The Global Sukuk Market
Overview and Growth Potential

World Bank Financial Systems
Global Practice’s Seminar on
“The Role of Sukuk in Development”

Iqbal Khan
25 September 2011
“International financial crises, I might even say domestic financial crises, are built into the human genome. When we map the whole thing, we will find something there called greed and something called fear and something called hubris. That is all you need to produce international financial crises in the future.”

(Paul Volcker, Chairman of US Economic Recovery Advisory Board)
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Global debt has risen to unsustainable levels

Source: Economist Intelligence Unit
Islamic mode of financing presents a strategic opportunity
Many stand to benefit from wider Sukuk use

CURRENT ACCOUNT BALANCES
SELECTED COUNTRIES, 2010 (USD BILLIONS)
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Since its inception, Sukuk has been a core element of Islamic asset management.

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Sukuk instruments date back to 1988

1988
- Sukuk Ruling by OIC Fiqh Academy

1990
- RM 125m Shell MDS Sukuk (world’s first RM sukuk issuance by foreign-owned, non-Islamic company)
- Short-term Ijara Sukuk by Central Bank of Bahrain

2001
- USD 150m Kumpulan Guthrie Sukuk (world’s first global corporate sukuk)
- Intl Sukuk issuances in Bahrain, Pakistan, Indonesia, Germany, UAE, Qatar, Saudi Arabia
- IDB Sukuk

2002+
- USD 600m Government of Malaysia Sukuk (world’s first global sovereign Sukuk)
- First Int’l Sukuk issued in Indonesia
- Int’l Sukuk issuances in Bahrain, Pakistan, Indonesia, Germany, UAE, Qatar, Saudi Arabia

2009
- IFC Sukuk $100 Million
- GE Sukuk $500 Million

2010
- KT Turkey Sukuk Limited $100 Million
- Sukuk issuance by Japanese corporate

Source: IIFM & MIFC (2010)
The global Sukuk market has reached nearly USD 150b in issuances

Evidence of post 2008-09 financial crisis recovery
Malaysia has led global Sukuk issuance and distribution

H1 2011 SUKUK ISSUANCE GEOGRAPHIC DISTRIBUTION

- Malaysia: 63%
- Indonesia: 5%
- Qatar: 21%
- UAE: 3%
- Saudi Arabia: 2%
- Other: 6%

Source: Zawya Sukuk Monitor (2010)
Recent Sukuk issuance has evolved significantly

Greater investor base distribution
- By geography
- By investor type

Introduction of new structures
- HSBC’s Wakala-Mudaraba

Increasing regulatory requirement for higher asset to coverage ratio

Decreasing time-to-market

Penetration of new(er) markets in 2011

NEW(ER) MARKETS IN 2011
Source: Zawya Sukuk Monitor (2010)
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Development finance and Islamic finance are complementary

**Development Finance**
- Focuses on specific projects
- Typically long-term
- Has social agenda

**Islamic Debt Finance**
- Requires identifiable assets with real economy impact
- Requires long-term assets
- Oriented to social benefit
The Islamic financial services industry’s development impact has been limited

1. Orientation towards investment banking, which requires conservative lending

2. Push toward replication of products, which then has limited real economy impact

3. Industry has sought to demonstrate its scale and viability more so than its differentiation and authenticity

In reality, the Islamic finance industry has yet to demonstrate significant development impact
Certain areas have shown more promise

- Development Finance
- Project Finance
- Microfinance
- Private Equity
Certain areas have shown more promise: IDB Case Study

- AAA-rated issuer
- USD 3.5b Sukuk programme
- Medium- to long-term development projects across Muslim markets
- Plans to increase to ≤ USD 8b

Source: Dinar Standard (2011)
Sukuk can be a promising alternative for issuers and investors today

**Issuers**
- Access to additional capital
- Absorb underutilised Islamic capital
- May fit national Islamic finance agenda (where applicable)
- Requires minimal regulatory reform
- Need identifiable assets
- Additional documentations
- Potential perception issues

**Investors**
- Access to unique markets (e.g. Brunei, KSA)
- Deploy underutilised Islamic capital
- Consistent with Islamic mandate (where applicable)
- Comfort of specified assets in less developed markets
- Unfamiliarity
- Confidence of rating
- Varying consistency of Shari’a standards
- Limited legal precedent
Sukuk have added appeal for OIC-based investors

1. Increase “South to South” capital flows
2. Support intra-OIC trade flows
3. Leverage IDB and other multilateral institutions
4. Support Islamic financial services industry
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The future of Islamic financial services rests on several key factors

1. Building embedded capital in OIC markets
2. Making our economies resilient in times of extraordinary volatility
3. Reigniting economies through SME and VC funds
4. Promoting financial literacy and social media to democratize wealth

Sukuk will be a fundamental plank in advancing these initiatives
“If there is to be a human future, we must bring ourselves into balanced relationship with one another and the earth. This requires building economies with heart.”

(David Korten, *When Corporations Rule the World*)