

Positive developments in Egypt despite turmoil

EGYPT

By Dr Walid Hegazy, IFN Correspondent

Despite the current political turmoil, the post-revolution Egyptian Islamic finance market continues to witness positive developments. Société Arabe Internationale De-Banque (SAIB) has lately joined the Egyptian Islamic finance sector.

Additionally, SAIB is establishing its headquarters in Cairo, Egypt. The bank's board has decided to issue two newly developed financial instruments in the Egyptian market. SAIB has obtained the required approvals for the issuance of the new Sukuk, with variable return.

The bank also launched a new category of Islamic credit cards known as El-Tayseer. Although El-Tayseer cards are very similar to conventional cards, they have two noticeable limitations: they neither allow cash withdrawal transactions nor transactions involving the purchase of gold or silver. SAIB has announced that it plans to focus on a number of areas including real estate, finance and microfinance.

In other recent developments, Dubai-based Islamic finance consultancy firm Amanie Advisors is to set up a new subsidiary in Cairo. Amanie aims to capitalize on the considerable business potential in Egypt and North Africa by advising bankers and fund managers

on the principles of Islamic finance. According to Amanie, about US\$52 billion is invested in Shariah compliant investment funds on a global basis. Furthermore, it is worth noting that Amanie and the law firms of Hegazy & Associates and Sarie El-Dien & Associates will be organizing the first International Shariah Investment Convention, which represents the sponsors' own initiative to promote Islamic finance in Egypt and the MENA region. The convention is expected to take place within the next few months. ☺

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Potential for Shariah compliant funds for Chinese projects

HONG KONG & CHINA

By Anthony Chan, IFN Correspondent

Mainland China, one of the fastest growing economies globally with a GDP valued at US\$5.87 trillion, should soon present a welcome basic platform to permit Shariah compliant funds to invest in the country.

China already has extensive needs for investment in infrastructure and public utilities such as hospitals and schools and other areas, which can be leveraged by Shariah compliant funds.

Even real estate, which is the target of legislation aiming to cool the market, should provide a healthy return for Shariah compliant funds if the restrictive rules for investment in this sector are complied with.

For a Shariah compliant fund, investment portfolios would normally need to be restructured to be Shariah compliant in China.

With proper advice on the legal, tax, regulatory and accounting regimes of the Chinese market, foreign investors should not be unduly concerned about the repatriation of invested capital and the renminbi currency controls in China, as overseas sums that are properly structured within applicable law to enter China for investment should be able to be repatriated subsequently.

Moreover, some equity interest is usually taken under a fund, and the use of interest-bearing leverage can be a hurdle to Islamic investors, because of the prohibitions on interest.

One of the methods is to impose an investment restriction on the fund to make only equity investments (as opposed to debt investments) since ownership of a share in a company is considered to be a proportionate share in the ownership of the underlying assets and business of the company.

Funds can also be structured in a Mudarabah form (profit sharing), whereby the investor contributes the capital and the other party undertakes the work, akin to an asset manager of a company.

The profits are shared with the mudarib (manager) and the rab al maal (investor), but the investor will bear the losses.

The investors can set the limits of the mudarib's activities and the investors are only liable to the extent of their investment, even if the losses exceed the assets of the business.

If Shariah funds are used as an investment in China, this could ultimately yield some handsome returns on account of the typically higher returns that are expected for projects within mainland China.

Investors through a Shariah compliant fund can mitigate their risk by raising such fund (in China or in the Middle East) for investment in projects both in China as well as Chinese enterprises overseas such as back in the Middle East.

One model structure is for the overseas fund sponsor to find a Chinese partner to raise funds in Asia or China, while the rest of the funds are raised by the fund sponsor in, say, its home jurisdiction or the Middle East. This type of matching fund should work quite well in principle.

The ratio between the money invested by a Chinese investor as against money invested by the Shariah compliant fund should be agreed first, and this ratio should provide some measure of confidence to an Islamic investor that a partner who knows the Chinese landscape is putting substantial money into the fund.

Another investment strategy is to use Shariah compliant funds for the many infrastructure works and natural resources and other Shariah compliant projects that are being undertaken by or invested in by Chinese enterprises in the Middle East or in more developed jurisdictions like the US and Europe.

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