WIEF 10th WORLD ISLAMIC ECONOMIC FORUM

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INNOVATIVE PARTNERSHIPS FOR ECONOMIC GROWTH

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FGV: Looking towards the future as a global agribusiness leader

Mohd Emir Mavani Abdullah
FGV Group President and CEO

Felda Global Ventures Holdings (FGV) makes no secret of its powerful ambitions. The Malaysian household name is already the world's largest producer of crude palm oil (CPO), and it has now set its sights on becoming a top 10 global agribusiness by 2020.

FGV has a footprint that stretches from the United States and Canada to France, Spain, Turkey, Myanmar, Cambodia, the Philippines, and Indonesia. Its business interests cover palm oil; rubber and sugar production and refining; transportation and logistics; renewable fuels, such as biodiesel; and cutting-edge materials, including graphene.

"We are not waiting around for events to dictate our future," says the company's Group President and CEO, Mohd Emir Mavani Abdullah. "We are a global company that is reaching out to customers in the fast-growing markets of the Middle East, Africa, China and India. We are actively hunting out competitive advantages, enhancing performance and adding value across the whole of our integrated supply chain."

From its pioneering roots as a government-led land and economic development body, FGV's palm oil operations form the largest component of its business. Operating over 360,000 hectares (ha) of plantations, the company produces 3.3 million tonnes of CPO annually. By planted acreage, FGV is the world's third-largest plantations operator with a 2.1 per cent global market share.

Regarding rubber, FGV's 60 years of experience is positioning it to become one of the world's top three processed-rubber players by 2020. It is also the biggest producer of refined sugar in Malaysia, boasting 63 per cent of the domestic market.

FGV is looking to merge and acquire to fuel further growth. A key part of that strategy was fulfilled in 2013, when FGV successfully acquired the 16,000ha of Pontian United Plantations in Sabah, East Malaysia. It has also expanded its regional footprint via a partnership with Al-Khaleej International Ltd to develop a new, state-of-the-art, $250 million sugar refinery, which will include a logistics complex and vessel terminal in Johor Bahru, Malaysia.

Ambitious growth strategies

"Diversifying our business streams will give FGV strength. The expansion of rubber and sugar crops will serve as a natural hedge against CPO price volatility, while expansion into value-added downstream businesses will guarantee a market for our raw materials and widen margins," Emir explains.

Listed on the Bursa Malaysia in 2012, when it was the world's second-largest IPO after Facebook, FGV is one of Malaysia's most watched companies. Focusing on its founding principles of profit, planet and people, FGV is committed to delivering sustainable and long-lasting growth to all of its stakeholders.

As a member of the Roundtable on Sustainable Palm Oil (RSPO) since 2004, FGV has committed to have all of its mills RSPO-certified by 2017.

Operating over 360,000ha of plantations, FGV is the world's number one producer of crude palm oil (CPO), producing 3.3 million tonnes of CPO annually

FGV's pipeline of CPO is allowing it to become a significant producer of biodiesel and renewable fuels, with expected annual production capacity of 350,000 tonnes, catering to domestic and international markets. FGV is also set to become the world's first company to produce high-grade carbon nanotubes (CNT) and graphene, for use in the electronics, aviation and automobile industries, from by-products of CPO.

"We have never been afraid to take bold steps," says Emir. "With our sights now set on becoming one of the world's top 10 biggest agribusinesses by 2020, we are implementing powerful catalysts for growth in Malaysia and abroad."

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FGV

HH Sheikh Hamdan bin Mohammed Al Maktoum

Crown Prince of Dubai

It is a source of great pride that Dubai is hosting the 10th World Islamic Economic Forum. The Islamic economy is both a key component of our economic strategy in Dubai and an important part of my personal mandate. We have a strong and systematic strategy in place and are already implementing its plan today.

Dubai has always been a pioneer in the Islamic banking sector, as it had established the first Islamic bank in the world, and the world's first Sharia-compliant financial market.

Dubai shall continue its leading position, leaning on its expertise and the network of global relationships and partnerships throughout the world. It shall also keep relying on its relentless pursuit of best practice and its ambition to compete on the global stage.

It is my pleasure to present to you our approach and initiatives directed towards advancing the Islamic economy sector and enhancing its Sharia-compliant standards and references. Since the launch of our strategy last year, we have adopted a creative and balanced approach, which includes a diverse range of value-creating drivers that work towards developing existing sectors and creating new ones. We have launched nearly 40 initiatives in the areas of Islamic financing, halal industries, tourism, digital economy, knowledge, arts, design and international standards.

What will it take to succeed in our ambition and how will it look when we do?

In the area of Sharia-compliant finance, we are working to provide a regulatory environment with the kind of rules and systems necessary to facilitate business and develop our capital markets. For example, we recently launched the Dubai Global Sukuk Centre, an effort aimed at establishing a renowned source of jurisdiction for the listing of sukuk.

For the halal sector, we are developing a local network of facilities and logistics services to produce, export and re-export these products, as well as creating dedicated Halal Parks with end-to-end infrastructure. This will help halal companies reach and serve both the regional and global markets.

For tourism, we are creating new destinations and services, with facilities that are friendly to families and all.

We are also strengthening our digital economy sector by adopting incubators for software and electronic games, as a way for enhancing Islamic e-commerce. We recently set up what will be the largest technology entrepreneurship centre in the MENA region that is working to support entrepreneurs and SMEs in the Islamic digital space.

In the creative industries, Dubai is already a centre for Islamic design and architecture and a global destination for showcasing and trading in Islamic arts.

The Islamic Economy Award will recognise a new generation of leaders in the Islamic economy. Meanwhile, in the area of Islamic knowledge and education, we have already launched the Dubai Centre for Islamic Banking and Finance, which will provide research and training along with developing global Islamic management standards.

Throughout this all we are learning important lessons and sharing our knowledge. One of the most interesting findings has been the success of public-private partnerships as a tool stimulating growth, an area where we excel and that continues to be a fundamental part of our roadmap going forward in all economic sectors.

Another lesson has been the need to lead through a coherent approach and clear vision. That is why we created a dedicated centre, The Dubai Islamic Economy Development Centre, to implement our strategy and manage these initiatives along with our stakeholders.

His Highness Sheikh Mohammed bin Rashid Al Maktoum wants to advance the Islamic economy. He believes that the Islamic economy is expanding its share of global trade every day, and that Muslims should be the ones leading the advancement of this sector and setting its rules, regulations and operating standards.

This is an exciting time for all of us as we break new ground in building a new future for the global Islamic economy. We are committed to our role as a connecting place for minds, ideas and innovations from all over the world, and we look forward to travelling this road together with our fellow pioneers and partners. ◉

It is time to revive the forgotten pillar of Zakat

By respecting and upholding the institution of Zakat, we pave the way for both spiritual and economic growth, argues Iqbal Nasim

Iqbal Nasim
Chief Executive,
National Zakat Foundation

Muslims believe that their success in this life and beyond is bound intrinsically with their adherence to the five pillars of Islam. Just as a building without foundations cannot last, neither can any sense of authentic Muslim identity or community persist without the five core obligations being upheld.

This is true at both an individual and societal level. What is required of us is to meet our obligations in a personal capacity, but also to support the development of an infrastructure that allows others to do the same. As an example, one can perform the five daily prayers privately but there is clearly additional merit in giving up one's time and money to help establish an institution for this purpose, namely the mosque, that allows Muslims to come together in performing the prayer and gives a clear physical presence to the pillar in the public sphere.

With Zakat, it is no different. While the individual calculation and payment of Zakat can take place without institutions dedicated to upholding the pillar, this ad hoc approach puts a natural limit on the potential of Zakat to reap its true benefits for the community at large.

The sad reality today is that the majority of the world's Muslims now live in societies where the local collection and distribution of Zakat is either non-existent or simply inadequate. Examples of Muslim countries where Zakat is properly administered and truly part and parcel of community life are now few and far between. The amount of Zakat that simply goes unpaid on a global scale sits comfortably in the billions of dollars every year.

There are huge negative spiritual consequences of this status quo that should be of grave concern. It also carries negative economic consequences. The theme of this year's WIEF is 'Innovative partnerships for economic growth', and one cannot underestimate the huge role that the proper administration of Zakat could play in fostering economic growth through what can in effect become innovative partnerships between rich and poor.

The National Zakat Foundation (NZF) was established in 2011 to institutionalise the pillar of Zakat in communities where the very idea of local collection and distribution of Zakat has been anathema and with an initial focus placed on Muslim minority communities.

NZF is now operating successfully in the United Kingdom, Australia and Canada, with an expected global income in 2014 of more than $4 million.

The proper administration of Zakat can play a huge role in fostering economic growth

No doubt, it is still early days, but in a short space of time NZF has been able to harness the appetite of Muslims at grassroots level to have proper systems in place that afford due importance to a core obligation of our faith.

Muslim businesses and Islamic financial institutions have a huge role to play in supporting the development of such efforts and it is hoped that the WIEF will, in part, act as a platform for new partnerships to form. This will support the advancement of what is undoubtedly a noble and necessary endeavour.

Iqbal Nasim has been Chief Executive of the National Zakat Foundation in the United Kingdom since 2011. Prior to this, he worked for several years as Vice President in the equity research department of a major investment bank. Iqbal holds an MA in Economics from Cambridge University and is currently pursuing an MSc in Voluntary Sector Management at Cass Business School.

For more information about the National Zakat Foundation, visit www.nzf.org.uk or email iqbal.nasim@nzf.org.uk

National Zakat Foundation™

Collaboration: a vital ingredient of growth

MILES WILLIS/GETTY IMAGES

With the world economy in a state of flux, and Islamic finance emerging as an important part of the wider global picture, cooperation is central to sustaining growth, explains **The Hon Tun Musa Hitam**, Chairman of the WIEF Foundation

This year's 10th World Islamic Economic Forum (WIEF) in Dubai could not be more relevant. The ongoing paradigm shifts in the world economy, the emergence of new global concerns, and the recent financial crisis have challenged the role of the state, the private sector, civil society and community organisations; more importantly, they have also prompted us to reconsider the traditional models for cooperation between them.

Hence, it is timely for the WIEF to bring innovative partnerships to the centre of our annual forum. We believe new efforts and approaches must be urgently devised to complement the changes that have taken place in the world. All divisions of society must move in one concerted effort to seek greater efficiency, quality and sustainability in the delivery of goods and services by positively exploiting the benefits of innovative partnerships.

The 10th WIEF is designed to provide a conducive platform for key policymakers and businesspeople to identify opportunities for new forms of collaboration, bringing a new era of prosperity for the global economy.

Personally, I believe that we have made a good start at introducing the Islamic economy into the global arena, and the next step is to sustain its growth.

The global stage

In this context, His Highness Sheikh Mohammed's vision and demonstrated commitment to transforming Dubai into a capital of the Islamic economy and a global centre for Islamic finance, especially in sukuk origination and listing, has provided a further boost to the acceptance and adoption of this fast-growing sector across markets. We are more than pleased to welcome (in fact, we encourage) more players in Islamic finance and the Islamic economy in order to ensure its continued progress on the global stage.

Indeed, the 10th WIEF, with its special focus on promoting 'Innovative Partnerships for Economic Growth', marks a turning point for greater creative and strategic cross-border partnerships.

Needless to say, 2014 has so far been a landmark year for Islamic finance, with emerging interest from key financial capitals, such as London, Luxembourg and Hong Kong. The Islamic economy is surely gaining traction across the world.

The Islamic finance industry, as the record shows, has, and can continue to, definitively contribute to economic growth and development, poverty alleviation, job creation and even wealth creation.

In the wake of the recent financial crisis, Islamic finance has grown in popularity, with more investors seeking alternative and ethical outlets. Its underlying principle prioritises justice and fairness, sustainability and inclusion, which means Islamic finance has an enormous power to enhance economic well-being.

Islamic finance places strong emphasis on risk-sharing, which helps to reduce the over-reliance on debt-funding, avoid excessive debt and decrease

financial system fragility. Risk-sharing transactions also enhance the prospect of financial inclusion, bringing the financially un-served into the economic mainstream.

Risk-sharing in Islamic finance also includes the creation of a just distribution of wealth. Redistributive instruments, such as obligatory alms giving (zakat), perpetual endowment trusts (waqf), and charity (sadaqah), complement risk-sharing financing tools to form a comprehensive approach to address poverty and promote social justice in society. This approach is crucial in providing financial solutions for the lower income groups and small business. Thus, it helps to facilitate more job creation and ensure a more balanced economic growth.

Complementary growth

There are other important ways of further leveraging the Islamic finance industry that would provide it with a massive boost in terms of scale. For instance, the linkages between the Islamic finance industry and the trillion dollar halal business, along with its supply chain, has, at best, been somewhat limited. Studies estimate that the halal industry to be worth about $7 trillion, while Islamic finance is valued at nearly $2 trillion. These two industries can undoubtedly complement each other's growth.

To ensure sustainable growth for Islamic finance, it is crucial for financial institutions to leverage the massive potential of halal business and expand from consumer financing to production financing, for example providing funds for small and medium enterprises, manufacturers and exporters. Vice-versa, the halal business industry should also seek out Islamic financing products in order to fund their businesses. This is certainly a key branch of the many forms of innovative partnerships for mutual growth and benefits.

The WIEF could play an important role, as we have been doing, in enhancing the synergy between the two industries by focusing on specific areas of mutually beneficial collaboration.

The halal business industry in addition could strive to make itself more 'bankable' by appropriately structuring its activities to scale. While issues such as certification are important, the industry should also be enhancing innovative business plans and projects that are feasible and attractive to investors.

The very first step we can take to help develop the halal business industry is to provide a conducive environment where entrepreneurs and businesspeople can cultivate a culture of innovation. They must also be given a platform through which to learn, broaden their views and inspire creations.

Another key opportunity to accelerate the halal business industry is increased collaboration between the public and private sectors. Combining government resources and private-sector expertise, we have a host of networks that can help catalyse and scale up the halal business industry.

One such component of the halal business industry that is making important collaborative progress is halal medicine, including vaccines and immunisation programmes.

The World Bank is just about to issue a $500 million sukuk to finance immunisation programmes in Muslim countries through the development and use of halal vaccines.

The demand for halal medicine has soared in recent years, with increased awareness for Sharia-approved healthcare products. The vaccine market is certainly optimistic since there is a pressing demand for vaccines among the Muslim community heading to Mecca for their annual pilgrimage (hajj).

More than 25 per cent of the global population are Muslims – an estimated 1.8 billion people. Of the total Muslim population, approximately 48 per cent live in the Middle East and North Africa, 24 per cent in Asia-Pacific, seven per cent in sub-Saharan Africa, and the rest in Europe and America.

> **It is crucial for financial institutions to leverage the potential of halal business**

Out of faith, Muslims prefer pharmaceuticals that are permitted by the Sharia (Islamic law). Given these figures and the positive reception from both Muslims and non-Muslims, halal vaccines indeed have a great potential in transforming the healthcare industry.

Three halal vaccines, which are aimed at treating meningitis, hepatitis and meningococcal, are currently in the process of being produced by the Malaysian Industry Development Corporation, in collaboration with a Saudi Arabia-based partner. The vaccines are scheduled to be ready in three years. The reception thus far has been encouraging.

Manufacturing halal vaccines

It is in recognition of the importance of halal vaccines that has prompted us to include a dedicated session on this issue at the 10th WIEF. We hope this will be productive in opening the door for the establishment of more manufacturing facilities for such products within the halal industry zones in the Middle East and other parts of the Muslim world.

In this context, Islamic finance is also playing an increasingly crucial role in financing trade of OIC member countries. While intra-Islamic trade

currently represents about 18 per cent of the total trade of OIC member countries, encouraging efforts have been made by the IDB Group to increase this figure to 30 per cent over the next few years.

International collaboration needs constant promotion and continuous effort. This is what the WIEF is striving for – to gather government leaders, decision-makers, and businesspeople in one place, giving them opportunities to engage each other in economic dialogues and establish cross-border cooperation.

What the OIC countries need is more platforms and initiatives by the relevant OIC organs dealing with trade promotion to continue to focus on overcoming the various impediments to intra-Islamic trade in a more strategic way, rather than merely leaving it to uncontrolled market forces.

One way that trade can be enhanced is to improve the availability of funding for small and medium-sized enterprises (SMEs), which are very often the backbone of an economy.

In this respect, Islamic finance is certainly one key opportunity for SME funding. As mentioned earlier, financial institutions must look into diversifying their product offerings in order to help SMEs grow their business. I am glad to see increasing awareness on the part of some Malaysian financial institutions, for example in creating the necessary fund to assist deserving entrepreneurs in taking their business to the next level.

> **Waqf could play a huge role in addressing poverty and social well-being**

I believe that greater outreach to SMEs can be achieved through the wider application of equity-based structures in financing for SMEs given Islamic finance's strong focus on promoting entrepreneurship and value-creating activities. Integrations with other financial products, such as micro-takaful, and social welfare arrangements, such as waqf, can also offer comprehensive financial solutions for small and medium-sized businesses.

Gender empowerment

Similarly, gender empowerment is a challenge for all the economies in the world. But to take this initiative to the next level, beyond mere tokenism, especially in developing countries, where women play crucial roles in various economic sectors, including agriculture and business, we need action, action, action.

Action is what we all need at the moment. Dialogues on gender equality have been taking place all around a world. It is time that we put all these ideas into concrete measures and careful implementation. I am personally a strong believer that women are one of the world's greatest assets. If they are given equal opportunity and resources, women will be able to contribute to the overall world economy.

The WIEF will therefore continue to directly engage governments, decision-makers and women themselves in our annual forum, as part of our untiring effort to promote women's right to participate in economic activities.

In the same vein, social finance and financial inclusion are also drawing the attention of global platforms, including WIEF. Here, too, Islam and Islamic finance have unique concepts for mobilising capital from wqaf, pension funds and unit trusts.

Waqf as a social instrument

Waqf exist all around the world. Donations are received from Muslims to operate social projects, such as mosques, schools and welfare schemes. Huge holdings of real estate, commercial enterprises, cash, equities and other assets are accumulated. Unfortunately, in many cases, the management of these assets remains primitive. Lands and properties are mostly neglected, and money is often tied up in property or bank deposits that earn miniscule or even zero returns.

If managed well, waqf, as an instrument of wealth distribution, could play a huge role in addressing poverty and promoting social well-being. Governments, businesses and individuals are becoming increasingly cognizant that they can and should play a role in eradicating social issues. By re-introducing social instruments such as waqf, the Islamic community is well-placed to lead change in narrowing the gap between the rich and poor.

Government, financial bodies, community organisations and individuals from all levels of society must come together and act as one in order to make a success of the work of existing waqf institutions. If we were to go back hundreds of years in history, we would learn that waqf then were managed by the community for the community. Society took accountability to a large extent and such efforts were not restricted to any one aspect of the community's needs – waqf supported the holistic needs of the community, from mosques and schools, to hospitals and orphanages.

Again, it is in recognition of the potential of waqf that a special brainstorming session will be convened during the course of the 10th WIEF, designed to look at how best such potentials could be further capitalised upon and advanced globally through the establishment of appropriate mechanisms and models. ◉

Islamic Finance: expanding beyond traditional markets

By Shamzani Hussain
Head of Islamic Banking,
Wholesale Banking Group, FGB

Islamic finance has seen particularly strong growth beyond its traditional market over the past eight to 10 years. The Islamic finance industry is expected to reach $2 trillion by the end of 2014. The total value of Shariah-compliant assets has grown by 150 per cent since 2006, and the Sukuk market is set to exceed $60 billion of total issuances in 2014.

The continuous flow of petrodollars and increased awareness of Islamic finance has more than 500 Islamic financial institutions globally and Islamic banks taking a quarter of market share in traditional markets such as the Kingdom of Saudi Arabia, UAE, Qatar, Bahrain, Kuwait and Malaysia.

While Islamic finance has grown rapidly within the confines of traditional markets, it is interesting to note the continuing trend of expansion into non-traditional markets. Among the non-traditional Islamic markets, the United Kingdom (UK), Singapore and Hong Kong have demonstrated significant achievements in positioning their respective markets as alternative Islamic Financial hubs.

In the UK, a raft of initiatives has been launched to support the growth of Islamic finance. The UK Islamic Finance Secretariat and a ministerial-led Islamic Finance Task Force were set up to promote the UK as an Islamic financial centre. Islamic finance was used in key projects such as The Shard of Glass, the Olympic Village and the redevelopments of the Chelsea Barracks and the Battersea Power Station. The UK Government recently announced plans to issue its first sovereign Sukuk in 2014.

The Monetary Authority of Singapore (MAS) has continuously refined its regulations to facilitate the growth of Islamic finance. The MAS also joined the Islamic Financial Services Board to contribute in areas such as supervisory review and capital adequacy. In 2009, MAS issued a landmark Sukuk facility to help meet regulatory and liquidity requirements for Singapore-based financial institutions.

The introduction of the law governing tax treatment for Islamic securities in 2013 has paved the way for the development of the Sukuk market in Hong Kong. The city is now encouraging more local issuances of Sukuk to allow issuers to diversify and open up alternative funding sources from markets such as China, Asia and the Gulf Cooperation Council (GCC). The Hong Kong government has recently announced plans to issue up to $1 billion Sukuk in 2014.

A number of factors contributed towards the success of the UK, Singapore and Hong Kong as alternative Islamic financial hubs. Firstly, the mature financial market infrastructure, high standards of legal services and the introduction of Shariah governance standards. Secondly, an increasing number of multinational corporations have started utilising Islamic finance facilities to conduct their cross-border activities. These corporations are able to exploit the capacity of these hubs to diversify their funding and capital raising sources via Shariah-compliant means. Lastly, there has been an increase in the number of financial Institutions offering Islamic financial products as a result of them reviewing their client propositions across the value chain.

Today, Islamic finance has broadened its appeal well beyond the confines of Muslim conservatives and traditional Islamic markets. The strong economic growth in the GCC and other Islamic markets has contributed towards the increase in trade activities with the rest of the world. Given the strategic positioning of the UAE within the Islamic Economy, the country is able to play an important role to connect trade and capital flows across GCC, Europe and Asia.

A hub with a global reach

Further evidence of the UAE's ambition to position itself as the capital of the global Islamic economy is demonstrated by the activities of UAE banks such as FGB, which is expanding its global footprint. Headquartered in Abu Dhabi, FGB operates out of seven international locations, which include the UK, Singapore and Hong Kong. This strong international reach allows FGB to offer the full suite of Islamic products across all industries and geographies.

Aided by the vision of HE Sheikh Mohammed bin Rashid Al Maktoum (Vice President of the UAE and Ruler of Dubai), the UAE is well primed to become the leader of the global Islamic finance industry.

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Building innovative partnerships

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Forging a new era of prosperity

Tan Sri Ahmad Fuzi Abdul Razak, Secretary General of the WIEF Foundation, discusses the challenges facing the Islamic economy, and how its growth can be sustained

The theme for this year's World Islamic Economic Forum (WIEF) is 'Innovative Partnerships for Economic Growth'. Our rationale is implicit. The world is changing rapidly and the Islamic economy is not insulated from happenings across the globe; whether they be social unrest, leadership changes or macro-economic volatility.

Our focus, at the World Islamic Economic Forum Foundation, is bringing to the fore opportunities, which will ensure continued progress for the $8 trillion Islamic economy and the 1.4 billion Muslim people globally.

The Forum aims to forge greater collaboration between business people, bringing a new era of prosperity for the global economy. However, we do recognise the various models for economic growth. We see promoting innovative partnership as an important dimension in attaining such an objective.

Giving more emphasis to partnership, and in particular innovative partnership, offers tremendous opportunities for players with varying expertise and resources to join forces and create joint ventures that are greater in value than the sum of their parts. Innovative partnership with the right synergy between the partners concerned will no doubt help provide a wider pool of knowledge and experience, as well as increased productivity and efficiency to facilitate greater economic growth.

On a wider scale, I believe creating a development bank to promote economic growth and complement the existing global institutions, such as the World Bank and Asian Development Bank, as was recently announced by the BRICS nations, is timely.

Dubai hosts this year's WIEF, and the Programme of the Forum was based on the seven pillars of the Dubai the Capital of Islamic Economy Initiative, which was launched in 2013. These include Islamic finance, the halal food industry, halal tourism, the Islamic digital economy, Dubai as the capital of Islamic art and design, Dubai as the centre for Islamic economy standards and certification, and Dubai as the international centre for Islamic information and education.

We believe that the interactive dialogues that will take place at the 10th WIEF will open up new horizons for collaboration given the wide range of opportunities available in Dubai, in line with HH Sheikh Mohammed's efforts to establish Dubai as the world capital of the Islamic economy.

Resilience and managing risks are the order of the day both in developed and developing economies, and their financial systems. However, the priorities for developing economies are different from those of developed economies. Broadly speaking, one of the greatest challenges faced by the developing economies is to ensure that their abundant labour pool is productively employed and remains an asset rather than a liability. By contrast, many developed economies are faced with declining populations.

Developing economies also need to build up their respective economic resilience to ensure sustainable economic growth by exploiting their abundant natural resources, with due regard to environmental preservation for the benefit of their future generations.


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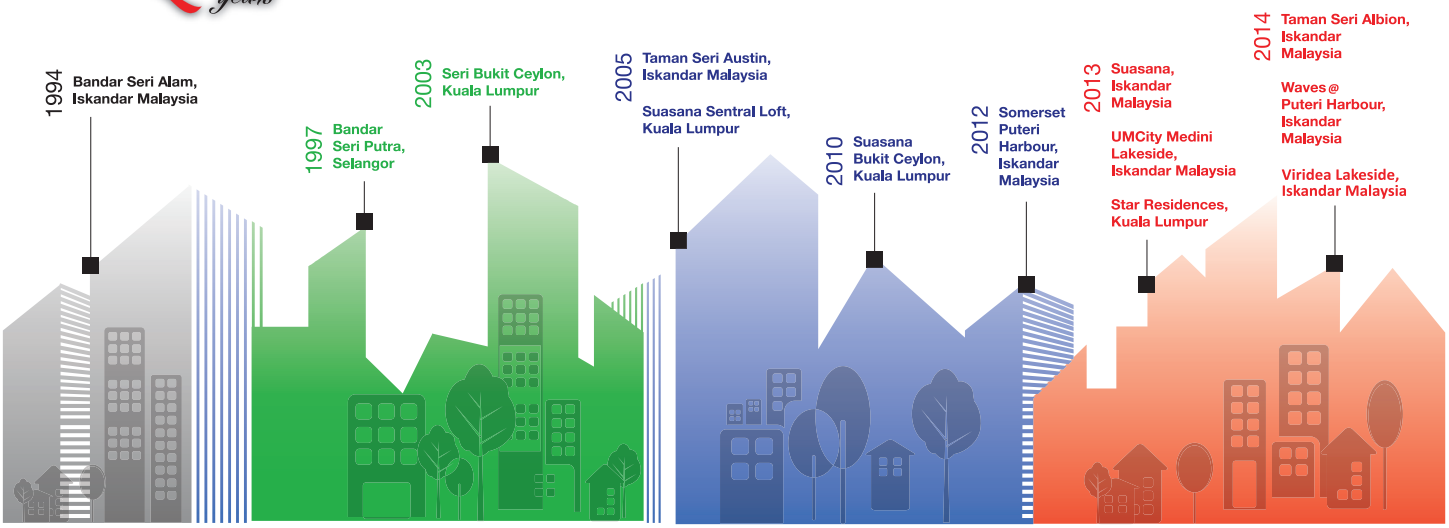

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Going forward, the developing economies are the centres for GDP growth – Asia, Africa and, to a lessor extent, the Middle East and Latin America.

Needless to say, the linkages that exist between high-growth developing economies and the lower-growth developing economies are expanding as the former shift their focus from Western countries to the lower-growth developing economies that offer greater long-term potential.

However, sustainable GDP growth for the developing economies, including the OIC countries, could only be ensured through continued political stability, good governance, equal opportunities in education and employment, technological innovation and development, and equitable distribution of wealth.

The core components of economic growth that the Forum would like to see expand – governance and policy, infrastructure, trade, employment generation and SME development – are all equally important and require appropriate policy formulation and execution.

Generally, however, the priority on core components of economic growth varies from country to country. Of those mentioned, I believe governance and policy framework lays the foundation and provides the platform for governments to prioritise and focus their programmes. SME development is less capital intensive and in certain circumstances will provide early results.

Most economies prefer a comprehensive or holistic approach in promoting economic growth so as to be broader ranging in bringing the benefits to their people.

We believe that the global Islamic finance industry can play a role in contributing to economic growth. Following the financial crisis, the new global financial order is evolving, and the importance of investing in real assets, which is the foundation of Islamic finance, is universally accepted. Islamic finance offers a pool of capital, which can serve to diversify and provide new sources of capital to foster economic growth.

The continued popularity and growth of Islamic finance, including in the non-Muslim world, is now an important reality that would have a far reaching impact on the global economy. I am glad in this regard that the WIEF is able to make a modest contribution towards this development that is increasingly recognised globally.

The evolution of Islamic finance

Having said that, Islamic finance is still evolving, both nationally and globally. While it is currently focused on the retail sector, it continues to expand to other segments. Current policies and trends would support the perspective that its role in the financing of infrastructure projects will be particularly significant in the coming years.

We would also like to see a greater synergy between Islamic finance and the multi-billion dollar halal business sector, considering the huge potentials that exist in this sector not only within the Muslim, but also non-Muslim world.

While the prominence of Islamic finance is well acknowledged today, it is the halal food and lifestyle sectors that are currently opening up a whole new horizon of opportunities for Islamic capital.

According to a report by the Dubai Chamber of Commerce, the UAE halal food consumption market alone was valued at around $20 billion in 2012.

Supporting the halal industry

The halal industry has its own dynamics and growth potential that is governed primarily by demand considerations. The financing requirements of the halal industry can naturally be met through Islamic finance.

Some key opportunities include financing for halal food, trade financing, working capital, start-up financing, growth capital and leasing financing. All these remain un-tapped by Islamic banks and halal sector funds given that this trillion-dollar plus potential market has barely any funds dedicated to it.

> **The global Islamic finance industry can play a role in economic growth**

Similarly, the contribution of women to economic growth and development is proven. Our priority to foster and empower women remains clearly reflected in the Forum programme, which is structured to benefit all participants, including businesswomen.

Women today are increasingly becoming an important economic force, and I fully agree that their current and potential contribution in both the government and private sector can no longer be ignored.

In recognition of this, more and more platforms will be provided by the WIEF through the annual Forum and other dedicated activities and programmes designed to widen the scope of opportunities available to women within the Islamic economy.

There are several other areas that are vital in the economic growth value chain. Education is the key. One of the most important aspects of building any kind of industry is to educate its practitioners and encourage the growth of talent in all fields.

This is one specific area to which the Forum continues to give a high priority as a means of accelerating economic and social progress for the benefit of the global community. ◉

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A common regional vision

MILES WILLIS/GETTY IMAGES

HE Dr Ahmad Mohamed Ali Al Madani, President, Islamic Development Bank Group and Honorary Fellow, WIEF Foundation, discusses the importance of strategic regional partnerships rooted in good governance

The 10th World Islamic Economic Forum (WIEF) that is taking place in Dubai under the theme of 'Innovative Partnerships for Economic Growth' could not be more pertinent, given the various challenges faced by the Middle East and North Africa region (MENA). It is also little wonder that the WIEF is holding its gathering in Dubai, which is being promoted as a major hub for the Islamic economy and as a global centre for Islamic finance.

It is for these reasons that both WIEF and Dubai are important platforms for the Islamic Development Bank (IDB) Group to journey ahead with its efforts towards fine-tuning the development of the Islamic economy and Islamic finance.

It is heartening to see that the mandates of WIEF and the Dubai Islamic Economy Hub fit well with the IDB's plans and programmes that are targeted towards enhancing these two important sectors – Islamic economy and Islamic finance. It makes great sense for this tripartite partnership to join forces and forge ahead to promote these sectors for the greater benefit of humankind.

The MENA region, with its vast demographic assets and command of over 50 per cent of the world's energy resources, remains a strategic geopolitical entity. However, the recent turmoil in the region continues to be a painful reminder of persistent problems, such as jobless growth, especially among the youth, and unemployment in general. So far, the public sector has been the largest employer in most of the countries in the region. However, it is time for the private sector to effectively step in and address this problem. It is from this perspective that development of innovative economic partnerships at the global and regional levels have to be considered in a bid to enable the region to attain its desired goals.

Keeping in mind the limited role of the private sector, it is important to have a fresh look at the regional economic integration process from a strategic viewpoint, with the objective of overcoming limitations and devising a new culture, business models and a fresh investment climate, while adjusting to changes in the wake of emerging challenges and opportunities.

From an IDB Group perspective, a comprehensive innovative partnership process should support the MENA region's transformative and ongoing transitional agenda, while taking into account the increasing shift in the political, economic, social and security landscape. There is abundant scope for complementarity in regional initiatives such as prioritising intra-trade, enhancing cross-border cooperation, mobilising domestic resources, establishing regional free trade areas, boosting investment in infrastructure, addressing common development challenges, including adapting to and mitigating climate change, and scaling up economic diversification and industrialisation.

It is equally important to develop a common vision on regional partnership in close cooperation with civil society and private sector organisations, taking into account the current changes. The new vision of partnerships should be anchored on good governance, human capital development, tackling youth unemployment, institutional development; and cooperation in regional public good, such as environmental protection, communicable diseases control and natural-disaster management.

If we take a closer look at the Islamic finance industry, it can be seen that it contributes a fair share to economic growth and development, not just based on the volume of financing and investment into the economy, but because of its very nature, on sharing in profits and losses or risks. The industry carries out appropriate project feasibility studies and evaluates other success factors in accordance with

Sharia principles as its own profitability is linked to the success of the project. As an industry, it has grown tremendously over the past decade in terms of product development and financing volumes and sectors. As a result, apart from the large retail demand, even corporates and project financiers are venturing into Islamic finance given its attractiveness to investors and the huge potential of capital available from Sharia-compliant savers and investors. This industry has grown impressively over the past two decades. Islamic banking assets, for instance, increased at an annual rate of 17.6 per cent between 2009 and 2013, and are expected to grow by an average of 19.7 per cent a year to 2018. According to *The Economist* (2014), Sharia-compliant assets were around $2 trillion.

IDB believes that the avowed objectives of HH Sheikh Mohammed bin Rashid Al Maktoum in promoting Dubai as a hub for the Islamic economy and as a global centre for Islamic finance, especially sukuk origination and listing, is achievable, given the Emirate's determination and the support of all Islamic finance institutions in the region, as well as globally. For its part, IDB, as one of the active sukuk issuers, has taken a major step towards listing its $10 billion MTN Program (having a five-year maturity) and all its public sukuk issuances under the Program on Nasdaq Dubai, to support this noble aspiration. IDB is also an active sukuk investor in this region and has been participating in almost all sukuk managed by financial institutions out of Dubai, as long as these issuances met its investment parameters. Dubai has already emerged as one of the active financial markets for sukuk trading, especially foreign currency denominated sukuk and the IDB is of the view that this is already a big achievement.

The IDB Group is ideally suited for partnership in these sectors, with its separate, specialised institutions that support trade (International Islamic Trade Finance Corporation, ITFC), develop Islamic finance (Islamic Research and Training Institute, IRTI), promote the private sector (the Islamic Corporation for the Development of the Private Sector, ICD) and facilitate the Islamic export credit insurance industry (Islamic Corporation for the Insurance of Investment and Export Credit, ICIEC). Together with IDB, these institutions are capable of supporting economic growth by providing trade finance and term finance to the private and government sectors, public-private partnerships, as well as export and investment insurances.

Another opportunity for the fruition of this partnership is the linkage between the Islamic finance industry and the halal business and supply chain. Since WIEF membership is not limited to Muslim countries, and as the halal industry is growing in Muslim as well as non-Muslim countries, it gives WIEF the edge to link these two potentially growing sectors and achieve tangible returns and benefits.

Given the ample Sharia-compliant financing available to the halal industry, the WIEF can surely promote both industries and in fact should encourage the development of closer relationships between them.

Creating awareness is key to the development of both these industries, especially of the synergies that exist for investors by developing and partnering with the halal industry. Here, again, the role of the WIEF can be highlighted. Making the sector attractive to investors not only requires scale, but also the use of efficient technology and the exploitation of comparative advantages that exist between producers from various regions. This could be an area where further research is needed and development of closer relationships between investors and producers across borders could be helpful. This is another area that WIEF could look into and initiate further roles in cooperation with IDB.

Halal knowledge transfer

IDB Group's own development of the halal complex in Mecca as a pilot project is a good example in this context that could be replicated in other member countries. Capitalising on IDB's long experience as the manager of the Saudi Project for Utilization of Hajj Meat (Adahi Project), it is now adding new dimensions to the industry in terms of food processing, meat canning and gelatin production for medical applications, and so on. Upon completion of this project, this diversification could position IDB as the catalyst for the halal food industry and facilitate transfer of knowledge and experience to its member countries through its South-South cooperation programme.

Another unique Islamic institution that the IDB Group has ventured into is awqaf (perpetual trusts/ foundations), in particular through its Awqaf Public Investment Fund, for the mobilisation of resources. This fund targets the deployment of socio-economic developmental programmes and activities serving the most needy countries and Muslim communities, which is in line with the spirit of the sunnah. In this context, IDB is partnering with a growing pool of pension funds and waqf assets on co-investment opportunities. This aims to preserve the capital of these pension and waqf assets; to generate adequate returns on investment while maintaining the risk at tolerable levels; and to contribute to the economic development of the Muslim communities by having a developmental dimension of such investments.

Another topic that the 10th WIEF will address is the role of Islamic finance in enabling trade, which is yet another topic of high interest for the IDB Group. Promoting intra-Islamic trade by providing trade finance and engaging in trade promotion activities is indeed a core mandate for the IDB Group and it is carried out mostly through the ITFC – a role complementing the efforts of other institutions such as OIC, COMCEC and

so on. One of the major mandates of the ITFC is to achieve a 20 per cent intra-OIC trade volume by 2015, which requires stronger cooperation and partnership development.

Improving the availability of funding for small and medium-sized enterprises is another topic to be discussed during the 10th WIEF, and it is also a partnership example that is being exercised by IDB Group entities including the Islamic Solidarity Fund for Development, ITFC, ICD and so on. The IDB Group has already forged such collaboration with the IFC, Egypt Social Fund, Abdul Latif Jamil Foundation and others.

As for gender empowerment, which is a major challenge for all the economies in the world, it is worth mentioning that, from its inception, the IDB Group has been deliberately financing operations that directly or indirectly benefit women. Examples include operations aimed at providing women with access to finance with a view to generating gainful productive activities in order to improve their living conditions; education programmes that can help correct disparities in school enrolment; and health programmes that can contribute to improving both women's health and their ability to provide basic healthcare to their children.

Going a step further, IDB Group included the empowerment of women as one of the nine strategic thrusts in its Vision 1440H, in an effort to "strive for full gender parity without breaching the tenants of Islam". Over the years, IDB has established a Women in Development Unit; set up an IDB Advisory Women's Panel; and instituted the IDB Prize for Women's Contribution to Development, which has been awarded to 33 laureates in two categories (individual and organisation) in the past nine years.

Education, also a topic for discussion at the 10th WIEF, is another domain of major importance as far as IDB is concerned. As noted in the progress report of the Millennium Development Goals (MDG), many member countries have addressed primary education successfully. Hence, among the proposed post-MDG targets (2016-30), the focus has now shifted to secondary education as an extension. These global efforts will further scale-up the human capital of our member countries to be marketable globally. This will be another area for greater intervention and partnership in the decades ahead.

We have noted that our more advanced member countries are addressing knowledge and innovation-based human capital development, while others are focusing on vocational and technical training to meet their growing industrial transformation needs. IDB Group's role in these transformation needs will be deployed by promoting and helping to share these experiences and expertise across all the 56 member countries, particularly through the IDB 'Reverse Linkage' programme.

In short, as we address the broad-based human capital development through formal education, we plan to introduce quality-based human capital development strategies through our various initiatives and Education Competitiveness programmes.

It is in that framework that I have recently signed a Memorandum of Understanding with the World Bank President to launch the Education for Competitiveness Initiative, aimed at developing joint strategies between our two institutions for improving education and training systems in common member countries, with a primary focus on the MENA region. We hope this initiative will attract other international organisations and donors with similar goals, to increase the impact of development projects focused on training and education by broadening coordination, pooling resources and avoiding the duplication of efforts.

Indeed, strong cooperation and partnership with other organisations, and not only traditional ones, constitute a main feature of IDB's interventions. As an example, one can mention that IDB has evolved a new financing programme through a strategic partnership with Bill & Melinda Gates Foundation (BMGF), which resulted in the Triple-Win innovative financing model. This model was applied for the Polio Eradication Program (PEP) in Pakistan, whereby the IDB provided $227 million for full support of the PEP interventions (2013-17), and the BMGF will pay the financing markup to IDB, allowing the Government of Pakistan to only pay back the basic approved budget to IDB.

A buy-down facility to fight poverty

IDB also created a new partnership for a $500 million grant buy-down facility with BMGF in July 2014; this will enable the IDB to deploy up to $2.5 billion of financing to fight poverty in low-income countries. To kick-start the new buy-down facility, BMGF announced that it would contribute 20 per cent of the $500 million, up to a total of $100 million.

Grant resources from the facility will be mobilised alongside IDB's own financing to completely offset the cost of financing that countries would otherwise incur. This 'buy-down' process will provide premium-free market resources to low-income countries. Both parties have called upon government aid agencies, philanthropists and other partners to contribute to the facility.

I have no doubt that the 10th WIEF will be as successful as those that preceded it, thanks in particular to the importance and diversity of the issues that will be addressed and that constitute, as indicated above, topics of utmost importance for IDB Group. We will certainly benefit considerably from the discussions that will be held on that occasion, and that will enrich the joint Islamic effort for the well-being of its member countries. ◉

Building innovative environments

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Our Sustainability Blueprint, established in 2009, is a five-pronged approach that defines and measures our sustainability efforts in terms of community, well-being, urban design excellence, environmental leadership, life-term value proposition and commercial success. It guides us to design industry-leading developments, where the form, function and feeling combine to speak to a brighter future.

At Sime Darby Property, we also diligently track our sustainability performance via our five strategic sustainability goals: leveraging on sustainability to create value; effectively managing sustainability risks; developing sustainability thought leadership; effective sustainability reporting; and instilling a performance culture.

Our 14 operational sustainability goals are our roadmap to achieving our vision of sustainability by 2020, which will benefit all our stakeholders by making us more socially, environmentally and economically sustainable.

Economically, we leverage on sustainability to create value for our stakeholders and to ensure our sustained commercial success. We aim to ensure our products surpass regulatory requirements and meet green building standards, with our townships moving towards achieving 100 per cent performance on sustainability. We aim to establish Sime Darby Property products as industry hallmarks.

We also target that 'sustainability, zero harm and continuous improvement' will be the working culture for all employees at Sime Darby Property.

We have received many industry rewards and recognitions, the latest being the Best Residential Interior Design and the Best Mid-Range Condo Development (Central Malaysia) awards at the South East Asia Property Awards (SEAPA) 2014 for The Véo, a 30-storey residential development with 175 condominiums in each tower.

Sustainability in our products

With 21 townships focusing on themed, niche and integrated transit-oriented and transit-adjacent developments, we are committed to realising our vision of being the leader in building sustainable communities.

The Glades, Putra Heights

The Glades is an idyllic gated and guarded community spanning 58 acres that features innovative sustainability concepts and architecture, such as rainwater harvesting, water filtration systems, solar water heating systems, solar energy generation, automated waste-management systems, energy-efficient LED street lights, sustainable construction materials such as roof tiles made from recycled materials, high ceilings for ventilation, double-volume green-tinted windows for cooler homes and floor-to-ceiling windows to allow plenty of natural light.

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The City of Elmina is a 5,000-acre development of contiguous townships designed according to the specifications set out by the Mercer's Quality of Living Survey, an internationally recognised standard that measures 'liveability'. The development is ecologically designed, incorporating natural elements as development features and creating biodiversity. The concept utilises the site's topographical features, not only to minimise the amount of earthworks but to also give it a distinct character that enhances the relationship between the natural and built environment.

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A complex growth environment

STR/AFP/GETTY IMAGES

Global growth is expected to continue in 2015, but the long-term outlook remains fragile while uncertainties related to geopolitical risks, fears of further recession in the eurozone and slowing growth in emerging economies remain, writes **Tamara Garry**

While potential growth rates have been revised downwards in the latter quarters of 2014, the global economy is still recovering, albeit in an uneven manner. Limitations to that growth include increasing risks in emerging markets, lower-than-expected inflation in advanced economies, and resurfacing geopolitical concerns, according to the International Monetary Fund (IMF).

"Recent geopolitical tensions have darkened the outlook for the global economy. The improving fundamentals in the Western world, including the eurozone, have not yet found their way into stronger growth data around the world. Up to now, only the US economy has really gained momentum, while the eurozone is still failing to shift up one gear," says Carsten Brzeski, Chief Economist at ING DiBa.

Economic forecast

Global growth is forecast to remain at 3.3 per cent in 2014, before increasing to 3.8 per cent in 2015 as the global recovery continues, according to IMF projections in its October *World Economic Outlook*.

The report elaborates that: "Among advanced economies, growth is projected to pick up, but is slower in the euro area and Japan, and generally faster in the US and elsewhere. Among major emerging markets, growth is projected to remain high in emerging Asia, with a modest slowdown in China and a pickup in India, but to stay subdued in Brazil and Russia."

However, the IMF's growth projections are "predicated on the assumption that key drivers supporting the recovery in advanced economies – including moderating fiscal consolidation… and highly accommodative monetary policy – remain in place. Projections also assume a decline in geopolitical tensions, supporting some recovery in stressed economies."

A labourer working on the construction of a high-speed rail link in China. The country's economy is moving onto a more sustainable footing, according to the IMF

SHIZUO KAMBAYASHI/AP/PRESS ASSOCIATION IMAGES

Among the major geopolitical disputes this year has been the fallout between the West and Russia over Ukraine. The US and its allies have imposed increasingly tough sanctions on Russia, and Moscow has responded with a ban on food imports from Australia, Canada, the EU, Norway and the US.

Many European countries are feeling the pinch as sanctions against Russia hurt their own economies. This is expected to get worse following Russia's ban on most imports – including meat, fish, dairy products, fruits and vegetables – from the West. Russia's trade with the EU accounts for about half of total Russian imports and exports, reaching €326 billion ($421.7 billion) in 2013.

"Heightened geopolitical risks, as well as developments in emerging market economies and global financial markets, may have the potential to affect economic conditions negatively," Mario Draghi, the European Central Bank President, told reporters in Frankfurt on 7 August, Bloomberg reported. "There is no doubt that if you look at the world today, you'll see that geopolitical risks have increased all over the world: we have the Russian-Ukrainian crisis, Iraq, Gaza, Syria, and Libya," Draghi said, adding that "some of them, like the situation in Ukraine and Russia, will have a greater impact on the euro area than they certainly have on other parts of the world."

In the near term, the prospects in Russia and other economies of the Commonwealth of Independent States have been downgraded, with growth expected to slow due to geopolitical events, the IMF said in its *World Economic Outlook* report in April: "Greater spillovers to activity beyond neighbouring trading partners could emerge if further turmoil leads to a renewed bout of increased risk aversion in global financial markets, or from disruptions to trade and finance due to intensification of sanctions and countersanctions," the report said. "In particular, greater spillovers could emerge from major disruptions in production or the transportation of natural gas or crude oil, or, to a lesser extent, corn and wheat."

RAJESH KUMAR SINGH/AP/PRESS ASSOCIATION IMAGES

(Top) A customer looks at television sets in Tokyo. Japan's economy faces several challenges, including an ageing and declining population

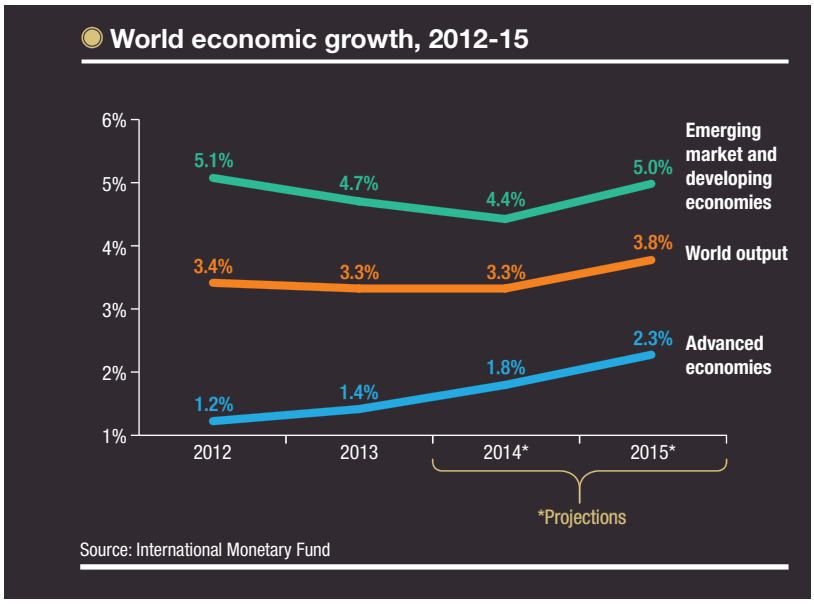
(Above) The owner of an embroidery factory in India observes the shop floor. The country's GDP growth is expected to reach 6.4 per cent in 2015

Although in its October update to its outlook, the IMF noted of strife in Ukraine and the Middle East: "So far the impact of these tensions on economic activity appears to have been mostly limited to the countries involved and their closest trading partners: financial market reaction has been muted, and commodity prices have actually eased."

Bud Conrad, Chief Economist at Casey Research, says he expects depreciation of most currencies: "For the US in particular, I have been bullish on our stock market for several years, but am concerned that conflicts in the Middle East, and elsewhere, could drive energy prices higher and hurt economic growth, so just last month [July] I turned negative on the US stock market. I expect economic slowing in the US next year."

Conrad's long-term prediction is that the paper money systems will witness big inflation. Hence, he recommends investing in physical assets, for example precious metals, real estate and energy.

"The eurozone recovered, but faces youth unemployment, immigration problems, and now new economic slowing from the Ukraine spillover, with economic sanctions on Russia. The euro itself looks vulnerable, despite the less aggressive money creation than the US," says Conrad.



Indeed, in the IMF's latest forecast, the eurozone's biggest economies – Germany, France and Italy – show lower growth prospects than predicted in April. "Growth nearly stalled earlier this year in the euro area, even in the core. Although this partly reflects temporary factors, the recovery has been slowed by the crisis legacies, primarily in the south, and by low potential growth nearly everywhere." The euro area as a whole is expected to grow by 0.8 per cent in 2014 and by 1.3 per cent in 2015.

Emerging markets

While growth in emerging markets and developing economies still accounts for the majority of the global total, that growth is slower than the IMF forecast in the spring. Overall, in emerging markets growth is now projected to decrease from 4.7 per cent in 2013 to 4.4 per cent in 2014, but then to increase to 5.0 per cent in 2015.

Rachel Ziemba, Director of Global Emerging Markets at New York-based financial analysis firm Roubini Global Economics, says that in 2014 and 2015, emerging market growth will stabilise and benefit from a cyclical upswing. "Emerging markets have slowed down since the global financial crisis as their balance sheets have weakened and growth will be more moderate going forward. We don't see a meaningful inflation problem and indeed price pressures are moderate aside from a few countries (Brazil, Turkey, Russia), where total and food prices are still rising."

A report released by the UN's Economic and Social Commission for Asia and the Pacific (UNESCAP) in August found that economic growth in that region remains subdued as populations demand their governments reform tax systems, bridge income inequities and boost employment. According to the UN, China and India are expected to see steadier growth, while growth in the Russia is slowing due to geopolitical tensions. It also said sluggish growth in the main industrialised economies is spilling over and reining in growth in the Asia Pacific region.

Growth in developing economies, including China and India, is also expected to be negatively impacted by a tightening of US monetary policy, as quantitative easing – a measure to stimulate US growth – is tapered back, the UN said. In addition, restrictive trade policies in developed economies will weaken exports. The UN cited youth unemployment as a major issue, saying approximately 717 million of the region's population comprised men and women aged 15 to 24 years. It called for "active labour market programmes" that link education, training and skills development, and the elimination of gender inequality in education.

On China, analysts have warned of a real estate and housing bubble that could bring about bigger economic woes in the world's second-largest economy. However, government intervention to stimulate the economy has assuaged some of those fears.

The IMF forecasts China's growth will decline slightly from 7.4 per cent in 2014 to 7.1 per cent in 2015, "as the economy makes the transition to a more sustainable path and residential investment slows further". This projection is based on the assumption that the government will gradually rein in rapid credit growth and local government borrowing, as well as making progress in implementing their reform blueprint, the organisation said.

> **Growth in emerging markets and developing economies still accounts for the majority of the global total**

"I have been cautious about the recovery, even as many areas have improved. Both China and Japan's stock markets are well below their peaks and could be better investments than markets that are at all-time-highs," says Conrad. "Japan faces terrible demographics of ageing and declining population, and the Fukushima nuclear power disaster; while China faces a real estate bubble. The markets reflect these concerns."

As for India, real GDP growth is projected to accelerate to 5.6 per cent in 2014 and 6.4 per cent in 2015, as exports and investment continue to pick up. In other emerging and developing countries in Asia, growth is forecast to drop by 0.1 per cent to 6.5 per cent in 2014, before increasing to 6.6 per cent

in 2015, helped in part by favorable financial conditions and broadly accommodative policies. Meanwhile, in the Association of Southeast Asia Nations specifically, growth is expected to be at 4.7 per cent in 2014, rising to 5.4 per cent in 2015

"Emerging markets have partly recovered from market tensions at the beginning of the year. However, various domestic economic and political problems are still hampering growth. In the long-term, productivity and demographic developments will be the major determinants for global growth. Based on these two factors, the US and emerging markets should become the major growth drivers of the global economy, while Europe could further fall behind due to ageing," explains ING's Brzeski.

The impact of downside risks

The IMF has suggested that emerging markets are dealing with a more complex growth environment than that seen before the global financial crisis.

According to the Bank of International Settlements (BIS), China's growth has decelerated by more than three percentage points since it peaked in 2010, to about 7.5 per cent year-on-year in early 2014. Over the past year, Chinese authorities have become increasingly alarmed by strong credit growth and introduced several restrictive financial measures, including tighter oversight of lending.

The slowdown put the brakes on growth in commodity exporters, such as Russia and a few Latin American countries, exporters of intermediate inputs and capital goods located mainly in Asia, and suppliers of high-tech equipment, such as Korea, Japan and Germany, BIS said. Nevertheless, a recovery of exports to advanced economies since mid 2013 helped stabilise growth to a certain extent in emerging market economies, BIS added.

Today, if downside risks to growth in some key advanced economies materialised, the negative spillovers to emerging market growth would be large, the IMF said. Increasing external financing pressure with the absence of any improvement in global economic growth will only harm growth in emerging markets, as they try to curtail capital outflows with higher domestic interest rates. Also, China's transition into slower and more sustainable growth is bound to decrease growth in many other emerging markets, even if only temporarily.

Others have a more negative outlook. In August 2014, Fathom Consulting – run by a group of economists that formerly worked for the Bank of England – warned that current levels of low volatility camouflaged systemic risks in the global financial system, *The Telegraph* reported. An oil-price shock would be sufficient to cause a 'hard landing' in China, given the backdrop of slowing growth, falling house prices and the spike in the number of the country's non-performing loans, the newspaper quoted Danny Gabay, Director of Fathom, as saying.

Gabay compared China today to the US in 2006, when people started defaulting on their sub-prime mortgages, while the authorities back then downplayed the impact of these defaults on the overall economy. A spike in the price of oil to $150 a barrel, from around $105 (as it was in August), would knock close to two percentage points off headline growth in China, Gabay said. The consultancy also warned of high levels of non-performing loans in the eurozone, saying that it posed a threat to the bloc of 18 nations.

"In the short term, the biggest risk to the global recovery is the latest geopolitical tensions, but also the unpredictable interaction between politics and economics in several crisis-battered countries. China has lost its 'dynamic touch', but a crisis looks unlikely,

Consumers consider Samsung smartphones on display in Berlin, Germany. Technological advances have increased the range of globally tradable goods

STEPHANIE PILICK/DPA/PRESS ASSOCIATION IMAGES

HADI MIZBAN/AP/PRESS ASSOCIATION IMAGES

An employee works at the Tawke oil fields in the Kurdish region of northern Iraq. In 2015, OPEC expects global oil demand to rise by 1.21 million bpd

World oil supply and demand balance, 2010-13

	2010	2011	2012	2013
World demand (million barrels/day)	87.3	88.1	89.0	90.0
Totally supply (million barrels/day)	86.5	87.6	89.5	90.2
Balance (stock change and miscellaneous)	-0.7	-0.5	0.6	0.2

Source: Organization of the Petroleum Exporting Countries *Annual Report 2013*

given the huge firepower authorities have to react. In the eurozone, however, high unemployment and still high debt will be a speed limit to the recovery, increasing chances of an anemic recovery for still some years to come," says Brzeski.

Roubini's Ziemba thinks the biggest risk to global growth is tied to how China manages the rebalancing of its economy and the financial system. "We think that Chinese growth will slow gradually after the current round of stimulus, but trying to maintain too-high levels of growth would raise the risk of a hard landing that would be damaging to global growth," says Ziemba. "Geopolitical risks including Russia, in Asia, MENA [Middle East and North Africa] and elsewhere are other threats to confidence."

Middle East and North Africa

In the MENA region, the IMF expects growth to rise moderately from 2.6 per cent in 2014 to 3.8 per cent in 2015. Most of this recovery will be underpinned by performance of oil-exporting nations, where high public spending drives non-oil economic activity in some economies and oil-supply challenges may be partly alleviated in others. Still, a number of oil-importing countries will continue to suffer from tough sociopolitical and security conditions, weighing on confidence and economic activity.

In August, the Organization of the Petroleum Exporting Countries (OPEC) trimmed its global oil demand forecast for 2014 for the second consecutive month, citing improving global supplies, despite violence in Iraq and Libya, and weaker-than-anticipated demand in the US. OPEC reduced its projection for this year's oil demand growth to 1.1 million barrels per day (bpd), slashing 30,000 bpd from its original estimate. "The slow and uneven global recovery continues," OPEC said in its monthly report. "US oil demand remains strongly dependent on the development of the US economy, however, the risk is skewed to the downside compared to the previous month."

OPEC expects even less pressure on oil supplies in 2015, partly as it sees the shale boom in the US reducing the need for crude. In 2014, the lower demand forecast and a higher anticipation for non-OPEC supply will reduce the forecast global demand for OPEC crude to 29.61 million bpd, down 70,000 bpd from its previous estimate, OPEC said. The organisation's 2015 forecast was unchanged at 29.36 million bpd. Violence in Libya has dampened confidence in the country's recovery to pre-war production. At the same time, the ongoing negotiations between Iran and six world powers regarding the country's nuclear programme are expected to remain unsettled until next year, leaving the fate of its oil output hanging in the balance.

The Organization of the Islamic Conference (OIC), an association of 57 Islamic states promoting Muslim solidarity in economic, social, and political affairs, holds almost two-thirds of the world's proven crude oil and natural gas reserves. World oil demand is expected to rise by 1.21 million bpd in 2015, according to OPEC.

"We see oil prices remaining elevated in the near term (Brent between 105 and 110) before softening next year on supply gains. Although we don't anticipate further supply shocks this year, political developments in Iraq constrain future supply growth and growing demand in OPEC countries restrains exports. Oil prices at such a level are not particularly damaging to global growth, but do serve as a cap on consumption growth in energy-inefficient countries. An oil-price shock remains a tail risk and would be a drag on global growth particularly," says Ziemba.

However, current geopolitical events related to Ukraine may have a bigger adverse impact on the global economy "if the situation escalates in Russia and sanctions and countersanctions are extended", says Ziemba.

The leaders in Sharia: paving the way for ethical investments

Hasan Al-Jabri
CEO of SEDCO Capital

SEDCO Capital is a Saudi Arabian-based asset manager and the world's leading provider of Sharia-compliant investment solutions. We are proud to offer a comprehensive range of services – including asset allocation and management, advisory, arranging, underwriting, and custody – to a range of clients, including institutions, high-net-worth individuals and family offices.

Commitment to innovation

The team of professionals that we have on board offer specialist experience of asset management and investment banking, having forged strong relationships with more than 100 global investment institutions. SEDCO Capital is also the first fully Sharia-compliant asset manager and the first Saudi asset manager to be a signatory of the United Nations Principles of Responsible Investing (UNPRI). And we got there through our continuous commitment to innovation in the field to pave the way for the rest of the industry.

A question we ask ourselves continually at SEDCO Capital is whether investments that add value to our clients can also add value to society. And our answer is emphatically clear: yes they can. We are an ethical, prudent, savvy investor with a long-term track record in Sharia-compliant investing. Through our SEDCO Capital Global Funds available on a platform in Luxembourg, investors can now access 13 investment funds with total assets under management of over $1.6 billion, making it the largest in the country and bringing the total assets under management (AUM) to $4 billion. Indeed, through this offering we provide one of the world's largest and most diverse range of Sharia-compliant funds, which offer investors quality and high performance, which is unmatched in the market. Today, four of these funds are both Sharia and environmental, social and corporate-governance (ESG) compliant.

As adherents to the principles of Sharia investing for more than 20 years, SEDCO Capital has prudently navigated our clients' investments to deliver strong returns, even amid the challenges of the global financial crisis. In accordance with the tenets of Sharia, SEDCO Capital does not invest in companies and products that could hurt societies, human beings or the environment. We make investment decisions in light of a list of prohibited industries and invest accordingly.

We also go further, as we believe that profits are not deserved unless value is added to the economy that it is working in. At SEDCO Capital, we cannot sell something that we do not own, and we do not have to make money because someone else is losing money. Fundamentally, we believe that real money is made when value is added across the different elements that constitute a business, as well as the wider economy. This ensures that investments are directed towards value creation, which will ultimately create much-needed jobs around the world, instead of using wealth to speculate on profits that can be made at the expense of another entity losing money. This approach – the speculative approach – has been proven to result in the destruction of value and the loss of jobs.

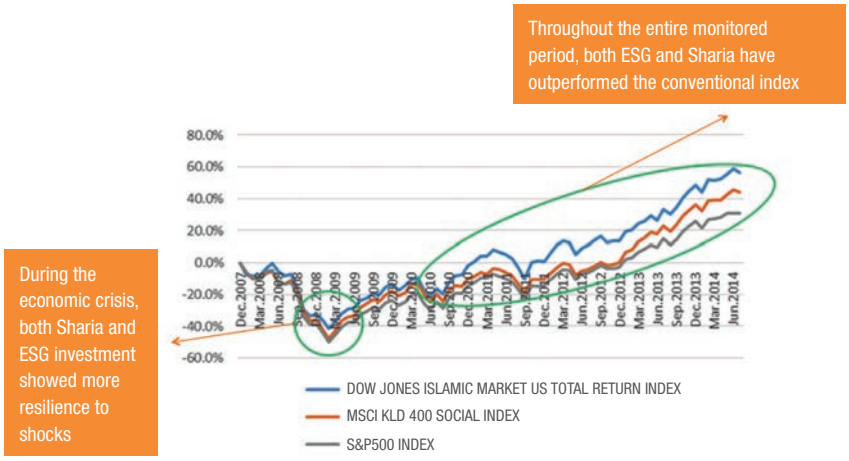
Evidence of sustainability

We are, by nature, sustainable and prudent investors searching for value, but that does not mean that we compromise on quality, diversity or performance of the products and services we provide clients. SEDCO Capital is a savvy investor and we have a responsibility towards our clients and shareholders to provide competitive returns.

Our clients and we ourselves as investors recognise that investment performance and sustainability are not mutually exclusive. Indeed, it is not just us at SEDCO Capital who are of this view; this is being echoed both by Sharia and non-Sharia investors around the world, both from the buy and sell side, and is being driven by investor appetite to diversify investments.

In 2012, Deutsche Bank Climate Change Advisors conducted a comprehensive review of the literature on the relationship between ESG performance and investment performance. Their review, which considered 100 academic studies, 56 research papers, two literature

For us, sustainability, value and returns go hand in hand. They are not – and neither should they be – mutually exclusive



reviews and four meta-studies, found that the academic studies agreed that companies with high ESG ratings have a lower cost of capital, and that 89 per cent of the studies examined show that companies with high ESG ratings exhibit market-based outperformance. They also found that 88 per cent of SRI (or ethical) funds show neutral or mixed returns, suggesting that while these funds may not capture outperformance, they have at least not lost money in attempting to do so.

In another research report compiled by ING Investment Management in 2013, three quarters of investors thought that ESG was fundamental to the future of investments. The majority (58 per cent) of respondents in their research said they wanted to incorporate responsible investment in their strategy out of a "sense of personal responsibility", while 52 per cent said it was company procedure to apply such criteria to investments. Interestingly, it was respondents from developed economies that were the keenest to proactively explore ESG as an investment tool.

The confluence of research, performance and demand underline why we have taken steps not only to be Sharia investors, but also to become recognised as ESG compliant by becoming a signatory to the UNPRI in July 2014. This is a historical moment as SEDCO Capital is the first Sharia-compliant and first Saudi Arabian signatory to the UNPRI, as a result of an iterative process over the last few years in which we have cultivated and expanded the responsible investment criteria we employ over and above Sharia compliance that is already being followed in all the company's investment strategies.

To become a responsible investor, we initially focused on three asset classes: public equity, private equity and real estate. To give a flavour of what we have been doing, in public equity, SEDCO Capital has launched four ESG and Sharia-compliant funds with AUM of more than $410 million; in the private equity asset class, we have become the Sharia adviser to BTG Pactual Brazil Timberland Fund with the fund emphasising the sustainable development of commercially managed timberland in Brazil; and in the real estate asset class, we have invested in India's first Sustainable Green Building Research Park in Whitefield, Bangalore. We aspire to move towards deploying a fully Sharia and ESG investment platform across all asset classes and investment strategies.

Realising sustainability

Our goal in getting involved in responsible investment is to reach and realise sustainability: sustainability in economies, societies, corporations and of course, for individuals. It is with this mindset that we approach our investments. Take, for example, investing in a timber fund such as BTG Pactual Brazil Timberland Fund, which SEDCO Capital actively does. When investing in this timber fund there are three simple issues that have an effect on sustainability: firstly, we need to ensure that indigenous communities are not displaced; secondly, that forests are replanted in tandem with harvesting; and thirdly, that the biodiversity of rivers are not affected due to deforestation. They have met these criteria and we have made the investment in the knowledge that sustainability is assured.

Leading by example

The same applies to the other SEDCO Capital funds that are ESG and Sharia compliant; investing in this way encourages best practice in governance and responsible investing, which we hope sets an example for our peers in the Sharia and non-Sharia worlds so that we all move in the direction of sustainability.

We are proud of the moves we have made to become ESG compliant. For us, sustainability, value and returns go hand in hand. They are not – and neither should they be – mutually exclusive. It is by example and experience that others will come to realise the benefits of investing sustainably. We hope that our leadership in this area will encourage peers, partners and clients to embrace the opportunities that sustainability can unlock in their investment strategies, not only for their own good but for the good of the wider society.

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Business management in a globalised world

For businesses, globalisation brings opportunities and challenges in equal measure. In order to succeed, they must address issues of human resources, leadership and cultural differences, writes **Will Rankin**

Globalisation has been shaping the business world for longer than we might realise. Yet, it is a concept that remains misunderstood, and feared, by many. As the world becomes increasingly interconnected, owing to increased trade and cultural exchange, we have seen a shift away from the 'old ways' of doing business.

In business terms, globalisation means looking long and hard at competition on a global scale. The biggest companies are no longer national firms, but multinational corporations with a strong presence globally. The internet has shaped commerce into a level playing field, and heralded a new era of greater, easier communication.

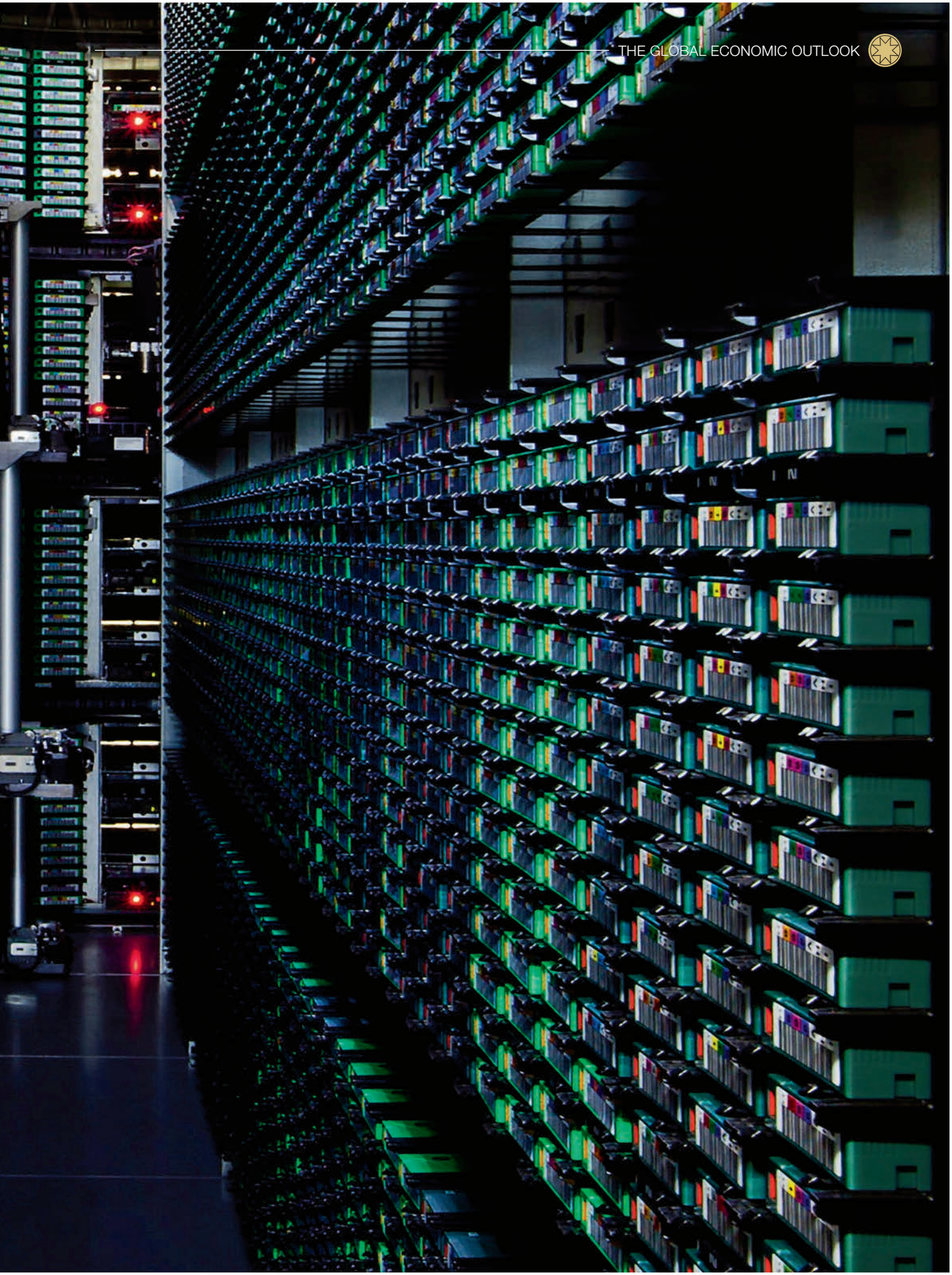
Improvements in transportation – such as larger cargo ships – have lowered the cost of transporting goods and allowed businesses to take advantage of new economies of scale. Goods and people can now travel more quickly than ever before.

One of the greatest knock-on effects of increased globalisation is greater freedom to trade. Entities such as the World Trade Organisation are rigourously promoting free trade between countries, helping to remove barriers – both physical and legislative.

Companies are now able to leverage cost-effective labour in less economically developed countries and produce goods tens of thousands of miles away from the intended markets, while still ensuring giant-sized profits. These changes, some inevitable, some the result of legislative manoeuvres, bring a host of challenges, opportunities, risks and threats. Yet, whether or not you fear the impact of globalisation, it is here to stay.

Indeed, when Clare Short, former UK Secretary of State for International Development, quipped: "People have accused me of being in favour of globalisation. This is equivalent to accusing me of being in favour of

A Google data centre in South Carolina. Technology is one of the key drivers of globalisation



the sun rising in the morning," she captured the spirit of governments worldwide, the majority of which see globalisation as a good thing.

Furthermore, globalistion is not a new concept. Since the early days of industrialisation, people have noticed the inevitable rising tide of globalisation. The 19th-century missionary David Livingstone was quoted as saying: "The use of railroads, steamships [and] telegraphs break down nationalities and bring peoples geographically remote into close connection commercially and politically. They make the world one, and capital, like water, tends to a common level."

Today, the affects of globalisation can be felt more than ever, and companies are consciously adapting their management styles to take advantage of the possibilities open to them. However, Albert Goldson, Executive Director of Indo-Brazilian Associates, a New York-based global advisory think tank, believes that while increased globalisation with respect to business is inevitable, one true border will remain – cultural identity, which he considers a permanent fixture.

"This is a form of psychologically protecting oneself from losing their cultural or family identity to others and maintaining one's cultural values," he explains. "Social media and pop culture give the perception that most of the world is coming closer together by providing a wider area of commonality. This aspect is positive because business people have more to discuss to establish and strengthen relationships on a personal level."

However, when it comes down to business, executives fall back to their default culture, warns the analyst. "That is why 'millennials' doing business internationally are astounded when they can chat endlessly with their foreign counterparts about pop culture and believe that they're just like them, but when the business negotiations commence their counterpart seems to be a different person altogether – Jack is now Jacques," he explains.

The people factor

While the internet breaks down physical borders, other less tangile borders remain. Goldson feels the heart of the problem with globalisation is not business culture clashes, nor regulation, but people – their ability to adapt to the rapidly changing world of business in a globalised context.

Complicating matters further, Goldson suggests, is the surge of the 'mega-rich' – people raised and educated in many countries and cultures, and who are ultimately stateless – without a base country. He explains: "Negotiating with executives at this level is an unworldly challenge, because they are global chameleons, changing their colours contingent on the culture they interact with; and never having any strong emotional ties to any one of them."

MAERSK LINE

EDWARD SMITH/EMPICS ENTERTAINMENT/PRESS ASSOCIATION IMAGES

(Above) Improvements in transportation have changed the very fundamentals of global trade

(Left) Smartphones and social media have lowered social barriers

James Berkeley, an expert in profitable expansion and Managing Director of UK-based Ellice Consulting, also feels the biggest challenge is people – particularly business leaders. "People can see most of the globalisation risks, at least the experienced people. In many cases they know how to address them. What they struggle with is maintaining the right level of focus and discipline in their organisations to [overcome or circumnavigate challenges], and, most importantly, the right level of resolve in senior and mid-management to see the job through to its conclusion," he says.

Berkeley adds that, all too often, people fall prey to a single failed attempt and the mindset that the challenge is too tough for them personally, or as an organisation, to attempt again. He feels the problem is one of leadership. "It comes down to knowledge, skills and behaviour. Leaders need to find talent that's aligned with their beliefs. An establishment can open in another country; but [locally acquired] staff may not share the same ethos as management."

He says modern organisations must create alignment between their core beliefs and operating

CHRISTIANE OELRICH/DPA/PRESS ASSOCIATION IMAGES

A classroom in Jakarta, Indonesia, a country that is fast becoming a key education market as globalisation extends its reach

beliefs, driven by strong leadership: "this is the crucial point as to whether an organisation will do well or poorly in other markets."

Communicating with the consumer

One example of the kind of challenge globalisation presents to modern businesses is the evolving landscape of the education sector. There used to be six to eight core global markets, but now the industry is moving into new markets, such as Indonesia, Nigeria and Mexico, where attitudes towards education vary considerably, demanding localised marketing strategies.

> **The heart of the problem with globalisation is not business culture clashes, nor regulation, but people**

Berkley argues that marketing in the sector is now owned by the consumer – with the rise of the internet, reaching a global audience is easier than before, and consumers take a much more active role in seeking the services they need. "You need to consider the value proposition, the ideal customer and how to best influence them," he says.

Online learning and virtual classrooms are also a result of globalisation, enabled by advances in information and communication technology. People often prefer to study close to home; now the classroom can be in their home.

On every level, globalisation is radically altering our environment and lifestyle, and creating new opportunities as well as challenges for businesses.

While Goldson and Berkeley view people management and communication as a hurdle to globalisation, James E Lalumiere, President of Florida-based Project Development International, has a different perspective.

Crossing cultural borders

As a programme management service provider, creating social infrastructure projects in developing countries, he sees his biggest issue as the vetting of local partners. "Our clients are generally in the public sector, so the involvement of local partners who don't represent political, ethical, or personal obstacles for us is time consuming, but vital to entering into any business opportunities. They also provide us with an intimate understanding of local cultural idiosyncrasies," he says.

Lalumiere also sees borders as more cultural than physical, citing the example of Nigeria, a country split along religious lines with a concentration of Muslims in the North and Christians in the South. Ethnic, religious and cultural differences need to be taken into account in business interaction, even within the same country.

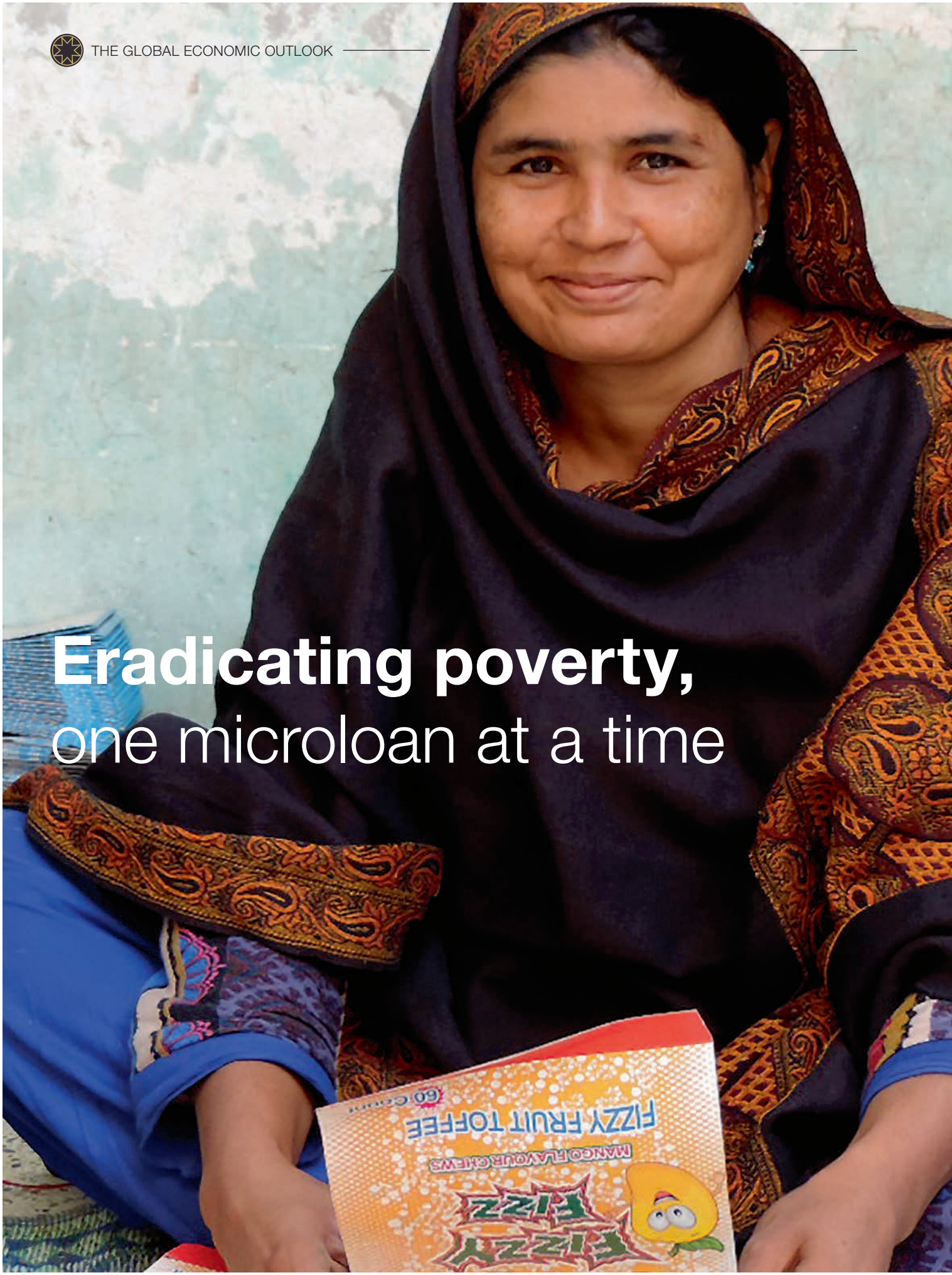
While cultural differences can be viewed as a hurdle for some, Lalumiere stresses the opportunities and benefits that they bring: "We should celebrate differences. The cultural and historical backgrounds of the people and businesses that interact globally create an array of talents, capabilities, and preferences. It is a true opportunity to learn and grow by interacting with diverse cultures."

Modern management is still 'growing into' globalisation, particularly in mid-size to small firms, while global multinationals have, of course, been pursuing it for decades. "Smaller firms… are learning to make the best use of management resources to operate and compete in international markets. It takes time, but it can be done properly, effectively and profitably," Lalumiere concludes.

The main challenge in managing a business in a globalised world revolves around one key idea: ensuring your talent pool is ready, able and willing to take on the challenges.

But Lee Kuan Yew, the Singaporean politician and former Prime Minister, often described as the founding father of Singapore, which is an example of a successful multiethnic and multicultural society, should offer the final words of wisdom: "The perennial challenge is to remain competitive. To be competitive, we must remain a cohesive, multi-racial, multi-religious nation based on meritocracy. We have to strengthen our national consciousness at a time when the forces of globalisation are deconstructing the very notion of nationhood." ◉

Eradicating poverty, one microloan at a time



KASHF FOUNDATION

Microfinance is increasing in significance globally, with great potential to provide people with a path out of poverty, but there are measures that could be taken to improve its effectiveness, writes **Tamara Garry**

Despite significant strides to reduce the number of people living in extreme poverty (defined as average daily consumption of less than $1.25 per day) over the past two decades, some one billion people will still be under its shadow in 2015, according to World Bank forecasts. The Bank estimated that 2.4 billion lived on less than $2 a day in 2010, a slight decline from 2.59 billion in 1981.

"In some developing countries, we continue to see a wide gap – or in some cases – widening gap between rich and poor, and between those who can and cannot access opportunities. It means that access to good schools, healthcare, electricity, safe water and other critical services remains elusive for many people who live in growing economies," the World Bank said in a recent study of poverty.

In addition, there are approximately 2.5 billion financially excluded adults in the world today, with some 80 per cent of individuals who live on less than $2 a day having no accounts at conventional banks. This holds back the World Bank's drive to eradicate extreme poverty by 2030 and increase the share of income held by the bottom 40 per cent of the population.

Microfinance, which refers to providing loans and other financial products to people with very low incomes, has the potential to contribute to these objectives and continues to gain traction from investors globally. MicroRate, a US-based ratings agency that evaluates risk and performance of microfinance institutions (MFIs), found that microfinance investment vehicles' (MIVs) assets grew by 17 per cent in 2012 compared with the previous year. This marked an all-time high of $8.1 billion in assets.

"There is a large potential for growth of microfinance in developing countries as market penetration is quite low and most microfinance activity is concentrated in limited geographic pockets, which are easier to access," says Roshaneh Zafar, Managing Director of Kashf Foundation – the first specialised microfinance institution in Pakistan to demonstrate the business case for investing in low-income households, especially for women.

According to MicroRate, different regions showed varying degrees of microfinance growth in 2012, with Latin America leading at 24 per cent, followed by East Asia and the Pacific with 23 per cent. South Asia and Africa saw moderate growth of 12 per cent each, while Europe and Central Asia lagged behind with 10 per cent. Georgia, Azerbaijan, Mongolia and Bosnia were among the fastest-growing countries. In 2012, microfinance funds continued to mature, allowing investors to redeem $438 million, and institutional investors remained dominant, with a 56 per cent share of total investment.

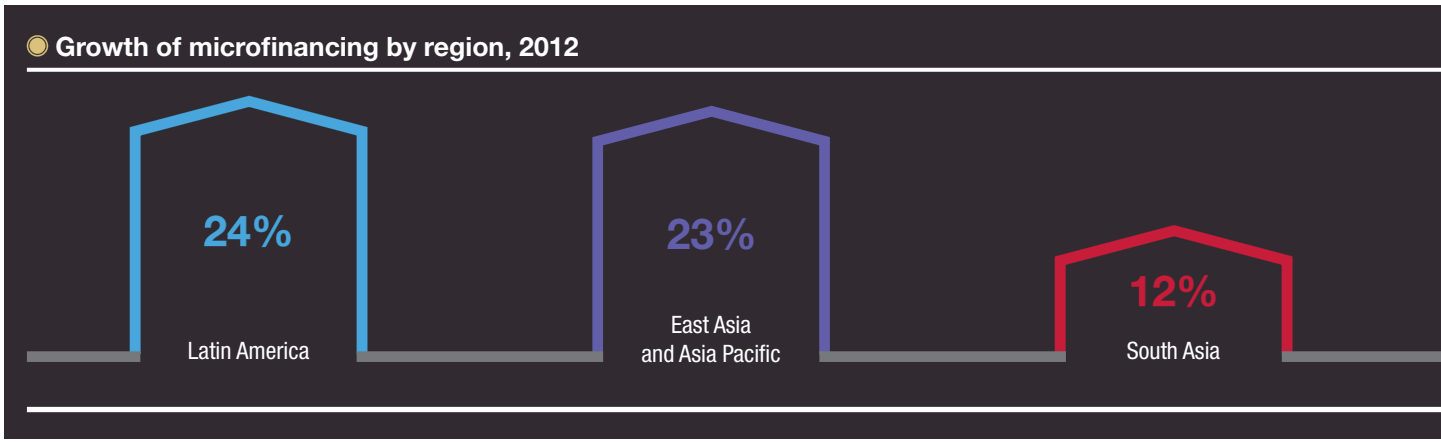
While a fast growth potential in emerging countries exists, there are also limitations, according to Zafar. "The way I see it, the future of microfinance in these countries is dependent on the ability of the microfinance institutions to provide products and services that add real value to the lives of low-income clients; assess and evaluate microfinance clients' capacity to take on debt; cooperate with each other to lobby for legislation (or) regulation that does not run counter to the ethos of microfinance; and leverage on technology to reduce costs of doing business and reach out to a greater number of beneficiaries," she explains.

Pioneering initiatives

Kashf works to champion women's entrepreneurship and also to include them in microfinancing. When the foundation started operations in 1996, less than 25 per cent of the Pakistani market comprised women borrowers. Today, women constitute more than 50 per cent. From humble beginnings as an action research programme, Kashf has flourished into a foundation with presence right across Pakistan, through a network of more than 180 branches and 30 services centres. It has so far cumulatively disbursed in excess of 2.4 million loans, amounting to over $360 million.

"Developing countries can really benefit from microfinance, especially given the low rates of economic growth in most," Zafar says, adding that, generally, this low economic growth has been coupled with rapid growth in population numbers, which has resulted in a large youth population. This was the case for Pakistan, where approximately 40 per cent of the population is between 14 and 29 years old.

A beneficiary of microfinance from the Kashf Foundation. The Pakistan-based organisation has placed particular emphasis on investing in women from low-income communities



"With little or no prospects in the job market, self-employment through microfinance is the only way for the youth to become economically active," she says. To encourage microfinancing in developing countries, more efforts need to be concentrated on "creating awareness about microfinance programmes, government intervention into the sector needs to be minimised, regulation needs to be improved, collaborations and alliances with vocational and skills training institutions need to be built, and government-led populist programmes that rely on charity and hand-outs running counter to the logic of microfinance need to be minimised," adds Zafar.

Genny Ghanimeh, Founder and CEO of Pi Slice, is of a similar mindset. She started Pi Slice as a web-based social platform and a new channel of funding for microfinance institutions. Pi Slice connects individuals and companies looking for investment opportunities with MENA-based MFIs, which in turn use the funds to provide micro-credit to their customers. The platform aims to encourage eager individuals and companies to help MFIs in the region build a sustainable future for micro-entrepreneurs. By lending as little as $20, individuals can help entrepreneurs in MENA to escape unemployment. For Ghanimeh, microfinance is an innovative solution to old problems.

The power of entrepreneurship

"People are seeing the power of entrepreneurship and realising that charity is not necessarily the most effective, sustainable solution, as we previously believed," says Ghanimeh. Besides, "governments must realise that it is in their best interest to support the expansion of microfinance," Ghanimeh adds.

She also feels that governments of developing countries ought to incentivise the sector's development by ensuring it is easier for microfinance institutions to be established from a regulatory standpoint, offering tax breaks – where applicable – or other social benefits for corporations and individuals who wish to invest in microfinance institutions. She explains: "Existing MFIs must spread greater awareness of the benefits of microfinance in order to educate corporations, governments, as well as the general public. They can leverage and share best practices as well as the social impact they bring to the bottom of the pyramid. Especially in the MENA region, where microfinance isn't as prevalent, this is crucial."

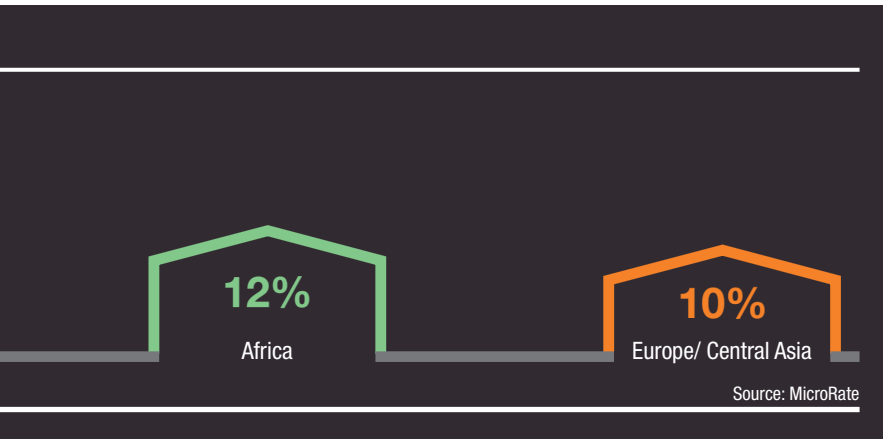
Since 2009, MIV portfolios have expanded between 11 and 17 per cent every year, according to MicroRate. While the 57 per cent average growth in assets witnessed during the boom years of 2005 and 2007 is unlikely to repeat itself, the current moderate growth in the industry is a sign of a bigger shift.

> **By lending as little as $20, individuals can help entrepreneurs in MENA to escape unemployment**

"The biggest growth driver for microfinance has been the demand for microfinance and the impact it can generate. A major catalyst for growth in the past decade was the popularity brought to microfinance as a consequence of Dr [Muhammad] Yunus winning the Nobel Peace Prize," says Kashf's Zafar.

The industry's growth rate, albeit slowing, has been showing greater stability in the past few years, with a similar trend reflected in the funds' liquidity position, and assets and portfolios growing at nearly identical rates as more funds maintain cash positions at or below 10 per cent.

"The continuing turnover of debt and equity funds is an important signal of a sector that can sustain a healthy churn of capital – a process that is expected to continue, with $382 million worth of



Microfinance: key statistics

- In 2013, the global microfinance industry was estimated to be worth $60-100 billion
- Leading microfinance institutions have been growing by 20 per cent per annum over the past five years
- The sector reaches less than 20 per cent of its potential market – the world's three billion low-income population

Source: International Financial Corporation (IFC)

investments set to mature during 2013-14 and another $300 million maturing in 2015," MicroRate stated in its *The State of Microfinance Investment 2013* report.

According to Zafar, there are a number of notable trends in the industry. These include an increased emphasis on financial education and financial literacy for clients, as well as increased funding and interest in shifting low-income households onto mobile money platforms and alternative delivery channels.

There is also an "increased focus on savings and insurance to help build social safety nets for low-income households; a shift towards for-profit models and microfinance banking from non-governmental microcredit programmes, and programmes that are focusing on youth microfinance programmes," she says.

Overcoming challenges

Despite healthy growth trends, challenges remain for the industry. "The biggest challenges for microfinance institutions include the ability to raise funds for on-lending, negative intervention by local governments, and repayment challenges arising from volatile socio-economic conditions, rising costs of business, and staff retention," says Kashf's Zafar.

An increasing number of women in the developing world are becoming entrepreneurs as a result of microfinance

JAKE LYELL/ALAMY

For Ghanimeh, one of the main early hurdles in the microfinance cycle is measuring the credit-worthiness of individuals who want loans, especially with limited access to information. This is true of rural areas, where systems are even more informal and it can be almost impossible to find any documented credit history of individuals, she said. Additionally, while microfinance interest rates are still lower than those charged by so-called 'loan sharks', they are certainly much higher than the average rates paid at formal financial institutions.

"Essentially, even though these microloans are the best alternative for unbanked populations, they are still rather expensive. The industry must find ways, such as the incorporation of technology, to cut costs, which will essentially allow MFIs to reduce their interest rates and make microloans more affordable for the unbanked," Ghanimeh says.

More importantly, in many situations, microfinance does not reach the poorest sections of society requiring the most help. This group has the least resources and desperately needs microfinance. However, it is "often intentionally avoided in order to ensure that MFIs have higher repayment rates, as the poorest of the poor would have the highest credit risk", Ghanimeh explains.

For investors, a slower growth rate in the industry may be a reflection of responsible investing practices and healthier portfolios. However, this trend on its own does not necessarily ensure market discipline, MicroRate said in its investment outlook for the industry. Today, many urban and mature markets are seeing increasing investor competition for the few investable MFIs, resulting in an increase in over-indebtedness in key markets, such as Peru, Cambodia and the South Caucasus.

"While moderate growth in investments should be welcomed, investors should nonetheless remain vigilant and aware of reputational risks. The underlying fundamentals of investments, such as good governance, strong methodologies, portfolio quality, controls, risk management and a client orientation, remain the key to sustainable investments," MicroRate concluded.

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Sharia-compliant trade poised to expand rapidly

Facilitated by institutions that aim to promote global trade and Islamic finance, the Muslim world is strengthening its internal and external trade links, writes **Peter Shaw-Smith**

Qatar Stock Exchange. The reach of Islamic finance has now extended far beyond the Muslim world

KAMI/GETTY IMAGES

Forging business links with countries both within and beyond the Muslim world is now high on the agenda of the global Islamic finance and trade community, although size and international scale are also recognised as increasingly important. "Shifts in world trade and capital flows represent an important business opportunity for Islamic banks that have credible international presence," said the EY *World Islamic Banking Competitiveness Report 2013-14*.

Several challenges remain before Islamic trade catches up with conventional global trade. Officials concerned with boosting the stature of Islamic trade, particularly among Organisation of Islamic Cooperation (OIC) member countries, are well aware of the deficiencies in trade volume that beset the Islamic bloc today. In particular, developed nations' contribution to international trade represents about double their share of the world's population, while OIC nations' contribution is around only half.

"The contribution of OIC member states to gross world product (GWP) and international trade is not compatible with the economic and financial capabilities of these countries, which produce some 39 per cent of the world's oil and have more than 70 per cent of world oil reserves and some 40 per cent of gas reserves," said Nael Raja Al Kabariti, Chairman, Jordan Chamber of Commerce, in a presentation in March on OIC member states' trade relations.

"The contribution of the 57 member states of OIC, which account for nearly 22 per cent of the world population, to GWP in 2012 was nearly 11 per cent... Their share in total international trade during the same

The trends of Islamic finance and socially responsible investments

Mariam Al Dhaheri
Business Faculty

Islamic finance has experienced significant growth in the past couple of decades. Following on from the significant developments that have occurred in what we view as the core area for this market, the predominantly Muslim countries, we are now witnessing the globalisation of Islamic finance. In recent years, we have seen significant interest in Islamic finance in the world's leading conventional financial centres, including London, New York and Hong Kong, and Western investors are increasingly considering investments in Islamic financial products.

Although the principles of Islamic finance go back several centuries, its practice in modern financial markets only became recognised in the 1980s, and only began to represent a meaningful share of global financial activity around the beginning of this century. Over the past two decades, by some estimates, the total volume of Islamic financial assets has grown by 15-20 per cent a year and now exceeds $1 trillion.

Islamic finance and socially responsible investing have been two of the most rapidly growing areas of finance over the past 20 years. During this period, they have each grown at rates that far exceed that of the financial markets as a whole. Moreover, judging by the number of new products that are introduced in a given week or by the number of conferences or seminars that are held, most financial professionals could attest that the growth trend line for both Islamic finance and social responsibility appears to continue to point upwards.

Socially responsible investment is a concept that has precedents that go far back into history, but that only coalesced as a recognised investment strategy in the 1980s, and only developed to a significant size during the past two decades. In the United States, some commentators have estimated that the total volume of assets held by explicitly socially responsible investors now exceeds $3 trillion, having increased by more than 30 per cent since 2005. The trend of socially responsible investment has grown at a comparable rate in Europe, with estimates that $5 trillion of assets in Europe are subject to some kind of socially responsible mandate.

Islamic finance and socially responsible investments have several commonalities, including a shared focus principally on individuals using their money in a manner that conforms to their morals and beliefs. Whereas finance traditionally has been driven solely by the effort to maximise risk-adjusted returns, Islamic and socially responsible investors have added an additional objective for financial market activity: compatibility with the investor's ethics and the promotion of social welfare activities.

Although both types of investors seek to achieve a strong return on their investments, they take into account not only the pure economic return, but also the social returns that society receives from their money being used in compliance with their beliefs. In addition, the growth of both Islamic finance and socially responsible investment has been largely demand driven, with financial institutions devoting more resources to these two areas in response to the increasing demand from individual investor clients for these products.

Western investors are increasingly considering investments in Islamic financial products

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The GCC's main export and import partners 2000-12

Main export partners (merchandise)

2000			2012		
	% Total	$bn		% Total	$bn
Japan	23.3	38.3	Japan	15.3	142.9
Korea, Republic of	11.7	19.2	India	10.5	98.4
United States	10.6	17.4	Korea, Republic of	10.2	95.2
Singapore	4.8	7.9	China	9.8	91.6
China	3.6	5.9	United States	7.4	69.3
Netherlands	2.6	4.3	Singapore	4.7	43.7
Thailand	2.6	4.3	Iran	3.1	28.9
France	2.3	3.8	Thailand	2.9	27.4
Pakistan	2.1	3.4	Pakistan	1.6	15.4
India	1.8	3.0	Italy	1.3	12.5
	65.4	**107.5**		**66.8**	**625.3**

Main import partners (merchandise)

	% Total	$bn		% Total	$bn
United States	13.0	9.8	China	12.3	59.8
Japan	10.1	7.6	India	11.3	54.9
United Kingdom	7.1	5.3	United States	11.3	54.9
Germany	7.0	5.3	Japan	5.6	27.4
France	5.2	3.9	Germany	5.3	25.9
China	5.1	3.8	Korea, Republic of	4.4	21.5
Italy	4.6	3.4	Italy	3.3	16.0
Korea, Republic of	4.1	3.1	United Kingdom	2.9	14.2
India	4.1	3.1	Turkey	2.9	14.2
Australia	2.4	1.8	France	2.6	12.8
	62.7	**47.1**		**61.9**	**301.6**

Sources: Deutsche Bank Research – *Current Issues Emerging Markets, February 2014*; IMF

year was nearly 12.5 per cent. The share of intra-Islamic trade in total exports of Islamic countries was no more than 18 per cent at best, whereas the share of the EU, Japan and USA in the foreign trade of Islamic countries was between 40-94 per cent for exports and 40-80 per cent for imports," said Al Kabariti.

Awareness of the problem is the first step towards a solution. "Scale and infrastructure both are needed. We expect 2014 will be about strengthening the platform," a GCC Islamic banker was quoted as saying in the EY competitiveness report.

However, the outlook is more positive. According to the 2013 annual report of the European Islamic Investment Bank Plc: "There is now rapid growth in trade involving wealthy GCC economies, and this will drive further interest from around the world in Islamic finance."

The OIC is aware of the importance of Islamic trade finance, and its similarities with its conventional counterpart. "From a framework perspective, the conclusion must be that there are sufficient similarities at the core of conventional and Islamic trade finance that enable consideration of both varieties in the context of broader trade development and collaboration initiatives to be conceived and developed for OIC Member States," said a recent report entitled *Improving the SMEs' Access to Trade Finance in OIC Member States, 2013*. "The direct linkage between financing and an identifiable flow of goods, the non-speculative, 'back-to-basics' focus of trade practitioners, and the merchant banking parallel where a financier takes ownership of the goods financed, all combine to provide a strong sense of compatibility between conventional and Islamic trade finance."

Rapid-growth markets

The EY report said that rapid-growth markets (RGMs) – already a significant part of the global economy – were set to become even more important. By 2020, a group

of 25 RGMs would constitute 50 per cent of world GDP, 38 per cent of global consumer spending and 55 per cent of fixed capital investment, according to the report. Their share of global GDP has doubled over the past decade and continues to outgrow the developed markets.

Some 10 of these 25 RGMs have a large Muslim population, said Abdulaziz Al-Sowailim, EY Regional Managing Partner, MENA Region. "Our clients have identified Bahrain and six of the RGMs – Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey [QISMUT] – [as] driving factors behind the next wave in Islamic finance," he said. "By 2018, these RGMs will represent GDP of $4.8 trillion, a mostly young population of around 419 million, trade flows of $3.6 trillion and banking assets of $6 trillion."

Having seen growth of 5.4 per cent a year from 2000 to 2010, three times the pace of growth in advanced economies, EY expects RGM GDP growth to continue to outpace advanced economies by 3.5 per cent a year in the decade to 2020.

A report entitled *Islamic Financial Markets Set to Advance with GCC and Malaysia Linkages*, published in March by the Malaysia International Islamic Financial Centre (MIFC), said a surge in Sharia-compliant trade and investments was in progress due to cooperation between the two Islamic finance blocs. Trade between Malaysia and the GCC has grown from $627 million in 1990 to $15.1 billion in 2013, a CAGR of 14.8 per cent over the 23-year period.

In 2011, Malaysia and the GCC signed the Framework Agreement on Economic, Commercial, Investment and Technical Cooperation (FAECITC), an agreement bolstering bilateral trade. In addition, the world's two largest Islamic banks – Saudi Arabia's Al-Rajhi Bank and Kuwait Finance House – have both launched operations in Malaysia, while Bursa Malaysia and Saudi Arabia's Tadawul stock exchanges signed a memorandum of understanding in February, speeding up exchange of Islamic finance expertise.

"The growth in the bilateral trade relationship reflects the increasing commercial and diplomatic ties between the GCC and Malaysia over the years. In the past decade, a number of monumental trade and financial agreements have been signed between the GCC and Malaysia, including bilateral agreements by individual member countries, with a view to enhance the linkages between the jurisdictions," the MIFC said.

Key institutions

Institutions to drive trade forward are critical. In addition to the importance of the OIC, a number of affiliates of the Jeddah-based Islamic Development Bank Group are key to ramping up global trade, including: the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), set up in 1994; the Islamic Corporation for the Development of the Private Sector (ICD), established in 1999; and the International Islamic Trade Finance Corporation (ITFC), which came into being in 2008.

DEMOTIX

Malaysia is fast becoming a hub of Islamic trade and finance. Trade between Malaysia and the GCC has grown from $627 million in 1990 to $15.1 billion in 2013

The ICIEC protects exporters from counterparty and country risk "stemming mainly from currency inconvertibility and transfer restrictions, expropriation, war and civil disturbance, breach of contract and noncompliance with sovereign financial obligations," an Islamic Development Bank (IDB) briefing document published in 2012 said. By 2011, the ICIEC had total insurance commitments outstanding amounting to over $14.6 billion. Its Investment Promotion Technical Assistance Programme helps unlock development potential of group member countries through foreign investment promotion and technical assistance.

> **EY expects rapid-growth market GDP growth to continue to outpace advanced economies by 3.5 per cent a year in the decade to 2020**

The ICD speaks to Islamic finance and trade's close relationship with the private sector by helping to finance private-sector development and increase awareness of private enterprise. "In the past decade or so, the ICD's net cumulative approvals stood at 219 projects for $2.2 billion in 36 countries. The bulk of the

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Germany is one of the GCC's biggest trading partners, especially in the automotive sector. Qatar has acquired stakes in German manufacturers such as Volkswagen AG and Porsche

financing targeted the industrial sector (36 per cent), the financial sector (27 per cent), real estate (13 per cent), the oil and gas sector (six per cent), and the transport sector (six per cent)," said the IDB briefing.

Trade finance

A second fund, known as the Unit Investment Fund (UIF), is assigned to the ICD to implement the securitisation of its leases and installment sales assets, and also assist the IDB with project and trade finance. The UIF has funded around 230 projects in several industries to a total of over $2 billion.

The ITFC develops and expands intra-OIC trade. Their mission is to "be the catalyst for the development of trade among OIC member countries and with the rest of the world". It cites its superior access to governments, advisory capability, strengthening of correspondent banking networks, ability to confirm letters of credit to eliminate the need for intermediary banks, and mobilisation of resources to support new players, as ways in which it enhances OIC trade and cooperation. The ITFC's website says common forms of trade finance were murabaha, installment sale and istisna'a. As an example of the ITFC's work, it helped Egypt weather the political unrest that has wracked the country for three years with $2.2 billion of finance to reduce pressure on foreign currency reserves. The loans helped finance Egypt's petroleum and petroleum products imports, on which 15 per cent of GDP and about 40 per cent of foreign currency income depend. Trade involving Indonesia, Gambia, Kazakhstan, Sudan, Mauritania and Morocco has also benefitted from ITFC financing.

In 2012, the corporation also signed a $40 million financing agreement with the Government of Tajikistan for imports of gasoline and diesel. "This signing marks another major milestone in achieving ITFC's mandate of advancing trade to improve the livelihoods of our member countries. It is part of ITFC's strategy for the upcoming year to expand trade financing in the CIS countries," said Dr Waleed Al-Wohaib, CEO of ITFC. "Tajikistan faces energy shortages, due to its geographical location mainly; with this agreement, oil products imports will be facilitated to the country, to help meet its needs."

Outside the Muslim world

There is also plenty of evidence that the Islamic bloc is trading outside known Islamic finance circles. However, finding explicit evidence that transactions are taking place on a fully Islamic footing is very difficult. The international arms of GCC-based national oil companies, such as Qatar Petroleum International, KUFPEC and Mubadala Petroleum are investing in a raft of hydrocarbons and other projects in Europe, North America and Australia, but there is little evidence that any of the transactions are Islamic.

According to Doha Bank, trade volumes between the GCC and Germany have doubled in the past decade, with the level in 2010 at $22.7 billion, making the GCC one of the leading export markets for German products. In 2010, Germany was Saudi Arabia's third-largest trading partner, with exports to Saudi Arabia totalling $7.6 billion, the bank said.

The UAE was the largest buyer of German products in the Arab world, importing $10 billion. Meanwhile, GCC sovereign wealth funds have invested in several German companies, including Kuwait's becoming a shareholder in Daimler and Qatar's acquisition of stakes in Volkswagen AG and Porsche. Qatar's exports of machinery to Germany are also doing well.

Intra-Islamic institutional trade will serve as the basis over the next decade for the growth of trade in the world of Islamic finance. Only when the Islamic finance sector is significantly bigger will these institutions have the confidence and the wherewithal to mandate Islamic terms to non-Islamic trade counterparties on a widespread basis. ◉

Twenty-first century **knowledge economies**

As the Gulf states look for ways to fill gaps in education and skills, new institutions and online courses are developing in the region, writes **Will Rankin**

As emerging market and Middle East economies continue their rapid ascent, international education uptake has benefitted in tandem. Between 1970 and 2010, the number of students in tertiary education globally rose from 33 million to 178 million, according to the UK Government report *International Education: Global Growth and Prosperity*.

"[Education] growth is expected to continue globally, as a result of demographic change and rising incomes in developing countries, with emerging economies particularly focused on increasing numbers of students in higher education," the report said.

While those may be the official statistics, Massive Open Online Courses, or MOOCs, are drawing in many more students, particularly individuals from low-income backgrounds. MOOCs are growing in popularity globally and offer students the opportunity to engage with learning in an open format through the internet. Typically, a course is made up of a series of video tutorials, lectures and workshops. Crucially, MOOCs are usually free, and are now seen as a powerful platform for the democratisation of global higher education.

While both businesses and elite universities have embraced MOOCs to date, with Harvard and MIT in the United States offering free open courses, it remains to be seen how free online global education could cause a tectonic shift in the way the world learns. For now, bricks and mortar universities are intensively reviewing their strategies to see how they can embrace change, while retaining their core markets.

Despite the international media hype, global uptake of MOOCs remains pocketed. While emerging markets such as Brazil are busy designing certifiable MOOCs, including the world's first open online MBA programme from Veduca, the Middle East region

Saudi students attend a class at the Technology College in Riyadh. Science and technology accounts for less than 15 per cent of tertiary education enrolments in Saudi Arabia

REUTERS/FAHAD SHADEED

has yet to register its first such course with official testing and certificates. Nevertheless, the Middle East has come a long way in terms of higher education, having been considered something of a nascent learning landscape just a few generations ago. In 1940, there were 10 universities in the Middle East and North Africa; by the year 2007, they numbered more than 260.

According to Alpen Capital, a leading investment bank in the GCC region, higher education is expected to continue its upward growth trajectory, with the number of tertiary students in the region set to grow at a compound annual growth rate of 5.5 per cent between 2010 and 2020. "The education sector in the GCC is receiving impetus from intrinsic drivers such as population growth, increasing number of expatriates, the rising importance of high-quality education in society, and a growing spending propensity," says Rohit Walia, Executive Chairman of Alpen Capital.

While the countries that make up the GCC have been slowest in the region to react to the need for higher education, there is now a resurgence in provision. In 2003, there were just eight public universities in Saudi Arabia; today there are more than 25 public and 30 private universities, serving 1.2 million students. Saudi Arabia commits more than $15 billion of its annual budget to higher education, providing for its 23 million inhabitants.

Elsewhere in the Gulf, the United Arab Emirates and Qatar established 40 foreign branches of Western universities over the same period. Qatar's Education City, with a capacity of around 100,000 students, hosts regional campuses of some of the world's top universities, such as University College London. Université Paris-Sorbonne and New York University have set up campuses in Abu Dhabi, while others, such as the Rochester Institute of Technology, have established themselves in Dubai Academic City.

There is also evidence that the quality of higher education in the region is improving. In 2013, five Arab universities, including four from Saudi Arabia and one from Egypt, appeared on the Shanghai Academic Ranking of World Universities.

Developing talent for the global market

By INCEIF
The Global University
of Islamic Finance

The global market for Islamic financial services, as measured by Shariah-compliant assets, is estimated to have increased in 2013 to a record $1.69 trillion, and the industry is set to grow significantly in the years ahead. At the current rate of growth the market could top $2 trillion in assets by the end of 2014. The largest centres remain concentrated in Malaysia, Bahrain, Kuwait and the UAE.

As the Islamic finance industry continues its rapid growth, knowledge is becoming a critical need. Would-be students of Islamic finance, the potential employers and employees, as well as the financial industry and academia, are increasingly more demanding in terms of their individual knowledge requirements and seek out what INCEIF, as a university focused on Islamic finance, has to offer.

INCEIF remains committed to the role of producing talent with a very strong foundation in finance and related fields that will make them versatile. They need not be employable in Islamic financial institutions only, but should be versatile enough to serve any sector of the economy, in any industry.

INCEIF graduates are agents of change. These are individuals with a global outlook, well versed in modern corporate finance and Shariah principles and ready to compete in this technology-driven age of global finance. The graduates are much more than Islamic bankers, insurers and financial planners; they are innovators of Islamic financial services, equipped with the technical aspect of the industry, as well as moral and ethical values.

Set up by the Central Bank of Malaysia, INCEIF offers postgraduate programmes in Islamic finance, including a Master's in Islamic Finance Practice (MIFP), a Master's in Science in Finance (MsC in IF) and a PhD in Islamic Finance. While the MIFP is aimed at producing industry practitioners with global insight, holistic knowledge and cutting-edge expertise in Islamic finance, the MsC and PhD in Islamic Finance offer in-depth education in the key areas of Islamic economics, finance and Shariah from both the theoretical and practical standpoints. The course modules will enable students to gain

a comprehensive understanding of the economic, financial and legal environment in which providers of Islamic financial services operate.

Complementing its mission of producing world-class talent for the global Islamic finance industry, INCEIF's industry services focus on executive education through customised executive programmes. INCEIF's research unit carries out industry-focused research work on specific areas of immediate concern to the industry, including macroeconomics and Islamic monetary policy, risk management for Islamic financial institutions, applied Shariah in the Islamic financial services industry, microfinance, waqf institution, financial inclusion and Islamic wealth management.

INCEIF is focused on becoming the knowledge leader in Islamic finance and having able collaborators certainly puts us on the right track. The university is currently working with partners locally and abroad, including the Islamic Development Bank, the World Bank, BNP Paribas Malaysia Bhd, the Capital Market Board of Turkey and Luxembourg University to collaborate on academic programmes, research work and short courses on Islamic finance. Establishing relationships with international industry players and world-renowned institutions is integral for INCEIF as we aim to achieve global recognition in all aspects of our deliverables; be it programme content, teaching quality, advisory services or research.

Since our first graduation in 2009, more than 700 INCEIF graduates have taken up residence in different parts of the world, from the US to Japan and the Gulf. Some are pioneering work in Islamic finance and others have become sought-after professionals in developed Islamic finance markets. The majority, however, are in Malaysia working for financial institutions and regulatory and professional bodies or in the academic world, contributing to the development of Malaysia as a comprehensive international Islamic finance hub.

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Creating A Vibrant Entrepreneurial Ecosystem in OIC Markets

29 October 2014 | 2.00pm-3.30pm
Madinat Jumeirah

#IFentrepreneurial

In this inaugural collaboration, INCEIF and Fajr Capital bring together thought leaders and key industry associates to showcase the essential elements revolving around Islamic entrepreneurship in a discussion themed **"Creating A Vibrant Entrepreneurial Ecosystem in OIC Markets"**.

A special report on this will be made available by IslamicBanker.com

The discussion will also roll out based on questions and comments sourced via social media. Follow the **#IFentrepreneurial** for engrossing discussion.

MODERATOR

Sami Zeidan
Senior Presenter
Al Jazeera English

SPEAKERS

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Thomas Woolf
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Just Giving Middle East & Africa

Iqbal Ahmad Khan
Chief Executive Officer
Fajr Capital

Mona Hammami
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Prof. Dr. Murat Çizakça
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BUSINESS EXCHANGE:
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Date : 29 October 2014
Time : 9.00am - 11.00am
Venue : Madinat Jumeirah

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The growth and globalisation of education has contributed to an increase in the number and quality of private and international educational institutions entering the region. INSEAD, one of the world's largest international graduate business schools, is among a new breed of institution coming to the region.

Miguel Lobo, Associate Professor of Decision Sciences and Director of the Abu Dhabi Campus, INSEAD, explains: "Our MBA and Executive MBA programmes are global, with participants from over 80 countries every year, so the contingent from any given country is always relatively small... The programmes are integrated across the Fontainebleau, Singapore, and Abu Dhabi campuses, with joint admission standards."

According to Lobo, the school has seen a spike of interest and applications from the Middle East and the UAE in particular. While INSEAD's major focus is on post-graduate education, it also contributes research. INSEAD has produced many case studies focused on the region, an important contribution to applied research and management education given that case studies are dominated by the United States and Europe, and that such papers are often seen as the bedrock of a successful knowledge economy.

Gross enrolment rates in GCC countries

Country	Pre-primary	Primary	Secondary	Tertiary
Bahrain	49.8%	107.3%	95.5%	33.5%
Kuwait	82.2%	105.6%	101.0%	22.9%
Oman	54.6%	109.0%	94.2%	24.7%
Qatar	73.4%	104.6%	111.6%	12.1%
Saudi Arabia	13.2%	102.8%	106.2%	50.9%
UAE	71.1%	108.3%	90.6%	22.5%
GCC	**26.2%**	**114.2%**	**111.9%**	**42.3%**
World	**50.1%**	**107.1%**	**70.6%**	**30.1%**

Note 1: Figures are based on the UNESCO and World Bank data for 2011 in case of Oman and the UAE; 2012 in case of Bahrain, Kuwait, Qatar, the GCC region and the world; and 2013 in case of Saudi Arabia.

Note 2: The gross enrolment rate can be greater than 100% as a result of grade repetition and entry at ages younger or older than typical age at that grade level.

Sources: Alpen Capital, UNESCO, World Bank

Challenges ahead

Yet, while governments across the region have set up scholarships, funding, training and corporate partnerships to encourage entrepreneurship, some major challenges remain.

Education industry experts believe that the courses on offer need to be better aligned to industry requirements. According to an EY study in 2014, only 29 per cent of employers believe that higher education equips students with the necessary skills for the job market. The unique demographics of the region, characterised by a high proportion of youth, also exerts pressure on the job market.

According to a report by the UN International Labour Organization (ILO), youth unemployment in the Arab nations (not limited to the GCC states) stood at around 23.2 per cent in 2012, compared with the world average of 13.9 per cent.

Rapid economic growth across the region and reliance on a heavy expatriate workforce has resulted in a situation whereby nationals are a minority in their own nations. Currently, GCC nationals only account for less than 20 per cent of the total private sector workforce in the region, according to Alpen Capital.

A recent survey conducted in the UAE during an Emirati Youth Forum event, revealed some interesting insights into work attitudes among the large, youthful population. More than one-third of respondents perceived opportunities for personal development and the work environment and culture as the biggest influences on choosing a career in the public or private sector. Most had high salary expectations, yet 70 per cent expect to start their own business; 24 per cent immediately upon graduating.

This positive upswing towards entrepreneurship is surely encouraging; however, in order to engender a homespun knowledge economy, gaps must still be filled. For example, while Saudi Arabia hosts the largest number of research facilities in the region, underlined by a rapid rise in the number of patents registered in the Kingdom (170 in 2012 and 237 in 2013, according to the United States Patent and Trademark Office), there is a paucity of research flowing from the Kingdom's universities.

> **Massive Open Online Courses are drawing in more students, particularly from low-income backgrounds**

Furthermore, at a tertiary education level, the subject preference across the GCC is skewed towards social sciences and the arts. For example, science and technology only account for 24.6 per cent of the total enrolments in the UAE and 14.8 per cent in Saudi Arabia, according to the *Arab Youth Unemployment* report published in 2013 by asset management firm Alkhabeer Capital. This represents a significant skills gap in the job market.

DUBAI INTERNATIONAL ACADEMIC CITY

Established in 2007, Dubai International Academic City is the world's largest free zone dedicated to tertiary education

In response to this, and in order to reduce their dependence on oil revenues and create more diversified economies, many Arab countries have rolled out educational initiatives and policies to encourage knowledge generation. "They have stepped up their efforts to enhance their education sector, improve their information and communications technology infrastructure, create a favourable business environment, and strengthen their research and development programmes," says Nidal Abou Zaki, Managing Director of Orient Planet, and co-author of the *Arab Knowledge Economy Report 2014*, produced with Madar Research and Development.

Randa Bessiso is Director, Middle East, at the Dubai-based branch of Manchester Business School (MBS), which became the first global school to establish a dedicated centre in Dubai in 2006. The school offers a part-time global MBA programme to students, who are all experienced, working professionals, in the Middle East. MBS's student base includes nationals from many of the GCC and wider Middle Eastern countries.

Bessiso feels governments are taking positive steps to drive education: "GCC governments are certainly putting significant and serious emphasis on education; in the UAE, education is at the top of the national agenda and is a key enabler in achieving the country's economic and social goals. In Dubai, the innovative approach to attracting top institutions through the world's first education free zone is helping to attract and retain international talent," says Bessiso. "These institutions are setting new standards for education that also benefits the local population through access to a rapidly increasing breadth and depth of opportunities – from vocational to business education – as the higher education sector quickly matures," Bessiso adds.

In terms of business education – another vital tenet of a knowledge economy – Bessiso says more opportunities are being created for GCC nationals to enter higher education through the increasing range of high-quality options on offer within the region. This is true both at the regional level, such as at Dubai Academic City and Dubai Knowledge Village, and at the local GCC country level.

"The local presence of top institutions means easier access to higher-quality programmes for more people, including more young women. Given the relative size and importance of the local populations, and the current age profile, there is an opportunity to seize – to encourage and support more local nationals moving into higher education, including business education," Bessiso adds.

Since the federation of the UAE in 1971, education has been enshrined in law. This commitment is made clear in the country's 2013 federal budget, which set aside 22 per cent of total expenditure to the sector. Similarly, Saudi Arabia allocated 25 per cent of its 2013 budget to education, reflecting its strategic vision.

A blueprint for the future

In terms of building a knowledge economy – in an environment where easy oil revenues are in decline, and economies must diversify to survive – the UAE has created a blueprint for the future. Launched in 2010, 'Vision 2021' aims to harness the power of technology and the full potential of the people, with education as one of its four development pillars.

Elsewhere in the region, Oman's Eighth Five-Year Development Plan (2011-15), places emphasis on the development of the higher education segment, while the Qatar National Vision 2030 outlines plans to develop an advanced education system, particularly in the technical and vocational segments.

The knowledge economy can be perceived as another stage in global socio-economic evolution, perhaps similar in impact to the industrial revolution. But the concept of a knowledge economy revolves around the possibilities offered by the internet and globalisation. Education is crucial to developing a tech-savvy, entrepreneurial population; confident, ready, and skilled to embrace the rapid changes brought on by globalisation.

As the region catches up with other countries in terms of digital innovations and knowledge creation, Arab economies can sustain this progress only if resources are directed towards improving the knowledge base and skill sets of the population, as well as research, innovation and technological proficiency. This can only be achieved through education, be that through digital courses, or at physical institutions. ◉

Shifting demographics challenge GCC healthcare sector

ARABIANEYE/GETTY IMAGES

Higher life expectancy and the proliferation of chronic diseases are fuelling demand for healthcare services in the Gulf Cooperation Council region. However, a shortage of infrastructure and medical professionals is proving challenging, writes **Tamara Garry**

As the population grows and income levels rise in the bloc of six Gulf Cooperation Council (GCC) countries, lifestyle-related ailments such as obesity, diabetes and cardiovascular diseases are proliferating. This trend is expected to create an unprecedented need for healthcare facilities and services across the region in the near future.

Alpen Capital forecasts the GCC healthcare market will expand by 12 per cent annually to $69.4 billion by 2018, from an estimated $39.4 billion in 2013. By then, outpatient and inpatient markets are expected to account for 79 per cent and 21 per cent, respectively, of the overall market size, according to the investment bank's 2014 *GCC Healthcare Sector Report*.

"The biggest challenge for the healthcare systems of GCC countries will be to cope with rising healthcare needs associated with the growing burden of non-communicable (chronic) diseases," explains Nino Giguashvili, Lead Analyst, IDC Health Insights, CEMA. "Leading causes of premature death and disability are shifting towards chronic diseases that are already responsible for over 70 per cent of all deaths in the region."

Globally, the growing prevalence of non-communicable diseases, such as diabetes and heart disorders, due to obesity is expected to cost the economy $47 trillion over the next two decades, as labour productivity declines and medical costs soar, according to Alpen Capital. In the GCC, obesity levels among some populations far exceed the global average, leading the International Diabetes Federation to place the region's countries among the top nations worldwide to suffer from high incidence of diabetes.

"Some chronic diseases, such as diabetes, have demonstrated more dramatic increases during the past decade in this region than in most other parts of the world. While the economic and broader social burden of diagnosing, treating, and preventing chronic diseases (such as cardiovascular diseases and cancer) is rising, the rates of still-excessively widespread infectious diseases continue to affect the regional population," says Giguashvili. "In this context, GCC countries will face a challenge of ensuring access to adequate healthcare services for its rapidly growing populations, with growing healthcare needs induced by emerging epidemiological and demographic trends."

Saudi Arabia, the biggest GCC country in terms of population and size, as well as the Arab world's largest economy, will dominate the healthcare market by virtue of its size. However, according to Alpen Capital, Qatar and the UAE are expected to be the fastest-growing markets in the future.

The region is expected to require 115,544 hospital beds in 2018, 10 per cent more than in 2013, reflecting the expected supply coming to the market as projects are completed. At current levels, the region is lagging, with the number of hospital beds available per 10,000 people in the region equal to about 70 per cent of that in some developed countries such as the United States and United Kingdom, and only 28 per cent of that in European countries such as France and Germany.

Managing the cost of chronic diseases

According to the International Monetary Fund, the GCC's population is expected to exceed 50 million by 2020. Furthermore, the number of people within the age group of 65 and above is forecast to spike from 1.2 million in 2015 to 14.2 million in 2050, due to higher life expectancy driving demand for healthcare services.

"Right now it looks manageable, but as more populations suffer from lifestyle diseases the cost of managing those diseases will shoot up like anything, and it will not be possible to manage those costs," explains Jayant Singh, Director, Healthcare Practice, MENA and South Asia at Frost and Sullivan.

"What we have seen in the GCC region specifically is that obesity is one of the leading problems and will be the precursor of many diseases such as cardiovascular diabetes," Singh says, adding that these chronic conditions translate into "huge" costs for governments in the long-run, due to high levels of survival among patients who suffer them.

In addition, the healthcare system needs to be adapted to take into consideration chronic or acute diseases, says Singh. Changes such as home care and

Healthcare demands in the GCC are shifting, due to changing demographics, higher incomes and lifestyle changes

Thinking differently: innovating to improve global health

The global health community has made great strides in advancing healthcare over the past decade. Improved technologies have allowed us to forward medical breakthroughs, while novel organisations and policies have put these tools into the hands of more people in need than ever before.

But the world is changing around us every day. The global health community must work to accommodate the dynamic essence of emerging and traditional health challenges. Today, more than ever, we must think differently and find new models of thought and action that extend beyond convention to create innovative health solutions, breaking down the barriers to scientific discovery and access that preclude health for all.

Working collaboratively towards change

At Janssen, we are working to approach seemingly intractable health challenges in new and creative ways. Our thinking is based on an 'out-of-the-box' approach – from research and development to access and policymaking – based on the understanding that we need to create actionable solutions to improve health worldwide.

Collaboration is a powerful driver of change. Our Company has a long legacy of working with partners to improve health. We are fully committed to innovating and getting our tools to health systems and patients through diverse – and sometimes unexpected – channels, including our new Janssen Global Public Health group. We are working in direct partnership with researchers, implementers and policymakers across sectors to deliver on our promises and to maximise our impact by focusing on:

- **Research and development** – our dedicated teams of scientists and researchers are driven to create and deliver therapeutic solutions to meet local needs. Through collaboration, we are working to improve health outcomes across the world to address unmet needs across diverse therapeutic areas, including oncology, cardiovascular disease, multi-drug-resistant tuberculosis (TB), HIV, mental health and neglected tropical diseases.
- **Expanding access to all** – beyond the laboratory, we are reimagining how we can sustainably deliver our medical tools and innovations to those in need. We are exploring innovative pricing schemes, results-based financing mechanisms, and commercial access models to enhance access to our medicines, particularly for TB and HIV.
- **Strengthening health systems** – we are also focusing our efforts on sustainable, long-term strategies to support and strengthen health systems worldwide. We are working through a number of cross-sector partnerships to ensure our innovations reach people in need sustainably and help build healthcare capacity for long-term impact. These efforts include educating healthcare providers on the appropriate use of our medicines; disease management programmes that integrate comprehensive mobile health solutions into local systems; and a paediatric HIV treatment initiative that builds on-the-ground capacity for local healthcare providers around this important issue.

Our call to action

At Janssen, we aim to improve health for people everywhere by pushing the boundaries of healthcare. Our approach is constantly evolving to meet the changing needs of health systems and the patients we serve.

We believe there are countless possibilities ahead for us to make a meaningful difference in global health. We know that a multi-sector, collaborative approach is the best way forward. We must be ambitious, creative, and proactive – both for the long-term sustainability of our efforts and for our larger vision of a healthier world. We are thinking – and acting – differently to advance health for all.

The content of this piece was written and supported by Janssen Pharmaceutica N.V.

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Some populations in the GCC region have high levels of obesity, which has a strong connection with diabetes

VICTOR BESA/XINHUA/ALAMY

hospitalisation for serious cases need to be introduced into the system to deal with chronic diseases.

All of these factors "will create pressure on the governments to meet healthcare needs. That's why governments want to bring in the private sector more," Singh says.

Healthcare expenditure in Gulf countries predominantly lies with the region's governments, representing on average 73 per cent of the total spend. This stands in stark contrast to major developed nations, where the private sector dominates investments in the sector. The oil-rich region has relied on revenues from petrodollars to fund its healthcare spending; however, fluctuating oil prices have increased the urgency to find alternative sources of financing and ways to diversify its economies. As healthcare costs rise, it becomes "imperative for the government to increase private [sector] participation", Alpen Capital says.

> **Some Gulf countries are building large medical cities and complexes worth billions of dollars**

Compared with that of developed nations, healthcare infrastructure in the GCC remains underdeveloped, with physician density of 1.5 per 1,000 people – lower than that in the Americas and far below Europe. Each Gulf country is investing to varying degrees in developing its healthcare infrastructure. Some are building large medical cities and complexes worth billions of dollars.

To build a sustainable healthcare sector, the region must face the challenge of training and retaining medical practitioners, rather than relying on foreign professionals. As more hospitals open in the region, the demand for medical practitioners can only increase.

"The gaps in the supply of healthcare workforce and healthcare infrastructure are already large – for example, in Saudi Arabia the system largely relies on expatriate health workers – and will struggle to meet the rising demand," says Giguashvili.

Singh says the immediate challenge is whether there is a sufficient number of doctors and nurses to treat today's prevailing diseases. "The healthcare system has to grow from within. It cannot be a system thriving on borrowed talent. That's the main issue we see, be it in the UAE, Saudi Arabia or any other country in the region. A chunk of doctors come from the developed world and paramedic staff from the developing world. Those staff tend to go to places that are more lucrative in the short to medium-term," he says, adding: "If you can't create your own system of staff, it will be tough."

Local pharmaceutical industry

Global spending on medicines is projected to grow at a compounded annual growth rate (CAGR) of 6.3 per cent to reach $1.2 trillion between 2014 and 2017, according to Alpen Capital. By comparison, in developing countries the measure is expected to grow between 10 and 13 per cent annually, versus one to four per cent in developed markets, due to better economic performance, demographic changes, and greater insurance coverage.

In the Gulf, "the demand for pharmaceuticals is growing steadily and is surely attracting both local and global players," says Martin Kuban, Senior Research Analyst, IDC Manufacturing Insights, CEMA. However, "the pharmaceutical sector in the GCC faces tough worldwide competition, and as a result, all local pharmaceutical companies are pressured to adopt latest technologies to equal those of competitors," he adds.

Close to 80 per cent of all drugs in the GCC are imported, resulting in higher costs for medicine and a "dire need for local manufacturing", says Frost and Sullivan's Singh. Apart from pricing, building a pharmaceuticals sector is strategic to the long-term interest of a country, he explains. "If a country doesn't have that, it's totally dependent on imports, which can be used as a trade tool against it."

The majority of manufacturing plants in the Gulf can be found in Saudi Arabia and the UAE, with some of the biggest players including Saudi

Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO) and Gulf Pharmaceutical Industries (Julphar). They primarily focus on generic drugs. Multinational heavyweights such as GlaxoSmithKline and Abbott Laboratories have also set up manufacturing operations in the region.

"Several years ago, local companies were generally several steps behind their global rivals in terms of productivity... However, a number of local companies have successfully deployed appropriate technologies and have since managed to close the productivity gap quite quickly," says Kuban, predicting that this additional productivity will help local players introduce price reductions that will allow them to gain market share. "We expect a steady growth pulled by rising demand... The local pharmaceutical industry has been transforming and gaining competitiveness."

Singh says Frost and Sullivan frequently receives requests from local companies trying to ramp-up their production capacity, new businesses wanting to enter the market or family groups looking to invest in pharmaceuticals manufacturing in Saudi Arabia.

Nevertheless, manufacturers in the region still face a number of challenges, such as the capital-intensive nature of operations, the small domestic market they serve, difficulty in raising adequate funds, and shortage of knowledge and skilled manpower, according to Alpen Capital.

"We are seeing that technology has delivered a significant boost to the pharmaceutical industry in recent years, and has contributed to sustainable growth of the industry in the GCC region. New pharmaceutical research, innovations, and manufacturing processes will generate greater added value for the industry, and this is where the leading companies in this field should be pointing their future efforts and investments," says Kuban.

Starting with prevention

To overcome the region's healthcare challenges, the GCC's healthcare systems should shift their focus towards prevention of diseases, Giguashvili says. The top-killing diseases that lead to premature death and disability can be largely prevented by effective measures, such as nationwide programmes that promote a healthy lifestyle, screening and early diagnosis of diseases, and introducing effective mechanisms for chronic disease monitoring and management, he adds.

"Inevitably, governments will need to continue investing considerable resources in the healthcare sector, including resources needed for expanding healthcare infrastructure – building hospitals, clinics and primary care facilities – and for the education and training of medical professionals locally," adds Giguashvili.

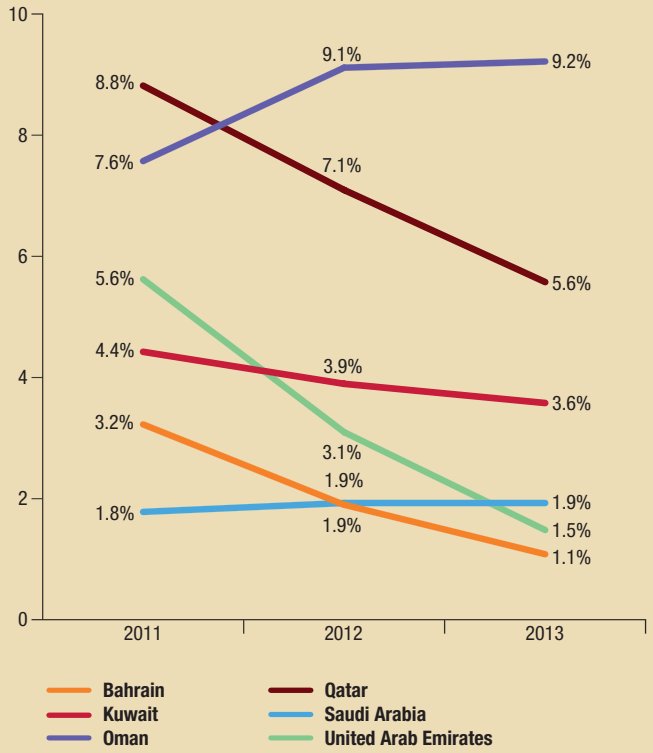
Life expectancy at birth in GCC countries, 2012

Bahrain	77
Kuwait	74
Oman	77
Qatar	78
Saudi Arabia	75
United Arab Emirates	77

76.3 average

Source: The World Bank

Population growth in GCC countries, 2011-13



Source: The World Bank

Adult obesity rate in GCC countries

Bahrain	32.9%
Kuwait	42.0%
Oman	20.9%
Qatar	33.2%
Saudi Arabia	33.0%
United Arab Emirates	32.7%

32.5% average

Source: CIA World Factbook

Women mean business

Some of the Gulf states have high rates of female unemployment by global standards, and women can be discouraged from entering the workforce by social and cultural norms. However, business leaders are heralding the winds of change, writes **Will Rankin**

Joblessness in Saudi Arabia remains one of the Kingdom's most pressing economic and societal concerns. A colossal 32 per cent of the working age female population is unemployed, according to figures for the last quarter of 2013 issued by the Kingdom's Central Department of Statistics and Information. The overall unemployment rate for locals is 11.5 per cent for the same period, representing a significant gender gap.

The women of Saudi Arabia have traditionally found themselves coming up against societal and bureaucratic hurdles when looking for employment, and the cultural stigmatisation of career women has also been a limiting factor in female workforce participation.

However, in recent years, the Kingdom of Saudi Arabia has witnessed a ripple of movements signalling greater female workforce engagement. With so many of its women unemployed, the Kingdom is now looking at utilising this untapped well of resource to offset its reliance on expatriate labour. With nationalisation now a key policy throughout the Gulf region, and a ready pool of talented, educated female locals able to work, bringing them into the workforce makes perfect sense economically.

Despite Saudi Arabia's vast oil riches, the Kingdom's per capita gross domestic product ranked only 32nd in the world in 2013, according to World Bank figures. Harnessing women's potential – in effect half the country's brainpower – would provide an enormous boost to the national economy and help to close this incongruous gap.

Promoting female employment

As a first step in preparing more Saudi women for competitive jobs, reforms will be needed to the national educational system. Employment market and legal reform are also essential for the integration of women into the working economy. Indeed, there is progress on the horizon.

Initiatives such as those driven by HRH Princess Reema Bint Bandar Al Saud, CEO and President of Alfa International, which owns the licence to Harvey Nichols department store in Riyadh, are fostering a supportive environment for women to enter the workplace, and enforcing positivity towards women who wish to contribute to the Saudi labour market.

Programmes have been launched to encourage women in the Arab world to enter the traditionally male-dominated workplace

Princess Reema has seen sales increase in nearly every department, where women are now selling to women. Her initiatives have taught women soft skills, including customer service, but also practical knowledge, for example language courses, how to operate a till, financial management, career planning, salary scales and benefits.

While there are still regulations to be observed, for example, mixed staff cannot work together behind the same counter, and staff have segregated break rooms, the winds of change are slowly sweeping across the Kingdom.

Glowork in Saudi Arabia is a solid example of the new band of inititaives geared towards ensuring women take up gainful employment. Glowork is a website – and something of a social business venture – formed by young Saudi entrepreneurs that aims to bring empowerment to women and increase diversity in the Saudi workforce.

Glowork's primary aim is to establish itself as a one-stop shop for female career advisory services, backed by founding partner KPMG, the Council of Saudi Chambers, a number of corporate partners and six ambassadors. By strongly associating its aims with the government and business, Glowork hopes to increase the Kingdom's employment diversity to 50 per cent female and 50 per cent male.

Khalid Alkhudair, Glowork Founder and Board Member, says the initial vision was to be online and helping to bridge the gap between jobseekers and employers, but "now this is just 10 per cent of our work; our vision now is to be an offline enabler, providing head-hunting services, candidate screening, career counselling, CV advice, interview practice and pyschometric testing".

In 2012, Glowork formed a public-private partnership with the Ministry of Labour. "We are working with universities, and have organised the largest career fair in the region for two years running in Riyadh – with 91 employers exhibiting and 17,000 attendees," explains Alkhudair.

There are approximately 1.6 million jobseekers in Saudi Arabia, and the government spends billions annually on unemployment benefits. Alkhudair approached the Ministry of Labour with a bold, radical idea – to take some of the unemployment benefit and create real jobs for women. "We came up with the idea that the government could pay us to help create jobs, and help find women employment. We mentor people for free, and the government covers the costs. It's a very nice, sustainable business model."

"There has been a cultural shift in the Kingdom; there's a lot of change here," says the young entrepreneur. "When people hear success stories

THE HALAL BIOECONOMY INITIATIVE

GLOBAL MARKET POTENTIAL FOR HALAL VACCINES

STRATGURUS INITIATIVES

Social Awareness Projects

Food wastage has a significant impact on global food security

AT THE 10TH WIEF

BOOK REVEAL – DAY 1

An in-house publication on an important sector in the Muslim world, halal vaccines

MASTERCLASS – DAY 2

An informative session on 'Global market potential of halal vaccines' to be delivered by Dr. Tabassum Khan

CONCEPT PAPER – DAY 3

A special session on developing the halal bioeconomy initiative

PUBLICATION – DAY 3

Our mini publication on developing bioeconomy in Islamic countries will be launched on Day 3. We are passionate about exploring the potential contribution of bioeconomy in Muslim countries

BNB – DAY 3

Dr. Tabassum Khan is proud to be facilitating the Business Networking Breakfast session on Day 3, on the topic of healthcare

CAMPAIGN LAUNCH – DAY 3

A campaign targeted towards food wastage called 'Don't Throw Your Food Away,' addressing the ubiquitous amounts of food wasted globally each year, and its impact on the alarming levels of global hunger

VISION, STRATEGY & ACCOMPLISHMENT

Stratgurus is a boutique consultancy firm, specializing in the healthcare and wellness industries. The company has a special focus on social awareness programs, especially those related to the general well-being of communities, as well as helping authorities to define strategies with a community-centric approach.

We believe very strongly in furthering social causes, and from the platform of Stratgurus Initiatives, are launching a key public awareness campaign on food security. 'Don't Throw Your Food Away' is designed to address the issue of food wastage in the region. With the help of a catchy song and impactful music video, we aim to reach out to millions of people and urge them to adopt less wasteful lifestyles. A special calendar on the subject has also been created.

Dr. Khan's diverse career has spanned the healthcare and pharmaceutical industries, providing management consulting for government agencies and international companies. He is a Medical Doctor who obtained an MBA in Finance and a PhD in Healthcare Management. He is the Founder and President of Stratgurus Consulting. Dr. Khan is also an ardent social worker who has done multiple philanthropic activities in the past, including social awareness campaigns and counseling for parents of autistic children.

"Humanity is not about living, it is about making others live"

Dr. Tabassum Khan

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about women in business, they begin to become more amenable to it; they are opening up to the idea, but we can still maintain the religious aspect of society. We have seen a huge shift in the past three years, with 150,000 women registered with us, compared to 60,000 three years ago."

Role of education

While the Glowork team has a long way to go, they will be encouraged by the words of Peter Olson, Co-CEO and founder of the Fullbridge Program, and former CEO at publisher Random House.

The Fullbridge Program, a global leader in delivering the unique experience that students need to successfully transition from the classroom to the real world, has been running a programme for both male and female students at Prince Sultan University in Riyadh, Saudi Arabia, for the past two years.

Based on his first-hand experience, Olson says: "Women now have a more visible role in Islamic business and commerce, as is evidenced by the increased interest, participation and eagerness of the female students that have gone through the Fullbridge Program." He continues: "What has astonished and encouraged me, has been the immense energy and enthusiasm of the female students. They clearly see that job skills education is their pathway – and their great opportunity – to success. They have an unflinching determination and competitiveness with their male counterparts to excel in the programme… Their fierce desire to succeed [is] likely a snapshot of what we can expect as more women participate in the programme and secure job opportunities in the marketplace."

Glowork's Alkhudair would agree, especially as his company has identified a problem with education across the Kingdom: "We have so many great graduates, but they lack the knowledge of soft skills required to apply for jobs. There is a five- to 10-year [government] education plan to embed more practicality into the education system. We will see a lot more students studying abroad, too – there are currently 150,000 Saudi Arabian students abroad, and that figure is set to grow."

Earlier this year, the Saudi government approved a five-year plan worth more than 80 billion riyals ($21.33 billion) to reform the country's education sector. The plan includes building 1,500 nurseries, providing training for about 25,000 teachers and establishing educational centres and other related projects.

Dr Taha A Al-Douri, Associate Professor and Strategic Advisor, Development for the Middle East Region at New York Institute of Technology (NYIT), feels the challenges facing women in Muslim countries are as much a cultural function of the societies in which they live, as they are of any one value system in place in those societies, such as religion. "The vast majority of countries where Islam is the professed religion (with few exceptions) have in reality civil constitutions that are not based on Islamic law, except in civil matters, such as inheritance and divorce," he says. He sees societal norms and customs, rather than religion, as a hurdle for women to surmount. "Social norms are still largely governed by the deeply rooted, strongly prevalent tribal norms, family structures, and custom, all still much in favour," he explains. "And so, while the challenges facing women are the same worldwide,

Female unemployment rates in Saudi Arabia, 2012-13 (percentage)

		Saudi nationals	Non-Saudi nationals	Total
2012	Q1	34.0	0.9	19.8
	Q2	35.1	0.3	20.8
	Q3	35.7	0.1	21.3
	Q4	35.7	0.2	21.2
2013	Q1	34.8	1.7	22.1
	Q2	34.0	1.1	21.4
	Q3	33.2	0.6	20.7
	Q4	32.1	0.6	20.1

Central Department of Statistics and Information, Saudi Arabia

B.O'KANE/ALAMY

HRH Princess Reema Bint Bandar Al Saud rolled out new female employment initiatives at the Harvey Nichols store in Riyadh to considerable success

Working age female population of Saudi Arabia by age grouping and educational status, 2013

	University	Master/High Diploma	PhD	Total population
15-19	0	0	0	1,215,839
20-24	163,854	392	0	1,143,574
25-29	367,055	6,411	434	1,116,509
30-34	344,789	11,023	1,217	1,139,914
35-39	252,061	6,124	4,412	1,102,602
40-44	143,333	7,224	3,342	853,566
45-49	70,749	3,401	2,335	560,878
50-54	30,046	1,646	1,418	408,164
55-59	13,888	892	1,192	308,361
60-64	4,719	519	724	214,965

Central Department of Statistics and Information, Saudi Arabia

breaking free of custom remains the main hindrance to women supporting their family structure in full capacity outside the house."

So what, in his opinion, is holding Muslim women back in business? "The lack of cumulative knowledge and social support that would otherwise augment their ambition to pursue areas of professional excellence thus far considered to be mostly male-oriented," he says. "If they break into a field, at the present time, especially in urban settings and big cities, they may not face violence or overt mockery. On the other hand, they will have to deal with all-male realities, such as the professional settings, the social landscape, and public expectations." This could prove daunting to women who have no workplace experience.

> **When people hear success stories about women in business, they begin to become more amenable to it**

And while Al-Douri argues that these are not factors that would physically hold someone back from pursuing a career path that has so far been considered only for men, he feels it would certainly "discourage the undecided, or non-combative types, who would rather enjoy a supportive and collegial setting with a respected comfort zone."

Al-Douri concludes with a comment on the wider picture: "Regarded from afar, the picture might seem to be one where women are held back, when up close the situation is one where women are discouraged beyond practicality and this is, in effect, worse."

But put Al-Douri in a meeting room with powerful Iranian entrepreneur Mona Ataya for half an hour, and his somewhat dispiriting synopsis might be capsized.

Agents of change

Ataya, the Dubai-based CEO of Mumzworld, the largest online vertical e-commerce site for mothers and babies in the region, is an example of the new breed of no-nonsense Arab businesswomen.

"As a woman, typically when I approach challenges or opportunities, I don't look at them as a woman, I take them on with the requirements needed to get the job done, I haven't identified issues specifically because of being a woman," she begins. "Having said that, there are areas like fundraising, for example, where a woman's participation might not be the same as a man's; there are different credentials required. But I simply don't see any specific challenges for a woman, per se… We do have a definite set of skills," she declares, adding "there are certain instances where women do better. For example, in marketing or business in the baby sector, women have an edge."

As the founder of a growing site that CNN describes as the "Amazon for moms" in the Middle East, Ataya now employs more than 50 people at the site's headquarters, yet she has kept sight of her driving vision. "The Muslim world is changing – business has a financial impact, but also a social impact. Business can have a positive social impact from a Muslim perspective."

Ataya's mission is to empower women by giving them the opportunity to make educated purchases in terms of choice, quality and price. She also feels education is imperative. "Women today need to get as good an education as their male counterparts. And not just in traditional fields like the arts; now we are seeing more and more female science graduates," she says.

She adds that women can also get started in business by identifying mentors. "You can always find mentors out there, such as others who have started a business – they can offer advice, guidance and tips. Women help each other."

NYIT's Al-Douri delivers an apt conclusion regarding the current state of women's role in the workplace across the Gulf Cooperation Council region: "What is required… is to alleviate, even eliminate, the pressures holding women in a place from which they would depart, given the opportunity."

Across the GCC, the winds of change are in evidence. Today's shrewd regional governments are mindful that sustainable prosperity lies largely in the hands of its educated local populations – and that includes its vast swathes of talented and determined women.

Planning to succeed: smart cities and holistic communities

As urbanisation proceeds at a rapid pace globally, planners are finding innovative ways to create smarter cities that focus on quality of life and sustainability, writes **Syed Hussain**

As global economic flow pivots towards the east, many emerging economies in Asia-Pacific, the Middle East and Africa must prepare to accommodate the rising tide of investment headed in their direction. However, images of polluted and clogged cities, such as Beijing, Shanghai, New Delhi and Lagos, suggest mega cities have not yet found ways to cope with the pressures of modernity and growth.

A study by the McKinsey Global Institute notes that the world's 600 fastest-growing cities will account for 60 per cent of global economic growth between 2010 and 2025. "To achieve and sustain this level of growth – and to acknowledge recent urbanisation and climate-change trends – municipalities in both emerging markets and developed nations must pay closer attention to the way they manage resources and infrastructure," the management consultancy said.

Yet, urban planners of these metropolises are faced with mounting challenges to ensure that their cities do not mutate into unwieldy, crowded spaces that are environmentally unfriendly eyesores. Instead, they must be transformed into smartly planned urban centres that are attractive not just to work in, but also as places to live, play and raise families.

There is a lot at stake. If cities can plan ahead and create the right infrastructure, they could be the recipient of billions of dollars of investments.

Urban planners will have to work hard to ensure that their cities are not over regulated and have business-friendly legal frameworks, while also being mindful of creating low-carbon economies that cater to not just the wealthy, but also those at the lower end of the income scale.

Challenges for urban planners

These cities must be magnets for investment, but they must also house effective and functioning kindergartens, parks and bicycle lanes. A number of cities, such as Vienna (Austria), Zurich (Switzerland), Auckland (New Zealand), Munich (Germany) and Vancouver (Canada), have already positioned themselves as strong business destinations that also rank high on quality of living indices, according to a survey by Mercer, an international recruitment agency.

The United Nations Human Settlements Programme (UN Habitat), which is focused on urban development, estimates that over the next 30 years, the urban population of the world will increase by at

View of Business Bay in Dubai at sunset. The city is considered a pioneer in smart urban planning

SPREEPHOTO/GETTY IMAGES

least 2.5 billion people. "Enormous financial flows will have to be mobilised for investment in construction, energy, public transport and other aspects of the urbanisation process. Investment in cities during this period will exceed the total sum of all expenditure on urbanisation over the entire history of humankind," Joan Clos, United Nations Under Secretary General and Executive Director of UN-Habitat said in a foreword to its latest report on urban development.

In China alone, 300 million rural inhabitants will move to urban areas over the next 15 years, according to City Science, an MIT Media Lab Initiative. The project is exploring technologies to help develop cities that facilitate the creation of desirable urban features, such as shared electric vehicles, adaptable living environments, and flexible work spaces.

The City Science idea focuses on six key areas of work that would combine together to form a cohesive, compact city. These include urban analytics and modelling, incentives and governance, mobility networks, places of living and work, electronic and social networks and energy networks.

Technology companies are at the forefront of these developments. IBM, Siemens, Cisco and Hitachi are just a few examples of companies that are developing technologies to build smart grids and helping create intelligent planning to transform urban cities into liveable spaces.

"Forward-thinking leaders are reinventing their cities, reimagining essential systems and focusing on staying competitive," observes IBM in a white paper on Smart Cities. "They are paving the way for transformation by harnessing the powers of big data and analytics, cloud, social and mobile technologies. These leaders know that big data and analytics solutions can help cities integrate enormous volumes of data and identify retrospective, real-time and predictive insights, dramatically improving situational awareness and decision-making."

Technology companies

IBM's Intelligent Operations Center (IOC) enables authorities to reduce any unplanned service disruptions by effectively managing infrastructure in cities. As an example, management consultants Frost & Sullivan cite the Chinese city of Zhenjiang in a recent study of best practices for smart city integration. Zhenjiang is using the IOC technology to manage its public transportation system. The research also highlights Rio de Janeiro, for which the IOC "acts as the backbone… supporting its transport, public safety, and major events, such as the 2016 Summer Olympics".

IBM expects to generate $20 billion in revenues from its smart city programmes by 2015, compared with $3 billion in 2010, highlighting the scale of interest in smart city development.

Top 30 cities for direct commercial real estate investment (2011-14)

City Momentum Index

Rank	City
1	San Francisco
2	London
3	Dubai
4	Shanghai
5	Wuhan
6	New York
7	Austin
8	Hong Kong
9	San Jose
10	Singapore

Middle Eastern nations have also caught the smart urban planning fever. Countries such as the United Arab Emirates, Qatar, Jordan and Saudi Arabia are actively pursuing the development of smart cities.

Dubai is unquestionably the leader. A new survey by real estate consultants Jones Lang La Salle (JLL) ranked Dubai as the world's third most dynamic city after San Francisco and London. While New York, London and Tokyo usually rank among the top cities in global real estate surveys, the consultancy looked beyond traditional, static economic rankings to delve into the underlying drivers that are the hallmark of highly dynamic cities, through the City Momentum Index.

> **City momentum is about far more than just raw GDP growth**

"City momentum is about far more than just raw GDP growth," said Jeremy Kelly, Director of Global Research for JLL. "The true foundation of highly dynamic cities emerges from such factors as speed of innovation and creation of cutting-edge businesses, along with new building construction, property price movement and investment in real estate from cross-border investors and corporations."

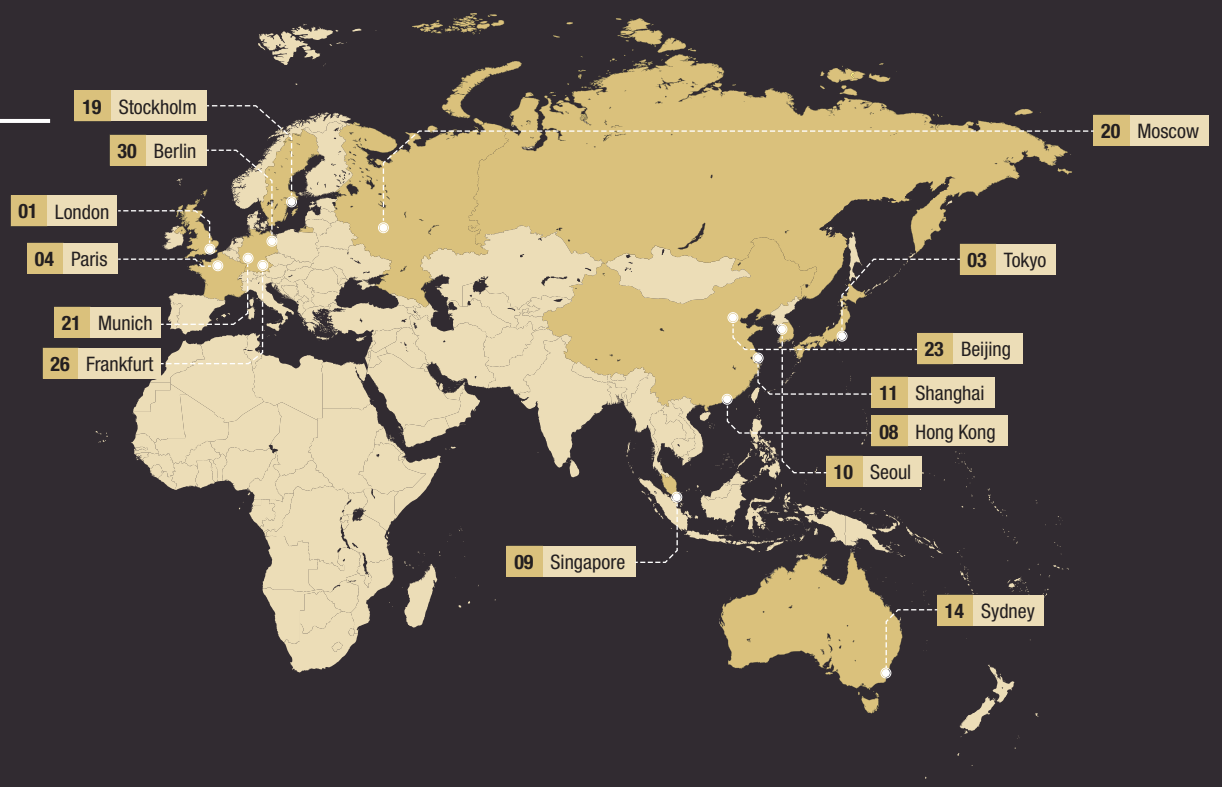
The top cities were handpicked from 111 candidates, including Arab metropolises such as Riyadh, Jeddah, Abu Dhabi and Cairo. Dubai is now part of a small group of cities, such as Hong Kong and Singapore, that punch above their weight, and although their populations may never exceed that of, say, New York or Shanghai, they are adapting their infrastructure to move up the value chain and improve their global connectivity. As the global transition continues eastwards, some of the cities missing from the JLL list include Paris, Berlin and Amsterdam, which are part of the 'old economy' and have failed to move quickly with the times.

JLL says the main reason for Dubai's dynamism is its real estate proposition, the high-value incubators it fosters, as well as the lifestyle (or socio-economic) dynamism. However, impressive as that ranking is for the emirate, Dubai is not yet part of the 30 major cities of the world that attract 50 per cent of all global commercial real estate investment.

A separate JLL real estate survey shows that the world's top 'super cities', such as New York and London, and primary and second-tier cities, such as Singapore, Washington DC and Toronto, attracted $4.6 trillion in commercial real estate investment in the past decade.

"The most successful markets share characteristics like transparency, good governance, strong education systems and innovative city planning," the survey maintains. "The 'push-pull' effect is strengthening super cities and boosting investment prospects for second-tier cities," it adds.

Other Middle Eastern cities are also making rapid progress. Metro and rail networks in Doha and Riyadh



Source: Jones Lang LaSalle

have the potential to shift millions of road commuters to mass transit transport, helping to shave energy consumption. Many Gulf and other MENA states are also embracing alternative energies, such as solar and wind, to reduce their disproportionately high carbon footprint on the environment.

Achieving smart growth

The seeds of good urban planning have already been sown via the cluster of free zones in Dubai. The New York-based Intelligent Community Forum has identified Dubai Internet City as a smart urban initiative that groups together technology companies and builds living and entertainment places alongside, to create a largely self-sufficient working and living space.

"What would make cities and regions truly revolutionary is if we could see the best of its urban and regional planning and urban design implemented, especially using all of the planning tools, ultra-high-speed broadband connectivity and related technologies available to them," explains John Jung, Co-founder of the Intelligence Community Forum, a research organisation focused on economic and social development in broadband economies.

"These might be off-the-shelf, and, in some cases, leveraging entirely new innovations with new uses and applications to demonstrate pilots and create new concepts and experiences in urban liveability. But it would also require superb leadership and collaboration throughout and a special sense of the community nurturing an innovation ecosystem that would help to differentiate it as being among the best in the world."

Last year, IDC Government Insights predicted that worldwide spending on smart water solutions would reach $1.8 billion, while 70 per cent of all investments in smart city projects would focus on energy, transportation and public safety.

While Dubai and Doha are making impressive progress in developing more carefully planned cities that promote a work-life balance, other regional cities are also revitalising themselves and working faster to find new efficiencies that facilitate greater investment and more talent.

A key difference between cities that rise to the challenge and those that falter will be leadership. "Smart growth identifies and nurtures the very best opportunities for growth, plans ways to cope with its demands, integrates environmental thinking, and ensures that all citizens enjoy a city's prosperity," says management consultancy McKinsey & Co.

"Good city leaders also think about regional growth because, as a metropolis expands, they will need the cooperation of surrounding municipalities and regional service providers… Successful city leaders have also learned that, if designed and executed well, private-public partnerships can be an essential element of smart growth, delivering lower-cost, higher-quality infrastructure and services." ◉

Turning tides: Islamic tourism represents growing share of market

Islamic tourism is a niche, but rapidly expanding segment of the global travel industry for which many destinations, even in Muslim-minority countries, are now actively catering, writes **Criselda Diala-McBride**

The recent shift of economic balance towards emerging economies, home to the majority of people practising Islam, means that a significant number of young middle-class Muslims now have disposable income to spend on leisure travel.

A report by Thomson Reuters showed that global outbound travel spending of Muslim tourists stood at $137 billion in 2012 (not including Hajj and Umrah, the annual pilgrimages to Mecca), or 12.5 per cent

The Tengku Ampuan Jemaah Mosque, Malaysia, at sunset. The country's Islamic tourism sector made $4.2 billion in revenue during 2013

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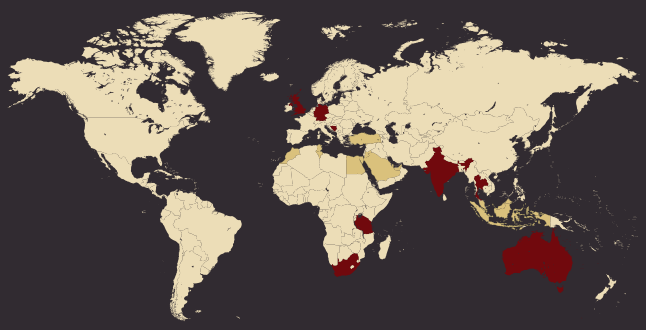
Crescentrating's top 10 halal-friendly holiday destinations in Organisation of Islamic Cooperation (OIC) countries and non-OIC countries, 2014

Holiday destinations (OIC countries)

	Ranking
Malaysia	1
United Arab Emirates	2
Turkey	3
Indonesia	4
Saudi Arabia	5
Morocco	6
Jordan	7
Qatar	8
Tunisia	9
Egypt	10



Source: Crescentrating

Holiday destinations (non-OIC countries)

	Ranking
Singapore	1
South Africa	2
Thailand	3
United Kingdom	4
Bosnia & Herzegovina	5
India	6
Hong Kong	7
Germany	8
Australia	9
Tanzania	10

of the nearly $1.1 trillion global travel expenditure. By 2018, it is forecast that Muslim travel will be a $181 billion industry.

Iran was the largest source country in 2012, spending a total of $18.2 billion. However, collective outbound tourists from the six-nation Gulf Cooperation Council (GCC) represented the lion's share of Muslim travel expenditure, at 31 per cent or $42.68 billion, which is remarkable considering that the region's population accounts for just three per cent of the global Muslim population, the report noted.

Projections by Singapore-based Muslim travel specialist Crescentrating and New York-based marketing research firm DinarStandard are not far behind. According to their latest estimates, the overall annual spending of international Muslim tourists was estimated at $140 billion in 2013, excluding travel expenditure of Hajj and Umrah. This accounted for almost 13 per cent of global travel expenditure during that year. By 2020, outbound Muslim travel spending is expected to reach $192 billion.

Muslim-friendly destinations

Islamic tourism encompasses goods and services that cater to the needs of Muslim travellers – from airlines that offer in-flight halal meals and shopping malls providing prayer rooms, to hotels that give guidance on finding the direction of Mecca (Qibla) for daily prayers and provide gender-segregated swimming pools, gyms and spa facilities.

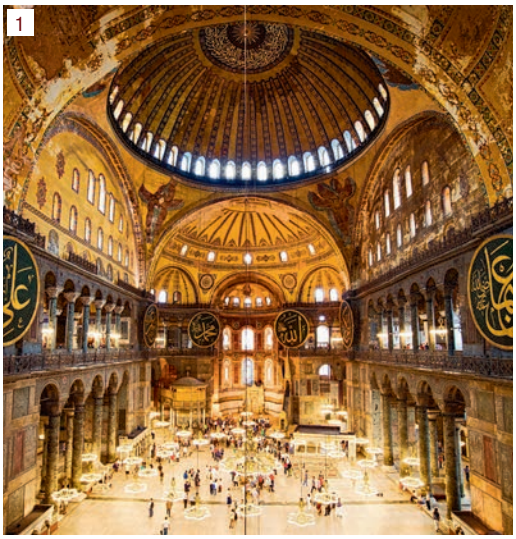
As more and more destinations, both within and outside the Organisation of Islamic Cooperation (OIC), wake up to the untapped potential of halal tourism, certain developments, for example the availability of Sharia-compliant hotels, halal-certified

MALAYSIA TOURISM PROMOTION BOARD

MALAYSIA TOURISM PROMOTION BOARD

Malaysia is home to many halal restaurants, and its airports, hotels and shopping malls often provide prayer facilities. (Above) The Imbi Plaza mall in Kuala Lumpur. (Left) The Four Seasons Hotel in Langkawi

Europe recently hosted the first-ever international conference on halal tourism to assess how the global leisure industry can make destinations more attractive to the Muslim market. Tourist spending in this sector is expected to grow to $192 billion by 2020



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1 Selimiye Mosque, a UNESCO World Heritage site in Turkey
2 Bosphorus Bridge in Istanbul
3 Maiden's Tower off the coast of Istanbul
4 Yas Marina Circuit in Abu Dhabi
5 Sheikh Zayed Grand Mosque in Abu Dhabi
6 A private villa in Qasr al Sarab Desert Resort in Abu Dhabi

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food outlets and family-oriented leisure attractions, are finding their way into mainstream tourism.

In Crescentrating's 2014 'Halal-Friendly Holiday Destination Ranking', Malaysia topped a survey of the world's friendliest countries for inbound Muslim tourist traffic, followed by the United Arab Emirates, Turkey, Indonesia, Saudi Arabia, Morocco, Jordan, Qatar, Tunisia and Egypt. Among the non-OIC destinations, Singapore was considered the preferred holiday hotspot for Muslims, with other notable destinations including South Africa, Thailand, United Kingdom, Bosnia and Herzegovina, India, Hong Kong, Germany, Australia and Tanzania.

Malaysia bucks the trend

Malaysia's tourism sector has performed considerably well, growing by an annual average of 12 per cent since 2004. According to the Islamic Tourism Centre, in 2013, the industry generated a total revenue of MYR65.4 billion ($20.6 billion) from some 25.7 million visitors, with the Islamic tourism segment making MYR13.2 billion ($4.2 billion).

> **The overall annual spending of international Muslim tourists was estimated at $140 billion in 2013**

Zulkifly Md Said, Director General of Malaysia's Islamic Tourism Centre (ITC), says there is currently no mechanism to track the exact number of Muslim tourist arrivals to Malaysia, as religion is not stated in a traveller's passport. "We can only estimate the number of Muslim arrivals by using a standardised formula. Since 2000, the number of Muslim tourists to Malaysia increased from 1.3 million to 5.2 million in 2013... This makes up 20.33 per cent of the overall tourist arrivals to Malaysia," he notes.

The South-East Asian country's major source markets include Association of Southeast Asian Nations (ASEAN) member states China, Japan, Bangladesh, India and Pakistan, and Middle Eastern countries. It also welcomes a growing number of tourists from Russia and the Commonwealth of Independent States countries, such as Uzbekistan and Kazakhstan.

Strong air connectivity, with Kuala Lumpur International Airport (KLIA) emerging as one of the fastest growing airports in the world, has been instrumental in attracting foreign travellers, according

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The Masjid al-Nabawi mosque, often called the Prophet's Mosque, in Medina, Saudi Arabia

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The Kaaba, located in Mecca. Pilgrims constitute a significant portion of foreign visitors to Saudi Arabia

to Said. Currently, there are 801 flights from Muslim countries flying to Malaysia, and the government expects tourist arrivals to reach 28 million this year amid the Visit Malaysia 2014 campaign.

Abu Dhabi's hotel room boom

The UAE capital has a number of attractions, such as the Sheikh Zayed Grand Mosque, as well as family leisure facilities, such as Yas Waterworld, that appeal to a wide variety of travellers, including the halal tourism segment, says Sultan Al Dhaheri, Acting Executive Director Tourism of the Abu Dhabi Tourism and Culture Authority (TCA Abu Dhabi).

However, it is the emirate's hotel sector that is flexing its muscles. Guests checking into Abu Dhabi's hotels and hotel apartments between January and June 2014 reached 1.7 million, rising by 28 per cent from the first half of 2013. Hotel and room revenues both increased by 15 per cent to AED3.1 billion ($841 million) and AED1.6 billion ($430 million), respectively.

"We cannot define exactly how many tourists we get or what their religious persuasion is, as our tracking mechanism is currently limited to hotel guest stays," he explains. "We are currently conducting a feasibility study into our opportunities within the halal tourism field. We do have product within the market, which satisfies a number of halal tourism requirements, but these have not, as yet, been pulled together into one specific promotions campaign – we expect to achieve this sometime next year."

Ongoing investments in the tourism sector saw the number of hotels in Abu Dhabi ballooning from 145 with 25,270 rooms in June 2013, to 154 with a total of 27,405 rooms in June 2014. Al Dhaheri says there was considerable arrivals uplift during the month from within the UAE market, the GCC, China, Russia, India, France, Germany and the UK.

Checking into Dubai and Turkey

Dubai has reinvented itself as an ultra-modern destination in the Arabian Gulf that attracts tourists from a vast range of cultural and religious backgrounds. Recent media reports indicate an increasing demand for Sharia-compliant hotels as Dubai's popularity grows among more conservative tourists, such as those from Saudi Arabia.

According to data from the Department of Tourism and Commerce Marketing (DTCM), over 11 million guests (Muslims and non-Muslims) checked into Dubai hotels in 2013, up by more than 1 million or 10.6 per cent from the previous year. Hotel revenues were also impressive, at AED21.84 billion ($5.9 billion) in 2013, jumping by over 16.1 per cent over 2012.

The tourism bureau is confident the emirate will meet its target of welcoming 20 million visitors

by 2020, in time for its hosting of the World Expo. Euromonitor International estimates the economic impact of Dubai Expo 2020 to stand at $24 billion, with around $7 billion expected to be spent on tourism-related infrastructure.

Meanwhile, in the Muslim Travel Index Europe 2014 Turkey was voted the fifth European destination that Muslims from the Middle East and Far East would most like to visit. The survey underscores Turkey's halal tourism potential, which could contribute billions of dollars annually to the national economy. The survey also indicates that 93 per cent of Muslim travellers deem it important for the destination to offer facilities that cater for the halal lifestyle.

Mustafa Ozdemir, Cultural and Information Attaché at the Turkish Consulate General in Dubai, says Turkey received almost 35 million tourists – both Muslims and non-Muslims – in 2013, generating revenues of around $32.3 million for the Turkish economy.

> **In 2013, religious tourism contributed more than $16 billion to the economy of Saudi Arabia**

Ozdemir says that while Turkey's mechanism does not distinguish between Muslims and non-Muslims, the destination features several cultural and religious attractions, as well as a vibrant halal food industry that would appeal to Muslim travellers.

Religious tourism in Saudi Arabia

Home to two of Islam's holiest cities, Mecca and Medina, Saudi Arabia attracts the world's largest annual religious pilgrimage. The Saudi Commission for Tourism and Antiquities (SCTA) was quoted in December 2013 by Arab News as saying that the majority of foreigners visiting the Kingdom are pilgrims and leisure tourists, with only about 20 per cent coming for business travel.

In 2013, religious tourism contributed more than $16 billion to the oil-rich country's economy, according to Bank of America Merrill Lynch. Meanwhile, the total contribution of the travel and tourism industry was estimated at SAR119.8 billion ($32 billion), or about 4.3 per cent of the GDP, in 2013. Tourism receipts are predicted to rise by 4.9 per cent in 2014 and a further 4.6 per cent per annum to SAR197.7 billion ($53 billion), or 4.6 per cent of the GDP, by 2024, according to World Travel and Tourism Council data.

Japan opens doors to halal tourism

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Japan is developing its halal tourism industry in order to appeal to South-East Asian markets

Japan has made adjustments to its tourism industry in order to accommodate growing interest from Muslim visitors, which totalled 300,000 in 2013, according to Crescentrating statistics. The Asian giant showed the biggest improvement among the 60 countries ranked by the Islamic travel intelligence firm – jumping by 10 notches from 50th in 2013 to 40th in 2014. By 2020, the number of Muslim tourists to Japan is projected to more than triple.

Mamoru Kobori, Executive Director of Marketing and Promotion Department at the Japan National Tourism Organization (JNTO), says the country started developing its halal tourism sector more than two years ago, targeting South-East Asian markets. It signed a memorandum of understanding with the Malaysian Association of Tour and Travel Agents in February 2013, and subsequently organised a series of Muslim tourism seminars and familiarisation trips, as well as developing tours and publishing its first booklet for Muslim visitors.

"We estimate the contribution of halal tourism to Japan's tourism industry at JPY15.6 billion [$150.3 million] per year, generated by more than 150,000 tourists visiting from Malaysia and Indonesia only. The contribution is fast growing with the increment of tourists," says Kobori.

In order to cater to an influx of Muslim tourists, the Japanese government has conducted training programmes to educate local stakeholders on how to provide appropriate services to this segment, including serving authentic, but halal, Japanese dishes.

Kobori said the number of hotels, restaurants and facilities that cater to the needs of Muslim visitors in Japan is steadily increasing.

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The Japanese travel and tourism industry has strengthened its attempts to attract more Muslim tourists. (Above) Takaoka, a port city in Toyama. (Left) Akihabara district in Tokyo

Islamic banking gains momentum

REUTERS/BEN JOB

While it only represents a fraction of the wider industry, Islamic banking is enjoying rapid growth in the Muslim world, and it has real potential to extend its appeal to the global community, writes **Peter Shaw-Smith**

Over the next two decades, the world's Muslim population is expected to grow at around twice the rate of the non-Muslim population, increasing by 35 per cent to 2030, according to a study by Pew Research. Although not all Muslims feel obligated to practise Islamic banking as part of their daily lives, this seems likely to change by the middle of the century, as Islamic banks broaden the scope of their services, and the target population increases.

Although globally, Islamic banks are growing considerably faster than conventional banks, this is still from a much smaller base. At least two national banking systems are run completely on Islamic lines, those of Iran and Sudan. Other countries where Islamic banking accounts for over 20 per cent of total banking assets – and whose Islamic financial sectors are, therefore, regarded as 'systemically important' by Malaysia's Islamic Financial Services Board – include Saudi Arabia, Kuwait, Yemen and Brunei.

Yet, it is still the case that Islamic bankers have not managed to create a situation where the Ummah (Islamic community) can feel that its needs and inclinations are being wholly catered to. While it is possible to see young Emirati women clad from top to toe in black queuing to use the Abu Dhabi Islamic Bank ATM machine in the Marina Mall forecourt, potential customers in places like Pakistan, many African countries and even Turkey, probably feel that the array of Islamic financial services catering to them is still limited. In some cases, this is a symptom of a wider issue of financial inclusion, as the general standard of living precludes a more sophisticated banking sector.

Widening appeal

While the Western banking system is, for the time being, still dominant, the failure of several European and US banks to prudently manage their businesses in the lead up to the financial crisis, could yet create opportunities for Islamic institutions. Basel III – a regulatory standard created in response to the financial crisis – underscores the shortcomings of the traditional Western system, which, in the boom to 2008, took risks that ultimately led to wholescale bank nationalisations.

One does not need to be a Muslim to benefit from Islamic banking. In Malaysia, a large segment of Islamic banks' customer base is non-Muslim, and Indonesia is seeing a similar trend. In the Gulf, and many developed markets, there are certainly examples of non-Muslims who have availed themselves of services such as home finance or car loans. While this number is still very small, it won't take much for this to change.

"Islamic finance is for all. Its appeal extends to a larger global community, regardless of their faith and origins. Islamic finance is not only for the Muslims. [It] cannot be successful if it is only supported by Muslims," explained Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, during the 11th Islamic Financial Services Board (IFSB) Summit in May in Port Louis, Mauritius. "Many now recognise that the inherent characteristics of Islamic finance are consistent with universal values."

Total Islamic finance assets around the globe reached approximately $1.8 trillion at the end of 2013. The Islamic banking sector is forecast to amount to more than $1.7 trillion by the end of 2014, and to surpass the $2 trillion mark by 2015. Leading central banks estimate that total global banking assets stood at $112 trillion in 2013, meaning that Islamic banking assets account for around 1.5 per cent of the global total. Despite half a century of progress, Islamic banking is still in its infancy.

Vast potential

Data published by the Islamic Financial Services Board (IFSB) show that, as at 30 June 2013, the global Islamic banking sector held assets of just under $1.3 trillion, out of total assets of just over $1.6 trillion. Of these, the Middle East and North Africa, excluding the GCC, held the largest share, with just over 40 per cent, while the GCC was next largest, with 38 per cent, followed by Asia, with 15 per cent. Islamic banking assets comprised just under four-fifths of total global Islamic financial assets, underlining the sector's importance for the future.

A customer uses a National Bank of Abu Dhabi ATM machine. The market for Islamic banking is growing fast

Kuwait Finance House (KFH) research published in June put total Islamic banking assets slightly higher, at $1,427 billion at the end of 2013, and these grew at a compound annual growth rate of 17.4 per cent in the period 2008-13. On a year-on-year basis, the figure grew by 18.6 per cent, it says. The investment bank says the largest Islamic banking markets were the Gulf Cooperation Council (GCC), the Middle East and North Africa (MENA) region, and Asia.

The *World Islamic Banking Competitiveness Report 2013-14*, produced by professional services firm EY, says that with growth comes added complexity for Islamic banking. Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey (QISMUT) are standout rapid growth markets in the world economy.

"Islamic banks [serve] around 38 million customers globally, two-thirds of them residing in QISMUT. Several leading Islamic banks are doubling in size every four years, and are currently facing capability constraints. The shareholder returns are lower by 19 per cent when compared to conventional banks, for the top 20 Islamic banks," the report says, adding that growth was to remain moderate going into 2014, as several leading Islamic banks pause for large-scale operational transformation. Customers and technology are among the top transformation themes, EY says.

Regional performances

By volume, Iran's banks are consistently the most profitable of late, with Bank Pasargad, Bank Mellat and Parsian Bank the top performers in 2012. Notable players in the GCC include Saudi Arabia's Al Rajhi Bank, Bahrain's Gulf International Bank, Kuwait Finance House and Qatar Islamic Bank, and the UAE's Dubai Islamic Bank and Emirates NBD, whose Islamic banking window is able to leverage off a sizeable branch network in the emirate of Dubai.

According to a recent report by Oxford Business Group, which quotes Abdul Aziz Al Ghurair, Chairman of the UAE Banking Federation and CEO of Dubai-based Mashreq Bank, during the first half of 2013, the UAE's banking sector saw net profits increase by an average of 20 per cent to Dh13.6 billion ($3.7 billion), compared with 15 per cent annual growth the year before. "Total assets of UAE banks grew eight per cent to $517 billion, also in the first half of 2013. After two years of stagnant loan growth, in the first half of 2013 bank lending totalled $13.14 billion, the highest volume of new loans since June 2011," says the report.

"Though ratings agencies and the IMF continue to warn that some Dubai-based banks have yet to fully resolve issues related to their high concentration of loans to government-related enterprises, since Dubai won its bid in November 2013 to host World Expo 2020, the emirate's most pressing priority appears to have shifted from how it will repay the estimated $103 billion in debts it accumulated before the economic downturn, to financing the projected $43 billion in infrastructure spending needed to host the world fair."

Several leading Islamic banks are doubling in size every four years, and are currently facing capability constraints

In Oman, the Islamic banking sector is off to a slow, but positive start. The *Times of Oman* says that profits in the first half of 2014 grew 147 per cent on the same period in 2013, while deposits grew 133 per cent to $932 million. However, taking the Omani banking sector as a whole, Islamic banking, which only took off around two years ago, today accounts for less than two per cent of total deposits, the rest of which

Tackling key challenges

Fadi Yazbeck, Product Manager for Islamic Banking at Temenos, believes he has identified some key problems for which medium-term solutions are definitely in hand.

Speaking earlier this year at the Dubai Islamic Economic Roundtable Series 2014, he was quoted by *Albawaba Business News* as saying that existing management of liquidity was limiting the growth of the global Islamic banking market, and set out ideas through which standardisation and innovation could offer solutions to this. Indeed, Bahrain's important Liquidity Management Centre ceased to function in 2007. A lack of standardisation in terms of Sharia compliance meant that banks with excess liquidity faced problems in investing in other banks with different standards. This also led to problems with higher operational costs, reducing profitability and leading to an absence of economies of scale.

"Although sukuk are the most common liquidity market instruments, they aren't universally defined, and sometimes either the structure or the contract is not acceptable by the investor bank," he told the Roundtable.

Underdeveloped secondary markets meant that several sukuk were held to maturity, he said, and what secondary market did exist was not through a trading platform operating on an overnight basis.

Low risk ratings due to small size also meant that Islamic banks were obligated to pay higher rates to attract investment, or in some cases, were unable to attract investment at all. High domestic demand for these products also meant that there was little cross-border activity. Yazbeck said that Islamic products had traditionally been designed

Breakdown of Islamic financial assets by region (USD billion, first half of 2013)

Assets by region	Banking	Share	Sukuk	Funds	Takaful	Total	%
Asia	192.3	15.0%	166.0	24.2	3.5	386.0	23.9
GCC	490.3	38.2%	74.9	30.6	7.6	603.4	37.3
MENA (excluding GCC)	518.3	40.4%	1.2	0.4	7.1	527.0	32.6
Sub-Saharan Africa	20.6	1.6%	2.2	1.6	0.2	24.6	1.5
Others	62.2	4.8%	1.0	12.1	0.0	75.3	4.7
Total	1,283.7	100.0%	245.3	68.9	18.3	1,616.3	100.0
% of total	79.4%	-	15.2%	4.3%	1.1%	100.0%	

Errors due to rounding
Banking = banking assets; share = % share global banking assets;
sukuk = sukuk outstanding; funds = Islamic funds assets; takaful = takaful contributions

Sources: IFSB *Islamic Financial Services Industry Stability Report 2014*; regulatory authorities, Bloomberg, Zawya, central banks, individual institutions, corporate communications, IFIS, The Banker and KFHR

are held with five conventional banks. Outside the Persian Gulf, Malaysia's Bank Rakyat, Hong Leong Islamic Bank Berhad and Indonesia's PT Bank Permata, have all enjoyed strong results of late.

Potential of African markets

Africa is a growth market for Islamic products. The Malaysia International Islamic Financial Centre said in a report published in May that the recent wave of interest in Islamic finance among a number of African jurisdictions, including Nigeria, Kenya, Tunisia, Mauritius, and South Africa, among others, make Islamic financing a viable option to support Africa's emergence as a key economic region in global markets. Indeed, May marked the first time that the IFSB Summit had been held on the continent.

Reuters said in July that Kenya's KCB Bank is to offer Islamic products through windows up and down its branch network. Kenya's Capital Market Authority has proposed a separate regulatory framework for Islamic finance to boost Kenya's capital markets. KCB has received approvals to launch Islamic banking across its 182 branches, Chief Executive Joshua Oigara says. "In the long term, the product will... promote development in the marginalised areas of our country," he explains.

Law firm K&L Gates says the Islamic Development Bank was assisting private-sector growth in Africa. Ethiopia, with its own domestic banks opening Islamic windows, is making progress in Islamic banking, and in Libya: "The new government is encouraging the development of Islamic banking, which provides opportunities for banks in this sector," says KPMG.

KFH says the total value of global Islamic finance assets in 2014 was expected to surpass $2 trillion by the third quarter of this year, given a good start to the year and a range of initiatives planned by public and corporate stakeholders. "The industry's future advancement is expected to be reinforced by growing economic prominence of traditional Muslim jurisdictions, increasing international stakeholder awareness of Islamic finance value propositions, as well as facilitative regulatory initiatives in aid of Sharia-compliant financial structures in various parts of the world."

by financiers with conventional backgrounds, leading to unnecessary complication.

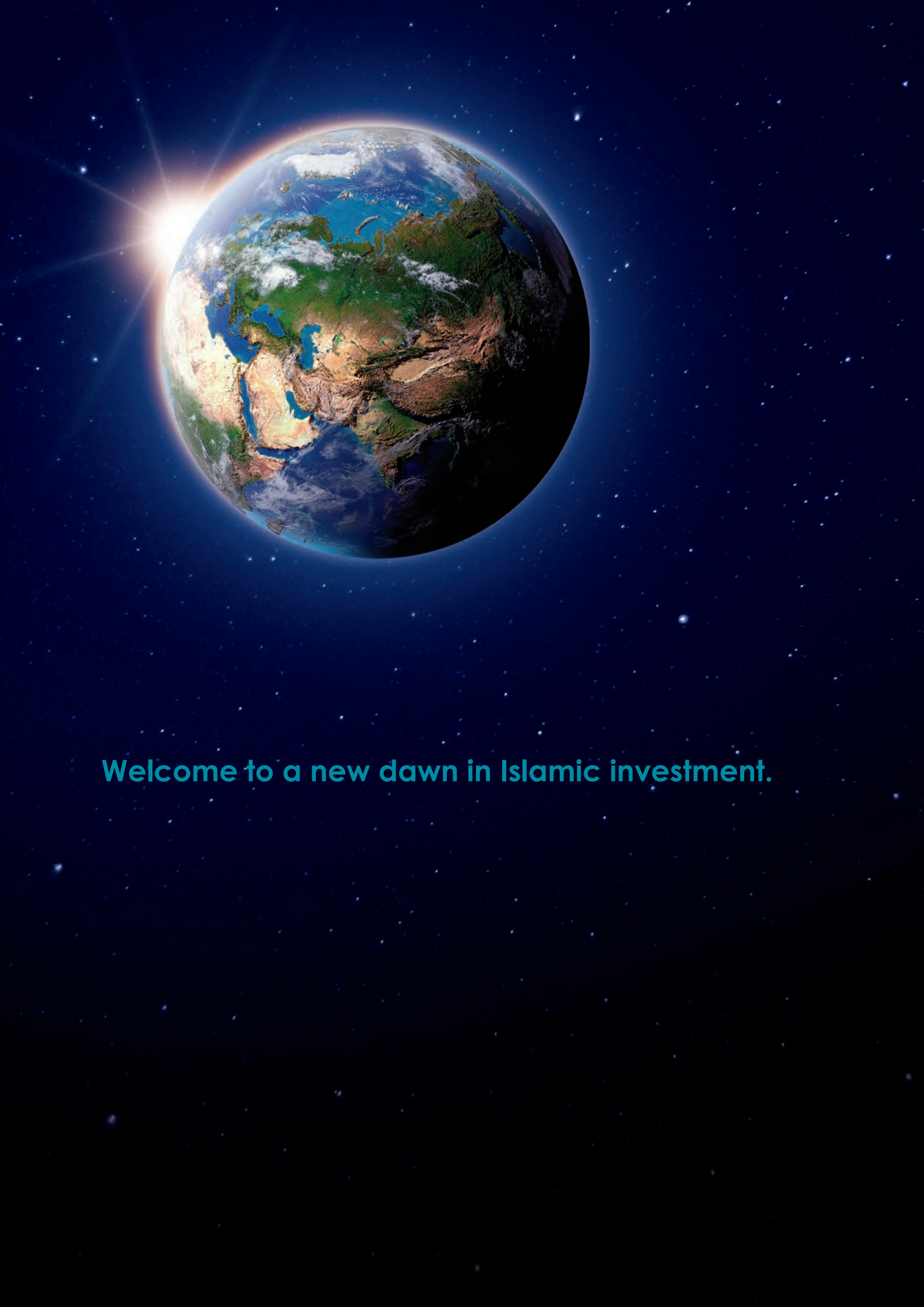
"This lack of innovation in mimicking conventional products is paradoxically making Islamic liquidity products less appealing to non-Islamic investors," he said.

He called on the OIC or other Islamic supranational organisations to bolster standardisation, to help raise the ratings of Islamic instruments, thereby making them more attractive to conventional banks.

"For this secondary market to develop, there also needs to be proper, standardised mark-to-market valuation and pricing for sukuk and other Islamic banking instruments. This is very important as, without effective valuation, traders are unable to establish clear profit-making opportunities," Yazbeck explained.

He added: "The key to the long-term success of the sector is to create new, risk-free products. Short-term issuance programmes could also be implemented more widely to support banks' liquidity requirements and contribute to secondary market activity. In addition, with the vast majority of Islamic banks currently issuing in local currencies and only a few offering Eurodollar products, there should be more Islamic products issued in foreign currencies to build their cross-border appeal.

"As the Islamic finance industry moves on from the contagion effect of the financial crisis, its challenge will be to create both unique products and a market to exploit its liquidity. And, while the responsibility for standardisation lies with international boards, when it comes to innovation, it's in the hands of the banks to act," said Yazbeck.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Setting the bar high: good regulation sees commodity markets expand

Sharia-compliant commodity markets and trading platforms have developed across the Muslim world to meet growing demand, writes **Darren Stubing**

Global commodity markets continue to grow in terms of trading volumes, despite volatility in prices over the past few years. Weaker emerging market growth in 2012-13 saw lower commodity prices, particularly in metals, in part due to a slowdown in the Chinese real estate market. However, lower metal prices were offset by gains in energy and food prices. Geopolitical concerns in the Middle East and North Africa have also created volatility in commodity prices and trading.

However, in tandem with their traditional counterparts, Sharia-compliant commodity markets have experienced considerable growth in trading volumes and activities over recent years, and the outlook remains promising.

Bursa Suq Al-Sila'

The first Sharia-compliant commodity trading platform specifically designed to facilitate Islamic finance was Malaysia's Bursa Suq Al-Sila', which began trading in 2009. Since then, it has grown by around 200 per cent in terms of capitalisation.

The platform facilitates commodity-based Islamic financing and investment transactions under the Sharia principles of murabaha, tawarruq and musawamah. The murabaha concept involves one party buying a commodity at a certain cost and selling it to a customer on a cost-plus-profit basis. The customer then pays the amount and the profit to the party on a deferred payment basis. The customer sells back the commodity to the market on spot for cash.

Malaysia has often been at the forefront of Islamic financing and development, growing Islamic financing and liquidity markets. The activities of Bursa Suq Al-Sila' are managed by Bursa Malaysia Islamic Services, a wholly owned subsidiary of Bursa Malaysia, which is regulated, transparent and fully Sharia-compliant. Commodities traded include crude palm oil, hard and softwood timber, and plastic resin.

Bursa Suq Al-Sila' is a commodity trading platform specifically dedicated to facilitating Islamic liquidity management and financing by Islamic banks. Initiated as a national project, Bursa Suq Al-Sila' represents a collaboration between Bank Negara Malaysia, the Securities Commission Malaysia, Bursa Malaysia and the industry players in support of the Malaysia International Islamic Financial Centre initiative. The

BENJAMIN WIESSE/CORBIS

fully electronic web-based platform provides industry players with an avenue to undertake multi-commodity and multi-currency trades from all around the world.

The success of the Malaysian Sharia-compliant commodity trading platform has partly been due to a good regulatory framework. It has clear and comprehensive rules that govern the listing of issuers and products on the market, and the obligations of the issuers post-listing, the trading, clearing and settlement of commodity products, in addition to the admission and post-admission obligations of the commodity market's participants.

The platform and exchange has a Sharia advisory council and Sharia committees that approve commodities to be transacted, as well as the various activities that participants engage in, including processes, on the platform. The Bursa may also conduct a Sharia audit on transactions to ascertain if the commodity is a Sharia-compliant asset, is unencumbered, and to make sure that the commodity is deliverable at all times during the validity period.

An increasing number of international investors are participating on the Malaysian Sharia commodity trading platform, particularly those wanting access to Asia's growth opportunities. The platform is also aiming to expand its retail segment in order to ensure a globally competitive market.

Sharia-compliant trading platforms for commodities are important, as they provide the avenue and framework through which banks and fund managers can launch and manage Sharia commodity funds. In countries such as Saudi Arabia, many banks and fund managers have launched Sharia-compliant commodity funds, and, as such, assets under management continue to grow as investors seek to diversify their assets.

Commodity funds

Commodity funds generate profits by buying and reselling halal commodities. Because of the restrictions on the use of derivatives, commodity funds make use of two types of Sharia-approved contracts: Istina'a – a contract through which the buyer of an item upfront funds the production of the item (a detailed specification of the item has to be agreed before production starts and the cost of production can be paid partially according to manufacturing stages); and Bay al-salam, which is similar to a forward contract in which the buyer pays in advance for the delivery of raw materials or fungible goods at a given date. The spot price of the item includes the profit of the person who has taken the task of purchasing and, of course, the cost of the product.

Recently, there have been developments in Sharia-compliant commodity trading solutions in

Dubai-based brokerage I-Deal has launched the region's first Sharia-compliant managed commodity account, 'Mawthooq', offering investments in precious metals, including gold

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Bursa Malaysia is the parent company of Bursa Malaysia Islamic Services, which manages the activities of Bursa Suq Al-Sila', a pioneer in Islamic commodity trading

Dubai. The Dubai Multi Commodity Centre (DMCC) and BGC, a global brokerage company servicing the wholesale financial and real estate markets, have entered into a partnership to promote a Sharia-compliant commodity murabaha mechanism. This marks the first agreement between DMCC and an interdealer broker to jointly market commodity murabaha on the DMCC Tradeflow Platform. Trading of this product has been in existence for some time, but this new offering brings a modernisation to the process, offering speed, convenience and innovation.

Commodity murabaha

Dubai's government-owned commodities centre is also launching a Sharia-compliant commodity-trading platform, which Islamic banks in the Gulf could use to manage their short-term fund flows. The Tradeflow platform developed by the DMCC allows trading of warehouse receipts, which represents ownership of commodities stored at warehouses. Islamic banks cannot use conventional interbank money markets because Islam prohibits interest, consequently, they have struggled with a shortage of instruments to manage liquidity. The DMCC hopes its platform can be part of the solution to this problem, since warehouse receipts are based on actual trading of physical assets, an important principle in Islamic finance.

The DMCC has operated a conventional trading platform for commodity receipts for years; the Islamic version now being launched tracks the ownership of commodities in a way that gives assurance that a 'true sale' of commodities is occurring. That assurance is necessary for Islamic banks to enter into murabaha contracts with each other to place their surplus funds. The Islamic trading platform, developed with Sharia advisory firm Dar Al Sharia, also involves the DMCC certifying that storage facilities for the commodities meet Islamic principles. Unannounced site visits are also made every six months.

Commodity murabaha is one of the most common financing structures in Islamic banking. An institution agrees to purchase merchandise from a counterparty that promises to buy it back with an agreed mark-up at a later date. The United Arab Emirates central bank issues murabaha-based certificates of deposit, and it began offering a funding facility to banks based on murabaha in 2011. Banks are reluctant to switch away from this widely used instrument, but an asset-backed instrument, such as the DMCC receipts, is likely to find appeal in the industry.

Other investment platforms

In another first for the Gulf region, Dubai-based brokerage I-Deal recently launched the area's first Sharia-compliant managed commodity account, called 'Mawthooq'. This new offering is a professionally managed investment account that provides Sharia-compliant opportunities to invest in precious metals using the gold and silver markets of the Dubai Gold & Commodities Exchange. The product makes investments in the precious metals market simple, easy and cost-effective for Sharia-compliant investors, while also offering an efficient means of diversifying Islamic investment portfolios.

In India, investors on the National Spot Exchange (NSEL) are now able to actively buy and sell precious commodities, such as gold and silver, in the spot market at real-time prices in accordance with Sharia standards. This spot market is attractive to Muslim investors because transactions are delivery-based, do not involve speculation, and unlike gold exchanged traded funds (ETFs), money is not placed in debt instruments. There are many people who want to invest in gold and silver, but choose to stay away from the speculative futures market.

Sharia-compliant commodity markets and platforms are expanding in both volume and the types of products offered. Good regulation and increased transparency in trading and commodities have been an important factor in their growth, and Sharia investors will continue to demand this. ◉

> **Dubai's government-owned commodities centre is launching a Sharia-compliant commodity-trading platform**

MD. NURUL ISLAM
Managing Director

Jaiz Bank PLC was created out of the ashes of the former Jaiz International Plc, which was set up in 2003/2004 as a special purpose vehicle (SPV) to establish Nigeria's first fully pledged Non-Interest Bank.

It is an unquoted public company owned by over 3000 shareholders spread over the six geographical zones of Nigeria.

Jaiz Bank Plc. obtained a regional operating license to operate as a Non-Interest Bank from the Central Bank of Nigeria on the 11th of November 2011, and began full operations as the first Non-Interest Bank in Nigeria on the 6th of January 2012, with 3 branches located in Abuja FCT, Kaduna and Kano. The Regional license allows the Bank to operate geographically in a third of the country. Also, based on recommendations from the Islamic Development Bank (IDB), who is also a shareholder of the bank, Jaiz Bank PLC has partnered with Islamic Bank Bangladesh (IBBL) for Technical and Management Assistance.

Currently, Jaiz Bank is the only fully fledged Non-Interest (Islamic) Bank in Nigeria. It started with only three branches in 2012 and has since expanded its branch network to 14, with an additional 6 scheduled for opening before the end of 2015. It has also applied to the regulatory body for its national operating license, which will enable it to operate in all parts of the Federation, the ultimate objective being to expand beyond the shores of Nigeria.

About Islamic Banking

Non-Interest Banking is a profit growing global phenomenon practiced in nearly 70 countries all over the world including the United Kingdom, Canada, the United States of America, the United Arab Emirates, Malaysia, China, Singapore, South Africa, Kenya etc. Global Banks such as HSBC, Citibank, Barclays Bank are also offering it. It is an alternative financial service offering that is open to all, irrespective of race or religion.

It is based on the ethical principles of fairness, transparency and objectivity. Non-Interest Banking offers almost all the services offered by conventional banks, except that they do not give or receive interest, nor finance anything that is harmful to society, such as alcohol, tobacco, gambling etc. It also seeks to avoid gharar, speculation, uncertainty, deception and more.

Currently, about 50% of Nigeria's total population of 168 million is craving such Non-Interest banking services. These people are desirous of ethical banking services, which provide for socially responsible investment outlets. **In a nutshell, Non-Interest is a profit and loss-sharing arrangement, where the mode of financing is mostly on mark-up, leasing and partnership basis.**

Jaiz Bank
RC 476637

The Investment Opportunity

Jaiz Bank Plc plans to upgrade to a National operating license by 2015. Consequently, it is increasing its current Share Capital Base from N11.7 billion (USD$75 million) to N15 billion (USD$78 million). This upgrade will enable the Bank to operate in all 36 states of the Federation, including the Federal Capital Territory, thus positioning it to compete effectively in one of the most thriving sectors of the Nigerian economy. The Bank plans to establish 16 branches in 2015, and 100 by 2017. In this regard, the IDB membership of the board is expected to provide a lot of technical assistance.

The Potential for Non-Interest Bank in Nigeria

The business potential for a Non-Interest Bank in Nigeria is enormous; such an institution has been long awaited by a population of over 78 million Nigerians, representing almost 50% of the country's population of 168 million. Jaiz Bank is focusing mainly on retail banking, but will also offer corporate and commercial banking services.

This focus will make it easy to service the majority of Nigerians who want to avoid Riba (Usury) in their daily activities. The market for retail banking in Nigeria is estimated by KPMG to total US$30 billion (2006). **The Bank is being positioned to be a national bank offering its services to all, regardless of religious beliefs.**

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To be the dominant non-interest financial services provider in sub-Saharan Africa

Mission Statement

To provide innovative, value-added, non-interest financial services to our clientele, employing the best people who have the support of technology

Core Values

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- Team Spirit
- Respect for the Individual
- Ethics
- Trust
- Partnership
- Entrepreneurship

Business Philosophy:

Our philosophy is to deliver world-class sharia-compliant financial services to our clientele, irrespective of class, creed, race or religious belief and to contribute to the socio-economic uplift of humanity.

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Developing best practices for Sharia fund management

ISTOCK

The outlook for Sharia fund management vehicles such as waqf, pension funds and unit trusts is promising, but best practices are vital if their full potential is to be unleashed, writes **Darren Stubing**

Elderly residents of Sanliurfa, Turkey gather at a tea house. Pension funds in the Islamic world have the potential to deepen financial markets

Global Islamic banking assets with commercial entities are now estimated to have exceeded $1.7 trillion in value, according to a report from professional services firm EY. The waqf (religious endowments) industry alone is considered to be worth up to $900 billion, and continues to grow. Furthermore, it is estimated that philanthropic giving in Muslim communities worldwide is somewhere between $250 billion and $1 trillion a year.

Countries with sizeable waqf assets include Malaysia, Saudi Arabia, Indonesia, Turkey and India. Sharia-compliant mutual funds are currently worth around $100 billion, while specific Sharia pension funds are registering high rates of growth as both countries and companies launch new employee pension funds.

The financial system has long subsisted on the process of diverting excess funds from savers and investors to other parts of the system that have a requirement for funding and investment. Pension funds are critical players in the modern financial system and help to stabilise communities through long-term savings. Pension funds also support the development of company investment and help to finance new and growing firms. All in all, pensions are highly welcome financial vehicles because of their beneficial impact on national economic growth and development.

Successful fund management practices, such as waqf, pension funds and unit trusts across the globe have been pivotal in eradicating poverty and improving the wellbeing of the population. Waqf has historically been an important instrument for national development in Muslim societies and today there is renewed interest in reviving waqf institutions and in unleashing the potential value of Islamic social assets.

Waqf institutions raise finance in terms of cash waqf or other proceeds to develop waqf assets. The financing may come from the waqf institution's own resources or those of other organisations operating

STEPHEN BARNES/FINANCE/ALAMY

The Qatar-owned Islamic Bank of Britain has launched an Islamic pension scheme, the first of its kind in the UK

within the structure. Real estate is the principal waqf. Cash waqf are increasingly popular and can be accumulated in the same manner; however, they are not project based. The accumulated funds will remain as principal capital, and as a liquid waqf.

The need for good governance

Historically, waqf during the Ottoman Empire was extremely popular and contributed towards the reduction of government expenditures – eventually, all essential public services were made available through public donations. In Ottoman times, they recorded the names of waqf and the purposes for which they were established; the names of the district in which the endowment was registered; the name of the trustee; and the original capital of the waqf. Cash waqf institutions were also subjected to audits by the authorities. Thus, there existed elements of good governance in the Ottoman cash waqf institutions.

The authorities were also responsible for the introduction of the standard register, whereby all cash waqf institutions adopted the same format of reporting so as to ease their burden. The Ottomans had understood the need for standard reporting practices in cash waqf institutions across the empire. Due to its relative ease and simplicity, the Ottomans employed a standard accounting method for centuries.

In modern times, there remains an absence of such a standard for waqf; and this can elicit reservations among waqf stakeholders. Failure to implement these practices will limit the accountability of the waqf institutions to donors, beneficiaries and other stakeholders, while unregulated reporting leads to problems of comparability and reliability. Applying standard Islamic accounting will avoid any possible attempts to manipulate accounting figures to cover up financial issues, creating greater transparency.

Governments, too, are key to the success of the cash waqf operation, through their direct intervention in facilitating legal frameworks and regulating the cash waqf by implementing Sharia standards, financial supervision and accounting standards.

The framework of the cash waqf should be based on the trustee concept, and the fund must be managed according to the model of financial institution, takaful operation or fund management. This concept will help safeguard the fund from parties involved.

> **Waqf, pension funds and unit trusts are all-powerful tools for fund mobilisation, economic development and investment**

Trustees should draft guidelines and principles for the participant. These guidelines are in the form of a policy that governs the relationship between the parties involved in the cash waqf. The investment must be in halal. The trustee should create a reserve from the profit for the safety of the capital in case of loss in the investment and business operation.

Once the reserve is created, the trustee may be directed to invest in certain segments, such as micro-credit and partnership financing (for example mudarabah and musharakah), in order to support the

ISTOCK

The Islamic Development Bank has provided funding through a waqf for upgrades to Morocco's power infrastructure

entrepreneurship of medium-sized enterprises. The trustee should create a fund to support the voluntary sector and demonstrate the social responsibility of the waqf; therefore, the cash waqf should be able to provide qard hasan (a 'benevolent loan') to assist the industry members who are facing financial difficulty. Any surplus of the cash waqf can be invested in high-risk investments for the benefit of the Muslim entrepreneurs and enterprises.

One of the major proponents of waqf funds is the Saudi-based Islamic Development Bank (IDB), which continues to launch new waqf projects. A recent $515 million waqf fund has been established to support various socio-economic development projects in member countries, as well as Muslim communities in non-member countries. The approvals are mainly in the energy sector, with a total of $490 million broken down for various power plants and projects in Pakistan, Morocco, Senegal, Mauritania and Cameroon. In all of these countries, energy shortage is a constraint for economic and social development.

Islamic pension funds

The Islamic pension industry continues to expand. Most pension plans around the world are state-funded, but many countries are trying to develop private pension sectors as a means of deepening their financial markets. The experience of Pakistan, Turkey and Malaysia suggests Islamic finance can become a significant part of this effort. John Blank, Chief Equity Strategist at Zacks Investment Research says a move towards private pensions would be good for many developing countries. "[It's] a way to drive the growth rate up," he says.

If state-owned pensions in major Islamic markets shifted a portion of their money into Sharia-compliant schemes, that could add between $160 billion and $190 billion to the sector. The key for expansion could be creating more Sharia-compliant products and services in order to take advantage of a growing hunger in the sector, according to EY.

Ashar Nazim, Islamic financial services leader at EY, says the industry is faced with "pent-up demand" and needs to consider "how to create a supply-side mechanism to cater to that latent demand".

Pakistan created a voluntary pension system in 2005, while Turkey's efforts have included working to design regulations that will recognise Sharia compliance in a variety of structures; this will make it far easier for the country to offer cross-border sukuk and attract outside investments.

Islamic pension schemes have also appeared in Australia and the UK. In the UK, Islamic Bank of Britain (IBB), owned by Qatar's Masraf Al Rayan, has launched an Islamic pension scheme. Sultan Choudhury, CEO and Director of IBB, says: "This is a scheme tailored to the specific requirements of Muslim employees. Until now, it has not been possible for employers in the UK to enrol their Muslim employees into a workplace pension scheme without compromising their beliefs. The launch of the Islamic Pension Trust has changed that, as it enables British Muslim employers and charities to provide a fully Sharia-compliant workplace pension that meets all of the government's criteria for an auto-enrolment scheme."

Waqf, pension funds and unit trusts are all-powerful tools for fund mobilisation, economic development and investment. In particular, cash waqf can play a crucial role in the improvement of industry, financial systems and economic growth, particularly in emerging markets. ◉

Islamic finance eyes the conventional market

Following two decades of rapid expansion, growth in the Islamic finance sector is showing signs of slowing. Cooperation with conventional finance may open the door to new markets, writes **John Foster**

Estimates for the total value of global Islamic finance assets vary between $1.5 trillion and $2 trillion, which for a reasonably young industry equates to a lot of zeroes. With numbers like that it is hard to still argue the case that Islamic finance remains a nascent or fringe sector of the financial services industry – as of today, it is truly a material part of the global financial system. The main bulk of the global assets are in the Islamic banks, with outstanding sukuk, takaful and investment funds making up about 10 to 20 per cent of the total. The industry has enjoyed double-digit growth rates for almost two decades.

Recent research by investment bank Kuwait Finance House (KFH) claims new issuances in the global primary sukuk market continued to show strong growth during the first half of this year, expanding by 8.2 per cent to reach $66.2 billion.

Yet, despite these powerful headline figures, it is clear that the stellar growth the industry has enjoyed over the past two decades has started to slow somewhat, and is now coming on par with growth rates in the conventional capital markets.

In an attempt to widen its appeal, Abu Dhabi Islamic Bank plans to call itself Abu Dhabi International Bank when operating abroad

This could mean two possible things. First, that the Islamic finance industry has saturated its traditional heartlands and potential customer base, and it has now started to mimic the growth rates of conventional finance in its own traditional territories of the Middle East and Malaysia. To date, the growth that the industry has had, and in all probability will have – unless it changes perspective – has been a model of classically rapid initial growth, which is now tapering off into a shallow inverted growth curve.

If the Islamic finance sector hopes to maintain the momentum of its earlier expansion, the Islamic banks must look at opening up new markets – whether that be on the product side, for example in private banking, investment banking, trade finance, insurance or wealth management, or new geographical markets, such as Russia and the CIS, Africa, China and western Europe. However, this will take something of a sea change in the top-down model on which traditional Islamic banks have prospered to date.

Going mainstream

Second, the slowdown might indicate that the industry is not efficiently leveraging on its potential and needs to revisit its strategic position in the global financial system if it wants to maintain, or even to accelerate, its pace of development.

That is to say, the Islamic finance system must start to scrutinise the wider market, and begin to position itself as a solution provider to customers that

BERNHARD KRISTINN PHOTOGRAPHY

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Aligned to the futuristic vision of Dubai's leadership, Dubai Islamic Bank is proud to play a pioneering role in supporting the plans of making Dubai a Smart City.

DIB **'Smart Bank'** is a revolutionary concept that promises customers a never-before banking experience by making banking quick, seamless and satisfying.

To achieve this, Dubai Islamic Bank has invested in extensive and innovative use of technology leading to a completely new and refreshing experience across all aspects of banking – from paperless branches, to faster turnaround times and instant online services.

Fully aligned to the vision of Smart Dubai, DIB **'Smart Bank'** is the result of a commitment to redefine banking through unsurpassed customer service.

And the passion to continue to lead the way as the better way to bank.

Paperless Branches

Customer transactions are completed without filling forms by using handheld electronic devices. Digital signatures are taken for secure and efficient processing. Account opening formalities are completed and ATM cards and cheque books issued within 15-20 minutes. The paperless DIB **'Smart Bank'** experience is now available at over sixty branches in the UAE.

State-of-the-art Online & Mobile Banking

DIB **'Smart Bank'** takes Dubai Islamic Bank's leadership in online banking to the next generation. With cutting-edge innovation and extensive state-of-the-art technology, DIB **'Smart Bank'** Online & Mobile Banking brings customers a banking experience that's instant, secure and convenient.

Cutting-edge Technology Platforms

What makes DIB **'Smart Bank'** the next generation in banking is Dubai Islamic Bank's solid investment and hands-on experience in cutting-edge information and banking technology. This extensive use of technology to create a completely new and refreshing experience across all aspects of banking is fully aligned to the vision of a Smart Dubai.

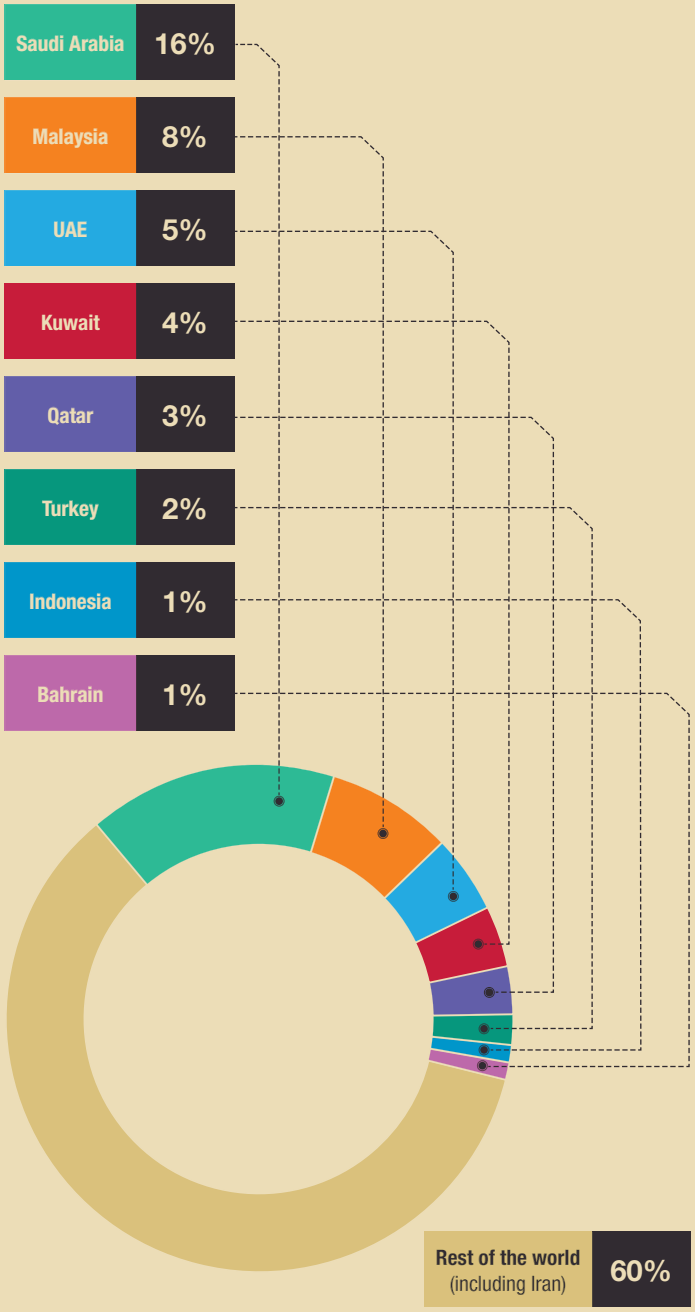
Tie-up with Dubai Smart Government for Online Payments

A first of of its kind in the banking industry, with this tie-up, Dubai Smart Government (DSG) will electronically link the Government's Resources Planning (GRP) Systems and Dubai Islamic Bank, through an automated and fully integrated platform provided by and in line with the DIB **'Smart Bank'** mission.

بنك دبي الإسلامي
Dubai Islamic Bank
The better way to bank

www.dib.ae

Global distribution of Islamic banking assets



Sources: *EY World Islamic Banking Competitiveness Report 2013-14* – Central Banks of respective countries, BMI, EY analysis

Islamic banking: growth projections, 2013-18

	2013	2018
Profits	1.6%	1.9%
Asset growth	16.9%	21%
Customers	38 million	70 million+

Sources: EY, Central Banks, BMI, company financial report

MARK LENNIHAN/AP/PRESS ASSOCIATION IMAGES

Citigroup was one of the arrangers behind the $208 million sovereign sukuk issued by the government of Senegal in July

have hitherto been exposed only to the conventional finance industry. Across the multitude of disciplines within Islamic finance, there are numerous products that have crossover potential for the mainstream.

According to Humphrey Percy, CEO of the Sharia-compliant Bank of London and The Middle East, Islamic finance has significant potential and competitive advantage: "There are a large number of Sharia-compliant funds that are performing well and compete with their conventional peers. However, the Islamic asset management industry has not yet reached a critical mass, and this won't happen until the takaful and Islamic pension markets mature. These markets will provide a much-needed flow of investment into the Islamic asset management industry, most importantly increasing the assets under management."

The industry is already starting to originate new business outside its traditional geographical remit and product base, and, increasingly, Islamic banks are appearing as bilateral lenders, or as part of syndicates in hitherto untapped markets.

One way in which some players in the industry are seeking to accelerate this process is through forging new strategic partnerships with conventional financial institutions. Others are retooling themselves to focus on a broader, conventional market, and this is being reflected in these firms' marketing efforts and strategic repositioning.

However, Percy argues: "We expect growth in the industry to focus around the GCC, with more banks in the region, such as Commercial Bank of Kuwait, becoming Sharia-compliant, and with Dubai having positioned itself as an economic capital for Islamic finance acting as a centre for that growth."

"That said," he adds, "some Islamic banks are now positioning themselves as a competitor and viable alternative to conventional banks. It is perhaps more

THE ISLAMIC DEVELOPMENT BANK

ESTABLISHMENT

The Islamic Development Bank (IDB) is an International Development Institution established in December 1973. It started its operations in October 1975.

VISION AND MISSION

IDB's vision is that, by the year 2020, it shall have become a world-class development bank, inspired by Islamic principles, that has helped to significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity. Its mission is to promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and ensuring that the people prosper.

MEMBERSHIP AND CAPITAL

IDB's membership has risen from 22 countries at inception to 56 countries currently. Its authorised capital is ID100 billion* (US$150 billion). The main shareholders are Saudi Arabia, Libya, Iran, Nigeria, Qatar, Turkey, Kuwait, Egypt and the UAE.

IDB GROUP

IDB Group comprises five entities: Islamic Development Bank (IDB); Islamic Research and Training Institute (IRTI); Islamic Corporation for the Development of the Private Sector (ICD); Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC); and International Islamic Trade Finance Corporation (ITFC). In addition, the IDB has various specialised funds and programmes: Islamic Solidarity Fund for Development, Waqf Fund, Awqaf Properties Investment Fund, World Waqf Foundation, IDB Infrastructure Fund, Special Assistance Programme and Scholarship Programme. It manages the Saudi Arabian Project for the utilisation of Hajj Sacrificial Meat.

OFFICES

IDB is headquartered in Jeddah in the Kingdom of Saudi Arabia and has four Regional Offices in Rabat (Morocco), Kuala Lumpur (Malaysia), Almaty (Kazakhstan) and Dakar (Senegal). A country office was opened in Ankara (Turkey) last year and four other such offices will soon be opened in Bangladesh, Egypt, Indonesia and Nigeria.

ACTIVITIES OF THE IDB GROUP

IDB Group is engaged in a wide range of activities including: project financing in public and private sectors (using various modes such as loan, leasing, istisna'a, instalment sale, equity participation, lines of financing); technical assistance (such as capacity building and project preparation); economic cooperation among member countries; trade financing; insurance and reinsurance coverage for investment and export credit; research and training programmes in Islamic economics and banking; Awqaf investment and financing; special assistance (health and education) for Muslim communities in non-member countries; scholarships; emergency relief; and advisory services for public and private entities.

In 1434H (November 2012-November 2013), the IDB Group total financing amounted to ID6.9 billion ($10.6 billion), in addition to $2.3 billion insurance commitments/$3.4 billion business insured.

FINANCIAL POSITION

At the end of 1434H (2013), IDB had assets of ID13.4 billion ($20.5 billion) and its net income for that year was ID179.4 million ($274.7 million). IDB continues to maintain the highest credit ratings (AAA) for the 12th consecutive year from the three major rating agencies.

PARTNERSHIP AND COOPERATION

IDB cooperates with international and regional organisations and institutions, including IBRD, IFC, IMF, AsDB, AfDB, EIB, EBRD, the Arab Coordination Group, DFID and the French Development Agency. It has also established cooperation with private-sector institutions, NGOs, philanthropists and so on.

**The accounting unit of the Bank is ID (Islamic Dinar) which is equal to 1 SDR (Special Drawing Right).*

KEVPIX / ALAMY

Even in Kuwait, where the penetration of Islamic finance is highest in the GCC, the sector only accounts for 42 per cent of total assets

accurate to view this as a repositioning rather than a retooling, as there is no reason why conventional clients would not access finance or investments from an Islamic bank as long as they are competitive and comply with local regulations."

The big boon that Islamic banks bring to the conventional marketplace is their deep and stable liquidity – something that the conventional sector and commerce as a whole is in need of desperately, even six years after the start of the credit crunch. The Islamic banks can now compete with the big players and deploy vast pools of liquidity. And it is this catalyst that is driving Islamic banks into the conventional space.

Increasing market share

Currently, the core of the Islamic finance industry's assets are locked up in Muslim-majority countries such as Iran, Saudi Arabia, the United Arab Emirates, Malaysia, Kuwait, Qatar and Turkey, according to a 2012 survey by management consultancy AT Kearney. Another recent report by KFH said that, last year, the total assets of Islamic banking in the GCC region alone accounted for 34 per cent of Islamic bank assets globally.

However, even in its core markets, Islamic finance is still the junior player compared with conventional finance. In the same KFH report, the bank claimed that in Kuwait, where the penetration of Islamic finance is the highest in the GCC, the Islamic finance sector still only accounted for 42 per cent of total assets.

This leaves a lot of headroom in the industry's core markets, but it would be difficult – without significant government and regulatory interference – for Islamic banks even in the GCC to capture the whole market.

Part of this is due to the fact that current Sharia contracts do not support the full gamut of financial products offered by the conventional finance sector, despite the best efforts of product structures embedded in the banks.

Mohammad Omar Azami, Managing Partner of MOA Capital Investments, an Islamic finance advisory boutique, says: "I think the growth in products in the Islamic arena has not been too great, the innovation has been more taking a conventional product and restructuring it to be Sharia. Islamic finance lacks the innovation and creativity. More needs to be done in this space before Islamic finance products can be restructured for conventional products."

Competing with conventional banks

Nevertheless, borrowers are increasingly looking at the Islamic finance marketplace as liquidity from conventional sources dries up. For example, in July, the government of Senegal closed a 6.25 per cent four-year sukuk worth $208 million – the biggest sovereign sukuk in sub-Saharan Africa – which was run in conjunction with the issue of a conventional eurobond. The arrangers and issuers for the sukuk were an eclectic mix of Islamic and non-Islamic finance institutions.

In the past year, some Islamic banks have been gearing up for a push into the conventional markets. In January, Noor Islamic Bank changed its name to Noor Bank, and Abu Dhabi Islamic Bank, the UAE's

> **Islamic banks can now compete with the big players and deploy vast pools of liquidity**

biggest Islamic finance bank, plans to call itself Abu Dhabi International Bank when operating abroad.

Arguably, these institutions feel that to broaden their customer base and thereby come into direct competition with conventional banks for customers, they need to downplay their Islamic nature. Writing in the *Saudi Gazette*, Yerlan Baidaulet from the Islamic Development Bank commented on the phenomenon: "Rebranding is an essential part of widening the appeal of the industry, whether we call it ethical, alternative or sustainable finance." He continued: "Our mindset has to be global, we have to think wider in terms of customer appeal. Why monopolise the concept and keep calling it only Islamic?" ◉

Nurturing the development of exchange-traded investment

REUTERS/STRINGER

In order to improve on the moderate growth it has enjoyed in recent years, the market for Islamic exchange-traded investment has some challenges to overcome, writes **John Foster**

Abu Dhabi-based investors in discussion. The first Islamic exchange-traded fund was brought to market in 2007

Exchange-traded funds (ETFs) are not a new concept in the world of conventional finance. Indeed, the idea of creating an investment instrument that would track the performance of an index or a commodity (traded as an exchange-traded commodity [ETC]), but at the same time offer liquidity, easy tradability over the counter and allow an investor to participate in the upward momentum of an index, without having to buy exposure to every stock in the index, was initially mooted in 1989, with the launch of Index Participation Shares for the S&P 500. Unfortunately, while there was quite a bit of investor interest, this short-lived product became the subject of a lawsuit, and the true advent of ETFs was not until some time later.

But investors had only to wait until 1993, when the 'spider', or S&P 500 Depository Receipt (SPDR) crawled along. That spider is still spinning its web today, as one of the world's most actively traded ETFs, but it has been joined by many more, and today the industry is worth $1.83 trillion. The NASDAQ Stock Market reported at the end of July that ETFs have seen net inflows every month this year bar January, which saw $15 billion pulled by investors, and in the year to date have taken in $72.3 billion, compared with $67.6 billion in 2013.

Fundamentally, ETFs and ETCs are index-based investment funds that base their performance on that of their correlating index or commodity. Although a fund in the broadest terms, the ETF does not try to outperform its index, like an actively managed equity fund, for example, but tracks its index in order to offer

PHOTO MERE TRAVEL 2/ALAMY

REUTERS/OSMAN ORSAL

(Left) The first Islamic ETF was launched in 2007 in Switzerland by Liechtensteinische Landesbank

(Above) The head office of Kuveyt Turk, which launched the popular GoldPlus ETF in 2010

a similar return on investment, had the investor bought shares in the right proportion to every stock in that index. On commodities, ETCs and ETFs try to emulate the price movement of a particular commodity, such as energy. The fund managers do this by using futures contracts to emulate the commodity price changes.

Sharia-compliant instruments

The first Islamic ETF was only launched in 2007 in Switzerland, by Liechtensteinische Landesbank, and Barclays Capital quickly followed up that year with three iShares Islamic ETFs.

A year later, in 2008, Singapore's Daiwa launched the first Asian Islamic ETF – the Daiwa/FTSE Shariah Japan 100 – and this was followed by BNP Paribas' EasyETF. In the same year, Malaysia brought out its first Islamic ETF, the MyETF-DJIM25, benchmarked against the Dow Jones Islamic Market Malaysia Titans 25 Index.

Other ETFs emerged in the US, South Africa and Nigeria. However, the Middle East has not featured heavily in the Islamic ETF market. The region's first arrival was in 2010, with the launch of the Falcom Saudi Equity ETF (also known as Falcom 30 ETF).

Islamic ETCs have also come to market. One of the most popular to date has been the Kuveyt Turk GoldPlus ETF, which trades gold on the Turkish exchange via an index from BMD Securities. This was launched in 2010.

At the end of May there were 11 Sharia-compliant equity ETFs with 34 listings and assets of $236.4 million outside the traditional Islamic financial centres of Malaysia, Saudi Arabia and Turkey, according to ETFGI, an independent research and consulting firm based in London. Growth has been moderate, with assets up nine per cent this year to the end of May, from the $217.1 million at the end of 2013, and up 255 per cent from the $66.6 million invested in Islamic ETFs at the end of 2008. ETFGI said that there had been inflows of $8 million from January to the end of May, with an average daily trading volume of $1.1 million from six providers of Sharia-compliant ETFs in seven countries.

Despite these impressive figures, Sharia-compliant ETFs still have a long way to go. Global assets in ETFs and exchange-traded products reached $2.55 trillion at the end of May – the share of Sharia-compliant products in this market is still minuscule.

Omar Azami, Managing Partner of MOA Capital Investments, an Islamic finance advisory boutique thinks that the growth of Sharia-compliant ETFs was inhibited by a lack of specific expertise in the industry: "My guess is that the institutions focusing on Islamic finance have not got experts in the field of ETFs. Although ETFs are traded funds, many institutions shy away from the initial set-up costs. Also, Sharia ETFs based on developed countries should be straightforward to set up, but for the developing and frontier nations, the issue of illiquidity on the underlying assets and risks involved seem too great."

> **ETFs are highly tradable and transparent, and can be bought and sold just like single shares at any time**

Of central importance is the fact that Islamic ETFs should have grown faster in the core of the Islamic finance industry's heartland. ETFs offer a number of advantages to investors, not least diversification, as they allow an investor exposure to an index without having to hold direct investments. They are also cheaper for an investor, in the sense that they have lower management fees and transaction costs than

BRENDAN MCDERMID/REUTERS/CORBIS

Barclays Capital traders work on the floor of the New York Stock Exchange. The investment bank was among the first to launch Sharia-compliant ETFs

mutual funds. Furthermore, they are highly tradable and transparent, and can be bought and sold like single shares at any time, as long as the stock market is open.

Most importantly, Islamic ETFs offer investors access to diverse, geographically different, uncorrelated indices and commodities in a Sharia-compliant package. But despite an increasing number of Islamic ETFs that now track large and small equity indices, sukuk and commodities, the take-up – compared with private equity funds, real estate and mutual funds – remains marginal. The headroom for growth is enormous.

Challenges ahead

It has been argued that ETFs fail to gain traction in the Middle East – where the bulk of Sharia-compliant assets are still located – due to the investment culture and practices in the region. On the buyside, the growth of Islamic finance has been built on the back of real estate investment and private equity. From retail investors to the high-net-worth class, there is less appetite for direct investment in shares.

Zubair Haider, Head of Corporate and Investment Banking for Dubai Islamic Bank Pakistan agrees. His own personal view is: "In Pakistan, the market of ETI [exchange-traded investment] including ETFs and ETCs is not developed. Although the SECP [Securities and Exchange Commission of Pakistan] has issued its regulations, the market is still untapped by both conventional and Islamic banks. The main reason appears to be the overall lack of awareness about such products in the local market."

On the sellside in the Gulf Cooperation Council (GCC) countries, the structure of financial advice is radically different to the markets where conventional ETFs are popular. In America and Europe, funds are often sold through a network of independent financial advisers (IFAs). These IFAs do not make their money from the end-cost of a financial product, so it does not matter to them if ETFs have low management fees. Conversely, in the GCC, funds are marketed to high-net-worth individuals and institutional investors through placement agents and fund marketers, who charge sale-based commissions. It is in their financial interests to sell funds that have a higher margin.

If an Islamic ETF is charging, for example, an annual management charge (AMC) of 0.5 per cent to 0.75 per cent, it stacks up badly in terms of remuneration for GCC-based advisors, who could sell a mutual fund with an AMC of two per cent to three per cent and 20 per cent performance fees, making a bigger profit.

However, the lure of the ETF may be irresistible over the longer term, as the banks look to grow their client portfolio into new areas, and industry insiders suggest that in the next five to 10 years Islamic ETFs will top more than 10 per cent of assets under management for the industry globally. ◉

Islamic finance comes of age

By Hamed Ali
Chief Executive of NASDAQ Dubai

Since modern Islamic finance took a pioneering step forward in the 1960s with the establishment of a small bank in the Nile delta that provided Shariah-compliant financing to the local community, the sector has achieved enormous expansion and success. While progress has taken place along many tracks and at an uneven pace, two clear and complementary trends stand out: first, the growth of Islamic finance serving individuals and institutions in the Muslim world, and more recently, the increasing enthusiasm for the sector shown by market participants internationally and from all backgrounds.

As the international stock exchange based in the heart of the MENA region, NASDAQ Dubai is positioned to play an important role in the further development of the Islamic finance sector around the globe. The exchange has already launched a number of major initiatives that put it at the forefront of innovation and expansion.

NASDAQ Tower in Times Square, New York

Sukuk

With Sukuk listings valued at around $20.7 billion dollars, NASDAQ Dubai is the third-largest exchange in the world in this asset class. More than half of this sum has listed in 2014, putting the exchange on a steep upwards trajectory. Its streamlined and responsive listing procedures have this year attracted issuers as diverse as Sharjah Islamic Bank in the UAE, the Islamic Development Bank – which is based in Jeddah and owned by 53 countries – and the government of Hong Kong, which issued its first ever Sukuk in September. This momentum supports the initiative of His Highness Sheikh Mohammed Bin Rashid Al Maktoum, the Vice President and Prime Minister of the UAE and Ruler of Dubai, to build Dubai into the global Capital of the Islamic Economy.

These listings both reflect and reinforce the deep well of expertise and experience in Islamic finance that is available in Dubai. They also add critical mass to NASDAQ Dubai's exciting pilot scheme for on-exchange trading of Sukuk and conventional bonds, which was set up in 2013 and now offers nearly 40 instruments listed on the exchange to its brokers and their clients. On-exchange trading has the potential to greatly strengthen the secondary market for Sukuk, which will in turn encourage greater issuance and greater participation by investors at the primary stage. The on-exchange model offers substantial advantages compared with the over-the-counter (OTC) trading option, which currently still dominates the secondary market. Transparency is a major benefit. The display of prices and volumes on a public screen, with all market participants invited to join in, will be a great aid to price discovery and will increase activity in the market, as well as confidence in its robustness. The fees that investors must pay to trade may also fall if on-exchange trading becomes the norm, due to the simplicity of the exchange model and the economies of scale that come from large volumes.

Murabaha

It is not often that an exchange sees the opportunity to set up an entirely new market that quickly gains traction and provides a valuable service to thousands of individuals and companies. NASDAQ Dubai is fortunate to have done exactly that through its Murabaha platform. This offers an Islamic financing option based on transactions in unique certificates that can be based on a wide range of underlying Shariah-compliant assets. Set up jointly with Emirates Islamic bank and officially launched in April 2013, the platform has already carried out more than 21 billion AED ($5.7 billion) of Murabaha transactions.

The Emirates REIT celebrated its IPO at the Dubai International Financial Centre

Sharjah Islamic Bank announced its membership of the platform within a few weeks of its opening and others are on course to follow. NASDAQ Dubai is now in discussion with a number of MENA-based providers of Islamic finance that are also interested in joining the platform, to benefit from its many advantages. These include the speed of transactions, which can be executed in minutes, as well as the fixed price of the certificates and absence of any spread. The nature of the certificate also ensures compliance with Shariah principles.

Equities

Bank of London and The Middle East (BLME), Europe's largest Islamic finance provider, listed its shares on NASDAQ Dubai in October 2013 in the Emirate's first primary equity listing for five years. In April 2014, UAE-based Emirates REIT, a Shariah-compliant company, also listed its shares on NASDAQ Dubai in the first IPO by a real estate investment trust (REIT) on any GCC exchange. These listings demonstrate the appeal of the exchange to Islamic issuers, whether based internationally or in the region, including those offering innovative classes. With its international regulatory standards, global investor base and minimum free float as low as 25 per cent, as well as bookbuild price discovery, NASDAQ Dubai is set to attract further Islamic issuances amid buoyant market conditions.

Innovation

As well as REITs, NASDAQ Dubai's regulatory framework is structured to accept a range of alternative asset classes. These include close-ended mutual funds and exchange-traded funds. The exchange looks forward to listing Islamic products in these and other categories, as it pursues its mission to introduce innovative asset classes to the MENA region and broaden the opportunities available to investors.

Growth in the global Islamic finance sector is running at 15-20 per cent in most core markets according to Thomson Reuters, from a base of $1.35 trillion in 2012. The potential for expansion of sectors that are already substantial, such as Sukuk and Murabaha financing, is enormous and the prospects for new markets is also huge. NASDAQ Dubai will remain at the forefront of developments.

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NASDAQ DUBAI

Raising funds: sukuk issuance on track for record year

With debut sovereign issuances taking place in 2014 and year-to-date statistics showing high average deal size, the sukuk market is attracting strong international interest, writes **Peter Shaw-Smith**

The emergence of sukuk has been one of the most significant trends for the Islamic finance sector in the past decade, with total outstanding issuance now likely to be over $270 billion. According to the Malaysia International Islamic Financial Centre (MIFC), this number reached $269.4 billion at the end of 2013, a 17.5 per cent rise on the previous year, demonstrating strong growth. In terms of sukuk issuance by sector, the MIFC said that during the final quarter of 2013, government issuance took a 45 per cent market share, financial services took 17.1 per cent, transport 16.4 per cent and telecommunications 9.3 per cent.

The *Islamic Financial Services Industry Stability Report*, issued by Malaysia's Islamic Financial Services Board, said overall, primary issuance has grown from $11.5 billion globally in 2005 to $119.7 billion in 2013, expanding at an average year-on-year growth rate of more than 40 per cent since 2005. Issuance was up 61 per cent in 2010. However, 2013 failed to match record year 2012, when primary market issuance reached $131.2 billion. Analysts largely attribute the fall to the US Federal Reserve's tapering programme, which began in January and has led to higher funding costs for issuers, particularly in emerging markets, and issuers waiting to see the long-term outcome of this.

Current-year data shows the sukuk market to be on trend to break records. As of 20 June, Dealogic said Islamic bond issuance stood at $20.7 billion for 2014 year-to-date (YTD), the highest YTD total on record, and up 15 per cent on the $18.0 billion raised in 2013 YTD, although deal activity was down slightly. It said average sukuk deal size reached $422 million

Harbour view in Hong Kong, which issued its first sukuk in September this year

ISTOCK

Sukuk: an international asset class

2014 has been a landmark year for the internationalisation of the market for sukuk, which are increasingly attractive to both issuers and institutional investors in Europe, Asia and the MENA region.

Although total issuance in the global sukuk primary market slowed in 2013, growth was restored in the first half of 2014, with 244 sukuk tranches raising $66.3 billion, up by 8.2 per cent on the same period in 2013, according to data compiled by Kuwait Finance House.

According to the same data, while Malaysia continued to account for the lion's share of global primary issuance, contributing $41.7 billion, or 63 per cent of the total, issuers from 11 jurisdictions entered the market in the first six months of 2014. In June, the UK's Debt Management Office (DMO) issued its inaugural sukuk, a £200 million five-year transaction that was priced flat to gilts but generated total demand well in excess of £2 billion.

Another key development in the international diversification of the sukuk market was the announcement in early 2014 of Hong Kong's plans to issue its maiden Shariah-compliant transaction.

Both transactions were important milestones in the evolution of the global Islamic capital market, because they reaffirmed the commitment of two of the world's premier financial centres to Shariah-compliant finance.

Luxembourg's sukuk debut

In June 2014, AAA-rated Luxembourg presented a revised bill to its Council of State, paving the way for the Duchy to launch its debut sukuk. The passage of the bill, which took place in July 2014, permits Luxembourg to securitise three government properties to back a €200 million sukuk transaction, which would further enhance the Duchy's role as a key centre for Islamic finance.

Core sukuk markets

While an expanding list of countries will add to the international diversity of the sukuk market, the lion's share of the volume will continue to be accounted for by the Muslim-majority countries where the growth of Islamic banking has been identified as a priority at a government level. Indonesia, which has issued regularly in the global sukuk market each year since 2010, has a similarly ambitious five-year plan to increase the penetration of Islamic finance in its domestic financial services industry. It is Malaysia, however, that continues to lead the way in developing an Islamic capital market, the potential for which has not gone unnoticed among international issuers looking to diversify their global investor bases.

Diversity of borrowers, maturities and structures

Depth of demand for sukuk in 2014 has also been reflected in the capacity of borrowers across the credit spectrum to access the market, with the emergence of double-B rated issuers such as Damac Real Estate, which issued a $650 million five-year transaction in April.

The growing depth and diversity of the sukuk market has also been reflected in the emergence of longer maturities in a sector that was once concentrated at the short to intermediate area of the yield curve. When Saudi Electricity launched its $2.5 billion, two-tranche sukuk at the start of April 2014 it was the borrower's largest ever Shariah-compliant transaction, generating demand of $12.5 billion.

Sukuk wakalah: adding structural diversity

The global sukuk market is also diversifying structurally, with a number of innovations adding to the depth of the sector over the last 12 to 18 months. A notable example is the $100 million FWU Sukuk Wakalah programme, the first series of which was named as European deal of the year in 2014 by *Islamic Finance News*. Healthily oversubscribed when it was launched in October 2013, this Salam III issue broke new ground as the first securitisation of Shariah-compliant life insurance policies.

The role of sukuk in the infrastructure market

Bankers are hopeful that the increasingly deep and liquid Islamic capital market will play an important role in helping to support much-needed investment in infrastructure throughout the Middle East and Africa. Specifically, market estimates have suggested that in the GCC alone, anything from $535 billion to $2 trillion will be required between 2010 and 2020 to overhaul existing facilities and develop new infrastructure. While much of this requirement will be met by support from official sources and conventional capital markets, the contribution of Shariah-compliant funding is likely to be significant.

Global Sukuk Report 1H 2014, www.kfhresearch.com

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in 2014 YTD, the highest YTD level on record and up 34 per cent from $316 million in 2013 YTD. It said Kuveyt Turk Katilim Bankasi AS priced the most recent deal on 19 June, a $500 million, investment-grade sakk via five bookrunners. CIMB Group led the Islamic bond bookrunner ranking in 2014 YTD with a 14.9 per cent market share. HSBC and Maybank followed with 14.4 per cent and 11.8 per cent respectively.

Sukuk issuance in 2013 was strong in the sovereign sector, as well as financial services, power and utilities, and transportation. In a sign that Saudi quasi-sovereigns are starting to flex their muscles, the largest issue of sukuk in 2013 was undertaken by the General Authority of Civil Aviation (GACA) in Saudi Arabia, for just over $4 billion, to finance airport expansions and other upgrades. A first tranche was issued in January 2012 for $4 billion. GACA officials said demand for both offerings was almost double the desired amounts. The Saudi Electric Company issued $2 billion of 10 to 30 year paper to finance electricity and new power plant development in the kingdom.

Potential of new markets

Alongside energy-related investments in Asia, such as refineries and ports, foreign direct investments from the Gulf Cooperation Council (GCC) region into other selected market segments have also been on the rise. While the GCC is still a major global hub for Islamic financing (37 per cent of total Islamic assets worldwide in the first half of 2013), Malaysia has developed into the largest sukuk market worldwide. According to Standard and Poor's, this development has led to an increased interdependence of sukuk markets in GCC and Asia, as sukuk are preferably issued in the Malaysian ringgit. Attracted by this growing market, a number of GCC banks have opened subsidiaries in Malaysia.

Standard & Poor's (S&P) cited "Malaysia's well-defined regulations and developed capital markets (both conventional and Islamic), large and diversified pool of investors, standardised sukuk structures with available liquidity, as well as its status as a potential gateway to other fast-growing Asian economies such as Indonesia and China," as the basis for increased

> **Sukuk issuance in 2013 was strong in the sovereign sector, financial services, power and utilities, and transportation**

recourse to cross-border ringgit-denominated sukuk issuance. For the first time last year, the amount issued in ringgit worldwide exceeded the amount issued by Malaysian issuers in all currencies, according to S&P.

New sovereign issuance is a constant reminder that Islamic institutions are stirring. According to the MIFC, the Islamic Development Bank announced to issue a $10 billion sukuk to be listed on the Dubai NASDAQ in 2014, with plans to make this issuance regular on an annual basis. The Asian Development Bank is also reported to be considering a maiden sukuk in 2014. In September, the World Bank announced its plans to raise as much as $500 million worth of sukuk to help fund an immunisation programme.

The Hong Kong Monetary Authority (HKMA) publicised its desire to issue sukuk at a conference on Islamic finance in April. Peter Pang, HKMA Deputy Chief Executive said the authority was considering issuing its own sukuk and had removed additional profits taxes and stamp duty charges incurred in issuing sukuk in order to encourage it. Indeed, in September Hong Kong issued its first sukuk, raising $1 billion in five-year bonds.

Tax considerations have also been raised in other jurisdictions. Accountants KPMG advised the Australian government earlier this year to consider issuing sukuk to broaden its range of funding sources. This involved

British Prime Minister David Cameron delivered a speech at the World Islamic Economic Forum in London, October 2013, to announce that Britain would become the first non-Muslim country to issue a sovereign sukuk

Primary sukuk issuance by country, 2013

Country	Number of issues	Total size of issues (US$ million)
Bahrain	25	1,585
Brunei	14	1,085
China	3	275
Gambia	49	46
Germany	1	55
Indonesia	53	6,718
Kuwait	2	44
Luxembourg	1	20
Maldives	1	3
Malaysia	525	76,914
Pakistan	1	419
Qatar	8	2,274
Saudi Arabia	20	14,491
Singapore	3	423
Turkey	7	4,770
UAE	12	6,818
United Kingdom	1	11

Sources: EY *World Islamic Banking Competitiveness Report 2013-14*, Zawya, Reuters, Bloomberg

"facilitating access to the offshore retail funding market through recalibrating tax and regulatory settings, particularly through removing interest withholding tax".

UK's sovereign sukuk

This year, the UK became the first country outside the Islamic world to issue sovereign sukuk. On 25 June, the UK government announced that £200 million ($311.6 million) of the sukuk, maturing on 22 July 2019, had been sold to investors based in the UK and in the major hubs for Islamic finance globally.

The UK's first such issue was met by strong demand, with orders totalling around £2.3 billion ($3.8 billion), and allocations were made to a wide range of investors, including sovereign wealth funds, central banks and domestic and international financial institutions, the UK Treasury said in a press release.

"Today's issuance of Britain's first sovereign sukuk delivers on the government's commitment to become the western hub of Islamic finance and is part of our long-term economic plan to make Britain the undisputed centre of the global financial system," said George Osborne, the Chancellor of the Exchequer. "We have seen very strong demand for the sukuk, resulting in a price that delivers good value for money for the taxpayer. I hope that the success of this government

View of Main River and the financial district in Frankfurt. Germany is among the growing list of European countries to tap into the global sukuk market

issuance will encourage further private sector issuances of sukuk in the UK. By issuing sovereign sukuk, the government has demonstrated that it is possible to create a successful British base for Islamic finance."

The IFSB said of the growing interest: "Some new and emerging jurisdictions that have tapped into the global corporate and sovereign sukuk markets following the financial crisis include Azerbaijan, Turkey and the UK in 2010; Hong Kong, Jordan and Yemen in 2011; France, Germany and Kazakhstan in 2012; and Luxembourg, Mauritius, Nigeria and Oman in 2013. The momentum is all set to continue into 2014, as a number of high-profile debut sovereign issuances are expected to take place this year. Announced sovereign sukuk in the pipeline for 2014 include the likes of... Luxembourg, Ireland, South Africa, Tunisia, Mauritania, Senegal and Oman."

Senegal's debut $208 million issue this July set a record for size, beating Nigeria and South Africa, said Bloomberg. "Other governments on the continent will be watching the issuance with interest," said Sarah Tzinieris, Principal Africa Analyst at UK-based risk advisory company Maplecroft. "With the market still relatively undeveloped in sub-Saharan Africa, the first countries issuing sukuk bonds – such as Senegal – are in a strong position to position themselves as African hubs for Islamic finance."

An optimistic tomorrow

In its latest report, the MIFC concluded: "Overall, 2014 is likely to witness another exciting year for sukuk issuances as the industry continues to attract newer jurisdictions, including non-Muslim economies."

According to Kuwait Finance House, overall, the performance of the primary market in 2014 YTD set an optimistic tone for the remainder of the year. Furthermore, with a healthy and diverse pipeline in place for 2014, the prospects are bright moving forward. Annual issuances are expected to once again exceed the $100 billion mark this year, and, according to Thomson Reuters, global demand for sukuk is expected to jump to $421 billion by 2016.

Life in the fast lane: keeping pace with innovation

As the rapid march of technology continues, from Silicon Valley to the Serengeti, Islamic financial institutions must innovate in order to capture greater market share, be it in the retail banking or the sukuk sector, as **John Foster** explains

An employee uses a mobile phone inside an M-Pesa store in Nairobi, Kenya. M-Pesa, a mobile banking solution deployed by Safaricom, has revolutionised financial services delivery in Africa

TREVOR SNAPP/BLOOMBERG VIA GETTY IMAGES

Notable among the early transactions in virtual currency Bitcoin, so the story goes, was the exchange of 10,000 Bitcoins for two pizzas, delivered to a programmer in Florida five years ago. Today, one bitcoin is worth around $471, and this computer-generated currency is being used for day-to-day transactions globally. The next page in its story seems close at hand, too, with venture capitalists the Winklevoss twins currently seeking regulatory approval for a Bitcoin exchange-traded fund.

Away from Silicon Valley, in the Masai Mara and Serengeti of Kenya, M-Pesa, the mobile banking solution deployed by telecommunications company Safaricom, is revolutionising the lives of people and the development of business across East Africa. In fact, in 2013, Safaricom became the largest transactional banking entity in Kenya, outpacing all of the conventional banks. Following its phenomenal success in Africa, M-Pesa has recently expanded into Afghanistan, India and Eastern Europe.

Technological changes are revolutionising the face of global finance, in many ways democratising finance and making it more accessible and accountable. However, the total collapse of what the world thought was a fastidiously constructed and strong risk-management infrastructure that led directly to the credit crunch and global financial crisis, has made global financial engineers look to technology to also act as an early warning system and a brake.

Need for innovation

This requirement – forced upon the financial services sector by an underswell of popular consumer demand for mobile and internet-driven banking solutions, as well as a top-down pressure from regulators, and, increasingly, governments – has resulted in a spike in IT spending and innovation from the banking industry around the world.

So is the global Islamic financial system keeping pace with the technological advances that are afoot in the conventional market? Not according to

DEMOTIX

Mohammed Khnifer, a Saudi-based Islamic finance specialist and sukuk structurer. "We still lag behind," he says, and a large part of that, he explained, is down to a lack of innovation from the Islamic finance industry to develop proprietary tools. He continues: "In my line of work, I use a Bloomberg terminal almost every day to price sukuk or to identify certain benchmarks, but it's a tool created by the conventional finance industry, for the conventional finance industry, and the [Islamic finance] sector should be innovating more as a whole."

However, Islamic banks have been slow to invest in new technology, according to research by a leading Islamic finance software provider, Path Solutions. The other challenge that the industry has been grappling with is developing proprietary software and systems that adequately provide tailored solutions for the specific needs of the Islamic finance industry.

Mohammed Kateeb, CEO and Chairman of Path Solutions, said in a recent interview that 2013 saw a number of conventional banking technology providers tweak their finance offerings to try and break into the Islamic market. However, said Kateeb, in a number of cases this adapted software was not fit for the purposes of an Islamic financial institution and the institutions had to start over. Moreover, he said, many conventional banks with Islamic interfaces also approached Path Solutions to design proprietary Sharia-compliant solutions for their Islamic finance customers.

JEFF GREENBERG/ALAMY

(Above) Africa represents an enormous market for Islamic banks that are capable of leveraging their technological capabilities

(Left) Emirates NBD became the first bank in the UAE to offer a platform that allows customers to subscribe to IPOs via the bank's ATM or online banking channels

However, some of the banks have risen to the tech challenge, at least in parts of their operations. At the retail, customer-facing level, banks in the Gulf Cooperation Council (GCC) region have been leading the way in the adoption of client-focused hardware and e-banking solutions. Mashreq Bank recently rolled out an integrated smartphone banking service; while in Emirates NBD's new Deerfields Mall branch in Abu Dhabi, the bank installed solutions to make the in-branch service for an already tech-savvy clientele more efficient and faster.

Corporate banking and investment

Corporate banking and investment management operations have also seen upgrades in the past year. For example, earlier this year, Kuwait Finance House enhanced its product development capability, allowing it to move into more sophisticated Sharia-compliant real estate product lines by installing International Turnkey Systems' ETHIX financial solutions systems across its back office. In Saudi Arabia, NCB Capital, which has the most Sharia-compliant assets under management in the world, recently installed a back-office investment management system from Charles River in the UK. It will bring NCB's back-office processing function on a par with the best that the conventional market has to offer. The commissioning of the new system was the first phase of a multi-asset class project to automate the bank's portfolio, order and execution management functions, enhance its compliance and risk monitoring, and upgrade its performance measurement tools.

> **The humble mobile phone could be the key that unlocks the potential of Islamic finance, not just in Africa, but globally**

Zubair Haider, Head of Corporate and Investment Banking for Dubai Islamic Bank Pakistan, says: "IFIs [Islamic financial institutions] in Pakistan have introduced internet banking services which enable the customers to carry out a number of activities through the internet. Good progress has also been made in the areas of mobile banking and branchless banking."

He continues: "Due to their small size, compared to the larger size conventional banks, IFIs in Pakistan at times lag behind their conventional counterparts when it comes to investing huge amounts in technology. However, as the Islamic finance industry is growing very rapidly in Pakistan, the IFIs in Pakistan are expected to match the larger conventional banks in this area in the coming years."

The investment that the Islamic finance sector is making, albeit belatedly, is being driven by the undeniable fact that new platforms and alternative methods of transaction are emerging on a daily basis. This means that the Islamic finance sector has to be continually looking to innovate and adapt in the face of what seems like perpetual evolution.

Islamic finance users – whether they are retail customers, or corporate clients and institutional investors – expect digital banking to be offered as standard. The demand for tech solutions will only intensify as existing and potentially new customers in the conventional marketplace demand increasingly sophisticated Islamic banking products and services, and expect a seamless digital delivery.

It is vital for the industry to keep innovating to bring new technologies online, because as Islamic financial institutions develop, this technology will become a key enabler for future business. It is undeniable that Islamic finance institutions offering Sharia-compliant products need dedicated end-to-end Islamic finance technology that can facilitate and automate Sharia-compliant finance operations. This will enable these institutions to scale up their operations in order to meet global competition, grow market share, retain the loyalty of their customers and enhance profitability.

If the Islamic finance institutions get their technology right, the opportunities for growth abound. Kateeb notes the 'M-Pesa effect' in Africa, and how it has revolutionised financial services delivery on the continent. Over the past two years, when compared with global Islamic finance asset growth, Africa has seen the greatest percentage increase of any geographical region.

The African market

Many African countries have, in the roll-out of their telecommunications infrastructure, jumped straight to 3G and 4G mobile and WiMax, bypassing lower-band and fixed-line technology. Given the huge geographical distances that are involved in Africa, and the lack, in many cases, of hard infrastructure, the adoption of branchless, mobile phone facilitated-banking means that a vast population reservoir has already adopted mobile banking systems.

The continent's one billion population will double by 2050, and, with half of that number being Muslims, growth of Islamic banking on the continent could dwarf that in other regions. The humble mobile phone could be the key that unlocks the potential of Islamic finance, not just in Africa, but globally. ◉

Takaful: in search of growth

With insurance penetration still significantly lagging behind in much of the Islamic world, the takaful and retakaful sector has plenty of room for growth, particularly in emerging markets, writes **Syed Hussain**

Islamic insurance, or takaful, is set to become a $20 billion business by 2017, with its popularity rising in the Gulf, Levant, Africa and South-East Asia. In the past five years, the industry grew 1.5 times faster than the conventional insurance market, expanding at a compound annual growth rate of 33.2 per cent, says Moody's Investors Service.

With more than one billion Muslims residing in mostly emerging markets and insurance penetration of around one to seven per cent in most countries, takaful has been growing at a brisk pace. In the Gulf, for example, takaful has accounted for 43 per cent of all insurance since 2010.

"Religious restrictions are likely to have historically held back the growth of insurance use within the Muslim population, but Sharia-compliant takaful insurance addresses this," said Moody's. "As a result, we expect stronger future growth rates for takaful versus conventional products in the region."

But despite an impressive run-up from a low base, the nascent sector is encountering headwinds amid increasing regulatory pressures. "Lack of standard, uniform regulation across geographies continues to be a big hurdle for the players," says Mandagolathur Raghu, Senior Vice President at Kuwait Financial Centre, also known as Markaz. "Firms which operate in different countries often face challenges in reporting due to the presence of multiple requirements from the regulators."

The presence of multiple Islamic institutions, such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Development Bank (IDB) and Islamic Financial Standards Board (IFSB), each with their own regulatory frameworks, has "only exacerbated the problem", Raghu noted.

Mahesh Mistry, Director of Analytics at ratings agency AM Best says that, in recent years, there has been considerable evolution in takaful's regulatory framework in the Middle East.

Saudi Arabia's insurance regulation (not necessarily takaful) operates under the cooperative model, and is enforced by the Saudi Arabian Monetary Agency (SAMA). Many jurisdictions have specific takaful regulations, including Jordan, Bahrain, the United Arab Emirates, and, more recently, Oman. "But while structures are in place, there needs to be more emphasis on active regulation in the market," Mistry notes. Industry estimates show there are more than 216 takaful and retakaful (reinsurance) operators, with Saudi Arabia alone home to around 33 players.

"The market for takaful is overcrowded to say the least, resulting in intense competition, and has resulted in insufficient scale of operations," says Raghu. "This clearly is a sign that the takaful landscape can't sustain the existence of such numerous companies. Under such circumstances, it is meaningful to expect a wave of merger and acquisition (M&A) activities. M&As could be further fuelled by international players who would like to establish their presence in established markets, such as Malaysia, by acquiring the local players," adds Raghu.

Beyond the Arab world, there has been hectic M&A activity in Malaysia, Thailand and Indonesia. "These deals have been inter-industry, including insurance companies, takaful companies, brokers and special-purpose vehicles for holding groups. With supporting economic and demographic dynamics, the family takaful and medical takaful segments are likely to be future areas of M&A interest," said professional services firm EY in a 2013 report.

The influx of retakaful operators over the past five years, aiming to take advantage of the growing Middle East insurance markets, has added to the crowded market. "Most takaful and also retakaful players are young businesses that are finding it difficult to establish themselves and strike the right balance between market franchise and profitability," AM Best's Mistry notes.

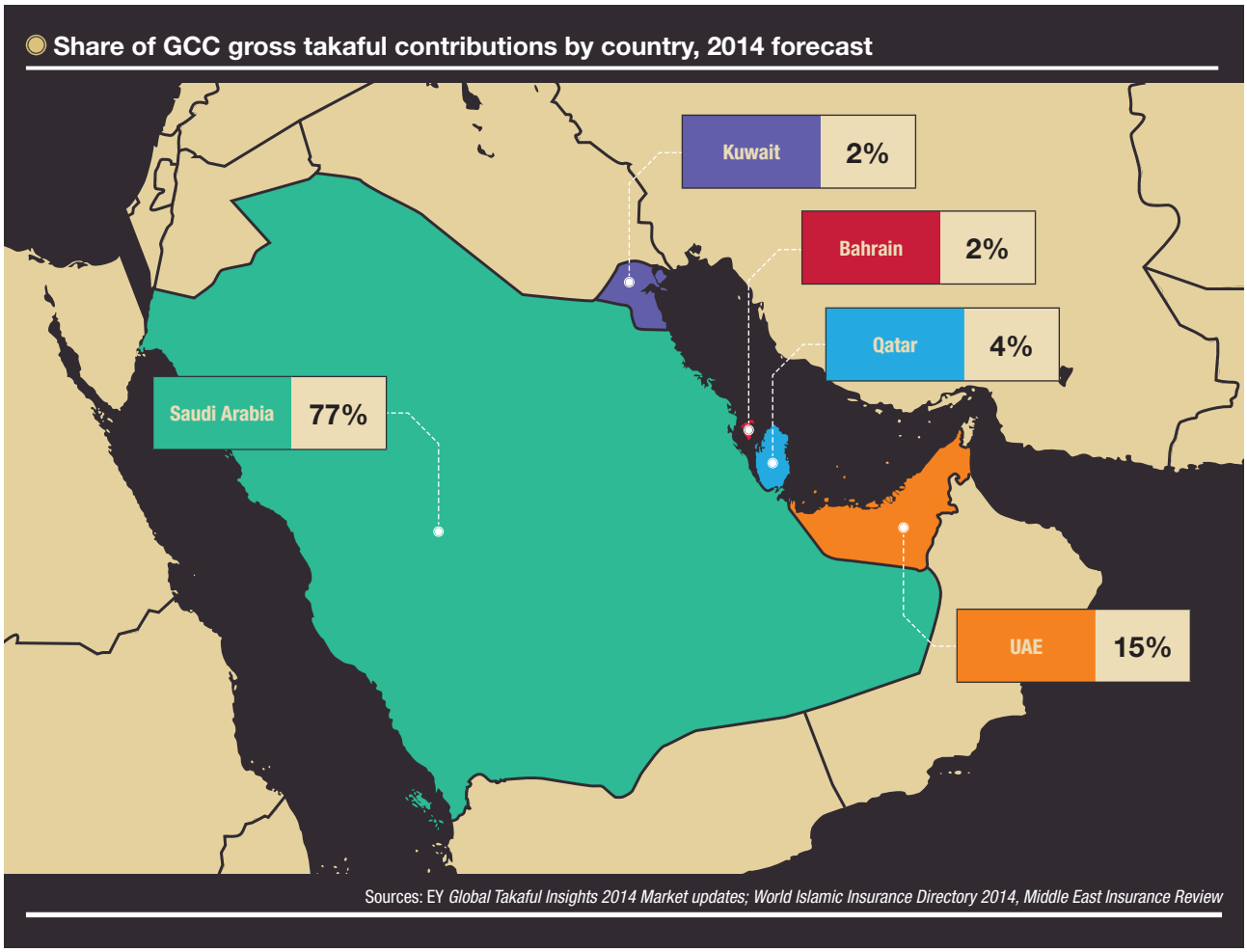
Although takaful operators operate in a niche area, generally they are in competition with conventional companies for the same target market. Rather than differentiating themselves by targeting new, untapped segments of the market, takaful and retakaful operators tend to compete directly with their conventional counterparts. "Pitted against traditional, established insurance companies, which benefit from economies of scale and strong reputations, takaful operators find it difficult to create profitable organisations," says Mistry.

Malaysia, Saudi Arabia and the UAE have driven growth in the takaful market, but a number of large, untapped Muslim countries have barely scratched the surface. Analysts believe countries such as Indonesia (with a population of 247 million), Pakistan (179 million), Bangladesh (155 million), and even India (with a Muslim population of 177 million) can offer takaful players the room for growth and scale to become profitable.

"Whilst there is interest and growth in the rest of the GCC, the market size remains small," says Mistry. "There could be greater potential in the Levant, Pakistan and India, where there are greater Muslim populations;

With the world's largest Muslim population, Indonesia offers enormous growth potential for takaful operators

BASTIEN CUVELIER/GETTY IMAGES



however, the GDP per capita remains small." Considering the favourable Muslim demographics and the economies of scale, Kuwait Financial Centre believes that emerging markets such as Indonesia and Turkey offer substantial growth opportunity. "Indonesia, in particular due to its proximity to Malaysia, is a well-established Islamic market to be looked at," says Raghu.

EY adds that the launch of takaful operators in the key populous markets of Turkey, Commonwealth of Independent States countries, Russia, India and China, will spur the next wave of growth. In addition, frontier markets in Africa and Asia can benefit from the establishment of separate regulatory transparencies for takaful, which will accelerate growth in these markets. "Technical and financial assistance will come from Islamic Development Bank and other facilitating organisations," says EY.

While takaful has answered a real need for the global Muslim population and grown rapidly in its first wave of development, the industry faces a number of challenges as it looks to write the next chapter of growth.

"The launch of takaful operators in Turkey, CIS countries, Russia, India and China will spur the next wave of growth

Facing the challenges

"There are several challenges faced by takaful insurers that may limit their growth opportunities," Moody's analyst Mohammed Ali Londe notes. "We expect that these issues will be particularly challenging for the smaller takaful operators, who may lack the expertise, resource or scope to capture growth and defend against competitors."

Competition from well-established conventional players is high, given the anticipated increase in insurance penetration in many of the target regional markets. Many conventional insurers have global presences, giving them technical expertise, financial strength and economies of scale, which may mean that their product offerings are a better fit for insurance buyers, or are offered at lower prices.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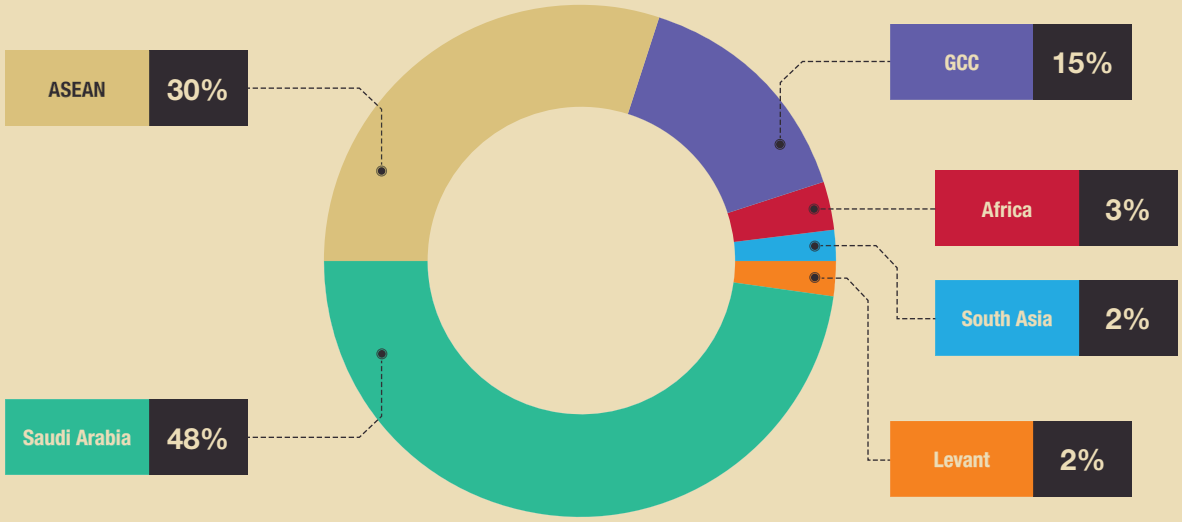
Share of global gross takaful contribution by region, 2014 forecast



Note 1: World total, excluding Iran

Note 2: GCC countries include Bahrain, Kuwait, Qatar and UAE, excluding Saudi Arabia

Sources: EY *Global Takaful Insights 2014 Market updates; World Islamic Insurance Directory 2014, Middle East Insurance Review*

As most takaful players are still establishing their bases, and are small in size, they predominantly serve retail clients. Access to quality clients is limited due to their underdeveloped broker relationships, modest credentials and scale. "Also, business with lucrative commercial lines is often restricted, thus negatively impacting claims ratio. Most players are yet to establish critical size/business volume, which is reflected in higher expense ratio against conventional peers," Raghu notes. "Finding suitable investments, which are in line with Sharia principles, is also a challenge. Lack of skilled and qualified manpower, poor awareness of takaful services and undifferentiated product offerings are other factors that impede takaful growth."

REUTERS/CRACK PALINGGI

An employee of Bank Negara Indonesia at its headquarters in Jakarta. Micro-takaful products are gaining a foothold in low- to middle-income Muslim countries, such as Indonesia

In addition, there are limited numbers of Sharia-compliant reinsurers, potentially limiting takaful insurers' ability to lay off excess insured risk, thereby restricting their business and risk appetite. "Comparatively, conventional players have access to a wider range of strong global reinsurers, giving them a greater capacity to underwrite diverse risks. As such, the expansion of takaful insurance into large commercial contracts remains challenging," says Londe.

Unlocking growth

Continued regional interest is also slowing progress and distracting authorities from focusing on developing regulations. According to Mistry, "strengthening market regulation would provide opportunities for growth". For instance, in Saudi Arabia and the UAE, the introduction of mandatory health insurance helped to grow the size of the takaful sector immensely.

Ultimately, product and service innovation will be key to growth. With a large number of Muslims living in the low- to middle-income segment, 'micro-takaful' products could address the needs of millions that are outside the fold of conventional financial services.

Raghu believes that technological innovation and uniform regulations are also vital. "Technology adoption could help reduce operational costs and enable [insurance operators] to reach and engage customer in myriad ways," he says. "Simple, uniform regulations would also enable the players to drive forward the growth momentum across borders."

Taking the lead: governments bolster halal and gain market share

REUTERS/BAZUKI MUHAMMAD

With the global Muslim population expected to reach 2.2 billion by 2030, the demand for halal food and products can only increase. Governments around the world are taking steps to improve regulatory standards and capture more of the market, writes **Martin Morris**

As the global Islamic economy gathers pace, governments the world over are jostling for a share of this business. Smart and forward-thinking countries know that the growing international Muslim community represents a powerful economic fillip for decades, if not centuries, to come.

In a notable example, the UK Government – looking to consolidate London's position as the world's premier international financial centre – is actively promoting the City as the preferred Western destination for Islamic finance.

From a practical standpoint, this is already happening. In June 2014, the UK Government reconfirmed that it is set to launch the world's first sovereign sukuk outside the Muslim world. The £200 million ($337 million) issuance is set to have a five-year maturity, with payments based on rental income from government-owned properties.

Dubai is similarly seeking to enhance its credentials as a financial centre, and, while it may never fully rival London on the global stage, its objective is to become a major focal point in the global Islamic economy, at the very least. Tied in with this strategy is a halal framework that will eventually (when confirmed in law) apply across the whole production supply chain, including logistics, and be integrated

A containership leaves Malaysia's Northport in Port Klang. In June, the Malaysian government announced a halal industry development centre in the Port Klang Free Trade Zone

DUBAI INDUSTRIAL CITY

into the existing transportation infrastructure at the industrial sharp end, via a major industrial park.

Malaysia, a Muslim-majority country that has actively been promoting halal goods for 40 years, is also looking to tap into a fast-growing Asian market and serve as a gateway with a 'one-stop' halal-friendly supply chain for goods and services.

Regulation and standardisation

According to the Pew Research Center, the world's Muslim population is expected to rise from 1.6 billion in 2010 to 2.2 billion by 2030, representing a 35 per cent increase over two decades.

However, it was the West, principally the US back in the 1960s, that acted as the major driver for halal certification. Not only was a burgeoning Muslim community naturally intent on preserving its cultural identity, US companies were also keen to export their products to Muslim countries, having rightly identified an enormous future global market. Today, growing economic interdependence has helped close some of the regulatory gaps globally, but the landscape remains a fragmented one.

In Malaysia, the Halal Industry Development Corporation (HDC) is a government initiative aimed at ensuring the integrated and comprehensive development of the national halal industry. Launched in September 2006, HDC's remit to further the country's ambitions to become the global halal hub was noteworthy because it was the world's first government-backed halal industry development corporation to coordinate a comprehensive strategy for the industry. Speaking at the World Halal Conference 2014, CEO of the HDC, Dato Seri Jamil Bidin, said Malaysia would partner with Turkey and take the lead in standardising halal certification for all Muslim countries, with discussions being held at the Organisation of Islamic Cooperation (OIC) level.

Dubai Industrial City is set to open a dedicated 'Halal Cluster' for the use of food, personal care and cosmetic product manufacturers and logistics companies

Bidin noted that ineffectiveness, insufficiency and fragmentation are blighting the global food supply chain, adding that these were the major reasons for non-delivery of halal food and non-food products to the developing global halal market, adding: "In this respect, many countries will be affected by food supply shortage, particularly third world countries with large Muslim populations."

In the meantime, the United Arab Emirates has been moving ahead with its efforts to forge a unified global halal standard. The Emirates Standardization and Metrology Authority (ESMA) – a federal agency and the UAE's sole standardisation body – is creating a framework that will regulate food, cosmetics and personal care products, as well as textile and leather goods.

The UAE Halal Scheme, based on guidelines issued by The Standards and Metrology Institute for Islamic Countries (SMIIC), is seen as providing a single point of reference governing the whole supply chain from pre-farm to processing, manufacturing, packaging, logistics and service. The scheme covers UAE-made and imported products and determines whether they are halal.

Another nation with a hopeful eye on increased halal production is New Zealand – the country's meat

ISTOCK

Halal meat export is an integral part of New Zealand's meat industry. Most of the country's meat export slaughter premises are halal-certified

production is big business globally, with over 143,000 tonnes of sheepmeat and over 123,000 tonnes of beef sold overseas in the first quarter of 2014.

While there are no official statistics on halal production, nearly all of New Zealand's red meat export slaughter premises are certified to undertake slaughter in compliance with halal requirements, said the Meat Industry Association of New Zealand.

Given that, in the year to September 2013, New Zealand exported 75,000 tonnes of meat worth $392 million to Muslim countries, and that Saudi Arabia, as of the first quarter of 2014, was the country's third biggest sheepmeat export market by volume, there is every incentive for the New Zealand government to continue ramping up production in order to meet growing demand from Muslim markets worldwide. However, that growth can only be achieved if the perception remains that halal meat is indeed halal.

> **Governments that fail to seize today's opportunities will likely be left lagging in the longer term**

Against this backdrop, Muslim states continue to forge ahead with the building of industrial park projects aimed at maintaining the integrity of the supply chain.

Malaysia, for example, announced in June 2013 the establishment of the Port Klang International Trade and Halal Industry Development Center Project – part of the Port Klang Free Trade Zone. Billed as the world's largest transit hub for halal products, the project is seen as a gateway for economic powerhouse China to promote itself in the global halal meat market, where its share is currently less than 0.1 per cent, according to Malaysia's Halal Industry Development Corporation.

A lack of certification services in China has traditionally acted as an impediment for local enterprises intending to export. Malaysia, with its internationally recognised certification standards is regarded as a platform to expand not only into ASEAN markets, but also into the equally lucrative Middle East.

Malaysia's halal parks

This 'shop window' will theoretically house up to 700 companies and provide 10,000 local jobs. Port Klang reflects Malaysia's ambitions to become the world's halal hub, as detailed in the nation's Third Industrial Master Plan 2006-2020 (IMP3), which advocated the establishment of halal parks housing industry players, certified operators, as well as logistics companies – all of this encouraged by government subsidies. At present, there are 21 halal parks across the country.

Across the border in Thailand, the government announced several initiatives in late 2013, including the proposed purchase of land in Pattani province (one of four southern provinces where 10 per cent of the country's population resides) for a proposed halal food industrial estate. The initiative, first mooted back in January 2012, is expected to be ready in time for the inauguration of the ASEAN Economic Community in 2015.

Elsewhere, the Faisalabad Industrial Estate Development & Management Company in Pakistan is to build a halal processing food zone that can prepare meat and other foods to be sent to export markets such as Dubai within 24 hours.

Dubai, meanwhile, in a bid to further enhance its credentials as a centre of Islamic finance, announced in February 2014 details of a dedicated 'Halal Cluster' – set to be spread across 6.77 million square feet and catering to food, personal care and cosmetic products manufacturing. Situated in Dubai Industrial City, the project will be a standalone industrial block providing ready-to-use warehouses and showrooms, as well as accommodation for residential and retail communities.

Globally, changing demographics – evidenced by a growing global Muslim population, coupled with increasing demand from non-Muslims for halal products and services – will ensure governments over the coming years will continue jostling for the reins of the global Islamic economy.

Halal is already big business, and it is expected to continue growing rapidly. Governments that fail to seize today's opportunities will likely be left lagging in the longer term, while those with bold and integrated halal strategies will prosper. ◉

Global standards needed to unlock halal's potential

BEACONSTOX/ALAMY

The halal industry is calling for more robust regulations and standardised accreditation across the board in order to unlock potential, writes **Andy Sambidge**

With the global Islamic economy forecast to become a $6.7 trillion business by 2018, it is surprising that more global brands have not fully embraced its values in order to serve the expanding Muslim population.

While many big-name companies have invested in halal expertise, most have remained on the fringes, despite expectations that Muslim consumers' global expenditure on the media, food and lifestyle sectors alone will reach $2.47 trillion within four years, according to *The State of the Global Islamic Economy 2013 Report* by Thomson Reuters and DinarStandard.

The conundrum facing major corporations lies in the regulation of the industry, a key factor that analysts say will determine the industry's future growth.

The storm of bad publicity that hit confectioner Cadbury in Malaysia recently, when government tests suggested that its chocolates contained traces of pork, highlights the minefield that remains in the global halal market. While the Malaysian Islamic Development Department later confirmed that the products were halal, the statement did not come quick enough to halt calls from several Muslim consumer groups to boycott all Cadbury products. Mondelez International, the parent company of Cadbury, was quick to downplay the drama, recognising that complying with religious principles is big business in the Muslim world.

Sunil Sethi, Managing Director of Mondelez Malaysia, said in a statement that they were keen to "put this incident behind us", adding: "While incidents such as this are unfortunate, we are grateful to the relevant authorities for clearing the air and ensuring that future abnormalities in their test results would be verified internally before making them public."

Despite its enormous size, the global halal food industry lacks uniform regulations

Setting a benchmark

Despite the fact that the world's Muslim population currently stands at 1.6 billion, there remains no unified standard for what exactly is halal. A decade ago, the term halal, an Arabic word meaning 'permissible', was applied mostly to the food eaten by Muslims. Increasingly, it is also being used to describe a range of products and services, from clothing to cosmetics.

The 57-member Organisation of Islamic Cooperation (OIC) is trying to draft global halal guidelines, but that movement, the Standards and Metrology Institute for the Islamic Countries (SMIIC), does not include Malaysia and Indonesia – home to large halal-certification centres.

While investment and expertise in halal is growing, analysts say the lack of a global benchmark is stunting its potential. According to Abdalhamid Evans, Managing Director and Senior Analyst of Imarat Consultants, a UK-based consultancy specialising in halal market intelligence and expertise, the creation of a global standard is overdue. He says: "The development of more robust standards and accreditation procedures that raise the levels of professionalism of the halal certification bodies is likely to have a significant impact on market growth.

"Standards tend to grow the market, and the halal sector has been – to date – characterised by a lack of transparent standards and certification procedures. Initiatives by ESMA in Dubai, and SMIIC under the OIC umbrella will, if concluded successfully and used intelligently, contribute to a gravitational shift away from South-East Asia as an 'authority' on halal food standards, towards the GCC in general and possibly Dubai in particular.

"A common standard that will effectively open up access to GCC markets will have significant impact among exporting nations, and is likely to lead to a much stronger Arab presence in the halal market."

REUTERS/DARREN STAPLES

A woman applies halal makeup in Birmingham, UK. Regulation of the halal cosmetics industry is fragmented across the world

Dubai's ambition

According to research by the International Halal Integrity Alliance, in 2011, there were 300 halal certification agencies worldwide, of which only 30 per cent were legal entities, highlighting the problem described by Evans. However, moves are underway in Dubai to address this fragmentation and open up a new era for the Islamic economy.

> **While investment and expertise in halal is growing, analysts say the lack of a global benchmark is stunting growth**

The emirate, famous for its glitzy hotels and iconic real-estate projects, is setting up an international accreditation centre for halal food as part of its ruler Sheikh Mohammed bin Rashid Al Maktoum's vision for the emirate to become the world's capital for the Islamic economy, ahead of the likes of Kuala Lumpur.

Hussain Nasser Lootah, Director General of Dubai Municipality, said: "The proposed centre will undertake required tests for halal food and other products to ensure that all such products are free from any chemical or artificial additions which are not complying with the Islamic Law, with the aim to be the first international reference in the food industry worldwide."

Salem bin Mesmar, who is leading the team setting up the centre, added: "The move is expected to boost the business activities of Dubai as it comes in the most wanted context on both local and global levels… Due to the increased activities of food trade and other products, Dubai can serve the entire world as an authorised centre to issue Halal Food compliance certificates and accredit other products, such as medicine, leather, cosmetics."

Dubai's plan of action also encompasses the establishment of the Dubai Islamic Economy Development Centre, which aims to oversee the emirate's Islamic economic ambitions. Its remit includes launching the Dubai Global Sukuk Center; to expand Dubai as a destination for halal and family-friendly tourism; to provide entrepreneurs with incubator offerings to develop the Islamic economy; to promote Islamic art, design and fashion; and to set up training programmes to find and develop talent in the Islamic economy, including supporting academic research. It will also provide legal and other services for the Islamic financial industry.

Defining halal

However, what exactly constitutes halal remains an issue of debate among Islamic scholars, which makes agreeing on a global standard difficult.

Islam requires practising Muslims to consume halal products, and, at its most basic, that means foods and drinks that do not contain any alcohol or pork. To be deemed halal, livestock must be slaughtered in a specific way, which includes invoking the name of Allah.

Hisham Al Shirawi, Second Vice Chairman, Dubai Chamber of Commerce and Industry, told delegates

JEFF GREENBERG 3 OF 6/ALAMY

at last year's Global Islamic Economy Summit that developing a regulatory framework to govern all aspects of the Islamic economy is vital to its growth, as is the unification of the term halal.

"The need for a proper regulatory framework governing all aspects of the Islamic economy is vital. Without this, the halal industries will lack the proper guidance and governance and will flounder," he warned.

Regulation in other sectors

Regulation of the Islamic finance sector is similarly fragmented. While Malaysia pioneered the country-level Sharia board and in recent months several countries introduced central boards of their own, including Dubai, Oman, Pakistan and Nigeria, a global Sharia advisory board that can offer greater uniformity for the Islamic finance industry does not exist. This is despite calls for its formation by the Saudi Arabia-based Islamic Development Bank.

It is thought that a global Sharia board would allow the industry to address low penetration rates in majority Muslim countries such as Pakistan, Indonesia, Turkey and Egypt, where the industry's share of banking assets remains below 10 per cent. It would also provide a more structured approach to the industry, which has its core markets in the Gulf and South-East Asia.

GCC chemist chains have been expanding at a fast rate; however, the halal pharmaceutical industry is still struggling with effective certification

Islamic finance, based on principles such as the prohibition of interest and on pure monetary speculation, has grown rapidly around the world over the past several years although it remains much smaller than conventional finance – Islamic banking assets account for less than one per cent of the global total.

The world's travel industry is also lacking in clear halal standards, as there is no official body that certifies hotels as halal or Muslim-friendly. There are some attempts at standardisation by private entities, such as Singapore-based Crescentrating, which has set up a halal-friendly travel system of rating hotels and resorts against a five-level standard, but there is currently no global authority that regulates halal holidays.

The halal pharmaceutical industry, which is forecast to be worth $97 billion by 2018, is also struggling with effective certification standards and regulations. In Indonesia, attempts to introduce mandatory halal regulations for pharmaceuticals are encountering industry resistance while processes and standards differ from one country to another.

So, despite being a multi-trillion dollar market with a potential for a wider global consumer base, the rise of big-name brands that are based on halal integrity principles is likely to be a slow one while Cadbury's PR disaster is still fresh in the memory. ◉

Chain reaction: building a halal superhighway

To ensure the integrity of halal products, governments and companies worldwide are working towards creating fully halal-compliant supply chains, but challenges remain, writes **Mark Saunokonoko**

The issue of halal assurance is a sensitive matter. Just one errant chink in the supply chain can lead to a complete breakdown in consumer trust.

All halal goods are purchased on one premise – that they are 100 per cent halal – and any evidence to the contrary will send customers running to the nearest, more trustworthy competitor. When it comes to halal, a large and rapidly expanding market, worth an estimated 16 per cent of the total global food industry, the stakes are high.

Thomson Reuters, in its *State of the Global Islamic Economy Report 2013*, valued the Muslim food market at $1,088 billion in 2012, and it predicts this will balloon to $1,626 billion by 2018. Strong growth is also forecast for Muslim consumption of cosmetics ($26 billion in 2012 and $39 billion by 2018) and pharmaceuticals ($70 billion in 2012, $97 billion by 2018).

Creating a holistic supply chain

The Quran requires Muslims to consume only halal food. In case of doubt, Muslim consumers have a responsibility to avoid the product. More than ever, from a commercial perspective, trust and perception are critical. Brands cannot afford to have their products questioned, says Dr Marco Tieman, widely regarded as one of the world's leading experts in halal logistics.

This need for clarity and certainty, in the eyes of both producer and consumer, means the days of halal assurance stopping at the factory or slaughterhouse door are over. Halal is gradually evolving into a holistic supply chain. "Vulnerability can be avoided by having a dedicated halal logistics infrastructure," states Tieman, whose company, LBB International, assists food companies and logistics operators to develop strategies and processes to ensure halal standards are maintained across the entire supply chain.

Robust halal supply chain management means avoiding direct contact with haram (forbidden by Islamic law), addressing contamination risks and ensuring all aspects of the product and system are in line with the perception of Muslim consumers, says Tieman.

"People are willing to pay for the promise of halal," explains Tieman, whose PhD focused on the application of halal in supply chain management. Further research by Tieman, who advises clients such as TNT Express, indicates consumers in Muslim countries are willing to pay a 30 per cent premium for products that have been moved through a halal logistics system. Muslims in non-Muslim countries place a lower value of around 10 per cent for this assurance. Interestingly, he also found that the majority of consumers believe it is the responsibility of brand owners, not logistics providers, to ensure halal integrity up to the point of purchase.

"A major pain point for manufacturers is the lack of halal logistics providers who can offer dedicated halal warehouse and transport," observes Tieman.

Segregation is critical to avoid cross-contamination. In 2010, the Islamic Chamber of Commerce and Industry (ICCI) and the International Halal Integrity Alliance (IHI Alliance) developed an international halal logistics standard (IHIAS 0100:2010). The standard sets out key guidelines and principles for cargo handling at air and sea ports; prescriptive processes around handling and storage (cool and ambient) in containers and warehouses; and the transporting of halal products over 'the last mile' – when downstream supply flows become much thinner and halal integrity is vulnerable, particularly in non-Muslim markets.

Malaysia's pioneering halal parks signal how the future of halal involves expanding control along the supply chain to mitigate risk of haram. There are currently 24 halal parks in operation across Malaysia,

Businesses are increasingly aware of the importance of ensuring integrity across the entire halal supply chain

TNT

with each cluster focused on specific industries, such as biotechnology, food and beverage, education and pharmaceuticals. It is believed there are 140 companies and 15 multinationals based in the parks, exporting goods worth $156 million. Earlier this year, Dubai outlined plans to build two halal zones: one in Jafza will serve international markets, while another in TechnoPark will cater to local and regional markets. Both halal zones are scheduled to open in 2016.

One of the biggest challenges to enabling the vision of a halal superhighway is how best to manage the heavy reliance on food imports across Organisation of Islamic Cooperation (OIC) economies. In 2012, there was a $72 billion food and beverage trade gap in OIC member countries, according to *State of the Global Islamic Economy Report 2013*. The report highlighted that 91 per cent of meat and live animal imports (worth $14 billion) to OIC countries are from non-OIC countries. This imbalance will continue to be amplified as the global Muslim population grows at nearly twice the rate of non-Muslims over the next two decades. How Muslim regulators integrate halal standards with non-OIC trade partners is critical.

The case of New Zealand

New Zealand, although smaller than halal meat-exporting giants the United States and Brazil, is seen as having one of the world's most robust and progressive halal regulatory frameworks.

In an effort to provide clear deliverables for OIC export markets and also its own domestic meat industry, the New Zealand government in 2010 began negotiating directly with OIC governments to agree halal standards and processes. New Zealand Meat Industry Association Chief Executive Tim Ritchie says having a framework agreed at government level, as opposed to commercial enterprises negotiating independently with each other, resulted in the entire New Zealand meat industry lifting its standards.

"Halal is something we do properly, and it's an area where New Zealand can differentiate itself," Ritchie says. "Exports make up 90 per cent of New Zealand's meat business, so we take halal very seriously."

Of 56 premises in New Zealand that slaughter meat for export, 49 are halal approved and audited by independent regulators. Each processing plant has a halal committee, and all slaughtermen are required to be trained and halal certified. In addition, the companies that export halal meat are required to be registered with the Ministry of Primary Industries. "Our approach puts rigour and good process right through the chain," declares Ritchie.

> **When it comes to halal, a market worth an estimated 16 per cent of the total global food industry, the stakes are high**

A single global halal standard

No conversation about halal is complete without reference to the much-opined single global halal standard, which would harmonise current fragmentation across OIC economies.

Ritchie says processing and exporting to a single uniform standard would be hugely beneficial – provided it was viable from an economic and practical standpoint. "The less customisation, the easier it is for us to run a business," he asserts, pointing to the efficiencies of internationally recognised food safety standards and animal welfare codes.

Tieman predicts the single standard, however welcome, is some years away. "There are multiple initiatives in the world who want to develop an international standard. But I think politics and the pride of countries make it difficult to achieve that dream. There are different interpretations, different customs and fatwas that make it very challenging to create one international standard."

Tieman sees Malaysia and Dubai, respective trade gateways and regulatory hubs for the Asian and MENA markets, playing lead roles in the future development of the halal superhighway.

"Dubai has a very ambitious schedule," says Tieman. "They have said they want to be the hub of the Islamic economy in three years. It's a big task, but they have the mandate of government and a lot of companies across key sectors that can support that vision. I'm convinced that if one country in the world can do this, it is the UAE." ◉

◉ Incentives for businesses operating in Halal Park, Malaysia

For halal industry players:

- 100 per cent income tax exemption on capital expenditure for a period of 10 years or income tax exemption on export sales for a period of five years;
- Exemption on import duty and sales tax on raw materials used for the development and production of halal promoted products;
- Double deduction on expenses incurred in obtaining quality standards, Sanitation Standard Operating Procedures and regulations on compliance on export markets such as Food and Traceability from farm to fork.

For halal logistics operators:

- Full income tax exemption for a period of five years or 100 per cent income tax exemption on capital expenditure for a period of five years; and
- Exemption on import duty and sales tax on equipment, components and machinery used directly in Cold Room Operations in accordance with prevailing policies.

Source: Halal Industry Development Corporation (HDC)

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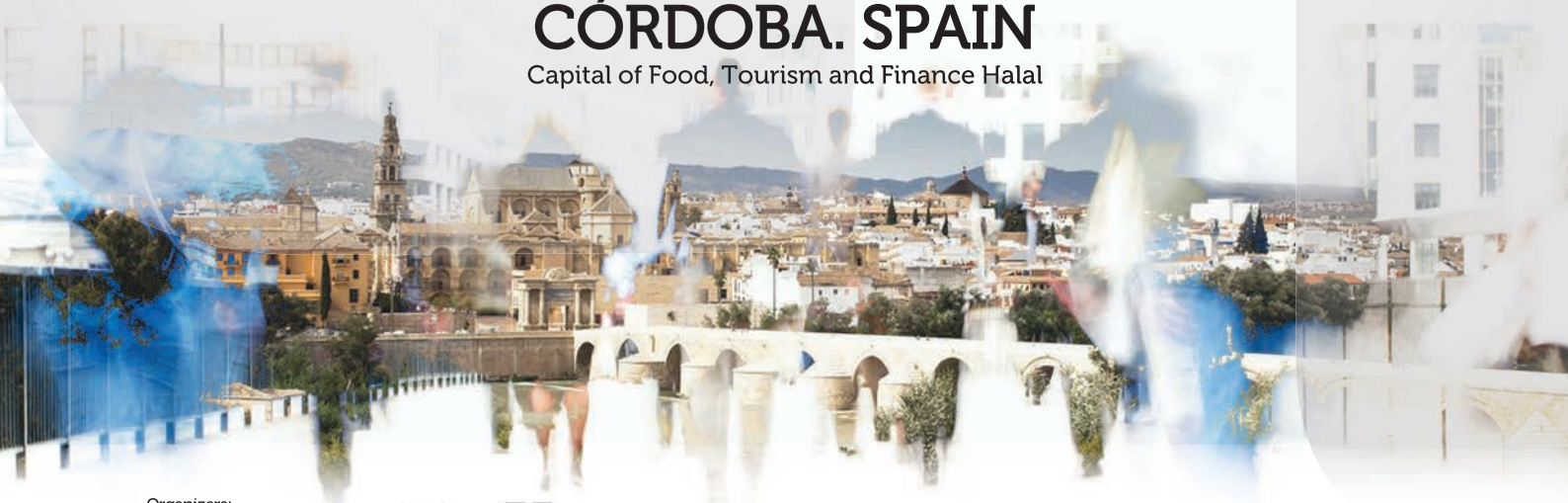

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The rise of the conscious consumer

The global Islamic retail industry is appealing to a wider segment of discerning consumers, Muslims and non-Muslims alike, but there is still much room for expansion in this sector, writes **Martin Morris**

The Hal'shop is one of the first fully halal supermarkets in France, a country that has a large Muslim population

MIGUEL MEDINA/AFP/GETTY IMAGES

The global retail halal industry is big business; of that there is little doubt. In their joint report, *The State of the Global Islamic Economy 2013*, Thomson Reuters and DinarStandard noted global expenditure in the halal food and lifestyle markets – estimated at $1.62 trillion in 2012 – is set to grow to $2.47 trillion by 2018. Breaking the numbers down, Muslim consumers spent $1.08 trillion on food and non-alcoholic beverages in 2012, representing 16.6 per cent of total global expenditure. This figure is expected to rise to $1.63 trillion by 2018. The clothing and footwear sector saw $224 billion spent globally and is forecast to hit $322 billion by 2018, while the cosmetics and personal care market, estimated at $26 billion in 2012, is projected to reach $39 billion by 2018.

Despite these colossal figures, major issues continue to blight the industry, such as the ongoing

KUMAR SRISKANDAN/ALAMY

VINCENT THIAN/AP/PRESS ASSOCIATION IMAGES

(Left) A halal meat counter at a Tesco store in the UK. The retail giant has expanded its halal offering globally

(Above) Models on the catwalk during the 2014 Islamic Fashion Festival in Malaysia. An opportunity exists to develop global brands in Islamic clothing

debate regarding halal certification, given that interpretations can differ from country to country (and sometimes within the same country itself) as to what constitutes halal.

The food sector provides an obvious example of where divergence can occur, especially when relating to issues such as animal slaughtering methods and permissible ingredients within products. Yet this has inevitably spilled over into other sectors, such as cosmetics, where animal products are routinely used. In the clothing and fashion sectors on the other hand, one of the major issues is the definition of 'modesty' under Sharia law. Less obvious, but equally important factors to consider in a halal context include Islamic and ethical financing, family-friendly travel and gender interaction, among others.

Corporate efforts

Major global retailers have been slow to adapt to changing consumer needs and capitalise on enormous business opportunities; only now are food giants such as Tesco and Carrefour offering halal products in many of their shops. In another notable example, US cereals giant Kellogg Company is set to spend $130 million on a new halal manufacturing facility in Malaysia, to expand its presence across the Asian market. The company's Asia-Pacific President, Amit Banati said the facility will complement Kellogg's other halal factory in Thailand.

Other operators, such as United Arab Emirates-based Al Islami Foods, have won over customers with quality and integrity when it comes to halal products. The company has been so successful that it announced in June 2014 the creation of 1,000 new jobs – this is part of a new factory initiative in Dubai, which is set to triple current production levels when opened in early 2015. The AED 100 million ($72.2 million) facility will be able to produce 1,500 to 2,000 tonnes of processed food monthly.

Much of Al Islami's growth has been due to increased demand from markets such as Iraq and Yemen, as well as Russia and portions of Eastern Europe. The company, which saw international sales grow 23 per cent in 2013, is examining business opportunities in major halal markets, such as Malaysia and Indonesia, and is in talks with potential partners.

In the travel sector, major operators such as The Ritz-Carlton hotels group not only provide halal food products, but also cater to core Islamic value systems, such as providing copies of the Quran and prayer mats, as well as offering women-only spas, swimming pools and gender-segregated beaches.

What these vast topline trends suggest is not only a growing global awareness of halal, but a rising consumer demand for certainty in terms of how food arrives at the kitchen table, and a guaranteed provenance trail for clothing and other personal effects.

Food industry

In the food industry, there is a growing demand for meat that is not only halal, but has also been organically and ethically produced, for example without the use of pesticides and observing the humane treatment of animals, up to and including slaughter.

A prime example of a company ticking both the halal and organic boxes is US-based Whole Earth Meats. The Chicago-based company only deals with farms within 300 miles of Chicago – farms that are typically small, family-owned operations raising beef, bison, and free-range and pastured poultry.

AP/PRESS ASSOCIATION IMAGES

A beauty consultant explains the benefits of halal cosmetics at a department store in Jakarta, Indonesia

Furthermore, Whole Earth Meats only do business with farms that add ecological value to the land and surrounding wildlife, for example through the raising of livestock and fowl on non-genetically modified pasture and the grazing of livestock exclusively in the warmer months, while feeding them on moist and dry hay in the colder months.

In addition, Whole Earth Meats' farmers will never dehorn or stun their animals, nor slaughter pregnant livestock – the principal objective being to assure the comfort and well-being of animals, not only on the farm, but also in transit. The company also states that all of their meats are prepared using halal slaughtering techniques.

Certification and regulation

Yet, despite consumers becoming more discerning, gaps remain in the certification system, and this hampers the ability of customers to make informed choices. Systems that are put in place by certification authorities to monitor the supply chain from source to outlet can be inconsistent. Some organisations may issue certificates for life, while others may merely issue them over the phone.

While product integrity processes throughout the supply chain can be a grey area in terms of regulation, consumer confidence has been dented further by press reports of other issues, such as animals arriving at slaughter beaten and bruised, and knives not always having been sharpened sufficiently, leading to the animal experiencing pain.

If these stories promote increased consumer scepticism, so does contradictory advice, such as the recent case when the Islamic authorities in Malaysia found that Cadbury chocolate bars did not contain pork DNA after earlier tests on Cadbury products had suggested they may not be suitable for Muslims.

Cosmetics and clothing industries

Meanwhile, the conventional cosmetics industry has long been known for using alcohol, as well as animal by-products. While the use of alcohol in products is clearly not permitted when it comes to halal, the use of animal ingredients is a slightly greyer area.

Amara Halal Cosmetics, founded in 2010, has catered to this growing market by being the first company in North America to provide completely halal-certified products manufactured in the US. All of its products are free of alcohol and animal ingredients on the premise that halal isn't only limited to what is consumed, but also what is put on the skin, including lipstick, the contents of which could be ingested.

In the clothing industry, where modesty (under Sharia law) is one of the major fundaments, it is a challenge for businesses to achieve the necessary scale and efficiency to produce competitively priced products that will serve to sustain the business.

As DinarStandard and Thomson Reuters noted in their report: "With a $200+ billion consumer market, it is surprising that no focused global fashion brand based on modest clothing exists today. There is an opportunity for developing global brands with Islam-inspired modesty and a global appeal."

While larger companies may already have the 'luxury' of scale necessary to develop niche products, it's a different story for smaller companies, which face the often-crippling disadvantage of limited access to Sharia-compliant financing options. Moreover, small business owners may lack the necessary skills and marketing education to attract the required investors.

> **One thing is certain: consumers are increasingly vigilant about the food they consume and the products they use**

One thing is certain: consumers are increasingly vigilant about the food they consume and the products that they use. Companies looking to capitalise on new business opportunities will need to ensure they are primed to serve an increasingly discerning global set of consumers – both Muslims and non-Muslims alike.

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www.standardchartered.com

State Bank of Pakistan
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The Emirates Securities and Commodities Authority
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www.sca.gov.ae

The Islamic Bank of Asia, Singapore
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www.islamicbankasia.com

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Central Bank of Libya
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Qatar Central Bank
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State Bank of Pakistan
(See page 145)

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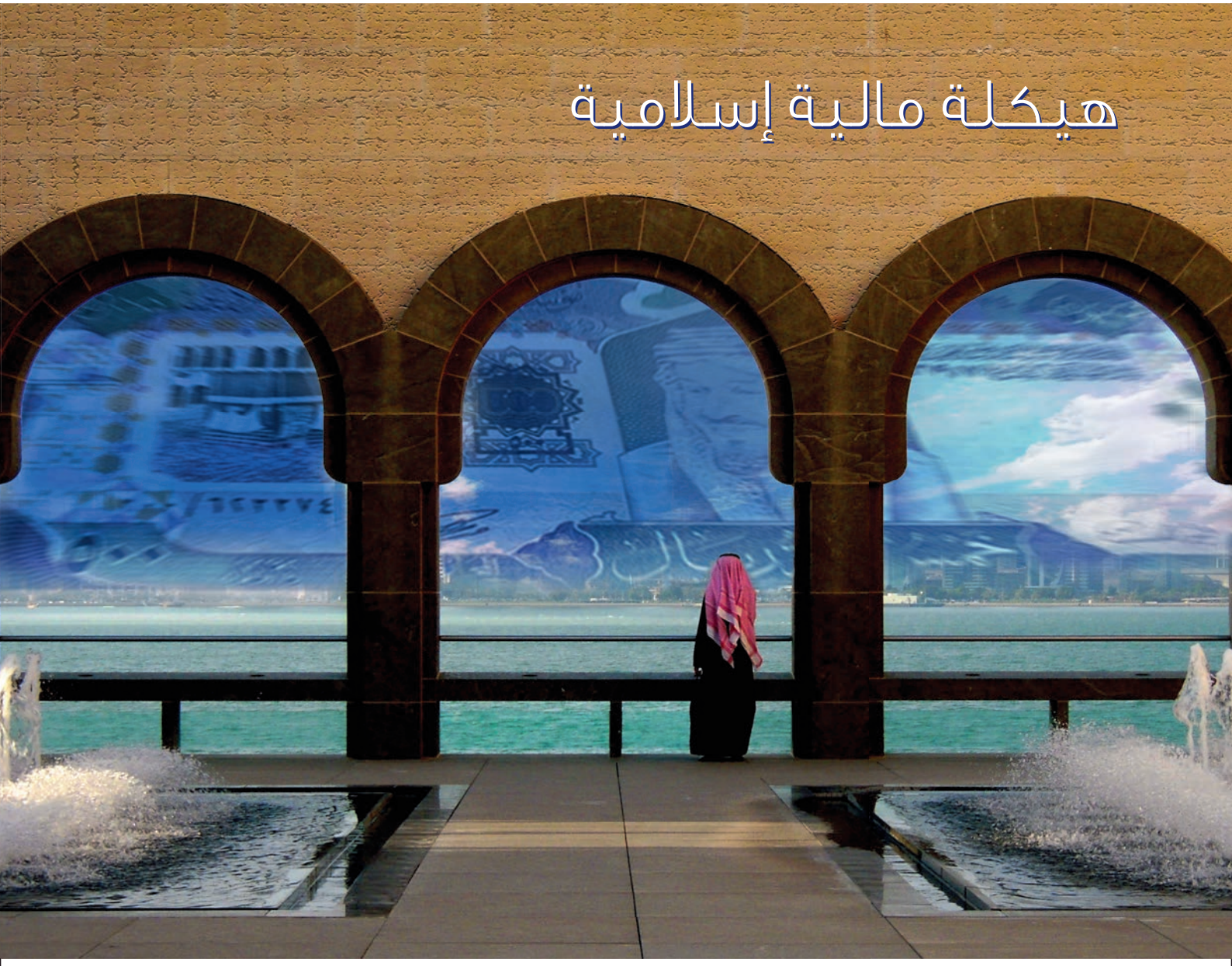

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www.hdcglobal.com

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Islamic Chamber of Commerce, Industry and Agriculture
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