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Sukuk can help fund Sultanate's infrastructure projects scholar

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BRUNEI is on the right track with its recent take in sukuk structuring and issuance over the recent years to aid the Sultanate's infrastructural development, said an Islamic Finance scholar.

"Though the market is relatively small in Brunei for now, I believe there's a lot that sukuk can contribute in terms of infrastructure project financing for Brunei's megaprojects," said Sheikh Faizal Manjoo.

"The sky's the limit when it comes to infrastructure financing through this Islamic concept. In the African continent, for example, infrastructure financing amounted to US\$700 billion, with €400 billion for a project to bring African solar energy to Europe," he said.

He said that Brunei can learn more from its closest neighbouring countries such as Malaysia, adding that the robust performance of Malaysia's sovereign sukuk reflected the strength of the country's financial sector, capital market and external position.

Malaysia remains the largest issuer of domestic sukuk at 72 per cent by value with the balance split between a number of other issuers such as Sudan, Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Brunei, Pakistan and Indonesia.

The volume of outstanding issues is estimated to be US\$70 billion globally, making sukuk fastest growing instrument in the Islamic finance arena.

He said that for Brunei to potentially become a leading Islamic finance player within the region, the country's Islamic finance sector needs to step up its game in producing the best human resources, aggressive marketing strategies and better incentives for foreign investors.

Sheikh Faizal is a guest speaker at a two-day workshop organised by Crescent Sdn Bhd at The Empire Hotel & Country Club, during which he shared with the participants a comprehensive overview of Islamic capital markets and capital market products, the role of sukuk, securitisation, and nature of the risks in sukuk and Islamic capital markets.

The 'Anatomy of Sukuk executive training course' workshop was attended by various government officials belonging to the financial sector.

During the workshop, Sheikh Faizal addressed issues related to sukuk issuance and sukuk-related products, and explained the background and most important characteristics of the sector.

As interest payments are prohibited under Syariah law, sukuk is structured to generate the same economic effects as conventional bonds in a Syariah-compliant manner, achieved through using assets and various contractual techniques acceptable under Shariah.

He explained that sukuk must link the returns and cash flows of the financing to the assets purchased, or the returns generated from an asset purchased.

"Sukuk is not a debt instrument, it is a tradeable investment tool that has an underlined asset which generates cashflow to

serve the money for the investors to its (sukuk) maturity," he said.

He stressed however that many have often misinterpreted sukuk closely to conventional bonds. He shared a recent study where about 90 per cent of sukuk issuances are still 'asset-based', which reflected the bond mentality.

"The mindset was created to the bonds, but labelled as sukuk. This has caused a lot of havoc on the jurisprudential point of view between an asset-backed and asset-based," he said.

"This is an issue that is still being raised globally. The sukuk market is still young, and many regulators are still working on resolving this issue," he added.

Based in UK, Sheikh Faizal specialises in three areas of studies with a good combination of Syariah, law and Islamic finance, having obtained his BA (Honours) in Islamic Studies from the University of Johannesburg, South Africa, completed his Aalimiyyah qualification from Madrasah Arabia Islamiah in South Africa, obtained LLB degree and MA degree in Islamic Banking, Finance and Management from Loughborough University, UK. He is a member of the Shari'ah Supervisory Board of few Islamic financial institutions in South Africa, Bahrain and Mauritius.

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