finance practice.
Originality/Value: Although SIB is gaining interest worldwide, it has not caught much attention of researchers and practitioners involved with Islamic Finance. Therefore this paper offers insight towards SIB which is relatively unknown to academics and the Islamic finance industry practitioners.

Keywords: Social Impact Bonds, Sustainable and Responsible Investment sukuk, poverty alleviation, socio-economic security, Islamic Finance, Social responsibility

INTRODUCTION

From early 1970s, the Islamic finance industry has grown significantly from institutions that merely manage hajj funds and focus on Shari'ah compliant banking towards a more comprehensive industry that we see today which encompasses banking, Islamic capital market, and takaful products. According to IFSB (2015) the Islamic finance industry has assets estimated to be worth USD2 trillion, and has grown consistently with a compound annual growth rate (CAGR) of 17% from 2009 to 2013. With this trend, the assets can grow up to approximately USD 5 trillion by 2020. The growth of the industry comes from robust and comprehensive infrastructure, wide range of customer and issuer base, as well as international cross-border dealings (MIFC, 2015).

However, despite this encouraging growth, the full objective of the Islamic finance industry is yet to be realised. It has been found that the objectives of Islamic banks mostly focus on profit-orientation rather than social-orientation (Mohammad & Shahwan, 2013). Therefore there have been calls for Islamic financial institutions to bridge the gap of Islamic finance theory and practice, and put more effort on social responsibility (Ng et al., 2015). Furthermore, there are criticisms aimed at institutions that handle zakat funds, whereby studies have found them to be incompetent, inefficient, and contaminated with unnecessary bureaucracy (Hamizul, 2011, in Hamid, 2013). Additionally, there have been cases of zakat funds being stolen and misappropriated (Wahab, 2013). Hence it comes to no surprise that people would prefer paying zakat directly to recipients, rather than to zakat institutions, as they do not have the confidence of the credibility of zakat institutions (Mustaffha, 2007).

Based on the above premise, there is a big avenue for improvement within the Islamic finance industry in order to reach their full potential. Islamic financial institutions are expected to run their business beyond managing funds, but also provide sufficient effort to help alleviate poverty and provide socio-economic security to the people. Therefore, this paper aims to highlight the potential of Social Impact Bond (SIB) and Sustainable and Responsible Investment (SRI) sukuk as financial models that can be used to help alleviate the social problem of poverty, and also help provide economic security for the society. These relatively new tools can be the new frontier of Islamic finance instruments and provide the much needed social impact that is arguably lacking in industry practice. This paper is conceptual in nature, but provides relevance to practitioners and academicians of Islamic finance especially towards understanding the concepts and mechanisms involved in a SIB and SRI sukuk model. Furthermore, there is a scarcity of academic papers on SIB and SRI sukuk. Therefore, this paper also helps fill a huge gap in academia. The structure of this paper is as follows: Section 2 explains the concept, mechanisms, and trend of SIB before we look at case studies of SIB programmes that are already in implementation in section 3. These case studies will be used as a reference as to how SIBs can potentially be implemented to help alleviate poverty and provide socio-economic security, which will be elaborated in section 4. In section 5, the paper explains the relation of SIB to Islamic finance. A conclusion together with several suggestions are provided in section 6.

SOCIAL IMPACT BOND (SIB)

Definition

The SIB model is a series of pay-for performance contracts, whereby the government agrees to pay for improved social outcomes, delivered by intervention programmes that tackles the root causes (rather than remedial treatment), with the potential of downstream savings for the government (So & Jagelewski, 2013). On the basis of these contracts, funds are raised from socially motivated investors and used to pay for a range of interventions to help improve social outcomes. If the programme succeeds in improving the outcomes, the investors will receive their capital, plus additional returns depending on the degree of success in which outcomes improved (Social Finance, 2011). The term "social impact bond" is widely used in the UK and Canada, while in the US, "Pay for Success Bonds" and "Human Capital Performance Bond" are used, whilst in Australia the term "Social Benefits Bond" is used (Nicholls & Tomkinson, 2013). Based on the more common usage in the literature, the term "Social Impact Bond" is used in this paper.

Stakeholders

The SIB model involves a public, private, and social sector by encompassing a multi-stakeholder partnership approach. According to So and Jagelewski (2013), the model involves five principal stakeholders:

i. Governments or commissioners, who provide the payments to investors if the SIB programme succeeds in achieving its target.

The payment value are dependent on the degree of success.

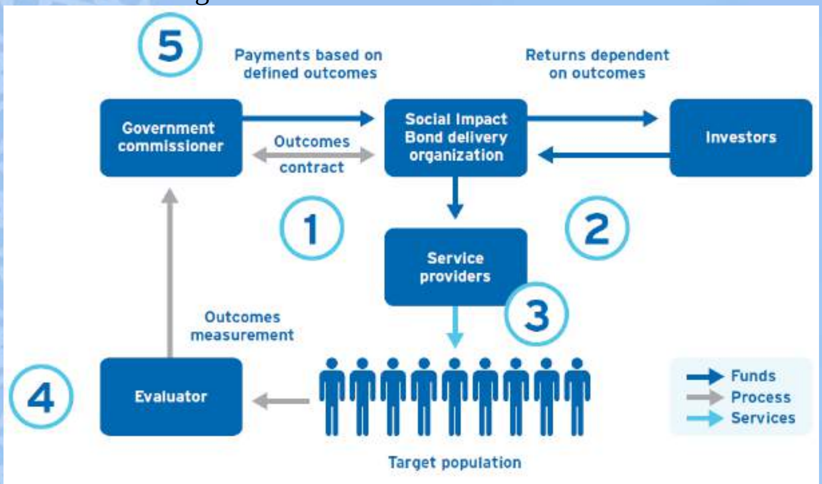
ii. SIB delivery organisations or intermediaries, who play various roles including brokering relationships between stakeholders, sourcing capitals, lead deal negotiations and constructions, manage the performance of programmes, and identify and select service providers

iii. Investors, who provide the upfront capital needed to fund the programme. They also bear some or all of the financial risk.

iv. Service providers, who deliver the social intervention to the target population

v. Third-party evaluators, who conduct independent evaluations on the achievements of SIB programmes

Figure 1: General structure of SIB model



Source: So and Jagelewski (2013)

As shown in the figure, there are a number of stakeholders involved in a SIB model. The model functions as follows:

i. A contract is negotiated between the government and other stakeholders where outcomes and payment mechanisms are agreed upon.

ii. Based on the contract, the SIB delivery organisation issues bonds to raise funds from investors. The funds are used to provide upfront capital for the intervention programme.

iii. The social service provider receives the funds and delivers the services to the target population in order to address the social issue.

iv. The outcomes are then evaluated by an independent, third-party evaluator that provides the necessary reports to the government/commissioner.

v. If the agreed outcomes are achieved, the government makes payments to the investors. These payments repay the principal plus a financial return, depending on the degree of success.

Since the first SIB in 2010, there have been numerous variations to the basic SIB model, and applied to various social issues. This shows the flexibility and adaptability of SIB. However, it must be noted that despite the term “bond” in its name, the SIB model is different from a conventional bond. Generally, a conventional bond has a guarantee on capital and rate of return, while the capital and return of a SIB are not guaranteed and are dependent on the success of the SIB programme. SIBs are also said to share features of both equity and debt – in the sense that SIB has a fixed term and capped upside; but similar to an equity, the returns depend on the outcome of the programme or project, and the investments are not secured by cash flows or real assets (Hughes & Scherer, 2014). While according to Reeder et al. (2014), SIB is a form of composite of loan, equity, and fixed-income instrument. This is because there may be a risk of total loss seen in an investment; returns based on outcome of programme as seen in dividends of equity; and returns based on pegged rates as seen in fixed-income instruments. This makes the SIB model a very unique form of financial tool that provides social impact.

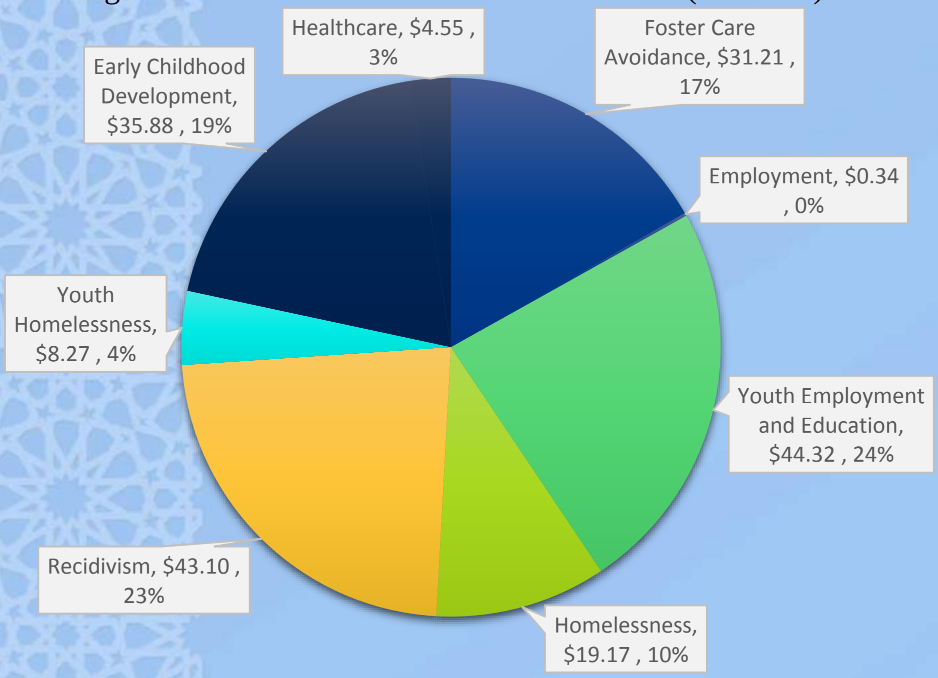
Global trends

SIB was pioneered in the UK in 2010, where the first SIB was launched to address the issue of recidivism (reoffending). The programme raised £5 million investment from private investors and charities and focused on reducing reconviction rates of short term prisoners in Her Majesty's Prison (HMP) Peterborough (Disley et al., 2011). An assessment report in 2014 have shown that the programme succeeded in reducing reoffending by 8.4% from its first cohort of 1000 prisoners (Ministry of Justice, 2014). Based on the latest data, the UK has launched approximately 30 other SIB projects addressing various social issues such as homelessness and youth unemployment (Finance For Good, 2015).

While in the US, the office of Social Innovation and Civic Participation was established to develop grant programmes that assists Non-Profit Organisations (NPOs) to scale up their effective programmes. The White House endorsed the Pay-for-Success (PfS) scheme in 2011, which encourages government agencies to look into innovative funding schemes such as SIBs. The congress was asked for $100 million to implement the PfS scheme at state and city level. In 2014, the Obama administration again asked the congress for $195 million discretionary funds to be used for SIB market development. The administration also proposed a $300 million PfS incentive fund within the Department of Treasury to pilot projects for areas such as housing, training, education, and incentive funds for local governments (Shah & Costa, 2013). The Harvard Kennedy School also established a SIB Technical Assistance Lab which offers assistance to governments considering the SIB model. In 2012, Goldman Sachs, the City of New York, Bloomberg Philanthropies, and MDRC partnered together to launch the first SIB in the US which raised $10 million. The SIB focused on reducing juvenile recidivism at Rikers Island correctional facility (Ng et al., 2015). While in California, there are various projects underway for a health-impact SIB that addresses the issue of chronic asthma, and reducing children's hospital visits related to the disease. According to Finance For Good (2015), currently there are 7 SIB projects in implementation in the USA while the interest looks like its growing further.

In Australia, two SIBs were launched in 2013, focusing on the area of foster care and child protection. Other areas addressing recidivism and family are also being looked at for SIB implementation. The SIB tracker by Finance For Good (2015) reports that there are currently 50 SIB programmes from around the world including Portugal, Germany, Belgium, Ireland, the Netherlands, and India. They estimate that the total size of SIB contracts currently in implementation to be CAD190 million (USD143 million). The figure below illustrates the social areas of SIB currently in implementation and their respective values.

Figure 2: Value of SIB market and social areas (CAD mn)



Source: Finance For Good (2015)

Initial outcomes from SIBs in implementation show extremely positive results, and appear to suggest that the SIB model is an effective way to drive positive social outcomes. The interest for SIBs are also growing which comes to no surprise since the social and economic benefits of SIBs are theoretically very promising (Burpee, n.d.).

However, the SIB model has yet to gain similar interest from Islamic or Muslim-majority countries despite its promising fund raising capabilities and social impact. Nevertheless there are encouraging developments in the form of SRI sukuk which will be discussed in later sections.

CASE STUDIES

Case study 1: the London Homelessness SIB

The London Homelessness SIB is a three year programme which was implemented in November 2012. It is an innovative programme that focuses on providing support for entrenched rough sleepers who are not targeted by, or their needs are not met by existing intervention programmes. The programme covers a fixed cohort of 831 rough sleepers who were identified through a national database, whereby they have been seen sleeping rough and/or stayed in London's rough sleeping hostel during a certain period of time. This area is targeted as rough sleepers are amongst the most vulnerable people in the society. The database showed that 48% of them had problems with alcohol; 29% with substance misuse; and 44% needed mental health support. 49% were non-UK residents (Department for Communities and Local Government, 2014).

Two organisations were selected to provide the necessary services to the target population. The services were based on the "Navigator model" whereby a caretaker (navigator) provides personalised approach and acts as a single contact for the client (rough sleeper), and helps them to address their needs through the landscape of existing provisions. These provisions include outreach, day centres, beds, hostel beds, employment, training and education, healthcare, drug and alcohol services, as well as counselling. The service providers were assigned to achieve five major goals. The report by Department for Communities and Local Government (2015) summarises these goals, together with their outcomes, payment mechanism, and proportion of allocated funding as shown in the table below:

Table 1: London homelessness SIB summary

Goal	Metric	Payment Mechanism	Proportion of funding
1. Reduced rough sleeping	Reduced number of individuals rough sleeping each quarter	Payments according to progress beyond a baseline of expected reduction.	25%
2. Sustained stable accommodation	Confirmed entry to non-hostel tenancy, and sustained for 12 and 18 months (with allowance for occasional rough sleeping)	Payment on entry to accommodation, and at 12 and 18 month points	40%
3. Sustained reconnection	Confirmed reconnection outside of the UK	Payment on reconnection and at 6 month point	25%
4. Employability and employment	Sustained full-time employment. Sustained part time employment. Sustained volunteering. Level 2 qualification achieved	Payments when employment or volunteering sustained for 13 and 26 weeks. Payment for achievement.	5%
5. Better managed health	Reduction in Accident and Emergency episodes	Payments for reduction in episodes against baseline.	5%

The latest qualitative evaluation report by Department for Communities and Local Government (2015) released in March 2015 show that the SIB programme has successfully reduced rough sleeping despite not yet achieving the targeted baseline (goal 1). For sustained stable accommodation (goal 2), the programme have exceeded their targets with strong performance. Progress for sustained reconnection (goal 3) has improved but has not yet reached its target. Both providers are disappointed with the early results but are optimistic of the performance of this goal. As for employment (goal 4), overall the providers are happy with their performance, despite not reaching its target. This is because of complex needs and skills of each client, which are key challenges that can be improved. While for health (goal 5), the data is not currently available due to data protection concerns, which is due to be resolved with ongoing discussions with the Health and Social Care Information Centre. Nonetheless, the service providers are confident that the targeted outcomes will be achieved.

Overall, the SIB programme seems to incentivise delivery of service as intended and there have been no evidence of perverse incentives. Lessons learnt from the SIB have also provided valuable learning experience on the issue at hand. The early report shows encouraging results that can potentially reach its targeted outcome and bring benefit to the society.

Case study 2: Youth employment and education SIB in the UK

This social area was addressed through a number of SIB programmes, established through the "Innovation Fund" pilot initiative which aims to support disadvantaged and those at risk of disadvantage young people aged 14 years old and above. The programme acts as a preventative measure which aims to re-engage these young people to Education, Training, and Employment. The Innovation Fund is a 100% outcome-based model. In this case the Department of Work and Pensions (DWP) are the commissioners and will pay the investors if the outcomes are achieved.

According to HM Government (n.d.), the Innovation Fund has three main objectives:

i. To deliver support to help young people who are disadvantaged, or at risk of disadvantage, helping them participate and succeed in education or training and thereby improve their employability, reducing their longer term dependency on benefits.
ii. Test the extent to which we generate benefit savings, other wider fiscal and social benefits, and deliver Social Return on Investment.
iii. Support the development of the social investment market, the capacity building of smaller delivery organisations and generate a credible evidence base which supports social investment arrangements.

Based on the innovation fund, 10 SIBs were launched in the UK in 2012. Among them were two SIB contracts: Teens & Toddlers and Energise Adviva, worth £7 million to fund positive social outcomes for young people. These programmes address the root cause of young people becoming NEET (not in education, employment or training). The target population were 14-15 year olds who are identified as having NEET indicators that include: poor school attendance; disruptive or antisocial behaviour; family or mental health issues; and low educational results. There were a number of defined target outcomes including: improved attitude, behaviour and school attendance, educational and life skills qualifications and employment.

The Teens and Toddlers SIB programme provides support for vulnerable young people with goals to reduce risky behaviours, such as joining gangs and getting pregnant. It helps young people to improve their attitude and behaviour, school attendance, and overall academic achievement. They were matched with a toddler in nurseries for over an 18 week period, and provides them on-going support for their GCSEs. Results show that 75% of the target population received an entry-level qualification at the end of the intervention and outcomes for improved attitude and behaviour were attained. The programme also successfully enhanced the level of support to participants in the run up to exams through tuition.

The Energise SIB programme was delivered by the Adviza Partnership. It addressed young people from 42 schools. The programme offers mentoring services combined with structured activity and residential courses that are designed to nurture re-engagement with school, as well as build confidence and resilience. The programme introduced a “Job Coach” service for the target population looking for employment by helping with CV drafting, job applications, recruitment fairs, and interviews. Results show that the programme has outperformed targets on attitude, behaviour, educational qualifications and employment outcomes.

In July 2015, Social Finance (2015) announced that the two SIBs have performed above expectation and delivered the outcomes that are sufficient to return investor capital earlier than expected. The full result will be published in 2016 once the tenure of the programme ends.

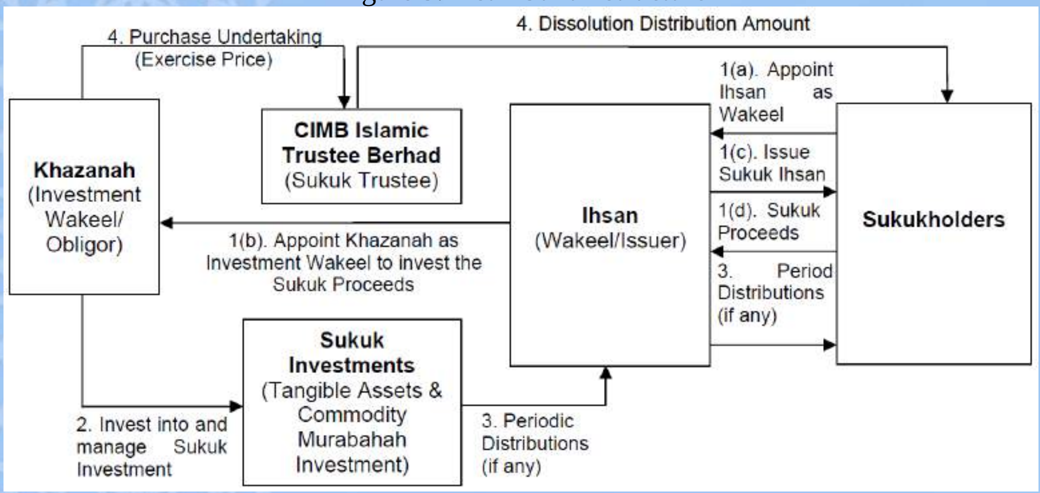
Case study 3: Ihsan SRI sukuk in Malaysia

According to Moghul and Safar-Aly (2014), the Sustainable and Responsible Investment (SRI) is a generic terminology which includes any type of investment process that combines investors’ financial objectives together with their concerns towards issues of environment, society, and governance (ESG). It is also often known as “Socially Responsible Investment”. There is a growing awareness and interest in SRI investment globally which have led the likes of supranational organisations such as European Commission (EU) and the World Bank to lead the issuance of green and socially responsible bonds since 2008. In September 2015, figures have shown that the World Bank have issued Green Bonds worth around USD8.5 billion (World Bank, n.d.).

In December 2014, the World Bank together with International Finance Facility for Immunization (IFFIm) issued the debut Vaccine Sukuk worth USD500 million. This marked the first SRI Sukuk that provided both economic and social returns where it paid a competitive rate of return while supporting the immunization of more children in developing parts of the world. The success of the inaugural transaction led IFFIm and the World Bank to issue the second SRI Vaccine Sukuk in September 2015, worth another USD200 million (Bennet, 2015).

The developments in SIB and SRI space have caught the interest of Malaysia, the largest sukuk market in the world. In August 2014, the Securities Commission of Malaysia introduced the SRI Framework to facilitate the financing of sustainable and responsible investment initiatives (Securities Commission, 2014). Pursuant to this, in May 2015, the first SRI sukuk (Ihsan sukuk) was launched in Malaysia by Khazanah Malaysia Berhad (Khazanah). The Ihsan sukuk programme has a nominal value of RM1 billion with a 25-year tenure. Its first issuance of RM100 million was fully subscribed in June 2015. The issuance was rated as AAA(s) by RAM Rating Service Berhad (RAM), reflecting Khazanah's role as credit obligor under the SRI sukuk (Khazanah Nasional, 2015). This SRI has a 4.3% return per annum over a 7-year period (The Star Online, 2015). CIMB Islamic Bank Berhad and Amanie Advisors Sdn Bhd. were selected as joint Shari'ah Advisors, while CIMB Investment Bank Berhad was assigned as the lead arranger of the sukuk. The sukuk was structured based on the Islamic principle of Wakalah Bi Al-Istithmar (investment agency), as provided in the sukuk guideline by Securities Commission Malaysia (2014). Independent assessors will be selected either from Ernst & Young, KPMG, PricewaterhouseCoopers, or Deloitte (CIMB, 2015). The figure below illustrates the SRI sukuk structure:

Figure 3: Ihsan Sukuk structure



Source: CIMB (2015)

Funds raised from the sukuk are channelled to a Non-Profit Organisation (NPO) called Yayasan AMIR which manages Khazanah's Trust School programme. This programme is a form of public-private partnership with the government to improve the accessibility of quality education in Malaysia. The SRI sukuk programme follows a pay for success model with a unique step-down of profit feature, where impact is measured through several Key Performance Indicators (KPIs) during a course of 5 year period. The KPIs for this SRI sukuk are as follows (CIMB, 2015):

i. A minimum of 20 schools are selected under Yayasan AMIR's Trust Schools Programme for a five (5)-year intervention period.
ii. At least 50% of the teachers of the Identified Schools are rated at the Establishing level or above in their observations after the end of their Intervention Period.
iii. At least 50% of the senior leadership of the Identified Schools are rated at the Establishing level or above in their observations after the end of their intervention Period.

According to RAM ratings (2015) this Ihsan SRI sukuk is a form of SIB as the issuer's obligation to pay will depend on the performance of the SRI project with regards to its KPI. The programme also has several strategic goals which include: developing high quality leadership and management; improve the quality of learning and teaching, maximise student achievement and potential, as well as strengthening the engagement of parents, community and other stakeholders. The sukuk programme is still new and does not have any empirical reports yet. Nonetheless, the programme looks very promising in terms of attracting funds from socially-motivated investors as well as providing the social impact to the society.

THE POTENTIAL OF SIB AS A FINANCIAL TOOL TO ADDRESS THE ISSUE OF POVERTY AND PROVIDE SOCIO-ECONOMIC SECURITY

The three case studies offer a glimpse of how SIBs can be used to structure intervention programmes that can help in areas of social poverty and socio-economic insecurity. Although the SIBs in the three case studies do not address the issue of poverty directly, their target area of homelessness, youth education and employment, as well as improving the quality of education, are somewhat related to the issue of poverty and socio-economic security. The areas that they address are associated either to the symptoms, causes or impact of poverty and socio-economic insecurity (Gregorio & Lee, 2002; Sosin, 1988; Strauss, 2012) .

Firstly, homelessness is often seen as a result of poverty as well as a form of socio-economic insecurity. It can also be the cause of someone going into poverty (Sosin, 1988). As shown in the first case study, rough-sleepers (homeless people) often have problems with alcoholism, drug abuse and mental health – which are social illnesses frequently associated with people who come from the lower-income. There are implicit costs from homelessness where the government (taxpayers) would have to pay for the effects of homelessness such as the overall cost of crime that homeless people commit because of their problems mentioned earlier. This cost of crime may include prison cost, hospital care cost, rehabilitation cost, damages to public property, and injuries to others. By addressing the issue of homelessness through SIB, the government can effectively save money as they would only have to pay for programmes that are successful in solving homelessness. Therefore, the savings can be used for other programmes that directly address poverty. Based on the case study, there are also programmes that help the homeless through job training, housing, and employment. By doing so, a homeless person without any income can now get wages, helping him get out of poverty, and have a certain level of socio-economic security which would allow him contribute back towards the society.

Secondly, youth that are not in education, training, and employment can also be associated with the cause of poverty. As mentioned in the second case study, these youths have poor school attendance; disruptive or antisocial behaviour; family or mental health issues; low educational results; and have negative attitude towards education. If these issues are not addressed early on, there might be a high probability of an increase in the level of poverty in the society later on. SIB programmes that provide training, motivation, counselling, and help change the attitudes and confidence of these teenagers will help the future adults of the society to have a certain level of socio-economic security. This is proven in the case study where the teenagers have shown positive results and brighter future in improving their socio-economic status.

Thirdly, various studies have shown the correlation and causation that links education with socio-economic status in the society (Sirin, 2005; White, 1982, in Caro, 2009; Gregorio & Lee, 2002; Strauss, 2012). Therefore, SIBs that help improve the quality of education in general as shown in the third case study may also help reduce poverty levels, and provide socio-economic security for the future generation. However, as with the other case studies this can be supported by further empirical research in the future.

Hence, to reiterate - the application of SIBs that address the issues of homelessness, youth employment, and quality of education, can help address the issues of poverty and provide socio-economic security. Although the results may not come in the short-term, in the long run it may bear fruit especially for the future generations.

SIB, SRI SUKUK AND ISLAMIC FINANCE

SIB, SRI sukuk and Islamic finance uses funds in a way that conforms to high morals and ethics. This is opposite to traditional conventional finance practice that is mainly driven by the aim to maximise risk adjusted returns. This is not to say that SIB and Islamic finance practice ignore the effort to achieve profits, rather they consider not only economic returns, but also social returns from the practice that is compliant with their beliefs and ethics.

Looking at the objectives of SIB, we can clearly see that it is a socially-responsible financial tool that embodies the Islamic concepts of Maqasid al-Shari'ah and Maslahah (Dusuki, 2005; RAM ratings, 2015). The preservation of life of homeless people and improvement of their quality of life shown in the first case study, and the preservation and promotion of mind/intellect of youth shown in the second and third case studies relate directly to the *dharruriyat* (necessities) of maqasid al-Shari'ah. The SIBs in these case studies also denote principles that promote socio-economic justice, the repulsion of harm, as well as encouraging the practice of ethics and morality in financial practice. It is high time for Islamic financial institutions to bridge the gap between Islamic finance theory and practice by developing and utilising tools that embody principles of Islamic finance such as SIBs and SRI sukuk.

CONCLUSIONS AND RECOMMENDATIONS

We have seen the tremendous growth of the Islamic finance industry over the past decades. Yet, there are various parties who argue that the Islamic finance industry has not yet realised its full potential as it focuses primarily on profit and often neglect social objectives. Islamic financial institutions are called to put the theory of Islamic finance into practice and raise their efforts in improving the society by addressing issues such as poverty and socio-economic security. The emergence of innovative financial tools such as SIBs that promote social impact on top of financial returns may become an avenue for Islamic financial institutions to improve in this aspect. Case studies of SIB programmes that seek to overcome social problems such as homelessness and youth unemployment, as well as improve the quality of education, do relate to the issue of poverty alleviation and enhancement of socio-economic security. By developing or participating in such SIBs, not only Islamic financial institutions can diversify their financial portfolio, they can also contribute towards social impact and fulfil principles of maqasid al-Shari’ah and maslahah. However, much more effort is needed from Islamic finance industry stakeholders in order to facilitate the development of SIB or similar financial tools such as SRI sukuk. The ideas and objectives of SIBs need to be promoted further in order to create greater awareness and attract more interest in the market. Further research can also be done as academic research in the area of Shariah compliant SIB is still very scarce.

PHD ABSTRACT

AN ANALYSIS ON THE MALAYSIAN SUKUK SPREADS

By Maya Pushpa

The topic on credit spreads have been one of the major focuses on the scope of finance and investment literature. Theoretical frameworks have shown that credit spreads (or bond spreads) are the risk premium reflecting the additional risks borne by the investors for holding corporate bonds and provide signals for the likelihood of default. With the importance of credit spreads in the pricing of corporate bonds and in reflecting investors' behaviours during the different states of the economy, many empirical studies have explored on the behaviour of the spreads as well as factors determining its changes focusing on the developed bond markets of the United States of America, Europe, Japan and Australia. Despite the fact that sukuk market has been growing rapidly in the past decade, analysis on sukuk spreads is still in scarcity. With the aim to enhance the understanding on sukuk spreads for the purpose of risk management, this study attempts to analyse on the trend, behaviour and influencing factors for the variations of sukuk spreads over the period of 2005 to 2011. Focusing on the Malaysian sukuk market, this study employs the generalised auto-regressive conditional heteroscedasticity (GARCH) method by Bollerslev (1986). Apart from exploring the main determinants for sukuk spreads, this method also allows analysing the volatility of sukuk spreads and whether it is affected by the recent 2007/2008 global financial crisis and the volatility of the Malaysian stock market. For a more robust analysis, this study compares the behaviour and influencing factors of sukuk spreads against bond spreads and takes into account both investment and non-investment grade securities. This study is among the first few to document that the movement of the interest rate and the anticipation on the direction of the short term rate are the most important determinants to influence the variation in sukuk spreads. In line with the pressing demand for more in-depth information on various dimensions of the sukuk market, this study enriches the literature on Islamic finance from the perspective of sukuk spreads analysis. In addition to that, this study is also beneficial to the investors, portfolio managers as well as regulators to better understand the underlying factors influencing the pricing and risk management of sukuk instruments.

INDUSTRY UPDATES

GLOBAL

SUKUK PIPELINE - Issue plans around the world

Dubai - The Thomson Reuters Global Sukuk Index closed last month at 117.01353, up from 115.79726 at the end of 2014. The Thomson Reuters Investment Grade Sukuk Index is at 115.29446 points against 113.69014 at end-2014.

SAMALAJU - Samalaju Industrial Port proposed a sukuk murabaha programme of up to 950 million ringgit ($221 million), RAM Ratings reported in mid-December.

VALLIANZ - Singapore's Vallianz Holdings said in mid-December that a subsidiary would refinance loans with a Saudi riyal-denominated sukuk issue of up to 1.1 billion riyals ($293 million); it appointed banks in Saudi Arabia to lead and manage the sukuk financing.

WEGO - Malaysia's Wego Sdn Bhd, which holds the concession to build six Islamic religious schools for the Perak state government, proposed a sukuk musharaka issue of up to 210 million ringgit, RAM Ratings said in mid-December.

BARWA BANK - Qatar's Barwa Bank listed a $2 billion Islamic bond programme on the Irish Stock Exchange, taking it a step closer to tapping the sukuk market for the first time, the bank said in early December.

AHMAD ZAKI - A unit of Malaysia's Ahmad Zaki Resources signed a guaranteed sukuk murabaha facility agreement with Bank Pembangunan Malaysia and Maybank Investment Bank for up to 1 billion ringgit to help finance the East Klang Valley Expressway project, Bernama news agency reported in early December.

SCIENTEX - Malaysia's Scientex said in early December that a unit had resistered with the Securities Commission a 15-year sukuk murabaha programme with a value of up to 500 million ringgit.

GARUDA - Indonesian airline Garuda intends to raise $500 million through selling global bonds or sukuk next year to refinance debt, the Jakarta Globe quoted president director Arif Wibowo as saying at the start of December.

SIME DARBY - Malaysia's Sime Darby said in late November that its board had approved the company's plan to establish a perpetual sukuk programme of up to 3.0 billion ringgit.

SICHUAN DEVELOPMENT - A unit of China's Sichuan Development Holding Co plans to establish a $1 billion sukuk programme, the firm advising on the deal said in late November.

TAIWAN - The Taipei Exchange expects next year to list sukuk issued by local companies, the president of the exchange said in late November without giving details.

AFGHANISTAN - The government of Afghanistan intends to sell sukuk, perhaps over the coming year, the central bank governor said in late November.

WAPDA - The Pakistan government in late November gave the Water and Power Development Authority permission to borrow 244 billion rupees ($2.3 billion) from commercial banks through domestic sukuk issues to finance construction of two hydropower projects, but refused to give tax exemptions on the loans, the Express Tribune reported.

ISLAMIC DEVELOPMENT BANK - The Islamic Development Bank wants to use sukuk to help finance the reconstruction of countries ravaged by conflict such as Yemen, with the World Bank as a potential joint issuer, the head of the IDB said in mid-November.

KAZAKHSTAN - Kazakhstan's parliament has approved legislative amendments to facilitate Islamic finance, paving the way for central Asia's largest economy to issue its first sovereign sukuk next year, a government official said in mid-November.

BOUBYAN BANK - Kuwait's Boubyan Bank said in mid-November that it was in the preliminary stages of studying issuance of sukuk that would boost its capital reserves.

KUVEYT TURK - Turkish Islamic bank Kuveyt Turk mandated six institutions for a sukuk issue with a value of up to $400 million and a maturity of 10 years, it told the Istanbul stock exchange in mid-November.

KUWAIT - Kuwait's financial regulator released rules covering issuance of sukuk in mid-November, in a move that could facilitate sales of sukuk by both the government and corporations. Finance minister Anas al-Saleh has said Kuwait may issue local-currency sukuk to cover its budget deficit.

WIDAD CAPITAL - Malaysia's Widad Capital proposed a sukuk murabaha programme of up to 120 million ringgit, RAM Ratings said in mid-November.

PAKISTAN - The Pakistani government is likely to issue sukuk worth over 300 billion rupees against the security of Jinnah International Airport Karachi to squeeze surplus liquidity from Islamic banks, The News quoted a local banker as saying in mid-November.

Pakistan's government plans an international sukuk issue, likely to be worth $500 million, in 2016, possibly in the April-June quarter, finance secretary Waqar Masood Khan told Reuters in late September.

OMANTEL - Oman Telecommunications Co (Omantel) plans to sell 50 million rials ($130 million) of Islamic bonds by early 2016 in what would be the country's second corporate sukuk issue, a top executive said in early November.

HASCOL PETROLEUM - Pakistan's Hascol Petroleum is proposing to issue six-year sukuk for 2 billion rupees, including a greenshoe option of 500 million rupees, JCR-VIS Credit Rating Co said in early November.

TUNISIA - The Tunisian government expects in the first half of 2016 to make its first sukuk issue, worth 1 billion dinars ($505 million), Finance Minister Slim Chaker told Reuters in late October.

SOUTH AFRICA - South Africa would like to issue more sukuk so there is enough liquidity to build an investment curve, Director-General of the Treasury Lungisa Fuzile told reporters in mid-October without giving details.

MALAYSIA BUILDING SOCIETY - Malaysia Building Society is sounding out the market on its fourth offer of structured sukuk to raise up to 900 million ringgit; lead RHB Investment Bank is gathering indications of interest on various tranches, though demand for non-benchmark tenors is heard to be weak at the moment, bankers said in early October.

AYALA LAND - Ayala Land of the Philippines is considering raising funds through sukuk for its investments in Malaysia, finance officer Jaime Ysmael was quoted as saying in early October by ABS-CBNnews.com.

COUNTRY GARDEN - Chinese property developer Country Garden Holdings will debut in Malaysia's debt markets with its first sukuk; the maiden issue will come off a 1.5 billion ringgit Islamic medium-term note programme, on which CIMB Investment Bank is lead arranger, bankers said in early October.

INDONESIA - The Indonesian government plans to offer project-based sukuk worth 13.7 trillion rupiah ($953 million) in 2015, nearly double this year's level, Antara news agency quoted the National Development Planning Agency's deputy chief for development funding, Wismana Adi Suryabrata, as saying in mid-September.

HNA GROUP - The financing arm of China's HNA Group, owner of Hainan Airlines, plans to make an offshore sukuk issue of benchmark size before year-end, Andrew Kinal, managing director of Geneva-based Shariah Advisory Group, which is advising on the deal, said in early September.

EGYPT - Egypt hopes to issue its first sovereign sukuk by the first quarter of 2016, Samy Khallaf, an adviser to the finance minister, said in early September.

TIME DOTCOM - Malaysia's TIME dotCom plans a sukuk offer off its newly established 1 billion ringgit medium-term note programme. CIMB Investment Bank and Hong Leong Islamic Bank were appointed joint lead managers, bankers said in early September.

PRASARANA - State-owned public transport operator Prasarana Malaysia said in early September it would fund Malaysia's light rail transit three project via sukuk, with the coupon to be decided later.

TURKIYE FINANS - Turkiye Finans Katilim Bankasih has applied to raise up to 1.5 billion lira ($513 million) via sukuk through its wholly owned unit TF Varlik Kiralama, Turkey's Capital Markets Board said in August.

SAUDI ELECTRICITY - Saudi Electricity Co received approval from its executive committee to set up a sukuk programme worth as much as $1.5 billion and negotiate for loan financing worth $2.3 billion, the Gulf's largest utility said in late August.

ALUMINIUM BAHRAIN - Aluminium Bahrain is seeking a credit rating ahead of talks with banks about fund-raising for its $3.5 billion Line 6 expansion, a company official told Reuters in late August. A banking source said a bond or sukuk could be issued before end-2015 or early in 2016.

PHILIPPINES - Sukuk are a funding option for the Philippine government, National Treasurer Roberto Tan told Reuters in mid-August, adding that he hoped Congress would pass legislation to allow such issuance.

BEST LEASE - Mohamed Frad, board member at Tunis-based Best Lease, a commercial leasing firm, told Reuters in early August that the company aimed to raise up to 30 million dinars via sukuk to finance its growth after finance ministry rules covering issuance of corporate sukuk were published, which was expected within months. Tunisia's Banque Zitouna and El Wifack Leasing were also considering sukuk issues.

BANK MUSCAT - Bank Muscat has delayed plans to launch a 500 million rial sukuk programme after the central bank rejected the proposal, a source at the bank told Reuters in mid-July. "We will restructure the sukuk proposal and file for the approval again," he said.

RENAISSANCE SERVICES - Shareholders of Oman's Renaissance Services approved in early July plans for the company to buy back mandatory convertible bonds and finance that by issuing up to $200 million of perpetual bonds, either conventional or sukuk.

APICORP - Saudi Arabia-based Arab Petroleum Investments Corp could issue its first sukuk later this year as part of its recently-established $3 billion sukuk programme, the company said in early July.

TURKEY - The Republic of Turkey is seeking to raise $1.5 billion from issuance of sukuk and yen-denominated bonds this year, a Treasury official said in late June: around $400 million equivalent from the yen-denominated transaction and the rest from sukuk.

TOYOTA - The Malaysia unit of Toyota Motor Corp plans to set up a 2.5 billion ringgit programme to raise funds via both conventional and Islamic bonds, a regulatory filing showed in mid-June.

SINDH - Pakistan's Sindh province plans to raise as much as $200 million through a debut issue of sukuk to help fund development and infrastructure projects, the province's minister of finance said in mid-June.

BAHRI - Saudi Arabia's Capital Market Authority granted approval to National Shipping Company of Saudi Arabia (Bahri) to issue sukuk, the regulator said on June 1. Bahri plans to complete a debut Islamic bond offer worth up to 3.9 billion riyals this quarter, the company's vice chief executive officer for finance Mohammad Alotaibi said earlier.

AEON CREDIT - Malaysia's Aeon Credit Service said in mid-May it planned to raise 1 billion ringgit via sukuk murabaha for working capital, repayment of debt and financing for customers.

CIMB - CIMB Group Holdings, Malaysia's second largest bank by assets, plans to establish a new 6 billion ringgit conventional and Islamic bond programme, a regulatory filing by RAM Ratings said in late April. A CIMB official confirmed the details.

TELEKOM MALAYSIA - Telekom Malaysia set up in late April a $750 million, multi-currency sukuk programme that may see the state-owned company return to global markets after a long absence.

JORDAN - Jordan chose the Islamic Corporation for the Development of the Private Sector to support its debut sovereign issue of sukuk, the ICD said in mid-April; the dinar-denominated issue was expected in 2015 and would be used to absorb excess liquidity held by Jordan's Islamic banks, which is estimated to total 1.4 billion dinars ($2 billion).

AXIS REIT - Malaysia's Axis REIT said in early April that it had expanded its sukuk programme to 3.0 billion ringgit from 300 million ringgit, and extended the length to perpetual from 15 years.

TALIWORKS - Malaysia's Taliworks Corp announced in early April that the Securities Commission had authorised its proposed issuance of 210 million ringgit worth of sukuk murabaha, Bernama news agency reported.

SENEGAL - Senegalese President Macky Sall said in early April that he had asked the Islamic Development Bank to help his country conduct a second sovereign sukuk issue. He gave no details.

ZORLU ENERGY - Turkish firm Zorlu Energy has obtained approval from Turkey's regulator to raise 100 million lira via sukuk, the regulator said in mid-March.

NIGERIA - Nigeria is exploring with the Islamic Corporation for the Development of the Private Sector the idea of issuing sovereign sukuk, the ICD's head told Reuters in mid-March.

LUXEMBOURG - Luxembourg intends to issue more sovereign sukuk in 2016 after conducting its first such issue last year, Luxembourg finance minister Pierre Gramegna was quoted as saying by the Gulf Times in March.

NIGER - Niger's government will establish a sukuk programme worth 150 billion CFA francs, permitting its first issue of sukuk, with assistance from the private sector arm of the Islamic Development Bank, the Jeddah-based body said in late February.

Source: https://www.zawya.com/story/SUKUK_PIPELINE__Issue_plans_around_the_world-ZAWYA20160103091843/

World Gold Council Wants to Create Standard to Avoid Islamic Finance Disputes

The World Gold Council is seeking to create a global standard to make the metal's use in Islamic finance more cost effective by eliminating disputes among scholars.

The 18-member council and Amanie Advisors issued a consultation draft in November to Shariah professionals and practitioners. The WGC has also held bilateral meetings with banks and investment funds, who say that such a template will lead to more gold-backed products, Natalie Dempster, its London-based managing director of central banks and public policy, said in a Dec. 24 e-mail interview.

There is conflict among scholars as to whether gold is classed as a currency or a commodity, which probably harks back to Islamic finances' early origins using gold coins. The precious metal is considered to be an item that is not to be bought and sold at a profit, at a different price or on a deferred payment basis, said Megat Hizaini Hassan, head of the Islamic finance practice at Lee Hishammuddin Allen & Gledhill in Kuala Lumpur. It is classed as one of the six Ribawi items -- silver, dates, wheat, salt and barley.

"There are Shariah restrictions in using gold as an underlying asset for sukuk, as some say gold may be used as a medium-of-exchange but cannot be the subject matter of a trade except under strict conditions," said Megat.

The draft from the WGC and Amanie Advisors says that under Shariah law, gold is a currency but can also be regarded as a commodity. The document provides proposed standards for using the metal to back Islamic bonds, as capital in partnership contracts, as collateral for loans and for deposits.

"By making the consultation process as inclusive and far reaching as possible, we expect to reach global industry consensus on the standard during the consultation phase," said the council's Dempster. "The World Gold Council will then seek multiple endorsements of the standard by international-standard setting bodies and national regulators."

Source: http://www.bloomberg.com/news/articles/2015-12-30/gold-council-standard-seeks-to-avoid-islamic-finance-disputes

Sukuk issuance expected to decline in 2016: S&P

Weak global oil prices and shrinking government spending across the GCC and Malaysia are expected to keep the global market for sukuk at below-peak levels in 2016 according to rating agency Standard & Poor's.

Total issuance this year is expected to reach $50 to $55 billion (Dh183.65-Dh202 billion), compared with $63.5 billion in 2015 and $116.4 billion in 2014.

The correction started last year, mainly because Malaysia's central bank Bank Negara Malaysia (BNM), the largest issuers of sukuk worldwide, stopped issuing. Excluding the BNM effect, sukuk issuance dropped by around 5 per cent in 2015 from 2014.

Factors such as monetary policy developments in the US and Europe, drop in oil prices and possible lifting of Iran sanctions are going to be the key drivers impacting sukuk this year. While the first two factors are likely to drain liquidity from global and local markets, fiscal consolidation and spending cuts across the GCC are expected to drive down demand for funds.

"We think that if oil prices remain weak, some governments of oil-exporting countries in the GCC and Malaysia may have no other choice than to reduce investment spending, resulting in lower financing needs and potentially lower issuances," said Mohammad Damak, Standard & Poor's Global Head of Islamic Finance.

The drop in oil prices is also reducing deposits and therefore liquidity at banks (including Islamic banks). Governments and their related entities are among the top depositors in some of the core markets for Islamic finance, with a share of 15 per cent to 40 per cent for GCC banks. "We expect that lower liquidity will lead investors to become more prudent about risk and more selective, which will push up prices," said Damak.

Rate increases by the Fed will also bring a drop in global liquidity that will reduce global investor appetite for sukuk and push up prices.

The complexity of structuring sukuk issues and the ensuing longer time to market is deterring some issuers. "Some market participants believe that the weaker economic outlook due to lower oil prices could boost sukuk issuance as governments seek to finance their funding needs. However, we think conventional issuance could be the first to benefit from such a trend," Damac said.

In 2015, conventional issuance in the GCC was up by about 140 per cent versus a 22.4 per cent drop in sukuk issuance.

Amid the overall gloom, one positive driver could be the European Central Bank's quantitative easing (QE) that might prompt some European investors to take positions on higher-yielding but riskier emerging-markets assets such as sukuk.

Source: http://www.albawaba.com/business/sukuk-issuance-expected-decline-2015-sp-790036

Asia Pacific

Asia Islamic Bonds Find New Life in '16 After Worst Year in Five

Asian issuers are leading a promising start to the year for global Islamic bonds after the poorest annual showing since 2010.

Malaysia's sovereign wealth fund Khazanah Nasional Bhd. started investor meetings in the Middle East, Asia and Europe on Jan. 17. Indonesia's government is due to pick banks for an offering by the end of January, the sixth consecutive year it's issued international sukuk. Kazakhstan and Bangladesh are also both considering sales.

The two entities will have to navigate emerging-market turmoil triggered by a sliding Chinese Yuan and tumbling commodities. Indonesia is on high alert after terrorist attacks in Jakarta, while Malaysia needs to repair confidence after its credit outlook was cut by Moody's Investors Service. Conditions are good for quality names as dollar funding still isn't expensive, according to Union Investment Privatfonds GmbH.

"Market volatility is huge so far this year and market timing will be key for success," said Sergey Dergachev, a senior money manager who helps oversee $13 billion at Union Investment in Frankfurt. "A premium has to be offered." He holds some Khazanah dollar bonds and said he would look at the new issue given its rarity.

Sales of global Shariah-compliant securities fell 30 percent to $34.9 billion last year and there's so far been no new offerings in 2016, data compiled by Bloomberg show.

Moody's cut Malaysia's credit-rating outlook to stable from positive earlier in January, citing an external environment that has crimped government revenue. Asia's only major net oil exporter has been hit by a 41 percent tumble in Brent crude over the past 12 months and stands to lose 300 million ringgit ($68 million) for every $1 drop in the price of the commodity, according to government estimates.

Indonesia, which is rated three levels lower than Malaysia, plans to issue as much as $2 billion of global sukuk in 2016, Robert Pakpahan, director general for budget financing and risk management at the Finance Ministry, was citing as saying by the local daily Kontan in October. It sold $2 billion of 10-year dollar Islamic notes in May at a coupon of 4.325 percent and drew $6.8 billion in orders. The securities were paying 5.02 percent on Tuesday, compared with 4.96 percent at the end of 2015, data compiled by Bloomberg show.

Khazanah may have to pay a premium of 150 basis points over U.S. Treasuries and Indonesia as much as 270 basis points, assuming they issue five-year paper, said Winson Phoon, a Kuala Lumpur-based fixed-income analyst at Maybank Investment Bank Bhd. Those notes were last paying 1.46 percent.

"Weighing against the risk of potentially higher dollar-funding conditions when the Federal Reserve tightens further, it could still be a good window of opportunity," said Phoon. "Overall demand for sukuk remains healthy, although there may need to be some yield premium with a confluence of uncertainty and cautious sentiment."

Source: http://www.bloomberg.com/news/articles/2016-01-18/asia-islamic-bonds-find-new-life-in-16-after-worst-year-in-five

Woori makes Korea's first deal with Islamic bank

Woori Bank has become Korea's first bank to make a financial transaction with an Islam bank, paving the way for local banks to earn interest gains from such deals with banks in Islamic states.

On Monday, Woori Bank extended $10 million in loans to the Qatar Islamic Bank through its Bahrain branch, the first of its kind for the state-owned bank, it said in a statement.

"The financial deal with Qatar Islamic Bank is aimed at securing new income sources overseas and cushioning the impact of market volatility resulting from a series of U.S. rate hikes expected throughout this year on the domestic market," the official said.

Woori Bank is planning to expand financial deals with Islamic banks and then start a business in the long-term, extending its approach to Islamic countries such as Bangladesh, Dubai, Kuala Lumpur and Indonesia, he said.

Financial transactions with banks in the Islamic region have been ignored by Korean banks due to complicated transaction terms and ensuing tax issues. But this time, the Qatar Islamic Bank has acted as a local agent in Qatar for Woori Bank, it said.

Source: http://www.reuters.com/video/2014/12/19/hong-kongopens-more-doors-for-islamic-b?videoId=348876828

Gulf

Iran's financial regulator plans mortgage-backed securities market

Iran's capital market regulator wants to develop a market for mortgage-backed securities (MBS) and has published rules covering them, the latest move by authorities to revamp the financial sector.

Lifting of sanctions on Iran promises to draw billions of dollars of fresh capital into the country. But the domestic debt market is underdeveloped and has struggled to offer a wide range of funding options for local firms.

MBS, which are bonds backed by home loans packaged together and sold to investors, could help to stimulate the debt market and spur housing construction in the country of about 80 million people. Iran has seen some issues of MBS but on a small scale, and active trade in them has not developed.

"The MBS concept is a newcomer to the market - this is designed to diversify lending sources and bring fresh money for banks," said Majid Pireh, senior Islamic finance expert in the Research, Development and Islamic Studies Department of Iran's Securities and Exchange Organisation (SEO).

"We have to find alternatives due to limitations in the market," he said in a telephone interview.

The new MBS rules, released by the SEO last week, include strong consumer protection features - a reasonable precaution considering the role MBS played in 2007 when some turned sour in the United States and triggered a worldwide financial crash.

They also feature some particularly Iranian aspects that make them different from similar securities elsewhere.

Iran's entire financial system is nominally Islamic, meaning interest payments are banned, but bank deposits and bonds carry "profit rates" that function much like interest rates.

Concerns about consumer protection, coupled with years of sanctions, mean that Iran's approach to MBS differs in some important ways from the instruments issued elsewhere.

For example, Iran lacks credit rating agencies that can evaluate the creditworthiness of this new paper. In their absence, the SEO requires originators to obtain a guarantor firm that will guarantee payments for investors and provide continuous monitoring of the instruments.

This is designed to provide protection for consumers, but could also increase costs for originating banks, Pireh conceded.

Guarantors must meet requirements outlined in the rules to ensure they are financially sound, including capital requirements.

The SEO has asked banks to structure MBS using receivables from high-quality debtors and to use receivables that have an existing repayment history, Pireh added.

In addition to mortgages, the rules allow for the use of "other types of receivables", he said, suggesting that non-bank companies might be able to raise funds in future by securitizing a range of instruments.

Source: http://www.reuters.com/article/us-iran-mbs-regulations-idUSKCN0UZ1DX

Creditworthiness of Middle East sovereigns on the decline

Dubai: The overall creditworthiness of Middle East and North Africa (MENA) sovereigns, including the GCC sovereigns has deteriorated over past six months with Saudi Arabia, Oman and Bahrain facing negative rating outlook in the context of rising fiscal pressures, according to rating agency Standard & Poor's.

Assuming average crude prices of $45 (Dh165) for the current year, S&P expects current ratings and outlooks to hold for GCC countries as many of them continue to retain substantial government reserves and have initiated fiscal reforms to balance budgets and contain reserve erosion.

"In October 2015 we downgraded Saudi Arabia's ratings to 'A+' from 'AA-' due to the deterioration in the Kingdom's fiscal position. Saudi Arabia's general government fiscal deficit widened to about 15 per cent of GDP in 2015, from 1.5 per cent in 2014, primarily reflecting the sharp drop in oil prices. Absent a rebound in oil prices, we now expect general government deficits of 10 per cent of GDP in 2016, 8 per cent in 2017, and 5 per cent in 2018, based on planned fiscal consolidation measures," said Standard & Poor's sovereign analyst Trevor Cullinan.

If the oil price remains low over an extended period, GCC countries such as Saudi Arabia, Oman and Bahrain are likely to face further deterioration in their creditworthiness.

Recent fiscal consolidation efforts such as spending cuts, subsidy reforms and planned introduction of direct and indirect taxes are expected to improve the fiscal position of GCC sovereigns and will have positive impact on their ratings, according to S&P.

Privatisation and sale of government assets and debt government debt issuance are expected to boost government finances in the medium term. The Saudi government has already announced that it will move ahead with privatising airports and airport services this year, although it is unclear at this stage how much revenue this would raise. There has also been discussion around the potential privatisation of Saudi Aramco or its upstream/ downstream assets. Saudi Aramco is conservatively valued at $2.5 to $5 trillion, so even a 10 per cent IPO could yield $500 billion, nearly doubling the current level of SAMAs Net Foreign Assets.

While Saudi Arabia has issued $30.5 billion debt last year in the domestic market, the country is expected to tap both domestic and global bond markets to fund its budget deficits.

According to S&P, the current negative outlook of Saudi reflects the challenge of reversing the marked deterioration in Saudi Arabia's fiscal balance. "We could lower the ratings within the next two years if Saudi Arabia did not achieve a sizable and sustained reduction in the general government deficit, or its liquid fiscal financial assets fell below 100 per cent of GDP. The ratings could also come under pressure if domestic or regional events compromised political and economic stability. We could revise the outlook to stable if the combination of policy choices by the Saudi authorities and external economic conditions reduced the government's financing needs, preserving the government's strong net asset position," said Cullinan.

Source: http://www.zawya.com/story/Creditworthiness_of_Middle_East_sovereigns_on_the_decline-GN_19012016_200122/

CENTRAL ASIA & EUROPE

Turkey sets up Islamic finance coordination committee

On December 15, 2015, the Prime Ministry of the Republic of Turkey issued a circular on the formation of an Islamic Finance Coordination Committee to accelerate the development of Turkey's Islamic finance markets and to strengthen Turkey's goal of becoming an international financial hub. Turkey has already committed to developing Islamic finance and increasing the related coordination in its latest five-year development plan and the new government's program.

The Islamic Finance Coordination Committee will be chaired by the minister responsible for the Under-secretariat of Treasury and will include top financial markets regulators from the Ministry of Development, the Ministry of Finance, the Central Bank, the Banking Regulation and Supervision Authority, the Capital Markets Board, Borsa Istanbul, and the Islamic Banks Association of Turkey. The Islamic Finance Coordination Committee will also consult with non-governmental organizations, academics and professional organizations.

Turkey has already been active in developing the Istanbul Financial Center initiative to bolster Istanbul's status as a regional and international financial center and supporting the Islamic finance market in Turkey as part of this initiative. The composition of the Islamic Finance Coordination Committee emphasizes Turkey's aim to maximize its coordination at the highest level. As one of Turkey's goals is to diversify its financial markets, the Islamic Finance Coordination Committee will play an integral coordinating role between financial markets regulators and the government to harmonize the Turkish approach to Islamic finance.

Source: http://bakerxchange.com/rv/ff0024842f028455c2be968eac4b853f1a226006

Austria's BAWAG launches Islamic bank account

BAWAG PSK has said it will pilot an Islamic current account in February - the first Austrian bank to do so.

It will offer current accounts which will be consistent with the principles of Islamic law or sharia.

There will be three different BAWAG sharia accounts available which will not pay or charge any interest, but customers will pay fixed charges of €4.90, €11.90 or €34.90 a month for the account, debit card and overdraft facility.

A storm of criticism on the bank's Facebook page on Thursday prompted it to post a statement clarifying that sharia account customers would not be given preferential treatment and that the new accounts would not be financed by conventional account models.
It also asked people to refrain from making extremist or political statements, insults, threats and personal attacks.

BAWAG has said its target group is the almost 600,000 Muslims living in Austria, mainly from the Turkish and Bosnian communities. Islam is Austria's second largest recognised religion, and the bank said it is important "to respond to the different needs of sections of society".

Source: http://www.thelocal.at/20160115/bawag-launches-islamic-bank-account

AFRICA

Nigeria to Issue Maiden Islamic Financial Bond, 'Sukuk'

The Securities and Exchange Commission (SEC) has reached an agreement with the Debt Management Office (DMO) to issue Nigeria's maiden sovereign Sukuk.

Director General (DG) of DMO revealed that issuing a sovereign Sukuk has been part of the institution's strategic plan drawn three years ago, urging Nigerians to support SEC to building capacity in order to realize the goal of issuing Nigeria's first sovereign Sukuk in 2016.

"Within the context of continued decline in the prices of crude oil in the international markets, attendant drop in both foreign exchange and government revenues as well as fragility of growth from major emerging markets like China, the need for alternative sources of capital to finance infrastructure becomes increasingly more compelling," DG of SEC stated.

Issuing a sovereign Sukuk, he explained, would attract into Nigeria significant and affordable capital from the Gulf countries and other established Islamic markets around the world.

The SEC Director General said issuing a sovereign Sukuk would send a positive message to the market amidst the negative investor sentiment that persists currently.

He was optimistic that Nigeria's maiden sovereign Sukuk would be oversubscribed as both domestic and foreign investors have a rich appetite for exposure to Nigeria.

Urging DMO to take advantage of this unique opportunity to make a mark on the Sukuk market, in spite of the challenging times, the SEC boss recalled that after the release of rules on Sukuk issuance in 2013, Osun State was the first to issue Sukuk to raise N11.4 billion.

Source:
http://allafrica.com/stories/201601221432.html

Qatar International Islamic Bank, CIH to set up bank in Morocco

Qatar International Islamic Bank (QIIB) said it had signed an agreement with Moroccan lender Credit Immobilier et Hotelier S.A. (CIH Bank) to set up a bank in Morocco, which is just starting to develop an Islamic finance sector.

Last November, central bank governor Abdellatif Jouahri said Morocco would start issuing Islamic banking licences within the next year.

Sensitive about Islamist ideology, Rabat long neglected Islamic finance, but it has warmed to the industry in the past few years as it seeks to attract money and foreign investors. Islamic banks from Kuwait, Bahrain and the United Arab Emirates have also expressed interest in entering Morocco.

QIIB will take a 40 percent stake in the new bank, which is expected to launch in coming months after necessary approvals, the Qatari institution said on Thursday without giving details of the venture.

The Qatari joint venture is part of QIIB's strategy to pursue overseas investments and diversity its portfolio, the lender said in a bourse statement.

Source:
https://www.zawya.com/story/Qatars_QIIB_CIH_to_set_up_bank_in_Morocco-TR20151224nL8N14D08XX2/

Uganda Embraces Islamic Banking

Financial inclusion in Uganda is expected to deepen following a move by Parliament to enact a new financial law hence paving way for Islamic banking in the country.

The legislators passed the Financial Institutions (amendment) Bill 2015 on Jan.7, a decision that will see individuals who had been locked out of mainstream banking by virtue of their faith or religious affiliation able to access financial services with less hindrance, once signed into law.

Executives in the banking industry say they are excited with the new developments because it will revolutionaries the country's financial sector, further deepening financial inclusion.

"We are excited that the law now allows us and consumers to have choice; it is more inclusive, it's complementary," said Herman Kasekende, the chief executive officer of the Standard Chartered Bank Uganda.

Standard Chartered Bank Uganda is one of the country's commercial banks interested in unveiling Islamic banking products having introduced similar products mainly in the Middle East.

Fabian Kasi, the managing director at Centenary Bank, said the new law brings a new dimension in the financial sector enabling enhanced latitude for financial institutions to offer more , better and convenient services to clients, and so, is enhancing financial inclusion.

According to Bank of Uganda data, the country's bank account holders stand at just four million -- mainly from the urban areas -- out of the bankable population of about 12 million people.

Now, any of the 23 commercial banks that want to undertake Islamic banking will have to make an official request to BoU followed up with an assessment for preparedness to unveil the new products, according to Christine Alupo, the director of communications at BoU.

The private sector has welcomed the amended law saying it has the potential to help address the challenges of ending extreme poverty and boosting shared prosperity.

"The law will enhance and broaden the financial base and consequently reduce the cost of borrowing for the customers," said Ezra Rubanda, the head of trade policy and advocacy at the Uganda National Chamber of Commerce and Industry.

The new law also places Uganda into the ranks of the states in the Organization of Islamic Cooperation (IOC) where it is a member, a scenario that could lead to easy inflow of capital for development from the Islamic world. OIC is the collective voice of the Muslim world and ensuring to safeguard and protect the interests of the Muslim world in the spirit of promoting international peace and harmony among various people of the world.

Uganda started plans to amend the law nearly six years ago.

Source: http://allafrica.com/stories/201601190732.html

IFIF 2016 to Address Regulatory Challenges to Accelerate Development of Islamic Finance in Africa

The upcoming second International Forum on Islamic Finance (IFIF 2016) will serve as a key platform for critical discussions on developing effective regulation and supervision of Islamic finance in Africa. This is widely considered an indispensable to help Islamic finance flourish in Africa and put the continent's Islamic finance industry on a level playing field with conventional finance.

African countries harbour nearly a quarter of the world's Muslim population and currently are at different stages in relation to the development of a legal and regulatory framework enabling Islamic banking practices, products and institutions. Currently there are only a few countries that have regulations that fully facilitate Islamic finance activities. Sudan, the host country of IFIF 2016, is one of only two countries in the world whose banking system wholly Sharia compliant.

In September 2015, the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of the Islamic Development Bank Group (IDB) signed an agreement with the Regional Financial Market Regulatory Body of the Western African Economic and Monetary Union (WAEMU). The partnership is aimed at mobilizing long-term resources of Union member states and the private sector, especially small and medium sized enterprises (SMEs). One of the key areas of cooperation includes information exchange that would help develop the regulatory framework to help Islamic finance flourish in West Africa.

A report from the ICD in September 2015, entitled "Islamic Finance in Africa: A Promising Future," highlighted the tremendous growth opportunities for Islamic finance in Africa. Regulatory challenges identified in the report include regulatory inconsistency, the lack of awareness and financial literacy by many end-users and consumers, the shortage of qualified human capital, and the need for a business landscape supporting the growth of Islamic finance.

A majority of African countries have dual banking system with distinct regulations for Islamic banking. Some of the countries that issued sukuk in 2015 include Gambia (USD 230 million), Sudan (USD 70 million), Senegal (USD 210 million), Nigeria (USD 700 million) and South Africa (USD 500 million). At the same time, several countries such as Tunisia, Egypt and Morocco have announced their interest in tapping the sukuk market for infrastructure financing and are finalising their legal frameworks to promote sukuk issuances.

Africa has much work ahead of it to be en par with more developed Islamic finance jurisdictions such as Bahrain and Malaysia, and there is a key opportunity at IFIF 2016 in February for discussions on best practices to help level the playing field in Africa at the continent and at the global level.

IFIF is an innovative initiative by Middle East Global Advisors, an intelligence platform serving frontier & emerging markets, and the Bank of Khartoum (BOK), one of Africa's largest lenders that recently set up BOK International in Bahrain as part of effects to build a corridor between Sudan and the GCC.

IFIF 2016 will take place on 9 and 10 February 2016 in Khartoum, Sudan.

Source: http://www.businessghana.com/portal/news/index.php?op=getNews&id=208547

GLOSSARY

H	
8. **Hamish al jiddiyyah**	An amount of security deposit held as collateral by the institution offering Islamic financial services (IIFS) upon giving a binding promise. The purpose of Hamish al jiddiyyah is to determine the financial capacity of the customer and his seriousness in fulfilling the binding promise The IIFS will take the amount of actual damage from the Hamish al jiddiyyah in case the customer breaches his undertaking.
9. **Hibāh**	A unilateral transfer of ownership of a property or its benefit to another without any counter-value from the recipient.
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10. **Ijārah**	An Ijārah contract refers to an agreement made by an institution offering Islamic financial services to lease to a customer an asset specified by the customer for an agreed period against specified installments of lease rental. An Ijārah contract commences with a promise to lease that is binding on the part of the potential lessee prior to entering the Ijārah contract.
11. **Ijārah al mawsufat fi al dhimmah (Forward lease contract)**	A contract where the lessor leases the usufruct of a specific asset, in which the lessor is the owner of the manfa't when the contract takes place. This usufruct can be of an asset (manfa't 'ayn) or of people (manfa't ashkhas).
12. **Ijārah Muntahia Bittamlīk**	An Ijārah Muntahia Bittamlīk (or Ijārah wa Iqtina) is a form of lease contract that offers the lessee an option to own the asset at the end of the lease period either by purchase of the asset through a token consideration or payment of the market value, or by means of a gift contract.
13. **Istisnā`**	An Istisnā` contract refers to an agreement to sell to a customer a non-existent asset, which is to be manufactured or built according to the buyer's specifications and is to be delivered on a specified future date at a predetermined selling price.
14. **Islamic window**	Islamic window is part of a conventional financial institution (which may be a branch or a dedicated unit of that institution) that provides both fund management (investment accounts) and financing and investment that are Sharī`ah-compliant.