

Sovereign Sukuk as a Public Debt Management Instrument

“Current Status, Developments and Key Challenges”

**The 8th Meeting of the COMCEC Financial Cooperation Working Group
Thursday, 30th March 2017, Crown Plaza Hotel, Ankara, Istanbul**

**Ijlal Ahmed Alvi
Chief Executive Officer
IIFM**

Contents

1. Sukuk Market Current Status

- a) Total Global Sukuk Issuances (International & Domestic)
- b) Total Global Sukuk Issuances Breakdown by Issuer Status
- c) Total Global Sovereign Sukuk (International & Domestic)
- d) Structural Breakdown of Sovereign Sukuk Issuances (Int'l & Domestic)
- e) Country Wise Breakdown of Total Global Sovereign Sukuk Issuances

2. Sovereign Sukuk Market

- a) Purpose of Key OIC Sovereign & Quasi Sovereign Sukuk Issuances
- b) Landmark Sovereign Sukuk Issuances in 2016
- c) New Entrants to Sovereign Sukuk Market (International & Domestic)

3. Key Challenges in Sukuk Issuances

4. Islamic Hedging & its Role in Sukuk Market Development

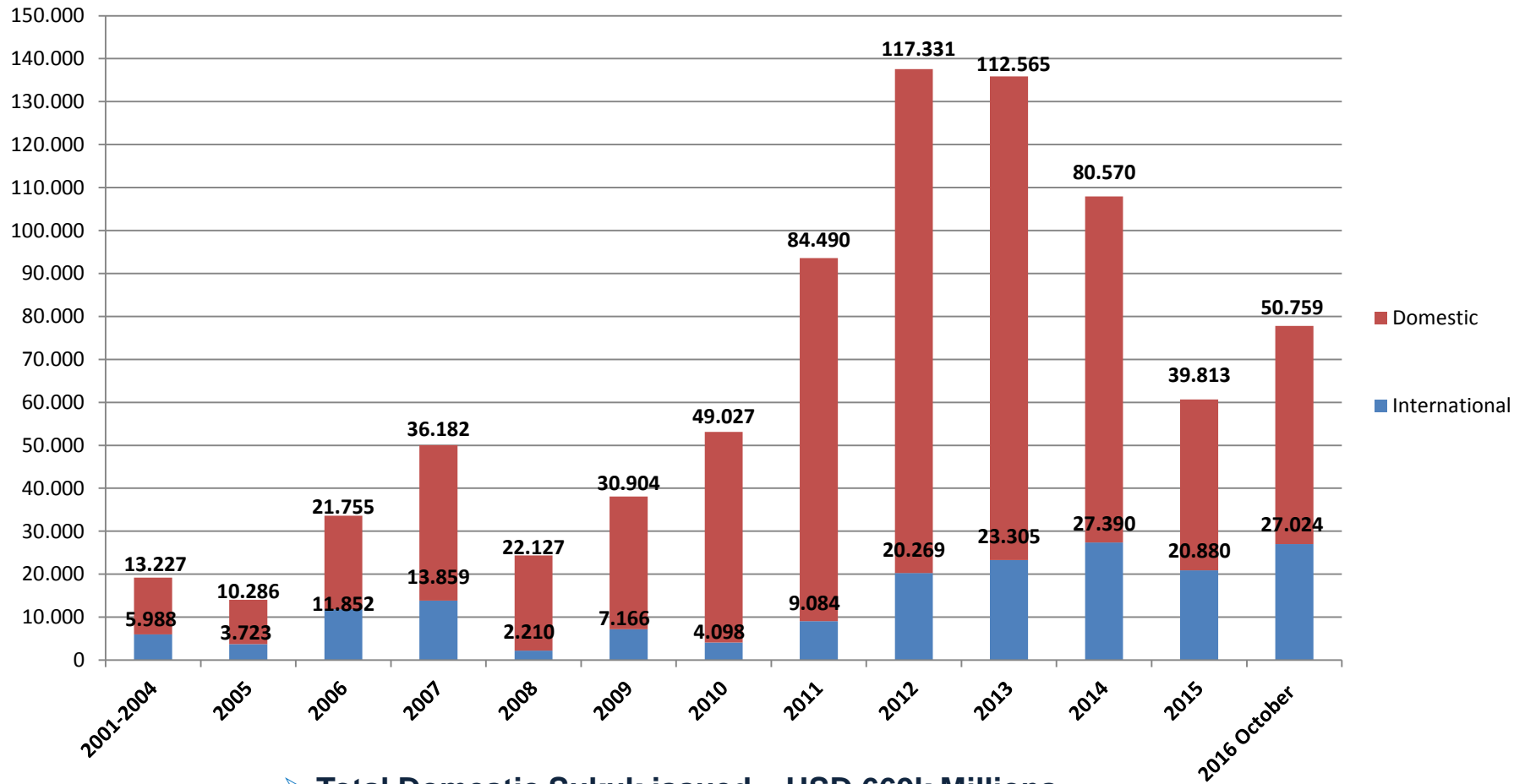
5. About IIFM

Sukuk Market

Current Status

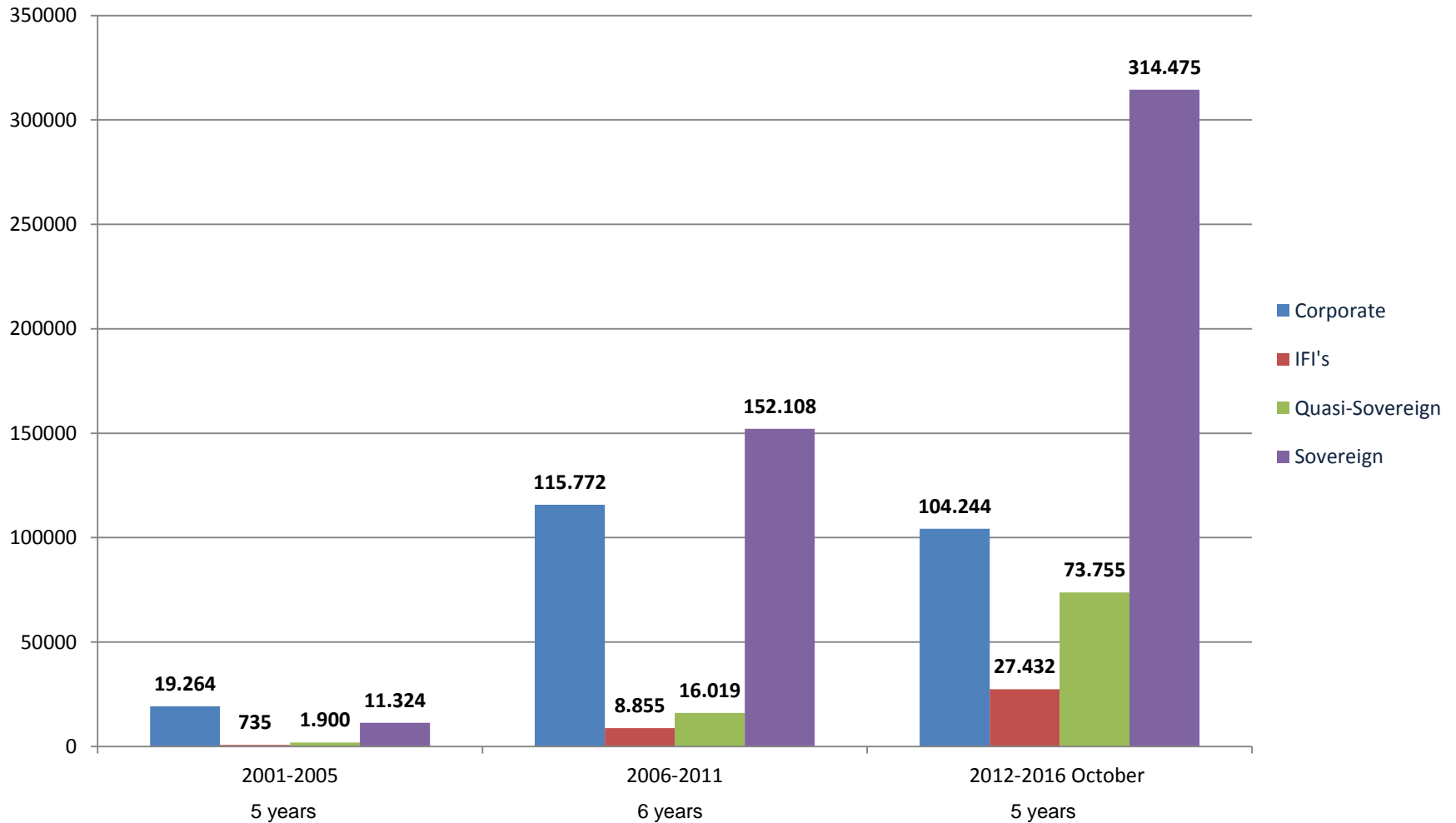


Total GLOBAL Sukuk Issuances (Jan 2001- Oct 2016) – All Tenors, All Currencies, in USD Millions

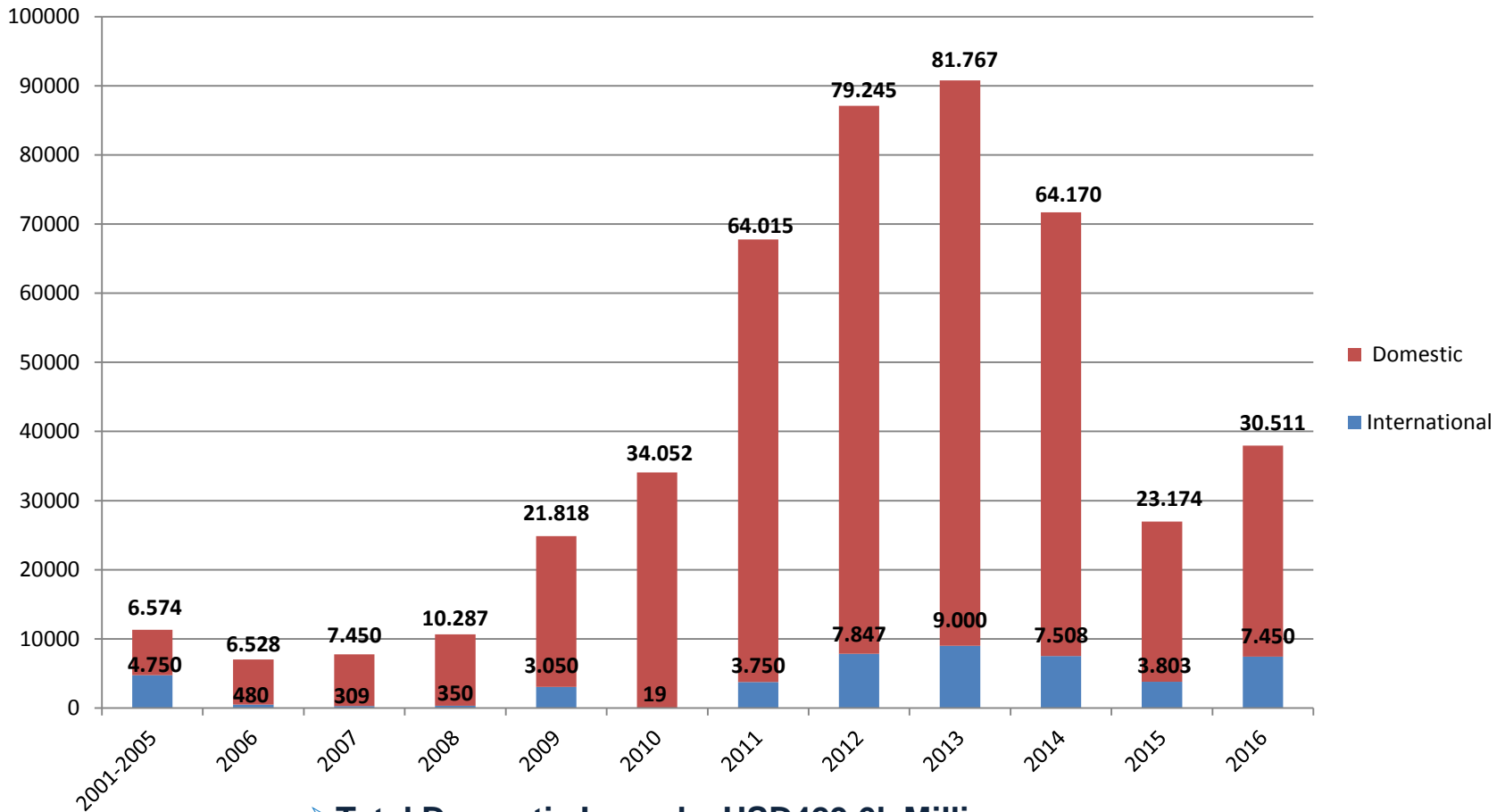


- Total Domestic Sukuk issued – USD 669k Millions
- Total International Sukuk issued – USD 176.8k Millions

Total GLOBAL Sukuk Issuances (by Issuer Status) (Jan 2001 - Oct 2016) – All Tenors, All Currencies, in USD Millions



Total Global SOVEREIGN Sukuk Issuances (Jan 2001-Oct 2016) – All Tenors, All Currencies, in USD Millions

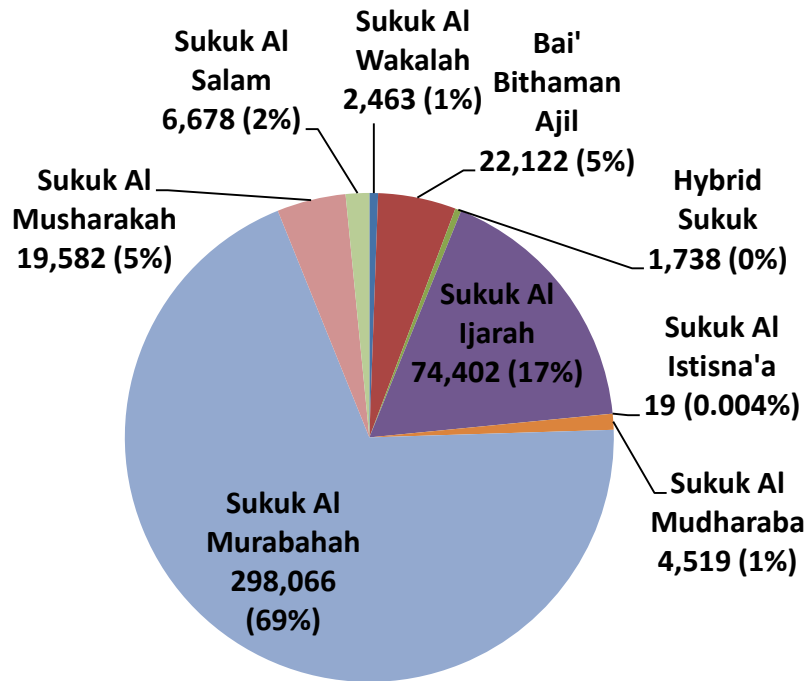


➤ Total Domestic Issued – USD429.6k Millions

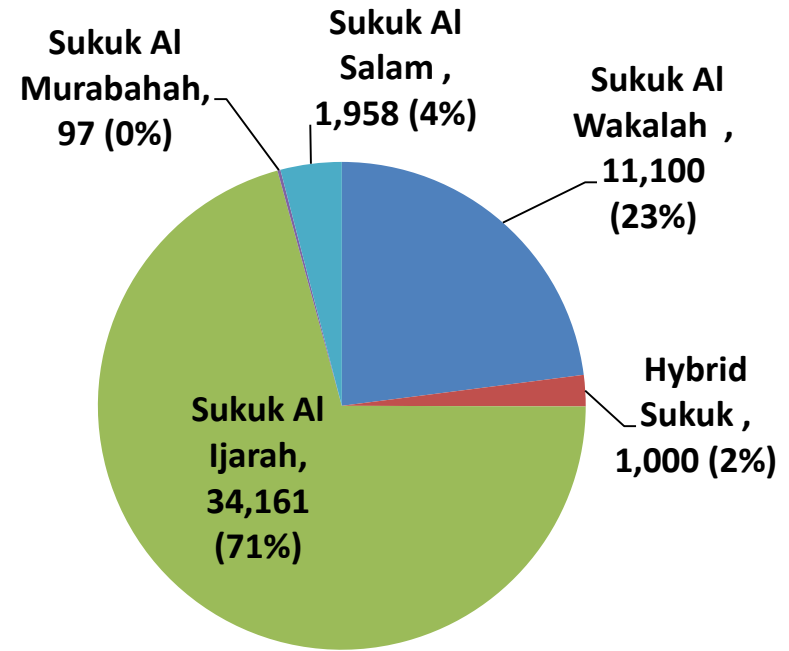
➤ Total International Issued – USD 48.3k Millions

Structural Breakdown of Sovereign Sukuk Issuances (Jan 2001- Oct 2016) All Tenors, in USD Millions

Domestic Currency



International Currency





Total GLOBAL Sovereign Sukuk Issuances by Country (Jan 2001- Oct 2016) – All Tenors, All Currencies, in USD Millions

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Bangladesh	4	37	0.01%
Brunei Darussalam	124	7,950	1.66%
Hong Kong	2	2,000	0.42%
Indonesia	150	39,206	8.20%
Iran	1	144	0.03%
Malaysia	990	328,554	68.75%
Pakistan	23	10,533	2.20%
Singapore	3	164	0.03%
Total	1,297	388,588	81.31%
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	348	21,425	4.48%
Jordan	2	153	0.03%
Oman	2	1,147	0.24%
Qatar	15	18,117	3.79%
Saudi Arabia	4	7,256	1.52%
United Arab Emirates	16	10,722	2.24%
Yemen	2	253	0.05%
Total	389	59,073	12.36%



Total GLOBAL Sovereign Sukuk Issuances by Country (Jan 2001- Oct 2016) – All Tenors, All Currencies, in USD Millions (cont...)

AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	210	136	0.03%
Ivory Coast	2	460	0.10%
Nigeria	2	133	0.03%
Senegal	2	445	0.09%
South Africa	1	500	0.10%
Sudan	27	19,248	4.03%
Togo	1	245	0.05%
Total	245	21,166	4.43%
EUROPE & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Germany	1	123	0.03%
Luxembourg	1	220	0.05%
Turkey	27	8,737	1.83%
United Kingdom	1	340	0.07%
Total	30	9,420	1.97%
Grand Total	1,961	478,246	100%

Note: Figures for KSA and UAE sovereign Sukuk issuances also contain issuances by quasi-sovereign/government related entities

Sovereign Sukuk Market

Purpose of Key OIC Sovereign & Quasi Sovereign Sukuk Issuances

- Malaysia (transport, power projects, monetary management, quasi sovereign/government related entities funding needs)
- Indonesia (emphasis on infrastructure projects)
- Bahrain (generally monetary management)
- Sudan (generally monetary management)
- Qatar (generally monetary management)

Purpose of Key OIC Sovereign & Quasi Sovereign Sukuk Issuances (continued...)

- United Arab Emirates (infrastructure and quasi sovereign/government related entities funding requirements)
- Pakistan (so far power projects and monetary management)
- Turkey (generally monetary management)
- Saudi Arabia (infrastructure and quasi sovereign/government related entities funding requirements)
- Brunei Darussalam (generally monetary management)

Landmark Sovereign Sukuk Issuances in 2016

- ❖ Government of Indonesia International Sovereign Sukuk (2 issues, USD 2.5 Billion)
- ❖ Government of Bahrain International Sovereign Sukuk (USD 1 Billion)
- ❖ Government of Malaysia International Sovereign Sukuk (2 issues, total USD 1.5 Billion)
- ❖ Government of Turkey Domestic Sovereign Sukuk (2 Issues, total USD 1.3 Billion equivalent)
- ❖ Government of Pakistan International Sovereign Sukuk (USD 1 Billion)
- ❖ Government of Sharjah International Sovereign Sukuk (USD 500 Million)

New Entrants to Sovereign Sukuk Market (International Currency)

A total of 6 issues amounting to around USD 4 billion have come from new sovereign countries, namely, UK, South Africa, Hong Kong and Luxembourg, in that chronological order. Hong Kong has been the value leader among new sovereigns who issued an inaugural Sukuk in 2014 and then tapped the Sukuk market again in May 2015.

SOVEREIGN ISSUER	ISSUE DATE	AMOUNT IN (USD MILLION)	TENOR	CURRENCY OF ISSUE	STRUCTURE	RATING BY S&P
Hong Kong	2014	1,000	5 years	USD	Wakalah Ijarah	AA+
	2015	1,000	5 years			
Luxembourg	2014	220	5 years	EUR	Ijarah	AAA
South Africa	2014	500	5.75 years	USD	Ijarah	BBB
UK	2014	340	5 years	GBP	Ijarah	AAA
Total		3060				

New Entrants to Sovereign Sukuk Market (Domestic Currency)

Africa has been a regular player in the Sukuk market since Sudan and Gambia started meeting their domestic financing needs through Sukuk financing. Sudan is clearly the value leader accounting for almost 95% of the dollar value of Sukuk issuance so far; however, Gambia has been a regular issuer as well. Nigeria entered the market with two domestic sovereign Sukuk in October 2013, one of them based on the Ijarah model and the other on Murabahah, together amounting to USD133 million. In the most recent past, the years 2014 - 2016, we have seen domestic debut sovereign issues from three African countries, namely, Senegal, Ivory Coast and Togo. In case of Ivory Coast & Senegal the jurisdictions have again tapped the Sukuk market in 2016 which is a welcome development for geographical diversity of the Sukuk market.

SOVEREIGN ISSUER	ISSUE DATE	AMOUNT IN (USD MILLION)	TENOR	CURRENCY OF ISSUE	STRUCTURE
Ivory Coast	2015	215	5 years	CFA-Francs	Ijarah
	2016	245	5 years	CFA-Francs	Ijarah
Togo	2016	245	10 years	CFA-Francs	Ijarah
Senegal	2014	200	4 years	CFA-Francs	Ijarah
	2016	245	10 years	CFA-Francs	Ijarah

Key Challenges In Sukuk Issuances

- 1. Limited availability of tangible assets leads to over reliance on certain Sukuk structures**
- 2. Asset title transfer law in OIC countries particularly for sovereign assets**
- 3. Established conventional bond issuance process versus Sukuk issuance process (Structuring, Documentation, Legal, Pricing, Law Reforms etc)**
- 4. Investor's preference and risk appetite tilted towards balance-sheet risk rather than direct risk on a tangible asset**



Key Challenges In Sukuk Issuances (continued...)

5. **Tax Neutrality**
6. **Volume**
7. **SPV Role**
8. **Trust Law**
9. **Quasi Sovereign Sukuk Implicit and Explicit Government Guarantee**
10. **Currency & Rate of Return risk mitigation**

Islamic Hedging and its Role in Sukuk Market Development

IIFM Hedging Standards

- Tahawwut (Hedging) Master Agreement
- Islamic Foreign Exchange Forward (IFX Forward)
- Islamic Cross-Currency Swap (ICRCS)
- Islamic Profit Rate Swap (IPRS)
- Credit Support Deed for Cash Collateral Variation Margin

About International Islamic Financial Market (IIFM)

IIFM is a standard-setting body of the Islamic Financial Services Industry (IFSI) focusing on standardization of Islamic financial contracts and product templates relating to the Capital & Money Market, Corporate Finance and Trade Finance segments of the IFSI.

IIFM plays its role in market unification by developing best practices at the global level and achieving Shari'ah harmonization through its efforts for creation of a robust, transparent and efficient Islamic finance industry. IIFM also contributes in creating industry awareness by organizing specialized seminars and technical workshops as well as publishing research reports.

IIFM was founded in 2002 by the collective efforts of the Islamic Development Bank, Autoriti Monetari Brunei Darussalam (formerly Ministry of Finance Brunei Darussalam), Bank Indonesia, Bank Negara Malaysia (delegated to Labuan Financial Services Authority), Central Bank of Bahrain (formerly Bahrain Monetary Agency) and the Central Bank of Sudan as a neutral and non-profit organization. Besides the founding members, IIFM is also supported by certain regulatory and government bodies such as Indonesia Financial Services Authority, Dubai International Financial Centre Authority, Nasdaq Dubai, State Bank of Pakistan, The National Bank of Kazakhstan, and by a number of international and regional financial institutions active in Islamic finance as well as other market participants.

IIFM was formed under Royal Decree No (23) Year 2002 of the Kingdom of Bahrain.

Shukran

Wassalamu 'Alaikum

International Islamic Financial Market (IIFM)
Office 72, 7th Floor, Zamil Tower
P.O. Box: 11454, Manama, Kingdom of Bahrain
Tel: +973 17500161 Fax: +973 17500171
Email: info@iifm.net Website: www.iifm.net