

Headline	SUKUK COULD BE UNIFYING GEL		
MediaTitle	New Straits Times		
Date	16 Feb 2017	Language	English
Circulation	74,711	Readership	240,000
Section	Local News	Page No	19
ArticleSize	450 cm <sup>2</sup>	Journalist	N/A
PR Value	RM 46,536		



## ISLAMIC FINANCING

# SUKUK COULD BE UNIFYING GEL

If developed creatively, system can offer alternative role model to the international financial system



**W**HEN the world's largest oil company, Saudi Aramco, launches a maiden sukuk with four banks mandated a few days ago to arrange an issuance of around 6 billion riyal (RM7.1 billion), investors the world over sit up and take note.

Any self-respecting institutional investor would ignore such an opportunity at its own peril.

For the global sukuk market, which had an annus horribilis in 2015 when sukuk issuances slumped to US\$60.511 billion (RM266 billion) because of the economic fallout of low commodity prices and regional conflicts, compared with US\$137.599 billion in 2012 and US\$136.47 billion in 2013 and a projected US\$82 billion last year, Aramco's entry is a potential game-changer.

Also, the psychological impact on the sukuk market could be incalculable. The company reportedly plans to raise up to US\$15 billion this year alone through the issuance of sukuk and bonds to finance its ongoing expansion plans at the Berri oilfield, the development of a joint venture ship repair facility at Ras Al Khai, and new exploration activities in the vast Rub Al Khali (Empty Quarter).

A recent external audit put the oil giant's proven reserves at 261 billion barrels. The Saudi government values Aramco at US\$2 trillion, which makes it easily the single largest cor-

poration in the world.

Aramco also has plans to sell five per cent of the company through an initial public offering (IPO), which is expected to raise US\$100 billion, which would make it the single largest ever IPO, dwarfing the £25 billion (RM138.2 billion) raised by Alibaba, the Chinese Internet retailer in 2014.

Aramco is no newcomer to Islamic finance. It has raised a number of such facilities through syndicated commodity Murabaha transactions over the last decade.

Its foray into the sukuk market is new, albeit that its subsidiaries, Sadara Chemical Company, a joint venture with Dow Chemical of the United States, and SATORP, a joint venture with Total SA of France, have raised finance from the market through a number of sukuk issuances totalling 11 billion riyals.

Aramco has opted to issue a Saudi riyal denominated sukuk, instead of an issuance in the international market in US dollars. The rationale is that if it issued a Regulation Sukuk in the international market under English law (the governing law of most international sukuk issuances), then the prospectus will have to have detailed disclosures of company assets and balance sheet, something which the oil company is reluctant to do.

Saudi government-linked companies and corporations, together with their Malaysian counterparts, such as Petronas, Tenaga Nasional Bhd, and Telekom Malaysia, are the most prolific issuers of domestic currency sukuk in addition to international issuances. Domestic sukuk, in many respects, is the engine of sukuk sustainability, albeit international is-

suances are perceived as more glamorous, and perhaps indicate a greater maturity in terms of pricing and risk of the issuer.

Aramco's entry into the sukuk market follows recent landmark developments in the Kingdom's policy on Islamic finance. The Finance Ministry confirmed that sukuk would play an important role in Riyadh's debt issuance programme of US\$120 billion over the next three years.

Saudi Arabian Monetary Authority Governor Dr Ahmed Abdulkarim Alkholifey revealed recently that more than half of the Saudi banking assets, and 67 per cent of liabilities, are syariah-compliant. The aim is for Saudi Arabia to account for 25 per cent of global syariah-compliant assets over the next decade.

This new Saudi policy objective on Islamic finance is the biggest fillip for an industry that has yet to realise its calling and exploit its potential. Malaysia, through successive governments of Tun Dr Mahathir Mohamad, Tun Abdullah Ahmad Badawi and Datuk Seri Najib Razak, has had the mantle of global leadership of the Islamic finance movement virtually thrust upon it over the last three decades. This has worked to the advantage of the Islamic finance industry because of Putrajaya's unflinching public policy commitment, support and systemic approach. But, privately, Malaysian leaders have over the last few years been exhorting shared leadership of the global Islamic finance movement.

The shifting sands in Riyadh's corridors of power are indeed a welcome development. It will not be a panacea, but a work in progress for

Headline	SUKUK COULD BE UNIFYING GEL		
MediaTitle	New Straits Times		
Date	16 Feb 2017	Language	English
Circulation	74,711	Readership	240,000
Section	Local News	Page No	19
ArticleSize	450 cm <sup>2</sup>	Journalist	N/A
PR Value	RM 46,536		

leadership is not about how much money and resources a country has.

It is about the quality of governance, institutional capacity-building, the requisite mind set and independence in thought leadership, and self-confidence to effect leadership.

The Muslim world – so much at the receiving end of almost an endless barrage of negative news – partly self-inflicted and partly through rising Islamophobia – has a unique alternative system of financial intermediation, which if creatively developed and supported, could offer the beginnings of an alternative role model to the international financial system, which was so nearly brought to collapse in 2008.

This would require cross-border cooperation of the highest order between countries, such as Malaysia, Saudi Arabia, Turkey, Indonesia,

Nigeria, Iran and others.

Sukuk could be that unifying gel – to stimulate cross-border issuances, thus, unlocking much-needed liquidity through active secondary trading; from financing infrastructure to vaccination programmes, and rehabilitating the unique Waqf institution – bringing economic benefits to member countries, including poverty alleviation and wealth creation.

Imagine the 25 or so sovereign wealth funds (SWFs) from the Organisation of Islamic Cooperation countries allocating a small percentage of assets to syariah-compliant investments, either on an ad hoc basis or through the establishment of a dedicated supra-SWF. The size of the Islamic finance market would increase dramatically.

This would be the ultimate riposte to the doom and gloom projected by

the international purveyors of news and headline chasers, who see sukuk as a convenience purely to satisfy religious expediency and to be tolerated for now, and who still arrogantly insist on describing sukuk a bond instead of trust certificate!

**[mushtakparker@yahoo.co.uk](mailto:mushtakparker@yahoo.co.uk)**

The writer is an independent London-based economist and writer



*Imagine the 25 or so sovereign wealth funds (SWFs) from the Organisation of Islamic Cooperation countries allocating a small percentage of assets to syariah-compliant investments, either on an ad hoc basis or through the establishment of a dedicated supra-SWF. The size of the Islamic finance market would increase dramatically.*